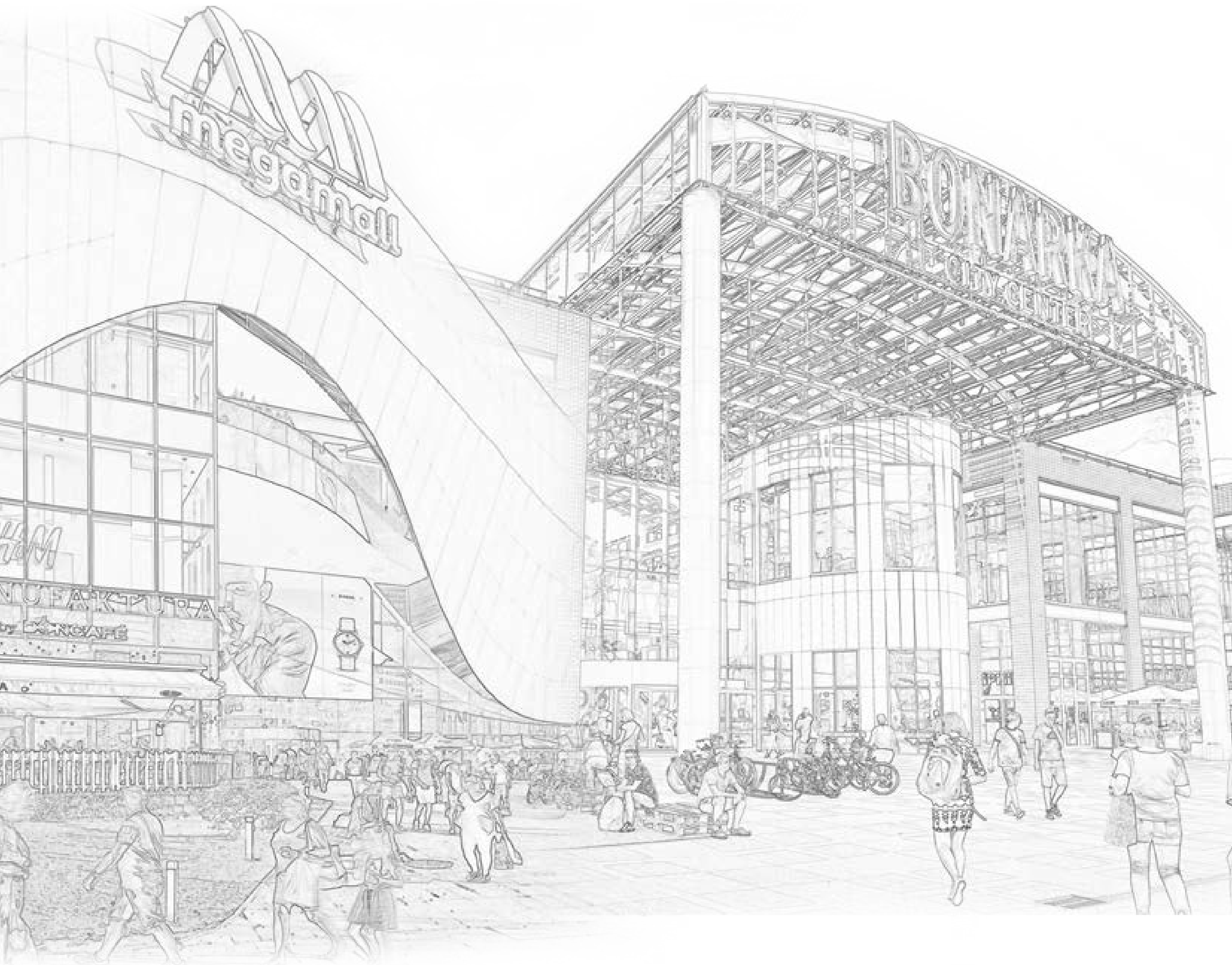
NEPI ROCKCASTLE



ANNUAL REPORT

2017

PHOTO: MEGA MALL, ROMANIA

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NEPI ROCKCASTLE

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.

NEPI ROCKCASTLE
GEOGRAPHIC PROPERTY PORTFOLIO
(by market value)

over
€5 billion*
value of
investment property

over
1,800,000
m² GLA of income-producing properties

nearly
300,000
m² GLA of developments and extensions

over
400
employees

99.9%
collection rate

96.5%*
occupancy rate

over
272 million
visits in 2017

** including joint ventures*

Company profile

NEPI Rockcastle owns and manages a portfolio of dominant retail properties in the following high-growth CEE countries: Romania, Poland, Bulgaria, Slovakia, Hungary, Croatia, Czech Republic and Serbia.

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 Central and Eastern European (CEE) property opportunities more efficiently, benefiting from a strategic advantage in the acquisition, development and management of properties.

The Group is well positioned for growth, driven by its best-in-class operating platform, as well as its historically proven capacity to deploy existing capital resources into attractive direct property investments. NEPI Rockcastle continues the active investment policy that supported the growth of NEPI and Rockcastle respectively over recent periods, with a strong pipeline of acquisitions and developments currently being pursued in its targeted region.

NEPI Rockcastle also holds a portfolio of liquid listed securities of large companies that operate primarily in the US, UK, and Continental Europe. The investment in this portfolio provides easily-accessible resources to fund suitable acquisitions. Management expects to convert the majority of this portfolio to direct property investments during 2018.

The Group's financial profile includes maintaining high liquidity, low 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 Moody's (Baa3, positive outlook), Standard & Poor's (BBB, stable outlook) and Fitch (BBB, stable outlook).

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

Chairman's statement

PHOTO: ARENA CENTAR, CROATIA

Dear Shareholders,

I am pleased to present the 2017 Annual Report, which highlights the work undertaken by NEPI Rockcastle in 2017. The success achieved in such a short period inspires us to actively engage our 2018 strategic goals.

Merger of NEPI and Rockcastle

Without a doubt, the main achievement of 2017 was the formation of NEPI Rockcastle. The merger of NEPI and Rockcastle created the largest retail real estate group in Central and Eastern Europe, and this strategic rationale was supported by the shareholders.

Since July 2017, the NEPI Rockcastle team has contributed tremendously to create a unitary business strategy and corporate culture. While the integration of operations is still ongoing, some of the envisaged benefits have already been seen in the strengthened combined balance sheet, credit rating upgrade and enhanced ability to pursue deals more cohesively throughout the CEE.

2017 Performance highlights

During 2017 NEPI Rockcastle has entered two new countries, Bulgaria and Hungary, by acquiring prime assets in the respective capital cities. Also, the Group has further consolidated its leading position in the CEE markets by finalising acquisitions and developments of dominant retail assets of nearly €1 billion. NEPI Rockcastle now owns 56 income-producing properties in eight CEE countries. The portfolio is continuously improved and extended, with developments and extensions ongoing across five different markets. The total direct property portfolio owned and managed by NEPI Rockcastle is now over €5 billion, and the quality of its assets is underlined by best in class indicators such as its collection, service charge recovery and occupancy rates.

The increased size and significant portfolio diversification, supported by the excellent quality of the underlying assets and the robust balance sheet, resulted in credit rating upgrades. NEPI Rockcastle obtained investment-grade ratings from all three agencies, which led to another great achievement of 2017, the €500 million Eurobond issuance at attractive rates for the Group. The debt structure further diversified through additional loans and revolving facilities with an average funding cost of 2.2%. Also, the Group raised almost €600 million of equity during 2017 (pre and post-merger).

The hard work and accomplishments resulted in excellent financial results for the year, namely a 17.1% increase in distributable earnings, and an 11% increase in adjusted Net Asset Value, compared to the combined results of NEPI and Rockcastle for the previous year. The significant liquidity available, as well as the further available debt capacity, ensure that the Group is well positioned for further growth.

Corporate governance

My primary role as Chairman is to ensure that the Board of Directors is effective in setting and implementing the Group's direction and strategy, and to maintain a continuous dialogue with executive directors and management. I am supported by experienced non-

executive directors operating in a specialised committee structure. The NEPI Rockcastle Board composition was designed to ensure continuity and transfer of knowledge from the NEPI and Rockcastle Boards, as well as a comprehensive mix of professional backgrounds, skills, experience, personalities and regional knowledge.

NEPI Rockcastle has already implemented a strong, transparent Corporate Governance framework by consolidating the King IV Code with the applicable European legislation and best-practices for Euronext listed companies. This framework includes, amongst others:

- Ensuring independence of the majority of non-executive directors and implementing annual sessions for review of the Board's performance;
- Ensuring the Board composition is suitable for the size and complexity of the Group, and supports the overall strategy and culture;
- Establishing corporate values, and raising awareness through team building sessions;
- Coaching middle and top management to further develop their leadership skills;
- Reviewing the detailed risk register and mitigating controls, including compliance with laws in all jurisdictions where the Group is operating;
- Providing direct access of the Audit Committee to internal and external auditors;
- Promoting consolidation of former NEPI and Rockcastle processes, while retaining key personnel;
- Supporting continued improvements to internal procedures, such as the recent implementation of an integrated acquisition procedure;
- Supporting effective Human Resource processes, such as ensuring the Code of Ethics is adopted across the Group, including equal employment and non-discrimination policies, and significantly improving the performance assessment system for all employees;
- Focusing on sustainable practices, adopting Corporate Social Responsibility directions (environment, education and helping local communities) and reviewing the long-term action plan.

The composition of the NEPI Rockcastle Board is indicative of strong continuity in management and corporate culture as part of the merger integration process. The Board, as well as the combined broader team, represent a wider background and skillset, better positioning the Company to pursue its strategy across its markets. The non-executive members of the Board are comprised of three European nationals and three South African nationals, with five out of six being independent. There is a majority of independent directors as a proportion of non-executive directors in all Board sub-committees. The Board as a whole embodies strong expertise in real estate, finance and management.

The Joint CEOs of NEPI Rockcastle have managed well, splitting responsibilities across geographic lines and collaborating on broader strategic and asset management efforts.

More information on corporate governance is available on pages 77-94 of this report. The Board of Directors is committed to ensuring the highest standards of corporate governance, and encourages shareholders to openly communicate with the directors.

Share price movement

The Board noted the unusual share price movement that NEPI Rockcastle has experienced since the start of 2018. It is the Board's view that there was no change in the Group's operations or financial position that would justify this movement, and the Group is committed to the highest standards of transparency and corporate governance.

To conclude, the Company's Board of Directors thanks all employees of NEPI Rockcastle for their valuable contribution throughout an impressive year. The achievements of the period would not have been possible without their efforts and dedication.

DAN PASCARIU
Chairman

PHOTO: SHOPPING CITY RAMNICU VALCEA, ROMANIA

Strong strategic positioning oriented towards long-term growth

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

INVESTMENT APPROACH

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

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

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

OPERATIONAL EXCELLENCE

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

The Group has **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. Preventive maintenance decreases long-term capital expenditure, service charge levels and non-recoverable expenses.

With a **broad platform across eight CEE countries** and over 272 million visits, the Group is focused on 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, debt and sale of listed securities**.

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 2017, the LTV ratio was 26%, while 76% of total assets were unencumbered**.

The investment-grade credit ratings (currently limited by Romania's sovereign rating) are expected to improve as the portfolio is further diversified.

The Group maintains **a prudent liquidity profile** which includes cash accounts and deposits held with investment-grade banks, **a liquid listed securities portfolio** held through reputable prime brokers and **significant committed unsecured revolving facilities** (€380 million at 31 December 2017).

Strong operational and financial performance

PHOTO: PARADISE CENTER, BULGARIA

Operational performance indicators	2017
Weighted average remaining lease term	4 years
Collection rate	99.91%
Vacancy ratio	3.5%
Tenants turnover growth (like-for-like)	8.3%
Footfall growth (like-for-like)	3.5%
Effort ratio*	11.3%

** Annual base rent, overage rent, common charges and all other related costs, divided by tenants' turnover.*

Financial performance indicators	2017
Distributable earnings per share (eurocents)	48.26
Growth in distributable earnings per share*	17.1%
Adjusted NAV per share (euro)	7.10
Growth in Adjusted NAV per share*	11%
Loan-to-value**	26%
Unencumbered assets (% of total assets)	76%
Cost of debt	2.2%
Average remaining debt maturity	4.4 years
Interest rate hedge coverage	100%

** Compared to the pro-forma combined figures published in the NEPI Rockcastle prospectus.*
*** Interest bearing debt less cash divided by investment property and net listed securities*

Enriching the shopping experience

PHOTO: CITY PARK, ROMANIA

A SUCCESSFUL TENANT MIX

Shopping centres are becoming urban lifestyle hubs, combining the shopping experience with leisure, cultural activities and services.

An excellent tenant mix is a critical success factor, and this target is reflected in an adaptive and flexible tenant approach:

- Focused on newer "Millennial" concepts, the shopping centers host broader offers such as events, pop-up stores, demo rooms and food halls;
- The shopping centres provide everyday convenienceas as they are anchored by hypermarkets or supermarkets, and satisfy daily needs such as offering a wide range of services which include banks, insurance, travel agencies, hairdressers, dry cleaning, small repairs, gym;
- Many NEPI Rockcastle shopping centres are anchored by a strong and well known fashion offering. The shopping centres feature diverse activities such as cinemas (including 3D, 4DX and IMAX concepts), gyms and restaurant areas as well as enhanced services including pleasant relaxation spots, beauty services, children's play areas, amenities, spacious parking places and entertainment to create excitement and an optimal customer experience.


PHOTO: PROMENADA MALL, ROMANIA

DESIGN AND CONCEPT

The Group focuses on creating social spaces, seamlessly integrated in the lifestyle of its customers. Open-air terraces have been added to all new developments and there is an ongoing effort to add them into existing assets. Food-courts are turned into social gathering points, enticing customers to increase their dwell time and spending. In addition, the Group strives to improve continuously the access and internal flow of customers by improving constantly the existing assets.

DIGITAL EXPERIENCE

As the shopping experience evolves, malls start to combine online and physical services for optimal customer experience.

Digital integration tools such as loyalty programs, Customer Relationship Management (CRM) programs and Artificial Intelligence (AI) based media buying are already being used generated great results.

Moreover, the group is investing in new digital income streams capable of capitalizing on the growth in online activity and customer presence (advertising, geolocation marketing). Innovative programs regarding click&collect and omnichannel distribution are being developed in partnership with our most important retail partners.

MOBILITY AND ACCESSIBILITY

Special attention is given to properties' accessibility such as ease of access to public transportation, adequate parking areas and Google maps featured locations.

NEPI Rockcastle is focused on creating a sustainable environment, and has started incorporating electric car charging stations into its properties.

PHOTO: MEGA MALL, ROMANIA

Board of Directors

DAN PASCARIU (67)
Independent
Non-executive Chairman

MBA

Dan Pascariu is a prominent figure in Romanian banking. His career started at the Romanian Bank for Foreign Trade in 1973, where he held the position of Chairman and CEO. Mr. Pascariu is a non-executive Chairman of the Supervisory Board of Unicredit Bank, Romania. The founder and first President of the Romanian Banking Association, as well as a co-founder and associate professor at the Romanian Banking Institute, Mr. Pascariu is currently on the board of directors of various financial institutions in Romania and abroad.
Mr. Pascariu was the Chairman of NEPI's Board starting from 2009 and was appointed as independent non-executive chairman of NEPI Rockcastle on 15 May 2017.

ALEX MORAR (34)
Joint Chief Executive Officer

BSc

Alex Morar graduated with a dual degree in finance and information systems from Stern School of Business, New York University. He began his career as an analyst at Julius Baer Investment Bank. He later joined the financial advisory practice of Deloitte Romania where he spent two years working on large projects and M&A transactions. He joined NEPI upon its founding in 2007 and has contributed to all aspects of the business since then. Before August 2015 (up to his appointment as NEPI's CEO), Mr. Morar focused primarily on NEPI's investments and acquisitions programme throughout Central and Eastern Europe. As NEPI's CEO, he contributed to the significant increase in the Company's portfolio as well as further growing its team and asset management platform.
Mr. Morar was appointed as joint chief executive officer of NEPI Rockcastle on 15 May 2017.

SPIRO NOUSSIS (47)
Joint Chief Executive Officer

B.Comm, B.Acc, CA (SA)

Spiro Noussis has experience in private equity and investment management. He has been involved in the property sector since 2005 and was a founding shareholder and managing director of a listed REIT focusing on retail and industrial property. He was appointed as Chief Executive Officer of Rockcastle in May 2014 and as joint chief executive officer of NEPI Rockcastle on 15 May 2017.

MIRELA COVASA (35)
Chief Financial Officer

BCom, ACCA, CAFR

Mirela Covasa graduated with a finance degree from Bucharest Academy of Economic Studies and is a member of the Association of Chartered Certified Accountants (ACCA) and Chamber of Financial Auditors of Romania (CAFR). Prior to joining NEPI in 2012, she was senior manager at PricewaterhouseCoopers, where she spent eight years performing audit assignments in Romania, Slovenia and India. She has 16 years of accounting, auditing and financial experience.
Ms. Covasa was appointed as Chief Financial Officer of NEPI in February 2015 and as Chief Financial Officer of NEPI Rockcastle on 15 May 2017.

MAREK NOETZEL (39)
Executive Director

MSc, MRICS

Marek Noetzel started his real estate career in 2002 with Cushman & Wakefield in Warsaw as a retail leasing agent, and was promoted to associate in 2007 and partner in 2011. As head of the retail department at Cushman & Wakefield, he was responsible key client account management.
He was appointed as Executive Director of Rockcastle in 2016, and is focused on portfolio asset management.
Mr. Noetzel was appointed as an executive director of NEPI Rockcastle on 15 May 2017.

NICK MATULOVICH (31)
Executive Director

CA (SA), MCom, BAccSci

Nick Matulovich started his career in Ernst & Young where he gained experience in both the Audit and Transaction Tax division, one of the most successful and active M&A advisory businesses in Africa, advising on transactions such as Wal-Mart Stores Inc.'s takeover of Massmart Holdings Ltd. Nick then gained experience in financial management at a prominent South African listed real estate company. Subsequently, he was part of the team that founded Rockcastle Global Real Estate Company Limited, as CFO.
Mr. Matulovich was appointed as an executive director of NEPI Rockcastle on 15 May 2017.

Board of Directors» continued

ANDRE VAN DER VEER (50)
Independent
Non-Executive Director

BPL, MPL

After completing a Masters degree in Banking and Economics during 1991, Andre van der Veer joined Rand Merchant Bank where he founded the agricultural commodities and derivatives trading group in 1995. He headed the trading, derivatives structuring and proprietary trading teams. Since 2003 he was with the RMB Equity Global Markets team.
He became Head of RMB Equity proprietary trading desk in 2009 with a mandate to invest in debt and equity instruments globally. Mr. Van der Veer founded Foxhole Capital during 2012 as a family office specialising in global real estate securities in the listed and private equity markets.
He was a non-executive director of Rockcastle since 2014, and also the Chair of Investment Committee in Rockcastle.
Mr. Van der Veer was appointed as an independent non-executive director of NEPI Rockcastle on 15 May 2017.

ANTOINE DIJKSTRA (54)
Independent
Non-Executive Director

MSc, COL (INSEAD)

Mr. Dijkstra started his career at Credit Agricole in Rotterdam, Paris and Frankfurt. He had various managing roles within NIBC (Netherlands), Harcourt Investment Management (Zurich), JPMorgan/ Bear Stearns and Gulf International Bank (Bahrain). He is founder and partner of Implexus Capital (Netherlands) providing advisory services for corporations, governments and financial institutions, in areas such as strategic planning, financial structure and capital suport.
Mr. Dijkstra has extensive experience in investment management, with a focus on public sector related entities and financial institutions.
Mr. Dijkstra was a non-executive director of NEPI starting from 2016 and was appointed as an independent non-executive director of NEPI Rockcastle on 15 May 2017.

DESMOND DE BEER (57)
Non-Independent
Non-Executive Director

BProc, MAP

Desmond de Beer has significant experience in property investment and management. He spent several years in the banking industry, first at Barclays Bank, South Africa, where he was Bond Manager at the Barclays Trust. Subsequently, he was appointed General Manager, Corporate Equity and became a member of the Executive Committee at Nedcor Investment Bank. Since 2002, Mr de Beer has been the Managing Director of Resilient REIT Limited, a South African property company listed on the JSE.
Mr. de Beer was a non-executive director of NEPI starting from 2008 and also the Chair of the Investment Committee of NEPI. He was appointed as an non-independent non-executive director of NEPI Rockcastle on 15 May 2017.

MICHAEL MILLS (70)
Independent
Non-Executive Director

BSc, FCA

Michael Mills is an experienced public company chairman and managing director with significant operating and financial experience across a range of sectors. As a chartered accountant, he has held senior financial roles in a number of multinational companies. His recent experience includes chairman and CEO roles on the boards of UK listed companies operating in the finance sector, software development, healthcare services and manufacturing and a US based distribution business.
Mr. Mills was a non-executive director of NEPI starting from 2007 and also the Chairman of its Audit Committee.
He was appointed as an independent non-executive director of NEPI Rockcastle on 15 May 2017.

ROBERT EMSLIE (59)
Independent
Non-Executive Director

BCom, Hons Acc, CA (SA)

Mr. Emslie is a Chartered Accountant, with more than 30 years' experience in the financial services sector and property management. He held various positions within the ABSA Group 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 holds independent directorships of a small number of public and private companies..
Mr. Emslie was a non-executive director of NEPI starting from 2016 and also the Chair of the Remuneration Committee of NEPI. He was appointed as an independent non-executive director of NEPI Rockcastle on 15 May 2017.

ANDRIES DE LANGE (44)
Non-Independent
Non-Executive Director (Alternate
Director to Mr. Desmond de Beer)

CA (SA), CFA

After qualifying as a Chartered Accountant, Mr de Lange joined the Industrial Development Corporation of South Africa Limited and then Nedbank Limited where he gained experience in debt finance, debt and equity restructurings and private equity. He joined Resilient REIT Limited, a South African based property focused company listed on the JSE, in 2004 and acts as Chief Operating Officer.

Directors' report*

FINANCIAL HIGHLIGHTS

• Total value of direct property portfolio owned and managed by NEPI Rockcastle of **over €5 billion** (including joint ventures);

• Acquisitions and developments finalised during 2017 of €947 million, with 339,800m² added to Gross Lettable Area ("GLA");

• Net Operating Income ("NOI") of €267 million in 2017 (including €35 million reported by Rockcastle for the first half of the year), representing the income from properties acquired and developments finalised in 2017 only from their effective date; **annualised passing rent amounts to €327.6 million** (including joint ventures);

• **Collection of 99.91%** of annual contractual rental income and expense recoveries;

• Service charge costs 98% recovered;

• **Occupancy of 96.5%**, slightly lower than 2016 due to new acquisitions and extensions;

• Net listed securities portfolio represented 10% of total assets; as previously stated, this will decrease in 2018, as the acquisitions and development programme is implemented;

• Adjusted NAV per share of €7.10, reflecting growth of 19% compared to NEPI's adjusted NAV as at 31 December 2016, and **growth of 11% compared to the pro-forma combined adjusted NAV at 31 December 2016** published in the NEPI Rockcastle Prospectus;

• Distributable earnings per share for the second half of 2017 of 24.80 euro cents; together with the first half distribution of 23.46 euro cents per share, the total pay-out for the year is **48.26 euro cents per share**, **17.10% higher than the 2016 pro-forma distribution** of 41.21 euro cents per share published in the NEPI Rockcastle Prospectus;

• **Loan to Value ratio ("LTV") of 26%**, below the Group's target of 35%;

• **Investment-grade credit rating issued by all three major rating agencies;**

• **Successful €500 million Eurobond issue** in November 2017, further reducing weighted average cost of debt to 2.2%, and increasing the remaining weighted average maturity to 4.4 years;

• Currently, all interest rate exposure related to long-term loans is **100% hedged**, with a remaining weighted average hedge term of 5.1 years.

PHOTO:PARADISE CENTER, BULGARIA

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

OPERATIONAL HIGHLIGHTS

- **Successful completion of the merger** of NEPI and Rockcastle created CEE's leading retail property investment and development group, with a portfolio of 56 income-producing properties (including joint ventures) and five properties under development;
- **Market entry into Bulgaria and Hungary**, with the acquisition of prime assets in Sofia and Budapest, taking NEPI Rockcastle's presence to a total of eight CEE markets. NEPI Rockcastle now controls the two leading shopping centres in the Bulgarian capital (Serdika Center and Paradise Center);
- **Consolidation of the Group's significant position in the Polish retail market**, through the acquisition of Alfa Bialystok and the secured acquisition of Serenada and Krokus Shopping Centres, which is expected to be finalised in Q3 2018;
- **Completion of five developments or extensions**, primarily in Romania, with lettings to leading international retailers including Carrefour, Cinema City, Douglas, Hervis, New Yorker, Orsay, Sephora, Starbucks, and multiple Inditex brands;
- Five developments and 11 extensions or redevelopment projects ongoing in CEE, totalling 294,600m^2, across five different markets;
- **Tenants' turnover increased by 8.3%**, while turnover/ m^2 increased by 6.3% (like-for-like);
- **Footfall increased by 3.5%** (like-for-like).

Directors' report » continued

ACQUISITIONS

NEPI Rockcastle completed acquisitions of €827 million during 2017, adding a total of over 265,000m² GLA to its direct property portfolio. The Group entered the Bulgarian market through the acquisition of Serdika Center, and a few months later consolidated its dominant position in Bulgaria by acquiring Paradise Center, Sofia. The Group also entered its eighth CEE market, Hungary, through the acquisition of Arena Plaza in the capital city Budapest.

The country and effective or opening date are included in brackets. Populations are estimates.

SERDIKA CENTER AND OFFICE

Sofia, Bulgaria
Acquisition date: 22 August 2017

NEPI Rockcastle acquired Serdika Center, a 51,500m² GLA modern shopping centre with a strong tenant mix, benefiting from an excellent location close to Sofia's city centre and Serdika Office, a Class A office situated atop the shopping centre, with 28,500m² GLA. Sofia, the capital city of Bulgaria, has a population of 1.32 million residents, with 327,000 inhabitants within a 15-minute drive from Serdika Center. The centre has an annual footfall in excess of 6.5 million people.

ARENA PLAZA

Budapest, Hungary
Acquisition date: 15 September 2017

The Group acquired Arena Plaza, a shopping mall in Budapest with 66,000m² GLA, enjoying a modern layout over two floors, convenient parking and an attractive tenant mix. In addition, the Group acquired a plot of land of circa 21,800m² adjoining Arena Plaza that will be used for further expansion. Budapest, the capital city of Hungary has a population of 1.75 million, and 716,000 inhabitants are within a 15-minute drive from the shopping centre. More than 10 million people visit Arena Plaza on an annual basis.

PHOTO: ALFA BIALYSTOK, POLAND

ALFA BIALYSTOK

Bialystok, Poland
Acquisition date: 9 November 2017

With a GLA of 37,000m^2, Alfa Bialystok is the largest, dominant fashion destination in Białystok, Poland. The city is inhabited by approximately 297,000 people and is the most populous urban area within a radius of 200km in the north-east region of the country. It is a modern three-level shopping mall with 150 retail units and footfall exceeding 5.5 million in the last year.

PARADISE CENTER

Sofia, Bulgaria
Acquisition date: 1 December 2017

The Group acquired Paradise Center, the largest modern shopping centre in Sofia with 82,000m^2 GLA, and consolidated its position in the Bulgarian market with ownership of the two best performing retail assets in the capital city. Paradise Center is the best performing shopping centre in Sofia, a city-wide destination located in the wealthy southern part of the city, with an annual footfall in excess of 10.4 million visitors. Over 286,000 inhabitants are located within a 15-minute drive from the shopping centre.

SERENADA AND KROKUS SHOPPING CENTRES

Krakow, Poland

NEPI Rockcastle entered into an agreement to acquire Serenada and Krokus Shopping Centres, which will be effective subject to satisfaction or waiver of a number of conditions precedent, which is expected to occur in Q3 2018. The shopping centres have a current GLA of 68,900m^2 and the envisaged extension will result in a single integrated shopping centre with a GLA of over 100,000m^2 with a planned completion date in 2021. This acquisition consolidates the Group's position as one of the largest retail owners in Poland. Krakow, Poland's second largest city, has a population of 767,000 residents, and 336,000 inhabitants are within a 15-minute drive of the two shopping centres.

PHOTO: THE OFFICE CLUJ-NAPOCA, ROMANIA

Directors' report » continued

DEVELOPMENTS AND EXTENSIONS

The Group invests strategically in developments that contribute significantly to growth in distributable earnings per share. NEPI Rockcastle is pursuing a development pipeline which exceeds €1,200 million (including redevelopments and extensions, estimated at cost), of which €190 million was spent during 2017. Undertaking redevelopments and extensions to existing properties is a driver for future growth, ensuring that the Group maintains its pre-eminent position in the market and its superior retail relationships, thus de-risking the business and delivering higher quality earnings.

COMPLETED DEVELOPMENTS AND EXTENSIONS

THE OFFICE CLUJ-NAPOCA THIRD PHASE

Romania
Opening date: Romania, 30 June 2017

The Group, together with its joint venture partner, completed the 20,200m² GLA third phase of The Office, Cluj–Napoca. The total GLA of the office complex is now 63,600m². The building is 99% let. Tenants include renowned corporations such as 3 Pillar Global, 8x8, Betfair, Bombardier, Magneti Marelli, Telenav, Thomsons and Wolters Kluwer.

VICTORIEI OFFICE BUCHAREST

Romania
Opening date: 30 June 2017

Outstanding permits for internal fit-out of the 7,800m² GLA landmark office located in central Bucharest were received and the development was completed during the year. The building is fully let to major corporations such as Fitbit, General Electric and Philip Morris.

GALERIA WOLOMIN

Poland
Opening date: 31 August 2017

The retail park with 6,600m² GLA adjoins the existing Galeria Wolomin shopping centre. It opened for trading on 31 August 2017, and increased the total retail GLA to 30,700m².

SHOPPING CITY GALATI EXTENSION

Romania
Opening date: 26 November 2017

The Group successfully completed construction of the 21,000m² GLA extension to Shopping City Galati. Shopping City Galati is now a 49,100m² GLA regional mall, located in Galati, a city of 305,000 residents. The centre is the prime shopping destination for the 559,000 inhabitants that live within a 45-minute catchment area. The centre is 84.9% let. The extension was leased to tenants such as: Bershka, Cinema City, Douglas, Hervis, Pandora, Pull&Bear, Sephora, Sport Vision, Starbucks and Stradivarius.

SHOPPING CITY RAMNICU VALCEA

Romania
Opening date: 7 December 2017

NEPI Rockcastle completed the 28,200m² GLA regional mall in Ramnicu Valcea, a city of 119,000 residents. The centre services 315,000 inhabitants within a 45-minute catchment area. 95.3% of the centre is leased to tenants such as: Altex, Carrefour, Cinema City (not yet opened), Douglas, Hervis, Jysk, NewYorker and Orsay.

Directors' report » continued

DEVELOPMENTS AND EXTENSIONS PIPELINE

SHOPPING CITY SATU MARE
Romania

NEPI Rockcastle has received the required permits for the development of a 28,700m² shopping mall in Satu Mare. The city has a population of 123,000 residents and 288,000 inhabitants live within a 45-minute drive thereof. Tenants include: Carrefour, with a 10,000m² hypermarket, and key fashion retailers. Construction works started in March 2018, and management targets opening by the end of 2018.

PROMENADA NOVI SAD
Serbia

Construction has started on the first phase of a shopping mall of approximately 49,400m² GLA. The city has a population of 319,000 residents and 607,000 inhabitants live within a 45-minute drive of the site. Tenant demand is strong and various international brands are planning to join the scheme. Numerous retailers such as: Adidas, Calvin Klein, Cineplexx, Converse, Diesel, Guess, Lacoste, Levi's, Nike, Replay, Sport Vision, Superdry, Timberland, Under Armour and Univerexport (with a 3,300m² supermarket) have already been signed. The project has a unique central location and will include a large food-court and dining area (1,400m²), a fitness operator and a cinema. The Group plans to open the centre in the fourth quarter of 2018.

PLATAN SHOPPING CENTRE
Poland

Extension and refurbishment works, including the construction of a multi-level car park, food court and entertainment level, started in June 2017. The extension is scheduled to open in November 2018 and will increase the shopping centre's GLA to over 39,700m².

SOLARIS SHOPPING CENTRE
Poland

The building permit has been received and construction has started to extend the shopping centre by approximately 9,000m². The project includes the development of multi-level basement parking and a new town square in front of the centre's main entrance. Tenant demand is strong and the extension area is scheduled to be completed in the first quarter of 2019.

PROMENADA MALL EXTENSION
Romania

There has been limited traction in obtaining the required approvals and permits for the retail extension and integrated office building of Promenada Mall, a shopping centre located in Bucharest's central business district. Progress has been made, however at a significantly slower rate than expected due to reasons outside of the Group's control. The retail extension will include new fashion brands, a 14-screen Cinema City, additional leisure and entertainment facilities and 1,600 new parking spaces.

SHOPPING CITY SIBIU RECONFIGURATION AND EXTENSION
Romania

The Group received zoning for refurbishing, reconfiguring and extending Shopping City Sibiu, a 78,200m^2 mall. The centre serves a catchment area of 286,000 inhabitants within a 45-minute drive. The extension will add approximately 9,700m^2 GLA and will improve the centre's fashion offering and will further strengthen its market positioning. NEPI Rockcastle expects to finalise the extension in December 2019.

SHOPPING CITY TARGU MURES
Romania

The Group is pursuing zoning approvals and permitting to develop a 32,900m^2 (in phase I) mall in Targu Mures, a city with a population of 150,000 residents. The centre will serve a catchment area of 306,000 inhabitants within a 45-minute drive. A large number of tenants have already expressed their interest in the development which will represent the first new generation shopping centre in the city. The hypermarket (Carrefour) has signed a lease agreement for 10,000m^2 GLA.

PHOTO: PROMENADA NOVI SAD CONSTRUCTION SITE, SERBIA

AURORA SHOPPING MALL – EXTENSION
Romania

The Group intends to start the refurbishment, reconfiguration and extension of Aurora Shopping Mall, a mall that currently has 18,000m^2 GLA and that will be extended by an additional 5,900m^2 GLA. The centre is located in Buzau, a city with a population of 136,000 residents and services a catchment area of 430,000 inhabitants within a 45-minute drive. The following tenants are already present: Altex, Animax, Benvenuti, Carrefour, CCC, Deichmann, Intersport, Kendra, KFC, New Yorker, Noriel, Orsay, Pepco, Sensiblu and Top Shop. Cinema City (a 6-screen multiplex) has been signed and will enter the centre following the extension. Subject to permitting and receipt of required approvals, the Group will start the development in H1 2018 and targets opening the extended centre by the end of 2018.

KORZO SHOPPING CENTER - EXTENSION
Slovakia

The Group is planning a 9,300m^2 GLA extension of Korzo Prievidza (Slovakia) including a refurbishment of the existing centre. The city of Prievidza has a population of 48,000 residents and the centre services a catchment area of 308,000 inhabitants within a 45-minute drive. The extension is aimed at improving the retail mix with new fashion brands, extending the leisure offering (larger food-court, additional cinema halls) and improving the overall shopping experience with a 50% larger parking, improved amenities and easier client access. Currently the project is in the design and permitting stage. The extension is planned to be opened in Q3 2019.

FESTIVAL SIBIU – DEVELOPMENT
Romania - subsequent event

In February 2018, the Group acquired Festival project, a 3.4ha land in the centre of Sibiu which is permitted for the development of a 43,000m^2 GLA shopping centre. Sibiu has a population of 170,000 residents and Festival is expected to service a catchment of 162,000 inhabitants within a 15-min drive. Key international tenants are secured: Kaufland (with its first hypermarket integrated in a shopping centre in Romania), Inditex (with several brands including Zara), H&M and a cinema operator. This development will complement the city's other retail property (Shopping City Sibiu). The centre is expected to open by the end of 2019.

OTHER EXTENSIONS

The Group is also pursuing several other extensions to its existing assets which will be announced in due course.

Directors' report » continued

LISTED SECURITY PORTFOLIO

NEPI Rockcastle invests in listed securities primarily to provide liquidity for the execution of attractive acquisitions and developments. There has been an increasing focus on diversifying the portfolio to facilitate the efficient deployment of capital into direct property assets during 2018.

Various changes have been implemented in this respect:
- During 2017 the portfolio has been focused more towards Continental Europe than other regions.
- Additionally, the portfolio has been diversified further and exposure increased to highly liquid counters, while the exposure to the US dollar has been reduced since Q3 2016.

Following the merger of NEPI and Rockcastle and due to the above mentioned changes within the portfolio, the functional currency of the entity owning the listed securities portfolio was changed from US dollar to Euro.

As indicated, the Group's current pipeline of acquisitions and developments expected to be completed this year is substantial and will be in part funded through the listed security portfolio.

A portion of the funds raised by the Group through equity and debt issues during 2017 was temporarily invested in the listed portfolio, awaiting the gradual implementation of the current acquisition pipeline.

NEPI Rockcastle uses physical shares and equity derivative positions to obtain exposure to listed real estate companies. The principal counter parties in all listed securities transactions are Morgan Stanley, Goldman Sachs and BoA Merrill Lynch.

CASH MANAGEMENT AND DEBT

Following the merger, Moody's have revised the outlook on the Baa3 rating from stable to positive, and Standard and Poor's have upgraded NEPI Rockcastle's rating from BBB- to BBB, with a stable outlook. The Group also obtained a BBB rating with a stable outlook from Fitch. After a roadshow with European fixed-income investors in November 2017, the Group issued €500 million of unsecured, 7-year Eurobonds maturing on 23 November 2024, carrying a 1.75% fixed coupon, with an issue price of 99.051%. This is the second time the Group has raised material amounts from European investors, enabling it to compete more effectively in the Central and Eastern European real estate markets in the long term. The Group has a broad bondholder base, ranging from large asset managers, banks, pension and insurance companies to international financial institutions such as the International Finance Corporation (part of the World Bank group) and the European Bank for Reconstruction and Development. The proceeds have been partly used for the acquisition of Paradise Center (Sofia, Bulgaria), while the balance of the proceeds will be used for funding the acquisitions and developments pipeline.

During the year, the Group contracted €250 million in unsecured revolving facilities from ING, Societe Generale and Garanti Bank, and €196 million in secured debt from Berlin Hyp, Erste Bank, ING, Helaba, PBB and Raiffeisen Bank (including joint ventures). NEPI Rockcastle benefits from a diversified funding base, and was complying with all debt covenants as at 31 December 2017. NEPI Rockcastle's Loan to Value (interest bearing debt less cash divided by investment property and listed securities) was 26%, below the gearing ratio target of 35%.The average interest rate, including hedging costs, was 2.2% during 2017, due to contracting new debt at lower rates and decreasing the interest margin on the existing debt. As at 31 December 2017, fixed-coupon bonds represented 53% of NEPI Rockcastle's outstanding debt, and out of the remaining debt exposed to Euribor, 38% was hedged with interest rate caps and 62% with interest rate swaps (including joint ventures).

The Group raised €593 million during 2017 pre-and post-merger by issuing new ordinary shares, comprising €397 million from accelerated book builds and €196 million from scrip dividends (which represented approximately 73% of the total dividend declared for the corresponding period).

As at 31 December 2017, the Group had a strong liquidity profile, with €196 million in cash, €380 million in available unsecured revolving facilities, and €593 million net available in the listed security portfolio.

PHOTO: CITY PARK, ROMANIA

PHOTO: FORUM LIBEREC SHOPPING CENTRE, POLAND

Directors' report » continued

NEPI ROCKCASTLE BUSINESS COMBINATION

In accordance with IFRS 3 – Business Combinations, the merger between NEPI and Rockcastle was classified as a purchase of Rockcastle by NEPI. The attached condensed financial statements and notes include:

- A consolidated statement of financial position, which includes all assets of the resulting entity, NEPI Rockcastle; the comparative is NEPI's statement of financial position at 31 December 2016;
- A statement of comprehensive income, which includes the financial results of NEPI until the merger date (11 July 2017), and the results of the combined group afterwards; the comparative is NEPI's statement of comprehensive income for the year ended 31 December 2016.

For the calculation of distributable earnings, an antecedent dividend equal to Rockcastle's distribution for the first half of the year was added.

Goodwill of €886 million resulted from Rockcastle's premium to net asset value at the date of the merger. All assets and liabilities were recognised at fair value at the acquisition date, therefore the resulting goodwill was considered a mechanical result of the merger accounting, and consequently unallocated and requiring an accounting impairment.

This impairment of goodwill does not impact any of the key indicators: recurring earnings per share, adjusted net asset value per share, cash flow, distributable earnings, overall financial profile, synergies from the merger or the forecasted earnings per share. Consequently, the Group's balance sheet includes almost exclusively assets marked to market every six months, in line with the industry practice (e.g. Unibail – Rodamco and Kleppiere – Corio mergers).

VALUATION

NEPI Rockcastle assesses the valuation of its property portfolio twice a year. Fair value is determined by external, independent professional valuers, with appropriate and recognised qualifications, and recent experience in the locations and category of properties being valued. The valuations as at 31 December 2017 were performed by Cushman & Wakefield and Colliers International.

SHARE PRICE MOVEMENT

Considering the unusual share price movement that NEPI Rockcastle has experienced since the start of 2018, the Board felt it appropriate to draw shareholders' attention to the following points:

- The Board of NEPI Rockcastle confirms there has been no change in the Group's operations or financial position that would justify the recent movements in its share price;
- The Board and management of NEPI Rockcastle have always been, and remain, committed to the highest standards of transparency and corporate governance. The Group maintains an open dialogue with equity and credit investors;
- The Group does not hold any shares in Resilient REIT Limited, Fortress REIT Limited or Greenbay Properties Ltd, nor does it have any financing arrangements with any of these parties.

In terms of the Articles of Association of the Company and the approval granted by the Board of Directors, the Company may implement a repurchase of NEPI Rockcastle shares.

Directors' report » continued

DISTRIBUTABLE EARNINGS AND DECLARATION OF DISTRIBUTION

The Group achieved 24.80 euro cents in distributable earnings per share for the six months ended 31 December 2017. Aggregated with the combined distribution achieved by NEPI and Rockcastle for the first half of 2017, and declared by NEPI Rockcastle, of 23.46 euro cents per share, it results in 48.26 euro cents per share; this is 17.10% higher than the 2016 pro-forma distribution of 41.21 euro cents per share for 2016, as published in the NEPI Rockcastle Prospectus. This growth is in line with previously announced guidance, and is due to the strong performance of the Group's assets and acquisitions and developments completed during the year.

The Board of Directors declared a distribution of 24.80 euro cents per share for the second half of 2017, which was paid in cash on 12 March 2018. Announcements in this respect were issued on the Stock Exchange News Service (SENS) of the JSE and Euronext Amsterdam.

RECONCILIATION OF PROFIT FOR THE YEAR TO DISTRIBUTABLE EARNINGS	Group 31 Dec 2017	Group 31 Dec 2016
(Loss)/Profit for the year attributable to equity holders	**(579 694)**	**234 968**
Reverse indirect result	776 019	(108 683)
Foreign exchange loss	1 255	127
Acquisition fees	10 681	4 339
Fair value adjustments of investment property for controlled subsidiaries	(162 022)	(143 163)
(Gain)/Loss on disposal of investment property	(9)	485
Fair value and net result on sale of financial investments at fair value through profit or loss	24 112	724
Income from financial investments at fair value through profit or loss	(18 084)	(738)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for controlled subsidiaries	(500)	(228)
Deferred tax expense for controlled subsidiaries	46 199	34 808
Impairment of goodwill	886 167	-
Adjustments related to joint ventures		
Fair value adjustments of investment property for joint ventures	(14 344)	(7 252)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for joint ventures	(439)	227
Deferred tax expense for joint ventures	2 903	2 034
Foreign exchange gain for joint ventures	100	(46)
Company specific adjustments	17 004	(558)
Amortisation of financial assets	(1 807)	(3 730)
Realised foreign exchange loss for controlled subsidiaries	(769)	(101)
Realised foreign exchange gain for joint ventures	3	7
Accrued dividend for financial investments	19 803	1 202
Accrued interest on share-based payments	-	2
Fair value adjustment of Investment property for non-controlling interest	(392)	2 514
Deferred tax expense for non-controlling interest	166	(452)
Antecedent dividend	6 861	3 974
Antecedent dividend - Rockcastle distribution Jun 2017	49 531	-
Distributable earnings	**269 721**	**129 701**
Less: Distribution declared	(269 721)	(126 688)
Antecedent dividend for the first half of 2016	-	(3 013)
Interim distribution*	(126 438)	(59 566)
Final distribution	(143 283)	(70 135)
Earnings not distributed	-	-
Number of shares entitled to interim distribution*	538 953 794	302 714 153
Number of shares entitled to final distribution	577 800 734	321 486 204
Distributable earnings per share (euro cents)	**48.26**	**40.50**
Less: Distribution declared per share (euro cents)	(48.26)	(40.50)
Interim distribution per share (euro cents)*	(23.46)	(18.68)
Final distribution per share (euro cents)	(24.80)	(21.82)
Earnings not distributed (euro cents)	-	-

** Interim distribution, interim distribution per share and number of shares entitled to interim distribution computed on a combined basis for H1 2017.*

The growth in distributable earnings per share of 17.10% was computed by comparison to the combined pro-forma distribution of 41.21 euro cents per share as published in the NEPI Rockcastle Prospectus.

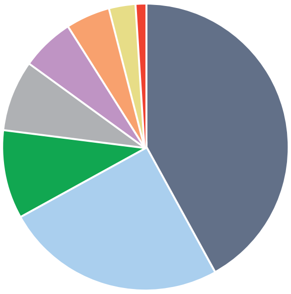
PHOTO: CITY PARK, ROMANIA

PROSPECTS AND EARNINGS GUIDANCE

Distributable earnings per share for the year 2018 are expected to be approximately 10% higher than the 2017 combined distribution of 48.26 euro cents per share. This guidance is based on the assumptions that a stable macroeconomic environment prevails, no major corporate failures occur, and planned developments and acquisitions remain on schedule. This forecast has not been audited or reviewed by NEPI Rockcastle's auditors and is the responsibility of the Board.

Portfolio overview

GEOGRAPHICAL PROPERTY PORTFOLIO PROFILE



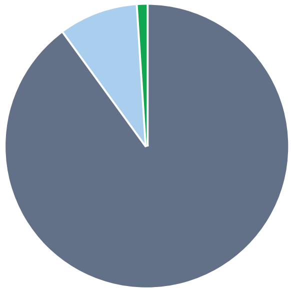
by market value
Dec 2017

- Romania 42%
- Poland 25%
- Bulgaria 10%
- Slovakia 8%
- Hungary 6%
- Croatia 5%
- Czech Republic 3%
- Serbia 1%

Geographical property portfolio profile by gross rentals: Romania - 45%, Poland - 23%, Bulgaria - 10%, Slovakia - 8%, Hungary - 5%, Croatia - 5%, Czech Republic - 3% and Serbia - 1%.

Geographical property portfolio profile by rentable area: Romania - 50%, Poland - 23%, Bulgaria - 9%, Slovakia - 6%, Hungary - 4%, Czech Republic - 4%, Croatia - 3% and Serbia - 1%.

SECTORAL PROPERTY PORTFOLIO PROFILE



by market value
Dec 2017

- Retail 90%
- Office 9%
- Industrial 1%

Sectoral property portfolio profile by gross rentals: Retail - 89%, Office - 10% and Industrial - 1%.

Sectoral property portfolio profile by rentable area: Retail - 88%, Office - 11% and Industrial - 1%.

KEY PROPERTY INFORMATION

	Group 31 Dec 2017	Group 31 Dec 2016
Total number of properties*	**61**	**44**
Income-producing properties	56	37
Greenfield developments	5	7
Extensions to existing properties	11	6
Fair value of properties (€ million)*	5,040	2,641
Annualised property yield (by passing rent)	6.8%	7.3%
Lettable area (thousand m²)	**2,096**	**1,334**
Income-producing properties	1,801	1,043
Properties under development (estimated)	295	291
Weighted average remaining lease term*	**4.0**	**5.0**
Weighted average rent (€/m²/month)*	**15.2**	**14.4**

** Excludes non-core properties held for sale*
All figures in this section are weighted by ownership. Detailed property schedule is included in this report at pages 182-183.

OVERVIEW OF VALUATION YIELDS

Country	Segment	Number of properties	Prime yield*	Capitalisation rate**
Romania	Retail	24	6.75%	7.25%
Romania	Office	5	7.25%	7.25%
Romania	Industrial	2	8.75%	10.00%
Croatia	Retail	1	7.00%	7.00%
Serbia	Retail	1	8.00%	8.50%
Slovakia	Retail	4	5.25%	6.75%
Slovakia	Office	1	6.25%	7.50%
Czech Republic	Retail	2	4.25%	6.25%
Bulgaria	Retail	2	7.50%	7.25%
Bulgaria	Office	1	7.75%	8.00%
Poland	Retail	11	4.75%	5.75%
Hungary	Retail	1	5.80%	6.50%

** Source: Cushman & Wakefield, Market Snapshot, Q4 2017.*

*** 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 index-linked to the European Consumer Price Index (CPI) and partially from contractual gradual rental lease increase as per existing contracts as at 31 December 2017 . The weighted average rental escalation does not include impact from leasing renewal activities as per initial contract. Out of the total operational GLA as at the year end, the weighted average rental escalation by rentable area is presented below:

TOTAL, out of which:	**1.58%**
Retail	1.61%
Office	1.38%
Industrial	1.31%

VACANCY PROFILE

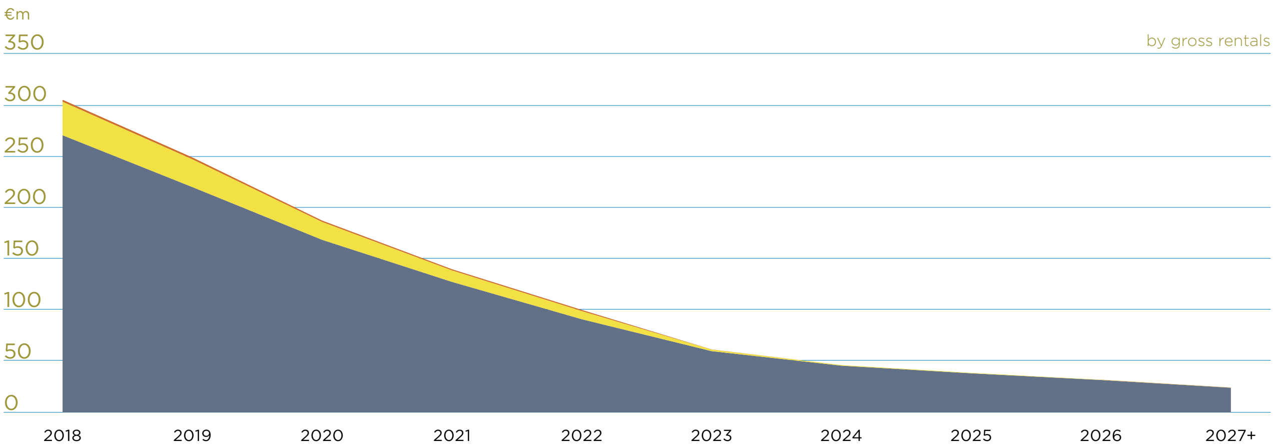
The vacancy calculated as a portion of available rentable area at the end of 2017 was 3.5% (excluding properties held for sale) compared to 2.0% at the end of the previous year.

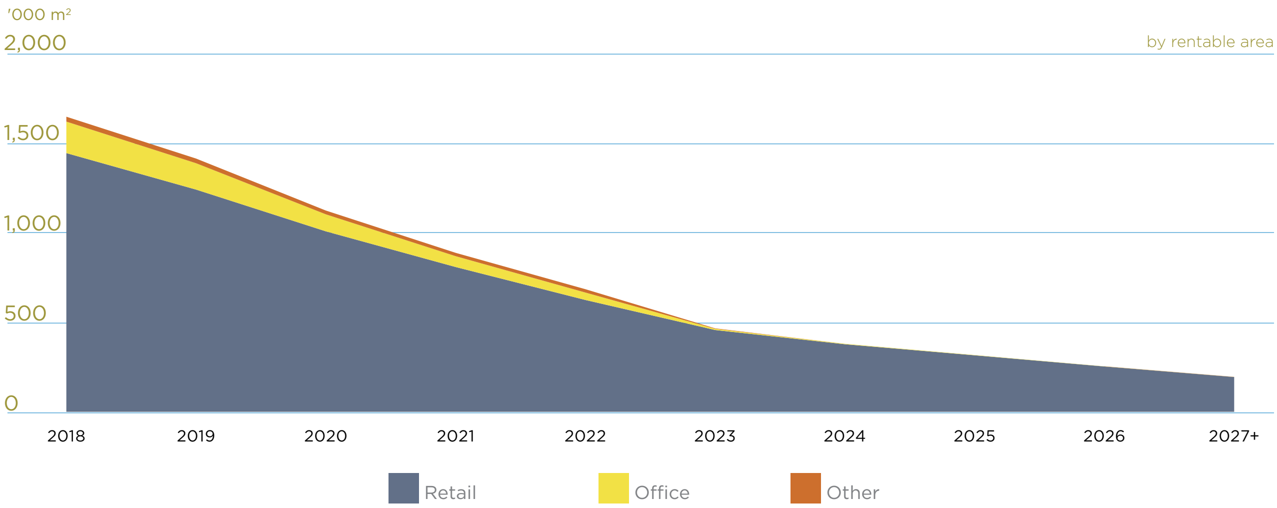
Out of the 63,664m^2 of rentable area vacant as at 31 December 2017, 59,649m^2 was retail space (3.3%), 3,465m^2 office (0.17%) and 550m^2 industrial (0.03%).

The vacant retail space is due to the acquisitions for which these vacancies have a high potential for rental uplift (Paradise Center, Bulgaria), current on-going refurbishments focused on improving the tenant mix and appearance of the center (Forum Liberec Shopping Centre, Czech Republic) and new completed developments and extensions, for which the initial vacancy will be reduced during 2018 (Shopping City Ramnicu Valcea, Shopping City Galati, Romania).

Portfolio overview » continued

EXPIRY PROFILE



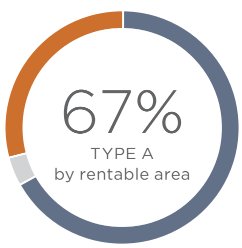


TENANT PROFILE

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

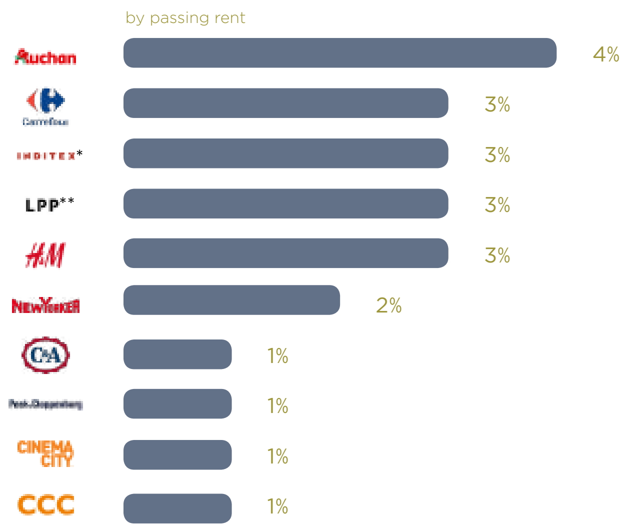
Type B: Smaller international and national tenants, smaller listed tenants and medium to large professional firms (companies with assets and/ or turnovers ranging from €100 to €200 million).

Type C: Other tenants (2,622 total number)



Type A	67%
Type B	4%
Type C	29%

TOP 10 RETAIL TENANTS



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

**Reserved, Cropp Town, House, Mohito, Sinsay

PHOTO: SERDIKA CENTER, BULGARIA

PHOTO: MEGA MALL, ROMANIA

Romania

RETAIL

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

over
726,000
m² GLA of retail income-producing properties

€1,636m
property value

97.6%
occupancy rate

€116m
passing rent

9.7%
increase in tenants turnover*

5.3%
increase in footfall*

*like-for-like

ROMANIA

Mega Mall
Bucharest

Ownership	100%
GLA	75,800m²
Valuation	€306.1 million
Passing rent	€19.0 million
Occupancy	97.9%

City Park
Constanta

Ownership	100%
GLA	52,100m²
Valuation	€181.8 million
Passing rent	€12.8 million
Occupancy	97.1%

Promenada Mall
Bucharest

Ownership	100%
GLA	39,400m²
Valuation	€196.0 million
Passing rent	€12.0 million
Occupancy	99.4%

Shopping City Timisoara
Timisoara

Ownership	100%
GLA	56,900m²
Valuation	€120.2 million
Passing rent	€8.6 million
Occupancy	100%

RETAIL

Shopping City Sibiu
Sibiu

Ownership	100%
GLA	78,200m²
Valuation	€116.9 million
Passing rent	€8.5 million
Occupancy	96.4%

Iris Titan Shopping Center
Bucharest

Ownership	100%
GLA	45,000m²
Valuation	€96.8 million
Passing rent	€7.5 million
Occupancy	99.7%

Shopping City Galati
Galati

Ownership	100%
GLA	49,100m²
Valuation	€101.8 million
Passing rent	€6.5 million
Occupancy*	84.9%

**21,000m² extension opened in November 2017.*

Shopping City Deva
Deva

Ownership	100%
GLA	52,500m²
Valuation	€77.7 million
Passing rent	€6.5 million
Occupancy	100%

ROMANIA

Braila Mall
Braila

Ownership	100%
GLA	55,400m²
Valuation	€78.8 million
Passing rent	€6.1 million
Occupancy	97.2%

Vulcan Value Centre
Bucharest

Ownership	100%
GLA	24,600m²
Valuation	€56.8 million
Passing rent	€4.0 million
Occupancy	100%

Pitesti Retail Park
Pitesti

Ownership	100%
GLA	24,800m²
Valuation	€35.1 million
Passing rent	€3.8 million
Occupancy	100%

Ploiesti Shopping City
Ploiesti

Ownership	50%
GLA	45,800m²
GLA weighted by ownership	22,900m²
Valuation weighted by ownership	€51.0 million
Passing rent weighted by ownership	€3.6 million
Occupancy	95.3%

RETAIL

Shopping City Piatra Neamt
Piatra Neamt

Ownership	100%
GLA	28,000m²
Valuation	€47.9 million
Passing rent	€3.5 million
Occupancy	100%

Shopping City Targu Jiu
Targu Jiu

Ownership	100%
GLA	27,100m²
Valuation	€44.1 million
Passing rent	€3.3 million
Occupancy	99.8%

Shopping City Ramnicu Valcea
Ramnicu Valcea

Ownership	100%
GLA	28,200m²
Valuation	€42.1 million
Passing rent	€2.9 million
Occupancy*	95.3%

**28,200m² development opened in December 2017.*

Severin Shopping Center
Turnu Severin

Ownership	100%
GLA	22,600m²
Valuation	€34.3 million
Passing rent	€2.4 million
Occupancy	99.7%

ROMANIA

Aurora Shopping Mall

Buzau

Ownership	100%
GLA	18,000m²
Valuation	€15.5 million
Passing rent	€2.2 million
Occupancy	99.7%

Regional Strip centres

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


Brasov

Ownership	100%
GLA	25,800m²
Valuation	€32.9 million
Passing rent	€2.6 million
Occupancy	100%


PHOTO: SHOPPING CITY TIMI


H&M
SOARA, ROMANIA

Poland

RETAIL

The Group has built a dominant portfolio in Poland, the largest and most liquid real estate market in the CEE region, currently holding 11 regional malls.
NEPI Rockcastle recently entered into an agreement to acquire two adjacent shopping centers in Krakow, Poland's second largest city: Serenada and Krokus Shopping Centres, consolidating the Company's position as one of the largest dominant retail owners in Poland, the most populous country in Central and Eastern Europe.

over
410,000
m² GLA of retail income-producing properties

€1,217m
property value

96.3%
occupancy rate

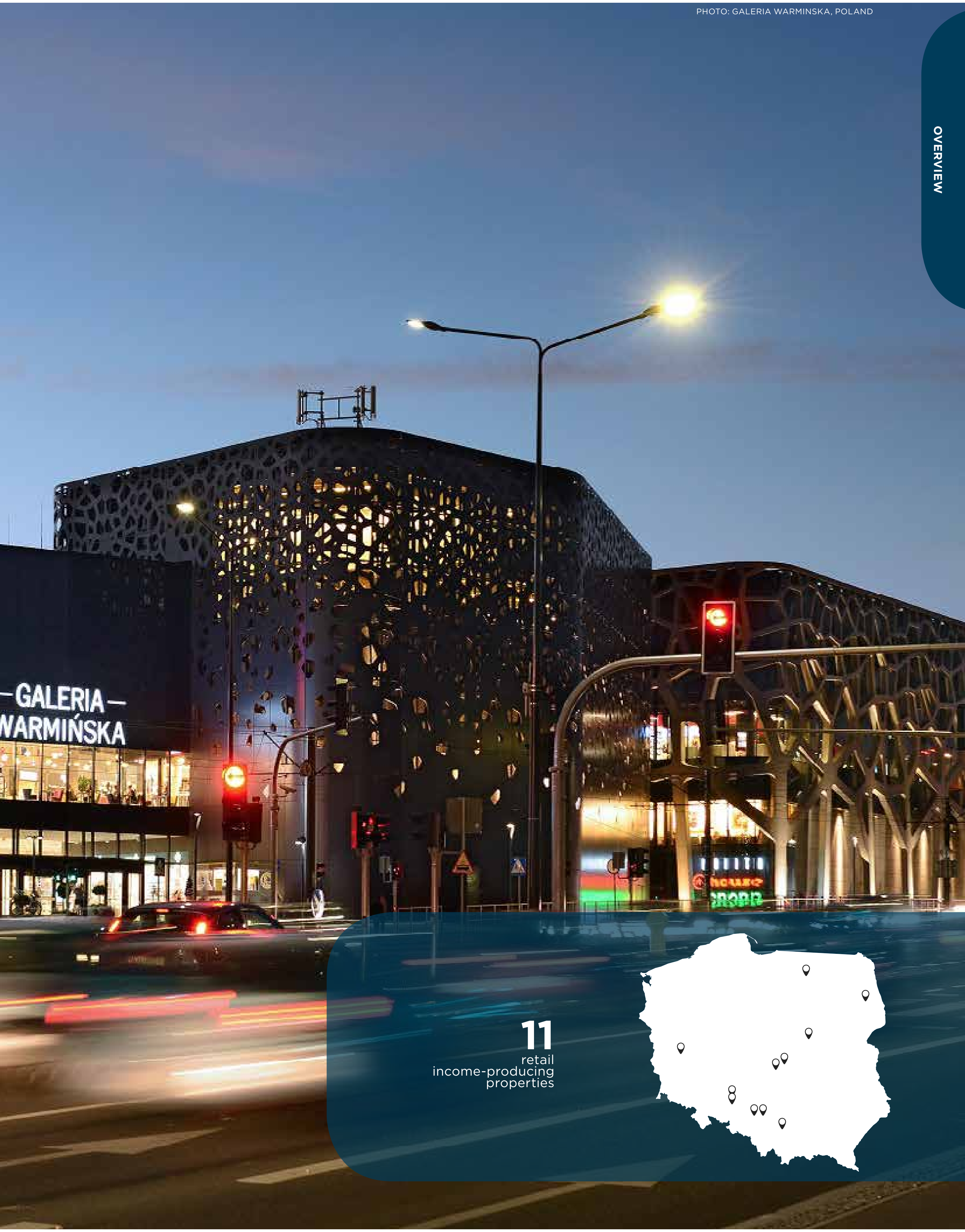
€76m
passing rent

8.0%
increase in tenants turnover*

1.9%
increase in footfall*

*like-for-like

PHOTO: GALERIA WARMINSKA, POLAND



11
retail
income-producing
properties

POLAND

Bonarka City Center
Krakow

Ownership	100%
GLA	72,700m^2
Valuation	€375.2 million
Passing rent	€20.0 million
Occupancy	96.8%

Galeria Warminska
Olsztyn

Ownership	100%
GLA	42,700m^2
Valuation	€156.1 million
Passing rent	€9.5 million
Occupancy	99.8%

Karolinka Shopping Centre
Opole

Ownership	100%
GLA	70,100m^2
Valuation	€150.1 million
Passing rent	€9.2 million
Occupancy	97.4%

Focus Mall Zielona Gora
Zielona Gora

Ownership	100%
GLA	28,800m^2
Valuation	€119.5 million
Passing rent	€7.4 million
Occupancy	96.6%

RETAIL

Alfa Centrum Bialystok
Bialystok

Ownership	100%
GLA	37,000m²
Valuation	€93.3 million
Passing rent	€7.1 million
Occupancy	97.5%

Pogoria Shopping Centre
Dabrowa Gornicza

Ownership	100%
GLA	36,800m²
Valuation	€77.8 million
Passing rent	€5.0 million
Occupancy	95.7%

Solaris Shopping Centre
Opole

Ownership	100%
GLA	17,300m²
Valuation	€60.7 million
Passing rent	€4.3 million
Occupancy	98.3%

Focus Mall Piotrkow Trybunalski
Piotrkow Trybunalski

Ownership	100%
GLA	35,200m²
Valuation	€49.4 million
Passing rent	€4.1 million
Occupancy	88.1%

POLAND

Galeria Wolomin
Wolomin

Ownership	90%
GLA	30,700m²
Valuation	€58.7 million
Passing rent	€4.0 million
Occupancy	92.5%

Platan Shopping Centre
Zabrze

Ownership	100%
GLA	22,700m²
Valuation	€44.1 million
Passing rent	€2.8 million
Occupancy	97.4%

Galeria Tomaszow
Tomaszow Mazowiecki

Ownership	85%
GLA	18,400m²
Valuation	€32.1 million
Passing rent	€2.6 million
Occupancy	98.5%

PHOTO: GALERIA TOMASZOW, POLAND

4
retail
income-producing
properties

PHOTO: AUPARK KOSICE MALL, SLOVAKIA

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 and 2016. The Group currently owns four regional malls, one office building and land for the development of a retail or mixed-use scheme. The Group will continue to strengthen its presence in Slovakia.

over
85,000
m^2 GLA of retail income-producing properties

€371m
property value

97.6%
occupancy rate

€24m
passing rent

3.7%
increase in tenants turnover*

(0.9)%
decrease in footfall*

*like-for-like

PHOTO: AUPARK KOSICE MALL, SLOVAKIA

Aupark Kosice Mall

Kosice

Ownership	100%
GLA	33,800m²
Valuation	€166.2 million
Passing rent	€9.9 million
Occupancy	95.2%

Aupark Zilina

Zilina

Ownership	100%
GLA	25,100m²
Valuation	€124.8 million
Passing rent	€8.1 million
Occupancy	100%

OVERVIEW

Korzo Shopping Center

Korzo

Ownership	100%
GLA	16,100m²
Valuation	€39.1 million
Passing rent	€2.9 million
Occupancy	98.7%

Aupark Shopping Center Piestany

Piestany

Ownership	100%
GLA	10,300m²
Valuation	€41.0 million
Passing rent	€2.7 million
Occupancy	98.0%

Bulgaria

RETAIL

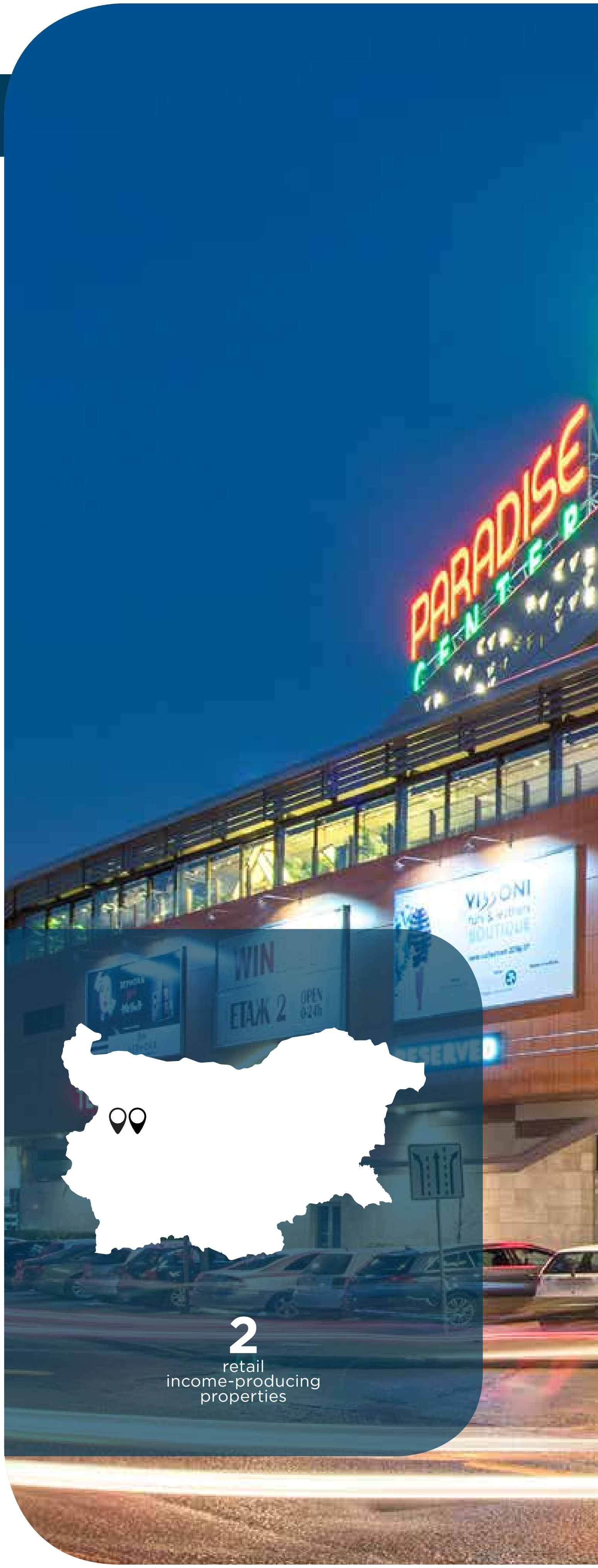
In August 2017 NEPI Rockcastle acquired Serdika Center, a 51,500m^2 GLA modern shopping centre, and Serdika Office, a Class A office situated atop the shopping centre with 28,500m^2 GLA. In December 2017 the Group completed the acquisition of Paradise Center, the largest retail centre in Sofia, consolidating the Group's position in the Bulgarian market.

over
130,000
m^2 GLA of retail income-producing properties

€416m
property value

92.6%
occupancy rate

€28m
passing rent



2
retail income-producing properties

PHOTO: PARADISE CENTER, BULGARIA

Paradise Center
Sofia

Ownership	100%
GLA	82,000m^2
Valuation	€254.7 million
Passing rent	€15.7 million
Occupancy	88.5%

Serdika Center
Sofia

Ownership	100%
GLA	51,500m^2
Valuation	€161.4 million
Passing rent	€12.6 million
Occupancy	99.1%

Hungary

RETAIL

In September 2017 the Group entered the Hungarian market by acquiring Arena Plaza in Budapest, the capital city. With a gross lettable area of 66,000m², Arena Plaza is the second largest retail centre in Budapest.

66,000
m² GLA of retail income-producing properties

€286m
property value

94.4%
occupancy rate

€18m
passing rent

PHOTO: ARENA PLAZA, HUNGARY

Croatia

RETAIL

In November 2016, the Group acquired the largest shopping mall in Zagreb, Arena Centar, as well as 4.4ha of adjacent land which offers opportunity for future development. Zagreb is the capital of and largest city in Croatia.

61,600
m² GLA of retail income-producing properties

€226m
property value

95.4%
occupancy rate

€15m
passing rent

10.9%
increase in tenants turnover*

(0.9)%
decrease in footfall*

like-for-like

PHOTO: ARENA CENTAR, CROATIA

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.

over
74,000
m² GLA of retail income-producing properties

€171m
property value

90.2%
occupancy rate

€11m
passing rent

7.8%
increase in tenants turnover*

1.3%
increase in footfall*

*like-for-like

PHOTO: FORUM USTI NAD LABEM, CZECH REPUBLIC

Forum Usti nad Labem

Usti nad Labem

Ownership	100%
GLA	27,800m²
Valuation	€87.9 million
Passing rent	€5.4 million
Occupancy	97.1%

Forum Liberec Shopping Centre

Liberec

Ownership	100%
GLA	46,900m²
Valuation	€83.5 million
Passing rent	€5.3 million
Occupancy*	86.1%

** The property is undergoing a refurbishment.*

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 NEPI Rockcastle acquired land in Krusevac and Sabac with the intention to develop retail parks. Additionally, in the same year the Group acquired land in a prime location in Novi Sad, and in 2017 commenced the construction of the shopping mall's first phase of 49,400m^2 GLA.

over
22,000
m^2 GLA of income-producing properties

€42m
property value

96.6%
occupancy rate

€3m
passing rent

8.2%
increase in tenants turnover*

1.4%
increase in footfall*

*like-for-like

PHOTO: KRAGUJEVAC PLAZA, SERBIA

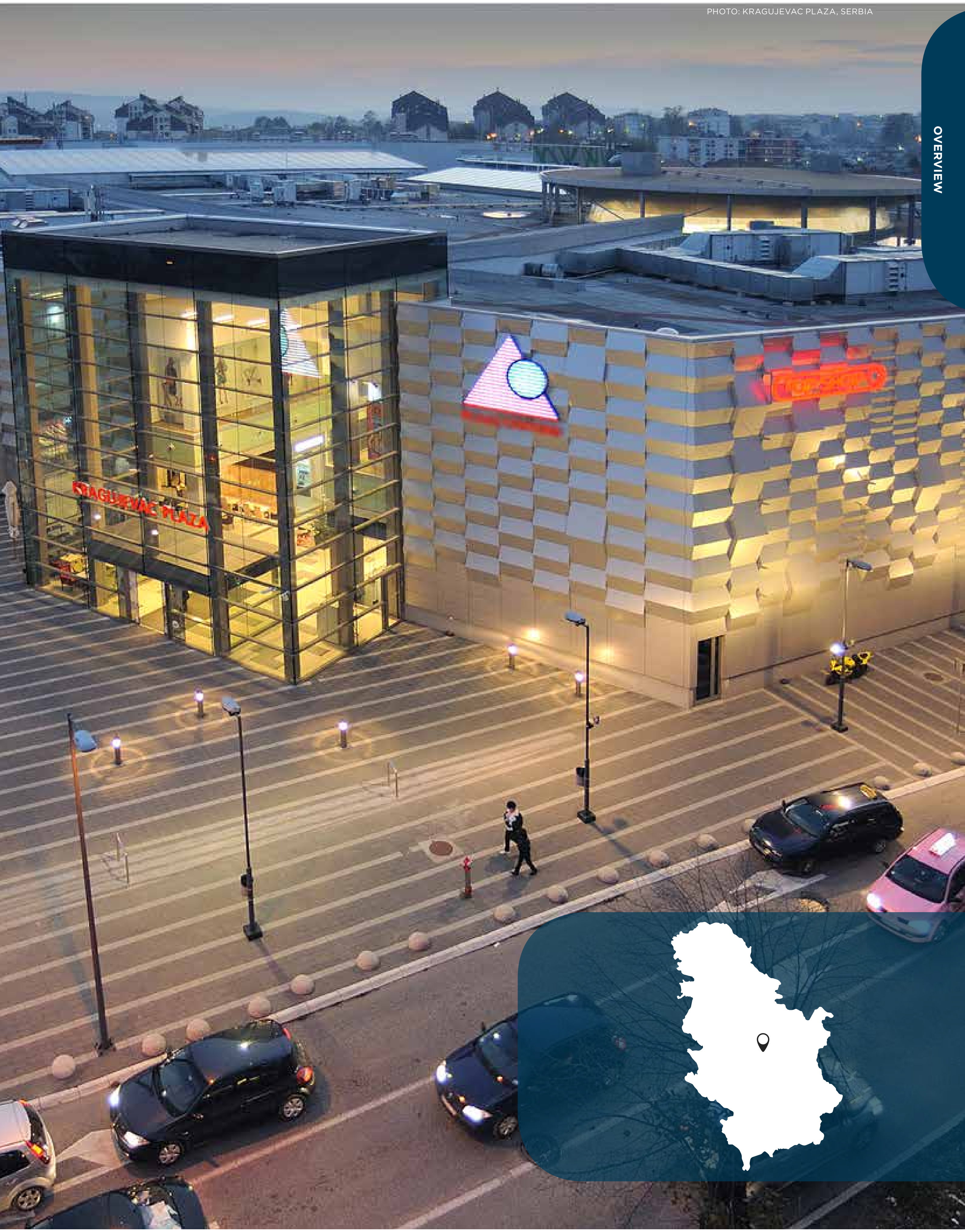


PHOTO: THE OFFICE CLUJ-NAPOCA, ROMANIA

Office

Offices must have a central location, excellent access to public transport, up-to-date technical specifications, large floor areas, high efficiency rates and high parking ratios. As management of office properties has limited potential for value creation, investments are made opportunistically in developments where high yields are achievable.

over
191,000
m² GLA of office income-producing properties

€456m
property value

98.2%
occupancy rate

€35m
passing rent

Floreasca Business Park
Bucharest, Romania

Ownership	100%
GLA	36,300m^2
Valuation	€108.3 million
Passing rent	€7.9 million
Occupancy	99.4%

City Business Centre
Timisoara, Romania

Ownership	100%
GLA	47,800m^2
Valuation	€97.1 million
Passing rent	€7.9 million
Occupancy	97.9%

The Lakeview
Bucharest, Romania

Ownership	100%
GLA	25,600m^2
Valuation	€74.5 million
Passing rent	€5.4 million
Occupancy	98.8%

The Office Cluj-Napoca
Cluj-Napoca, Romania

Ownership	50%
GLA	63,600m^2
GLA weighted by ownership	31,800m^2
Valuation weighted by ownership	€61.1 million
Passing rent weighted by ownership	€5.1 million
Occupancy	99.0%

Serdika Office
Sofia, Bulgaria

Ownership	100%
GLA	28,500m^2
Valuation	€51.1 million
Passing rent	€3.9 million
Occupancy	95.2%

Victoriei Office
Bucharest, Romania

Ownership	100%
GLA	7,800m^2
Valuation	€40.7 million
Passing rent	€2.7 million
Occupancy	99.2%

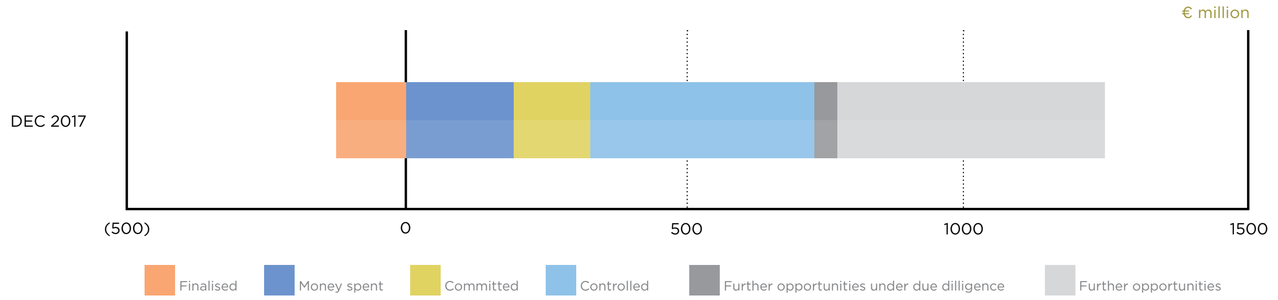
Aupark Kosice Tower
Kosice, Slovakia

Ownership	100%
GLA	12,900m^2
Valuation	€21.2 million
Passing rent	€1.8 million
Occupancy	100%

Portfolio overview » continued

DEVELOPMENTS AND EXTENSIONS PIPELINE

The Group invests strategically in developments that contribute significantly to growth in distributable earnings per share. NEPI Rockcastle is pursuing a development pipeline which exceeds €1,200 million (including redevelopments and extensions, estimated at cost), of which €190 million were spent during 2017. Undertaking redevelopments and extensions to existing properties is a driver for future growth, ensuring that the Group maintains its preeminent position in the market and its superior retail relationships, thus de-risking the business and delivering higher quality earnings.



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

Developments under construction	Estimated GLA (m^2)
Promenada Novi Sad - Phase I, Serbia	49 400
Platan Shopping Centre, Poland	17 000
Solaris Shopping Centre, Poland	9 000
Vaslui strip centre, Romania	2 800

Developments under permitting and pre-leasing	Estimated GLA (m^2)
Promenada Mall, Romania	60 000
Shopping City Targu Mures - Phase I, Romania	32 900
Shopping City Satu Mare, Romania	28 700
Arena Centar, Croatia	27 900
Retail Parks (Krusevac and Sabac), Serbia	22 200
Focus Mall Zielona Gora, Poland	14 700
Shopping City Sibiu, Romania	9 700
Korzo Shopping Center, Slovakia	9 300
Aurora Shopping Mall Buzau, Romania	5 900
Ploiesti Shopping City, Romania	4 000*
Pogoria Shopping Centre, Poland	1 100

** GLA weighted by ownership*

RENDER: PROMENADA NOVI SAD, SERBIA

Promenada Novi Sad - Phase I

Novi Sad, Serbia

Novi Sad is the second largest city in Serbia, 70 km from the capital, Belgrade, and is connected by international highways to Budapest, Vienna, Belgrade, Zagreb and Skopje. The property is in a prime location, at the intersection of two main boulevards and adjacent to a sports complex and high density residential areas.

Development

Ownership	100%
Estimated lettable area	49,400m^2
Targeted opening	Q4 2018

Platan Shopping Centre

Zabrze, Poland

Extension and redevelopment works, including the construction of a multi-level car park, started in June 2017. The project will increase the shopping centre's GLA to 39,700m^2.

Extension and Redevelopment

Ownership	100%
Estimated lettable area	17,000m^2
Targeted opening	Q4 2018

Solaris Shopping Centre

Opole, Poland

The building permit has been received and construction has started to extend the shopping centre by approximately 9,000m². The project includes the development of multi-level basement parking and a new town square in front of the centre's main entrance. The extension area is scheduled to be completed in the first quarter of 2019.

Extension

Ownership	100%
Estimated lettable area	9,000m²
Targeted opening	Q1 2019

Vaslui strip centre

Vaslui, Romania

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

Extension

Ownership	100%
Estimated lettable area	2,800m²
Targeted opening	Q1 2018

Promenada Mall - extension
Bucharest, Romania

Extension

Ownership	100%
Estimated lettable area	60,000m^2
Targeted opening	Q2 2020

Arena Centar - extension
Zagreb, Croatia

Extension and Redevelopment

Ownership	100%
Estimated lettable area	*27,900m^2
Targeted opening	Q1 2019

** Out of which the additional GLA is 13,000m^2.*

Shopping City Targu Mures - Phase I
Targu Mures, Romania

Development

Ownership	100%
Estimated lettable area	32,900m^2
Targeted opening	Q4 2019

Shopping City Satu Mare
Satu Mare, Romania

Development

Ownership	100%
Estimated lettable area	28,700m^2
Targeted opening	Q4 2018

UNDER PERMITTING AND PRE-LEASING

Retail Parks (Krusevac and Sabac)
Krusevac and Sabac, Serbia

Development

Ownership	100%
Estimated lettable area	22,200m^2
Targeted opening	Q1 2019/Q2 2019

Aurora Shopping Mall
Buzau, Romania

Extension and Redevelopment

Ownership	100%
Estimated lettable area	5,900m^2
Targeted opening	Q4 2018

Ploiesti Shopping City
Ploiesti, Romania

Extension

Ownership	50%
Estimated lettable area	8,000m^2
Estimated lettable area	*4,000m^2
Targeted opening	Q3 2018

** weighted by ownership*

Focus Mall Zielona Gora
Zielona Gora, Poland

Extension

Ownership	100%
Estimated lettable area	14,700m^2
Targeted opening	Q1 2020

PHOTO: PARADISE CENTER, BULGARIA

UNDER PERMITTING AND PRE-LEASING

Shopping City Sibiu
Sibiu, Romania

Extension and Redevelopment

Ownership	100%
Estimated lettable area	9,700m²
Targeted opening	Q4 2019

Korzo Shopping Center
Korzo, Slovakia

Extension

Ownership	100%
Estimated lettable area	9,300m²
Targeted opening	Q3 2019

Analysis of shareholders and share trading

Shareholder spread in terms of the JSE Listings Requirements	Number of shareholders	Number of shares held	Percentage of issued shares
Public	16 232	387 979 844	67.1%
Non-public	16	169 228 203	29.3%
Directors and employees	69	18 973 130	3.3%
Other*	-	1 619 557	0.3%
TOTAL	**16 317**	**577 800 734**	**100.0%**

**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	13 555	7 781 909	1.3%
2 501 to 10 000 shares	1 571	7 690 730	1.3%
10 001 to 100 000 shares	815	26 941 080	4.7%
100 001 to 1 000 000 shares	284	83 651 034	14.5%
1 000 001 to 3 500 000 shares	56	98 197 885	17.0%
More than 3 500 000 shares	36	351 918 539	60.9%
Other *	-	1 619 557	0.3%
TOTAL	**16 317**	**577 800 734**	**100.0%**

Registered shareholders owning 5% or more of issued shares	Number of shares held	Percentage of issued shares
Fortress REIT Limited	139 850 000	24.2%
Resilient REIT Limited	75 000 000	13.0%
Government Employees Pension Fund	49 652 942	8.6%
TOTAL	**264 502 942**	**45.8%**

Beneficial shareholding of 5% or more of issued shares	Number of shares controlled	Percentage of issued shares
Fortress REIT Limited	139 850 000	24.2%
Resilient REIT Limited	75 000 000	13.0%
Government Employees Pension Fund	49 652 942	8.6%
TOTAL	**264 502 942**	**45.8%**

PHOTO: SERDIKA CENTER, BULGARIA

Beneficial shareholding of Directors

At 31 Dec 2017	Direct Holding	Indirect Holding	Associates	Total Shares Held	Percentage of shares issued
Andries de Lange	10,213	2,171,030	50,627	2,231,870	0.39%
Alex Morar	-	738,998	-	738,998	0.13%
Andre van der Veer	93,298	182,623	7,529	283,450	0.05%
Desmond de Beer	-	11,300,143	-	11,300,143	1.96%
Mirela Covasa	-	108,118	-	108,118	0.02%
Marek Noetzel	87,146	-	-	87,146	0.02%
Nick Matulovich	38,417	854,880	-	893,297	0.15%
Spiro Noussis	-	1,700,472	3,392	1,703,864	0.29%
TOTAL	**229,074**	**17,056,264**	**61,548**	**17,346,886**	**3.01%**

As the merger between NEPI and Rockcastle was effective 11 July 2017, no beneficial shareholding for the comparative period is available for NEPI Rockcastle. Between year-end and the date of approval of the annual financial statements, the Directors changed their beneficial share holding by making the following purchases:
Andre van der Veer - 25,000 shares; Marek Noetzel - 13,950 shares; Spiro Noussis - 17,023 shares and Antoine Dijkstra - 4,500 shares.

Set out below are the interests of directors of NEPI in NEPI as at 31 December 2016, as disclosed in NEPI's integrated annual report for the year ended 31 December 2016 and in the NEPI circular dated 9 June 2017. Pursuant to the merger, NEPI directors received 1 NEPI Rockcastle share for every 1 NEPI share held on the record date, 14 July 2017.

NEPI

Director	Direct Holding	Indirect Holding	Associates	Total Shares Held	Percentage of shares issued
Desmond de Beer	-	9 267 004	-	9 267 004	2.88
Jeffrey Zidel	298 201	1 995 416	-	2 293 617	0.71
Alexandru Morar	-	771 602	-	771 602	0.24
Tiberiu Smaranda~	-	496 805	-	496 805	0.15
Andries de Lange^	10 000	2 904 567	48 499	2 963 066	0.92
Antoine Dijkstra*	-	-	-	-	-
Robert Emslie**	-	-	-	-	-
Dewald Joubert#	-	-	-	-	-
Mirela Covasa		282 104	-	282 104	0.09
Total	**308 201**	**15 717 498**	**48 499**	**16 074 198**	**4.99**

^ Appointed as an alternate director to Desmond De Beer on 9 August 2016
~ Resigned with effect from 1 September 2016
** Appointed with effect from 13 June 2016*
*** Appointed with effect from 4 February 2016*
 # Resigned with effect from 30 December 2015

Set out below are the interests of directors of Rockcastle in Rockcastle as at 31 December 2016, as disclosed in Rockcastle's integrated annual report for the year ended 31 December 2016 and in the Rockcastle circular dated 9 June 2017. Pursuant to the merger, Rockcastle directors received 1 NEPI Rockcastle share for every 4.7 Rockcastle shares held on the record date, 14 July 2017.

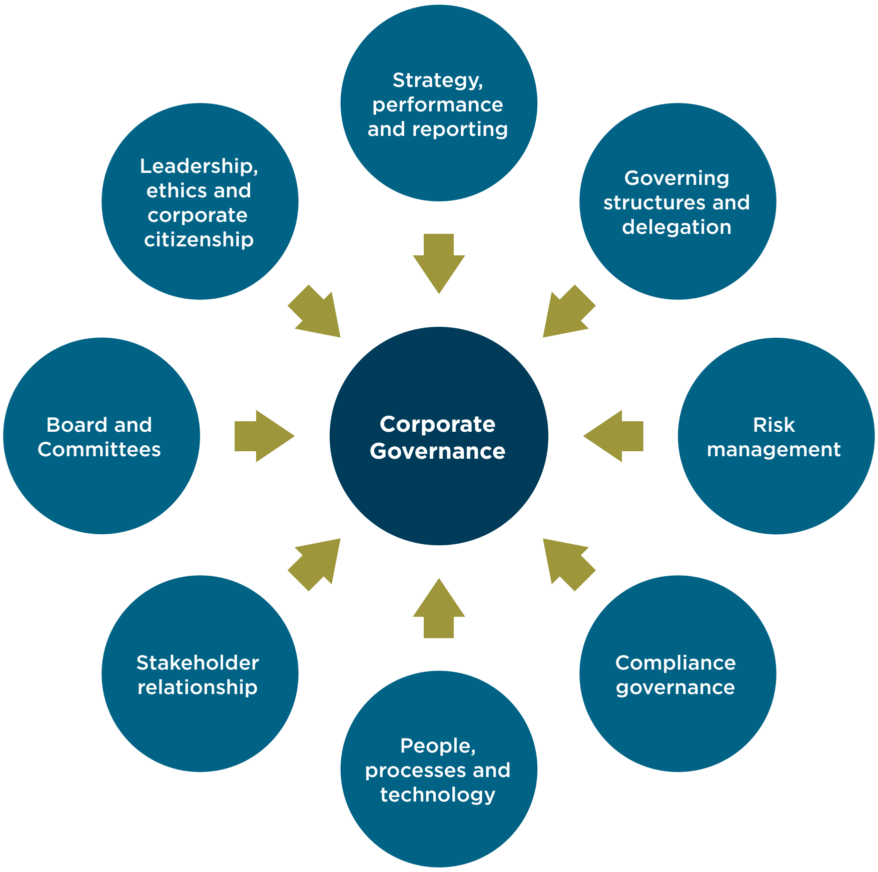
Rockcastle

Director	Direct Holding	Indirect Holding	Associates	Total Shares Held	Percentage of shares issued
Mark Olivier	-	410 296	-	410 296	0.04%
Spiros Noussis	-	7 801 789	7 775	7 809 564	0.83%
Nick Matulovich	69 984	4 101 692	-	4 106 526	0.44%
Karen Bodenstein	-	-	-	-	-
Marek Noetzel	381 244	-	-	381 244	0.04%
Barry Stuhler	-	10 938 140	-	10 938 140	1.16%
Yan Ng	-	-	-	-	-
Rory Kirk	1 085	-	-	1 085	<0.01%
Andre van der Veer	59 650	-	3 252	62 902	0.01%
Total	**511 963**	**23 251 917**	**11 027**	**23 774 907**	**2.47%**

Corporate governance

Sound corporate governance values guide the Board in directing, governing and controlling the Group whilst subscribing to the principles of ethical leadership, business, social and environmental sustainability and stakeholder engagement. The Board recognises the importance of good corporate governance, endorses and monitors compliance with the voluntary and compulsory guidelines of the King IV Report on Corporate Governance in South Africa (King IV), and the Johannesburg Stock Exchange Limited (JSE) and Euronext Amsterdam (Euronext) Listings Requirements. The Board is satisfied that it fulfilled all its duties and obligations in this regard in the 2017 financial year.

In line with King IV's 'apply and explain' approach, the Directors disclose the extent to which NEPI Rockcastle applies the King IV principles to sustain value for stakeholders. The Group is materially compliant with King IV. A register of the 16 applicable King IV principles and the Company's compliance with them is available on the Company website www.nepirockcastle.com.



The Directors recognise the need to manage the Group with integrity and provide effective leadership based on an ethical foundation. This includes timely, relevant and meaningful reporting to shareholders and other stakeholders, that provide a proper and objective overview on the Company and its activities. The strategy and operations of the Group are directed with the intention of building a sustainable business, considering its short and long-term impact on the economy, society and the environment. The Board ensures that the Group is a responsible corporate citizen through the corporate governance policies.

The Board and its commitees are committed to monitoring the implementation of legal compliance policies and processes to mitigate the risk of non-compliance with laws in the various jurisdictions where the Group conducts its business. The management is responsible for implementing and executing an effective legal compliance policy.

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

Note: The Corporate Governance report covers the activity and compliance with King IV of the Board of Directors of the NEPI Rockcastle Group from the merger implementation date (11 July 2017) onwards.

Corporate governance » continued

GOVERNANCE IN ACTION

The table below shows the key areas of Board activity during the period under review:

Strategy

- Adopted and aligned the strategic plans for the Group;
- Oversaw the successful completion of the merger of NEPI and Rockcastle;
- Met four times between July and December 2017 to ensure that the merger integration is proceeding as planned;
- Ensured the timely execution of investment and development strategies.

Operational performance

- Reviewed the Group's operational performance compared to budget and forecasts;
- Encouraged:
  - the consolidation of the Group's significant position in the Polish retail market;
  - market entry into Bulgaria and Hungary, with the acquisition of prime assets in Sofia and Budapest;
  - completion of five developments or extensions, primarily in Romania, with lettings to high-quality tenants.

Financial performance

- Monitored the financial performance of the business, including going concern and viability;
- Reviewed the half year and full year results and approved the Annual Report;
- Supported:
  - a successful €500 million Eurobond issue in November 2017;
  - equity issues by way of an oversubscribed bookbuild and two scrip dividend issues;
  - obtaining investment grade credit ratings from all three major rating agencies for NEPI Rockcastle.

Stakeholder engagement

- Considered and approved the sustainable development report;
- Reviewed the Group's ongoing relationships with various stakeholders;
- Reviewed feedback from institutional shareholders, analysts and other engagement activities;
- Actively engaged with stakeholders throughout the period under review.

Governance, internal controls and risk

- Adopted King IV and ensured the principles were embedded into the organisation's processes;
- Considered the independence of non-executive directors in accordance with King IV;
- Performed a review of the appropriateness of the Company Secretary, concluding that there were no improper direct or indirect relationships with Board of Directors and confirming his competence;
- 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, Listings Requirements and other relevant regulations and legislation;
- Reviewed the composition of board committees, in accordance with King IV, and revised the membership to ensure committees comprised a majority of non-executive directors with an independent non-executive chairman;
- Reviewed the Group's risk register;
- Considered and approved the methodology to determine the Group's risk appetite and tolerance;
- Reviewed the effectiveness of the systems of internal controls environment;
- Strengthened the Internal Audit function and established regular reporting to the Audit Committee;
- Supported the improvement and consolidation of IT systems and procedures following the merger;
- Capitalised on the merger as a stepping stone to the establishment of a refined and integrated set of values.

Leadership, management and employees

- Discussed the composition of the Board and its Committees, including Board succession plan;
- Supported implementation of NEPI and Rockcastle merger and consolidation of reporting lines while retaining all key personnel;
- Fostered team development, encouraging staff training and teambuilding sessions to integrate the NEPI and Rockcastle teams, sharing best practices across the new single unitary business;
- Reviewed the development of people and potential talent in the Group, including succession planning for the senior management team.

THE DIRECTORS
AND THE COMPOSITION OF THE BOARD AND COMMITTEES

Board of directors*

Independent Non-Executive Directors	Non-independent Non-executive Directors	Executive Directors	4 Meetings/ 100% attendance
Dan Pascariu (Chairman) Andre van der Veer Antoine Dijkstra Michael Mills Robert Emslie	Desmond de Beer Andries de Lange**	Alex Morar*** Spiro Noussis*** Mirela Covasa Nick Matulovich Marek Noetzel	28 July 2017 21 August 2017 31 October 2017 11 December 2017

** In terms of King IV, the Board shall consist of a majority of non-executive directors, the majority of whom are independent*
*** Alternate to Desmond de Beer*
**** Appointed as joint Chief Executive Officer on 15 May 2017*

Audit Committee	Nomination Committee*	Remuneration Committee*
Independent non-executive directors Michael Mills (Chairman) Robert Emslie Antoine Dijkstra	**Independent non-executive directors** Dan Pascariu (Chairman) Michael Mills Robert Emslie	**Independent non-executive directors** Robert Emslie (Chairman) Andre van der Veer **Non-independent non-executive director** Desmond de Beer
4 meetings *100% attendance*		

Risk Committee	Social and Ethics Committee**	Investment Committee
Independent non-executive directors Antoine Dijkstra (Chairman) Andre van der Veer Michael Mills **Executive Directors** Nick Matulovich	**Independent non-executive directors** Antoine Dijkstra (Chairman) Dan Pascariu **Executive Director** Marek Noetzel	**Independent non-executive directors** Robert Emslie Andre van der Veer **Non-independent non-executive director** Desmond de Beer (Chairman) **Executive directors** Alex Morar Spiro Noussis
1 meeting *100% attendance*		*2 meetings* *100% attendance*

** No Nomination and Remuneration Committee meetings were held in 2017 as their objectives for the period were met through the merger implementation. Annual appraisal will be held in March 2018.*
*** No Social and Ethics Committee meetings were held in 2017 as all value systems surrounding ethical standards and social responsibility were established within the merger process.*

BALANCE AND INDEPENDENCE OF THE BOARD

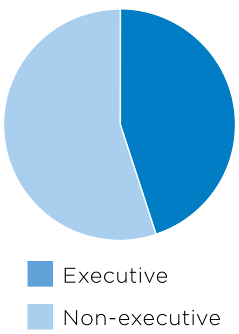
The Directors' varied backgrounds and experience provide NEPI Rockcastle with an appropriate mix of knowledge and expertise that is necessary to manage the business effectively. Furthermore, a clear division of responsibilities at Board level ensures a balance of power and authority, so that no individual can take unilateral decisions.

Responsibility for the day-to-day operational management of subsidiary companies is delegated to Management. An Operational Mandate approved by the Board is in place, in order to ensure that the appointment of, and delegation to Management contributes to role clarity and the effective exercise of authority and responsibility.

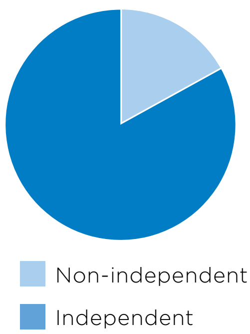
The Board meets regularly and is responsible for setting the Group's strategy, approving major matters, governing risk-management processes and monitoring overall performance and the effectiveness of internal controls framework, designed to ensure that assets are appropriately safeguarded, operations are run efficiently, proper accounting records are maintained and that the financial information which is issued is reliable.

There are no external advisors who regularly attend, or are invited to attend Board of Directors meetings. The Board is satisfied that its composition is adequate to meet the Group's gender and diversity targets and that the categorisation of each director, member's qualifications, experience, age, period of service, other directorships and positions held are satisfactory to comply with the King IV principles. The graphs below show the diversity of the Board.

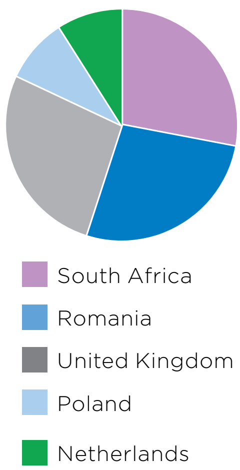
Composition of the Board



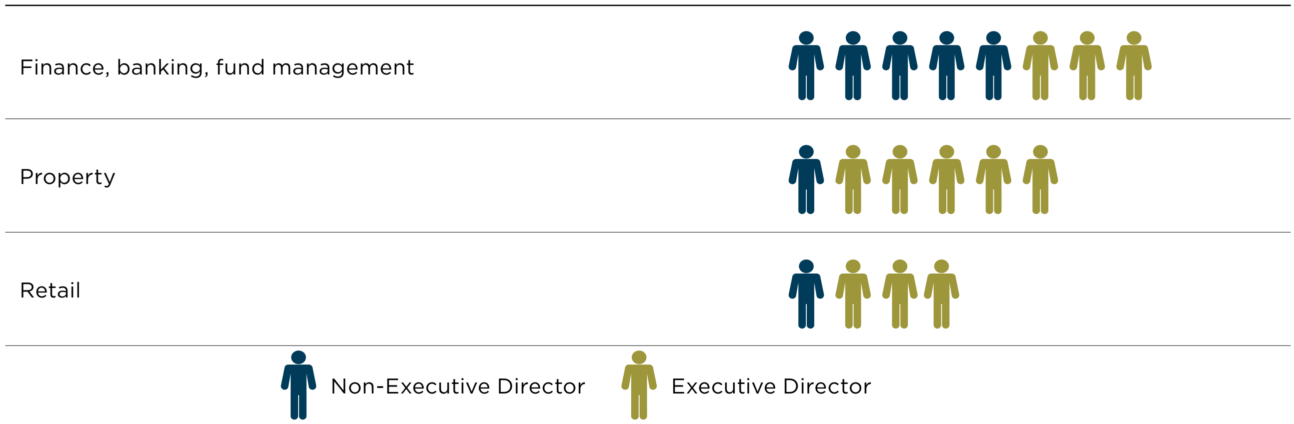
Independence of non-executive Directors



Country of residence



Board experience by sector



INDEPENDENCE

Independent Non-Executive Directors play a crucial role in acting as a sounding panel to the executives, fostering high-quality Board discussions. The appointment of independent Directors provides valuable objectivity and external perspectives on the business, market challenges and macroeconomic climate.

King IV rejects a tick-box approach to the independence assessment of Directors, however guidance is provided by King IV and has been used by the Group in establishing criteria for evaluating the independence of Directors. The Board considers the independence of a Director from the perspective of a reasonable and informed third party.

The following criteria have been used to assess the independence of the Board of Directors' non-executive members.

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

	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Criteria 6	Criteria 7	Criteria 8	Assessment
Dan Pascariu	No	No	No	No	No	No	No	No	Independent
Andre van der Veer	No	No	No	No	No	No	No	No	Independent
Antoine Dijkstra	No	No	No	No	No	No	No	No	Independent
Desmond de Beer	No	Yes	No	Yes	No	No	Yes	No	Non-independent
Michael Mills	No	No	No	No	No	No	No	No	Independent
Robert Emslie	No	No	No	No	No	No	No	No	Independent
Andries de Lange (alternate)	No	Yes	No	Yes	No	No	Yes	No	Non-independent

BOARD APPOINTMENT

Directors are appointed by the Board or by the shareholders. Board appointed directors need to be re-appointed by the shareholders at the Company's next annual general meeting ("AGM").
Each year one third of the directors retire by rotation and stand for reappointment by the shareholders except for the first AGM when all directors must retire and stand for reappointment. Board appointments are conducted in a formal and transparent manner by the entire board following recommendations made by the Nomination Committee.

LENGTH OF DIRECTOR SERVICE

Director	Years served on Board pre-merger	Years of service*
Alex Morar**	3.8	4.3
Spiro Noussis^	3.1	3.6
Mirela Covasa**	2.4	2.9
Nick Matulovich^	3.1	3.6
Dan Pascariu**	9.6	10.1
Michael Mills**	9.9	10.4
Desmond de Beer**	8.7	9.2
Robert Emslie**	1.3	1.8
Antoine Dijkstra**	1.1	1.6
Andries de Lange	0.8	1.3
Marek Noetzel^	1.5	2.0
Andre Van der Veer^	3.1	3.6

*includes the number of years served before the merger of NEPI and Rockcastle. Where a director served on both the boards of NEPI and Rockcastle historically, the term served longest is included for this purpose (only Alex Morar and Andries de Lange fall into this category)
** Served on the board of NEPI at the time the merger was concluded
^ Served on the board of Rockcastle at the time the merger was concluded

CORPORATE GOVERNANCE

Corporate governance » continued

KEY ROLES WITHIN THE BOARD

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

Chairman of The Board

- to set the ethical tone;
- to ensure implementation of the Board Committees Charters;
- to participate in the selection of Board members;
- to oversee formal succession planning for the Board members;
- to set the Board work plan;
- to take a lead role in removing non-performing Directors;
- to ensure that Directors are fully aware of their duties and responsibilities; and
- to ensure that good relationship is maintained with major shareholders and stakeholders.

Joint Chief Executive Officers

- to ensure that a long-term strategy is deployed;
- to direct the development of the organisation, establish performance goals and allocate resources to ensure future growth;
- to ensure that financial and operating goals and objectives are achieved;
- to ensure that a positive and ethical working environment exists;
- to act as chief spokesmen of the Company;
- to manage the communication between the executive Directors / management and non-executive Directors; and
- to maintain investor relations.

Chief Financial Officer

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

DEVELOPMENT

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

EVALUATION

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

SUCCESSION PLANNING

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

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

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

BOARD AND COMMITTEE RESPONSIBILITIES

The activity of each Committee is governed by a written charter approved by the Board, summarising its objectives, responsibilities and authority, which is reviewed on an annual basis. All Committee members are provided with appropriate induction on joining their respective Committees, as well as on-going access to training. Minutes of all meetings of the Committees are made available to all Directors and feedback from each of the Committees is provided to the Board by the respective Committee Chairs at the next Board meeting.

The Committee Chairs attend the annual general meeting to answer any questions on their Committee's actions. The interaction between the Board, its Committees and the management of the Company is shown below. Details of each Board Committee explaining its composition, areas of responsibility and principal activities during the year are included in this report.

Board of Directors

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

Audit

The Audit Committee is established to assist the Board to:
- discharge its duties relating to the safeguarding of assets;
- monitor the operation of adequate systems and internal control processes;
- review and approve the interim and annual financial reports;
- nominate external auditors whose appointment is subject to shareholder approval; and
- interact with external and internal auditors.

Risk

The Risk Committee is established to assist the Board to:
- discharge its duties relating to the safeguarding of assets and risk management;
- ensure the Company has implemented an effective plan for risk management that will enhance the Company's ability to achieve its strategic objectives;
- ensure that the sustainability reporting is comprehensive, timely and relevant.

Nomination

The Nomination Committee is established to:
- identify suitable Board candidates in order to fill vacancies;
- ensure there is a succession plan in place for key Board members;
- assess the independence of Non-Executive Directors; and
- assess the composition of the Board sub-committees.

Investment

The Investment Committee considers all acquisitions, sales of investments and capital expenditures that support the mission, values, and strategic goals of the Group. Appropriate investments or disposals are then presented to the Board for consideration and approval, ensuring that investment policies, guidelines and performance objectives are met.

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.

Remuneration

The Remuneration Committee's objectives are:
- to annually review and recommend to the Board the remuneration paid to Board members;
- to assess and recommend to the Board the remuneration of Group's management;
- to assess and recommend to the Board the participation of employees in the Incentive Plan;
- to ensure staff remuneration is aligned with market trends; and
- to ensure that the Group's remuneration and incentive policies, practices and performance indicators are aligned to the Board's vision, values and overall business objectives, and are designed to motivate all Directors and employees to pursue the Group's growth and success.

Social and ethics

The Social and Ethics Committee oversees and reports on the Group's organisational ethics, responsible corporate citizenship (including the promotion of equality, prevention of unfair discrimination, the environment, health and public safety, taking into consideration the impact of the Company's activities and of its products or services), and sustainable development and stakeholder relationships.

Corporate governance » continued

Audit

The members of the Audit Committee are nominated by the Board and approved by shareholders at the Annual General Meeting. The Board appoints the Chairman of the Audit Committee. To ensure that the Audit Committee continually comprises the best personnel, the Board reviews its membership at least once a year. The Audit Committee assumed the following responsibilities during the period under review:

- overseeing the integrated accounting and reporting process, including financial reporting. The Audit Committee members collectively have an understanding of integrated reporting, internal financial controls, the external and internal audit process, corporate law, sustainability issues, information technology governance and the governance processes within the Company;
- reviewing the independence of internal and external auditors;
- evaluating and coordinating the internal and external audit process;
- nurturing and improving communication and contact between relevant stakeholders in the Company;
- monitoring the compliance of the Company with legal requirements;
- satisfying itself of the expertise, resources and experience of the Company's finance department;
- dealing appropriately with any concerns or complaints relating to accounting practices, the content or auditing of the Group's financial statements, internal financial controls or any other relevant matters; and
- assisting the Board in carrying out its IT governance by obtaining the relevant assurances that all IT risks are adequately addressed by the controls in place.

Termination of Audit Committee membership is agreed by the Board.

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

The Audit Committee convenes at least four times a year. At these meetings, management reports important decisions taken in the course of preparation of the financial statements.

The Committee has considered and found the expertise and experience of the Chief Financial Officer appropriate for the position.

In order to fulfil its responsibility of monitoring the integrity of financial reports issued, the Audit Committee has reviewed the accounting principles, policies and practices adopted during the preparation of financial information and examined documentation related to the Annual Report. The Committee is comfortable that appropriate financial reporting procedures have been established and are operating. The clarity of disclosures included in the financial statements was reviewed by the Audit Committee, as well as the basis for significant estimates and judgements.
The Audit Committee complied with its legal and regulatory responsibilities and its Charter, and recommended the Annual Report to the Board for approval.

Nomination

The members of the Nomination Committee and its Chairman are appointed by the Board and serve until a successor is elected and qualified, they resign or are removed. Directors serving on the Nomination Committee have diverse, complementary backgrounds and are independent of the management and the Company. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

The Nomination Committee assumes the following Board delegated responsibilities:

- Reviewing and making recommendations in relation to Board composition, competencies and diversity to ensure vacancies are filled with suitable candidates:
  - periodically assessing the skill set required to competently discharge the Board's duties, taking into account the Group's strategic direction and assessing the current members' skills;
  - regularly reviewing and making recommendations to the Board regarding its structure, size, effectiveness and composition (including the mix of skills, knowledge and experience); and
  - developing strategies to address Board diversity.

- Developing and reviewing Board succession plans, Director induction programs and continuing development:
  - giving full consideration to the succession plans of the Board (including the role of Chairman) with the aim of maintaining an ongoing appropriate mix of skills, experience, expertise and diversity;
  - identifying existing directors who are due for re-election by rotation at AGM;
  - developing induction programs that are undertaken by each new Director and reviewing `their effectiveness; and
  - making the Committee's Charter publicly available, explaining its role and the authority delegated to it by the Board.

- Reviewing and making recommendations regarding Board appointments, re-elections and terminations:
  - preparing a description of the role and skill set required for appointments;
  - identifying suitable candidates to fill Board vacancies and nominating them for Board approval;
  - deciding on whether Board appointments should be extended;
  - ensuring that, on appointment, all Directors receive a formal letter of appointment that sets out the duration and responsibility required by the appointment; and
  - reviewing disclosures made by the Group regarding Board appointments, re-elections and terminations.

PHOTO: MEGA MALL, ROMANIA

CORPORATE GOVERNANCE

PHOTO: PROMENADA MALL, ROMANIA

Corporate governance » continued

Risk

The members of the Risk Committee and its Chairman are appointed by the Board and serve until a successor is elected and qualified, they resign or are removed. To ensure that the Risk Committee is properly constituted for each financial year, the Board reviews its membership at least once a year. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

The Risk Committee assumes the following responsibilities:

- overseeing the development and annual review of a policy and plan for risk management, to be approved by the Board;
- monitoring implementation of the policy and plan for risk management through adequate risk management systems and processes;
- making recommendations to the Board concerning the levels of risk tolerance and appetite and monitoring the compliance with the thresholds approved by the Board;
- overseeing that the risk management plan is widely disseminated throughout the Company and integrated in the day-to-day activities of the Company;
- ensuring that risk management assessment and risks monitoring are performed on a continuous basis;
- acknowledging the mitigating action plans committed by the business functions, and reviewing implementation status for major company risks;
- ensuring that frameworks and methodologies are implemented to anticipate unpredictable risks;
- ensuring that management considers and implements appropriate risk responses;
- liaising closely with the Audit Committee to exchange information relevant to risk;
- expressing the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management; and
- reviewing risk management reporting to be included in the Annual Report to ensure it is timely, relevant and comprehensive.

Social and ethics

The members of the Committee are appointed by the Board and serve until a successor is elected and qualified, they resign or are removed. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

To ensure that the Social and Ethics Committee continually comprises the best personnel, the Board reviews its membership annually.

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

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

he Social and Ethics Committee, in performing its duties outlined above, ensures fair and responsible executive remuneration practices in the context of the overall employee remuneration. The Board oversees that this is being performed by the Committee.

Investment

The members of the Committee are appointed by the Board and serve until a successor is elected and qualified, they resign or are removed. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

The members of the Committee have significant property investment and management experience. The Chairman must be a Non-Executive Director with adequate financial and investment experience.

To ensure that the Investment Committee continually comprises the best personnel, the Board reviews its membership every year.

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

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

The purpose and function of the Investment Committee is to:

- consider recommendations from management for acquisitions, capex and disposals;
- authorise transactions that fall within its mandate;
- make recommendations to the Board regarding transactions that fall outside its approval mandate;
- evaluate investment performance; and
- periodically review and assess the performance of the Committee and its members, including reviewing the compliance of the Committee with its Charter. In addition, the Committee shall review and reassess, periodically, the adequacy of this Charter, and recommend to the Board any improvements they consider necessary or valuable. The Committee will conduct these evaluations and reviews in any manner as deems appropriate.

Corporate governance » continued

Remuneration

The members of the Remuneration Committee and its Chairman are appointed by the Board and serve until a successor il elected and qualified, they resign or are removed. Directors serving on the Remuneration Committee should have diverse, complementary backgrounds and be independent of the management and the Company. Any member of the Committee may be removed with or without cause, by a majority vote of the Board.

To ensure that the Remuneration Committee continually comprises the best personnel, the Board will review its membership annually. Termination of Remuneration Committee membership must be agreed by the Board.

The Remuneration Committee assumes the following responsibilities:
- overseeing the development and annual review of the remuneration policy and presenting it to the Board for approval;
- monitoring implementation and administration of the remuneration policy;
- determining remuneration for Executive Directors in accordance with the remuneration policy;
- incentivising all employees based on individual and Group performance;
- ensuring that the Group's remuneration policies are aligned with its strategy and create long-term value for the Group;
- approving annual increases for all employees; and
- recommending the fees paid to Non-Executive Directors and members of Board sub-committees.

The Remuneration Committee:
- has the power to investigate any activity within the scope of its mandate as delegated by the Board;
- assists the Board in fulfilling its responsibilities regarding the determination of remuneration policies; and
- has reasonable access to all information, including Group records, property and personnel, and must be provided with resources to fulfil its responsibilities.

The Remuneration Committee is authorised by the Board to:
- investigate any activities within its mandate;
- seek outside legal or other independent professional advice; and
- seek any information it requires from any employee, and all employees are directed to cooperate with any requests made by the Remuneration Committee.

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

INTERNAL CONTROLS SYSTEM AND INFORMATION TECHNOLOGY (IT)

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

The Group is committed to preventing risks arising from the following:
- potential conflicts of interest;
- related party transactions which may not be transparent or at an arm's length;
- confidentiality and observance of professional secrecy;
- unopen and incomplete financial communication;
- use of privileged information and insider trading;
- money-laundering and the financing of terrorism;
- non-adequate adherence to anti–corruption rules; and
- inefficient delegation of authority in order to keep the right balance between flexibility, speed and span of control.

The Group implemented a comprehensive Procurement Policy and a supplier due diligence, in order to ensure that responsible purchasing is conducted and that procurement decisions are in the best interests of the Company.

The Board is responsible for the governance of and ongoing oversight of internal control systems including information and technology, and its management thereof, and confirms that processes exist ensuring timely, relevant, accurate and accessible reporting, communication and data storage.

The Board oversees the IT processes in relation to compliance with relevant laws and risk related to the outsourced IT services, providing for business resilience, continuity and disaster recovery.
The Board also oversees the records management, information privacy and data quality.
The Group is committed to ensure compliance in all relevant areas, therefore guidelines related to the EU Regulation 2016/679 on personal data protection which comes into force in May 2018, are in process of implementation.

The IT function is outsourced to a third-party service provider and is governed by a service level agreement. Compliance with the service level agreement is monitored by management and the terms are reviewed on a regular basis. The risks and controls over IT assets and data are considered by the Risk Committee.

As required by King IV, the Board periodically carries out a formal review of the adequacy and effectiveness of the Group's internal controls system, including information and technology function. Following the merger to date, the Group assessed the adequacy of its IT infrastructure and processes and took actions to integrate the operating platforms.

PHOTO: SHOPPING CITY PIATRA NEAMT, ROMANIA

EXTERNAL AUDIT

The Audit Committee approved the external auditor's terms of engagement and scope of work. Currently, this includes the audit of the annual consolidated and standalone financial statements of the Group and its subsidiaries. Based on the submitted reports, the Committee reviewed, in conjunction with the external auditor, their findings and confirmed that these have been satisfactorily addressed by management.

The Audit Committee has satisfied itself that PricewaterhouseCoopers LLC, the external auditor, and Mr. Nick Halsall, the designated auditor, are independent of the Company and of the Group.

The Audit Committee has reviewed the newly amended sections of the JSE Listings Requirements and ensured that:

- the audit firm has met all the criteria stipulated in the requirements, including that the audit regulator has completed a firm-wide independent quality control inspection on the audit firm and on the designated individual auditor, during its previous inspection cycle;
- the auditors have provided to the Audit Committee, the required inspection decision letters, findings report and the proposed remedial action to address the findings, both at the audit firm and the individual auditor levels; and
- both the audit firm and the individual auditor understand their roles and have the competence, expertise, experience and skills required to discharge their specific audit and financial reporting responsibilities.

INTERNAL AUDIT

The Group implemented an Internal Audit function, led by the Internal Audit Director. The Internal Audit Director reports functionally to the Audit Committee and administratively to the joint CEOs.

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

- reviews and approves the Internal Audit Charter;
- reviews the effectiveness of the Internal Audit function, and its capacity to carry out the annual audit plan;
- reviews the activities and organisational structure of the internal audit function and ensures no unjustified restrictions or limitations exist;
- provides independence of the Internal Audit function, through the reporting line;
- ensures Internal Audit activities comply with the relevant rules and regulations;
- reviews and approves the results of risk assessment and the Annual Audit Plan;
- reviews and approves the Internal Audit reports to management and management's action plans to address risks and control deficiencies;
- monitors the status of implementation of management action plans; and
- 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.

Based on the post-merger work performed during 2017, Internal Audit concluded that management should implement adequate controls to mitigate significant risks across processes such as supplier relationship management, property and facility management, tenants relationship management, monitoring of expenses and budget versus actual variances. Going forward, for 2018, the management committed satisfactory action plans for remediation of the remaining risks identified by Internal Audit, especially in key areas such as procurement for and monitoring of development projects.

PHOTO: PARADISE CENTER, BULGARIA

STAKEHOLDER ENGAGEMENT

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

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

Key investor relation activities during the year	
June/July 2017	Release of Merger prospectus
	Implementation of Merger
August 2017	Interim results announcement
	Results presentation
October 2017	Accelerated bookbuild
November 2017	Fixed income investor meetings and bond issue
December 2017	Financial reporting schedule communicated

Shareholders	The Group is committed to providing shareholders with timely access to applicable information. Communication with its shareholders is open, honest and transparent. The Group includes efforts to engage with shareholders on a wide range of topics including remuneration, strategy, risk management, corporate governance and other topics falling outside of the usual financial topics.
Financing partners	The Group has a wide range of relationships with banks, financial institutions and bondholders. The Group keeps open communication with its financing partners. Compliance with loan covenants is closely monitored and reported according to the applicable agreements.
Analysts	NEPI Rockcastle holds semi-annual results presentations in its primary investor markets. Information is provided through analyst presentations, road shows, annual reports and interim reporting. NEPI Rockcastle adopts open and transparent lines of communication to analysts regarding questions about all aspects of the business and communicates frequently during the course of the year with analysts to answer such questions.
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 shared with tenants.
Government and local authorities	NEPI Rockcastle endeavours to have mutually beneficial relationships with government in the jurisdictions where the Group operates. 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 at the same time as fostering a culture of teamwork. NEPI Rockcastle ensures that all of its employees fully understand its performance and governance standards and requirements.
Communities and environment	NEPI Rockcastle is committed to being a good corporate citizen and frequently evaluates the impact of its projects and developments on society and the environment. Further details are provided in the sustainability report included in this Annual Report on page 109.
Suppliers	NEPI Rockcastle maintains professional relationships with all of its suppliers and ensures that its providers understand performance standards and requirements. Where possible, NEPI Rockcastle will have service level agreements or terms of reference for its relationships with suppliers, which include performance expectations.

COMMUNICATION WITH STAKEHOLDERS

King IV encourages a dialogue with shareholders based on an aligned understanding of objectives. The Executive Directors have regular discussions of operational trends and financial performance with shareholders where they believe this to be in the Group's best interests. However, no information is shared which is not available to shareholders generally. Detailed feedback from these interactions with shareholders are discussed at the Board level.

An investor presentation is given to shareholders by the Joint CEOs, and Directors are available to answer questions.

The Group reports formally in a number of ways:

- Regulatory news announcements or press releases are issued in response to events or routine reporting obligations.
- Unaudited interim results are published in August of each year, outlining performance for the six months ended 30 June. The interim results are announced to the markets and presentations are delivered in South Africa. The presentation slides and the interim results are made available on the Group's website. The Company is assessing stakeholders' appetite and will consider European investor presentations.
- Reviewed condensed consolidated financial statements are published in February/March each year, for the year ended 31 December, including detailed management commentary. The same publication process as for the interim results is followed, with the same materials made available on the website.
- The Annual Report and Audited financial statements are published in March each year, comprising the audited financial statements and the narrative reporting with many other items of statutory, regulatory or voluntary reporting across a range of matters.

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

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

PHOTO: AUPARK ZILINA, SLOVAKIA

DIRECTORS' DEALINGS AND INSIDER TRADING

Dealing in Company securities by Directors, their associates, and Company officials is regulated and monitored in accordance with the JSE and Euronext Listings Requirements and applicable legislation, regulations and directives. NEPI Rockcastle maintains a closed period from the end of a financial period to publication of the financial results.

The Group prohibits all Directors and employees from using confidential information, not generally known or available to the public, for personal benefit. To prevent the risk of insider trading, the Group has adopted a formal Dealing Code. The Dealing Code is in place to ensure that all restricted persons do not abuse, and do not place themselves under suspicion of abusing inside information and that they comply with their obligations under the Market Abuse Regulation and the JSE/Euronext Listings Requirements regarding clearance to deal and notifications of transactions in the Group's securities.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Group is an integral part of the community in which it operates and is committed to building sound relationships, based on trust, honesty, and fairness. Not only is environmental compliance legally obligatory, but it is also an important component of the Group's commitment to the community and developing its good reputation. NEPI Rockcastle is dedicated to minimising the environmental impact of its activities by reducing waste, emissions and discharges, and using energy efficiently.

CONFLICT OF INTEREST

A conflict of interest arises whenever an employee's position or responsibilities present an opportunity for personal benefit inconsistent with the Group's best interests. Individuals are responsible for their own ethical behaviour, and are expected to act, at all times and in all ways, in the best interests of the Company. If and when they consider a conflict of interest exists, the Compliance Officer is to be notified immediately.

GROUP GOVERNANCE

Responsibility for the oversight of the implementation of the Group's governance framework rests with the Board of Directors. The Board and its Committees fulfil the responsibilities for all Group subsidiaries and the governances and operational policies established by the Board have been adopted throughout the NEPI Rockcastle Group. The Board is currently investigating the benefits of establishing a Governance Committee as a further subcommittee of the Board to further strengthen the Company's governance framework.

Corporate governance » continued

ETHICS, EQUAL EMPLOYMENT AND NON-DISCRIMINATION

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

NEPI Rockcastle is committed to ensuring ethical behaviour throughout its business practices, in relation to all internal and external stakeholders. The Group's ethical standards are based on trust, sound morality, confidentiality, reliability, sustainability. The Code of Ethics approved by the Board and made available to all employees, demonstrates the Company's commitment to strong values and human rights.

To ensure the achievement of high standards of ethical behaviour, NEPI Rockcastle has reinforced the Code of Ethics through launching in the organisation the Group's four values: Integrity, Excellence, Teamwork and Communication, Innovation and Learning. The Group also keeps a strong commitment of embedding these values in all internal process and external dealings.
As the Group places paramount importance to ethical behaviour, it is also working on developing proper people behaviour that will make the business sustainable. During 2017, the Company has introduced in the annual evaluation of employees, a specific feedback component related to adherence to values and management behaviour.

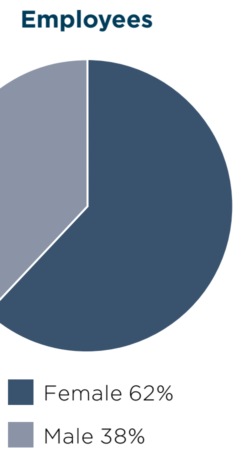
The Company has an open-door policy and supports the "speak-up" culture, thus employees are encouraged to share their concerns, suggestions or complaints with their supervisor. However, in order to allow full transparency as well as a means to report concerns, the Company implemented a Whistleblowing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

In relation to our external stakeholders, NEPI Rockcastle strongly believes in collaborating with partners sharing the same values, hence, ethical behaviour clauses were included in the standard contract templates to be signed with any supplier. Part of our commitment to strong ethics is introducing a consequence management approach in relation to all third parties we are doing business with, in the context of any non-ethical matter.

GENDER DIVERSITY POLICY

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

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 strong gender balance across the Group adds further strength to the positive internal culture. The graph below shows the split of employees by gender for the year under review:



B-BBEE COMPLIANCE

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

Risk management

RISK OVERVIEW

The Board recognises that proactive identification and engagement of risk based on an early warning system is a crucial part of the business strategy of NEPI Rockcastle. Risk management is aiming to proactively identify potential threats, actions or events that will negatively affect the Group's ability to achieve its objectives, and then address, monito and report on these risks.

RISK MANAGEMENT STRATEGY AND RISK GOVERNANCE

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

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

Responsibilities regarding risk management

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

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

Management is responsible for encouraging a risk-conscious business environment and implementing the risk management processes, by integrating appropriate internal controls and mitigating actions across all its processes.

CORPORATE GOVERNANCE

Risk management » continued

RISK MANAGEMENT PROCESS

Risk management processes are designed to identify, measure, prioritise, respond to and monitor the impact of both internal and external risks.

Identified risks are evaluated in terms of potential impact and likelihood of occurrence. Areas considered include the risk of injury to people and environmental damage, business interruptions, financial loss, legislative and regulatory compliance and reputation.

The Group understands and proactively manages risks within pre-set risk appetite and risk tolerance levels, in order to optimise business returns. As part of its risk management activities, the Board assesses the residual risk for each of the Group's principal risk categories. Residual risk is determined based on the risk-mitigation plans implemented by management.

KEY RISK AREAS

The Group's operations focus on acquiring, developing and managing regionally dominant retail assets in emerging markets, with high-growth potential. Apart from risk factors specific to each asset, 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 effect of these risks. Sudden changes in the political, economic, financial, currency, regulatory, geopolitical, social or health environments may have a significant adverse effect on the Group, the valuation of its assets, its results, its distribution policy, its development plans and/or its investment/divestment activities.

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

Strategic goals	
	Growth in distributable income
	Tenant relationships and retention
	Capital growth in share price
	Total property return
	Maintenance of the NEPI Rockcastle brand

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Strategic					
Strategic risks arise mainly from the fundamental decisions that the executive management make or from the pursuit of an unsuccessful business plan. Essentially, strategic risks lead to the Group not being able to achieve its business plan and core corporate targets, or may even endanger the going concern of the Group.					
Delays in executing appropriate property investment and development strategies, or executing in less favourable conditions.	Medium		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 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
Risk of underperformance of listed securities investments, expected dividends not received and decreases in the investments' market price.	Medium		Distributable income may be reduced due to the decrease in dividends received from investments. Net asset value may be impacted by losses incurred. Additional funding may be needed to ensure sufficient capital is available for growth.	Management monitors the performance of listed securities on a daily basis, and updates the investment/divestment decisions weekly. An investment mandate is in place and the Board monitors compliance with the mandate on a quarterly basis.	Shareholders Financing partners
Market					
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 markets. Adverse market movements could also affect the value of the Group's portfolio, its financial position, liquidity, operating income and future prospects.					
Limitations on new capital available arising from: - shortage of financing or re-financing at an acceptable cost, - adverse changes in macroeconomic conditions.	Medium		Impaired ability to fund property investments or planned developments. The cost of financing may increase substantially.	The Group maintains a spread of capital sources, including loan facilities with extensive and various maturity profiles contracted with a diversified base of lenders, Eurobond capacity, listed securities and committed revolving facilities. Management ensures ongoing capital market and banks relationship management. All committed acquisitions and developments are funded in advance.	Shareholders Financing partners Employees

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Sector and geographical risk due to concentration of assets.	Low		Valuation changes in certain geographies or sectors may impact net asset value and total shareholder returns.	All investment decisions are made based on a mandate reviewed by the Board on a quarterly basis. This also sets limits on relevant market exposure by means of diversification. Significant investments are reviewed individually. The Board commissions extensive analysis before entering a new market. Local teams are established to manage daily operations, to ensure that local specificities are addressed, while at the same time leveraging the skills, experience and relationships of the centralised management team. The Group's portfolio is well diversified across the CEE region.	Shareholders
Volatility in the share price arising from market sentiment.	Medium		Changes in market sentiment can reduce NEPI Rockcastle's share price and its ability to raise equity.	The Group implemented sound corporate governance practices and ensures proactive stakeholder engagement. Additional information can be found in the corporate governance section.	Shareholders Financing partners Employees

Financial

The Group identifies and regularly measures its exposure to interest rates volatility, liquidity, foreign exchange, equity markets, and sets applicable management policies. The Group pays close attention to managing the inherent financial risks of its activity and the financial instruments it uses.

An increase or decrease in interest rates could have a significant adverse effect on the Group's results.	Low		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 80% of the debt. Bank loans maturity is monitored and refinancing options are considered well in advance. The funding strategy is to combine group-level unsecured debt with property-level secured debt (when the latter reduces the overall cost of capital).	Shareholders Financing partners
Risk of losses due to currency fluctuations.	Low		Distributable income for the period is reduced due to foreign exchange fluctuations.	The Group keeps the majority of its cash resources in euro. The majority of the Group's assets and liabilities are denominated in euro.	Shareholders Financing partners

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
				Income generated from rentals is contracted in euro and settled in local currency. The Group's Treasury department actively manages cash flows to ensure exposures to local currencies are mitigated. The Group holds the majority of its listed security (equity derivative) collateral in euro. Equity swap exposures of non-euro positions are structured to limit currency risk.	
Lack of liquidity leading to the Group's inability to finance its short-term needs or its acquisition and development strategy.	Low		Continued short position on liquidity would endanger the Group's ability to achieve its strategic objectives. Raising funds under less favourable terms would result in higher financing costs.	High levels of liquidity to cover at least 12 months of non-discretionary cash outflows are secured. 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 Financing partners
In case of default by a counterparty financial institution, the Group might lose part of its cash deposits, other investments or hedges.	Low		Losses as a result of a counterparty default would lead to a reduction in the distributable income and net asset value, as well as reduce the capital growth.	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. Based on the current size of the listed security portfolio, the Board deems it adequate to utilise three prime brokerage relationships to mitigate the associated counterparty risk. A 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

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Operational					
Property development and management activities bring inherent risks, such as long delivery times, complex and extensive management requirements.					
Construction or refurbishment activities undertaken may deviate from the Group's strategy and from future tenants' and customers' expectations, generating high vacancies or inadequate rental levels.	Low		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.	The Group maintains high quality assets and continually monitors the concentration of exposure to individual occupiers or sectors. There is significant knowledge and experience included in the Group's operational procedures. The management and the Board monitor that the development and refurbishment activities are carried out according to approved plans.	Tenants Shareholders
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.	Low		Business interruption or data loss may have a severe impact on the operations of the Group, may reduce the distributable income 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 review IT security. The Board has mandated management to implement a cloud-based solution to reduce reliance on physical hardware.	Tenants Shareholders Employees
Overruns of construction costs in completion of development projects.	Medium		NEPI Rockcastle may incur reputational damage as well as financial losses if developments are not completed in within the budget.	Development projects approval by the Board entails comprehensive expenditure 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. 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.	Tenants Shareholders
Risk of tenant default	Low		Tenants default would lead to bad debts, high vacancy and in the end a reduction in the distributable earnings.	Detailed creditworthiness reviews are performed before signing lease agreements with large tenants. All tenants are required to provide cash deposit or bank letter of guarantee covering several months of rent and operating costs.	Shareholders Tenants

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
				The Group maintains close tenant relationships through its internal leasing team, and tenants' performance is monitored regularly by the asset and property management teams. Various indicators such as tenant sales and occupancy cost are assessed monthly, and measures are implemented on a need basis. The Group has an in-house experienced cash collection team which follows standardised procedures.	
Significant volume of leases expiring in a specific period.	Low		Rental income may be eroded due to new leases or renewals at lower rentals than previously achieved. Vacancies may not be filled timely, thus reducing distributable income.	Assets and property managers closely monitor lease expire terms and begin negotiations with tenants well in advance of the expiry date. The inhouse leasing team continuously ensures that rental agreements include updated market rates, and vacant spaces are actively marketed.	Tenants Shareholders

Tax

The Group is subject to various taxes in the countries in which it operates. There is an increasing burden from compliance and regulatory requirements, as well as a certain degree of unpredictability, which can lead to lower performance.

Risk of inappropriate tax residency, double taxation on income.	Medium		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. The local economic substance of transactions is aligned with fiscal regulations and expectations from tax authorities. Local fiscal legislations are closely monitored and processes and controls are implemented to ensure fiscal compliance.	Shareholders Local authorities
Transfer pricing - transactions between related entities should be carried out at an at arm's length basis. Local tax authorities may challenge the pricing of related party transactions.	Low		Loss of tax efficiency in the structure and additional tax liability. Non-compliance with regulatory requirements could lead to fines, penalties and censures.	The economic substance of transactions is aligned with fiscal regulations and expectations from tax authorities, and documented annually. The Organisation for Economic Co-operation and Development (OECD) tax measures and initiatives, European Directives as well as local fiscal legislation are closely monitored, while adequate processes and controls are implemented to ensure fiscal compliance.	Shareholders Local authorities

Risk description	Residual risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Countries may impose limitations on the deductibility of interest paid on Group financing. Tax regimes internationally are moving towards implementing stricter interest deductibility thresholds.	Medium		Increased taxation may result in a reduction in distributable earnings.	Tax requirements are monitored on a regular basis. The Group participates in various forums and discussion groups aimed at ensuring tax law amendments are fair and equitable.	Shareholders Local authorities
Regulatory 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, are highly regulated across the Group's portfolio.					
Non-compliance with laws, regulations and non-adherence to good governance practices.	Low		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 advisors. Management continuously monitors compliance with legal requirements. Systems and processes to ensure compliance with applicable laws and other legal requirements are implemented. Appropriate policies and procedures set the tone from the top for ethical culture within the Group.	Shareholders Financing partners Employees
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.	Medium		Non-compliance with regulatory requirements could lead to fines, penalties, censures, and reputational damage.	The Board collaborates with the Management and legal advisors to ensure all relevant regulatory requirements are identified and complied with.	Shareholders Financing partners Employees

ADDITIONAL FOCUS AREA FOR THE RISK COMMITTEE IN 2017

In the context of the NEPI and Rockcastle merger, the Risk Committee considered the specific risk factors related to the integration of the two businesses afterwards. The Risk Committee assessed separately the relevant risks and ensured actions were taken to streamline the successful implementation of the merger.

Risk Area	Key risk identified	Responsibility	Response	Status
Strategic focus	Strategic focus may not be adequately consolidated from the two merging companies.	Board of Directors	The Board determined the strategic focus for the Group. At the time the merger was implemented, significant work was undertaken to align the consolidated strategy for the merged entity. The Board adopted and further refined the business plans for the Group to ensure strategic focus was maintained and periodically evaluated performance.	

Risk Area	Key risk identified	Responsibility	Response	Status
Timely decision making	Decisions may not be taken timely due to insufficiently merged leadership structures, leading to missed opportunities and inefficient operations.	Board of Directors	The Board has ultimate responsibility for the Group and sets the direction. The Board is responsible for ensuring that an appropriate decision-making structure for operating effectively exists within the Group. After the merger, the Board undertook an analysis of the merged company structure and refined the reporting lines and decision-making principles to dovetail with the approved strategy. The Board ensured timely execution of the investment and development strategy. The Risk Committee and Board continue to evaluate the Group's organisational structure and aim to further optimise it.	
Cultural integration	Inability to integrate the corporate cultures of the two companies, with a direct negative impact on performance and motivation.	Board of Directors Executive management	The Board supported the team integration with multiple meetings and discussions, a teambuilding session to facilitate sharing of best practices across the Group, and implementation of an aligned set of values.	
Staff	Staff turnover due to perceived uncertainty during the integration process.	Board of Directors and Key management	At Executive and senior management level, appropriate staffing structures are in place to ensure best leadership across the Group. All key personnel have been retained post-merger and during operational integration.	
IT integration	IT infrastructure reduced capability and associated transition costs.	Board of Directors and Key management	IT infrastructure and procedures were assessed post-merger and actions were taken to integrate the IT operating platforms of the two former businesses. The integration of the platforms has been successful to date and further improvements will be implemented during 2018. The full integration of the systems is expected to be completed in 2018.	

Risk continues to be monitored and actions are taken.

Risk is appropriately mitigated.

PHOTO: SHOPPING CITY GALATI, ROMANIA

Remuneration review

PERFORMANCE EVALUATION POLICY

The Group's continued success depends on attracting and employing the best qualified people and establishing a working environment free from discrimination, harassment, intimidation or coercion.

The Group is committed to treating its employees with dignity, trust and respect, and to building long-term relationships based on enforceable employment legislation and respect for human rights.

These principles are supported by the set of values that contributed to shaping our organisational culture: Integrity, Excellence, Innovation & Learning and Teamwork & Communication.

Moreover, since NEPI Rockcastle aims to foster long-term relationships with its employees, the Group is building all the people related processes to properly balance business needs with people's aspirations, career perspectives and development objectives.

In 2017 the Group set clear guidelines on how employees are evaluated, taking into consideration both results and behaviour. Moreover, the Company introduced developmental tools and 360 degree feedback in the annual performance review for 2017. In 2018, the Group is committed to continue with adequate development and training plans to support professional growth of the teams.

At the same time, the Group stands for a strong commitment to deal with inadequate behaviour and consistent poor performance. NEPI Rockcastle is committed to setting clear boundaries on what is acceptable in any of the Group's employee behaviours – specific procedures for analysing such cases and consequence management tools have been introduced and applied.

INDIVIDUAL PERFORMANCE REVIEWS

Individual performance reviews are completed annually, and assist the managers and employees to build on individual strengths and identify areas for improvement.

All employees are subjected to a standardised appraisal process and rating criteria. This encourages equality and imposes standard measures of performance in the company.

Performance is reviewed on a five point scale. This method offers structure for appraisals.

ENGAGEMENT AND MOTIVATION OF EMPLOYEES

Also, in the context of rapid progress and advancement of society, technology, demographics, people's profiles and needs, the Group understood the need to adapt, as a top employer, to remain relevant and attractive to top professionals – hence, it is continuously working on creating a work environment that is friendly, promotes work-life balance, flexibility, healthcare and personal sustainability.

The Group is proactively monitoring levels of engagement and gathering information from both leavers (to understand reasons and address possible symptoms of disengagement) and active employees (recently we have run a survey checking on adherence to the Group's values and motivators that our people consider relevant to embed and further promote within the working environment).

REMUNERATION POLICY

The Group is also committed to support people management processes with a comprehensive and transparent Remuneration policy. The Group's remuneration policy was designed to deliver above market compensation for top employees, and enforce an excellence approach to performance, while creating value for shareholders.

It is also meant to ensure differentiated reward packages for all employees, in line with their role, competence, performance and behaviour.

The Group's remuneration policy is based on the following key principles:

Pay for Performance - remuneration is driven by the employee's role and performance review, and the overall performance of the Group. We set clear, measurable goals for both the company, teams and individual employees.

Total Annual Package Approach - Remuneration is defined as a total annual package, consisting of 3 pillars: fixed pay, variable pay (which can be delivered both in cash and in shares, as defined by the Group's Incentive Plan approved by shareholders in 2017), and individual and collective benefits.

Annual Remuneration Reviews - Remuneration reviews are held annually, during the first quarter of each financial year, with the purpose of assessing performance for the past year and defining performance bonuses, new levels of fixed pay and benefits package.

Remuneration review » continued

Competitive Pay - The group is committed to paying fixed salaries to its employees at market level (compared to other 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 are competitively maintained.

Variable Pay Differentiators - the Group is implementing a differentiated variable pay method, based on seniority and performance levels.

Pillar	Principle	Frequency of review	Inclusion
Fixed pay	Market related, based on role and responsibilities. It is measured based on the industry norms and adjusted for the employee's experience, qualifications and nature of work.	Reviewed annually during each first quarter of the year, with changes effective as of 1st of March.	• All employees
Variable pay – paid in cash	Based on the employee's and Group's performance assessment. Performance reviews are measured against quantitative and qualitative indicators.	Measurable, quantitative key performance indicators are monitored monthly for progress assessment. Overall results reviewed annually during each first quarter of the year, with bonus assessment and payment in March.	• All employees
Variable pay – delivered in shares	Acts as a long-term incentive scheme, to support retention of key people - executives, senior managers and employees with specific core, critical and/or strategic skills.	Key performance indicators measured annually against pre-set benchmarks. Settled by share allocation, annually.	• Executive Directors • Executive Team • Selected middle management • Key roles

DIRECTORS' REMUNERATION

NEPI Rockcastle's aim is to offer competitive packages for Executive Directors, with an optimal balance of fixed and variable components; this ensures long-term engagement and retention of the management team.

Directors' remuneration is periodically reviewed and changes are determined based on the above elements. Any significant changes in the remuneration policy is subject to the review and approval of the Remuneration Committee.

The remuneration of the members of the Board of Directors is reviewed and approved on an annual basis by the Remuneration Committee. Fees payable to Non-Executive Directors are benchmarked against market norms and are reviewed and approved by the Remuneration Committee.

Directors' remuneration for 2017 is disclosed in Note 36 to the Financial Statements.

REMUNERATION IMPLEMENTATION REPORT

In respect of the period from 12 July 2017 (being the date on which the Company listed on the JSE) to 31 December 2017, the Remuneration Policy, which is based on three pillars (fixed pay, variable pay and long-term incentive) was implemented as follows:

Directors' Remuneration

Directors' remuneration during the current and previous year are detailed in the table below. The remuneration is limited to directors' basic annual salary and no variable pay was settled in respect of the period 12 July 2017 to 31 December 2017. For the same period, no other payments were made to Directors, except reimbursements for travel and accommodation. The disclosure of Directors' fees is also contained in note 36 of the annual financial statements.

Fees payable to non-executive directors are benchmarked against market norms and are reviewed and approved by the Remuneration Committee.

Executive Directors:

	31 Dec 17 €'000
Alex Morar	413
Spiro Noussis*	320
Mirela Covasa	315
Nick Matulovich*	247
Marek Noetzel*	118
Total	**1,413**

Non-executive directors:

	31 Dec 17 €'000
Dan Pascariu	50
Robert Emslie	51
Michael Mills	49
Antoine Dijkstra	48
Desmond de Beer	47
Andre van der Veer*	23
Jeffrey Zidel	23
Nevenka Pergar	23
Andries de Lange**	-
Total	**314**

** The fees represent the remuneration applicable to the respective Directors from the merger date onwards.*
*** Andries de Lange was appointed as an alternate director to Mr Desmond de Beer and did not receive any remuneration from the Company during the period under review.*

In addition to the above fees paid to Directors during the period under review, the following shares are held under the purchase scheme by the Directors or by entities in which they have an indirect beneficial interest:

Name of Director	**Number of shares held under the share purchase schemes as at 31 Dec 2017**
Spiro Noussis	1,507,000
Alex Morar	101,000
Nick Matulovich	713,198
Mirela Covasa	75,000
Marek Noetzel	80,349
TOTAL	**2,476,547**

Full Directors holdings are reflected on page 76.

The Board will review the Remuneration Policy and the Remuneration Implementation Report annually in accordance with King IV and the JSE Listings requirements.

Both the Remuneration Policy and the Remuneration Implementation Report will be tabled annually at the company's annual general meeting, to be endorsed by shareholders, each by way of separate non-binding advisory votes. This allows shareholders to express their views on the company's Remuneration Policy and the Remuneration Implementation Report.

In the event of 25% or more shareholders voting against the non-binding resolutions pertaining to the Remuneration Policy and the Remuneration Implementation Report, the Directors are committed to engaging with shareholders in order to address all legitimate and reasonable objections and concerns.

PHOTO: FORUM USTI NAD LABEM, CZECH REPUBLIC

Sustainability report

NEPI Rockcastle is continuously committed to achieving the highest standards of sustainability. The Group views this strategy as a strengthener of its portfolio, as it improves stakeholder relationships including customers, local communities, staff, suppliers, investors, analysts, local and central government, peers and non-governmental organisations, as well as motivates employees and inspires competitors.

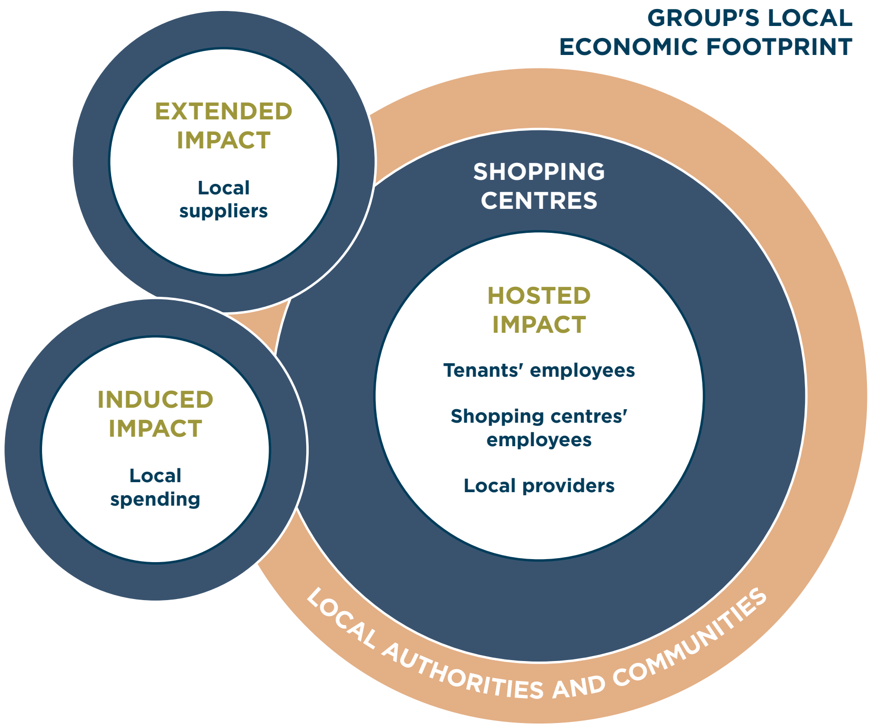
The real estate sector in Europe has a powerful role to play in creating a sustainable economy, therefore NEPI Rockcastle has continued to invest in clean technologies, adopting policies that address environmental and social risks, and engaging in more proactive and robust stakeholder discussions and disclosure. NEPI Rockcastle is revising its risk management framework on a continuous basis with regard to climate change, human rights, social responsibility and energy efficiency.

Detailed information related to energy, gas, water consumption and waste management is collected from the Group's properties in order to track the environmental performance and have a clear understanding of the Group's impact on the environment, including how this affects Stakeholders' rights, as defined by national legislation and internationally agreed standards.

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

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

NEPI Rockcastle's approach to sustainability proves commitment to merge the specific needs of its stakeholders wih the business targets of the Group and capitalise on synergies. The Group acknowledges its key role in society, as a catalyst for economic, social and environmental development. The Group appreciates that preserving a healthy environment by continuing to invest in clean technologies, adopting policies that address environmental and social risks, and engaging in more proactive and robust stakeholder discussions and disclosures, is of essence for its success.



NEPI Rockcastle strongly believes in continuously improving its sustainability approach, structured on four pillars:

1. Sustainable resource management - an initiative that covers biodiversity, water, energy and gas consumption, waste management and gas emissions, in an attempt to improve both impact of consumption as well as efficiency.

2. Sustainability through "green buildings" – the Group's buildings have been certified at the highest sustainability standards in the real estate industry, which acknowledges the Group's investment in sustainable buildings both during construction and in the operational stages.

3. Community Engagement – NEPI Rockcastle believes in the importance of giving back to the communities, and as such, it seeks to contribute to sustainable social development, as well as to helping those in need.

4. Business Integrity - a collection of internal procedures and best practice guidelines are continuously being implemented and improved across the Group, to ensure compliance with laws and regulations and that business is conducted according to the highest standards of integrity.

Sustainability report » continued

All four initiatives are translated into key objectives on medium and long term, based on which the Group is able to monitor performance closely and take mitigating actions to prevent slippage. In fulfilling the proposed objectives, an important role in the Group will be voluntary actions, as well as the ability to engage stakeholders in the transition.

Strategic initiatives	Objective /Commitment	KPIs	Started	Not started	Term	
					Medium	Long
1. Sustainable resource management	Increase energy efficiency for Office portfolio by 5%	energy consumption in MWh	x		2022	-
	Increase energy efficiency for Retail portfolio by 10%	energy consumption in MWh	x		2022	-
	Invest 5% of the annual budget in renewable sources of energy	% CAPEX invested in renewable energy sources		x	2022	-
	Reduce by 20% the carbon footprint associated with all Group's operations	carbon footprint		x	-	2030
	Purchase 50% of electricity from renewable sources for all assets managed by the Group (common area)	% of electricity from renewable sources		x	-	2030
	Reach a waste recycling rate of at least 50%	% waste recovered % waste recycled	x		2022	-
	Decrease water consumption for Office portfolio by 5%	water consumption in mc	x		2022	-
	Decrease water consumption for Retail Portfolio by 10%	water consumption in mc	x		2022	-
2. Sustainability through "green buildings"	Obtain the "BREEAM In - Use" certification for at least 50% of the Retail portfolio that will be going through recertification, at least "Very Good" level	- % assets certified BREEAM In Use - % of assets recertified at least "Very Good"	x		2022	-
	Obtain the "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"	x		2022	-
	Complete the implementation of ISO 14001 and ISO 50001	ISO environment relevant certifications obtained and maintained	x		2022	-
3. 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	x		2022	-
	Develop smart partnerships with our stakeholders	community relevant partnerships	x		permanent	
	Create relevant community events and CSR campaigns	- centres which have organised at least one annual CSR-relevant event - time, budget and area in our properties dedicated to CSR campaigns	x		permanent	
4. Business integrity	Ensure compliance with regulations, policies and procedures	- timely monitoring, reporting and remediation - consequence management	x		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	x		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	x		permanent	

PHOTO: SHOPPING CITY TARGU JIU, ROMANIA

Sustainability report » continued

APPROACH TO SUSTAINABILITY

The first two pillars of the Group's sustainability strategy, **Sustainable resource management** and **Sustainability through "green buildings“**, are planned to be developed further based on two complementary frameworks of policies, processes and procedures based on International Management Systems Standards (ISO 14001 – Environment Management System and ISO 50001 – Energy Management System), aimed at reducing the negative impact of assets at every stage in their lifecycle, from design and build, and throughout daily operations. The Group is preparing to obtain these two certifications, targeting 2022 as certification year.

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

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

The "Design Guidelines" applied for new developments, redevelopments and extensions are aligned with "BREEAM" requirements, to ensure that properties will be sustainable from multiple points of view, including low energy consumption or greenhouse gas emissions. The Group's development processes give special attention to:

- structural elements that can affect energy requirements 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; and
- implementing proficient building management systems, which monitor and optimise technical equipment operation.

The Group's approach to sustainability covers four stages:

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

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

- cleaning providers are heavily encouraged to use certified products, favored not to harm health, and the Group continues to monitor the implementation of this project throughout the Group. Products used in the Group's properties are aimed at meeting the requirements of Green Seal or Environmental Choice programs or European Eco-Label programs;
- the use of good-quality materials with low emissions of volatile organic compounds and with low content of harmful substances; technical specifications are considered for a large range of products: finishing materials, paints, adhesives, floor coverings, carpets and other largely utilised products;
- ventilation ducts and filters are checked regularly and filter replacement is carried out at least twice a year, while the risk of legionella disease is controlled by undertaking regular tests;
- ensuring that sufficient fresh air is constantly available in the Group's buildings through the Building Monitoring Systems; and
- the use of integrated methods based on monitoring and non-toxic preventive measures (site inspection, pest inspection and population monitoring), to proactively manage and minimise pest issues.

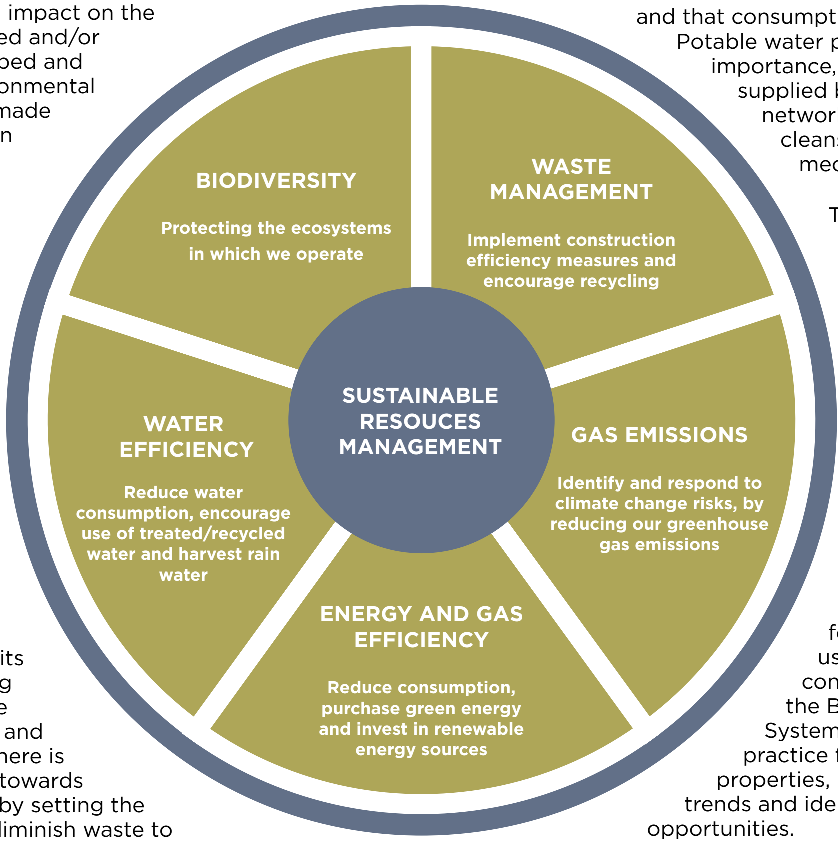
Investing in sustainable solutions has become a priority, therefore, starting in 2016, more than 30% the CAPEX property management budget of Romanian properties was allocated to replacing traditional lighting with LED technology, installing frequency converters, upgrading building management systems, installing water-efficient faucets, replacing obsolete roof membranes, investing in cooling water towers, mounting solar protection foil and growing natural indoor plants. Going forward, the Group plans to implement similar allocations in other countries, building on the success of this original project.

PILLAR I - SUSTAINABLE RESOUCES MANAGEMENT

BIODIVERSITY

Prior to starting new developments, external experts engaged by the Group perform environmental impact assessments on biodiversity, in accordance with applicable local law. Where protected areas or species are present, the Group closely monitors the ecosystem with the help of specialised partners, so as not to cause damage, however minor, through the Group's actions. For new developments the environmental impact report indications are closely followed. Endangered species in the vicinity of the development are monitored and, if necessary, actions are proactively taken in order to ensure the Group's actions do not cause harm to local flora and/or fauna.

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



WASTE MANAGEMENT

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

In 2017, the Group continued to implement its waste reduction strategy across its properties in Romania as an early adopter, and efforts will continue in 2018 and onwards. Waste management audits have been conducted in a number of properties and measures have been implemented based on the findings of these audits in order to improve performance, such as: informing the tenants regularly about on-site waste management, implementation of minimal requirements for sorting and recycling waste in supplier and lease contracts.

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

Through the measures implemented, the Group managed to lower total waste, as well as to increase significantly the recycling percentage in more than 12 properties.

The Group understands the importance of recycling and reusing and thus has planned to reach a 50% recycling rate across the portfolio by 2022 by virtue of sustainable waste management measures.

WATER EFFICIENCY

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

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

ENERGY AND GAS EFFICIENCY

NEPI Rockcastle is strongly committed to overseeing efficiency of energy and gas, as it sees value in allowing managers and occupants to monitor energy consumption by type of fuel and end-use category. Monitoring such factors allows the identification of poor performance and changes in consumption patterns, and take steps towards minimisation of the performance gap between predicted and actual consumption, through efficient cost management and identification of areas of inefficient operation, system deficiencies and building management issues.

The Group believes that taking actions such as changing practices and procedures, reducing waste and managing

Sustainability report » continued

energy use it can decrease operating costs, consumption and carbon emissions. Through detailed metering and monitoring, owners and facility managers understand how their building is performing in greater detail and can take steps to improve such performance.

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

One of the initiatives of the Group, aimed at reducing energy consumption, is the gradual implementation of LED technology, as well as investing in renewable sources of energy.

CARBON FOOTPRINT

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

- Carbon footprint measurement for all development projects;
- Plan for "eco-friendly" buildings early in the design phase;
- Use of alternative low carbon-emission materials;
- Continued efforts to reduce energy consumption;
- Investing in green energy sources such as solar panels, electrical chargers for green cars; and
- Implementing LED lighting and sensor solutions.

Seeking to further reduce the carbon footprint of properties, bike racks have been installed and are available throughout the portfolio. Furthermore, one of our office properties, The Office Cluj-Napoca, has joined a car pooling program, a more environmental-friendly and sustainable way to travel at work, that, besides carbon emission, also reduces the time spent in traffic.

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

Scope 1
direct emissions

Vehicles owned by the firm

Scope 2
indirect emissions

Consumption of purchased electricity

Fossil fuel

Scope 3
other emissions

Use of products

Production of purchased materials

Purchased activities

Vehicles owned by contractors

Waste disposal

Employees business travel

PILLAR II - GREEN BUILDINGS

The Group'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.

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

The Group has continued to invest in BREEAM certification for its buildings as a measure of its commitment to sustainability, as presented below. BREEAM is the world's leading environmental assessment method and rating system. Buildings that obtain BREEAM recognition have achieved the highest corporate, organisational and environmental objectives, and enhance the continuous improvement capability for sustainable design, construction and operation.

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

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

Sustainability report » continued

PHOTO: VICTORIEI OFFICE, ROMANIA

Responsible construction practices

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

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

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

PILLAR III - COMMUNITY ENGAGEMENT

As a leading investor in the CEE, the Group acknowledges its mission to bring solutions to issues faced by the communities that the Group is a part of. Through its business activities, it is the aim of the Group to create economic value and, at the same time, to actively contribute towards the development of a sustainable society. NEPI Rockcastle aspires to provide unique retail and office destinations and high standard services to all stakeholders, while at the same time to fulfil its corporate vision to bring a positive impact in the communities where it operates, seeking to contribute to sustainable social development globally.

The Group has implemented and is following a Corporate Social Responsibility (CSR) strategy focused on four main directions: education, environment, community and donations, in order to maximise relevance to the communities the Group operates in.

CORPORATE GOVERNANCE

PHOTO: PROMENADA MALL, ROMANIA

Sustainability report » continued

EDUCATION INITIATIVES AND SUPPORT

NEPI Rockcastle believes that its success has been due to hiring the right people, a team of specialised professionals dedicated to their work, with great ethics and responsibility for what they do. Through **NEPI Academics**, the Group's first scholarship program dedicated to high performing college students with limited financial possibilities, a contribution was made in the lives of tomorrow's professionals helping bright students build their career path. After a screening campaign, 20 students were chosen and offered €150 monthly scholarships, as well as face to face meetings with one of the Joint CEOs, who shared his success story and gave them inspiration for the future. Additionaly, an English language certification course was offered to the students.

In partnership with the Emergency State Department, the Group hosted educational campaigns in **Shopping City Timisoara, Shopping City Galati** and **Braila Mall** to promote health and safety awareness**.** The events included trainings for emergency situations with the involvement of the Fire Department and the Romanian Police. The mobile center installed in the parking lot of the malls was equipped with medical and training materials.

PHOTO: NEPI ACADEMICS, ROMANIA

PHOTO: PLOIESTI SHOPPING CITY - "YOUNG ROOTS FOR TOMORROW'S FORESTS", ROMANIA

ECOLOGY INITIATIVES AND SUPPORT

Deforestation and scarce green spaces in urban areas are increasing in the areas where the Group operates and affect the communities it is a part of. The Group continued to support a series of planting initiatives as well as other ecology awareness campaigns promoting the importance of ecologic initiatives.

In 2017, the Group started a partnership with one of the most active ecology NGOs in Romania, "We plant good deeds". With the help of the contribution made by the Group, it was possible to plant over 14,000 trees in various areas.

At Ploiesti Shopping City the Group organised the second edition of its annual planting campaign "Young roots for tomorrow's forests", where, with the help and contribution of over 1,000 students and teachers involved as volunteers a record of 10,000 plants and trees were planted in the proximity of the shopping center.

As the Group is focused on increasing its contribution to promote Ecology as a lifestyle, it has also organised various promotion events across Poland such as planting seeds in Platan Shopping Centre and eco-workshops in Pogoria.

In order for the Group to promote the ecological principles it is committed to, it has engaged its own employees in projects to embed these concepts in the day to day business practices as well. In an effort to shape a better future, the Group has decided to transition to paperless business practices, and for the purpose of supporting these processes, the Group is undergoing the implementation of a documents management system and electronic signature on contracts, in order to reduce printing and paper consumption as much as possible.

HEALTH & SAFETY INITIATIVES AND SUPPORT

Students, medical clinics and foundations regularly organise **pro-health information** campaigns in the Group's shopping centres, focused on prevention measures and screening tests for heart diseases, blood pressure and diabetes, eye and hearing tests, support for parents of autistic children and prevention of cancer.

Blood donation campaigns were organised in collaboration with non-profit organisations during 2017, as a response to the communities-wide shortages of necessary donated blood. The Group acknowledges the importance of such a community act, and the constant necessity for regular blood supply for the benefit of the wider community. NEPI Rockcastle understands and supports blood donation campaigns that raise awareness of this necessity. Moreover, regular blood donations by a sufficient number of healthy people are needed to ensure that safe blood will be available whenever and wherever it is needed. As a result of the campaigns conducted in Mega Mall Romania, over 250 patients benefitted from blood collected, while in Pogoria, Galeria Tomaszow, Galeria Wolomin, Focus Mall Zielona Gora, Galeria Warminska shopping centres in Poland 559 blood donors were recorded, and over 250 litres of blood collected.

During 2017, NEPI Rockcastle provided **support for the DKMS Foundation** (The Foundation for Donating Life). DKMS is an international group of foundations, with a mission to find a donor for every patient in the world in need of bone marrow stem cell transplantation as well as to promote research in the field of stem cell transplantation. Within eight years of operation in Poland it managed to sign up over 1,1 million potential donors, and over eight million worldwide. A number of 797 donors were registered in the Group's shopping centres in Poland.

In partnership with other corporate collaborators, the Group is participating in a project supporting the Emergency State Department through its institution, the Romanian Intervention Service for Emergency Situations, to develop a **mobile application for emergency situations**, which will facilitate victims' rescue. The application will use indoor positioning technology, will enable short distance communication as well as create and send video content from the incident site. NEPI Rockcastle is one of the main supporters and anchors for this unique project in the region. The Group plans to use its properties to test and improve the initial application, which will afterwards be rolled-out and used nation-wide. Taking into consideration that the core of the Group's operations are its buildings, investing in such projects means improving the safety standards for buildings in general, therefore the collaboration with the Romanian Ministry of Internal Affairs is seen as beneficial in the long-term. In terms of technology, the initiative will greatly improve survivability in case of extreme disasters at all buildings in Romania.


PHOTO: SHOPPING CITY GALATI - HEALTH AND SAFETY AWARENESS EVENT ROMANIA

DONATIONS

Shopping City Timisoara in collaboration with several tenants donated a fully equipped school backpack for 30 children, helping them start the new school year happy and prepared.

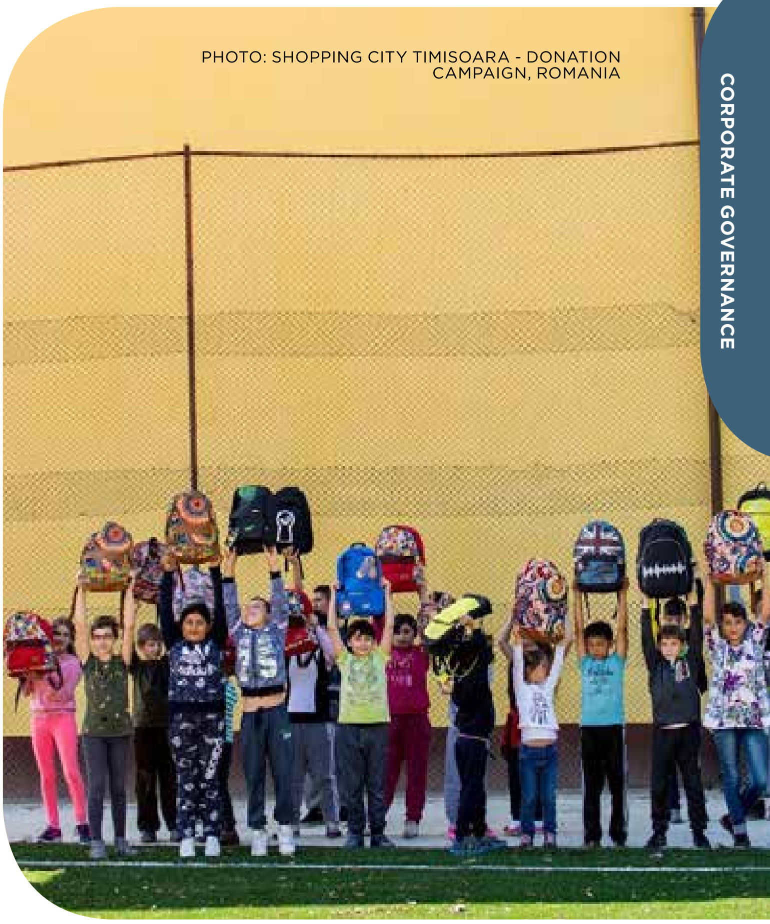


PHOTO: SHOPPING CITY TIMISOARA - DONATION CAMPAIGN, ROMANIA

Aurora Shopping Mall organised a donation campaign to help ten families in need in the county. The Group installed a donation box for visitors to contribute with food, school supplies and clothing. Some of our tenants contributed as well.

In **Solaris Shopping Centre**, shopping vouchers for selected stores were awarded to customers who donated toys for children in orphanages in Opole. As a result of this community engaging action, over 380 toys were collected and distributed to children.

Galeria Wolomin collected sweets and sports equipment for the patients of the Sociotherapy Centre in Zielonka, and over 70 people benefited from the donations. In collaboration with SMYK stores organised an event where Wołominka (the symbolic shopping centre figure) visited disabled children on Christmas and New Year party and shared teddy bears.

Sustainability report » continued

Pillar IV - BUSINESS INTEGRITY

Being a listed company, NEPI Rockcastle is aware that setting the highest standards in terms of ethics and corporate governance is of utmost importance.

The Group has zero tolerance for fraud and corruption practices. Integrity is embedded in the Group's core values and it was one of the dimensions assessed within employees' performance evaluation during 2017.

Starting from the strong belief that the tone from the top is of utmost importance, the Group has built a management team of strong and experienced professionals.

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

- implementation of Code of Ethics, Internal Regulation, Share Dealing Code and Whistleblowing Policy;
- compliance with relevant laws and regulations, including King IV Report on Corporate Governance
- responsible purchasing through:
    - implementation of Procurement Policy (which promotes objectivity and transparency in our procurement processes), with continuous monitoring of compliance thereto;
    - supplier risk assessment for all new suppliers, and annual revision for existing suppliers;
    - win-win partnerships with Group's suppliers, based on sustainable business practices, where both the Group's companies and its suppliers thrive and grow;
- alignment to EU Regulation 2016/679 on personal data protection;
- alignment to EU Directive 2015/849 on Anti-Money laundering and counter-terrorism financing;
- regular, accurate, relevant and transparent communication within the Company and with the Group's stakeholders, including shareholder communication through public announcements, annual investor property tours, annual meetings and presentation of results.

PHOTO: FLOREASCA BUSINESS PARK, ROMANIA

CORPORATE GOVERNANCE

Financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of Directors' responsibilities

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

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

In preparing these financial statements, the Directors' are responsible for:

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

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

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

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

The Group and Company financial statements on pages 130 to 181 were approved and authorised for issue by the Board of Directors on 19 March 2018 and signed on its behalf by:

Alex Morar
Joint Chief Executive Officer

Spiro Noussis
Joint Chief Executive Officer

Mirela Covasa
Chief Financial Officer

Independent Auditor’s report

to the members 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- the Company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

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

- the statements of financial position as at 31 December 2017;
- the statements of comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

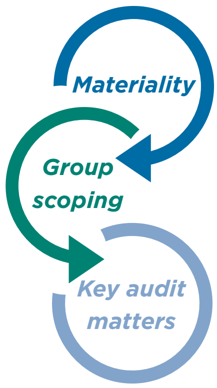
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Company 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 Group materiality: €17.7 million which represents 5% of consolidated profit before tax excluding impairment of goodwill.

Overall Company materiality: €1.7 million which represents 5% of the company profit before tax excluding impairment of investments and loans to subsidiaries.

Audit scope

A full scope audit has been performed on 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 matters

Group: Valuation of investment properties.

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

	Consolidated financial statements	Company financial statements
Overall group materiality	€17.7 million.	€1.7 million.
How we determined it	5% of the consolidated profit before tax, adjusted for the one-off event referring to the goodwill impairment from the merger, detailed in note 32B, included in the consolidated statement of comprehensive income for the year ended 31 December 2017.	5% of the Company profit before tax, adjusted for the one-off event referring to the impairment of investments in and loans to subsidiaries, from the merger, detailed in note 32B included in the Company statement of comprehensive income for the year ended 31 December 2017.
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. On this basis we believe that total profit before tax (before one-off events as described above) is an important metric for the financial performance of the Group.	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. On this basis we believe that total profit before tax (before one-off events as described above) is an important metric for the financial performance of the Company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €887,000, 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 financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group owns and invests in a number of investment properties focussed on Central and Eastern Europe. These are held within a variety of subsidiaries and joint ventures.

Based on our understanding of the Group we focused our audit work primarily on the most financially significant components, which represent mainly large shopping centres and retail parks in Romania, Poland, Croatia, Hungary and Bulgaria. 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 properties The valuation of the investment properties is significant to our audit due to their magnitude and because their valuation is complex and highly dependent on a range of estimates (amongst others, rental value, vacancy rates, non-recoverable expenses, lease incentives, maintenance costs, discount rates and estimated terminal value) made by the directors as well as the external appraisers used by the directors. Entities that invest in real estate inherently are under pressure to achieve certain targets which leads to the risk that the value of property is overstated by the entity. The directors used external appraisers to support their determination of the individual fair values of the investment properties semi-annually. For more information on the valuation of the investment properties reference is made to notes 3.5, 3.6, 3.7, 4, 9 and 10.	Our procedures in relation to the directors' valuation of investment properties 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 properties (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 with 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 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 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 Annual Report (but does not include the financial statements and our auditor's report thereon).

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

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

Independent Auditor’s report

to the members of NEPI Rockcastle Plc » continued

Responsibilities of the directors for the financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s and Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with our engagement letter dated 10 January 2018 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 March 2018

Statements of financial position

	Note	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
ASSETS					
Non-current assets		**5,127,197**	**2,674,176**	**3,659,796**	**9**
Investment property		4,927,509	2,546,772	-	-
— Investment property in use	9	4,725,093	2,370,760	-	-
— Investment property under development	10	202,416	176,012	-	-
Goodwill	12	82,582	58,390	-	-
Deferred tax assets	23	12,490	-	-	-
Investments in subsidiaries	5	-	-	266,463	-
Loans granted to subsidiaries	5	-	-	3,365,083	-
Investments in joint ventures	33	40,856	22,023	-	-
Long-term loans granted to joint ventures	33	25,792	31,015	-	-
Other long-term assets	11	36,175	15,299	27,932	-
Interest rate derivatives financial assets at fair value through profit or loss	20	1,793	677	318	9
Current assets		**860,366**	**107,538**	**7,310**	**1**
Trade and other receivables	14	60,793	40,539	3,225	-
Financial investments at fair value through profit or loss	13	326,565	18,979	-	-
Equity derivative collateral	13	265,541	-	-	-
Financial assets at fair value through profit or loss	13	11,923	-	-	-
Loans granted to subsidiaries	5	-	-	3,575	-
Cash and cash equivalents	15	195,544	48,020	510	1
Investment property held for sale	**16**	**10,238**	**15,525**	**-**	**-**
TOTAL ASSETS		**5,997,801**	**2,797,239**	**3,667,106**	**10**
EQUITY AND LIABILITIES					
Equity attributable to equity holders		**3,914,719**	**1,814,552**	**3,666,562**	**(14)**
Share capital	17	5,778	3,215	5,778	-
Share premium	17	3,625,568	1,368,171	3,625,568	-
Merger reserve		-	-	25,188	-
Share-based payment reserve		-	4,797	-	-
Currency translation reserve		-	(1,229)	-	-
Accumulated profit		282,897	439,598	10,028	(14)
Non-controlling interest		476	-	-	-
Total liabilities		**2,083,082**	**982,687**	**544**	**24**
Non-current liabilities		**1,937,282**	**831,995**	**-**	-
Bank loans	19	734,493	260,593	-	-
Bonds	19	889,917	394,819	-	-
Deferred tax liabilities	23	271,105	158,864	-	-
Other long-term liabilities	22	37,089	17,403	-	-
Interest rate derivatives financial liabilities at fair value through profit or loss	20	4,678	316	-	-
Current liabilities		**145,800**	**150,692**	**544**	**24**
Trade and other payables	21	113,553	71,536	544	24
Financial liabilities at fair value through profit or loss	13	10,934	-	-	-
Bank loans	19	10,568	17,999	-	-
Bonds	19	10,745	61,157	-	-
TOTAL EQUITY AND LIABILITIES		**5,997,801**	**2,797,239**	**3,667,106**	**10**
Net Asset Value per share (euro)	24	6.78	5.64		
Adjusted Net Asset Value per share (euro)	24	7.10	5.98		
Number of shares for Net Asset Value per share		577,800,734	321,479,204		
Number of shares for adjusted Net Asset Value per share		577,800,734	321,479,204		

All amounts in Thousand Euro unless otherwise stated
The notes on pages 135 to 181 are an integral part of these financial statements.

The Group and Company financial statements on pages 130 to 181 were approved and authorised for issue by the Board of Directors on 19 March 2018 and signed on its behalf by:

Alex Morar
Joint Chief Executive Officer

Spiro Noussis
Joint Chief Executive Officer

Mirela Covasa
Chief Financial Officer

Statements of comprehensive income

	Note	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Revenues from rent and expense recoveries		336,977	209,890	-	-
Property operating expenses		(104,892)	(64,358)	-	-
Net rental and related income	**25**	**232,085**	**145,532**	**-**	**-**
Administrative expenses	26	(15,191)	(8,186)	(5,250)	(14)
EBITDA*		**216,894**	**137,346**	**(5,250)**	**(14)**
Net result from financial investments		**(6,028)**	**14**	**(156)**	**-**
Income from financial investments at fair value through profit or loss	13	18,084	738	201	-
Fair value and net result on sale of financial investments at fair value through profit or loss	13	(24,112)	(724)	(357)	-
Acquisition fees	27	(10, 681)	(4,339)	-	-
Fair value adjustments of investment property	28	162,022	143,163	-	-
Foreign exchange loss		(1,255)	(127)	(4)	-
Gain/(Loss) on disposal of investment property		9	(485)	(429)	-
Other operating income		-	-	2,787	-
Profit/(loss) before net finance (expense)/ income		**360,961**	**275,572**	**(3,052)**	**(14)**
Net finance (expense)/ income	**29**	**(22,906)**	**(13,059)**	**37,436**	-
Finance income		2,567	4,784	38,108	-
Finance expense		(25,473)	(17,843)	(672)	-
Fair value adjustment of Interest rate derivatives financial assets and liabilities		500	228	(274)	-
Share of profit of joint ventures	33	16,068	6,383	-	-
Impairment of goodwill**	32B	(886,167)	-	-	-
Impairment of investments in and loans to subsidiaries	32B	-	-	(886,167)	-
(Loss)/Profit before tax		**(531,544)**	**269,124**	**(852,057)**	**(14)**
Income tax expense		**(47,870)**	**(36,472)**	**-**	**-**
Current tax expense	23	(1,671)	(1,664)	-	-
Deferred tax expense	23	(46,199)	(34,808)	-	-
(Loss)/Profit after tax		**(579,414)**	**232,652**	**(852,057)**	**(14)**
Total comprehensive (loss)/profit for the year		**(579,414)**	**232,652**	**(852,057)**	**(14)**
Non-controlling interest		(280)	2,316	-	-
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		**(579,694)**	**234,968**	**(852,057)**	**(14)**
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS EXCLUDING IMPAIRMENT OF GOODWILL		**306,473**	**234,968**	**(852,057)**	**(14)**
Weighted average number of shares in issue	30	436,806,684	309,760,628		
Diluted weighted average number of shares in issue	30	436,809,203	309,778,913		
Basic (loss)/earnings per share (euro cents)	30	(132.71)	75.85		
Diluted (loss)/earnings per share (euro cents)	30	(132.71)	75.85		
Basic earnings per share (euro cents) excluding impairment of goodwill	30	70.16	75.85		
Diluted earnings per share (euro cents) excluding impairment of goodwill	30	70.16	75.85		

All amounts in Thousand Euro unless otherwise stated
The notes on pages 135 to 181 are an integral part of these financial statements.

** EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) represents the Group's Operating profit, defined as Net rental and related income less Administrative expenses.*
*** Impairment of goodwill arising from the merger with Rockcastle, computed as the difference between Rockcastle's market capitalisation and its net asset value at merger date.*

FINANCIAL STATEMENTS

Statements of changes in equity

Group	Share capital	Share premium	Share-based payment reserve	Currency translation reserve	Accumulated profit	Non-controlling interest	Total
Balance at 1 January 2016	**2,986**	**1,213,325**	**4,797**	**(1,229)**	**275,042**	**1,629**	**1,496,550**
Transactions with owners	**229**	**154,846**	**–**	**–**	**(70,412)**	**687**	**85,350**
— Issue of shares	229	154,800	–	–	–	–	155,029
— Sale of shares issued under the Initial Share Scheme	–	46	–	–	–	–	46
— Earnings distribution	–	–	–	–	(48,288)	–	(48,288)
— Acquisition of non-controlling interest	–	–	–	–	(22,124)	687	(21,437)
Total comprehensive income	–	–	–	–	234,968	(2,316)	232,652
— Profit for the year	–	–	–	–	234,968	(2,316)	232,652
BALANCE AT 31 DECEMBER 2016	**3,215**	**1,368,171**	**4,797**	**(1,229)**	**439,598**	**–**	**1,814,552**
Balance at 1 January 2017	**3,215**	**1,368,171**	**4,797**	**(1,229)**	**439,598**	**–**	**1,814,552**
Transactions with owners	**2,563**	**2,257,397**	**(4,797)**	**1,229**	**422,993**	**196**	**2,679,581**
— Issue of shares	514	395,596	–	–	–	–	396,110
— Sale of shares issued under the Initial Share Scheme	–	18	–	–	–	–	18
— Issue of shares for the acquisition of Rockcastle	2,049	2,747,950	(4,797)	1,229	(424,152)	196	2,322,475
— Transfer of goodwill impairment on acquisition of Rockcastle Group to share premium	–	(886,167)	–	–	886,167	–	–
— Earnings distribution	–	–	–	–	(39,022)	–	(39,022)
Total comprehensive income	**–**	**–**	**–**	**–**	**(579,694)**	**280**	**(579,414)**
— Impairment of goodwill	–	–	–	–	(886,167)	–	(886,167)
— Profit for the year excluding impairment of goodwill	–	–	–	–	306,473	280	306,753
BALANCE AT 31 DECEMBER 2017	**5,778**	**3,625,568**	**–**	**–**	**282,897**	**476**	**3,914,719**

All amounts in Thousand Euro unless otherwise stated

Statements of changes in equity» continued

Company	Share capital	Share premium	Merger reserve	Accumulated profit	Total
Balance at 1 January 2016	**-**	**-**	**-**	**-**	**-**
Transactions with owners	–	–	–	–	–
Total comprehensive income	**-**	**-**	**-**	**(14)**	**(14)**
— Profit for the year	–	–	–	**(14)**	**(14)**
BALANCE AT 31 DECEMBER 2016	–	–	**-**	**(14)**	**(14)**
Balance at 1 January 2017	–	–	**-**	**(14)**	**(14)**
Transactions with owners	**5,778**	**3,625,568**	**25,188**	**862,099**	**4,518,633**
— Issue of shares	388	324,047	–	-	324,435
— Issue of shares for the acquisition of Rockcastle	5,390	4,187,688	25,188	-	4,218,266
— Transfer of impairment of investments in and loans to subsidiaries on acquisition of Rockcastle Group to share premium	–	(886,167)	–	886,167	-
— Earnings distribution	-	-	–	(24,068)	(24,068)
Total comprehensive income	-	-	–	(852,057)	(852,057)
— Impairment of investments in and loans to subsidiaries	-	-	–	(886,167)	(886,167)
— Profit for the year (excluding impairment of investments in and loans to subsidiaries)	-	-	–	34,110	34,110
BALANCE AT 31 DECEMBER 2017	**5,778**	**3,625,568**	**25,188**	**10,028**	**3,666,562**

All amounts in Thousand Euro unless otherwise stated
The notes on pages 135 to 181 are an integral part of these financial statements.

FINANCIAL STATEMENTS

Statements of cash flows

	Note	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
OPERATING ACTIVITIES					
(Loss)/Profit after tax		(579 414)	232,652	(852,057)	(14)
Adjustments					
Fair value adjustments of investment property for controlled subsidiaries	28	(162,022)	(143,163)	–	–
Fair value and net result on sale of financial investments at fair value through profit or loss	13	24,112	724	357	–
Income from financial investments at fair value through profit or loss	13	(18,084)	(738)	(201)	–
Foreign exchange loss		1,255	127	–	–
(Gain)/Loss on disposal of investment property		(9)	485	–	–
Other operating income		–	–	(2,787)	–
Impairment of goodwill		886,167	–	–	–
Impairment of investments in and loans to subsidiaries		–	–	886,167	–
Net finance (income)/expense	29	22,906	13,059	(37,436)	–
Fair value adjustment of Interest rate derivatives financial assets and liabilities for controlled subsidiaries		(500)	(228)	274	–
Deferred tax expense for controlled subsidiaries	23	46,199	34,808	–	–
Current tax expense	23	1,671	1,664	–	–
Operating profit before changes in working capital		**222,281**	**139,390**	**(5,683)**	–
Changes in working capital					
(Increase)/decrease in trade and other receivables		4,687	23,648	2,243	–
Increase/(decrease) in trade and other payables		11,618	(11,273)	380	14
Interest paid		(8,139)	(6,548)	(8)	–
Bond coupon paid		(15,895)	(3,616)	–	–
Income tax paid		(2,615)	(1,461)	–	–
Interest received		1,139	4,316	573	–
CASH FLOWS FROM OPERATING ACTIVITIES		**213,076**	**144,456**	**(2,495)**	**–**
INVESTING ACTIVITIES					
Investments in acquisitions and developments					
Additions of investment property		(157,169)	(169,594)	–	–
Payments for acquisition of subsidiaries less cash acquired during the year	32A	(788,364)	(448,958)	–	–
Settlements of deferred consideration for prior years acquisitions	21	(6,739)	(11,488)	–	–
Proceeds from sale of investment property held for sale (net of selling cost)	16	5,027	2,655	–	–
Other investments					
Loans granted to third parties		(4,208)	–	–	–
Loans to joint ventures – amounts granted	33	(2,818)	(3,041)	–	–
Loans to joint ventures – amounts repaid	33	6,657	9,164	–	–
Loans granted to subsidiaries	5	–	–	(297,564)	–
Net cash flow used in investments in financial assets					
Payments for financial investments at fair value through profit or loss	13	(41,123)	(23,620)	–	(10)
Income from financial investments at fair value through profit or loss	13	18,084	738	201	–
Proceeds from sale of financial investments at fair value through profit or loss	13	125,751	3,921	–	–
CASH FLOWS USED IN INVESTING ACTIVITIES		**(844,902)**	**(640,223)**	**(297,363)**	**(10)**
FINANCING ACTIVITIES					
Proceeds from issue of shares		396,128	155,075	324,435	–
Net movements in bank loans and bonds					
Proceeds from bank loans	19	86,000	176,320	–	–
Proceeds from bonds	19	500,000	50,000	–	–
Repayment of bank loans	19	(113,952)	(91,430)	–	–
Repayment of bonds		(50,000)	–	–	–
Other proceeds/(payments)					
Acquisition of non-controlling interest		196	(24,500)	–	–
Proceeds from third-party loans		–	–	–	11
Earnings distribution		(39,022)	(48,288)	(24,068)	–
CASH FLOWS FROM FINANCING ACTIVITIES		**779,350**	**217,177**	**300,367**	**11**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**147,524**	**(278,590)**	**509**	**1**
Cash and cash equivalents brought forward	15	48,020	326,610	1	–
CASH AND CASH EQUIVALENTS CARRIED FORWARD	15	**195,544**	**48,020**	**510**	**1**

All amounts in Thousand Euro unless otherwise stated
The notes on pages 135 to 181 are an integral part of these financial statements.

Notes to the financial statements

1. GENERAL

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

During the fourth quarter of 2016, New Europe Property Investments plc (NEPI), a property investment and development group incorporated in the Isle of Man and listed on the Main Board of the Johannesburg Stock Exchange Limited (JSE) and the regulated market of the Bucharest Stock Exchange (BVB) and Rockcastle Global Real Estate Company Limited (Rockcastle), a property investment company established in Mauritius and listed on the JSE and the Stock Exchange of Mauritius (SEM), announced the conclusion of a framework agreement (Framework Agreement), pursuant to which their respective businesses would be merged into the Company.

One of the Group's subsidiaries issued in 2015 and in 2017 debt instruments listed on the Irish Stock Exchange (Note 19). The Group includes the Company and its subsidiaries, as detailed in 'Basis of consolidation' in Note 3.4.

The Group's consolidated financial statements and the Company's separate financial statements are collectively referred to as the Financial Statements.

Group's activities are detailed in the 'Directors' Report'.

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with the Directors' resolution on 19 March 2018.

2. COMPARATIVE PERIOD

The comparatives are the audited consolidated financial results of NEPI group for the consolidated amounts, and the audited standalone financial results of NEPI Rockcastle plc, for the standalone amounts, for the year ended 31 December 2016. The comparatives do not include the results of former Rockcastle group or parent company.

3. ACCOUNTING POLICIES

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

3.1 Functional and presentation currency

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

The functional currency is determined by the relevant, primary economic environment of each entity. Other determining factor is the currency in which the majority of cash flows, goods and services are denominated and settled in the respective country. When the functional currency cannot be clearly identified, International Accounting Standard (IAS) 21 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.

3.2 Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and associated assumptions, are based on experience and other factors believed to be reasonable under the circumstances, and enable judgements to be made about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period when the estimate is revised and future periods if applicable.

3.3 Statement of compliance

The financial statements have been consistently prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of relevant Isle of Man company law.

3.4 Basis of consolidation

Subsidiaries

The financial statements incorporate the assets, liabilities, operating results and cash flows of the Company and its subsidiaries.

Subsidiaries are all entities, including those that are structured, over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over it. Subsidiaries are fully consolidated from the date control is transferred to the Group. They are deconsolidated from the date control ceases. The acquisition method is used to account for the acquisition of subsidiaries. Identifiable acquired assets and liabilities, and contingent liabilities, assumed in a business combination are measured at their fair values on the date of acquisition. The consideration transferred for the acquired entity is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred, or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs, such as advisory, legal, valuation and similar professional services.

The accounting policies of the subsidiaries are consistent with those of the Company.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated when preparing the consolidated financial statements.

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.

3.5 Investment property in use

Investment properties are held to earn rental income, capital appreciation or both.

The cost of investment property acquired by any other means than a business combination consists of the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when future economic benefits from the use of the asset are probable and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense during the period it is incurred.

After initial recognition, investment properties in use are measured at fair value. Fair value is determined semi-annually by external, independent professional valuers, with appropriate and recognised qualifications and recent experience in the location and category of property being valued. Valuations are based on the open market value, using either the discounted cash flow method, the capitalisation of net income method or a combination of both. Gains or losses arising from changes in the fair values are included in the Statement of comprehensive income for the period during which they arise. Unrealised gains, net of deferred tax, are classified as non-distributable in the accumulated profits. Unrealised losses, net of deferred tax, are transferred to a non-distributable reserve within the accumulated profit, up to, but not exceeding, the balance of the reserve.

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.

3.6 Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development and carried at cost until construction or development is complete, or its fair value can be reliably determined.

The land on which investment property is constructed or developed is carried at fair value, which is determined semi-annually by external, independent professional valuers, with appropriate and recognised qualifications and recent experience in the location and category of property being valued. Valuations are done using the market comparable approach or residual approach.

Gains or losses arising from changes in the fair values are included in the Statement of comprehensive income during the period when they arise. Unrealised gains, net of deferred tax, are classified as non-distributable in the accumulated profits. Unrealised losses, net of deferred tax, are transferred to a non-distributable reserve up to, but not exceeding, the balance of the reserve.

3.7 Investment property held for sale

Investment property is classified as an asset held for sale if the majority of its carrying amount will be recovered through a sale transaction rather than continuing use. For this to apply, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable. The sale will be considered highly probable if the following criteria are met:

- the Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the sale must be initiated;
- the property must be actively marketed at a price that is reasonable in relation to its current fair value, and
- the sale of property should be expected to qualify for recognition as a completed sale within one year of the date of classification.

On classification as held for sale, investment property that is measured at fair value continues to be so measured.

3.8 Goodwill

Goodwill arises on acquisition of subsidiaries that constitute a business. Goodwill represents the amount paid in excess of the Group's interest in the net fair value of the identifiable assets and liabilities of the acquired entity. When the excess is negative (bargain purchase) it is recognised directly in the Statement of comprehensive income.

Subsequent measurement

Goodwill is not amortised, 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, from the date of acquisition, allocated to each of the Group's cash generating units (CGU) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units.

The cash generating units are defined at the level of each individual property acquired through business combinations. The carrying amount of the cash generating unit includes the investment property, goodwill and the related deferred tax liability. Impairment testing is performed using the fair value less costs to sell approach where the fair value is the property value as determined in the external valuation reports. If this method results in impairment, then management compares the carrying amount of the CGU containing goodwill with its value in use to determine if this method generates a more favourable result.

The fair value disclosures presented in Note 9 Investment property in use are also relevant for goodwill impairment testing.

3.9 Loans to participants in the Current Share Scheme (as defined in Note 18)

Loans to participants in the Current Share Scheme are initially recognised at the amount granted, carried at amortised cost and tested for impairment when indicators exist.

3.10 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are initially recognised at acquisition cost, carried at acquisition cost less accumulated depreciation or amortization and accumulated impairment losses.and 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 licences 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

3.11 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 stated at amortised cost using the effective interest method. Any difference between the fair value of the borrowing at initial recognition and the proceeds received is recognised in accordance with the substance of the transaction: to equity, if the premium or discount at initial recognition effectively represents a capital transaction with the Group's owners, or in the Statement of comprehensive income, within finance activity.

Foreign currency translation differences are recognised as foreign exchange differences within finance income or finance costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, such as properties developed for future sale, capital appreciation or rental income, are capitalised as part of the cost of these assets. The capitalisation of borrowing costs ceases when the majority of the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group derecognises its financial liability (or part of a financial liability) from its Statement of financial position when, and only when, it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires. An exchange between the Group and a lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability, or a part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

If the Group repurchases a part of a financial liability, it allocates the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid for the part derecognised, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of comprehensive income.

3.12 Tenant security deposits

Tenant security deposits represent financial advances made by lessees as guarantees during the lease and are settled by the Group upon termination of contracts. Tenant security deposits are recognised at nominal value.

3.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are initially recognized when the Group becomes a party to the contractual provisions of the instrument and include trade and other receivables, trade and other payables, derivative financial instruments, investments in listed securities of property companies, loans to participants in the share scheme, loans granted to joint ventures and loans granted by the Company to its subsidiaries. The Group enters into a variety of derivative financial instruments including equity swaps and hedge its interest rate risk arising from financing activities, via interest rate swaps or caps. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, with the resulting gain or loss recognised in profit or loss immediately. The fair value of derivatives is the estimated amount that the group would receive or pay to transfer the derivative at the reporting date, taking into account factors such as current interest rates, exchange rates and fundamentals of the underlying asset.

Derivatives are classified as current or non-current on the basis of their maturity date.

The Company has investments in listed securities which are initially recognised and subsequently re-measured at fair value. The fair value of the listed securities is determined by referring to published price quotations in an active market.

These financial investments are classified as current or non-current assets, based on the estimated selling date.

3.13.1 Initial recognition and subsequent measurement

Financial instruments are initially measured at fair value, which include directly attributable transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are recognised directly in profit or loss. Subsequent to initial recognition, financial instruments are measured as follows:

FINANCIAL INSTRUMENT	MEASUREMENT METHOD
Loans granted to subsidiaries (presented only in the Company's financial statements)	Carried at amortised cost using the effective interest rate method, net of impairment losses. Losses are charged to the Statement of Comprehensive Income: Impairment of loans granted to subsidiaries line
Loans granted to joint ventures	Carried at amortised cost using the effective interest rate method, net of impairment losses. Losses are charged to the Statement of Comprehensive Income: Impairment of loans granted to joint ventures line
Trade and other receivables	Carried at amortised cost using the effective interest rate method, net of impairment losses. Losses are charged to the Statement of Comprehensive Income
Trade and other payables	Carried at amortised cost using the effective interest rate method
Loans granted to participants in the Current Share Scheme	Carried at amortised cost using the effective interest rate method, net of impairment losses
Bonds, bank loans and other financial liabilities	Measured at amortised cost using the effective interest rate method
Financial assets/financial liabilities through profit or loss	Carried at fair value with changes therein recognised in the Statement of Comprehensive Income, Fair value and net result of financial investments at fair value through profit or loss
Interest rate derivatives financial assets/liabilities at fair value through profit or loss	Carried at fair value with changes therein recognised in the Statement of Comprehensive Income, Changes in fair value adjustment of Interest rate derivatives financial assets and liabilities; hedge accounting is not applied
Financial investments at fair value through profit or loss	Carried at fair value with changes therein recognised in the Statement of Comprehensive Income, Fair value and net result of financial investments at fair value through profit or loss

Specific valuation techniques used to value financial instruments 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.

3.13.2 Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:
— the contractual rights to receive cash flows from the asset have expired, or
— the Group or Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or
— has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of comprehensive income.

3.13.3 Offset

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position when the Group and/or Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.14 Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for receivables at a specific asset level.

All receivables are individually assessed for impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through the Statement of comprehensive income for the year.

Uncollectable assets are written-off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the impairment loss account within the Statement of comprehensive income for the year.

3.15 Cash and cash equivalents and equity derivative collateral

Cash and cash equivalents include cash balances, cash deposits and short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity derivative collateral is cash held as collateral against the Group's equity swap derivatives exposures. Cash and cash equivalents and equity derivative collateral are carried at amortised cost.

3.16 Share capital and share premium

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Following the NEPI Rockcastle merger, a goodwill impairment arose that was transferred from accumulated profit to share premium, as permitted by Isle of Man law both on the Group consolidated and the Company standalone financial statements.

3.17 Share-based payment reserve

The NEPI SPS is accounted for by recognising the value of the shares issued as an asset, classified as 'loan to participants in the Incentive Plans (Note 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.

The Rockastle SPS is accounted for by recognising the value of the shares issued as an asset, classified as 'loan to participants in the Incentive Plans (Note 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.

3.18 Other reserves

3.18.1 Currency translation reserves

The currency translation reserve within equity arose prior to 31 December 2012, on the translation of foreign operations that had other functional currencies. The Group did not recognize any subsequent movements to the currency translation reserves, and the currency translation reserve has been recognized as part of share premium of NEPI Rockcastle.

3.18.2 Accumulated profit

The balance on the Statement of comprehensive income is transferred to accumulated profit at the end of each financial period. Distribution 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.

3.19 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.

3.20 Revenue

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the Group/Company. Revenue is recognised at the fair value of the consideration received or receivable. Revenue comprises rental and related income and recovery of expenses, excluding VAT.

Rental income

Rental income receivable from operating leases is recognised on a straight-line basis over the duration of the lease, except for contingent rental income which is recognised when it arises.

Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised on an accrual basis.

As specified in the lease agreements, the Group has the primary responsibility for providing services to tenants (electricity, water and gas utilities, interior and exterior cleaning, security, maintenance, repairs, etc). The Group negotiates directly with the suppliers all contracts for services provided to tenants. These contracts are concluded between the Group subsidiaries which own the properties and the direct supplier. As the Group sometimes uses the same providers for services across most of its portfolio, it can negotiate better prices through the economies of scale. The Group bears the responsibility of meeting the contractual deadlines agreed in the contracts with its suppliers and is liable for payment of the services, regardless of whether they are able to recover these charges from the tenants. The Group also bears the inventory risk for the necessary spare parts purchased for the maintenance and repairs required by the tenants. The Group bears the credit risk for the amounts receivable from tenants. The Group negotiates and pays all expenses incurred by the tenants and then re-invoices these costs to them as defined in the contractual clauses included in the lease agreements. A flat fee is charged monthly during the year. This fee is estimated based on the previous year's actual costs.

After the year-end, the annual service charge reconciliation is performed based on actual costs. 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. The Group therefore bears the risk of not collecting the service charge differences for non-performing tenants. The Group is considered principal in these transactions, in terms of the IAS 18 requirements.

3.21 Property operating and administrative expenses

Property operating expenses and administrative expenses are recognised on an accrual basis.

3.22 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to the Statement of comprehensive income for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

3.23 Net result from financial investments at fair value through profit or loss

Dividend/distribution income is recognised in the Statement of comprehensive income on the date the Group or Company's right to receive payment is established and is included in the line "Income from financial investments at fair value through profit or loss". It relates to the investments in listed securities, shown as "Financial investments at fair value through profit or loss", "Financial assets at fair value through profit or loss" and "Financial liabilities through profit or loss".

Changes in fair value and net result on sale of financial investments recognised in the lines described above are shown in the Statement of comprehensive income on line "Fair value and net result on sale of financial investments through profit or loss".

3.24 Dividend distributed

A distribution is recorded as a liability and deducted from equity in the period in which it is declared and approved. Any distribution declared after the reporting period and before the financial statements are authorised for issue is disclosed in Note 30.

3.25 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 Romania, Poland, Bulgaria, Hungary, Croatia, Czech Republic, Slovakia, Serbia, United Kingdom, Mauritius and The Netherlands.

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.

3.26 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 top management of the Group and each property manager analyse the financial results, decide whether any repairs or improvements are necessary, review rent collection issues and allocate resources to resolve any delays with tenants and review maintenance plans, vacancies and the status of any contract negotiations, as well as other operational matters. The results of these discussions ensure management decisions are specific to each of the properties. The Segmental Reporting summarises the results recorded by the properties held by the Group. The properties can be classified as retail, office or industrial properties, depending on industry practice.

The Group's Chief Operating Decision Makers (CODM) are the executive directors and they take decisions based on detailed reports. These are prepared regularly and are presented to the Board of Directors, which approves the results and gives guidance on the subsequent strategy to be undertaken.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated there on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, corporate assets and head office expenses. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Financial information in respect of investment property is provided to the Board of Directors: net rentals (including gross rent and property expenses) and valuation gains and losses. Individual properties are aggregated into segments with similar economic characteristics.

Consequently, the Group is considered to have four reportable operating segments:

- Retail segment: acquires, develops and leases retail properties in Romania, Poland, Slovakia, Bulgaria, Czech Republic, Hungary, Serbia and Croatia;
- Office segment: acquires, develops and leases office properties in Romania, Bulgaria, United Kingdom and Slovakia;
- 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 Romania, Poland, Serbia, Slovakia, Bulgaria, Hungary, Czech Republic, United Kingdom, Croatia and a "Holding" segment which includes Isle of Man, The Netherlands, Mauritius and holding entities located in United Kingdom.

3.27 Earnings per share

The Group presents basic and diluted earnings per share.

Basic earnings per share are calculated by dividing annual profit for the year attributable to equity holders by the weighted average number of shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit for the year and the weighted average number of shares in issue for the dilutive effects of all potential ordinary shares issued under the Initial Share Scheme (as defined in Note 18).

3.28 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 2/2015 issued by South African Institute of Chartered Accountants (SAICA).

3.29 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 income statement.
If an acquisition does not qualify as a business combination, the purchase price is allocated to the individual assets and liabilities. Goodwill or deferred taxes are not recognised.

Business combinations are accounted for using the acquisition method. The acquisition is recognised at the aggregate amount of the consideration transferred, measured at fair value on the date of acquisition and the amount of any non-controlling interest in the acquired entity.

For each business combination, the acquirer measures the non-controlling interest in the acquired entity either at fair value or as a proportionate share of their identifiable net assets. Transaction costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation, in accordance with the contractual terms, economic circumstances and pertinent conditions on the date of acquisition.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value on the date of acquisition. Subsequent changes to the fair value of any contingent consideration classified as a liability will be recognised in the Statement of comprehensive income. Acquisition accounting is finalised when the Group has gathered all the necessary information, which must occur within 12 months of the acquisition date. There are no exemptions from the 12-month rule for deferred tax assets or changes in the contingent consideration.

Transactions with non-controlling interests, where control is maintained, are accounted for as transactions within equity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in the accumulated profit reserve.

3.30 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments which have been applied by the Group for the first time for the reporting period commencing 1 January 2017.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and Disclosure initiative – amendments to IAS 7.
The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.
The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 19.

3.31 Standards issued but not yet effective and not early adopted

IFRS 9 Financial instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018)

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group has assessed the impact of the new standard on its financial statements and has concluded that the impact is immaterial. In respect of the Group's specific provisioning for Accounts Receivable, the impact of the Group having applied IFRS 9 for the purpose of recognising its tenants provisions, would have created an immaterial additional provision. The group has additionally assessed that IFRS 9 will have an immaterial impact on the accounting for its financial instruments and derivatives, as well as for loans to subsidiaries of the Company. The Group has not adopted IFRS 9 before its mandatory date.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018)

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group has assessed that this change has no significant impact on the Group's financial position or performance.

IFRS 16 Leases (issued on 13 January 2016 and effective for the periods beginning on or after 1 January 2019)

For lessees, it will result in almost all leases being recognised in the Statement of financial position, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group expects IFRS 16 to have an immaterial impact on its current accounting practices, as the standard is aimed at a change in recognition for lessees and the accounting for lessors will not significantly change.

There are no other standards and interpretations that are not yet effective and that would be expected to have an impact on the Group's financial position or performance.

4. 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 principally 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 5% and 11. 5% (2016: 8% and 11.75%). The required rates of return are based on assessments of the market's required returns for similar properties. The discount rate is set individually for each property and is based on the condition and location, the stability of the tenant and lease length.

Further information relating to sensitivity of significant accounting estimates used in the valuation of investment properties is presented in Note 9.

Business combinations or asset acquisitions

The Group assesses for each property or entity acquired whether the transaction represents a business combination or an asset acquisition, taking into consideration the existence and level of inputs, processes and outputs in the respective property or entity. Additional information relating to the basis for this assessment is described in Note 3.29.

5. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

The Company has direct investments and indirect holdings in other Group companies that were included in the consolidated financial statements, and are detailed below. The Group has considered all its shareholdings, both direct and indirect, and there are no unconsolidated holdings or entities that meet the criteria set out in IFRS. In addition, based on the Group's assessment there is no evidence that would indicate additional subsidiaries, joint ventures or associates other than those indicated in the table below.

No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2017	Immediate parent investment 31 Dec 2016
1	ACE3 sp.z.o.o.	Jun 2013/Jul 2017	Poland	Property-owning	Indirect	85	2	-
2	Arena Center Zagreb d.o.o.	2006/ Nov 2016	Croatia	Property-owning	Indirect	100	54,369	54,630
3	Arena Property Kft	Aug 2017	Hungary	Property-owning	Indirect	100	67,710	-
4	AUPARK Kosice SC, s.r.o.	Nov 2008/Dec 2014	Slovakia	Services	Indirect	100	3,235	2,735
5	AUPARK Kosice, spol. s.r.o.	Jan 2004/Dec 2014	Slovakia	Property-owning	Indirect	100	11,167	10,167
6	AUPARK Piestany SC, s.r.o.	Nov 2008/ Aug 2016	Slovakia	Services	Indirect	100	1,225	16,015
7	AUPARK Piestany, spol. s.r.o.	Apr 2004/ Aug 2016	Slovakia	Property-owning	Indirect	100	5,037	2,194
8	AUPARK Tower Kosice, s.r.o.	Nov 2008/Dec 2014	Slovakia	Property-owning	Indirect	100	3,401	3,401
9	AUPARK Žilina SC a.s.	Oct 2008/ Aug 2013	Slovakia	Services	Indirect	100	900	900
10	AUPARK Žilina spol. s.r.o.	Dec 2003/ Aug 2013	Slovakia	Property-owning	Indirect	100	16,963	16,963
11	Aurora Mall Buzau SRL	Oct 2012	Romania	Property-owning	Indirect	100	2	2
12	Białystok Property sp. z.o.o.	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	3	-
13	Bonarka City Center sp.z.o.o.	May 2014/Jul 2017	Poland	Property-owning	Indirect	100	86,101	-
14	Braila Promenada Mall SRL	Sep 2009	Romania	Property-owning	Indirect	100	8,300	8,300
15	Brasov Shopping City SRL	Jun 2011	Romania	Property-owning	Indirect	100	10	2
16	Bulfeld EOOD	April 2007/ Dec 2017	Bulgaria	Property-owning	Indirect	100	130,894	-
17	CEE Property Bulgaria EOOD	Jul 2008/ Aug 2017	Bulgaria	Property-owning	Indirect	100	17,927	-
18	City Park Constanta SRL (previously named Everest Investitii si Consultanta SRL)	Feb 2005/ Nov 2013	Romania	Property-owning	Indirect	100	33,120	28,975
19	Cluj Business Centre SRL **	Jul 2012	Romania	Property-owning	Indirect	50	*	*
20	Constanta Shopping City SRL (previously named Nepi Five Property Development SRL)	Mar 2013	Romania	Property-owning	Indirect	100	2	2
21	Deva Shopping City SRL (previously named Mercureal SRL)	Jul 2005/ Aug 2013	Romania	Property-owning	Indirect	100	2	2
22	Energit sp.z.o.o.	Dec 2007/Jul 2017	Poland	Services	Indirect	100	345	-
23	E-power Supply Czech sro	Jul 2017	Czech Republic	Services	Indirect	100	*	-
24	E-Power Supply d.o.o. Beograd	Jul 2017	Serbia	Services	Indirect	100	*	-
25	E-power supply EOOD	Nov 2017	Bulgaria	Services	Indirect	100	*	-
26	E-power supply management doo	Sept 2017	Croatia	Services	Indirect	100	3	-

No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2017	Immediate parent investment 31 Dec 2016
27	E-Power Supply s.r.o.	Nov 2015	Slovakia	Services	Indirect	100	105	55
28	FDC Braila B.V.	Sep 2009	Netherlands	Holding	Indirect	100	7,875	7,875
29	Floreasca Business Park SRL	Dec 2010	Romania	Property-owning	Indirect	100	*	*
30	Floreasca Center SRL	Apr 2011/Nov 2014	Romania	Property-owning	Indirect	100	27,044	27,044
31	FORUM Usti s.r.o.	Jan 2005/ Feb 2016	Czech Republic	Property-owning	Indirect	100	37,840	37,840
32	Galati Shopping City SRL	Jun 2012	Romania	Property-owning	Indirect	100	2	2
33	General Building Management SRL	Aug 2004/ Jan 2008	Romania	Property-owning	Indirect	100	1,402	1,402
34	General Investment SRL	Mar 2003/ Jan 2008	Romania	Property-owning	Indirect	100	19,708	19,708
35	Gontar sp.z.o.o.	Mar 2013/Jul 2017	Poland	Property-owning	Indirect	100	11,521	-
36	HANSA Imobillien EOOD	Oct 2008/ Aug 2017	Bulgaria	Property-owning	Indirect	100	3,360	-
37	IGI Exclusive sp.z.o.o.	Oct 2007/Jul 2017	Poland	Property-owning	Indirect	100	2,104	-
38	Ingen Europe B.V.	Dec 2010	Netherlands	Holding	Indirect	100	18,273	18,273
39	INLOGIS VI s.r.o.	Jun 2011/Dec 2014	Slovakia	Property-owning	Indirect	100	8,045	7,245
40	Iris Titan Shopping Center SRL (previously named Degi Titan SRL)	Apr 2005/Jul 2015	Romania	Property-owning	Indirect	100	43,078	43,078
41	Karolinka Property sp.z.o.o.	Jul 2014/Jul 2017	Poland	Property-owning	Indirect	100	36,751	-
42	Lakeview Office Building SRL	Jul 2004/ Jan 2013	Romania	Property-owning	Indirect	100	13,529	13,529
43	Liberec Property s.r.o.	Jan 2007/Jul 2017	Czech Republic	Property-owning	Indirect	100	7,754	-
44	Marapi sp.z.o.o.	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	2	-
45	Marketing Advisers SRL	Apr 2014	Romania	Services	Indirect	100	10	2
46	Mega Mall Bucuresti SRL (previously named ELJ Vatra SRL)	Feb 2007/ Aug 2013	Romania	Property-owning	Indirect	100	10,000	10,000
47	Modatim Business Facility SA	Nov 2015	Romania	Property-owning	Indirect	100	34,036	33,214
48	Monarda sp.z.o.o.	Jul 2015/Jul 2017	Poland	Property-owning	Indirect	90	91	-
49	NE Property Coöperatief U.A.	Oct 2007	Netherlands	Holding	Indirect	100	827,067	701,038
50	NEPI Bucharest One SRL	Sep 2007	Romania	Property-owning	Indirect	100	3,845	3,845
51	NEPI Bucharest Two SRL	Dec 2007	Romania	Property-owning	Indirect	100	2,756	2,756
52	NEPI Croatia Management d.o.o.	Jan 2017	Croatia	Services	Indirect	100	3	-
53	NEPI Czech Management s.r.o.	Sep 2016	Czech Republic	Services	Indirect	100	*	*
54	Nepi Eighteen Property Services SRL	Feb 2016	Romania	Property-owning	Indirect	100	10	*
55	Nepi Fifteen Real Estate Administration SRL	Jan 2014	Romania	Property-owning	Indirect	100	10	2
56	Nepi Four Real Estate Solutions SRL	Mar 2013	Romania	Property-owning	Indirect	100	10	2
57	Nepi Holdings Ltd	Apr 2012	Isle of Man	Holding	Direct	100	180,148	143,158

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No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2017	Immediate parent investment 31 Dec 2016
58	NEPI Investment Management Ltd (BVI)***	Jul 2007/Jun 2010	British Virgin Islands	Holding	Direct	100	6,826	6,826
59	NEPI Investment Management Ltd (under liquidation)***	Aug 2007/Jun 2010	Cyprus	Holding	Indirect	100	2	2
60	NEPI Investment Management SRL	Jun 2010	Romania	Services	Indirect	100	7,280	7,280
61	Nepi Investments Ltd	Apr 2012	Isle of Man	Holding	Direct	100	10	10
62	NEPI Project Four EOOD	Nov 2017	Bulgaria	Property-owning	Indirect	100	*	-
63	NEPI Project One EOOD	Mar 2017	Bulgaria	Property-owning	Indirect	100	*	-
64	NEPI Project Three EOOD	Nov 2017	Bulgaria	Services	Indirect	100	*	-
65	NEPI Project Two EOOD	May 2017	Bulgaria	Holding	Indirect	100	*	-
66	NEPI Real Estate Development d.o.o.	Nov 2014	Serbia	Services	Indirect	100	10	10
67	NEPI Real Estate Project One d.o.o.	Jan 2016	Serbia	Property-owning	Indirect	100	1	2
68	Nepi Real Estate Project Three d.o.o.	Oct 2016	Serbia	Property-owning	Indirect	100	1	*
69	NEPI Real Estate Project Two d.o.o.	Jan 2016	Serbia	Property-owning	Indirect	100	1	2
70	NEPI Rockcastle Hungary Kft.	Oct 2017	Hungary	Services	Indirect	100	10	-
71	Nepi Seventeen Land Development SRL	Jul 2014	Romania	Property-owning	Indirect	100	10	2
72	NEPI Six Development SRL	May 2012	Romania	Property-owning	Indirect	100	10	2
73	Nepi Sixteen Real Estate Investment SRL	Jul 2014	Romania	Property-owning	Indirect	100	10	2
74	Nepi Slovak Centres One a.s.	Jul 2014	Slovakia	Services	Indirect	100	25	25
75	NEPI Slovakia Management s.r.o.	Jun 2013/ Aug 2013	Slovakia	Services	Indirect	100	335	335
76	NEPI Ten Development Solutions SRL	Jun 2012	Romania	Property-owning	Indirect	100	2	2
77	Nepi Three Building Management SRL	Mar 2013	Romania	Property-owning	Indirect	100	10	2
78	NEPIOM Ltd	Sep 2012	Isle of Man	Services	Direct	100	78,553	78,553
79	New Energy Management SRL	Jan 2014	Romania	Services	Indirect	100	2	2
80	New Europe Property (BVI) Ltd	Jul 2007	British Virgin Islands	Holding	Direct	100	*	*
81	Nobilia sp. z o.o.	May 2017/Jul 2017	Poland	Services	Indirect	100	3	-
82	NRE Sibiu Shopping City SRL	Jan 2007/ Mar 2016	Romania	Property-owning	Indirect	100	35,377	35,377
83	Olsztyn Property sp.z.o.o.	Feb 2011/Jul 2017	Poland	Property-owning	Indirect	100	42,546	-
84	Otopeni Warehouse and Logistics SRL	Sep 2010	Romania	Property-owning	Indirect	100	1,807	1,807
85	Piotrków Property sp.z.o.o.	Feb 2011/Jul 2017	Poland	Property-owning	Indirect	100	1	-
86	Platan Property sp.z.o.o.	Jul 2015/Jul 2017	Poland	Property-owning	Indirect	100	15,401	-
87	Ploiesti Shopping City SRL **	Dec 2010/Feb 2012	Romania	Property-owning	Indirect	50	5,693	2,927
88	Pogoria Property sp.z.o.o.	Jun 2014/Jul 2017	Poland	Property-owning	Indirect	100	19,401	-

No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2017	Immediate parent investment 31 Dec 2016
89	Promenada Mall Bucuresti SRL (previously named Floreasca City Center SRL)	Oct 2005/Oct 2014	Romania	Property-owning	Indirect	100	67,349	67,349
90	Ramnicu Valcea Shopping City SRL	Aug 2014	Romania	Property-owning	Indirect	100	14	14
91	Real Estate Asset Management SRL	Jul 2014	Romania	Services	Indirect	100	10	2
92	Retail Park Pitesti SRL	Jan 2010	Romania	Property-owning	Indirect	100	13,010	4,010
93	Rockcastle Europe Limited	May 2014/ July 2017	Mauritius	Holding	Direct	100	*	-
94	Rockcastle Global Real Estate Company UK Limited	September 2014/ July 2017	UK	Services	Indirect	100	196,999	-
95	Rockcastle Global Real Estate Holdings BV	October 2013/ July 2017	Netherlands	Holding	Indirect	100	196,776	-
96	Rockcastle Global Securities Limited	October 2016/ July 2017	Mauritius	Services	Indirect	100	*	-
97	Rockcastle Poland sp.z.o.o.	Jul 2015/Jul 2017	Poland	Services	Indirect	100	1	-
98	Rockcastle UK Property SPV Limited	October 2014/ July 2017	UK	Property-owning	Direct	100	926	-
99	SCP s.r.o.	Apr 2006/ Jul 2016	Slovakia	Property-owning	Indirect	100	5,379	17,472
100	SEK d.o.o.	Jul 2007/Oct 2014	Serbia	Property-owning	Indirect	100	18,573	18,573
101	Serenada Property sp. z o.o.	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	3	-
102	Severin Shopping Center SRL	Oct 2012	Romania	Property-owning	Indirect	100	8,002	8,002
103	Shopping City Piatra Neamt SRL	Jan 2014	Romania	Property-owning	Indirect	100	13,510	2
104	Shopping City Sibiu (previously named Bel Rom Trei SRL)	Aug 2008/ Mar 2016	Romania	Property-owning	Indirect	100	6,637	6,637
105	Shopping City Timisoara SRL	Jun 2012	Romania	Property-owning	Indirect	100	17,302	2
106	Sofia Commercial Centre EOOD	Dec 2013	Bulgaria	Holding	Indirect	100	11	11
107	Symmetry Arena Kft	Apr 2004/Sep 2017	Hungary	Property-owning	Indirect	100	*	-
108	Targu Jiu Development SRL	Oct 2012	Romania	Property-owning	Indirect	100	2	2
109	Targu Mures Shopping City SRL	Feb 2016	Romania	Property-owning	Indirect	100	10	*
110	Timisoara City Business Center One SRL	Jan 2012	Romania	Property-owning	Indirect	100	12,324	12,324
111	Timisoara Office Building SRL	Jan 2012	Romania	Property-owning	Indirect	100	15,456	15,456
112	Victoriei Office Building SRL	Aug 2011	Romania	Property-owning	Indirect	100	4,795	4,795
113	Vulcan Value Centre SRL	Apr 2012/ Sep 2013	Romania	Property-owning	Indirect	100	5,002	5,002
114	Zielona Góra Property sp.z.o.o.	Dec 2011/Jul 2017	Poland	Property-owning	Indirect	100	23,001	-

** less than €1 thousand*

*** joint venture companies*

**** dormant companies*

The Company's investments in subsidiaries, being the total of direct investments shown in the table above, amount to €266,463 thousand.

The Company has given loans of €1,764,428 thousand to NEPIOM Limited, €1,600,653 thousand to Rockcastle Europe Limited and €2 thousand to Rockcastle Global Real Estate Holdings BV. Accrued interest on the loans amounted to €3,575 thousand.

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 with regard to the risks faced.

The Group's policies are established to identify and analyse the risks it may encounter by performing its activities, to set appropriate limits and controls, and to monitor risks and adherence to limits. These policies and systems are reviewed regularly to reflect changes in market conditions and Group activities.

The fair value of all financial instruments is substantially in line with their carrying amounts as reflected on the Statement of Financial Position, except for the bonds. The fair value of bonds is not considered relevant, as the Group does not repurchase its own bonds, and, essentially, its liability towards bonds holders does not vary in line with the market price of its listed notes. However, for reference, as at 31 December 2017, the €400,000 thousand bonds issued in 2015 were trading on the market at 107% (31 December 2016: 106%) and the €500,000 thousand bonds issued in 2017 were trading on the market at 94%.

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 receivables from tenants, investments in listed securities of property companies, financial assets arisen from equity swaps and cash and cash equivalents and equity derivative collateral.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below.

Credit exposure on financial instruments	**Note**	**Group 31 Dec 2017**	**Group 31 Dec 2016**	**Company 31 Dec 2017**	**Company 31 Dec 2016**
Loans granted to subsidiaries	5	–	–	3,368,658	–
Loans granted to joint ventures	33	25,792	31,015	–	–
Trade and other receivables	14	60,793	40,539	3,225	–
Cash and cash equivalents	15	195,544	48,020	510	1
Equity derivative collateral	13	265,541	–	–	–
TOTAL		**547,670**	**119,574**	**3,372,393**	**1**

The balance of loans to participants in the Current Share Scheme are not considered to present credit risk as these are guaranteed with shares (see details in Note 18).

As at 31 December 2017 the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. Changes in counterparty credit risk had no material effect on the fair value of the derivatives and other financial instruments recognised at fair value through profit or loss.
Trade and other receivables relate mainly to the Group's tenants. When monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, the industry they work in, business size and previous financial difficulties.

The exposure to credit risk is mainly influenced by the tenant's individual characteristics. The Group's widespread customer base reduces credit risk. The majority of rental income is derived from type A tenants (large international and national tenants; large listed tenants; government and major franchisees and companies with assets and/or turnovers exceeding €200 million), but there is no concentration of credit risk with respect to trade debtors.

Management has established a credit policy where new customers are analysed individually for creditworthiness before standard payment terms and conditions are offered. When available the evaluation includes external ratings.

The Group establishes an allowance for impairment based on its estimate of incurred losses in respect of trade and other receivables and investments. The allowance's main element is a specific loss component that relates to individually significant exposures. The carrying value of financial assets approximates their fair value.

The Group's exposure to credit risk associated to equity derivative collateral and cash and cash equivalents is limited through the use of financial institutions of good standing for investment and cash handling purposes.

Ageing of trade receivables/past due but not impaired	**Group 31 Dec 2017**	**Group 31 Dec 2016**
Receivables not due	**26,637**	**15,883**
Receivables past due but not impaired	**7,360**	**4,409**
Under 30 days	4,842	3,720
30–60 days	677	245
60–90 days	308	93
Over 90 days	1,533	351
TOTAL TENANTS RECEIVABLES (NOTE 14)	**33,997**	**20,292**

Tenant receivables past due were not impaired because part of the amounts were collected after the balance sheet date or because the Group has received guarantees from tenants (in cash or letters of guarantee from banks) that are higher than the balance receivable.

The Group assessed its receivables for impairment and concluded that a net amount of €103 thousand was considered unlikely to be recovered in respect of revenues for 2017, therefore an allowance for doubtful debts was charged to the Statement of comprehensive income. As at 31 December 2016, an allowance for doubtful debts was charged to the Statement of comprehensive income of €1,160 thousand had been reconsidered as likely to be recovered from tenants in respect of the respective period revenues, therefore a reversal of allowance for doubtful debts was charged to the Statement of comprehensive income.

Loans granted to joint ventures are not past due or impaired.

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 2017, 99% of the Group's cash was held with investment-grade rated banks (31 December 2016: 96%).

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 sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. To ensure this occurs, the Group prepares budgets, cash flow analyses and forecasts, which enables the Directors to assess the level of financing required for future periods. Budgets and projections are used to assess any future potential investments and are compared to existing funds held on deposit to evaluate the nature, and extent of any future funding requirements.

The Group receives rental income on a monthly basis. Typically, the Group ensures it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Further reference to bank loan maturity analysis is made in Note 19.

The table below presents undiscounted cash flows for bonds and bank loans, computed at the contractual rates as at 31 December 2017.

Group 31 Dec 2017	Note	under 3 months	3–12 months	1–5 years	over 5 years	Total
Bonds and bank loans	19	23,813	33,155	1,118,454	619,801	1,795,223
Interest rate derivatives financial liabilities at fair value through profit or loss	20	-	-	4,678	-	4,678
Financial liabilities at fair value through profit or loss	13	-	10,934	-	-	10,934
Trade and other payables	21	22,119	88,477	-	-	110,596
Other long-term liabilities	22	-	-	-	37,089	37,089
TOTAL		**45,932**	**132,566**	**1,123,132**	**656,890**	**1,958,520**

Group 31 Dec 2016	Note	under 3 months	3–12 months	1–5 years	over 5 years	Total
Bonds and bank loans	19	51,967	27,189	610,840	44,572	734,568
Interest rate derivatives financial liabilities at fair value through profit or loss	20	-	-	316	-	316
Trade and other payables	21	14,039	56,155	-	-	70,194
Other long-term liabilities	22	-	-	-	17,403	17,403
TOTAL		**66,006**	**83,344**	**611,156**	**61,975**	**822,481**

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.

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 exposures in respect of monetary assets and liabilities denominated in currencies other than the one cash inflows are received in.

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 2017 and 31 December 2016, the Group held interest rate swaps and interest rate caps as further disclosed in Notes 19 and 20.

	Group 31 Dec 2017	Group 31 Dec 2016
Bank loans*	516,455	278,592
— Rate capped	185,924	174,976
— Rate swapped	330,531	93,367
— Rate variable	-	10,249

**The remaining balance relates to loans and borrowings with fixed interest rate.*

Sensitivity analysis for interest bearing financial instruments

A change of 100 Basis Points (bps) in interest rates would have increased/(decreased) equity and profit for the year as shown below. Calculations are based on the cash and loans and borrowings balances outstanding at the respective balance sheet dates. Cash and loans and borrowings balances are subject to change over the year. This analysis assumes that all other variables, particularly foreign currency rates, remain constant. All sensitivity analysis calculations presented below are before tax.

Loans and borrowings with fixed or swapped interest rates are not affected by market changes in interest rates.

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Loans to participants in Current Share Scheme (including accrued interest)	27,932	12,753	27,932	-
Loans and borrowings (variable or capped rate)	(113,054)	(185,225)	-	-
TOTAL	**(85,122)**	**(172,472)**	**27,932**	-

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	279	(279)	279	(279)
Loans and borrowings (variable or capped rate)	(1,859)	1,859	(1,859)	1,859
TOTAL	**(852)**	**852**	**(852)**	**852**

Group 31 Dec 2016	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	128	(128)	128	(128)
Loans and borrowings (variable or capped rate)	(1,852)	1,852	(1,852)	1,852
TOTAL	**(1,724)**	**1,724**	**(1,724)**	**1,724**

Company 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	279	(279)	279	(279)
TOTAL	**279**	**(279)**	**279**	**(279)**

6.3.3 Market risk for financial investments at fair value through profit or loss (direct investments in listed securities)

A change of 100 basis points in the market values of the direct investment in listed property shares held by the Group would have increased/(decreased) equity and profit or loss by the amounts shown below. The calculations are based on the market values of the listed property shares' outstanding balances as at 31 December 2017 and 31 December 2016. These balances are subject to changes over the year, therefore the calculations are not representative of the year as a whole. This analysis assumes that all other variables remain constant.

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial investments at fair value through profit or loss	3,266	(3,266)	3,266	(3,266)
TOTAL	**3,266**	**(3,266)**	**3,266**	**(3,2,66)**

Group 31 Dec 2016	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial investments at fair value through profit or loss	190	(190)	190	(190)
TOTAL	**190**	**(190)**	**190**	**(190)**

6.3.4 Market risk for financial assets/liabilities at fair value through profit or loss (equity swaps)

The Group entered into equity swap derivatives with a gross exposure of €851,261 thousand as at 31 December 2017 (Note 13).

A change of 100 basis points in the market values of gross exposure to listed securities obtained through the equity swaps, the Group would have increased/(decreased) equity and profit or loss by the amounts shown below.

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial assets/(liabilities) at fair value through profit or loss	8,513	(8,513)	8,513	(8,513)
TOTAL	8,513	(8,513)	8,513	(8,513)

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 produces, and agrees, a business plan each year, to which the performance of the business is regularly monitored;
— Investment appraisal: capital projects, major contracts and business and property acquisitions are reviewed in detail and approved by the Investment Committee, and/or the Board where appropriate, in accordance with delegated authority limits;
— Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board regularly, including explanations of variances between actual and budgeted performance, and
— Systems of control procedures and delegated authority: clearly defined guidelines and approval limits exist for capital and operating expenditure and other key business transactions and decisions.

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 2017 and 31 December 2016.

Capital is primarily monitored using the gearing ratio, computed as interest bearing debt less cash divided by investment property and net listed securities, which decreased to 26% (31 December 2016: 27%).

The Group's policy is to maintain a strong capital base of equity so as to maintain investor, creditor and market confidence and to sustain future business development. The Board of Directors also monitors the level of distributions to shareholders. Neither the Company, nor its subsidiaries, are subject to externally imposed capital requirements.

The Group will retain comfortable levels of access to liquidity to finance the Group's development pipeline and to pursue further investment opportunities.

9. INVESTMENT PROPERTY IN USE

Movement in investment property at fair value	Group 31 Dec 2017	Group 31 Dec 2016
Carrying value at beginning of year	2,370,760	1,576,019
Additions from business combinations and asset deals (Note 32A)	2,045,286	470,100
Transferred from Investment property under development (Note 10)	151,135	164,959
Transferred from investment property held for sale as an effect of acquisition of non-controlling interest (Note 16)	-	1,291
Fair value adjustments (Note 28)	157,912	158,391
CARRYING VALUE	**4,725,093**	**2,370,760**

Investment property is carried at fair value and is assessed on a semi-annual basis.

All investment property in use is valued by the Income Method. The applied approach is either discounted cash flow (DCF) or the capitalisation method.

The discounted cash flow method (DCF) uses explicit assumptions regarding the benefits and liabilities of ownership over the asset's life, including an exit, or terminal, value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows onto a real property interest. To these projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of cash inflows associated with the real property.

The duration of cash flow, and the specific timing of inflows and outflows, are determined by events such as rent reviews, lease renewal and related lease-up periods, re-letting, redevelopment or refurbishment. The appropriate duration is typically driven by market behaviour. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission fees, and other operating and management expenses. The series of periodic net cash inflows, combined with the estimated terminal value anticipated at the end of the projection period, is then discounted.

The capitalisation method works on the basis of capitalising the passing income for the duration of the term and the reversionary market rental value into perpetuity. Explicit adjustments are made for letting voids, empty service charge, letting fees, fit-out contributions and irrecoverable operating costs. Income is capitalised at an equivalent yield, which is the constant capitalisation rate applied to all cash flows.

For the year ended 31 December 2017 the Group commissioned independent year-end appraisal reports on its investment property from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Colliers International, and for the year ended 31 December 2016, the Group commissioned independent year-end appraisal reports on its investment property from Cushman&Wakefield, all members of the Royal Institution of Chartered Surveyors (RICS). The fair value of investment property is based on these reports. The Group provides all information necessary for the valuations and all assets are valued on a semi-annual basis, as at 30 June and 31 December. Detailed tenancy schedules are made available, including information on occupied and vacant units, unit areas and numbers, lease commencement and expiry dates, break options, indexation clauses. All properties have been inspected for the 31 December 2017 valuations. Valuations are prepared in accordance with the RICS Valuation – Global Standards 2017 (the "Red Book"). The Group's investment property is classified Level Three on the fair value hierarchy as defined in IFRS 13.

For all investment properties, their current use equates to the highest and best use. The Group's Finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO, AC, the valuation team and the independent valuers twice a year.

At each financial year-end the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report;
- holds discussions with the independent valuer; and
- reports to the Audit Committee on the results of the valuations.

As at 31 December 2017, the investment property at fair value portfolio had a vacancy rate of 3.6% (31 December 2016: 2%).

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 resulted from the market value and passing rent of the portfolio is between 5.32% and 14.19% (31 December 2016 between 6.16% and 14.88%). The Group's resulting weighted average yield was 6.75% for the entire property portfolio (retail: 6.66%; office: 7.53%; industrial: 11.73%). For the period ended 31 December 2016, the Group's resulting weighted average yield was 7.32% for the entire property portfolio (retail: 7.23%; office: 7.72%; industrial: 11.59%).

An increase/decrease of 25bps to the yield of 6.75% from above would result in a €168,800 thousand decrease/increase in the Group's property portfolio (2016: yield of 7.32%, increase of 25bps would have resulted in a €78,271 thousand decrease).

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are detailed below:

Unobservable input	Impact on fair value of increase in input
Estimated rental value	Increase
Discount rate	Decrease
Capitalisation rate for terminal value	Decrease

Information relating to fair value measurement using significant unobservable inputs (Level 3) for 2017 is presented in the table below:

Segment	Valuation technique	Estimated rental value (yearly amount in '000 €)	Discount rate (%)	Capitalisation rate for terminal value (%)
Retail	Discounted cash flow/ Capitalisation	196 – 19,945 (10,838*)	5.10 – 11.00 (7.96*)	5.10 – 9.50 (6.94*)
Office	Discounted cash flow	1,625 – 9,744 (5,916*)	8.00 – 9.50 (9.00*)	6.50 – 8.00 (7.50*)
Industrial	Discounted cash flow	504 – 1,316 (910*)	11.00 – 11.50 (11.25*)	9.00 – 10.50 (9.75*)

** Amounts or percentages represent weighted averages*

10. INVESTMENT PROPERTY UNDER DEVELOPMENT

Movement in Investment property under development Retail	Group 31 Dec 2017	Group 31 Dec 2016
Carrying value at beginning of year	144,082	132,606
Additions from business combinations (Note 32A)	10,819	19,000
Additions from asset deals and construction in progress	157,040	162,867
Fair value adjustments (Note 28)	4,943	(5,672)
Assets which became operational and were transferred to Investment property in use (Note 9)	(114,468)	(164,719)
CARRYING VALUE	**202,416**	**144,082**

Movement in Investment property under development Office	Group 31 Dec 2017	Group 31 Dec 2016
Carrying value at beginning of year	31,930	24,135
Additions from asset deals and construction in progress	4,860	12,292
Fair value adjustments (Note 28)	-	(4,246)
Assets which became operational and were transferred to Investment property in use (Note 9)	(36,667)	(240)
Investment property under development reclassified as held for sale (Note 16)	(123)	(11)
CARRYING VALUE	**-**	**31,930**

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 2017, the Group commissioned independent year-end reports from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Colliers International, based on which the fair value of investment property was adjusted. For the year ended 31 December 2016, the Group commissioned independent year-end reports from Cushman&Wakefield, based on which the fair value of investment property was adjusted. Land included in Investment property under development is classified Level Three on the fair value hierarchy as defined in IFRS 13.

The valuation technique is sales comparison or residual approach.

Additions from asset deals include land purchased for development of retail projects.

Borrowing costs capitalised in 2017 amount to €4,350 thousand (2016: €5,765 thousand) and were calculated using an average annual interest rate of 2.2% (2016: 3.7%).

Balance of investment property under development	Group 31 Dec 2017	Group 31 Dec 2016
Retail	202,416	144,082
Office	-	31,930
TOTAL	**202,416**	**176,012**

The balance of Investment property under development divided by land carried at fair value and additions from construction works held at cost is detailed below.

Investment property under development	Group 31 Dec 2017	Group 31 Dec 2016
Land (at fair value)	137,106	145,810
Construction works (at cost)	65,310	30,202
TOTAL	**202,416**	**176,012**

11. OTHER LONG-TERM ASSETS

Other long-term assets are classified below:

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Loans to participants in the Current Share Scheme and management incentive (Note 18)	27,932	12,753	27,932	–
Non-current receivables	6,151	1,744	–	–
Property, plant and equipment and intangible assets	2,092	802	–	–
TOTAL	**36,175**	**15,299**	**27,932**	–

12. GOODWILL

The Group recognised goodwill for the following business acquisitions:

	Segment	Balance at 1 Jan 2016	Additions	Balance at 31 Dec 2016	Additions	Impairment of goodwill	Balance at 31 Dec 2017
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	–	–	2 ,497
Arena Centar	Retail	–	13,512	13,512	–	–	13,512
NEPI Rockcastle Merger	Corporate	–	–	–	886,167	(886,167)	-
Energit	Retail	–	–	–	6,976	–	6,976
Paradise Center	Retail	–	–	–	9,311	–	9,311
Arena Plaza	Retail	–	–	–	7,905	–	7,905
TOTAL		**23,986**	**34,404**	**58,390**	**910,359**	**(886,167)**	**82,582**

No impairment charge arose as a result of the impairment test except for goodwill arising from NEPI Rockcastle Merger (note 32B). The recoverable amounts of the CGUs, except for NEPI Investment Management and Energit, were based on their fair value less costs of disposal. The fair values of the properties were assessed based on reports by external valuers. The external valuations are determined using discounted cash flow ("DCF") projections and capitalisation method based on significant unobservable inputs. For more information on the unobservable input used in the external valuation, reference is made to Note 9. The most relevant assumption is the terminal value capitalisation rate.

Goodwill arising as a result of internalisation of NEPI Investment Management is monitored at the level of this subsidiary, which employs part of the Group's key management and charges management fees to property operating companies. The recoverable amount of the CGU was based on its value in use, which requires the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated cash flow of year 5. The discount rate used is 8%.

13. INVESTMENTS IN LISTED SECURITIES AND NET RESULT FROM FINANCIAL INVESTMENTS

	31-Dec-17	31-Dec-16
Financial investments at fair value through profit or loss	326,565	18,979
Equity derivative collateral	265,541	-
Financial assets at fair value through profit or loss related to financial investments	11,923	-
Financial liabilities at fair value through profit or loss related to financial investments	(10,934)	-
	593,095	**18,979**

A. Financial investments at fair value through profit or loss

The Group obtains exposure to listed real estate companies by holding direct, physical listed securities.
As at 31 December 2017, the Group held a portfolio of listed securities fair valued at €326,565 thousand (2016: €18,979 thousand). The portfolio is focused towards liquid counters in developed markets, with a strong emphasis on companies which dominate regionally. Over 95% of the investments in physical listed securities are held in three listed real estate companies: Unibail, Westfield and Klepierre.

The highest holding of financial investments was in Unibail shares, which represented 1.1% of the respective entity's equity. The percentage of holding does not meet the definition of control as defined by IFRS, therefore it does not meet the requirement to consolidate the entity.

The listed securities measured at fair value being the quoted closing price at the reporting date and are categorised as Level 1 investments, according to IFRS 13 - Fair value measurement. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit or loss in the period in which they arise.

Attributable transaction costs are recognised in the Statement of Comprehensive Income as incurred.

B. Financial assets and financial liabilities at fair value through profit or loss

In addition to directly, physically held listed securities, the Group utilises equity swap derivatives to obtain exposure mainly to listed real estate companies.

An equity swap is an exchange of future cash flows between two parties. The principal counterparties, the prime brokers, are Morgan Stanley, Goldman Sachs and BoA Merrill Lynch. The streams of payments in an equity swap are known as the legs. One leg is the payment stream of the performance of an equity security over a specified period, which is based on the specified notional value or a number of shares. The second leg contains a funding leg which serves as the determinant of the cost associated with the underlying exposure. The funding leg accrues interest based on the notional exposure underlying the equity swap at the benchmark rate plus a spread agreed for the particular currency and with the respective prime broker.

The Group is required to place cash as collateral (named "Equity derivative collateral" in the financial statements) under the equity swaps that is held with prime brokers.

As the equity swaps qualify as derivatives, the gross investment and liability exposures are not separately recognised and only the net fair value is recognised in the statement of financial position. The Group's equity swap derivatives position as at 31 December 2017 is presented below:

	Financial assets	Financial liability	Total
Gross exposure – value of underlying listed investments	401,438	449,823	**851,261**
Funding leg	(389,515)	(460,757)	**(850,272)**
Fair value in the statement of financial position	11,923	(10,934)	**989**

The financial investments are not considered as long-term strategic investments and are expected to be sold in short term; therefore these have been accounted as financial assets at fair value through profit or loss and classified as current assets.

The Group's strategy is to sell investments in listed securities, held directly or through equity swap derivatives, to partially fund the acquisition and development pipeline during 2018.

C. *Equity derivative collateral*

Equity derivative collateral comprises cash required to be held with prime brokers in relation to equity swaps as described in Section b) above. The equity derivative collateral is split by currency as follows:

Details of equity derivative collateral by currencies	31 Dec 2017
EUR	256,497
AUD	5,491
USD	1,905
GBP	1,644
PLN	4
TOTAL	**265,541**

D. *Net result from financial investments*

Income from financial investments at fair value through profit or loss relates to dividend income on physical listed security investments as well as returns related to equity swap derivatives.

The Income from financial investments at fair value through profit or loss of €18,084 thousand (2016: €738 thousand) includes finance costs of €7,192 thousand (2016: nil) on the funding leg of the equity swaps.

The Fair value and net result on sale of financial investments shows the change in fair value of the financial instruments as well as the net result on sales of such instruments. During 2017, the net capital and realised losses from the sale of investment in listed securities amounted to €24,112 (2016: €724 thousand).

14. TRADE AND OTHER RECEIVABLES

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
VAT receivable	14,965	16,538	6	–
Tenant receivables	33,997	20,292	–	–
Other receivables	4,875	1,105	3,219	–
Prepaid property expenses	6,689	2,419	–	–
Other prepaid fees	267	185	–	–
TOTAL	**60,793**	**40,539**	**3,225**	–

15. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents by currencies	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
EUR	137,005	25,105	457	1
RON	24,523	18,361	–	–
PLN	12,376	–	–	–
BGN	7,497	–	–	–
HUF	5,611	–	–	–
HRK	4,679	3,027	–	–
CZK	2,967	892	–	–
RSD	573	365	–	–
ZAR	38	258	38	–
USD	8	10	–	–
GBP	267	2	15	–
TOTAL	**195,544**	**48,020**	**510**	**1**

Details of cash and cash equivalents by type	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Current accounts	132,627	37,807	510	1
Deposits	62,425	10,094	–	–
Petty cash and other values	492	119	–	–
TOTAL	**195,544**	**48,020**	**510**	**1**

16. INVESTMENT PROPERTY HELD FOR SALE

Investment property held for sale	Group 31 Dec 2017	Group 31 Dec 2016
Carrying value at beginning of year	15,525	25,255
Additions from investment property under development (Note 10)	123	11
Disposals	(4,577)	(3,140)
Transferred from investment property held for sale as an effect of acquisition of non-controlling interest (Note 9)	-	(1,291)
Fair value adjustments (Note 28)	(833)	(5,310)
CARRYING VALUE	**10,238**	**15,525**

No properties were sold subsequent to the year end, however the Group is engaged in negotiations and is analysing offers received for the remaining balance, and is committed to disposal of the properties classified as held for sale.

17. SHARE CAPITAL AND SHARE PREMIUM

Movement of ordinary shares	Share capital €0.01/share	Share premium
Issued as of 1 January 2016	**2,986**	**1,213,325**
— Issued 4,123,589 ordinary shares at €9.39/share*	41	(41)
— Issued 2,643,019 ordinary shares at €9.38/share*	27	(27)
— Issued 16,129,032 ordinary shares at €9.66/share**	161	155,729
— Issue cost recognised to equity	–	(888)
— Re-allocation of shares under Current Share Scheme	–	27
— Sale of shares issued under the Initial Share Scheme	–	46
CARRIED FORWARD AS AT 31 DECEMBER 2016	**3,215**	**1,368,171**

** The shares were issued in respect of the return of capital: 22 March, 3 October 2016.*
*** The shares were issued as part of the book build: 18 July 2016, of which 7,580,859 ordinary shares were issued pursuant to the general authority to issue shares for cash.*

— Issued 5,691,549 ordinary shares at €9.88/share[1]	57	(57)
— Issued 9,305,725 ordinary shares at €11.00/share[1]	93	(93)
— Issued 6,849,315 ordinary shares at €10.57/share[2]	68	72,356
— Issued 29,541,215 ordinary shares at €11.10/share[2]	296	296,684
— Issue cost recognised to equity	–	26,706
— Issued 204,926,726 ordinary shares at €11.33/share[3]	2,049	2,320,230
— Reallocation of NEPI reserves to share premium	–	427,720
— Transfer of goodwill impairment on acquisition of Rockcastle Group to share premium	–	(886,167)
— Sale of shares issued under the Initial Share Scheme	–	18
CARRIED FORWARD AS AT 31 DECEMBER 2017	**5,778**	**3,625,568**

[1] The shares were issued in respect of the return of capital: 10 April, 12 October 2017.
[2] The shares were issued as part of the book builds: 10 March, 16 October 2017 pursuant to the general authority to issue shares for cash and a vendor consideration placement.
[3] The shares were issued for the acquisition of Rockcastle Group on 14 July 2017.

[1]Option to receive capital return

Given the Group's ongoing development and acquisition programme, and following requests from shareholders, the Board explored alternatives to cash distributions to shareholders. As a result, shareholders had the option to receive:

21.82 euro cents per share distribution for the six months ended 31 December 2016 as a cash distribution, or a return of capital through an issue of new shares, credited as fully paid up, at a ratio of 2.20913 new shares for every 100 shares, and

23.46 euro cents per share (combined) distribution for the six months ended 30 June 2017 as a cash distribution, or a return of capital through an issue of new shares, credited as fully paid up, at a ratio of 2.13193 new shares for every 100 shares.

Shares were issued from the share premium account.

[2]Book build 10 March 2017

In order to seize potential acquisition and development opportunities the Company increased its cash reserves by issuing 6,849,315 ordinary shares through an accelerated book build process that generated over €72 million in March 2017.

[2]Book build 16 October 2017

In order to seize potential acquisition and development opportunities the Company increased its cash reserves by issuing 29,541,215 ordinary shares through an accelerated book build process that generated over €296 million in October 2017.

[3]NEPI Rockcastle Merger 11 July 2017

Following the approval of the NEPI and Rockcastle merger transaction, on Wednesday, 12 July 2017, 538 953 857 ordinary shares of NEPI Rockcastle were listed and commenced trading on the Main Board of the JSE Limited ("JSE") at an introductory price of ZAR175.60 per share, and on Euronext Amsterdam at an introductory price of €11.33 per share. NEPI shareholders received 1 NEPI Rockcastle share for every 1 NEPI share held on the record date of 14 July 2017. Rockcastle shareholders received 1 NEPI Rockcastle share for every 4.7 Rockcastle shares held on the record date of 14 July 2017, and any entitlement to a fraction of a NEPI Rockcastle share was rounded down to the nearest whole number (resulting in allocation of whole NEPI Rockcastle shares only) with a cash payment made to the relevant shareholders in respect of the fraction ("cash payment").

The issued share capital figure excludes shares issued under the Initial Share Scheme (set out in Note 18) but includes the shares sold by the participants in the Initial Share Scheme to other investors, and those issued under the Current Share Scheme.

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 uses incentive plans to reward performance and align the interests of executive directors and key individuals with those of the shareholders.

NEPI Rockcastle's current incentive plan was disclosed in the prospectus of the merger between NEPI and Rockcastle (the "2017 Incentive Plan"). The 2017 Incentive Plan introduced as an incentive to directors and employees to meet the Group's short-term and long-term objectives by giving such participants an opportunity to receive performance-based Awards (in cash or shares) or Purchase Offers (of shares, with loans), on short-term (immediate settlement in cash or shares) or long-term (shares with a vesting component). The Board determines which executive directors are eligible to participate in the Incentive Plan, and the allocation of incentives is discretionary, 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 their assessment of the employees' performance.

No shares were issued under the 2017 Incentive Plan until 31 December 2017; the accrual for estimated performance Awards in respect of 2017 was included in staff costs (Note 26). All future share issues to directors and employees will be done under the 2017 Incentive Plan.

Following the merger, NEPI Rockcastle assumed the assets and liabilities of NEPI and Rockcastle, including the shares previously issued to directors and employees under NEPI's and Rockcastle's share purchase schemes (the "NEPI SPS" and "Rockcastle SPS"). All loans outstanding were assigned to NEPI Rockcastle and participants in the NEPI SPS and Rockcastle SPS received NEPI Rockcastle shares (as determined with reference to the swap ratio) in respect of all NEPI and Rockcastle shares held by them pursuant to the existing plans. The NEPI Rockcastle shares so received will remain subject to the rules of the NEPI SPS and Rockcastle SPS, on the basis that all the participants' rights and obligations under the existing plans will apply to such NEPI Rockcastle shares.

	Maximum number of shares which could be offered for subscription at 31 December 2017	No of shares oustanding at 31 December 2017	Loans outstanding at 31 December 2017
2017 Incentive Plan	27,403,086	-	-
NEPI SPS	-	2,104,929	6,367
Rockcastle SPS	-	2,804,996	21,565
TOTAL	**27,403,086**	**4,909,925**	**27,932**

During 2017 and 2016, no shares were issued under the NEPI SPS or Rockcastle SPS.

The NEPI SPS was based on loans granted to participants in the share purchase schemes to buy shares, the repayment of which could be made in part out of the distribution payable in relation to the shares. Of the shares initially subscribed for, 20% vested annually. NEPI offered each participant the immediate right to subscribe for the permitted number of shares at their then market value, less a maximum discount of 5%, together with a loan to fund the purchase. Each loan carried interest at the weighted average rate that the Company can borrow money. Loans were payable in full, together with interest, ten years after its subscription date, but could be repaid earlier. NEPI had security interests that ensured the repayment of the principal and interest on the loan given to participants. The NEPI SPS is a full non-recourse scheme (i.e. recourse in relation to loans issued is not limited to shares issued). Pending repayment of the loan, the distributions on such shares were used to repay loan interest. Any excess distribution after interest payment was used to repay the loan.

The Rockcastle SPS was based on loans granted to participants in the share purchase schemes to buy shares, the repayment of which could be made in part out of the distribution payable in relation to the shares. Rockcastle offered each participant the immediate right to subscribe for the permitted number of shares at their then market value together with a loan to fund the purchase. With effect from 2017, each loan carried interest at the weighted average rate that the Company can borrow money (previously at a fixed rate of 5%). Loans were payable in full, together with interest, ten years after its subscription date, but could be repaid earlier. Rockcastle had security interests that ensured the repayment of the principal and interest on the loan given to participants. The Rockcastle SPS is a full-recourse scheme (i.e. recourse in relation to loans issued is not limited to shares issued). Pending repayment of the loan, the distributions on such shares were used to repay loan interest. Any excess distribution after interest payment was used to repay the loan and any shortfall in interest payable was advanced by Rockcastle as a bonus to the participant.

The accounting policy with respect to Share-Based Payments is described in Note 3.17.

19. BORROWINGS (BONDS AND BANK LOANS)

In 2015 NEPI was assigned long-term corporate credit ratings of Baa3 (stable outlook) from Moody's Investors Service ("Moody's") and BBB- (stable outlook) from Standard & Poor's Rating Services ("S&P").

Following the merger, Moody's have revised the outlook on the Baa3 rating from stable to positive, and Standard and Poor's have upgraded NEPI Rockcastle's rating from BBB- to BBB, with a stable outlook. The Group also obtained a BBB rating with a stable outlook from Fitch. After a roadshow with European fixed-income investors in November 2017, the Group issued €500 million of unsecured, 7-year Eurobonds maturing on 23 November 2024, carrying a 1.75% fixed coupon, with an issue price of 99.051%. The proceeds were used to finance the acquisitions and developments pipeline. The Group also attracted additional unsecured committed revolving credit facilities from ING, Societe Generale and Garanti Bank, and a term loan from Berlin Hyp for Galeria Warminska of €76,000 thousand.
As at year-end, the Group had undrawn amounts of €380,000 thousand from the unsecured revolving credit facilities.

The repayment profile for outstanding loans, excluding future interest, is detailed below. In addition to these loans, the Group has loans and borrowings related to its joint ventures presented in Note 33.

The debt's average interest rate, including hedging costs, was approximately 2.2% during 2017, down from 3.7% in 2016, due to contracting new debt at lower rates and decreasing the interest margin on the existing debt. As at 31 December 2017, fixed-coupon bonds represented 55% of NEPI Rockcastle's outstanding debt, and out of the remaining debt exposed to Euribor, 36% was hedged with interest rate caps and 64% with interest rate swaps.

NEPI Rockcastle has complied with all financial covenants of its borrowing facilities during 2017 and 2016.

Interest bearing borrowings Group, 31 Dec 2017	**Type**	**Payable in less than 1 year**	**Payable in 1–5 years**	**Payable over 5 years**	**Total**
NE Property Cooperatief UA	Fixed coupon bonds	-	-	500,000	500,000
NE Property Cooperatief UA	Fixed coupon bonds	-	400,000	-	400,000
Bonarka City Center	Term loan	965	187,934	-	188,899
Aupark Kosice Mall & Tower	Term loan	5,526	88,421	-	93,947
Karolinka Shopping Centre	Term loan	436	86,764	-	87,200
Galeria Warminska	Term loan	-	1,900	74,100	76,000
Focus Park Zielona Gora	Term loan	336	66,809	-	67,145
Aupark Zilina	Term loan	2,379	60,323	-	62,702
Pogoria Shopping Centre	Term loan	225	44,675	-	44,900
Forum Liberec Shopping Centre	Term loan	-	2,307	38,693	41,000
Solaris Shopping Centre	Term loan	-	34,800	-	34,800
Platan Shopping Centre	Term loan	158	31,342	-	31,500
Aupark Shopping Center Piestany	Term loan	396	18,711	-	19,107
Accrued interest on loans and deferred loan costs		147	(2,286)	-	(2,139)
Accrued interest on bonds		13,527	-	-	13,527
Deferred bond costs		(1,751)	(4,699)	(782)	(7,232)
Issue discount on bonds		(1,031)	(3,378)	(1,224)	(5,633)
Total		**21,313**	**1,013,623**	**610,787**	**1,645,723**

Interest bearing borrowings Group, 31 Dec 2016	**Type**	**Payable in less than 1 year**	**Payable in 1–5 years**	**Payable over 5 years**	**Total**
NE Property Cooperatief UA	Fixed coupon bonds	-	400,000	-	400,000
NE Property Cooperatief UA	Fixed coupon bonds	50,000	-	-	50,000
NE Property Cooperatief UA	Revolving facility	-	95,000	-	95,000
New Europe Property Investments plc	Revolving facility	10,249	-	-	10,249
Aupark Kosice Mall & Tower	Term loan	5,526	93,947	-	99,473
Aupark Zilina	Term loan	1,945	8,483	44,572	55,000
Aupark Shopping Center Piestany	Term loan	396	19,107	-	19,503
Accrued interest on loans and deferred loan costs		(117)	(516)	-	(633)
Accrued interest on bonds		12,852	-	-	12,852
Deferred bond costs		(1,366)	(4,216)	-	(5,582)
Issue discount on bonds		(329)	(965)	-	(1,294)
Total		**79,156**	**610,840**	**44,572**	**734,568**

Debt reconciliation

This section sets out an analysis of debt and the movements in debt for the period presented.

	Bank loans	Bonds	Total
Debt as at 31 December 2016	**278,592**	**455,976**	**734,568**
Cash repayments of principal	(113,952)	(50,000)	**(163,952)**
Cash proceeds from bank loans or bonds	86,000	500,000	**586,000**
Cash payments of interest on bank loans or coupon on bonds	(8,139)	(15,895)	**(24,034)**
Accrued interest or coupon / charge to accrued interest	147	10,745	**10,892**
Bank loans transferred through business combinations	500,625	-	**500,625**
Other non-cash items	1,788	(164)	**1,624**
Debt as at 31 December 2017	**745,061**	**900,662**	**1,645,723**

Further details for the Group's loans and bonds are presented below.

Aupark Zilina – VUB Banka loan
At the acquisition of Aupark Zilina in 2013, the Group took over two investment loans from Vseobecna Uverova Banka (VUB), which were subsequently renegociated in November 2016 and further decreased the margin, extending the loan period until December 2022 and increasing the loan amount to €65,000 thousands.
Security
— General security over the land and building (fair value as at 31 December 2017 of €124,800 thousand), current assets, cash inflows from operating activities, accounts and receivables of Aupark Zilina.
Covenants
— Debt service cover ratio of minimum 120%, and
— Loan to value ratio of maximum 70%.

Aupark Kosice - Tatra banka, a.s. and Ceskoslovenska obchodna banka, a.s.
In December 2014, the Group acquired Aupark Kosice Shopping Centre and Aupark Office Tower Kosice, and in December 2015 successfully refinanced the loan facilities from Tatra Banka and Ceskoslovenska Banka in a total amount of €105,000 thousand. The loans mature on 30 September 2020 and are payable in quarterly instalments.
Security
— General security over the land and buildings (total fair value as at 31 December 2017 of €187,350 thousand), current assets, cash inflows from operating activities, accounts and receivables of Aupark Kosice Shopping Centre and Aupark Office Tower Kosice
Covenants
— Debt service cover ratio of minimum 120%, and
— Loan to value of maximum 70% for 2016, and 65% thereafter.

Aupark Piešťany, spol. s r.o. and Aupark Piešťany SC, s.r.o. - Komerční banka, a. s.
In September 2016, the Group acquired Aupark Shopping Center Piešťany and took over the debt agreement from Komerční banka, a. s. with an outstanding amount of €19,107 thousand, which matures in March 2021.
Security
— General security over the land and building (fair value as at 31 December 2017 of €41,000 thousand), current assets, cash inflows from operating activities, accounts and receivables of Aupark Piešťany, spol. s r.o. and Aupark Piešťany SC, s.r.o.
Covenants
— Debt service cover ratio of minimum 150%, and
— Loan to value ratio of maximum 61%.

Solaris Shopping Centre - ING Bank Slaski
The Group contracted a loan facility from ING Bank Slaski for Solaris Shopping Centre, which matures during November 2020 and is repayable at final maturity.
Security
— General security over the property (fair value as at 31 December 2017 of €60,730 thousand), current assets, cash inflows from operating activities, accounts and receivables of Solaris Shopping Centre, and
— General security over the shares in the property-owning entity.
Covenants
— Interest coverage ratio of minimum 300%, and
— Loan to value of maximum 70% in year 1,69% in year 2,68% in year 3,67% in year 4 and 65% in year 5.

Karolinka Shopping Centre, Platan Shopping Centre, Pogoria Shopping Centre and Focus Mall Zielona Gora - ING Bank Slaski, Helaba and Deutsche Pfandbrief
The Group contracted a secured loan facility from the syndicate of banks mentioned above for a portfolio of assets including Karolinka Shopping Centre, Platan Shopping Centre, Pogoria Shopping Centre and Focus Mall Zielona Gora which matures during August 2021 and is repayable in quarterly instalments from September 2018 onwards at 1% per annum with a final bullet repayment.
Security
— General security over the properties (total fair value as at 31 December 2017 of €391,470 thousand), current assets, cash inflows from operating activities, accounts and receivables of Karolinka Shopping Centre, Platan Shopping Centre, Pogoria Shopping Centre and Focus Mall Zielona Gora, and
— General security over the shares in the respective property-owning entities in Poland.
Covenants
— Loan to value ratio of maximum 70%,

— Interest service cover ratio applicable for year 1 and year 2 of at least 200%; and
— Debt service cover ratio of minimum 150% applicable for years 3, 4 and 5.

Bonarka City Center - ING Bank Slaski, Berlin Hyp and Nationale Nederlanden
The Group assumed an existing loan facility from a syndicate of banks mentioned above as part of the acquisition of Bonarka City Center. The loan matures during February 2020 and is repayable in quarterly instalments.
Security
— General security over the property (fair value as at 31 December 2017 of €375,200 thousand), current assets, cash inflows from operating activities, accounts and receivables of Bonarka City Center, and
— General security over the shares in the property-owning entity
Covenants
— Loan to value ratio of maximum 80% in year 1,79% in year 2,78% in year 3,77% in year 4,76% in year 5, and
— Debt service cover ratio of minimum 120%.

Forum Liberec Shopping Centre – Erste Bank
The Group contracted a secured loan facility from Erste Bank. The loan matures during May 2024 and is repayable in quarterly instalments starting June 2019.
Security
— General security over the property (fair value as at 31 December 2017 of €83,500 thousand), current assets, cash inflows from operating activities, accounts and receivables of Forum Liberec Shopping Centre
Covenants
— Loan to value ratio of maximum 65%, and
— Debt service cover ratio of minimum 125%.

Galeria Warminska – Berlin Hyp
In October 2017, the Group contracted a secured loan facility from Berlin Hyp. The loan matures during December 2024 and is repayable in quarterly instalments starting December 2022.
Security
— General security over the property (fair value as at 31 December 2017 of €156,100 thousand), current assets, cash inflows from operating activities, accounts and receivables of Galeria Warminska
Covenants
— Loan to value ratio of maximum 62.5% in years 1-5 and 60% in years 6-7, and
— Debt service cover ratio of minimum 130%.

NE Property Cooperatief (fixed coupon bonds)
In 2015, the Group successfully issued 400,000 thousand of unsecured, 5.25 year Eurobonds. The bonds mature on 26 February 2021 and carry a 3.750% fixed coupon, with an issue price of 99.597%.
Covenants
— Solvency Ratio (Debt/Assets) of maximum 0.60,
— Consolidated Coverage Ratio of minimum 2:1, and
— Unsecured Consolidated Total Assets of minimum 180% of Unsecured Consolidated Total Indebtedness.

NE Property Cooperatief (fixed coupon bonds)
In 2017, the Group successfully issued 500,000 thousand of unsecured, 7-year Eurobonds. The bonds mature on 23 November 2024 and carry a 1.75% fixed coupon, with an issue price of 99.051 %.
Covenants
— Solvency Ratio (Debt/Assets) of maximum 0.60,
— Consolidated Coverage Ratio of minimum 2:1, and
— Unsecured Consolidated Total Assets of minimum 150% of Unsecured Consolidated Total Indebtedness.

NE Property Cooperatief - Raiffeisen Bank International unsecured committed revolving facility
In 2014, Raiffeisen Bank International underwrote a €80,000 thousand, unsecured committed revolving facility. In October 2016 the availability was extended until December 2018 and the facility amount increased to €130,000 thousand. The revolving facility was undrawn at 31 December 2017.
Covenants
— Solvency Ratio of maximum 0.60,
— Consolidated Coverage Ratio of minimum 2:1, and
— Unsecured Consolidated Total Assets of minimum 180% of Unsecured Consolidated Total Indebtedness.

NE Property Cooperatief - ING unsecured committed revolving facility
In 2017, ING Bank underwrote a €100,000 thousand, unsecured committed revolving facility, which matured in March 2018. The facility was recently extended for a three year period. At 31 December 2017, the facility was undrawn.
Covenants
— Solvency Ratio of maximum 0.60,
— Consolidated Coverage Ratio of minimum 2:1, and
— Unsecured Consolidated Total Assets of minimum 180% of Unsecured Consolidated Total Indebtedness. After the extension of the facility in March 2018, the Unsecured Consolidated Total Assets ratio was changed to 150%.

NE Property Cooperatief - Societe Generale/Garanti unsecured committed revolving facility
In 2017, Societe Generale and Garanti Bank underwrote a €150,000 thousand, unsecured committed revolving facility, which matures in June 2018. At 31 December 2017, the facility was undrawn.
Covenants
— Solvency Ratio of maximum 0.60,
— Consolidated Coverage Ratio of minimum 2:1, and
— Unsecured Consolidated Total Assets of minimum 180% of Unsecured Consolidated Total Indebtedness.

20. INTEREST RATE DERIVATIVES FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group uses derivative instruments to hedge variable interest rate (Euribor) exposure. Their fair value is summarised below.

	Group 31 Dec 2017	Group 31 Dec 2016
Financial assets		
— Company	318	–
— Subsidiaries	1,475	677
TOTAL INTEREST RATE DERIVATIVE FINANCIAL ASSETS	**1,793**	**677**
Financial liabilities		
— Subsidiaries	4,678	316
TOTAL INTEREST RATE DERIVATIVE FINANCIAL LIABILITIES	**4,678**	**316**

These interest rate caps and fixed interest rate swaps are not designated as cash flow hedges, and are classified as Level Two of the fair value hierarchy as defined by IFRS 7.

21. TRADE AND OTHER PAYABLES

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Advances from tenants	33,757	22,619	–	–
Payable for assets under construction	26,026	18,960	–	-
Property related payables	39,926	16,374	–	-
Deferred consideration on business combinations	5,014	9,630	–	-
Accrued administrative expenses	5,873	2,611	544	24
Tenant deposits	2,957	1,342	–	-
TOTAL	**113,553**	**71,536**	**544**	**24**

22. OTHER LONG-TERM LIABILITIES

	Group 31 Dec 2017	Group 31 Dec 2016
Tenant deposits	24,382	15,205
Other long-term liabilities	10,587	-
Provisions	2,120	2,198
TOTAL	**37,089**	**17,403**

23. CURRENT AND DEFERRED INCOME TAX

	Group 31 Dec 2017	Group 31 Dec 2016
Current tax expense	1,671	1,664
Deferred tax expense	46,199	34,808
TAX EXPENSE	**47,870**	**36,472**
Deferred tax brought forward	158,864	89,652
Deferred tax acquired in business combinations (Note 32A)	56,955	34,404
Other adjustments	(3,403)	-
NET DEFERRED TAX LIABILITY CARRIED FORWARD, OUT OF WHICH:	**258,615**	**158,864**
DEFERRED TAX ASSET	(12,490)	-
DEFERRED TAX LIABILITY	271,105	158,864

Net deferred tax liability results from the following types of differences:

	Group 31 Dec 2017	Group 31 Dec 2016
Tax losses	220,057	185,204
Other deductible temporary differences*	38,955	-
Temporary differences between accounting and tax value of investment property	(1,883,871)	(1,110,121)
Other taxable temporary differences*	(26,810)	-
NET DEFERRED TAX LIABILITY	**(258,615)**	**(158,864)**

** Other deductible and taxable temporary differences includes mainly prepayments and accruals, deferred income and allowances for doubtful debts.*

The Group is liable for taxation on taxable profits in the following jurisdictions at the rates below:

Corporate income tax rates	Group 31 Dec 2017	Group 31 Dec 2016
Isle of Man	0%	0%
Netherlands	25%[1]	25%[1]
United Kingdom	19%[2]	-
Mauritius	15%[3]	-
Romania	16%	16%
Poland	19%	-
Slovakia	21%[4]	22%[4]
Serbia	15%	15%
Czech Republic	19%	19%
Croatia	18%	20%[5]
Bulgaria	10%	-
Hungary	9%	-

1) This rate applies to taxable profits above €0.2million and a 20% tax rate to lower amounts.
2) Starting April 2017, the corporate tax rate in the United Kingdom was reduced from 20% to 19%.
3) The corporate tax rate in Mauritius is 15%. As the Company holds a Category One Global Business License, the Income Tax (Foreign Tax Credit) Regulations 1996 provides for the setting off of any underlying tax, withholding tax or tax sparing credit by the Company against the 15% tax or a deemed 80% foreign tax credit on the Company's foreign source income where written evidence of foreign tax charged is not presented to the tax authorities in Mauritius. Gains on sale of securities are exempted from tax in Mauritius.
4) As at 1 January 2017, the rate applying to taxable profits in Slovakia has been reduced from 22% to 21%. The reduced tax rate of 21% was considered for computation of deferred tax balance as of 31 December 2016.
5) As at 1 January 2017, the rate applying to taxable profits in Croatia has been reduced from 20% to 18%. The reduced tax rate of 18% was considered for computation of deferred tax balance as of 31 December 2016.

Reconciliation between applicable and effective tax rate

The reconciliation between the tax expense and the Group's gross accounting profit multiplied by the Company's income tax rate for the year ended 31 December 2017 and the year ended 31 December 2016 is as follows:

	31-Dec-2017	31-Dec-16
Group (Loss)/Profit before taxation*	354,623	269,124
At Company's income tax rate 0% (2016: 0%)	-	-
Effect of higher tax rates in foreign jurisdictions:		
Tax in Romania		
- Corporate income tax	(1,698)	(1,325)
- Deferred tax expense for taxable temporary differences (net)	(35,010)	(24,244)
Tax in Poland		
- Corporate income tax	(174)	-
- Deferred tax expense for taxable temporary differences (net)	4,183	-
Tax in Slovakia		
- Corporate income tax	(460)	(333)
- Deferred tax expense for taxable temporary differences (net)	(9,718)	(8,304)
Tax in Serbia		
- Corporate income tax	-	-
- Deferred tax expense for taxable temporary differences (net)	(252)	(1,201)
Tax in Czech Republic		
- Corporate income tax	(479)	(6)
- Deferred tax expense for taxable temporary differences (net)	(1,004)	(147)
Tax in Croatia		
- Corporate income tax	(9)	-
- Deferred tax expense for taxable temporary differences (net)	(4,736)	(912)
Tax in Bulgaria		
- Corporate income tax	(50)	-
- Deferred tax expense for taxable temporary differences (net)	(906)	-
Tax in Hungary		
- Corporate income tax	(15)	-
- Deferred tax expense for taxable temporary differences (net)	(5)	-
Tax in UK		
- Corporate income tax	-	-
- Deferred tax expense for taxable temporary differences (net)	68	-
Tax in Mauritius		
- Corporate income tax	1,214	-
Tax in Netherlands		
- Corporate income tax	-	-
- Deferred tax expense for taxable temporary differences (net)	1,181	-
Tax expense reported in the income statement	**(47,870)**	**(36,472)**
Effective tax rate, including deferred tax expense (%)*	***13.50%***	***13.55%***

** excluding goodwill impairment*

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
Deferred tax liability (net)	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Acquired under business combinations (note 32A)	(53.554)	(34,404)	-	-
Recognised unused tax losses	*7,716*	*3,953*	-	-
Deferred tax liability on investment property valuation	*(70,152)*	*(38,357)*	-	-
Deductible/taxable temporary differences (net)	*8,882*	-	-	-
Valuation of investment property at fair value	(227,137)	(149,722)	(39,060)	(26,370)
Recognised unused tax losses	28,660	26,356	(1,649)	(7,344)
Corrections	(1,356)	(1,094)	(262)	(1,094)
Deductible/taxable temporary differences (net)	(5,228)	-	(5,228)	-
Total	**(258,615)**	**(158,864)**	**(46,199)**	**(34,808)**

Group subsidiaries are subject to corporate tax on an annual basis. The Group carries forward aggregate fiscal losses of €220,057 thousand (31 December 2016: €189,520 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 €1,263 thousand (31 December 2016: €4,316 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 generate taxable profit in the future.

The deferred tax balance as at 31 December 2017 is the net effect of deferred tax assets resulted from fiscal losses and deferred tax liabilities resulted from differences between the fiscal base and the accounting base of assets and liabilities, mainly investment property. Deferred tax liabilities are not expected to be settled within the following five years from the reporting date.

The Group does not withhold taxes on distribution paid.

24. NET ASSET VALUE PER SHARE

	Group 31 Dec 2017	Group 31 Dec 2016
Net Asset Value per the Statement of financial position	3,914,719	1,814,552
Loans in respect of the Initial Share Scheme (Note 18)	-	18
Deferred tax liabilities for controlled subsidiaries	271,105	158,864
Deferred tax assets for controlled subsidiaries	(12,490)	-
Goodwill	(82,582)	(58,390)
Deferred tax liabilities for joint ventures	8,856	5,952
Adjusted Net Asset Value	**4,099,608**	**1,920,996**
Net Asset Value per share (euro)	6.78	5.64
Adjusted Net Asset Value per share (euro)	7.10	5.98
Number of shares for Net Asset Value per share (Note 30)	577,800,734	321,479,204
Number of shares for Adjusted Net Asset Value per share (Note 30)	577,800,734	321,486,204

25. NET RENTAL AND RELATED INCOME

	Group 31 Dec 2017	Group 31 Dec 2016
Rent	233,808	147,454
Service charge recoveries	54,687	32,751
Other recoveries	48,482	29,685
Revenues from rent and recoveries	**336,977**	**209,890**
Property management, tax, insurance and utilities	(53,809)	(38,119)
Property maintenance cost	(50,139)	(25,395)
Provisions and allowances for doubtful debts	(944)	(844)
Property operating expenses	**(104,892)**	**(64,358)**
TOTAL	**232,085**	**145,532**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are detailed below.

	Group 31 Dec 2017	Group 31 Dec 2016
No later than 1 year	306,027	171,536
Later than 1 year and not later than 5 years	678,470	438,508
Later than 5 years	203,009	294,721
TOTAL	**1,187,506**	**904,765**

26. ADMINISTRATIVE EXPENSES

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Staff costs*	(8,985)	(3,851)	–	–
Directors' remuneration (Note 36)	(1,727)	(1,082)	(879)	–
Audit and advisory services	(3,254)	(2,055)	(361)	(14)
Travel and accommodation	(370)	(520)	(148)	–
Companies administration	(710)	(461)	(3,008)	–
Stock exchange expenses	(145)	(217)	(854)	–
TOTAL	**(15,191)**	**(8,186)**	**(5,250)**	**(14)**

** Staff costs capitalised as investment property under development in 2017 amount to €1,961 thousand (2016: €2,014 thousand).*

27. ACQUISITION FEES

The Group incurred acquisition fees in respect of the following:

	Group 31 Dec 2017	Group 31 Dec 2016
Fees for finalised acquisitions	(9,620)	(2,794)
Fees for ongoing acquisitions	(498)	(1,249)
Fees for terminated acquisitions	(563)	(296)
TOTAL	**(10,681)**	**(4,339)**

28. FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTY

	Group 31 Dec 2017	Group 31 Dec 2016
Fair value adjustments of investment property in use (Note 9)	157,912	158,391
Fair value adjustments of investment property under development (Note 10)	4,943	(9,918)
Fair value adjustments of investment property held for sale (Note 16)	(833)	(5,310)
TOTAL	**162,022**	**143,163**

29. NET FINANCE INCOME/(EXPENSE)

	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Interest income on loans granted	2,520	3,650	–	–
Interest on Current Share Scheme and management incentive loans	572	529	572	–
Interest on bank deposits	(566)	592	–	–
Interest income from subsidiaries	–	–	16,711	–
Interest and penalties on receivables	41	13	–	–
Other finance income from subsidiaries*	–	–	20,825	–
Finance income	**2,567**	**4,784**	**38,108**	–
Interest expense on financial liabilities measured at amortised cost	(9,146)	(6,158)	(662)	–
Interest expense capitalised on developments	4,350	5,765	–	–
Bonds borrowing costs**	(18,983)	(16,788)	–	–
Bank charges	(1,694)	(662)	(10)	–
Finance expense	**(25,473)**	**(17,843)**	**(672)**	–
TOTAL	**(22,906)**	**(13,059)**	**37,436**	–

** Other finance income from subsidiaries represent guarantee fees.*

*** Bonds borrowing costs include: coupon, amortisation of borrowing costs and debt discount.*

30. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity holders of €579,694 thousand (31 December 2016: profit of €234,968 thousand) and the weighted average of 436,806,684 (31 December 2016: 309,760,628) ordinary shares in issue during the year, excluding shares issued under the Initial Share Scheme. The calculation of diluted earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity holders of €579,694thousand (31 December 2016: profit of €234,968 thousand) and the weighted average of 436,809,203 (31 December 2016: 309,778,913) ordinary shares in issue during the year, including shares issued under the Initial Share Scheme.

As the Group recognised a one-off goodwill impairment in 2017 of €886,167 thousand related to the NEPI Rockcastle merger (note 32B), the basic and diluted earnings per share do not show relevant and comparable indicators due to the justifiable loss for the year. The Group has also prepared the same ratios excluding the goodwill impairment.

	Group 31 Dec 2017	Group 31 Dec 2016
(Loss)/Profit for the year attributable to equity holders	(579,694)	234,968
Profit for the year attributable to equity holders excluding impairment of goodwill	306,473	234,968
Weighted average number of shares in issue	436,806,684	309,760,628
Diluted weighted average number of shares in issue	436,809,203	309,778,913
Basic (loss)/earnings per share (euro cents)	(132.71)	75.85
Diluted (loss)/earnings per share (euro cents)	(132.71)	75.85
Basic earnings per share (euro cents) excluding impairment of goodwill	70.16	75.85
Diluted earnings per share (euro cents) excluding impairment of goodwill	70.16	75.85

Weighted average number of shares (excluding the Initial Share Scheme shares) for basic earnings per share purposes

2017	Event	Number of shares	% of period	Weighted average
01/01/17	Opening balance	321,479,204	19	60,056,555
10/03/17	Accelerated book build	328,328,519	9	27,962,044
10/04/17	Return of capital	334,020,068	9	29,364,402
12/05/17	Sales of scheme 1 shares	334,027,068	16	55,059,407
11/07/17	Issue of shares for acquisition of Rockcastle Group	538,953,794	25	137,699,733
12/10/17	Return of capital	548,259,519	1	6,024,830
16/10/17	Accelerated book build	577,800,734	21	120,639,714
31/12/2017	Closing balance			436,806,684

2016	Event	Number of shares	% of period	Weighted average
01/01/16	Opening balance	298,565,564	21	66,257,016
22/03/16	Return of capital	302,689,153	20	59,708,545
02/06/16	Sales of scheme 1 shares	302,700,153	13	38,148,512
18/07/16	Accelerated book build	318,829,185	20	67,259,855
03/10/16	Return of capital	321,472,204	20	63,413,695
14/12/16	Sales of scheme 1 shares	321,479,204	6	14,973,004
31/12/2016	Closing balance			309,760,628

Weighted average number of shares (including the Initial Share Scheme shares) for diluted earnings per share purposes

2017	Event	Number of shares	% of period	Weighted average
01/01/17	Opening balance	321,486,204	19	60,057,862
10/03/17	Accelerated book build	328,335,519	9	27,962,640
10/04/17	Return of capital	334,027,068	25	84,424,424
11/07/17	Issue of shares for acquisition of Rockcastle Group	538,953,794	25	137,699,733
12/10/17	Return of capital	548,259,519	1	6,024,830
16/10/17	Accelerated book build	577,800,734	21	120,639,714
31/12/2017	Closing balance			436,809,203

2016	Event	Number of shares	% of period	Weighted average
01/01/16	Opening balance	298,590,564	22	66,262,564
22/03/16	Return of capital	302,714,153	32	97,863,754
18/07/16	Accelerated book build	318,843,185	22	67,262,809
03/10/16	Return of capital	321,486,204	24	78,389,787
31/12/2016	Closing balance			309,778,913

31. HEADLINE EARNINGS AND DILUTED HEADLINE EARNINGS PER SHARE

The calculation of headline earnings per share for the year ended 31 December 2017 was based on headline earnings of €152,898 thousand (31 December 2016: €110,644 thousand) and the weighted average of 436,806,684 ordinary shares in issue during 2017 (2016: 309,760,628), excluding those issued under the Initial Share Scheme.

Reconciliation of profit for the year to headline earnings	**Group 31 Dec 2017**	**Group 31 Dec 2016**
(Loss)/Profit for the year attributable to equity holders	(579,694)	234,968
Fair value adjustments of investment property in use (Note 28)	(162,022)	(143,163)
(Gain)/Loss on disposal of investment property held for sale	(9)	485
Impairment of goodwill	886,167	-
Tax effects of adjustments for controlled subsidiaries	27,089	24,446
Fair value adjustment of investment property for joint ventures	(20,928)	(7,252)
Tax effects of adjustments for joint ventures	2,295	1,160
HEADLINE EARNINGS	**152,898**	**110,644**
Weighted average number of shares in issue	436,806,684	309,760,628
Diluted weighted average number of shares in issue	436,809,203	309,778,913
Headline earnings per share (euro cents)	35.00	35.72
Diluted headline earnings per share (euro cents)	35.00	35.72

32A. BUSINESS COMBINATIONS AND SIGNIFICANT ASSET DEALS

During 2017, the Group acquired retail assets in Bulgaria, Hungary and Poland. In some cases, 100% of equity interests were acquired, whereas in others the Group acquired investment property. For further details see Note 12.

Rockcastle merger

The merger of New Europe Property Investments plc (NEPI) and Rockcastle Global Real Estate Company Limited (Rockcastle) was successfully concluded with effect from 11 July 2017. The new holding company, NEPI Rockcastle plc, acquired the businesses of NEPI and Rockcastle (including all properties and listed shares portfolios) thereby becoming the largest listed real estate player in Central and Eastern Europe (CEE) and one of the top ten listed real estate companies in Continental Europe by market capitalisation.

Following approvals in the Annual General Meetings of shareholders of the respective entities as well as all outstanding conditions precedent to the merger transaction having been fulfilled or waived, the merger transaction was implemented with reference to an effective share swap ratio of 4.7 Rockcastle shares for one NEPI share (the Swap Ratio). NEPI and Rockcastle have transferred all assets and liabilities, including ownership interests in their respective subsidiaries, effectively transferring their entire businesses to the Company. In exchange, the Company has issued ordinary shares (Company Shares) to NEPI and Rockcastle, in line with the Swap Ratio.

In accordance with IFRS 3 – Business Combinations, the merger between NEPI and Rockcastle was classified as a purchase of Rockcastle by NEPI, with NEPI Rockcastle being assessed in substance as a continuation of NEPI. Consequently, in these consolidated financial statements, in accordance with IFRS, NEPI Rockcastle presents the results of former NEPI Group before the merger date (11 July 2017), and the results of the combined Group from the merger date onwards.

The transaction effective date was 11 July 2017, and the Rockcastle's fair value of identifiable assets and liabilities at the merger date are detailed below:

Investment property	1,205,521
Investment property under development	10,819
Other non-current assets*	340,358
Non-current liabilities, excluding deferred tax	(501,398)
Current assets**	430,389
Current liabilities	(23,217)
Deferred tax liabilities	(26,359)
Total identifiable net assets at fair value	**1,436,113**
Goodwill arising on acquisition	886,167
Total consideration paid through issue of shares	**2,322,280**

**out of which Financial investments at fair value through profit or loss of €302,808 thousand*

***out of which cash in the subsidiaries acquired in the transaction amounts to €23,421 thousand and Equity derivative collateral of €383,619 thousand*

Serdika Center and Office

The Group acquired Serdika Center, a 51,500m^2 GLA modern shopping centre with a strong tenant mix, benefiting from an excellent location close to Sofia's city centre and Serdika Office, a Class A office situated atop the shopping centre, with 28,500m^2 GLA.
The transaction effective date was 22 August 2017, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	206,978
Current assets*	2,920
Current liabilities	(3,044)
Deferred tax liabilities	(2,465)
Total identifiable net assets at fair value	**204,389**
Total consideration paid in cash	**204,389**

**out of which cash in the subsidiaries acquired in the transaction amounts to €2,885 thousand*

Arena Plaza

The Group acquired Arena Plaza, a shopping mall in Budapest with 66,000m^2 GLA, enjoying a modern layout over two floors, convenient parking and an attractive tenant mix.

The transaction effective date was 15 September 2017, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	285,794
Current assets*	10,909
Current liabilities	(8,212)
Non-current liabilities	(1,247)
Deferred tax liabilities	(17,472)
Total identifiable net assets at fair value	**269,772**
Goodwill arising on acquisition	7,905
Total consideration paid in cash	**277,677**

**out of which cash in the subsidiary acquired in the transaction amounts to €9,329 thousand*

Paradise Center

The Group acquired Paradise Center, the largest modern shopping centre in Sofia with 82,000m^2 GLA, which consolidated its position in the Bulgarian market.

The transaction effective date was 1 December 2017, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	254,700
Current assets*	3,614
Current liabilities	(2,824)
Deferred tax liabilities	(10,659)
Total identifiable net assets at fair value	**244,831**
Goodwill arising on acquisition	9,311
Total consideration payable	**254,142**
Receivable from sellers	(1,508)
Total consideration paid in cash	**252,634**

**out of which cash in the subsidiary acquired in the transaction amounts to €2,994 thousand*

Alfa Bialystok

In November 2017, the Group entered into a business transfer agreement to take over the operating activity and assets of Alfa Bialystok for an aggregated purchase price of €92,293 thousand.

Investment property	92,293
Total consideration paid in cash	**92,293**

From the effective date of acquisition, the following contributions were made to profit after tax and to revenues from rent and recoveries:

	Serdika Center and Office	Arena Plaza	Paradise Center	Alfa Bialystok	Total
Profit after tax	13,042	16,231	2,724	(28)	**31,969**
Recoveries and contractual rental income	8,207	7,899	1,755	1,888	**19,749**

In respect of the Rockcastle merger it is impracticable to disclose the equivalent information as the combined group has been strategically integrated and all operational, financing and investment decisions have been optimised, producing different results than if the two entities had not been merged.

32B. IMPAIRMENT

At the time of the merger, Rockcastle shares were trading at a premium to fair value of net asset value, generating a difference which was recognised as goodwill. As a consequence, goodwill of €886,167 thousand resulted from Rockcastle's premium to net asset value at the date of the merger. The completion of the purchase price allocation based on Rockcastle's financial statements as at 11 July 2017, which were stated at fair value, in combination with the most recent external valuation which incorporated all known relevant valuation elements at 31 December 2017, indicated that the goodwill arose as a mechanical result of the merger accounting, and consequently was unallocated and requiring an accounting impairment. After the goodwill impairment through profit and loss, NEPI Rockcastle has transferred the loss arising from the goodwill impairment to share premium, off-setting the effect of the impairment charge within accumulated profit.

This impairment of goodwill does not impact any of the key indicators: recurring earnings per share, adjusted net asset value per share, cash flow, distributable earnings, overall financial profile, synergies from the merger or the forecasted earnings per share. Consequently, the Group's balance sheet includes almost exclusively tangible assets, marked to market every six months, in line with the industry practice.

The impairment of investments in and loans to subsidiaries recognised in the Financial Statements of the Company represents impairment of investments of €300,385 thousand and impairment of loans to subsidiaries of €585,782 thousand following the NEPI Rockcastle merger.

33. JOINT VENTURES

The summarised financial statements of the joint ventures are presented below at 100%.

Statement of financial position

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Non-current assets	103,964	122,560	226,524
Current assets	7,776	14,456	22,232
TOTAL ASSETS	**111,740**	**137,016**	**248,756**
Non-current liabilities	(75,257)	(82,287)	(157,544)
Current liabilities	(3,257)	(6,243)	(9,500)
Total liabilities	**(78,514)**	**(88,530)**	**(167,044)**
Equity attributable to equity holders	**(33,226)**	**(48,486)**	**(81,712)**
TOTAL EQUITY AND LIABILITIES	**(111,740)**	**(137,016)**	**(248,756)**

31 Dec 2016	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Non-current assets	91,837	95,985	187,822
Current assets	4,406	5,664	10,070
TOTAL ASSETS	**96,243**	**101,649**	**197,892**
Non-current liabilities	(80,773)	(63,323)	(144,096)
Current liabilities	(4,111)	(5,639)	(9,750)
Total liabilities	**(84,884)**	**(68,962)**	**(153,846)**
Equity attributable to equity holders	**(11,359)**	**(32,687)**	**(44,046)**
TOTAL EQUITY AND LIABILITIES	**(96,243)**	**(101,649)**	**(197,892)**

Statement of comprehensive income

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Revenue from rent and recoveries	14,440	10,108	24,548
Property operating expenses	(6,981)	(1,799)	(8,780)
Administrative expenses	(21)	(71)	(92)
Fair value adjustment investment property	11,938	16,750	28,688
Foreign exchange loss	(174)	(26)	(200)
Profit before net finance expense	**19,202**	**24,962**	**44,164**
Net finance expense	**(4,359)**	**(2,741)**	**(7,100)**
Finance income	12	3	15
Finance expense	(4,371)	(2,744)	(7,115)
Fair value adjustment of interest rate derivatives financial assets and liabilities	754	124	878
Profit before income tax	**15,597**	**22,345**	**37,942**
Tax release/(charge)	(2,538)	(3,268)	(5,806)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	**13,059**	**19,077**	**32,136**

31 Dec 2016	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Revenue from rent and recoveries	10,335	6,800	17,135
Property operating expenses	(2,965)	(1,627)	(4,592)
Administrative expenses	(75)	167	92
Fair value adjustment investment property	7,528	6,976	14,504
Foreign exchange gain/loss	(5)	96	91
Profit before net finance expense	**14,818**	**12,412**	**27,230**
Net finance expense	**(6,171)**	**(3,770)**	**(9,941)**
Finance income	3	1	4
Finance expense	(6,174)	(3,771)	(9,945)
Fair value adjustment of interest rate derivatives financial assets and liabilities	(349)	(107)	(456)
Profit before income tax	**8,298**	**8,535**	**16,833**
Tax release/(charge)	(2,285)	(1,782)	(4,067)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	**6,013**	**6,753**	**12,766**

Shareholder loans to Ploiesti Shopping City and The Office Cluj-Napoca were granted by NE Property Cooperatief. All shareholder loans are subject to interest at 8% per annum (2016: 8% per annum). Interest income from joint ventures in 2017 amounted to €2,274 thousand (2016: €3,624 thousand).

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	19,636	6,156	25,792

31 Dec 2016	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	20,979	10,036	31,015

Ploiesti Shopping City – BRD Groupe Societe Generale loan
Ploiesti Shopping City entered into a loan facility agreement for a total amount of €36,500 thousand from BRD Groupe Societe Generale. The credit facility matures in 2024 and is repayable in quarterly instalments.
Security
— General security over the property (weighted fair value as at 31 December 2017 of €51,005 thousand), current assets, cash inflows from operating activities, accounts and receivables of Ploiesti Shopping City.
Covenants
— Loan to value ratio of maximum 50%,
— Debt service cover ratio of minimum 120%, and
— Interest coverage ratio of minimum 170%.

The Office, Cluj-Napoca – Raiffeisen Bank loan
In 2014, The Office entered into a credit facility agreement with a total value of €18,000 thousand with Raiffeisen Bank, which was subsequently increased by two additional credit facilities of €17,000 thousand and €8,500 thousand in 2016, and one additional credit facility of €12,000 thousand in October 2017. The loan matures in June 2022.
Security
— General security over the property (weighted fair value as at 31 December 201 of €61,145 thousand), current assets, cash inflows from operating activities, accounts and receivables of Cluj Business Centre.
Covenants
— Loan to value ratio of maximum 60%, and
— Debt service cover ratio of minimum 125%.

34. 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 2017	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
Net rental and related income	**204,246**	**26,041**	**1,798**	**-**	**232,085**
Revenue from rent and recoveries	299,862	35,089	2,026	-	336,977
Property operating expenses	(95,616)	(9,048)	(228)	-	(104,892)
Administrative expenses	(7,547)	(1,359)	(30)	(6,255)	(15,191)
EBITDA*	**196,699**	**24,682**	**1,768**	**(6,255)**	**216,894**
Net result from financial investments	**-**	**-**	**-**	**(6,028)**	**(6,028)**
Income from financial investments at fair value through profit or loss	-	-	-	18,084	18,084
Fair value and net result on sale of financial investments at fair value through profit or loss	-	-	-	(24,112)	(24,112)
Acquisition fees	(5,946)	(175)	-	(4,560)	(10,681)
Fair value adjustments of investment property	148,889	12,674	459	-	162,022
Foreign exchange gain/(loss)	973	(137)	(22)	(2,069)	(1,255)
Gain/(Loss) on disposal of investment property	(531)	540	-	-	9
Profit before Net finance expense	**340,084**	**37,584**	**2,205**	**(18,912)**	**360,961**

** 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 2016	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
Net rental and related income	**121,376**	**22,356**	**1,800**	**-**	**145,532**
Revenue from rent and recoveries	177,614	30,263	2,013	-	209,890
Property operating expenses	(56,238)	(7,907)	(213)	-	(64,358)
Administrative expenses	(5,147)	(563)	(48)	(2,428)	(8,186)
EBITDA*	**116,229**	**21,793**	**1,752**	**(2,428)**	**137,346**
Net result from financial investments	**-**	**-**	**-**	**14**	**14**
Income from financial investments at fair value through profit or loss	-	-	-	738	738
Fair value and net result on sale of financial investments at fair value through profit or loss	-	-	-	(724)	(724)
Acquisition fees	(4,339)	-	-	-	(4,339)
Fair value adjustments of investment property	138,196	5,700	(733)	-	143,163
Foreign exchange gain/(loss)	(177)	4	3	43	(127)
Loss on disposal of investment property held for sale	(140)	(345)	-	-	(485)
Other operating income	(16)	15	1	-	-
Profit before Net finance expense	**249,753**	**27,167**	**1,023**	**(2,371)**	**275,572**

** 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 2017	Retail	Office	Industrial	Corporate	Total
SEGMENT ASSETS					
Non-current assets	**4,636,132**	**437,567**	**16,234**	**37,264**	**5,127,197**
Investment property	4,516,718	394,557	16,234	-	4,927,509
— Investment property in use	4,314,302	394,557	16,234	-	4,725,093
— Investment property under development	202,416	-	-	-	202,416
Goodwill	66,390	10,310	-	5,882	82,582
Deferred tax assets	10,769	360	-	1,361	12,490
Investments in joint ventures	16,613	24,243	-	-	40,856
Long-term loans granted to joint ventures	19,636	6,156	-	-	25,792
Other long-term assets	5,927	1,941	-	28,307	36,175
Interest rate derivatives financial assets at fair value through profit or loss	79	-	-	1,714	1,793
Current assets	**124,713**	**15,461**	**672**	**719,520**	**860,366**
Trade and other receivables	50,618	5,815	91	4,269	60,793
Financial investments at fair value through profit or loss	-	-	-	326,565	326,565
Equity derivative collateral	-	-	-	265,541	265,541
Financial assets at fair value through profit or loss	-	-	-	11,923	11,923
Cash and cash equivalents	74,095	9,646	581	111,222	195,544
Investment property held for sale	**1,528**	**8,710**	**-**	**-**	**10,238**
TOTAL ASSETS	**4,762,373**	**461,738**	**16,906**	**756,784**	**5,997,801**
SEGMENT LIABILITIES					
Non-current liabilities	**1,000,715**	**39,965**	**2,175**	**894,427**	**1,937,282**
Bank loans	724,407	10,086	-	-	734,493
Bonds	-	-	-	889,917	889,917
Deferred tax liabilities	245,274	25,329	502	-	271,105
Other long-term liabilities	30,505	4,550	1,673	361	37,089
Interest rate derivatives financial liabilities at fair value through profit or loss	529	-	-	4,149	4,678
Current liabilities	**102,332**	**13,111**	**392**	**29,965**	**145,800**
Trade and other payables	92,384	12,491	392	8,286	113,553
Financial liabilities at fair value through profit or loss	-	-	-	10,934	10,934
Bank loans	9,948	620	-	-	10,568
Bonds	-	-	-	10,745	10,745
TOTAL LIABILITIES	**1,103,047**	**53,076**	**2,567**	**924,392**	**2,083,082**

Segment assets and liabilities 31 Dec 2016	Retail	Office	Industrial	Corporate	Total
SEGMENT ASSETS					
Non-current assets	**2,272,377**	**366,165**	**15,775**	**19,859**	**2,674,176**
Investment property	2,202,742	328,255	15,775	-	2,546,772
— Investment property in use	2,058,660	296,325	15,775	-	2,370,760
— Investment property under development	144,082	31,930	-	-	176,012
Goodwill	42,198	10,310	-	5,882	58,390
Investments in joint ventures	5,679	16,344	-	-	22,023
Long-term loans granted to joint ventures	20,979	10,036	-	-	31,015
Other long-term assets	776	1,217	-	13,306	15,299
Financial assets at fair value through profit or loss	3	3	-	671	677
Current assets	**63,692**	**9,568**	**468**	**33,810**	**107,538**
Trade and other receivables	35,457	4,366	80	636	40,539
Financial investments at fair value through profit or loss	-	-	-	18,979	18,979
Cash and cash equivalents	28,235	5,202	388	14,195	48,020
Investment property held for sale	**2,375**	**13,150**	**-**	**-**	**15,525**
TOTAL ASSETS	**2,338,444**	**388,883**	**16,243**	**53,669**	**2,797,239**
SEGMENT LIABILITIES					
Non-current liabilities	**304,312**	**36,279**	**2,101**	**489,303**	**831,995**
Bank loans	154,886	10,707	-	95,000	260,593
Bonds	727	125	5	393,962	394,819
Deferred tax liabilities	136,642	21,769	428	25	158,864
Other long-term liabilities	12,057	3,678	1,668	-	17,403
Financial liabilities at fair value through profit or loss	-	-	-	316	316
Current liabilities	**64,715**	**12,826**	**418**	**72,733**	**150,692**
Trade and other payables	57,554	12,205	418	1,359	71,536
Bank loans	7,161	621	-	10,217	17,999
Bonds	-	-	-	61,157	61,157
TOTAL LIABILITIES	**369,027**	**49,105**	**2,519**	**562,036**	**982,687**

The Group's geographical breakdowns per country are detailed below.

Country results 31 Dec 2017	Net rental and related income	Profit before tax	Investment property
Romania	133,259	284,870	1,993,943
Poland	32,465	12,203	1,232,225
Bulgaria	7,297	10,385	476,180
Slovakia	26,633	47,894	405,065
Hungary	5,270	5,903	289,900
Croatia	15,679	20,685	245,275
Czech Republic	8,137	13,492	171,470
Serbia	3,313	5,206	111,724
United Kingdom	32	(1,080)	1,727
Holding	-	(931,102)	-
Total	**232,085**	**(531,544)**	**4,927,509**

Country results 31 Dec 2016	Net rental and related income	Profit before tax	Investment property
Romania	113,780	221,898	1,771,863
Slovakia	21,426	48,218	376,301
Croatia	2,599	7,557	239,125
Czech Republic	4,517	4,436	82,725
Serbia	3,210	3,644	76,758
Holding	-	(16,629)	-
Total	145,532	269,124	2,546,772

**The Holding segment represents management and holding entities in Isle of Man,The Netherlands, Mauritius, and United Kingdom*

35. CONTINGENT ASSETS AND LIABILITIES

Guarantees

Group policy is to provide financial guarantees to subsidiaries to the extent required in the normal course of business.

As at 31 December 2017, the Group had received letters of guarantee from tenants worth €89,528 thousand (31 December 2016: €37,671 thousand) and from suppliers worth €23,273 thousand (31 December 2016: €11,212 thousand) related to ongoing developments.

The Company has an intercompany agreement with one of its subsidiaries pursuant to which it acts as Guarantor on all issued bonds and unsecured committed revolving facilities. In its capacity as Guarantor, the Company charges its subsidiary for a yearly fee. Borrowings are presented in Note 19.

36. RELATED PARTY TRANSACTIONS

Identity of related parties with whom material transactions have occurred

The subsidiaries and Directors are related parties for the Company. The subsidiaries of the Company are detailed in Note 5. The Directors are related parties for the Group. Directors are presented in the 'Board of Directors' section.

Material related party transactions

For the Company, loans to, and investments in, subsidiaries are set out in Note 5. Fees paid to Directors during the current and previous year are detailed in the table below. NEPI and Rockcastle have paid bonuses to the Executive Directors for periods preceding the merger. No other payments were made to Directors by NEPI Rockcastle, except reimbursements for travel and accommodation.

Transactions with joint ventures are presented in Note 33.

Directors' fees	Total Group 31 Dec 17	Company 31 Dec 17	Subsidiaries 31 Dec 17	Total Group 31 Dec 16	Company 31 Dec 16	Subsidiaries 31 Dec 16
Alex Morar	413	353	60	345	-	345
Spiro Noussis***	320	-	320	-	-	-
Mirela Covasa	315	212	103	260	-	260
Nick Matulovich***	247	-	247	-	-	-
Marek Noetzel***	118	-	118	-	-	-
Robert Emslie**	51	51	-	43	-	43
Dan Pascariu	50	50	-	50	-	50
Michael Mills	49	49	-	48	-	48
Antoine Dijkstra	48	48	-	23	-	23
Desmond de Beer	47	47	-	47	-	47
Andre van der Veer***	23	23	-	-	-	-
Jeffrey Zidel	23	23	-	47	-	47
Nevenka Pergar	23	23	-	46	-	46
Andries de Lange**	-	-	-	-	-	-
Tiberiu Smaranda*	-	-	-	173	-	173
Total	**1,727**	**879**	**848**	**1,082**	**-**	**1,082**

** Tiberiu Smaranda, executive director of New Europe Property Investments plc, has resigned with effect from 1 September 2016.*

*** For the comparatives relating to New Europe Property Investments plc, Robert Emslie was appointed as a non-executive director on 4 February 2016, Antoine Dijkstra was appointed as a non-executive director on 13 June 2016 and Andries de Lange was appointed as an alternate director to Mr Desmond de Beer, a non-executive director of NEPI, with effect from 9 August 2016.*

**** The fees represent the remuneration applicable to the respective Directors from the merger date onwards.*

As the merger between NEPI and Rockcastle was only effective 11 July 2017, no Directors fees for the comparative period are available for NEPI Rockcastle. In accordance with IFRS 3, the remuneration paid to directors of NEPI for the year ended 31 December 2016 are included in the table above. As disclosed in Rockcastle's Integrated Annual Report for the 18 months ended 31 December 2016, the following Directors received remuneration from Rockcastle in their capacity as directors of Rockcastle for the 18 months ended 31 December 2016 as follows: Spiros Noussis – USD 1,126,000; Nicholas Matulovich – USD 576,000; Marek Noetzel (appointed August 2016) – USD 137,000; Andries de Lange – USD 6,000; Andre van der Veer (resigned September 2015) – USD 33,000.

Remuneration that accrued to directors of NEPI during the year ended 31 December 2016 was paid to such directors by NEPI prior to the merger implementation date.

Shares held under the purchase schemes by the Directors or by entities in which they have an indirect beneficial interest

Name of Director	Number of shares held as at 31 Dec 2017
Spiro Noussis	1,507,000
Alex Morar	101,000
Nick Matulovich	713,198
Mirela Covasa	75,000
Marek Noetzel	80,349
TOTAL	**2,476,547**

Name of Director	Number of shares held as at 31 Dec 2016
Tiberiu Smaranda*	488,478
Alex Morar	229,000
Mirela Covasa	271,629
TOTAL	**989,107**

** Tiberiu Smaranda, executive director, has resigned with effect from 1 September 2016.*

37. SUBSEQUENT EVENTS

In March 2018, the Group has extended its revolving credit facility of €100 million with ING, for an additional term of three years.

The Directors are not aware of any other subsequent events from 31 December 2017 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, other than as disclosed in the Directors' report.

APPENDIX

Schedule of properties

Except for seven properties in Romania, which are valued by Colliers Valuation and Advisory Romania, all the other properties have been fair valued by Cush

No.	Property name	Year opened/ acquired	Type	Location
	INCOME PRODUCING PROPERTIES			
	RETAIL			
1	Bonarka City Center^	2009/ 2016	Super-Regional Mall	Poland
2	Mega Mall	2015	Super-Regional Mall	Romania
3	Arena Plaza	2007/ 2017	Super-Regional Mall	Hungary
4	Paradise Center	2013/ 2017	Super-Regional Mall	Bulgaria
5	Arena Centar	2010/ 2016	Super-Regional Mall	Croatia
6	City Park	2008/ 2013	Regional Mall	Romania
7	Serdika Center	2010/ 2017	Regional Mall	Bulgaria
8	Promenada Mall	2013/ 2014	Lifestyle Centre	Romania
9	Aupark Kosice Mall	2011/ 2014	Regional Mall	Slovakia
10	Galeria Warminska	2014/ 2016	Regional Mall	Poland
11	Karolinka Shopping Centre	2008/ 2015	Regional Mall	Poland
12	Shopping City Timisoara	2015-2016	Regional Mall	Romania
13	Shopping City Sibiu	2006/ 2016	Super-Regional Mall	Romania
14	Aupark Zilina	2010/ 2013	Regional Mall	Slovakia
15	Iris Titan Shopping Center	2008/ 2015	Community Centre	Romania
16	Focus Mall Zielona Gora	2008/ 2016	Regional Mall	Poland
17	Alfa Centrum Bialystok	2008/ 2017	Regional Mall	Poland
18	Shopping City Galati	2013	Regional Mall	Romania
19	Shopping City Deva	2007/ 2013	Regional Mall	Romania
20	Braila Mall	2008/ 2009	Regional Mall	Romania
21	Forum Ústí nad Labem	2009/ 2016	Regional Mall	Czech Republic
22	Forum Liberec Shopping Centre	2009/ 2016	Regional Mall	Czech Republic
23	Pogoria Shopping Centre	2008/ 2015	Regional Mall	Poland
24	Solaris Shopping Centre	2009/ 2015	Regional Mall	Poland
25	Focus Mall Piotrkow Trybunalski	2009/ 2016	Regional Mall	Poland
26	Galeria Wolomin*	2016	Regional Mall	Poland
27	Vulcan Value Centre	2014	Community Centre	Romania
28	Pitesti Retail Park	2007/ 2010	Community Centre	Romania
29	Ploiesti Shopping City	2012	Regional Mall	Romania
30	Shopping City Piatra Neamt	2016	Regional Mall	Romania
31	Kragujevac Plaza	2012/ 2014	Regional Mall	Serbia
32	Shopping City Targu Jiu	2014	Regional Mall	Romania
33	Shopping City Ramnicu Valcea	2017	Regional Mall	Romania
34	Korzo Shopping Center	2010-2011/ 2016	Community Centre	Slovakia
35	Platan Shopping Centre	2003/ 2015	Regional Mall	Poland
36	Aupark Shopping Center Piestany	2010/ 2016	Community Centre	Slovakia
37	Galeria Tomaszow*	2016	Regional Mall	Poland
38	Severin Shopping Center	2009/ 2013	Regional Mall	Romania
39	Aurora Shopping Mall	2008/ 2014	Regional Mall	Romania
40-46	Regional strip centres	2007-2014	Strip Centres	Romania
	OFFICE			
47	Floreasca Business Park	2009/ 2010	Office	Romania
48	City Business Centre	2007-2015/ 2015	Office	Romania
49	The Lakeview	2010/ 2013	Office	Romania
50	The Office Cluj-Napoca	2014-2015-2017	Office	Romania
51	Serdika Office	2011 / 2017	Office	Bulgaria
52	Victoriei Office	2017	Office	Romania
53	Aupark Kosice Tower	2012/ 2014	Office	Slovakia
54	Rockcastle House	1980/ 2015	Office	United Kingdom
	INDUSTRIAL			
55	Rasnov Industrial Facility	2007	Industrial	Romania
56	Otopeni Warehouse	2010	Industrial	Romania

**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 an*
^Auchan, a major tenant, owns their premises of 20,600sqm. Total GLA of the property including this premises is 93,300sqm.
The schedule of properties excludes the non-core properties held for sale which have a market value of €10.2 as at 31 December 2017.

No.	Property name	Type	Location
	TOTAL DEVELOPMENTS AND LAND BANK		
	DEVELOPMENTS UNDER CONSTRUCTION		
57	Promenada Novi Sad - Phase I	Development	Serbia
35	Platan Shopping Centre	Extension and Redevelopment	Poland
24	Solaris Shopping Centre	Extension	Poland
40	Vaslui strip centre	Extension	Romania
	DEVELOPMENTS UNDER PERMITTING AND PRE-LEASING^		
8	Promenada Mall	Extension	Romania
5	Arena Centar	Extension and Redevelopment	Croatia
58	Shopping City Targu Mures - Phase I	Development	Romania
59	Shopping City Satu Mare	Development	Romania
60-61	Retail parks (Krusevac and Sabac)	Development	Serbia
39	Aurora Shopping Mall	Extension and Redevelopment	Romania
29	Ploiesti Shopping City	Extension	Romania
16	Focus Mall Zielona Gora	Extension	Poland
23	Pogoria Shopping Centre	Extension	Poland
13	Shopping City Sibiu	Extension and Redevelopment	Romania
34	Korzo Shopping Center	Extension	Slovakia
	Land held for future developments and extensions		

^The developments under permitting and pre-leasing's GLA depends on permitting.

man and Wakefield valuation firms from Romania, Poland, Slovakia, Bulgaria, Croatia, Hungary, Czech Republic and Serbia.

		Weighted by ownership				
Ownership	**GLA m²**	**GLA m²**	**Valuation/ Cost to date €m**	**Passing rent €m**	**Average rental €/ m²/ month**	**Occupancy**
	1 855 700	**1 801 000**	**4 837.2**	**327.6**	**15.2**	**96.5%**
	1 605 000	**1 582 100**	**4 365.3**	**290.9**	**15.3**	**96.2%**
100%	72 700	72 700	375.2	20.0	22.9	96.8%
100%	75 800	75 800	306.1	19.0	20.9	97.9%
100%	66 000	66 000	285.9	17.8	22.5	94.4%
100%	82 000	82 000	254.7	15.7	16.0	88.5%
100%	61 600	61 600	226.1	15.3	20.7	95.4%
100%	52 100	52 100	181.8	12.8	20.5	97.1%
100%	51 500	51 500	161.4	12.6	20.4	99.1%
100%	39 400	39 400	196.0	12.0	25.4	99.4%
100%	33 800	33 800	166.2	9.9	24.4	95.2%
100%	42 700	42 700	156.1	9.5	18.5	99.8%
100%	70 100	70 100	150.1	9.2	10.9	97.4%
100%	56 900	56 900	120.2	8.6	12.6	100.0%
100%	78 200	78 200	116.9	8.5	9.1	96.4%
100%	25 100	25 100	124.8	8.1	26.9	100.0%
100%	45 000	45 000	96.8	7.5	13.9	99.7%
100%	28 800	28 800	119.5	7.4	21.4	96.6%
100%	37 000	37 000	93.3	7.1	16.0	97.5%
100%	49 100	49 100	101.8	6.5	11.0	84.9%
100%	52 500	52 500	77.7	6.5	10.3	100.0%
100%	55 400	55 400	78.8	6.1	9.2	97.2%
100%	27 800	27 800	87.9	5.4	16.2	97.1%
100%	46 900	46 900	83.5	5.3	9.4	86.1%
100%	36 800	36 800	77.8	5.0	11.3	95.7%
100%	17 300	17 300	60.7	4.3	20.7	98.3%
100%	35 200	35 200	49.4	4.1	9.7	88.1%
90%	30 700	30 700	58.7	4.0	10.9	92.5%
100%	24 600	24 600	56.8	4.0	13.6	100.0%
100%	24 800	24 800	35.1	3.8	12.8	100.0%
50%	45 800	22 900	51.0	3.6	13.1	95.3%
100%	28 000	28 000	47.9	3.5	10.4	100.0%
100%	22 200	22 200	41.9	3.4	12.8	96.6%
100%	27 100	27 100	44.1	3.3	10.1	99.8%
100%	28 200	28 200	42.1	2.9	8.6	95.3%
100%	16 100	16 100	39.1	2.9	15.0	98.7%
100%	22 700	22 700	44.1	2.8	10.3	97.4%
100%	10 300	10 300	41.0	2.7	21.8	98.0%
85%	18 400	18 400	32.1	2.6	11.8	98.5%
100%	22 600	22 600	34.3	2.4	8.8	99.7%
100%	18 000	18 000	15.5	2.2	10.2	99.7%
100%	25 800	25 800	32.9	2.6	8.4	100.0%
	222 900	**191 100**	**455.7**	**34.8**	**15.2**	**98.2%**
100%	36 300	36 300	108.3	7.9	18.1	99.4%
100%	47 800	47 800	97.1	7.9	13.8	97.9%
100%	25 600	25 600	74.5	5.4	17.6	98.8%
50%	63 600	31 800	61.1	5.1	13.4	99.0%
100%	28 500	28 500	51.1	3.9	11.4	95.2%
100%	7 800	7 800	40.7	2.7	28.8	99.2%
100%	12 900	12 900	21.2	1.8	11.6	100.0%
100%	400	400	1.7	0.1	20.8	53.9%
	27 800	**27 800**	**16.2**	**1.9**	**5.7**	**98.0%**
100%	23 000	23 000	11.6	1.3	4.7	97.6%
100%	4 800	4 800	4.6	0.6	10.4	100.0%

d a corresponding 10% and 15% non-controlling interest is included in Equity.

		Weighted by ownership		
Ownership %	**GLA m²**	**GLA m²**	**Valuation/ Cost to date €m**	**Estimated Rental Value €m**
	298 600	**294 600**	**203.4**	**15.8**
	78 200	**78 200**	**76.6**	**15.8**
100%	49 400	49 400	62.3	10.5
100%	17 000	17 000	9.7	2.8
100%	9 000	9 000	3.9	2.2
100%	2 800	2 800	0.7	0.3
	220 400	**216 400**	**89.0**	
100%	60 000	60 000	34.4	
100%	27 900	27 900	19.2	
100%	32 900	32 900	14.1	
100%	28 700	28 700	11.5	
100%	22 200	22 200	5.5	
100%	5 900	5 900	2.8	
50%	8 000	4 000	1.0	
100%	14 700	14 700	0.5	
100%	1 100	1 100	-	
100%	9 700	9 700	-	
100%	9 300	9 300	-	
			37.8	

APPENDIX

Company	**NEPI Rockcastle Plc** Registration number 014178V JSE share code: NRP, Euronext share code: NRP 2nd Floor, 30 Athol Street Douglas, Isle of Man, IM1 1JB
Company Administrator and Registrar	**Sabre Fiduciary Ltd** 2nd Floor, 30 Athol Street, Douglas, IM1 1JB, Isle of Man Phone +44 (0) 2031 801 547
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JSE Sponsor	**Java Capital** 6A Sandown Valley Crescent, Sandton, 2196, JHB

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