

DIRECTORS' COMMENTARY

All information below excludes joint ventures, unless otherwise stated

CEO'S STATEMENT

"The Group went through the most challenging period in its history in 2020. The COVID-19 pandemic took the world by surprise and upended the way people everywhere live, work, learn, travel, socialise and shop. The business of running shopping and entertainment centres has been one of the most affected by the restrictions implemented to combat the pandemic. Most of the tenants in our properties had to close their shops to the public for long periods of time, first during the spring and then (to a lesser extent) again in Q4. Faced with a sudden drop in business, our tenants sought and received our support to get them through lockdowns. This naturally had a strong impact on the results we are now reporting for 2020.

The past year also confirmed the robustness of our business model, its resilience and flexibility in highly demanding circumstances. We managed to continue the smooth and safe running of our operations with adequate levels of liquidity and capital throughout. Our team adapted quickly to new ways of working, stepped up to unprecedented challenges (such as over 6,000 negotiations successfully completed with tenants in about seven months) and, most importantly, kept themselves and others safe in the process.

Beyond the immediate impact on results, we managed to keep our income-generating capacity intact through difficult, but temporary, conditions. Occupancy held strong at 95.7% across our portfolio. The collection rate for the year, thanks to the quality of our tenant mix and the efforts of our team, was 95% as at year end and grew higher since. We also managed to improve and extend our tenant mix with the addition of new brands and categories. Properties were well-maintained and secure, as evidenced by the certifications received and the absence of any health incidents. We continued to invest in the refurbishment and extension of existing properties and in the development of new ones.

We managed to preserve and enhance our capital and liquidity. In July we completed a €500 million green bond issue, significantly extending the average maturity of our debt in the process. We extended revolving credit facilities with new terms and conditions tied to achieving our ESG objectives, which we are fully committed to. Credit rating agencies reconfirmed NEPI Rockcastle's investment grade status. In two strategic transactions, we sold in August the Romanian office portfolio (at the same commercial terms negotiated in 2019) and in Q4 completed the disposal of the listed securities portfolio (reallocating the capital to a share repurchase, with accretive results on EPRA NRV and Distributable earnings per share). As a result, we concluded 2020 with a very comfortable LTV ratio of 31.5% and liquidity resources of €1.2 billion, which positions us strongly for the coming period.

Still, the shopping environment is changing. Some effects of the pandemic will be short lived, but some longer-term trends were accelerated. People have already started returning to more communal forms of leisure, entertainment and shopping where possible (and we strive to ensure that they do so safely) and continue to enjoy visiting our centres. As retail is changing, we are working on adapting our business model to capitalise on these changes. The future of retail is omnichannel, with more digital engagement, and we are taking steps to adjust our offering in that direction.

We expect that 2021 will be a better year for NEPI Rockcastle. The pandemic in CEE countries has recently started to abate and the ongoing vaccination programme will accelerate over the next few months. The European Union approved a significant support plan that will start producing effects in 2021. National governments in CEE indicated that they will continue fiscal and monetary stimulus. There are no signs that monetary conditions will tighten soon. All these make a strong economic rebound likely, with a particularly pronounced effect on personal consumption. In the physical retail sector, the CEE region is not blighted by the overcapacity affecting Western European real estate and still has lower e-commerce penetration rates. Our Group is well-positioned to benefit from improving economic conditions and return to a steady and sustainable growth path." Alex Morar, CEO

HIGHLIGHTS

- Distributable earnings per share ('DEPS') for the second half of 2020 ('H2 2020') were 18.76 euro cents, which combined with the interim DEPS of 19.66 euro cents produces an annual DEPS of 38.42 euro cents, 31.8% lower than 2019 (56.33 euro cents) and in line with the latest guidance.
- The Board has declared a dividend of 16.88 euro cents per share for the second half of 2020, corresponding to 90% of the distributable earnings per share for this period. This decision is in line with NEPI Rockcastle's policy of distributing at least 90% of its distributable earnings and allows the Company to retain adequate capital as reserve, given the challenging macroeconomic environment. The distribution will be paid in cash during March 2021.

- Net rental and related income (referred to as Net Operating Income or 'NOI') was €323 million, 19.4% lower than in 2019. Part of the decrease reflects the sale of the Romanian office portfolio in August 2020 (impact of NOI loss for the year of approximately €9.2 million).
- Other factors contributing to DEPS decreasing, besides NOI, include the lack of dividend income from the listed securities portfolio and higher finance expenses due to keeping additional liquidity compared to 2019.
- Retail NOI decreased by 18.5%, to €300.7 million, and by 21.3% on a like-for-like ('LFL') basis. The key drivers were the temporary rent concessions granted to tenants as COVID-19 support (€69.5 million recognised in 2020) and a reduction of variable (turnover and overage) rent from €33.5 million (2019) to €26.6 million (2020).
- There were 221 million visits in 2020, a decrease of 32% (32.9% LFL) vs 2019. The largest declines recorded during lockdowns (March-May and November-December), when most non-essential stores were closed.
- Tenant turnover decreased by 29.4% (excluding hypermarkets), and by 31.5% on a LFL basis.
- Occupancy cost ratio ('OCR') increased from 11.9% in 2019 to 14.5% in 2020 (excluding hypermarkets).
- Negotiations have been completed and agreements signed in relation to 2020 with more than 97% of our tenants. 6,150 addenda to lease agreements were signed, over a period of seven months. The collection rate remained high (95% of 2020 reported revenues were collected as at 31 December 2020, increasing to 97% as at mid-February 2021) and tenants received the support needed to continue operating (net expected credit losses at the end of 2020 were only 1.2% of Gross rental income and Service charge income).
- Throughout 2020, non-essential stores were closed for 73 days on average (approximately 20% of the year), with trading restrictions for certain businesses (such as restaurants, cinemas) lasting much longer. By mid-February 2021 most restrictions were lifted and 85% of Gross Lettable Area ('GLA') was operational.
- Rental concessions of €69.5 million were recognised in the Statement of comprehensive income of the period, mainly as a reduction of gross rental income or expense with partial forgiveness of receivables. Only €2.5 million, out of total rent concessions of €72 million granted for 2020, will be reflected in future Statements of comprehensive income, over the associated lease term, which on average approximates three years.
- Investment property on 31 December 2020 was valued at €5.8 billion, compared to €6.0 billion at the end of 2019 (excluding the Romanian office portfolio, classified as held for sale at 31 December 2019 and sold in 2020). The property portfolio incurred a devaluation of €345.3 million compared to previous year, corresponding to a fair value loss of 5.2% on a LFL basis.
- EPRA occupancy remained strong at 95.7%, compared to 97.9% in 2019.
- EPRA Net Reinstatement Value per share was €6.45 at 31 December 2020, a 11.9% decrease compared to €7.32 at 31 December 2019, mostly due to the devaluation of the property portfolio and listed securities portfolio.
- Liquidity position on 31 December 2020 was very strong: €1.2 billion, including €643 million in cash and €575 million in undrawn committed credit facilities.
- Loan-to-value ratio ('LTV') was 31.5% on 31 December 2020, significantly below the 35% strategic target and comfortably within debt covenants.
- The launch of the Green Finance Framework and successful issuance of €500 million unsecured green bonds in July 2020 extended average debt maturity from 3.6 years on 30 June 2020 to 4.1 years on 31 December.
- The average interest rate, including hedging, was 2.3% for 2020, slightly lower from 2.4% in 2019.
- Investment grade credit ratings reaffirmed at BBB by Fitch Ratings (stable outlook) and S&P Global Ratings (negative outlook).
- Environmental, Social and Corporate Governance ('ESG') Risk Rating from Sustainalytics improved to 12.5/100 (end 2020) from 15.1/100 (end 2019), making the Group one of the top five rated real estate management companies.

NEPI Rockcastle Results Presentation December 2020 will be available on the Company's website starting 25 February 2021.

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- Despite challenging circumstances, the Company successfully opened a new shopping centre in Targu Mures, Romania (GLA: 40,200m²) and completed extension and refurbishment works in Shopping City Buzau (Romania) and Forum Liberec Shopping Centre (Czech Republic). Throughout the year the Group invested €143 million in developments and capital expenditures.
- In August 2020, the Group sold its Romanian office portfolio for a transaction value of €307 million (net cash proceeds of €294.8 million).

reintroduced in the fourth quarter ('Q4'), albeit in a somewhat less severe form, to combat the subsequent waves that hit the Central and Eastern Europe ('CEE') countries. The sequence and duration of restrictions varied by country and is illustrated below*.

On average, throughout 2020, non-essential stores were closed for 73 days (approximately 20% of the year, or 21% when weighted by NOI). The longest cumulative lockdowns were in Bulgaria (101 days), Czech Republic (94 days) and Romania (85 days), and the shortest in Serbia (50 days), Hungary (52 days) and Croatia (54 days). Additionally, further restrictions were imposed on specific businesses (food service, entertainment), including limitations on capacity and opening hours.

Before the pandemic, footfall and tenant sales were higher than prior year levels. Sales, for example, cumulatively increased 9% on a LFL basis in January and February. Traffic collapsed in March when non-essential stores closed and remained at less than 20% compared to previous years throughout lockdown (mostly driven by visits to essential stores). In second quarter ('Q2'), tenant sales were 58.4% lower than Q2 2019. After reopening, there was a gradual but strong rebound throughout the summer and September, resulting in third quarter ('Q3') footfall and tenant sales only 21.7% and 12.2% less than Q3 2019, respectively. The healthy recovery indicates that consumers return to the malls when conditions normalise. Starting October, the rise in COVID-19 cases resulted in new trading restrictions and another fall in traffic, albeit less severe than in spring. The Q4 figures show a slight decrease in footfall and sales compared to Q3, but as restrictions coincided with Black Friday and Christmas the reduction compared to previous year was higher: 35.7% and 31.6% (respectively).

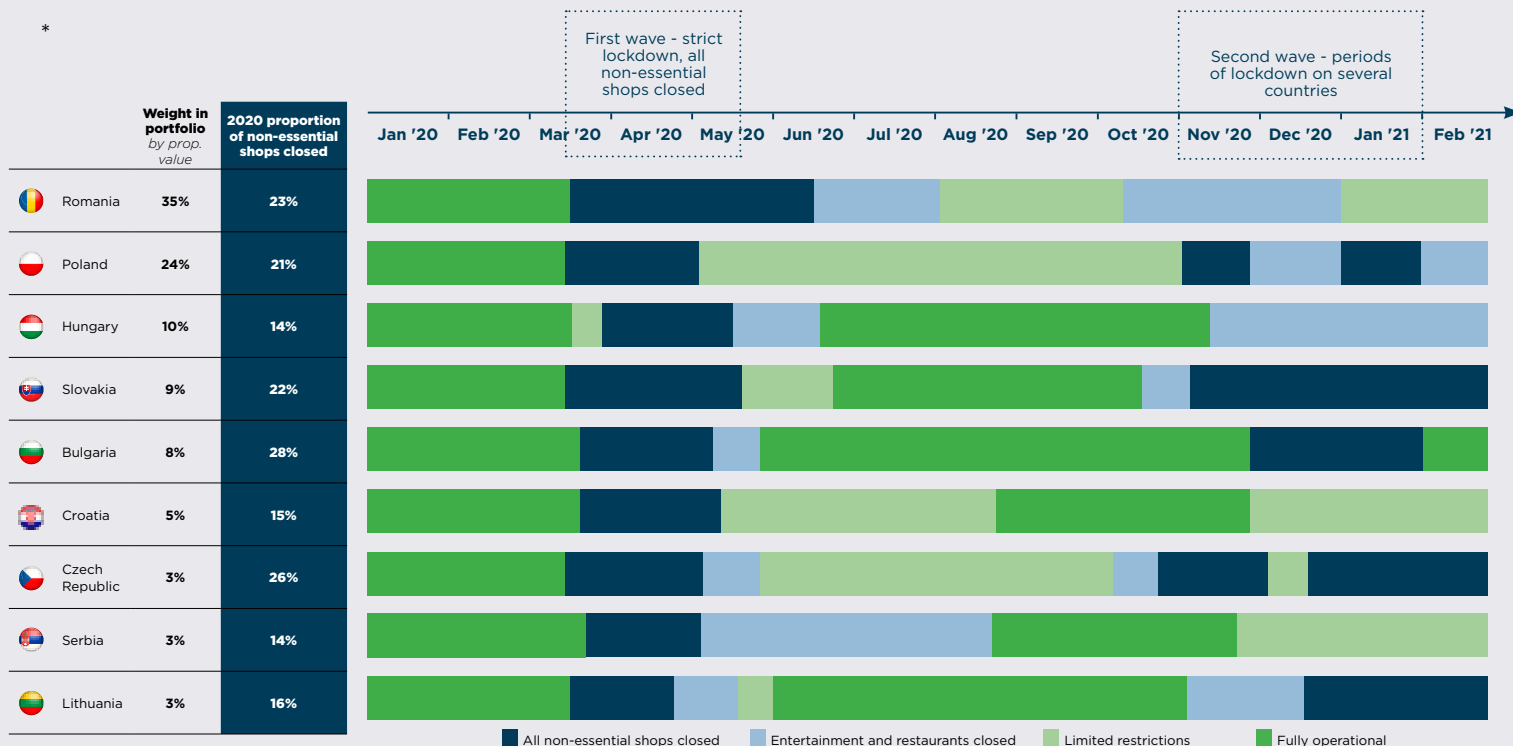
Generally, tenant sales decreased less than footfall, as customers tended to reduce the number of visits to shopping centres but buy more products during a visit (e.g. the average basket value in September 2020 was 8.5% higher than in September 2019). The increase in tenant OCR reflects the sharing of the economic burden by both the Group and its tenants. While rent concessions did not entirely compensate for the decrease in turnovers, OCR remained in an acceptable range, enabling most tenants to operate profitably. Moreover, some of them received government aid as subsidies for rent and other costs (e.g. in

OPERATING PERFORMANCE

Trading summary

Retail performance by country 2020 (LFL)	NOI 2020 vs 2019 (%)	Tenant sales 2020 vs 2019 (%)	Footfall 2020 vs 2019 (%)
Retail LFL	(21.3)	(31.5)	(32.9)
Romania	(19.1)	(33.7)	(31.7)
Poland	(29.3)	(29.3)	(30.0)
Hungary	(18.5)	(33.7)	(34.2)
Slovakia	(17.1)	(29.4)	(38.3)
Bulgaria	(36.1)	(38.2)	(40.5)
Croatia	(9.4)	(22.3)	(24.9)
Serbia	(12.5)	(12.7)	(21.0)
Czech Republic	(13.2)	(30.9)	(32.9)
Lithuania	(5.1)	(27.8)	(34.4)

In the nine countries where the Group operates, trading was severely disrupted by restrictions introduced to prevent the spread of SARS-CoV-2 (the virus responsible for the COVID-19 pandemic). In spring 2020, during the first wave, Governments temporarily closed non-essential stores. Lockdowns were eased during the summer, allowing a partial reopening. However, restrictions were



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Slovakia, Czech Republic and Lithuania), which decreased the real OCR. The fact that no major tenants went bankrupt and insolvencies were very limited even among smaller tenants proves that the Group's support was adequate.

Performance variations between countries are due to differences in length and severity of restrictions, and in the types of property prevalent in each country. Countries with shorter lockdowns, or without a second one, like Croatia and Serbia, have better trading figures. In 2020, geographical dispersal and property diversity in NEPI Rockcastle's portfolio helped mitigate the pandemic's more extreme effects. Divergent government policies regarding retail support explain variations in NOI relative to sales: in Poland landlords were forced to waive rents during lockdown, while in Slovakia, Czech Republic and Lithuania governments partially subsidised rents, sharing the burden of rent relief.

By retail category, the best performing segments in 2020 were electronics (-14% in tenant sales), health & beauty (-18%), furnishings & DIY (-21%) and sporting goods (-23%), when compared to 2019. These segments benefitted from changes in consumer habits, as they adapted to new circumstances and routines. Fashion (-32%) was affected by supply problems in Q3 and trading restrictions during peak season in Q4. The most affected segments were Entertainment (-63%), Services (-52%) and Food services (-40%), all subject to the longest and most severe restrictions. Entertainment and leisure offerings will continue to provide significant appeal to the Group's shopping centres once restrictions are lifted and are expected to recover more strongly. In 2020, the diversity of the Group's offering, as well as the anchoring presence of a large grocer in almost every property, contributed to the portfolio's resilient performance.

Trading restrictions and government measures

At mid-February 2021, 85% of the Group's GLA was operational. The details on a country-by-country basis are set out below:

Country	Weight in overall portfolio (%)	Operating GLA at mid-Feb (%)	Non-food retailers	Groceries and pharmacies	Restaurants, coffee shops and food courts	Cinemas, children's playgrounds, entertainment
Romania	35	98	Open	Open	Open (with restrictions)	Open (except children's playgrounds)
Poland	24	91	Open	Open	Closed (except for takeaway)	Open (with restrictions)
Hungary	10	82	Open	Open	Closed (except for takeaway)	Closed
Slovakia	9	21	Closed	Open	Closed (except for takeaway)	Closed
Bulgaria	8	91	Open	Open	Closed (except for takeaway)	Open (with restrictions)
Croatia	5	98	Open	Open	Closed (except for takeaway)	Open
Serbia	3	100	Open	Open	Open	Open
Czech Republic	3	42	Closed	Open	Closed (except for takeaway)	Closed
Lithuania	3	16	Closed	Open	Closed (except for takeaway)	Closed
Group	100	85				

Given the recent decrease in new cases, combined with increasing vaccination, restrictions on non-essential shops are expected to be re-considered and potentially lifted by the end of February 2021.

Some governments introduced measures supporting retailers affected by restrictions:

- Poland – lease agreements were suspended throughout lockdown, subject to a mandatory lease extension for six months plus closure period. During the suspension, no rents or service charges were due.
- Slovakia, Czech Republic, Lithuania – governments partially covered tenant payments, sharing the burden between landlords, tenants and government during lockdown (Slovakia – government matched the landlord discount, up to 50% of the rent; Czech Republic – government subsidised 50% of the rent; Lithuania – government subsidised 50% of the rent if landlords granted a 30% discount). Only Slovakia and Czech Republic have continued rent relief during the second lockdown.

Other measures taken by governments in CEE to support businesses affected by lockdowns include tax relief (deferral of liabilities, exemptions/discounts for property tax), employment support (subsidised furloughs, flexible working hours) and liquidity-enhancing measures (guaranteed loans, suspension of loan payments).

ADAPTING TO THE CHANGING RETAIL ENVIRONMENT

Active asset management

In 2020, the key challenge for management was to adapt and respond to the disruptive effect of the COVID-19 pandemic. New priorities included the protection of customers and safe operation of properties by implementing the strictest health and safety standards, supporting tenants affected by restrictions, reacting to changes in consumer behaviour and managing the cost of maintaining and operating properties.

Besides such short-term objectives, management continued to take a strategic view on the composition and characteristics of its portfolio offering, taking measures to ensure the long-term success of the Group's business. Extension and refurbishment projects continued, as well as new developments that had already been initiated. Lease agreements were signed with new tenants, or renewed and extended with existing ones, improving the tenant mix. The Group is focused to adapt its retail mix to the local markets, hence 62% of the new leases were signed with local national retailers. Strategic digitalisation and omnichannel initiatives were accelerated with the introduction of new digital services, communication tools and platforms. Investments making properties more environmentally sustainable and energy efficient continued.

Specific asset management measures initiated, continued or finalised at property-level in 2020 include:

- Shopping City Buzau (Romania) – The last phase of the refurbishment opened to great success, as evidenced by the overperformance of the centre relative to the portfolio average (NOI up 29% Year on Year ('YOY'), tenant sales down only 5% and footfall down 20%, despite the long period of restrictions).
- Braila Mall (Romania) – The opening of Decathlon in September led to a performance rebound in Q4 (footfall and tenant sales were down 14% and 12% YOY respectively in Q4, compared to -28% and -32% in August).
- Shopping City Targu Mures (Romania) – The centre opened in July and, despite ongoing restrictions, performance exceeded expectations. The tenant mix will further benefit from the planned opening of Inditex brands in Q2 2021.
- Bonarka City Center (Poland) – Refurbishment works continued, new tenants were signed, and negotiations are advanced with some others.
- Galeria Tomaszow (Poland) – Despite unfavourable economic conditions, new leases were signed with Biedronka (supermarket) and Action (non-food discounter), replacing the Intermarche supermarket that closed in April.
- Focus Mall Zielona Gora (Poland) – The refurbishment and extension programme continued: part of the mall was rebuilt, some stores were renovated and a new parking was opened for customers.
- Forum Liberec Shopping Centre (Czech Republic) – The refurbishment started in 2019 was completed in 2020. Some pre-agreed tenants cancelled contracts or delayed openings due to the pandemic, but leasing picked up in second half of 2020 ('H2').
- Ozas Shopping and Entertainment Centre (Lithuania) – The country's largest family entertainment park opened in 2020. The construction of a swimming pool is nearing completion and will open once restrictions are lifted.
- Paradise Center (Bulgaria) – Extension works continued in 2020. The renovation of the terrace area is almost complete. Bulgaria's first medical centre in a shopping centre opened in Q4.

Communication and marketing activities focused on supporting tenant sales through a wide range of initiatives, aimed at increasing customer loyalty and visiting frequency rather than attracting large crowds at any one time. Examples include extending the Christmas shopping period, organising cultural and technology events, loyalty programmes and pop-up stores.

The Group implemented new customer services, such as call and collect, click and collect, gift wrapping (in December) and gift deliveries.

Digital communication was extended and upgraded through several initiatives:

- Digital media strategy in Romania focused on video content and reached 50 million impressions, 5 million post engagements and 1.6 million views.
- Launched Tik-Tok channels for Serdika Center and Arena Centar featuring influencers generated content, with a total of more than 1.5 million views.

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- Arena Mall in Budapest utilised social media to combine offline shopping with digital promotion, reaching 2.4 million impressions. The 'Extraordinary Christmas' digital and in-house Christmas campaign, promoted by clients via social media, obtained 6.3 million impressions.

Throughout 2020 there was increased focus on optimising property operating expenses. Some additional costs were incurred due to the introduction of exceptional health and safety measures, but overall security, cleaning and maintenance costs decreased 6% and utilities costs decreased 20% compared to previous year as systems and processes quickly adapted to the new operating regime.

Capital expenditure ('Capex') in 2020 was €21 million, with the Company prioritising work related to health and safety (the repair and upgrading of the fire detection system at City Park, roof repairs at Bonarka City Center), already committed refurbishments and tenant fit-out (Decathlon in Braila Mall, cinemas in Karolinka Shopping Centre and Mammut Shopping Centre), high-yield projects (investments in efficiency-enhancing equipment, such as LED lights and building management system upgrades) and projects targeting sustainability targets (zero waste to landfill and carbon neutrality).

Besides the specific measures implemented throughout 2020, operational resilience during this difficult year was supported by the attributes of the portfolio, features implemented in previous years (detailed below):

- All shopping malls have food anchors, which were considered essential stores in all the countries and remained open even during the strictest lockdowns. In 2020, the Group ensured that customers could access them easily and safely even when other parts of the malls were closed.
- The Group's portfolio is geographically diverse, reducing exposure to regional or local events. The diversification provided resilience during subsequent waves further to the spring lockdowns, in which some countries were more affected than others (and implemented restrictions of varying severity).
- The quality and diversity of the tenant mix maintained the appeal of the Group's properties even when certain retail categories suffered. The Group's continued focus on strong tenants, with viable business models and appealing products, limited the loss of tenants through bankruptcy or lease termination.
- The importance placed in the past on excellent accessibility and generous parking at each property proved exceedingly beneficial in 2020, as customers tended to avoid public transport.
- The presence of electronics and DIY stores, which were very successful in 2020 as people spent more time at home, ensured that the Group's centres remained popular.
- Company properties typically have large common areas and wide corridors, easily accommodating social distancing. It is worth mentioning in this context that none of the Group's properties were considered focal points of infection or an unusual health/safety threat.
- Heating, ventilation and air conditioning ('HVAC') systems are generally modern and efficient, as the Group's malls are new generation retail schemes.

Tenant support

From the outset, the Group entered negotiations with all tenants affected by the pandemic, based on principles of fairness and cooperation. Clear criteria were applied to ensure a measurable and fair allocation of support, aimed at preserving the viability of the retail ecosystem and maximizing value. Tenant support was allocated based on: retailer size and ability to withstand COVID-19's impact, retail category (some categories being more affected than others), importance in the retail mix, retailer footprint throughout portfolio, OCR, lockdown duration (by country/region), and long term prospects.

The Group applied the same approach across its entire portfolio. It focused on providing support to small and medium local and national retailers, for which such assistance was critical. Negotiations for support provided to international anchors and large local chains also included lease improvements giving the Company more flexibility (extension of terms, higher sales-based rents with more frequent reconciliation, removal of tenant unilateral extension or termination options) or agreeing new store openings. Where longer-term deals were agreed, clawback mechanisms were implemented (in the form of conditional concession reversals or step rents) so that the principle of 'fair sharing' remained valid. In addition to, or instead of, temporary rent reductions, NEPI Rockcastle supported tenants through deferral of rent payments, more frequent (advance) invoicing, marketing contribution relief and the reduction of non-critical operating expenses included in service charges.

During 2020, €72 million was provided as income concessions related to COVID-19 (including rent, service charges and marketing). Of this amount, only €2.5 million will be straight-lined in following years (over the associated lease terms which on average approximates three years), and the rest (€69.5 million) was fully recognised in 2020.

Rent concessions represented on aggregate approximately 13% of total income (contractual base rent plus service charge contributions and marketing fees), on a grossed-up basis (before concessions). Variations between countries were caused by the length and severity of lockdowns and by government support for tenants, which influenced the amount of concessions granted.

As a result of negotiation efforts, the collection rate for reported revenues, adjusted for concessions, in 2020 was 95% at portfolio level as at 31 December 2020 (increased to 97% as at mid-February 2021). The Group recognised net expected credit losses of €6.3 million in relation to tenants, representing only 1.2% of Gross rental income and Service charge income in 2020, which further shows the quality and resilience of the tenant mix.

Leasing

Despite difficulties, the Group continued to sign new leases and renew existing ones. Many international anchors and national retail chains are still expanding to new locations or reaffirming their commitment to the Group's properties. During 2020, 310 new leases and 388 renewals were signed. Many other leases were extended via the addenda signed in relation to the pandemic concessions. Out of all the lease agreements expiring in 2020, 80% were renewed and 15% were re-let to new tenants.

Lease terms are typically very similar to pre-COVID-19 (Euro-based, minimum five years, base rent plus service charges, marketing fees and additional turnover rent, annual indexation). Weighted average unexpired lease term ('WAULT') was largely unchanged on 31 December 2020 compared to 2019 (4.1 years).

The Company has welcomed new tenants and strengthened its shopping centres by improving the mix and quality of its offering. Some of the additions are set out below:

- **Shopping City Buzau (Buzau, Romania):** the extension and refurbishment were completed in June and included the city's first Carturesti, Hervis, LC Waikiki, Office Shoes, Sinsay, and Tom Tailor. Cinema City will open once restrictions on indoor cinemas are lifted.
- **Mega Mall (Bucharest, Romania):** major openings included Kiehl's, Nike (refurbishment to the latest brand concept, first in the city), Orange (relocation and store enlargement) and Vans.
- **Bonarka City Center (Krakow, Poland):** new openings include Douglas (with the biggest store in Krakow – 530m²), Fikolki (a new education and play area for children – 580m²), Greenpoint, Kiehl's, Salomon, Soho and Tchibo. Ochnik, Peek & Cloppenburg and Zara extended their units.
- **Galeria Warminska (Olsztyn, Poland):** Guess launched a regional flagship store.
- **Galeria Tomaszow (Tomaszow Mazowiecki, Poland):** Biedronka, a supermarket (1,049m²) and Action, a non-food discounter (964m²) opened in December, replacing Intermarche which closed in April.
- **Mammut Shopping Centre (Budapest, Hungary):** Regio Jatek opened a 1,000m² toy store. Other new stores include Apacs, eMag (flagship store), Nespresso and Tamaris.
- **Aupark Kosice Mall (Kosice, Slovakia):** Burger King and Nordsee opened their first Slovakian stores outside Bratislava.
- **Aupark Zilina (Zilina, Slovakia):** new leases were signed with DrMax, Gant, Postova Banka, Samsung Gallery (first in the region) and Sizeer.
- **Serdika Center (Sofia, Bulgaria):** new openings include Collective, Nespresso, Nike and eMag's first showroom in Sofia.
- **Paradise Center (Sofia, Bulgaria):** during Q4 Bulgaria's first medical centre in a shopping mall opened on a 1,000m² area. Other signings include Next Kids, Nike, Pepco and Replay.
- **Forum Usti nad Labem (Usti nad Labem, Czech Republic):** new lease agreements signed with Running Sushi and Sportisimo.
- **Ozas Shopping and Entertainment Centre (Vilnius, Lithuania):** the centre's offering was significantly strengthened by the opening of the largest family entertainment park in the country, Adventica (4,300m²). Other lease agreements signed include Fielmann, Grill London, Loois, Pet City and Silver Fox.

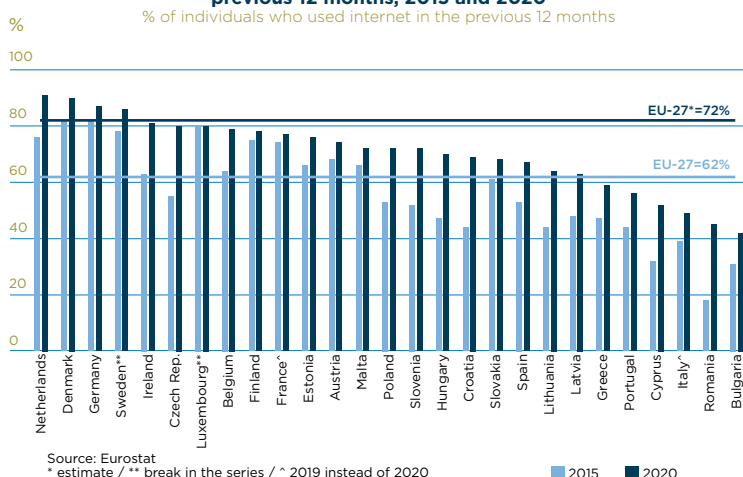
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Omnichannel focus / retail transformation

The COVID-19 crisis transformed what used to be a steady evolution of online retail into a disruption. Several studies highlight a breakthrough in terms of e-commerce acceleration – some retailers report a doubling of their online sales in the lockdown periods, the e-commerce penetration reached record high levels across all age brackets, and the number of offline retailers that adopted an online selling method increased significantly.

Internet users who bought or ordered goods or services for private use in the previous 12 months, 2015 and 2020



There are some specific limitations that e-commerce is facing in most CEE countries and will continue to do so for the foreseeable future: 1) the social element of a shopping trip is still very much embedded in consumers' habits; 2) consumer confidence in online payments is relatively low; 3) deliveries and returns take a long time, due to poor courier and logistics infrastructure. In 2020 consumers were forced to shop more online out of necessity rather than preference, so the share of online is likely to flatten or even decrease in 2021 once traditional shopping becomes possible again. On the other hand, retail overall and private consumption are expected to continue growing at higher rates than in Western Europe and comparable to other emerging markets. There is pent-up demand for certain categories, such as fashion, that will be unlocked as the pandemic is contained. On the retailers' side, the fact that margins are higher on sales out of brick-and-mortar shops than for online sales is a strong incentive to keep their offline footprint. The combination of these factors creates the expectation that traditional retail still has significant room to grow in CEE, alongside online retail.



There is no doubt however that retail is changing towards an experience that is truly customer centric, tailored to suit the preferences and convenience of customers, regardless of the sales channels used. The Group has been focusing on creating an omnichannel customer experience since prior to COVID-19. The centrally located and dominant shopping centres owned in the region create an attraction point for our loyal customer base. These customers are at the centre of our omnichannel strategy. Here are some initiatives pursued as part of this strategy:

- The launch three years ago of the first loyalty mobile app in the region continued by expanding the number of shopping malls directly connected with their customer base, the largest program of this kind in CEE. The app is now available for all the Group's properties in Poland and will soon be rolled out to other countries.
- Strong partnerships with tenants, enabling them to continue selling in critical times. Initiatives like click and collect, free shipping of Christmas gifts, or prizes driven by digital engagement have been rewarded by both customer and tenants with high engagement and sales.
- The Group adapted to the customers' increasing preference of digital communication, investing a significant proportion of the media communication budget into a diversified range of digital channels.
- Create a personalised customer engagement via different touchpoints in-store and online.
- The Group established partnerships with five proptech and fintech start-ups to enhance innovation and increase the agility and security of digital operations.

NEPI Rockcastle is actively seeking to increase the quality and attractiveness of its centres, in response to changing market trends and consumer behaviours. The focus will be on making better use of existing GLA through more dynamic tenant rotation, better services and increasing the density of our offering. Regarding the lease term, the Group takes an approach that provides more flexibility in implementing its strategy by reserving the right to make tenant mix changes and modify rents more frequently. Therefore, shorter term leases (3-4 years) are signed for tenants from retail segments with higher turnover increases. Tenants with a growing presence in the Group's centres include retailers with a strong omnichannel focus, online-native brands (such as eMag, Eobuwie, Notino) and retailers who are the best performers in their sector ('category killers'). Brands who are new on the local market will also be prioritised, to ensure the diversity and freshness of the tenant mix as a competitive advantage. Leisure and entertainment will continue to have an important role in the retail mix, although a refocus within the category is being envisaged (e.g. from cinemas to other leisure destinations).

CEE MACROECONOMIC ENVIRONMENT

The COVID-19 pandemic and the restrictions imposed by governments to alleviate it have had a major global economic impact in 2020. CEE was not immune, but the strong economic fundamentals will help it weather this crisis and begin the path to recovery in 2021.

According to the latest IMF forecast issued in October 2020, real GDP in NEPI Rockcastle's markets is expected to have dropped by 4.9% in 2020 (on a weighted average by country share in the Group portfolio) and recover by 4.8% in 2021. GDP in 2021 is expected to be 0.3% lower than in 2019, meaning a full recovery should materialise in 2022. This is better than the expected decline of 8.3% in the Eurozone during 2020, followed by 5.2% growth in 2021, and the European Union's (EU) predicted decline of 7.0% in 2020, with a 4.7% rise in 2021.

Private consumption decreased less than GDP in 2020 (-1.7%) as it was supported by government fiscal and financial stimulus. As the economy rebounds and people return to the shops and start using the services discontinued during the pandemic, private consumption is expected to increase by 7.8% in 2021. This is despite unemployment having risen from 4.3% in 2019 to 6.6% in 2020, and predicted levels remaining close to 6% in 2021.

Inflation decreased from 3% in 2019 to 2.6% in 2020, with a further decrease to 2.3% expected in 2021. Budget deficits and public debt soared in 2020, but from relatively low levels, and with persistently low interest rates the threat to macroeconomic stability is limited.

The actual outcome will heavily depend on the pandemic and the success of vaccinations. Based on current data, the signs are encouraging, suggesting an economic rebound is near. Throughout the whole CEE, new COVID-19 cases have been declining in 2021. Reduction rates vary, but no countries are showing an upward trend. The sharpest declines are in Czech Republic, Romania and Lithuania. On average, the number of COVID-19 cases in CEE per

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DIRECTORS' COMMENTARY » continued

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million inhabitants is still lower than in some of the leading countries in Western Europe (WE), including UK, France and Spain.

On 15 February 2021, the vaccination rates in most Group regions were higher than the EU average. The weighted average by population size was 3.4%, compared to the EU average of 3.1%. The highest rate was in Serbia (9.1%), the only non-EU portfolio country and therefore not included in its vaccination programme, followed by Slovakia (4.1%), with Bulgaria having the lowest rate (0.8%).

Further economic support may be provided by states and the EU, as it has relaxed existing rules to accommodate increasing fiscal deficits and finance stimulus measures for households and companies. This includes establishing the EU Recovery Fund worth €750 billion (€390 billion in grants; €360 billion in low-interest loans). CEE is allocated 25% (€187 billion) with Poland (€65 billion) and Romania (€33 billion) the major beneficiaries, while Bulgaria and Croatia receive most as a proportion of GDP (20.4% and 18.6% of 2019 GDP respectively). The majority of funding should finance infrastructure, green projects and improving economy's structural efficiency. The Recovery Fund is in addition to the EU's regular seven-year budget for 2021-27 (EU Cohesion Fund), with a total size of €1.1 trillion.

CEE's relatively good macroeconomic prospects, combined with commercial real estate advantages (lower online penetration, less and more modern physical retail stock, higher yields/more conservative property valuations compared to WE), contribute to the region's attractiveness as an investment destination.

DEVELOPMENT UPDATE

NEPI Rockcastle maintains a flexible approach to developments, enabling it to revise pipeline expenditure during 2020 and focus on committed ongoing projects. Similarly, construction costs are committed gradually, with most projects utilising a package-contracting approach. This means the use of general contractors is limited, enabling the Group to suspend, or terminate, specific activities with relative ease and exercise a high degree of control over the quality and timing of works and cash outflows.

The projects completed during 2020, or committed on 31 December 2020, are detailed below:

- **Shopping City Targu Mures (Targu Mures, Romania):** a new 40,200m² shopping mall was completed in Targu Mures, a vibrant, multicultural and central Romanian city of 148,000 residents and home to one of the country's largest urban Hungarian communities. The opening had two phases, the first in June and the second in July. Currently the mall is 95.8% leased, with 85% of tenants (34,100m² of GLA) already trading. The cinema and children's playground are temporarily closed, as per national regulations. Tenants include Carrefour, CCC, Cineplexx, Defacto, Douglas, Flanco, eMag, Hervis Sports, Intersport, KFC, LC Waikiki, LPP (Cropp, House, Reserved and Sinsay), New Yorker, Pepco and Sephora.
- **Shopping City Buzau (Buzau, Romania):** the last phase of the refurbishment project including a new outdoor terrace and a six-screen Cinema City was completed. The centre now has 23,700m² GLA with a tenant mix that includes Altex, Carrefour, CCC, Cinema City, Hervis Sports, Intersport, KFC, LC Waikiki, LPP (Sinsay), New Yorker, Noriel and Pepco. The newly refurbished centre opened in June, when the trading ban on non-essential shops (excluding restaurants and cinemas) was lifted.
- **Bonarka City Center (Krakow, Poland):** major construction works for the redevelopment of several units and common areas were completed. Apart, Costa, Greenpoint, Jubitom, Pandora and Pinko opened their stores after extensions and renovations.
- **Forum Liberec Shopping Centre (Liberec, Czech Republic):** refurbishment was completed, and the occupancy permit obtained in May 2020, as scheduled. Several brands opened in H2, significantly improving the tenant mix: Apart, Aurayum, Bata, Corial, Cross Café, Desigual, Eiffel Optic, Fortuna, JRC Games, Rituals, Running Sushi, Sephora and Xiaomi.
- **Focus Mall Zielona Gora (Zielona Gora, Poland):** construction of the 15,700m² GLA extension is progressing, with the opening expected in Q3 2021. New tenants include Adidas, Apart, Express Marche, Millennium Bank, New Balance, Pandora and Time Trend.

During 2020, NEPI Rockcastle spent €143 million on developments and capital expenditures. Following a comprehensive review, the Group actively optimised capital allocation, including deferring non-committed developments and capital expenditure projects. However, no projects were cancelled. Significant progress was made with the permitting on Promenada Mall extension and Promenada Craiova, a new 56,500m² GLA modern retail and entertainment destination in one of Romania's premier cities. The Group will continue to invest

in developments contributing to growth and improving long-term portfolio prospects, and will constantly monitor, and revise, the development pipeline in line with current objectives and constraints. The Group estimates to invest in 2021 €95 million in development and capital expenditure related to its ongoing projects and will consider new development opportunities depending on how market circumstances evolve. The development strategy going forward will target diversification through a focus on mixed-use and residential projects.

ROMANIAN OFFICE PORTFOLIO DISPOSAL

As previously announced, NEPI Rockcastle concluded an agreement with AFI Europe on 6 August 2020 to dispose of 100% of shares in subsidiaries holding the Romanian office portfolio, with a total GLA of 117,500m², for a transaction value of €307 million (equivalent to a blended yield of approximately 8%). The transaction generated a net gain on disposal of €2.6 million. Closing took place on 27 August 2020. The final cash consideration was €294.8 million (of which €294.0 million were fully settled by year end); the difference to the transaction value includes standard adjustments for working capital and deferred tax. No material changes were made to the original 2019 terms. Apart from market standard representations and warranties, the Group has no outstanding commitments in relation to the disposed assets.

URW SHARE PORTFOLIO DISPOSAL AND NEPI ROCKCASTLE SHARE REPURCHASE

As announced on 7 December, NEPI Rockcastle disposed of its remaining listed securities portfolio, consisting of 1,202,008 shares in Unibail-Rodamco-Westfield (URW) for a consideration of approximately €75 million. The €25 million net loan facility associated with the URW shares was repaid in August, using part of the proceeds from the sale of the Romanian offices. The proceeds from the URW shares were used to repurchase 17,717,760 NEPI Rockcastle shares, representing 2.95% of the Company's issued share capital. This transaction was executed between 23 November and 4 December, was in line with the Group's previously announced (and gradually implemented) strategy of redeploying capital from listed securities and prompted by the improvement in the URW share price immediately prior to the sale. The Transaction was accretive in terms of EPRA Net Reinstatement Value per share from 2020 by 1%, and is estimated to be accretive in terms of Distributable Earnings per share and EPRA Earnings per share mostly starting 2021 (given the antecedent earnings adjustment for 2020 and the limited time period from implementation until year-end).

ESG FOCUS

Environmental and social initiatives

NEPI Rockcastle increased its long-term commitment to sustainability via several measures:

- Implementing a Green Finance Framework and enhancing the transparency of its portfolio and business operations, as well as disclosures. The Company has committed to use proceeds from green bonds to finance or refinance existing and future projects which improve the environmental performance of the Group's property portfolio. The Green Framework (available on NEPI Rockcastle's website) defines eligibility criteria according to two types of green assets/initiatives: certified green buildings and energy efficiency projects. A successful €500 million green bond issuance followed soon after the Green Framework has been implemented (see Cash management and debt), resulting in the expansion of the investor base.
- Strengthening the link between ESG performance and one of the revolving credit facilities ('RCF') extended in 2020, ensuring that should the ESG risk rating increase, the margin of the RCF will increase, and vice versa.
- All eligible NEPI Rockcastle properties have obtained either Very Good or Excellent Building Research Establishment Environmental Assessment Method (BREEAM) certification, and, where technically possible, 50% of the Group's aggregated energy consumption comes from renewable sources.
- More than 50% of shopping centres have charging stations for electric cars and the Company is finalising the implementation of the new waste management system, ensuring zero waste to landfill from 2025.
- Aiming to increase Global Reporting Initiative ('GRI') reporting to Comprehensive, enabling stakeholders to benchmark NEPI Rockcastle's disclosure and performance against its peers.
- Finalising the Group's implementation of the Environmental and Sustainable Acquisitions Policies.

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DIRECTORS' COMMENTARY » continued

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Health and safety

Maintaining the health and safety of customers, tenants and staff has been the overriding priority in 2020. Consequently, NEPI Rockcastle implemented a plan ensuring adherence to authorities' recommendations and industry best practices. On 31 December 2020, 79% of centres had obtained a Safe Shopping Centre Certificate, an international confirmation that they meet the highest standards of health and safety in relation to COVID-19 by enabling customers to shop in safety, and the first such accreditations received by any mall operator in Bulgaria, Croatia, Poland, Romania, Lithuania and Serbia.

All centres continuously implement the highest health and safety specifications, including: social distancing; enforcing all measures and meeting all standards recommended by the World Health Organisation ('WHO'); fresh air ventilation and ensuring all HVAC filters receive antiseptic treatment; hourly disinfection of frequently used areas; using new, self-cleaning nano-technology materials on all frequently touched areas; hand sanitising dispensers positioned at all access points; face mask provision, and temperature checks.

Community support

In Romania, over 90% of malls implemented programmes helping local communities cope with the pandemic, for instance: doneaza.nepirockcastle.com facilitated donations to the Romanian Red Cross and was promoted on all Romanian shopping centres' websites; sanitary containers were provided for the country's first private COVID-19 hospital set-up by Auchan and Leroy Merlin, and more than ten shopping centres ran community campaigns rewarding front-line medical workers with vouchers.

In Serbia, a platform was implemented in shopping centres raising money for the Red Cross of Vojvodina. Other local actions included The Empty Shop campaign in Kragujevac Plaza and Promenada Novi Sad, which collected 5.1 tonnes of donated second-hand clothes and distributed them to people in need.

In Bulgaria, NEPI Rockcastle supported the local United Against COVID-19 fund, Paradise Center donated protective clothing, safety face shields and goggles to seventeen neonatal wards and a pop-up store supporting the Shop for a Cause campaign was organised in Serdika Center.

In Poland, the initiative #MallsOpenForHelp provided personal protection equipment, including masks, face shields and disinfectant to medical units. In December containers for collecting bottle caps were placed in front of Pogoria Shopping Centre, Aura Centrum and Galeria Warminska. The money earned was donated to local charities through Eko Serce (Eco Heart).

Changes to the Board of Directors

As announced on 28 April 2020, Mr Siphos Vuso Majija has ended his appointment as a Non-independent Non-executive Director. The Board has approved the appointment of Mr Steven Brown as a Non-independent Non-executive Director, with Mr Majija acting as alternate to Mr Brown. Mr Brown has a strong background in the property industry, currently acting as Chief Executive Officer and Managing Director of Fortress REIT, a company he joined in December 2015, following its acquisition of Capital Property Fund.

As announced on 28 May 2020, Mr Desmond de Beer has retired from the Board, together with Mr Alan Keith Olivier who acted as his alternate. Mr de Beer was a Non-independent Non-executive Director of NEPI from 2008 and the Chairman of its Investment Committee and was appointed as a Non-independent Non-executive Director of NEPI Rockcastle on 15 May 2017. The Company values Mr de Beer's contribution to NEPI and NEPI Rockcastle.

The Board appointed Mr Andries de Lange as Non-independent Non-executive Director with effect from 27 May 2020. Mr de Lange has extensive experience of leadership roles, with a core specialty in corporate finance and the property industry.

As announced on 29 September 2020, the Board approved the appointment of Mr Andreas Kligen, an existing Independent Non-executive Director, to act as a member of the Nomination Committee and Lead Independent Director, effective from 28 September 2020. As Lead Independent Director, Mr Kligen will be tasked with: leading the Board in the absence of the Chairman; serving as a sounding board or trusted adviser of the Chairman; acting, if necessary, as an intermediary between the Chairman and other members of the Board; chairing discussions and decision-making by the Board on matters where the Chairman may have a conflict of interest, and leading the performance appraisal of the Chairman with the other Non-executive Directors without the Chairman present.

Corporate governance framework

Throughout 2020, the Group continued to strengthen its corporate governance framework, designed to ensure material compliance with King IV, as well as to voluntarily align with relevant guidance in Dutch and UK governance codes, under the close guidance of the Audit Committee.

With continuous improvement in mind, PricewaterhouseCoopers (PwC), Isle of Man, were engaged to independently assess the Group's corporate governance framework and review operational effectiveness. As a result, significant alignment was achieved between the three codes and PwC's recommendations were implemented to further enhance the Company's already robust and comprehensive framework. PwC's recommendations regarding increased effectiveness were considered by the Audit Committee and management, and implementation prioritised starting the end of 2020, with sustainable application beginning 2021.

ACCOUNTING, AUDIT AND VALUATION MATTERS

Accounting of COVID-19 impact on 2020 results

Rent discounts

During 2020, the Group results reflected rent concessions worth €69.5 million, and further €2.5 million are expected to be accounted for over the associated lease term, which on average approximates three years.

Reduction of gross rental income

The Polish Government imposed a rent-free period for tenants, including service charge and marketing costs, during the state of emergency. This relief, without changes to the lease contract and legally enforced, has been recognised in the Statement of comprehensive income, as a reduction of Gross rental income (impact of €12.6 million) and Service charge income (impact of €3.7 million), and as a decrease of Trade and other receivables, in the Statement of financial position.

In some instances, the Group agreed to variable discounts contingent upon tenants' performance dropping below a certain threshold. In 2020 these discounts amounted to €5.0 million, recognised in the Statement of comprehensive income as a reduction of Gross rental income (negative variable rent).

Partial forgiveness of receivables

In order to maintain a long-term functioning retail environment, and based on tenant negotiations, the Group granted voluntary rental concessions for lockdown, and/or immediately after lockdown. Discussions with retailers regarding COVID-19 support continued in all countries throughout the year end and by 31 December 2020 lease modifications (see definition below) were signed by tenants representing 97% of Gross rental income.

For the period prior to the signing of lease modifications, receivables already accrued in accordance with the lease agreements in force were partially written off in accordance with the signed addendums, and therefore their financial impact was recognised immediately and not straight-lined over the new lease term. As such, tenant concessions granted before the signing of lease modifications, amounting to €47.0 million, were fully accounted for in the Statement of comprehensive income as "Partial forgiveness of receivables (COVID-19 Forgiveness)", and "Trade and other receivables" in the Statement of financial position, in accordance with International Financial Reporting Standards ('IFRS') 9 "Financial Instruments" (in relation to impairment of receivables). This is also in accordance with IFRS 16, allowing rental income to be recognised even if recoverability is uncertain and requiring rental modifications to be accounted for prospectively from the effective date of modification. This approach emphasizes the Group's commitment to the fair and transparent reporting of the impact of pandemic and lockdowns on financial results.

Contractually agreed and signed modifications subject to straight-lining from the effective date of the modification

Contractually agreed and signed concessions granted to, and obtained from, tenants are treated according to IFRS 16 "Leases", which defines "lease modification" as a change in scope, or consideration, of the lease, not part of the original terms and conditions, such as rent discounts, lease extensions, increase in overage/turnover rents, introduction of break options, etc. Lease modifications are recognised prospectively over the new term and accounted for by the Group from the date the modification is contractually agreed and signed.

DIRECTORS' COMMENTARY » continued

All information below excludes joint ventures, unless otherwise stated

Agreed lease modifications are recognised as lease incentives from the date the modification was signed, are straight-lined over the new lease term and recognised in the Statement of comprehensive income as a reduction of Gross rental income. The reduction recognised in the Statement of comprehensive income was €1.2 million, further to the impact of straight-lining over future reporting periods of €2.5 million (cash discounts of €3.7 million).

Tenant receivables

As at 31 December 2020, tenant receivables amounted to €36.4 million (VAT included, net of provisions), of which €14.9 million were overdue. This balance is adjusted for provisions and rent reliefs and concessions, either imposed by law or negotiated. The collection rate for 2020, adjusted for concessions granted, was 95% as at 31 December 2020 (this increased to 97% as at mid-February 2021). The Group expects to collect the outstanding tenant receivable balance.

External Independent audit opinion

The audit report on the Group's Consolidated Financial Statements has been issued by PwC Isle of Man, after having audited and obtained the necessary documentation from PwC local offices in jurisdictions where the Group operates through subsidiaries. The local PwC offices audit the separate financial statements of the relevant subsidiaries and issue their interoffice audit reports to PwC Isle of Man. The audit opinion is unmodified. The emphasis of matter present in the June review report is no longer applicable, as the material valuation uncertainty clause was removed from all valuation reports.

Valuation

NEPI Rockcastle fair values its portfolio biannually. Fair value is determined by external, independent professional valuers, with appropriate and recognised qualifications and recent experience in the location and category of property being assessed.

Appraiser	Locations	Percentage of portfolio
Colliers International	Romania	35%
Jones Lang LaSalle	Bulgaria, Croatia, Czech Republic, Hungary, Serbia, Slovakia	33%
Cushman & Wakefield	Hungary, Lithuania, Poland	32%

On 31 December 2020, the portfolio was independently valued. These appraisals have been performed in the context of the COVID-19 pandemic and prophylactic measures. On the valuation date, property markets were predominantly functional, with transaction volumes and other relevant evidence at levels where enough evidence existed to form valid opinions of value. Thus, the valuation reports no longer included any 'material valuation uncertainty' as defined by the Royal Institution of Chartered Surveyors ('RICS'), as they did in the June 2020 reports. The appraisers have factored into the December 2020 valuations the potential impact of COVID-19 by modifying two sets of assumptions:

- Assumptions affecting short-term cash flows: depending on the country and performance of specific assets, the appraisers considered various lengths of rent holidays, prolonged void periods and higher unpaid rents for the upcoming periods. The appraisers also considered lower tenant sales-based rents and ancillary income over the upcoming periods.
- Assumptions affecting long-term cash flows and values: appraisers increased discount rates and exit cap rates in most countries, despite lower inflation prospects, to reflect greater uncertainty over long-term cash flows, liquidity, value and growth prospects on exit.

On December 2020, the fair value loss recognised in relation to the investment property portfolio amounted to €345.3 million (detailed below). Compared to 30 June, the additional decrease in fair value was €108.7 million.

Country*	Market value December 2019	Market value December 2020	Fair value gain/ (loss) 2020**
Romania	2,091,484	2,026,644	(113,640)
Poland	1,433,069	1,386,995	(94,993)
Hungary	603,900	577,200	(29,501)
Slovakia	554,872	523,644	(33,029)
Bulgaria	514,770	486,807	(31,555)
Croatia	275,600	262,330	(13,403)
Serbia	201,130	191,949	(15,950)
Czech Republic	182,900	171,000	(16,068)
Lithuania	132,580	141,980	3,823
Total	5,990,305	5,768,549	(344,317)

*Excluding joint ventures, other properties held for sale and right-of-use assets with total impact in fair value of €1 million.

**Includes additional capital expenditures incurred.

EPRA INDICATORS

In October 2019, the European Public Real Estate Association ('EPRA') introduced new asset value metrics noting that while Net Asset Value ('NAV') is a key performance measure used in the real estate industry, when used in financial statements under IFRS regulations it may not provide the most relevant information on the fair value of the assets and liabilities. As property companies have evolved into actively managed entities, including non-property operating activities, this has resulted in more active ownership, higher asset turnover, and balance sheet financing has shifted from traditional bank lending to capital markets.

The new guidelines are meant to reflect this nature of property companies. Hence, EPRA NAV and EPRA NNNNAV are replaced by three new Net Asset Valuation metrics: EPRA Net Reinstatement Value, EPRA Net Tangible Assets and EPRA Net Disposal Value

EPRA indicators	31 December 2020	31 December 2019
EPRA Earnings (€ thousand)	240,770	330,623
EPRA Earnings per share (€ cents per share)	39.81	55.79
EPRA Net Initial Yield ('NIY')	6.70%	6.65%
EPRA topped-up NIY	6.75%	6.71%
EPRA Vacancy Rate	4.3%	2.1%
EPRA Net Reinstatement Value ('NRV') (€ cents per share) *	6.45	7.32
EPRA Net Tangible Assets ('NTA') (€ cents per share) *	6.42	7.25
EPRA Net Disposal Value ('NDV') (€ cents per share) *	5.79	6.61
EPRA Cost ratio (including direct vacancy cost)	10.5%	8.1%
EPRA Cost ratio (excluding direct vacancy cost)	10.3%	8.0%

*NRV, NTA and NDV measures effective from 1 January 2020; the comparative measures have been restated/computed in line with the current EPRA guidance. For the Group, EPRA NRV corresponds to former EPRA NAV and EPRA NDV corresponds to former EPRA NNNNAV.

The Group joined EPRA in 2018 and won the Silver Award for Best Practices Recommendations (BPR) for financial reporting in 2019, as a recognition of its commitment to transparency in reporting and compliance with industry best practices. The Group has further improved its financial reporting and BPR compliance, achievements which were recognised by EPRA in 2020 through the Gold Award, the highest standard for transparency of financial performance measures.

DIRECTORS' COMMENTARY » continued

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CASH MANAGEMENT AND DEBT

The Group had strong liquidity on 31 December 2020, with €643 million in cash and €575 million in undrawn committed credit facilities.

NEPI Rockcastle's gearing ratio* (interest bearing debt less cash, divided by investment property) was 31.5%, a comfortable level even after accounting for the devaluation of the property portfolio in the COVID-19 context.

On 31 December 2020, ratios for unsecured loans and bonds showed ample headroom compared to covenant thresholds:

- Solvency Ratio: 40%, compared to a maximum covenant threshold of 60%;
- Consolidated Coverage Ratio: 4.8, compared to a minimum covenant threshold of 2;
- Unencumbered consolidated total assets/unsecured consolidated total debt: 261% actual, compared to a minimum covenant threshold of 150%.

**The reported gearing ratio (LTV) excludes the €33.9 million right-of-use assets and associated lease liabilities as at 31 December 2020.*

Liability management and bond issue

In January 2020, the Group successfully repurchased the outstanding bond notes due February 2021, with a nominal value of €198 million. In addition, in June 2020, another €5 million were repurchased from the outstanding bonds on that date.

In July 2020, after a roadshow with European fixed-income investors, NEPI Rockcastle issued a €500 million inaugural green unsecured bond, with seven-year maturity, 3.375% fixed coupon and 98.172% issue price. The green bond issue improved the liquidity position of the Group, which had a total liquidity of approximately €1.2 billion in cash balances and undrawn credit lines on 31 December 2020.

In addition, the Group repaid in full the loan associated with the listed securities and later sold this portfolio. Also, the Group extended the availability of two unsecured committed revolving credit facilities:

- the revolving credit facility from Raiffeisen Bank International was extended for two years, until 31 December 2022;
- the revolving credit facility from a four banks syndicate was extended with an additional year, until December 2023.

Cost of debt

The average interest rate, including hedging, was 2.3% for 2020, slightly lower from 2.4% in 2019.

As of 31 December 2020, fixed-coupon bonds represented 80% of NEPI Rockcastle's outstanding debt; out of the remaining long-term debt exposed to Euribor, 42% was hedged with interest rate caps and 48% with interest rate swaps.

BASIS OF PREPARATION

The Condensed Consolidated Financial Results for the year ended 31 December 2020 have been extracted from the audited consolidated financial statements for the year ended 31 December 2020, without being audited itself.

The Condensed Consolidated Financial Results for the year ended 31 December 2020 have been prepared in accordance with the recognition and measurement criteria of the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"), the presentation and the disclosure requirements of IAS 34 Interim Financial Reporting and the JSE Listings Requirements. The accounting policies which have been applied are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019.

The directors take full responsibility for the preparation of the condensed report and for ensuring that the financial information has been correctly

The Company continually evaluates its financing options, while keeping in mind the strategic objective to broaden its investor base and maintain an optimal capital structure. Depending on market conditions, the Group may initiate a repurchase of issued bonds or shares during the following reporting periods.

2020 EARNINGS DISTRIBUTION

The Board has declared a dividend of 16.88 euro cents per share for the second half of 2020, corresponding to 90% of the distributable earnings per share for this period. This decision is in line with NEPI Rockcastle's policy of distributing at least 90% of its distributable earnings and allows the Company to retain adequate capital as reserve, given the challenging macroeconomic environment. The distribution will be paid in cash during March 2021, and further detailed announcements will follow.

As previously announced, the Company did not declare a dividend for the six-month period ended 30 June 2020. The Company instead allotted and issued fully paid ordinary shares as a *capitalisation issue* to the Company's shareholders, pro-rata to their shareholding, at a ratio of 4.2920 ordinary shares for every 100 ordinary shares held. The rationale for the *capitalisation issue* was to ensure that NEPI Rockcastle maintains a strong balance sheet and ample liquidity while also returning value to shareholders during the challenging operating environment.

As described above, NEPI Rockcastle has repurchased and subsequently cancelled 17,717,760 own shares (representing 2.95% of the Company's issued share capital) in Q4 2020. The repurchase was funded from the proceeds of the listed portfolio divestment and will have a positive effect on the Company's key metrics.

PROSPECTS AND EARNINGS GUIDANCE

Distributable earnings per share for 2021 are expected to be approximately 10% higher than the 2020 distributable earnings per share. This guidance does not consider the impact of potential further systemic macroeconomic disruptions (such as those induced by new broad lockdowns in CEE countries, in addition to the ones already in place for announced periods which are reflected in the above guidance) and assumes a continuation of the trading trends observed to date. This estimate is highly dependent on potential future measures which could be taken by governments of the CEE countries where the Group operates, such as further restrictions on trading or state support to tenants and / or landlords. This guidance can be modified or withdrawn in the future if material changes unfold.

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

By order of the Board of Directors

Alex Morar
Chief Executive Officer

Mirela Covasa
Chief Financial Officer

24 February 2021

extracted from the underlying audited consolidated financial statements. The Directors confirm that the Condensed Consolidated Financial Statements give a true and fair view of the state of affairs of the Group for the year ended 31 December 2020 as well as the comparative period presented. The auditors, PwC, have issued their unmodified audit report on the consolidated financial statements for the year ended 31 December 2020 and a copy of the audit opinion, together with the underlying audited consolidated financial statements is available on the website.

The auditor's report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying consolidated financial statements.

INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION		31 Dec 2020	31 Dec 2019
ASSETS			
Non-current assets		5 966 723	6 169 170
Investment property		5 802 398	6 022 600
- Investment property in use		5 591 463	5 800 759
- Investment property under development		210 935	221 841
Goodwill		76 804	76 804
Deferred tax assets		34 678	15 209
Investments in joint ventures		21 757	22 844
Long-term loans granted to joint ventures		22 620	21 220
Other long-term assets		7 447	7 590
Derivative financial assets at fair value through profit or loss		1 019	2 903
Current assets		702 681	467 191
Trade and other receivables		59 384	89 383
Financial investments at fair value through profit or loss		-	169 062
Cash and cash equivalents		643 297	208 746
Assets held for sale		1 752	337 739
Total assets		6 671 156	6 974 100
EQUITY AND LIABILITIES			
TOTAL SHAREHOLDERS' EQUITY		3 692 323	4 096 880
Equity attributable to equity holders		3 687 068	4 090 672
Share capital		6 090	5 998
Share premium		3 550 061	3 625 348
Other reserves		(6 456)	(3 627)
Accumulated profit		137 373	462 953
Non-controlling interest		5 255	6 208
Total liabilities		2 978 833	2 877 220
Non-current liabilities		2 621 386	2 687 397
Bank loans		232 635	574 112
Bonds		1 969 385	1 677 779
Deferred tax liabilities		341 324	354 756
Other long-term liabilities		72 612	74 036
Derivative financial liabilities at fair value through profit or loss		5 430	6 714
Current liabilities		357 447	150 785
Trade and other payables		96 595	130 411
Bank loans		249 952	9 815
Bonds		10 900	10 559
Liabilities held for sale		-	39 038
Total equity and liabilities		6 671 156	6 974 100
Net Asset Value per share (euro)		6.05	6.83
EPRA Net Reinstatement Value per share (euro)		6.45	7.32
Number of shares for Net Asset Value / EPRA Net Reinstatement Value per share		608 994 907	599 797 201

INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31 Dec 2020	31 Dec 2019
Net rental and related income*	322 964	400 738
Gross rental income	379 810	407 139
Service charge income	156 685	176 841
Property operating expenses	(166 482)	(183 242)
Partial forgiveness of receivables (COVID-19 forgiveness)	(47 049)	-
Administrative expenses	(20 838)	(21 550)
EBITDA**	302 126	379 188
Net result from financial investments	(88 250)	23 651
Income from financial investments at fair value through profit or loss	5 517	12 560
Fair value (loss)/gain and net result on sale of financial investments at fair value through profit or loss	(93 767)	11 091
Transaction fees	-	(5 411)
Fair value adjustments of investment property	(345 253)	134 709
Foreign exchange loss	(1 665)	(907)
Gain on acquisition of subsidiaries	-	446
Gain on disposal of assets held for sale	2 310	123
Gain on disposal of joint venture	-	3 588
(Loss)/Profit before net finance expense and other items	(130 732)	535 387
Net finance expense	(60 045)	(52 517)
Interest income	1 641	1 938
Interest expense	(58 705)	(52 494)
Other net finance expense	(2 981)	(1 961)
Other items	(11 625)	(23 827)
Fair value adjustment of derivatives and losses on extinguishment of financial instruments	(10 539)	(23 743)
Share of (loss)/profit of joint ventures	(1 086)	5 872
Impairment of goodwill	-	(5 956)
(Loss)/Profit before tax	(202 402)	459 043
Income tax credit/(expense)	26 528	(42 701)
Current tax expense	(5 912)	(11 331)
Deferred tax income/(expense)	32 440	(31 370)
(Loss)/ Profit after tax	(175 874)	416 342
Total comprehensive (loss)/ income for the year	(175 874)	416 342
(Loss)/ Profit attributable to:		
Non-controlling interest	(953)	107
Equity holders	(174 921)	416 235
Total comprehensive (loss)/income attributable to:		
Non-controlling interest	(953)	107
Equity holders	(174 921)	416 235
Weighted average number of shares in issue***	624 960 803	611 303 384
Diluted weighted average number of shares in issue***	624 960 803	611 303 384
Basic/diluted (loss)/earnings per share attributable to equity holders (euro cents)***	(27.99)	68.09

* Out of the total rental and related income, €14.2 million relates to the Romanian office portfolio disposed of on 27 August 2020.

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

***Weighted average number of shares has been adjusted for each period presented in respect of the 'capitalisation issue' on 21 September 2020, as required by IAS 33 Earnings per Share.

NEPI Rockcastle Results Presentation December 2020 will be available on the Company's website starting 25 February 2021.

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INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share premium	Other reserves	Accumulated profit	Non-controlling interest	Total
Balance at 1 January 2019	5 778	3 625 568	-	208 426	6 101	3 845 873
Transactions with owners	220	(220)	(3 627)	(161 708)	-	(165 335)
- Issue of shares	220	(220)	-	-	-	-
- Shares purchased for LTSIP*	-	-	(3 842)	-	-	(3 842)
- Share based payment expense	-	-	215	-	-	215
- Earnings distribution	-	-	-	(161 708)	-	(161 708)
Total comprehensive income	-	-	-	416 235	107	416 342
- Profit for the year	-	-	-	416 235	107	416 342
Balance at 31 December 2019	5 998	3 625 348	(3 627)	462 953	6 208	4 096 880
Balance at 1 January 2020	5 998	3 625 348	(3 627)	462 953	6 208	4 096 880
Transactions with owners	92	(75 287)	(2 829)	(150 659)	-	(228 683)
- Issue of shares	269	(269)	-	-	-	-
- Repurchase of shares	(177)	(75 018)	-	-	-	(75 195)
- Shares purchased for LTSIP*	-	-	(3 696)	-	-	(3 696)
- Share based payment expense	-	-	867	-	-	867
- Earnings distribution	-	-	-	(150 659)	-	(150 659)
Total comprehensive (loss)	-	-	-	(174 921)	(953)	(175 874)
- (Loss) for the year	-	-	-	(174 921)	(953)	(175 874)
Balance at 31 December 2020	6 090	3 550 061	(6 456)	137 373	5 255	3 692 323

*LTSIP = debt free Long-Term Share Incentive Plan with a vesting component.

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INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

RECONCILIATION OF (LOSS)/PROFIT FOR THE PERIOD TO DISTRIBUTABLE EARNINGS

31 Dec 2020

(Loss) per IFRS Statement of comprehensive income attributable to equity holders	(174 921)
Accounting specific adjustments	407 336
Fair value adjustments of investment property for controlled subsidiaries	345 253
Fair value loss and net result on sale of financial investments at fair value through profit or loss	93 767
Depreciation in relation to property, plant and equipment of an administrative nature	580
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	10 539
Amortisation of financial assets	(759)
Deferred tax income for controlled subsidiaries	(32 440)
Income from financial investments at fair value through profit or loss	(5 517)
Gain on disposal of assets held for sale	(2 310)
Adjustments related to joint ventures:	1 946
Fair value adjustment investment property for joint ventures	1 882
Fair value adjustments of derivatives and losses on extinguishment of financial instruments for joint ventures	(122)
Deferred tax expense for joint ventures	186
Adjustments related to non-controlling interest:	(1 064)
Fair value adjustment investment property for non-controlling interest	(1 186)
Deferred tax income for non-controlling interest	122
Antecedent earnings	(2 659)
Distributable earnings	232 415
Interim distributable earnings	(118 168)
Final distributable earnings	(114 247)
Distributable earnings per share (euro cents)	38.42
Interim distributable earnings per share (euro cents)	19.66
Final distributable earnings per share (euro cents)	18.76
Distribution declared	102 822
Interim distribution	—
Final distribution	102 822
Distribution declared per share (euro cents)	16.88
Interim distribution per share (euro cents)	—
Final distribution per share (euro cents)	16.88
Earnings not distributed	129 593
Earnings not distributed per share (euro cents)	21.54
Number of shares entitled to interim distribution	600 921 133
Number of shares entitled to final distribution	608 994 907

*Distributable earnings per share for 2020 is prepared on a basis that is consistent with SA REIT funds from operations (SA REIT FFO) as set out in the SA REIT Association's Best Practice Recommendations Second Edition.

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INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

RECONCILIATION OF (LOSS)/PROFIT FOR THE PERIOD TO DISTRIBUTABLE EARNINGS

31 Dec 2019

Profit for the year attributable to equity holders	416 235
Reverse indirect result	(97 402)
Foreign exchange loss	907
Transaction fees	5 411
Fair value adjustments of investment property for controlled subsidiaries	(134 709)
Gain on acquisition of subsidiaries	(446)
Fair value gain and net result on sale of financial investments at fair value through profit or loss	(11 091)
Income from financial investments at fair value through profit or loss	(12 560)
Gain on disposal of assets held for sale	(123)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	23 743
Deferred tax expense for controlled subsidiaries	31 370
Gain on disposal of joint venture	(3 588)
Impairment of goodwill	5 956
Adjustments related to joint ventures	
Fair value adjustments of investment property for joint ventures	(3 227)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	(51)
Deferred tax expense for joint ventures	907
Foreign exchange loss for joint ventures	99
Company specific adjustments	10 916
Amortisation of financial assets	(1 533)
Realised foreign exchange loss for controlled subsidiaries	(30)
Realised foreign exchange loss for joint ventures	(7)
Accrued income from financial investments at fair value through profit or loss	12 349
Fair value adjustment of investment property for non-controlling interest	138
Deferred tax expense for non-controlling interest	(1)
Antecedent earnings	4 062
Distributable earnings	333 811
Less: Distribution declared	(333 811)
Interim distribution	(170 030)
Final distribution	(163 781)
Earnings not distributed	–
Number of shares entitled to interim distribution	585 838 887
Number of shares entitled to final distribution	599 797 201
Distributable earnings per share (euro cents)	56.33
Less: Distribution declared per share (euro cents)	(56.33)
Interim distribution per share (euro cents)	(29.02)
Final distribution per share (euro cents)	(27.31)

INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	31 Dec 2020	31 Dec 2019
(Loss)/Profit after tax	(175 874)	416 342
Adjustments	477 494	(36 693)
Changes in working capital	(5 622)	1 667
Net interest and coupon paid	(49 455)	(46 440)
Other operating payments	(10 128)	(13 258)
Cash flows from operating activities	236 415	321 618
Investments in acquisitions and developments	(128 028)	(286 158)
Cash proceeds from disposal of assets held for sale	301 023	2 309
Cash proceeds from disposal of joint venture	-	35 801
Net cash flow used in investments in financial assets	-	(11 245)
Dividends from listed securities	5 517	12 560
Proceeds from disposal of listed securities	75 295	49 806
Other investments	(1 400)	-
Cash flows from/(used) in investing activities	252 407	(196 927)
Shares purchased for LTSIP*	(3 696)	(3 842)
Repurchase of shares	(75 195)	-
Earnings distribution	(150 659)	(161 708)
Net movements in bank loans and bonds	176 286	160 620
Other payments	(1 007)	(3 766)
Cash flows used in financing activities	(54 271)	(8 696)
Net increase in cash and cash equivalents	434 551	115 995
Cash and cash equivalents brought forward	208 746	96 924
Cash and cash equivalents classified as held for sale	-	(4 173)
Cash and cash equivalents carried forward	643 297	208 746

*LTSIP = debt free Long-Term Share Incentive Plan with a vesting component.

RECONCILIATION OF (LOSS)/PROFIT FOR THE YEAR TO HEADLINE EARNINGS	31 Dec 2020	31 Dec 2019
(Loss)/Profit for the year attributable to equity holders	(174 921)	416 235
Fair value adjustments of investment property for controlled subsidiaries	345 253	(134 709)
Gain on disposal of assets held for sale	(2 310)	(123)
Gain on acquisition of subsidiaries	-	(446)
Impairment of goodwill	-	5 956
Gain on disposal of joint venture	-	(3 588)
Tax effects of adjustments for controlled subsidiaries	(56 373)	20 453
Fair value adjustments of investment property for joint ventures	1 882	(3 227)
Tax effects of adjustments for joint ventures	(301)	515
Headline earnings	113 230	301 066
Weighted average number of shares in issue*	624 960 803	611 303 384
Diluted weighted average number of shares in issue*	624 960 803	611 303 384
Headline earnings per share (euro cents)	18.12	49.25
Diluted headline earnings per share (euro cents)	18.12	49.25

* Weighted average number of shares has been adjusted for each period presented in respect of the 'capitalisation issue' on 21 September 2020, as required by IAS 33 Earnings per Share.

INFORMATION EXTRACTED FROM THE AUDITED IFRS FINANCIAL STATEMENTS » continued

RECONCILIATION OF NET ASSET VALUE TO EPRA NET REINSTATEMENT VALUE	31 Dec 2020	31 Dec 2019
Net Asset Value (per the Statement of financial position)	3 687 068	4 096 880
Deferred tax liabilities for controlled subsidiaries	341 324	384 028
Deferred tax assets for controlled subsidiaries	(34 678)	(15 209)
Goodwill	(76 804)	(87 114)
Derivative financial assets at fair value through profit or loss	(1 019)	(2 903)
Derivative financial liabilities at fair value through profit or loss	5 430	6 714
Deferred tax liabilities for joint ventures	5 487	5 301
Derivatives at fair value through profit or loss for joint ventures	688	810
EPRA Net Reinstatement Value	3 927 496	4 388 507
Net Asset Value per share (euro cents)	6.05	6.83
EPRA Net Reinstatement Value per share (euro cents)	6.45	7.32
Number of shares	608 994 907	599 797 201

SEGMENTAL ANALYSIS	Retail	Office	Industrial	Corporate	Total
Year ended 31 December 2020					
Net rental and related income*	300 656	20 530	1 778	-	322 964
Gross rental income and service charge income	505 969	28 396	2 130	-	536 495
Property operating expenses	(158 269)	(7 861)	(352)	-	(166 482)
Partial forgiveness of receivables (COVID-19 forgiveness)	(47 044)	(5)	-	-	(47 049)
(Loss)/Profit before Net finance expense and other items	(55 087)	18 371	1 371	(95 387)	(130 732)
Total Assets	6 098 585	84 997	19 179	468 395	6 671 156
Total Liabilities	973 957	3 361	3 164	1 998 351	2 978 833
Year ended 31 December 2019					
Net rental and related income	369 067	29 756	1 915	-	400 738
Gross rental income and service charge income	540 272	41 558	2 150	-	583 980
Property operating expenses	(171 205)	(11 802)	(235)	-	(183 242)
Profit before Net finance expense and other items	481 923	29 571	3 062	20 831	535 387
Total Assets	6 237 784	416 422	18 576	301 318	6 974 100
Total Liabilities	1 027 902	49 223	2 895	1 797 200	2 877 220

* Out of the total rental and related income associated to the Office segment, €14.2 million relates to the Romanian office portfolio disposed of on 27 August 2020.

EPRA MEASURES

EPRA Earnings: Profit after tax attributable to the equity holders of the Company, excluding non-controlling interest, fair value adjustments of investment property, profits or losses on investment property disposals and related tax adjustment for losses on disposals, gains on acquisition of subsidiaries, acquisition costs, fair value and net result on sale of financial investments at fair value through profit or loss and deferred tax expense

EPRA Earnings Per Share: EPRA Earnings divided by the number of shares outstanding at the period or year-end

EPRA Net Reinstatement Value (EPRA NRV): highlights the value of net assets on a long-term basis. It is computed as the net assets per the statement of financial position, excluding the goodwill, deferred taxation net balance and mark-to-market of interest rate derivatives (which represents assets and liabilities not expected to crystallise in normal course of business)

EPRA Net Tangible Assets (EPRA NTA): Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax

EPRA Net Disposal Value (EPRA NDV): Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax

EPRA Net Initial Yield: Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the portfolio

EPRA 'topped-up' Yield: EPRA Net Initial Yield adjusted in respect of the annualised rent free at the balance sheet date

EPRA Vacancy Rate: Vacancy rate computed based on estimated rental value of vacant space compared to the estimated rental value of the entire property

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