



# PRELIMINARY RESULTS

FULL YEAR 2017

- **Successful 2017, with more than €400m in transactions and new strategy well on track**
- **EPRA NAV €36.66 per share (up 6% vs YE 2016)**
- **EPRA EPS of €2.72 per share (up 3% on 2016)**
- **EPRA EPS to fall in 2018 due to net disposals in 2017**
- **€300m+ internal (re-)development program**
- **Vacancy rate down 3.0pp to 18.4%**
- **Stable dividend of €2.16 per share, with final dividend at €1.12 per share**

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### Definitions

#### EPRA

European Public Real Estate Association - Please refer to [www.epra.com](http://www.epra.com) for all EPRA definitions

#### ERV

The estimated rental value (ERV) is the valuer's estimate of the open market rent that a property in its current state can reasonably be expected to achieve given its characteristics, condition, amenities, location and local market conditions.

#### Theoretical rent

The contractual rent for let space plus the ERV for vacant units.

#### G4

G4 refers to the locations Amsterdam, The Hague, Rotterdam and Utrecht.

#### ICR

NSI calculates its interest coverage ratio for a given period by dividing net rental income by net financing expenses.

#### Net LTV

The loan to value ratio reflects the balance sheet value of interest bearing debts plus short term debts to credit institutions, net of cash and cash equivalents, as a percentage of the total real estate investments, including assets held for sale.

### Financial calendar

Publication annual report 2017	9 March 2018
Publication trading update Q1 2018	19 April 2018
Publication half year results 2018	19 July 2018
Publication trading update Q3 2018	18 October 2018
AGM	20 April 2018
Ex-dividend date (final dividend 2017)	24 April 2018
Record date	25 April 2018
Stock dividend election period	26 April – 9 May 2018
Payment date	14 May 2018
Ex-dividend date (interim dividend 2018)	24 July 2018

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## NSI HIGHLIGHTS

### Key financials metrics<sup>1</sup>

	Supplemental <sup>2</sup>		IFRS <sup>3</sup>		Change %
	FY 2017	FY 2016	FY 2017	FY 2016	
<b>Revenues and Earnings (€ '000)</b>					
Gross rental income	89,056	94,589	89,000	94,523	-5.8%
Net rental income	74,483	74,262	74,468	74,205	0.4%
Direct investment result			49,365	47,325	4.3%
Indirect investment result			42,237	-65,158	
Total investment result			91,602	-17,833	
Earnings per share (€)			5.05	-1.00	
EPRA earnings per share (€)			2.72	2.64	3.0%
Dividend per share (€) <sup>4</sup>			2.16	2.16	0.0%
EPRA cost ratio A (incl. direct vacancy costs)			26.5%	31.7%	-5.2pp
EPRA cost ratio B (excl. direct vacancy costs)			24.3%	27.7%	-3.4pp

	31 Dec 2017	31 Dec 2016	Change %
<b>Balance Sheet (€ '000)<sup>5</sup></b>			
Real estate investments	1,072,180	764,613	
Assets held for sale	28,791	389,923	
Net debt	-408,453	-512,267	-20.3%
Equity	672,688	604,255	11.3%
IFRS equity per share (€)	36.63	33.76	8.5%
EPRA NAV per share (€)	36.66	34.61	5.9%
EPRA NNAV per share (€)	36.53	33.56	8.8%
Net LTV	36.9%	44.1%	-7.3pp
Number of ordinary shares outstanding <sup>6</sup>	18,364,998	17,900,230	2.6%
Weighted average number of ordinary shares outstanding	18,133,178	17,900,230	1.3%

### Key portfolio metrics

	Dec 17				Dec 16
	Offices	HNK	Other <sup>7,8</sup>	Total	Total
Number of properties	93	14	19	126	165
Market value (€ m) <sup>9</sup>	736	181	191	1,108	1,160
Contracted rent (€ m) <sup>10</sup>	57	15	16	87	98
ERV (€ m)	67	22	16	105	116
Lettable area ('000 sqm)	436	128	113	676	870
EPRA vacancy rate	15.9%	29.8%	14.0%	18.4%	21.4%
WAULT (years)	5.0	2.9	5.0	4.7	4.7
Average rent/sqm (€ p.a.)	168	176	169	169	149
EPRA net initial yield	5.8%	3.9%	6.0%	5.5%	6.0%

<sup>1</sup> Based on unaudited results

<sup>2</sup> Figures with Belgium reported as continuing operations, IOW as discontinued operations in 2016 (sold)

<sup>3</sup> Belgium and Intervest (IOW) operations accounted for as discontinued operations under IFRS regulations as adopted by the EU

<sup>4</sup> Dividend proposal for 2017, of which €1.04 already paid as interim dividend in August 2017

<sup>5</sup> Change in real estate investments and assets held for sale partly due to disposals and acquisitions and partly due to representation of remaining retail assets from held for sale to real estate investments in accordance with IFRS 5

<sup>6</sup> The number of ordinary shares has changed due to stock dividend and a share consolidation

<sup>7</sup> Retail has been reclassified to Other as per YE 2017. At December 2017 the segment Other also holds two industrial assets one of which is held for sale

<sup>8</sup> Keizerslanden in Deventer was sold in April 2017 and is included as held for sale in Other, with the delivery and transfer of this asset set for H1 2018

<sup>9</sup> At market value. Reported in balance sheet at book value excluding lease incentives and part of NSI HQ related to own use

<sup>10</sup> Before rent free and other rent incentives

## CEO COMMENTS

At NSI we can look back on a very successful 2017. In February we announced our new strategy to become the leading specialist in the Dutch office market. As highlighted in this 2017 report we have made good progress during the year, on almost all fronts.

### Organisational rationalisation

We have put in place an almost entirely new organisation, with a new culture and identity. We reduced the team from 81 employees as per the start of 2016 to effectively 49 today, of which 24 are new hires. Our EPRA cost ratio has fallen to 24.3% (was 27.7%) as a result.

We have also substantially upgraded our IT infrastructure and our management information systems, further automating both our internal and external reporting. In addition, we have reviewed and updated our contracts with external service providers and have decided to outsource the day-to-day technical management of the portfolio.

### A more focused portfolio

The number of assets is down by 39 assets to 126 (having sold 44 assets<sup>11</sup> for €242m and acquired 5 assets for €139m during the year). The disposals include circa 60%<sup>12</sup> of our retail assets, in line with our strategy to focus solely on offices going forward.

The asset rotation has resulted in a more focused, higher quality portfolio, with better margins and a lower vacancy rate. In 2018 we will continue to prune and work the portfolio, towards a more concentrated portfolio of larger office assets in fewer locations.

The vacancy rate reduced to 18.4% at YE 2017 (was 21.4% at YE 2016). This is largely driven by disposals and acquisitions, and a 7% like-for-like improvement in the occupancy rate for HNK. We are optimistic about the occupancy outlook for 2018, as our letting activity is picking up, driven by the new asset management and leasing team and the positive economic environment.

### Internal growth – office (re-)developments

In 2017 we identified substantial development potential in our existing portfolio. This includes three office developments in Greater Amsterdam, with combined capital expenditure of more than €300m and a circa 7% yield on cost. The first of these could possibly break ground as early as H2 2019.

We are pleased that we have been able to source these attractive growth opportunities internally, at yield levels that are not available for standing investments in the wider market today. We believe that in the current market new development is one of the better ways to deploy capital and drive returns for shareholders – also when taking into account the higher risks associated with developments.

Even though the potential upside is attractive, we will not pursue these developments without due consideration. We will regularly assess 1) if we have the right skill sets in house, 2) how many projects we can run concurrently on our balance sheet, and 3) where we are in the property cycle. It is entirely conceivable that one or more of these developments will not happen until the next property cycle.

### Valuations underpinned

The YE 2017 EPRA NAV is €36.66 per share, up 6% year on year. With disposals done at an average 4% premium to book value and new leases agreed at an average 1% premium to ERV, we believe our external appraisals are well underpinned.

The like-for-like portfolio saw a 3% increase in value in 2017, with HNK up by 10% and Offices up by 3%. The polarisation in the office market continued during the year, with the G4 portfolio up 9% and provincial assets down 11%. Our remaining retail portfolio is down 2%, mainly reflecting lower ERVs, even given the ongoing strength of the Dutch economy and consumer confidence.

### Debt refinancing & LTV

In late 2017 we worked on our debt profile and agreed new 8 year funding at a margin that suggests that NSI now has an implied investment grade credit rating. This reflects the significant progress the business has made in recent years.

The average cost of debt has been reduced to 2.3% (was 2.8% at YE 2016). Rather than pursuing the lowest cost of debt to drive EPRA EPS by going for shorter maturities, we prefer to use the improved credit rating to extend the average debt maturity.

The LTV is down to 36.9% at year-end 2017 (was 44.1% at YE 2016) and is set to fall further, as we continue our asset rotation program and prepare the balance sheet for the development opportunities ahead. Given the increasing focus on value-add initiatives, we are lowering our target LTV range to 35-40%. Having said that, we would still be comfortable to move above this range, albeit on a temporary basis, if and when the right property deals come along.

### Outlook for 2018

Whilst most of the restructuring is now behind us, in 2018 we will continue to streamline the business and further improve systems and processes. With the foundations now in place and the Dutch economy and property market in good shape, we are optimistic about the outlook.

We appreciate that everyone looks like a rock star in a bull market. Whilst we too benefit from the current up-cycle, at NSI we are in it for the long run and therefore are working hard to prove good stewards of capital over the entire property cycle.

This sometimes comes at a cost. Having been a net seller in 2017, we are likely to face a fall in EPS in 2018 – notwithstanding the positive effects of the recent debt refinancing, improving cost efficiency, a better portfolio and improving leasing prospects.

Based on the portfolio at year-end 2017 we anticipate an EPRA EPS in the range of €2.35-2.45 for the whole of 2018. The actual outcome will, however, very much depend on the timing and size of future disposals and acquisitions.

Looking back on a successful 2017 and looking forward to 2018 with confidence, we are pleased to propose to our shareholders a final dividend of €1.12 per share, resulting in a stable dividend of €2.16 per share for the year.

Bernd Stahl

<sup>11</sup> Excludes two assets which were partly sold after title was split

<sup>12</sup> Including Keizerslanden

## DEVELOPMENTS & TRANSFORMATIONS

### The next phase in the Dutch office cycle

The Dutch office cycle has progressed into the development phase where projects are now viable and warranted, albeit in selective locations. Investors will be keen to explore these opportunities further up the risk curve, as there is plenty of capital and it has become much harder to find standing assets in good locations at reasonable yields.

Prospective IRRs for development are attractive, driven by healthy tenant demand and rising ERVs in the G4, and to some extent also because of current (modest) exit yields. Construction costs have picked up and capacity constraints in the contracting industry are affecting time tables, but this will not stop developers from increasing activity levels in 2018.

At NSI we reviewed the entire portfolio in 2017 and identified opportunities for development, redevelopment and transformation. We see new development as an interesting and profitable way to help further improve the overall quality of our investment portfolio and its long term income generating capacity.

### Developments

We have identified several interesting development opportunities, which we will look to exploit in the years to come. We prefer to be vague on the exact location of these projects for now, so as not to frustrate the preliminary planning and approval stages. Suffice to say that we have identified several opportunities in prime locations in Amsterdam, The Hague and Rotterdam, of which three in Amsterdam are the most tangible at this stage.

These three opportunities in Amsterdam include one land plot where we will look to develop a 12,000sqm office tower and two projects where we will have to demolish the existing buildings to build two new office towers, one measuring 40,000sqm and the other 30,000sqm. The first of these projects could start as early as H2 2019, with the potential start dates for the others in 2020/2021.

We estimate a yield on cost of around 7%, based on €300m+ of capital expenditure (excluding current book value) for the three projects. This could translate into a significant increase in NAV on successful delivery of these projects, based on current market assumptions. The current valuations do not reflect the potential upside of the development programme.

The timing of these projects is still rather uncertain. We know from experience that projects can be delayed (and often are) for multiple reasons. We will also have to recognise the remaining lease term of the in-place tenants for the two redevelopments, which can only start once the existing buildings have been demolished.

Our risk-appetite will be a function of our balance sheet at the time, where we are in the cycle and our ability to secure (partial) pre-lets to de-risk the projects. We may partner on a development if this would help us to successfully further these projects.

### Transformations

Transformation opportunities relates to existing NSI assets where it is probably best to consider alternative use of an asset, instead of continued use in its current state and form, to maximise the value of that asset.

The aim is to eventually sell these assets. Transformation is not a business line for us, but a structured way of running down part of our legacy portfolio. This process needs to take place well within the rules and limitations as set by the Dutch FBI (REIT) regulation, so we can not execute transformation activities ourselves (i.e. convert to residential use, hotel or student accommodation) and then sell on completion for a profit.

We believe we are entitled and should get at least some partial recognition for the embedded upside in these assets. Yet, if the market is not willing to recognise this potential then, in exceptional situations, we may well pursue it ourselves and retain an asset as investment property on completion. This may go against our strategy to focus on offices, but achieving returns for our shareholders is paramount.

Assets where we believe transformation potential exists are only classified as 'transformations' if and when we believe alternative use is the best and viable use of an asset and if we are either actively pushing to achieve vacancy or we are signing relatively short term leases to retain maximum flexibility.

At present we have identified seven transformation opportunities in total, including in Amsterdam (1), The Hague (2), Zoetermeer (2), Eindhoven (1) and Leiden (1).

Given the specific nature of these assets, which are no longer held for their long term income-generating capacity, but much more as IRR-led total return investments, it is perhaps appropriate to exclude these from the vacancy calculation for the portfolio. We have decided not to do so at this stage, as to not confuse everyone by reporting multiple vacancy rates.

## INCOME, COST AND RESULTS

*In the interest of continuity and clarity in our reporting, in this section the Belgian portfolio is treated as if it has not been discontinued. The notes to the IFRS accounts later in this report treat the Belgian portfolio as discontinued operation, in accordance with IFRS.*

### Introduction

EPRA EPS for FY 2017 is €2.72, a 3.0% increase compared to the same period last year. The results are impacted by various one-offs, both positive and negative.

On a net basis one-offs contribute €1.2m to the EPRA earnings, €0.2m more than in FY 2016. Most of the positive one-offs are reflected in operating costs and in non-recoverable service charges. These one-offs originate primarily from the restructuring of the business.

The indirect result for FY 2017 is €2.33 per share, which is positively impacted by €27.4m in asset revaluations, a €5.7m book profit on disposals, a €5.6m positive litigation result and a €3.7m non-cash market-to-market gain on financial derivatives.

### Rental income

Gross rental income in 2017 is down by 5.8% (€5.5m), mainly due to net disposals. One-offs in GRI are €1.1m, approximately the same as last year.

Gross rents are down €2.0m (-3.1%) on a like-for-like basis, due to several larger legacy lease expiries. As a result of an improved operating margin and positive one-offs like-for-like net rents are up by €0.9m (1.9%).

Full year 2017 NRI is up by 0.4% (€0.2m). Excluding one-offs in both 2017 and 2016 NRI is down 0.9% (- €0.7m).

### Service costs

Non-recoverable service charges of €2.1m are €2.1m (49.5%) lower than last year. Roughly €0.4m is due to one-off releases of provisions relating to assets that have been sold. Most of the savings are the result of better cost controls, better cost allocation and a higher recovery rate due to improved occupancy levels, in particular in the HNK business line.

### Operating costs

Operating costs for FY 2017 are 22.9% (€3.7m) lower compared to FY 2016. A one-off release of provisions for property taxes (€0.6m) and owner association costs (€0.4m) has also contributed. Adjusted for one-offs, operating costs are circa €2.8m lower than last year.

NSI has changed the way it allocates its property management costs to operating costs. The new system is based on actual costs rather than on a fixed percentage of GRI. Consequently, property management costs are €0.4m higher than last year's represented figure.

The operating margin increased to 83.6%, up 5.1pp on FY 2016 (78.5%). This is the result of continued asset rotation, cost savings and lower non-recoverable service charges. The operating margin for HNK is up in spite of being negatively affected by the change in the cost allocation.

### Administrative expenses

Administrative expenses are €9.2m, a €0.6m decrease versus 2016. One-offs in admin expenses amount to €1.6m versus €0.9m in 2016. These costs mainly relate to personnel change and consultancy and audit fees. Excluding one-offs, admin costs are 20% lower compared to last year.

The new team is largely in place now and whilst NSI will continue to invest in IT and further automating its processes, costs are expected to be structurally lower from 2018 onwards. NSI has consolidated its entire staff on one floor, down from two, with the vacated floor having been let, generating additional rental income.

### Net financing expenses

NSI continues to lower its funding costs, benefitting from lower margins and lower swap rates post the refinancing in late 2016 in combination with a reduction in the amount of debt. Financing costs for 2017 are down €4.1m compared to 2016.

The cost of debt is 2.3% at the end of December 2017, down from 2.8% at the end of 2016. The cost of debt has been stable at circa 2.8% for most of the year. At the end of December NSI repaid its EU private placement and cancelled two swaps, positively impacting the cost of debt. The cost benefits of these actions will become visible in 2018.

### Revaluation of investment

In June and December all standing assets have been appraised externally. The total revaluation for the full year is €27.4m, or 2.5%, with capital values for Offices in Amsterdam up 11.3% and in Other Netherlands down 10.3%. HNK valuations are up 10.8% over the year, more than offsetting lower valuations in the "Other"<sup>13</sup> segment (down 3.6%), which reflect continued weakness in this part of the Dutch real estate market.

### Result on asset sales

NSI sold assets<sup>14</sup> with a book value close to €242m. The net result on asset disposals for 2017 is €5.7m, underpinning the portfolio's external valuation.

### Revaluation of derivatives

The derivatives portfolio shows a positive revaluation of €3.7m, mainly reflecting changes in the yield curve in the first half of 2017. A small improvement of €0.3m in the second half of the year is a consequence of the shorter duration of the legacy swaps.

### Discontinued operations

At the end of 2016 the retail portfolio and the last wholly-owned asset in Belgium were reported as discontinued operations. From year end 2017 the remaining retail assets are once again reported as continued operations in accordance with the provisions of IFRS 5, with one asset in Belgium being reported as discontinued. This Belgian asset was sold in December. NSI will continue with its strategy to exit its retail activities.

<sup>13</sup> Includes Retail, Industrial and Belgian assets

<sup>14</sup> Excludes Keizerslanden shopping centre in Deventer which was sold in April 2017 with delivery and transfer set for H1 2018

## Post-closing events and contingencies

On 30 January NSI issued €40m of 8-year unsecured US private placement notes, at a margin reflecting an implied investment grade credit rating.

### EPRA Earnings, segment split and bridge to IFRS discontinued operations FY 2017 (€ '000)

	Continuing operations			Discontinued operations	TOTAL	Adj.	TOTAL
	Offices	HNK	Other				
Gross rental income	53,893	13,565	21,542	56	89,056	-56	89,000
Service costs not recharged	-1,574	-912	412	-18	-2,093	18	-2,075
Operating costs	-5,702	-4,578	-2,177	-22	-12,479	22	-12,457
<b>Net rental income</b>	<b>46,617</b>	<b>8,075</b>	<b>19,776</b>	<b>15</b>	<b>74,483</b>	<b>-15</b>	<b>74,468</b>
Administrative costs	-997	-282	-7,892	-77	-9,247	77	-9,170
<b>Earnings before interest and taxes</b>	<b>45,620</b>	<b>7,793</b>	<b>11,884</b>	<b>-61</b>	<b>65,236</b>	<b>61</b>	<b>65,297</b>
Net financing result	-1	0	-15,858	0	-15,859	0	-15,859
<b>Direct investment result before tax</b>	<b>45,619</b>	<b>7,793</b>	<b>-3,974</b>	<b>-61</b>	<b>49,377</b>	<b>61</b>	<b>49,438</b>
Corporate income tax		-3	-12	4	-12	-4	-15
<b>Direct investment result after tax</b>	<b>45,619</b>	<b>7,790</b>	<b>-3,986</b>	<b>-58</b>	<b>49,365</b>	<b>58</b>	<b>49,423</b>
Direct investment result - discontinued						-58	-58
<b>Direct investment result / EPRA earnings</b>	<b>45,619</b>	<b>7,790</b>	<b>-3,986</b>	<b>-58</b>	<b>49,365</b>		<b>49,365</b>
Attributable to shareholders	45,619	7,790	-3,986	-58	49,365		49,365
Revaluation of investments	18,695	15,875	-6,242	-970	27,359	970	28,329
Net result on sale of investments	3,144	0	2,920	-326	5,738	326	6,064
Other indirect income and costs	5,646	14	-113	9	5,557	-9	5,548
Net financing result			3,658		3,658		3,658
<b>Indirect investment result before tax</b>	<b>27,486</b>	<b>15,889</b>	<b>224</b>	<b>-1,286</b>	<b>42,312</b>	<b>1,286</b>	<b>43,599</b>
Corporate income tax			-75		-75		-75
<b>Indirect investment result after tax</b>	<b>27,486</b>	<b>15,889</b>	<b>148</b>	<b>-1,286</b>	<b>42,237</b>	<b>1,286</b>	<b>43,523</b>
Indirect investment result - discontinued						-1,286	-1,286
<b>Indirect investment result</b>	<b>27,486</b>	<b>15,889</b>	<b>148</b>	<b>-1,286</b>	<b>42,237</b>		<b>42,237</b>
Attributable to shareholders	27,486	15,889	148	-1,286	42,237		42,237
<b>Total investment result after tax</b>	<b>73,105</b>	<b>23,679</b>	<b>-3,838</b>	<b>-1,344</b>	<b>91,602</b>	<b>1,344</b>	<b>92,946</b>
Investment result - discontinued						-1,344	-1,344
<b>Total investment result</b>	<b>73,105</b>	<b>23,679</b>	<b>-3,838</b>	<b>-1,344</b>	<b>91,602</b>		<b>91,602</b>
Attributable to shareholders	73,105	23,679	-3,838	-1,344	91,602		91,602



## NETHERLANDS PROPERTY MARKET OVERVIEW

### Strong investment market

The Dutch property investment market continued to strengthen in 2017, as investors remain attracted to the high prospective returns on offer, especially in a wider European context.

2017 saw a record level of investment transactions, at €21bn according to all the agents, largely driven by new foreign investors entering the market, existing foreign investors taking profits and/or recycling capital, and local investors making a comeback.

The transaction volume for Dutch offices was circa €7.5bn in 2017 and most of this was done in H2. Yields have hardened in most markets, with Amsterdam South Axis currently at 3.75%, Central Utrecht at 5% and prime assets in Rotterdam and The Hague also now inside of 5.5%, based on JLL data.

We expect the investment market to remain strong in 2018, with investors set to be more willing (and more confident) to go up the risk curve in search for returns that are no longer available for standing prime assets in the G4. We agree and cannot, should not and will not compete for low yielding bond-like prime assets, where other investors are just willing to accept much lower IRRs than we feel comfortable with.

### Office market review and outlook

The vacancy rate for Dutch offices has fallen from 12.7% in 2016 to 11.7% end 2017. Whilst most of the decline in the vacancy rate in recent years has been due to withdrawals and conversions, in 2017 most of the decline was driven by positive net absorption.

The vacancy rate is moving back to levels last seen in 2007 and in the G4 and Eindhoven the market is back at equilibrium or even beyond, resulting in falling incentives and a return of rental growth. Away from the wider Randstad market vacancies generally remain too high to see any rental growth or even falling incentives.

#### Amsterdam

Amsterdam, with a 5.9m sqm office stock, has a vacancy rate of 7.9% at year-end 2017, according to Cushman & Wakefield. However, the grade-A vacancy rate is much lower, at circa 3%, resulting in rising ERVs and capital values.

The Amsterdam authorities have become more accommodating to new development, relaxing the specific location constraints that in recent years largely limited new office development to the South-axis and Houthavens market. New office development activity is set to accelerate in 2018 and a significant pick up in deliveries is expected from 2021 onwards.

Prime rents in Amsterdam are at €425-450psm. These levels are achieved in multiple submarkets, including the South Axis, Omval and the city centre. The average rent is nearer €215psm. Rents are up by circa 10% in 2017 and due to the continued scarcity of available space prime rents should continue to drift up in 2018.

#### Rotterdam

Rotterdam remains a difficult market, suffering from a lack of new demand from larger corporates and a geographic wide spread. In 2017 take-up was well below expectations (below levels of 2015 and 2016) and was largely driven by smaller local tenants. The vacancy rate still stands at circa 15%, so that incentives remain

high and ERVs are largely flat. Prime rents at €220psm are about half Amsterdam levels. Average rents, at €125psm due to the wide geographic spread, are more or less in line with the national average. On a positive note, residential prices are up, as people are moving in from elsewhere. This could possibly lead to a higher level of activity in Rotterdam offices.

#### The Hague

The Hague, with 3.9m sqm of office stock, is dominated by central Government demand and related activities. The market in central The Hague has returned to health in 2017 now the public sector is no longer releasing space onto the market. The vacancy rate is down to 7.1%, according to JLL, but it is far higher in surrounding markets. Prime rents of €200psm are being achieved in central locations, but due to the oversupply in surrounding markets rents are on average at a modest €125psm.

#### Utrecht

The Utrecht market is long term one of the best office markets along with Amsterdam. Its central location, infrastructure and attractive city centre are a draw for people and therefore for many tenants. Some tenants have moved to Utrecht, having been unable to find space in Amsterdam. The vacancy rate of 9.9% is high, but this is mostly in the suburbs, with limited public transport links, as the city centre market is tight.

Utrecht has a relatively small office stock at 2.4m sqm, yet in 2017 it had the highest level of take up after Amsterdam, at 97,000sqm. Substantial new development is planned in the Central Station area of Utrecht, to accommodate the strong demand.

### Flex offices/HNK

The Dutch flex office market is growing rapidly, as the health of the economy is pushing new start up initiatives and is driving scale ups to expand. This is in line with a global trend, in which users of space value flexibility and the provision of add-on services.

Lots of new market entrants are jumping on the band wagon as barriers to entry are low. Many of these will disappear in the next down cycle, or will be bought up. Landlords in general have been slow to respond, but some are now entering the market with their own flex office brand.

Branding and market positioning will become key, very much in line with the hotel industry. Depreciation costs of the fit out may not be as high as for a hotel, but is for flex offices much higher than for a typical office building. Each and every operator will have to figure out which segment of the market they are catering for. HNK in this is a mid-market boutique operator.

### Retail

Whilst the Dutch economic environment is healthy, retail sales are picking up and the consumer outlook continues to improve, the outlook for retail property polarised further in 2017. The overall market saw a 1.3% decline in rents, with 15 out of 189 retail locations studied seeing an increase in rents, 90 remaining steady and 84 in decline, according to JLL. This polarisation is expected to continue, with Amsterdam and the larger regional cities set to do well, whilst many smaller cities are too weak and have an uncompetitive and undifferentiating offering relative to nearby larger cities to attract sufficient footfall to sustain rents.



## REAL ESTATE PORTFOLIO

NSI sold 46 assets and acquired 5 in 2017. The sales presented in the table below exclude Keizerslanden shopping centre, which is still in the balance sheet as it will be delivered and transferred in H1 2018, and includes two assets that were partially sold as the title was split. Hence, the number of assets declined by 39 from 165 at the end of 2016 to 126 at the end of December. The disposals included 25 retail assets, and 21 smaller offices. NSI acquired 5 offices during the year, located in Amsterdam (2), Utrecht, Leiden and Eindhoven.

### Asset rotation (€m)

	No. of Assets	Net sales proceeds / book value <sup>15</sup>	Book profit / (loss) <sup>16</sup>	Net contract rent Dec-16
Offices disposals	21	38.7	2.8	2.2
Retail disposals	25	203.3	2.9	14.6
<b>Total disposals</b>	<b>46</b>	<b>242.0</b>	<b>5.7</b>	<b>16.8</b>
Offices acquisitions	5	145.4	6.0	9.8
<b>Total acquisitions</b>	<b>5</b>	<b>145.4</b>	<b>6.0</b>	<b>9.8</b>
<b>Delta</b>	<b>-41</b>	<b>102.5</b>	<b>11.7</b>	<b>-7.0</b>

The share of Offices and HNK is 84% of the portfolio by value, up from 66% at the end of 2016. The rotation out of smaller assets into larger, more efficient, assets continues apace. The average asset value on 31 December 2017 is €8.8m (€7.0m Q4 2016) a 26% increase.

### Portfolio breakdown - December 2017

	# assets	Value €m	Value %
Offices	93	736	67%
HNK	14	181	16%
Other	17	161	15%
<b>Total Investment properties</b>	<b>124</b>	<b>1,078</b>	<b>97%</b>
Held for sale	2	30	3%
<b>Total portfolio</b>	<b>126</b>	<b>1,108</b>	<b>100%</b>

### Vacancy

The December 2017 EPRA vacancy rate is 18.4%, a 3.0% improvement from the end of the previous year. The decrease is mostly due to the sale of smaller offices assets with high vacancy levels and good leasing progress at HNK (-7.3%).

The improvement in the Offices vacancy rate (-5.4%) is driven by asset rotation, with the like-for-like vacancy rate for the standing portfolio increasing by 2.0% primarily due to some large legacy leases expiring in Q1 2017.

### EPRA Vacancy

	Dec 16	L-f-l	Other	Dec 17
Offices	21.3%	2.0%	-7.4%	15.9%
HNK	37.1%	-7.3%	0.0%	29.8%
Other	12.4%	1.8%	-0.2%	14.0%
<b>Total portfolio</b>	<b>21.4%</b>	<b>-0.3%</b>	<b>-2.7%</b>	<b>18.4%</b>
<b>Offices + HNK</b>	<b>25.3%</b>	<b>-0.8%</b>	<b>-5.3%</b>	<b>19.2%</b>

<sup>15</sup> Acquisitions at Dec-17 book value

<sup>16</sup> Including sales and acquisition costs

### Rents

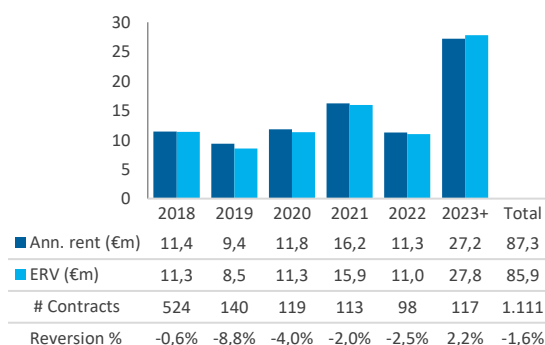
Net rental income for FY 2017 is up 1.9% on a like-for-like basis compared to FY 2016, with continued strong growth in HNK. In Offices the like-for-like has been particularly impacted by a fall in occupancy and the realisation of negative reversion on some lease expiries.

### Net rent growth like-for-like

	2017 €m	2016 €m	Change €m	L-f-l %
Offices	31.3	32.0	-0.7	-2.2%
HNK	7.3	6.5	0.8	13.7%
Other	11.9	11.2	0.7	6.7%
<b>Total portfolio</b>	<b>50.5</b>	<b>49.7</b>	<b>0.8</b>	<b>1.9%</b>

The average lease maturity is stable compared to December 2016, at 4.7 years. This is a comfortable level, particularly when taking into account the typically shorter leases at HNK and the value add acquisitions made in the first half of the year, with similarly shorter lease terms.

### Annual expirations and reversion (€m)



### Reversionary potential, ERV bridge

At the end of the year 2017 the portfolio is 1.6% over-rented, a major improvement compared to 6.7% at December 2016. This is due partly to the expiry of legacy over-rented lease contracts, partly to the effect of disposals and acquisitions and partly to an improvement in ERVs.

### Reversion<sup>17,18</sup>

	Dec 16	Dec 17
Offices	-7.6%	-0.9%
HNK	0.4%	3.9%
Other	-8.0%	-9.1%
<b>Total portfolio</b>	<b>-6.7%</b>	<b>-1.6%</b>

ERVs increased by 2.5% on a like-for-like basis in 2017. The ERVs for Offices and HNK are up by 2.6% and 4.3% respectively, with the Office ERV driven for a large part by a 7.2% increase in the G4. Conversely, retail ERVs are 0.8% lower, reflecting a still challenging environment.

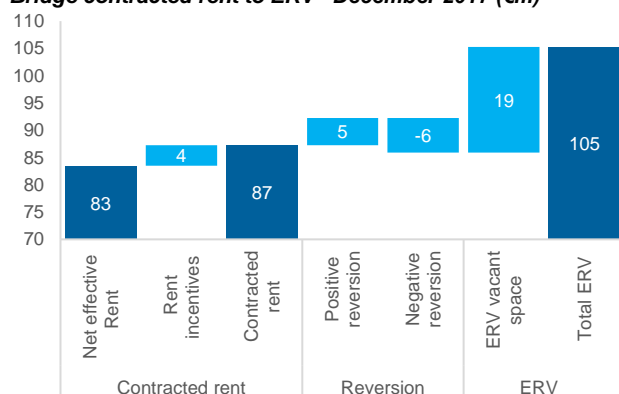
<sup>17</sup> Reversion = ERV let space / contractual rent

<sup>18</sup> 2016 figures represented for reclassification of HNK Schinkel from Offices to HNK and retail into Other

**ERV like-for-like**

	Dec 16 €m	Dec 17 €m	Change €m	Change %
Offices	45.9	47.0	1.2	2.6%
HNK	20.7	21.6	0.9	4.3%
Other	16.4	16.4	0.0	-0.1%
<b>Total portfolio</b>	<b>82.9</b>	<b>85.0</b>	<b>2.1</b>	<b>2.5%</b>

The ERV bridge highlights that most of the upside to our rental income still lies in pro-actively reducing the vacancy.

**Bridge contracted rent to ERV - December 2017 (€m)****EPRA yields**

The EPRA net initial yield for the portfolio is 5.5%, down 50bps in comparison to the end of 2016. The fall is mostly due to portfolio rotation, with now a lower portfolio weighting of slightly higher yielding retail assets, and due to the uplift in capital values in 2017 - in particular for the HNK portfolio.

**Yields**

	EPRA Net Initial Yield		Reversionary yield <sup>19</sup>	
	Dec 17	Dec 16	Dec 17	Dec 16
Offices	5.8%	6.0%	9.1%	9.9%
HNK	3.9%	4.3%	11.9%	13.1%
Other	6.0%	6.6%	8.6%	8.9%
<b>Total</b>	<b>5.5%</b>	<b>6.0%</b>	<b>9.5%</b>	<b>10.0%</b>

**Valuations**

During the year the entire standing property portfolio is externally appraised twice. The uplift for FY 2017 is €27.4m (2.5%). The investment market continues to be polarised. On a like-for-like basis office values are up, largely driven by positive revaluations in Amsterdam (11.3%). In Other Randstad (0.4%) the investment market is stabilising, whilst Other Netherlands (-11.1%) remains a buyer's market.

The acquisitions made in 2015, 2016 and 2017 continue to perform well. Assets from the Cobra portfolio, Glass House and those bought during 2017 were up 7.5% on average.

The HNK portfolio has noted a positive revaluation of 10.8%. The assets in Amsterdam and Utrecht are driving the uplift, whereas Ede, Den Bosch and Groningen have reported mark downs, a sign that HNKs are not immune for what is happening in the wider real estate market. The remaining HNKs are relatively stable.

The valuation of the retail portfolio, the main driver of the Other segment, is down 1.7%.

**Revaluations – December 2017 (€m)**

	Valuation Dec 17	Revaluation		Total	% YoY
		Positive	Negative		
Offices	736	44	-27	17	2.4%
HNK	181	22	-4	17	10.8%
Other	191	3	-11	-7	-3.6%
<b>Total</b>	<b>1,108</b>	<b>70</b>	<b>-42</b>	<b>27</b>	<b>2.5%</b>

**Capital expenditure**

In 2017 €15.8m is spent on capital expenditure, of which €12.1m is offensive. We classify projects as offensive if we add value through extensions or through a significant upgrade of the asset. In 2017 we have started to convert our office building in Amsterdam Schinkel into an HNK and at HNK Ede we have started to convert additional conventional space into managed offices. In the Other segment, the offensive investments are largely related to the extensions of Keizerslanden in Deventer and of Lage Land in Rotterdam.

**Capital expenditure FY 2017 (€m)**

	Offensive	Defensive	Total
Offices	0.0	2.8	2.8
HNK	6.3	0.0	6.3
Other	5.8	0.9	6.7
<b>Total cap ex</b>	<b>12.1</b>	<b>3.7</b>	<b>15.8</b>

**Developments**

NSI currently has no active development activities. In December the extension of a supermarket unit in shopping centre Lage Land in Rotterdam was completed. The delivery of the final units in the extension of shopping centre Keizerslanden in Deventer is planned for H1 2018.

<sup>19</sup> Reversionary yield: ERV / Market Value

## Offices

In the second half of 2017 the focus has been on the disposal of our smaller office assets, exploiting liquidity currently available in the market. Five large acquisitions during the year have significantly increased the exposure to the Amsterdam market and the wider G4. At the end of 2017, the G4 makes up 66% of the Offices portfolio, up from 54% at Q4 2016, 49% at Q4 2015 and 33% at Q4 2014. The exposure to Amsterdam has increased to 48% (vs 40% at the end of 2016). The weighting to the target cities of Amsterdam, Utrecht, Rotterdam, The Hague, Leiden, Den Bosch and Eindhoven is now 81%.

### Key Offices metrics

	Dec 16	Sep 17	Dec 17
Number of properties	108	103	93
Market value (€m)	617	733	736
Annual contracted rent (€m)	53	58	57
ERV (€m)	61	69	67
Lettable area (k sqm)	457	467	436
EPRA Vacancy	21.3%	19.4%	15.9%
WAULT (years)	5.3	5.1	5.0
Average rent/sqm (€/p.a.)	156	156	168
EPRA net initial yield	6.0%	5.9%	5.8%

The average asset size has increased from €5.7m in December 2016 to €8.0m at the end of 2017, a 39% increase. In Amsterdam the average asset size is more than €25m. This shift is set to continue, as a result of the further disposal of smaller assets.

The vacancy rate in the G4 is 7.6%, down from 10.3% one year ago. The reduction, of which 0.7% on a like-for-like basis<sup>20</sup>, is primarily the effect of the acquisitions with 100% occupancy. Other Randstad vacancy reduced 7.3%, mostly due to disposals, whilst on a like-for-like basis the occupancy was stable.

The most challenging region is and remains Other Netherlands, with the occupancy stable due to the disposal of assets with high vacancy rates, whilst on a like-for-like basis the EPRA vacancy rate is 8% higher than 12 months ago.

### Key Offices metrics geographical split

	G4	Other Randstad	Other NL
Number of properties	33	23	37
Market value (€m)	484	104	148
Annual contracted rent (€m)	33	10	13
ERV (€m)	38	12	18
Reversion	4.2%	-6.5%	-9.5%
Lettable area (k sqm)	189	89	157
EPRA Vacancy	7.6%	16.8%	32.5%
WAULT (years)	5.9	4.1	3.7
Average rent/sqm (€/p.a.)	198	144	133
EPRA net initial yield	5.3%	7.6%	6.5%

The strength of the G4 markets is noticeable, showing good ERV growth, good like-for-like rental growth and a positive revaluation. The Other Randstad office market is picking up as well, with Other Netherlands still lagging.

<sup>20</sup> Like-for-like vacancy changes excludes assets defined as transformation or development projects

The G4 NRI like-for-like is positively influenced by Amsterdam (+11%) and negatively affected by Rotterdam (-17%). ERVs are rising in parts of Other Randstad, reducing the negative reversion and pushing up capital values. The revaluations continue to show polarisation in markets, with G4 assets up 8.8%, Other Randstad up 0.4% and Other Netherlands -11.1%. The latter is largely driven by an asset in Arnhem and another in Meppel, which were both fully vacated during the year. These like-for-like results underpin NSI's strategy to move more towards the Randstad and the G4 in particular.

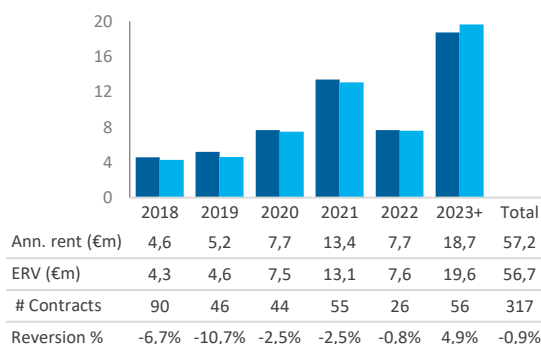
### Like-for-like<sup>21</sup>

	NRI growth %	Revaluation %	ERV growth %
G4	0.4%	8.8%	7.2%
Other Randstad	10.6%	0.4%	1.3%
Other Netherlands	-14.1%	-11.1%	-3.0%
<b>Total</b>	<b>-2.2%</b>	<b>2.7%</b>	<b>2.6%</b>

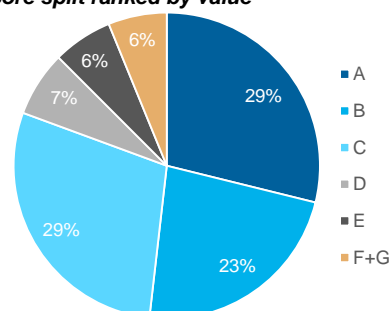
The reversion in the Offices portfolio has significantly improved from -8.3% in December 2016 to -0.9% in December 2017. The reversionary potential in the G4 has turned positive (4.2%), partly due to asset rotation and because of a 7.2% rise in ERVs.

Due to the sale of over-rented assets and the expiry of several sizeable and highly over-rented lease contracts, the over-renting for Other Netherlands has improved significantly from -17.7% at the end of last year to -9.5% at the end of 2017.

### Annual expirations and reversion Offices (€m)



### Energy score split ranked by value



Improving energy consumption and sustainability is one of NSI's core objectives, as we believe it preserves the build environment and drives long term investment returns. By value 81% of our office portfolio has a C energy label or better, with 93% for the HNK assets.

<sup>21</sup> NRI like-for-like FY 2017 compared to FY 2016, only assets in portfolio for whole FY 2016 and FY 2017, transformation and development projects are excluded. Revaluation and ERV growth for assets in portfolio on 31 December 2016 and 31 December 2017.

## HNK

In 2017 the focus for HNK has been the occupancy rate. Vacancy fell by 7.3% to now 29.8% and it should fall further in 2018. The market for flex offices is growing rapidly and we are prepared to invest in the business to accommodate this growth.

We have invested in Amsterdam Houthavens and in Ede in 2017, which will help to improve occupancy in 2018, and in Q4 2017 we started new investment programmes in The Hague, both of our Rotterdam locations and Den Bosch. All of these will complete in 2018.

As we continue to establish our track record, which now runs for 5 years, and have changed the way we allocate costs, we can track our performance more accurately and steer towards better profitability. For 5 of the 14 HNKs that are currently in operation the occupancy rates are above 85%, a level at which point it is possible to push rental growth.

The opening of Amsterdam Schinkel<sup>22</sup> is set for Q2 2018. No further openings are foreseen for 2018. Longer term we see room to expand HNK in the G4, particularly in Amsterdam and Utrecht, by converting some of our existing offices. New acquisitions are also still being considered.

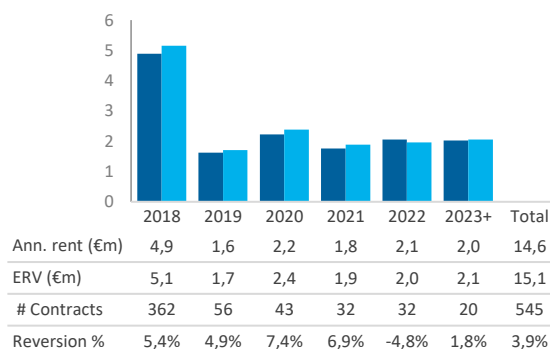
### Key HNK metrics

	Dec 16	Sep 17	Dec 17
Number of properties	13	13	14
Market value (€m)	149	158	181
Annual contracted rent (€m)	12	14	15
ERV (€m)	20	20	22
Lettable area (k sqm)	125	121	128
EPRA Vacancy	37.1%	31.6%	29.8%
WAULT (years)	3.1	3.2	2.9
Average rent/sqm (€/p.a.)	167	175	176
EPRA net initial yield	4.3%	4.4%	3.9%

The EPRA net initial yield for HNK is 3.9% at YE 2017. The low yield is largely due to the high vacancy – with a significant element of service costs not recharged. A reallocation of costs from NSI holding level to HNK has also negatively impacted the operating margin. Nevertheless, the margin is still up to circa 60% for 2017 (vs 55% in H1 2017 and 45% for 2016), because of the higher occupancy rate and better cost controls.

The margin is expected to continue to improve in the period ahead, as we work hard to progressively lease up the remaining vacancy, with our ERVs now pointing to rental growth, and as our legacy traditional leases are being replaced by HNK contracts with a service charge level appropriate for the HNK offering.

### Annual expirations and reversion HNK (€m)



## Other

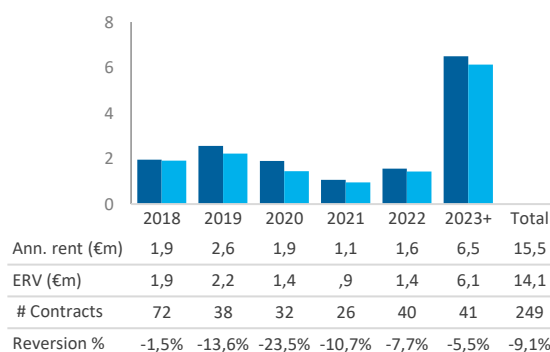
The segment Other has more than halved in size during the year and includes 17 retail and 2 industrial assets at YE 2017. Following an active H1 2017, in which 22 retail assets were sold, in H2 a further two small retail assets and our last remaining office asset abroad, in Belgium, were sold. The Keizerslanden shopping centre in Deventer, which will be transferred to the buyer in H1 2018, is included in the 19 remaining assets classified as other. One of the two industrial assets was sold in December and will be transferred in H1 2018.

The interests in shopping centres in Rotterdam (Zuidplein), Rijswijk, Heerlen and Ridderkerk combined make up over 66% of the segment Other<sup>23</sup> by value. NSI will continue to sell its retail and industrial assets in the period to come, reinvesting the proceeds in offices.

### Key Other metrics

	Dec 16	Sep17	Dec 17
Number of properties	44	22	19
Market value (€m)	394	198	191
Annual contracted rent (€m)	33	15	16
ERV (€m)	35	18	16
Lettable area (k sqm)	288	119	113
EPRA Vacancy	12.6%	15.7%	14.0%
WAULT (years)	4.2	4.8	5.0
Average rent/sqm (€/p.a.)	135	171	169
EPRA net initial yield	6.6%	6.3%	6.0%

### Annual expirations and reversion Other (€m)



<sup>22</sup> Amsterdam Schinkel transferred to HNK portfolio from 31 December 2017

<sup>23</sup> Excluding Keizerslanden in Deventer

## BALANCE SHEET, NAV & FINANCING

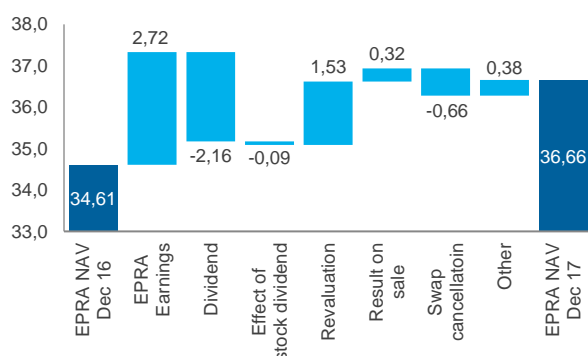
### Balance sheet

Retail is no longer reported as discontinued operations. The Belgian activities are reported as discontinued operations, but only shows in the YE 2016 balance sheet as the last remaining asset was sold in December 2017. At YE 2017 one industrial asset and the Keizerslanden shopping centre are classified as held for sale.

### Net asset value

The EPRA NAV at YE 2017 is €673.2m (€619.6m at YE 2016), or €36.66 per share. The EPRA NNNNAV per share increased by 8.8% year-on-year to €36.53 at 31 December 2017. The change in EPRA NAV is explained in the below bridge. A €5.7m cash payment following a favourable court ruling on a long standing dispute primarily drives the "Other" segment.

#### EPRA NAV per share bridge (€)



The gap between the EPRA NAV per share (€36.66) and the EPRA NNNNAV per share (€36.53) is almost negligible, largely as a result of expensive legacy swaps that were broken in Q4 2017. The remaining gap (€0.13) is explained by the mark to market of the remaining swaps (€0.03) and the amortised cost of loans (€0.10).

### Funding

NSI has improved its credit score on all fronts in recent years. The company now has an implied investment grade credit rating, as both banks and debt investors recognise the structural improvements made to the business. The size of the balance sheet will, however, need to grow before we can look to obtain an official investment grade credit rating by one of the three large rating agencies.

The implied investment grade rating widens our access to capital, at lower margins. In Q4 2017 several initiatives were launched to capitalise on this. NSI agreed a new 8-year unsecured US private placement (USPP). Initially €40m of notes are set to be issued at the end of January 2018, and which are therefore not part of the YE 2017 reported figures. Further funding under this USPP is potentially available via a shelf construction, whereby margins and swap rates are fixed at the time of issue.

At the end of the 2017 the remaining €20m of the 2023 Berlin Hyp facility was drawn, at an improved margin. No additional security was given. Proceeds were used to fully repay the €60m secured EU private placement (EUPP), which was originally due to expire

in 2022, releasing security on €115m worth of assets as a result. An early termination penalty of €0.9m was paid. The RCFs are temporarily drawn for €40m and will be repaid at the end of January 2018 when the US private placement notes are issued. NSI is also in discussions with its banks over its Term Loan and RCFs, which are currently scheduled to expire in 2019-2021.

Over 2017 NSI has been a net seller of assets. Surplus cash has been used to reduce debt outstanding. In the second half of the year most of the disposal proceeds were used for the acquisition of two assets, in Leiden and Eindhoven, and for the recent debt restructuring.

Net debt at the end of 2017 stands at €408.5m, a reduction of €103.8m compared to December 2016. This is driven by positive cash flow from operations, the net effect of asset disposals and acquisitions, payment of the final dividend and loan and swap breakage costs.

The cost of debt is significantly lower at 2.3% at the end of December 2017 (Dec 16: 2.8%), as a result of the repayment of the EU private placement loan, drawing from the Berlin Hyp facility and breaking swaps. Swaps maturing in 2022 were cancelled at a cost of €11.7m, in line with the repayment of the EUPP due that year.

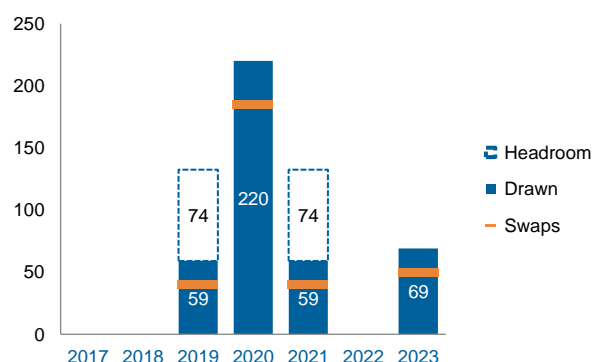
#### Net debt - Dec 2017 (€m)

	Dec 17	Dec 16	Change
Debt outstanding	407.2	513.8	(106.6)
Amortisation costs	(1.8)	(2.8)	1.0
Book value debt	405.4	510.9	(105.5)
Debt to credit institutions	9.9	3.4	6.5
Cash	(6.8)	(2.1)	(4.7)
<b>Net debt</b>	<b>408.5</b>	<b>512.3</b>	<b>(103.8)</b>

The first debt is due to expire in November 2019. At December 2017 83% (Dec 16: 79%) of the debt is unsecured and 82% (Dec 16: 73%) of the assets are unencumbered.

NSI has undrawn credit facilities of €147m and uncommitted bank facilities of €50m at the end of December 2017.

#### Maturity profile of loans and swaps (€m)



## Leverage and hedging

The LTV has decreased to 36.9% at December 2017 (versus 44.1% at December 2016), mainly reflecting the asset disposals and a positive revaluation of the investment portfolio. This is within NSI's new target range of 35-40%.

The average loan maturity is 3.1 years (December 2016: 4.2 years). The maturity of derivatives is 3.0 years (December 2016: 4.3 years), resulting in a maturity hedge<sup>24</sup> of 98% (target range: 70-120%).

The notional amount of swaps outstanding at the end of December was €315.0m. The volume hedge<sup>25</sup> was 77% (target range 70-100%), slightly below previous quarters.

The volume hedging ratio at the end of the year is at the lower end of the target bandwidth. After the issuing of fixed US private placement notes at the end of January 2018 the maturity of both the loans and swaps will be extended to 3.6 years, improving the maturity hedge to 100%. The volume hedge will increase to 87%.

## Development of covenants

NSI complies with all its covenants. The LTV of 36.9% is well below the 60% covenant and the interest coverage ratio (ICR) at 4.7x (Dec 2016: 3.75x) net rental income, is also well above its covenant (at 2.0x).

In addition to the net LTV covenant of 60% and the ICR covenant of 2.0x NSI has certain negative pledges related to the term loan financing limiting the amount of secured assets and secured debt.

### Covenants

	Covenant	Dec 15	Dec 16	Sep 17	Dec 17
LTV	≤60%	43.3%	44.1%	38.1%	36.9%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	4.7x

<sup>24</sup> Maturity hedge is average maturity of swaps and fixed debt maturities as % of average maturity of loans

<sup>25</sup> Volume hedge is amount hedged or fixed as % of total drawn debt facilities



## FINANCIALS

### Consolidated statement of comprehensive income (€ '000)

	2017	2016
Gross rental income	89,000	94,523
Service costs recharged to tenants	11,983	12,420
Service costs	-14,058	-16,607
Service costs not recharged	-2,075	-4,187
Operating costs	-12,457	-16,131
<b>Net rental income</b>	<b>74,468</b>	<b>74,205</b>
Revaluation of investments	28,329	-55,345
Net result on sale of investments	6,064	-5,943
<b>Net result from investments</b>	<b>108,861</b>	<b>12,917</b>
Administrative costs	-9,170	-9,854
Impairment of goodwill		-8,205
Other income and costs	5,548	-3
Financing income	12	24
Financing costs	-15,871	-20,011
Movement in market value of financial derivatives	3,658	1,751
Net financing result	-12,201	-18,236
<b>Result before tax</b>	<b>93,037</b>	<b>-23,380</b>
Corporate income tax	-91	54
<b>Result from continuing operations after tax</b>	<b>92,946</b>	<b>-23,326</b>
Result from discontinued operations after tax	-1,344	5,493
<b>Total result for the year</b>	<b>91,602</b>	<b>-17,833</b>
Exchange rate differences on foreign participations	0	
<b>Other comprehensive income</b>	<b>0</b>	
<b>Total comprehensive income for the year</b>	<b>91,602</b>	<b>-17,833</b>
Total comprehensive income attributable to:		
Shareholders	91,602	-17,833
<b>Total comprehensive income for the year</b>	<b>91,602</b>	<b>-17,833</b>
Data per average outstanding share:		
Diluted as well as non-diluted result after tax - continuing operations	5.13	-1.30
Diluted as well as non-diluted result after tax - discontinued operations	-0.07	0.31
Diluted as well as non-diluted result after tax	5.05	-1.00

## Consolidated statement of financial position

**Before proposed profit appropriation FY 2017 (€ '000)**

	31 December 2017	31 December 2016
Assets		
Real estate investments	1,072,180	764,613
Derivative financial instruments	1,162	
Tangible fixed assets	787	1,516
Intangible fixed assets	560	193
Other non-current assets	6,134	5,821
<b>Non-current assets</b>	<b>1,080,822</b>	<b>772,143</b>
Debtors and other accounts receivable	1,829	2,330
Cash and cash equivalents	6,827	2,066
Assets classified as held for sale	28,791	389,923
<b>Current assets</b>	<b>37,447</b>	<b>394,319</b>
<b>Total assets</b>	<b>1,118,269</b>	<b>1,166,462</b>
Shareholders' equity		
Issued share capital	67,583	65,873
Share premium reserve	921,715	923,435
Other reserves	-408,212	-367,220
Total result for the year	91,602	-17,833
<b>Shareholders' equity</b>	<b>672,688</b>	<b>604,255</b>
Liabilities		
Interest bearing loans	404,708	510,404
Derivative financial instruments	1,712	15,297
Other non-current liabilities	3,540	2,276
<b>Non-current liabilities</b>	<b>409,959</b>	<b>527,976</b>
Redemption requirement interest bearing loans	700	500
Creditors and other accounts payable	24,855	27,655
Debts to credit institutions	9,873	3,429
Liabilities directly associated with assets classified as held for sale	195	2,646
<b>Current liabilities</b>	<b>35,623</b>	<b>34,231</b>
<b>Total liabilities</b>	<b>445,582</b>	<b>562,207</b>
<b>Total shareholders' equity and liabilities</b>	<b>1,118,269</b>	<b>1,166,462</b>

## Consolidated statement of cash flows (€ '000)

	2017	2016
Result from operations after tax	92,946	-23,326
Adjusted for:		
Revaluation of investments	-28,329	55,345
Net result on sale of investments	-6,064	5,943
Share in result of participations		3
Net financing result	12,201	18,236
Corporate income tax	91	-54
Impairment of goodwill		8,205
Depreciation	162	288
	-21,939	87,965
Movements in working capital:		
Debtors and other accounts receivable	764	-1,618
Creditors and other accounts payable	-3,744	-3,390
	-2,980	-5,008
<b>Cash flow from operating activities</b>	<b>68,027</b>	<b>59,631</b>
Financing income received	12	24
Financing costs paid	-15,093	-21,395
Tax paid	-78	-97
<b>Cash flow from continuing operating activities</b>	<b>52,868</b>	<b>38,162</b>
Cash flow from discontinued operating activities	-49	2,290
<b>Cash flow from operating activities</b>	<b>52,819</b>	<b>40,453</b>
Purchases of real estate and investments in existing property	-155,195	-81,406
Proceeds on sale of real estate investments	240,623	65,298
Investments in tangible fixed assets	-76	-37
Disinvestments in tangible fixed assets	15	47
Investments in intangible fixed assets	-466	-186
Disinvestments in intangible fixed assets	12	74
<b>Cash flow from continuing investment activities</b>	<b>84,912</b>	<b>-16,210</b>
Cash flow from discontinued investment activities	1,394	53,048
<b>Cash flow from investment activities</b>	<b>86,306</b>	<b>36,838</b>
Dividend paid	-23,169	-38,664
Proceeds from interest bearing loans	99,000	232,000
Transaction costs interest bearing loans paid		-879
Repayment of interest bearing loans	-205,550	-285,507
Settlement of derivatives	-11,089	-7,893
<b>Cash flow from continuing financing activities</b>	<b>-140,808</b>	<b>-100,943</b>
<b>Cash flow from financing activities</b>	<b>-140,808</b>	<b>-100,943</b>
<b>Net cash flow continuing operations</b>	<b>-3,027</b>	<b>-78,990</b>
Net cash flow from discontinued operations	1,345	55,338
<b>Net cash flow</b>	<b>-1,683</b>	<b>-23,652</b>
<b>Cash and cash equivalents and debts to credit institutions - balance as per 1 January</b>	<b>-1,363</b>	<b>22,285</b>
Exchange rate differences	0	4
<b>Cash and cash equivalents and debts to credit institutions - balance as per 31 December</b>	<b>-3,046</b>	<b>-1,363</b>

## Consolidated statement of movements in shareholders' equity

**Development shareholders' equity 2017 (€ '000)**

	Issued share capital	Share premium reserve	Other reserves	Result for the year	Shareholders' equity attributable to shareholders	Non- controlling interest	Shareholders' equity
<b>Balance as per 1 January 2017</b>	<b>65,873</b>	<b>923,435</b>	<b>-367,220</b>	<b>-17,833</b>	<b>604,255</b>		<b>604,255</b>
Total result for the year				91,602	91,602		91,602
Exchange rate differences			0		0		0
<b>Total comprehensive income for the year</b>			<b>0</b>	<b>91,602</b>	<b>91,602</b>		<b>91,602</b>
Profit appropriation - 2016			-17,833	17,833			
Distribution final dividend - 2016	872	-877	-12,355		-12,360		-12,360
Interim dividend - 2017	839	-844	-10,804		-10,809		-10,809
<b>Contributions from and to shareholders</b>	<b>1,710</b>	<b>-1,720</b>	<b>-40,992</b>	<b>17,833</b>	<b>-23,169</b>		<b>-23,169</b>
<b>Balance as per 31 December 2017</b>	<b>67,583</b>	<b>921,715</b>	<b>-408,212</b>	<b>91,602</b>	<b>672,688</b>		<b>672,688</b>

**Development shareholders' equity 2016 (€ '000)**

	Issued share capital	Share premium reserve	Other reserves	Result for the year	Shareholders' equity attributable to shareholders	Non- controlling interest	Shareholders' equity
<b>Balance as per 1 January 2016</b>	<b>65,873</b>	<b>923,435</b>	<b>-392,354</b>	<b>63,794</b>	<b>660,748</b>	<b>-28</b>	<b>660,720</b>
Total result for the year				-17,833	-17,833		-17,833
<b>Total comprehensive income for the year</b>				<b>-17,833</b>	<b>-17,833</b>		<b>-17,833</b>
Profit appropriation - 2015			63,794	-63,794			
Distribution final dividend - 2015			-20,048		-20,048		-20,048
Interim dividend - 2016			-18,616		-18,616		-18,616
Disposal of participations			4		4	28	32
<b>Contributions from and to shareholders</b>			<b>25,134</b>	<b>-63,794</b>	<b>-38,660</b>	<b>28</b>	<b>-38,632</b>
<b>Balance as per 31 December 2016</b>	<b>65,873</b>	<b>923,435</b>	<b>-367,220</b>	<b>-17,833</b>	<b>604,255</b>		<b>604,255</b>

## Impact discontinued operations in comparative figures

In connection with the sale of the remaining holding in Intervest Offices & Warehouses N.V. in the 1st quarter of 2016, and the decision to initiate the sale of the retail activities in December 2016, the decision was taken to present the Belgian and retail activities as discontinued operations in the 2016 consolidated financial statements, in line with IFRS 5.

During 2017 the Belgian activities and the larger part of the retail activities have been sold. At the end of 2017 the Management Board has assessed the status of the remaining retail properties. The Management Board concluded that the criteria of IFRS 5 to extend the period for presenting the remaining portfolio as held for sale have not been met. The remaining retail properties have been transferred back to investment properties at the end of 2017. The comparative figures have been adjusted accordingly.

Discontinued operations in 2016 consisted of the following two disposal groups:

### Belgium

In Belgium, discontinued operations consisted of the following 2 elements:

The remainder (15.2%) of the initial interest in Intervest Offices & Warehouses which was sold in a number of transactions in the 1st quarter of 2016.

A remaining Belgian directly held real estate asset in Vilvoorde, which has been sold in December 2017.

### Retail

In December 2016 NSI decided to sell its retail activities. During 2017, NSI sold approximately 60% of the retail portfolio. The remaining part of the retail portfolio has not been sold in 2017. Although retail is no core activity anymore for NSI, management concluded that the planned sale of the remaining portfolio is not highly probable within one year. As a result the remaining retail portfolio has been represented to the segment "other" within real estate investments. As a consequence the consolidated statement of comprehensive income 2016 has been adjusted to reflect the change in classification of the retail portfolio, in accordance with the requirements of IFRS for the presentation of discontinued operations.

### Bridge income statement 2016 (€ '000)

	2016 - reported	Retail	2016 - represented
Gross rental income	63,126	31,397	94,523
Service costs not recharged	-3,618	-569	-4,187
Operating costs	-11,294	-4,837	-16,131
<b>Net rental income</b>	<b>48,214</b>	<b>25,991</b>	<b>74,205</b>
Revaluation of investments	-5,264	-50,081	-55,345
Net result on sale of investments	-5,943		-5,943
<b>Net result from investments</b>	<b>37,007</b>	<b>-24,090</b>	<b>12,917</b>
Administrative costs	-9,674	-179	-9,854
Impairment of goodwill	-5,296	-2,909	-8,205
Other income and costs	-3		-3
Net financing result	-18,243	8	-18,236
<b>Result before tax</b>	<b>3,791</b>	<b>-27,171</b>	<b>-23,380</b>
Corporate income tax	54		54
<b>Result from continuing operations after tax</b>	<b>3,845</b>	<b>-27,171</b>	<b>-23,326</b>
Result from discontinued operations after tax	-21,678	27,171	5,493
<b>Total result for the year</b>	<b>-17,833</b>		<b>-17,833</b>
<b>Other comprehensive income</b>			
<b>Total comprehensive income for the year</b>	<b>-17,833</b>		<b>-17,833</b>
Total comprehensive income attributable to:			
Shareholders	-17,833		-17,833
<b>Total comprehensive income for the year</b>	<b>-17,833</b>		<b>-17,833</b>

## Segment information

**Segment split income statement 2017 (€ '000)**

	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Retail / Other	TOTAL		
Gross rental income	53,893	13,565	21,542	89,000	56	89,056
Service costs recharged to tenants	6,706	3,297	1,979	11,983	16	11,999
Service costs	-8,281	-4,209	-1,568	-14,058	-35	-14,092
Service costs not recharged	-1,574	-912	412	-2,075	-18	-2,093
Operating costs	-5,702	-4,578	-2,177	-12,457	-22	-12,479
<b>Net rental income</b>	<b>46,617</b>	<b>8,075</b>	<b>19,776</b>	<b>74,468</b>	<b>15</b>	<b>74,483</b>
Revaluation of investments	18,695	15,875	-6,242	28,329	-970	27,359
Net result on sale of investments	3,144	0	2,920	6,064	-326	5,738
<b>Net result from investment</b>	<b>68,456</b>	<b>23,950</b>	<b>16,454</b>	<b>108,861</b>	<b>-1,280</b>	<b>107,580</b>
Administrative costs	-997	-282	-7,892	-9,170	-77	-9,247
Other income and costs	5,646	14	-113	5,548	9	5,557
Financing income	5	0	7	12	1	12
Financing costs	-6	0	-15,865	-15,871	-1	-15,872
Movement in market value of financial derivatives			3,658	3,658		3,658
Net financing result	-1	0	-12,200	-12,201	0	-12,201
<b>Result before tax</b>	<b>73,105</b>	<b>23,682</b>	<b>-3,750</b>	<b>93,037</b>	<b>-1,348</b>	<b>91,689</b>
Corporate income tax		-3	-88	-91	4	-87
<b>Total result for the year</b>	<b>73,105</b>	<b>23,679</b>	<b>-3,838</b>	<b>92,946</b>	<b>-1,344</b>	<b>91,602</b>
Attributable to shareholders	73,105	23,679	-3,838	92,946	-1,344	91,602
Non-controlling interest						

**Segment split balance sheet 2017 (€ '000)**

	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Retail / Other	TOTAL		
Real estate investments	731,583	178,859	161,738	1,072,180		1,072,180
Other assets	7,294	2,469	7,536	17,299		17,299
Assets classified as held for sale			28,791	28,791		28,791
<b>Total assets</b>	<b>738,876</b>	<b>181,328</b>	<b>198,065</b>	<b>1,118,269</b>		<b>1,118,269</b>
Non-current liabilities	1,302	1,631	407,026	409,959		409,959
Current liabilities	9,111	5,200	21,117	35,428		35,428
Liabilities directly associated with assets classified as held for sale			195	195		195
<b>Total liabilities</b>	<b>10,413</b>	<b>6,831</b>	<b>428,338</b>	<b>445,582</b>		<b>445,582</b>
Purchases of real estate and investments in existing property	142,725	5,831	6,640	155,195		155,195



**Segment split income statement 2016 (represented) (€ '000)**

	Continued				Discontinued operations	TOTAL
	Offices	HNK	Retail / Other	TOTAL		
Gross rental income	48,948	12,140	33,434	94,523	66	94,589
Service costs recharged to tenants	6,967	2,752	2,701	12,420	25	12,445
Service costs	-8,649	-4,604	-3,354	-16,607	15	-16,592
Service costs not recharged	-1,682	-1,852	-653	-4,187	39	-4,147
Operating costs	-7,572	-3,454	-5,106	-16,131	-48	-16,179
<b>Net rental income</b>	<b>39,695</b>	<b>6,835</b>	<b>27,676</b>	<b>74,205</b>	<b>57</b>	<b>74,262</b>
Revaluation of investments	2,341	-5,863	-51,822	-55,345	16	-55,328
Net result on sale of investments	-482	-67	-5,394	-5,943	1,513	-4,430
<b>Net result from investment</b>	<b>41,553</b>	<b>905</b>	<b>-29,541</b>	<b>12,917</b>	<b>1,586</b>	<b>14,504</b>
Administrative costs	-420	-787	-8,646	-9,854	-25	-9,879
Impairment of goodwill	-4,022	-855	-3,328	-8,205		-8,205
Result from participations					565	565
Other income and costs	-12		9	-3	1,050	1,047
Financing income	12	4	7	24	5	29
Financing costs	-12	0	-19,999	-20,011	58	-19,953
Movement in market value of financial derivatives			1,751	1,751		1,751
Net financing result	0	4	-18,241	-18,236	63	-18,173
<b>Result before tax</b>	<b>37,100</b>	<b>-733</b>	<b>-59,747</b>	<b>-23,380</b>	<b>3,239</b>	<b>-20,141</b>
Corporate income tax		-5	59	54	2,253	2,308
<b>Total result for the year</b>	<b>37,100</b>	<b>-738</b>	<b>-59,687</b>	<b>-23,326</b>	<b>5,493</b>	<b>-17,833</b>
Attributable to shareholders	37,100	-738	-59,687	-23,326	5,493	-17,833

**Segment split balance sheet 2016 represented (€ '000)**

	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Retail / Other	TOTAL		
Real estate investments	607,606	148,069	8,938	764,613		764,613
Other assets	5,974	2,507	3,444	11,925		11,925
Assets classified as held for sale	5,075		382,158	387,233	2,690	389,923
<b>Total assets</b>	<b>618,655</b>	<b>150,576</b>	<b>394,540</b>	<b>1,163,772</b>	<b>2,690</b>	<b>1,166,462</b>
Non-current liabilities	1,046	1,222	525,709	527,976		527,976
Current liabilities	13,234	4,260	14,090	31,584		31,584
Liabilities directly associated with assets classified as held for sale			2,645	2,645	1	2,646
<b>Total liabilities</b>	<b>14,280</b>	<b>5,482</b>	<b>542,444</b>	<b>562,206</b>	<b>1</b>	<b>562,207</b>
Purchases of real estate and investments in existing property	65,214	8,968	7,224	81,406		81,406

### Basis of preparation results 2017

The accounting principles applied for this press release have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code. The accounting principles are also in accordance with the annual accounts 2016 of NSI N.V. The figures of this press release are unaudited.

## EPRA KEY PERFORMANCE MEASURES<sup>26</sup>

### EPRA key performance indicators

	Table	2017		2016	
		€ '000	per share (€)	€ '000	per share (€)
EPRA earnings	1	49,365	2.72	47,325	2.64
EPRA vacancy rate	4	18.4%		21.4%	
EPRA cost ratio (incl. direct vacancy costs)	5	26.5%		31.7%	
EPRA cost ratio (excl. direct vacancy costs)	5	24.3%		27.7%	

		31 December 2017		31 December 2016	
		€ '000	per share (€)	€ '000	per share (€)
EPRA NAV	2	673,238	36.66	619,552	34.61
EPRA NNNNAV	2	670,885	36.53	600,800	33.56
EPRA net initial yield (NIY)	3	5.5%		6.0%	
EPRA topped-up net initial yield	3	5.9%		6.4%	

### 1. EPRA Earnings (€ '000)

	2017	2016
Gross rental income	89,056	94,589
Service costs not recharged	-2,093	-4,147
Operating costs	-12,479	-16,179
<b>Net rental income</b>	<b>74,483</b>	<b>74,262</b>
Administrative costs	-9,247	-9,879
Direct investment result from participations		565
Net financing result	-15,859	-19,931
<b>Direct investment result before tax</b>	<b>49,377</b>	<b>45,017</b>
Corporate income tax	-12	2,308
<b>Direct investment result / EPRA earnings</b>	<b>49,365</b>	<b>47,325</b>
Direct investment result / EPRA earnings per share	2.72	2.64

### 2. EPRA NAV

	31 December 2017		31 December 2016	
	(€ '000)	per share (€)	(€ '000)	(€ per share)
Equity attributable to shareholders	672,688	36.63	604,255	33.76
Fair value of derivative financial instruments	550	0.03	15,297	0.85
<b>EPRA NAV</b>	<b>673,238</b>	<b>36.66</b>	<b>619,552</b>	<b>34.61</b>
Fair value of derivative financial instruments	-560	-0.03	-15,906	-0.89
Fair value of debt	-1,792	-0.10	-2,846	-0.16
<b>EPRA NNNNAV</b>	<b>670,885</b>	<b>36.53</b>	<b>600,800</b>	<b>33.56</b>

<sup>26</sup> The EPRA performance indicators are calculated on the basis of the definitions published by the EPRA

3. **EPRA Yield<sup>27</sup>** (€ '000)

	31 December 2017	31 December 2016
Investment property including assets held for sale	1,108,393	1,162,937
Developments	-800	-800
<b>Property investments</b>	<b>1,107,593</b>	<b>1,162,137</b>
Allowance for estimated purchasers' costs	77,532	81,350
<b>Gross up completed property portfolio valuation</b>	<b>1,185,125</b>	<b>1,243,487</b>
Annualised cash passing rental income	83,479	92,964
Annualised property outgoing	-17,896	-18,450
<b>Annualised net rent</b>	<b>65,583</b>	<b>74,514</b>
Notional rent expiration of rent free periods or other lease incentives	3,794	4,947
<b>Topped-up annualised net rent</b>	<b>69,377</b>	<b>79,461</b>
EPRA net initial yield	5.5%	6.0%
EPRA topped-up net initial yield	5.9%	6.4%

4. **EPRA Vacancy Rate** (€ '000)

	31 December 2017	31 December 2016
Estimated rental value of vacant space	19,398	24,853
Estimated rental value of the whole portfolio	105,288	116,230
<b>EPRA vacancy rate</b>	<b>18.4%</b>	<b>21.4%</b>

5. **EPRA Cost ratio** (€ '000)

	FY 2017	FY 2016
Administrative costs	9,247	9,879
Service costs not recharged	2,093	4,147
Operating costs (adjusted for municipality taxes)	12,479	16,179
Leasehold	-213	-244
<b>EPRA costs (including direct vacancy costs)</b>	<b>23,607</b>	<b>29,961</b>
Direct vacancy costs	-1,992	-3,783
<b>EPRA costs (excluding direct vacancy costs)</b>	<b>21,615</b>	<b>26,179</b>
Gross rental income	89,056	94,589
<b>EPRA gross rental income</b>	<b>89,056</b>	<b>94,589</b>
EPRA cost ratio (incl. direct vacancy costs)	26.5%	31.7%
EPRA cost ratio (excl. direct vacancy costs)	24.3%	27.7%

<sup>27</sup> For the yield calculation HNK Hoofddorp (NSI's HQ) is included for 100%