ANNUAL REPORT 2018

CONTENT
ANNUAL REPORT

NSI KEY FIGURES

KEY FINANCIAL METRICS

REVENUES AND EARNINGS (€ '000)

	2018	2017	Change (%)
Gross rental income	83,721	89,000	-5.9%[1]
Net rental income	69,228	74,468	-7.0%[1]
Direct investment result	48,745	49,365	-1.3%
Indirect investment result	42,780	42,237	1.3%
Total investment result	91,525	91,602	-0.1%
Earnings per share	4.95	5.05	-1.9%
EPRA earnings per share	2.64	2.72	-3.1%[1]
Dividend per share[2]	2.16	2.16	0.0%
EPRA cost ratio A (incl. direct vacancy costs)	26.5%	26.5%	0.0 pp
EPRA cost ratio B (excl. direct vacancy costs)	25.0%	24.3%	0.7 pp

BALANCE SHEET (€ '000)

	31 December 2018	31 December 2017	Change (%)
Investment property	1,202,691	1,072,180	12.2%
Assets held for sale	3,940	28,791	-86.3%
Net debt	-447,909	-408,453	9.7%
Equity	733,283	672,688	9.0%
IFRS equity per share	39.48	36.63	7.8%
EPRA NAV per share	39.75	36.66	8.4%
EPRA NNNAV per share	39.20	36.13	8.5%
Net LTV	36.9%	36.9%	0.0 pp
Number of ordinary shares outstanding	18,574,298	18,364,998	1.1%
Weighted average number of ordinary shares outstanding	18,473,101	18,133,178	1.9%

KEY PORTFOLIO METRICS

	31 December 2018				31 December 2017
	Offices[3]	HNK	Other	TOTAL	
Number of properties	67	14	14	95	126
Market value (€m)[4]	881	210	124	1,214	1,108
Annual contracted rent (€m)[5]	59	17	11	87	87
ERV (€m)	68	23	11	102	105
Lettable area (k sqm)	394	127	81	603	676
EPRA Vacancy Rate	11.1%	23.2%	11.2%	13.8%	18.4%
WAULT (years)	4.6	3.2	5.1	4.4	4.7
Average rent psm (€ p.a.)	179	188	165	179	169
EPRA net initial yield	5.1%	4.6%	6.9%	5.2%	5.5%

1 On a like-for-like basis GRI growth is 0.0% and NRI growth is -0.7%. The EPRA EPS excluding negative one-offs (- € 0.12) is € 2.76
2 Dividend proposal for 2018, of which €1.04 already paid as interim dividend in August 2018
3 Bentinck Huis, the Hague, classified as investment property under construction, excluded from ERV and EPRA vacancy
4 At market value; reported in the balance sheet at book value excluding lease incentives and part of NSI HQ in own use
5 Before rent free and other lease incentives

NSI AT A GLANCE

PROFILE

NSI N.V. is a specialist commercial property investor and the only listed real estate investment trust (REIT) focused on the Netherlands. The portfolio was valued at €1.2 bn at 31 December 2018.

MISSION

NSI strives to be the leading specialist in the Dutch office market, with a strong and efficient platform that drives returns through proactive asset management, value-add initiatives and active capital recycling. NSI aims to be the partner of choice for investors looking to team up with a best-in-class operator.

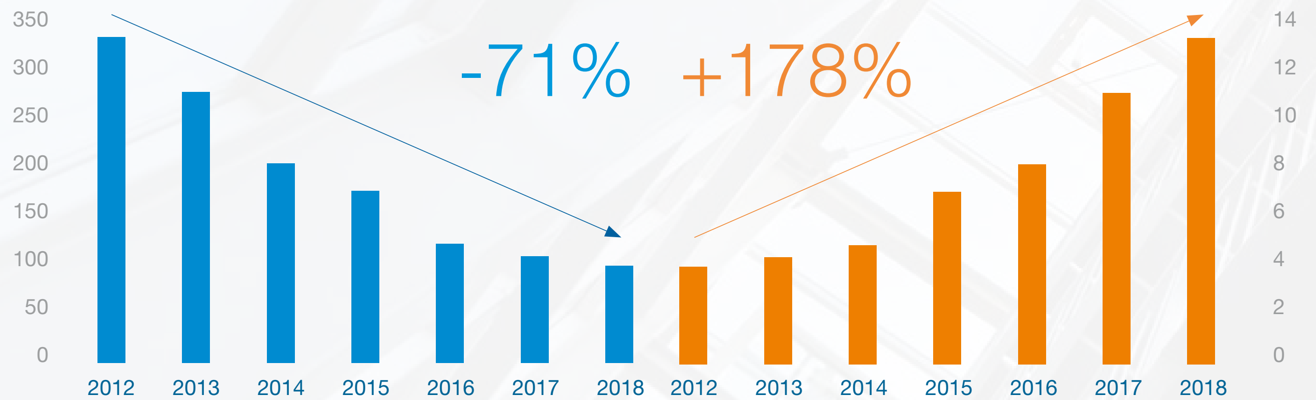
PORTFOLIO BREAKDOWN (YEAR-END 2018)

	# assets	Value €m	Value %
Offices	65	877	73%
HNK	14	210	17%
Other	14	124	10%
Total investment properties	**93**	**1,210**	**100%**
Held for sale	2	4	0%
Total portfolio	**95**	**1,214**	**100%**

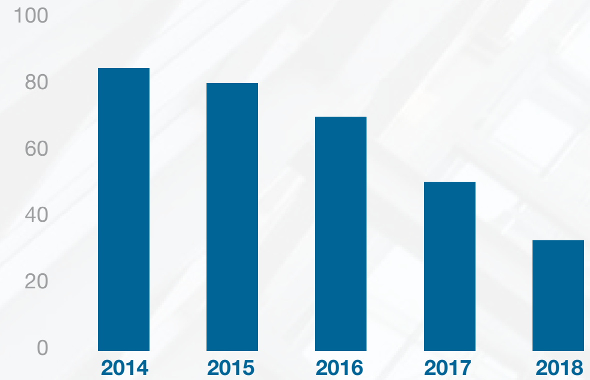
PORTFOLIO EVOLUTION

NUMBER OF ASSETS

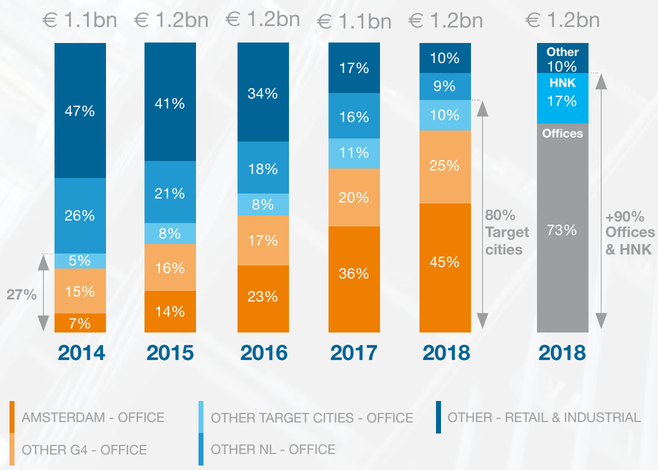
AVERAGE ASSET VALUE (€M)



NUMBER OF CITIES



DUTCH PORTFOLIO SPLIT



HIGHLIGHTS 2018

(2018 VS 2017)

(LFL) OCCUPANCY

+ 2.0%

LFL ERV GROWTH

+ 1.6%

AVERAGE MARKET VALUE GROWTH INVESTMENT PROPERTY

+ 3.7%

AVERAGE ASSET SIZE (IN €)

+ 45%

NUMBER OF ASSETS

- 25 %

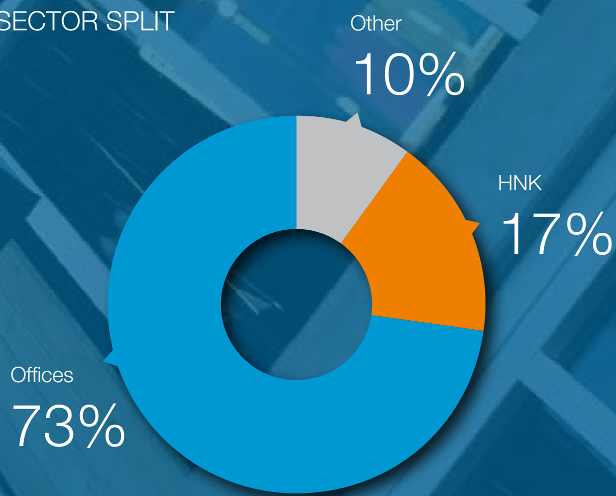
ASSETS ENERGY LABEL C OR HIGHER

85%

OVERVIEW PORTFOLIO

Offices
HNK
Other

SECTOR SPLIT



CEO COMMENTS

We are now two years into the new strategy we announced in early 2017, to become the leading specialist in the Dutch office market with a strong platform, pro-active asset management, value-add initiatives and active capital recycling.

During these two years we completed €300 million in acquisitions and €363 million in disposals and are down to around €200 million (17% of assets) in remaining non-core assets, which we intent to gradually exit in the coming years. The portfolio is now 80% located in our focus markets, with 45% situated in Amsterdam. Meanwhile, we have significantly improved the operational performance and have built up a promising pipeline of developments and value-add initiatives.

2018: Fully on track

We have made good progress in reducing the vacancy. The 13.8% vacancy rate at year-end 2018 is down 4.6% over the year, including a 2.0% like-for-like contribution. The vacancy rate remains a key focus. We continue to aim for below market vacancy in the medium term and an overall vacancy rate of below 10% by 2020. The vacancy for the office portfolio is already down to 11.1% at year-end 2018 and for the G4 it is already close to equilibrium at 7.2%.

> “We have significantly improved the operational performance and have built up a promising pipeline of developments and value-add initiatives.”

Bernd Stahli
CEO

The EPRA EPS of €2.64 for 2018 financial year is substantially impacted by the high level of asset rotation, with a concentration of disposals near the year-end, but also by a large number of positive and negative one-offs. The net effect of all these one-offs is € 0.12 (negative) and includes a paid lease termination fee, the service cost reconciliation, the release of provisions and a IFRS9 impact relating to refinancing.

In 2018 we sold 35 assets for €122 million, including 18 assets with an asset value below €2 million, and have exited another 18 cities. We acquired four assets and are now down to 95 assets in total. Both the number of assets and cities will see a further decline in 2019. We still own 35 assets with a value below €5 million, so there is still room to rationalise and improve the operating efficiency of the portfolio.

The property cycle & balance sheet discipline

The Dutch office cycle is maturing. The market for prime assets is still healthy and liquid, with capital values well underpinned due to a continued influx of - mainly - foreign money on relatively modest return requirements. Having said that, the yield shift appears to be coming to an end and the outlook for capital values is now increasingly reliant on the outlook for rental growth.

The divergence between prime and secondary assets is set to widen in 2019, as financing for secondary assets in provincial locations is proving harder to obtain and if available, more expensive. This underpins our case to further geographically focus the portfolio.

Whilst we still see opportunities to acquire interesting assets at what we believe are attractive IRRs, we remain disciplined and expect the balance of our deal volume to shift to disposals in 2019. This should see us move the LTV to below 35%, from 36.9% at year-end 2018.

We believe a lower LTV is warranted at this time, to offset the higher balance sheet risk related to an increasing exposure to development in the period ahead. This will come at a cost to EPS in the short run, but ultimately create a more stable business in the long run and should also result in development profits to compensate.

Development update

The discussions with ING on the redevelopment of Laanderpoort are ongoing. A mid 2020 start date to create 30,000 - 35,000 sqm of new offices is still achievable. The renovation of Bentinck Huis in The Hague is on track for delivery in the first quarter of 2020 and we are already seeing good indicative interest for all or part of the project. We are making very preliminary preparations for a potential redevelopment at Centerpoint in Amsterdam, although at this stage it is still uncertain whether this is a project for this cycle or the next.

We have the balance sheet capacity to absorb the potential €120 million + capex for Laanderpoort, even before further disposals of additional retail assets and provincial offices in 2019. The Laanderpoort project will have to be substantially de-risked, however, before any further projects can and will be committed to.

Cost ratio and scalability

We have the team in place and the business is increasingly moving to where we want it to be in terms of portfolio focus, balance sheet, operating performance and embedded value-add potential.

With a successful restructuring now behind us the business is clearly scalable from here. We could easily accommodate a doubling in the size of the portfolio to more than €2 billion without any significant expansion of the team. Having said that, growth for the sake of growth makes no sense and is not our objective.

There are, however, some clear benefits to scale. Our EPRA cost ratio will only fall materially from here if we can spread the costs over a larger asset pool. In addition, a larger portfolio would allow us to consider a larger absolute development or value-add programme, take on larger assets, further reduce funding costs and improve the still relatively modest liquidity in the shares.

The current EPRA cost ratio of 26.5% may appear high relative to some of our listed European peers, but this is almost entirely due to the relatively small portfolio size of NSI and the exposure to HNK, our flex office service concept.

Outlook 2019

We are really pleased that we have managed to keep EPRA EPS more or less stable in recent years, even though we have substantially upgraded the quality of the portfolio and significantly reduced the risk profile - moving NSI from a passive dividend distribution model to a more pro-active total return model.

As we continue to optimise the portfolio in 2019, we will be selling off more of our remaining non-core assets, including some high yielding provincial assets. We are unlikely to compensate entirely for the resulting income loss with our operating performance (i.e. vacancy reduction and efficiency gains). We anticipate an EPRA EPS for 2019 in the range of €2.40 - 2.50. The actual outcome will depend on the timing and size of any acquisitions or disposals.

Given the good health of the business and the positive outlook we will propose that the AGM keep the dividend level over 2018 stable at €2.16, meaning a final dividend of €1.12 per share.

STRATEGY

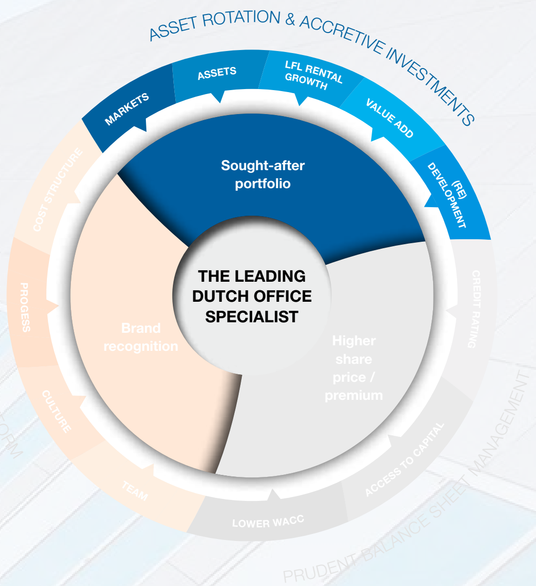
NSI has set out a clear strategy. The company announced it aims to become the leading Dutch office investor and operator, driving excess returns through active asset management and disciplined asset rotation.

Valued at over one billion euros, the portfolio is underpinned by a strong balance sheet with significant capacity to fund both internal and external growth.

By investing in attractive space and a high level of services for its customers, NSI can generate sustainable and growing revenue to drive long-term shareholder returns.

By 'leading' we mean achieving the highest risk-adjusted return, adding shareholder value through a value-add total return approach supported by an optimal capital structure. NSI strives to constantly improve the portfolio, raise the quality of the platform and lower the cost of capital.

CREATING SHAREHOLDER VALUE



Asset rotation and accretive investments

NSI focuses on larger office assets in economic growth locations based on the perspective that long-term growth can only be achieved in locations where rents can grow because of economic activity. Furthermore efficiencies can be achieved and margins improved by having fewer, larger assets in a select number of locations. Last but not least we believe that the depth of the investment market in these locations has a genuine positive effect on the risk profile as liquidity is often one of the most underestimated risks in property.

The necessary size, tenant activity and scale of the investment market to drive excess returns is concentrated mostly in the four largest cities in the Netherlands (G4) and some other economically vibrant areas. NSI defines the G4 and Den Bosch, Eindhoven and Leiden as its most important target cities. NSI is rotating out of its retail assets and will monetise its smaller, provincial office assets while we may explore alternative use options for several office assets. In some cases this is to add additional value to these assets, while in others alternative use may improve the liquidity of the asset so it can be sold more easily. The proceeds of disposals will support further expansion into offices through acquisitions or value-add initiatives and (re-)development. NSI actively seeks (re-)development opportunities in its portfolio as an attractive alternative in order to obtain assets in the best locations with better cash flows at lower prices.

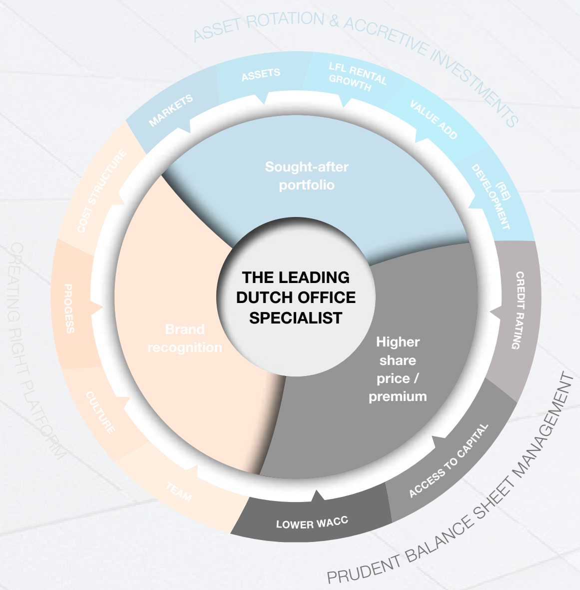
HNK is NSI's answer to growing demand for flexible office space. This demand is not only driven by smaller occupiers but also by large corporates aiming to become much more flexible in the future. New IFRS regulations and the ever-changing global market place in which companies compete are but two reasons why we will see fewer occupiers take single let leases for more than 10 years going forward. HNK is unique in that it can offer tenants a combination of traditional long-let space and flexible space in a single building.

Creating the right platform

In its quest to be the best NSI needs to have the best operating platform. Only with the best team, culture and processes will NSI be able to deliver leading results in an optimal and cost-efficient way. To attract the best talent a new culture and identity have been set out. With its defined core values, drive, professionalism and the will to push boundaries, NSI aims to maximise the full potential of its employees, the shareholder's investment, and the assets that NSI acquires and operates. NSI is also investing in IT due to its increasing importance in a data-heavy industry, as IT helps to streamline processes and aid data consistency and reliability.

At NSI we are constantly assessing if the organisation and associated costs are justified by the size and performance of the portfolio. It is key to aim for an optimal cost structure and befitting an active manager, and not just focus on achieving the lowest cost possible.

For NSI it is not about achieving the lowest running costs but about being efficient. We believe that if we run a structurally efficient, focused business that delivers an attractive return to shareholders, our share price and share rating will reflect this.



Prudent balance sheet management

Along with obtaining the best portfolio and creating the number one platform, management has another important tool to drive shareholder performance. By constantly optimising the balance sheet structure and capital allocation, management has the levers to minimise its cost of capital.

NSI has a LTV target range of 35-40%. Although this range is not an exact science, management feels that within the range the financial risks are sufficiently low for where we are in the Dutch office property cycle combined with NSI's current operational risks and the development risks it aspires to take. Having the right capital structure should result in a low cost of capital. Starting with debt, by lowering the LTV we can attract debt at better margins and reduce the cost of financing. A credit rating can further help improve the perspective of a wider range of investors, again lowering the cost of borrowing. For NSI the capital structure should be entirely supportive of the real estate strategy of the business, and it is not a business in its own right. NSI manages its balance sheet prudently, actively assessing based on a variety of metrics if the combination of operational and financial leverage is appropriate for the business. We believe that by running the business prudently we will be recognised and rewarded by shareholders, which in turn would provide us with access to capital markets if and when the right opportunities emerge.

Progress in 2018

In 2018 NSI successfully continued to pursue its asset rotation strategy aimed at becoming a focused, leading Dutch office investor. After announcing the new strategy, in February 2017 NSI started to sell both its retail assets and many smaller provincial office assets, resulting in a strong reduction in the number of assets and an increase in the average value per asset and concentration of assets in its target cities.In 2018 the number of assets fell by 31 to 95 and the number of cities in which NSI invested was reduced to 32 from 50 at the start of the year. The average asset value increased to €12.8 million, up 45% compared to twelve months earlier. NSI's exposure to the G4 office markets increased from 57% to 70%.

Great strides have been made in the two-year period that we have been working on the new strategy. The number of assets has dropped by 42% and the number of cities is down 54%, increasing the average asset value by 82% and our exposure to the seven target cities to 87% of assets.

The new asset management team is now fully contributing to this success, with like-for-like occupancy growth of 2% in the year under review and several further leads in the pipeline. HNK continues to perform well with annual occupancy growth of 6.6%, or 4.4% on a like-for-like basis. Like-for-like figures exclude HNK Schinkel which opened in June with a 55% EPRA vacancy but was fully let at the end of the year.

In late 2017 NSI outlined its ambition to start developing and redeveloping buildings. In 2018 this became more concrete with the announcement of three potential developments, all in Amsterdam. Negotiations with ING are still ongoing with regard to the redevelopment of the Laanderpoort building in the south-east of Amsterdam. The project could potentially start in the summer of 2020. Upon completion this would be NSI's largest asset, helping to further focus the portfolio on Amsterdam, increase the average asset size and improve the average quality of the asset base. The project would be funded by the disposal of both smaller provincial office assets and the remaining retail portfolio. Importantly, this development would de-risk the portfolio by replacing short-term income from multiple smaller tenants in regional cities with long-term income from ING with its strong credit rating and prime Amsterdam location.

The team also continued to improve the NSI corporate structure, systems and processes. The corporate structure has been simplified by reducing the number of entities from 31 to 11 at the end of the year. Additional investments are being made to further improve and automate processes and reporting.

In 2018 we also refinanced 90% of the available debt. In recognition of the steps taken in the past few years to professionalise the organisation and strengthen its balance sheet, NSI attracted new capital in the form of an 8-year, €40 million unsecured US private placement from Pricoa Capital Group in January 2018. The euro-denominated notes have a fixed coupon, reflecting an implied investment grade credit rating. In April a new 5-year, €480 million unsecured syndicated bank facility was agreed on terms reflecting NSI's structurally lower LTV and improved credit profile. In October NSI issued €50 million of 10-year unsecured notes in a private placement with Barings LLC, further underpinning the implied investment grade status and confirming NSI's widening appeal to debt investors.

With a structurally sound balance sheet and no significant debt expiries until 2023, the financing strategy going forward is to further improve the diversification of funding sources, extending maturities and preparing for expansion if and when required.

IN FOCUS: FLEX OFFICES/ HNK & SUSTAINABILITY

Flex offices

In the product life cycle of flex offices, we are now in the growth stage. Whilst the barriers to entry remain low, we see hardly any new entrants with a new innovative product or concept anymore. Most operators now offer more or less the same product, albeit with an individual twist. Many of the larger traditional landlords have stepped up and now also offer an in-house flex office product or are in the process of establishing one.

Once a product or service becomes commoditised the only way to really compete is on price. There is, however, limited competition on price at this point. This is probably because the flex market is still growing in a strong economic environment and because pricing is non-transparent as everyone includes different types and levels of services in the price. Price differentiation and transparency will improve as the flex office industry eventually becomes more mature.

For some operators the game will be to grow and gain market share as quickly as possible, establish brand value and then exit. Some are genuinely in it for the long run. We expect consolidation in the flex industry, especially in the next down cycle. The viable flex business models will come out stronger and this will allow the industry to move to a form of equilibrium, both for the flex office market itself and in relation to the more traditional office market. Asset-rich flex operators with a strong balance sheet are likely to come out on top.

In time the boundaries between the flex office market and the more traditional office market will blur. In fact, they are already blurring, as flex offices are no longer just used by start-ups or scale-ups, but also by larger corporates or temporary project teams at these larger corporates. In addition, many flex office users tend to stay much longer than one would expect from a short term flex lease, sometimes nearing or exceeding the traditional 5-year lease term.

What does this mean for HNK?

NSI has six years of in-house experience and data from running flex offices through its HNK brand, learning some valuable lessons along the way. We have seen customer demand evolve and have adopted our HNK offering accordingly. We have stopped the sizeable roll-out plans we had in 2015/16 and are now very selective in where we open new HNKs. Our focus is first and foremost on the G4 markets.

In recent years we have been adjusting the mix of flex space and more traditional leased floors to accommodate the growing demand for managed offices. We are now also seeing an increase in demand for fully serviced larger floors, mostly from larger corporates. Being the owner and operating the entire building is proving a key benefit relative to flex operators that only run a few floors in a building, as we can be more flexible in meeting changes in demand.
In 2019 we will continue to review and improve our HNK offering and the organisational set-up. One of the questions that need to be answered this year is how our strategy of focussing only on seven cities fits with our existing wider network of HNK locations. We will have to judge if provincial HNK locations contribute to the franchise value and generate sufficient excess return to compensate for what otherwise will be a modest property return, relative to our focus markets.

Sustainability initiatives

Since announcing the new strategy at the start of 2017 we have been active on all fronts to improve the business. In communications to date the focus has been on our strategy and progress, so as to not dilute the message. We have not been very vocal about our sustainability initiatives, except for stating that we are well on track to meet the minimum C-label EPC energy certificate requirement by 2023.

In 2018 we started to work on a future proof ESG programme. As NSI is a small organisation we have used an external advisor to provide the relevant support and manpower to help put together a detailed and ambitious programme.

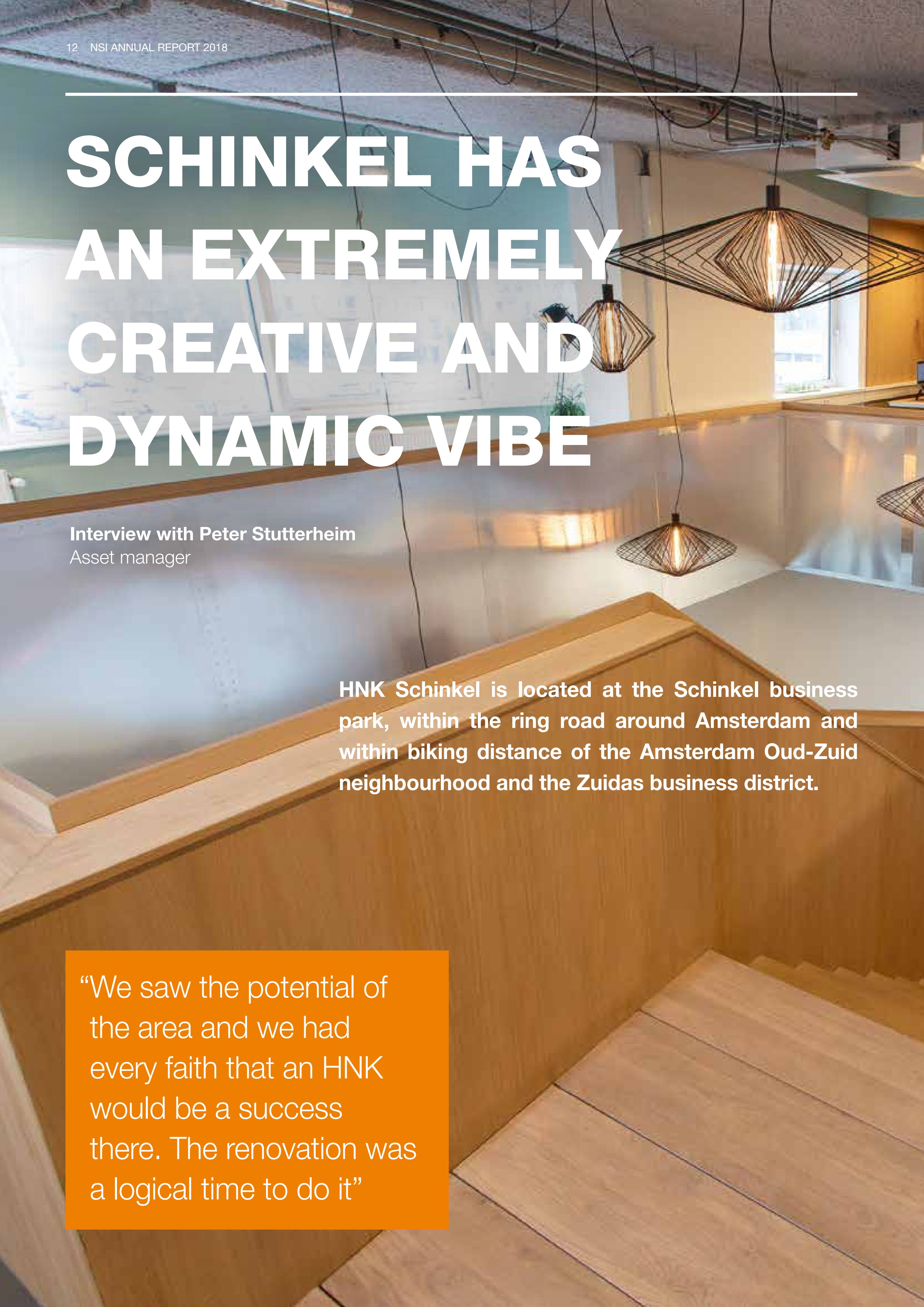
Everyone at NSI has been involved in establishing the ESG programme. We have considered the UN Sustainable Development Goals and have engaged with external stakeholders to come up with what we believe is a well-rounded programme. The three overarching sustainability priorities we have identified are: Future Proof Buildings, Energy & Carbon and Health and Well-Being.

Our sustainability ambitions clearly go much further than scoring on government-imposed minimum energy labels. To measure and judge our programme and impact we have decided to focus on the GRESB benchmark. We will publish our first GRESB score in 2019. This will provide us with a base score and allow us to set a clear and realistic path for the years ahead, in line with our ambitions.

The team fully recognises that this programme and our participation in GRESB will take time and effort to fully implement and see effects, but it is a way of working that we have already fully embraced. Our recent initiatives reflect this.

Over the past four years we have fully renovated around 80,000 sqm of office space, including a full upgrade of the lighting with 25,000 LED units with motion sensors. We have also started to minimise gas usage and over 40% of the portfolio by sqm is using sustainable district heating, heating pumps or ATES systems. We are committed to increasing the use of sustainable solar energy but due to our recent disposals only 2.4% of our electricity usage is currently generated this way.

More details about our sustainability ambitions can be found in the ESG chapter on page 43.



SCHINKEL HAS AN EXTREMELY CREATIVE AND DYNAMIC VIBE

Interview with Peter Stutterheim
Asset manager

HNK Schinkel is located at the Schinkel business park, within the ring road around Amsterdam and within biking distance of the Amsterdam Oud-Zuid neighbourhood and the Zuidas business district.

“We saw the potential of the area and we had every faith that an HNK would be a success there. The renovation was a logical time to do it”

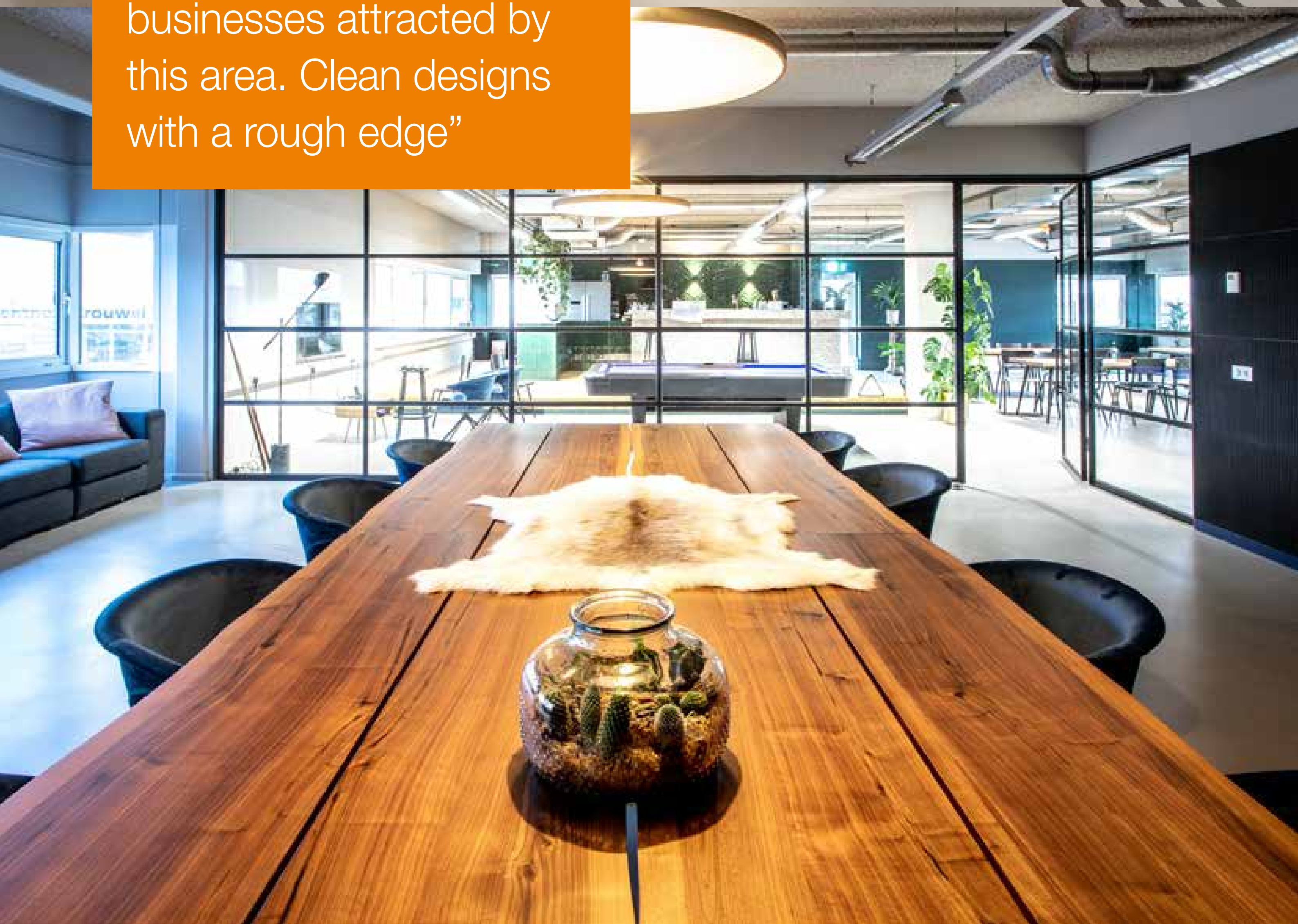
The area is rapidly becoming the creative hotspot of Amsterdam. "The profile of the tenants moving into Schinkel is an excellent fit for the HNK concept," said asset manager Peter Stutterheim. And this statement is backed by results. The building was transformed into HNK Schinkel in 2018 and was fully let within six months.

The city of Amsterdam supports development in areas where innovation and densification can be used to create more residential and office space. Despite its strategic location within the ring road and just 3 km from the most expensive office space in the Zuidas district, Schinkel used to be predominantly populated by car dealers. Then the first young, creative start-ups found their way to Schinkel, in search of affordable office space. These days numerous leading ad agencies, architect firms and fashion labels have made it their home. The changing business demographic also prompted the growth of coffee houses and eateries. "And this has a snowball effect. Schinkel has an extremely creative and dynamic vibe."

Offering 5,500 m^2 of space, the building on Anthony Fokkerweg has been part of the NSI portfolio since 1997. NSI had to make an investment decision due to the planned renovation of the building. "We saw the potential of the area and we had every faith that an HNK would be a success there. The renovation was a logical time to do it."

NSI's HNK concept is characterised by stylish decor and always has a local touch. "At HNK Schinkel we wanted to connect with the creative nature of the businesses attracted by this area. Clean designs with a rough edge." HNK Schinkel is exceeding expectations and was fully let within six months. "That was quicker than expected." The HNK formula has been extremely well received. "The product we're offering provides the flexibility and facilities that are in demand. Tenants can rent the space they need efficiently and are therefore willing to pay better rent. On balance it is still cheaper for them, while we are able to achieve more rental income than we would if we rented it out conventionally, around 50% more. So Schinkel is also exceeding our expectations in that respect."

"At HNK Schinkel we wanted to connect with the creative nature of the businesses attracted by this area. Clean designs with a rough edge"



INCOME, COST AND RESULTS

Introduction

EPRA EPS for the 2018 financial year is € 2.64, a 3.1% decline versus last year. The result is nine cents above the upper limit of the guidance range primarily due to positive one-off service charge reconciliations from prior years (€1.3 million) incurred in the fourth quarter of 2018. The combined effect of all the positive and negative one-offs in 2018 is a negative €0.12 per share. The indirect result is €42.8 million or €2.32 per share. A €47.2 million positive revaluation of investment property is the largest contributor. A € 4.5 million movement in the market value of financial derivatives has the biggest negative impact.

Rental income

Gross rental income is down by 5.9%, largely due to the effect of net disposals in 2017. On a like-for-like basis GRI is flat, negatively impacted by a one-off lease termination fee. In October a €2 million lease termination fee was paid to a tenant in Amsterdam. This has a negative impact on the direct results as it is part of GRI. However, this cost is entirely compensated for by an indirect revaluation result of € 3.1 million for this asset in 2018, having in effect terminated a 25-year lease contract that was at a rent level far below ERV. Net rent declined 7.0% due to a deterioration of the NRI margin because of higher operating costs. On a like-for-like basis net rents fell 0.7% (-€0.3 million) due to the one-off lease termination fee in the fourth quarter and a relatively high level of positive one-offs in 2017.

Service costs

Non-recoverable service costs are down €0.8 million (40%) due to a lower overall vacancy rate, better cost controls and one-off releases of provisions of previous years.

Operating costs

Operating costs are up €0.8 million (6.4%) compared to the 2017 financial year. The NRI margin of 82.7% is 1% lower than last year. Higher municipality costs negatively impacted the operating costs, mainly because of positive one-offs (€1.0 million) in 2017. The NRI margin is better than expected due to lower maintenance costs. Some maintenance has been deferred into 2019 due to longer waiting times for contractors. This could impact the margin in 2019.

Administrative costs

Administrative costs are down 13.3% to €8.0 million. The majority of the savings comes from lower staff costs (-20.3%). The restructuring and cost cutting is now largely complete and efficiencies going forward have to come from scaling up the business.

Net financing costs

Net direct financing costs are down by €3.4 million (21.1%) due to lower interest rates post the refinancing. The cost of debt fell from 2.3% at the end of 2017 to 2.0% at the end of 2018. These costs include a negative IFRS 9 one-off of €2.1 million following the refinancing of the syndicated bank facility in April. Hence with similar debt levels we expect financing costs to drop further in 2019.

Post-closing events and contingencies

Since the year-end smaller office assets in Capelle a/d IJssel, Ridderkerk, Hoevelaken, Woerden and Zoetermeer (2x) and a small retail asset in Zutphen have been sold unconditionally. The transfer of all these assets, with a combined value of €24.1 million, will take place in the first quarter and second quarter of 2019. These assets are, on average, sold at a premium to the book value per 31 December 2018.

In 2019 NSI acquired 2 offices (in Leiden and Amsterdam) for a total amount of €28.7 million (excluding acquisition costs).

Income segment split (€ '000)

	Offices	HNK	Other	Corporate	TOTAL 2018	TOTAL 2017
Gross rental income	53,437	15,364	14,920		83,721	89,000
Service costs not recharged	-993	-61	-183		-1,237	-2,075
Operating costs	-6,554	-4,771	-1,933		-13,256	-12,457
Net rental income	**45,890**	**10,532**	**12,806**		**69,228**	**74,468**
Administrative costs				-7,950	-7,950	-9,170
Earnings before interest and taxes	**45,890**	**10,532**	**12,805**	**-7,949**	**61,279**	**65,297**
Net financing result				-12,506	-12,506	-15,859
Direct investment result before tax	**45,890**	**10,532**	**12,805**	**-20,455**	**48,773**	**49,438**
Corporate income tax				-28	-28	-15
Direct investment result after tax	**45,890**	**10,532**	**12,805**	**-20,483**	**48,745**	**49,423**
Direct investment result - discontinued						-58
Direct investment result / EPRA earnings	**45,890**	**10,532**	**12,805**	**-20,483**	**48,745**	**49,365**

NETHERLANDS PROPERTY MARKET OVERVIEW

2018: Another record year for investments

The Dutch property investment market witnessed another record year of transactions in 2018, with around €21.0 billion of deals. The deal volume for offices was lower at €5.8 billion (€7.7 billion in 2017).

There were fewer large office transactions in 2018 compared to 2017, both individual transactions and with regard to portfolios, particularly in the Amsterdam market, largely as a result of a reluctance by owners to sell in a market that is still improving. As a result, investor interest has spilled over into Rotterdam and The Hague, both of which have seen a significant pick up in volume.

Investors are also moving to provincial locations in search of returns that are no longer attainable in Amsterdam or in the G4, in the expectation that the office market recovery will broaden and that tenant demand will start to pick up in these locations as well.

The investment market is set to become increasingly polarised in 2019. In addition to the normal economic divergence between the G4 and provincial locations, driving rental divergence, there is now also a clear divergence in the financing market. The third quarter of 2018 saw some local Dutch banks restrict their lending capacity for smaller provincial non-institutional investment product. This is not a temporary restraint on the side of the banks, in our view.

Office market review and outlook

The Dutch office stock is estimated at 53.5 million sqm at year-end 2018, with a vacancy rate of circa 10.0%. This is down from 11.5% in 2017. The net effect of withdrawals, conversions and new supply has been relatively modest, so the fall in the vacancy rate reflects positive net absorption.

The vacancy rate in the G4 is currently around 6.5%, with Amsterdam, The Hague and Utrecht clearly stronger than Rotterdam. Outside the Randstad urban area there are few pockets of growth, such as Eindhoven, but in most provincial markets it very much remains difficult with limited net new tenant demand.

Amsterdam

The office market ends 2018 on a high, with yields at record lows and rents at a high. 2018 brought a further yield shift as investors have started to price in further rental growth. With new supply slow to come through, as construction costs remain high and planning difficult, the outlook for rents is favourable indeed.

It will be interesting to see how and if the expected rental growth will drive yields and capital values going forward, as part of this growth has already been priced in. There is still an influx of foreign investors with relatively modest return requirements in search of the relative safety of limited supply in combination with healthy demand. This will keep capital values underpinned.

The vacancy rate in the Amsterdam market has fallen to 5.1%, with prime rents having surpassed €500 psm in both the city centre and the Zuidas business district. At the end of 2018 Amsterdam has only three buildings with 5,000 sqm of supply immediately available. Larger tenants now need to plan substantially ahead.

Utrecht

The Utrecht CBD office market is by far the strongest after Amsterdam, well ahead of The Hague or Rotterdam. This market has historically been largely dependent on public sector-related users, but its appeal has substantially widened in recent years, attracting a large number of corporates, who recognise and appreciate its very central location, its proximity to Amsterdam and its excellent public transport infrastructure.

The dynamics of this market are set to change substantially in the next few years, as the current relatively modest office stock of 0.8m sqm will expand by 0.2m sqm, with a significant development programme in place around the Utrecht CS train station. Utrecht can easily absorb this space, with a part of it already pre-let. We are concerned that this will weaken demand for more suburban markets.

Prime office rents in the CBD are circa €275 psm, up from €225 psm a year ago. Office rents for the immediate vicinity have increased to nearer €225 psm. The vacancy rate in the CBD market is circa 5.3%. The prime yield in Utrecht now is nearing 4.5%.

Rotterdam

The Rotterdam office market sprung back to life in 2018. A pick up in tenant demand led the way, with net absorption in 2018. Transaction levels are also up as owners were offered acceptable prices from buyers, either believing in the recovery or under pressure to invest. This trend is likely to continue in 2019.

Rotterdam remains a market for smaller local occupiers. Many larger corporates have moved out in the past two decades and have not been replaced. A combination of further office conversions and more residential development, with circa 18,000 residential units foreseen, should see Rotterdam become a more balanced, structurally sound market in the coming years.

At the end of 2018 the vacancy rate is still relatively high at circa 11.4%, down from nearer 15% a year ago. ERVs are flat, at €225psm for prime space, but incentives are starting to come down marginally. Prime office yields are circa 4.5%.

The Hague

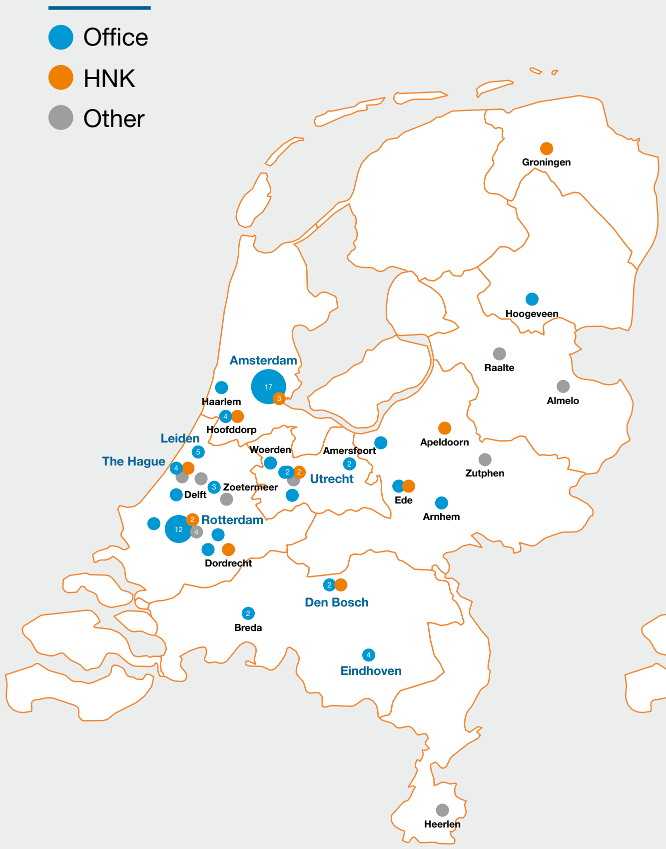
The office market has had a good 2018. Confidence has returned, as a number of investment and letting transactions confirmed the health of the market. Rents are up, to circa €225 psm, the vacancy rate is down to circa 6.1% and yields are now below 5% for prime assets.

There are substantial plans to add a large number of residential units around the two major train stations. These are long term plans, many of which will happen in the next cycle, but it signals a positive trend in which The Hague will eventually become a more vibrant and interesting market, much less dependent on the public sector as the major driver of activity.

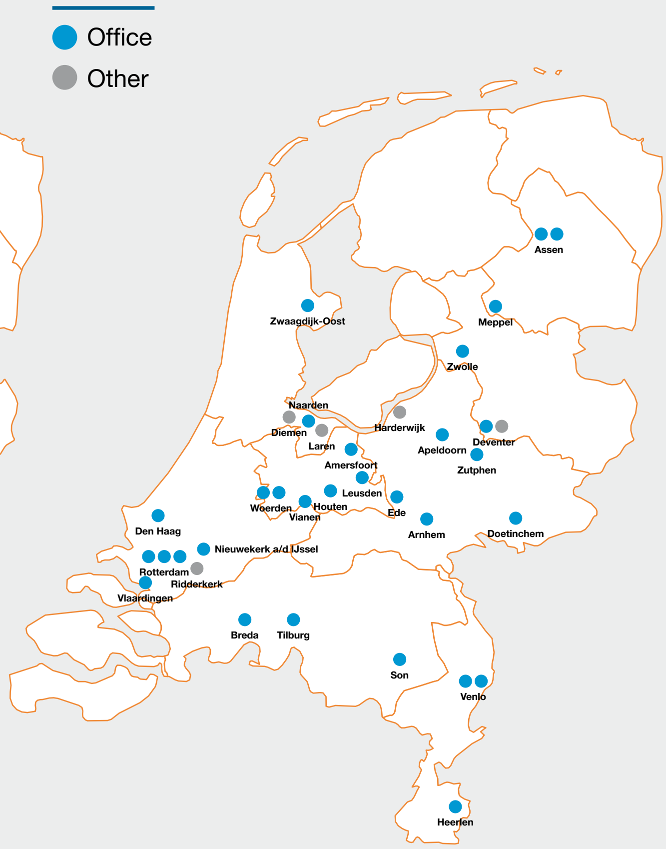
Retail

The retail market remains difficult. Healthy demand for prime assets remains, but tenant and investment demand for secondary product is limited so tenants and buyers can afford to be selective.

CURRENT ASSETS



SOLD ASSETS



Anne de Jong
CIO

REAL ESTATE PORTFOLIO

NSI sold 35 assets and acquired four in 2018, reducing the number total of assets to 95. In total 30 offices, four retail assets and one industrial asset were sold. On balance NSI was a net buyer of assets with disposals of €122 million and acquisitions of €150 million (excl. costs).

Disposals were sold on average at a 2% premium to book value. Non-core assets are down to circa €200 million. These assets are retail assets and offices which are too small or not in one of NSI's target cities.

Asset rotation (€m)[1,2]

	# Assets	Net sales proceeds / total purchase cost	Book profit / (loss)	Net contract rent 2017
Offices disposals	30	62.0	1.8	5.0
Other disposals	5	58.8	-1.0	3.9
Total disposals	**35**	**120.7**	**0.8**	**8.9**
Offices acquisitions	4	160.6	-1.1[3]	6.0[4]
Total acquisitions	**4**	**160.6**	**-1.1**	**6.0**
Delta	-31	-39.9	-0.3	-2.9

At the end of 2018 Offices and HNK make up 90% of the value of the portfolio. The average asset value now stands at €12.8 million, up 45% from 31 December 2017. At the year-end NSI has two unconditional disposals on its books shown as "Assets held for sale". Both are office assets, one in Arnhem and the other in Rotterdam.

1 Acquisitions at Year End 2018 book value
2 Including sales and acquisition costs
3 Small loss, net effect of transfer costs and revaluation result at Year End
4 Net contracted rent expected to increase to € 9 million when fully let

> "We successfully continued to pursue our asset rotation strategy."

Portfolio breakdown - 31 December 2018

	# assets	Value €m	Value %
Offices	65	877	73%
HNK	14	210	17%
Other	14	124	10%
Total investment properties	**93**	**1,210**	**100%**
Held for sale	2	4	0%
Total portfolio	**95**	**1,214**	**100%**

Vacancy

The EPRA vacancy rate is 13.8%, down 4.6% from the end of 2017. The drop is the result of a mix of net lettings, asset rotation and ERV changes. The improvement in the like-for-like for offices fully reflects the efforts of the new team. In HNK the 2.2% non like-for-like change is due to HNK Schinkel which opened in June 2018 and is not included in the like-for-like for 2018.

EPRA vacancy

	Dec-17	LFL	Non-LFL	Dec 18
Offices	15.9%	-1.7%	-3.0%	11.1%
HNK	29.8%	-4.4%	-2.2%	23.2%
Other	14.0%	0.3%	-3.1%	11.2%
Total portfolio	**18.4%**	**-2.0%**	**-2.6%**	**13.8%**
Offices + HNK	19.2%	-2.3%	-2.7%	14.2%

Rents

Net rents are down 0.7% on a like-for-like basis. A negative one-off lease termination fee of €2 million in one of our Amsterdam offices has a significant negative impact. Excluding one-offs like-for-like net rental growth would have been positive 3.0%. The margin excluding one-offs is 80.5%.

For HNK the 31.9% increase in like-for-like rents is due to the high operational leverage of this business and strong improvements in occupancy levels over the past year. This will have a positive effect on LFL net rental growth in 2019.

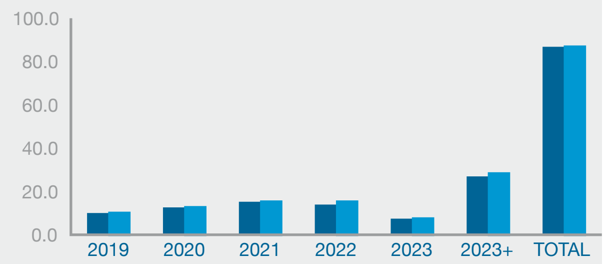
Net rent growth like-for-like

	2018 (€m)	2017 (€m)	Change (€m)	L-f-l (YTD) %
Offices	29.4	32.1	-2.7	-8.4%
HNK	10.5	8.0	2.5	31.9%
Other	9.0	9.2	-0.2	-2.2%
Total portfolio	48.9	49.2	-0.3	-0.7%

Reversionary potential / ERV bridge

The portfolio is 1.1% reversionary, having turned positive for the first time since the downcycle. The reversion in Offices (now 2.3% reversionary) will continue to improve through further rental growth and asset rotation in particular, as offices in our non-target cities are still 15% over-rented. The over-renting of “Other” assets has slightly improved due to asset rotation, with ERVs continue to fall on a like-for-like basis as a result of a difficult retail market.

Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
Contract rent	9.6	12.4	15.1	14.2	8.1	27.0	86.4
ERV	9.5	12.0	15.3	14.7	7.9	27.8	87.3
# Contracts	467	162	139	123	106	128	855
Reversion	-1.1%	-2.7%	1.9%	3.4%	-1.5%	2.8%	1.1%

Reversion[5]

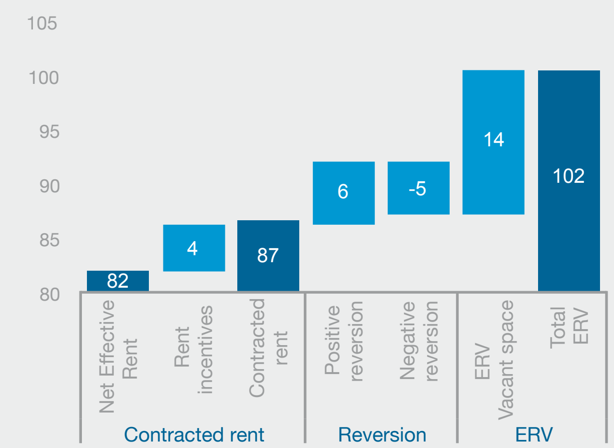
	Dec 17	Dec 18
Offices	-0.9%	2.3%
HNK	3.9%	3.2%
Other	-9.1%	-8.4%
Total portfolio	**-1.6%**	**1.1%**

ERV like-for-like

	Dec 17 (€m)	Dec 18 (€m)	Change (€m)	Change %
Offices	56.3	56.7	0.4	0.8%
HNK	20.2	21.3	1.0	5.2%
Other	11.2	11.1	-0.1	-0.5%
Total portfolio	**87.7**	**89.2**	**1.4**	**1.6%**

ERVs are up 1.6% on a like-for-like basis, the following ERV bridge confirms that the vacancy in the portfolio represents both the main opportunity and challenge for the business.

Bridge Contracted rent to ERV – Year End 2018 (€m)



5 Reversion = ERV let space / contractual rent

EPRA yields

The yield on the portfolio is down 30bps to 5.2%, due to the effects of asset rotation and a 3.7% increase in capital values. The yield for HNK is up due to an increase in the contracted rent and Other assets because of asset rotation and a fall in the market value.

Yields[6]

(as at 31 December)	EPRA Net Initial Yield		Gross Initial Yield		Reversionary Yield	
	2018	2017	2018	2017	2018	2017
Offices	5.1%	5.8%	6.7%	7.8%	7.7%	9.1%
HNK	4.6%	3.9%	8.0%	8.0%	10.8%	11.9%
Other	6.9%	6.0%	8.9%	8.1%	9.2%	8.6%
Total portfolio	**5.2%**	**5.5%**	**7.1%**	**7.9%**	**8.4%**	**9.5%**

Valuations

The entire portfolio is appraised externally twice a year. Some assets saw a change in external appraiser, in accordance with our standard appraiser rotation process.

Capital values are up on average by 3.7%. Valuations in Amsterdam and the other G4 cities are up by ca. 6%. Following years of outperformance, it appears capital growth in Amsterdam is slowing, whilst in the other G4 markets it is accelerating. Office assets in Other Netherlands are still underperforming with a negative 6.3% revaluation result.

The HNK valuation is up by 9.1%, a strong improvement once again following a more than 10% uplift in 2017. This is particularly driven by HNK assets in the G4. Assets in the segment Other are down by 4.9% as the Dutch retail investment market remains difficult.

Revaluations (€m)[7]

	Valuation	Revaluation			
	2018	Positive	Negative	TOTAL	% YTD
Offices	881	65.0	-25.7	39.3	4.4%
HNK	210	22.1	-4.7	17.4	9.1%
Other	124	4.1	-13.6	-9.5	-4.9%
Total portfolio	1,214	91.2	-44.0	47.2	3.7%

Capital expenditure

We continue to invest in the portfolio. Capital expenditure in 2018 is €17.9 million. Most of the offensive capex is invested in HNK Schinkel, which opened in June, and selectively in other HNKs, including The Hague, Rotterdam, Amsterdam and Ede. Offensive capex in Offices relates to Bentinck Huis in The Hague and in Other to Keizerslanden Shopping Centre, which transferred to the new owner in December and Lageland Shopping Centre in Rotterdam. Defensive capex is €4.7 million in 2018.

6 Reversionary yield = ERV / Market Value
7 Total revaluation excluding movement of lease incentives

Capital expenditure 2018 (€m)

	Offensive	Defensive	Total
Offices	0.3	4.3	4.6
HNK	11.2	0.0	11.2
Other	1.8	0.4	2.2
Total	**13.2**	**4.7**	**17.9**

Developments & renovation

NSI currently has one asset classified as development ("Investment property under construction", Bentinck Huis in The Hague). Negotiations with ING for the potential redevelopment of Laanderpoort is ongoing. A mid-2020 start date for this 30,000-35,000 sqm project is still feasible.

Two further potential new developments have also been announced in 2018, including the redevelopment of Centerpoint in Amsterdam South East into a 40–70k sqm mixed use project. The other development relates to a potential new 15–27k sqm office tower adjacent to the Motion Building in Amsterdam Sloterdijk, which was acquired in the second half of 2018. Both projects are still very much in the exploration phase. The extensive refurbishment of Bentinck Huis is progressing well. The design phase will be finalised in the first quarter. Works will start in the second quarter with completion set for the first quarter of 2020.

Potential development pipeline

Project	Location	Current sqm	Final sqm	Capex	Phase	Timing
Bentinck Huis	The Hague	6k	6k	€5.4m	Design	Q2 2019
Laanderpoort	A'dam	13k	30k–35k	€120m	Initiative	Earliest Q2 2020
Centerpoint	A'dam	15k	40k–70k		Exploration	
Motion Building	A'dam	0	15k–27k		Exploration	

Offices

The Offices portfolio is down to 67 assets, 26 less than a year ago. The average asset size for offices is up from €7.9 million in 2017 to €13.1 million now and is bound to increase further. In the G4 the average asset size is already above €20 million.

With 30 office disposals 2018 has been an active year. The focus has been on selling small assets in secondary locations, not the easiest part of the portfolio to sell. This is reflected in the reduction of 22 offices in Other NL. The average lot size of office disposals is €2.1 million.

The EPRA vacancy rate is down to 11.1%, rapidly dropping to a level below the national average. Whilst we still have some legacy lease expiries ahead, we expect further asset rotation and net lettings to continue to drive the vacancy rate to a structurally lower level. At the same time, going into 2019, we are looking proactively at extending lease contracts early where possible.

Key Offices metrics

	Dec 17	Dec 18
Number of properties	93	67
Market value (€m)	736	881
Market value (€ psm)	1,690	2,233
Annual contracted rent (€m)	57	59
ERV (€m)	67	68
Lettable area (k sqm)	436	394
EPRA Vacancy	15.9%	11.1%
WAULT (years)	5.0	4.6
Average rent psm (€ p.a.)	168	179
EPRA net initial yield	5.8%	5.1%

The G4 portfolio is valued on a 4.7% EPRA net initial yield, down from 5.3% at year-end 2017. This 60bps gap is not like-for-like and reflects the acquisition of Q-port and the Motion Building with their above average vacancy as well as a 6.1% uplift in capital values, with Amsterdam up 6.2%.

The office exposure to non-target cities is declining. Leiden already represents over half of the value of Other Randstad and Eindhoven and Den Bosch over 75% of the value of Other Netherlands.

Key Offices metrics - geographical breakdown

	G4	Other Randstad	Other NL
Number of properties	33	19	15
Market value (€m)	677	103	101
Market value per asset (€m)	21	5	7
Market value (€ psm)	2,960	1,340	1,136
Annual contracted rent (€m)	41	9	9
ERV (€m)	47	10	10
Reversion	7.0%	-6.1%	-10.7%
Lettable area (k sqm)	229	77	89
EPRA Vacancy	7.2%	17.5%	22.4%
WAULT (years)	4.9	4.0	3.7
Average rent psm (€ p.a.)	201	149	138
EPRA net initial yield	4.7%	6.8%	6.4%

The like-for-like NRI is negative 8.4%, largely due to the €2.0 million one-off lease termination cost. Excluding this cost like-for-like NRI is -1.8%, due to higher maintenance and letting costs, the mark-to-market on some legacy leases that were renewed in both 2017 and 2018 and some sizeable positive one-offs in 2017.

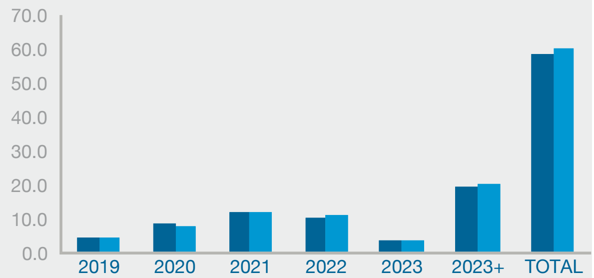
8 NRI like-for-like FY 2018 compared to FY 2017, only includes assets in portfolio throughout 2018 and 2017, transformation and development projects are excluded. Revaluation and ERV growth relate to assets in portfolio on 31 December 2018 and 31 December 2017.

Like-for-like[8]

	NRI growth %	Revaluation %	ERV growth %
G4	-9.4%	6.1%	3.1%
Other Randstad	-7.5%	3.6%	0.2%
Other Netherlands	-6.1%	-2.8%	-6.3%
Total	**-8.4%**	**4.4%**	**0.8%**

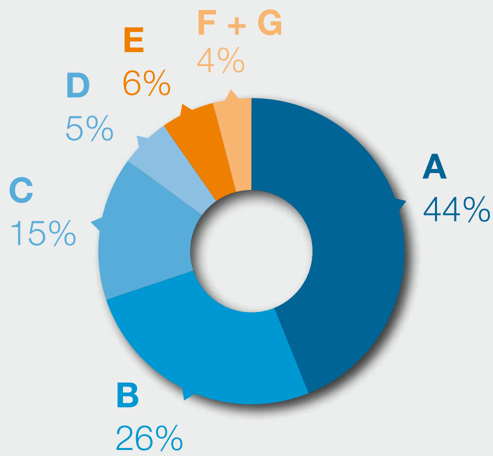
Following extensive asset rotation and ERV growth of 0.8% during the year, the office portfolio is now 2.3% reversionary. This is up from -0.9% at the end of 2017 and -8.3% at the end of 2016.

Offices - Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
Contract rent	4.6	8.3	12.0	10.7	3.7	19.4	58.7
ERV	4.4	8.1	12.1	11.2	3.7	20.4	60.1
# Contracts	39	47	40	29	29	45	229
Reversion	-3.6%	-2.3%	1.2%	4.6%	1.3%	5.2%	2.3%

Portfolio breakdown of energy labels by value



We aim to have our entire Offices & HNK portfolio meet the minimum C label energy certificate requirement well before the government-imposed deadline of 2023. By value 85% of our portfolio already has a C energy label or better. We aim to include an upgrade to A label on all larger-scale capex projects currently planned. We estimate the costs of upgrading all assets in target cities to A label at around €6m.

HNK

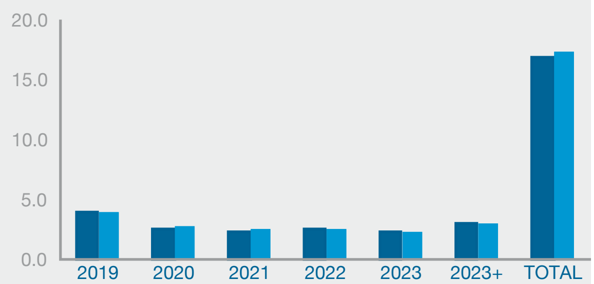
HNK had another successful year in 2018. The EPRA vacancy rate fell by 6.6% to 23.2% (year end 2017: 29.8%). Amsterdam Schinkel, our fourteenth HNK, which opened in June with 55% vacancy had an exceptional start and was fully let at the end of 2018. This shows that demand for our HNK formula is strong if in the right location. We also see strong interest in the other G4 markets and selective other HNKs and we expect a similar or better take-up in 2019, which should see the vacancy rate drop to well below 20%. We continue to invest in our assets to upgrade conventional space into managed offices where demand warrants. A further 1,600 sqm of MO space is added, a 15% increase, primarily at HNK Rotterdam Centrum, HNK Utrecht CS and HNK The Hague. At HNK Schinkel 500 sqm of MO space is realised and let. Despite the addition of new space the EPRA vacancy rate for MO space reduced from 13.6% at 31 December 2017 to 11.6% at the end of the year.

Key HNK metrics

	Dec 17	Dec 18
Number of properties	14	14
Market value (€m)	181	210
Market value (€ psm)	1,419	1,650
Annual contracted rent (€m)	15	17
ERV (€m)	22	23
Lettable area (k sqm)	128	127
EPRA Vacancy	29.8%	23.2%
WAULT (years)	2.9	3.2
Average rent psm (€ p.a.)	176	188
EPRA net initial yield	3.9%	4.6%

The EPRA net initial yield is up to 4.6%, as a result of a 15% increase in contracted rent. With vacancy rapidly declining, positively impacting non-recoverable service charges, net rents for HNK are normalising. The EPRA NIY of HNK is slowly nearing the yield for Offices. HNK still offers a lot of scope for growth as the reversionary yield remains high at 10.9%.

HNK - Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
■ Contract rent	3.8	2.6	2.4	2.5	2.3	3.1	16.8
■ ERV	3.9	2.8	2.6	2.6	2.3	3.1	17.3
# Contracts	374	61	45	40	23	29	572
Reversion	1.4%	8.6%	9.1%	2.6%	-0.1%	-0.5%	3.2%

Other

The Other segment comprises our remaining retail exposure and one small industrial asset. In 2018 circa 30% of the Other portfolio is sold, comprising four retail assets and one industrial asset. The combined disposal price of €59 million was 0.7% below the book value.

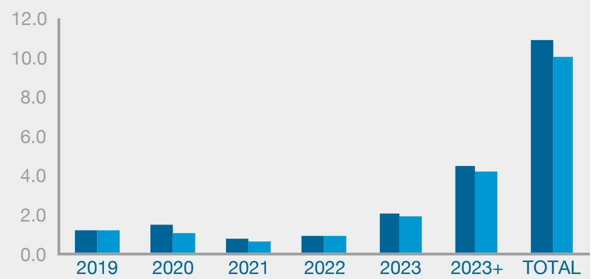
We continue to actively manage the portfolio to maximise value. At Zuidplein shopping centre in Rotterdam, the single largest remaining retail asset, an agreement with the co-owners to collectively invest circa €20 million (NSI share ca. €4 million) to upgrade the centre should further enhance the attractiveness of the asset, which already attracts circa 11 million visitors per annum. In Rijswijk a new master plan for the In de Boogaard shopping centre is presented to the municipality authority, proposing an upgrade involving part of the centre being transformed into residential and office space.

Key Other metrics

	Dec 17	Dec 18
Number of properties	19	14
Market value (€m)	191	124
Market value (€ psm)	1,689	1,520
Annual contracted rent (€m)	16	11
ERV (€m)	16	11
Lettable area (k sqm)	113	81
EPRA Vacancy	14.0%	11.2%
WAULT (years)	5.0	5.1
Average rent psm (€ p.a.)	169	165
EPRA net initial yield	6.0%	6.9%

In 2018 the retail portfolio saw a further drop in capital values, whilst the value of the last remaining industrial asset is up. The revaluation of the Other segment is a negative 4.9% in 2018, pushing the EPRA net initial yield up to 6.9%. The vacancy rate remained relatively stable on a like-for-like basis and improved by 2.8% because of disposals.

Other - Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
■ Contract rent	1.2	1.5	0.7	1.0	2.0	4.5	10.9
■ ERV	1.2	1.1	0.6	0.9	1.9	4.2	10.0
# Contracts	54	54	54	54	54	54	54
Reversion	0.4%	-24.4%	-10.9%	-6.9%	-8.1%	-5.5%	-8.4%

CREATING AN UNIQUE OFFICE PRODUCT

For the first time in its history NSI purchased a completely vacant building when it bought the premises at Lange Voorhout 7 in The Hague. The ambition is to create an office product unique to the office market in The Hague: a high-end office building with the class that befits a listed building at a historic location, yet with a modern design and facilities to match.

Interview with Robert Sparreboom -
Asset manager

Artist impression of the property after renovation.

The building is a perfect fit within NSI's strategy of focusing on offices in the four largest cities in the Netherlands. NSI asset manager Robert Sparreboom explains what makes this transaction so unique. "Bentinck Huis is one of the largest office buildings on Lange Voorhout, arguably one of the most beautiful streets in The Hague. Both the building and location are perfectly suited to meet demand for high-quality office space in the centre of The Hague." For anyone not familiar with The Hague, Lange Voorhout is one of the city's best-known streets (it also houses the famous Hotel Des Indes). Lined by leafy lime trees, Lange Voorhout boasts lamp posts that feature golden crowns, a hint that the street is part of the route taken by the monarch's Golden Coach on royal occasions. "It is the best maintained street in the Netherlands. Every paving stone has to look pristine for Prinsjesdag, the day that the ruling monarch travels to parliament to present the government's annual budget statement."

The office market in The Hague has improved significantly in a very short period of time. Just a few years ago there was a surplus of office space due, among other things, to shrinking government demand for office space which led to high vacancy levels. The many transformations into housing and hotels that followed meant that a lot of office space has disappeared from the market in the past few years. And now a shortage of office space is looming. "There is immense pressure on the centre of The Hague. The vacancy rate is now near a level of frictional vacancy. Larger, high-quality office space in particular, such as our building on Lange Voorhout, is now virtually unavailable."

Robert is currently in the midst of the design process. Every decision is well-considered, in line with our ambition to create something unique. "Our starting point has been a persona: what defines our new tenant and what is the tenant we are targeting looking for? Together with our estate agent team we defined how to position the building, and how this should be integrated in the decision on the design. We have elected to go for a clean business look, referencing the classic style. So the classy style but not the plush that characterised stately buildings in The Hague back in the day."

"We aim to create an office product unique to the office market in The Hague"

The building at Lange Voorhout 7 consists of a 18th century listed part and an extension that was constructed at around 1996, resulting in a square shape. The listed building has a long history as the original palace dates back to the 16th century. Willem Bentinck, a Dutch earl, was the first of three generations of Bentincks to occupy the building, hence the name Bentinck Huis. In 1844 part of the palace burned down and was rebuilt. The vaulted cellar dating back to the 15th century underneath the building survived the fire and now provides an insight into the building's rich history.

These days the office building has its own underground parking. The proposed architectural changes will ensure that the building becomes more of a whole and better connected. "The Atrium will be the heart of the building, an important place for people to meet with facilities including a central reception area and a coffee bar." The changes to the building's appearance will be accompanied by major changes to make its installations more sustainable. As a result, the energy label will improve from class D to class A. Following the proposed investments the gross initial yield on the entire investment is expected to be approximately 7%.

The renovation activities are set to commence in the second quarter of 2019, with the building scheduled to be completed and ready to welcome its first tenant in early 2020. Robert expects the building to garner healthy interest after the renovation. "The focus of every design decision we made with the design team – decisions about the building's vibe, comfort and facilities – has been the end user. At the same time the design is taking into account the possibility of both single-tenant and multi-tenant occupancy. The rental market in The Hague is dynamic enough to support both options. Initial talks with potential tenants are already underway."

The stairs in the central hall way of the building, which will be preserved and renovated in the new design.

Robert Sparreboom
Asset manager

BALANCE SHEET, NAV AND FINANCING

Alianne de Jong
CFO

Balance sheet

At the end of 2018 two smaller office are assets held for sale, in Arnhem and Rotterdam, both of which will be transferred in the first quarter of 2019.

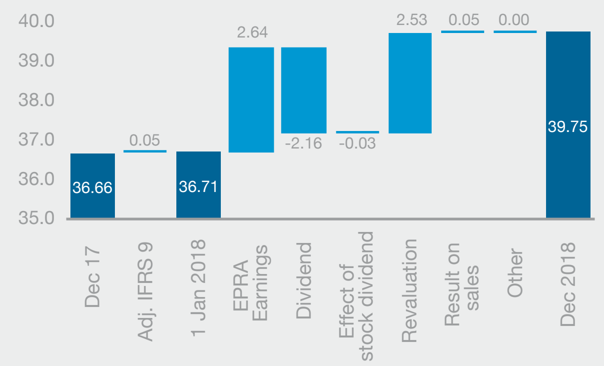
Net asset value

The EPRA NAV at the end of 2018 is €738.3 million, an increase of 9.7% compared to 12 months ago (€673.2 million at year-end 2017). Due to a small rise in the number of shares following the issuance of stock dividend the EPRA NAV per share increased by 8.4% from €36.66 at the end of 2017 to €39.75 at 31 December 2018. The change in the NAV is explained in the bridge on page 27.

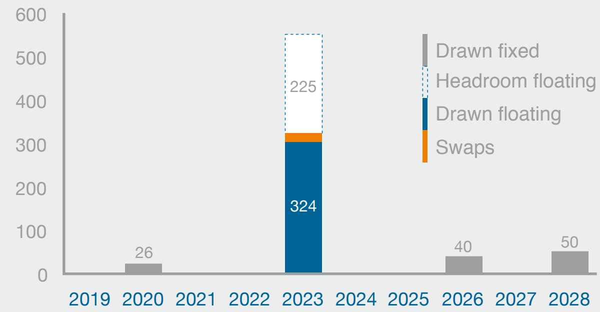
Following the introduction of IFRS 9, NSI has retrospectively calculated the impact on the refinancing of the syndicated bank facility (Nexus) in 2016. NSI qualifies this refinancing as a modification and has adjusted the opening balance sheet for 2018.

> “We extended our average debt maturity and further diversified our investor base.”

EPRA NAV per share bridge (€)



Maturity profile loans and swaps (€m)



The gap between the EPRA NAV and EPRA NNNAV of €39.21 per share is €0.55 and reflects the negative fair value of our derivatives and the market value of the debt.

The issue price of the stock dividend in May was €38.08 on an ex-dividend basis in line with June 2018 EPRA NAV. In August stock dividend was issued at €37.44 per share, a 2.6% discount to June 2018 EPRA NAV. The issue of stock dividend has a negative impact on EPRA NAV of 3 cents in 2018.

Funding

NSI refinanced most of its debt in the first half of 2018. First NSI agreed an 8-year €40 million unsecured US private placement (USPP) with Pricoa in January with a coupon reflecting an implied investment grade credit profile.

In April NSI refinanced its syndicated bank facility with a new 5 year €480 million loan, split in a €180 million Term Loan and a €300 million revolving credit facility at lower margins. The new financing triggered a €2.1 million one-off (non-cash) financing cost in accordance with IFRS 9.

In October €50 million of unsecured 10 year notes were issued in a private placement to Barings, further confirming the implied investment grade status and adding an additional sizable funding partner to the investor base.

As part of the acquisition of the Jacobsweerd office asset in Utrecht a €25.7 million secured loan with Berlin Hyp was taken over from the previous owner. This loan will expire in July 2020.

At the end of 2018 the average loan maturity is 5.0 years (December 2017: 3.1 years), 79% of debt drawn is unsecured (86% of available debt) and the cost of debt is down to 2.0%, from 2.3% at the end 2017. The focus in 2019 will be on further extending maturities and further increasing the funding diversification.

Net debt is up by €39.4 million in 2018. This is primarily driven by net acquisitions of €39.9 million including costs. Taking into account debt to credit institutions our remaining committed undrawn credit facilities are circa €215 million.

Net debt - Dec 2018 (€m)

	Dec-18	Dec-17	Change
Debt outstanding	439.1	407.2	31.9
Amortisation costs	-1.4	-1.8	0.4
Book value debt	437.7	405.4	32.3
Debt to credit institutions	10.5	9.9	0.6
Cash	-0.2	-6.8	6.6
Net debt	**447.9**	**408.5**	**39.4**

Leverage and hedging

The LTV is 36.9% at December 2018, stable compared to December 2017 (36.9%), as the increase in net debt is compensated by a positive revaluation result of the assets. As a result of lower financing costs the ICR increased to 5.5x, well above the 2.0x covenant.

The maturity of derivatives is 5.1 years at the end of 2018 and the maturity hedge is 100% (target range: 70-120%). The notional amount of swaps outstanding and fixed rate debt at the end of 2018 is €430m. The volume hedge is 98% (target range: 70-100%).

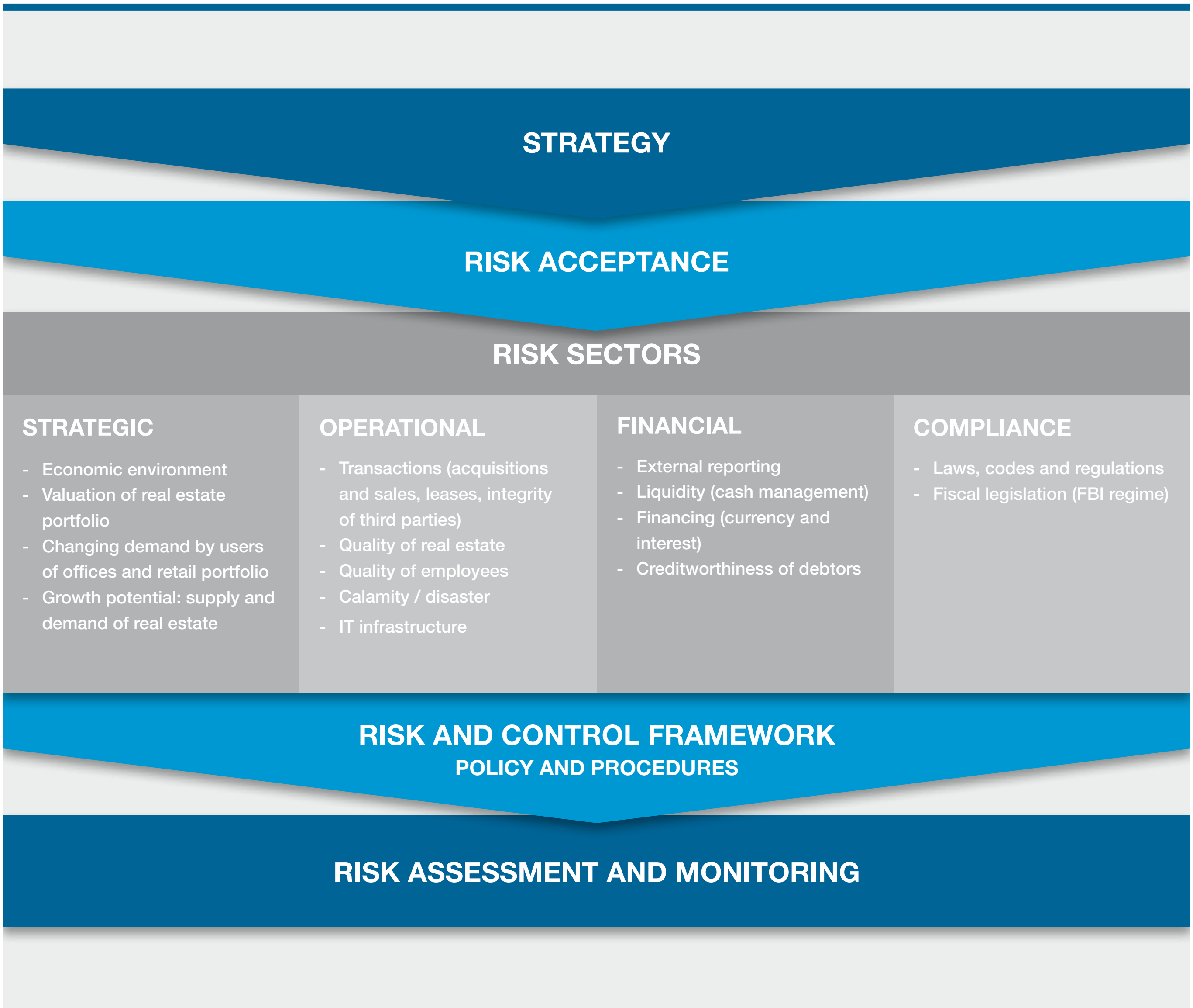
Covenants

	Covenant	Dec 15	Dec 16	Dec 17	Dec 18
LTV	≤60%	43.3%	44.1%	36.9%	36.9%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	5.5x

RISK MANAGEMENT AND INTERNAL CONTROL

The Management Board is responsible for the organisation, implementation and functioning of the internal risk management and control systems that are geared to NSI's business activities. NSI has an adequate risk management and internal control system in place. The Board is however aware that risk management and control systems cannot provide an absolute guarantee with respect to achieving the business objectives and preventing significant errors, losses, fraud or the violation of laws or regulations.

The scope of the Supervisory Board's supervision includes the design and operation of the internal risk management and control systems. The Audit Committee supports the Supervisory Board in the performance of this supervision. The Management Board and the Supervisory Board consider effective risk management to be a critical success factor whereby the 'tone at the top' is crucial.



Strategy

NSI has a long-term investment strategy for its real estate investments and monitors the risks associated with its investment policy. Control measures have been implemented with regard to this policy and the monitoring of the ensuing results and effects. A system safeguarding the policy, guidelines, reporting systems and segregation of duties has been set up and put into operation in order to execute these control measures. The organisational structure and corporate strategy are focused on maximising shareholder return while minimising risks.

Risk acceptance and risk appetite

In general, the total risk appetite of NSI is low to medium, in line with the company's objective to generate consistent long-term results for its shareholders and other stakeholders such as its employees, tenants and suppliers.

NSI has a clear strategy aimed at pursuing growth within the Offices and HNK segments with a well-defined asset strategy using clear acquisition and divestment criteria. In the course of 2017 NSI sold approximately 60% of the retail portfolio, and in 2018, approximately 30% of the remaining retail portfolio as per 31 December 2017 was sold. NSI still owned part of the retail portfolio at the time of writing this report. The risks related to this real estate are managed and monitored in a similar way as the Offices and HNK portfolios. Inevitably, the implementation of this strategy involves taking risks.

Within this framework NSI is prepared to accept risks associated with doing business in the currently changing property market environment in a responsible and well-considered way as well as in line with the interests of its stakeholders.Operational risks must be kept to a minimum, and NSI regularly reviews the effectiveness and efficiency of its operational processes for this purpose.

The risk appetite regarding financial risks is low. NSI's financial policy can be described as conservative, as evidenced by the conservative financing objectives stated in the Strategy chapter. NSI's policy regarding the hedging of interest rate risk is defensive, resulting in no speculative positions. NSI set specific hedging ratios to monitor this risk. With regard to the risks associated with its assets and cash flows, NSI aims to be insured in a conservative way and in line with market practice where possible and financially responsible.

The risk appetite in terms of compliance is zero, meaning that all laws and regulations must be adhered to. This is a required basic principle linked to NSI's status as a Dutch REIT (fiscale beleggingsinstelling or FBI). One of the core values is transparency. NSI and its employees must act with integrity, honesty and in compliance with laws and regulations. NSI has also formulated clear principles for this which are laid down in various codes and regulations.

Risk and control framework

NSI has an adequate risk management and internal control system in place. An important element of the internal control system is a management structure that enables effective decision-making. Strict procedures are followed for the preparation of monthly, quarterly and annual reporting of results based on the company's accounting principles. Annual and quarterly budgets and forecasts are prepared by the Management Board and approved and set by the Supervisory Board. Based on an integrated ERP system combined with a data warehouse, Business Intelligence tools and Excel applications, the internal management reporting system is designed to track developments in all relevant parts of the financial and operational results, as well as monitoring company performance using key performance indicators. A back-up and recovery plan is in place, making use of external data centres, to ensure that data is not lost in the event of a calamity.

The Audit Committee discusses the findings of the external auditor regarding the company's internal control environment with the Management Board and the external auditor, and monitors compliance with recommendations and follow-up action on comments made by the external auditor.

In the year under review all important decisions with regard to the acquisition, redevelopment and divestment of properties were discussed and assessed during regular meetings of the Real Estate Committee. Real estate acquisitions valued below € 3.5 million may be entered into by the Management Board without the prior approval of the Real Estate Committee. Approval of real estate transactions valued at between € 3.5 million and € 10.0 million is delegated by the Supervisory Board to the Real Estate Committee, which consists of two members of the Supervisory Board with specific expertise in the field of real estate. Transactions valued above € 10.0 million need approval from the entire Supervisory Board after receiving the advice of the Real Estate Committee.

In the case of divestments in accordance with the asset plan and at a price no lower than 5% below the book value, these amounts are raised to € 10.0 million for the Management Board and € 20.0 million for the Real Estate Committee.

Assessed regularly in consultation with advisors, the NSI risk and control framework is based on the Enterprise Risk Management (ERM) model and the related COSO framework (developed by the Committee of Sponsoring Organizations of the Treadway Commission).

Risk assessment and monitoring

NSI measures and assesses risks using tools including scenario analysis models in which the impact of variables can be set. The outcome of these models results in more awareness of the sensitivity of our business model and strategy. In addition, budgets and forecasts are created several times a year based on the actual state of affairs in order to generate scenarios containing the most up-to-date information. Risks are hedged or minimised where possible. High-impact risks are risks that could have a material impact on NSI's income statement and/or the balance sheet, the company's financing covenants or its reputation. Low-impact risks have a limited impact on the company's results or financial position. Risks that have a medium impact could have a large enough impact to require an explanation should they occur, although not large enough to have a material impact on results. The probability of a risk occurring may be low but the possible impact may be high, as may be the case in the event of a large calamity. For this reason NSI attaches equal importance to risks that are less and more likely to occur. NSI monitors the high-impact risks more frequently. By monitoring throughout the year, NSI assesses whether the estimated impact of all identified risks is still in line with the actual situation. NSI monitors the high impact risks more frequently. Besides, by monitoring during the year NSI judges whether the estimated impact of all identified risks is still in line with the actual situation.

Improvements in risk management and control systems in 2018

Implementation of GDPR legislation (25 May 2018)

NSI took the appropriate and necessary steps to ensure it is and will remain compliant with the General Data Protection Regulation (GDPR) that became directly applicable on 25 May 2018. Firstly, NSI performed an assessment of the impact of this new legislation, setting up a register of all the types of data and information it uses as part of its business activities. NSI identified gaps and implemented some new internal procedures to be fully compliant with the GDPR legislation. One important aspect involved entering into specific Data Processing Agreements with our external third parties. Specific privacy agreements were signed with around 50 external parties in addition to the existing contracts. NSI designated one employee to act as a first point of contact on all issues regarding the privacy of data and to safeguard compliance with this privacy legislation. Secondly, we organised an internal workshop for all our employees to create company-wide awareness of the impact of this legislation and to ensure that everyone is able to determine what the impact is on their day-to-day work, particularly pertaining to safeguarding the privacy of all our client data in the wider context of the way we communicate and share information with our tenants and other external partners.

Automation and improvement of internal and external reporting

Furthermore, in 2018 NSI continued to implement its asset rotation plan within the scope of its new strategy. Accuracy and flexibility of available financial and operational data is still crucial when executing acquisition and divestment transactions. In the past year we further improved the quality of data and information as well as the information requirements that apply to decision-making, for example by introducing additional sensitivity analyses on different business input parameters as part of our investment decision-making process. The ERP system, which deals with the entire basic administration of both operational and financial information as well as the associated reporting, has been expanded with additional functionality for this reason. In order to reduce the company's dependence on employees and increase reporting possibilities, the decision was taken to further automate these processes. Part of this strategy involves the commercial process which will be further supported by the introduction of a CRM system. In 2018 NSI implemented the first phase of this CRM system and it will continue with the implementation of the second phase in 2019.

NSI also developed various reports based on its data warehouse as well as a number of additional reports relating to specific aspects of its business, for example reports and further analysis of its HNK activities and the performance of the different business segments. As a result NSI was again able to accelerate the periodical closure process significantly in 2018.

The digital risks associated with data integrity and data security changed significantly due to external influences. NSI has not suffered any damage to date but preventing incidents is an important area of attention for the company. Management closely monitors developments and adjusts internal procedures if and when necessary.

Cybersecurity

NSI is aware of increasing cybersecurity and privacy risks. Accordingly, all IT suppliers must have relevant ISAE 3402 or SOC 1, 2 or 3 certification. In 2018 NSI performed a cybersecurity self-assessment which serves as a reference point. In addition to this self-assessment a third party performed a penetration test (pen test) to gauge the cybersecurity risks, and to use these insights to further improve the level of security. In 2019 NSI will continue to prepare a formal cybersecurity policy based on the results of the cyber assessment and the pen test. Furthermore NSI will continue to create awareness among its staff by regularly sharing experiences during knowledge sessions and enabling further integration with the relevant internal control procedures.

Review and update of internal processes

In 2018 several internal processes were reviewed (e.g. the procurement and IT procedures) and the effectiveness of the internal controls in place were assessed while updating the Internal Control Framework. Based on these reviews we made some adjustments and/or improvements to the internal control procedures. One of these involves a further tightening of internal procedures for the selection of third parties. Another example is the introduction of a new Code of Conduct. All employees within NSI signed this new Code of Conduct in December 2018.

The Company has not appointed an internal auditor as specified in best practice provision 1.3.1. The CFO prepared an internal audit plan, which has been approved by the Audit Committee, for the 2018 financial year and in the year under review. NSI examined the functioning of various internal control procedures. The results and findings were discussed with the Audit Committee, after which the outcome was assessed and shared with the external auditor. A third party was involved in assessing the internal procurement process and designing the internal controls. Third parties have been engaged to perform specific internal audits.

The conclusion can be drawn that NSI is actively managing and regularly reviewing the risks inherent in its business activities and adjusting the relevant processes and procedures to the organisational and strategic changes within the company.

STRATEGIC AND BUSINESS RISK

Appetite:	NSI focuses and pursues growth (in defined locations) with a well-defined portfolio strategy by applying clear acquisition and divestment criteria. Within the framework, NSI is prepared to take risks inherent in the chosen strategy in a responsible way and in line with the interests of its stakeholders.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Economic environment Executive responsible: *Bernd Stahli*	The NSI real estate portfolio consists of office properties and retail properties. Demand for both office and retail space generally correlates with economic growth. In addition, retail space is exposed to a broader range of macro-economic factors, including consumer confidence and consumer spending. The stronger focus on the office segment could result in a higher concentration risk. However, due to the focus on better locations and larger assets, the liquidity risk is lower.	With regard to office properties, NSI aims to increase its focus on the G4 locations because these are expected to be less sensitive to unfavourable economic times, NSI also pursues a multi-tenant strategy in its portfolio combined with long-term contracts to spread its tenant risk. In the retail portfolio NSI aims to continue to further optimise certain retail properties and to further reduce the share of retail properties in its total portfolio.	**Medium**	**Medium**
Market value of properties / valuation risk Executive responsible: *Alianne de Jong*	The market value of properties is an important metric. Valuations can be affected not only by the general (macro-)economic and market environment, but also by local factors. In view of the current low interest rates there is a risk that the low initial yield requirements derived from these rates will result in an overstated property valuation and could also result in an overly favourable projection of future rental growth.	At present NSI invests only in the Netherlands, which is a stable country both politically and economically with a relatively transparent property market. Risks can be mitigated - but never eliminated - by focusing on selected areas with a healthy and liquid office market and prospects, and through a diversified portfolio. NSI portfolio management is focused on investing and reinvesting in strong demographic and economic areas and locations and in high-quality properties as sensitivity to negative value fluctuations is higher outside these areas.	**Medium / High**	**Medium / High**
	There is an inherent risk that properties are valued incorrectly. This could lead to a change in the (indirect) result and possibly even reputational damage, as well as potential claims due to false expectations being generated among stakeholders.	NSI's portfolio is externally appraised twice a year (on 30 June and 31 December). The valuations are prepared in line with the RICS valuation standards.	**Medium**	**Low / medium**
Structural changes in demand for office sqm Executive responsible: *Anne de Jong*	Average office space requirements in sqm has been decreasing over time. Moreover, work arrangements are rapidly changing, driven by technological developments and a changing lifestyle in which people tend to work more flexibly in terms of hours and location. Demographic developments and changing demands of tenants have a major impact on demand.	NSI responds to the need for flexibility mainly with its HNK concept but also by adapting traditional office space to facilitate these trends. By actively doing so these changes pose more of an opportunity than a risk. Because the freedom of choice of NSI's tenants and members is increasing while the lease terms in certain segments of HNK's offering are falling, the average lease term is in decline. A spread among a larger number of clients lowers tenant risk but provides less certainty with regard to long-term income. NSI therefore focuses on constantly improving the level of service it provides to its clients and strengthening the HNK brand experience in order to retain and satisfy clients.	**Medium**	**Medium**
	Structural demand for office sqm is changing as a result of the fact that economic activity in the Netherlands is increasingly shifting towards the Randstad conurbation (G4).	In anticipation of this, NSI acquires properties in the Randstad, which will increase the share of these properties in the portfolio.	**Low / medium**	**High**
Structural changes in consumer behaviour of shoppers Executive responsible: *Anne de Jong*	Online shopping has increased substantially in recent years. If this trend continues and online shopping partly replaces brick and mortar shopping, there is a risk that retailers will need less space in shopping centres.	NSI decided to focus on offices and to part ways with its retail property. In 2017 and 2018 NSI succeeded in divesting a large part of its retail portfolio, making it less sensitive to this risk. In the coming period NSI aims to further reduce the retail part of its portfolio. NSI's current retail property is focused on local shopping centres that cater to daily needs such as food. These types of shopping centres are less sensitive to online shopping.	**Medium**	**Medium / High**

Risk category	Description of the risk	Mitigating measure	Assessment	
			Impact	Probability
Lack of properties that meet the investment criteria and/ or lack of interested buyers, preventing NSI from selling properties.	Asset rotation is a key element of NSI's strategy. In light of the strategic objective to improve the average quality of the portfolio, involving both divestments and acquisitions, there is a risk that NSI cannot acquire the right properties at the right price.	NSI has strict acquisition and investment criteria, enabling it to act in a disciplined way and consistent with its strategic objectives. NSI has a transaction team in place which works together with asset management and the financial departments. NSI has built up an extensive network in the industry to respond to market opportunities effectively.	**High**	**Medium / high**
Executive responsible: *Anne de Jong*	There is a risk of NSI's results being temporarily lower if there is a timing mismatch between divestments and acquisitions over a certain period of time, as the yield on cash and cash equivalents is lower than the yield obtained on investments in properties.	NSI has flexible credit facilities in place that make it possible to respond quickly to changing financing needs. NSI aims to mitigate adverse effects by maintaining contacts with various real estate agents and advisers so that it is aware of the available offering and interest of buyers in a timely way. If the right property (in terms of location, initial yield and price) is not available, NSI will decide against purchasing new properties.	**High**	**Medium**

OPERATIONAL RISK

Appetite:	NSI focuses on good-quality, high-yielding real estate with an active portfolio management strategy aimed at adding value for shareholders while anticipating the asset value development cycle through asset rotation. This implies a low-risk appetite.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Risk of expansion and (re)development of properties Executive responsible: *Anne de Jong*	The risk of expansion and development (and redevelopment) of properties relates to unexpected circumstances during execution and the risk of not or not sufficiently being able to let out the new or redeveloped property.	Expansion and (re)development only take place if the required permits have been obtained and appropriate financial arrangements are in place. Capital-deepening investments are prepared with the help of extensive investment analyses of both the operational and financial aspects in numerous scenarios. External expertise and input is used where necessary.	**Medium**	**Medium**
Execution risk Executive responsible: *Anne de Jong*	Asset rotation is a key element of NSI's strategy in which purchasing and/or selling at the right price is crucial to meeting the company's return targets.	NSI applies a thorough selection and decision-making procedure for investments and divestments. All purchases, investments and divestments are evaluated on the basis of an investment/divestment proposal. Investment/divestment proposals are discussed with the Real Estate Committee. NSI makes an IRR forecast for each project to determine the expected return on properties under consideration for acquisition, expansion or development (or redevelopment). This expected return is then compared to the returns per type of investment required based on the estimated risk profile. Before executing a purchase NSI subjects the potential investment to a thorough due diligence investigation focused on the technical risks and letting potential. The company may be assisted in this process by external advisers. Acquisitions are subject to discussion and/or approval by the Real Estate Committee and/ or the Supervisory Board.	**Medium**	**Medium**
Technical and maintenance risk Executive responsible: *Anne de Jong*	Real estate requires regular maintenance and needs to be kept up to modern standards to remain attractive. The technical state of a property has an impact on the possibilities to lease it out. As the effect on rent levels is mainly felt in the longer term, there is a risk of conflicting interests (namely short-term cash flow versus high-quality projects for the long term) resulting in buildings not being adequately maintained or updated.	NSI composes a multi-year maintenance schedule every year. This is based on the input of tenants, suppliers, inspections (by third parties) and NSI's own technical department. A precondition is that the properties comply with prevailing laws and regulations and that future legislation is also anticipated (for example: energy labels in 2023). Maintenance is provided using suppliers with a good reputation in order to safeguard the quality and reliability of the activities. A potential mismatch between the quality and letting potential is reflected in the valuation of the property.	**Low**	**Low**

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Risk of transactions with fraudulent parties Executive responsible: *Bernd Stahli*	The risk of NSI doing business with parties that are found to not operate in good faith or be fraudulent or parties with a bad reputation. It also concerns the risk of our employees being part of a fraudulent transaction. This risk can have a negative impact on the result and reputation of NSI.	NSI only wishes to do business with parties of good standing and reputation and verifies transactions undertaken by the counterparty as a fixed element of its due diligence process for acquisitions and divestments. The reputation is verified in various ways using external data, for example from credit rating agencies or other external advisors. A Code of Conduct is in operation at NSI which is signed by each individual employee. Furthermore a whistleblower policy is in place to enable employees to report any activity perceived to be dishonest or illegal.	**High**	**Low**
ICT systems, infrastructure and applications Executive responsible: *Alianne de Jong*	Professionally managing and controlling risks associated with safeguarding the continuity, availability, functioning and security of the internal IT infrastructure and applications is of vital importance to NSI. The implication of not fully controlling IT risks (such as disruptions due to cybercrime) is not being able to report internally or externally in a timely or correct way, which in turn may have a negative impact on the decision-making process, and can result in systems supporting the primary business processes not being available and lead to the loss of relevant information or unauthorised access to information by third parties, with damage to reputation and image as a consequence.	Internal procedures have been set up by NSI which are firstly aimed at preventing calamities with respect to access security and backups. In the unlikely event of a calamity, there are procedures in place outlining regularly tested fall-back and recovery scenarios, thus minimising the time that systems are unavailable. Regular checks of the aforementioned processes and procedures by internal and external experts ensure constant improvement. Internally, informing employees about ICT risks is a point of attention, e.g. legislation on reporting data leaks. Furthermore, strict requirements apply to external suppliers as regards the necessary ISAE certification and ISO standards.	**Medium**	**Medium**
	The risk that data and information security (including compliance with prevailing privacy legislation) is not sufficiently safeguarded as a result of further digitisation.	As a real estate company, the majority of NSI's income is not reliant on IT. NSI invests in further digitising its corporate processes, focusing extensively on transparency and the security of its data and other information, receiving advice from external parties. The digital risks that deal with data integrity, data security and compliance with data privacy legislation are impacted significantly by external factors. To date, NSI has suffered no damage from such developments, but avoiding the occurrence of such incidents is an important area of attention. Management keeps an eye on these developments and adjusts internal controls if required.	**Medium**	**Medium**
Letting and debtor risk Executive responsible: *Alianne de Jong*	The risk that rental income is discontinued as a result of tenants not extending their contracts upon expiry or of tenants defaulting on rent payments as a result of bankruptcy.	These risks are mitigated through the timely anticipation of approaching maturities and contract and rent reviews by discussing the rental contract with the existing tenant or other potential tenants in a timely way. By keeping the quality and maintenance of the rented property at a high level - as is the case at HNK - and the level of service high by conducting a tenant satisfaction survey, NSI aims to have a positive impact on the retention rate (i.e. the percentage of existing tenants who are retained). The risk of bankruptcy and/or default is reduced by screening new and existing tenants for credit-worthiness and actively monitoring debtor balances and the mix of existing tenants. NSI applies a strict policy with regard to debtor management and payment collection. NSI limits the potentially negative effects of non-compliance by tenants by requiring guarantee deposits, prepayments or bank guarantees to cover the payment of rent over a certain period.	**Medium**	**Low**
Risk of calamity Executive responsible: *Anne de Jong*	The risk of a calamity giving rise to extensive damage to one or more properties or to personal injury of people in the property, resulting in the potential loss of rental income, a lower direct and indirect result, and claims and legal proceedings by tenants.	NSI is insured against damage to its real estate, liability and loss of rent during periods of reconstruction and rental lease terms common in the industry. Coverage against terrorism, floods and earthquakes is limited due to current market conditions. The cover of risks is compared against the premium cost on an annual basis. Local insurance policies on a property are covered by an overall uniform umbrella insurance policy.	**Medium**	**Low**

Risk category	Description of risk	Mitigating measure	Assessment: Impact	Assessment: Probability
Quality of employees and advisors Executive responsible: *Bernd Stahli*	A real estate company relies on highly skilled employees. Consequently, NSI has a relatively high exposure regarding successful talent recruitment and retention. This risk could result in strategic objectives not being met.	Having the right organisation and staff base is an important part of management's focus on the implementation of its strategy. Recruiting and retaining the right employees is therefore of the utmost importance to NSI. However, recruiting the right employees can be difficult due to the size of the organisation, tightness of the labour market or other shortages of qualified employees. NSI aims to mitigate this risk by pursuing an active HR policy with standards for hiring, training, the annual individual review procedure and the remuneration of employees. Furthermore, NSI only works with reputable advisors with proven experience in the field for which they are hired.	**Medium**	**Medium**

COMPLIANCE RISK

Appetite:	NSI strives to fully comply with laws and regulations, meaning that the risk appetite is zero.

Risk category	Description of risk	Mitigating measure	Assessment: Impact	Assessment: Probability
Laws and regulations, Integrity code and rules Executive responsible: *Bernd Stahli*	Unethical behaviour and breaches of applicable legislation and regulations may result in reputational damage, claims and legal proceedings, leading to higher costs and a lower result.	NSI has a general Code of Conduct and related regulations in place. NSI complies with the Dutch Corporate Governance Code and the Dutch Financial Supervision Act (Wet op het financieel toezicht). All employees are familiar with these regulations, and procedures have been set up to ensure compliance. To prevent conflicts of interest and raise appropriate awareness, employees and new managing and supervisory directors are informed upon their appointment of the applicable rules, including the Code of Conduct, the Compliance Code, the regulations applying to the Management Board and the regulations applying to the Supervisory Board and its committees. All these regulations were reviewed in 2017, bringing all aspects in line with new Corporate Governance Code. Furthermore, as part of the strategic review new core values were derived. In 2017 NSI started a programme focused on behaviour and culture.	**Medium**	**Low**
Laws and regulations, health and safety codes and rules Executive responsible: *Anne de Jong*	The risk that the portfolio does not comply with prevailing laws and regulations in the field of health and safety. This could result in a situation in which properties can no longer be used (occupied) and/or fines are imposed resulting in a negative impact on the value and marketability of the real estate properties. It could also result in reputational damage.	In the case of acquisitions, due diligence also includes an assessment of whether the real estate property complies with prevailing laws and regulations in the field of fire safety and health. This is part of the integral project plan for transformations and renovations, with compliance with the standard being reviewed at the moment of delivery (when the work is completed). A sprinkler certificate is issued annually for properties in which a sprinkler system is present. Furthermore, all sprinklers are tested weekly or every other week, as required by law. NSI has included the standard provision in its lease contracts that tenants must obtain the owner's approval before embarking on renovations (for reasons including an assessment of fire safety). Lease contracts also stipulate that the tenant is responsible for any consequences as a result of these renovation works.	**Medium**	**Medium**

Risk category	Description of risk	Mitigating measure	Assessment: Impact	Assessment: Probability
Laws and regulations, sustainability codes and rules Executive responsible: *Anne de Jong*	The risk that the portfolio does not comply with prevailing laws and regulations in the field of sustainability. This could result in a situation in which properties can no longer be used (occupied) and / or fines are imposed resulting in a negative impact on the value and marketability of the real estate properties. It could also damage NSI's reputation and image.	NSI has investigated the current status (including the financial consequences) of its property portfolio with respect to the requirement stipulated in the Dutch energy agreement of 2016, that as of 1 January 2023 all properties must have an energy rating of C or better. This has become an integral part of NSI's sustainability strategy.	**Low**	**Low**
Tax risk Executive responsible: *Alianne de Jong*	NSI has the status of a Dutch REIT (known in The Netherlands as an FBI) in accordance with section 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de Vennootschapsbelasting 1969). This means that the corporate tax rate in The Netherlands is 0%, provided that certain conditions are met.	NSI constantly monitors the main risks relating to its tax position. Retaining the FBI status is a continuous area of focus for the Management Board. The distribution requirement for taxable income, the composition of the shareholder base and the finance limits are calculated regularly and when refinancing occurs. In addition, there are legal restrictions on the activities that may be undertaken by an FBI, the so-called 'activities test'. The possibility to perform 'associated activities' along with the main task of letting and managing real estate has been incorporated in Dutch law since 1 January 2015. There is, however, no Dutch case law on the subject. That is why NSI discusses the range of activities it undertakes, including the activities related to HNK, in advance with the Dutch tax authority (Belastingdienst) in order to liaise. NSI is responsible for internal knowledge sharing with regard to (changing) tax regulations in order to ensure employee awareness, enabling employees to identify relevant signals and gain the necessary advice. This prevents NSI from being exposed to the risk of non-compliance with tax legislation.	**Medium / High**	**Low**
	There is a risk that the FBI scheme will disappear in its existing form. As a result, NSI's tax burden (corporate tax) could increase, reducing the profitability (return) of the portfolio.	NSI, together with various sector associations, is actively lobbying for a sustainable solution for the sector.	**High**	**Medium**

FINANCIAL RISK

Appetite: NSI has a conservative financial policy, meaning that the risk appetite is low.

Risk category	Description of risk	Mitigating measure	Assessment: Probability	Assessment: Impact
Reporting risk Executive responsible: *Alianne de Jong*	The reporting risk relates to the impact of incorrect, incomplete or untimely available information on internal decision-making processes or those of external parties (including shareholders, banks and regulators), which may result in reputational damage and potential claims due to expectations falsely raised among stakeholders.	NSI prepares an annual budget, which is compared and updated with actual results on a quarterly basis. Investment budgets and liquidity forecasts are also prepared. The interim figures are reviewed and expanded on by management, as well as by the people with financial and operational responsibility within the company. Systems have been devised in such a way that checks can be performed on the data to safeguard the consistency and reliability of information. NSI employees regularly attend courses and meetings to be informed of all relevant laws and regulations so that all information produced by NSI complies with prevailing laws and regulations. Specialists are called in for specific subjects where necessary. Furthermore, the half-year results are assessed by the external auditor prior to publication by means of a press release. The full annual accounts are audited by the independent auditor.	**Low**	**Low**

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Funding and liquidity risk Executive responsible: *Alianne de Jong*	Funding with debt carries refinancing risks. The potential impact is the availability of insufficient liquidity to meet the company's obligations at the moment of interest payment or repayment, meaning that the company suffers reputational damage or is subject to potential additional financing costs, which may lead to a lower direct result. In the worst case, such a situation may lead to defaulting on one or more loans, or bankruptcy of the company.	To limit its liquidity risk, NSI applies a strategy of diversifying the maturity profile of its loans and the repayment dates. NSI also has access to flexible long-term loans (under which penalty-free redemption and drawdown of funds to agreed amounts are permitted) and committed credit facilities. NSI addresses upcoming financing and expiring maturities at a very early stage in order to decrease the risk associated with financing and refinancing and maintains a good and transparent working relationship with its financiers. NSI uses scenario analyses to closely monitor its performance and financial indicators in relation to its financial and non-financial covenants and reports on this by means of compliance certificates.	**Medium / high**	**Low**
Interest rate risk Executive responsible: *Alianne de Jong*	The capital structure has a number of loans with a floating interest rate.	In view of NSI's policy to hold investments for the long term, the loans used to finance these investments are also taken out with long maturities. NSI uses hedging instruments to manage its interest rate risk. NSI's policy regarding the hedging of interest rate risk is defensive by nature. NSI does not take speculative positions. NSI's policy is to have at least 70% of the loan value on a fixed or hedged interest rate.	**Medium**	**Medium**
Credit risk Executive responsible: *Alianne de Jong*	Credit risk exists if parties which have a debt to NSI, or parties whose debt to NSI is expiring, get into payment difficulties and are unable to meet their obligations to the company, or which do not refinance an outstanding debt to NSI but make it immediately payable.	NSI minimises the risk associated with possible non-compliance by counterparties by entering into transactions with well-known and reputable financial counterparties for its loans and derivative instruments. In addition, NSI spreads the outstanding debt both in maturity and across multiple parties in order to reduce its dependence on a single party. The counterparty risk arising from these transactions is limited to the costs of replacing these contracts at the current market rate in the event of non-compliance.	**Low**	**Low**

International Financial Reporting Standards (EU-IFRS)

In accordance with European and Dutch laws and regulations NSI has prepared its financial statements for the 2018 financial year based on EU-IFRS. The EU-IFRS result after tax includes unrealised movements in the value of real estate as well as changes in the fair value of derivatives.

NSI has decided to continue to report both its direct and indirect investment results in addition to its EU-IFRS result as it believes that these figures provide an important distinction.

In the view of the Management Board the direct investment result is relevant information for investors and shareholders which provides a better insight into structural, underlying results than the EU-IFRS result which also includes unrealised movements. Furthermore, NSI reports figures and indicators based on the guidelines published by the European Public Listed Real Estate Association (EPRA). These results are included in the overview that is not a part of the EU-IFRS statements.

Statements

In Control statement

In the context of the Dutch Financial Supervision Act (Wet op het financieel toezicht or Wft) and the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (Besluit gedragstoezicht financiële ondernemingen Wft), the company declares that it has a description of its administrative organisation and internal control systems that meets the requirements of the Act and the Decree.
During 2018 NSI reviewed various aspects of its administrative organisation and internal control systems. This review did not lead to any findings that would suggest that the description of the structure of the administrative organisation and internal controls did not meet the requirements as specified in the Decree and related regulations. Also, there have been no indications that the company's administrative organisation and internal control systems failed to operate effectively and in accordance with the description during 2018. The company declares with a reasonable degree of certainty that the conduct of business has been effective and in accordance with the description.

With a view to facilitating the change process initiated within the company in the course of 2017, and continuing in 2018, additional investments were made in broadening the management information systems, for example through implementation projects to aid a CRM system and data warehouse application. The organisation is focused on further digitalising, automating and streamlining its processes in order to increase efficiency and scalability and further reduce operational costs in a controllable manner. The CRM system will be further implemented in 2019.

No significant changes to the structure of NSI's administrative organisation and internal controls are expected for the 2019 financial year.

Because of its nature and limited size, there are limitations inherent in the company's internal controls, including the limited possibility of segregation of duties, disproportionately high costs in relation to the benefits of internal controls, and the risk of calamity, collusion and the like. Although risk management and internal control systems reduce risks to acceptable levels, no absolute guarantees can be given due to these limitations. The Management Board is of the opinion that the internal risk management and control systems in place for financial reporting provide a reasonable degree of certainty that the company's financial statements for 2018, as included in this Annual Report, do not contain any material errors, and the internal risk management and control systems as referred to above functioned properly during the year under review. There are no indications that this would be any different in 2019.

Declaration of the Management Board

With reference to the EU Transparency Directive and Dutch Financial Supervision Act (Wet op het financieel toezicht or Wft), the Management Board declares that to the best of its knowledge:

- the consolidated financial statements for the year ended 31 December 2018 fairly reflect the assets, liabilities, financial position and results of NSI and its consolidated subsidiaries;
- the additional management information provided in the annual report fairly reflect the situation on the balance sheet date and the state of affairs at NSI and its consolidated subsidiaries during the financial year;
- based on the current situation it is justified that the annual report and the consolidated financial statements for the year 2018 have been prepared based on the principles of going concern; and
- the significant risks to which NSI is exposed are described in the annual report. For a description of these risks, see the section on risk management.

FINDING THE RIGHT ANGLE IS THE KEY TO OUR SUCCESS

With a transaction volume of € 270 million in 2018 NSI once again made good progress on its asset rotation strategy. The acquisition of four high-quality office buildings in strategically desired locations in the four largest cities in the Netherlands (G4) resulted in a considerable improvement in the portfolio.

Interview with Ahmed Ouahim
Transaction manager

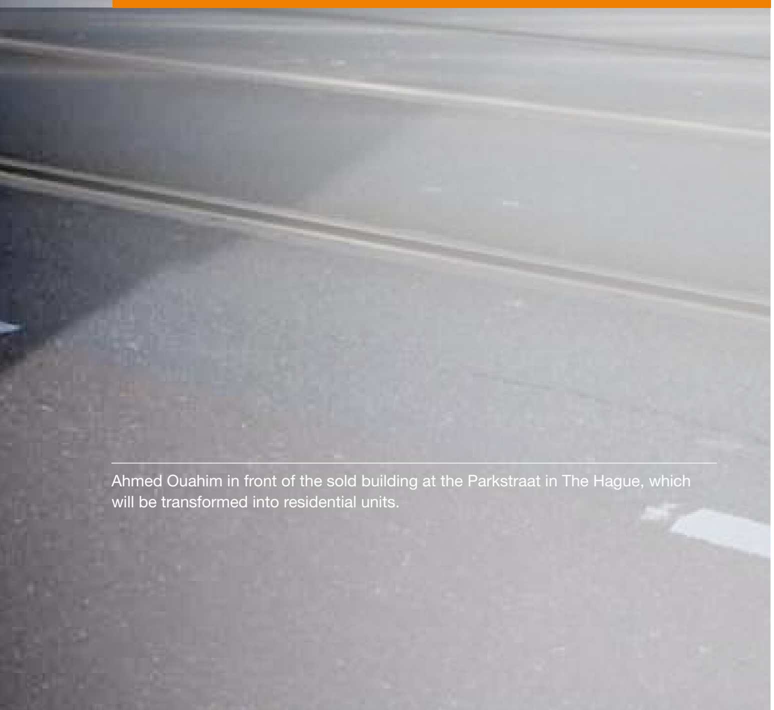
At least as important to this success were disposals. In 2018 no fewer than 35 non-strategic assets were sold for € 121 million at an average 2% premium to their book value. These disposals mainly concerned smaller buildings on locations with little depth in the investment market. This requires a combination of drive, creativity and eagerness, said Ahmed Ouahim, an NSI transaction manager responsible for both acquisitions and disposals.

Around 65% of the original disposition list, dating back to February 2017 when the new strategy was announced, has been sold. “The crux of the process is finding the right business case. A building that is no longer interesting for NSI can be quite interesting for another target group. Finding the right angle – and targeting it with full conviction – is the key to our success.”

Each transaction manager has their own disposition portfolio for which a disposition plan is drawn up. A vision is created for each asset, the options are mapped out and price expectations are set. Based on this the transaction manager has a mandate to sell it.

A good example is how Ahmed approached the sale of an office building in the northern Dutch city of Meppel. The building was vacant and had been labelled ‘non-strategic’ for years. “Meppel is not exactly known for its lively office market.

> “Finding the right angle is the key to our success in executing our disposal strategy.”



Ahmed Ouahim in front of the sold building at the Parkstraat in The Hague, which will be transformed into residential units.

So we approached the city to get a better idea of what’s happening in the region. And there was in fact a need for real estate. It turns out that Meppel benefits from the flow of tourists to the nearby picturesque village of Giethoorn, where there was insufficient hotel accommodation. We proactively approached (hotel)developers, investors and end-users and managed to convince various parties of the business case for a hotel near what is known as the ‘Venice of the Netherlands’. As a result we were able to sell the building substantially above its book value, and Meppel will have another nice hotel.”

Ahmed explained the importance of proactively exploring the options for smaller assets and marketing them accordingly. “Large institutional investors generally have the knowledge in-house to do this, but for small and local players this really adds value.”

When selling the building located at Folkert Elsingastraat in Rotterdam, NSI noticed interest from developers in the initial stage of the sale. “We saw the potential for housing. So we targeted specific developers who could be a good fit for this project in a tender process. By doing this we were able to cash in on some of the value potential. We received a wide range of offers and achieved a sales price that would probably not have emerged in a direct bidding process.”

Sometimes letting is the first course of action before a building is actively marketed in order to realise added value. This applied to an object in Diemen near Amsterdam, where a substantially higher sales price was achieved after the building was renovated and had been long-term let. But sometimes opportunities only arise once a building is vacant, as was the case for the building at Parkstraat in The Hague (see photo), which will be transformed into homes once the last tenant has left. “It’s a beautiful building at a beautiful location, too small for our portfolio but perfectly suitable for housing.”
The team of four transaction managers was good for 34 transactions in 2018. “Thanks to professionalisation and standardisation we have been able to speed up the buying and selling process significantly. We work with standard contracts, have a clear framework and are transparent in the way we communicate. We have also arranged our internal process in such a way that we can push on with a strict mandate.”

The diversity in the type of transactions and associated processes makes the work of a transaction manager varied and interesting. “It involves shifting between the various parties, ensuring that you always understand the perspective, and speaking the right language. A large group of advisors is involved in the big transactions, such as the acquisitions we make. In that case the process is completely different than when negotiating with a local business or a private investor.”
Looking ahead, various transactions are lined up for 2019. “In the coming year we will continue to optimise the portfolio. Our mission is clear and the market knows it. Market parties know where to find us. We have built up a strong reputation and a sound track record. That is paying off.”

PERSONNEL & ORGANISATION

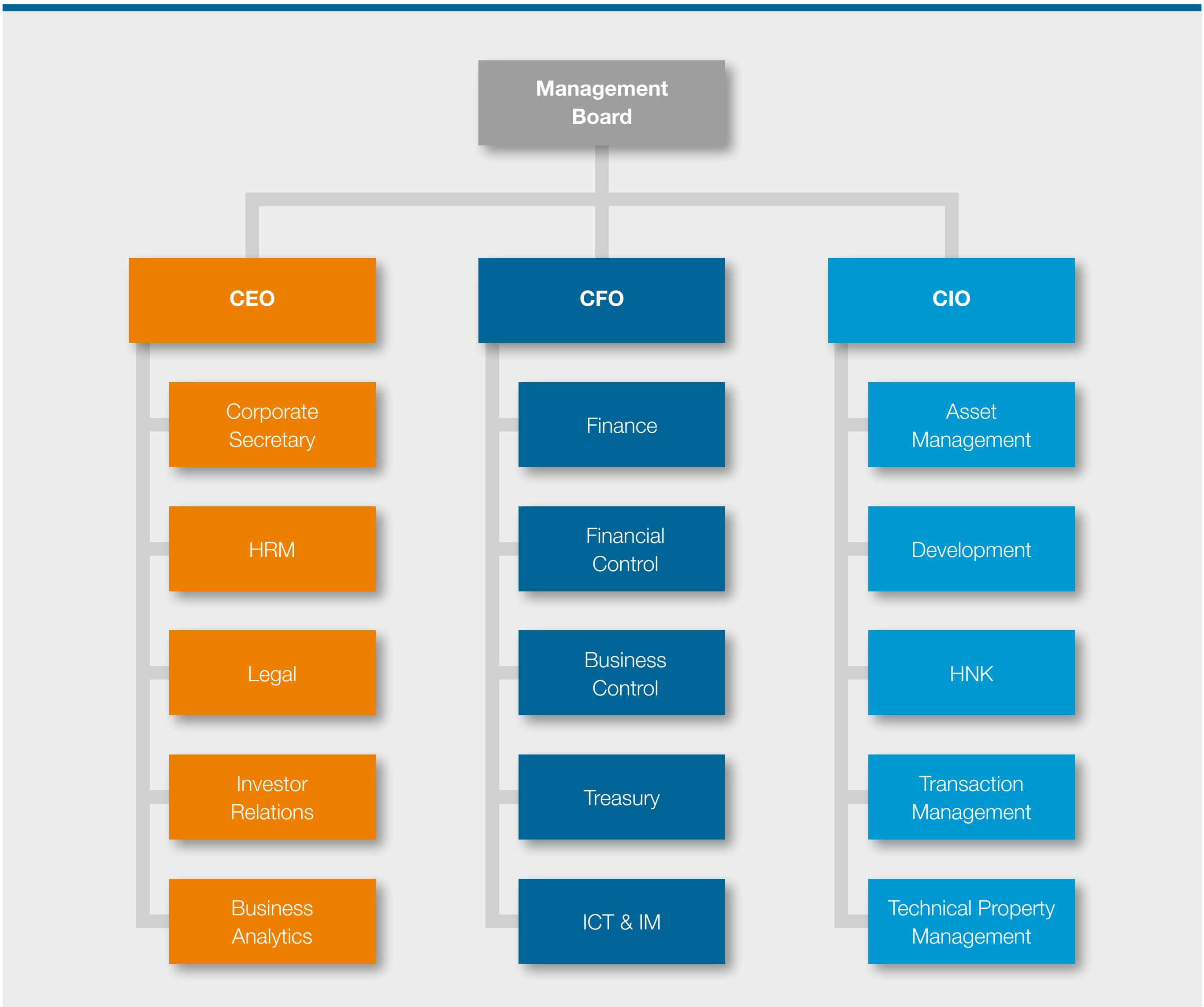
Building further on the new organisation

In recent years NSI put in place an almost entirely new organisation with a new culture and identity, aligning the organisation with a more focused strategy.

The organisational change included a decentralisation of responsibilities, allowing the organisation to operate more efficiently and empowering individuals to develop in their role, supported by a substantial upgrade of the IT infrastructure and management information systems. The final step in the new organisational model involved the outsourcing of the day-to-day technical management. This new organisation called for new skill sets and expertise that were sourced with new hires. All this resulted in a smaller organisation in terms of headcount, with a different profile in terms of diversity, age and educational level. The total headcount at 31 December 2018 was 46, compared to 81 employees at the start of the organisational transformation at the start of 2016. NSI is confident that the current staffing level reflects the size, skills and mindset needed to take the company's strategy to the next phase.

Organisational structure

For the legal structure please refer to 'the principles for consolidation' on page 71:



Organisational culture

NSI has an open and inclusive culture in which diversity is considered to be an added value. NSI recently redefined its core values. NSI aims to be transparent, disciplined, responsible and think in opportunities. Furthermore we like to keep it simple, and we are here to stay. We have clearly defined the meaning of our core values, as detailed in the text box on the right.

With its defined core values, NSI aims to realise the full potential of its employees, the investment of its shareholders and the assets that it acquires and operates. NSI incorporates these core values into its organisation and processes by hiring the best talent and by holding itself to the highest standards in an atmosphere of dedicated hard work, team spirit and fun.

Safeguarding the corporate culture has the ongoing attention of management and is consistently a significant point of attention in internal meetings.

Living up to core values is part of NSI's assessment and appraisal methodology, and is being discussed in regular and year-end reviews. NSI encourages its employees to give feedback and urges the whole organisation to actively contribute to our ambition of becoming the leading office property specialist in the Netherlands.

NSI has an onboarding programme in place to acquaint new hires with the company's cultural values.

In 2018 team building and inspirational knowledge sharing were at the heart of a study trip to London. The entire NSI team went on a two-day trip to London to visit peer companies. The programme consisted of inspirational presentations from peer companies, sharing knowledge and best practices and visiting some innovative and state-of-the art properties.

Healthy workplace

The health and well-being of its employees (and tenants) is an important pillar of NSI's sustainability strategy. NSI aims to create a healthy, inspiring and flexible working environment to ensure the well-being of its employees. This is reflected in a further reduction of the sickness rate at NSI to 1.2% in 2018 (2017: 2.2%)

NSI's efforts and ambitions in this respect are reported in more detail in the ESG chapter on page 43.

Employee satisfaction

Employee satisfaction surveys are a strong tool used to track the actual and perceived well-being of employees. An employee satisfaction survey was held for the first time in 2018. The overall satisfaction score was 82%, with a response rate of 89%. The survey revealed that employees were generally very satisfied with the company culture and employment conditions, and that they have confidence in the organisation and its directors.

NSI CULTURE AND MINDSET

NSI is a progressive Dutch real estate company always on the look-out for opportunities in a competitive and changing environment. We embrace change because our strong culture and core values provide us with a stable foundation that instils confidence in the future.

We are transparent

We recognise that mutual trust can only really exist in an environment of openness, clear communication and consistent actions. Our success as a long-term investor hinges on us gaining and maintaining the trust of all stakeholders and we constantly focus on this.

We are disciplined

Our internal and external procedures are befitting of a small and flexible organisation. The procedures provide clarity on how we act and operate. We only make promises we can keep.

We take responsibility

Our intrinsic motivation at NSI is to always do the right thing. We recognise and fully embrace the high level of responsibility that rests upon our shoulders as a publicly-listed company. As employees we are fully aware of the need to support our customers, colleagues and other stakeholders and we treat them with the utmost respect. We acknowledge and correct any mistakes we make and we learn from them.

We think in terms of opportunities

We have a positive mindset and are always seeking solutions and new opportunities. This makes us versatile and enables us to add value for our customers, whilst we continue to develop ourselves. We will always address the risks associated with an opportunity to come up with well-considered solutions.

We like to keep it simple

Complexity often confuses, creates uncertainty, a fuzzy demarcation of responsibilities and generally results in slowdowns and delays which in turn lead to inefficiency and high costs. We take decisions after thorough and substantiated deliberation, making sure our choice of structure, process and responsibilities are as clear and concise as possible for us and our stakeholders.

We are here to stay

Our focus at NSI is on sustainability and the long term, both when it comes to the relationship with our customer, the perspective of the building, the location and the ever changing needs of users, and, but also with regard to the structure of our organisation and the interests of our shareholders. We are fully aware of short-term interests but will always favour the long term.

Some areas with room for improvement include improving execution throughout the organisation and creating more scope for personal development.

Training and development

With responsibility as one of our core values, it is important that we provide all our employees with ample training and development opportunities. We encourage employees to undertake externally recognised courses by granting annual individual training budgets as part of our strong commitment to attracting and retaining the very best talent, making NSI a great place to work.

The head of HR engages with each individual employee to discuss their envisioned personal development plan and ambition level.

Furthermore we encourage knowledge sharing through expert sessions hosted by both internal and external specialists, as well as collaborative working practices.

NSI has launched a leadership programme to support and challenge senior management in their professional and personal development. This ‘Lead with Purpose’ programme, focused on leading both yourself and others, also serves as a catalyst for team building.

The first participants in NSI’s Young Talent Programme will complete their traineeship in 2019, and a new cycle will start in 2019. The programme is geared at providing a broad range of experience through job rotation in different areas (finance, transaction management and asset management) in a challenging environment in which young professionals can make an impact and take responsibility from the start.

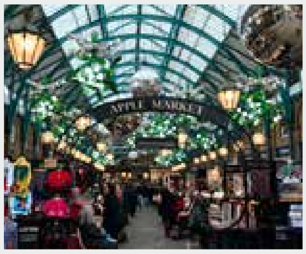
Employee statistics (at 31 December)	2016	2017	2018
Number of FTEs	66	52	44
Permanent contract (% of total)	88%	82%	91%
Part time FTEs (as % of total)	32%	29%	22%
Sickness rate	2.7%	2.2%	1.2%

STUDY TRIP TO LONDON

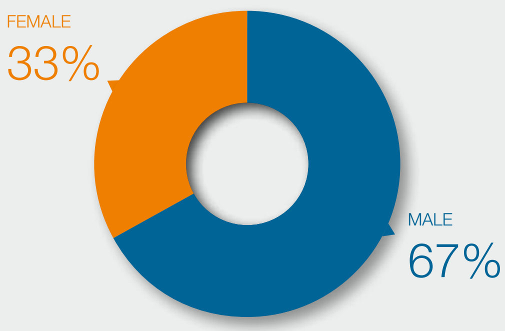
In November 2018 all NSI employees went to London on a study trip in one of the most vibrant European office markets. The programme consisted of visiting and speaking with some of London’s leading real estate investors, complemented by various team-building activities. The programme included presentations by Great Portland, Morgan Stanley and St. Modwen, along with a property tour with Derwent London. Group meetings were organised with peers in the field of asset management, leasing strategies, flex offices and finance at Land Securities, SEGRO, Shaftsbury, Spaces and Great Portland.



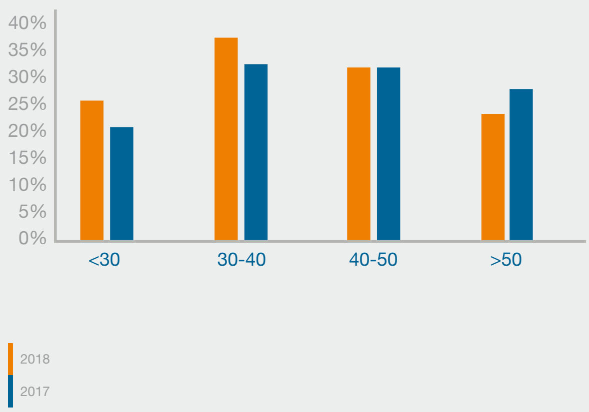





Gender breakdown NSI at 31 December 2018



Age breakdown NSI employees



ENVIRONMENTAL, SOCIAL & GOVERNANCE PERFORMANCE

At NSI we are intrinsically motivated to run a highly sustainable business that is ethical on all governance issues, fully appreciating our duty to contribute to the well-being of society in the long run. NSI demands that its employees be true sustainability ambassadors with a circular mindset who fully contribute to our sustainability goals.

Stakeholder dialogue and engagement

Stakeholder engagement is fundamental to NSI and deeply embedded in the way it does business. NSI interacts frequently with all its stakeholders (employees, tenants, investors, partners and local communities) in both formal and informal settings.

Our asset managers visit our properties on a regular basis, accompanied by our technical staff (if required) to meet with tenants face-to-face. The primary goal is to build mutually beneficial long-term relationships by understanding tenants' needs and meeting their requirements. We also conduct annual tenant feedback surveys.

NSI has an active Investor Relations programme in place to engage with shareholders. NSI hosts analyst meetings to present the annual and semi-annual results and is in regular dialogue with analysts throughout the year. Meetings are arranged with institutional investors, both proactively and on request, to discuss the strategy and business model, market trends and the company's performance. Furthermore, NSI actively participates in investor conferences and hosts site visits to provide investors with greater insight into the business. In 2018 NSI also hosted a Capital Markets Day.

Feedback collected from meetings with institutional investors provides a clear understanding of their views and concerns, and insights gained from interactions with stakeholders are used as input for NSI's sustainability materiality assessment.
Furthermore, in late 2017 NSI joined the initiative of a number of leading European real estate companies (which in addition to NSI comprises alstria, COIMA RES, Colonial, Gecina and Great Portland Estates) to pool best practices and create a sustainability and innovation think tank. This helps NSI further improve its ESG (environmental, social and governance) performance.
Stakeholder engagement is fundamental to NSI and is deeply embedded in the way it does business. NSI ensures frequent interaction with all its stakeholders (employees, tenants, investors, partners and local communities) in both formal and informal settings.

Sustainable development goals

The following SDGs are currently most relevant to our ESG programme, and reflected in our overarching priorities:

Identifying our leading priorities

In 2018 an external advisor was commissioned to provide relevant support and manpower in establishing a future-proof ESG programme. Everyone at NSI was engaged in the process. Using the United Nations Sustainable Development Goals (SDGs) as an overarching framework, we also engaged with external stakeholders to conduct a materiality assessment to identify the issues that matter most to our business and stakeholders.

The resulting materiality matrix plots specific topics by theme, comparing the stakeholders´ perspective with our organisation's point of view. The materiality matrix was completed by 65% of the employees and 22 stakeholders (mainly shareholders and tenants).

The three overarching sustainability themes that we have identified are: Future-proof investments, Energy & Carbon and Health & Well-being. Topics on corporate level are labelled as Transcending.

SUSTAINABILITY MATERIALITY MATRIX

Set the ambition level

We have set clear ambitions which are further defined in our three main sustainability areas. Our sustainability strategy is structured around these focus areas and addresses social, economic and environmental trends that create value for our stakeholders. In 2019, NSI will define its objectives and point of reference more specifically.

AMBITION

Minimize our carbon footprint
Facilitate our tenants with healthy and future-proof investments
Ensure a healthy way of working for our employees

Future-proof investments	Energy & Carbon	Health & Wellbeing

OUR OVERARCHING THEMES

Future-proof investments

Expanding the total lifespan of assets by developing and redeveloping future-proof investments has been identified as a key element in driving long-term ESG performance. Future-proof investments are buildings that are adaptive and innovative by nature – buildings that anticipate market trends, offer a fluid mix of spaces, deploy new technology, have great accessibility and are located in multifunctional areas. Moreover, the impact on climate change should be a consideration in these buildings. Future-proof investments should be flexible for transformation and focus on circularity, both in the construction and exploitation phase. By applying these future-proof principles, NSI aims to provide healthy, inspiring and flexible working environments for its tenants with great accessibility and the necessary facilities nearby, while minimizing their impact on the environment.

That means that NSI's investment criteria include ESG metrics that promote flexible building design (suitable for multi-tenant and potentially flexible in use) and sustainable innovations.

Future-proof investments

Flexible building design	*Sustainability as an integral part of investment decisions*	*Sustainability innovations*	*Certifications*	*Promote sustainable use*
AMBITION				
The portfolio should be suitable for multi-tenant leasing	Integrate sustainability aspects more intensively in divestment and investment due diligence	Implement sustainability innovations	Environmental certification of properties	Facilitate water and waste management
The portfolio should be flexible (or potentially flexible) in use	Encourage and advise tenants on sustainable design by developing a menu of innovative fit-out packages	Consider sustainability innovation opportunities in all CAPEX	All developments and redevelopments to obtain a BREEAM Excellent rating	Promote a sustainable supply chain by developing and adhering to a sustainable supply chain policy
	Integrate sustainability in investor communications and reporting			

Energy & Carbon

NSI aims to minimise its impact on the climate and contribute to achieving the Paris Climate Agreement goals. In doing so NSI will reduce its carbon footprint in the coming years in its quest to become carbon neutral by 2035. This reduction will be achieved by combining energy efficiency and green energy sources in the construction and exploitation phases.

Regular maintenance works are used to improve ESG metrics, including measures to reduce energy consumption such as more efficient lighting and heating systems, cooling generation systems, roof upgrades and improved insulation.

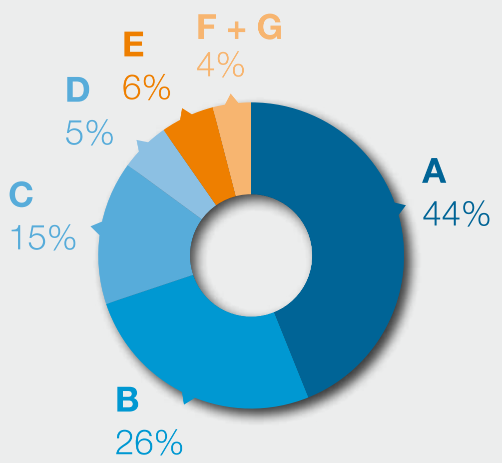
Energy & Carbon

Carbon footprint	Energy efficiency improvements	Renewable energy	Environmental awareness
AMBITION			
Install electric car charging facilities at all assets	Improve energy use efficiency for every office	Usage of 100% renewable energy	Include ESG metrics in annual performance targets
Offset carbon emissions for gas consumption and all energy consumption related emissions	Install submetering on tenant level for the entire portfolio	Install solar panels	Improve knowledge sharing and education amongst employees
	No gas connection in the portfolio, taking effect immediately for new construction		Disclose sustainability aspects in communication
	Install LED/TL5 lighting at major renovations and new developments		
	Upgrade to energy label A for the core portfolio		

In the past four years we fully renovated around 80,000 sqm of office space, including a full upgrade of the lighting with 25,000 LED units with motion sensors. We have also started to minimise gas usage and over 40% of the portfolio by sqm currently uses sustainable district heating, heating pumps or ATES systems. We are committed to increasing the use of solar energy, but due to our recent disposals only 2.4% of our electricity usage is currently generated this way.

NSI managed to significantly upgrade the energy label of the assets in its portfolio in recent years. By value 85% of the office portfolio has an energy label of C or better. The Dutch government has stipulated that all office buildings in the Netherlands should have an energy performance certificate (EPC) with at least a C label by 2023. It is NSI's ambition to not only achieve but exceed this minimum EPC grade by 2023.

Portfolio breakdown of energy labels by value



NSI engages with its tenants to improve their energy efficiency and help them reduce their carbon footprint. Green leases will be used to formalise agreements between NSI and its tenants aimed at improving energy efficiency and reducing their carbon footprint.

Energy consumption is mapped and analysed at the level of each asset, if possible at individual tenant level, in order to identify and prevent unnecessary usage. Sweco has been contracted as a business partner to help NSI deliver annual energy savings of 7%.

Also, employees are encouraged to help reduce NSI's carbon footprint, both personally and with regard to their specific portfolio. NSI aims to minimise travel emissions and the impact of commuting.

NSI's car fleet will migrate to a green car fleet. Expired lease contracts will be replaced by contracts stipulating electric cars. The non-electric car fleet will ultimately be phased out completely. 34% of the car fleet was electric at year-end 2018 and 25% is plugin hybrid.

Health & Well-being

NSI aims to create healthy, inspiring and flexible working environments for its tenants and promotes a healthy way of working for its employees. Moreover, NSI aims to have a positive impact on the community.

People spend over 90% of their time indoors, which means that the 'indoor environment has a significant impact on their health. NSI is committed to providing a healthy indoor environment by choosing materials and technologies that are designed to improve the indoor space in terms of air quality, comfort, installations, lighting and sound. And by designing public spaces and stairways in ways that entice people to walk and providing facilities and amenities that support and promote a healthy lifestyle.

NSI considers an active lifestyle important to the health and well-being of its employees, and it therefore promotes physical activity, healthy nutrition and a healthy work-life balance.

Health & Well-being

Tenants	*Employees*	*Communities*	*Building facilities and amenities*
AMBITION			
Annual tenant satisfaction survey	Pursue healthy work/life balance	Participate in local community events	Improve quality of indoor building environment
Engage and actively communicate with tenants on improving sustainability	Employee satisfaction monitoring (survey) and improvement		Monitor temperature, CO_2, lighting (LUX), sound, ventilation and VOCs (volatile organic compounds) by 2019
Promote green leases	Motivate employees to adopt a healthy lifestyle, for example by encouraging them to participate in sports and providing healthy lunches		
Help reduce absenteeism and increase productivity by improving the work-life balance of staff by making flex workplaces (HNK) available for every NSI tenant	Foster an inclusive culture based on the principle of mutual respect with equal opportunities irrespective of nationality, age, disability, gender, religion or sexual orientation		

Reporting

NSI is committed to reporting on its ESG performance in accordance with its corporate duty and industry disclosure standards. NSI decided to focus on GRESB[1] as a benchmark for its ESG performance. Our first GRESB score will be published in 2019. This will provide us with a base score, allowing us to measure and report on our progress and future performance.

The EPRA sustainability measures, which are also aligned with the GRESB, are being reported for the first time on page 124.

Diversity

NSI recognises the benefits of diversity and is fully committed to providing equal opportunities and treatment when it comes to recruitment and selection, training and development, performance reviews and promotion. Our culture is based on the principles of mutual respect and non- discrimination irrespective of nationality, age, disability, gender, religion or sexual orientation. The NSI employee gender breakdown was 33% female (2017: 39%) and 67% male (2017: 61%). The breakdown on the Management Board was 33% female to 67% male (identical to 2017), while there was an equal 50-50 split on the Supervisory Board (2017: 40% female and 60% male).

1 GRESB is an investor-driven organisation committed to assessing the environmental, social and governance (ESG) performance of real estate assets globally, including real estate portfolios, real estate debt and infrastructure.

Human rights

NSI supports the principles laid down in the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. We believe that human rights, as defined by the United Nations in its Universal Declaration of Human Rights, are a common standard that all employers should uphold, and we encourage our employees (as well as our contractors and suppliers) to respect these rights by committing to our Code of Conduct and business integrity principles.

No issues involving human rights were reported in 2018.

Anti-corruption

NSI and its employees must act with integrity, honesty and in compliance with the laws, as stipulated in the company's Code of Conduct. The Code of Conduct also defines how employees should act when presented with gifts and provides guidance on how to prevent conflicts of interest.

The Code of Conduct is available on the company website.

The Code of Conduct contains a whistle-blower procedure that allows employees to report suspected irregularities of various kinds within NSI without jeopardising their employment. There were no issues reported in 2018.

WE ARE STRONG BELIEVERS IN THE MULTIFUNCTIONAL AREA DEVELOPMENT

Less than five years ago the Amsterdam neighbourhoods of Sloterdijk and Zuidoost had a huge surplus of office space with a vacancy rate of over 20% at the height of the crisis. Finding tenants for these less attractive areas seemed to be an impossible task.

Interview with Anne de Jong
CIO

The fast developing area Amsterdam Sloterdijk

What a difference less than five years can make. If you Google 'office crisis in Amsterdam' these days, it turns out that the crisis now refers to a shortage of suitable office space which is putting a damper on economic growth in Amsterdam.

This calls for a vision for the future, both from public authorities and private parties. NSI has this vision. "We are strong believers in the multifunctional area development that is taking place in Zuidoost and Sloterdijk," said Anne de Jong, CIO of NSI.

In line with the company's new strategy to focus more on the big four cities in the Netherlands and in particularly Amsterdam, NSI has increased its allocation to Amsterdam. Amsterdam Offices and HNK have a value of € 543 million and account for 50% of the Offices and HNK portfolio. The city currently accounts for 54% of NSI's office portfolio. 35% of the Amsterdam Offices portfolio is located on the Zuidas, 37% in Sloterdijk and 22% in Zuidoost.

Anne de Jong: "As an investor we have a vision of how the market will develop. In the Amsterdam Zuidas business district investors are falling over each other and yields are now limited. It becomes much more interesting when a market starts to turn because that is when we can add the most value. It is of course mainly about location, but it's also about the type of real estate. There are generally still plenty of meters of office space available but it's also about where today's tenant – and future tenant – wants to be located. Locations that offer the right quality and facilities."

NSI witnessed such a turnaround in Sloterdijk. "We had properties in Sloterdijk, so we were already speaking to the city about this area. We knew the city's ambitions to transform the area from a one-sided business park into a multifunctional city neighbourhood. We believe in the potential. A lot of offices have been transformed into hotels and schools and more will likely follow. And we acted on this. In 2016 we purchased Glass House, one of the largest buildings in our portfolio, and this year two more buildings followed with the acquisition of Q-Port and Motion Building."

Sloterdijk is rapidly transforming from a desolate business park with a high vacancy rate into a diverse part of Amsterdam for working, living, visiting and going out. The city wants to see fewer offices and more homes and is focusing on transforming unnecessary office space. The development and redevelopment of Sloterdijk is a textbook example of good cooperation between the city and market parties. "In this case the city has definitely

Anne de Jong
CIO

been a driving force, facilitating the development through flexible local development plans and support in office transformations."

It is worth noting that Sloterdijk is located strategically on a number of crucial transport routes with roads, railways, waterways and Schiphol Airport all nearby. Sloterdijk train station and the Westrandweg road, as well as links to the A5 and A10 motorways, make the area extremely accessible by car and public transport. Plans have been made to invest substantially in the train station in the coming years, with a new metro connection also being considered.

"Thanks to its strategic location and development into a multifunctional area, I am convinced that Sloterdijk has become a fundamentally strong office market, also in less good times." Around a quarter of all office space in the Zuidoost district of Amsterdam was also vacant in 2014 when the area was thought to be very unsafe. So what has made this market so different in 2018?

"A couple of parallels can be drawn with Sloterdijk. Zuidoost is also easily accessible, particularly for people from outside the city." Zuidoost has both a metro station and a train station, with no fewer than four motorways surrounding the area. It takes about 15 minutes to get to Schiphol Airport. "Even though Zuidoost has always had a greater mix of functions, the focus here too is increasingly on the multifunctional development of the area."

The ambitions of this multifunctional development are reflected in the city's plans. New homes, offices, a theatre and a hotel are being created in an area totalling 2.5 hectares, with a great deal of attention being paid to ensure that urban development fits within the existing area.

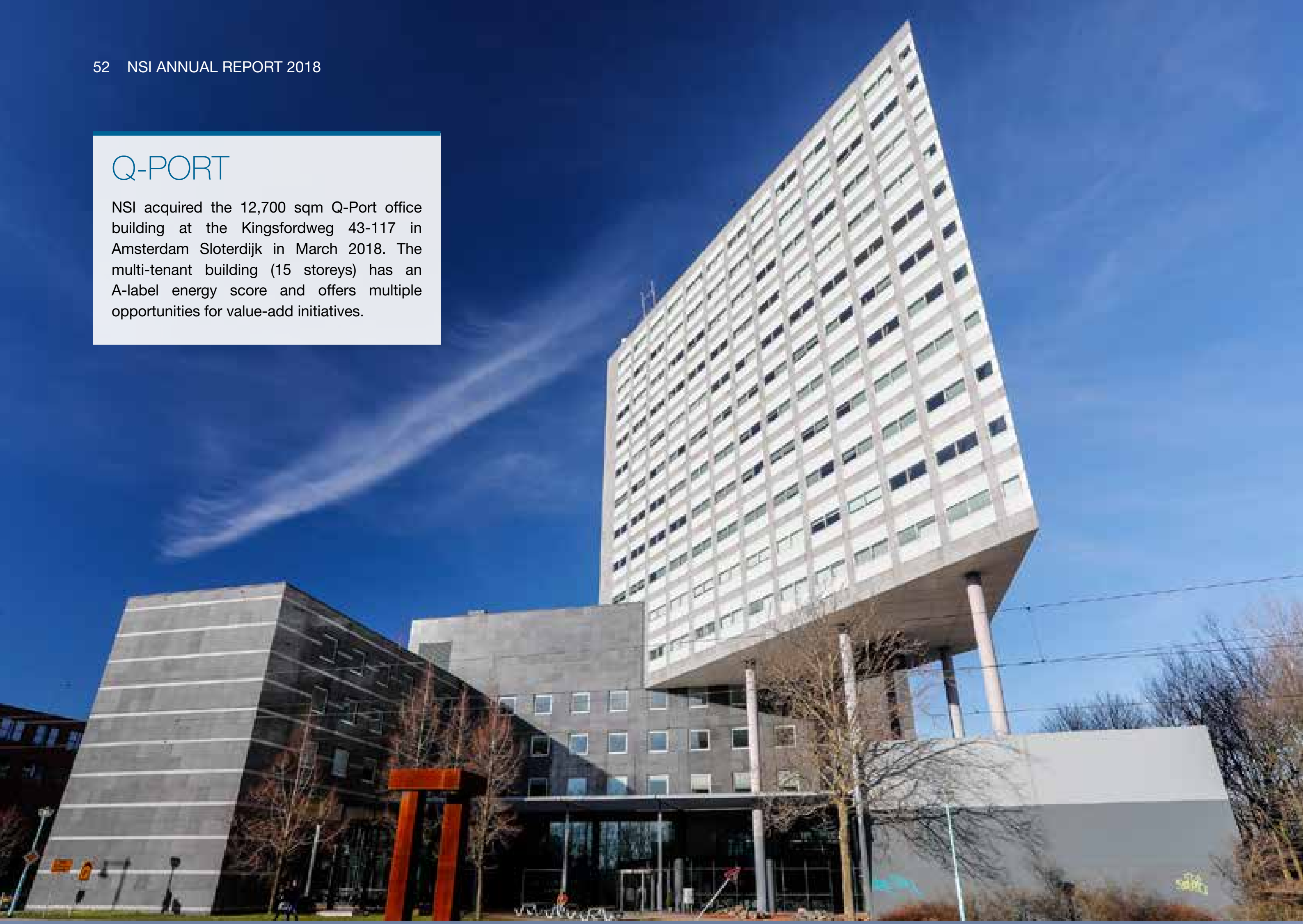
The announcement by ING Bank that it plans to transform its head office in Zuidoost into a campus that will serve as a magnet for talented people and start-ups is telling. "One of our buildings in Zuidoost is part of ING's plan and we are still in talks about that. It shows that parties are willing to invest in this area, which in turn will attract other parties and strengthen the positive dynamics."

> "Sloterdijk has become a fundamentally strong office market"

CIO Anne de Jong on the roof top of Q-Port in Amsterdam Sloterdijk, a 12,700 sqm and 15 storeys office building acquired in 2018.

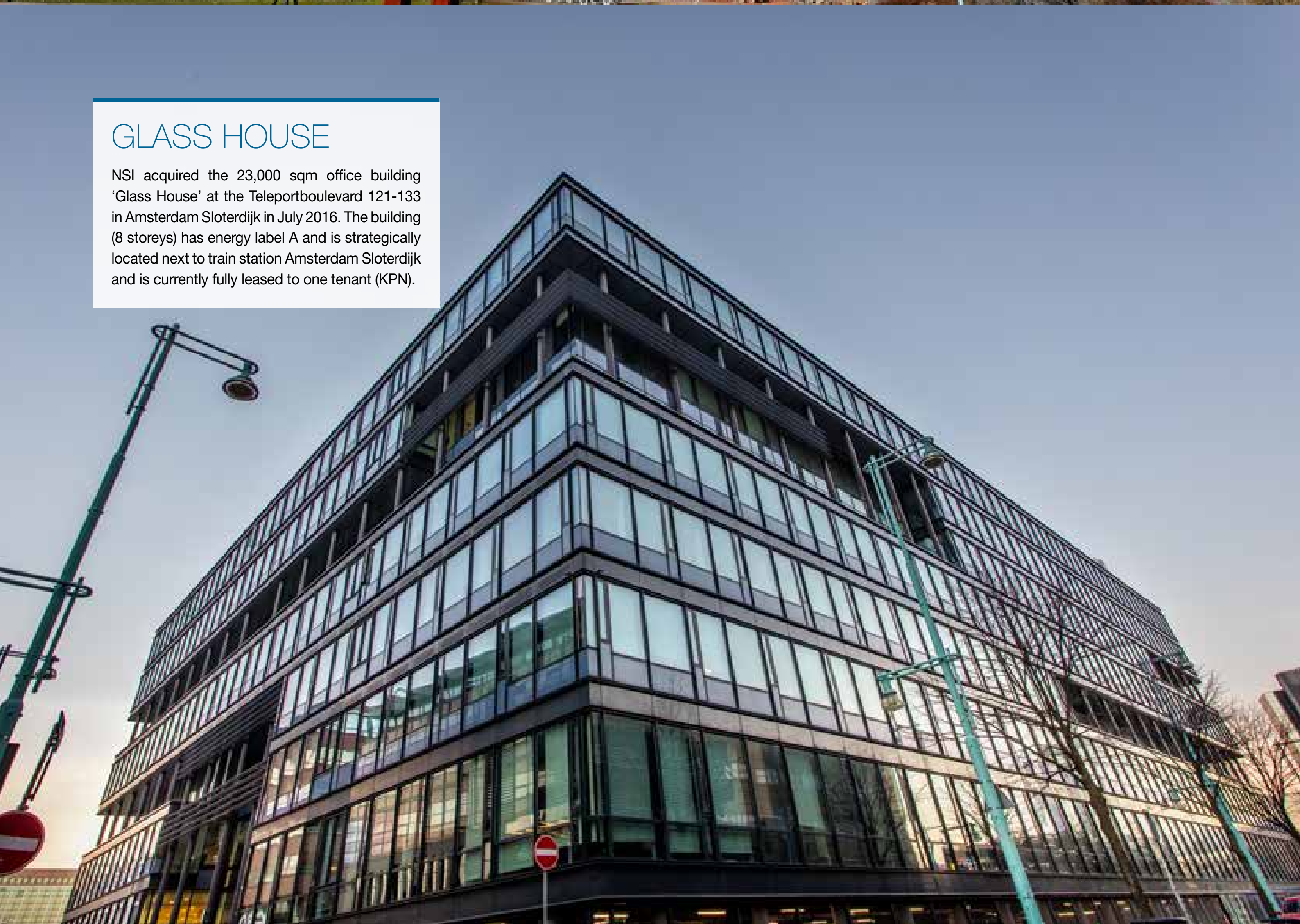
Q-PORT

NSI acquired the 12,700 sqm Q-Port office building at the Kingsfordweg 43-117 in Amsterdam Sloterdijk in March 2018. The multi-tenant building (15 storeys) has an A-label energy score and offers multiple opportunities for value-add initiatives.



GLASS HOUSE

NSI acquired the 23,000 sqm office building 'Glass House' at the Teleportboulevard 121-133 in Amsterdam Sloterdijk in July 2016. The building (8 storeys) has energy label A and is strategically located next to train station Amsterdam Sloterdijk and is currently fully leased to one tenant (KPN).



MOTION BUILDING

NSI acquired the 16,312 sqm Motion building at Radarweg 60 in Amsterdam Sloterdijk in August 2018. The multi-tenant building (10 storeys) has an A-label energy score. There are multiple opportunities to create value, from leasing up vacancy to large scale development in the future. The large car park at the back of the building may facilitate a sizable development in the medium term.

HNK ARENA

NSI started its HNK concept in Amsterdam Zuidoost (Burgemeester Stramanweg 102-108) in 2016. HNK Arena offers an inspiring multi-functional environment with stylish workplaces, meeting rooms and offices, a social heart and a wide range of services. HNK Amsterdam Arena is strategically located at the junction of the main highways A2, A9 and A10 surrounding Amsterdam, right at the exit of the A2.

CORPORATE GOVERNANCE

Introduction
NSI N.V. is a Dutch public limited liability company listed on Euronext Amsterdam and has its registered office in Amsterdam, the Netherlands. NSI has a two-tier structure, with a Management Board and a non-executive Supervisory Board. The company's highest authority is the General Meeting of Shareholders which is held at least once a year.

Capital, shares and voting rights
The authorised capital of the company is EUR 99,568,556.46, divided into 27,056,673 ordinary shares with a nominal value of EUR 3.68 each. At 31 December 2018, 18,574,298 shares were issued and fully paid up.

Shareholders have the right to cast one vote for each ordinary share held; they may cast their votes in person or by proxy. There are no restrictions on voting rights.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or restrictions on the exercise of voting rights. All shares have equal entitlement to the company's profit and reserves. NSI does not cooperate with the issuance of depositary receipts for its shares, nor does the company apply any restrictions on the transfer of its shares.

All resolutions of the General Meeting of Shareholders are passed with an absolute majority of the votes cast, unless a larger majority is required by law or under the Articles of Association.

Issuing shares
Shares may only be issued pursuant to a resolution of the General Meeting of Shareholders if it has not allocated this authority to another corporate body of the company for a period not exceeding five years. This authorisation may be extended from time to time, albeit for periods not exceeding five years. A resolution of the General Meeting to issue shares or to assign this authority to another corporate body of the company may only be made upon a proposal by the Management Board and subject to the prior approval of the Supervisory Board. The resolution of the General Meeting to allocate authority as set out above to another corporate body of the company must set out how many shares may be issued and whether the allocation may be withdrawn during the five-year period. Furthermore it must state whether such body will have the authority to exclude or limit preferential rights.

There is no employee share scheme granting rights to employees to acquire shares in the company or any of its subsidiaries.

Upon the issue of shares, each shareholder will have a preferential right to subscribe for shares being issued in proportion to the aggregate nominal amount of their existing shares, unless such right is denied by mandatory legal provisions. Shareholders have identical preferential rights in the event that rights are granted to subscribe for shares. This preferential right can be limited or excluded by the General Meeting subject to formalities prescribed by law or by the corporate body authorised to issue shares if it has been given this authority. A resolution of the General Meeting to limit or exclude preferential rights or to designate another corporate body of the company for this purpose can only take place upon a proposal by the Management Board and subject to the prior approval of the Supervisory Board.

Shareholder meetings
General Meetings of Shareholders are convened by the Management Board or the Supervisory Board. A legal term of at least 42 days applies between the convocation date of a General Meeting of Shareholders and the actual date of the meeting.

At least one General Meeting is held every year within six months of the end of the company's financial year. At the Annual General Meeting the following is discussed:
- the written report of the Management Board on the course of business of the company and the conduct of its affairs during the past financial year;
- the adoption of the annual accounts;
- the policy of the company on additions to reserves and on distributions of profits (the level and purpose of the addition to reserves, the amount of the distributions of profits and the type of distributions of profits) as well as an explanation thereto;
- any proposal to distribute profits;
- if any, each substantial change in the corporate governance structure of the company and in the compliance of the company with the Dutch corporate governance code;
- any appointments to the Management Board and
- all proposals placed on the agenda by the Management Board, including, but not limited to, the proposal to grant discharge to the members of the Management Board for their management during the financial year and any proposals submitted by shareholders in accordance with legal provisions and the Articles of Association.

Extraordinary General Meetings are held as often as the Management Board or the Supervisory Board deems necessary. Extraordinary General Meetings will also be held if the Management Board or the Supervisory Board is requested to that effect in writing by one or more holders of shares individually or jointly representing one-tenth or more of the issued capital, specifying in detail the subjects to be discussed.

All shareholders are authorised – either in person or by written proxy – to attend the General Meeting, speak at the meeting and vote provided they have notified the Management Board of their intention to attend no later than the date stated in the notice convening the meeting and in the manner stated.

The Management Board and the Supervisory Board should ensure that the general meeting is adequately provided with information. If the Management Board and the Supervisory Board decide not to provide the general meeting with all information desired with the invocation of an overriding interest on the part of the company, they must give reasons for this.

The draft minutes of the General Meeting of Shareholders are published on the company's website within three months of the date of the meeting. Shareholders are invited to submit comments on the draft minutes during a three-month period. After this period the Chairman and the Secretary of the General Meeting of Shareholders shall officially adopt and sign the minutes, taking into consideration any comments received.

The 2018 Annual General Meeting of Shareholders took place on 20 April. This meeting addressed the following topics: the 2017 annual report, the Corporate Governance structure and compliance with the revised Dutch Corporate Governance Code, the application of the remuneration policy, the adoption of the 2017 financial statements, the dividend policy of NSI and the declaration of the final dividend 2017, the discharge of the Management Board and the Supervisory Board, the composition of the Supervisory Board, the reappointment of Mr. Luurt van der Ploeg as a member of the Supervisory Board, the amendment and revision of the Remuneration policy for the Management Board, the granting of various authorities by the General Meeting of Shareholders to the Management Board and the Supervisory Board with regard to the issuance of a limited number of shares subject to certain conditions and to the restriction or exclusion of pre- emptive rights, and the authorisation to buyback a limited number of shares subject to certain conditions.

Management Board Responsibilities and reporting line

The Management Board is responsible for managing the company, for the continuity of the company, for developing a view on long-term value creation and for formulating a strategy in line with this.

When developing the strategy, the management board pays attention to the strategy's implementation and feasibility, the business model applied by the company and the market in which the company and its affiliated enterprise operate, opportunities and risks for the company, the company's operational and financial goals and their impact on its future position in relevant markets, the interests of the stakeholders and any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.

The Management Board is responsible for complying with relevant laws and regulations, for identifying and managing the risks associated with the company's strategy and activities and for financing the company.

The Management Board reports to the Supervisory Board and the General meeting of Shareholders.

Management Board Composition, division of duties and remuneration

The Management Board consists of at least two directors who are appointed by the General Meeting of Shareholders. The Management Board currently comprises three members: a chief executive officer (CEO), a chief financial officer (CFO) and a chief investment officer (CIO).

The division of duties within the Management Board as well as the Board's operating procedures are set out in the Articles of Association and the Management Board regulations. The Articles of Association and the regulations relating to the Management Board are made available on the company's website.

The Supervisory Board establishes the remuneration and other terms of service for members of the Management Board in accordance with the 'Remuneration Policy for Members of the Management Board of NSI' which is published on the website. The General Meeting determines the remuneration policy for the Management Board, in accordance with the relevant statutory provisions. The Supervisory Board makes a proposal to that end.

Supervisory Board Responsibilities and reporting line

The primary duty of the Supervisory Board is to supervise the management exercised by the Management Board and the general developments at the company and its affiliated enterprise, as well as to advise the Management Board. In the performance of its duties, the Supervisory Board focuses on the interests of the company and its affiliated enterprise and on the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial reporting.

In its monitoring, the Supervisory Board focuses on the strategy for realizing long-term value creation which has been established for this purpose as well as the targets derived from this strategy. The Supervisory Board also monitors the process of acquiring, divesting and investing in real estate, the financial reporting process, and compliance with laws and regulations. Lastly, the Supervisory Board is involved in preparing the company's remuneration policy and determining the individual remuneration of individual managing directors within the framework of the remuneration policy approved by the General Meeting of Shareholders.

The Supervisory Board monitors the internal control structure and procedures and the assessment of the risks faced by the company and its subsidiaries. During 2018 the systems and procedures functioned in accordance with their intended purpose and there were no issues that raised doubt as to whether the internal control structure and procedures functioned adequately.

In accordance with its regulations, the Supervisory Board is responsible for decision-making in dealing with existing or potential conflicts of interest between Management Board members, Supervisory Board members and the external auditor, on the one hand, and the company, on the other. Under the provisions of the Dutch Financial Supervision Act (Wet op het financieel toezicht or Wft) and EU-IFRS, the item 'related parties' in the annual financial statements specifies transactions between the company and related parties, including members of the Management Board and the Supervisory Board, as well as transactions involving one or more related parties. The item also states to what extent such transactions were entered into at market conditions. No such transactions between the company and related parties took place in the 2018 financial year.

The Supervisory Board reports to the General meeting of Shareholders.

Supervisory Board Composition, division of duties and remuneration

In accordance with the company's Articles of Association, the Supervisory Board consists of at least three members who are appointed by the General Meeting of Shareholders. The Supervisory Board currently comprises four members.

The Supervisory Board is composed in such a way that its members can operate independently and critically with regard to each other, the Management Board and any interest group. All of the Supervisory Board members are currently independent within the meaning of best practice provision 2.1.8 of the Dutch Corporate Governance Code. A supervisory director is considered to be independent if the dependence criteria stated in the Code do not apply. One of the members of the Supervisory Board is a shareholder in ICAMAP Investments SARL, which is holding more than 10.0% of NSI shares as per 31 December 2018. This company has invested in NSI with a view to a long-term commitment and the respective Supervisory Board member actively ensures that no transactions in NSI shares take place during the closed periods and during periods when the member of the Supervisory Board has inside information at its disposal which has not yet been made public by the company.

The General Meeting of Shareholders appoints the Supervisory Board members and sets their remuneration. Proposals to the General Meeting of Shareholders for appointment or reappointment are supported on adequate grounds. In case of a reappointment, the performance and operation of the candidate in his or her capacity of Supervisory Board member is taken into account. The Articles of Association and the regulations governing the Supervisory Board state that the members of the Supervisory Board may be appointed for a term of no more than four years and reappointed once for term of no more than four years. After this time a member can be reappointed for a term of no more than two years, with the possibility of reappointment for a term of not more than two years for each reappointment. A decision by the General Meeting of Shareholders to dismiss or suspend a Supervisory Board member can be taken by a two-thirds majority of votes in a meeting at which over 50% of the issued capital is represented.

The division of duties within the Supervisory Board as well as its operating procedures are laid down in the company's Articles of Association and the Supervisory Board regulations, both of which are made available on the company's website. The Supervisory Board has appointed an Audit Committee, a Remuneration Committee, a Selection and Appointment Committee, and a Real Estate Committee from within its ranks. The regulations of these committees can also be accessed via the website.

External auditor

The external auditor is appointed by the General Meeting of Shareholders and attends the meeting of the Supervisory Board at which the financial statements are discussed and adopted in the presence of the Management Board. NSI publishes the audited annual figures and reviewed semi-annual figures. NSI publishes a trading update for the first and third quarters, neither of which is reviewed or audited by the external auditor.

The General Meeting of Shareholders may ask the external auditor questions about the auditor's report relating to the reliability of the financial statements. The external auditor may address the meeting on this subject. PwC was appointed as NSI's external auditor in 2016.

Corporate Governance Code

As a public limited liability company in the Netherlands, NSI is subject to the Dutch Corporate Governance Code. The current Corporate Governance Code was published on 8 December 2016 and came into force with effect from the financial year commencing on 1 January 2017.

An overview of the manner in which the company complies with the provisions of the Dutch Corporate Governance Code and an explanation why or where the company derogates from best practice provisions is published on the company website.

NSI complies with all best practice provisions of the Dutch Corporate Governance Code, with the exception of best practice provision 1.3.1.; as is the case with the majority of listed small cap companies in the Netherlands, NSI has not appointed an internal auditor as specified in best practice provision 1.3.1. The supervisory board assesses annually whether adequate alternative measures have been taken, partly on the basis of a recommendation issued by the audit committee, and considers whether it is necessary to establish an internal audit department and includes the conclusions, along with any resulting recommendations and alternative measures, in the report of the supervisory board.

Compliance

The NSI Code of Conduct outlines the main integrity risks NSI may encounter in its business and the way it wishes to deal with these risks. The Code of Conduct contains a whistle blowers policy. NSI has a mature, open culture that encourages employees to speak up. Several compliance- related issues and dilemmas that were brought up in 2018 were dealt with by the Compliance Officer directly or were discussed in management meetings with the aim of establishing policies.
There was no breach of the Code of Conduct in 2018.

Diversity

NSI's diversity policy targets a Management Board that is composed in a balanced way. The board is considered to be composed in a balanced way if at least 30% of the seats on the board are occupied by women and at least 30% by men. In 2018 33.3% of the Management Board consisted of women and 66.7% of men.

The Supervisory board profile addresses the desired expertise and background of the Supervisory Board members, the desired diverse composition of the Supervisory Board, the size of the Supervisory Board and the independence of the Supervisory Board members. The profile of the Supervisory Board includes a target for 30% of the board to be composed of women. At the start of 2018 40% of the Supervisory Board consisted of women and 60% of men. Since the General Meeting of Shareholders of 20 April 2018, 50% of the Supervisory Board has consisted of women and 50% of men.

The Supervisory Board strives to achieve a situation in which the experience and expertise of its members are appropriate in relation to the strategy and operations of NSI. The experience and expertise of the individual Supervisory Board members is detailed on pages 63 and 64 of this annual report.

Further information regarding Decision on Article 10 of Takeover Directive

Notifications pursuant to the Dutch Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions Act were received from holders of ordinary shares representing more than 3% of the company's capital.

According to the most recent notifications, these interests were as follows:

	31 December 2018	31 December 2017
ICAMAP Investments SARL	10.0%	5.0%
BlackRock, Inc.	5.0%	4.7%
Phoenix Insurance Company Ltd.	3.7%	3.7%
APG Asset Management N.V.	3.3%	
Axa Investment Managers S.A.	3.0%	3.0%
Norges Bank	3.0%	3.0%

DETAILS OF THE BOARD OF MANAGEMENT

Mr B.A. Stahli (1971)
CEO of NSI

Nationality Dutch

Previous positions Head of European Real Estate and member of the Management Team at Kempen & Co Securities, Head of European Real Estate Research at Merrill Lynch London, Head of Global Real Estate Securities Fund at Aegon, Analyst US and Portfolio Manager Asia Real Estate Securities at APG

Education Economics at the Vrije University Amsterdam, CFA Charterholder, CFA Institute

First appointment 1 September 2016

Current term To 31 August 2020

Mrs A.A. de Jong (1975)
CFO of NSI

Nationality Dutch

Previous positions Several management positions at Schiphol Real Estate, a subsidiary of Schiphol Group, including Manager Portfolio Management, Business Area Controller and Senior Business Controller, Audit Manager at international business unit of Audit & Assurance at PwC

Education Business Administration for the Financial Sector at the Vrije University Amsterdam, Chartered Accounting at the Vrije University Amsterdam

First appointment 15 September 2017

Current term To 14 September 2021

Mr A. de Jong (1970)
CIO of NSI

Nationality Dutch

Previous positions Portfolio Director CBRE Dutch Office fund, Portfolio Manager Offices CBRE Global Investors, Portfolio Manager Offices ING Real Estate Investment management, several positions at MN Services

Education Economics at University of Amsterdam, Investment Management (VBA), University of Amsterdam

First appointment 1 May 2016

Current term To 30 April 2020

REPORT OF THE SUPERVISORY BOARD

To the General Meeting of Shareholders

We, the Supervisory Board of NSI N.V. (NSI), hereby present you with the annual report prepared by the Management Board for the 2018 financial year. PricewaterhouseCoopers Accountants N.V. has audited the financial statements and has issued an unqualified opinion (page 112-117). We will recommend that the financial statements be adopted at the General Meeting of Shareholders on Wednesday 17 April 2019. The discharge of the Management Board in respect of the policy pursued in 2018 and of the Supervisory Board from the supervision it provided in 2018 will be addressed as separate agenda items at the General Meeting of Shareholders.

Composition of the Supervisory Board

At the General Meeting of Shareholders on 20 April 2018 Chairman Luurt van der Ploeg was reappointed as a member of the Supervisory Board. Vice Chairman Nico Tates resigned from the Supervisory Board after having served the company and the Board for four years. The Supervisory Board subsequently appointed Karin Koks-Van der Sluijs as Vice Chair.

Resignation rota for Supervisory Board members

	First appointment	End of current term	End of Ultimate term
Luurt van der Ploeg	2014	2022	2026
Karin Koks- Van der Sluijs	2016	2020	2028
Harm Meijer	2016	2020	2028
Margreet Haandrikman	2017	2021	2029

Duties and independence

The role and responsibilities of the Supervisory Board, its composition and how it carries out its duties are specified in the Supervisory Board regulations which are posted on the company's website. A summary of the duties of the Supervisory Board can be found in the Corporate Governance section (pages 54-57).

In the opinion of the Supervisory Board the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code have been fulfilled. In relation to best practice provision 2.1.8.vi it is noted that Mr. Meijer isa shareholder in ICAMAP Investments SARL, which is holding more than 10% of the shares in NSI. As of the date of publication of this report, Mr Meijer held no shares in NSI.

Meetings and attendance

The Supervisory Board met on seven occasions for regular meetings during the year under review. The attendance rate at these meetings was 100%. Regular Supervisory Board meetings commence with a preparatory meeting which is held without the Management Board being present, after which the members of the Management Board attend the rest of the meeting. The attendance rate at the committee meetings was also 100%.

During the year under review the Supervisory Board held two conference calls with the Management Board about proposed acquisitions, one conference call with the Management Board to discuss a quarterly update and two internal conference calls about the revision of the remuneration policy for the Management Board.

Report of the activities of the Supervisory Board

The general state of affairs and the company's financial position were discussed at all regular meetings. Furthermore, there were discussions with the Management Board on various occasions regarding the implementation of the long-term value creation strategy, the implementation of the business plan, the budget and targets, shareholder relations, acquisitions and disposals, development projects and the main risks associated with the company. Developments in the real estate markets and the effects on the composition of the real estate portfolio as well as the occupancy rate were frequently discussed and assessed. Matters including the value of real estate and the valuation methodology, the system of internal controls and risk control procedures, and corporate governance also have the Supervisory Board's constant attention.

In the second half of 2018 the Supervisory Board discussed the strategy and the view of the Management Board on the company's long-term value creation. The Management Board drew up a business plan for 2019 – 2021 and a budget for 2019 in accordance with this view. The 2019 – 2021 business plan is based on a total return and cost efficiency approach, focusing on Offices and HNK, growth markets (i.e. the four largest cities in the Netherlands – known as the G4 – and selective other locations) and value-adding initiatives (including development), as well as on the the disposal of remaining non-core assets.

The Supervisory Board meetings of 15 October 2018 and 12 December 2018 were specifically dedicated to long-term value creation and the strategy as well as the preparation of the business plan for 2019 – 2021 and the budget for 2019. The meetings also focused on the company's operational and financial goals and their impact on NSI's future position in the real estate market, the interests of stakeholders and other aspects important to the company, such as sustainability.

There are several mechanisms in place that enable the Supervisory Board to monitor the implementation of the strategy.

Asset Business Plans that deal with all major assets are discussed on a regular basis with the Real Estate Committee.

Important decisions on matters including acquisitions, investments and disposals above a certain threshold require prior approval from the Supervisory Board. During the approval process the Supervisory Board assesses whether the proposed decision contributes to the implementation of the strategy. The Supervisory Board meetings and conference calls of 20 March 2018, 19 June 2018, 18 July 2018 and 4 October 2018 dealt with the acquisition of offices in Amsterdam, The Hague and Utrecht and various development and redevelopment opportunities.

During the first three quarters of the year under review the Supervisory Board regularly discussed the status of a plan by the Dutch government to abolish dividend tax and phase out the possibility of direct investment in real estate held by Dutch REITs (*fiscale beleggingsinstellingen* or *FBIs*) such as NSI, as well as any countermeasures NSI could take to mitigate the consequences. On 15 October 2018 the Dutch government announced it was withdrawing the plan.

At the meeting of 12 December 2018 the Supervisory Board discussed the other positions held by the members of the Management Board and Supervisory Board, and the Supervisory Board's ideas for further education and training.

Evaluations

On 29 January 2018 the Supervisory Board performed an evaluation of its own functioning and that of its committees under the guidance of an external party. For this evaluation the Supervisory Board also considered feedback from the Management Board and the Corporate Secretary. The conclusions of this evaluation were used to determine the effectiveness of the Supervisory Board and its committees and to increase the number of meetings, allowing more time for general strategic discussions and direct contact with middle management and to propose to the General Meeting of Shareholders to reduce the number of Supervisory Board members from five to four.

On 18 July 2018 the Supervisory Board further discussed the functioning of the committees and the division of committee chairs and memberships due to the appointment of a new Vice Chair. The Supervisory Board concluded that the Committees play an important role in the preparation of the meetings and decisions of the Supervisory Board. The focus of the Audit Committee is on fulfilling the critical constructive supervisory role of the Board, whereas the Real Estate Committee also plays an important advisory role and functions as a sounding board for the Management Board. The Heads of Asset Management and Transactions also participate in the Real Estate Committee meetings, giving the Supervisory Board direct contact to middle management. The mechanism whereby the Real Estate Committee is involved at an early stage in all material acquisitions, divestments and investments, either to decide up to the defined threshold on behalf of the Supervisory Board or to advise the Supervisory Board on major transactions above a defined threshold, functions well and contributes to the execution power and efficiency of the company.

On 29 January 2018 the Supervisory Board discussed the functioning of the Management Board as a whole and of the individual members of the Management Board. The conclusions of these evaluations were shared with the Management Board. These were also used to decide on the KPI score of the personal targets under the Long Term Share Plan and as input for the target setting for the Management Board for 2018.

Internal Audit function

NSI has no separate department to perform the internal audit function. The Supervisory Board assesses annually whether adequate alternative measures have been taken and whether it is necessary to establish an internal audit department. In the meeting of 12 December 2018 the Supervisory Board discussed the report of the Audit Committee about the effectiveness of the internal and external audit function. In line with a recommendation by the Audit Committee issued in consultation with the external auditor and the Management Board, the Supervisory Board has considered that NSI has only 44 FTEs, no activities outside the Netherlands, and operates in a very limited number of market segments. Given the fact that NSI uses external expertise to conduct internal audits based on an audit plan that is composed in consultation with the Audit Committee, the Supervisory Board is of the opinion that adequate alternative measures have been taken and that there is therefore no need to establish an internal audit department for this purpose. In accordance with a planning approved by the Supervisory Board a number of internal audits will be conducted under the supervision of the CFO in 2019.

Dividend policy

The current dividend policy, adopted by the General Meeting of Shareholders in 2014, stipulates that:

- at least 75% of the direct result is distributed.
- for practical reasons a dividend is distributed twice a year: an interim divided after the first six months and a final dividend following adoption by the General Meeting of Shareholders.

On 17 April 2018 the Supervisory Board authorised the issuance of shares for those shareholders who opted for distribution of the final dividend for 2017 in shares. The General Meeting of Shareholders approved the issuance on 20 April 2018.

On 18 July 2018 the Supervisory Board approved the interim dividend for 2018 and authorised the issuance of shares for those shareholders who opted for distribution of the interim dividend for 2018 in shares.

2018 final dividend proposal

In line with the applicable dividend policy (i.e. a payout of at least 75% of the direct result), NSI is proposing a final dividend for 2018 of € 1.12 per share. That brings the total dividend for 2018 to € 2.16 per share, of which € 1.04 per share was distributed as an interim dividend on 13 August 2018.

NSI is offering shareholders the option to receive the final dividend in cash and/or fully or partly in shares. The voluntary nature of this option provides more possibilities for shareholders while enabling NSI to retain liquidity in the company. This cash can then be used for investment or loan repayment purposes. Provided that the General Meeting of Shareholders approves this dividend proposal, the final dividend will be payable on 14 May 2019.

Supervisory Board committees

The Supervisory Board has four committees in place to optimise the operation of the Board: the Remuneration Committee, the Selection and Appointment Committee, the Audit Committee and the Real Estate Committee.

Remuneration Committee

On 31 December 2018 the Remuneration Committee consisted of Karin Koks-Van der Sluijs (Chair) and Luurt van der Ploeg (member).

The role and responsibilities of the Remuneration Committee, its composition and how it carries out its duties are specified in the Remuneration Committee regulations which are posted on the company's website. In 2018 the Remuneration Committee was particularly involved in the revision of the remuneration policy of the Management Board.

Revised remuneration policy

A revision of the remuneration policy of the Management Board was announced at the General Meeting of Shareholders on 20 April 2018. Within the context of this revision the Remuneration Committee had two regular meetings, six telephone conferences, four meetings with external advisors, three meetings and two conference calls with the Supervisory Board and three meetings with the Management Board in the period between 20 April 2018 and the end of February 2019 resulting in a new policy that will be discussed and voted on in the General Meeting of Shareholders on 17 April 2019.

The objective has been to align the remuneration policy with developments in legislation, governance, practices at other listed companies, and the interests of NSI and its shareholders. The revision was also aimed at synchronising the duration of the long-term incentive plans to create more alignment between the members of the Management Board and to introduce a short-term incentive component. The views of the Management Board members regarding the structure and level of their own remuneration were taken into account in drafting the new remuneration policy.

The level of total direct compensation for the members of the Management Board of NSI was determined based on both the remuneration levels of comparable listed companies in the Dutch marketplace and the (internal) pay levels within the company. Reference companies were selected based on their market capitalisation and, insofar as available, comparable business operations. This resulted in a reference group consisting of a total of 19 companies.

In determining the remuneration level for the Management Board, the Remuneration Committee took not only the external positioning into account but also the internal pay ratios within the company. This refers in particular to the step differential between the CFO and the internal level just below the Board of Management and the step differential between the CEO and the CFO.

In view of the nature of the business of NSI, the objective to have trusted Board members for the long term, and the desire to avoid excessive risks, the proposed new policy applies a pay mix with a solid base salary and a variable pay level that is high enough to create a drive for excellent performance and low enough to guarantee risk control. For the CEO this means a target short-term incentive of 20% of the base salary and a target long-term incentive of 60% of the base salary, reflecting the focus of the CEO on NSI's long-term achievements. For the CIO and the CFO NSI aims to have an equal focus on the short term and the long term, resulting in a target short-term incentive of 30% of the base salary and a target long-term incentive of 30% of the base salary.

Performance measures are predominantly geared towards the long term and are linked to both financial and non-financial criteria. The previous long-term incentive, the Long-Term Share Plan, had a mix of personal targets and targets related to Total Shareholder Return (TSR). Under the new policy the Long-Term Incentive is fully based on relative TSR performance using a large EPRA-based peer group. Personal targets are now part of the Short-Term Incentive where they are combined with yearly targets with respect to the most important achievement areas of the company needed for sustainable value creation.

To further stimulate long-term value creation, a shareholding requirement to align the interests of the members of the Management Board with the interests of the company's shareholders has been introduced into the proposed remuneration policy.

The Remuneration Committee had two joint meetings with the Selection and Appointment Committee in the year under review to discuss the establishment of individual targets for 2018 linked to the Long-Term Share Plan (LTSP) of the members of the Management Board, as well as the performance of the members of the Management Board with respect to their individual targets for 2017 linked to their LTSP.

Remuneration report

The remuneration report, including the pay ratio, is posted on the company's website.

Selection and Appointment Committee

On 31 December 2018 the Selection and Appointment Committee consisted of Karin Koks-Van der Sluijs (Chair) and Luurt van der Ploeg (member).

The role and responsibilities of the Selection and Appointment Committee, its composition and how it carries out its duties are specified in the Selection and Appointment Committee regulations which are posted on the company's website.

The Selection and Appointment Committee had two meetings with the Remuneration Committee in the year under review to discuss the establishment of the 2018 individual targets for the members of the Management Board linked to their Long-Term Share Plan (LTSP) and the achievement of the 2017 individual targets of the members of the Management Board linked to their LTSP.

Audit Committee

On 31 December 2018 the Audit Committee consisted of Margreet Haandrikman (Chair) and Karin Koks-Van der Sluijs (member). The Audit Committee met on six occasions in the year under review.
The role and responsibilities of the Audit Committee, its composition and how it carries out its duties are specified in the Audit Committee regulations which are posted on the company's website.

Audit Committee meetings pay special attention to the opportunities and risks that the company faces.

The Audit Committee regularly confers with the external auditor, of which at least once a year without the presence of the Management Board.

The Audit Committee assesses the need for an internal auditor annually and makes a proposal to the Supervisory Board for a recommendation to the Board of Management.

In 2018 the Audit Committee discussed and was particularly involved in the assessment and/or monitoring of:

a the operation of the internal risk management and control systems, as well as the probability and impact of certain risks;
b compliance with relevant legislation and regulations such as the newly implemented General Data Protection Regulation as well as compliance with the code of conduct and the update of the code of conduct;
c the provision of financial information by the company, including the discussion of position papers on the proper application of IFRS standards and the consequences of changes to certain IFRS standards;
d the internal audit plan for 2018 and internal audit findings;
e the relationship with the external auditor as well as discussions about the 2018 audit plan, the audit report and the management letter of the external auditor, compliance with recommendations from and the follow-up of remarks by the external auditor, also with regard to ICT systems;
f the application of information and communication technology and measures to improve cybersecurity;
g the improvement of internal processes such as the procurement process;
h the independence of the external appraisers and a system to rotate external appraisers;
i simplification of the corporate structure aimed at substantially reducing the number of legal entities within the NSI Group;
j refinancing of existing loan facilities including a restructuring of swaps.

Real Estate Committee

On 31 December 2018 the Real Estate Committee consisted of Harm Meijer (Chair) and Karin Koks-Van der Sluijs (member).

The role and responsibilities of the Real Estate Committee, its composition and how it carries out its duties are specified in the Real Estate Committee regulations which are posted on the company's website. Real Estate Committee meetings pay special attention to the feasibility of the strategy, the implementation of the business model, and the real estate market.

The Real Estate Committee met with the Management Board on six occasions in the year under review, had seven conference calls and frequent interactions between meetings. The Real Estate Committee was also present during the Capital Markets Day.

In 2018 the Real Estate Committee was particularly involved in:

a evaluating proposed management decisions, specifically with regard to real estate transactions (acquisitions, disposals and investments);
b advising the Supervisory Board on the acquisition of four office buildings: Q-Port and Motion in Amsterdam, Bentinck Huis in The Hague and Jacobsweerd in Utrecht;
c approving the acquisition of an asset that will expand NSI's cluster of assets in the Bio Science Park in Leiden (transferred in 2019);
d discussing and approving the disposal of a number of non-core assets;
e discussing two potential development opportunities in Amsterdam South East (Laanderpoort and Centerpoint) and one potential development opportunity in Amsterdam Sloterdijk (Motion);
f meeting regularly with management to discuss the portfolio strategy, hold/sell analyses, market updates, occupancy;
g holding discussions with management with regard to the HNK strategy, positioning, product offering, cost structure and returns, and organisation;
h assessing asset plans for all major offices and HNKs;
i the methodology for preparing yield calculations and the applicable thresholds for acquisitions;
j several site visits in the context of acquisitions.

In conclusion

2018 was a year of further streamlining the organisation and of many transactions en route to a more concentrated office portfolio that required hard work and commitment from the Management Board and employees alike. The Supervisory Board wishes to express its gratitude for the efforts they made and successes they realised in the year under review.

Hoofddorp, 6 March 2019

The Supervisory Board

Luurt van der Ploeg, *Chair*
Karin Koks-Van der Sluijs, *Vice Chair*
Margreet Haandrikman
Harm Meijer

DETAILS OF THE SUPERVISORY BOARD

Mr L.A.S. van der Ploeg (1970)
Chairman

Nationality Dutch

Current position CFO VolkerWessels Bouw & Vastgoedontwikkeling B.V.

Additional positions Chairman Supervisory Board Housing association Haag Wonen, Supervisory Board member Dunea N.V., Member of committee of Association of Supervisors housing corporations, Member of the Curatorium of the Erasmus School of Accounting & Assurance

First appointment 2014

Current term To 2022

Mrs K.M. Koks - Van der Sluijs (1968)
Vice Chairman

Nationality Dutch

Current position Independent board member and advisor

Additional positions Non-executive board member Genesta Nordic Capital Fund Management, Chairman Investment Committee for the Value Add Fund and Core Plus Fund for Genesta Nordic Real Estate, Non-executive board member and member of the Audit Committee and the Investment Committee of Immobel (Compagnie Immobiliere de Belgique SA), of Immobel, Director of Iberia Shopping Centre Venture Coöperatief U.A

First appointment 2016

Current term To 2020

Mr H.M.M. Meijer (1975)

Nationality Dutch

Current position Founding partner of ICAMAP, Board Member and Managing Director at ICAMAP Advisory

Additional positions Non-executive Board member of EasyHotel plc

First appointment 2016

Current term To 2020

Mrs G.M. Haandrikman (1965)

Nationality Dutch

Current position Independent supervisory board member and advisor

Additional positions Chairman of the Supervisory Board De Onderlinge van 1719 UA , Member of the Supervisory Board Monuta, Member of the Supervisory Board and Chairman Audit Committee De Regenboog Groep, Member of the Supervisory Board Centramed, Member of the Supervisory Board and Chair Audit and Risk Committee Scildon, Member of the Supervisory Board Waard Verzekeringen (part of the Chesnara Group (UK)), Member of the Supervisory Board Stichting Pensioenfondsen Huisartsen

First appointment 2017

Current term To 2021

CONTENT

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note		2018		2017
Gross rental income	2		83,721		89,000
Service costs recharged to tenants		13,465		11,983	
Service costs		-14,702		-14,058	
Service costs not recharged	2		-1,237		-2,075
Operating costs	2, 3		-13,256		-12,457
Net rental income			**69,228**		**74,468**
Revaluation of investment property	4		46,418		28,329
Net result on sale of investment property	5		841		6,064
Net result from investments			**116,488**		**108,861**
Administrative costs	6		-7,950		-9,170
Other income and costs	7		18		5,548
Financing income		27		12	
Financing costs		-12,532		-15,871	
Movement in market value of derivative financial instruments		-4,497		3,658	
Net financing result	8		-17,003		-12,201
Result before tax			**91,553**		**93,037**
Corporate income tax	9		-28		-91
Result from continuing operations after tax			**91,525**		**92,946**
Result from discontinued operations after tax	10				-1,344
Total result for the year			**91,525**		**91,602**
Exchange rate differences on foreign participations			0		
Other comprehensive income			**0**		
Total comprehensive income for the year			**91,525**		**91,602**
Total comprehensive income attributable to:					
Shareholders			91,525		91,602
Total comprehensive income for the year			**91,525**		**91,602**
Data per average outstanding share:					
Diluted as well as non-diluted result after tax - continuing operations			4.95		5.13
Diluted as well as non-diluted result after tax - discontinued operations					-0.07
Diluted as well as non-diluted result after tax			4.95		5.05

The notes on pages 70 - 103 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
Assets			
Investment property	11	1,202,691	1,072,180
Derivative financial instruments	20	323	1,162
Tangible fixed assets	12	777	787
Intangible fixed assets	13	510	560
Other non-current assets	14	6,319	6,134
Non-current assets		**1,210,619**	**1,080,822**
Debtors and other receivables	15	1,755	1,829
Cash and cash equivalents	16	245	6,827
Assets held for sale	17	3,940	28,791
Current assets		**5,940**	**37,447**
Total assets		**1,216,559**	**1,118,269**
Shareholders' equity			
Issued share capital	18	68,353	67,583
Share premium reserve	18	920,935	921,715
Other reserves	18	-347,531	-408,212
Total result for the year		91,525	91,602
Shareholders' equity		**733,283**	**672,688**
Liabilities			
Interest bearing loans	19	436,407	404,708
Derivative financial instruments	20	5,327	1,712
Other non-current liabilities	21	4,080	3,540
Non-current liabilities		**445,813**	**409,959**
Redemption requirement interest bearing loans	19	1,250	700
Derivative financial instruments	20	43	
Creditors and other payables	22	25,602	24,855
Debts to credit institutions	23	10,497	9,873
Liabilities directly associated with assets held for sale		71	195
Current liabilities		**37,464**	**35,623**
Total liabilities		**483,277**	**445,582**
Total shareholders' equity and liabilities		**1,216,559**	**1,118,269**

The notes on pages 70 - 103 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes		2018		2017
Result from operations after tax			91,525		92,946
Adjusted for:					
Revaluation of investment property	4	-46,418		-28,329	
Net result on sale of investment property	5	-841		-6,064	
Net financing result	8	17,003		12,201	
Corporate income tax	9	28		91	
Depreciation and amortisation	6	223		162	
			-30,005		-21,939
Movements in working capital:					
Debtors and other receivables		-88		764	
Creditors and other payables		1,015		-3,744	
			927		-2,980
Cash flow from operating activities			**62,447**		**68,027**
Financing income received			27		12
Financing costs paid			-9,750		-15,093
Settlement of derivative financial instruments					-11,089
Tax paid			-57		-78
Cash flow from continuing operating activities			**52,666**		**41,779**
Cash flow from discontinued operating activities	10				-49
Cash flow from operating activities			**52,666**		**41,730**
Purchases of investment property and subsequent expenditure	11, 17		-178,539		-155,195
Proceeds from sale of investment property	11, 17		120,139		240,623
Investments in tangible fixed assets	12		-58		-76
Disinvestments in tangible fixed assets	12				15
Investments in intangible fixed assets	13		-104		-466
Disinvestments in intangible fixed assets	13				12
Cash flow from continuing investment activities			**-58,563**		**84,912**
Cash flow from discontinued investment activities	10				1,394
Cash flow from investment activities			**-58,563**		**86,306**
Dividend paid to the company's shareholders			-31,887		-23,169
Proceeds from interest bearing loans	19		519,712		99,000
Transaction costs interest bearing loans paid			-1,297		
Repayment of interest bearing loans	19		-487,838		-205,550
Cash flow from continuing financing activities			**-1,309**		**-129,719**
Cash flow from financing activities			**-1,309**		**-129,719**
Net cash flow			**-7,206**		**-1,683**
Cash and cash equivalents and debts to credit institutions - balance as per 1 January			**-3,046**		**-1,363**
Exchange rate differences			0		0
Cash and cash equivalents and debts to credit institutions - balance as per 31 December			**-10,252**		**-3,046**

The notes on pages 70 - 103 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2018

	Issued share capital	Share premium reserve	Other reserves	Result for the year	Shareholders' equity
Balance as per 31 December 2017	**67,583**	**921,715**	**-408,212**	**91,602**	**672,688**
Change in accounting policy following IFRS 9			956		956
Balance as per 1 January 2018	**67,583**	**921,715**	**-407,256**	**91,602**	**673,644**
Total result for the year				91,525	91,525
Other comprehensive income			0		0
Total comprehensive income for the year			**0**	**91,525**	**91,525**
Profit appropriation – 2017			91,602	-91,602	
Distribution final dividend – 2017	402	-407	-16,407		-16,412
Interim dividend – 2018	368	-373	-15,469		-15,474
Contributions from and to shareholders	**770**	**-780**	**59,725**	**-91,602**	**-31,887**
Balance as per 31 December 2018	**68,353**	**920,935**	**-347,531**	**91,525**	**733,283**

2017

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

The notes on pages 70 - 103 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY

NSI N.V. (hereinafter 'NSI', or the 'company'), with its principal place of business in Antareslaan 69-75, 3132 JE Hoofddorp, the Netherlands and its registered office in Amsterdam, the Netherlands is a property investment company, primarily focussing on offices.
These consolidated financial statements are presented for the company and its subsidiaries (together referred to as the 'Group').

The company is licensed pursuant to the Dutch Financial Supervision Act (Wet op het financiële toezicht). NSI N.V. is listed on Euronext Amsterdam.

BASIS OF PREPARATION

Statement of compliance
The financial statements have been prepared in accordance with International Reporting Standards (IFRS), as adopted by the European Union (EU-IFRS) and with Title 9 of Book 2 of the Dutch Civil Code.

The financial statements were prepared by the Company's Management and approved by the Supervisory Board on 6 March 2019. The financial statements will be submitted to the General Meeting of Shareholders on 17 April 2019 for adoption.

Unless stated otherwise, all amounts in the financial statements are in thousands of euros, the euro being the company's functional currency, and are rounded off to the nearest thousand. There could be minor rounding off differences between in the figures presented.

Valuation principles
The financial statements have been prepared on the basis of historical cost except for investment property, investment property under construction and assets held for sale and derivative financial instruments, which are recognised at fair value.

The accounting principles applied to the valuation of assets and liabilities and the determination of results in financial statements are based on the assumption of continuity (going concern) of the company.

At the end of 2018 NSI had a negative working capital position. However, this does not impact the assumption of continuity as NSI still has a remaining committed undrawn credit facility amply exceeding this negative working capital.

Assumptions and estimation uncertainties
The preparation of the financial statements requires that the Management Board forms opinions, estimates and assumptions that affect the application of accounting principles and reported figures for assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

Measurement at fair value
A number of accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.
Significant valuation issues are reported to the company's audit committee.

In measuring the fair value of an asset or a liability, the company uses observable market data as much as possible. Fair value measurements are categorized into different levels of a fair value hierarchy based on the inputs applied to the valuation techniques. The different levels are defined as follows:
- Level 1: valuation on the basis of quoted prices in active markets for identical assets or liabilities;
- Level 2: valuation of assets or liabilities based on (external) observable information;
- Level 3: valuation of assets or liabilities based wholly or partially on (external) unobservable information.

If the input parameters used to measure the fair value of an asset or a liability may be categorised into different levels of the fair value hierarchy, the fair value measurement is categorised entirely in the level of the lowest level input that is significant to the entire measurement.

The company recognises reclassifications between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The company has established a control framework with regard to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation process is supervised by the Management Board.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third-party information is used to measure fair value, NSI assesses and documents the third-party data to verify that the valuations and their classification into different levels of the fair value hierarchy comply with IFRS, including their level in the fair value hierarchy.
Further information about the assumptions made in measuring fair value is included in the following notes:
- Note 11 - Investment property;
- Note 20 - Financial instruments;
- Note 25 - Long term share plan (LTSP).

Main principles for financial reporting

Principles for consolidation

Subsidiaries

Subsidiaries are entities over which NSI has decisive control. There is a situation of control if the company's involvement in the entity exposes or entitles it to variable returns and the company has the ability to influence such returns using its control in the entity.

In 2018 the entity structure of NSI was restructured as to create a less complex and more efficient structure. New entities have been established and other entities have been liquidated. At the same time, the properties were transferred from the "old" entities to the newly established entities.

The results of subsidiaries are included in the consolidated financial statements from the date of commencement of control until the date on which the control ends.

The following companies are included in the consolidated financial statements:

Company	Statutory seat	31 December 2018	31 December 2017
NSI N.V.	Amsterdam, The Netherlands		
NSI Real Estate B.V.	Amsterdam, The Netherlands	100.0%	
NSI Kantoren B.V.	Amsterdam, The Netherlands	100.0%	
NSI Vastgoed B.V.	Amsterdam, The Netherlands	100.0%	
NSI Flexoffices B.V.	Amsterdam, The Netherlands	100.0%	
HNK Vastgoed B.V.	Amsterdam, The Netherlands	100.0%	
HNK Services B.V.	Amsterdam, The Netherlands	100.0%	
NSI Service HNK B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI Management B.V.	Amsterdam, The Netherlands		100.0%
NSI Development B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Beheer B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI International B.V.	Amsterdam, The Netherlands		100.0%
NSI Luxembourg Holding S.à.r.l.	Luxembourg, Luxembourg		100.0%
NSI Switzerland S.à.r.l.	Luxembourg, Luxembourg		100.0%
NSI (Swiss) II AG	Zug, Switzerland		100.0%
NSI Management Switzerland GmbH	Zug, Switzerland		100.0%
NSI Woningen B.V.	Hoorn, The Netherlands		100.0%
NSI Winkels B.V.	Hoorn, The Netherlands		100.0%
NSI Kantoren B.V.	Hoorn, The Netherlands		100.0%
NSI Bedrijfsgebouwen B.V.	Hoorn, The Netherlands		100.0%
NSI Volumineuze Detailhandel B.V.	Hoorn, The Netherlands		100.0%
NSI Monument B.V.	Hoorn, The Netherlands		100.0%
NSI HNK B.V.	Amsterdam, The Netherlands		100.0%
NSI Beheer II B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI German Holding B.V.	Amsterdam, The Netherlands		100.0%
Hans-Böckler-Straße S.à.r.l.	Luxembourg, Luxembourg		100.0%
VastNed Offices Benelux Holding B.V.	Rotterdam, The Netherlands		100.0%
Vastned Offices Belgium Holdings B.V.	Rotterdam, The Netherlands		100.0%
Vastned Offices Belgium N.V.	Antwerp, Belgium		100.0%
Cocoon Office Park N.V.	Antwerp, Belgium		100.0%

Elimination of intragroup transactions

Intragroup balances and transactions as well as any unrealised profits and losses on intragroup transactions are eliminated, except where there are indications for impairment.

Foreign currency

Foreign currency translation

Assets and liabilities denominated in foreign currency are converted into euros using the exchange rate prevailing on the balance sheet date. Transactions in foreign currency are converted into euros at the exchange rate prevailing on the transaction date. Exchange rate differences arising from conversion are recognised in the consolidated statement of comprehensive income.

Investment property

Investment property consists of investment property in operation and investment property under construction.

Investment property in operation

Investment property in operation consists of real estate that is held to generate rental income or value, or a combination of both, but that is not intended for sale in the ordinary course of business.

Investment property is initially recognised as from the date of transfer of the legal title at cost (including all costs relating to the purchase, such as legal costs, transfer tax, estate agent fees, costs of due diligence and other transaction costs). Subsequent measurement of investment property is at fair value.

The fair value of the investment property is fully appraised by external registered appraisers twice a year. In principle, valuations may only be performed and provided by appraisers registered with the Dutch register of property appraisers (Nederlands Register van Vastgoed Taxateurs). Valuations are performed on the basis of the guidance of the RICS Red Book. NSI works with at least two valuation firms. The valuation firms for individual properties are changed every three years in accordance with the RICS guidelines. The valuations are assessed and analysed by the Management Board and asset management considering the methods and assumptions applied, as well as the outcome.

The fair value is based on the market value (adjusted for purchase costs such as transfer tax). This means that the estimated price on the date of valuation at which a property could be traded between a seller and a purchaser willing to enter into an objective, arm's length transaction preceded by sound negotiations between both well- informed parties.

The fair value is calculated using both the capitalization method, on the basis of a net initial yield calculation, whereby the net market rent prices are capitalised, and the DCF calculation method, based on the present value of the future cash flows for the next ten year including an exit value at the end of the tenth year. The respective outcomes of both methods are compared.

The returns applied are specified for the property type, location, maintenance condition and letting potential of each property, and are based on comparable transactions, along with market-specific and property-specific data.

Key assumptions in the valuations are: yield, discount rate and market rent. Future investments and maintenance assumptions are also taken into account in the valuations. Further, assumptions are made for each tenant and for each vacant unit with regard to the probability of letting and (re)letting, the number of months of vacancy, incentives and letting costs. Adjustments are made to the present value of differences between the market rent prices and the rent price contractually agreed. The valuation is made after deduction of transaction expenses borne by buyers.

Subsequent expenditures are only included in the value of the property if it is probable that future economic benefits related to these investments or expenses would benefit the company. All other costs of maintenance and repairs are recognised as costs at the moment that they are incurred. No depreciation is made on investment properties, given that they are recognised at fair value.

Changes to the fair value of investment properties are included in the statement of comprehensive income in the period in which they occur.

Profits or losses on the sale of an investment property are recognised in the period in which the sale occurs as the difference between the net sales proceeds and the fair value most recently determined by NSI. If an investment property is sold, the cumulative positive revaluation, if any, is transferred from the revaluation reserve to retained earnings. Investment property is derecognised when it has been sold and all risks and rewards have been transferred.

If the use of a property becomes owner occupied and a reclassification as a tangible fixed asset is required, the fair value at the date of reclassification becomes the cost price for administrative processing purposes.

Investment property under construction

Investment property under construction is referred to as 'investment property under construction' for the purpose of future lease activity. If the fair value can be measured reliable, investment property under construction is valued at fair value if a substantial part of the project risks has been reduced or eliminated. If the fair value cannot be measured reliable, investment property under construction is valued at cost, including capitalised interest, minus any cumulative impairment losses. The costs associated with investment property under construction consists of all the directly attributable costs required to complete the project.

Project risks are deemed to be reduced if all necessary permissions and permits have been obtained, binding contracts have been concluded with the main contractors and a substantial part of the property is pre-let.

Assets held for sale
Certain investment properties, or groups of investment properties, will be reclassified to assets held for sale if it is expected that their book value will be recovered through a disposal and not through further use. This is only possible if the asset is available for immediate sale at arm's length conditions and at customary conditions applicable in similar cases. Moreover, the probability of a sale must be high and based on an initiated and active sales programme. This means that it must be actively offered in the market at a price that is reasonably proportionate to the current market value and the sale is expected to be completed within twelve months after the end of the reporting period.

After being reclassified to 'Assets held for sale', an investment property valued at fair value continues to be valued on this basis. Assets held for sale are presented separately from the regular investment properties in the balance sheet under current assets.

Discontinued operations
A group of investment properties is classified as discontinued operations if it relates to a part of NSI which is sold or which is designated as intended for sale and:
- represents a separate operating segment or geographical region;
- is part of a coordinated plan to sell a separate operating segment or geographical region; or
- is a subsidiary acquired solely with a view to resale.

The result from discontinued operations is presented separately from the result from ongoing operations as a total amount after tax in the consolidated statement of comprehensive income.
Assets held for sale are presented separately from other investment properties in the balance sheet.
The cash flows from operational, financing and investment activities are explained separately in the consolidated cash flow statement.

Further information about the di scontinued operations can be found in note 10. All other notes in the financial statements relate to amounts for continued operations, unless otherwise indicated.

Tangible fixed assets
Tangible fixed assets consists of real estate (office building) fully or partly used by the company, its furniture and office equipment and transport fleet.
These assets are valued at cost, less cumulative depreciation and any cumulative impairment losses.

If a property used by the company changes into an investment property, the property is revalued on the basis of fair value and reclassified as an investment property. Any gain arising from this revaluation is recognised in the result insofar as the gain results in a reversal of a previously recognised impairment loss for that specific property. Any residual gain is recognised in the unrealised results and is reported in the revaluation reserve. Any loss is recognised in the result.

Depreciation of tangible fixed assets is charged to the consolidated statement of comprehensive income under administrative costs and is calculated using the straight-line method based on the estimated useful life and residual value of the asset concerned. Land is not depreciated.

The estimated useful life is as follows:
- Real estate in own use: 25 years;
- Furniture and office equipment: 4 years;
- Transport fleet: 3 years.

The applied methodology of calculating depreciation, useful life and residual value is assessed at the end of every book year and adjusted if necessary.

Intangible fixed assets
Intangible assets only consist of software.
Development and implementation costs relating to purchased and/or developed software are capitalised based on the costs of acquiring the software and taking it into operation. The capitalised costs are reduced by cumulative amortisation and cumulative impairment losses.

Amortisation is calculated to write off the costs of intangible fixed assets less their estimated residual value on a straight-lined basis over their estimated useful life. Amortisation is recognised in the statement of comprehensive income. The estimated useful economic lives of capitalised software is 3 years.

Impairment non-financial fixed assets
The carrying value of the non-financial assets of the Group, excluding investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there are indications for impairment. If any such indication exists, an estimate is made of the recoverable amount of the asset.

The recoverable amount of an asset or cash-generating unit is the highest of the value in use or the fair value less costs of disposal. In assessing value in use, the present value of the estimated future cash flows is calculated using a pre-tax discount rate that reflects current market assessments of the time value of money as well as the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the book value of the asset or cash-generating unit to which the asset belongs is higher than the estimated recoverable value.

Impairment losses are recognised in profit or loss. They are deducted on a pro rata basis from the book value of each asset in the cash-generating unit.
Impairment losses are reversed only to the extent that the asset's book value does not exceed its book value, net of any depreciation or amortisation that would have been determined had no impairment loss been recognised.

Financial Instruments

NSI classifies non-derivative financial assets in the categories: tenant loans, debtors and other receivables and cash and cash equivalents. NSI has the following non-derivative financial liabilities: interest-bearing loans, creditors and other payables and amounts owed to credit institutions.

Non-derivative financial assets and liabilities - recognition

NSI initially recognises financial assets and financial liabilities at the transaction date.

NSI no longer recognises a financial asset in the balance sheet if the contractual rights to the cash flows from the asset expire, or if NSI transfers the contractual rights to receive cash flows from the financial asset through a transaction in which substantially all the risks and benefits related to the ownership of the asset are transferred, or if NSI neither transfers or retains the risks and benefits related to ownership of the asset, nor has control over the transferred asset. If NSI retains or creates an interest in the transferred financial assets, the interest is recognised as a separate asset or liability.
NSI no longer recognises a financial liability in the balance sheet if the contractual obligations are waived or cancelled or have expired.

Financial assets and liabilities are only offset and the resulting net amount is only presented in the balance sheet if NSI has a legally enforceable right to offset and if it intends to offset on a net basis or to realise the asset and the liability simultaneously.

Non-derivative financial assets - measurement

Loans and debtors and other receivables

Loans and debtors and other receivables are measured at first recognition at fair value plus any directly attributable transaction costs. After first recognition, loans and receivables are measured at amortised cost using the effective interest method.

For loans and debtors and other receivables the Group applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Cash and cash equivalents

Cash and cash equivalents are recognised and subsequently valued against nominal value and consist of cash and bank balances. Current account overdrafts that are payable on demand and which form an integral part of NSI's cash management are included in cash and cash equivalents and amounts owed to credit institutions in the consolidated statement of financial position and the cash flow statement.

Non-derivative financial liabilities - measurement

Interest bearing loans

Interest-bearing loans are initially recognised at fair value, after deduction of attributable transaction costs. After initial recognition, the interest-bearing loans are measured at amortised cost using the effective interest method.

Interest-bearing loans include both fixed-rate and variable-rate loans. In principle, the fair value of the variable-rate loans is equal to their amortised cost. Part of the interest risk on the variable-rate loans is hedged through interest-rate swaps.

In principle, the fair value of the fixed-rate loans is not equal to their amortised cost. The fair value of the fixed-rate loans is calculated using the net present value method at the market interest rates prevailing on 31 December 2018 (including margin).

Any redemption of interest-bearing debt within one year is recognised as current liabilities.

Creditors and other payables

Creditors and other payables are at initial recognition measured at fair value plus any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

NSI uses derivative financial instruments to hedge (in full or in part) the interest rate risks associated with its finance activities. These derivatives are not held or issued for trading purposes.

Derivatives are initially recognised at cost, after which they are recognised at fair value. Profits or losses arising from changes in the fair value of derivative financial instruments are immediately recognised in the consolidated statement of comprehensive income. Hedge accounting is not applied.

The fair value of the financial instruments is the amount the Group would expect to pay or receive if the financial derivative were to be liquidated at balance sheet date, taking into account the interest rate on the balance sheet date and the current credit risk of the counterparties concerned as well as the credit risk of the Group. The interest payable on derivatives is incorporated in other payables. A derivative financial instrument is reported as a current asset or current liability if its remaining term to maturity is less than one year or if it is expected that it will be liquidated or settled within one year.

Equity

Ordinary shares are classified as shareholders' equity. External costs that can be attributed directly to the issuance of new shares are deducted from the earnings reserve.

The increase in the paid-up and called-up capital relating to a stock dividend programme is deducted from the share premium reserve as well as the expenses relating to the stock dividend.

When repurchasing NSI shares, the amount of the consideration paid including directly attributable costs, is recognised as a change in shareholders' equity. Cash dividends are deducted from the other reserves in the period in which the dividends are set.

Income

Rental income

The rental income from investment property let on the basis of operating lease agreements is recognised in the consolidated statement of comprehensive income on a straight-line basis for the duration of the lease agreement.

Rent-free periods, rent reductions and other rent incentives are reported as an integral part of total net rental income. These rent incentives are allocated over the term of the lease agreement until the first moment at which the lease agreement may be terminated. The resulting accrued income is included in the fair value of the respective investment properties by the external appraisers and is separated in the balance sheet for reporting purposes, in accordance with IFRS requirements.

Compensations received or paid for leases terminated early are immediately recognised in the consolidated statement of comprehensive income in the period in which the contractual requirements are met.

Service costs recharged to tenants

Service costs can be charged on to the tenants. These charges mainly relate to gas, water, electricity, cleaning and security, etc., costs which can be recharged to tenants based on the lease agreement. NSI acts as principal with respect to service costs, whereby the costs incurred are recharged to the tenants, including an administrative fee.

Net result on sale of investment property

Proceeds from the sale of investment properties are recognised when the control of the property is transferred to the purchaser.

The profits or losses on the sale of investment properties are identified as the difference between the net proceeds of the sale and the carrying value of the investment properties in NSI's most recently published (interim) balance sheet.

Costs

Service costs not recharged

Service costs not recharged to tenants mainly relate to vacant properties, in which situation these costs cannot be recharged to tenants and / or to other irrecoverable service costs as a result of contractual limitations or service costs.

Operating costs

Operating costs consist of costs directly related to the operation of the investment properties, such as property management, municipal taxes, insurance premiums, maintenance costs, letting costs and other business expenses.
These costs are charged to the result when they occur.

Administrative costs

Administrative expenses include staff costs, office expenses, consultancy fees, remuneration of Supervisory Board members and the costs of fund management.

Costs relating to the commercial, technical and administrative management of investment properties are included in the operating costs. Costs relating to the supervision and monitoring of investment projects may be capitalised on the basis of hours spent.

Financing income and costs

Financing income and expenses consist of interest expenses on loans and debts, and interest income on outstanding loans and receivables attributable to the period, including interest income and expenses based on interest rate swaps and dividends received. As a result of the valuation of interest-bearing debt based on amortised cost, financing expenses also include interest accrued on the interest-bearing debt.

Financing expenses directly attributable to the purchase, renovation or expansion of an investment property are capitalised as part of the integral cost of the property involved. The interest applied is the average interest paid by the Group in the respective currency.

Dividends received are included in the statement of comprehensive income at the time that the entity's right to payment is established. In the case of listed shares, this is normally the ex-dividend date.

Net financing income and expenses also include the profits and losses arising from changes in the fair value of the derivative financial instruments.

Exchange rate profits and losses are recognised on a net basis.

Employee benefits

Defined contribution pension plan

Liabilities relating to contributions to defined contribution pension plans are recognised as costs in the period in which they occur. Prepayments are recognised as an asset insofar as a cash refund or a reduction in future payments is available. The pension arrangements are insured externally.

Share-based payment arrangements

The variable remuneration component for the Management Board consists exclusively of a long term share plan (LTSP). The LTSP covers a period of three years. A maximum payment applies under the LTSP: for the CEO it has been set at 180% of the average fixed annual salary over the term of the LTSP; for the CFO and CIO the maximum has been set at respectively 90% and 120%.

During the three year period, the total obligation under the LTSP is re-measured annually to its fair value and recognised as an expense with a corresponding increase in liabilities, over the period during which the Board of Management become unconditionally entitled to payment. Remuneration under the LTSP is paid in cash and the respective director is obliged to use two-thirds of the net amount distributed to purchase NSI shares. These shares are then subject to a three year lock-up period.

Tax on profits

Tax status

NSI has the status of a fiscal investment institution within the context of Article 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de Vennootschapsbelasting 1969). This means no corporate income tax is owed under certain conditions. The main conditions relate to the investment requirement, the distribution of taxable earnings as dividend, limitations on the financing of investments with debt capital and the composition of the shareholder base. Profits from the disposal of investments and fair value adjustment results on investment property are not included in the distributable earnings.

In addition, there are legal restrictions on the activities that may be undertaken by a Dutch Real Estate Investment Trust (FBI). Since 1 January 2014, 'associated business activities' attributable to the main task of letting and managing of investment properties may be performed, within certain limits, by a normal taxable subsidiary.

To the best of the Management Board's knowledge the Group meets the legal requirements. As long as the Group continues to meet the conditions and therefore maintains the status of fiscal investment institution, corporate income tax will not be taken into account in the determination of profit or the reserves.

Corporate income tax may be payable on the fiscal results of the Dutch subsidiaries (NSI Development B.V. and NSI Service HNK B.V.) and foreign subsidiary companies which do not have the status of a fiscal investment institution.

Corporate income tax

Corporate income tax consists of payable tax liabilities, and is reported in the statement of comprehensive income. The tax payable consists of the sum of the expected tax payable or receivable on the taxable results for the year, taking into account earnings elements exempt from tax and non-deductible costs whereby the tax rates applied are those prevailing on the balance sheet date or changed tax rates already known on the balance sheet date. The tax payable also includes any changes to tax payments made in previous years.

Cash flow statement

Operating cash flows are reported on the basis of the indirect method. Cash and cash equivalents and debts to credit institutions also include overdraft facilities which are part of NSI's cash management policy.
Exchange rate differences relating to cash are shown separately.

Segment information

All operating results of an operating segment are assessed periodically by the Management Board in order to decide on the allocation of resources to the segment and to assess performance, based on the confidential financial information available.

The Management considers the business from the nature of the investment property and assesses performance for "Offices", "HNK" and "Other" (retail and industrial) and "Corporate". A segment consists of assets and activities with specific risks and results, differing from other sectors

Significant accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for 2017, except for the adaptation of new and amended standards as set out below.

New and amended standards adopted by the Group

IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement and contains revised guidelines on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairments of financial assets and new general requirements for hedge accounting. Furthermore, IFRS 9 applies the provisions of IAS 39 for the recognition and derecognition of financial instruments.

IFRS 9 does not change the guidance for the modification or exchange of financial liabilities; it does however clarify the accounting requirements for the re-estimation of cash flows and introduces new requirements about how to account for the modification of financial assets that have not been de-recognised. However, the IFRS Interpretations Committee and the IASB have tentatively concluded that, in cases where a modification or exchange of a financial liability does not result in de-recognition, IFRS 9 requires that the difference between the original and modified amortised cost is to be recognised in profit or loss immediately.

The group has assessed the impact of the adoption on the consolidated financial statements. Relating to the measurement categories no changes have occurred:

- Loans and debtors and other receivables were and are valued at amortised costs.
- Interest bearing loans were and are valued at amortised costs.
- Derivative financial instruments were and are valued at fair value through profit and loss.

NSI has retrospectively calculated the impact on the refinancing of the Nexus-facility in 2016. NSI qualifies this refinancing as a modification. Therefore, based on current IFRS 9 guidelines, € 1.0 million should have been charged to the result as financing costs. This is reflected in the opening balance of 2018 as a correction on the value of interest bearing loans and shareholders' equity (other reserves). No retrospective adjustments of prior year results need to be made.

The refinancing of the Nexus-facility in April 2018 was qualified by NSI as an extinguishment. As a result the non-amortised costs of the original loan (€ 2.1 million) were charged to the result as financing costs.

The financial impact of the impairment of receivables at the end of 2017 was estimated at approximately € 0.2m positive. As from 1 January 2018, the provision for doubtful debts has been calculated in accordance with the IFRS 9 standard, using the simplified approach. Operating costs for 2018 therefore include a positive effect for impairment of receivables from prior years.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contract with customers provides a comprehensive framework to determine whether, when and what amount of revenue should be recognised. This standard will replace the existing guidelines for processing revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group has assessed the impact of the adoption of IFRS 15 on the consolidated financial statements for 2017: The main revenue stream of NSI, i.e. proceeds from the leasing of offices, is exempt from IFRS 15, as IAS 17 applies to this income. In case NSI provides services, revenue up to 2017 was only recognised when the service was transferred, which is similar under IFRS 15. When NSI transfers a good (e.g. sells investment property) revenue was up to 2017 recognised when control was transferred at the notary, which is similar under IFRS 15.

Therefore, NSI considered that the application of IFRS 15 does not affect the 2018 financial statements and processes. NSI has decided, in line with the disclosure requirements of IFRS 15, to provide more insight in the structure and size of the various rental components within gross rental income.

New and amended standards not yet applied

IFRS 16 Leases

IFRS 16 Leases will replace the previous standard (IAS 17 Leases) and provide a framework for the recognition of lease contracts. This new standard requires lessees to recognise assets and liabilities relating to leasing contracts with a term exceeding twelve months. IFRS 16 was published in January 2016 and will be effective from 1 January 2019.

The Group has assessed the impact of the adoption of IFRS 16 on the consolidated financial statements. The Group has a limited number of obligations from land lease and car lease contracts. The financial impact of the adoption of IFRS 16 assets and liabilities on the balance sheet is expected to be around € 3.0 million.

1. SEGMENT INFORMATION

In connection with the sale of the remaining holding in Intervest Offices & Warehouses N.V. in the first half of 2016, the decision was taken to present the Belgium entities as discontinued operations in the 2017 consolidated financial statements, in line with IFRS 5.

Since year-end 2017 NSI considers three segments, "Offices" and "HNK", which are reported separately and together form the company's strategic business units, and "Other", which includes the remaining retail and industrial operations. These segments are managed separately because they require different market strategies. In June 2018, the Management decided to separately report result as well as balance sheet items that cannot be allocated to the above mentioned segments. Therefore, a separate segment "Corporate" has been added to the segment information below and the figures have been transferred from the segment "Other". Comparative figures have been adjusted accordingly.

2018

Statement of comprehensive income

	Continuing operations					Discontinued	
	Offices	HNK	Other	Corporate	TOTAL	operations	TOTAL
Gross rental income	53,437	15,364	14,920		83,721		83,721
Service costs recharged to tenants	7,814	4,002	1,649		13,465		13,465
Service costs	-8,807	-4,062	-1,832		-14,702		-14,702
Service costs not recharged	-993	-61	-183		-1,237		-1,237
Operating costs	-6,554	-4,771	-1,931		-13,256		-13,256
Net rental income	**45,890**	**10,532**	**12,806**		**69,228**		**69,228**
Revaluation of investment property	39,225	16,978	-9,786		46,418		46,418
Net result on sale of investment property	1,790		-949		841		841
Net result from investment	**86,906**	**27,510**	**2,071**		**116,488**		**116,488**
Administrative costs				-7,950	-7,950		-7,950
Other income and costs				18	18		18
Net financing result				-17,003	-17,003		-17,003
Result before tax	**86,906**	**27,510**	**2,071**	**-24,934**	**91,553**		**91,553**
Corporate income tax				-28	-28		-28
Total result for the year	**86,906**	**27,510**	**2,071**	**-24,962**	**91,525**		**91,525**
Other comprehensive income				**0**	**0**		**0**
Total comprehensive income for the year	**86,906**	**27,510**	**2,071**	**-24,962**	**91,525**		**91,525**
Attributable to shareholders	86,906	27,510	2,071	-24,962	91,525		91,525

Statement of financial position

	Continuing operations					Discontinued	
	Offices	HNK	Other	Corporate	TOTAL	operations	TOTAL
Investment property	872,159	206,987	123,544		1,202,691		1,202,691
Other non-current and current assets	4,651	1,333	336	3,609	9,929		9,929
Assets held for sale	3,940				3,940		3,940
Total assets	**880,750**	**208,320**	**123,880**	**3,609**	**1,216,559**		**1,216,559**
Non-current liabilities	1,285	2,338	457	441,733	445,813		445,813
Current liabilities	1,288	407	1,613	34,084	37,392		37,392
Liabilities directly associated with assets held for sale	71				71		71
Total liabilities	**2,645**	**2,745**	**2,069**	**475,818**	**483,277**		**483,277**
Purchases of investment property and subsequent expenditures	165,163	11,150	2,226		178,539		178,539

2017

Statement of comprehensive income

	Continuing operations					Discontinued	
	Offices	HNK	Other	Corporate	TOTAL	operations	TOTAL
Gross rental income	53,866	13,339	21,795		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
Net rental income	**46,590**	**7,848**	**20,030**		**74,468**	**15**	**74,483**
Revaluation of investment property	18,695	15,875	-6,242		28,329	-970	27,359
Net result on sale of investment property	3,144	0	2,920		6,064	-326	5,738
Net result from investment	**68,429**	**23,724**	**16,708**		**108,861**	**-1,280**	**107,580**
Administrative costs				-9,170	-9,170	-77	-9,247
Other income and costs				5,548	5,548	9	5,557
Net financing result				-12,201	-12,201	0	-12,201
Result before tax	**68,429**	**23,724**	**16,708**	**-15,824**	**93,037**	**-1,348**	**91,689**
Corporate income tax				-91	-91	4	-87
Total result for the year	**68,429**	**23,724**	**16,708**	**-15,915**	**92,946**	**-1,344**	**91,602**
Other comprehensive income							
Total comprehensive income for the year	**68,429**	**23,724**	**16,708**	**-15,915**	**92,946**	**-1,344**	**91,602**
Attibutable to shareholders	68,429	23,724	16,708	-15,915	92,946	-1,344	91,602

Statement of financial position

	Continuing operations					Discontinued	
	Offices	HNK	Other	Corporate	TOTAL	operations	TOTAL
Investment property	731,583	178,859	161,738		1,072,180		1,072,180
Other non-current and current assets	4,859	913	362	11,165	17,299		17,299
Assets held for sale			28,791		28,791		28,791
Total assets	**736,442**	**179,771**	**190,891**	**11,165**	**1,118,269**		**1,118,269**
Non-current liabilities	1,302	1,631	607	406,419	409,959		409,959
Current liabilities	2,125	-98	854	32,547	35,428		35,428
Liabilities directly associated with assets held for sale			195		195		195
Total liabilities	**3,427**	**1,533**	**1,655**	**438,966**	**445,582**		**445,582**
Purchases of investment property and subsequent expenditures	142,725	5,831	6,640		155,195		155,195

2. NET RENTAL INCOME

	Gross rental income		Service costs not recharged		Operating costs		Net rental income	
	2018	2017	2018	2017	2018	2017	2018	2017
Offices	53,437	53,866	-993	-1,574	-6,554	-5,702	45,890	46,590
HNK	15,364	13,339	-61	-912	-4,771	-4,578	10,532	7,848
Other	14,920	21,795	-183	412	-1,931	-2,177	12,806	20,030
Net rental income	**83,721**	**89,000**	**-1,237**	**-2,075**	**-13,256**	**-12,457**	**69,228**	**74,468**

Gross rental income can be specified in the following components:

		2018		2017
Gross rental income - Offices / HNK / Other		84,052		86,148
Turnover rent	237		564	
Indemnities received	14		945	
HNK - meeting rooms	739		626	
HNK - hospitality services	368		314	
Other rental income	-1,689		403	
Other gross rental income		-331		2,852
Gross rental income		**83,721**		**89,000**

Gross rental income includes an amount of € 4.9 million (2017: € 5.5 million) for straight-lined lease incentives.
Other rental income includes a lease termination fee of € 2.0 million paid by NSI to a former tenant to end the lease contract for a property in Amsterdam.

NSI leases its investment properties on the basis of operating leases with various maturities. Each lease contract specifies the space, rent and rights and obligations of the landlord and the tenant, including notice periods, options to extend the rental period and provisions related to service costs. In general, the rent is indexed during the life of the rental agreement on an annual basis. The total minimum annual rent to be received from operating lease agreements is specified as follows:

	31 December 2018	31 December 2017
First year	81,271	82,285
Second to fourth year	178,098	188,963
As of fifth year	118,536	138,252

3. OPERATING COSTS

	2018	2017
Leasehold	-245	-213
Municipal taxes	-2,711	-2,154
Insurance premiums	-462	-590
Maintenance costs	-2,617	-2,760
Property management costs	-3,907	-4,183
Letting costs	-2,949	-1,965
Contribution to owner association	-516	-92
Doubtful debt costs	462	-128
Other operating costs	-311	-373
Operating costs	**-13,256**	**-12,457**

Property management costs include administrative costs charged to operations for an amount of € 3.5 million (2017: € 4.4 million).

An amount of € 0.0 million (2017: € 0.1 million) relates to operating costs of fully vacant properties.

4. REVALUATION OF INVESTMENT PROPERTY

	2018			2017		
	Positive	Negative	TOTAL	Positive	Negative	TOTAL
Investment property in operation	89,684	-44,027	45,656	67,288	-32,313	34,975
Investment property under construction	438		438			
Assets held for sale	1,113		1,113	2,528	-9,159	-6,631
Revaluation - market value	**91,234**	**-44,027**	**47,207**	**69,816**	**-41,472**	**28,344**
Movement in lease incentives			-789			-16
Revaluation of investment property			**46,418**			**28,329**

Further details on revaluation can be found in note 11.

5. NET RESULT ON SALE OF INVESTMENT PROPERTY

	2018	2017
Proceeds on sale of investment property	122,066	243,147
Transaction costs on sale of investment property	-1,324	-2,524
Sale of investment property	**120,742**	**240,623**
Book value at the time of sale	-119,900	-234,559
Net result on sale of investment property	**841**	**6,064**

During 2018 30 office properties (2017: 21 objects), 4 retail properties (2017: 25 objects) and 1 industrial warehouse were sold. One retail asset was partly sold.

Transaction costs on sale include the costs of real estate agents and legal fees.

6. ADMINISTRATIVE COSTS

		2018		2017
Salaries and wages	-5,112		-6,389	
Social security	-583		-511	
Pensions	-288		-381	
Other staff costs	-1,090		-1,593	
Staff costs		-7,073		-8,874
Compensation supervisory board		-211		-249
Office costs		-1,461		-1,360
Audit, consultancy and valuation costs		-1,318		-1,345
Other administrative costs		-1,409		-1,704
Administrative costs		**-11,472**		**-13,532**
Allocated administrative costs		**3,522**		**4,362**
Administrative costs		**-7,950**		**-9,170**

The administrative costs in 2018 include an amount of € 0.5 million for one-offs, mainly related to severance payments related to settlement agreements and consultancy for the possible change in FBI-regime, transformation projects and sustainability.
In 2017 one-offs amounted to € 1.4 million; these include amongst others costs associated with the CFO change and the internal reorganization, including severance payments related to settlement agreements, recruitment cost for new staff, temporary staff and consultancy costs.

Office costs include an amount of € 0.2 million for depreciation and amortisation of tangible and intangible assets (2017: € 0.2 million). Administrative costs directly related to the operation of the investment property portfolio, are recharged to the operating costs. These are reported as “Allocated administrative costs”.

Employees

On average 50 employees (47 FTE), including the Management Board, were employed by NSI during the reporting year (2017: 63 employees, 58 FTE). As per yearend 2018 the number of employees amounted to 46 (44 FTE).

7. OTHER INCOME AND COSTS

	2018	2017
Other income	60	5,686
Other costs	-42	-138
Other income and costs	**18**	**5,548**

The 2018 costs mainly concern costs of cancelled projects, whereas the other income concerns the release of prior years' accruals in relation to court cases.

In 2017 the Amsterdam Court of Appeal ruled favourably on NSI's dispute with Swisspartners. In September 2017 an agreement was reached and a cash payment of € 5.7 million was received by NSI as final settlement for this dispute.

8. NET FINANCING RESULT

	2018	2017
Interest income	27	12
Financing income	**27**	**12**
Interest costs	-8,688	-13,618
Exchange rate differences	-3	-32
Bank fees	-1,124	-1,069
Amortisation costs interest bearing loans	-2,628	-1,054
Other financing costs	-89	-98
Financing costs	**-12,532**	**-15,871**
Movement in market value of financial derivatives	**-4,497**	**3,658**
Net financing result	**-17,003**	**-12,201**

NSI concluded the refinancing of the existing Nexus-facility, included under interest bearing loans, of € 485 million in April 2018. Under IFRS 9, this refinancing was qualified as an extinguishment; as such the non-amortised costs of the original loan of € 2.1 million were charged to the result as other financing costs.

9. CORPORATE INCOME TAX

	2018	2017
Current tax	-28	-91
Corporate income tax	**-28**	**-91**

NSI has the status of a fiscal investment institution within the context of Article 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de Vennootschapsbelasting 1969). This means that no corporate income tax is owed under certain conditions.

The main conditions relate to the investment requirement, the distribution of taxable earnings as dividend, limitations on the financing of investments with debt capital and the composition of the shareholder base. Profits from the disposal of investments are not included in the distributable earnings.

In addition, there are legal restrictions on the activities that may be undertaken by a FBI, as stated under the main principles for financial reporting. Since 1 January 2014, 'associated business activities' attributable to the main task of letting and managing of investment properties may be performed, within certain limits, by a normal taxable subsidiary.

The subsidiaries NSI Development B.V. and NSI Service HNK B.V. are not part of the fiscal investment institution NSI N.V. for tax purposes and are as such liable to pay corporate income tax, just like the remaining foreign subsidiaries, which have been liquidated.

	2018			2017		
Result before tax - continuing operations		91,553			93,037	
Result before tax - discontinued operations					-1,348	
Result before tax			91,553			91,689
Tax at Dutch tax rate	25.00%		-22,888	25.00%		-22,922
Exempt due to fiscal status			22,895			23,252
Tax of subsidiaries under other tax regime			-35			-420
Corporate income tax			**-28**			**-91**

LTV and Dutch REIT-status

A number of requirements must be met to achieve and maintain the status of a Dutch real estate investment trust (FBI). One such requirement relates to the maximum LTV (norm: ≤ 60%).

The basis for calculating this LTV differs fundamentally from the basis used for financial institutions. For the latter group NSI uses its commercial figures. The figures for tax purposes are used to calculate the LTV to assess the Dutch FBI status. NSI complied with this requirement in both 2017 and 2018.

10. DISCONTINUED OPERATIONS

In connection with the sale of the remaining holding in Intervest Offices & Warehouses N.V. in the first half of 2016, the decision was taken to present the Belgium entities as discontinued operations. The results of the discontinued operations are included separately as a total amount in the consolidated statement of comprehensive income. All properties included in discontinued entities were sold at the end of 2017.

Statement of comprehensive income

	2018	2017
Gross rental income		56
Service costs not recharged		-18
Operating costs		-22
Net rental income		**15**
Revaluation of investment property		-970
Net result from investments		**-1,280**
Administrative costs		-77
Net financing result		0
Result before tax		**-1,348**
Corporate income tax		4
Result from discontinued operations after tax		**-1,344**
Total result from discontinued operations attributable to:		
Shareholders		-1,344
Result from discontinued operations after tax		**-1,344**

Statement of financial position

	31 December 2018	31 December 2017
Assets held for sale		
Liabilities directly associated with assets held for sale		

Cash flow statement

	2018	2017
Cash flow from operating activities		-49
Cash flow from investment activities		1,394
Net cash flow		**1,345**

11. INVESTMENT PROPERTY

Investment property consists of investment property in operation and investment property under construction:

	31 December 2018	31 December 2017
Investment property in operation	1,187,191	1,071,380
Investment property under construction	15,500	800
Investment property	**1,202,691**	**1,072,180**

Investment property in operation and investment property under construction are recognised at fair value. The fair value is determined on the basis of level 3 of the fair value hierarchy.

At 31 December 2018 100% (2017: 100%) of investment property were externally appraised by external appraisers. In 2018 the appraisers were JLL, Cushman & Wakefield and CBRE. The fair value is based on the market value (including buyer's costs, i.e. adjusted for purchase costs such as transfer tax). That means the estimated price on the date of valuation at which a property can be traded between a seller and a purchaser willing to enter into an objective, arm's length transaction preceded by sound negotiations between both well-informed parties.

The valuations are determined on the basis of a capitalisation method, whereby the net market rents are capitalised, and the discounted cash flow method, based on the present value of the future cash flows for the next ten year including an exit value at the end of the tenth year. The respective outcomes of both methods are compared. The returns applied are specified for the type of investment property, location, maintenance condition and letting potential of each property, and are based on comparable transactions, along with market-specific and property-specific knowledge.

The table below summarises the both valuation technique used to determine the fair value of investment property, as well as the significant unobservable inputs used. The respective outcomes of both methods are compared:

Valuation technique	Unobservable inputs	Relationship between significant unobservable inputs and the fair value measurement
Capitalisation method and net discounted cash flow calculation.		*The estimated fair value increases (decreases) if:*
The capitalisation method consists of a net initial yield calculation, whereby the net market rent prices are capitalised by a yield percentage.	Significant: - Theoretical net yield - Discount rate - Forecast for market rent	 - The net yield is lower (higher) - The discount rate is lower (higher) - The expected market rent levels are higher (lower)
The DCF valuation method is based on the present value of net future cash flows to be generated by the property, taking into account the expected increases in rent levels, periods of vacancy, the occupancy rate, costs of letting incentives such as rent free periods and other costs not covered by the tenant.	Other: - Rent free periods and other lease incentives and periods of vacancy following expirations of a lease	 - The occupancy rate is higher (lower) - The periods of vacancy are shorter (longer) - The rent free periods are shorter (longer)
The expected net cash flows are discounted using a risk adjusted discount rate. The discount rate is estimated based on factors including the quality and location of the property, the credit-worthiness of the tenant and the lease conditions.		

The fair value is the outcome of the (theoretical) rent divided by the net initial yield (expressed as a percentage) of the investment property. The total theoretical net initial yield at 31 December 2018 was 6.6% (2017: 7.6%). The yields applied are specific to the type of property, location, maintenance condition and letting potential of each asset. The yields are determined based on comparable transactions, as well as on market and asset-specific knowledge.

The most important assumptions and input parameters used in the valuations are:

	2018	2017
Average effective contractual rent per sqm (€):		
Offices	179	168
HNK	188	176
Other	165	169
Average market rent per sqm (€):		
Offices	175	155
HNK	178	169
Other	140	145
Average theoretical gross yield (%)	8.4%	9.6%
Average theoretical net yield (%)	6.6%	7.6%

Assumptions are made for each property, tenant and vacant unit based on the likelihood of letting (and reletting), the expected duration of vacancy (in months), incentives, capital expenditure and operating costs.

Investment property in operation

The movement in investment property in operation per segment was as follows:

2018

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2018	**730,783**	**178,859**	**161,738**	**1,071,380**
Acquisitions	145,705			145,705
Investments	4,396	11,150	444	15,990
Revaluation	38,798	16,978	-10,888	44,888
Transfer from / to investment property under construction	800			800
Transfer from / to assets held for sale	-22,808			-22,808
Disposals	-41,015		-27,750	-68,765
Balance as per 31 December 2018	**856,659**	**206,987**	**123,544**	**1,187,191**
Lease incentives as per 31 December 2018	4,651	1,333	336	6,319
Market value as per 31 December 2018	861,310	208,320	123,880	1,193,510

2017

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2017	**606,806**	**148,069**	**8,938**	**763,813**
Acquisitions	139,149	377		139,526
Investments	3,581	5,454	905	9,940
Revaluation	18,695	15,875	453	35,024
Transfer between segments	-8,368	8,368		
Transfer from / to assets held for sale	-8,735		151,442	142,707
Transfer from / to real estate in own use		715		715
Disposals	-20,345			-20,345
Balance as per 31 December 2017	**730,783**	**178,859**	**161,738**	**1,071,380**
Lease incentives as per 31 December 2017	4,859	913	362	6,134
Market value as per 31 December 2017	735,642	179,771	162,100	1,077,513

Collateral

On 31 December 2018, properties with a book value of € 275.1 million (2017: € 205.2 million) were mortgaged as security for loans drawn and current account overdraft facilities at banks amounting to € 94.1 million (2016: € 69.2 million). The level of security can vary within the financing facilities, enabling NSI to create additional loan capacity within the existing facilities or to allocate part of the security to another financing facility.

Sensitivities to yield fluctuations

The value of investment property implies an average theoretical net yield of 6.6% (2017: 7.6%). Valuations can be affected by the general (macro-economic and market environment, but also by local factors.

If, on 31 December 2018, the yields applied for the valuation of investment property had been 100 basis points lower than the yields currently applied, the value of investment property would increase by 17.8% (2017: 15.2%). In that case NSI's equity would be € 215 million (2017: € 169 million) higher due to a higher positive result. The loan-to-value would then decrease from 36.9% (2017: 36.9%) to 31.3% (2017: 32.0%).

If, on 31 December 2018, the yields applied for the valuation of investment property had been 100 basis points higher than those currently applied, the value of investment property would decrease by 13.1%. In that case NSI's equity would be € 159 million lower due to a lower result for the year. The loan-to-value would then increase from 36.9% to 42.4%.

Investment property under construction

The movement in investment property under construction per segment was as follows:

2018

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2018	**800**			**800**
Acquisitions	14,887			14,887
Investments	175			175
Revaluation	438			438
Transfer from / to investment property in operation	-800			-800
Balance as per 31 December 2018	**15,500**			**15,500**
Market value as per 31 December 2018	15,500			15,500

2017

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2017	**800**			**800**
Balance as per 31 December 2017	**800**			**800**
Market value as per 31 December 2017	800			800

As per 31 December 2018 investment property under construction only consists of Bentinck Huis, The Hague.

12. TANGIBLE FIXED ASSETS

Tangible fixed assets relate to the furniture and office equipment, the transport fleet, as well as part of the offices of the company at Antareslaan 69-75 in Hoofddorp, The Netherlands.

The movement in tangible fixed assets during 2017 and 2018 was as follows:

	2018	2017
Balance as per 1 January	**787**	**1,516**
Investments	58	76
Depreciation	-68	-75
Transfer to investment property		-715
Disposals		-15
Balance as per 31 December	**777**	**787**
Gross book value	1,093	1,035
Cumulative depreciation	-316	-248
Tangible fixed assets	**777**	**787**

During 2017 NSI transferred part of the head office of the company to investment properties, before letting it to a third party.

13. INTANGIBLE FIXED ASSETS

Intangible fixed assets consist of capitalised software.

Investments during 2018 mainly concern the development of the CRM system. In 2017 investments were made in both a data warehouse and the CRM system.

The movement in intangible fixed assets during 2017 and 2018 was as follows:

	2018	2017
Balance as per 1 January	**560**	**193**
Investments	104	466
Amortisation	-155	-87
Disposals		-12
Balance as per 31 December	**510**	**560**
Gross book value	1,101	996
Cumulative amortisation	-591	-436
Software	**510**	**560**

14. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Lease incentives	6,319	6,134
Other non-current assets	**6,319**	**6,134**

Lease incentives are straight-lined over the remaining lease terms until the first possible moment of termination by the tenants.

15. DEBTORS AND OTHER ACCOUNTS RECEIVABLE

	31 December 2018		31 December 2017	
Gross debtors	1,612		1,524	
Provision for doubtful debts	-556		-1,047	
Debtors		1,057		477
Tenant loans		64		90
Taxes		57		34
Prepayments and accrued income		299		249
Other current receivables		278		979
Debtors and other receivables		**1,755**		**1,829**

The largest item recognised under debtors and other accounts receivable concerns debtors (€ 1.6 million), mainly tenants who are overdue, which are reported after deduction of a provision for expected credit losses over the term of the receivables.

The provision for doubtful debts was determined according to the new IFRS 9 guideline and includes an impairment of receivables from prior years of € 0.2 million.

Information about the Group's credit risks relating to debtors and other receivables, as well as impairment losses can be found in note 20.

16. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank balances	245	6,827
Cash	0	0
Cash and cash equivalents	**245**	**6,827**

The full amount of cash and cash equivalents is freely available.

17. ASSETS HELD FOR SALE

As per 31 December 2017 the assets held for sale consisted of one retail property (Keizerslanden in Deventer) and one industrial property (Stammerhove in Diemen). Stammerhove was sold in the first half of 2018 and Keizerslanden was sold in December 2018.

At the end of 2018 the office buildings at Mr. E.N. van Kleffenstraat, Arnhem and Albert Plesmanweg, Rotterdam are classified as held for sale.

	31 December 2018	31 December 2017
Assets held for sale	3,940	28,791
Other assets directly associated to assets held for sale		
Assets held for sale	**3,940**	**28,791**

The assets held for sale currently contain no balances for straight-lining of lease incentives,

The movement in each segment of assets held for sale was as follows:

2018

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2018			**28,791**	**28,791**
Investments			1,782	1,782
Revaluation	-10		1,103	1,092
Transfer from / to investment property in operation	22,808			22,808
Disposals	-18,857		-31,675	-50,533
Balance as per 31 December 2018	**3,940**			**3,940**
Market value as per 31 December 2018	3,940			3,940

2017

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2017	**5,075**		**384,292**	**389,367**
Investments	-5		5,735	5,730
Revaluation			-7,665	-7,665
Transfer from / to investment property in operation	8,735		-151,442	-142,707
Disposals	-13,805		-202,128	-215,933
Balance as per 31 December 2017			**28,791**	**28,791**
Market value as per 31 December 2017			28,791	28,791

18. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

Issued share capital

As per 31 December 2017 the authorised share capital consisted of 18,364,998 issued and fully paid shares (€ 67.6 million). The issued shares have a par value of € 3.68 each.

In May 2018 109,300 shares were issued as stock dividend, relating to the final dividend distribution for 2017. This resulted in 8,474,298 issued shares (€ 68.0 million). In August 2018 an interim stock dividend of 100,000 shares was issued and distributed. After that date the number of issued and fully paid shares amounted to 18,574,298 (€ 68.4 million).

	2018	2017
Balance as per 1 January	**67,583**	**65,873**
Stock dividend - final distribution prior year	402	872
Stock dividend - interim	368	839
Balance as per 31 December	**68,353**	**67,583**

The movement in the number of shares issued in 2017 and 2018 was as follows:

	2018			2017		
	Ordinary shares	Treasury shares	TOTAL	Ordinary shares	Treasury shares	TOTAL
Balance as per 1 January	**18,364,998**		**18,364,998**	**143,201,841**	**140,837**	**143,342,678**
Stock dividend - final distribution prior year	109,300		109,300	1,894,831	-140,837	1,753,994
Stock consolidation				-126,959,588		-126,959,588
Stock dividend - interim	100,000		100,000	227,914		227,914
Balance as per 31 December	**18,574,298**		**18,574,298**	**18,364,998**		**18,364,998**

The holders of ordinary shares are entitled to receive the dividend declared by the company and to exercise one vote per share at the General Meeting of Shareholders.

Share premium reserve

	2018	2017
Balance as per 1 January	**921,715**	**923,435**
Stock dividend - final distribution prior year	-407	-877
Stock dividend - interim	-373	-844
Balance as per 31 December	**920,935**	**921,715**

The share premium reserve consists of the paid-up capital for ordinary shares in excess of the nominal value. The share premium reserve qualifies as fiscally recognised paid-up capital for Dutch tax purposes.

In the movement of the share premium reserve 2018, € 10k transaction costs on the issue of stock dividend is included.

Other reserves

	2018	2017
Balance as per 31 December	**-408,212**	**-367,220**
Change in accounting policy following IFRS 9	956	
Balance as per 1 January	**-407,256**	**-367,220**
Exchange rate differences	0	0
Profit appropriation	91,602	-17,833
Cash dividend - final distribution prior year	-16,407	-12,355
Cash dividend - interim	-15,469	-10,804
Balance as per 31 December 2018 / 31 December 2017	**-347,531**	**-408,212**

In the opening balance as per 1 January 2018, the other reserves were adjusted by € 1.0m as a result of the retrospective calculation of the refinancing of the Nexus facility at the end of 2016 based on IFRS 9 guidelines.

Dividend and earnings per share

The final dividend for 2018 is to be distributed in the form of cash, shares or a combination of both as proposed by the Management Board and subject to approval by the General Meeting of Shareholders on 17 April 2019. This proposal was not included as a liability in the balance sheet at 31 December 2018.

Number of shares

	31 December 2018	31 December 2017
Weighted average number of ordinary shares	**18,473,101**	**18,133,178**
Number of ordinary shares entitled to dividend	**18,574,298**	**18,364,998**

Dividend

	2018		2017	
	Per share	TOTAL	Per share	TOTAL
Interim dividend paid	1.04	19,213	1.04	18,616
Proposed final dividend	1.12	20,803	1.12	20,569
Total	**2.16**	**40,016**	**2.16**	**39,185**

Earnings per share

	2018	2017
Result from continuing operations after tax	4.95	5.13
Result from discontinued operations after tax		-0.07
Total result	**4.95**	**5.05**

The calculation of earnings per share at 31 December 2018 is based on the result attributable to ordinary shareholders of € 91.5 million (2017: € 91.6 million) and a weighted average number of outstanding ordinary shares during 2018 of 18,473,101 (2017: 18,133,178).

The proposed distribution of the final dividend complies with the fiscal distribution obligation and is in line with the current dividend policy to distribute at least 75% of the direct result.

Capital management

NSI prefers to work with a conservative capital structure to underpin its real estate activities, to secure the group's continuity in the long run. The benefit of a conservative capital structure is that it is possible to keep the overall cost of capital low. The aim is to have at any point in time sufficient balance sheet capacity to pay out dividends, honour all capital commitments and absorb a material fall in appraisal values, be able to fund investment opportunities and stay well within all loan covenants and so not having to resort to asset disposals or equity issue to restore the balance sheet. NSI prefers to finance itself mostly through unsecured financing to maintain optimal flexibility. It will also look to manage its balance sheet risk in relation to the other risks inherent to the business (economic cycle risk, leasing risk, development risk etc.).

NSI also consistently monitors its fiscal capital base to make sure it meets and continues to meet all the requirements related to its FBI-status.

Management seeks to achieve a balance between a higher return that could be achieved through a higher level of debt capital, on the one hand, and the benefits and security of a healthy financial position, on the other. In addition, management safeguards capital by monitoring the loan / property value ratio and the debt owed to credit institutions / equity ratio. The ratio of debt owed to credit institutions / property investments was 36.9% on 31 December 2018 (2017: 36.9%). The ratio of debt owed to credit institutions / equity was 37.9% / 62.1% on 31 December 2018 (2017: 37.8% / 62.2%).

All bank covenants are monitored proactively and periodically. The key covenants for NSI relate to:
- Loan-to-value;
- The interest coverage ratio;
- Solvency.

Furthermore, loans differ in the use or non-use of security, (public) transferability and other possible characteristics such as convertibility, affiliations with indices and inflation.

Loan-to-value

NSI has two covenants relating to loan-to-value (LTV):
- LTV of NSI units regarding independent financing arrangements with specific assets acting as security. The maximum individual LTV relating to this specific security must be below 60%;
- LTV regarding NSI's entire portfolio. The maximum LTV must not exceed 60%.

The following table provides an overview of the LTV at group level:

	LTV (%)		Individual LTV's are compliant	
	2018	2017	2018	2017
NSI - group-level	36.9%	36.9%	Yes	Yes

In 2018 NSI and its subsidiaries complied with the LTV requirements agreed with banks on both an individual and consolidated level. Furthermore, a number of requirements must be met to achieve and maintain the status of a Dutch real estate investment trust (FBI). One such requirement relates to the maximum LTV (norm: ≤ 60%). The basis for calculating this LTV differs fundamentally from the basis used for financial institutions. For the latter group NSI uses its commercial figures. The figures for tax purposes are used to calculate the LTV to assess the Dutch FBI status. NSI complied with this requirement in both 2017 and 2018.

Interest coverage ratio

NSI has two covenants relating to the interest coverage ratio (ICR):
- The interest coverage ratio for independently financed NSI subsidiaries must be at least 2.0;
- Interest coverage ratio for NSI's entire portfolio must be at least 2.0.

The table below shows the interest coverage ratio (ICR):

	ICR		Individual ICR's are compliant	
	2018	2017	2018	2017
NSI - group-level	5.5	4.7	Yes	Yes

In 2018 NSI and its subsidiaries complied with the independent and consolidated interest coverage ratio requirements agreed with the banks.

Solvency

Based on the covenants, adjusted shareholders' equity at group level must be at least 40%. In 2018 this was 60.8% (2017: 60.7%) in line with the covenants.

Other than the requirements ensuing from its status as a fiscal investment institution, the company nor its subsidiaries are subject to any externally imposed capital requirements.

19. INTEREST BEARING LOANS

The development of the interest bearing loans in 2017 and 2018 was as follows:

	2018	2017
Balance as per 31 December	**405,408**	**510,904**
Restrospective adjustment IFRS 9	-956	
Balance as per 1 January	**404,451**	**510,904**
Drawn interest bearing loans	519,712	99,000
Amortisation transaction costs	1,331	1,054
Repayment of interest bearing loans	-487,838	-205,550
Balance as per 31 December	**437,657**	**405,408**
Redemption requirement interest bearing loans	1,250	700
Balance as per 31 December	**436,407**	**404,708**

NSI has retrospectively calculated the impact on the refinancing of the Nexus facility in 2016. NSI qualifies this refinancing as a modification. Therefore, based on current IFRS 9 guidelines, € 1.0 million should have been adjusted to the amortised costs on the loan. This is reflected in the opening balance of 2018.

On 19 April 2018, NSI concluded the refinancing of the existing Nexus-facility of € 485 million. Under IFRS 9, this refinancing was qualified as an extinguishment; as such the non-amortised costs of the original loan of € 2.1 million were charged to the result as financing costs.

The remaining maturities of the loans at 31 December 2018 were as follows:

	31 December 2018			31 December 2017		
	Fixed interest	Variable interest	TOTAL	Fixed interest	Variable interest	TOTAL
Up to 1 year	550	700	1,250		700	700
From 1 to 2 years	550	700	1,250		59,365	59,365
From 2 to 5 years	24,475	321,197	345,671		279,947	279,947
From 5 to 10 years	89,485		89,485		65,396	65,396
More than 10 years						
Total	**115,060**	**322,597**	**437,657**		**405,408**	**405,408**
Average interest rate (excl. Interest-rate swaps)	2.3%	1.5%			1.9%	

In 2019 € 1.3 million (2018: €0.7 million) of financing will expire. The amount concerns the amortisation requirement of two loans due and will be covered by retained cash or the available financing facilities.

Loans outstanding have a remaining average maturity of 5.0 years (2017: 3.1 years) The weighted average annual interest rate on the loans and interest-rate swaps was 2.0% (2017: 2.3%) at the end of 2018. The weighted average annual interest rate includes margin, utilisation fees and amortised costs and excludes commitment fees.

	31 December 2018			31 December 2017		
	Secured loans	Unsecured loans	TOTAL	Secured loans	Unsecured loans	TOTAL
Interest bearing loans - nominal value	94,075	345,000	439,075	69,200	338,000	407,200
Amortised costs	-252	-1,166	-1,418	-304	-1,489	-1,792
Total	**93,823**	**343,834**	**437,657**	**68,896**	**336,511**	**405,408**

During 2018 € 1.3 million of financing costs were capitalised (2017: € 0.0 million). The financing costs are recognised in the profit and loss account using the effective interest method.

As security for loans (up to € 94.1 million), mortgages were pledged against investment property valued at € 275.1 million (2017: € 205.2 million), combined with pledges on rental income and maximum LTV requirements.

On 31 December 2018 the company's undrawn committed credit facilities totalled € 225.0 million (2017: € 147.0 million). Taking into account the cash and cash equivalents and debts to credit institutions, our remaining undrawn committed credit facility is € 214.7 million. The fair value of the loans on 31 December 2018 was € 442.7 million (2017: € 414.5 million).

20. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Recognition categories and fair values

The table on the next page summarises the book values and fair values of financial assets and liabilities, as well as their applicable level within the fair value hierarchy. The table does not provide information on the fair value of financial assets and liabilities not measured at fair value if the book value is a reasonable reflection of the fair value.

Fair value hierarchy

Fair value measurements are categorised into different levels in the fair value hierarchy depending on the input that formed the basis of the valuation techniques applied.

The different levels are defined as follows:
- Level 1: valuation based on quoted prices in active markets for identical assets or liabilities;
- Level 2: valuation of assets or liabilities based on (external) observable information;
- Level 3: valuation of assets or liabilities based wholly or partially on (external) unobservable information.

Level 2 applies to all financial instruments; a model in which fair value is determined based on directly or indirectly observable market data. In level 2 fair values for over-the-counter derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves obtained by external data sources (e.g. Bloomberg) and valuation statements received from our counterparties These quotes are regularly tested for adequacy by discounting cash flows using the market interest rate for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments that take into account the credit risk of the group entity and the counterparty, when appropriate.

	Note	31 December 2018 Fair value level	Amortised cost price	Fair value	31 December 2017 Fair value level	Amortised cost price	Fair value
Financial assets valued at fair value through profit or loss							
Derivative financial instruments		2		323	2		1,162
Financial assets valued at amortised cost price							
Debtors and other receivables	15	2	1,755		2	1,829	
Cash and cash equivalents	16	1	245		1	6,827	
Financial liabilities valued at fair value through profit or loss							
Derivative financial instruments		2		5,370	2		1,712
Financial liabilities valued at amortised cost price							
Interest bearing loans	19	2	437,657		2	405,408	
Other non-current liabilities	21	2	4,080		2	3,540	
Creditors and other payables	22	2	25,602		2	24,855	
Debts to credit institutions	23	2	10,497		2	9,873	
Liabilities associated to assets held for sale		2	71		2	195	

Fair value of financial instruments

The categories of financial instruments are:
- AC: Amortised Cost;
- FVPL: Fair Value through Profit or Loss;
- FVOCI: Fair Value through Other Comprehensive Income.

The book value of the financial instruments in the balance sheet and the fair values are as follows:

	Note	Category IFRS9	31 December 2018 Book value	Fair value	31 December 2017 Book value	Fair value
Derivative financial instruments		FVPL	323	323	1,162	1,162
Debtors and other receivables	15	AC	1,755	1,755	1,829	1,829
Cash and cash equivalents	16	AC	245	245	6,827	6,827
Financial assets			**2,323**	**2,323**	**9,818**	**9,818**
Derivative financial instruments		FVPL	5,370	5,370	1,712	1,712
Interest bearing loans	19	AC	437,657	442,699	405,408	414,492
Other non-current liabilities	21	AC	4,080	4,080	3,540	3,540
Creditors and other payables	22	AC	25,602	25,602	24,855	24,855
Debts to credit institutions	23	AC	10,497	10,497	9,873	9,873
Liabilities associated to assets held for sale		AC	71	71	195	195
Financial liabilities			**483,277**	**488,319**	**445,582**	**454,667**

On the balance sheet date the derivative financial instruments had the following maturity:

	31 December 2018				31 December 2017			
	# contracts	Nominal value	Fair value assets	Fair value liabilities	# contracts	Nominal value	Fair value assets	Fair value liabilities
Up to 1 year	3			43				
From 1 to 5 years	21	315,000	323	5,327	15	265,000	128	1,712
From 5 to 10 years					5	50,000	1,034	
Total	**24**	**315,000**	**323**	**5,370**	**20**	**315,000**	**1,162**	**1,712**

NSI minimises its interest rate risk by swapping the variable interest it pays on the majority of its loans for a fixed interest rate by means of contracts with fixed interest rates varying from -0.19% to 0.73% (2017: - 0.19% to 0.49%) and with maturity dates between 2019 and 2023 (2017: between 2019 and 2023). The weighted average remaining maturity of the derivatives is 5.1 years (2017: 3.0 years).

NSI is hedged at a weighted average interest rate of 0.3% (excluding margin) (2017:0.3%), 2% of the total outstanding variable interest loans (2017: 23.0%) are not hedged (volume hedge of 98%).

Financial risk management

In the normal conduct of business, the group is subject to liquidity risk, including financing and refinancing risk, market risk and credit risk. Overall risk management is focused on the unpredictability of the financial markets and is designed to minimise any negative effects on the group's business performance. The group closely monitors the financial risks associated with its business and financial instruments. The group is a long-term investor in real estate and therefore applies the principle that the financing of these investments should also be planned for the long term, in accordance with the risk profile of its business.

The policy and monitoring of risks are reviewed regularly and adjusted if necessary to reflect changes in market conditions and the group's operations.

Liquidity risk

Investing in property is a capital-intensive activity. The property portfolio is financed partly with equity and partly with debt. Funding with debt carries refinancing risks. The potential impact is that there is insufficient liquidity available to meet the company's obligations at the moment of the interest payment or repayment. Liquidity risk involves the risk of the group having problems fulfilling its financial obligations. The basic principle of liquidity risk management is that sufficient resources should be kept available, if possible, for the group to fulfil its current and future financial obligations under normal and difficult circumstances and without incurring unacceptable losses or harming the reputation of the group.

Liquidity risk management involves ensuring the availability of adequate credit facilities. To spread its liquidity risk, the group has funded its operations with various loans and shareholders' equity. Furthermore, measures have been taken to ensure a higher occupancy rate and to prevent financial losses resulting from the bankruptcies of tenants. Fluctuations in the company's liquidity needs are absorbed by undrawn parts of committed credit facilities of € 225.0 million (2017: € 147.0 million).

The interest and repayment obligations were safeguarded for 2019 based on the undrawn parts of committed credit facilities, extensions on loans and lease agreements. Maturity dates are spread over time to minimise liquidity risk. The average remaining maturity of loans is 5.0 years (2017: 3.1 years).

At year-end 2018 NSI had € 25.0 million of current account committed credit facilities with banks at its disposal, of which € 10.5 million was drawn. The undrawn committed credit facilities of the interest-bearing loans and current account credit facilities amounted to € 214.5 million at 31 December 2018. Furthermore, cash and cash equivalents amounted to € 0.2 million at 31 December 2018. This brings the total of unused credit facilities and cash and cash equivalents to € 214.7 million at 31 December 2018.

The contractual periods of the financial liabilities, including the estimated interest payments are stated below:

2018

		Contractual cash flow					
	Book value	TOTAL	< 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years
Loans	437,657	478,912	4,245	4,280	32,789	339,546	98,051
Other non-current liabilities	4,080	4,080	972	203	572	1,676	656
Creditors and other payables	25,602	25,602	25,602				
Debts to credit institutions	10,497	10,497	10,497				
Liabilities associated to assets held for sale	71	71	71				
Non-derivative financial liabilities	**477,907**	**519,162**	**41,388**	**4,484**	**33,361**	**341,222**	**98,707**
Hedging interest rate swaps	5,370	9,866	644	655	2,254	6,312	
Derivatives	**5,370**	**9,866**	**644**	**655**	**2,254**	**6,312**	
Total	**483,277**	**529,028**	**42,033**	**5,138**	**35,616**	**347,534**	**98,707**

2017

		Contractual cash flow					
	Book value	TOTAL	< 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years
Interest bearing loans	405,408	429,884	3,942	3,929	66,840	288,963	66,210
Other non-current liabilities	3,540	3,540	885	319	372	1,235	729
Creditors and other payables	24,855	24,855	24,855				
Debts to credit institutions	9,873	9,873	9,873				
Liabilities associated to assets held for sale	195	195	195				
Non-derivative financial liabilities	**443,870**	**468,346**	**39,750**	**4,248**	**67,212**	**290,198**	**66,939**
Hedging interest rate swaps	1,712	2,545	547	547	1,093	359	
Derivatives	**1,712**	**2,545**	**547**	**547**	**1,093**	**359**	
Total	**445,582**	**470,892**	**40,296**	**4,794**	**68,305**	**290,557**	**66,939**

The gross inflow / outflow reflected in these table shows the non-discounted contractual cash flows related to the derivative financial liabilities held for risk management purposes that are generally not terminated before the end of the contractual period. The information shows the net cash flow amounts for derivatives settled net in cash and the gross cash inflows and outflows for derivatives that are simultaneously settled gross in cash.

The interest payments on the loans in the above table with variable interest rates and interest rate swaps used for hedging purposes are based on market interest rates at the end of the reporting period. The amounts may change due to changes in market interest rates. It is not expected that the cash flows assumed in the maturity analysis will occur significantly earlier or with significantly different amounts.

Market risk

Market risk exists because of price changes. The purpose of market risk management is to manage and control market risk exposures within acceptable limits while simultaneously optimising returns. Market risk consists of interest rate risk and foreign currency risk. The group uses derivatives to manage the market risk of volatility of interest rates. Such transactions take place within the guidelines laid down in the treasury policy.

There is no currency risk exposure at the end of December 2018.

Interest rate risk

NSI must at all times meet its obligations under the loans drawn and the interest coverage ratio shows the company's ability to do so. The interest coverage ratio is calculated as the net rental income divided by the net financing costs. The financing covenants stipulate that the interest coverage ratio may not fall below 2.0.

In addition, NSI must comply with the requirements set in terms of its loan-to-value ratio (debts to credit institutions divided by its investments). The financing covenants stipulate that the total amount of loans drawn may not exceed 60% of the value of the underlying investment property. The applicable interest rates on loans are partly dependent on the loan-to-value ratio at the moment the interest rate is being set. If the loan-to-value ratio increases, the interest costs will therefore rise. The ratios to which the company has committed itself in the loan agreements are monitored on a regular basis, at least once every six months.

If NSI were not able to meet these criteria and were not able to reach an agreement about this with the banks involved, this could result in the financing arrangements being renegotiated, terminated or prematurely repaid. If NSI does not have sufficient cash or alternative funding sources of funding to meet its obligations, any "default" or "cross-default" situation can occur.
At the end of 2018 the interest coverage ratio was 5.5 (2017: 4.7), which is higher than the level of 2.0 agreed with the banks. At the end of 2018 the Loan-to-Value was 36.9% (2017: 36.9%), which means that NSI is compliant with all the covenants of the outstanding loan agreements.

Variable-interest rate loans expose NSI to uncertainty about interest expenses. Derivatives are used to manage interest rate risk. NSI's policy regarding the hedging of interest rate risk is defensive by nature, NSI does not take speculative positions. NSI aims to hedge the majority of the outstanding loans for the medium to long term. On 31 December 2018 NSI held financial derivatives with a nominal value of € 315.0 million (2017: € 315.0 million) for the purpose of managing the interest rate risk on its loans.

Sensitivity of interest rate

If the variable interest rate were to rise 100 basis points compared to 31 December 2018, the theoretical interest expenses for 2019 would decrease by € 0.7 million (2017: decrease by € 0.4 million), due to the effect of interest rate swaps based on three-months Euribor with no floor against loans with a Euribor floor of zero, assuming no changes to the portfolio or financing (including margins). In case the variable interest rate would be 100 basis points lower, the interest expenses would increase by € 3.2 million (2017: increase by € 3.2 million). The financial derivatives are discounted (inclusive and exclusive of derivatives) in this calculation, but potential changes to the fair value of the derivatives are not.

Analysis of effective interest rates and interest rate revisions

The table below shows the effective interest rate (the variable interest rate is based on 3-month Euribor as per 31 December) of financial assets and liabilities for which interest is payable at the balance sheet date, together with the dates when the rates will be reviewed.

2018

	Effective interest	TOTAL	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Fixed interest loans	2.3%	115,060	550	25,025		89,485
Variable interest loans	1.5%	7,597	700	700	6,197	
Fixed interest as a result of swaps	1.5%	315,000			315,000	
Total	**2.0%**	**437,657**	**1,250**	**25,725**	**321,197**	**89,485**
Redemption obligations		1,250	1,250			
Balance as per 31 December 2018		**436,407**		**25,725**	**321,197**	**89,485**

2017

	Effective interest	TOTAL	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Variable interest loans	1.9%	90,408	700	19,365	54,947	15,396
Fixed interest as a result of swaps	2.4%	315,000		40,000	225,000	50,000
Total	**2.3%**	**405,408**	**700**	**59,365**	**279,947**	**65,396**
Redemption obligations		700	700			
Balance as per 31 December 2017		**404,708**		**59,365**	**279,947**	**65,396**

Credit risk

Credit risk is defined as the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet their contractual obligations. Credit risks mainly arise from tenant receivables. The book value of the financial assets represents the maximum exposure to credit risk.

The maximum credit risk on the balance sheet date was as follows:

	31 December 2018	31 December 2017
Derivative financial instruments	323	1,162
Debtors and other receivables	1,755	1,829
Cash and cash equivalents	245	6,827
Credit risk	**2,323**	**9,818**

Banks

The risks associated with a possible non-performance by counterparties are minimised by entering into transactions for loans and derivative financial instruments and cash management with various reputable banks. These banks have credit ratings of at least Baa2 (Moody's) or BBB+ (Standard & Poor's). Management actively monitors the credit ratings.

Tenants

The creditworthiness of tenants is closely monitored by careful screening the credit scores of tenants in advance and by actively monitoring debtor balances. In addition, rent is generally paid in advance and tenants are required to provide collateral for rent payments for a limited period of three months in the form of guarantee payments or bank guarantees. As the tenant base consists of a large number of different parties, there is no concentration of credit risk.

The maturity of (gross) receivables was as follows:

	31 December 2018	31 December 2017
Up to 1 month expired	686	136
From 1 to 3 months expired	30	53
From 3 months to 1 year expired	298	497
More than 1 year expired	599	839
Gross debtors	**1,612**	**1,524**

Aside from bank guarantees, security deposits for € 4.1 million (2017: € 3.5 million) were obtained to cover for potential loss of creditworthiness of tenants with regard to the receivables, of which € 1.2 million is relating to expiring lease contracts within one year.

Movement in the provision for impairment of doubtful debts was as follows:

	2018	2017
Balance as per 1 January	**1,047**	**2,887**
Addition to / release of provision	-120	136
Write-off bad debts	-371	-1,976
Balance as per 31 December	**556**	**1,047**

Impairment losses recognised at 31 December 2018 were related to various tenants who indicated that they would not be able to pay outstanding balances due to the economic circumstances.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared characteristics and the days past due date. On this basis the expected loss rate for trade receivables which are <90 days expired is below 2% and for trade receivables > 90 days expired these rates per segment are:

	> 90 days expired
Offices	73.59%
HNK	63.41%
Other	82.34%

21. OTHER NON-CURRENT LIABILITIES

	31 December 2018	31 December 2017
Security deposits	4,080	3,540
Other non-current liabilities	**4,080**	**3,540**

The average term of the leases relating to the security deposits included in this overview is 3.0 years (2017: 3.4 years).

22. CREDITORS AND OTHER PAYABLES

		31 December 2018		31 December 2017
Creditors		3,402		3,668
Taxes		2,259		1,934
Interest		1,249		1,095
Deferred income	10,760		10,010	
Accruals	7,788		7,661	
Deferred income and accruals		18,548		17,671
Other current payables		145		487
Creditors and other payables		**25,602**		**24,855**

23. DEBTS TO CREDIT INSTITUTIONS

The item Debts to credit institutions concerns cash loans and current account overdrafts with banks. NSI has concluded credit arrangements with a number of banks, of which a part is available as overdraft facility. In the case of cash-pool arrangements, cash and cash equivalents and debts to credit institutions are offset if allowed under IFRS9. The weighted average interest on available credit facilities as per yearend 2018 was 1.3% (2017: 1.5%) per annum including margin.

	31 December 2018	31 December 2017
Credit facilities	25,000	40,000
Unused	14,503	30,127
Debts to credit institutions	**10,497**	**9,873**

24. OFF-BALANCE SHEET COMMITMENTS

Meubelplein, Leiderdorp

On 29 June 2017 NSI sold the total large scale retail portfolio to Retail Estates N.V.. In this deal, separate arrangements were made concerning Meubelplein, Leiderdorp. If the buyer does not manage to sell the object to a third party before 30 June 2019, NSI is obliged to repurchase the object for € 750k. NSI requested an external valuation to obtain certainty on the current value of the object in relation to the value at which the object was originally sold. As the market value is significantly higher than the price at which NSI would have to repurchase the object, NSI is of the opinion that Retail Estates should be able to sell the object before 30 June 2019.

NSI will remain in contact with Retail Estates to check the progress on the sale process.

Shopping center 't Loon, Heerlen

In early December 2011 the soil subsided under shopping centre 't Loon in Heerlen. As a result of this sinkhole, the municipal authority ordered the demolition of part of the shopping centre (5,041 sqm of the original 25,312 sqm). NSI incurred losses as a result of the sinkhole and the subsequent demolition order for part of the shopping centre. The largest losses are related to the value of the investment property that was demolished, to the reconstruction costs and to the loss of rental income during the reconstruction of the shopping centre. The insurance companies of both NSI and the owners' association of shopping centre 't Loon ("VvE") refused to cover the damage under the insurance (building insurance).

As a result, both NSI and the VvE initiated proceedings at the District Court of Rotterdam against the insurance companies in 2015. The District Court rendered an interlocutory judgement on 20 June 2018. Both proceedings (that were held simultaneously) had different outcomes. The damage as such is covered under both insurance policies. However, the Court ruled that the VvE has violated her obligation to disclose information to the insurer of the knowledge that it had on earlier reconstructions of the parking garage at the shopping centre when the insurance was taken out. In the proceeding between the insurance companies and NSI, the Court ruled that NSI did not have the same information as the VvE and has not violated her obligation to disclose such information. As a result, the VvE (and therefor also NSI for its share in the VvE) is not covered under the first layer policy but the damage suffered by NSI is covered under its (excess) all-risk insurance.

The parties will now debate on exactly what damage has been suffered by NSI. NSI 's claim represents a principal sum of approximately € 12 million excluding legal interests. The final judgement to be rendered by the District Court is subject to appeal.

On 20 January 2016 the insurance company of one of the tenants held the VvE and its members, including NSI, liable for the loss of revenue covered by the insurance company, representing a principal sum of €1.6m excluding legal interests. On 19 July 2017 the District Court rejected the claim from the insurance company of the tenant. In October 2017 this insurance company appealed the District Court' judgement. Subsequently, the insurance company has issued its statement of grievances on 8 May 2018. The VvE and its members each issued their statement of reply on 11 June 2018. The Court of Appeal has set the date on which parties may state their case on 12 March 2019.

Other

The company has entered into investment commitments for an amount of € 1.5 million (2017: € 8.0 million) relating to investment properties. For maintenance, technical property management, IT-providers etc. the company has entered into other contractual obligations for € 1.9 million (2017: € 6.7 million). The obligations relating to lease cars amount to € 0.6 million (2017: € 0.4 million). The company has annual obligations from land leases of € 0.2 million (2017: € 0.2 million). These land lease obligations will expire between 2036 and 2075.

As from 1 January 2019, as a result of the adoption of IFRS16, these obligations will be included in the financial statements. The financial impact on the assets and liabilities on the balance sheet is expected to be around € 3.0 million.

The company has unused credit facilities amounting to € 214.5 million (2017: € 137.1 million).

25. RELATED PARTIES

The following parties qualify as related parties:
- The company and its group companies;
- Its Supervisory Board members and;
- Management Board members.

NSI defines its statutory Management Board as “key management personnel”.

Interests of major investors

Notifications of shareholdings of more than 3% are disclosed under the Dutch Disclosure of Major Holdings in Listed Companies Act. According to the Dutch Authority for the Financial Markets (AFM) the following shareholders hold a stake of more than 3% on 31 December:

	31 December 2018	31 December 2017
ICAMAP Investments SARL	10.0%	5.0%
BlackRock, Inc.	5.0%	4.7%
Phoenix Insurance Company Ltd.	3.7%	3.7%
APG Asset Management N.V.	3.3%	
Axa Investment Managers S.A.	3.0%	3.0%
Norges Bank	3.0%	3.0%

Supervisory Board and Management Board Members

The members of the Supervisory and Management Boards of NSI N.V. have no direct personal interest in the investments made by NSI N.V., nor did they have such an interest at any time in the past year. The company is not aware of any investment property transactions with persons or institutions that could be considered to have a direct relationship with the company in the reporting year.

Remuneration of the Supervisory Board

	2018	2017
Henk Breuking (chairman up to 21 April 2017)		16
Luurt van der Ploeg (chairman as from 21 April 2017)	53	51
Margreet Haandrikman (as from 21 July 2017)	38	17
Karin Koks - Van der Sluis	49	40
Harm Meijer	38	45
Nico Tates (up to 20 April 2018)	13	41
Remuneration of the Supervisory Board	**189**	**210**

The schedule above includes the payment the Supervisory Board members receive as a member of the Audit Committee, the Remuneration Committee, the Selection & Appointment Committee and the Real Estate Committee.
The Supervisory Board members did not hold any shares in the company at the end of 2018 (2017: 0), except for Mrs. Koks - van der Sluijs who holds 154 shares (2017: 152 shares adjusted for share consolidation). Furthermore, Mr. Meijer is a shareholder in ICAMAP Investments SARL, which is holding more than 10.0% of NSI shares as per 31 December 2018 (2017: > 5.0%).

Remuneration of the Management Board
2018

	Fixed salary	Variable salary	Severance payment	Social security	Pension	Other	TOTAL	Equity holding # shares
Bernd Stahli	385	186		10	13	1	595	13,744
Alianne de Jong	240	56		10	10	2	319	
Anne de Jong	310	147		10	13	4	483	2,553
Remuneration Management Board	**935**	**389**		**31**	**36**	**7**	**1,398**	**16,297**

2017

	Fixed salary	Variable salary	Severance payment	Social security	Pension	Other	TOTAL	Equity holding # shares
Bernd Stahli	385	183		10	13	7	597	13,311
Daniël van Dongen	153	82	305	5	20		566	
Alianne de Jong	70			3	3	4	81	
Anne de Jong	300	45		10	13	2	369	353
Remuneration Management Board	**909**	**310**	**305**	**27**	**49**	**13**	**1,613**	**13,664**

NSI shares held by directors are purchased at their own risk and expense.

The Annual General Meeting of Shareholders (AGM) of 27 April 2012 adopted an amended remuneration policy for the Management Board. At the Extraordinary General Meeting (EGM) of 25 August 2016 an amendment was adopted regarding the ratio between the fixed and variable remuneration components.

The remuneration of the Management Board consists of a fixed annual salary, a variable remuneration and secondary employment benefits.

The variable component has consisted solely of a long-term share plan (LTSP) since 1 January 2012.

The LTSP covers in principle a three-year period and is capped: the maximum to be awarded to the CEO under the LTSP amounts to 180% of the average fixed annual salary during the LTSP period; the maximum to be awarded to the CFO is 90% and to the CIO is 120%.

Of the remuneration under the LTSP 80% is based on the total shareholder return (TSR) during the LTSP period. This TSR takes into account the NSI share price at the beginning and at the end of the period as well as dividends distributed during the period. In addition, NSI's TSR is compared with a benchmark TSR. This benchmark consists of Wereldhave, VastNed Retail, Alstria, Befimmo, Cofinimmo and Eurocommercial Properties. The LTSP remuneration is determined based on the relative performance of NSI in relation to the benchmark. This is based on a scale. Of the LTSP reward 20% is based on personal targets for the Management Board member that are determined and assessed by the Supervisory Board.

The LTSP is a cash-settled, share-based payment transaction. The LTSP allocation is paid in cash under the condition that the respective Management Board member uses 2/3 of the net amount to purchase NSI shares. A lock-up period of three years applies.

The LTSP contract of the current CEO commenced on 1 January 2017 and expires on 31 December 2019. The LTSP period of both the CIO and the CFO commenced on 1 January 2018 and expires on 31 December 2020.

No share options and no loans

No members of the Management Board or Supervisory Board hold option rights in NSI N.V.. No loans, advances or guarantees have been provided to members of the Management Board or Supervisory Board by NSI N.V..

26. COST RATIO

Under the Dutch Financial Supervision Act (Wet financieel toezicht) NSI is required to report its ratio of expenses to its net asset value. In 2018 this ratio is was 3.2% (2017: 4.8%). This cost ratio is calculated as total expenses (operational costs, non-recharged service costs, administrative expenses and corporate tax) divided by the weighted average net asset value for the latest financial year.

COMPANY BALANCE SHEET

(BEFORE PROPOSED PROFIT APPROPRIATION)

	Note	31 December 2018	31 December 2017
Assets			
Financial fixed assets	1	1,191,889	1,092,844
Derivative financial instruments		323	1,162
Tangible fixed assets		63	87
Intangible fixed assets		510	560
Non-current assets		**1,192,784**	**1,094,653**
Debtors and other receivables		289	170
Cash and cash equivalents		186	249
Current assets		**476**	**419**
Total assets		**1,193,260**	**1,095,071**
Shareholders' equity			
Issued share capital	2	68,353	67,583
Share premium reserve	2	920,935	921,715
Participations reserve	2	145,930	96,624
Translation reserve	2	-	0
Retained earnings	2	-493,460	-504,837
Total result for the year	2	91,525	91,602
Shareholders' equity		**733,283**	**672,688**
Liabilities			
Interest bearing loans		436,407	404,708
Derivative financial instruments		5,327	1,712
Non-current liabilities		**441,733**	**406,419**
Redemption requirement interest bearing loans		1,250	700
Derivative financial instruments		43	-
Creditors and other payables		6,454	5,392
Debts to credit institutions		10,497	9,873
Current liabilities		**18,244**	**15,965**
Total liabilities		**459,978**	**422,384**
Total shareholders' equity and liabilities		**1,193,260**	**1,095,071**

The notes on pages 106-110 form an integral part of these company financial statements.

COMPANY INCOME STATEMENT

	Note		2018		2017
Administrative costs	3		-7,895		-7,390
Other income and costs			59		-110
Financing income	4	13		1	
Financing costs	4	-12,526		-15,306	
Movement in market value of financial derivatives	4	-4,497		3,097	
Net financing result			-17,011		-12,209
Corporate result before tax			**-24,847**		**-19,709**
Corporate income tax					
Corporate result after tax			**-24,847**		**-19,709**
Result from participations			116,372		111,310
Total result for the year			**91,525**		**91,602**

The notes on pages –106-110 form an integral part of these company financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

GENERAL

NSI N.V. exclusively performs holding activities. NSI's structure as described in the notes to the consolidated financial statements also applies to the company financial statements.

The company financial statements have been prepared in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code regarding financial reporting. In the preparation of its financial statements, the company has also applied the provisions for the contents of financial reporting by investment institutions pursuant to the Dutch Financial Super- vision Act.

PRINCIPLES OF DETERMINATION OF THE RESULT

The company financial statements have been prepared in accordance with Article 362 Paragraph 8 Book 2 of the Dutch Civil Code. This means that the principles for the processing and valuation of assets and liabilities and the determination of the result as described in the disclosure to the consolidated financial statements also apply to the company financial statements, unless stated otherwise. For a description of these principles, please refer to pages 70 to 77. If required notes have been incorporated in the consolidated financial statements these notes have not been incorporated here.

Financial fixed assets

Shares in group companies are valued at net asset value. In determining the net asset value, all assets, liabilities and profits and losses are subject to the accounting principles used for the consolidated financial statements, in accordance with the provisions of Article 362 Paragraph 8 (final sentence) of Book 2 of the Dutch Civil Code.

All receivables from group companies are considered as an extension of net investments in group companies.

1. FINANCIAL FIXED ASSETS

	31 December 2018	31 December 2017
Balance as per 1 January	**1,092,844**	**1,130,938**
Result from participations	116,372	111,310
Dividend received from group companies		-15,478
Changes in receivables from group companies	-17,327	-133,927
Balance as per 31 December	**1,191,889**	**1,092,844**

2. SHAREHOLDERS' EQUITY

The movement in shareholders' equity was as follows:

2018

	Issued share capital	Share premium reserve	(Statutory) partici-pations reserve	(Statutory) translation reserve	Retained earnings	Result for the year	Share-holders' equity
Balance as per 31 December 2017	**67,583**	**921,715**	**96,624**	**0**	**-504,837**	**91,602**	**672,688**
Change in accounting policy following IFRS 9					956		956
Balance as per 1 January 2018	**67,583**	**921,715**	**96,624**	**0**	**-503,881**	**91,602**	**673,644**
Total result for the year						91,525	91,525
Other comprehensive income				0	0		
Total comprehensive income for the year				**0**	**0**	**91,525**	**91,525**
Profit appropriation - 2017					91,602	-91,602	
Distribution final dividend - 2017	402	-407			-16,407		-16,412
Interim dividend - 2018	368	-373			-15,469		-15,474
Realised revaluation			-841		841		
Addition to participations reserve			50,146		-50,146		
Contributions from and to shareholders	**770**	**-780**	**49,305**	**-**	**10,420**	**-91,602**	**-31,887**
Balance as per 31 December 2018	**68,353**	**920,935**	**145,930**	**-**	**-493,461**	**91,525**	**733,283**

2017

	Issued share capital	Share premium reserve	(Statutory) partici-pations reserve	(Statutory) translation reserve	Retained earnings	Result for the year	Share-holders' equity
Balance as per 1 January 2017	**65,873**	**923,435**	**61,300**	**0**	**-428,521**	**-17,833**	**604,255**
Total result for the year						91,602	91,602
Other comprehensive income				0			0
Total comprehensive income for the year				**0**		**91,602**	**91,602**
Profit appropriation - 2016					-17,833	17,833	
Distribution final dividend - 2016	872	-877			-12,355		-12,360
Interim dividend - 2017	839	-844			-10,804		-10,809
Realised revaluation			-10,703		10,703		
Addition to participations reserve			46,027		-46,027		
Contributions from and to shareholders	**1,710**	**-1,720**	**35,324**	**-**	**-76,316**	**17,833**	**-23,169**
Balance as per 31 December 2017	**67,583**	**921,715**	**96,624**	**0**	**-504,837**	**91,602**	**672,688**

Both the retained earnings and the share premium reserve are available for distribution as dividend.
For further details on movements in shareholders' equity, please refer to the consolidated financial statements (see disclosure 18 to the consolidated financial statements).

Statutory reserves

The statutory reserves in the company balance sheet are reserves which must be retained pursuant to the Dutch Civil Code and consist of the participation reserve and the reserve for foreign currency translation.

Participations reserve (Statutory)

The participations reserve relates to investment properties and consists of the cumulative positive (unrealised) revaluations of these investments. This statutory reserve is a non-distributable reserve in accordance with the Dutch Civil Code. The particpations reserve was determined at individual property level in 2017 and 2018, before appropriation of profits.

Translation reserve (Statutory)

The translation reserve for foreign currency translation contains all exchange rate differences resulting from the conversion of the annual financial statements of international activities in Swiss francs and the conversion of liabilities and transactions designated as hedges of exchange rate differences on the net amounts invested in the subsidiaries in Switzerland and the conversion differences on results in foreign currency (difference between year-end rates and average rates).

Dividend

Taking into consideration the interim dividend of € 1.04 per share already distributed (2017: € 1.04; adjusted for stock consolidation), a final dividend of € 1.12 per share has been proposed (2017: € 1.12).

Proposed profit appropriation

The Articles of Association of NSI N.V. stipulate that the allocation of the result after tax for the financial year is determined by the General Meeting of Shareholders. For the 2018 financial year the Management Board, with the approval of the Supervisory Board and in line with the applicable dividend policy (i.e. a pay-out of at least 75% of the direct result), has proposed a final dividend of € 1.12 per share.

This puts the total dividend for 2018 at € 2.16 per share, of which € 1.04 per share was already distributed as an interim dividend in August 2018. Subject to the approval of the General Meeting of Shareholders, NSI will offer shareholders the option to receive the final dividend in cash and/or fully or partly in shares.
Based on the number of outstanding shares eligible for dividend (18,574,198), the total amount of the final dividend is € 20.8 million and will be withdrawn from the retained earnings (excluding dividend paid in shares).
Provided that the General Meeting of Shareholders approves this dividend proposal, the final dividend will be made payable from 14 May 2019.

	2018
Total result for the year - 2018	91,525
Interim dividend - 2018	-19,213
Proposed final dividend - 2018	-20,803
On balance added to the reserves	**51,509**

NSI is offering shareholders the option to receive this final dividend in cash and / or partly in shares. In anticipation of a decision on the matter by the General Meeting of Shareholders the non-allocated result after tax for the financial year is accounted for separately in equity as the result for the financial year.

3. ADMINISTRATIVE COSTS

	2018	2018	2017	2017
Salaries and wages	-4,683		-3,894	
Social security	-509		-229	
Pensions	-248		-211	
Other staff costs	-1,063		-866	
Staff costs		-6,502		-5,200
Compensation supervisory board		-211		-249
Office costs		-1,352		-1,259
Audit, consultancy and valuation costs		-1,257		-858
Other administrative costs		-1,237		-1,410
Administrative costs		**-10,558**		**-8,976**
Allocated administrative costs		**2,663**		**1,586**
Administrative costs		**-7,895**		**-7,390**

4. NET FINANCING RESULT

	2018	2017
Interest income	13	1
Financing income	**13**	**1**
Interest costs	-8,688	-13,093
Bank fees	-1,122	-1,064
Amortisation costs interest bearing loans	-2,628	-1,054
Other financing costs	-89	-95
Financing costs	**-12,526**	**-15,306**
Movement in market value of financial derivatives	**-4,497**	**3,097**
Net financing result	**-17,011**	**-12,209**

5. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

NSI N.V. has issued guarantees for its 100%-owned subsidiary companies in accordance with Article 403, Book 2 of the Dutch Civil Code.

NSI N.V. is part of a tax group for corporate income tax and Dutch sales tax, and is therefore jointly and severally liable for the tax payable by the tax group as a whole.

6. AUDIT FEES

PricewaterhouseCoopers Accountants N.V. charged the following fees to NSI and its subsidiaries:

	2018	2017
Audit financial statements	-149	-193
Other audit related services	-9	
Audit financial statements	**-158**	**-193**

7. EVENTS AFTER BALANCE SHEET DATE

Since the year-end smaller office assets in Capelle a/d IJssel, Ridderkerk, Hoevelaken, Woerden and Zoetermeer (2x) and a small retail asset in Zutphen have been sold unconditionally. The transfer of all these assets, with a combined value of €24.1 million, will take place in the first quarter and second quarter of 2019. These assets are, on average, sold at a premium to the book value per 31 December 2018.

In 2019 NSI acquired 2 offices (in Leiden and Amsterdam) for a total amount of €28.7 million (excluding acquisition costs).

Hoofddorp, 6 March 2019

The Management Board

Bernd Stahli, *CEO*
Alianne de Jong, *CFO*
Anne de Jong, *CIO*

The Supervisory Board

Luurt van der Ploeg, *Chairman*
Harm Meijer
Karin Koks - Van der Sluijs
Margreet Haandrikman

OTHER INFORMATION

STATUTORY PROVISION IN RESPECT OF PROFIT APPROPRIATION

The provisions in respect of the appropriation of profit are provided for in Article 21 of the Articles of Association of the company. The profit is at the disposal of the General Meeting of Shareholders. The company may only make distributions to shareholders to the extent that shareholders' equity exceeds the amount of paid-up and called-up capital, plus the reserves that must be held by law or in accordance with the Articles of Association. Insofar as possible and justified by law, the company may distribute an interim dividend as proposed by the Management Board and subject to the approval of the Supervisory Board.

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of NSI N.V.

REPORT ON THE FINANCIAL STATEMENTS 2018

Our opinion

In our opinion:

- NSI N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- NSI N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of NSI N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of NSI N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows;
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:
- the company balance sheet as at 31 December 2018;
- the company income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of NSI N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

NSI N.V. is an investor in commercial real estate. The commercial real estate is held to generate rental income or to benefit from an increase in value, or a combination of both. The Group comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

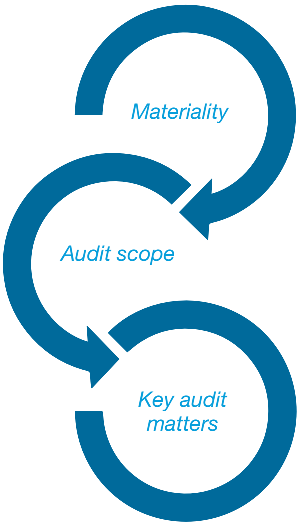
There were no significant changes in the business of NSI. The company continued to sell a part of their existing investment property portfolio, in total 35 investment properties and they acquired 4 new office buildings. During 2018, the company entered into two new private loan placements and renewed one loan agreement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. On page 70 of the financial statements the company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of investment properties, we considered this matter as key audit matter as set out in the section 'Key audit matters' of this report.

Other areas of focus, that were not considered as key audit matters were the correct accounting of purchases and sales of investment properties, the accuracy and completeness of rental income, the compliance with the requirements of the 'Fiscale Beleggingsinstelling' ('FBI') and the adoption of the new IFRS standards: IFRS 9 and IFRS 15.

We ensured that the audit team included the appropriate skills and competences that are needed for the audit of a real estate company. We therefore included real estate valuation experts, IT specialists and financial instruments specialists.

The outline of our audit approach was as follows:



Materiality
- Overall materiality: €2.400.000.

Audit scope
- We conducted audit work centrally, given the fact that the group audit team was able to conduct all audit procedures.

Key audit matters
- Valuation of investment property

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

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

Overall group materiality	€2.400.000 (2017: €2.400.000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of the profit before tax of continuing operations, adjusted for the net result on the sale of investment property, revaluation of investment property and movement in market value of derivative financial instruments.
Rationale for benchmark applied	We have applied this benchmark based on our analysis of the common information needs of users of the financial statements, as the benchmark is an important basis for calculating the dividend distribution for the company. On this basis, we believe that this is an important indicator for the financial performance of the company.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €120.000 (2017: €120.000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

NSI N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of NSI N.V.

For NSI N.V. and all its subsidiaries, the group audit team was able to conduct the audit procedures centrally from the head office of NSI N.V. and no use has been made of other auditors. The audit team has determined per financial statement line item which audit procedures needed to be performed in relation to the audit of the consolidated financial statements.

We are of the opinion that we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Our focus on fraud

Our objectives

We assess and respond to the risk of fraud in the context of our audit of the financial statements. In this context and with reference to the sections on responsibilities in this report, our objectives in relation to fraud are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses;
- to respond appropriately to fraud or suspected fraud identified during the audit.

However, because of the characteristics of fraud, particularly those involving sophisticated and carefully organised schemes to conceal it, such as forgery, deliberate failure to record transactions and collusion, our audit might not detect instances of material fraud.

Our risk assessment

We obtained an understanding of the entity and its environment, including the entity's internal control. We made enquiries of the management board and the audit committee. In addition, we considered other external and internal information. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. Fraud risk factors are events or conditions, which indicate an incentive or pressure, an opportunity, or an attitude or rationalisation to commit fraud. We evaluated the fraud risk factors to consider whether those factors indicated risks of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.

Our response to the risk of fraud

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures, which include journal entry testing and evaluating accounting estimates for bias.

In particular, our procedures consisted of checking the results of whistleblowing and complaints procedures with the compliance officer, performing data analysis of high-risk journal entries and testing these entries back to source information, analyzing and testing for fictitious rental income and evaluation of key estimates and judgements by the management board (including retrospective reviews of prior year's estimates), mainly in the area of the valuation of investment property. We implemented audit procedures in relation to the risk of fraudulent or corrupt transactions (through third parties) in the purchases and sales of investment property. We also incorporated an element of unpredictability in our audit.

We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

We refer to the key audit matter on the valuation of investment property, which is an example of our approach related to areas of higher risk due to accounting estimates where the management board makes significant judgements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context. As there are no discontinued operations, this topic did not qualify as a key audit matter anymore in 2018.

Key audit matter	*Our audit work and observations*
Valuation of investment property *Note 11 and 17* The Group's investment property portfolio is comprised of office and retail properties. At 31 December 2018 the carrying value of the Group's investment property portfolio was €1.207 million of which €4 million is presented as assets held for sale (2017: €1.101 million, resp. €29 million). Investment properties are valued at fair value at reporting date using both the income capitalisation approach and the discounted cash flow approach as the applied valuation method. The fair value of investment properties is on the one hand depending on the inputs into the valuation models, such as: rental income, duration of the contract and square meters. On the other hand the valuation is depending on significant assumptions, such as the capitalisation rate, discount rate, market rent levels and expected vacancy. Primary factors, which influence these significant assumptions, are prevailing market conditions and the individual nature, condition and location of each property. At the end of each reporting period, the management board determines the fair value of its investment property portfolio in accordance with the requirements of IAS 40 and IFRS 13. All properties are bi-annually externally appraised by an external valuation expert, appointed by the management board. We focused on this matter because of the: – relative size of the investment property balances in the Consolidated Statement of Financial Position; – quantum of revaluation gains that directly impact the Consolidated Statement of Comprehensive Income through the net fair value gain of investment properties; – inherently judgemental nature of investment property valuations due to the use of assumptions in determining the fair value; – sensitivity of the valuation to significant assumptions, specifically the capitalisation rate, the discount rate, the market rent levels and expected vacancy; and – possibility of bias by the management board.	For the external valuation experts appointed by the management board, which we have identified as management experts in our audit, we have assessed the competence, capabilities and objectivity by, amongst others: – evaluating the engagement letters of the external valuation experts; – checking the registration of the qualification of the external valuation experts; – checking the membership of a professional association for the external valuation expert organisations; – discussing with the external valuation experts the context and environment in which they have worked with the persons within the Group responsible for the valuation process. We considered the valuation reports prepared by the external valuation experts and adopted by the management board to be appropriate to use as part of our audit evidence Furthermore, we have: – determined that the management board designed and implemented appropriate internal controls on the valuation process; – reconciled the final valuation reports with the fair value in the Group's accounting records; – checked for a sample of leases, that the standing data included in the valuation report such as rental income, the duration of lease contracts and square metres was supported by audit evidence via the lease contract; – determined that the valuation methods as applied by the management board, as included in the valuation reports, are appropriate; and – evaluated the reasonableness of the estimates made by the management board by performing back-testing and assessed the movements of the assumptions in the valuation reports based on the overall shifts in the prevailing market conditions in which the group invests, based on the latest public property market data. For a sample of the valuation reports, we have challenged the significant assumptions used (including the capitalisation rate, the discount rate, market rent levels and expected vacancy) against available market data and the calculation model used. We found the significant assumptions to be within an acceptable range and the calculation model appropriate. We have involved our internal real estate valuation experts in these assessments. Based on our procedures performed we found no material exceptions nor indications of management bias and found the management board's estimates to be supported by available evidence. Finally, we determined that the explanatory note in the financial statements includes the elements required by IAS40 and IFRS13.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Annual report, which comprise of:
  NSI key figures, NSI at a glance, CEO comments, Strategy, In focus: flex offices and sustainability, Income, cost and results, Netherlands property market overview, Real estate portfolio, Balance sheet, NAV & financing, Risk management and internal control, Personnel and organisation, Environmental, social & governance performance, Corporate governance, Details of the Management Board, Report of the Supervisory Board and Details of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- Other data, NSI share, Glossary, Property list, EPRA sustainability perfomance measure and EPRA key performance measure.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the management board's and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Our appointment

We were appointed as auditors of NSI N.V. on 29 April 2016 following the passing of a resolution by the shareholders at the annual meeting. Our appointment has been renewed annually representing a total period of uninterrupted engagement appointment of 3 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

We have not provided any non-audit services to the company and its controlled entities, for the period to which our statutory audit relates, as disclosed in note 6 to the company financial statements.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code;
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion. A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 6 March 2019
PricewaterhouseCoopers Accountants N.V.

Original version signed by S. Herwig MSc. LLM. RA MRE MRICS

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2018 OF NSI N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

OTHER DATA

Appraisers

All investment properties in the portfolio have been appraised externally in June and December by qualified international firms, JLL, CBRE and Cushman & Wakefield. Appraisal methods are compliant with international standards and guidelines as defined by RICS (Royal Institution of Chartered Surveyors).

	% assets	% value
CBRE	34%	33%
JLL	37%	50%
Cushman &Wakefield	29%	17%
Total	**100%**	**100%**

Top 10 tenants

Tenant	# lease contracts	% of total contracted rent
Government	11	13.7%
Spaces	3	8.1%
KPN	7	5.7%
Janssen Vaccines & Prevention B.V.	2	3.6%
ING Bank	5	3.2%
Ahold Vastgoed	10	1.8%
Staples International Group Services B.V.	1	1.5%
Primark Netherlands B.V.	1	1.2%
SDL Netherlands B.V.	1	0.9%
Lloyd’s Register EMEA	1	0.8%
Grand Total	**42**	40.4%

NSI SHARE

Investor relations

NSI strives for a high degree of transparency and continuous communication with existing and potential shareholders, as well as other stakeholders. NSI is committed to providing information through means of road shows, presentations, press releases, quarterly reports, annual reports and other publications, as well as via the Company's website. All relevant publications are placed on the Company's website.

Share capital

At 1 January 2018 NSI had 18,364,998 ordinary shares outstanding. During 2018, in total 209,300 shares have been issued and distributed in relation the distribution of stock dividend (final 2017 dividend and interim 2018 dividend). At 31 December 2018 NSI had 18,574,298 ordinary shares outstanding.

Share Listing

The NSI share is listed on Euronext (registered under code 29232; ISIN code: NL0000292324; Ticker symbol: NSI). The NSI share has an option listing on Euronext Liffe, the derivatives stock exchange of the Euronext (Ticker symbol: NSI).

Major Shareholders

Pursuant to the Dutch Financial Markets Supervision Act (Wet op het Financieel toezicht) the Netherlands Authority Financial Markets (Autoriteit Financiële Markten) was notified of the following statement of interest of 3% or more in NSI up to 31 December 2018.

	31 December 2018	31 December 2017
ICAMAP Investments SARL	10.0%	5.0%
BlackRock, Inc.	5.0%	4.7%
Phoenix Insurance Company Ltd.	3.7%	3.7%
APG Asset Management N.V.	3.3%	
Axa Investment Managers S.A.	3.0%	3.0%
Norges Bank	3.0%	3.0%

Financial Calendar

Publication trading update Q1 2019	17 April 2019
Annual General Meeting	17 April 2019
Publication annual half year results 2019	18 July 2019
Publication trading update Q3 2019	17 October 2019
Publication final results 2019	28 January 2020

Dividend policy and Dividend distribution

NSI's dividend policy is to distributes at least 75% of the direct result. The dividend is distributed in cash or optional in stock at the discretion of the Management Board. NSI distributes dividend twice a year.

Ex-dividend date (final dividend 2018)	23 April 2019
Record date	24 April 2019
Stock dividend election period	25 April - 9 May 2019
Payment of final dividend	14 May 2019
Ex-dividend date (Interim dividend 2019)	22 July 2019

Dutch REIT (FBI)

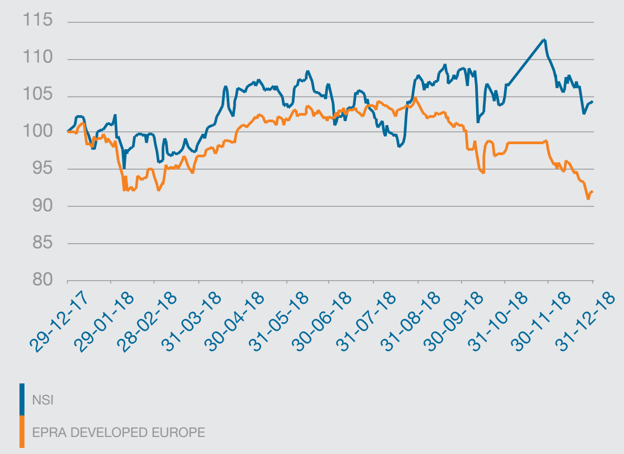
NSI qualifies as a Dutch real estate investment trust (fiscale beleggingsinstelling or FBI) within the context of Article 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de vennootschapsbelasting 1969), which means that NSI is zero-rated for corporate income tax on its investment result. The Act stipulates certain conditions for this, such as the obligation to pay out the total fiscal profit as a dividend.

As published in our 2017 annual report, the Dutch government coalition announced the intention to abolish dividend withholding tax in 2017, which would have meant that FBI's would no longer be allowed to invest directly in Dutch real estate. This plan was withdrawn end 2018.

Performance of the NSI share

Share price low			€32.10
Share price high			€37.00
Closing price on 31 December 2018			€34.10
Proposed dividend per share for the	Interim[1]	Final	Total
2018 financial year	€1.04	€1.12	€2.16
# outstanding shares outstanding at 31 December 2018			18,574,298
Market capitalisation at 31 December 2018			€633 million

Share price



1 already paid as interim dividend in August 2018

GLOSSARY

ASSETS HELD FOR SALE
Investment property will be reclassified to assets held for sale if it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the concerning investment property must be available for immediate sale in its present condition, taking into account the common terms for sale of such property and its sale must be highly probable. This means the property must be actively marketed for sale at a price that is reasonable compared to its current market value and the sale should be expected to be effectuated within one year from the date of reclassification.

AVERAGE RENT PSM (€ P.A.)
Total annual contracted rent divided by the total leased square meters.

COST RATIO (EPRA)
EPRA costs include all administrative costs, net service costs and operating expenses as reported under IFRS, but do not include ground rent costs. These costs are reflected including and excluding direct vacancy costs. The EPRA cost ratio is calculated as a percentage of gross rental income less ground rent costs.

DUTCH REIT (FBI-REGIME)
NSI qualifies as a Dutch Real Estate Investment Trust (fiscale beleggings-instelling or FBI) and as such is charged a corporate income tax rate of 0% on its earnings. The tax regime stipulates certain conditions, such as a maximum ratio of 60% between debt and the book value of real estate, maximum ownership of shares by one legal entity or natural persons, and the obligation to pay out the annual profit by way of dividends within eight months after the end of the financial year.
Before 2014, activities permitted under FBI legislation were limited to portfolio investments activities only. Effective 1 January 2014, new legislation that allows FBI's to perform enterprise-type business activities within certain limits. These activities must be carried out by a taxable subsidiary and must support the operation of the FBI's real estate business.

EARNINGS (EPRA)
EPRA earnings is a measure of operational performance and represents the net income generated from operational activities. It excludes all components not relevant to the underlying net income performance of the portfolio.

EARNINGS PER SHARE (EPRA EPS)
Indicator for the profitability of NSI; portion of the EPRA earnings attributable to shareholders allocated to the weighted average number of ordinary shares.

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION (EPRA)
Association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors.

ESTIMATED RENTAL VALUE (ERV)
The estimated amount at which a property or space within a property, would be let under the market conditions prevailing on the date of valuation.

G4
G4 refers to the locations Amsterdam, The Hague, Rotterdam and Utrecht, being the largest cities in the Netherlands.

HNK
HNK stands for 'Het Nieuwe Kantoor', (which means 'The New Office'). HNK is NSI's flexible office concept and offers an inspiring environment with stylish workplaces, office spaces, meeting areas, catering facilities and various ancillary services. HNK offers different propositions, including memberships (flexible workstations), managed offices (fully equipped offices), bespoke offices and meeting rooms.

INTEREST COVERAGE RATIO (ICR)
Debt ratio and profitability ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing net rental income during a given period by net financing expenses during the same period.

INVESTMENT RESULT - DIRECT
The direct result reflects the recurring income arising from core operational activities. The direct result consists of gross rental income minus operating costs, service costs not recharged to tenants, administrative costs, direct financing costs, corporate income tax on the direct result, and the direct investment result attributable to non-controlling interests.

INVESTMENT RESULT - INDIRECT
The indirect result reflects all income and expenses not arising from day-to-day operations. The indirect result consists of revaluations of property, net result
on sales of investment, indirect financing costs (movement in market value of derivatives and exchange rate differences, corporate income tax on the indirect result, and the indirect investment result attributable to non-controlling interests.

INVESTMENT RESULT - TOTAL
The total result reflects all income and expenses; it is the total of the direct and the indirect investment result.

LEASE INCENTIVES
Adjustments in rent granted to a tenant or a contribution to tenants' expenses in order to secure a lease. The impact of lease incentives on net rental income is straightlined over the firm duration of the lease contract under IFRS.

LIKE-FOR-LIKE RENTAL INCOME
Like-for-like growth figures aim at assessing the organic growth of NSI. In the case of like-for-like rental income the aim is to compare the rental income of all or part of the standing portfolio over a certain period with the rental income for the same portfolio over a previous period (i.e. year-on-year and/or quarter-on-quarter). In order to calculate like-for-like growth, the nominal increase in rent is adjusted for the impact of acquisitions, divestments and properties transferred to and from the development portfolio and between segments (e.g. office to HNK).

LOAN TO VALUE (LTV, NET)
The LTV-ratio reflects the balance sheet value of interest-bearing debts plus short term debts to credit institutions, net of cash and cash equivalents, expressed as a percentage of the total real estate investments, including assets held for sale.

MARKET VALUE INVESTMENT PROPERTY (FAIR VALUE)
The estimated amount for which a property should change hands on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein each party had acted knowledgeably, prudently, and without compulsion. The market value does not include transaction costs.

NET ASSET VALUE (NAV)
The net asset value represents the total assets minus total liabilities. At NSI this equates to the shareholders' equity (excluding non-controlling interests as stated in the balance sheet). The NAV is often expressed on a per share basis; in this calculation the number of shares outstanding at reporting date is used rather than the average number of shares is used.

NET ASSET VALUE (NAV, EPRA DEFINITION)
The EPRA NAV reflects fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not impacting the company on the long-term, as the fair value of financial derivatives and deferred taxes, are therefore excluded.

NET MARGIN
The net margin measures operating efficiency; it indicates how effective NSI is in managing its expense base. It is calculated as net rental income as a percentage of gross rental income.

NET RESULT ON SALES OF INVESTMENT PROPERTY
The net result on sales of investment property reflects the disposal price paid by a third party for a property minus the value at which the respective property was recorded in the accounts at the moment of sale, net of sales costs made. The sales costs include costs of real estate agents and legal costs, but can also include internal costs made which are directly related to transaction.

RANDSTAD
The Randstad is the central-western area of the Netherlands, consisting primarily of the four largest Dutch cities (Amsterdam, Rotterdam, The Hague and Utrecht) and their surrounding areas.

RENT - EFFECTIVE RENT
The effective rent reflects the contractual annual rent after straight-lining of rent free periods and rental discounts.

RENT - GROSS RENTAL INCOME (GRI)
Gross rental income reflects the rental income from let properties, after taking into account the net effects of straightlining for lease incentives and key money, including turnover rent and other rental income (e.g. specialty leasing and parking income).

RENT - NET RENTAL INCOME (NRI)
Gross rental income net of (net) costs directly attributable to the operation of the property (non-recoverable service charges and operating costs). Income and costs linked to the ownership structure, such as administrative expenses, are not included.

RENT - PASSING (CASH) RENT / CONTRACTED RENT
The estimated annualised cash rental income as at reporting date, excluding the net effects of straight-lining of lease incentives. Vacant units and units that are in a rent-free period at the reporting date are deemed to have no passing cash rent.

REVERSIONARY POTENTIAL
This ratio compares the minimum guaranteed rent and the turnover rent to the estimated rental value and as such indicates whether a unit or property is underlet or over-rented.

REVERSIONARY RATE (RESULT FROM RE-LETTINGS AND RENEWALS)
The reversionary rate measures the rental gain/loss of a deal as the difference between the new rent (after the deal) and the old rent (before the deal).

STANDING PORTFOLIO
Standing portfolio is used in like-for-like calculations and concerns the real estate investments at a specific date that have been consistently in operation as part of NSI's portfolio during two comparable periods.
Note that an investment property can be considered both standing and at the same time non standing, depending on the comparison periods used (e.g. year-on-year and quarter-on-quarter).

TRIPLE NET ASSET VALUE (EPRA NNNAV)
The EPRA NNNAV is designed to provide a spot measure of NAV including all assets and liabilities at fair value. This measure adjusts the EPRA NAV for the market to market of the financial instruments, debt and deferred taxes.

VACANCY RATE (EPRA)
Vacancy rate (EPRA): reflects the loss of rental income against ERV as a percentage of ERV of the total operational portfolio.

WEIGHTED AVERAGE UNEXPIRED LEASE TERM (WAULT)
This ratio is used as an indicator of the average length of leases in portfolios. It can be calculated over the full lease term of the contracts either up to expiration date or up to break option date.

YIELD
Yield can generally be defined as the income or profit generated by an investment expressed as a percentage of its costs or the total capital invested.
- EPRA net initial yield: annualised net effective cash passing rent (including estimated turnover rent and other recurring rental income) net of non-recoverable property operating expenses as a percentage of the gross market value of the real estate investments in operation;
- EPRA topped-up net initial yield1: EPRA net initial yield adjusted for expiring lease incentives;
- Reversionary yield: the anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.

PROPERTY LIST

	Property name	Property Address	City	Sector	Form of ownership	Nen Area	Year of construc-tion /major refurb	Year of acquisition
1.	De Hagenborgh	Hagenborgh 1-217, Schouwburgplein 11-30	Almelo	Other	Freehold	3,483	1989	2000
2.	De Hoefse Wing	Printerweg 1-55	Amersfoort	Offices	Freehold	8,891	1991	1999
3.	Space Shuttle	Spaceshuttle 22,30,32,38,46,50,52,60	Amersfoort	Offices	Freehold	3,775	2003	2006
4.	Centerpoint I	Hoogoorddreef 60	Amsterdam	Offices	Leasehold	9,179	2007	2015
5.	Centerpoint II	Hoogoorddreef 62	Amsterdam	Offices	Leasehold	6,292	1988	2015
6.	Cruquiusweg	Cruquiusweg 111	Amsterdam	Offices	Freehold	3,278	2006	2007
7.	Donauweg	Donauweg 2b	Amsterdam	Offices	Leasehold	4,606	2001	2001
8.	Hettenheuvelweg I	Hettenheuvelweg 37-39	Amsterdam	Offices	Leasehold	2,474	1987	1997
9.	Hettenheuvelweg II	Hettenheuvelweg 41-43	Amsterdam	Offices	Leasehold	2,480	1988	1997
10.	HNK Schinkel	Anthony Fokkerweg 1	Amsterdam	HNK	Freehold	5,373	1990	1997
11.	HNK Houthavens	Van Diemenstraat 20-200	Amsterdam	HNK	Leasehold	10,513	1912	1999
12.	HNK Amsterdam Zuid Oost	Burg. Stramanweg 102-108	Amsterdam	HNK	Freehold	11,403	1989	1997
13.	Hogehilweg	Hogehilweg 12	Amsterdam	Offices	Leasehold	3,143	1985	1997
14.	Koningin Wilhelminaplein	Koningin Wilhelminaplein 18	Amsterdam	Offices	Leasehold	5,019	1995	1997
15.	Laanderpoort I & II	Bijlmerdreef 100	Amsterdam	Offices	Leasehold	12,739	2013	2017
16.	Motion Building	Radarweg 60	Amsterdam	Offices	Leasehold	15,921	1992	2018
17.	Osdorperban	Osdorperban 1-33	Amsterdam	Offices	Leasehold	3,442	1990	1997
18.	Q-Port Sloterdijk	Kingsfordweg 43-117	Amsterdam	Offices	Leasehold	12,771	2001	2018
19.	Solaris Eclips	Arlandaweg 98	Amsterdam	Offices	Leasehold	4,151	2001	2001
20.	The Glasshouse	Changiweg 130 / Teleportboulevard 121-133	Amsterdam	Offices	Leasehold	22,981	2009	2016
21.	Vitrum	Parnassusweg 101, 103 126 & 128	Amsterdam	Offices	Leasehold	11,612	2013	2017
22.	Vivaldi Offices I	Barbara Strozzilaan 201-229	Amsterdam	Offices	Leasehold	9,493	2009	2015
23.	Vivaldi Offices II	Barbara Strozzilaan 101-125	Amsterdam	Offices	Leasehold	8,778	2009	2015
24.	HNK Apeldoorn	Boogschutterstraat 1-41	Apeldoorn	HNK	Freehold	13,969	2002	2002
25.	Mr. E.N. van Kleffensstraat	Mr. E.N. van Kleffensstraat 10	Arnhem	Offices	Freehold	2,865	1997	1997
26.	Cosunpark I	Cosunpark 1-5	Breda	Offices	Freehold	5,033	2002	2000
27.	Cosunpark II	Cosunpark 20-24	Breda	Offices	Freehold	2,231	2002	2002
28.	Rivium Boulevard	Rivium Boulevard 41 / Rivium Westlaan 42	Capelle A/D Ijssel	Offices	Freehold	4,821	1992	1997
29.	Rijnzathe	Rijnzathe 7	De Meern	Offices	Freehold	4,541	2014	2000
30.	Delf-Techpark	Delftechpark 35-37	Delft	Offices	Freehold	2,817	2001	2002
31.	Het Binnenhof	Magistratenlaan 156-186	Den Bosch	Offices	Freehold	10,436	2005	2015
32.	HNK Den Bosch	Europalaan 28	Den Bosch	HNK	Freehold	7,495	2008	1997
33.	Pettelaarpark	Pettelaarpark 20	Den Bosch	Offices	Freehold	2,316	1990	2001
34.	Bentinck Huis	Lange Voorhout 7	Den Haag	Offices	Freehold	6,048	1992	2018
35.	Bezuidenhoutseweg	Bezuidenhoutseweg 2	Den Haag	Offices	Freehold	1,906	1986	1996
36.	De Rode Olifant	Zuid-Hollandlaan 7	Den Haag	Offices	Freehold	9,993	1993	2007
37.	HNK Den Haag	Oude Middenweg 3-E,11-19	Den Haag	HNK	Freehold	14,390	2002	2008
38.	Hof ter Hage	Torenstraat 27, Prinsestraat 2-4	Den Haag	Other	Freehold	3,913	1998	1998
39.	Neuhuyskade	Neuhuyskade 92-94	Den Haag	Offices	Freehold	2,687	1928	2008
40.	HNK Dordrecht	Burg. De Raadtsingel 93b-c	Dordrecht	HNK	Freehold	5,723	2004	2008
41.	HNK Ede	Bennekomseweg 41-43	Ede	HNK	Freehold	9,856	2002	2007
42.	Horapark	Horapark 4,6,7,9	Ede	Offices	Freehold	14,049	1996	1998
43.	Fellenoord	Fellenoord 310-370	Eindhoven	Offices	Freehold	4,183	1987	1996
44.	Hooghuisstr. / Keizersgr.	Hooghuisstraat 18-30/ Keizersgracht 3-11	Eindhoven	Offices	Freehold	10,987	1970	2008
45.	Kennedyplein	Kennedyplein 101	Eindhoven	Offices	Freehold	6,635	2000	2017
46.	Larixplein	Larixplein 5-7	Eindhoven	Offices	Freehold	3,846	1997	1997
47.	HNK Groningen	Zernikepark 12	Groningen	HNK	Freehold	3,453	2003	2002
48.	Leidsevaart	Leidsevaart 574	Haarlem	Offices	Freehold	3,430	2010	1997
49.	w.c. 't Loon	Apollolaan 22- 31 en 154, Homeruspassage 1-17	Heerlen	Other	Freehold	22,435	2003	2002

	Property name	Property Address	City	Sector	Form of ownership	Nen Area	Year of construc-tion /major refurb	Year of acquisition
50.	De Wel	De Wel 18-24	Hoevelaken	Offices	Freehold	8,545	2002	2006
51.	Beukenhaghe	Neptunusstraat 15-37	Hoofddorp	Offices	Freehold	4,799	1991	1991
52.	HNK Hoofddorp	Antareslaan 65-81	Hoofddorp	HNK	Freehold	3,195	1998	1998
53.	Kruisweg I	Kruisweg 661-665	Hoofddorp	Offices	Freehold	1,057	1998	1998
54.	Kruisweg II	Kruisweg 577	Hoofddorp	Offices	Freehold	1,620	2000	2000
55.	Wegalaan	Wegalaan 2-8	Hoofddorp	Offices	Freehold	2,961	2005	2006
56.	Dr. G.H. Amshoffweg	Dr. G.H. Amshoffweg 1, 11	Hoogeveen	Offices	Leasehold	2,561	2000	2005
57.	Archimedes	Archimedesweg 17-25	Leiden	Offices	Leasehold	2,522	2001	2001
58.	Archimedesweg	Archimedesweg 6	Leiden	Offices	Leasehold	7,239	2000	2017
59.	Haagse Schouwweg	Haagse Schouwweg 8	Leiden	Offices	Freehold	4,306	1992	2008
60.	Newtonweg	Newtonweg 1	Leiden	Offices	Leasehold	9,408	1993	2015
61.	Stationade II	Schipholweg 68	Leiden	Offices	Freehold	2,292	1991	1998
62.	Gouwepark	Westbaan 120	Moordrecht	Other	Freehold	4,873	2009	2009
63.	Krijtwal	Krijtwal 1-15	Nieuwegein	Offices	Freehold	3,960	1990	1990
64.	w.c. de Wal en het Schip	Het Schip aan de Markt unit 1-unit 4	Raalte	Other	Freehold	2,792	2002	2002
65.	Nikkelstraat	Nikkelstraat 7	Ridderkerk	Offices	Freehold	2,652	1999	2000
66.	Sterpassage	Pr. J. Friso Prom. 7-119 / Steenvoordelaan 378-416	Rijswijk	Other	Freehold	10,544	2003	2010
67.	Albert Plesmanweg	Albert Plesmanweg 161	Rotterdam	Offices	Leasehold	2,045	2003	1997
68.	Alexanderhof	Marten Meesweg 141-145	Rotterdam	Offices	Freehold	3,095	1987	2015
69.	Alexanderpoort	Marten Meesweg 93-121	Rotterdam	Offices	Freehold	9,407	2010	2015
70.	Haringvliet	Haringvliet 72	Rotterdam	Offices	Freehold	2,962	2003	2009
71.	HNK Rotterdam Centrum	Westblaak 180	Rotterdam	HNK	Leasehold	8,395	1991	2001
72.	HNK Scheepvaartkwartier	Vasteland 42-110	Rotterdam	HNK	Freehold	21,518	1975	2008
73.	Hoofdveste	Hoofdweg 216-222, 224, 228	Rotterdam	Offices	Leasehold	2,409	1994	1996
74.	Hoofdweg	Hoofdweg 230-236	Rotterdam	Offices	Leasehold	1,996	1994	2000
75.	Kreeftstraat / Voermanweg	Kreeftstraat 32-42, Voermanweg 888-900	Rotterdam	Other	Leasehold	1,810	1983	2000
76.	Park Office	K.P. van der Mandelelaan 41-43	Rotterdam	Offices	Leasehold	7,367	2008	2006
77.	Vareseweg	Vareseweg 105-109	Rotterdam	Offices	Leasehold	6,306	2001	2001
78.	Veerhaven	Veerhaven 16-18	Rotterdam	Offices	Freehold	1,641	2002	1996
79.	Veerkade	Veerkade 1-9C	Rotterdam	Offices	Freehold	5,671	1915	2000
80.	w.c. Lageland	Samuel Esmeijerplein 16-40	Rotterdam	Other	Freehold	3,482	1969	1994
81.	w.c. Zuidplein	Zuidplein 2-65 en 480-622	Rotterdam	Other	Leasehold	7,891	2001	2001
82.	Zuiderterras	Zuiderterras 127, 128, 152, 154	Rotterdam	Other	Leasehold	11,331	1995	2011
83.	Zuidplein Hoog I	Zuidplein Hoog 605	Rotterdam	Other	Leasehold	2,246	1982	2011
84.	Zuidplein Hoog II	Zuidplein Hoog 869C	Rotterdam	Other	Leasehold	180	1982	2011
85.	Nieuwpoortweg	Nieuwpoortweg 11	Schiedam	Offices	Leasehold	2,715	1991	2000
86.	HNK Utrecht Centraal Station	Arthur van Schendelstraat 650-698 en 700-748	Utrecht	HNK	Leasehold	8,884	1995	2006
87.	HNK Utrecht West	Weg der Verenigde Naties 1	Utrecht	HNK	Leasehold	2,961	2012	2007
88.	Jacobsweerd	Sint Jacobsstraat 200-499	Utrecht	Offices	Freehold	14,779	1987	2018
89.	Uniceflaan	Uniceflaan 1	Utrecht	Offices	Leasehold	12,079	1989	2017
90.	w.c. Vasco da Gamalaan	Marco Pololaan 361-367, 473-479	Utrecht	Other	Freehold	3,294	2007	1998
91.	Korenmolenlaan	Korenmolenlaan 2	Woerden	Offices	Freehold	3,252	1993	1993
92.	Eleanor Rooseveltlaan I	Eleanor Rooseveltlaan 29-51	Zoetermeer	Offices	Freehold	3,845	1992	1997
93.	Eleanor Rooseveltlaan II	Eleanor Rooseveltlaan 3-25	Zoetermeer	Offices	Freehold	3,845	1991	1997
94.	Europaweg	Europaweg 205	Zoetermeer	Offices	Freehold	7,172	1991	1997
95.	De Leesten	Rudolf Steinerlaan 33, 37 45-53 en 123-141	Zutphen	Other	Freehold	3,202	2007	2006

EPRA SUSTAINABILITY PERFOMANCE MEASURES

Impact area	EPRA Code	GRI Standard	Units of measure	Indicator		Absolute performance (Abs) 2017	Absolute performance (Abs) 2018	Like-for-like performance (LfL) 2017	Like-for-like performance (LfL) 2018	% change
Energy	Fuels-Abs, Fuels-LfL	GRI Standard 302-1	annual kWh	Fuels	**Total direct landlord-obtained fuels**	18,044,986	21,114,384	15,353,445	13,447,939	-12.4%
					Proportion of fuels consumption from purchased and self-generated renewable sources	0%	0%	0%	0%	-
					Total tenant-obtained fuels	6,919,707	6,610,265	5,100,392	5,364,179	5.2%
					Total landlord- and tenant-obtained fuels	24,964,693	27,724,649	20,453,837	18,812,118	-8.0%
			Covered applicable properties		**Fuels disclosure coverage**	56 out of 64	61 out of 64	44 out of 64	44 out of 64	-
			Covered applicable sqm			89.35%	97.62%	73.29%	73.29%	-
			%		**Proportion of fuels estimated**	0%	0%	0%	0%	-
	DH&C-Abs, DH&C-LfL	GRI Standard 302-1	annual kWh	District heating and cooling	**Total landlord-obtained district heating and cooling**	6,849,767	9,172,616	5,809,208	6,227,592	7.2%
					Proportion of landlord-obtained heating and cooling from renewable resources	0%	0%	0%	0%	-
					Total tenant-obtained heating and cooling	5,587,411	4,283,023	1,542,222	1,363,900	-11.6%
					Total landlord- and tenant-obtained heating and cooling	12,437,178	13,455,639	7,351,430	7,591,492	3.3%
			Covered applicable properties		**District heating and cooling disclosure coverage**	25 out of 28	24 out of 28	15 out of 28	15 out of 28	-
			Covered applicable sqm			86.38%	89.83%	46.27%	46.27%	-
			%		**Proportion of district heating and cooling estimated**	0%	0%	0%	0%	-
	Elec-Abs, Elec-LfL	GRI Standard 302-1	annual kWh	Electricity	**Total landlord-obtained electricity**	23,718,550	26,393,802	20,504,454	19,679,055	-4.0%
					Proportion of landlord-obtained electricity from renewable resources	100.00%	100.00%	100.00%	100.00%	-
					Total tenant-obtained electricity	21,694,948	18,076,127	8,814,253	9,369,177	6.3%
					Total landlord- and tenant-obtained electricity consumption	45,413,498	44,469,929	29,318,707	29,048,232	-0.9%
			Covered applicable properties		**Electricity disclosure coverage**	82 out of 95	87 out of 95	61 out of 95	61 out of 95	-
			Covered applicable sqm			87.37%	94.98%	62.57%	62.57%	-
			%		**Proportion of electricity estimated**	0%	0%	0%	0%	-
	Energy-Int	GRI Standard CRE1	annual kWh / sqm	Energy Intensity	**(sum of) annual kWh energy consumption**	82,815,369	85,650,217	57,123,974	55,451,842	-2.9%
					(sum of) floor area (m²)	653,938	720,139	460,832	460,832	-
					Building energy intensity	126.6	118.9	124.0	120.3	-2.9%

Impact area	EPRA Code	GRI Standard	Units of measure	Indicator		Absolute performance (Abs) 2017	Absolute performance (Abs) 2018	Like-for-like performance (LfL) 2017	Like-for-like performance (LfL) 2018	% change
Green-house gas emissions	GHG-Dir-Abs	GRI Standard 305-1	annual kg CO2e	Direct	**Scope 1**	3,284,187	3,842,818	2,794,327	2,447,525	-12.4%
	GHG-Indir-Abs	GRI Standard 305-2	annual kg CO2e	Indirect	**Scope 2**	863,071	1,155,750	731,960	784,677	7.2%
			annual kg CO2e		**Scope 3**	13,374,943	11,250,772	5,758,888	6,076,319	5.5%
	GHG-Int	GRI Standard CRE3	annual kg CO2e / sqm	GHG emissions intensity	**(sum of) annual GHG emissions**	17,522,201	16,249,339	9,285,176	9,308,521	0.3%
					(sum of) floor area (m²)	653,938	720,139	460,832	460,832	-
					Building carbon intensity	26.8	22.6	20.1	20.2	0.3%
			No. of applicable properties		**Energy and associated GHG disclosure coverage**	85 out of 95	90 out of 95	61 out of 95	61 out of 95	-
			Covered applicable sqm			88.78%	97.77%	62.57%	62.57%	-
			%		**Proportion of energy and associated GHG estimated**	0%	0%	0%	0%	-
Water	Water-Abs, Water-LfL	GRI Standard 303-1	annual cubic metres (m³)	Water	**Total water consumption**	114,685	209,965	49,215	49,533	0.6%
	Water-Int	GRI Standard CRE2	annual m³ / sqm	Water Intensity	**(sum of) floor area (m²)**	607,754	621,385	240,002	240,002	-
					Building water intensity	0.189	0.338	0.205	0.206	0.6%
			No. of applicable properties		**Water disclosure coverage**	78 out of 95	81 out of 95	37 out of 95	37 out of 95	-
			Covered applicable sqm			82.51%	84.36%	32.58%	32.58%	-
			%		**Proportion of water estimated**	0%	0%	0%	0%	-
Waste	Waste-Abs, Waste-LfL	GRI Standard 306-2	annual tonnes	Waste type	**Hazardous waste**	0	0	0	0	-
					Non-Hazardous waste	1,073	605.5	286	255.3	-10.7%
					Total waste created	1,073	605.5	286	255.3	-10.7%
			proportion by disposal route (%)	Disposal routes, hazardous	**Reuse**	0%	0%	0%	0%	-
					Recycling	0%	0%	0%	0%	-
					Incineration (with or without energy recovery)	0%	0%	0%	0%	-
					Landfill (with of without energy recovery)	0%	0%	0%	0%	-
				Disposal routes, non-hazardous	**Reuse**	0%	0%	0%	0%	-
					Recycling	17%	24%	22%	30%	-
					Incineration (with or without energy recovery)	83%	76%	78%	70%	-
					Landfill (with of without energy recovery)	0%	0%	0%	0%	-
					Biodiesel production	0%	0%	0%	0%	-
			No. of applicable properties		**Waste disclosure coverage**	49 out of 95	45 out of 95	16 out of 95	16 out of 95	-
			Covered applicable sqm			49.26%	48.45%	21.48%	21.48%	-
			%		**Proportion of waste estimated**	0.00%	0.00%	0.00%	0.00%	-

SOCIAL PERFORMANCE MEASURES[1]

		2018		2017		
Diversity-Emp	Employee gender diversity	Female	Male	Female	Male	Percentage of employees
		33%	67%	39%	61%	
Diversity-Pay	Gender pay ratio	NA		NA		Ratio
Emp-Training	Employee training and development	NA		NA		Average training hours per employee
Emp-Dev	Employee performance appraisals	100%		100%		Percentage of employees
Emp-Turnover	New hires & turnover (headcount)	7		12		New hires
		36%		48%		Turnover
H&S-Emp	Employee health and safety	1.2%		2.2%		absentee rate
		0%		0%		Injury rate
		0		0		# of work related fatalities
H&S-Asset	Asset health and safety assessments	NA		NA		Percentage of assets
H&S-Comp	Asset health and safety compliance	NA		NA		Number of incidents
Comty-Eng	Community engagement, impact assessments and development programs	NA		NA		Percentage of assets

1 NA means that data is not available.

GOVERNANCE PERFORMANCE MEASURES

Gov-Board	Composition of the highest governance body	Page 56	Page 53	Total number
Gov-Selec	Process for nominating and selecting the highest governance body	Page 56	Page 53	Narrative on process
Gov-Col	Process for managing conflicts of interest	Page 56	Page 53	Narrative on process

EPRA KEY PERFORMANCE MEASURE

Key performance indicators

	Note	2018		2017	
		€ ‘ 000	per share (€)	€ ‘ 000	per share (€)
EPRA earnings	1	48,745	2.64	49,365	2.72
EPRA cost ratio (incl. direct vacancy costs)	5	26.5%		26.5%	
EPRA cost ratio (excl. direct vacancy costs)	5	25.0%		24.3%	
Property related capex	6	178,539		155,195	

	Note	31 December 2018		31 December 2017	
		€ ‘ 000	per share (€)	€ ‘ 000	per share (€)
EPRA NAV	2	738,330	39.75	673,238	36.66
EPRA NNNAV	2	728,076	39.20	663,592	36.13
EPRA net initial yield (NIY)	3	5.2%		5.5%	
EPRA topped-up net initial yield	3	5.6%		5.9%	
EPRA vacancy rate	4	13.6%		18.4%	

Notes to the EPRA key performance indicators

1. EPRA earnings

	2018	2017
Gross rental income	83,721	89,056
Service costs not recharged	-1,237	-2,093
Operating costs	-13,256	-12,479
Net rental income	**69,228**	**74,483**
Administrative costs	-7,950	-9,247
Net financing result	-12,506	-15,859
Direct investment result before tax	**48,773**	**49,377**
Corporate income tax	-28	-12
Direct investment result / EPRA earnings	**48,745**	**49,365**
Direct investment result / EPRA earnings per share (€)	2.64	2.72

2. EPRA NAV

	31 December 2018		31 December 2017	
	€ ‘ 000	per share (€)	€ ‘ 000	per share (€)
Equity attributable to shareholders	733,283	39.48	672,688	36.63
Fair value of derivative financial instruments	5,047	0.27	550	0.03
EPRA NAV	**738,330**	**39.75**	**673,238**	**36.66**
Fair value of derivative financial instruments	-5,211	-0.28	-560	-0.03
Fair value of debt	-5,043	-0.27	-9,085	-0.49
EPRA NNNAV	**728,076**	**39.20**	**663,592**	**36.13**

3. EPRA yield

	31 December 2018	31 December 2017
Investment property including assets held for sale	1,214,430	1,108,393
Developments	-15,500	-800
Property investments	**1,198,930**	**1,107,593**
Allowance for estimated purchasers' costs	83,943	77,532
Gross up completed property portfolio valuation	**1,282,855**	**1,185,125**
Annualised cash passing rental income	82,118	83,479
Annualised property outgoings	-15,150	-17,896
Annualised net rent	**66,968**	**65,583**
Notional rent expiration of rent free periods or other lease incentives	4,491	3,794
Topped-up annualised net rent	**71,459**	**69,377**
EPRA net initial yield	5.2%	5.5%
EPRA topped-up net initial yield	5.6%	5.9%

4. EPRA vacancy rate

	31 December 2018	31 December 2017
Estimated rental value of vacant space	14,085	19,398
Estimated rental value of the whole portfolio	101,766	105,288
EPRA vacancy	13.8%	18.4%

5. EPRA cost ratio

	2018	2017
Administrative costs	7,950	9,247
Service costs not recharged	1,237	2,093
Operating costs	13,256	12,479
Leasehold	-245	-213
EPRA costs (including direct vacancy costs)	**22,196**	**23,607**
Direct vacancy costs	-1,237	-1,976
EPRA costs (excluding direct vacancy costs)	**20,960**	**21,631**
Gross rental income	83,721	89,056
EPRA gross rental income	**83,721**	**89,056**
EPRA cost ratio (incl. direct vacancy costs)	26.5%	26.5%
EPRA cost ratio (excl. direct vacancy costs)	25.0%	24.3%

6. Property related capex

	2018	2017
Acquisitions	161,397	139,472
Development (ground-up/green field/brown field)	175	
Like-for-like portfolio	15,101	10,557
Other	1,867	5,167
Capital Expenditure	178,539	155,195

Colophon

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