Annual Report 2017

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ANNUAL REPORT

NSI HIGHLIGHTS

REVENUES AND EARNINGS (€ '000)

	Supplemental[1]		IFRS[2]		
	2017	2016	2017	2016	Change %
Gross rental income	89,056	94,589	89,000	94,523	-5.8%
Net rental income	74,483	74,262	74,468	74,205	0.4%
Direct investment result			49,365	47,325	4.3%
Indirect investment result			42,237	-65,158	
Total investment result			91,602	-17,833	
Earnings per share			5.05	-1.00	
EPRA earnings per share			2.72	2.64	3.0%
Dividend per share [3]			2.16	2.16	
EPRA cost ratio (incl. direct vacancy costs)			26.5%	31.7%	-5.2pp
EPRA cost ratio (excl. direct vacancy costs)			24.3%	27.7%	-3.4pp

BALANCE SHEET (€ '000)[4]

	31 Dec 2017	31 Dec 2016	Change %
Investment property	1,072,180	764,613	
Assets held for sale	28,791	389,923	
Net debt	-408,453	-512,267	-20.3%
Equity	672,688	604,255	11.3%
IFRS equity per share	36.63	33.76	8.5%
EPRA NAV per share	36.66	34.61	5.9%
EPRA NNNAV per share	36.13	33.56	8.8%
Net LTV	36.9%	44.1%	-7.3pp
Number of ordinary shares outstanding[5]	18,364,998	17,900,230	2.6%
Weighted average number of ordinary shares outstanding	18,133,178	17,900,230	1.3%

KEY PORTFOLIO METRICS

	Dec 17				Dec 16
	Offices	HNK	Other[6,7]	Total	Total
Number of properties	93	14	19	126	165
Market value (€m)[8]	736	181	191	1,108	1,160
Annual contracted rent (€m)[9]	57	15	16	87	98
ERV (€m)	67	22	16	105	116
Lettable area (k sqm)	436	128	113	676	870
EPRA Vacancy Rate	15.9%	29.8%	14.0%	18.4%	21.4%
WAULT (years)	5.0	2.9	5.0	4.7	4.7
Average rent/sqm (€/p.a.)	168	176	169	169	149
EPRA net initial yield	5.8%	3.9%	6.0%	5.5%	6.0%

1. Figures with Belgium reported as continuing operations, IOW as discontinued operations in 2016 (sold)
2. Belgium and Intervest (IOW) operations accounted for as discontinued operations under EU-IFRS
3. Dividend proposal for 2017, of which €1.04 already paid as interim dividend in August 2017
4. Change in investment property and assets held for sale partly due to disposals and acquisitions and partly due to representation of remaining retail assets from held for sale to investment property in accordance with IFRS 5
5. The number of ordinary shares has changed due to stock dividend and a share consolidation
6. Retail has been reclassified to Other as per YE 2017. At December 2017 the segment Other also holds two industrial assets, one of which is held for sale
7. Keizerslanden in Deventer was sold in April 2017 and is included as held for sale in Other, with the delivery and transfer of this asset set for H1 2018
8. At market value. Reported in consolidated statement of financial position at book value, excluding lease incentives and part of NSI HQ related to own use
9. 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 €1.1 bln at 31 December 2017.

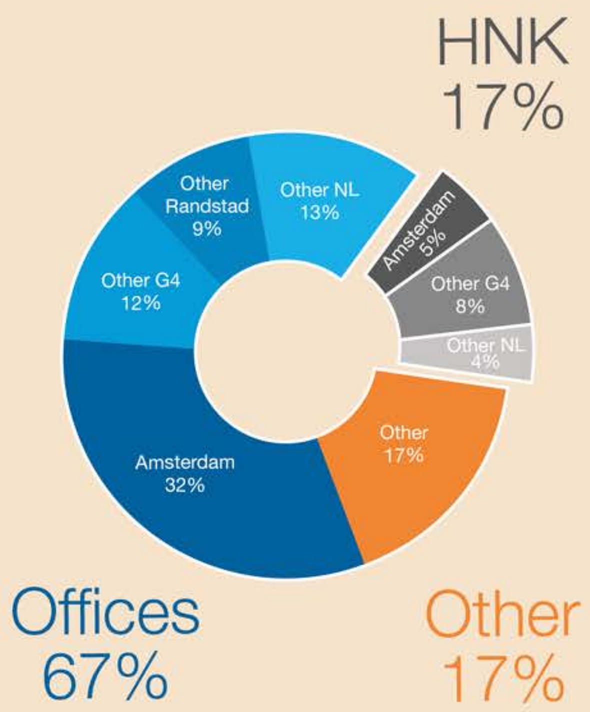
MISSION

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.

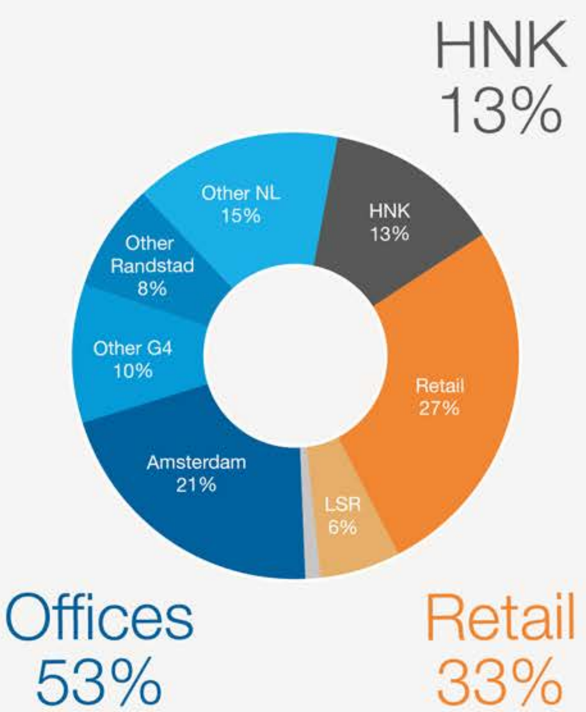
PORTFOLIO SPLIT

	# assets	Value €m	Value %
Offices	93	736	67%
HNK	14	181	17%
Other	17	162	14%
Total investment properties	**124**	**1,080**	**97%**
Assets held for sale	2	29	3%
Total portfolio	**126**	**1,108**	**100%**

Sector Split
Total Portfolio 2017



Sector Split
Total Portfolio 2016

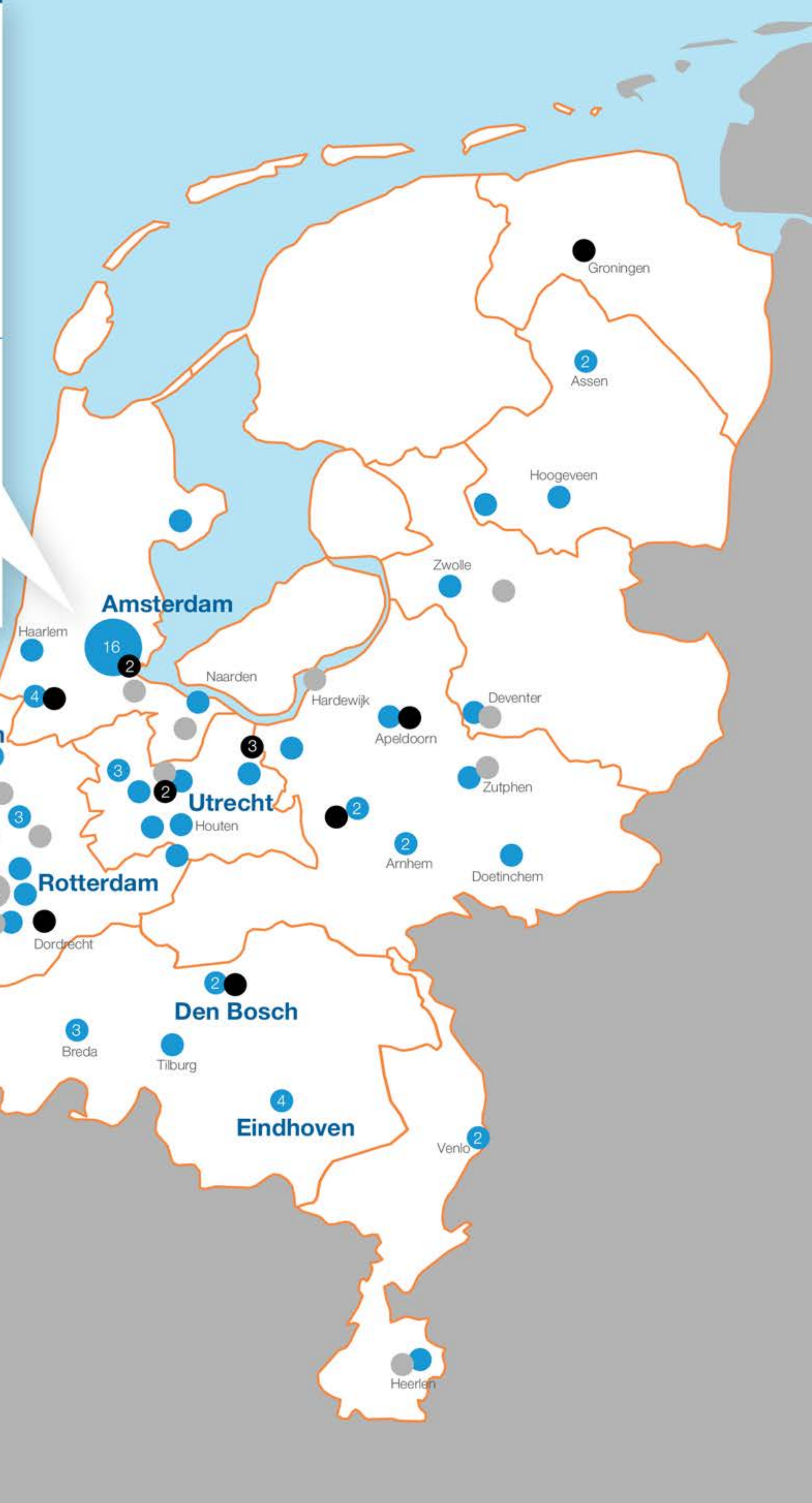


OVERVIEW PORTFOLIO

FOCUS PAYS OFF

NSI's transition to focus on offices in G4 locations started back in 2013. Asset rotation to date has resulted in a better office portfolio in terms of asset quality and location, with better prospects. NSI disposed a number of non-strategic assets in weak areas, and reinvested in high quality assets in strong locations, most particular in Amsterdam. Amsterdam now accounts for 36% in value of the office portfolio, versus 3% in 2013.

Office portfolio in Amsterdam



CEO COMMENTS

Bernd Stahli
CEO

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

Organisational rationalisation

We have put in place an almost entirely new organisation, with a new culture and identity. We reduced the team from 81 employees as per the start of 2016 to 55 as per year-end 2017, of which 24 are new hires. Our EPRA cost ratio has fallen to 24.3% (was 27.7%) as a result.

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

A more focused portfolio

The number of assets is down by 39 assets to 126 (having sold 44 assets[1] for €242 million and acquired 5 assets for €139 million during the year). The disposals include circa 60%[2] of our retail assets, in line with our strategy to focus solely on offices going forward.

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

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

Internal growth – office (re-)developments

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

1. Excludes two assets which were partly sold after title was split
2. Including Keizerslanden

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

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

Valuations underpinned

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

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

‘With the foundations now in place, and the Dutch economy and property market in good shape, we are optimistic about the outlook’

Debt refinancing & LTV

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

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

The LTV is down to 36.9% at year-end 2017 (was 44.1% at YE 2016) and is set to fall further, as we continue our asset rotation program and prepare the balance sheet for the development opportunities ahead.

Given the increasing focus on value-add initiatives, we are lowering our target LTV range to 35-40%.

Having said that, we would still be comfortable to move above this range, albeit on a temporary basis, if and when the right property deals come along.

Outlook for 2018

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

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

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

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

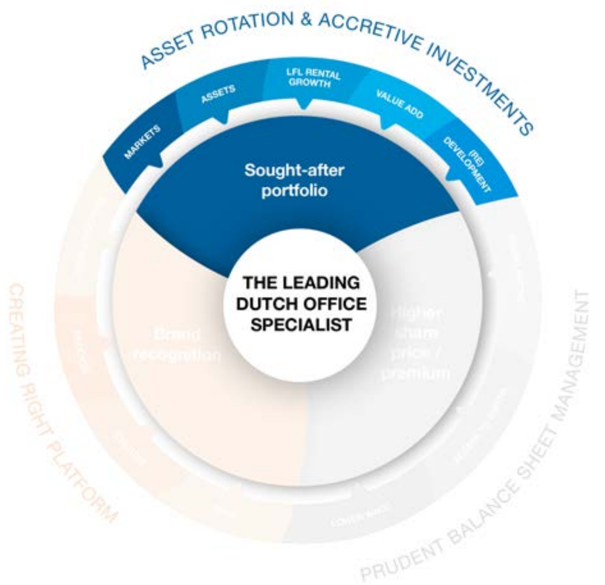
Looking back on a successful 2017 and looking forward to 2018 with confidence, we are pleased to propose to our shareholders a final dividend of €1.12 per share, resulting in a stable dividend of €2.16 per share for the year.

STRATEGY

NSI has set out a clear strategy. In February 2017 the company announced it will 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 return.

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.



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 less occupiers take single let leases for more than 10 years in the future. HNK is unique in that it can offer tenants a combination of traditional long-let space and flexible space in a single building.

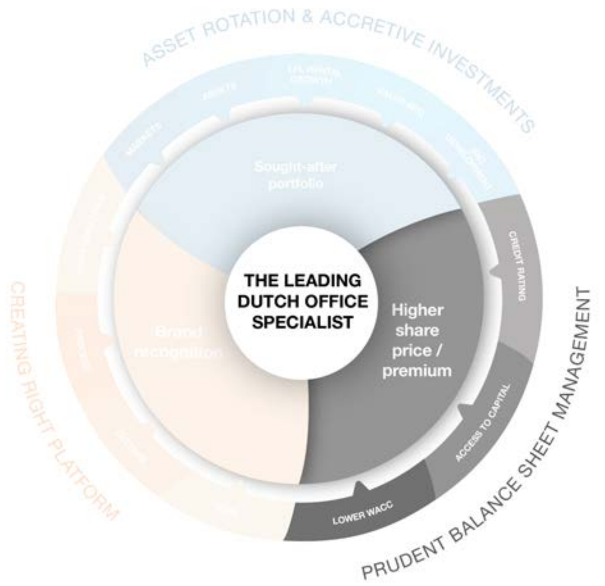
Creating the right platform

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. In this respect it is key to aim for an optimal cost structure and not just focus on achieving the lowest cost possible.

Being a listed entity means always needing the organisation to be a certain size and have a value-add strategy. This, in turn, means always having slightly higher costs than would be the case if a passive investment approach were to be adopted. 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 new 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 the lowest possible 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, while not being 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 2017

In the year under review asset rotation resulted in a more focused portfolio of higher quality assets. The number of assets fell by 39 to 126. The disposals included selling around 60% of the retail assets. The average asset value increased to €8.8 million at the end of 2017, a 26% increase compared to 12 months earlier. The exposure to the G4 increased from 40% to 57%. This part of the portfolio is significantly outperforming the remainder, underpinning the strategic choice that was made.

In 2017 NSI invested in building a new team and upgrading its assets to drive occupancy growth. Efforts to attract new tenants are expected to bear fruit in 2018. This will have a leveraged positive effect on NRI as it will both accelerate GRI and improve the NRI margins.

NSI identified substantial development potential in its existing portfolio in 2017, including three office developments in greater Amsterdam area. The first could possibly break ground as early as the second half of 2019.

Following the strategic review, NSI moved to a cost base that is much more appropriate for its current asset base and put in place a new organisation that is both nimble and scalable, shrinking the number of FTEs by approximately 45%. A new culture and identity have been set out. Core processes have been optimised, digitalised and automated, while some non-core processes have been outsourced. Cost savings should start to come through from 2018 onwards.

The financial and operational reporting systems have been taken to the next level and newly implemented tools have improved the internal and external reporting process, providing greater insight to manage the portfolio correctly. In addition NSI has a new brand appearance (logo, colour), share price and website, as well as a new investor base with improved investor recognition.

After balance sheet date, in January 2018, NSI attracted new capital in the form of a private placement from Pricoa Capital Group. The euro-denominated notes have a fixed coupon reflecting an implied investment grade credit rating. Such recognition from a highly reputable international investor is a reflection of the steps NSI has taken in the past few years to professionalise the organisation and strengthen its balance sheet.

DEVELOPMENTS & TRANSFORMATIONS

The next phase in the Dutch office cycle

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

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

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

Developments

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

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

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

The timing of these projects is still rather uncertain. We know from experience that projects can be delayed (and often are) for multiple reasons.

We will also have to recognise the remaining lease term of the in-place tenants for the two redevelopments, which can only start once the existing buildings have been demolished.

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

Transformations

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

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

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

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

At present we have identified seven transformation opportunities in total, including in Amsterdam (1), The Hague (2), Zoetermeer (2), Eindhoven (1) and Leiden (1).
Given the specific nature of these assets, which are no longer held for their long term income-generating capacity, but much more as IRR-led total return investments, it is perhaps appropriate to exclude these from the vacancy calculation for the portfolio. We have decided not to do so at this stage, as to not confuse everyone by reporting multiple vacancy rates.

‘We fully used the improved liquidity in the investment market’

Interview with Thijs Peek
Head of transactions

In 2017 NSI stepped up asset rotation as part of its new strategy. In deals with a total volume of over €400 million NSI disposed 46 assets, of which 25 retail and 21 smaller office assets and acquired 5 office assets. Thijs Peek, head of transactions, looks back on a very busy but successful year.

So how was 2017 for you?
“We are very pleased with the progress made in 2017. We fully used the improved liquidity in the investment market, disposing approximately 60% of the total retail portfolio and many smaller office assets, reinvesting the proceeds in attractive locations in Amsterdam, Utrecht, Eindhoven and Leiden.”

A good result in a market which is hot due to the large amount of cash available and relatively limited high-quality supply. How do you explain this success?
“Focus. We have a very clear picture of what we want to buy, as well as what we want to sell. And so the market knows where to find us. In addition we have a good reputation as being decisive and effective when doing deals. We have a tightly managed process with in-house expertise. In addition, our strong financial position enables us to respond swiftly without bidding subject to financing. The knowledge that the lead time is short and the execution risk low can be the deciding factor for a seller, even where we are not the highest bidder. The strong network of real estate agents, investors and developers that NSI has built up over the years also plays an important role.“

The biggest transaction, involved the swap of 16 retail assets for two offices in Amsterdam, can you put a little more colour on this?
“We had been in discussions with the purchaser for a while. We knew they had a couple of office buildings in their portfolio that suited our strategy. We offered them to do an off-market deal in which they were able to buy a large part of our retail portfolio if we could get their offices. As a result we sold €150 million of retail assets at book value and secured two office assets in strong Amsterdam sub-markets at a very attractive price. In a second portfolio transaction the entire Large Scale Retail portfolio was sold to a Belgian REIT at a nice premium to book value.”

Will you sell more?
“It is no secret that all retail assets in the portfolio will be sold at some point. But we’re not in a hurry. The assets will be sold at the right price. We constantly look if we can add more value, for example by extending a lease or by looking at redevelopment potential to show the potential in the asset and increase the chance of a successful sale. We see investor appetite for retail increasing and expect healthy investor demand in the coming years. I’m confident we will be successful in further reducing the retail exposure in 2018. Additionally we will continue to sell offices outside our target cities as well as assets that are too small.”

‘We have a very clear picture of what we want to buy, as well as what we want to sell’


Acquired office building at Kennedyplein in Eindhoven

And is it still possible to buy?
In the current market acquiring the right quality at favourable yields requires increasing amounts of creativity. We have the knowledge and expertise to make acquisitions higher up the risk curve as long as the location is right. This improves our chances of securing assets that other parties perhaps do not consider viable. For example by buying assets with high vacancy or assets where we see potential for redevelopment or potential HNK conversion. Another option can be forward funding of a development covering the tenant risk for a developer and taking part of the upside. It is also a matter of spotting the opportunities at the right time. You have to have a vision of where it's going to happen next, where a market is turning or is about to turn, like when we bought at just the right time in Amsterdam Sloterdijk in 2016."

Disposals and acquisitions in 2017

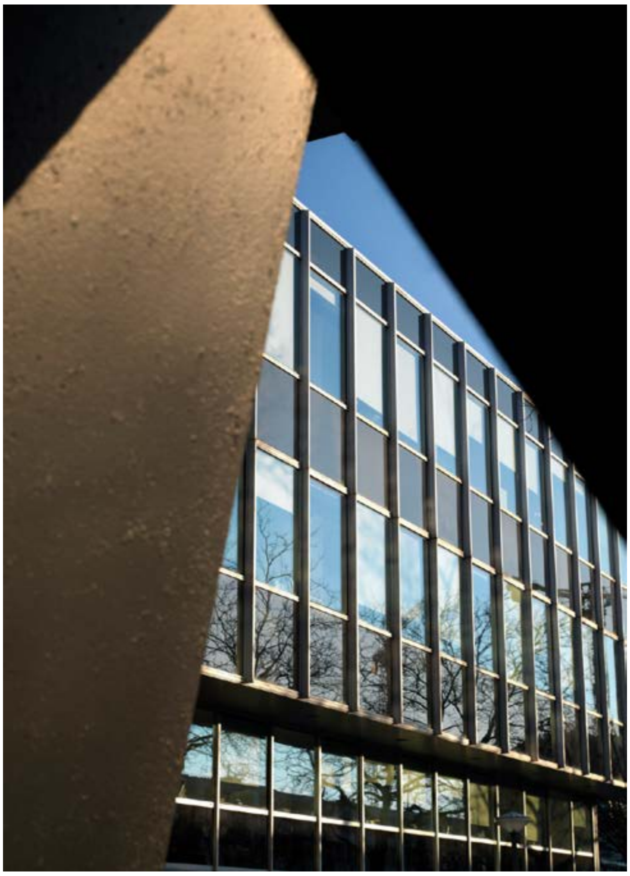
Disposals	# Assets	Book value	Net sales proceeds
Offices disposals	21	35.9	38.7
Retail disposals	25	200.4	203.3
Total disposals	**46**	**236.3**	**242.0**

Acquisitions	# Assets	Book value (Dec 17)	Total purchases costs
Offices acquisitions	5	145.4	139.4
Total acquisitions	**5**	**145.4**	**139.4**

DISPOSALS & ACQUISITIONS

Acquired office building Vitrum at Parnassusweg in Amsterdam

'You have to have a vision of where it's going to happen next, where a market is turning or is about to turn'



The fact that offices in the prime locations in Amsterdam's South Axis business district are currently changing hands at very low initial yields does that mean NSI is not looking at these areas?
"Even at prime locations in Amsterdam opportunities arise that allow NSI to distinguish itself. An example is the purchase of the Vitrum building on Parnassusweg. The location can match up to the newbuild currently being realised in the heart of the South Axis. And yet we were able to purchase this asset at a much higher initial yield than is usually the case in the current market. Once again, it was focus, vision and creativity that made the difference."

Are you able to justify lower yields?
"More than ever before, rental growth assumptions and potential for development and redevelopment are aspects that must be taken into consideration when buying assets. We have to consider various future scenarios right from the moment of purchase. To successfully acquire assets our plans have to be creative and future-proof always assessing what could happen if the market unexpectedly turns."

Do you expect to see continued strength in the Dutch office investment market in 2018?
"I do, however, taking into account where we are in the cycle, we continue to be very selective when acquiring assets. Nevertheless, we look forward to 2018 being yet another active year."

INCOME, COST AND RESULTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revaluation of investment property
In June and December all standing assets have been appraised externally. The total revaluation for the full year is €27.4 million, or 2.5%, with capital values for Offices in Amsterdam up 11.3% and in Other Netherlands down 10.3%. HNK valuations are up 10.8% over the year, more than offsetting lower valuations in the "Other"[1] segment (down 3.6%), which reflect continued weakness in this part of the Dutch real estate market.

1. Includes Retail, Industrial and Belgian assets

Result on sale of investment property

NSI sold assets[2] with a book value close to €242 million. The net result on asset disposals for 2017 is €5.7 million, underpinning the portfolio's external valuation.

Revaluation of derivatives

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

Discontinued operations

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

Post-closing events and contingencies

In 2018 NSI sold 2 offices (in Apeldoorn and Amersfoort) for a total amount of €3.1 million.

On 30 January 2018 NSI N.V. has agreed to issue €40 million of 8-year unsecured notes to Pricoa Capital Group, part of the global investment business of Prudential Financial Inc. The Euro denominated notes have a fixed coupon reflecting an implied investment grade credit rating.

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

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

2. Excludes Keizerslanden shopping centre in Deventer which was sold in April 2017 with delivery and transfer set for H1 2018

NETHERLANDS PROPERTY MARKET OVERVIEW

Strong investment market

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

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

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

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

Office market review and outlook

The vacancy rate for Dutch offices has fallen from 12.7% in 2016 to 11.7% end 2017. Whilst most of the decline in the vacancy rate in recent years has been due to withdrawals and conversions, in 2017 most of the decline was driven by positive net absorption.
The vacancy rate is moving back to levels last seen in 2007 and in the G4 and Eindhoven the market is back at equilibrium or even beyond, resulting in falling incentives and a return of rental growth. Away from the wider Randstad market vacancies generally remain too high to see any rental growth or even falling incentives.

Amsterdam

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

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

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

Rotterdam

Rotterdam remains a difficult market, suffering from a lack of new demand from larger corporates and a geographic wide spread. In 2017 take-up was well below expectations (below levels of 2015 and 2016) and was largely driven by smaller local tenants. The vacancy rate still stands at circa 15%, so that incentives remain high and ERVs are largely flat. Prime rents at €220psm are about half Amsterdam levels. Average rents, at €125psm due to the wide geographic spread, are more or less in line with the national average. On a positive note, residential prices are up, as people are moving in from elsewhere. This could possibly lead to a higher level of activity in Rotterdam offices.

The Hague

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

Utrecht

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

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

Flex offices/HNK

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

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

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

Retail

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

‘We optimised our process right across the board’

Interview with Mohammed Amlal
Head of asset and leasing management

NSI aims to achieve the best possible performance. Proactive asset management has a key role to play in realising the NSI strategy. Mohammed (Mo) Amlal joined NSI in 2016 as head of asset & leasing management tasked with further professionalising this function within NSI.

Mo and his team took a critical look at all aspects of the asset management process. “From developing models and scenarios for asset strategies to how to organise the rental and relationship process more efficiently. We optimised our process right across the board, and greatly enhanced the quality of our data in the process.”

Last year saw the reshaping and remodelling of the Asset Management department. “Without the right people improvement plans are nothing but paper tigers. You also need execution power.” Mo had a clear view of what he wanted to achieve with his team and what he needed for that. The addition of new members, including an analyst from the Young Talent programme, completely changed the profile of the team. “I’m really pleased with all the talent and professionals we have been able to attract. With our current team we really are capable of standing out.”

Proactive asset management is inextricably linked to good relationship management, given that various internal and external parties are involved throughout the real estate chain. “It is key that everyone is on board in terms of our ambitions and shares ownership of what we want to achieve at NSI. The relationships with market parties have been refreshed and strengthened, and we will definitely reap the benefits of this in the years to come.”

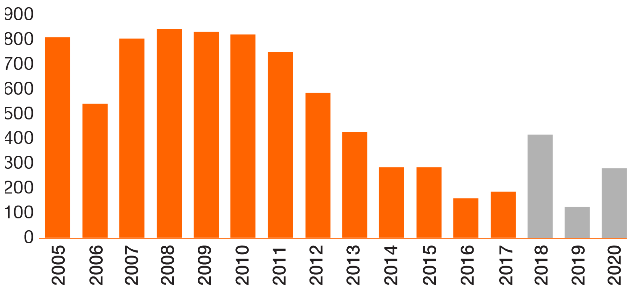
The Dutch office market has been very dynamic in the last few years. It is crucial to have a vision that transcends the cycle. “The market is constantly changing. There will always be short-term developments in a market and it goes without saying that you have to respond to these. But it is much more important to gain an understanding of how the office market is going to develop in the long term. Having a vision of what constitutes a dynamic and future-proof environment, having an eye for quality buildings where current and future users like to work, doing business and meeting people. And adding a range of services to tie in users for the long term. These three perspectives – location, quality and service – apply whatever the market sentiment is, whether we’re in an up cycle or a down cycle.”

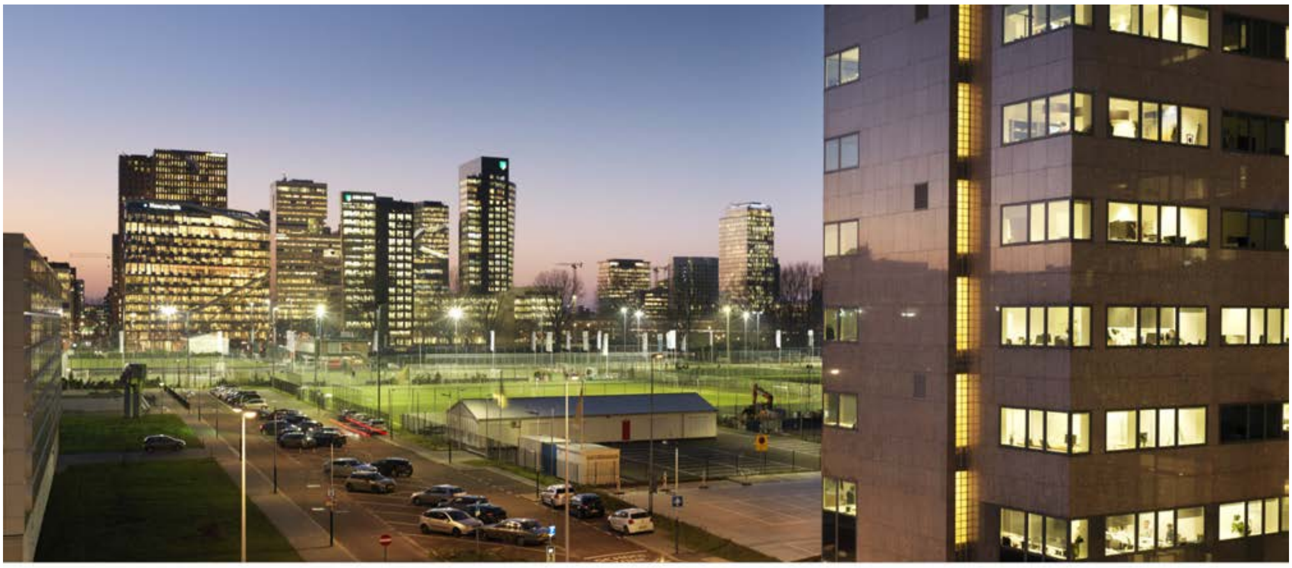
‘With our current team we really are capable of standing out’

Recently there has been a turn in the tide in the rental market. Market surveys show that in some areas there is a shift from a tenants' market to a landlords' market. "Economic growth is of course contributing to the positive developments in the market. Vacancy rates are falling, certainly in the cities we target. In Amsterdam there is now a shortage of high-quality office space, a trend being mirrored in the other major Dutch cities."

Economic prosperity can work as a catalyst. "The current market sentiment allows us to make more rapid changes to our portfolio." An up-cycle market brings new opportunities which are also new for NSI.

Netherlands completions & development pipeline ('000 sqm)





‘We see opportunities to create significant value’

“We have identified three projects in the portfolio where we see opportunities to create significant value through development or redevelopment. And as far as we’re concerned, this is just the start.”

The major cities are growing rapidly, but are running out of space to meet the growing demand for housing and offices. “That means we need to change the way real estate is used. Building upwards is one possibility, but we can also look at how we can make smarter and more intensive use of the built environment.“ It is becoming essential that we change the way we look at planning our cities and buildings. It will become more important to combine functions and buildings will need to be able to develop over time. “We need to think about alternative usage right from day one. There needs to be a vision in terms of the best possible use of space for living, working and meeting people without compromising on quality and the environment.”

In the coming months NSI will further develop the plans for the initial projects identified in the portfolio. “In light of NSI ambitions and the rapidly changing occupier market these will certainly not be the last development projects in our portfolio.

REAL ESTATE PORTFOLIO

Anne de Jong
CIO

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

Asset rotation (€m)

	# assets	Net sales proceeds[1]	Book profit / loss[2]	Net contract rent Dec 16
Offices disposals	21	38.7	2.8	2.2
Retail disposals	25	203.3	2.9	14.6
Total disposals	**46**	**242.0**	**5.7**	**16.8**
Offices acquisitions	5	145.4	6.0	9.8
Total acquisitions	**5**	**145.4**	**6.0**	**9.8**
Delta	**-41**	**102.5**	**11.7**	**(7.0)**

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

Portfolio split

	# assets	Value €m	Value %
Offices	93	736	67%
HNK	14	181	17%
Other	17	162	14%
Total investment properties	**124**	**1,080**	**97%**
Held for sale	2	29	3%
Total portfolio	**126**	**1,108**	**100%**

1. Acquisitions at December 2017 book value
2. Including sales and acquisition costs

Vacancy

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

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

EPRA Vacancy

	Dec 16	LFL	Other	Dec 17
Offices	21.3%	2.0%	(7.4%)	15.9%
HNK	37.1%	(7.3%)	0.0%	29.8%
Other	12.4%	1.8%	(0.2%)	14.0%
Total portfolio	**21.4%**	**(0.3%)**	**(2.7%)**	**18.4%**
Offices + HNK	**25.3%**	**(0.8%)**	**(5.3%)**	**19.2%**

Rents

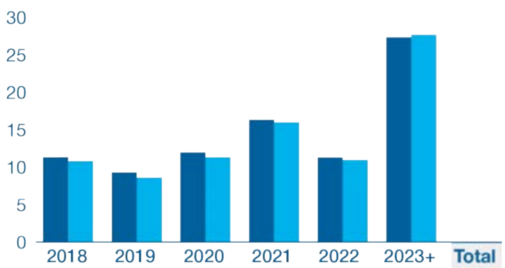
Net rental income for FY 2017 is up 1.9% on a like-for-like basis compared to FY 2016, with continued strong growth in HNK. In Offices the like-for-like development has been particularly impacted by a fall in occupancy and the realisation of negative reversion on some lease expiries.

Net rent growth like-for-like

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

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

Annual expirations and reversion (€m)



	2018	2019	2020	2021	2022	2023+	Total
● Ann. rent (€m)	11.4	9.4	11.8	16.2	11.3	27.2	**87.3**
● ERV (€m)	11.3	8.5	11.3	15.9	11.0	27.8	**85.9**
# Contracts	524	140	119	113	98	117	**1,111**
Reversion %	-0.6%	-8.8%	-4.0%	-2.0%	-2.5%	2.2%	**-1.6%**

Reversionary potential, ERV bridge

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

Reversion [3,4]

	Dec 16	Dec 17
Offices	(7.6%)	(0.9%)
HNK	0.4%	3.9%
Other	(8.0%)	(9.1%)
Total portfolio	**(6.7%)**	**(1.6%)**

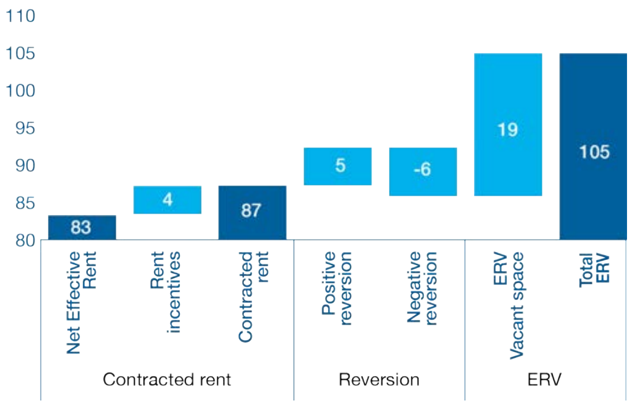
ERVs increased by 2.5% on a like-for-like basis in 2017. The ERVs for Offices and HNK are up by 2.6% and 4.3% respectively, with the Office ERV driven for a large part by a 7.2% increase in the G4. Conversely, retail ERVs are 0.8% lower, reflecting a still challenging environment.

ERV like-for-like

	Dec 16 (€m)	Dec 17 (€m)	Change (€m)	Change %
Offices	45.9	47.0	1.2	2.6%
HNK	20.7	21.6	0.9	4.3%
Other	16.4	16.4	0.0	(0.1%)
Total portfolio	**82.9**	**85.0**	**2.1**	**2.5%**

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

Bridge contracted rent to ERV (€m)



3. Reversion = ERV let space / contractual rent
4. 2016 figures represented for reclassification of HNK Schinkel from Offices to HNK and retail into Other

EPRA yields

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

Yields

	EPRA NIY		Reversionary Yield[5]	
	Dec 17	Dec 16	Dec 17	Dec 16
Offices	5.8%	6.0%	9.1%	9.9%
HNK	3.9%	4.3%	11.9%	13.1%
Other	6.0%	6.6%	8.6%	8.9%
Total	**5.5%**	**6.0%**	**9.5%**	**10.0%**

Valuations

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

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

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

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

Revaluation - December 2017 (€m)

	Valuation			Revaluation	
	Dec 17	Positive	Negative	total	% YoY
Offices	736	44	(27)	17	2.4%
HNK	181	22	(4)	17	10.8%
Other	191	3	(11)	(7)	(3.6%)
Total	**1,108**	**70**	**(42)**	**27**	**2.5%**

Capital expenditure

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

Capital Expenditures FY 2017 (€m)

	Offensive	Defensive	Total
Offices	0.0	2.8	2.8
HNK	6.3	0.0	6.3
Other	5.8	0.9	6.7
Total	**12.1**	**3.7**	**15.8**

Developments

NSI currently has no active development activities. In December 2017 the extension of a supermarket unit in shopping centre Lage Land in Rotterdam was completed. The delivery of the final units in the extension of shopping centre Keizerslanden in Deventer is planned for H1 2018.

Offices

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

Key metrics - Offices

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

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

The vacancy rate in the G4 is 7.6%, down from 10.3% one year ago. The reduction, of which 0.7% on a like-for-like basis[7], is primarily the effect of the acquisitions with 100% occupancy. Other Randstad vacancy reduced 7.3%, mostly due to disposals, whilst on a like-for-like basis the occupancy was stable.

5. Reversionary yield: ERV / Market Value
6. Like-for-like vacancy changes excludes assets defined as transformation or development projects
7. NRI like-for-like FY 2017 compared to FY 2016, only assets in portfolio for whole FY 2016 and FY 2017, transformation and development projects are excluded. Revaluation and ERV growth of assets in portfolio on 31 December 2016 and 31 December 2017.

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

Key offices metrics - geographical split

	G4	Other Randstad	Other NL
Number of properties	33	23	37
Market value (€m)	484	104	148
Annual contracted rent (€m)	33	10	13
ERV (€m)	38	12	18
Reversion	4.2%	(6.5%)	(9.5%)
Lettable area (k sqm)	189	89	157
EPRA Vacancy	7.6%	16.8%	32.5%
WAULT (years)	5.9	4.1	3.7
Average rent/sqm (€/p.a.)	198	144	133
EPRA net initial yield	5.3%	7.6%	6.5%
Avg value (€m)	14.7	4.5	4.0

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

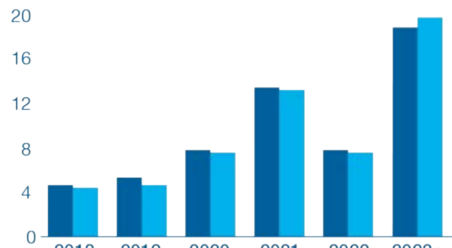
Like-for-like

	NRI growth	Revaluation	ERV growth
	%	%	%
G4	0.4%	8.8%	7.2%
Other Randstad	10.6%	0.4%	1.3%
Other Netherlands	(14.1%)	(11.1%)	(3.0%)
Total	**(2.2%)**	**2.7%**	**2.6%**

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

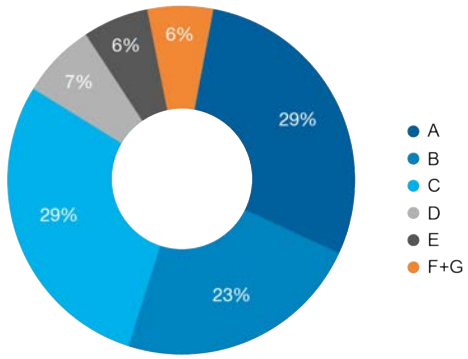
Due to the sale of over-rented assets and the expiry of several sizeable and highly over-rented lease contracts, the over-renting for Other Netherlands has improved significantly from -17.7% at the end of last year to -9.5% at the end of 2017.

Annual expirations and reversion Offices (€m)



	2018	2019	2020	2021	2022	2023+	Total
Ann. rent (€m)	4.6	5.2	7.7	13.4	7.7	18.7	**57.2**
ERV (€m)	4.3	4.6	7.5	13.1	7.6	19.6	**56.7**
# Contracts	90	46	44	55	26	56	**317**
Reversion %	-6.7%	-10.7%	-2.5%	-2.5%	-0.8%	4.9%	**-0.9%**

Energy score split ranked by value



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

HNK

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

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

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

The opening of Amsterdam Schinkel[8] is set for Q2 2018. No further openings are foreseen for 2018. Longer term we see room to expand HNK in the G4, particularly in Amsterdam and Utrecht, by converting some of our existing offices. New acquisitions are also still being considered.

8. Amsterdam Schinkel transferred to HNK portfolio from 31 December 2017

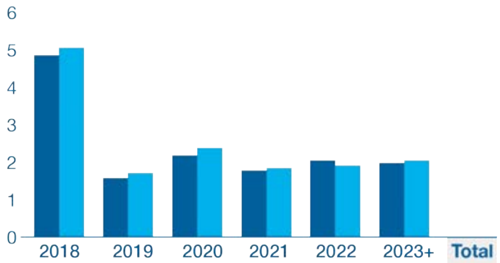
Key metrics - HNK

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

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

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

Annual expirations and reversion HNK (€m)



	2018	2019	2020	2021	2022	2023+	Total
● Ann. rent (€m)	4.9	1.6	2.2	1.8	2.1	2.0	**14.6**
● ERV (€m)	5.1	1.7	2.4	1.9	2.0	2.1	**15.1**
# Contracts	362	56	43	32	32	20	**545**
Reversion %	5.4%	4.9%	7.4%	6.9%	-4.8%	1.8%	**3.9%**

Other

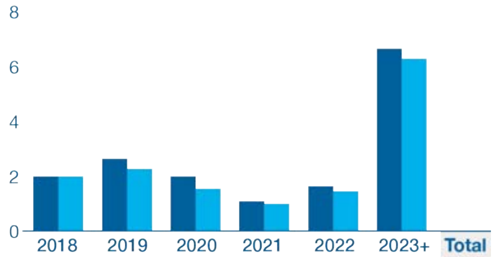
The segment Other has more than halved in size during the year and includes 17 retail and 2 industrial assets at YE 2017. Following an active H1 2017, in which 22 retail assets were sold, in H2 a further two small retail assets and our last remaining office asset abroad, in Belgium, were sold. The Keizerslanden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

The interests in shopping centres in Rotterdam (Zuidplein), Rijswijk, Heerlen and Ridderkerk combined make up over 66% of the segment Other[9] by value. NSI will continue to sell its retail and industrial assets in the period to come, reinvesting the proceeds in offices.

Key metrics - Other

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

Annual expirations and reversion Other (€m)



	2018	2019	2020	2021	2022	2023+	Total
● Ann. rent (€m)	1.9	2.6	1.9	1.1	1.6	6.5	**15.5**
● ERV (€m)	1.9	2.2	1.4	0.9	1.4	6.1	**14.1**
# Contracts	72	38	32	26	40	41	**249**
Reversion %	-1.5%	-13.6%	-23.5%	-10.7%	-7.7%	-5.5%	**-9.1%**

9. Excluding Keizerslanden in Deventer

BALANCE SHEET, NAV & FINANCING

Alianne de Jong
CFO

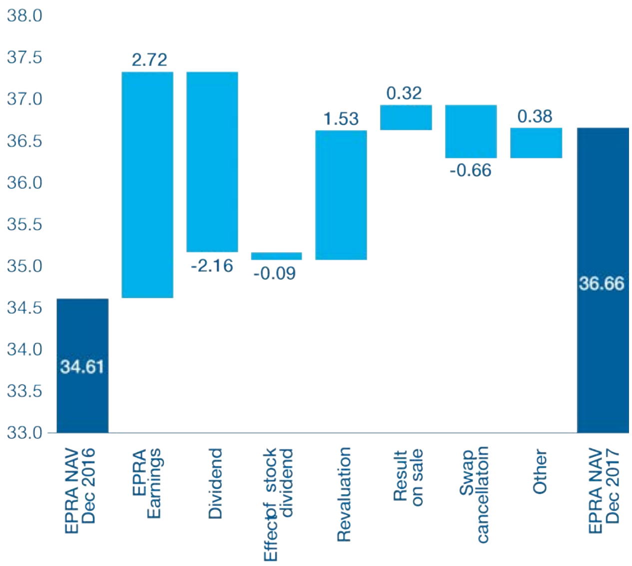
Balance sheet

Retail is no longer reported as discontinued operations in accordance with the provisions of IFRS 5. The Belgian activities are reported as discontinued operations, but are only shown in the YE 2016 balance sheet as the last remaining asset was sold in December 2017. At year-end 2017 one industrial asset and the Keizerslanden shopping centre are classified as held for sale.

Net asset value

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

EPRA NAV per share bridge (€)



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

Funding

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

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

At the end of the 2017 the remaining €20 million of the 2023 Berlin Hyp facility was drawn, at an improved margin. No additional security was given. Proceeds were used to fully repay the €60 million secured EU private placement (EUPP), which was originally due to expire in 2022, releasing security on €115 million worth of assets as a result. An early termination penalty of €0.9 million was paid. The RCFs are temporarily drawn for €40 million and has been repaid at the end of January 2018 when the US private placement notes were issued. NSI is also in discussions with its banks over its Term Loan and RCFs, which are currently scheduled to expire in 2019-2021.

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

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

The cost of debt is significantly lower at 2.3% at 31 December 2017 (31 December 16: 2.8%), as a result of the repayment of the EU private placement loan, drawing from the Berlin Hyp facility and breaking swaps. Swaps maturing in 2022 were cancelled at a cost of €11.7 million, in line with the repayment of the EUPP due that year.

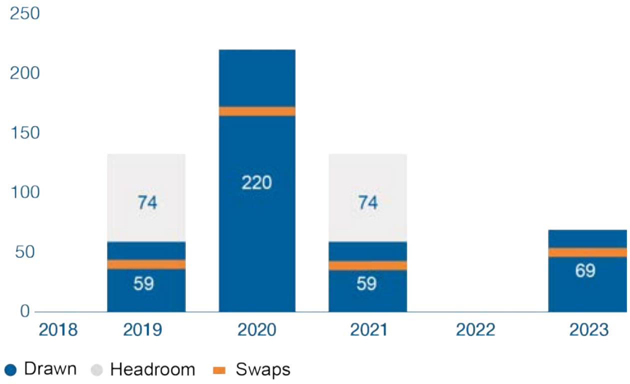
Net debt (€m)

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

The first debt is due to expire in November 2019. At 31 December 2017 83% (31 December 2016: 79%) of the debt is unsecured and 82% (31 December 16: 73%) of the assets are unencumbered.

NSI has undrawn credit facilities of €147 million and uncommitted bank facilities of €5 million at 31 December 2017.

Maturity profile of loans and swaps (€m)



Leverage and hedging

The LTV has decreased to 36.9% at 31 December 2017 (versus 44.1% at 31 December 2016), mainly reflecting the asset disposals and a positive revaluation of the investment portfolio. This is within NSI's new target range of 35-40%.

The average loan maturity is 3.1 years (year-end 2016: 4.2 years). The maturity of derivatives is 3.0 years (December 2016: 4.3 years), resulting in a maturity hedge[1] of 98% (target range: 70-120%).

The notional amount of swaps outstanding at the end of December was €315.0 million. The volume hedge[2] was 77% (target range 70-100%), slightly below previous quarters.

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

Development of covenants

NSI complies with all its covenants. The LTV of 36.9% is well below the 60% covenant and the interest coverage ratio (ICR) at 4.7x (Dec 2016: 3.8x) net rental income, is also well above its covenant (at 2.0x).

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

Key financial metrics

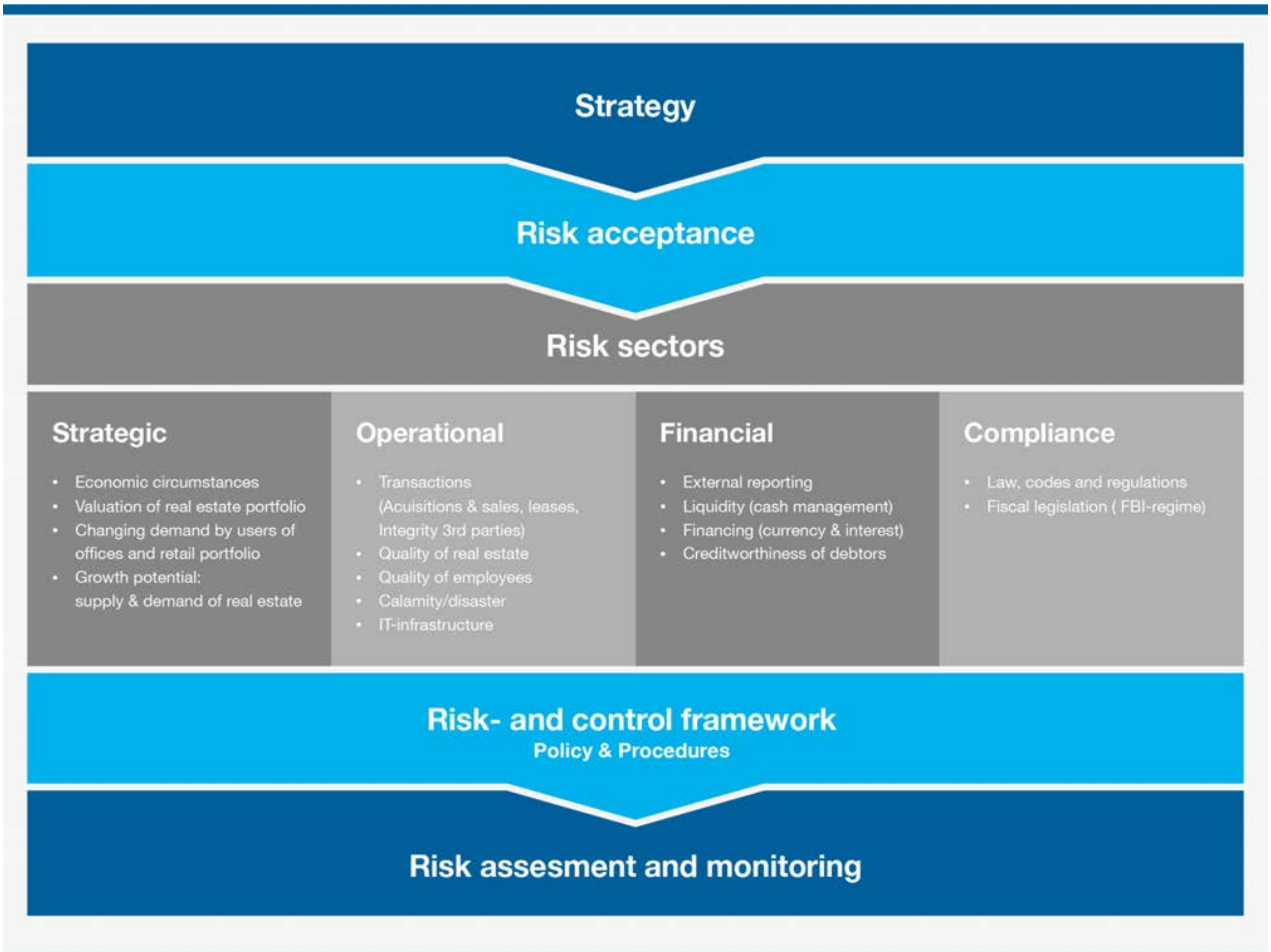
	Covenant	Dec 15	Dec 16	Sep 17	Dec 17
LTV	<60%	43.3%	44.1%	38.1%	36.9%
ICR	>2.0x	3.2x	3.8x	4.7x	4.7x

1. Maturity hedge is average maturity of swaps and fixed debt maturities as % of average maturity of loans
2. Volume hedge is amount hedged or fixed as % of total drawn debt facilities

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 returns while minimising risks.

Risk acceptance assessment 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. During 2017, NSI has sold approximately 60% of the retail portfolio. NSI still ows part of the retail portfolio at the time of writing this report. The risks related to this real estate are also managed and monitored in a similar way. Inevitably, the implementation of this strategy involves incurring 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 hedging of interest rate risk is defensive, resulting in no speculative positions. NSI determined specific hedging ratio's 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 datacenters, 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.

All important decisions with regard to the acquisition, redevelopment and divestment of properties were discussed and assessed in the year under review during regular meetings of the Real Estate Committee[1]. Real estate acquisitions valued below €1.5 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 €1.5 million and €7.5 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 €7.5 million need approval from the entire Supervisory Board after receiving the advice of the Real Estate Committee.

The aforementioned value thresholds were adjusted during the meeting of the Supervisory Board on 13 February 2017. The consequence of this is that the Management Board and the Real Estate Committee now have a larger mandate with respect to investments and divestments, with the amounts having been increased to €3.5 million for the Management Board and €10 million for 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 million for the Management Board and €20 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

1. Please refer to the Report of the Supervisory Board and committees for details about the tasks and composition of the Real Estate Committee.

equal importance to risks that are less and more likely to occur. 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 stiill in line with the actual situation. 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. Besides, by monitoring during the year NSI judges whether the estimated impact of all identified risks is stiill in line with the actual situation.

Improvements in risk management and control systems in 2017

In the course of 2017, further changes were implemented both at the top of the organisation with the arrival of a new CFO and throughout the company with an additional reduction in staffing numbers combined with the arrival of new colleagues. In connection with these developments, management assessed how much NSI depends on the specific knowledge and skills of its employees. To replace and support key positions in the organisation and to safeguard the continuity of the activities, temporary staff and advisors were hired to guide the change process. At the same time processes and activities were further developed and adjusted where necessary. This review process is continuing throughout of the reorganisation of the company.

Furthermore, in 2017 NSI has accelerated its asset rotation to implement its new strategy. Accuracy and flexibility of available financial and operational data is crucial during executing acquisition and divestment transactions. This has resulted in changes in our organisation's reporting requirements (internal and external) and information requirements used for decision making.

The ERP system, which deals with the entire basic administration of both operational and financial information as well as the associated reporting, needed to be 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 the processes. Part of this strategy involves the commercial process which will be further supported by the introduction of an international CRM system.

The budgeting and forecasting process, which in the past was mainly based on Excel models, has been further automated with an ERP module that recently became available and will facilitate reporting at every level in the organisation. The need for further digitisation of information and processes will continue. For this reason a data warehouse (DWH) solution has been introduced as well as management information software that is directly linked to the company's existing ERP system. Most of the reports built in the ERP system that are subject to new requirements as a result of the strategic changes within the organization, have been phased out and replaced by DWH reports and new CRM/ERP functionality, and necessary integrity verifications and safeguards are being implemented. As a result NSI was able to accelerate significantly the periodical closure process

The digital risks associated with data integrity and data security changed significantly due to external influences. NSI has not suffered any damage to date as a result of such developments, but preventing such incidents is an important area of attention for NSI. Management closely monitors developments on this matter, and adjusts internal controls accordingly if required. In accordance with COSO guidelines applied, the ICT management processes (including the security, back-up and helpdesk procedures) were updated. Moreover, a review of authorizations and security of the data in NSI's cloud solutions took place in order to further reduce the possibility of undesired external influence on data and processes and to increase the capacity and performance of the information provided. NSI has a fallback location and calamity plan in the event of a calamity.

During 2017, NSI has made a further investigation of the desired IT improvements supporting the further efficiency of the processes. This has resulted in the implementation of a new application for the rental/lease process including an automated approval process and the introduction of digital signing of contracts. It is expected this will be fully in place at the end of May 2018. NSI is aware of increasing cybersecurity and privacy risks. Due to this fact, all IT suppliers must have the relevant ISAE 3402 or SOC 1, 2 or 3 certifications. NSI will prepare a cybersecurity protocol and create awareness among its staff by, periodically, sharing experiences during knowledge sessions.

Furthermore, NSI is taking the appropriate steps to ensure to be compliant with the General Data Protection Regulation (GDPR) set by the European Union Parliament before 25 May 2018.

The Company has not appointed an internal auditor as specified in Best practice provision 1.3.1. The audit committee discussed the need and desirability to have an internal auditor, it was considered that NSI has less than 50 employees, no significant activities outside the Netherlands, and that it focuses on a limited number of market segments, Based on this assessment, the audit commitee recommended not appointing an internal auditor.

During 2017 NSI has assessed the functioning of various internal control procedures. The results have been assessed and used by the external auditor. For 2018, NSI has decided that the CFO will prepare an internal audit plan including the assessment to which extend the involvement of a third party will be desired.

The conclusion can be drawn that NSI is actively managing and regularly reviewing the risks inherent in business activities and adjust the relevant processes and procedures to changes in the organisation and its strategy.

Risk category	Description of risk	Mitigating measure	Impact	Probability
Strategic and business risk			2017	
Appetite	NSI pursues focus and growth (in defined locations) with a well-defined portfolio strategy by applying clear acquisition and divestment criteria. Within this 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.		**Assessment**	
Economic environment	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 macroeconomic factors, including consumer confidence and consumer spending. The stronger focus on the segment Offices 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 they 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 the entire portfolio.	Medium	Medium
Market value of properties / valuation risk	The market value of properties is an important metric. These 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 it can 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 tries to do this by focusing its portfolio and investments on strong demographic and economic areas and locations and on high-quality properties. The sensitivity to negative value fluctuations is higher outside these areas. NSI's portfolio management strategy is therefore focused on investing and reinvesting in high-quality areas and properties.	Medium/ High	Medium
	There is an inherent risk that properties are valued incorrectly. This can 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	Medium
Structural changes in consumer behaviour of shoppers	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.	In its revised strategy NSI has decided to focus on offices and to part ways with its retail property. In 2017 NSI succeeded in divesting a large part of its retail portfolio, making it less sensitive to this risk. In the coming period NSI will continue to reduce the retail portion within its portfolio. NSI's current retail property is focused on local shopping centres that cater to daily needs such as food. These type of shopping centers are less sensitive to online shopping.	Medium	Medium

Risk category	Description of risk	Mitigating measure	Impact	Probability
Strategic and business risk			2017	
Appetite	NSI pursues focus and growth (in defined locations) with a well-defined portfolio strategy by applying clear acquisition and divestment criteria. Within this 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.		**Assessment**	
Structural changes in demand for office sqm	Average office space requirements in sqm have 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 an opportuity 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 is therefore focusing 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	High
	The structural demand for office sqm is changing as a result of the fact that the economic activity in NL is increasingly shifting towards the Randstad (G4).	In anticipation of this NSI acquires properties in the Randstad conurbation, which will increase the share of properties located in the Randstad.	Medium	High
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
	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 paying a lot of attention to 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.		

Risk category	Description of risk	Mitigating measure	Impact	Probability
Operational risks			2017	
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.		**Assessment**	
Risk of expansion and (re)development of properties	The risk of expansion and (re) development 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 redevelopment 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.	Low	Medium
Execution risk	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 (re)development. 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 risks	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	Impact	Probability
Operational risks			2017	
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.		**Assessment**	
Risk of transactions with fraudulent parties	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. This 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 creditworthiness and reputation are verified in various ways using external data, for example from credit rating agencies and other external advisors.	High	Low
ICT systems, infrastructure & applications	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.	This risk is mitigated by the internal procedures 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 fallback 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, think of 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 core of our 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, and is advised by 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

Risk category	Description of risk	Mitigating measure	Impact	Probability
Operational risks			2017	
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.		**Assessment**	
Letting and debtor risks	Letting and debtor risk is 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 servcie 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).	Medium	Low
		The risk of bankruptcy and/or default is reduced by screening new and existing tenants for creditworthiness 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.	Low	Low
Risk of calamity	Calamity risk is 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
Quality of employees and advisers	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 advisers with proven experience in the field for which they are hired.	Medium	Medium

Risk category	Description of risk	Mitigating measure	Impact	Probability
Compliance risk			2017	
Appetite	NSI strives to fully comply with laws and regulations. This means that the risk appetite is extremely low.		**Assessment**	
Laws and regulations, integrity codes and rules	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 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 & safety codes and rules	The risk that the portfolio does not comply with health & safety laws and regulations, potentially resulting in unnecessary damage to buildings and/or people. This can 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 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
Laws and regulations, sustainability codes and rules	The risk that the portfolio does not comply with prevailing laws and regulations in the field of sustainability. This can 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. This can 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 Januari 2023 all properties must have an energy rating of C or higher. This has become an integral part of NSI's sustainability strategy.	Medium	Medium

Risk category	Description of risk	Mitigating measure	Impact	Probability
Compliance risk			2017	
Appetite	NSI strives to fully comply with laws and regulations. This means that the risk appetite is extremely low.		**Assessment**	
Tax risk	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.	Medium/ High	Low
		NSI is responsible for internal knowledge sharing with regard to (changing) tax regulations in order to ensure employee awareness, enabling them 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, in accordance with agreements reached in the Dutch government coalition agreement. As a result, NSI's tax burden (corporate tax) could increase, reducing the profitability (return) of the portfolio.	NSI, together with various sector associationss, is actively lobbying for a constructive solution for the sector.	High	High

Risk category	Description of risk	Mitigating measure	Impact	Probability
Financial risks			2017	
Appetite	NSI has a conservative financial policy. This means that the risk appetite is low.		**Assessment**	
Reporting risks	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
Funding and liquidity risk	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 interest payment, repayment or payment of operational expenditures, 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 (re)financing maturities at a very early stage in order to decrease the risk associated with (re)financing 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	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 tot have at least 70% of the loan volume with a fixed or hedged interest rate.	Medium	Medium
Credit risks	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 that they cannot refinance an outstanding debt to NSI.	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. NSI considers the risk of loss as a result of non-compliance to be low.	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 2017 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 2017 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 2017. 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, 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. This will be implemented further in 2018.

No significant changes to the structure of NSI's administrative organisation and internal controls are expected for the 2018 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 (i) the company's financial statements for 2017, as included in this Annual Report, do not contain any material errors, and (ii) 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 2018.

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 2017 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 2017 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.

PERSONNEL AND ORGANISATION

Aligning organisation with strategy

Following the introduction of a new and more focused strategy, NSI has put in place an almost entirely new organisation with a new culture and identity.

In 2017 NSI decided to focus exclusively on offices and HNK. The strategy is also geared towards a more concentrated, less management intensive, portfolio of larger assets in fewer locations. The strategic review made clear that NSI had to transform into an organisation that better fits its current and envisioned future asset base. Apart from the strategic decision to focus solely on offices, the strategic review also revealed a different view on how the portfolio should be managed. Combined with a drive for professionalisation and efforts to create a more efficient organisation, it was clear that the size and the profile of the organisation had to follow suit.

The most important driver of change was the decentralisation of responsibilities, allowing the organisation to operate more efficiently and empowering individuals to thrive. Furthermore the majority of the retail portfolio was divested and the management of the remaining retail assets has been outsourced, as well as the day-to-day technical management of the total portfolio.

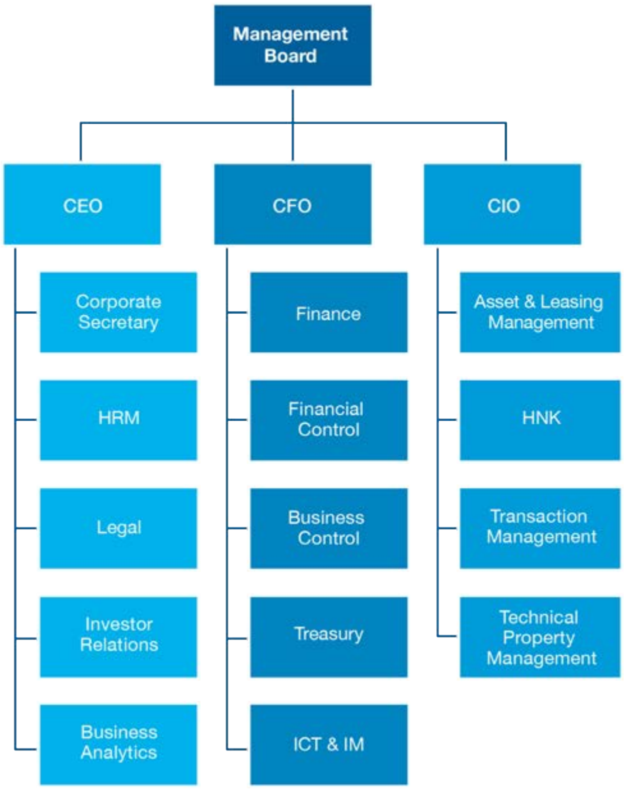
In addition to all the organisational changes, NSI also substantially upgraded its IT infrastructure and management information systems, improving the quality, speed and efficiency of the total internal and external reporting process. The back-office organisation has been aligned accordingly.

All this resulted in a headcount reduction from 81 employees at the start of 2016 to 55 as per year-end 2017, of which 24 are new hires. NSI aimed to continue to be a good employer throughout the process. The organisation now has a different profile in terms of diversity, age and educational level.

NSI expects that the current staffing is sufficient to accommodate future growth of the company.

Sadly one of our colleagues passed away in 2017.

The organization structure is presented in a organogram (see for the legal structure "the principles for consolidation" on page 77):



Building transformation

A new organisation with a clear and compelling ambition calls for a culture that supports or even drives the envisioned transformation. NSI ran a process to identify its core values that defined its identity and reflected its ambition. The entire organisation was involved in this process through workshops and culture assessment tools.

With its defined core values of drive, professionalism and the will to push boundaries, NSI aims to realise the full potential of its employees, the investment of its shareholders, and the assets that NSI acquires and operates. NSI incorporates these values in its organisation and processes, by hiring the best talent and by holding ourselves to high standards in an atmosphere of dedicated hard work, team spirit and fun.

Team leads were challenged to substantiate the meaning of values in order to make them a driver of change for their respective teams. The core values have been translated into clear guiding principles and have been integrated in KPIs and HR processes and tools, including job profiles.

We hosted various meetings to engage the whole organisation in the transformational process and to ensure that our strategic goals, business principles and operating guidelines are clear and are being embraced. We encourage our employees to give feedback and urge the whole organisation to actively contribute to our ambition of becoming the leading office property specialist in the Netherlands.

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

Leadership program

Having absorbed all the organisational changes, NSI is now headed by a seasoned, largely new team of senior managers. The time is right to fuel the transformation by starting a leadership programme, with team leads being supported and challenged in their professional and personal development. The programme also serves as a catalyst for team building.

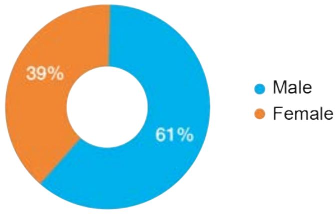
Young Talent program

NSI has launched an ambitious Young Talent Programme to deliver best-in-class real estate professionals and leaders. Our aim is to create an environment in which young professionals can make an impact and take responsibility from the start. To ensure they develop the broad range of experience we require, these professionals are dynamically rotated between roles in finance, acquisitions and active asset management.

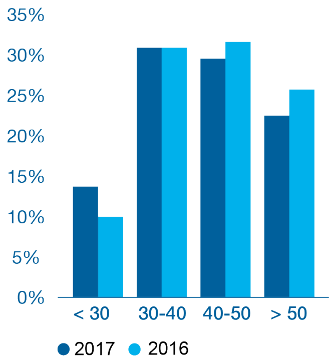
Besides on-the-job training on various assignments, the Young Talent Programme also includes extensive training focused on both technical skills and personal development. Areas of expertise in which young talents receive training include negotiation skills, business analytics, scenario analysis and IRRs. Furthermore, young talents get the opportunity to be involved in strategic projects.

Young talents are mentored by a senior NSI manager.

Gender distribution NSI employees at 31 December 2017



Age distribution NSI employees



Employee statistics

KPI (as per 31 December 2017)	2017	2016
Number of FTE	52	66
Non permanent contract (% of total)	18%	12%
Permanent contract (% of total)	82%	88%
Part time FTE (% of total)	29%	32%
Full time (% of total)	71%	68%
Sickness ratio	2.2%	2.7%

ENVIRONMENTAL, SOCIAL & GOVERNANCE PERFORMANCE

NSI aims to be the best-in-class operator and the partner of choice for its stakeholders. This ambition explicitly includes our responsibility to preserve the environment and to act as a responsible company and employer.

We believe that the real estate industry can make a significant impact. As one of the largest industry players in the Dutch office market, we believe we can have an impact when we do things the right way.

To stress its commitment to improving its ESG performance, NSI recently joined one of six leading European real estate companies (alstria, COIMA RES, Colonial, Gecina, Great Portland Estates and NSI) to pool best practices and to create a sustainability and innovation think tank. This will help NSI to further improve its ESG performance in 2018 and 2019.

Defining and embedding sustainability

We define sustainability in the following (ESG) context:
- Environment: the planet, usage of materials and energy sources.
- Social: our tenants, employees and society.
- Governance: our stakeholders, organisation and portfolio.

An ESG Steering Committee has been established, consisting of the Management Board, the head of Asset Management and the head of Technical Management.

Sustainability framework

NSI has based its framework on the Global Real Estate Sustainability Benchmark (GRESB[1]). This framework consists of the following elements:

Environment	Social	Governance
Energy	Fair trade	Financial performance
Water	Local Initiatives	Economic targets
CO_2 emissions/ footprint	Anti-corruption	Shareholder value
Waste and recycling	Working conditions	Responsibility
Usage of sustainable materials	Safety	Transparency
Contamination	Health and nutrition	
Climate change adaptations	Diversity	
	Human rights	

To be able to track our progress in the future we have defined our starting point by conducting an initial GRESB assessment. This assessment identified areas where we can improve, both short and long term. One of the priorities arising from this assessment is determining how processes should be improved and described to better track our ESG performance. NSI will further define its ESG policies and KPIs and embed these in its processes. The relevant KPIs will also be integrated in the performance reviews of employees at all levels of the organisation. This will allow us to improve our ESG reporting in order to comply with the EPRA Best Practices Guidelines and the GRI G4 Directive (specialist). We strive to be able to report in line with these guidelines and principles in our 2018 annual report, although implementing these standards in full may take more time. Furthermore, we are committed to participating in the GRESB survey from 2019 onwards.

Progress in 2017

Environment

Energy

Improving energy consumption and sustainability is one of NSI's core objectives, as we believe it preserves the built environment and drives long-term investment returns. Regular maintenance works are used to improve sustainability metrics, including measures to reduce energy consumption such as using more efficient lighting and heating systems, installing cooling generation systems and upgrading roof and other isolation.

NSI aims to generate 10% of the energy consumption of its portfolio through solar panels.

In 2017 NSI installed 3,500 solar panels on the roofs of 23 assets, with a total annual capacity of more than one million kWh. This will save 526,000 kg of CO_2 annually, equivalent to the annual consumption of approximately 285 households.

All other electricity consumption is already 100% sustainably sourced with European wind. The CO_2 emissions from gas consumption are compensated with Gold Standard Certificates[2]. As a result, the energy consumption of the NSI portfolio is CO_2 neutral.

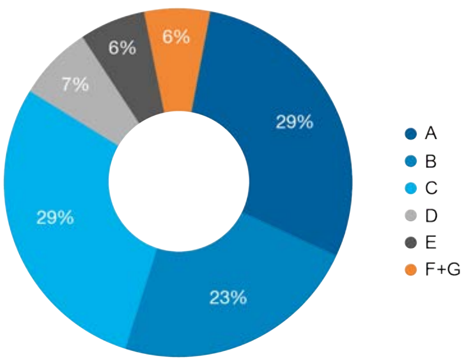
NSI has signed an energy performance contract with Sweco for a number of assets. Sweco constantly monitors energy consumption and oversees installations to safeguard maximum efficiency.

1. GRESB is an investor-driven organization committed to assessing the environmental, social and governance (ESG) performance of real estate assets globally, including real estate portfolios, real estate debt and infrastructure.
2. Gold Standard Premium Quality Carbon Credits is a certification for CO_2 reduction projects through small-scale sustainable energy projects in developing countries, enabling these counties to benefit from climate funds.

Energy consumption is mapped and analysed in order to identify and prevent unnecessary consumption and to implement energy saving measures. Sweco is delivering on the contract, which guarantees annual energy savings of 7%.

NSI managed to significantly upgrade the energy label of its assets in its portfolio in recent years. By value 81% of the office portfolio has an energy rating of C or better. The Dutch government stipulates that all Dutch office buildings should have an energy performance certificate (EPC) with at least a C rating by 2023. It is NSI's ambition to not just meet the minimum EPC grade by 2023, but to exceed it.

Energy score split ranked by value



Water
NSI has implemented measures to improve its water efficiency. Digital meters have been installed at our 20 largest objects to monitor water consumption.

CO_2 emissions/ footprint
NSI includes a standard article in its leasing contracts to stipulate that both NSI and the tenant acknowledge the importance of sustainability and their mutual responsibility to achieve sustainability objectives, as jointly formulated, and that progress is regularly discussed.

NSI's car fleet will migrate to a 'green car fleet', meaning that NSI's car fleet will become fully electric by 2019. In 2017 expiring lease contracts were replaced by contracts stipulating electric cars. The non-electric car fleet will be phased out completely in 2018 and 2019.

HNK properties are currently equipped with synthetic refrigerants. NSI is seeking more energy-efficient high-quality alternatives that are less harmful to the environment.

Waste and recycling
In 2018 NSI will continue to roll out a more extensive recycling programme in order to recycle more efficiently.

Usage of sustainable materials
For its 2018 and 2019 investment projects NSI is actively seeking opportunities to reuse materials derived from third-party renovation projects. The aim is for at least 80% of the materials used to be recyclable.

Contaminations
NSI's standard policy is to include contamination risks in its asset plans and due diligence processes.

Climate change adaptations
NSI actively takes climate change into account in its renovation plans where possible. This includes incorporating green roofs and rain water storage. NSI has installed over 10,000 sqm of green roofs in recent years.

Social

Working conditions
NSI aims to provide a pleasant and inspiring working environment to stimulate employees to reach their full potential. Following the recent organisational changes and to optimally encourage collaboration, NSI brought the whole team together and upgraded the workspaces in one go. All workspaces are now being equipped with height-adjustable desks, making it possible for employees to alternate between sitting and standing.

NSI will start measuring employee satisfaction in 2018.

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.

NSI employee gender split is 39% female (2016: 46%) and 61% male (2016: 54%) employees. In 2017, NSI appointed two female Board members, the CFO and a Supervisory Board member. LGBT employees represent 6%.

Safety
The nature of our works involves a low safety risk. The number of safety incidents reported was zero.

NSI has emergency plans in place which are known to its employees and drills are regularly held with all employees.

Health & nutrition
Promoting health and wellbeing is an important part of our culture. NSI motivates employees to adopt a healthy lifestyle by encouraging them to participate in sports events, providing healthy lunches, offering fruit and a salad bar for free, and by ensuring a healthy working environment (e.g. with height-adjustable desks).

The sickness rate was 2.2% in 2017 (2016: 2.7%).

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 (and our contractors / suppliers) to respect these rights by committing to our Code of Conduct and business integrity principles.

There were no issues involving human rights reported in 2017.

Anti-corruption
NSI and its employees must act with integrity, honesty and in compliance with 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.

NSI's whistleblower procedure allows employees to report suspected irregularities of various kinds within NSI without jeopardising their employment.

There were no issues reported in 2017.

Governance

Stakeholder dialogue and engagement
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.

Our tenant and asset managers regularly visit our properties, accompanied by our technical staff if required, to meet with tenants face-to-face. The primary goal is to build long-term, mutually beneficial relationships, understanding tenants' needs and meeting their requirements. NSI also conducts annual customer feedback surveys.

NSI recently started measuring its NPS score, and will integrate this metric in future reporting.

We have an active Investor Relations programme in place to engage with our 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. NSI collects feedback from meetings with institutional investors which, in combination with regular analyst research reports, provide a clear understanding of investors' views and concerns.

In 2017 we discussed in detail the revised strategy and the milestones achieved in its execution, including the organisational and portfolio changes. Feedback from shareholders included general approval of our strategic plan and recognition of the improved reporting and transparency.

In the year under review we stepped up our employee engagement significantly. We are committed to the constant development of our staff to ensure that we attract, motivate and retain talented and ambitious individuals.

In 2017 NSI went through significant organisational change. The company has put a lot of effort into redefining its core values and corporate culture. All employees were urged to participate in workshops to actively contribute to and be part of this transition.

We intend to build partnerships with various parties in our value chain, including governmental and municipal bodies, peers, real estate agents, appraisers and suppliers, in accordance with our general business ethics.

NSI promotes initiatives that make the total real estate chain more sustainable through collaboration with its partners. We recently joined a sustainability and innovation think tank consisting of six leading European real estate companies to pool best practices and experiences. Furthermore NSI is an active participant in numerous industry associations. We are an active member of the EPRA (European Public Real Estate Association) and the IVBN (Association of Institutional Property Investors in the Netherlands).

NSI supported various social initiatives in collaboration with tenants and other stakeholders in 2017.

Stakeholder	Communication Channel	Topics discussed
Tenants	Regular tenant meetings Tenant satisfaction surveys	Tenant needs Our performance Maintenance Service levels Sustainability measures Future plans
Investors	Analyst meetings Roadshows One-on-one meetings Investor seminars Site vistits AGM	Strategy Results Financial position Reporting Governance Remuneration
Employees	Company culture workshops Performance reviews Personal development plans Monthly management meetings	Core values Culture Company results Joint ambition Role clarity Remuneration Ethics & compliance
Partners	Regular meetings Evaluations Events	Sustainability Best practices Social initiatives

Financial performance
Detailed information on the financial performance and economic targets is reported in the sections 'Income, cost and results', 'Real estate portfolio' and 'Balance sheet, NAV & financing'.

Shareholder value
NSI's ambition is to maximise returns for shareholders through pro-active asset management, value-add initiatives, disciplined asset rotation and prudent balance sheet management.

Total shareholder return consists of a combination of the change in the share price plus dividends.

NSI's dividend policy is to distribute at least 75% of the direct result in cash. NSI distributes dividend twice a year. NSI is proposing a final dividend for 2017 of € 1.12 per share in the AGM to be held on 20 April 2018, resulting in a total dividend of €2.16 per share, equal to 2016, reflecting a pay out of 79% of EPRA earnings per share.

The development of NSI's share price outperformed the EPRA-index[3] by 12%.

3. The EPRA index is a stock market index that is used to benchmark the performance of listed real estate companies and REITs.

Responsibility

NSI has a two-tier structure, with a Board of Management 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. The General Meeting of Shareholders appoints the managing and supervisory directors and sets their remuneration.

NSI's Supervisory Board supervises NSI's Board of Management, the general course of affairs and the company's business. The Supervisory Board also provides the Management Board with solicited and unsolicited advice and support.

A detailed overview of the responsibilities and tasks of Board of Management and Supervisory Board and its committees are laid down in the Rules of Procedure, which are published on the company website. The corporate governance statement, setting out how NSI complies with the Dutch Corporate Governance code, can also be found on the company website.

Transparency

NSI strives for a high degree of transparency and continuous communication with existing and potential shareholders, as well as other stakeholders.
NSI aims to adhere to the EPRA[4] Best Practice Recommendations and has won a Gold Medal Award for its financial reporting for three years in a row since 2014. The NSI Annual Report 2016 received a 80% score (out of 100%) in this EPRA research. The Gold Medal is being awarded to companies for their exceptional compliance with the Best Practice Recommendations (BPR) of EPRA in order to improve transparency and consistency in financial reporting.

Feedback from shareholders acknowledged improved reporting and transparency in 2017.

4. European Public Real Estate Association - Please refer for all EPRA Best Practice Recommendations to www.epra.com/bpr

CORPORATE GOVERNANCE

Introduction
NSI N.V. is a Dutch public limited liability company listed on Euronext Amsterdam with its registered office in Amsterdam. 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. The General Meeting of Shareholders appoints the managing and supervisory directors and sets their remuneration. The Management Board and the Supervisory Board are responsible for ensuring NSI's compliance with corporate governance requirements, among other things. As a public limited liability company in the Netherlands, NSI is subject to the Dutch Corporate Governance Code.

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 2017, 18,364,998 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 not apply any restrictions on the transfer of its shares.

Decisions of the General Meeting of Shareholders are taken by a simple majority of votes, unless a different majority is required by law or under the Articles of Association. To give shareholders who want to cast their vote remotely sufficient opportunity to complete a thorough analysis, 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.

A resolution to amend the Articles of Association or to dissolve the company may only be adopted by an absolute majority in a General Meeting of Shareholders at which at least half of the issued capital is represented.

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.

Currently 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. The Management Board is obliged to convene a General Meeting within six weeks after shareholders collectively representing at least 10% of the issued capital request such a meeting in writing, stating the subjects to be dealt with by 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 the distribution of profit;
- any proposal to distribute profits;
- any substantial change to the corporate governance structure of the company and compliance 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 necessary.

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. All resolutions are passed with an absolute majority of the votes cast, unless a larger majority is required in accordance with the Articles of Association.

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 minutes are adopted by the Supervisory Board at its next meeting, taking into consideration any comments received. The Management Board and the Supervisory Board must provide the General Meeting of Shareholders with all required information, unless there are compelling reasons to withhold such information in the best interests of the company.

Three shareholder meetings were held in 2017.

The Annual General Meeting of Shareholders took place on 21 April 2017. This meeting addressed the following topics: the 2016 annual report, the application of the remuneration policy, the adoption of the 2016 financial statements, the appropriation of profit for 2016, the discharge of the Management Board and the Supervisory Board, the composition of the Management Board and the Supervisory Board, a proposal to change the Articles of Association, a decision to refer to the items in the annual accounts and to publish the annual report in English, 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.

An Extraordinary Meeting of Shareholders was held on 16 June 2017. At this meeting a change in the Articles of Association was adopted to bring them in line with current legislation and modernise them, to incorporate certain technical and practical developments, to bring the Articles of Association in line with the new Corporate Governance Code that was published on 8 December 2016, to change the system where the Management Board members were only jointly authorised to represent the Company (four eyes principle) and to change the nominal value of the shares to €3,68, meaning that eight shares with a nominal value of €0,46 would be consolidated into one new share.

An Extraordinary Meeting of Shareholders was held on 21 July 2017. At this meeting Mrs Margreet Haandrikman was appointed to the Supervisory Board and Mrs Alianne de Jong was appointed to the Management Board of the Company as CFO with effect from 15 September 2017.

Corporate Governance Code

This section provides a general explanation of the company's corporate governance structure. A revised Corporate Governance Code was published on 8 December 2016 and came into force with effect from the financial year commencing on 1 January 2017.

Changes to bring regulations and policies in line with the Code were ultimately implemented on 12 December 2017. An amendment to the NSI Articles of Association was adopted by the General Meeting of Shareholders on 21 April 2017 to adjust the appointment term of members of the Supervisory Board. The texts and legal wording of the regulations relating to the Management Board, the Supervisory Board and its committees have been aligned with the provisions of the new Code, as submitted to the Supervisory Board for discussion and adopted in the Supervisory Board meetings of 25 October and 12 December 2017.

NSI complies with all but one best practice provision. 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 of the Dutch Corporate Governance Code. In its meeting of 11 December 2017 the audit committee discussed the need and desirability to have an internal auditor. It was considered that NSI has less than 50 employees, no significant activities outside the Netherlands, and that it focuses on a limited number of market segments. Based on this assessment, the Audit Committee recommended not appointing an internal auditor. The Supervisory Board has accepted this recommendation and advised the Management Board to continue the current practice.

Values and culture

During 2017 the Management Board had several meetings with middle management to gain a common understanding of the company's values and ambitions. NSI values drive, professionalism and the will to push boundaries with the aim of realising the full potential of employees, the investment made by shareholders and the assets that NSI acquires and operates. NSI incorporates these values by simplifying its organisation and processes, by hiring the best talent available and by maintaining high standards in an atmosphere of dedicated hard work, team spirit and fun.

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. NSI has a mature, open culture that encourages employees to speak up. Several compliance-related issues and dilemmas that were brought up in 2017 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 2017.

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. Since the most recent appointment to the Management Board at the General Meeting of Shareholders of 21 July 2017, 33.3% of the Management Board has consisted of women and 66.7% of men.

The profile of the Supervisory Board includes a target for 30% of the board to be composed of women. The Supervisory Board reached this target in 2017. Since the most recent appointments to the Supervisory Board at the General Meeting of Shareholders of 21 July 2017, 40% of the Supervisory Board has consisted of women and 60% of men.

Management Board

The Management Board is responsible for managing the company, which includes achieving the strategy and associated risk profile, realising the company's objectives, and developing the company's results and the social aspects of operating a business relevant to the company. The Management Board reports to the Supervisory Board and the General Meeting of Shareholders. In the performance of its duties, the Management Board focuses on the interests of the company and its associated companies, also taking the interests of the company's stakeholders into consideration.

The Management Board is responsible for complying with relevant laws and regulations, managing the risks involved in the company's business and financing the company. The Management Board reports on these matters and discusses the internal risk management and control systems with the Audit Committee and the Supervisory Board.

The Management Board is responsible for the quality, reliability and completeness of the company's published financial information. The Supervisory Board is responsible for ensuring that the Management Board fulfils these responsibilities.

In accordance with the company's Articles of Association, 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 available for perusal on the company's website.

A decision by the General Meeting of Shareholders to dismiss or suspend a director can be taken by a two-thirds majority of votes at a meeting at which over 50% of the issued capital is represented.

The remuneration of the members of the Management Board is established in accordance with the policy set out in the 'Remuneration Policy for Members of the Management Board of NSI' published on the website. The remuneration policy regarding the Management Board is submitted to the General Meeting of Shareholders for approval. The remuneration policy was adjusted most recently at the Extraordinary Meeting of Shareholders of 25 August 2016 and involved a reduction in the fixed salary of the CEO and an increase of the Long-Term Share Plan percentage for the CEO.

Supervisory Board

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 associated companies, 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 takes the interests of those involved in the company into consideration. The Supervisory Board also considers the social aspects of the company's business operations.

In its monitoring, the Supervisory Board focuses on the strategy 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.

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 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 employed by an investment company that holds an interest of more than 5% in NSI as per year-end 2017. 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 Supervisory Board is responsible for the quality of its own performance. In accordance with the Articles of Association of the company the Supervisory Board must consist of at least three people. The actual number of Supervisory Board members is currently five.

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 2017 financial year.

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 no limit applying on the number of terms of 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 available for perusal 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.

The Supervisory Board meets at least four times a year according to a fixed schedule. Generally there are more than four meetings a year. There is also a special meeting at which the Supervisory Board discusses its own functioning and that of its appointed committees, its relationship with the Management Board and the composition, evaluation and remuneration of the Management Board. This meeting is held without the Management Board being present. The profile which Supervisory Board members should meet is evaluated annually and adjusted if necessary.

In 2017 the Supervisory Board in close cooperation with the management of NSI paid specific attention to the implications of the implemented strategic reorientation, including the changes to the strategic segments and the possible consequences of redundancies. In order to safeguard the required controls, NSI has been using temporary employees and advisors to perform non-recurring activities or to strengthen relevant processes or departments, while hiring new employees for redefined positions.

With a view to facilitating the change process, more investments were made in broadening the management information systems through the implementation of a CRM system as well as a data warehouse and management information application. The organisation is focused on further digitalising and automating its processes in order to increase efficiency and scalability and further reduce operational costs in a controllable manner.

During the year under review 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.

External auditor

Appointed by the General Meeting of Shareholders, the external auditor 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.

Compliance with the Code

In response to the Dutch Corporate Governance Code the company has drawn up various codes and regulations and has implemented these for the company and its subsidiaries. The question of whether the company meets the requirements of the Corporate Governance Code is regularly addressed and compliance is then ensured.

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.

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 notification, these interests were as follows:

	31 December 2017	9 March 2018
ICAMAP Investments SARL	5.0%	10.0%
BlackRock, Inc.	4.7%	5.0%
Phoenix Insurance Company Ltd.	3.7%	3.7%
Axa Investment Managers S.A.	3.0%	3.0%
Norges Bank	3.0%	3.0%

NSI has launched an ambitious Young Talent programme to produce best-in-class real estate professionals and leaders

Interview with Young Professionals Maarten Brekelmans, Sam Botden en Dick van Klooster

NSI aims to create an environment in which young energetic apprentices can learn and make an impact and take responsibility from day one. To ensure they develop the broad skill set required in professional real estate investing, candidates are rotated among roles in asset management, acquisitions and finance.

Maarten Brekelmans, Sam Botden and Dick van Klooster joined the Young Talent programme as analysts in 2017 fresh from university. Although all three did internships after graduating in order to make a considered decision on where they wanted to work. All three chose NSI. “In particular because of the Young Talent programme,” explained Maarten. “The depth of the programme, in terms of content, combined with the focus on personal development drew me over the line.” They were also attracted by the transition NSI is currently in. Sam: “NSI is in a turnaround phase, with a more Anglo-Saxon style of management and masses of ambition. There is an awful lot going on and, as an analyst, you get up close to it.” Dick specifically chose for a career in real estate. “I’ve always been interested in real estate. This company is developing fast and becoming a very sophisticated investor and the programme covers all the aspects of how to create value in real estate. An excellent place to learn!”

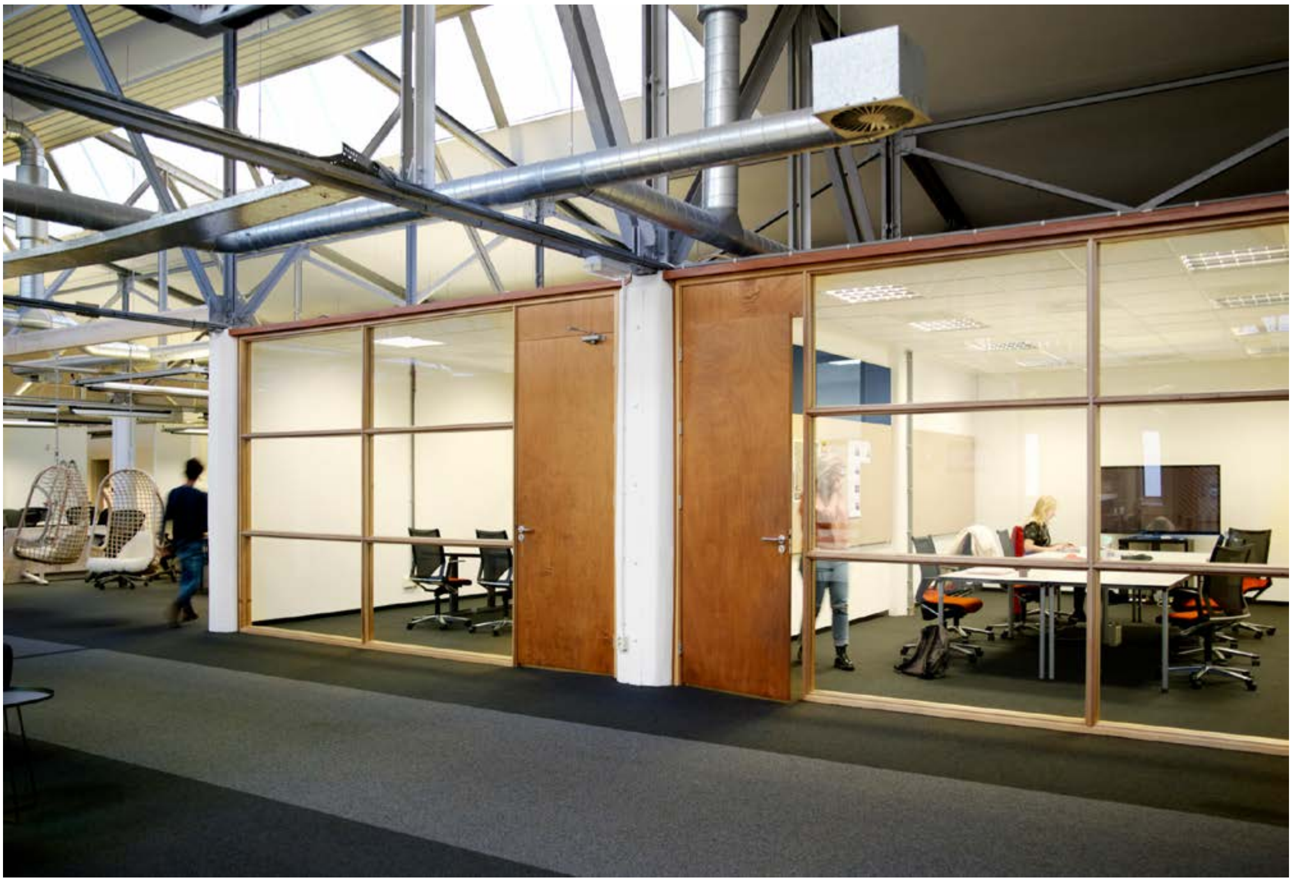
Maarten started his programme at Business Analytics, Treasury and Investor Relations, a dynamic post where you get close to strategic projects and basically help management in several of their assessment in various fields. From corporate models to new loan facilities as well as investor presentations – Maarten has been involved in it all. “Obviously as an analyst I also spend a lot of time at my desk swamped in spreadsheets, creating all kinds of models and analyses, but I also sit in on investor meetings and when we talk to banks or institutional lenders. You learn a lot at such meetings, in which I play an important role preparing materials. It allows you to see for yourself what the impact of your work is, understand which topics are being discussed and why. It is hard work, but fun too. I have been to London for a conference meeting investors and a month ago I was in Paris on a road show”

For all three of them, that is the essence of the work they do for NSI. “We are well respected. They really listen to you and your input is valued. We are strongly encouraged to voice our opinion, join the debates and see external parties. But it is not the case that everything is handed to you on a silver plate. You are given plenty of freedom and opportunities to explore, but you do have responsibilities and you are expected to take initiative.”

Sam’s first assignment is in the Transactions team, the department where all acquisitions and divestments are initiated, analysed and executed. Given the extensive asset rotation programme that NSI is implementing, this is a highly dynamic department, and one that the eyes of the market are focused on. Sam analyses potential transactions and models the effects of various scenarios. “These are often the basis of how a transaction is pitched to the investment committee.”

'This company is developing fast and becoming a sophisticated investor. An excellent place to learn!'

From left to right: Maarten Brekelmans, Sam Botden and Dick van Klooster



Sam is also involved in the subsequent process, seen as a full member of the team. “From sparring about the negotiations to finalising the paperwork. I bear responsibility for a number of files, which means you really have to take ownership and it provides you with a huge learning curve. As a cherry on the cake, next week I’m going to a closing dinner where all parties involved will celebrate the completion of a deal."

Dick has started at the Asset Management & Leasing team, close to what it is ultimately all about: the tenant.

“This job takes you out and about a lot: viewings with prospective tenants, getting to know the clients and brokers by attending events and drinks parties organised by real estate agents and so on.” As an analyst Dick is not only responsible for making plans but also for executing them. “Recently I assisted in letting an entire floor. I learned a lot from sparring with the team and negotiating with the other party. And it was fun to do. Especially as in the end we secured a new tenant.”

All three have already been given the opportunity to make an active contribution to the success of a transaction. Which is somewhat typical of a young talent candidate. “You do need to be a bit deal-minded.”

All three find that the culture at NSI fosters a stimulating environment where expectations are high but the right conditions are created to learn and perform well. “It really is a case of work hard, play hard.” The lines are short and the atmosphere is informal. “Throughout the organisation there is a huge drive to improve and aim for the best result." Everyone is willing to learn, to give feedback and to receive it and to coach and to assist the young talents. All three have been assigned a senior manager to mentor them during their assessments.

In addition to on-the-job training in the various assignments the Young Talent programme also comprises an extensive training programme focused on both technical skills and personal development. “It is focussed on getting to know yourself and how to make optimal use of your personality and talents.” Given that the programme is in its early days the trainees still have the ability to influence it. “It’s part of the responsibility that we have been given. We are expected to take the initiative to improve it. At the end of the day it is our responsibility to make most of our personal development.”

‘You are given plenty of freedom and opportunities to explore, but you do have responsibilities and you are expected to take initiative’

DETAILS OF THE MANAGEMENT BOARD

Mr B.A. Stahli (1971)
CEO

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

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

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 2017 financial year. PricewaterhouseCoopers Accountants N.V. has audited the financial statements and has issued an unqualified opinion (page115-121). We will recommend that the financial statements be adopted at the General Meeting of Shareholders on Friday, 20 April 2018. The discharge of the Management Board in respect of the policy pursued in 2017 and of the Supervisory Board from the supervision it provided in 2017, will be addressed as separate agenda items at the General Meeting of Shareholders.

Composition of the Supervisory Board

At the General Meeting of Shareholders of 21 April 2017, Henk Breukink resigned as Chairman and member of the Supervisory Board after having served the company and the Board for many years. The Supervisory Board subsequently appointed its member Luurt van der Ploeg as Chairman.

At the Extraordinary General Meeting of 21 July 2017 Margreet Haandrikman was appointed to the Supervisory Board. The Supervisory Board subsequently appointed her as Chairman of the Audit Committee. In November 2017 Mrs Haandrikman followed an introduction programme that was geared to her role as Chair of the Audit Committee.

The resignation rota for the members of the Supervisory Board is as follows:

	First appointment	End of current term	End of ultimate term
Luurt Van der Ploeg	2014	2018	2026
Nico Tates	2014	2018	2026
Karin Koks- Van der Sluijs	2016	2020	2028
Harm Meijer	2016	2020	2028
Margreet Haandrikman	2017	2021	2029

An explanation of the duties of the Supervisory Board can be found in the corporate governance section (page 50-54).

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 is founding partner of ICAMAP, which – as of 20 February 2018 - holds 10% of the shares in NSI. As of today, Mr Meijer himself holds no shares in the company.

Meetings and attendance

Supervisory Board meetings commence with a preparatory meeting, which is always held without the Management Board being present, after which the members of the Management Board attend the rest of the meeting.

The Supervisory Board met on eight occasions for regular meetings during the year under review. The attendance rate at these meetings was 100%. The attendance rate at the committee meetings was also 100%. The Supervisory Board held three conference calls about proposed acquisitions during the year under review. Mr Meijer did not attend these calls and was represented by Mr Tates. These conference calls about proposed acquisitions were prepared by the Real Estate Committee (Messrs Tates and Meijer) in a conference call and in a meeting that was also attended by the Management Board. This preparation resulted in an advice by the Real Estate Committee to the Supervisory 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 targets, shareholder relations, acquisitions / disposals, the strategy and its implementation, 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 in the Netherlands 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 General Meeting of Shareholders of 21 April 2017 Daniel van Dongen resigned as CFO. In the first half of the year the Supervisory Board focused specifically on drafting a profile for the new CFO and on the process of selecting a candidate who satisfied the requirements set by the Supervisory Board. This process resulted in the appointment of Alianne de Jong as CFO with effect from 15 September 2017 as approved by the Extraordinary General Meeting of Shareholders on 21 July 2017. At its meeting of 21 July 2017 the Supervisory Board revised the distribution of specific focus areas in the Management Board Rules, adding responsibility for Sustainability to the focus areas of the CEO. In the final months of 2016 and the first few months of 2017 the Supervisory Board was closely involved in the development of a new strategy based on long-term value creation with a view to NSI becoming 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. This new strategy was published on 14 February 2017.

In the second half of 2017 the Management Board further outlined its view on long-term value creation by the company and drew up a business plan for 2018 – 2020 and a budget for 2018 in alignment with this view. The focus of the 2018-2020 business plan is on Offices and HNK, a managed gradual exit from retail, growth markets (G4 and selectively elsewhere) value-adding initiatives (including development) based on a total return approach and cost efficiency.

The Supervisory Board was fully involved in the process of developing the strategy laid down in the business plan for 2018 – 2020 and the budget for 2018. The Supervisory Board meetings of 13 February 2017, 25 October 2017, 17 November 2017 and 12 December 2017 were dedicated to long- term value creation and the strategy, focusing 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 on other aspects relevant to the company, such as sustainability. The meetings of 25 October 2017, and 12 December 2017 were specifically dedicated to the preparation of the business plan for 2018 – 2020 and the budget for 2018. Meetings with the Real Estate Committee paid special attention to the feasibility of the strategy the implementation of the business model and the real estate market. Meetings with the Audit Committee paid special attention to opportunities and risks for the company.

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 such as acquisitions, investments and disposals above a certain threshold require prior approval from the Supervisory Board. During the approval process the Supervisory Board checks whether the decision contemplated contributes to the implementation of the strategy. The Supervisory Board meetings and conference calls of 13 February 2017, 9 March 2017, 19 May 2017, 9 June 2017, 16 June 2017 and 21 July 2017 dealt with the acquisition of offices in Amsterdam, Utrecht and Leiden (Bio Sciencepark), the disposal of a substantial part of the retail portfolio and the entire large scale retail portfolio and certain (re)development opportunities.

At the meeting of 25 October 2017 the Supervisory Board discussed the establishment and implementation of the internal procedures that safeguard the provision of all relevant information to the Management Board and the Supervisory Board in a timely fashion. During this meeting the Supervisory Board specified the frequency, type and content of the reports it wishes to receive from management.

At the meeting of 25 October 2017 the Supervisory Board discussed the consequences 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 REIT's, known as fiscale beleggingsinstellingen (FBI), such as NSI. The Supervisory Board has followed up on this and has been updated by the Management Board on this topic in subsequent meetings.

At the meeting of 12 December 2017 the Supervisory Board discussed the other positions held by the members of the Management Board and Supervisory Board. At the same meeting the Supervisory Board discussed a proposal to liquidate and merge a number of entities that are no longer active and to merge a number of active subsidiaries of NSI N.V. with the aim of simplifying the corporate structure and saving costs. External experts briefed the Supervisory Board on several legal and governance topics as part of the education program of the Supervisory Board.

Dutch Corporate Governance Code 2016

In its meeting of 13 February 2017 the Supervisory Board and the Management Board discussed an action plan for the implementation of the new Dutch Corporate Governance Code to assess where, compared with the Code adopted in 2008, the principles and best practice provisions in the new Code required changes to rules, regulations, procedures or other written records.

Following the EGM of 16 June 2017 the NSI Articles of Association of NSI were amended to incorporate the term of appointment for Supervisory Board members stipulated in best practice provision 2.2.2. Following the introduction of the four eyes principle, at its meeting of 16 June 2017 the Supervisory Board authorised the granting of limited powers of attorney to a number of employees, thus enabling them to act jointly with a board member on certain transactions.

On 25 October 2017 the Supervisory Board adopted revised regulations specifying the role and responsibilities of the Supervisory Board, the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee. On 25 October 2017 the Supervisory Board and the Management Board adopted a revised regulation specifying the role and responsibilities of the Management Board. On 12 December 2017 the Supervisory Board has adopted a revised regulation specifying the role and responsibilities of the Real Estate Committee.

All regulations are posted on the company's website.

The chapter in the Report of the Management Board broadly outlining the corporate governance structure and compliance with this Code (see pages 50-54) will be submitted as a separate agenda item to the General Meeting of Shareholders of 20 April 2018.

Evaluations

On 30 October 2017 the Management Board and the Supervisory Board spent a day evaluating both the interaction between the Boards and the interaction between the Supervisory Board and its committees and the Management Board. In the light of new appointments within both Boards this meeting also addressed personal values and behaviour with the aim of maintaining an atmosphere of open communication and of supervision based on trust. In its meeting of 12 December 2017 the Supervisory Board formally evaluated the performance of the Management Board and its individual members against the background of the personal targets set out in the long-term share plan (LTSP). The conclusions of this evaluations have been used to determine the remuneration of the Management Board under the LTSP. On 29 January 2018, the Supervisory board performed an evaluation of its own functioning under the guidance of an external party. The conclusions of this evaluation has been used to determine the effectiveness of the Supervisory Board and to decide to increase the number of Supervisory Board meetings enabling the Supervisory Board to have more direct contact with middle management.

Internal Audit function

Similar to most Dutch small cap companies, NSI does not have an internal audit department. In line with the advice of the Audit Committee the Supervisory Board has considered that NSI has only 52 FTEs, no activities outside the Netherlands, and a very limited number of market segments. The Supervisory Board is of the opinion that expert supervision of the structure and operation of the risk management system are sufficiently safeguarded even without the presence of an internal audit department and concluded that it is not necessary to establish an internal audit department for this reason. In 2018 in accordance with a planning approved by the Supervisory Board a number of internal audits will be conducted under the supervision of the CFO.

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 in cash.
- 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 AGM.

On 19 April 2017 the Supervisory Board authorised the issuance of shares for those shareholders who opted for distribution of the final dividend for 2016 in shares, as approved by the AGM of 20 April 2017.

On 21 July 2017 the Supervisory Board approved the interim dividend for 2017.

2017 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 2017 of € 1.12 per share. That brings the total dividend for 2017 € 2.16 per share, of which € 1.04 per share was distributed as an interim dividend on 21 August 2017.

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 on14 May 2018.

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 and Remuneration report

On 31 December 2017 the Remuneration Committee consisted of Karin Koks-Van der Sluijs (chair) and Luurt van der Ploeg (member).

The Remuneration Committee met twice in the year under review and had several telephone conferences. The topics discussed at these meetings included the calculation of the payment of the CIO's long-term share plan (LTSP), the remuneration of the newly appointed CFO, the establishment of the individual targets for the members of the Management Board linked to their LTSP, the achievement of the individual targets of the members of the Management Board linked to their LTSP and a potential revision of the remuneration policy focused on introducing a short term incentive.

In October 2017 the Remuneration Committee discussed the consequences of the new Governance Code for the role and responsibilities of the Remuneration Committee, its composition and how it carries out its duties and advised the Supervisory Board on a revision of its Regulation

On 25 October 2017 the Supervisory Board has adopted a revised regulation specifying the role and responsibilities of the Remuneration Committee, its composition and how it carries out its duties. The regulation and composition of the Remuneration Committee are posted on the company's website.

In December 2017 the Remuneration Committee asked the Management Board to give their appraisal with regard to the achievement of the individual targets linked to their LTSP. In January 2018 the chairman of the Remuneration Committee met with Management board members to discuss their views on the amount and structure of their own remuneration package.

Remuneration report

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board was adopted by the General Meeting of Shareholders on 25 April 2014. The remuneration of the Supervisory Board members is not dependent on the company's results.

The amount of remuneration adopted by the General Meeting of Shareholders on 25 April 2014 is € 30,000 per year for a Supervisory Board member and € 45,000 per year for the chairman. The amount of remuneration for membership of the Audit Committee and the Real Estate Committee of the

Supervisory Board is € 7,500 per year. The amount of remuneration for membership of the Selection and Appointment Committee and the Remuneration Committee of the Supervisory Board is € 3,750 per year.

Remuneration of the Management Board

The current remuneration policy with respect to members of the Management Board was adopted at the General Meeting of Shareholders on 27 April 2012. An adjustment to the maximum percentage of the CEO's variable remuneration was adopted at the Extraordinary Meeting of Shareholders of 25 August 2016.

The full text of the remuneration policy can be viewed on NSI's website.

The objectives of the remuneration policy are as follows:
- to be able to recruit, retain and motivate qualified Management Board members in order to realise the company's goals;
- to ensure that the members of the company's Management Board are remunerated in accordance with the weight of their position; and
- to stimulate value creation for the company and its stakeholders.

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

Daniel van Dongen, CFO until 21 April 2017 and active in an advisory role until 30 June 2017, received a fixed salary of €153 thousand for his employment in 2017. In addition, Mr Van Dongen received a severance payment of €305 thousand, the equivalent of (the fixed component of) one year's salary, in line with the provisions of his management agreement. The amount paid is equal to the maximum referred to in best practice provision 3.2.3 of the Dutch Corporate Governance Code. Furthermore, Mr Van Dongen was entitled to an amount of € 175 thousand relating to the settlement of his long-term share plan (LTSP). This amount will ultimately be paid out in June 2018 in consultation with Mr Van Dongen.

CEO Bernd Stahli, received a fixed salary of €385 thousand for his employment in 2017. Alianne de Jong, CFO as of 15 September 2017 received a fixed salary of €70 thousand and CIO Anne De Jong received a fixed salary of €300 thousand in 2017.

Since 1 January 2012, the variable remuneration component for the Management Board has consisted exclusively of the LTSP.

The LTSP covers a period of three years and stipulates a maximum payment 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 90%.

80% of the remuneration achievable under the LTSP is based on total shareholder return (TSR) over the term of the LTSP. This TSR takes into account NSI's share price at the beginning and at the end of the period as well as distributions to shareholders during the period. NSI's TSR is then compared with the TSR of the benchmark group. This benchmark group consists of Wereldhave, VastNed Retail, Alstria, Befimmo, Cofinimmo and Eurocommercial Properties. The amount of remuneration under the LTSP is determined depending on NSI's performance in relation to the benchmark. A sliding scale is applied for this purpose.

The remaining 20% of the LTSP remuneration is based on the achievement of individual targets set for the members of the Management Board. These are determined and evaluated by the Supervisory Board.

The LTSP period for the CEO commenced on 1 January 2017 and expires on 31 December 2019.

The LTSP period for the CFO commenced on 1 January 2018 and expires on 31 December 2020.

The current LTSP period for the CIO commenced on 1 May 2015 and expired on 31 December 2017. During this period the NSI share outperformed the Total Shareholder Return of the peers included in the benchmark by 21%. As a result, the quantitative portion of the LTSP resulted in the maximum payment (of €184.800), which is 72% of the average annual salary of the CIO over the Term of the LTSP. The qualitative portion of the LTSP is related to the achievement of personal goals of the Management Board and can for the CIO result in a maximum of 18% of the average annual salary of the CIO over the Term of the LTSP. For the past three years period 2015-2017, the Supervisory Board has set this target achievement for the CIO at 90,6%, resulting in a payment of € 41.869, which is 16,3 % of the average annual salary of the CIO over the Term of the LTSP.

Payment of the remuneration pursuant to the LTSP shall be in cash and take place following the general meeting of 20 April 2018. The CIO is obliged to purchase NSI shares amounting to 2/3 of the net amount to be paid. These shares will be subject to a three-year lock-up period.

The LTSP for the CIO will be extended within the framework of the current remuneration policy for a new three-year period up to 2020.

In 2017 the pay ratio of average fixed monthly salary of Management Board members (€25,000) to the average monthly salary of NSI employees (€4,500) was 5.5:1. All salaries are calculated on a 100% FTE bases.

The pay ratio of the maximum possible long-term incentive for the Management Board to the maximum bonus for the NSI employees is 1,8:1 for the CEO and 0.9 :1 for the CFO and CIO.

The Management Board is entitled to a maximum of 60% (CEO) or 30% (CFO & CIO) per year of their fixed annual salary as LTSP remuneration. The LTSP pays out every three years.

Under the Variable Income Plan NSI employees are entitled to a maximum of 33.3% per year of their fixed salary. The Variable Income Plan pays out every year.

Selection and Appointment Committee

On 31 December 2017 the Selection and Appointment Committee consisted of Nico Tates (chair) and Luurt van der Ploeg (member).

The Selection and Appointment Committee met twice in the year under review and had eight selection meetings. The main topics discussed during these meetings and on separate conference calls were drafting a profile for the recruitment and selection procedure for a new CFO, discussing the progress made in the recruitment and selection procedure and with regard to the longlist and shortlist of candidates drafted by the executive search firm, and speaking to individual candidates. The focus here was specifically on finding a candidate who could help expand the company's diversity and complement the existing members of the Management Board.

The Selection and Appointment Committee discussed the profile for the recruitment and selection of a new Supervisory Board member, the progress made in the recruitment and selection process and with regard to the longlist and shortlist of candidates drafted by the executive search firm, and spoke to individual candidates. The focus here too was on finding a candidate who could help expand the company's diversity and complement the existing members of the Supervisory Board.

The Selection and Appointment Committee discussed the individual targets for the long-term share plan (LTSP) and advised the Supervisory Board on this matter. Furthermore the Committee discussed the consequences of the new Dutch Governance Code for the role and responsibilities of the Selection and Appointment Committee, its composition and how it carries out its duties and advises the Supervisory Board on a revision of its regulations.

On 25 October 2017 the Supervisory Board has adopted a revised regulation specifying the role and responsibilities of the Selection and Appointment Committee, its composition and how it carries out its duties. The regulations and composition of the Selection and Appointment Committee are posted on the company's website.

Audit Committee

On 31 December 2017 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 Audit Committee regularly confers with the external auditor, not always in 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 2017 the Audit Committee discussed and was particularly involved in the assessment of:

a. the operation of the internal risk management and control systems, including monitoring compliance with relevant legislation and regulations as well as monitoring compliance with the codes of conduct, and more specifically the assessment of a change to the regulations of the Management Board, the Supervisory Board, the Audit Committee and the other committees;
b. the provision of financial information by the company;
c. compliance with recommendations and the follow-up of remarks by the external auditor, also with regard to ICT systems;
d. the company's policy with regard to tax planning;
e. the relationship with the external auditor, particularly with regard to its independence, remuneration and any non-audit-related work for the company, and as well as discussions about the 2017 audit plan of the external auditor;
f. the financing and treasury policy of the company; and
g. the application of information and communication technology.

In October 2017 the Remuneration Committee discussed the consequences of the new Dutch Governance Code for the role and responsibilities of the Audit Committee, its composition and how it carries out its duties and advised the Supervisory Board on a revision of its regulations.

On 25 October 2017 the Supervisory Board has adopted a revised regulation specifying the role and responsibilities of the Audit Committee, its composition and how it carries out its duties. The regulations and composition of the Audit Committee are posted on the company's website.

Real Estate Committee

On 31 December 2017 the Real Estate Committee consisted of Nico Tates (chair) and Harm Meijer (member).

Activities

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. In 2017 the Real Estate Committee was particularly involved in:

a. the assessment of proposed management decisions with regard to real estate transactions (acquisitions, disposals and investments), in particular regarding the sale of a substantial part of the retail portfolio and the acquisition of office buildings in Amsterdam, Utrecht and Leiden Bio Science Park;
b. the assessment of asset plans for all offices, HNKs and retail properties with a value exceeding € 4 million. These asset plans form the basis of the investment plan for the 2018 financial year;
c. the methodology for preparing yield calculations and the applicable thresholds for investments;
d. discussions with management regarding the retail portfolio strategy; and
e. several site visits in this context.

In October, November and December 2017 the Real Estate Committee discussed the consequences of the new Dutch Governance Code for the role and responsibilities of the Real Estate Committee, its composition and how it carries out its duties and advised the Supervisory Board on a revision of its regulations.

On 12 December 2017 the Supervisory Board has adopted a revised regulation specifying the role and responsibilities of the Real Estate Committee, its composition and how it carries out its duties. The regulations and the composition of the Real Estate Committee are posted on the company's website.

In conclusion

2017 was a year of many staffing, organisational and portfolio changes and adjustments 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 in the year under review.

Hoofddorp, 9 March 2018

The Supervisory Board,

Luurt van der Ploeg, chairman
Nico Tates, vice-chairman
Margreet Haandrikman
Karin Koks-Van der Sluijs
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.
Previous positions CFO Vesteda Investment Management B.V., CFO Multi Corporation B.V., several accountancy positions at EY in the Netherlands, Australia and the United States
Additional positions Member of committee of Association of Supervisors housing corporations, Curatorium Erasmus School of Accounting & Assurance
Supervisory Board positions Dunea N.V., Housing association Haag Wonen
First appointment 2014
Current term To 2018

Mr N. Tates (1956)
Vice chairman

Nationality Dutch
Current position Managing Director, Head of Investment Management at Prelios Deutschland GmbH
Previous positions European Strategic Advisor at Aberdeen Asset Management, Head of direct real estate Continental Europe at Aberdeen Asset Management, Founder and CEO at Aberdeen Property Investors Europe B.V, several positions at ABN, Aegon, SPP Reim, and Celexa Real Estate Investment Management, Board member IVBN, Member of several Supervisory Boards and Investment Committees
First appointment 2014
Current term To 2018

Mr H. Meijer (1975)

Nationality Dutch
Current position Founding partner of ICAMAP, Board Member and Managing Director at ICAMAP Advisory
Previous positions Managing Director and Head of European Real Estate Equities Research at JP Morgan Cazenove London, Vice President and Head of European Real Estate Equities Research at ABN AMRO
First appointment 2016
Current term To 2020

Mrs K. Koks - Van der Sluijs (1968)

Nationality Dutch
Current positions Non-executive board member Genesta Nordic Capital Fund Management, Chairman of the Investment Committee for the Value Add Fund and Core Plus Fund for Genesta Nordic Real Estate. Non-executive board member of Immobel, a Belgian listed property developer, member of the Audit Commitee and member of the Investment Committee.
Previous positions Head Global Mandates, Property Multi-Manager Aberdeen Asset Management, Co-Head Europe, Property Multi-Manager Aberdeen Asset management, Fund Manager Europa MN Vermogensbeheer, various positions at MOG Vastgoed Consult
First appointment 2016
Current term To 2020

Mrs M. Haandrikman (1965)

Nationality Dutch
Current position Independent supervisory board member and advisor
Previous positions Member of the Supervisory Board and of the Audit and Risk Committee at ALHM N.V., Director Group Restructuring Program and Director Group Actuarial department at Achmea, various senior positions at consultancy firms, including Mercer and PricewaterhouseCoopers
Additional positions Lecturer at the University of Amsterdam
Supervisory Board positions Monuta, De Onderlinge van 1719 UA (Chairman), De Regenboog Groep (Chairman Audit Committee), Stichting Bouw & Ontwikkeling, Centramed (Audit and Risk Committee), van Waard Verzekeringen (part of the Chesnara Group (UK)), Scildon NV (former Legal & General Nederland, part of the Chesnara Group (UK)) (Chairman Audit and Risk Committee)
First appointment 2017
Current term To 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December	Note		2017		2016*
Gross rental income	2		89,000		94,523
Service costs recharged to tenants		11,983		12,420	
Service costs		-14,058		-16,607	
Service costs not recharged	2		-2,075		-4,187
Operating costs	2 , 3		-12,457		-16,131
Net rental income			**74,468**		**74,205**
Revaluation of investment property	4		28,329		-55,345
Net result on sale of investment property	5		6,064		-5,943
Net result from investments			**108,861**		**12,917**
Administrative costs	6		-9,170		-9,854
Impairment of goodwill	7				-8,205
Other income and costs	8		5,548		-3
Financing income	9	12		24	
Financing costs	9	-15,871		-20,011	
Movement in market value of financial derivatives	9	3,658		1,751	
Net financing result			-12,201		-18,236
Result before tax			**93,037**		**-23,380**
Corporate income tax	10		-91		54
Result from continuing operations after tax			**92,946**		**-23,326**
Result from discontinued operations after tax	11		-1,344		5,493
Total result for the year			**91,602**		**-17,833**
Exchange rate differences on foreign participations			0		
Other comprehensive income			**0**		
Total comprehensive income for the year			**91,602**		**-17,833**
Total comprehensive income attributable to:					
Shareholders			91,602		-17,833
Total comprehensive income for the year			**91,602**		**-17,833**
Data per average outstanding share**:					
Diluted as well as non-diluted result after tax - continued operations			5.13		-1.30
Diluted as well as non-diluted result after tax - discontinued operations			-0.07		0.31
Diluted as well as non-diluted result after tax			5.05		-1.00

* The result for 2016 has been represented in accordance with IFRS 5. For more information we refer to page 73.

** For comparison, the information per average outstanding share 2016 has been restated to reflect the stock consolidation executed as per 20 June 2017.

The notes on pages 73-106 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
Assets			
Investment property	12	1,072,180	764,613
Derivative financial instruments	21	1,162	
Tangible fixed assets	13	787	1,516
Intangible fixed assets	14	560	193
Other non-current assets	15	6,134	5,821
Non-current assets		**1,080,822**	**772,143**
Debtors and other accounts receivable	16	1,829	2,330
Cash and cash equivalents	17	6,827	2,066
Assets held for sale	11 , 18	28,791	389,923
Current assets		**37,447**	**394,319**
Total assets		**1,118,269**	**1,166,462**
Shareholders' equity			
Issued share capital	19	67,583	65,873
Share premium reserve	19	921,715	923,435
Other reserves	19	-408,212	-367,220
Total result for the year		91,602	-17,833
Shareholders' equity		**672,688**	**604,255**
Liabilities			
Interest bearing loans	20	404,708	510,404
Derivative financial instruments	21	1,712	15,297
Other non-current liabilities	22	3,540	2,276
Non-current liabilities		**409,959**	**527,976**
Redemption requirement interest bearing loans	20	700	500
Creditors and other accounts payable	23	24,855	27,655
Debts to credit institutions	24	9,873	3,429
Liabilities directly associated with assets held for sale	11	195	2,646
Current liabilities		**35,623**	**34,231**
Total liabilities		**445,582**	**562,207**
Total shareholders' equity and liabilities		**1,118,269**	**1,166,462**

The notes on page 73-106, form an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December	Note		2017		2016 *
Result from operations after tax			92,946		-23,326
Adjusted for:					
Revaluation of investment property	4	-28,329		55,345	
Net result on sale of investment property	5	-6,064		5,943	
Share in result of participations				3	
Net financing result	9	12,201		18,236	
Corporate income tax	10	91		-54	
Impairment of goodwill				8,205	
Depreciation and amortisation		162		288	
			-21,939		87,965
Movements in working capital:					
Debtors and other accounts receivable		764		-1,618	
Creditors and other accounts payable		-3,744		-3,390	
			-2,980		-5,008
Cash flow from operating activities			**68,027**		**59,631**
Financing income received			12		24
Financing costs paid			-15,093		-21,395
Tax paid			-78		-97
Cash flow from continuing operating activities			**52,868**		**38,162**
Cash flow from discontinued operating activities			-49		2,290
Cash flow from operating activities			**52,819**		**40,453**
Purchases of real estate and investments in existing property	12		-155,195		-81,406
Proceeds on sale of investment property	5, 12		240,623		65,298
Investments in tangible fixed assets	13		-76		-37
Disinvestments in tangible fixed assets	13		15		47
Investments in intangible fixed assets	14		-466		-186
Disinvestments in intangible fixed assets	14		12		74
Cash flow from continuing investment activities			**84,912**		**-16,210**
Cash flow from discontinued investment activities			1,394		53,048
Cash flow from investment activities			**86,306**		**36,838**
Dividend paid			-23,169		-38,664
Proceeds from interest bearing loans	20		99,000		232,000
Transaction costs interest bearing loans paid					-879
Repayment of interest bearing loans	20		-205,550		-285,507
Settlement of derivatives			-11,089		-7,893
Cash flow from continuing financing activities			**-140,808**		**-100,943**
Cash flow from financing activities			**-140,808**		**-100,943**
Net cash flow continuing operations			**-3,027**		**-78,990**
Net cash flow from discontinued operations			1,345		55,338
Net cash flow			**-1,683**		**-23,652**
Cash and cash equivalents - balance as per 1 January			2,066		22,305
Debts to credit institutions - balance as per 1 January			-3,429		-20
Cash and cash equivalents and debts to credit institutions - balance as per 1 January			**-1,363**		**22,285**
Exchange rate differences			0		4
Cash and cash equivalents - balance as per 31 December			6,827		2,066
Debts to credit institutions - balance as per 31 December			-9,873		-3,429
Cash and cash equivalents and debts to credit institutions - balance as per 31 December			**-3,046**		**-1,363**

* 2016 has been represented in accordance with IFRS 5. For more information we refer to page 73.

The notes on pages 73-106 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY - 2017

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

CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY - 2016

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

The notes on pages 73-106, form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General Information

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. The consolidated financial statements for 2017 are presented for the company and its subsidiaries (together referred to as the 'Group'), as well as the Group's interests in associates (2016 only).

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

Main principles

The consolidated financial statements have been prepared in accordance with International Reporting Standards (IFRS), as adopted by the European Union (EU-IFRS).

The annual financial statements were prepared by the Management Board and approved by the Supervisory Board on 9 March 2018. The financial statements will be submitted to the General Meeting of Shareholders on 20 April 2018 for adoption.

Unless stated otherwise, all amounts presented in the annual 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 the figures presented in the annual report and the financial statements.

Valuation principles

The consolidated financial statements have been prepared on the basis of historical cost except for investment property, investment property under construction and assets held for sale, financial assets and liabilities at fair value through profit or loss and derivatives, which are recognised at fair value.

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

Comparative figures

Baring the following exceptions, the comparative figures and the accounting policies have not changed compared with the previous year.

Impact discontinued operations in comparative figures

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

During 2017 the Belgian activities and the majority of the retail activities were sold. At the end of 2017 the Management Board has assessed the status of the remaining retail properties and concluded that the criteria of IFRS 5 to extend the period for presenting the remaining portfolio as held for sale were not met. As a result, the remaining retail properties were transferred back to investment property at the end of 2017. The comparative figures in the statement of comprehensive income and cash flow statement and the related disclosure notes have been represented accordingly.

The bridge between the published 2016 results and the represented results as reported in the consolidated financial statements is as follows:

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

The bridge between the published 2016 cash flow statement and the represented cash flow statement as reported in the consolidated financial statements is as follows:

	2016 - reported		Retail		2016 - represented	
Result from operations after tax		3,845		-27,171		-23,326
Adjusted for:						
Revaluation of investment property	5,264		50,081		55,345	
Net result on sale of investment property	5,943				5,943	
Share in result of participations	3				3	
Net financing result	18,243		-8		18,236	
Corporate income tax	-54				-54	
Impairment of goodwill	5,296		2,909		8,205	
Depreciation and amortisation	249		39		288	
		34,944		53,021		87,965
Movements in working capital:						
Debtors and other accounts receivable	-1,246		-373		-1,618	
Creditors and other accounts payable	-1,442		-1,949		-3,390	
		-2,687		-2,321		-5,008
Cash flow from operating activities		**36,102**		**23,529**		**59,631**
Financing income received		16		8		24
Financing costs paid		-21,395		0		-21,395
Tax paid		-115		19		-97
Cash flow from continuing operating activities		**14,607**		**23,555**		**38,162**
Cash flow from discontinued operating activities		25,846		-23,555		2,290
Cash flow from operating activities		**40,453**				**40,453**
Purchases of real estate and investments in existing property		-74,435		-6,971		-81,406
Proceeds on sale of investment property		63,165		2,133		65,298
Investments in tangible fixed assets		-37				-37
Disinvestments in tangible fixed assets		47				47
Investments in intangible fixed assets		-182		-4		-186
Disinvestments in intangible fixed assets				74		74
Cash flow from continuing investment activities		**-11,442**		**-4,768**		**-16,210**
Cash flow from discontinued investment activities		48,280		4,768		53,048
Cash flow from investment activities		**36,838**				**36,838**
Dividend paid		-38,664				-38,664
Proceeds from interest bearing loans		232,000				232,000
Transaction costs interest bearing loans paid		-879				-879
Repayment of interest bearing loans		-285,507				-285,507
Settlement of derivatives		-7,893				-7,893
Cash flow from continuing financing activities		**-100,943**				**-100,943**
Cash flow from financing activities		**-100,943**				**-100,943**
Net cash flow continuing operations		**-97,778**		**18,787**		**-78,990**
Net cash flow from discontinued operations		74,126		-18,787		55,338
Net cash flow		**-23,652**				**-23,652**
Cash and cash equivalents - balance as per 1 January		22,305				22,305
Debts to credit institutions - balance as per 1 January		-20				-20
Cash and cash equivalents and debts to credit institutions - balance as per 1 January		**22,285**				**22,285**
Exchange rate differences		4				4
Cash and cash equivalents - balance as per 31 December		2,066				2,066
Debts to credit institutions - balance as per 31 December		-3,429				-3,429
Cash and cash equivalents and debts to credit institutions - balance as per 31 December		**-1,363**				**-1,363**

Assumptions and estimation uncertainties

The preparation of the consolidated annual 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 estimates and underlying assumptions are continually re-evaluated. Revisions of estimates are recognised prospectively.

Measurement of 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; and
- 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 12 – Investment property;
- Note 14 – Goodwill;
- Note 18 – Assets held for sale;
- Note 21 – Financial instruments; and
- Note 26 – LTSP.

Main principles for financial reporting

Principles for consolidation

Subsidiary companies

Subsidiary companies are companies over which NSI exercises decisive control. There is a situation of decisive 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.

The results of subsidiary companies are included in the consolidated financial statements from the date of commencement of a controlling interest until the date on which it ends.

Non-controlling interests

Non-controlling interests are recognised separately in shareholders' equity in the balance sheet. Non-controlling interests are also stated separately in the statement of comprehensive income.

Changes in the interest of a subsidiary company that do not lead to a loss of control are accounted for as equity transactions.

Interests in participations recognised in accordance with the equity method

The Group's interest in participations recognised in accordance with the equity method consists of interests in associates.

Associates are those entities in which the Group has significant influence on the financial and operating policies, but over which it does not exercise control.

Associates are recognised on the basis of the equity method and are valued at cost upon initial recognition, including the transaction costs. After initial recognition, the consolidated financial statements include the Group's share in the comprehensive income of the participations, recognised in accordance with the equity method, until the final date on which it had significant influence.

The consolidated financial statements for 2017 concern NSI N.V. In the first quarter of 2016 the remaining interest in Intervest Offices and Warehouses (IOW) was sold. This associate was recognised in accordance with the equity method.

The following companies are included in the consolidated financial statements:

Company name	Statutory seat	2017	2016
NSI N.V.	Amsterdam, The Netherlands		
NSI Beheer B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI Woningen B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Winkels B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Kantoren B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Bedrijfsgebouwen B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Volumineuze Detailhandel B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Monument B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI HNK B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI Service HNK B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI International B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI Luxembourg Holding S.à.r.l.	Luxembourg, Luxembourg	100.0%	100.0%
NSI Switzerland S.à.r.l.	Luxembourg, Luxembourg	100.0%	100.0%
NSI (Swiss) II AG	Zug, Switzerland	100.0%	100.0%
NSI (Swiss) III AG	Zug, Switzerland		100.0%
NSI (Swiss) IV AG	Zug, Switzerland		100.0%
NSI Management Switzerland GmbH	Zug, Switzerland	100.0%	100.0%
NSI Management B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI Development B.V.	Hoorn, The Netherlands	100.0%	100.0%
NSI Beheer II B.V.	Amsterdam, The Netherlands	100.0%	100.0%
NSI German Holding B.V.	Amsterdam, The Netherlands	100.0%	100.0%
Hans-Böckler-Straße S.à.r.l.	Luxembourg, Luxembourg	100.0%	100.0%
VastNed Offices Benelux Holding B.V.	Rotterdam, The Netherlands	100.0%	100.0%
VastNed Offices Belgium Holdings B.V.	Rotterdam, The Netherlands	100.0%	100.0%
VastNed Offices Belgium N.V.	Antwerp, Belgium	100.0%	100.0%
Cocoon Office Park N.V.	Antwerp, Belgium	100.0%	100.0%

Elimination of intragroup transactions
Intragroup balances and transactions as well as any non-realised profits and losses on intragroup transactions are eliminated. Non-realised profits from transactions with investments processed according to the equity method are eliminated in proportion to the interest that NSI holds in the investment. Non-realised losses are eliminated in the same way as non-realised profits, but only insofar as there is no indication of 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 inverstment property in operation and investment property under construction.

Investment property in operation
Investment property in operation consists of real estate in operation 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 are recognised from the time of purchase at full cost (including all costs relating to the purchase, such as legal costs, transfer tax, estate agent fees, costs of due diligence, capitalised interest and other transaction costs) until the first reporting date from which date the fair value is applied (every six months, on 30 June and 31 December). The value of the investment property is increased by investments made and is subject to fair value adjustment as from the following reporting date.

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 valuers (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 are changed every three years in accordance with the RICS guidelines. The valuations are assessed and analysed by the Management Board and asset managers considering the methods and assumptions applied, as well as the outcome.

If an existing investment property is renovated and/or expanded for continued use as an investment property, valuation is also made at fair value. The renovation costs consist of all the directly attributable costs required to complete the project.

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 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, as 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 year 10. The respective outcomes of both methods are compared.The returns applied are specified for the country, 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.

Future investments or expenses 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. There is no depreciation 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.

If the use of a property changes 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. Investment property under construction is valued at fair value if a substantial part of the project risks has been reduced or eliminated, and if the fair value can be measured reliably.

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. In other cases, 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.

Assets held for sale

Certain investment properties, and 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 12 months after 31 December 2017. 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 discontinued operations can be found in note 11 and 18. All other notes in the financial statements relate to amounts for continued operations, unless otherwise indicated.

Tangible fixed assets

Tangible fixed assets consists of the real estate (office building) fully or partly used by the company, its 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 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: 25 years
- office equipment: 3 years
- transport equipment: 3-4 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 and goodwill

Goodwill
Goodwill is the difference between the acquisition price of acquired activities and the fair value of the identifiable assets and liabilities of the acquired activities. Negative goodwill is recognised directly in the statement of comprehensive income. In the balance sheet goodwill is reported as an intangible asset and valued at cost, less any impairment losses. Goodwill is assessed for impairment annually, or in the interim if there is reason to do so. Impairment losses are not reversed.

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-line basis over their estimated useful life. Amortisation is recognised in the statement of comprehensive income. The estimated useful economic lives are as follows:
- capitalised software: 3 years

Impairments

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. Goodwill is tested annually for impairment.

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 first deducted from the book value of any goodwill allocated to the cash-generating unit and are subsequently deducted on a pro rata basis from the book value of each asset in the cash-generating unit.

Impairment losses on goodwill are not reversed. Impairment losses on other assets 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.

Non-derivative financial assets
Financial assets not recognised as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence for impairment.

Objective evidence that financial assets are to be impaired includes:
- default or arrears by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not otherwise consider;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes to the payment status of borrowers or issuers;
- the disappearance of an active market for a security; and
- observable data indicating a measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost price. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost
The Group considers evidence of impairment for these assets at both an individual and a collective asset level. All individually significant assets are assessed for impairment on a individual basis. Those found not to be impaired individually are collectively assessed for any impairment incurred but not yet individually identified. Assets that are not individually significant are also collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends on the timing of recoveries and the amount of loss incurred, and management makes an adjustment if it believes current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between the book value of an asset and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised through profit or loss and are reflected in an allowance account. Where the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed through profit or loss.

Financial instruments

NSI classifies non-derivative financial assets in the following categories: loans, receivables and cash and cash equivalents.

NSI has the following non-derivative financial liabilities: interest-bearing liabilities, amounts owed to credit institutions and other payables.

Non-derivative financial assets and financial liabilities

NSI initially recognises loans and receivables on the date they occur. All other financial assets (including assets recognised as at fair value with fair value changes in other comprehensive income) and financial liabilities are initially recognised 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 – valuation

Loans and receivables

Loans and 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.

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 - valuation

Interest-bearing debt

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

Total interest-bearing debt includes both fixed-rate and variable-rate mortgage 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 2017 (including margin).

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

Other payables and accrued liabilities

Other payables and accrued liabilities 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.

Derivatives

NSI uses derivatives 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 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.

Separated embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Changes in the fair value of separated embedded derivatives are recognised directly in the consolidated statement of comprehensive income.

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 for leases terminated early are immediately recognised in the 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 if:

a. all important rights to economic benefits as well as all major risks related to the investment properties have been transferred to the purchaser;
b. there is no continued involvement in the investment properties sold and NSI may not keep possession of the properties and therefore cannot decide on their use;
c. the amount of the proceeds can be reliably determined;
d. it is likely that the economic benefits with regard to the transaction will flow to NSI; and
e. the costs already incurred and any future costs related to the transaction can be reliably determined.

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.

Financing income and costs
Financing income and expenses consist of the 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.

Administrative costs
Administrative expenses include consultancy fees, office expenses, 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.

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 90%.

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). That 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 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

An operating segment is an entity of NSI that performs operating activities that can result in revenues and costs, including revenues and costs in connection with transactions with other entities of NSI.

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.

New standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations come into effect for fiscal years commencing after 1 January 2017. However, the Group did not early adapt the following new and amended standards to these consolidated annual statements.

IFRS 9 Financial Instruments

Published in July 2014, IFRS 9 will replace the existing directive outlined in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment of financial assets, and new general requirements for hedge accounting. Furthermore, IFRS 9 shall apply the provisions of IAS 39 for the recognition and de-recognition of financial instruments. IFRS 9 is effective for fiscal years beginning on or after 1 January 2018.

The Group has assessed the potential impact of the adoption of IFRS 9 on the consolidated financial statements. The financial impact of the adoption of IFRS 9 is expected to be approximately €0.2 million positive for the impairment of receivables and zero for own credit risks.

IFRS 15 Revenue from contracts with customers

IFRS 15 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. IFRS 15 is effective for fiscal years beginning on or after 1 January 2018.

The Group has assessed the potential impact of the adoption of IFRS 15 on the consolidated financial statements. The financial impact of the adoption of IFRS 15 is expected to be insignificant, due to the fact that the main income of the Group, i.e. proceeds from leasing of offices, is exempt from IFRS 15, as IAS 17 / IFRS 16 applies to this income. The recognition of service costs recharged to tenants are also not expected to have a significant influence on the income of NSI after adoption of IFRS 15.

IFRS 16 Leases

IFRS 16 replaces the previous standard (IAS 17 Leases) and provides 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 12 months. IFRS 16 was published in January 2016 and is effective from 1 January 2019.

The Group has assessed the potential 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 million.

1. Segment Information

In December 2016, NSI decided to initiate the sale of the Retail segment. In connection with the intended sale of the retail activities, the decision was taken to present these activities as discontinued operations in the 2016 consolidated financial statements, in accordance with IFRS 5, together with the remaining activities in Belgium.

Since year-end 2017 NSI has 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. The strategic business units operate in several investment property segments in the Netherlands and are managed separately because they require different market strategies.
At the end of 2017 the Management Board decided that the remaining retail activities no longer met the conditions for presenting assets held for sale and as a result as discontinued operations. During the first half year of 2017 about 60% of the retail activities was sold. For the remainder of the retail objects no purchaser could be found, due to an stronger polarisation of the retail market during the second half of 2017. At the end of 2017, management concluded that it is not highly probable that a sale of the remaining retail portfolio will take place within one year as of 31 December 2017. The segmentation has changed compared to prior year 2016. Retail is no longer a seperate segment, but is part of the segment "Other". The remaining retail activities have been transferred to the segment Other and the comparative figures have been represented accordingly.

An overview of the results and the balance sheet items of each reporting segment is included below:

2017	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Other	TOTAL		
Gross rental income	53,893	13,565	21,542	89,000	56	89,056
Service costs recharged to tenants	6,706	3,297	1,979	11,983	16	11,999
Service costs	-8,281	-4,209	-1,568	-14,058	-35	-14,092
Service costs not recharged	-1,574	-912	412	-2,075	-18	-2,093
Operating costs	-5,702	-4,578	-2,177	-12,457	-22	-12,479
Net rental income	**46,617**	**8,075**	**19,776**	**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	**68,456**	**23,950**	**16,454**	**108,861**	**-1,280**	**107,580**
Administrative costs	-997	-282	-7,892	-9,170	-77	-9,247
Other income and costs	5,646	14	-113	5,548	9	5,557
Financing income	5	0	7	12	1	12
Financing costs	-6	0	-15,865	-15,871	-1	-15,872
Movement in market value of financial derivatives			3,658	3,658		3,658
Net financing result	-1	0	-12,200	-12,201	0	-12,201
Result before tax	**73,105**	**23,682**	**-3,750**	**93,037**	**-1,348**	**91,689**
Corporate income tax		-3	-88	-91	4	-87
Total result for the year	**73,105**	**23,679**	**-3,838**	**92,946**	**-1,344**	**91,602**
Attributable to shareholders	73,105	23,679	-3,838	92,946	-1,344	91,602

2017	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Other	TOTAL		
Investment property	731,583	178,859	161,738	1,072,180		1,072,180
Other assets	7,294	2,469	7,536	17,299		17,299
Assets held for sale			28,791	28,791		28,791
Total assets	**738,876**	**181,328**	**198,065**	**1,118,269**		**1,118,269**
Non-current liabilities	1,302	1,631	407,026	409,959		409,959
Current liabilities	9,111	5,200	21,117	35,428		35,428
Liabilities directly associated with assets held for sale			195	195		195
Total liabilities	**10,413**	**6,831**	**428,338**	**445,582**		**445,582**
Purchases of real estate and investments in existing property	142,725	5,831	6,640	155,195		155,195

2016	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Other	TOTAL		
Gross rental income	48,948	12,140	33,434	94,523	66	94,589
Service costs recharged to tenants	6,967	2,752	2,701	12,420	25	12,445
Service costs	-8,649	-4,604	-3,354	-16,607	15	-16,592
Service costs not recharged	-1,682	-1,852	-653	-4,187	39	-4,147
Operating costs	-7,572	-3,454	-5,106	-16,131	-48	-16,179
Net rental income	**39,695**	**6,835**	**27,676**	**74,205**	**57**	**74,262**
Revaluation of investment property	2,341	-5,863	-51,822	-55,345	16	-55,328
Net result on sale of investment property	-482	-67	-5,394	-5,943	1,513	-4,430
Net result from investment	**41,553**	**905**	**-29,541**	**12,917**	**1,586**	**14,504**
Administrative costs	-420	-787	-8,646	-9,854	-25	-9,879
Impairment of goodwill	-4,022	-855	-3,328	-8,205		-8,205
Result from participations					565	565
Other income and costs	-12		9	-3	1,050	1,047
Financing income	12	4	7	24	5	29
Financing costs	-12	0	-19,999	-20,011	58	-19,953
Movement in market value of financial derivatives			1,751	1,751		1,751
Net financing result	0	4	-18,241	-18,236	63	-18,173
Result before tax	**37,100**	**-733**	**-59,747**	**-23,380**	**3,239**	**-20,141**
Corporate income tax		-5	59	54	2,253	2,308
Total result for the year	**37,100**	**-738**	**-59,687**	**-23,326**	**5,493**	**-17,833**
Attributable to shareholders	37,100	-738	-59,687	-23,326	5,493	-17,833

2016	Continuing operations				Discontinued operations	TOTAL
	Offices	HNK	Other	TOTAL		
Investment property	607,606	148,069	8,938	764,613		764,613
Other assets	5,974	2,507	3,444	11,925		11,925
Assets held for sale	5,075		382,158	387,233	2,690	389,923
Total assets	**618,655**	**150,576**	**394,540**	**1,163,772**	**2,690**	**1,166,462**
Non-current liabilities	1,046	1,222	525,709	527,976		527,976
Current liabilities	13,234	4,260	14,090	31,584		31,584
Liabilities directly associated with assets held for sale			2,645	2,645	1	2,646
Total liabilities	**14,280**	**5,482**	**542,444**	**562,206**	**1**	**562,207**
Purchases of real estate and investments in existing property	65,214	8,968	7,224	81,406		81,406

2. Net rental income

	Gross rental income		Service costs not recharged		Operating costs		Net rental income	
	2017	2016	2017	2016	2017	2016	2017	2016
Offices	53,893	48,948	-1,574	-1,682	-5,702	-7,572	46,617	39,695
HNK	13,565	12,140	-912	-1,852	-4,578	-3,454	8,075	6,835
Other	21,542	33,434	412	-653	-2,177	-5,106	19,776	27,676
Net rental income	**89,000**	**94,523**	**-2,075**	**-4,187**	**-12,457**	**-16,131**	**74,468**	**74,205**

Gross rental income includes a sum of €5.5 million (2016: €6.2 million) for straight-lined lease incentives.

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 relating 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:

	2017	2016
First year	82,285	85,135
Second to fourth year	188,963	187,205
As of fifth year	138,252	162,565

3. Operating costs

	2017	2016
Leasehold	-213	-244
Municipal taxes	-2,154	-3,857
Insurance premiums	-590	-380
Maintenance costs	-2,760	-2,824
Property management costs	-4,183	-3,784
Letting costs	-1,965	-3,298
Contribution to owner association	-92	-853
Doubtful debt costs	-128	-290
Other operating costs	-373	-601
Operating costs	**-12,457**	**-16,131**

An amount of € 0.1 million (2016: € 0.2 million) relates to operating costs of fully vacant properties.

4. Revaluation of investment property

	2017			2016		
	Positive	Negative	Total	Positive	Negative	Total
Investment property in operation	67,288	-32,313	34,975	43,626	-96,486	-52,860
Investment property under construction					-200	-200
Assets held for sale	2,528	-9,159	-6,631		-1,742	-1,742
Revaluation - market value	**69,816**	**-41,472**	**28,344**	**43,626**	**-98,427**	**-54,802**
Movement in lease incentives			-16			-543
Revaluation of investment property			**28,329**			**-55,345**

For details about the valuations: see note 12.

5. Net result on sale of investment property

	2017	2016
Proceeds on sale of investment property	243,147	63,642
Transaction costs on sale of investment property	-2,524	-477
Sale of investment property	**240,623**	**63,165**
Book value at the time of sale	-234,559	-69,108
Net result on sale of investment property	**6,064**	**-5,943**

During 2017 the following assets were sold:
- 25 retail properties and
- 21 office properties.

During 2016 the following assets were sold:
- Virtually the entire industrial portfolio and several commercial premises (20 assets);
- 8 office properties; and
- 2 plots of land in Belgium

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

6. Administrative costs

The composition of the administrative costs was as follows:

		2017		2016
Salaries and wages	-6,389		-7,414	
Social security	-511		-774	
Pensions	-381		-566	
Other staff costs	-1,593		-1,589	
Staff costs		-8,874		-10,343
Compensation supervisory board		-249		-244
Office costs		-1,360		-1,273
Audit, consultancy and valuation costs		-1,345		-1,028
Other administrative costs		-1,704		-1,377
Administrative costs		**-13,532**		**-14,265**
Allocated administrative costs		**4,362**		**4,411**
Administrative costs		**-9,170**		**-9,854**

The administrative costs in 2017 included a number of one off costs totalling around € 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.

Administrative costs directly related to the operation of the investment property portfolio, are recharged to the operating costs.

Employees

On average 63 employees (58 FTE), including the Management Board, were employed by NSI during the reporting year (2016: 70 employees, 65 FTE).

7. Impairment of goodwill

	2017	2016*
Impairment of goodwill		-8,205
Impairment of goodwill		**-8,205**

* The comparative figures for 2016 have been adjusted, due to the representing of discontinued operations.

The impairment relates to goodwill, which is further explained in note 14.

8. Other income and costs

	2017	2016
Other income	5,686	
Other costs	-138	-3
Other income and costs	**5,548**	**-3**

In July 2017 the Amsterdam Court of Appeal ruled favourably on our long standing dispute with swisspartners. In September 2017 an agreement was reached and a cash payment of €5.7m was received by NSI as final settlement for this dispute.

9. Net financing result

	2017	2016
Interest income	12	24
Financing income	**12**	**24**
Interest costs	-13,618	-17,756
Exchange rate differences	-32	7
Other financing costs	-2,221	-2,261
Financing costs	**-15,871**	**-20,011**
Movement in market value of financial derivatives	**3,658**	**1,751**
Net financing result	**-12,201**	**-18,236**

10. Corporate income tax

Corporate income tax payable for the reporting period:

	2017	2016
Current tax	-91	54
Corporate income tax	**-91**	**54**

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). That 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. 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 are in the process of being liquidated.

		2017		2016
Result before tax - continuing operations	93,037		-23,380	
Result before tax - discontinued operations	-1,348		3,239	
Result before tax		91,689		-20,141
Tax at Dutch tax rate	25.00%	-22,922	25.00%	5,035
Exempt due to fiscal status		23,252		-5,410
Tax of subsidiaries under other tax regime		-420		429
Corporate income tax		**-91**		**54**

LTV and Dutch REIT status

A number of requirements must be met to achieve and maintain the status of a Dutch REIT (fiscale beleggingsinstelling or 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 2016 and 2017.

11. Discontinued operations

The results of the discontinued operations are included separately as a total amount in the consolidated statement of comprehensive income.

These consist of:

		2017		2016
Gross rental income		56		66
Service costs recharged to tenants	16		25	
Service costs	-35		15	
Service costs not recharged		-18		39
Operating costs		-22		-48
Net rental income		**15**		**57**
Revaluation of investment property		-970		16
Net result on sale of investment property		-326		1,513
Net result from investments		**-1,280**		**1,586**
Administrative costs		-77		-25
Result from participations				565
Other income and costs		9		1,050
Financing income	1		5	
Financing costs	-1		58	
Net financing result		0		63
Result before tax		**-1,348**		**3,239**
Corporate income tax		4		2,253
Result from discontinued operations after tax		**-1,344**		**5,493**
Total result from discontinued operations after tax attributable to:				
Shareholders		-1,344		5,493
Result from discontinued operations after tax		**-1,344**		**5,493**

	31 December 2017	31 December 2016
Assets held for sale		2,690
Liabilities directly associated with assets held for sale		1

	2017	2016
Cash flow from operating activities	-49	2,290
Cash flow from investment activities	1,394	53,048
Net cash flow	**1,345**	**55,338**

12. Investment property

The breakdown of investment property in operation and under construction was as follows:

	31 December 2017	31 December 2016
Investment property in operation	1,071,380	763,813
Investment property under construction	800	800
Investment property	**1,072,180**	**764,613**

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. The fair value of investment property reflects, among other things, rental income from existing lease contracts as well as assumptions with regard to rental income from future lease contracts based on market conditions. In a similar way, the fair value also reflects costs and investments which could be expected with regard to a specific property.

At 31 December 2017 100% (2016: 100%) of investment property were externally appraised by external appraisers. In 2017 the appraisers were Jones Lang LaSalle, 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 a.o. determined on the basis of a capitalisation method, whereby the net market rents are capitalised. 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	Significant 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 capitalization method consists of a net initial yield calculation, whereby the net market rent prices are capitalized by a yield percentage.	• 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.	• Rent-free periods and other lease incentives and periods of vacancy following expiration 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 creditworthiness of the tenant and the lease conditions.		

Sensitivity analysis

	Increase / decrease	Estimated impact on total investment result (€ '000)	Effect on direct investment result per share (€)	Effect on indirect investment result per share (€)
Occupancy rate	1%	893	0.05	
Interest rate risk*	1%	426	0.02	
Revaluation of investment property	1%	11,071		0.60

The fair value is the outcome of multiplying the net initial yield (expressed as a percentage) and the (theoretical) rent of the investment property. The total net initial yield at 31 December 2017 was 7.6% (2016: 8.4%). 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.

These yields ranged from 4.9% to 39.0% in the Netherlands (2016: 5.1% to 45.5%).

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

	2017	2016
Average effective contractual rent per sqm (in €):		
Offices	168	156
HNK	176	167
Other	169	136
Average market rent per sqm (in €):		
Offices	155	134
HNK	169	159
Other	145	122
Average theoretical gross yield (in %)	9.6%	10.6%
Average theoretical net yield (in %)	7.6%	8.5%

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 and letting costs.

Investment property in operation

The movement in each type of investment property were as follows:

	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

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2016	**580,652**	**122,419**	**424,712**	**1,127,783**
Acquisitions	60,725			60,725
Investments	4,490	8,968	6,971	20,428
Revaluation	2,541	-5,863	-50,081	-53,403
Transfer between segments	-29,146	29,146		
Transfer from / to assets held for sale	-5,935		-372,664	-378,599
Disposals	-6,520	-6,600		-13,120
Balance as per 31 December 2016	**606,806**	**148,069**	**8,938**	**763,813**
Lease incentives as per 31 December 2016	5,020	801		5,821
Market value as per 31 December 2016	611,826	148,870	8,938	769,634

Collateral
On 31 December 2017, properties with a book value of €205.2 million (2016: €314.3 million) were mortgaged as security for loans drawn and current account overdraft facilities at banks amounting to €69.2 million (2016: €129.8 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 7.6% (2016: 8.4%). Valuations can be affected by the general (macro-)economic and market environment, but also by local factors. If, on 31 December 2017, 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 15.2% (2016: 13.6%). In that case NSI's equity would be €169 million (2016: €157 million) higher due to a higher positive result. The loan-to-value would then decrease from 36.9% (2016: 44.1%) to 32.0% (2016: 38.8%). If, on 31 December 2017, 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 11.7%. In that case NSI's equity would be €129 million lower due to a lower result for the year. The loan-to-value would then increase from 36.9% to 41.7%.

Investment property under construction
The development of investment property under construction was as follows:

	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

	Offices	HNK	Other	TOTAL
Balance as per 1 January 2016	**1,000**			**1,000**
Revaluation	-200			-200
Balance as per 31 December 2016	**800**			**800**
Market value as per 31 December 2016	800			800

Investment property under construction include one land position at 31 December 2017. The value of the land position at Cosunpark in Breda, the Netherlands, was determined externally.

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

	2017	2016
Balance as per 1 January	**1,516**	**1,693**
Investments	76	37
Depreciation	-75	-167
Transfer to investment property	-715	
Disposals	-15	-47
Balance as per 31 December	**787**	**1,516**
Gross book value	1,035	1,949
Cumulative depreciation	-248	-433
Tangible fixed assets	**787**	**1,516**

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

14. Intangible fixed assets

Goodwill

	2017	2016
Balance as per 1 January		**8,205**
Impairment losses		-8,205
Balance as per 31 December		
Gross book value		8,205
Cumulative impairment		-8,205
Goodwill		

Goodwill was generated through the acquisition of an external real estate management organisation in 2007.

Impairment tests are performed annually on goodwill to assess whether the cash flow arising from the relevant cash-generating business unit is higher than the costs internally attributable to the costs that may be classified as external real estate management. Up to and including 2015 the impairment test on the cash-generating business unit was based on the level of the segment the Netherlands.

In line with the revised segments, as from 2016 the impairment test was performed at the level of the new segments, with goodwill as at that time being reallocated based on the value of the investment properties as at 1 January 2016. At the end of 2016 it was decided to fully write down goodwill, as it was determined that the cash flows were not sufficient to cover the allocated costs.

Software

	2017	2016
Balance as per 1 January	**193**	**202**
Investments	466	186
Amortisation	-87	-121
Disposals	-12	-74
Balance as per 31 December	**560**	**193**
Gross book value	996	542
Cumulative amortisation	-436	-349
Software	**560**	**193**

In 2017 investments were made in a data warehouse and in CRM systems. NSI decided to adapt the depreciation rates on capitalised software to the expected lifetime of the investments. As from 2017 capitalised software is depreciated in three years (until 2016: 5-10 years). The effect on the profit and loss account for 2017 was €0.01m negative.

15. Other non-current assets

	31 December 2017	31 December 2016
Lease incentives	6,134	5,821
Other non-current assets	**6,134**	**5,821**

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

16. Debtors and other accounts receivable

	31 December 2017	31 December 2016
Gross debtors	1,524	4,489
Provision for doubtful debts	-1,047	-2,887
Debtors	**477**	**1,602**
Tenant loans	90	173
Taxes	34	13
Prepayments and accrued income	249	508
Other current accounts receivable	979	32
Debtors and other accounts receivable	**1,829**	**2,330**

The Debtors balance position concerns receivables from tenants which are overdue and is reported after deduction of a provision for impairments.

Information about the Group's credit risks relating to debtors and other receivables, as well as impairment losses can be found in note 21.

17. Cash and cash equivalents

	31 December 2017	31 December 2016
Bank balances	6,827	2,065
Cash	0	1
Cash and cash equivalents	**6,827**	**2,066**

An amount of €0.05m (2016: € 1.33m) is not freely available under the cash and cash equivalents.

18. Assets held for sale

At the end of 2016 NSI decided to sell two assets, one in Belgium and one in the Netherlands. In addition, NSI has decided to sell the assets in its Retail portfolio. During 2017 the majority of the retail portfolio was sold for €203.3 million. Furthermore the two assets in Belgium and the Netherlands were sold in 2017.

At the end of 2017 the Management Board has assessed the status of the remaining retail properties and concluded that the criteria of IFRS 5 to extend the period for presenting the remaining portfolio as held for sale were not met. As a result, the remaining retail properties were transferred back to investment property at the end of 2017, excluding shopping centre Keizerslanden, which has been sold and will be delivered in the first half year of 2018. As per 31 December 2017 one industrial property has been sold and will be delivered in the first quarter of 2018.

See note 11 on discontinued operations for more information.

	31 December 2017	31 December 2016
Assets held for sale	28,791	389,367
Other assets directly associated with assets held for sale		556
Assets held for sale	**28,791**	**389,923**

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

2016	Offices	HNK	Other	TOTAL
Balance as per 1 January 2016	**4,310**		**64,538**	**68,848**
Investments			253	253
Revaluation			-1,725	-1,725
Transfer from / to investment property in operation	5,935		372,664	378,599
Disposals	-5,170		-51,438	-56,608
Balance as per 31 December 2016	**5,075**		**384,292**	**389,367**
Lease incentives as per 31 December 2016			556	556
Market value as per 31 December 2016	5,075		384,848	389,923

19. Equity attributable to shareholders

Issued share capital

Until 2016 the authorised share capital consisted of 216,453,385 ordinary shares with a nominal value of €0.46, of which 143,342,678 shares were placed and fully paid up on 31 December 2016. At that date 140,837 shares were held as treasury shares. Consequently, the issued share capital amounted to 143,201,841 shares (€ 65.9 million) on 31 December 2016.

During 2017 1,894,831 shares (including the 140,837 treasury shares) were issued as stock dividend, relating to the final dividend distribution for 2016. This resulted in 145,096,672 issued shares (€ 66.7 million). After the dividend pay-out a share consolidation was effected resulting in eight ordinary shares with a nominal value of €0.46 each being converted into one ordinary share with a nominal value of € 3.68. This resulted in 18,137,084 new ordinary shares of € 3.68.

In 2017 an interim stock dividend of 227,914 shares was distributed in August. After that date the number of issued and fully paid shares amounted to 18,364,998 (€ 67.6 million).

	2017	2016
Balance as per 1 January	**65,873**	**65,873**
Stock dividend - final distribution prior year	872	
Stock dividend - interim	839	
Balance as per 31 December	**67,583**	**65,873**

Number of shares issued:

	2017			2016		
	Ordinary shares	Treasury shares	TOTAL	Ordinary shares	Treasury shares	TOTAL
Balance as per 1 January	**143,201,841**	**140,837**	**143,342,678**	**143,201,841**	**140,837**	**143,342,678**
Stock dividend - final distribution prior year	1,894,831	-140,837	1,753,994			
Stock consolidation	-126,959,588		-126,959,588			
Stock dividend - interim	227,914		227,914			
Balance as per 31 December	**18,364,998**		**18,364,998**	**143,201,841**	**140,837**	**143,342,678**

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. All rights relating to treasury shares held by the Group were suspended until these shares were issued again in May 2017.

Share premium reserve

	2017	2016
Balance as per 1 January	**923,435**	**923,435**
Stock dividend - final distribution prior year	-877	
Stock dividend - interim	-844	
Balance as per 31 December	**921,715**	**923,435**

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.

Other reserves

	2017	2016
Balance as per 1 January	-367,220	-392,354
Profit appropriation	-17,833	63,794
Cash dividend - final distribution prior year	-12,355	-20,048
Cash dividend - interim	-10,804	-18,616
Disposal of participations		4
Balance as per 31 December	**-408,212**	**-367,220**

Dividend and earnings per share

The final dividend for 2017 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 20 April 2018. This proposal was not included as a liability in the balance sheet at 31 December 2017.

Number of shares	2017	2016*
Weighted average number of ordinary shares	18,133,178	17,900,230
Number of ordinary shares outstanding entitled to dividend on 31 December	18,364,998	17,900,230

* For comparison reasons, the number of shares are recalculated in line with the share consolidation.

	2017		2016	
Dividend	Per share	Total	Per share	Total
Interim dividend paid	1.04	18,863	1.04	18,616
Proposed final dividend	1.12	20,569	1.12	20,048
Total	**2.16**	**39,431**	**2.16**	**38,664**

* For comparison reasons, the originally published amounts of € 0.13 for the 2016 interim dividend and € 0.14 for the final dividend for the year 2016 were adjusted in line with the new share value after the share consolidation.

Earnings per share	2017	2016*
Result from continuing operations after tax	5.13	-1.30
Result from discontinued operations after tax	-0.07	0.31
Total result for the year	**5.05**	**-1.00**

The calculation of earnings per share at 31 December 2017 is based on the result attributable to ordinary shareholders of €91.6 million (2016: - €17.8 million) and a weighted average number of outstanding ordinary shares during 2017 of 18,133,178 (2016: 17,900,230 – adjusted for share consolidation).

The 2017 fiscal distribution requirement amounts to €28.1 million (2016: €24 million). 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's objective with regard to the management of its capital (as presented in the financial statements) is to secure the Group's continuity, to provide a return to shareholders, to add value for other stakeholders and to maintain a capital structure that optimises the total cost of capital. Furthermore, NSI monitors its fiscal capital to ensure that it is compliant with tax legislation and regulations. NSI has the option of adjusting the amount of dividend, returning capital to shareholders, issuing new shares or disposing of assets in order to maintain or adjust the company's capital structure. Management monitors the total shareholders return, which is defined by NSI as the direct investment result and the indirect investment result divided by equity. Management also monitors the level of dividend to be paid to ordinary shareholders.

20. Interest bearing loans

The development of the loans in the reporting period was as follows:

	2017	2016
Balance as per 1 January	**510,904**	**564,618**
Drawn interest bearing loans	99,000	232,000
Amortisation transaction costs	1,054	-33
Adjustments to market value		-174
Repayment of interest bearing loans	-205,550	-285,507
Balance as per 31 December	**405,408**	**510,904**
Redemption requirement interest bearing loans	700	500
Balance as per 31 December	**404,708**	**510,404**

The remaining debt on the loans after five years, based on the current loan portfolio and not taking refinancing into account, is €61.9 million (2016: €123.9 million).

The remaining maturities of the loans were as follows:

	31 December 2017	31 December 2016
Up to 1 year	700	500
From 1 to 2 years	59,365	500
From 2 to 5 years	279,947	383,458
From 5 to 10 years	65,396	126,446
Total	**405,408**	**510,904**

All loans do have variable interest rates. The average interest rate (excluding interest rate swaps) is 1.9% (2016: 2.0%).

	31 December 2017			31 December 2016		
	Secured loans	Unsecured loans	Total	Secured loans	Unsecured loans	Total
Interest bearing loans - nominal value	69,200	338,000	407,200	129,750	384,000	513,750
Amortised costs	-304	-1,489	-1,792	-804	-2,042	-2,846
Interest bearing loans	**68,896**	**336,511**	**405,408**	**128,946**	**381,958**	**510,904**

In 2018 €0.7 million (2017: €0.5 million) of financing will expire. The amount is the amortisation requirement of one of the loans due and will be covered by retained cash or the available financing facilities.
Loans outstanding have a remaining average maturity of 3.1 years (2016: 4.2 years) The weighted average annual interest rate on the loans and interest-rate swaps at the end of 2017 was 2.3%. These include margin, utilisation fees and amortised costs and exclude commitment fees (end-2016: 2.8%).

In the 2017 financial year no financing costs were capitalised (2016: €0.9 million). The financing costs are recognised in the profit and loss account on a straight-line basis over the term of the financing. As security for loans (up to €69.2 million), mortgages were pledged against investment property valued at €205.2 million (2016: €314.3 million), in some cases combined with pledges on rental income and maximum LTV requirements.

On 31 December 2017 the company's undrawn committed credit facilities totalled €147 million (2016: €121 million).

The fair value of the loans on 31 December 2017 was €414.5 million (2016: €510.9 million).

21. Financial instruments- fair values and financial risk management

Recognition categories and fair values

The table below 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

The table below shows the financial assets and financial liabilities at fair value. These 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; and
Level 3: valuation of assets or liabilities based wholly or partially on (external) unobservable information.

Level 2 applies to all derivative 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 2017			31 December 2016		
		Fair value level	Amortised cost price	Fair value	Fair value level	Amortised cost price	Fair value
Financial assets valued at fair value through profit or loss							
Derivative financial instruments		2		1,162			
Financial assets valued at amortised cost price							
Debtors and other accounts receivable	16	2	1,829		2	2,330	
Cash and cash equivalents	17	1	6,827		1	2,066	
Financial liabilities valued at fair value through profit or loss							
Derivative financial instruments		2		1,712	2		15,297
Financial liabilities valued at amortised cost price							
Interest bearing loans	20	2	405,408		2	510,904	
Other non-current liabilities	22	2	3,540		2	2,276	
Creditors and other accounts payable	23	2	24,855		2	27,655	
Debts to credit institutions	24	2	9,873		2	3,429	
Liabilities associated to assets held for sale		2	195		2	2,646	

Fair value of financial instruments

The categories of financial instruments are: A. assets and liabilities at fair value with value changes through profit and loss, B. loans and receivables, C. financial assets held for sale, D. cash and cash equivalents and E. financial liabilities. The book value of the financial instruments in the balance sheet and the fair values are as follows:

	Note	Category IAS 39	31 December 2017		31 December 2016	
			Book value	Fair value	Book value	Fair value
Derivative financial instruments		A	1,162	1,162		
Debtors and other accounts receivable	16	B	1,829	1,829	2,330	2,330
Cash	17	D	6,827	6,827	2,066	2,066
Financial assets			**9,818**	**9,818**	**4,396**	**4,396**
Interest bearing loans	20	E	405,408	414,492	510,904	510,904
Derivative financial instruments		A	1,712	1,712	15,297	15,297
Other non-current liabilities	22	E	3,540	3,540	2,276	2,276
Creditors and other accounts payable	23	E	24,855	24,855	27,655	27,655
Debts to credit institutions	24	E	9,873	9,873	3,429	3,429
Liabilities associated to assets held for sale		E	195	195	2,646	2,646
Financial liabilities			**445,582**	**454,667**	**562,207**	**562,207**

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

	31 December 2017				31 December 2016			
	# contracts	Nominal value	Fair value assets	Fair value liabilities	# contracts	Nominal value	Fair value assets	Fair value liabilities
From 1 to 5 years	15	265,000	128	1,712	15	265,000		2,905
From 5 to 10 years	5	50,000	1,034		8	129,300		12,392
Derivative financial instruments	**20**	**315,000**	**1,162**	**1,712**	**23**	**394,300**		**15,297**

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 0.49% (2016: 1.84% to 2.77%) and with maturity dates between 2019 and 2023 (2016: between 2019 and 2023).

The weighted average remaining maturity of the derivatives is 3.0 years (2016: 4.3 years). NSI is hedged at a weighted average interest rate of 0.3% (2016: 0.7%), excluding margin 23% of the current loans (2016: 23%) are subject to variable interest rates and are therefore not hedged.

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 €147.0 million (2016: €121 million). The interest and repayment obligations were safeguarded for 2018 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 long-term debt is 3.1 years (2016: 4.2 years).

At year-end 2017 NSI had €40 million of current account committed credit facilities with banks at its disposal, of which €9.9 million was drawn. The undrawn committed credit facilities of the interest-bearing loans and current account credit facilities amounted to € 137.1 million at 31 December 2017. Furthermore, cash and cash equivalents amounted to €6.8 million at 31 December 2017. This brings the total of unused credit facilities and cash and cash equivalents to €140.9 million at 31 December 2017.

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

2017	Book value	Contractual cash flow					
		Total	< 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years
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 accounts payable	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**	

2016	Book value	Contractual cash flow					
		Total	< 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years
Loans	510,904	553,510	4,972	4,972	9,944	404,483	129,139
Other non-current liabilities	2,276	2,276	498	155	590	758	274
Creditors and other accounts payable	27,655	27,655	27,655				
Debts to credit institutions	3,429	3,429	3,429				
Liabilities associated to assets held for sale	2,646	2,646	2,646				
Non-derivative financial liabilities	**546,910**	**589,516**	**39,201**	**5,127**	**10,533**	**405,241**	**129,413**
Hedging intrest rate swaps	15,297	19,265	1,995	1,995	3,990	10,188	1,097
Derivatives	**15,297**	**608,781**	**41,196**	**7,122**	**14,523**	**415,429**	**130,511**

The gross inflow/(outflow) reflected in the table above 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.

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

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 three 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 2017 the interest coverage ratio was 4.7 (end-2016: 3.8), which is higher than the level of 2.0 agreed with the banks. At the end of 2017 the Loan-to-Value was 36.9% (end-2016: 44.1%), which means that NSI is in compliance with all the covenants of the outstanding loan agreements.

NSI has two covenants relating to Loan-to-Value (LTV):
1. 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%; and
2. 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	
	2017	2016	2017	2016
NSI - group-level	36.9%	44.1%	Yes	Yes

In 2017 NSI and its subsidiaries complied with the LTV requirements agreed with banks on both an individual and consolidated level.

Interest coverage ratio
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 interest costs. The financing covenants stipulate that the interest coverage ratio may not fall below 2.0.

NSI has two covenants relating to the interest coverage ratio (ICR):
1. The interest coverage ratio for independently financed NSI subsidiaries must be at least 2.00; and
2. The interest coverage ratio for NSI's entire portfolio must be at least 2.00.

The table below shows the interest coverage ratio:

	ICR multiple		Individual ICR's are compliant	
	2017	2016	2017	2016
NSI - group-level	4.7 x	3.8 x	Yes	Yes

In 2017 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 2017 this was 60.7% (2016: 53.1%) 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.

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.

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 interest 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 three 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 2017 the interest coverage ratio was 4.7 (end-2016: 3.8), which is higher than the level of 2.0 agreed with the banks. At the end of 2017 the Loan-to-Value was 36.9% (end-2016: 44.1%), which means that NSI is in compliance 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 2017 NSI held financial derivatives with a nominal value of € 315.0 million (2016: €394.3 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 1% compared to 31 December 2017, the interest expenses for 2017 would decrease by €0.4 million, due to the effect of interest rate swaps based on 3-months Euribor with no floor against loans with a Euribor floor of zero (2016: increase of interest expenses of €1.2 million), assuming no changes to the portfolio or financing (including margins). In case the variable interest rate would be 1% lower, the interest expenses would 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 rate and interest rate revisions
The table below shows the effective interest rate (the variable interest rate is based on Euribor on 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.

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**	**0**	**59,365**	**279,947**	**65,396**

2016	Effective interest	Total	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Variable interest loans	2.0%	116,604	500	500	115,154	450
Fixed interest as a result of swaps	3.0%	394,300			265,000	129,300
Total	**2.8%**	**510,904**	**500**	**500**	**380,154**	**129,750**
Redemption obligations		500	500			
Balance as per 31 December 2016		**510,404**	**0**	**500**	**380,154**	**129,750**

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 2017	31 December 2016
Derivative financial instruments	1,162	
Debtors and other accounts receivable	1,829	2,330
Cash and cash equivalents	6,827	2,066
Credit risk	**9,818**	**4,396**

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 A (Moody's) or A1 (Standard & Poor's). Management actively monitors the credit ratings.

Tenants

The creditworthiness of tenants is closely monitored by careful screening the creditworthiness 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 2017	31 December 2016
Up to 1 month expired	136	769
From 1 to 3 months expired	53	282
From 3 months to 1 year expired	497	571
More than 1 year expired	839	2,866
Gross debtors	**1,524**	**4,489**

Aside from bank guarantees, the guarantee deposits for €3.5 million (2016: €3.0 million) were obtained to cover for potential loss of credit worthiness 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:

	2017	2016
Balance as per 1 January	**2,887**	**3,083**
Addition to provision	136	380
Write-off bad debts	-1,976	-576
Balance as per 31 December	**1,047**	**2,887**

Impairment losses recognised at 31 December 2017 were related to various tenants who indicated that they would not be able to pay outstanding balances due to the economic circumstances. The impairment amounts are calculated on the basis of historical payment behaviours or extensive assessment of the underlying creditworthiness of the tenants. NSI believes that amounts more than one month overdue that have not been impaired are still collectable.

22. Other non-curent liabilities

	31 December 2017	31 December 2016
Security deposits	3,540	2,276
Other non-current accounts payable	**3,540**	**2,276**

23. Creditors and other payables

		31 December 2017		31 December 2016
Creditors		3,668		3,708
Taxes		1,934		2,861
Interest		1,095		1,371
Deferred income	10,010		15,414	
Accruals	7,661		2,045	
Deferred income and accruals		17,671		17,460
Other current accounts payable		487		2,255
Creditors and other accounts payable		**24,855**		**27,655**

The average term of the leases relating to the deposits included in this overview is 3.4 years (2016: 3.1 years).

24. Debt 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 IAS 39. The weighted average interest on available credit facilities as per year-end 2017 was 1.5% (2016: 1.6%) per annum including margin.

	31 December 2017	31 December 2016
Credit facilities	40,000	40,000
Unused	30,127	36,571
Debts to credit institutions	**9,873**	**3,429**

25. Off-balance sheet liabilities

In September 2015 the Dutch municipality of Deventer and NSI agreed on a plan to redevelop and expand the Keizerslanden shopping centre in Deventer. The shopping centre will be renovated and a surface area of approximately 4,000 sqm of floor space will be added. Preliminary work commenced in early 2016 and construction work started by mid-2016 and is expected to be completed in mid-year 2018. The plan is being implemented in stages. The total investment is €11.0 million, of which €2.7 million has yet to be invested. Keizerslanden was sold in April 2017, as part of a multiple retail asset transaction. It has been agreed that NSI will complete the redevelopment project, after which date the shopping centre will be delivered to the buyer. NSI has been granted permission for this transaction from the tax authorities, meaning that NSI still complies with the Dutch FBI regulations.

Next to Keizerslanden, the company has entered into investment commitments for an amount of €5.3 million (2016: €0.5 million) relating to investment properties under construction. The obligations relating to lease cars amount to €0.4 million (2016: €0.6 million). The company has annual obligations from land leases of €0.2m (2016: €0.2m). These land lease obligations will expire between 2036 and 2075. The company has entered into other contractual obligations for maintenance, IT providers, etc. for an amount of €6.7 million (2016: € 12.2 million). The company has unused credit facilities amounting to €147 million (2016: €121 million).

Shopping centre ’t Loon Heerlen

In early December 2011 the soil subsided under shopping centre ‘t Loon in the Dutch city of 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 on 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 because the tenants of the demolished part of the shopping centre no longer paid rent. The parties liable for the damage suffered by NSI include the municipality of Heerlen, the insurance companies acting on behalf of the owners’ association of shopping centre ‘t Loon (“VvE”) and NSI, and the former mining company. Both NSI and VvE have initiated proceedings at the District Court of Rotterdam against the insurance companies in 2015. On 24 April 2017 an appearance in the District Court took place, followed by a further exchange of opinions in court in the summer of 2017. An interlocutory judgement on the cover defence is scheduled to be rendered on 18 March 2018.

On 20 January 2016 the insurance company of one of the tenants held a number of parties, including NSI, liable for the loss of revenue covered by the insurance company, representing a principal sum of €1.6 million, and summoned them on 21 July 2016. The liability insurer of NSI defends NSI in this legal procedure. On 15 February 2016 NSI referred this claim to its insurance company. NSI has filed its statement of defence on 26 October 2016. An appearance of the parties has taken place in May 2017. On 19 July 2017 the District Court has rejected the claims from the insurance company of the tenant. In October 2017 this insurance company appealed the District Courts' judgement. The Court of Appeal is yet to set a date on which the insurance company of one of the tenants has to issue its statement of grievances.

26. 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 2017	31 December 2016
ICAMAP Investments SARL	5.0%	5.0%
BlackRock, Inc.	4.7%	5.1%
Phoenix Insurance Company Ltd.	3.7%	3.7%
Axa Investment Managers S.A.	3.0%	
Norges Bank	3.0%	3.0%
BNP Paribas Investment Partners SA		4.6%
Cohen & Steers Capital Management, Inc.		4.6%

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 2017

	2017	2016
Henk Breukink (chairman up to 21 April 2017)	16	53
Luurt van der Ploeg (chairman as from 21 April 2017)	51	41
Henk Jan van den Bosch (up to 29 April 2016)		28
Gerard de Greef (up to 29 April 2016)		12
Margreet Haandrikman (as from 21 July 2017)	17	
Karin Koks - Van der Sluijs	40	25
Harm Meijer	45	25
Nico Tates	41	41
Remuneration of the Supervisory Board	**210**	**225**

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 2017 (2016: 0), except for Mrs Koks-van der Sluijs who holds 152 shares (2016: 143.6 shares adjusted for share consolidation).

Remuneration of the Management Board 2017

2017	Salary	Variable	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 of the Management Board	**909**	**310**	**305**	**27**	**49**	**13**	**1,613**	**13,664**

Remuneration of the Management Board 2016

2016	Salary	Variable	Severance payment	Social security	Pension	Other	Total	Equity holding # shares
Johan Buijs	466	175	466	66	72		1,245	8,678
Bernd Stahli	139			3	13		155	12,500
Daniël van Dongen	310	146		31	40		527	1,995
Anne de Jong	291	134		30	12		466	
Remuneration of the Management Board	**1,205**	**454**	**466**	**130**	**137**		**2,393**	**23,173**

At the Extraordinary General Meeting of Shareholders (EGM) on 21 July 2017 Alianne de Jong was appointed as CFO as from 15 September 2017.

Daniel van Dongen, CFO until 21 April 2017 and thereafter active in an advisory role until 30 June 2017, received a fixed salary of €153 thousand for his employment in 2017. In addition, Mr. Van Dongen received a severance payment equivalent to (the fixed component of) one year's salary, in line with the provisions of his management agreement. The amount paid is equal to the maximum referred to in best practice provision 3.2.3 of the Dutch Corporate Governance Code. Furthermore, Mr. Van Dongen became entitled to an amount of € 175 thousand relating to the settlement of his long-term share plan (LTSP). This amount will be paid out ultimately in June 2018 in consultation with Mr. Van Dongen.

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 and CIO is 90%.

80% of the remuneration under the LTSP 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.

20% of the LTSP reward 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 the CFO commenced on 1 January 2018 and expires on 31 December 2020.

The current LTSP period of the CIO commenced on 1 May 2015 and expired on 31 December 2017. The current LTSP period for the CIO commenced on 1 May 2015 and expired on 31 December 2017. During this period the NSI share outperformed the Total Shareholder Return of the peers included in the benchmark by 21%. As a result, the quantitative portion of the LTSP resulted in the maximum payment (of €184.800), which is 72% of the average annual salary of the CIO over the Term of the LTSP. The qualitative portion of the LTSP is related to the achievement of personal goals of the Management Board and can for the CIO result in a maximum of 18% of the average annual salary of the CIO over the Term of the LTSP. For the past three years period 2015-2017, the Supervisory Board has set this target achievement for the CIO at 90,6%, resulting in a payment of € 41.869, which is 16,3 % of the average annual salary of the CIO over the Term of the LTSP.
Payment of the remuneration pursuant to the LTSP shall be in cash and take place following the general meeting of 20 April 2018. The CIO is obliged to purchase NSI shares amounting to 2/3 of the net amount to be paid. These shares will be subject to a three-year lock-up period. The LTSP for the CIO will be extended within the framework of the current remuneration policy for a new three-year period up to 2020.

The amount reserved for the LTSP for the 2017 financial year was €310 thousand (no payments relating to the period 2012-2015 were made in 2017). €82 thousand relates to a liability in connection with the termination of the LTSP contract of Daniel van Dongen and €228 thousand relates to a reservation in connection with the LTSP contracts of Bernd Stahli and Anne de Jong.

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.

27. Cost ratio (previously expense 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 2017 this ratio is was 4.8% (2016: 4.9%). 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

	Note	31 December 2017	31 December 2016
Assets			
Financial fixed assets	1	1,092,844	1,130,938
Derivative financial instruments		1,162	
Tangible fixed assets		87	41
Intangible fixed assets		560	193
Non-current assets		**1,094,653**	**1,131,171**
Debtors and other accounts receivable		170	136
Cash and cash equivalents		249	676
Current assets		**419**	**812**
Total assets		**1,095,071**	**1,131,983**
Shareholders' equity			
Issued share capital	2	67,583	65,873
Share premium reserve	2	921,715	923,435
Participations reserve	2	96,624	61,300
Translation reserve	2	0	0
Retained earnings	2	-504,837	-428,521
Total result for the year	2	91,602	-17,833
Shareholders' equity		**672,688**	**604,255**
Liabilities			
Interest bearing loans		404,708	510,404
Derivative financial instruments		1,712	9,941
Non-current liabilities		406,419	520,344
Redemption requirement interest bearing loans		700	500
Creditors and other accounts payable		5,392	6,738
Debts to credit institutions		9,873	146
Current liabilities		15,965	7,384
Total liabilities		**422,384**	**527,728**
Total shareholders' equity and liabilities		**1,095,071**	**1,131,983**

The notes on page 109-112, form an integral part of these company financial statements

COMPANY INCOME STATEMENT

for the year ended 31 December	Note		2017		2016
Administrative costs	3		-7,390		-5,238
Other income and costs			-110		
Financing income	4	1		0	
Financing costs	4	-15,306		-18,410	
Movement in market value of financial derivatives	4	3,097		1,326	
Net financing result			-12,209		-17,084
Corporate result before tax			**-19,709**		**-22,322**
Corporate result after tax			**-19,709**		**-22,322**
Result from participations			111,310		4,489
Total result for the year			**91,602**		**-17,833**

The notes on page 109-112 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 or 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 73 to 82. If required notes have been incorporated in the consolidated financial statements these notes have not been incorporated here.

Financial fixed assets

Investments 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

	2017	2016
Balance as per 1 January	**1,130,938**	**1,248,637**
Result from participations	111,310	4,489
Dividend received from group companies	15,478	-12,542
Changes in receivables from group companies	-164,883	-109,646
Balance as per 31 December	**1,092,844**	**1,130,938**

2. Equity

The movements in shareholders' equity in the financial year under review were as follows:

	Issued share capital	Share premium reserve	(Statutory) participations reserve	(Statutory) translation reserve	Retained earnings	Result for the year	Shareholders' 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
Exchange rate differences				0			0
Total comprehensive income				**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**

The movements in shareholders' equity in the previous financial year under review were as follows:

	Issued share capital	Share premium reserve	(Statutory) participations reserve	(Statutory) translation reserve	Retained earnings	Result for the year	Shareholders' equity
Balance as per 1 January 2016	**65,873**	**923,435**	**48,588**	**-3**	**-440,939**	**63,794**	**660,748**
Total result for the year						-17,833	-17,833
Exchange rate differences				4			4
Total comprehensive income				**4**		**-17,833**	**-17,829**
Profit appropriation - 2015					63,794	-63,794	
Distribution final dividend - 2015					-20,048		-20,048
Interim dividend - 2016					-18,616		-18,616
Realised revaluation			-161		161		
Addition to participations reserve			12,873		-12,873		
Contributions from and to shareholders			**12,712**		**12,418**	**-63,794**	**-38,664**
Balance as per 31 December 2016	**65,873**	**923,435**	**61,300**	**0**	**-428,521**	**-17,833**	**604,255**

Both the earnings reserve 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 20 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.

Participation reserve (statutory)

The revaluation 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 revaluation reserve was determined at individual property level in 2016 and 2017, before appropriation of profits.

Reserve for foreign currency translation (statutory)

The 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 (2016: €1.04; adjusted for stock consolidation), a final dividend of €1.12 per share has been proposed (2016: (adjusted) €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 2017 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 2017 at €2.16 per share, of which €1.04 per share was already distributed as an interim dividend in August 2017. 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 (18,364,988), the total amount of the final dividend is €20.6 million and will be withdrawn from the earnings reserve.
Provided that the General Meeting of Shareholders approves this dividend proposal, the final dividend will be made payable from14 May 2018.

The development of the proposed profit appropriation is as follows:

	2017
Total result for the year - 2017	91,602
Proposed final dividend - 2017	-20,569
On balance added to the reserves	**71,033**

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

		2017		2016
Salaries and wages	-3,894		-4,740	
Social security	-229		-413	
Pensions	-211		-556	
Other staff costs	-866		-1,140	
Staff costs		-5,200		-6,848
Compensation supervisory board		-249		-244
Office costs		-1,259		-1,039
Audit, consultancy and valuation costs		-858		-936
Other administrative costs		-1,410		-582
Administrative costs		**-8,976**		**-9,649**
Allocated administrative costs		**1,586**		**4,411**
Administrative costs		**-7,390**		**-5,238**

4. Net financing result

	2017	2016
Interest income	1	0
Financing income	**1**	**0**
Interest costs	-13,093	-16,162
Other financing costs	-2,213	-2,249
Financing costs	**-15,306**	**-18,410**
Movement in market value of financial derivatives	**3,097**	**1,326**
Net financing result	**-12,209**	**-17,084**

5. Liabilities not appearing in the balance sheet

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:

	2017	2016
Audit financial statements	-193	-125
Audit fees	**-193**	**-125**

7. Events after balance sheet date

In 2018 NSI sold 2 offices (in Apeldoorn and Amersfoort) for a total amount of €3.1 million.

On 30 January 2018 NSI N.V. has agreed to issue €40 million of 8-year unsecured notes to Pricoa Capital Group, part of the global investment business of Prudential Financial Inc. The Euro denominated notes have a fixed coupon reflecting an implied investment grade credit rating.

Hoofddorp, 9 March 2018

The Management Board
Bernd Stahli, CEO
Alianne de Jong, CFO
Anne de Jong, CIO

The Supervisory Board
Luurt van der Ploeg, Chairman
Nico Tates, Vice Chairman
Harm Meijer
Karin Koks-Van der Sluijs
Margreet Haandrikman

OTHER DATA

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.

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).

Appraiser	# assets	% of # assets	% total value	# retail assets	% retail value	% retail value
C&W	45	36%	21%	10		79%
CBRE	41	33%	34%	2		9%
JLL	40	32%	45%	4		12%

A fixed fee per asset is paid and is similar for each asset and each appraiser with the exception of HNK assets for which a slightly higher fee is paid. A detailed report, dated and signed, is produced for each asset.

Top 10 tenants

Tenant	# lease contracts	% of total contracted rent
1. Rijksvastgoedbedrijf (RVB)	6	8.0%
2. Spaces	3	7.9%
3. KPN	7	5.6%
4. Janssen Vaccines & Prevention B.V.	2	3.6%
5. ING Bank N.V.	5	3.1%
6. Ahold Vastgoed	14	2.6%
7. UWV	3	1.6%
8. Staples International Group Services B.V.	1	1.5%
9. Primark Netherlands B.V.	1	1.1%
10. SDL Netherlands B.V.	1	0.9%
Total	**43**	**35.9%**

Top 25 properties

Property name	City	GLA	Sector	Year of construction /major refurb	Year of acquisition	Form of ownership
The Glasshouse	Amsterdam	22,983	Offices	2009	2016	Leasehold
Vitrum	Amsterdam	11,684	Offices	2007	2017	Leasehold
Vivaldi Offices I	Amsterdam	9,592	Offices	2009	2015	Leasehold
Vivaldi Offices II	Amsterdam	8,687	Offices	2009	2015	Leasehold
Laanderpoort I & II	Amsterdam	13,203	Offices	2013	2017	Leasehold
HNK Scheepvaartkwartier	Rotterdam	21,554	HNK	1975	2008	Freehold
HNK Houthavens	Amsterdam	10,617	HNK	1912	1999	Leasehold
Zuiderterras	Rotterdam	11,331	Retail	1995	2011	Leasehold
Centerpoint I	Amsterdam	9,012	Offices	2007	2015	Leasehold
De Rode Olifant	Den Haag	10,113	Offices	1924	2007	Freehold
HNK Utrecht Centraal Station	Utrecht	8,882	HNK	1995	2006	Freehold
Uniceflaan	Utrecht	12,083	Offices	1989	2017	Leasehold
w.c. Keizerslanden	Deventer	8,004	Retail	1965	1996	Freehold
Het Binnenhof	Den Bosch	10,453	Offices	2004	2015	Freehold
w.c. Zuidplein	Rotterdam	7,891	Retail	2001	2011	Freehold
Newtonweg	Leiden	9,418	Offices	1992	2015	Freehold
Archimedesweg 6	Leiden	7,239	Offices	2000	2017	Leasehold
Centerpoint II	Amsterdam	6,291	Offices	2009	2015	Leasehold
w.c. Jorishof	Ridderkerk	7,871	Retail	1992	2001	Freehold
HNK Den Haag	Den Haag	14,243	HNK	2002	2008	Freehold
w.c. 't Loon	Heerlen	22,435	Retail	2003	2002	Freehold
Sterpassage	Rijswijk	10,544	Retail	1994	2010	Freehold
Alexanderpoort	Rotterdam	9,406	Offices	2010	2015	Freehold
Veerkade	Rotterdam	5,660	Offices	1915	2000	Freehold
Kennedyplein	Eindhoven	6,643	Offices	2000	2017	Freehold

INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements 2017

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 2017 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; and
- NSI N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 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 2017 of NSI N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of NSI N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

- The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated statement of comprehensive income, the consolidated statement of movements in shareholders' equity and the consolidated cash flow statement; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company income statement for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been 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. Our responsibilities under those standards are further described 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 that is held to generate rental income or increase value, or a combination of both. The group is 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.

The financial year 2017 was characterised by the sale of a large part of the retail portfolio and the acquisition of new office properties. This resulted in a decrease of gross rental income. As not all properties of the retail portfolio were sold in 2017, the management board assessed the criteria of IFRS 5 and concluded the remaining properties did not meet the requirements to account for the properties as assets held for sale. As a result the presentation of discontinued operations was ended, and the comparative figures in the consolidated statement of comprehensive income, cash flow statement and the related notes are re-presented to continuing operations. We identified the accounting of discontinued operations as a key audit matter because interpretation of IFRS 5 is not straight forward in this regards and re-presentation of the 2016 figures and the presentation of the 2017 figures have a significant impact on the presentation in the financial statements.

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 76 of the financial statements the company describes the areas of judgment 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 to be a key audit matter. The key audit matters are set out in the section 'Key audit matters' of this report.

Other areas of focus, that were not considered to be key audit matters, were the purchases and sales of investment properties, the accurate and complete accounting of rental income and the compliance with the requirements of the 'Fiscale Beleggingsinstelling' ('FBI').

As in all of our audits, we also 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.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a real estate company. We have therefore included IT specialists and experts in the areas of valuation of derivatives and valuation of real estate.

The outline of our audit approach was as follows:

Materiality

- Overall materiality €2.400.000

Audit scope

- We conducted audit work centrally from one location, given the fact that the group audit team was able to conduct all audit procedures from the perspective of the consolidated financial statements from this location.

Key audit matters

- Valuation of investment property
- Accounting of discontinued operations

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 judgment, 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	Overall materiality €2.400.000
Basis for determining materiality	5% of the profit before tax of continuing operations, adjusted for the result on the sale of investment properties, unrealised changes in the fair value of investment properties and derivatives and the other income and cost, which consists mainly of an one-off litigation result. The increase of the overall group materiality is mainly the result of the re-presentation of the discontinued operations to continuing operations in 2017 compared to 2016.
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 (2016: €50.000) 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 were 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.

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 that were 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.

The key audit matters were addressed 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 make on the results of our procedures should be read in this context.

As the full goodwill position had been impaired in prior year, this topic did not qualify as a key audit matter in 2017. With regards to discontinued operations, we have changed the content of the key audit matter compared to prior year. Last year the matter reflected the presentation as discontinued operations for the retail segment. In the current year, the matter relates to the reversal of the presentation of discontinued operations due to new facts and circumstances.

Key audit matter	How our audit addressed the matter
Valuation of investment property *See note 12 to the financial statements* The Group's investment property portfolio is comprised of office and retail properties. At 31 December 2017 the carrying value of the Group's investment property portfolio was €1.101 million of which €29 million is presented as assets held for sale (2016: €1.155 million, resp. €390 million). Investment properties are valued at fair value at reporting date using either the income capitalisation approach or the discounted cash flow approach. The value of investment properties is dependent on the valuation methodology adopted and the inputs, such as lease contract data and property specific characteristics, into the valuation model. Amongst others, the assumptions that are key in establishing fair value are the capitalisation rate, the adopted discount rate and the market rent levels. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property are incorporated in the assumptions. At the end of each reporting period, the Group determines the fair value of its investment property portfolio in accordance with the Group's valuation policy. This policy requires all properties to be externally valued by an external valuation expert at least twice every 12 months. 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 judgmental nature of investment property valuations due to the use of assumptions in the valuation methodology; • not all properties which were classified as assets held for sale as per 31 December 2016 were sold during 2017 (refer to next Key audit matter); • sensitivity of valuation to key input assumptions, specifically the capitalisation rate, the adopted discount rate and the market rent levels.	For the external valuation experts appointed by the management board we have assessed the competence, capabilities and objectivity by, amongst others: • assessing the engagement letter for the external valuation experts; • validating the registration of the qualification of the external valuation experts; • validating 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 Group. We considered the valuation reports prepared by the external valuation experts to be appropriate to use as part of our audit evidence. Furthermore, we have: • validated that internal controls established by the management board on the valuation process are operational effective; • reconciled the final valuation reports with the fair value in the Group's accounting records; • validated 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; • assessed that the valuation method as applied by the external valuation experts is appropriate; and • evaluated the reasonableness of the estimate 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 assumptions used (including the capitalisation rate, the adopted discount rate and the market rent levels) against available market data and found the assumptions to be within an acceptable range. We have involved our internal real estate valuation experts in these assessments. Finally, we verified that the explanatory note in the financial statements is in accordance with the applicable financial reporting standards.
Accounting of discontinued operations *See pages 76 to 79 and notes 1 -4, 11 and 18 to the financial statements* In December 2016, the management board initiated a change in strategy, with a view to sell the retail portfolio. The sales process was in such state that the retail properties were, in accordance with IFRS 5, classified as assets held for sale as per 31 December 2016, and the results from the retail portfolio for 2016 and 2015 were presented as results from discontinued operations. Where in 2017 out of €389 million of the retail portfolio €161 million was not sold, the management board re-assessed the criteria of IFRS 5. It concluded that the remaining unsold properties did not meet the criteria to account for these assets as assets held for sale. As a consequence, the management board concluded that the remaining retail portfolio no longer qualified as discontinued operations.	We have obtained the latest independent property market reports to understand the prevailing market conditions in the retail real estate market. We have compared the position of the management board with the information in these reports and discussed these changed circumstances with our internal valuation experts. We have also learnt the new insights from the management board as a result of the sale process, which might cause a delay in the sale after a 12 month period as required by IFRS 5. We therefore agree with the management board's assessment to no longer present the remaining retail portfolio as assets held for sale. As the assets of the retail portfolio, being a 'major line of business', was only partially sold in 2017, we agree with the management board to represent the comparative financial information of 2016 for the whole retail portfolio as part of continuing operations. This relates to the statement of comprehensive income, the cash flow statement and the related disclosure notes.

Key audit matter	How our audit addressed the matter
As the relevant assets cease to classify as held for sale they are presented as investment property as per 31 December 2017. Consequently, the retail portfolio no longer classifies as a discontinued operation. The results and cash flows from these operations are presented as part of the continuing operations in the consolidated statement of comprehensive income in 2017 and the cash flow statement. The 2016 comparatives are also represented, consistent with the 2017 presentation in the consolidated statement of comprehensive income and cash flow statement. We focused on this matter because of the: • the change in the judgment of the management board on the likelihood of selling the remaining retail portfolio; • IFRS 5 does not provide details where the assets of the retail portfolio, being a major line of business and identified as a discontinued operations is only partially sold; and • re-presentation of the segment 'Retail' (in 2017 financial statements classified in segmentation under 'Other') from discontinued operations to continuing operations in the statements of comprehensive income and cash flows and the related disclosure notes is of significance to the financial statements.	We verified the accuracy of the reclassification of assets held for sale to investment property, and re-presentation of the discontinued operations to continuing operations, by reconciling the split in discontinued operations in the comparative figures in the statements of comprehensive income and cash flows and the related disclosure notes to the various financial statement line items to the audit work of prior year. We also have tested the mathematical accuracy of the representation. We noted no material findings.

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:

- Key figures, NSI at a glance, CEO comments, Strategy, Developments & transformations, Income, costs and results, Netherlands property market overview, Real estate portfolio, Balance sheet, NAV & Financing, Risk management and Internal control, Environmental, Social and governance performance, Corporate governance, Details of the Board of Management and Report of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- NSI share, Glossary and EPRA performance indicators.

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 directors' report 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 4 July 2017 by the management board following the passing of a resolution by the shareholders at the annual meeting held on 21 April 2017 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 2 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; and for
- 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.

Rotterdam, 9 March 2018

PricewaterhouseCoopers Accountants N.V.

Original has been signed by F.J. van Groenestein RA

Appendix to our auditor's report on the financial statements 2017 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 company's 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.

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 31 December 2016 143,342,678 ordinary shares with a nominal value of €0.46 were placed and fully paid up, of which 140,837 shares were held as treasury shares. In May 2017 1,753,994 shares and all treasury shares were placed as stock dividend after the final distribution of dividend for 2016, as 38.4% of the share capital opted for stock dividend.

On 20 June 2017, NSI effectuated a consolidation of shares. For every eight ordinary shares (with a nominal value of €0.46), 1 ordinary share with a nominal value of €3.68 was issued, resulting in 18,137,084 placed and fully paid up ordinary shares.

In relation to the 2017 interim dividend, 42.7% of the share capital opted for stock dividend. To distribute this interim dividend in shares, NSI created 227,914 new shares from the share premium reserve. As at 31 December 2017 NSI has 18,364,998 ordinary shares outstanding, with no further shares held in treasury.

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 2017.

	31 December 2017	9 March 2018
ICAMAP Investments SARL	5.0%	10.0%
BlackRock, Inc.	4.7%	5.0%
Phoenix Insurance Company Ltd.	3.7%	3.7%
Axa Investment Managers S.A.	3.0%	3.0%
Norges Bank	3.0%	3.0%

Financial Calendar

Publication trading update Q1 2018	19 April 2018
Annual General Meeting	20 April 2018
Publication half year results 2018	19 July 2018
Publication trading update Q3 2018	18 October 2018

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.

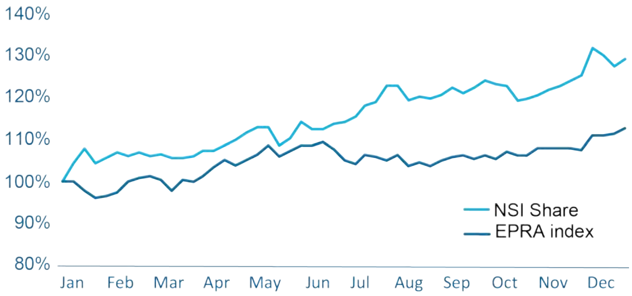
AGM decision on final dividend 2017	20 April 2018
Ex-dividend date	24 April 2018
Record date	25 April 2018
Stock dividend election period	26 April – 9 May 2018
Payment date	14 May 2018
Ex-dividend date (interim dividend 2018)	24 July 2018

Dutch REIT (FBI)
Under current legislation/regulation, NSI qualifies as a Dutch real estate investment trust (fiscal 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.

In October 2017 the new Dutch government coalition agreement indicated that from 2020 FBI's 'fiscale beleggingsinstellingen' will no longer be allowed to invest in direct real estate due to the abolishment of dividend taxation. As such this could have profound implications. We are currently in active discussions with the industry bodies and our tax advisors to understand the possible implications and will provide an update if and when appropriate.

Performance of the NSI share

Share price low	€28.30
Share price high	€35.70
Closing price on 31 December 2017	€34.77
Proposed dividend per share	€2.16
# ordinary shares outstanding at 31 December 2017	18,364,998
Market capitalisation at 31 December 2017	€638 million



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).

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.

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.

For further information on EPRA performance measures please visit www.EPRA.com

Cost ratio (Wft)
Under the Dutch Financial Supervision Act (Wet financieel toezicht or Wft), NSI is required to report the ratio of expenses to the net asset value. The ratio is calculated as the total of operating expenses, administrative expenses, non-recoverable service charges and tax on profits divided by the weighted average net asset value over the reporting period.

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.

Dutch REIT (FBI –regime)
NSI qualifies as a Dutch Real Estate Investment Trust (fiscal beleggingsinstelling 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.

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 investment result
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 investment result
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 investment result
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 straight-lined 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).

(Net) Loan to value (LTV)
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 (ER)
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 straight-lining 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-letting/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.

EPRA PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

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

	31 December 2017		31 December 2016	
	€ ' 000	per share (€)	€ ' 000	per share (€)
EPRA NAV	673,238	36.66	619,552	34.61
EPRA NNNAV	663,592	36.13	600,800	33.56
EPRA net initial yield (NIY)	5.5%		6.0%	
EPRA topped-up net initial yield	5.9%		6.4%	

EPRA EARNINGS (€ '000)

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

EPRA NAV

	31 December 2017		31 December 2016	
	€ ' 000	per share (€)	€ ' 000	per share (€)
Equity attributable to shareholders	672,688	36.63	604,255	33.76
Fair value of derivative financial instruments	550	0.03	15,297	0.85
EPRA NAV	**673,238**	**36.66**	**619,552**	**34.61**
Fair value of derivative financial instruments	-560	-0.03	-15,906	-0.89
Fair value of debt	-9,085	-0.49	-2,846	-0.16
EPRA NNNAV	**663,592**	**36.13**	**600,800**	**33.56**

EPRA YIELD (€ '000)

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

EPRA VACANCY (€ '000)

	2017	2016
Estimated rental value of vacant space	19,398	24,853
Estimated rental value of the whole portfolio	105,288	116,230
EPRA vacancy	18.4%	21.4%

EPRA COST RATIO (€ '000)

	2017	2016
Administrative costs	9,247	9,879
Service costs not recharged	2,093	4,147
Operating costs	12,479	16,179
Correction municipal taxes (fully paid in Q1)		
Operating costs (adjusted for municipality taxes)	12,479	16,179
Leasehold	-213	-244
EPRA costs (including direct vacancy costs)	**23,607**	**29,961**
Direct vacancy costs	-1,992	-3,783
EPRA costs (excluding direct vacancy costs)	**21,615**	**26,179**
Gross rental income	89,056	94,589
Ground rent		
EPRA gross rental income	**89,056**	**94,589**
EPRA cost ratio (incl. direct vacancy costs)	26.5%	31.7%
EPRA cost ratio (excl. direct vacancy costs)	24.3%	27.7%
Overhead and operating cost capitalised	0	300

Colofon

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