ANNUAL REPORT
2016

CONTENT
ANNUAL REPORT

The English annual report is a translation of the Dutch annual report. In case of ambiguity or deviations, the Dutch version shall prevail.

KEY FIGURES

KEY FINANCIALS METRICS

€k	1 Jan - 31 Dec 16	1 Jan - 31 Dec 15	1 Jan - 31 Dec 16	1 Jan - 31 Dec 15	Change (%)
Revenues and Earnings	Supplemental reporting[1]			IFRS[2]	
Gross rental income	94,589	90,813	63,126	57,046	4.2%
Net rental income	74,262	68,456	48,214	38,372	8.5%
Direct result			48,829	50,575	-3.5%
Indirect result			-66,662	13,215	
Profit attributed to NSI shareholders			-17,833	63,790	
Earnings per share (€)			-0.12	0.44	
Direct result per share (€)			0.34	0.35	-3.7%
Dividend (€)[3]			0.27	0.27	0,0%
EPRA earnings per share (€)			0.33	0.34	-2.6%
EPRA cost ratio A (%)[4]			32%	33%	-1.6pp
EPRA cost ratio B (%)[5]			28%	28%	+0.0pp

	31 Dec 16	31 Dec 15	Change (%)
Balance Sheet			
Investment property	770,434	1,134,617	
Assets held for sale	389,923	68,848	
Net Debt	-512,266	-542,332	-5.5%
Equity	604,254	660,720	-8.5%
IFRS Equity per share (€)	4.22	4.61	-8.5%
EPRA NAV per share (€)	4.33	4.79	-9.6%
EPRA NNNAV per share (€)	4.20	4.59	-8.5%
Net LTV (%)[6]	44.1%	43.2%	+0.9pp
Number of ordinary shares outstanding[7]	143,201,841	143,201,841	
Weighted average number of ordinary shares outstanding	143,201,841	143,201,841	

KEY PORTFOLIO METRICS[8]

	31 Dec 16					31 Dec-15
	Offices	HNK	Retail	Other[9]	Total	Total
Number of properties	108	13	41	3	165	194
Market value (€m)	617	149	382	12	1,160	1,203
Annual contracted rent (€m)[10]	53	12	31	1	98	101
ERV (€m)	61	20	34	1	116	123
Lettable area (k sqm)	457	125	273	15	870	974
EPRA Vacancy	21.3%	37.1%	12.5%	16.5%	21.4%	24.3%
WAULT (years)	5.3	3.1	4.3	2.4	4.7	4.7
Average rent/sqm (€/p.a.)	156	167	137	98	149	144
EPRA net initial yield	6.0%	4.3%	6.4%	10.9%	6.0%	5.7%

[1] Figures with only IOW as discontinued (sold), retail and Belgium direct asset(s) as per historic reporting included in operational figures
[2] Retail, Belgium direct and Intervest (IOW) operations accounted for as discontinued operations under IFRS regulations as adopted by the EU
[3] Dividend proposal for 2016, of which €0.13 already paid as interim dividend in August 2016
[4] EPRA Cost ratio (A) including vacancy costs, 2015 excluding IOW
[5] EPRA Cost ratio (B) excluding vacancy costs, 2015 excluding IOW
[6] In 2015 LTV calculated including participation in IOW (€51.4m)
[7] Excluding 140,837 treasury shares (not entitled to dividend and voting)
[8] Excluding land. Assets held for sale in Heerlen are included in Offices and Retail respectively
[9] Incudes two industrial assets and one Belgium office asset
[10] Before rent free and other rent incentives

NSI AT A GLANCE

PROFILE

NSI N.V. is a specialist commercial property investor and the only listed real estate investment trust (REIT) focused on the Netherlands. The portfolio was valued at €1.2 bln at 31 December 2016.

MISSION

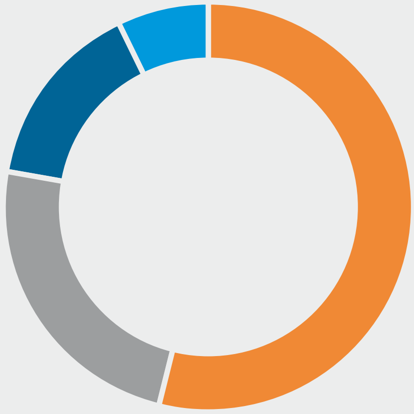
NSI strives to be the leading specialist in the Dutch office market, with a strong and efficient platform that drives returns through proactive asset management, value-adding initiatives and active capital recycling. NSI aims to be the partner of choice for investors looking to team up with a best-in-class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

PORTFOLIO SPLIT

	# assets	Value x €m	% Value
Offices[1]	107	612	53%
HNK[2]	13	149	13%
Other[3]	2	9	1%
Total investment properties	**122**	**772**	**66%**
Held for sale	43	390	34%
Total portfolio	**165**	**1.160**	**100%**

[1] Excludes 1 office held for sale in Heerlen
[2] Includes HNK Hoofddorp 100%; in balance sheet 50% reported in PPE
[3] Excluding 1 property held for sale

OFFICE PORTFOLIO SPLIT IN VALUE



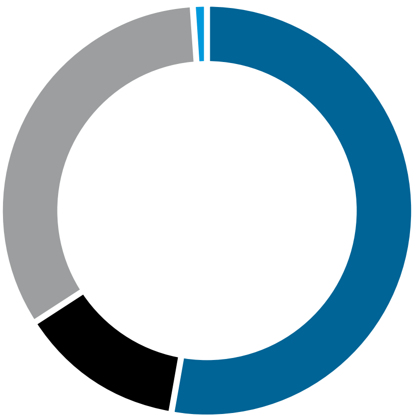
G4
54%

Other Randstad
15%

Other Netherlands
24%

Transformation
7%

PORTFOLIO SPLIT IN VALUE



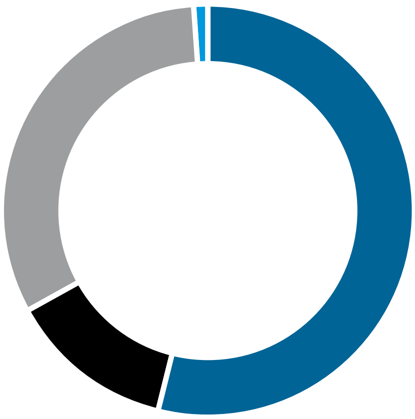
Office
53%

HNK
13%

Retail
33%

Other
1%

PORTFOLIO SPLIT IN CONTRACTED RENT



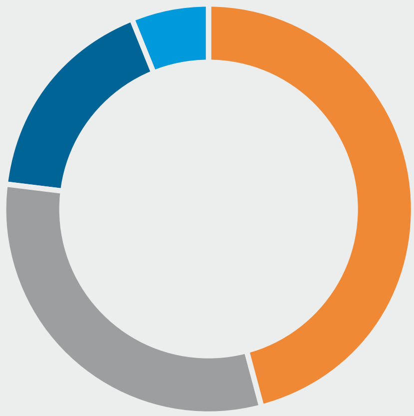
Office
54%

HNK
13%

Retail
32%

Other
1%

OFFICE PORTFOLIO SPLIT IN CONTRACTED RENT



G4
46%

Other Randstad
17%

Other Netherlands
31%

Transformation
6%

OFFICE PORTFOLIO SPLIT IN VALUE

CEO COMMENTS

Over the past six months we have reviewed the NSI business and its prospects and have set a new, clear, more focused, strategy. We are raising the bar significantly. Our ambition is to become the leading Dutch office investor and operator, maximising returns for shareholders through pro-active asset management, value-add initiatives, disciplined asset rotation and prudent balance sheet management.

We are taking all the necessary steps to achieve this. Key is that NSI has the size, focus, portfolio, organisational set up and culture to be able to thrive. In recent months we have been working hard to lay the foundations. There is a relentless focus on costs and accountability at all levels. At the same time, we are hiring new talent and investing in strengthening our internal reporting and processes.

For 2017 the economic outlook and property cycle are working in our favour. The potential liquidity provided by our stock exchange listing also puts us in a strong position to achieve our ambitions.

We have stepped up our disclosure significantly to facilitate proper scrutiny of our efforts, as we start to implement the new strategy. We have also introduced a new corporate logo, a new house style and a new website, all with the aim of high-lighting that NSI has embarked on a new exciting journey.

A new strategy – Offices and HNK

The latest down cycle has accelerated the professionalisation of the Dutch property industry. Capital has become global and industry standards have been raised accordingly. In what has become an increasingly competitive environment, passive investing in property is no longer an option - agility and focus are key to performance.

We have concluded that NSI needs to specialise to be able to thrive. In view of the competitive landscape, the current size of the investment portfolio, the track record of the team, and our aim to lower the cost base, the focus going forward will be solely on offices and HNK.

OUR AMBITION

"We are raising the bar significantly. Our ambition is to become the leading Dutch office investor and operator."

Let's be very clear about what this means. Yes, we aim to sell our retail assets, but only on an opportunistic basis and at a time and a price that is best for shareholders.

Following the decision to dispose of our retail business, with all the necessary internal preparations completed and agents appointed, in line with IFRS we now report our retail portfolio as discontinued operations. This change in reporting does not, however, put any additional pressure on us to accelerate the disposal process.

Capital recycling

An improving level of liquidity in the Dutch property market makes for more robust valuations. A part of the portfolio of NSI is part of a segment that provides less liquidity.

At 44.1% the year-end LTV is comfortable and within our new internal target range of 40-45% and well within our bank covenants. Still, any new acquisitions going forward will have to be funded by disposals, or by an equity offering if the share price permits.

Our capital recycling plans at this point in time include the retail portfolio, one asset in Belgium and potentially some of the smaller office assets in non-G4 locations where local specialists are the more natural owners of these assets.

Review 2016; Outlook for 2017

NSI improved its key operational performance metrics in 2016. Net rents for 2016 were flat on a like-for-like basis (-0.2%), the EPRA vacancy rate fell to 21.4%, down 2.9% for the year and the operating margin improved by 3.1% to 78.5%. We expect these metrics to further improve in 2017, adjusted for the potential impact of the disposal of the retail business.

NSI ended the year with 70 employees (65 FTE), down from 77 at year-end 2015. At the end of January 2017 we were at 65 employees (60.1 FTE). Exiting the retail business will result in a further fall in the employee count in 2017. We are working hard to move the EPRA cost ratio to a level that is more in line with peers.

It is too early to provide any guidance on EPS or the dividend for 2017. Lower interest costs, cost savings and operational improvements should positively impact EPS in 2017, but disposals are likely to precede acquisitions, which could negatively impact EPS. Establishing more headroom within our new LTV target range could also come at a cost to EPS.

The AGM will be held on 21 April and we will propose a final dividend for 2016 of €0.14 per share. Several items will be placed on the agenda for shareholders to vote on, including a decision to publish our report and financial statements only in English going forward, the possibility for shareholders to opt for payment of the dividend in shares or cash and the proposal to consolidate the number of shares, by combining each eight shares in one.

Daniel van Dongen, CFO, has indicated that after eight years as management board member of NSI he will pursue his career outside of NSI and will not be available for re-election at the upcoming AGM. He will, however, stay with NSI until June 30th 2017 to ensure a smooth transition. We would like to thank him for his commitment and contribution to NSI and wish him well in his future endeavours.

Finally, August 2017 will mark NSI's 25th anniversary. It has been an interesting journey so far. Rest assured we are doing our utmost to ensure that both NSI and you, our shareholders, can look forward to the next 25 years with confidence.

Bernd Stahli
CEO

STRATEGY

HIGHLIGHTS

- Focus on offices and HNK
- Focus on G4 and other Randstad
- Total return approach
- Moving to a lower runrate
- Increased disclosure

Following the strategic review we have set a clear destination for NSI. The transition started back in 2013. The final exit from Switzerland in October 2013 was followed by a €300m capital increase in November of that year. Since then NSI has refinanced its debt, divested its stake in IOW[1] and reduced its LTV to below 45%. NSI has also become less dependent on secured financing and has started to upgrade its portfolio through capital recycling.

All of these steps were necessary to allow us to now set our new destination with confidence. NSI aspires to become the leading Dutch office investor and operator, aiming to drive excess returns through active asset management and disciplined asset rotation, with a prudent balance sheet.

Historically NSI was all about diversification, with investments in a variety of sectors and countries in order to generate a stable dividend. NSI has already divested most of its assets abroad, but in our strategic review we concluded that even more focus is warranted.

Track record, size and costs have been major considerations in our decision to focus exclusively on offices and HNK. The NSI retail portfolio is diverse and whilst it is possible to bring more focus to it, it would still remain a relatively small and cost inefficient platform in the Dutch retail market.

The proceeds from our retail disposals will support the expansion of our offices portfolio. A larger, more focused, office platform will be more efficient, allow us to pursue more sizeable deals, and to move selectively further up the risk curve and enable us to do deals that others may not be able to do.

[1] Intervest Office & Warehouses

Offices – focus on G4 and value-add

NSI has made great strides in its office business over the past 18 months. Asset rotation to date has already resulted in a better office portfolio in terms of asset quality and location, with better prospects.

We aim to further strengthen our office business in 2017. In addition to finding new opportunities to invest, we will look for ways to monetise our mostly smaller, provincial, assets. While these smaller assets may be rather interesting individually, collectively they are proving rather cost inefficient for NSI to manage. We have also identified a number of opportunities to pursue conversions of offices to alternative use.

To achieve excess returns in the Dutch office market requires an active approach to asset management. The necessary size, tenant activity and depth to the investment market to make this possible are mostly concentrated in the G4 markets. In time NSI will further increase its focus on these markets.

HNK – gradual, profitable, expansion

We continue to see strong growth potential for our HNK brand. The body of experience amassed over the years in our now 13 operational HNKs is working to our strength and provides us with a wealth of information on market trends that allows us to continue to adjust and enhance our product offering for our customers – both in HNK and in our offices business.

HNK may originally have started as a defensive strategy, i.e. as an innovative way to address long term vacancy concerns in parts of the office portfolio during the down cycle, but it has become the house view of how we can best cater to the needs of the office client of the future.

The modern day user of workspace requires a vibrant location with an excellent transport infrastructure, flexibility, efficiency, ease of use and good access to ancillary services. We believe there is capacity in the market to absorb at least 10 new HNKs and as we continue to roll out our HNK activities we will make sure to incorporate these features.

LTV target range of 40-45%

Whilst our formal covenants are at 60-65%, in recent years NSI has committed to maintain its LTV ratio below 45%. We reviewed this limit as part of the strategic review and prefer to move to a target range, to have more flexibility.

Turning NSI from a diversified business into a more focused office business would normally suggest a higher risk profile. We also appreciate that an active asset management and disciplined asset rotation strategy (i.e. taking more of a value-add/total return approach to real estate rather than focussing solely on cash flow and dividend) would effectively also imply a higher risk profile for the business.

At the same time, as NSI continues to upgrade its portfolio, in terms of both asset quality and location, the risks in the business are arguably being reduced. Also, considering where we are in the Dutch property cycle, it is probably too early to move to an even more conservative balance sheet.

Taking all of the above arguments into account we believe it is appropriate to work with a LTV range of 40-45% for now. We will review these considerations regularly. Any decision on the appropriate level of LTV for NSI will have to include HNK, as we have to manage our financial leverage in conjunction with our operational leverage through HNK.

The consequence is that, given an LTV of 44.1% in Q4 2016, the focus is on financing any new investments mostly by disposals.

Cost strategy – moving to a lower run-rate

We have already taken several steps to move to a structurally lower cost base in H2 2016. As part of the strategic review we have made the decision to move to a cost base that is much more appropriate for the current asset base – to be nimble, scaleable, and a good steward of shareholder capital.

Historically NSI has operated a rather management intensive, diversified, investment portfolio. In recent years the portfolio has become smaller, in terms of value, number of assets and number of locations - a trend that is set to continue - yet the size of the organisation has not followed suit.

To arrive at a better, more efficient, organisation NSI will continue to cut costs where appropriate, but will also invest in retaining and attracting talent, crafting the right culture, in ICT systems and in digitisation.

STRATEGY

NEW IDENTITY

NSI has also introduced a new corporate logo, a new house style and a new website, all with the aim of highlighting that NSI has embarked on a new exciting journey

GLASS HOUSE

ACQUISITION OF GLASS HOUSE

In July 2016, NSI acquired the Glass House office property with its strong strategic location next to Amsterdam Sloterdijk train station.

Anne de Jong, CIO of NSI: **"This acquisition perfectly fits our portfolio strategy. We consciously pursue further growth in Amsterdam and do see Amsterdam Sloterdijk as a strong office location with potential for growth."**

The property was fully leased to a large reputable Dutch corporate, significantly over-rented with a short remaining lease term. NSI acquired the property with a clear view to creating future value by extending the lease or converting the property into HNK in due course.

**"We managed to extend the lease within 6 months of acquisition, resulting in a significant value uplift.
This deal perfectly showcases how NSI can create value for its shareholders. Only a few investors are able to invest in such a large asset, are willing to buy short lease contracts and have a clear plan for the future."**

INCOME, COST AND RESULTS

HIGHLIGHTS

- Direct result per share amounted to €0.34 in 2016
- Gross rental income increased by 4.2% in 2016
- Improved operating margin

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

Introduction

The direct result per share for FY 2016 is €0.34, above the €0.31-0.33 guidance range. The results are impacted by various one-offs, both positive and negative. EPRA EPS for FY 2016 is €0.33, which is €0.9 cent below the 2015 result.

In FY 2016 NSI incurred one-off restructuring costs of €2.1m. This was entirely offset by a one-off gain of €2.3m relating to the release of a provision for Belgian withholding taxes for prior years, in connection with IOW.

The indirect result for FY 2016 is -€0.47 per share, which was negatively impacted by -€54.8m of asset revaluations, a small -€4.4m result on disposals and a -€8.2m goodwill impairment charge. During the year NSI booked a small positive non-cash market-to-market gain on its derivatives.

Rental income

Gross rents for FY 2016 are up by 4.2% (€3.8m), mainly due to the acquisitions of Cobra in October 2015 and Glass House in July 2016. These acquisitions were for a large part funded by the proceeds from the disposals of NSI's stake in IOW and of the industrial portfolio.

On a like-for-like basis gross rents are down €0.9m (-1.5%), reflecting the mark to market on lease expiries (-€1.5m) and improvements in occupancy (€0.6m). Due to an improvement in the operating margin the fall in the like-for-like net rent is limited to only €0.1m (-0.2%).

Service costs

Non-recoverable service charges in 2016 fell by €1.7m to €4.1m (vs €5.8m in 2015). Cost savings and continued asset rotation into better, more efficient, assets explain most of the reduction. The effect from lower vacancies on the standing portfolio has been relatively modest in 2016.

Operating costs

Operating costs in 2016 are 5.2% (€0.9m) lower compared to 2015. Adjusting for costs incurred for the international entities, which are in the process of being liquidated, costs for the Dutch activities are circa €2.5m lower compared to 2015.

The deconsolidation of IOW has had a negative impact on the operating margin, but this effect is being mitigated as the proceeds of the IOW disposals have been reinvested into new efficient investment assets. The operating margin increased to 78.5%, up 3.1% on 2015 (75.4%).

In Q4 2016 costs related to provisioning for doubtful debtors are at a record low of 0.2% of gross rental income.

Administrative expenses

Administrative expenses are €9.9m, an €1.8m increase versus 2015. The increase in costs relate to one-off costs, including costs related to the departure of the previous CEO, restructuring costs, temporary staff, consultancy fees and the write-off of our investments in Easy Shopping[1].

Several initiatives are in place to reduce the run rate of costs going forward. Some of these will already have an impact in 2017, but, as further restructuring costs are expected, most of the fall in the run rate will become visible from 2018 onwards.

[1] Retail concept developed by NSI in 2015, involving (online) support to retailers, aimed at providing convenience to customers.

Net financing expenses

In 2016 NSI continued to lower funding costs, benefitting from lower margins and lower swap rates. Net financing expenses are down €2m (-10%) compared to 2015, even with a higher level of net debt outstanding during the year. Refinancing the RCFs, the FGH-bank loan and agreeing the new Berlin Hyp facility in combination with the breakage of swaps all result in lower margins and hedging costs.

The average cost of debt is 2.8% at the end of 2016, versus 3.7% at the end of 2015. This fall is despite an increase of 15bps in the margin of the €200m term loan following the security release associated with these facilities.

Revaluation of investment

At year end 2016 all assets have been externally appraised. The total revaluation for the year is €54.8m negative. Most of the fall in values relates to the retail portfolio, which is marked down by €50m (-11.6%). This fall is mainly due to lower ERVs (-8.7%) and higher yields. In particular Rijswijk, Heerlen and Zuidplein Rotterdam have been marked down significantly.

Result on asset sales

The result on asset disposals for 2016 is -€4.4m. A negative result in The Netherlands (-€6.5m), mostly on the sale of the industrial portfolio, is partially compensated for by a positive result on the sale of a land plot in Belgium (€1.5m) and a one-off in Switzerland (€0.5m).

Revaluation of derivatives

The derivatives portfolio shows a positive revaluation of €1.8m for 2016, driven by a €4.8m uplift in Q4, as a consequence of the shorter duration of the legacy swaps and a small change in the yield curve.

Discontinued operations

IOW was first reported as discontinued operations in H1 2016. The retail portfolio and the last wholly-owned asset in Belgium are first reported as discontinued operations in Q4 2016.

The 2016 re-segmentation of the NSI property portfolio, from a focus on country segments to sector segments, and the subsequent intended sale of the retail activities, has triggered full impairment of the €8.2m in goodwill in the accounts.

The remaining shares in IOW were sold in Q1 at a profit of €1.6m.

2016 Annual accounts and deconsolidation

The 2016 annual accounts show a sizeable proportion of activities as discontinued operations, in accordance with IFRS, including our retail segment, our last remaining wholly-owned asset in Belgium and our stake in IOW. The comparative 2015 numbers have been restated accordingly and are presented elsewhere in this report.

To provide insight in the change in reporting, a simplified reporting bridge is shown in the table on the next page.

In Q1 2016 NSI disposed of its remaining 15.2% stake in IOW. IOW was subsequently reported as a discontinued operation in the H1 2016 accounts, with a result of €1.6m. This result is shown separately within the segment concerning discontinued operations in Belgium.

In the reporting bridge on the next page, the category 'Other' comprises all group costs, including interest and administrative expenses.

The sum total of continued and discontinued operations shown in the table on the next page is supplementary information to provide a link to the accounts as reported with the H1 interim results and Q3 trading update in 2016.

We further show the necessary 'discontinued adjustments' to move from the 'sum total' of the supplementary information to the IFRS reporting for 2016.

EPRA EPS

The 2016 EPRA EPS is €0.33. Starting in 2017 NSI will no longer allocate management costs to the indirect result, so that, barring any necessary adjustments, EPRA EPS and the direct result per share will be similar going forward.

EPRA Earnings, segment split and bridge to IFRS discontinued 2016 (€k)

	Continued operations			Discont. operations				
	Offices	HNK	Other	Belgium	Retail	Total	Discont Adj.	IFRS Total
Rental income	48,906	11,827	2,393	66	31,397	94,589	-31,462	63,126
Service costs not recharged	-1,682	-1,852	-84	39	-569	-4,147	529	-3,618
Operating costs	-7,572	-3,441	-281	-48	-4,837	-16,179	4,886	-11,294
Net revenue from operations	**39,652**	**6,534**	**2,028**	**57**	**25,991**	**74,262**	**-26,048**	**48,214**
Administrative expenses	-420	-787	-6,963	-25	-179	-8,375	204	-8,170
Net financial expenses	-	4	-20,006	63	8	-19,931	-71	-20,001
Direct result before tax	**39,233**	**5,751**	**-24,941**	**95**	**25,819**	**45,957**	**-25,914**	**20,043**
Income tax expenses	-	-	54	2,253	-	2,308	-2,253	54
Direct result after tax	**39,233**	**5,751**	**-24,887**	**2,348**	**25,819**	**48,264**	**-28,167**	**20,097**
Discontinued operations	-	-	-	565	-	565	28,167	28,732
Direct result	**39,233**	**5,751**	**-24,887**	**2,913**	**25,819**	**48,829**	**-**	**48,829**
Revaluation of real estate	2,771	-5,844	-1,742	-	-49,987	-54,802	49,987	-4,815
Elimination of rental incentives	-430	-19	-	16	-94	-527	77	-449
Other Income	-12	-	9	-	-	-3	-	-3
Net result on sales of real estate	-482	-67	-5,394	1,513	-	-4,430	-1,513	-5,943
Movements in financial derivatives	-	-	1,751	-	-	1,751	-	1,751
Exchange-rate differences	-	-	7	-	-	7	-	7
Allocated management costs	-	-	-1,504	-	-	-1,504	-	-1,504
Goodwill impairment	-4,022	-855	-419	-	-2,909	-8,205	2,909	-5,296
Indirect result before tax	**-2,175**	**-6,785**	**-7,292**	**1,529**	**-52,990**	**-67,712**	**51,461**	**-16,252**
Corporate tax	-	-	-	-	-	-		
Indirect result after tax	**-2,175**	**-6,785**	**-7,292**	**1,529**	**-52,990**	**-67,712**	**51,461**	**-16,252**
Discontinued operations				1,050	-	1,050	-51,461	-50,411
Indirect result	**-2,175**	**-6,785**	**-7,292**	**2,579**	**-52,990**	**-66,662**	**-**	**-66,662**
Result	**37,057**	**-1,033**	**-32,179**	**5,493**	**-27,171**	**-17,833**	**-**	**-17,833**
Direct result	**39,233**	**5,751**	**-24,887**	**2,913**	**25,819**	**48,829**		**48,829**
Adjustments	**-**	**-**	**-1,504**	**-**	**-**	**-1,504**		**-1,504**
EPRA Earnings	**39,233**	**5,751**	**-26,391**	**2,913**	**25,819**	**47,325**		**47,325**
EPRA Earnings per share (in € per share)						**0.33**		**0.33**

NETHERLANDS PROPERTY MARKET OVERVIEW[1]

HIGHLIGHTS

- Vacancy in Dutch office market decreased by 1.9% in 2016
- Dutch Central Bank forecasts economic growth of 2.3%
- Rental growth expected in Amsterdam and rest G4
- Flexible office market evolving rapidly

Offices

The vacancy level in Dutch offices peaked in H2 2014. At the end of 2016 circa 6.9m sqm out of a total 49.5m sqm of office stock in the market is vacant (13.9%). The vacancy of well-located, modern, grade-A space is much lower.

The 1.9% vacancy reduction in 2016 (vs Q4 2015 vacancy: 15.8%) comprised of circa 1.6% (800,000 sqm) in withdrawals and conversions and circa 0.3% in positive net absorption.

DNB[2] is expecting 2.3% GDP growth for 2017. Tenant demand is noticeably picking up, in line with the improving outlook for the economy. As such, the vacancy rate will continue to fall in 2017. This positive outlook for offices is underpinned by the Dutch housing market, as more office stock is set to be converted or withdrawn from the market in 2017. In total 3mln sqm of office stock has already been withdrawn since 2009.

The Amsterdam office market has seen good rental growth in 2016. The vacancy rate has fallen to 9.8% and to below 3% for modern grade-A space. The scarcity of good quality stock is expected to lead to further rental growth and demand in nearby, more affordable, markets is picking up as a result. We expect to see a similar trend in Utrecht, Rotterdam, The Hague and Eindhoven.

In the wider Randstad area (which accounts for over 50% of the GDP of the Dutch economy) modern offices in good locations are seeing a pick up in demand, resulting in lower incentives and some selective rental growth.

Outside the wider Randstad market, pricing power often still lies with the tenant. Tenants can afford to be discerning. Rents are typically €95-135psm, with incentives of 10-20%. The outlook for dated office assets in fringe locations remains uncertain – and capital values are low to reflect this.

The pace of new office development is slow. Utrecht is seeing a pick up in new development, but elsewhere it is limited. In Amsterdam, where the local municipality is firmly holding back on planning, development activity is also limited.

HNK

The market for flexible office space is evolving rapidly. Around 5-7% of the Dutch office stock is currently being used as flex space. New operators are still entering the market, some with new innovative concepts, others offering mere variations of existing concepts. There are 30+ operators at present, of which only eight or so operate from more than three locations.

The growth in flex offices will eventually result in saturation but, for now, the economics for new openings remain favourable. Rents for flex offices can be double those for traditional offices, provided the space is offered in a good location, with good services and a good vibe.

A large part of the flex space on offer is merely a way for landlords to solve a vacancy issue. This market segment is unlikely to prove viable in the long term. Operators short on concept and with limited innovation will eventually disappear.

Following on from the large body of experience in the hotel industry, at some point the larger, professional, capital rich operators with a strong (international) platform will win the endurance race and consolidate the industry, running various concepts alongside each other. There is, however, a place for local operators with a boutique positioning.

Retail

Following a difficult 2015, the year 2016 ended with retailer bankruptcies at an eight year low. Going into 2017 the Dutch economy is improving, the housing market is strong, purchasing power is up and consumer confidence is rising.

[1] The data in this section is based on a variety of industry sources and reports, including JLL, CBRE and Cushman & Wakefield
[2] DNB is the Dutch Central Bank

Still the recovery in the Dutch retail property market will likely be muted. Online retail is gaining market share (accounting for circa 6.5% of sales and growing at circa 20% annually) and many smaller retailers that have managed to survive the down cycle only have limited capacity left to invest in their business and pursue growth in the recovery.

Large (international) retailers are very much at the forefront of the changing dynamics in the Dutch retail market. They are focussing on a small number of large flagship stores in the best shopping areas, with the more peripheral retail locations increasingly being catered for via a strong, flexible website.

Supermarket-anchored local retail centres have proven quite resilient in recent years. In particular centres that are backed by both a high-end supermarket and a discounter have been successful to cater for the day-to-day needs of the consumer.

Dutch retail ERVs were down circa 7% in 2016 and continue to rebase to market levels. Rental growth is limited to prime retail locations in the G4. Rents for supermarket-anchored convenience shopping centres have held up remarkably well.

Investment market

The Dutch market recorded an investment volume of circa €13bn in 2016. Foreign investors remained the most active, driven by a positive economic outlook, high ingoing yields and relatively modest risks in the prime segment. Dutch institutions are starting to return to the market, whilst some foreigners are now looking to crystallise returns made in recent years.

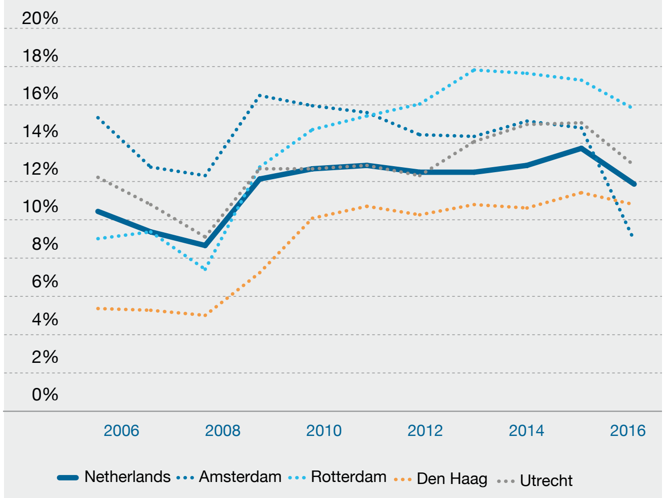
Amsterdam and the wider G4 are the most liquid investment markets. Amsterdam in particular saw yields firm on the back of improving rental growth expectations. Ingoing yields for prime offices are now at or near record lows, at circa 4%.

Given the positive economic outlook we are seeing that some investors are starting to move up the risk curve, assuming that away from prime risks are receding and that it is now possible to generate better risk-adjusted returns. We expect to see more evidence of this in 2017, with a hardening of investment yields for better-quality secondary assets.

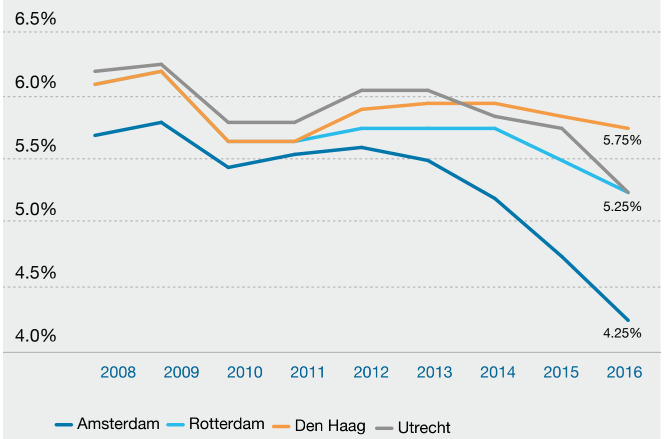
The investment market for retail property has been lagging, but seems to be picking up now that valuations are at more realistic levels.

INFOGRAPHICS

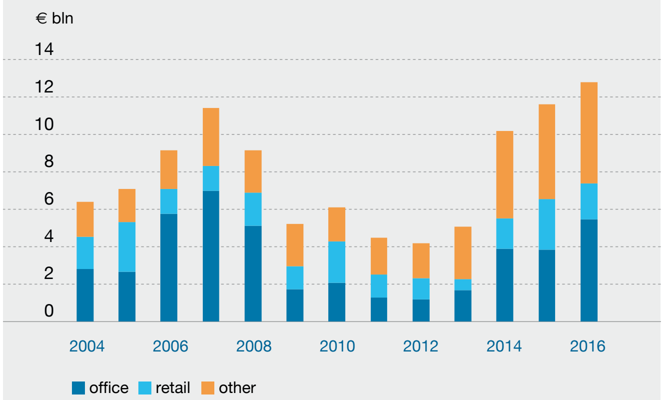
VACANCY SQM AS % OF TOTAL STOCK



NET INITIAL YIELD G4



INVESTMENT VOLUME



REAL ESTATE PORTFOLIO

HIGHLIGHTS

- Strong l-f-l growth in HNK, stable for overall portfolio
- EPRA vacancy decreased by 2.9%
- Acquisition of officeproperty Glass House in Amsterdam
- Disposal of industrial portfolio

"An active approach to asset management and greater focus is required to achieve above-average returns. Asset rotation plays a key role in this. We have made significant steps in this respect in recent years, which contributed to the improvement in our operational performance indicators in 2016."

Anne de Jong
CIO

In 2016 most of the industrial portfolio (21 out of 23 assets) was sold, as were a total of 8 smaller office assets and one former potential HNK conversion. The total proceeds were €63.4m. The only significant acquisition was Glass House, for a total consideration of €60.7m[1].

Portfolio split

	assets #	Value x €m	Value %
Offices[2]	107	612	53%
HNK[3]	13	149	13%
Other	2	9	1%
Total investment properties	**122**	**770**	**66%**
Held for sale	43	390	34%
Total portfolio	**165**	**1,160**	**100%**

The share of offices and HNK is 66% of the portfolio by value in Q4 2016, up from 60% in 2015. The rotation out of smaller assets into larger, more efficient, assets continues apace. The average asset value is €7.0m in Q4 2016 (€6.2m at Q4 2015).

Vacancy

The Q4 2016 EPRA vacancy rate for the portfolio is 21.4%, a 2.9% improvement for the year. The improvement is mostly noticeable in HNK (-10.3%). The fall in retail vacancy (-2.3%) is largely due to lower ERVs for the vacant space.

The improvement in the vacancy rate for the office portfolio (1.6%) is driven by asset rotation, with the vacancy rate for the standing portfolio increasing as several legacy leases have not been renewed on expiry.

EPRA Vacancy

	31/12/2016	*LFL*	*Disposals/ Acquisitions*	31/12/2015
Offices	21.3%	*1.3%*	*-2.9%*	22.9%
HNK	37.1%	*-7.6%*	*-2.7%*	47.4%
Retail	12.5%	*-2.3%*	*0.0%*	14.8%
Other	16.5%	*-3.1%*	*-3.3%*	22.9%
Total	**21.4%**	***-0.8%***	***-2.1%***	**24.3%**

Rents

Net rents are down -0.2% in 2016 on a like-for-like basis, with strong growth in the HNK business. If we exclude the office assets that are held for transformation purposes the net like-for-like rents are actually up 0.3%.

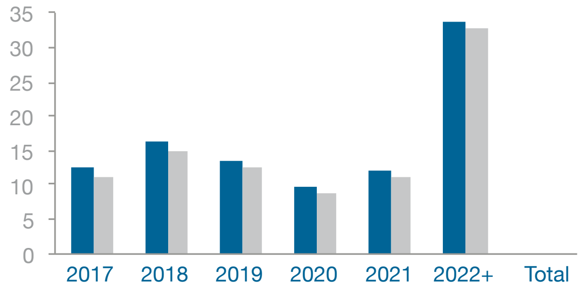
Net rent like-for-like growth

	2016 (€m)	2015 (€m)	Change (€m)	L-f-l (%)
Offices	25.5	26.9	-1.5	-5.5%
HNK	7.3	4.3	3.0	70.8%
Retail	25.9	27.6	-1.7	-6.1%
Other	1.1	1.1	0.0	2.3%
Total LFL	**59.8**	**59.9**	**-0.1**	**-0.2%**

The lease re-gear at Glass House will not impact the 2017 like-for-like, as the portfolio was only acquired in 2016.

The average remaining lease maturity for the portfolio is stable year-on-year at 4.7 years. This is a comfortable level, particularly when taking into account the typically shorter leases at HNK.

Annual expirations and reversion (€m)



	2017	2018	2019	2020	2021	2022+	Total
Contracted rent (€m)	12.6	16.1	13.5	9.7	12.1	33.8	97.8
ERV (€m)	11.1	14.9	12.6	8.7	11.1	32.9	91.3
# Contracts	488	297	184	134	146	161	1,410
Reversion	-11.9%	-7.4%	-7.3%	-9.7%	-8.2%	-2.7%	-6.7%

Reversionary Potential, ERV bridge

The portfolio is circa 7% over-rented at Q4 2016. This already includes the impact of the lease re-gear at Glass House.

Reversion [5, 6]

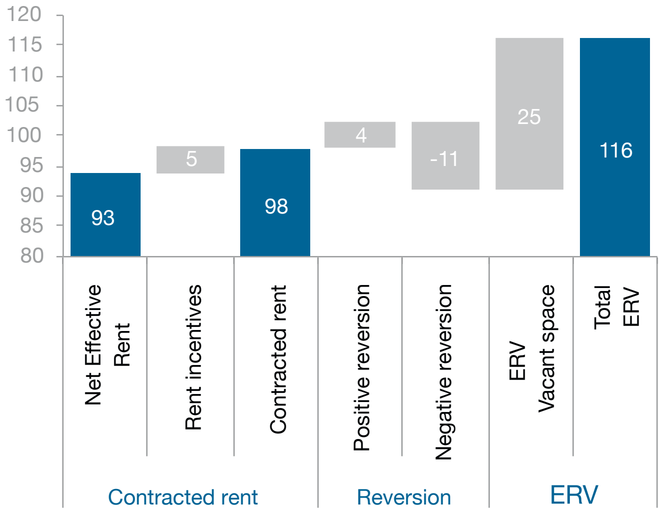
	31/12/2016	31/12/2015
Offices	-8.3%	-9.9%
HNK	0.3%	-7.2%
Retail	-6.3%	-2.4%
Other	-17.3%	-13.4%
Total	-6.7%	-7.4%

The ERV bridge highlights that most of the upside sits in pro-actively reducing the vacancy. ERVs are a guide only and we have signed and will sign leases at below ERV if that is in the best interest of shareholders.

[1] Including transfer costs
[2] Excludes 1 office held for sale in Heerlen
[3] Includes HNK Hoofddorp 100%; in balance sheet 50% reported in PPE

[4] Over-rent means that the contracted rent is at a higher level than the estimated market rent of a property
[5] Reversion = ERV let space / contractual rent
[6] In 2016 HNK managed office ERVs are adjusted. Managed office ERVs are equal to contracted rents

Bridge contracted rent to ERV (€m)



EPRA Yields

The EPRA net initial yield for the portfolio is 6.0% at the end of 2016. This is up 30bps from Q4 2015 and reflects mostly the negative like-for-like, margin improvements, portfolio rotation and the write downs on the retail portfolio.

Yields

	EPRA Net Initial Yield		Reversionary yield	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Offices	6.0%	6.1%	9.9%	10.7%
HNK	4.3%	3.4%	13.1%	12.3%
Retail	6.4%	5.8%	8.8%	8.7%
Other	10.9%	7.7%	10.9%	11.7%
Total	**6.0%**	**5.7%**	**10.0%**	**10.2%**

Valuations

The valuation result[7] for 2016 is -€54.8m (-4.5%). Office values are stable, driven by positive revaluations in the G4 markets (€25m; +8.1%). Glass House is the largest contributor, following the conclusion of a new 10-year lease with the tenant at the end of December. The value of Glass House is up 14% versus the purchase price[8].

The HNK portfolio revalued -€5.8m. This negative result was mainly caused by pressure on 2 properties outside of the Randstad area, HNK Ede and HNK Apeldoorn, of which the valuations declined similar to the overall trend in office properties outside of the major cities.

Retail valuations are down 11.6%, mostly due to lower ERVs (-8.7%) and on average slightly higher yields.The fall in ERVs compares to an estimated 7.7% fall in ERVs for smaller and mid-sized towns[9]. In particular Rijswijk, Heerlen and Zuidplein Rotterdam explain about half of the fall in values.

Revaluations 31 December 2016

	Valuation	Revaluation			
	31/12/2016	Positive	Negative	Total	% YoY
Offices	617	38	-36	3	0.5%
HNK	149	4	-10	-6	-3.7%
Retail	382	1	-51	-50	-11.6%
Industrial	12	0	-2	-2	-13.0%
Total	**1,160**	**44**	**-98**	**-55**	**-4.5%**

Starting in 2017 NSI will have its portfolio fully externally appraised twice a year, i.e. in Q2 and in Q4.

Offices

The acquisition of the Cobra portfolio in Q3 2015 and of Glass House in Q3 2016 has significantly increased the exposure to Amsterdam and the wider G4 in the office portfolio.

As per Q4 2016 the G4 makes up 54% of the office portfolio, up from 49% at Q4 2015 and 33% at Q4 2014. The exposure to Amsterdam has increased to 43% (vs 10.3% at Q4 2014).

Key offices metrics history

	2016	2015
Number of properties	108	120
Market value (€m)	617	593
Annual contracted rent (€m)	53	55
ERV (€m)	61	65
Lettable area (k sqm)	457	485
EPRA Vacancy	21.3%	22.9%
WAULT (years)	5.3	4.9
Average rent/sqm (€/p.a.)	156	152
EPRA NIY	6.0%	6.1%

The shift in the office portfolio to the G4 and wider Randstad is set to continue in 2017. The move away from a well-diversified portfolio of smaller assets to a more concentrated portfolio of larger, more efficient, office assets should result in significant efficiency gains, lower costs and lower depreciation risks.

Transformation assets are now a separately identified group of assets. These assets are mostly located in the G4 and wider Randstad and have good potential for conversion to alternative use. The vacancy rate for these assets is high and so the yield is low, but these assets are now run for IRR and no longer for yield.

[7] Portfolio full externally appraised per 31 December 2016
[8] Including transaction costs
[9] JLL

Key offices metrics geographical split

		G4	Other Randstad	Other NL	Trans-formation
Assets	(#)	27	25	43	13
Area	(k sqm)	148	94	166	49
Market value	(€m)	332	91	148	46
Value	(€/sqm)	2,252	978	886	927
WAULT	(yrs)	7.1	4.7	3.3	3.3
Contracted rent	(€m)	24	9	16	3
Market rent	(€m)	27	11	18	6
Reversion	(%)	-2.1	-8.7	-17.7	-8.6
Avg rent let space	(€/sqm)	191	137	131	147
EPRA Vacancy	(%)	10.3%	23.3%	27.1%	49.9%
EPRA NIY	(%)	5.4%	7.1%	7.6%	4.3%

The lease re-gear at Glass House has added about 0.4 years to the 7.1 years WAULT for the G4 portfolio at Q4 2016. The short WAULT for the transformation assets is intentional.

The focus for offices in 2017 is on leasing up the vacancy and asset rotation. The G4 portfolio selectively offers scope to push rents, particularly in Amsterdam and Utrecht.

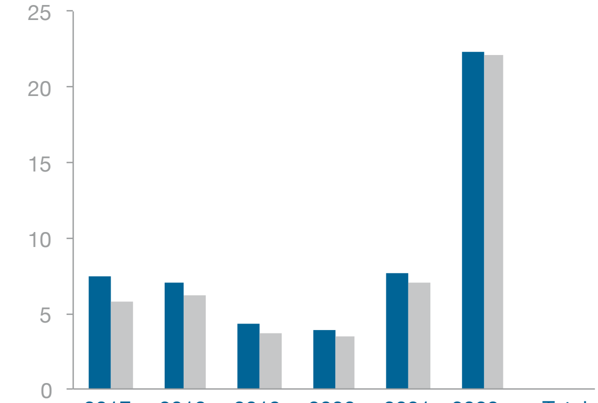
Revaluations and rental growth in the portfolio appear to go hand in hand. In the G4 rents and values are both up strongly, at 11.3% and 8.1% respectively. Outside the G4 the market has been much weaker, but the economic recovery is spreading and market dynamics are now improving as well.

Like-for-like[10]

	L-f-l NRI growth(%)	Revaluation (%)
G4	11.3%	8.1%
Other Randstad	-13.7%	-6.7%
Other Netherlands	-1.2%	-7.1%
Transformation	-13.9%	-8.4%
Total	**-5.5%**	**0.5%**

The over-renting in the office portfolio is 8.3% at Q4 2016. This includes the effects of the lease re-gear of Glass House and is down from 9.9% in 2015. The over-renting in the G4 portfolio is relatively modest at 2.1%, based in some cases on what we believe are conservative ERVs.

Annual expirations and reversion (€m)



	2017	2018	2019	2020	2021	2022+	Total
Contracted rent (€m)	7.4	7.1	4.3	4.0	7.6	22.3	52.7
ERV (€m)	5.7	6.2	3.7	3.5	7.0	22.1	48.3
# Contracts	97	90	46	34	49	60	376
Reversion	-22.9%	-12.2%	-14.7%	-10.6%	-7.8%	-0.7%	-8.3%

HNK

The HNK business has strong positive momentum. At year end 2016 there are 13 HNKs operational, with plans for two further openings in 2017. In 2016 we have strengthened the team and have significantly raised the bar on the requirements that new HNK locations need to meet. The potential to convert existing offices into HNKs is largely depleted, so the focus is shifting to optimisation of the existing HNK portfolio and to the search for new acquisitions for expansion.

One of the key strengths of the HNK brand is that NSI owns and manages the assets. This provides the necessary flexibility to act fast in catering to the specific needs of our customers.

	2016	2015
Number of properties	13	10
Market value (€m)	149	123
Annual contracted rent (€m)	12	9
ERV (€m)	20	16
Lettable area (k sqm)	125	110
EPRA Vacancy	37.1%	47.4%
WAULT (years)	3.1	3.5
Average rent/sqm (€/p.a.)[11]	167	188
EPRA NIY	4.3%	3.4%

The HNK vacancy rate has improved to 37.1% at Q4 2016. This is a positive result when considering that newly opened locations take time to mature and hold back overall occupancy levels in the mean time.

[10] NRI like-for-like only assets in portfolio for whole 2015 and 2016. Revaluation and yield shift assets in portfolio on 31 December 2015 and 31 December 2016

[11] Average rent 2015 including service charge

STRATEGY

ASSET ROTATION

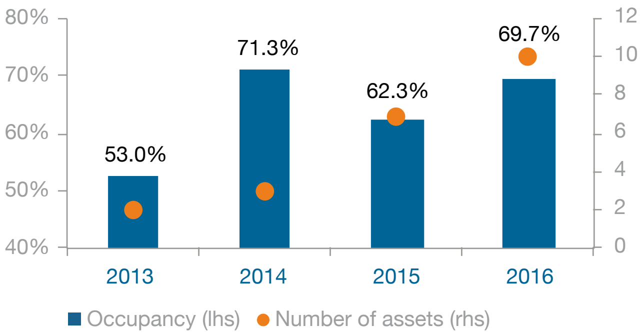
By disposing of properties that do not fit the strategy or do not deliver the targeted returns, NSI releases capital to pursue strategic acquisition opportunities elsewhere. Asset rotation is an important element in the execution of this strategy, focused on enhancing portfolio focus and improving the average quality.

In 2016 NSI sold almost its entire industrial portfolio, involving 20 industrial properties. CIO Anne de Jong: **"We managed to sell this non-strategic portfolio in one transaction, at the expense of a discount to book value. But more importantly, it provided us with the financial capacity to act swiftly on strategic opportunities. We reinvested our funds in the acquisition of Glass House, to which we added more value within six months than the discount we had to accept on this transaction, resulting in a €2 million value surplus, while the net rental income remained stable and the risk profile was lowered, and we see further future value potential for Glass House, driven by market rent growth and yield compression."**

At Q4 2016 a total of 6 HNKs have reached the necessary level of occupancy (circa 90%) to start exploit pricing power. HNK Utrecht CS, which opened in Q4 2015, has proven to be our most successful opening, moving to 97% occupancy within twelve months of opening.

For HNK the development of occupancy levels over the years is distorted by new openings. To show a meaningful history the graph below highlights the average occupancy levels for HNK assets that are open for at least one year in combination with the number of assets included in the calculation.

Weighted average occupancy[12]



HNK offers managed offices, tailored offices, club space and meeting rooms. The tailored offices are typically contracts for larger floor plates, with longer leases. As all our HNKs to date are converted offices, some of the tailored offices are in fact on leases that have been in place since before conversion.

The legacy leases run off over the coming years. This will help improve the operating margin for HNK as new leases include fully loaded costs for the entire HNK offering (including costs for the club room and common areas).

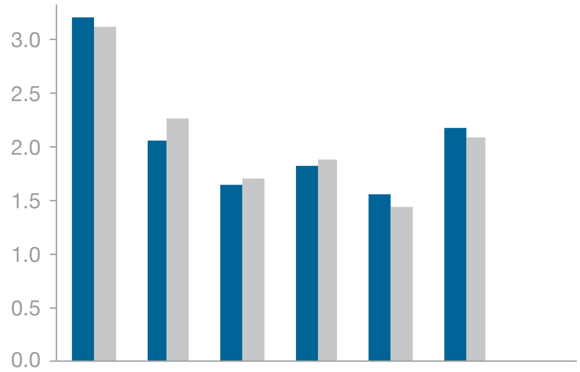
The EPRA net initial yield for the HNK portfolio is 4.3% at Q4 2016. This is up 0.9% on 2015, mostly because of higher occupancy and better margins. We anticipate the yield on HNK to further pick up in 2017, with operating leverage driving margin improvement.

The HNK portfolio revalued - €5.8 mln. This negative result was mainly caused by pressure on 2 properties outside of the Randstad area, HNK Ede and HNK Apeldoorn, of which the valuations declined similar to the overall trend in office properties outside of the major cities.

Lease expiries for HNK are always front loaded due to the short contract nature of flexible leases. We assume that managed offices are always rented at ERV, to reflect the short term nature of these leases.

[11] Includes HNK assets that are open for more than 12 months

Annual expirations and reversion (€m)



	2017	2018	2019	2020	2021	2022+	Total
Contracted rent (€m)	3.2	2.1	1.6	1.8	1.6	2.2	12.5
ERV (€m)	3.1	2.3	1.7	1.9	1.4	2.1	12.5
# Contracts	274	61	43	31	29	24	462
Reversion	-2.8%	9.5%	3.4%	3.3%	-7.4%	-3.1%	0.3%

The focus in 2017 is on improving the profitability of the HNKs in operation. Higher occupancy levels, better usage of the meeting rooms and attracting new memberships are key to exploiting the operating leverage embedded in HNK.

Retail

The NSI retail portfolio is diverse in type of asset and location, combining supermarket-anchored convenience shopping, out-of-town big box retail, two stakes in larger shopping centres, smaller in-town shopping centres and some in-town shop units. At the publication of the preliminary 2016 full year results, NSI announced to focus on the office- and HNK activities, and therefor to dispose the retail activities.

The retail portfolio has been marked down in Q4 2016, mainly as a result of lower ERVs and higher yields – reflecting market conditions. Retail has been soft in 2016, with net rents down 6.1% on a like-for-like and ERVs down 8.7%. At Q4 2016 the portfolio is 6.3% over-rented.

Retail

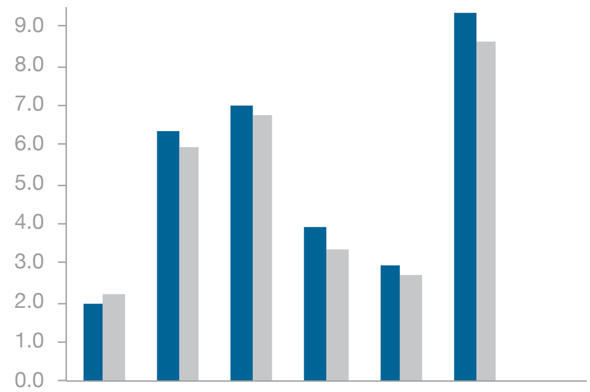
	2016	2015
Number of properties	41	41
Market value (€m)	382	425
Annual contracted rent (€m)	31	32
ERV (€m)	34	37
Lettable area (k sqm)	273	271
EPRA Vacancy	12.5%	14.8%
WAULT (years)	4.3	4.8
Average rent/sqm (€/p.a.)	137	142
EPRA net initial yield	6.4%	5.8%

The large scale retail portfolio is performing well, helped by a improving outlook for the housing market. Supermarket-anchored convenience shopping is providing a defensive cash flow and as such is in high demand.

The upgrade of a shopping centre in Spijkenisse was completed in Q3 2016. The upgrade and extension of the Keizerslanden shopping centre in Deventer is progressing according to plan, with delivery foreseen for Q2 2018.

		Retail	LSR
Assets	(#)	35	6
Area	(k sqm)	183	90
Value	(€m)	315	67
Value	(€/sqm)	1,717	748
WAULT	(yrs)	4.5	3.7
Contracted rent	(€m)	26	6
Market rent	(€m)	27	6
		176	69
Avg rent let spac	€/sqm		
EPRA Vacancy	(%)	14.1%	6.2%
EPRA NIY	(%)	6.3%	6.8%

Lease expiration schedule Retail incl LSR (€m)



	2017	2018	2019	2020	2021	2022+	Total
Contracted rent (€m)	1.9	6.3	7.0	3.9	3.0	9.3	31.5
ERV (€m)	2.2	5.9	6.7	3.3	2.7	8.6	29.5
# Contracts	117	144	93	67	67	80	568
Reversion	15.2%	-6.5%	-4.3%	-14.9%	-9.6%	-7.4%	-6.3%

BALANCE SHEET, NAV & FINANCING

HIGHLIGHTS

- Strong balance sheet
- Loan-to-value of 44.1%
- Release of securities on bank loans
- Average cost of debt fell to 2.8%

"NSI is in good financial shape. Once again, we achieved significant milestones in our funding and reporting in 2016. With a new strategy and a strong balance sheet the company is ready for the next phase. Which makes this a good time to hand over the reins with confidence."

Daniël van Dongen
CFO

Balance Sheet

The retail portfolio, one asset in Belgium and two assets in the Geleenstraat in Heerlen are classified as assets held for sale per Q4 2016. The sale of the two Heerlen assets has been completed in Q1 2017.

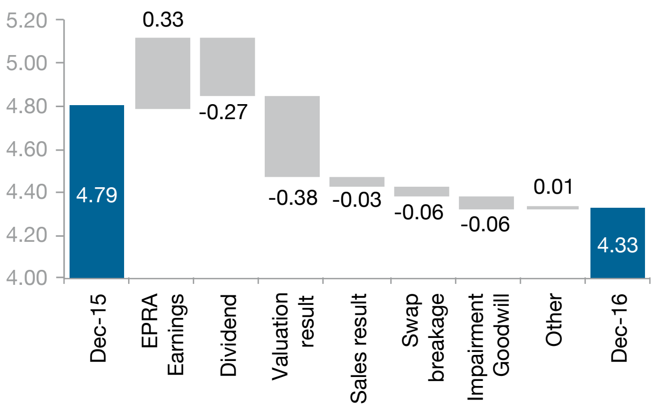
The 2016 re-segmentation of our assets in combination with the decision to sell retail has triggered an impairment of the full €8.2m in goodwill in the accounts.

The non-controlling interest in shareholders' equity has been eliminated in Q4 2016. The remaining foreign legal entities will most likely be liquidated by year-end 2017.

Net asset value

The net asset value at year-end 2016 is €604.3m (€660.7m in 2015). The EPRA NAV is €4.33 per share (€4.79 in 2015). The change in NAV is explained in the bridge below.

EPRA NAV per share bridge (€)



The gap between the €4.33 EPRA NAV and the €4.20 EPRA NNNAV at year-end 2016 solely reflects the legacy swaps, due to expire in 2020 and 2022, and the amortised cost of loans.

Funding

NSI strengthened its balance sheet in 2016, by extending the maturity of the loan portfolio at lower margins and by releasing the security on 73% of its property portfolio by value.

Net debt in December 2016 is €512.3m, a reduction of €29.9m compared to December 2015. This is driven by positive cash flow from operations, the divestment of the remaining interest in IOW and the disposal of most of the Industrial portfolio and 8 small office assets. The acquisition of Glass House, capital expenditure, dividend payments and breakage costs of swaps increased the net debt.

The average cost of debt fell to 2.8% at the end of 2016, down from 3.7% in December 2015.

This reflects the impact of the €265m refinancing of the RCF, the refinancing of the €27.5m FGH-bank loan and the expiry and the breakage of €210m of swaps throughout the year.

Net debt December 2016:

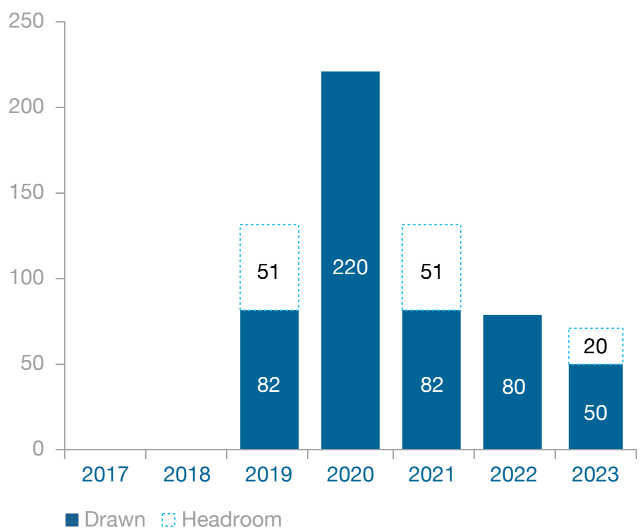
€m	Q4-16	Q3-16	Q4-15
Debt outstanding	513.8	532.3	567.4
Amortisation costs	-2.8	-2.6	-2.8
Book value debt	510.9	529.7	564.6
Debt to credit institutions	3.4	0.0	0.0
Cash	-2.1	-8.4	-22.3
Net debt	**512.3**	**521.3**	**542.3**

In September the security on €450m committed bank facilities was released. The refinancing of the FGH loan unencumbered a further €114m pool of assets. As a result, as per 31 December 2016 circa 73% of NSI's assets have no negative pledge from secured loan facilities. This will enable NSI to further diversify its funding.

The €513.8m of gross debt[1] in December 2016 consists of a €220m unsecured syndicated term loan, a €164m unsecured RCF, a €80m secured EUPP and a €50m secured facility with Berlin Hyp.

Undrawn credit facilities stand at €121m, of which €101m in the RCF and €20m with Berlin Hyp. NSI has a further €50m of uncommitted bank facilities.

Maturity profile loans (€m)



[1] Excludes debit positions on current accounts

STRATEGY

RELEASE OF SECURITIES

NSI released the security assets on its bank funding in 2015. As a result, around 75% of the assets were unencumbered as at 31 December 2016. Daniel van Dongen, CFO of NSI comments: **"The release of security is a significant milestone, providing more flexibility to execute the strategy and more room for NSI to diversify its funding sources and broaden its funding base going forward."**

NSI made further progress optimising its financing in 2016, including the refinancing of €250 million in revolving credit facilities at lower margins and aligning its derivative portfolio. All in all, NSI reduced its cost of debt to 2.8% compared to 3.7% at year-end 2015.

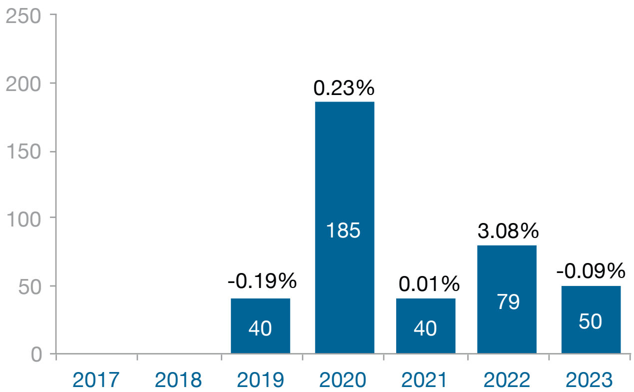
Leverage and hedging

The LTV increased to 44.1% at year-end 2016 (versus 43.2% in Q4 2015), reflecting predominantly the write downs of the retail assets in Q4. This is well within NSI's new internal target range of 40-45%.

The average loan maturity is 4.2 years (31 December 2015: 3.9 years) following the extension of the RCFs in December. No loans will expire prior to November 2019. The maturity of derivatives is 4.3 years (31 December 2015: 4.0 years), the maturity hedge[2] is 100% (target range: 70-120%).

The notional amount of swaps outstanding at the end of the year was €394.3m. The volume hedge[3] was 77% (target range 70-100%), slightly lower than in previous quarters. Not all swaps were renewed in December to provide flexibility to execute the new strategy. The market to market of the swaps is -€15.3m (2015: -€24.8m).

Maturity profile swaps and fixing margins (€m)



Development of covenants

NSI complies to all its covenants. The LTV is 44.1% and the ICR increased to 3.8x (31 December 2015: 3.2x) net rental income.

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

Covenants

	Min/max	Q4-16	Q3-16	Q2-16	Q4-15
LTV	≤ **60%**	44.1%	43.0%	39.1%	43.2%
ICR	≥ **2.0x**	3.8x	3.5x	3.4x	3.2x

[2] Maturity hedge is average maturity of swaps as % of average maturity of loans
[3] Volume hedge is amount hedged as % of total drawn debt facilities

HNK

HNK ROLL-OUT

NSI opened its 13th HNK location in December 2016: HNK Amsterdam Arena, the second HNK in Amsterdam. This 11,500 sqm property is strategically located in one of Amsterdam's main business districts, Amsterdam Zuidoost, at the main motorway junction with good public transport connections.

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 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 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 database 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 monitor company performance using key performance indicators. A back-up and recovery plan, including a fully equipped fall-back location, is in place 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 transactions 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 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. At the time of writing this report, NSI still owned a significant retail property portfolio. 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. NSI's financial policy can be described as conservative, as evidenced by the conservative financing objectives stated in the Strategy chapter. 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.

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

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.

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

Improvements in risk management and control systems in 2016

In the course of 2016 various changes were implemented both at the top of the organisation with the arrival of a new CEO and throughout the company with a 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, significant business units were or will be sold as a result of strategic decisions (Intervest Offices & Warehouses, industrial properties, retail properties). This has resulted in changes in our organisation's reporting requirements. 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. At the same time, the company is increasingly focused on activities including HNK, the need for further digitisation of information and processes, and the speed, details and level within the organisation that they need to be available. 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. Reports currently built in the ERP system that are subject to new requirements as a result of the strategic changes within the organisation will be phased out and replaced by DWH reports and new CRM/ERP functionality, and necessary integrity verifications and safeguards are being implemented. The aim is to also accelerate the periodical closure process

The digital risks associated with data integrity and data security change 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 keeps on eye on these developments, and adjust internal controls accordingly if required. The further rollout of the HNK concept, where the role of digital services and the speed of information are becoming increasingly important in a rapidly changing environment, has also resulted in increased demand for ICT knowledge and capacity within the organisation. This was reason to appoint an experienced Director of ICT at the start of 2016 and a number of internal and external data specialists were hired in the course of the year to lead and implement the CRM/DWH projects and to further formalise the ICT control measures. In accordance with COSO guidelines applied, the ICT management processes (including the security, back-up and helpdesk procedures) were updated. Moreover, a review of authorisations 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. Transferring NSI's activities to a fallback location in the event of a calamity is tested twice a year, most recently in December 2016.

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	Risk	Mitigating measure	Impact	Probability
STRATEGIC & BUSINESS RISK				
Appetite	NSI pursues focus and growth 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.			
Economic environment	The NSI real estate portfolio consists of office properties and retail properties (currently still in possession). Demand for both office and retail space generally correlates with economic growth. In addition, retail is exposed to a broader range of macroeconomic factors, including consumer confidence and consumer spending.	NSI constantly engages with its tenants to respond to their needs. Tenant performance is monitored closely, including the payment of outstanding balances, in order to be proactive if a tenant runs into difficulty. NSI pursues a multi-tenant strategy in its portfolio to spread its tenant risk. In the retail portfolio, NSI aims to have at least one supermarket as anchor tenant to ensure footfall, even in adverse economic times.	M	M
Market value of properties / valuation risk	The market value of assets is an important metric. These valuations can be affected by the general (macro-)economic and market environment, but also by local factors. There is also 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.	At present NSI only invests in the Netherlands, which is a stable country both politically and economically with a relatively transparent real estate market. Risks can be reduced – but never eliminated – by focusing on selected areas with a healthy and liquid office market and prospects, and through a diversified portfolio. NSI aims to do this by concentrating its portfolio and investments on demographically and economically strong areas and locations in high-quality properties. Sensitivity to fluctuations in value is greater outside of these areas. NSI's portfolio management strategy is therefore focused on investing and reinvesting in high-quality areas and properties. NSI tries to time acquisitions and divestments of properties as effectively as possible. The Management Board is responsible for determining valuations. The valuations are influenced by economic circumstances that cannot always be influenced by NSI and are largely based on assumptions and various estimates relating to factors including future rental potential, movements in rental prices, vacancy, lease incentives and maintenance costs which are used by external appraisers and assessed by the Management Board of NSI. Valuations also depend on the availability of relevant market comparables. NSI's portfolio is externally appraised twice a year (on 30 June and 31 December). Prior to 31 December 2016 at least 50% of the appraisals were performed by external appraisers in each appraisal period. As from this date NSI will have 100% of its real estate externally appraised. NSI has set up its valuation process based on the good practice provisions of the Dutch platform for appraisers and auditors (PTA).	H M	M
Structural changes in consumer behaviour of shoppers	Online shopping has increased substantially in recent years. If this trend progressively 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 part ways with its retail property. Within this retail property NSI has a clear strategy focused on local convenience shopping centres with at least one supermarket as an anchor tenant and a clear focus on food and other daily needs. This type of shopping centre is less sensitive to online shopping.	H M	H

L low M medium H high

Risk category	Risk	Mitigating measure	Impact	Probability
Structural changes in the workplace of office tenants	Average office space in sqm has been decreasing over time. Moreover, work arrangements are changing, driven by technological developments and a lifestyle in which people tend to work more flexibly in terms of hours and location.	NSI actively anticipates the need for flexibility particularly through its HNK concept but also by adapting its traditional office space to facilitate these trends. By doing so, these changes are more an opportunity than a risk. Because the freedom of choice of NSI's tenants and members of HNK 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 create client retention and customer satisfaction. The level of service is examined in both the existing services such as catering and conference facilities and technological solutions such as the availability of data connections and access to internet-based services.	M	H
Lack of properties that meet the investment criteria	Asset rotation is a key element in 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 with asset management and the financial departments. NSI has built up an extensive network in the industry to generate and respond to market opportunities effectively. NSI has flexible credit facilities in place that make it possible to repay cash proceeds on sales without penalty interest and in the event of acquisitions to access the required financing quickly and without reservation. There is also a risk that NSI's results are temporarily lower as time passes between the sale of property and the subsequent reinvestment because the return on cash is less than if the cash were invested in real estate. NSI aims to reduce this impact by constantly reviewing and timing as many potential acquisition and divestment opportunities as possible.	M	M

OPERATIONAL RISK

Appetite	NSI focuses on good-quality, high-yielding real estate with an active portfolio management strategy aimed at adding value for shareholders while anticipating the asset value development cycle through asset rotation. This implies a low risk appetite.			
Risk of expansion and (re)development of properties	The risk of expansion and (re)development of properties relates to execution and the risk of not or not sufficiently being able to let out the new or redeveloped space.	Expansion and redevelopment only take place if the required permits have been obtained, appropriate financial arrangements are in place, and, where possible, leases have been concluded for most of the property and the major tenants have committed to leases Capital-deepening investments are prepared with the help of extensive investment analyses dealing with both the operational and financial aspects in numerous scenarios. External expertise and input is used where necessary. Investments exceeding €1.5 million (from 2017 onwards: €3.5 million) are subject to approval from the Real Estate Committee and investments exceeding €7.5 million (from 2017 onwards: €10 million) are subject to Supervisory Board approval.	L	L
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 influence on rent levels can only be felt over the longer term, there is a risk that buildings are not adequately maintained or updated. NSI will also have to invest in the sustainability of properties. In 2016, an Energy Agreement was agreed, involving that all Dutch office properties must have an energy label C or higher by 1 January 2023.	NSI has an experienced technical department which is responsible for the technical quality of the properties and the provision of timely maintenance and investments, as well as for complying with changing laws and regulations relating to these properties. Maintenance is provided using suppliers with a good reputation in order safeguard the quality and reliability of the activities. As per 31 December 2016, 84% of NSI's core portfolio applies has energy label C of higher).	M L	L

L low M medium H high

Risk category	Risk	Mitigating measure	Impact	Probability
Risk of transactions with parties of ill repute	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 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.	H M	L
Purchase and sales risk	Asset rotation is a key element in 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 uses an internal calculation model to determine the expected return from a property 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 making 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 advisors. Purchases are subject to discussion and/or approval by the Real Estate Committee and/or the Supervisory Board.	M	M
ICT systems, infrastructure & applications	Professionally managing and controlling risks associated with safeguarding continuity, availability and functioning and security of the internal IT infrastructure and applications is of vital importance to NSI. The implication of not fully controlling IT risks is not being able to report internally or externally in a timely or correct way, which in turn has 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. NSI invests in further digitising its corporate processes, focusing on transparency and the security of its data information, and is advised on this by external parties. The digital risks that deal with data integrity and data security are impacted significantly by external influences. To date, NSI has suffered no damage from such developments, but avoiding the the occurrence of such incidents is an important point of attention. Management keeps an eye on these developments and adjust internal controls if required.	M	M
Letting and debtor risks	Letting and debtor risks relate to the loss of rental income due to an inability to retain tenants after contract expiry, tenants defaulting on rent payments and bankruptcies.	These risks are managed or mitigated, where possible, by timely anticipation of approaching maturities and contract and rent reviews by discussing the rental contract with the existing tenant or potential other tenants in a timely way. To keep the quality and maintenance of the rented property at a high level and the level of service high – as is the case at HNK – NSI aims to have a positive impact on the retention rate (i.e. the percentage of existing tenants who are retained). The risk of bankruptcy and/or default is reduced by screening new and existing tenants for 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.	L M	L M

L low M medium H high

Risk category	Risk	Mitigating measure	Impact	Probability
Risk of calamity	Calamity risk is the risk of a calamity giving rise to extensive damage to one or more properties, with the potential consequence of 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 letting on 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.	M	L
Quality of employees and advisors	Working with underqualified employees can result in strategic objectives not being met. This also applies to the selection of the right advisors.	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 prevent this risk by pursuing an active HR policy with standards for hiring, training, assessing and remunerating employees. Furthermore, NSI only works with reputable advisors with proven experience in the field for which they are hired.	L	L

COMPLIANCE RISK

Appetite	NSI strives to fully comply with laws and regulations. This means that the risk appetite is extremely low.			
Laws and regulations / codes and regulations	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. New core values were defined as part of the strategic reorientation. In 2017 this will be communicated extensively to employees in a programme focused on behaviour and culture. Special attention will be paid to the theme of compliance.	M	L M
Tax risk	NSI has the status of a Dutch REIT (fiscale beleggingsinstelling or 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 continually 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'. Then possibility to perform 'associated activities' along with the main task of letting and managing real estate has been incorporated in the Dutch law since 1 January 2014. There has, however, been no Dutch case law on the subject. That is why NSI discusses the range of activities it undertakes, including the activities related to with HNK, in advance with the Dutch tax authority (Belastingdienst) in order to liaise. In 2016, NSI comfortably complied with the requirements associated with the status of an FBI. NSI maintains close relations with the Belastingdienst and consults regularly with the relevant authorities to ensure an adequate level of information exists for all parties involved.	H M	L M

L low M medium H high

Risk category	Risk	Mitigating measure	Impact	Probability
FINANCIAL RISK				
Appetite	NSI has a conservative financial policy. This means that the risk appetite is low.			
Reporting risk	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 their publication by means of a press release. The full financial statements are audited by the external auditor.	L M	L M
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 or repayment, meaning that the company suffers reputational damage or 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 refinancing maturities at a very early stage in order to decrease the risk associated with 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.	L M	L
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 interest rate 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.	L	L
Credit risk	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 do not refinance an outstanding debt to NSI but make it immediately payable.	NSI minimises the risk associated with possible non-compliance by counterparties by entering into transactions with well-known and reputable financial counterparties for its loans and derivative instruments. In addition, NSI spreads the outstanding debt both in maturity and across multiple parties in order to reduce its dependence on a single party The counterparty risk arising from these transactions is limited to the costs of replacing these contracts at the current market rate in the event of non-compliance. NSI considers the risk of loss as a result of non-compliance to be low.	L	L

L low M medium H high

International Financial Reporting Standards (IFRS)

In accordance with European and Dutch laws and regulations NSI has prepared its financial statements for the 2016 financial year based on IFRS. The 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 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 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 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 2016 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 2016. 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 2016, 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 2017.

No significant changes to the structure of NSI's administrative organisation and internal controls are expected for the 2017 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 2016, 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 2017.

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 2016 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; 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.

SENSITIVITY ANALYSIS

	Increase/decrease	Estimated impact on total investment result (€m)	Effect on direct result per share (€)	Effect on indirect result per share (€)
Occupancy rate	1%	1.2	0.01	
Interest rate risk*	1%	0.4	0.00	
Revaluation of investment properties	1%	11.6		0.08

* based on loans and derivatives currently outstanding

SUSTAINABILITY

HIGHLIGHTS

- New sustainability strategy in 2017
- All energy for electricity consumption sustainable generated by hydropower
- Energy savings of 7% achieved in 2016
- NSI operates virtually 100% carbon neutral for its energy consumption

Setting the framework

In the course of 2017, NSI will publish an updated Sustainability Framework, aligned with its revised strategy as announced at the publication of the 2016 full-year results. In this framework, NSI will also give substance to the Energy agreement recently agreed in 2016, which involves that all Dutch office properties must have an energy label C or higher by 1 January 2023 (2016: 84% of the core portfolio of NSI has energy label C or higher). This revitalised strategy will see NSI further embark on initiatives it already started and to build on the pillars of Bricks, People and Partners.

This chapter provides an update on the company's current initiatives.

CSR Management

NSI has established a CSR working group, chaired by the CIO, with representatives from Asset Management, Technical & Construction Management and Human Resources.

The milestones and objectives to be defined in the revitalised CSR strategy will be fully embedded in the budget, business and asset plans. Progress will be monitored by integrating CSR reporting in overall management reporting.

Bricks

The first pillar of NSI's sustainability framework is dedicated to reducing the environmental impact of the real estate portfolio. Through the optimisation of energy efficiency, the use of sustainable materials and sources, and the promotion of the sustainable use of properties, NSI aims to minimise the environmental impact of the portfolio.

The environmental impact is largely influenced by the use of the properties. By informing and advising tenants, NSI creates greater insight into and awareness of their energy consumption and business operations.

NSI's aim is to achieve energy savings, an increase in sustainable sourcing and a reduction in CO_2 emission.

- NSI achieved energy savings of 7% in 2016.

NSI uses regular maintenance works to improve sustainability metrics, including measures to reduce energy consumption such as using more efficient lighting and heating systems and by installing cooling generation systems and solar panels. NSI has managed to significantly upgrade the energy label in its portfolio in recent years, as reflected by 84% of its core portfolio having a 'green label' (i.e. energy labels A, B or C).

NSI partner Sweco constantly monitors energy consumption and oversees installations to safeguard maximum efficiency.

- All energy for electricity consumption was sustainably generated by hydropower in 2016

Furthermore, NSI has started initiatives to move to even more renewable sources. NSI started a partnership to install solar panels in 2016. The roll-out will take place in 2017. As a result, 10% of the energy consumption of the portfolio will be sourced from this renewable energy source.

In 2017, NSI will further improve its sustainable sourcing by replacing energy generated by hydropower with European wind energy. Moreover, the usage of gas will be fully offset by purchasing Gold Standard Certificates in 2017.

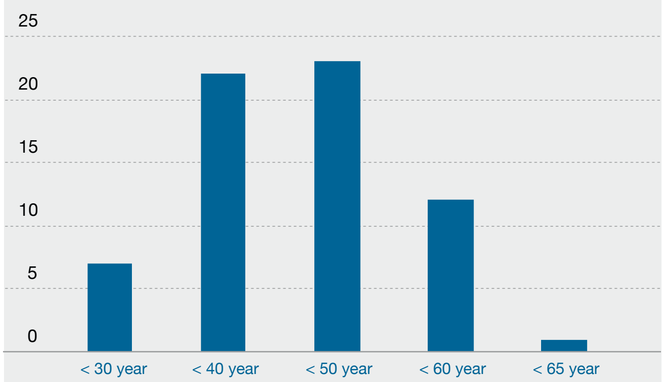
- NSI operates virtually 100% carbon neutral through purchasing of Gold Standard Certificates.

ENVIRONMENT

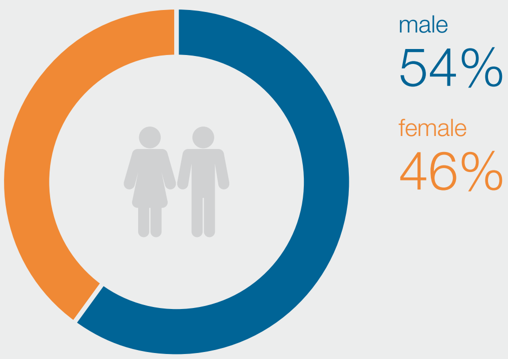
GREEN ROOFS

On a number of properties, including the Zuiderterras shopping centre (see above), NSI created so-called ‘green roofs’. This initiative not only responds to a growing trend of greening in urban areas, but also decreases the impact of particulates.

AGE DISTRIBUTION OF PERSONNEL



MALE/FEMALE RATIO PERSONNEL



Partners

Taking into account its chain responsibility, NSI stimulates initiatives that make the total real estate chain more sustainable through collaboration with its partners. NSI plays an active role in strategic partnering with suppliers, consultants and knowledge institutes in order to develop new services, concepts and products for our tenants.

NSI’s most important partners are currently Sweco (installations), KiesZon (sonar panels), Dutch Renewergy (sonar panels) and MAIN Energie (renewable energy sourcing).

People

NSI aims to attract and retain people, develop human capital and develop employee talent and potential. NSI aims to be a good employer, providing an open and inclusive climate and encouraging employees to develop by providing training opportunities.

NSI aims to promote healthy habits in its properties by creating awareness and providing information to tenants. For instance, by placing signs that encourage people to take the stairs instead of the lift. Also for its own personnel NSI creates an environment that encourages a healthy lifestyle, including participation in (sports) events and by providing healthy foods at lunch. The efforts to provide a safe and healthy working environment is reflected in the low absenteeism rate 2.7%.

At year-end 2016 NSI employed 70 people (65 FTEs), compared to 78 (71 FTE) in 2015. 46% of employees are women (30 women to 35 men).

Performance & Talent Management

Managers and employees take part in annual assessment and performance reviews to discuss the employee’s performance, results and (career) development. This cycle of assessment and performance reviews provides a good overview of employee development potential and defines individual training and development needs. A Performance & Talent Management programme is used to gain an insight into the workforce as a whole with regard to the competencies of our employees.

Charters and covenants

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 integrity issues in 2016.

HNK UTRECHT

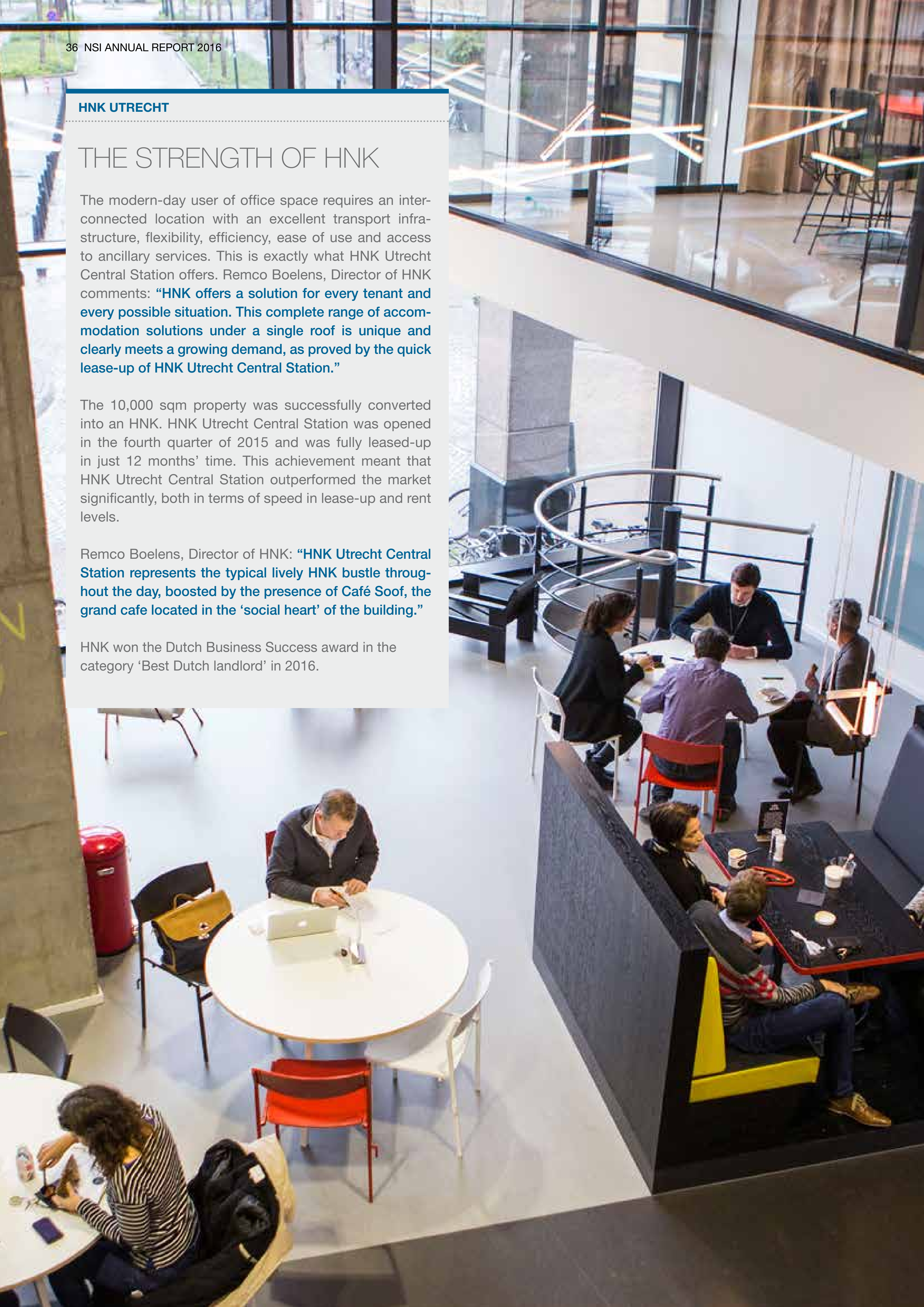
THE STRENGTH OF HNK

The modern-day user of office space requires an interconnected location with an excellent transport infrastructure, flexibility, efficiency, ease of use and access to ancillary services. This is exactly what HNK Utrecht Central Station offers. Remco Boelens, Director of HNK comments: **"HNK offers a solution for every tenant and every possible situation. This complete range of accommodation solutions under a single roof is unique and clearly meets a growing demand, as proved by the quick lease-up of HNK Utrecht Central Station."**

The 10,000 sqm property was successfully converted into an HNK. HNK Utrecht Central Station was opened in the fourth quarter of 2015 and was fully leased-up in just 12 months' time. This achievement meant that HNK Utrecht Central Station outperformed the market significantly, both in terms of speed in lease-up and rent levels.

Remco Boelens, Director of HNK: **"HNK Utrecht Central Station represents the typical lively HNK bustle throughout the day, boosted by the presence of Café Soof, the grand cafe located in the 'social heart' of the building."**

HNK won the Dutch Business Success award in the category 'Best Dutch landlord' in 2016.



CORPORATE GOVERNANCE

Introduction

NSI is a Dutch public limited liability company which is listed on Euronext Amsterdam. It has a Management Board and a non-executive Supervisory Board (two-tier structure). 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.

Corporate Governance Code

Aside from the Dutch law, the most important source of guidance on corporate governance in the Netherlands is the Dutch Corporate Governance Code. In accordance with best practice I.1, this section gives a general explanation of the company's corporate governance structure.

New Corporate Governance Code

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.

Any changes to regulations or other written records on the grounds of the Code must be implemented by no later than 31 December 2017.

The appointment term of Supervisory Board members, as included in best practice provision II.2.2, (i.e. four years with a single reappointment for another four years and subsequently – if justified – potentially two further two-year periods) does not yet apply to Supervisory Board members whose reappointment for a third four-year term will be proposed at the General Meeting of Shareholders in 2017.

An amendment to the NSI Articles of Association will be proposed at the General Meeting of Shareholders on 21 April 2017 to adopt the adjusted appointment term of members of the Supervisory Board.

The texts and legal terms of the regulations relating to the Management Board, the Supervisory Board and its committees will be aligned with the provisions of the new Code in the course of the year and submitted for discussion to the Supervisory Board so that the final versions of the regulations can be adopted by no later than the final meeting of the Supervisory Board in 2017.

The Code requires different or additional policies in a number of areas which are partly to be incorporated in new policy documents. Drafts of these documents will be drawn up in the course of the year and submitted for discussion to the Supervisory Board so that the final versions can be adopted by no later than the final meeting of the Supervisory Board in 2017.

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 in the extraordinary meeting of shareholders of 25 August 2016, involving a reduction in the fixed salary of the CEO and increase of the LTSP percentage of the CEO.

Supervisory Board

The primary duty of the Supervisory Board is to supervise the management exercised by the Management Board and general developments at the company and its associated companies, and 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 III.2.2 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 with an investment company that holds an interest in NSI of more than 5%. This investment company has invested in NSI with the view of a long-term investment and the involved Supervisory Board member is actively supervising that no transactions in NSI shares take place during the so-called closed periods and during periods when the member of the Supervisory Board has inside information at its disposal not yet made generally available by the company.

In line with section 2:166 (now expired) of the Dutch Civil Code, the profile of the Supervisory Board includes a target for 30% of the board to be composed of women. When looking for new Supervisory Board members, the focus is specifically on female candidates as long as this target has not been achieved. The Supervisory Board expects to reach this target in the course of the coming years. Since the most recent appointments to the Supervisory Board at the General Meeting of Shareholders of 29 April 2016, 20% of the Supervisory Board has consisted of women and 80% of men.

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.

According to its regulations, the Supervisory Board is responsible for decision-making in dealing with (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 Dutch Financial Supervision Act (Wet op het financieel toezicht or Wft) and IFRS, the item 'related parties' in the annual financial statements reports on transactions between the company and related parties, including members of the Management Board and the Supervisory Board, as well as on 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 2016 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 by adequate grounds. In case of a reappointment, account is taken of the performance and operation of the candidate in his or her capacity of Supervisory Board member. The articles of association and the regulations governing the Supervisory Board state that a Supervisory Board member can be a member of the Supervisory Board for a maximum of twelve years. A decision by the General Meeting of Shareholders for the dismissal or suspension of 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. There is also a special meeting at which the Supervisory Board discusses its own operation 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.

As is the case among the majority of listed small cap companies in the Netherlands, the company has no internal audit department. The Supervisory Board discusses the findings of the external auditor with regard to the company's internal control environment with the Management Board and the external auditor. In its meeting of 5 December 2016 the audit committee discussed in the light of Best Practice principle V.3.3 of the Corporate Governance Code, the need and desirability to have an internal auditor. It was considered that NSI has only 65 FTEs, no significant activities outside the Netherlands, and that it will focus even more on a limited number of market segments in the future. Based on this assessment, the Audit Committee recommended not to constitute an internal audit function. The Supervisory Board has accepted this recommendation and advised the Management Board to continue current practice.

In 2016 the Supervisory Board in close cooperation with the management of NSI paid extra 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 new employees are being hired for redefined positions.

With a view to facilitating the change process, more investments were made in broadening the management information systems through 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.

Shareholders

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.

Shareholders have the right to cast one vote for each ordinary share they hold; they may cast their votes by proxy if desired.

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.

Two shareholders' meetings were held in 2016. The regular Annual General Meeting of Shareholders took place on 29 April 2016. This General Meeting of Shareholders addressed the following topics: the 2015 annual report, the application of the remuneration policy, the adoption of the 2015 financial statements, the appropriation of profit for 2015, the discharge of the Management Board and the Supervisory Board, various authorities granted by the General Meeting of Shareholders to the Management Board and the Supervisory Board to issue a limited number of shares subject to certain conditions and to the restriction or exclusion of pre-emptive rights, and the authorisation to purchase a limited number of shares subject to certain conditions. Furthermore, Anne de Jong was appointed as CIO and statutory director and Karin Koks and Harm Meijer were appointed as members of the Supervisory Board.

An Extraordinary Meeting of Shareholders was held on 25 August 2016. At this meeting Bernd Stahli was appointed as CEO and statutory director, and a change in the remuneration policy was adopted.

The draft minutes of the General Meeting of Shareholders are placed on the company's website within three months after 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 it in the company's interests.

External auditor

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

The General Meeting of Shareholders may ask the external auditor questions regarding the auditor's report about the reliability of the financial statements. The external auditor may address the meeting on this subject.

In the context of the regular rotation, PwC was appointed as NSI's auditor in 2016. This assignment was taken over from KPMG after a coordinated transfer of activities to PwC.

Compliance with the Code

In response to and as a result of the Dutch Corporate Governance Code, the company has drawn up various codes and regulations and has implemented these, both 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

NSI has an authorised share capital consisting of 216,453,385 ordinary shares. At 31 December 2015, as well as at 31 December 2016, 143,342,678 shares (including 140,837 treasury shares) with a nominal value of € 0.46 were issued and fully paid up. Each share entitles the holder to one vote. The company does not apply any limitation to the transfer of its shares.

Notifications pursuant to the Dutch Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions Act were received from a holder of ordinary shares representing more than 3% of the company's capital. According to the most recent notification, these interests were as follows:

	as at 31 December 2016	as at 9 March 2017
ICAMAP Investments SARL	5.0%	5.0%
BlackRock, Inc.	5.1%	5.1%
Phoenix Insurance Company Ltd.*)	3.7%	3.7%
Cohen & Steers Capital Management, Inc.	4.6%	3.0%
BNP Paribas Investment Partners SA	4.6%	4.6%
Norges Bank	3.0%	3.0%
CBRE Clarion Securities, LLC	2.5%	3.0%
AXA Investment managers S.A.		3.0%

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.

The agreements that NSI has with its financiers include the provision that in the event of a change in control of NSI the financiers may demand that any loans be redeemed early. This would, for example, apply in the event of a successful public offer for NSI shares.

DETAILS OF THE BOARD OF MANAGEMENT

Mr B. Stahli (1971)
CEO of NSI

Nationality Dutch

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

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

First appointment 1 September 2016

Current term Until 31 August 2020

Mr D.S.M. van Dongen (1971)
CFO of NSI

Nationality Dutch

Previous positions Group controller Wereldhave NV (member of the management team), Senior controller Wereldhave NV, Finance manager TNT Logistics France, Financial controller TNT Logistics Netherlands & TNT Italy, Manager corporate finance TNT Post Group, Corporate finance advisor KPN

Education Business school, specialisation corporate finance, at the universities of Groningen and Salamanca (Spain)
Post graduate education Certified Controller, University of Amsterdam

First appointment 1 November 2009

Current term Until 31 December 2017

Mr A. de Jong (1971)
CIO of NSI

Nationality Dutch

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

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

First appointment 1 May 2016

Current term Until 30 April 2020

DETAILS OF THE SUPERVISORY BOARD

Mr H.W. Breukink (1950)
Chairman

Nationality Dutch

Current position professional supervisor and coach

Previous positions Financial and management positions at F&C Asset Management Plc., Boer & Croon, Royal Dutch Shell and supervisory board member of VastNed Offices/Industrials, supervisor at Omring (chairman) and Haag Wonen (Vice Chairman)

Additional positions Coach for senior executives

Supervisory Board positions ING Groep, Brink Groep and Hogeschool Inholland (chairman), Gemeente Museum The Hague.

First appointment 2011

Current term To 2017

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

First appointment 2014

Current term To 2018

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

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, Alrijne Care Group

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 position Non-executive Board member, Genesta Nordic Capital Fund Management, Non-executive Board member Immobel, Senior advisor Masterdam, External Consultant Accord Group

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

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 2016 financial year. PricewaterhouseCoopers Accountants N.V. has audited the financial statements and has issued an unqualified opinion (page 96-103). We will recommend that the financial statements be adopted at the General Meeting of Shareholders on Friday, 21 April 2017. The discharge of the Management Board in respect of the policy pursued in 2016 and of the Supervisory Board from the supervision it provided in 2016, will be addressed as separate agenda items at the General Meeting of Shareholders.

Details on the composition of the Supervisory Board can be found on page 42.

An explanation of the duties of the Supervisory Board can be found in the corporate governance section on page 37.

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

	First appointment	End of current term	End of ultimate term
Henk Breukink	2011	2017	2021
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

Meetings and activities of the Supervisory Board; attendance

The Supervisory Board met on nine occasions for regular meetings during the year under review and held one conference call. All Supervisory Board members attended the meetings with the exception of two members on two occasions and three members on one occasion. The 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.

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, 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 and beyond, 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 policy also have the Supervisory Board's constant attention.

The meetings of the Supervisory Board are structured in such a way that, in addition to the general topics mentioned above, one or more specific themes are being discussed at each meeting throughout the year. These were as follows:

Meeting held in	Theme
February	Results for the past financial year; evaluation of Management Board performance
March	Meeting with auditor to discuss financial statements Annual Report; preparation for the General Meeting of Shareholders; evaluation of Supervisory Board performance
April	General Meeting of Shareholders
May	First-quarter results; site visits; training
August	Half-year results and strategy update
October	Third-quarter results; risk management and control systems
December	Company strategy, long-term plan and budget for the coming year

Throughout the year the Supervisory Board focused specifically on drafting a profile for the new CEO and on the process of selecting a candidate who satisfied the requirements set by the Supervisory Board. In addition, the Supervisory Board intensified its monitoring during the transitional stage and was in contact with the Management Board more often to ensure that the continuity of the company was sufficiently safeguarded. After the appointment of the new CEO the Supervisory Board was closely involved in the reorganisation that was immediately launched and in the development of the new strategy. The chairman of the Supervisory Board and the CEO are in regular contact to update one another on recent developments.

CFO Daniel van Dongen has indicated that he will not be available for reappointment for a third term at the AGM of 21 April 2017. The Supervisory Board recently drafted a profile for a new CFO and started the selection process. It is important to the Supervisory Board that the financial and risk management aspects continue to be represented directly in the statutory Management Board to balance out the strategic and operational aspects. That is why the Supervisory Board will propose that the new CFO be appointed a statutory director during an extraordinary meeting of shareholders later this year.

Evaluation

The Supervisory Board must evaluate its own performance at least once a year. In its meeting on 13 February 2017 the Supervisory Board decided not to conduct this year's evaluation on the basis of a self-analysis using a questionnaire, as it did in 2016 and the year before. Instead, it wants to have a more comprehensive evaluation conducted by an external party. The reason for this is that the most recent comprehensive evaluation dates back to the end of 2012/early 2013. The Supervisory Board considered whether this comprehensive evaluation should be conducted before 9 March 2017 so that the outcome could be reported on in the 2016 annual report, or at a date later in the year. The Supervisory Board opted for the latter option because an evaluation will then be conducted at a time that the new Supervisory Board members Karin Koks-Van der Sluijs and Harm Meijer will have fulfilled their role for a full year, allowing for their performance at the General Meeting of Shareholders to also be evaluated.

Situations as referred to in provisions III.6.1 to III.6.4 of the Dutch Corporate Governance Code (i.e. transactions with shareholders that hold a stake of at least 10% in the company and transactions that pose a potential conflict of interest for Supervisory Board members) did not occur during the year under review.

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

Corporate Governance

The Audit Committee annually assesses the need for an internal auditor. The following aspects are taken into consideration:
- the need for expert internal supervision;
- the nature and complexity of the risks;
- the need for objective (monitoring) information;
- internal control responsibility where activities have been outsourced.

As previously stated in this report, the company does not have an internal audit department, similar to most Dutch small cap companies. In its meeting of 5 December 2016 the Audit Committee assessed the need and desirability to have an internal auditor, in accordance with best practice provision V.3.3 of the Dutch Corporate Governance Code. It was considered that NSI has only 65 FTEs, no significant activities outside the Netherlands, and that it will focus even more on a limited number of market segments in the future. The Audit Committee is of the opinion that expert supervision of the structure and operation of the risk management system are sufficiently safeguarded even without an internal audit department.

Based on this assessment, the Audit Committee recommended not to constitute an internal audit function. The Supervisory Board has accepted this recommendation and advised the Management Board to continue current practice.
There are no anti-takeover measures in place to protect against a takeover of control over the company as referred to in best practice provision IV.3.11 of the Dutch Corporate Governance Code.

In the General Meeting of Shareholders of 29 April 2016, Henk-Jan Van den Bosch and Gerard de Greef resigned from the Supervisory Board after having served the company and the Board for many years. At the same meeting Karin Koks-Van der Sluijs and Harm Meijer were appointed as members of the Supervisory Board.

At the Extraordinary General Meeting of 25 August 2016, Johan Buijs resigned as CEO after having served as CEO of NSI since 2008. In the same meeting, Bernd Stahli was appointed CEO with effect from 1 September 2016.

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.
- A dividend is distributed twice a year for practical reasons: an interim divided after the first six months and a final dividend following adoption by the AGM.

2016 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 2016 of € 0.14 per share. That brings the total dividend for 2016 to € 0.27 per share, of which € 0.13 per share was distributed as an interim dividend on 9 August 2016.

Subject to the approval of the General Meeting of Shareholders, 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.

The financial calendar has been adjusted slightly to give shareholders sufficient time to decide between a stock and/or cash dividend. Provided that the General Meeting of Shareholders approves this dividend proposal, the final dividend will be payable from 15 May 2017.

REMUNERATION COMMITTEE AND REMUNERATION REPORT

The Supervisory Board has drafted a regulation specifying the role and responsibilities of the Remuneration Committee, its composition and how it carries out its duties. The regulations and composition of the Remuneration Committee are posted on the company's website.

The Remuneration Committee consists of Luurt van der Ploeg (chairman) and Henk Breukink (member).

The Remuneration Committee met twice in the year under review. The topics discussed at these meetings included the calculation of the long-term share plan (LTSP) of the former CEO and the remuneration of the newly appointed CEO and the establishment of individual targets for the members of the Management Board linked to their LTSP.

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. The latest adjustment to the remuneration policy was adopted in the Extraordinary meeting of shareholders of 25 August 2016. This adjustment involved a reduction in the fixed salary of the CEO and an increase in the LTSP percentage of the CEO.
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.

Johan Buijs, CEO until 31 August 2016, received a fixed salary of €466 thousand for 2016. In addition, Mr. Buijs received a severance payment of €466 thousand, in line with the provisions of his management agreement. The amount paid is equal to the maximum referred to in best practice provision II.2.8 of the Dutch Corporate Governance Code. Furthermore, Mr. Buijs received an amount of €175 thousand relating to the settlement of his long-term share plan (LTSP).

Bernd Stahli, CEO as of 1 September 2016, received a fixed salary of €139 thousand for his employment in 2016. CFO Daniel Van Dongen received a fixed salary of €310 thousand and CIO Anne De Jong received a fixed salary of €290 thousand in 2016.

As of 1 January 2012, the variable remuneration component for the Management Board consists exclusively of the LTSP.

In principle, 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%.

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 dividends distributed during the period. NSI's TSR is then compared with the benchmark TSR. This benchmark 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 individual targets for the members of the Management Board and are determined and evaluated by the Supervisory Board.

The LTSP period for the current CEO commenced on 1 January 2017 and expires on 31 December 2019. The current LTSP period for the CFO commenced on 1 January 2015 and expires on 30 June 2017. The current LTSP period for the CIO commenced on 1 May 2015 and expires on 31 December 2017. 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. The termination agreement with the previous CEO stipulates that he is exempt from the obligation to purchase shares from the amount related to the settlement of his LTSP and that the lock-up period relating to shares previously purchased ended on 31 December 2016.

SELECTION AND APPOINTMENT COMMITTEE

The Supervisory Board has drafted a 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. The Selection and Appointment Committee consists of Nico Tates (chairman) and Henk Breukink (member).

The Selection and Appointment Committee met twice in the year under review. The main topics discussed at these meetings and on separate conference calls were drafting a profile for the recruitment and selection procedure for a new CEO, 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 Selection and Appointment Committee also discussed the profile for the recruitment and selection of new Supervisory Board members, 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 candidates who can help expand the company's diversity and complement the existing members of the Management Board and the Supervisory Board.

AUDIT COMMITTEE

The Supervisory Board has drafted a 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.

The Audit Committee consists of Luurt Van der Ploeg (chairman) 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 annually assesses the need for an internal auditor and makes a proposal to the Supervisory Board for a recommendation to the Board of Management.

In 2016 the Audit Committee was particularly involved in the assessment of:

a. the operation of the internal risk management and control systems, including monitoring compliance with the relevant legislation and regulations as well as monitoring compliance with the codes of conduct, and more specifically 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, including with regard to the recognition of the reduction in the holding in Intervest Offices & Warehouses and the decision to dispose the retail portfolio and the impairment of goodwill;
c. the compliance with recommendations and 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 their independence, remuneration and any non-audit-related work for the company, and discussions about the 2016 audit plan of the external auditor;
f. the financing and treasury policy of the company;
g. the application of information and communication tecnology, particularly with respect to the creation of a data warehouse;
h. the reorganisation of the company, including measures taken to safeguard the continuity of operations; and
i. the need for an internal auditor and submitting a proposal to the Supervisory Board to make a recommendation to the Management Board.

REAL ESTATE COMMITTEE

The Supervisory Board has drafted a 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.
The Real Estate Committee consists of Nico Tates (chairman) and Harm Meijer (member).

Activities

The Real Estate Committee met with the Management Board on six occasions in the year under review. In 2016 the Real Estate Committee was particularly involved in the assessment of:

a. proposed management decisions with regard to real estate transactions (acquisitions, disposals and investments), in particular with regard to the sale of the industrial portfolio and the acquisition of the Glass House office property near Amsterdam's Sloterdijk railway station;
b. 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 2017 financial year;
c. investments in HNKs;
d. the methodology for preparing yield calculations and the applicable thresholds for investments;
e. the Real Estate Committee intensively discussed the strategy in relation to the retail portfolio with management; and
f. the Real Estate Committee also made several site visits in this context.

In conclusion

2016 was a year of many staffing changes and adjustments that required hard work and commitment from the Management Board and employees alike. The Supervisory Board wishes to express its gratitude to the efforts they made in the year under review.

Hoofddorp, 9 March 2017

The Supervisory Board,

Henk Breukink, *chairman*
Nico Tates, *vice-chairman*
Karin Koks-Van der Sluijs
Harm Meijer
Luurt van der Ploeg

CONTENT
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (x €1,000)

	Notes		2016		2015
Gross rental income	2		63,126		57,045
Service costs recharged to tenants		9,810		9,605	
Service costs		-13,428		-13,939	
Service costs not recharged	2		-3,618		-4,334
Operating costs	3		-11,294		-14,339
Net rental income	2		**48,214**		**38,372**
Revaluation of investments	4		-5,264		7,456
Other income			-3		-
Net result on sales of investments	5		-5,943		4,714
Total net proceeds from investments			**37,004**		**50,542**
Administrative expenses	6		-9,674		-6,851
Impairment goodwill	7		-5,296		
Financing income	10	16		467	
Financing expenses	10	-20,011		-24,213	
Movements in market value of financial derivatives	10	1,751		6,332	
Net financing result			-18,243		-17,413
Result before tax			**3,791**		**26,278**
Corporate income tax	11		54		-95
Result after tax from continuing operations			**3,845**		**26,183**
Discontinued operations	9		-21,678		44,660
Total result from operations after tax			**-17,833**		**70,843**
Exchange-rate differences on foreign participations					-4
Total non-realised result subsequently recognised in equity			**-**		**-4**
Total realised and non-realised result			**-17,833**		**70,839**
Result after tax attributable to:					
NSI shareholders			-17,833		63,794
Non-controlling interest			-		7,049
Result from operations after tax			**-17,833**		**70,843**
Total realised and non-realised results attributable to:					
NSI shareholders			-17,833		63,790
Non-controlling interest			-		7,049
Total realised and non-realised result			**-17,833**		**70,839**
Data per average outstanding share (x €1)					
Diluted as well as non-diluted result after tax continued operations			0.03		0.18
Diluted as well as non-diluted result after tax discontinued operations			-0.15		0.26
Diluted as well as non-diluted result after tax	12		-0.12		0.44

The notes on page 52-89, form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (x €1,000)

	Notes	31-12-16	31-12-15
Assets			
Real estate investments	13	770,434	1,134,617
Financial fixed assets valued using the "equity method"	14	-	51,405
Tangible fixed assets	15	1,516	1,692
Intangible fixed assets	16	193	8,407
Total fixed assets		**772,143**	**1,196,121**
Debtors and other accounts receivable	18	2,329	1,269
Cash and cash equivalents	19	2,067	22,306
Assets held for sale	8, 17	389,923	68,848
Total current assets		**394,319**	**92,423**
Total assets		**1,166,462**	**1,288,544**
Shareholders' equity			
Issued share capital	20	65,872	65,872
Share premium reserve	20	923,435	923,435
Other reserves	20	-367,220	-392,353
Profit for the year		-17,833	63,794
Total shareholders' equity attributable to shareholders		**604,254**	**660,748**
Non-controlling interest		-	-28
Total shareholders' equity		**604,254**	**660,720**
Liabilities			
Interest-bearing loans	21	510,404	517,571
Financial derivatives	24	15,297	24,767
Total long-term liabilities		**525,701**	**542,338**
Redemption requirement long-term liabilities	21	500	47,047
Debts to credit institutions	22	3,429	20
Other accounts payable and deferred income	23	29,933	38,419
Liabilities directly associated with assets classified as held for sale	8	2,645	-
Total current liabilities		**36,507**	**85,486**
Total liabilities		**562,208**	**627,824**
Total shareholders' equity and liabilities		**1,166,462**	**1,288,544**

The notes on page 52 - 89, form an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT (x €1,000)

	Notes	2016	2016	2015	2015
Result after tax			3,845		26,183
Adjusted for:					
Revaluation of real estate investments	4	4,815		-6,484	
Net result on sales of investments	5	5,943		-4,714	
Other income		3		-	
Net financing expenses	8	18,243		17,413	
Income taxes	11	54		-95	
Impairment of goodwill		5,296		-	
Depreciation		249		185	
			34,603		6,305
Movements in:					
Debtors and other accounts receivable			-796		-576
Other accounts payable and deferred income			21,011		-15,023
Interest received			24		542
Interest paid			-21,403		-24,335
Tax paid			-224		-48
Cash flow from continuing operations			**37,060**		**-6,951**
Cash flow from discontinued operations			**3,410**		**65,035**
Purchases of real estate and investments in existing properties	13		-74,451		-181,967
Proceeds of sale of real estate investments			63,165		43,839
Investments of tangible fixed assets	15		-37		-87
Divestments of tangible fixed assets	15		28		-
Investments in intangible assets	16		-182		-
Divestments in intangible assets	16		18		50
Cash flow from continuing investment activities			**-11,459**		**-138,165**
Cash flow from discontinued investment activities			**48,280**		**112,200**
Dividend paid			-38,664		-35,800
Settlement of derivatives			-7,893		-3,131
Drawn loans	21		232,000		521,337
Redemption of loans	21		-285,507		-457,406
Financing costs paid			-879		-3,747
Cash flow from continuing financing activities			**-100,943**		**21,253**
Cash flow from discontinued financing activities			-		**-8,470**
Net cash flow continuing operations			**-75,342**		**-123,863**
Net cash flow discontinued operations			**51,690**		**168,765**
Exchange-rate differences			4		-4
Cash and debts to credit institutions as of 1 January of continuing activities			16,723		-9,516
Cash and debts to credit institutions as of 1 January of discontinued activities			5,563		-13,095
Cash and debts to credit institutions as of 31 December			**-1,362**		**22,287**

The notes on page 52 - 89, form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY (x €1,000)

The development of the item shareholders' equity 2016 was as follows:

	Notes	Issued share capital	Share premium reserve	Other reserves	Profit for the year	Total shareholders' equity attri-butable to shareholders	Non-controlling interest	Shareholder's equity
Balance as of 1 Januari 2016		65,872	923,435	-392,353	63,794	660,748	-28	660,720
Result after tax book year 2016					-17,833	-17,833		-17,833
Disposal minority interest								-
Total comprehensive income 2016		**-**	**-**	**-**	**-17,833**	**-17,833**	**-**	**-17,833**
Distribution final cash dividend for 2015				-20,048		-20,048		-20,048
2015 profit appropriation	18			63,794	-63,794	-		-
Distribution interim cash dividend for 2016	18			-18,616		-18,616		-18,616
Disposal group companies				4		4	28	32
Total contributions by and to shareholders		**-**	**-**	**25,133**	**-63,794**	**-38,661**	**28**	**-38,633**
Balance as of 31 December 2016		**65,872**	**923,435**	**-367,220**	**-17,833**	**604,254**	**-**	**604,254**

The development of the item shareholders' equity 2015 was as follows:

	Notes	Issued share capital	Share premium reserve	Other reserves	Profit for the year	Total shareholders' equity attri-butable to shareholders	Non-controlling interest	Shareholder's equity
Balance as of 1 Januari 2015		65,872	923,435	-219,652	-136,897	632,758	156,190	788,948
Result after tax book year 2015					63,794	63,794	7,049	70,843
Exchange-rate differences on foreign participations				-4		-4		-4
Total comprehensive income 2015		**-**	-	**-4**	**-63,794**	**63,790**	**7,049**	**70,839**
Distribution final cash dividend for 2014				-17,184		-17,184	-8,470	-25,654
2014 profit appropriation	18			-136,897	136,897	-		
Distribution interim cash dividend for 2015	18			-18,616		-18,616		-18,616
Deconsolidation IOW							-154,797	-154,797
Total contributions by and to shareholders		-	-	**-172,697**	**136,897**	**-35,800**	**-163,267**	**-199,067**
Balance as of 31 December 2015		**65,872**	**923,435**	**-392,353**	**63,794**	**660,748**	**-28**	**660,720**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

NSI N.V. (hereinafter ‘NSI’, or the ‘company’), with its principal place of business in Hoofddorp, the Netherlands and its registered office in Amsterdam, the Netherlands. The consolidated financial statements for 2016 are presented for the company and its subsidiaries (together referred to as the ‘Group’), as well as the Group’s interests in associates.

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 are 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 2017. The financial statements will be submitted to the General Meeting of Shareholders on 21 April 2017 for adoption.

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, unless stated otherwise.

Valuation principles

The annual financial statements are prepared on the basis of historical cost, with the exception of loans which are valued at amortised costs and the following assets and liabilities which are valued at fair value through the profit and loss: investment properties, property held for sale and derivative financial instruments.
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 of the company

Use of estimates and opinions

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.

Comparative figures

With the exception of what is presented next, the comparative figures and the accounting policies have not changed compared with 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 first half of 2016, and the decision to initiate the sale of the retail activities in December 2016, the decision was taken to present the Belgian and retail activities as discontinued operations in the 2016 consolidated financial statements, in line with IFRS 5. The comparative figures have been adjusted accordingly.

Discontinued operations consist of the following two disposal groups:

Belgium:

- On 18 June 2015, 35% of the initial interest in Intervest Offices & Warehouses was sold. The remainder (15.2%) was sold in a number of transactions in the 1st quarter of 2016.
- A remaining Belgian directly held real estate asset in Vilvoorde, which is "held for sale" and is expected to be sold in 2017.

Since NSI aims to sell the last directly held real estate assets in Belgium, those are classified as held for sale, and due to the size of the segment Belgium, the activities are presented as discontinued operations.

Retail:

In December 2016 NSI decided to sell its retail activities. This intended transaction, which was announced on 14 February 2017, is likely to take place in one or multiple asset deals. Since NSI aims to sell this segment completely, it is classified as held for sale, and the corresponding activities are presented as discontinued operations, due to the size of the segment Retail.

The consolidated statement of comprehensive income 2015 has been adjusted accordingly, in accordance with the requirements of IFRS for the presentation of the discontinued operations.

The bridge between the published 2015 results and the adjusted results as presented in the annual accounts is as follows:

	Notes	2015	Belgium	Retail	2015 adjusted
Gross rental income	2	113,835	23,039	33,750	57,045
Service costs not recharged	2	-5,796	-580	-882	-4,334
Operating costs	3	-16,715	1,456	-3,832	-14,339
Net rental income	2	**91,324**	**23,916**	**29,036**	**38,372**
Revaluation of investments	4	-856	-992	-7,319	7,456
Other income	5	2,858	2,858	-	-
Net result on sales of investments	6	5,225	120	391	4,714
Total net results from investments		**98,551**	**25,901**	**22,108**	**50,542**
Administrative expenses	7	-8,999	-2,095	-52	-6,851
Net financing result		-20,267	-2,884	31	-17,413
Share in the result of participations		1,799	1,799	-	-
Result before tax		**71,084**	**22,720**	**22,086**	**26,278**
Corporate income tax	9	-241	-146	-	-95
Result continuing operations after tax		**70,843**	**22,574**	22,086	**26,183**
Discontinued operations			**-22,574**	**-22,086**	**44,660**
Total result after tax		**70,843**	**-**	**-**	**70,843**
Exchange-rate differences on foreign participations		-4			-4
Total realised and non-realised result		**70,839**	**-**	**-**	**70,839**
Result after tax attributable to:					
NSI shareholders		63,794			63,794
Non-controlling interest		7,049			7,049
Total operating profit after tax		**70,843**	**-**	**-**	**70,843**

Assumptions and estimation uncertainties

Assumptions with regard to investment properties

The assets of the company and its group companies consist almost entirely of investment properties. No official quotations or prices are available to determine the value of the properties in this portfolio. A valuation on the basis of 'fair value' is an estimate based on time and location.

This estimate is the price at which under normal circumstances two well-informed parties could conclude a sales transaction for the property in question on the date of valuation. The market price of a property can only be stated with certainty at the moment of the actual sale of the property.

The management of the company makes use of external appraisers for the valuation of its investment properties.

The external appraiser bases his fair value estimate on his own market knowledge and information, supplemented by detailed information from NSI where necessary. The valuation prepared by the external appraiser is verified and set by NSI.

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;
Level 3: valuation of assets or liabilities based wholly or partially on (external) unobservable information.

If the inputs used to measure the fair value of an asset or a liability might be categorized into different levels of the fair value hierarchy, the fair value measurement is categorized 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 framework of control measures 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 13 – Investment properties;
Note 16- Goodwill;
Note 17 – Assets held for sale; and
Note 24 – Financial instruments – fair values and risk management

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 interests in participations recognised in accordance with the equity method consist 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 concern NSI N.V., in which the interest in Intervest Offices and Warehouses (IOW) as associate is recognised in accordance with the equity method.

In the consolidated financial statements the following companies are included:

		Interest 2016	Interest 2015
NSI Bedrijfsgebouwen B.V.	Hoofddorp, Nederland	100%	100%
NSI Beheer B.V	Hoofddorp, Nederland	100%	100%
NSI Beheer II B.V.	Hoofddorp, Nederland	100%	100%
NSI Development B.V.	Hoofddorp, Nederland	100%	100%
NSI German Holding B.V.	Hoofddorp, Nederland	100%	100%
NSI International B.V.	Hoofddorp, Nederland	100%	100%
NSI Offices B.V.	Hoofddorp, Nederland	100%	100%
NSI Management B.V.	Hoofddorp, Nederland	100%	100%
NSI Monument B.V.	Hoofddorp, Nederland	100%	100%
NSI Volumineuze Detailhandel B.V.	Hoofddorp, Nederland	100%	100%
NSI Winkels B.V.	Hoofddorp, Nederland	100%	100%
NSI Woningen B.V.	Hoofddorp, Nederland	100%	100%
VastNed Offices Benelux Holding B.V.	Rotterdam, Nederland	100%	100%
NSI HNK B.V.	Amsterdam, Nederland	100%	100%
NSI Services HNK B.V.	Amsterdam, Nederland	100%	100%
VastNed Offices Belgium Holdings B.V.	Rotterdam, Nederland	100%	100%
NSI Luxembourg Holding S.à.r.l.	Luxemburg, Luxemburg	100%	100%
NSI Switzerland S.à.r.l.	Luxemburg, Luxemburg	100%	100%
Hans-Böckler-Straße S.à.r.l.	Luxemburg, Luxemburg	100%	99.7%
Nieuwe Steen Investments (Swiss) II AG	Zug, Zwitserland	100%	100%
Nieuwe Steen Investments (Swiss) III AG	Zug, Zwitserland	100%	100%
Nieuwe Steen Investments (Swiss) IV AG	Zug, Zwitserland	100%	100%
NSI Management Switzerland GmbH	Zug, Zwitserland	100%	100%
Intervest Offices & Warehouses N.V.	Antwerpen, België	0%	15.2%
VastNed Offices Belgium N.V.	Antwerpen, België	100%	100%
Cocoon Offices Park N.V.	Antwerpen, België	100%	100%
Belle Etoile N.V.	Antwerpen, België	0%	100%
Aartselaar Business Center N.V.	Antwerpen, België	0%	1%
Mechelen Business Center N.V.	Antwerpen, België	0%	1%
Mechelen Research Park N.V.	Antwerpen, België	0%	0.1%
Hans-Böckler-Straße GmbH & Co KG	Frankfurt, Duitsland	0%	94.9%

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 on the balance sheet date at 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 properties

Investment properties consist 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 properties 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 (every six months, on 30 June and 31 December), from which date the fair value is applied. The value of the investment property is increased by the investments made, followed by fair value adjustment as from the following reporting date.

The fair value of the Dutch investments is fully appraised externally twice a year. Until 2017, 50% of the portfolio was appraised at 30 June and 50% at 31 December, by external independent registered appraisers. As from 2017, the full portfolio is being appraised twice a year by external independent registered appraisers.
These valuations are assessed and analysed based on the methods and assumptions used, as well as the outcome. In principle, valuations may only be performed and provided by appraisers registered with the Dutch register of property valuers (Nederlands Register van Vastgoed Taxateurs). NSI works with at least two valuation firms, with valuation firms being changed every three years in accordance with the guidelines. The engagement letter is drawn up in accordance with PTA28 guidelines.

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.

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 previously classified as a tangible fixed asset is sold, the related amount is transferred from 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.

If no current prices are available on an active market, the valuations will be done on the basis of a net initial yield calculation, whereby the net market rent prices are capitalised. 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.

The valuation also takes into account future (maintenance) investments. 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. This does not take any future inflation adjustments into account. The valuation is made after deduction of selling expenses borne by the buyer.

To determine the fair value of its Dutch investments, NSI uses an appraisal management system which sets the fair value of all properties in an uniform and consistent way every six months. As from 2017, the full portfolio is being appraised twice a year by external independent registered appraisers. Until 2017, 50% of the portfolio was appraised at 30 June and 50% at 31 December, by external independent registered appraisers. These external valuations and the underlying data form the basis for the valuation of the investment properties as recorded in the ERP system and reported.

Investment properties under development

Investment properties under development is referred to as 'investment properties under development' for the purpose of future lease activity. Investment properties under development are 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 properties under development are valued at cost, including capitalised interest, minus any cumulative impairment losses. The costs associated with investment properties under development consist 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 into assets held for sale in case it is to be expected that its book value will be recovered by a disposal and not by further use. This is only possible if the asset is available for immediate sale at arm's length conditions and customary conditions applicable in similar cases. Moreover, the possibility of a sale must be highly likely 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 should be expected to be completed within 12 months after

31 December 2016. When reclassified to 'assets held for sale', an investment property valued at fair value continues to be valued on this basis.

Assets held for sale is 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 separate 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 8, 9 and 17. All other notes in the financial statements relate to amounts for continued operations, unless otherwise indicated.

Tangible fixed assets

Tangible fixed assets consist of the real estate (office building) 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 profit and loss 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 3-5 years
- transport fleet 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.

Capitalised 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 5-10 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 designated 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 consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in 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 asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired individually are collectively assessed for any impairment that has been 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 an asset's book value 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 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 recognises loans and receivables initially on the date they occur. All other financial assets (including assets designated 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 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 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-interest loans is stated in the note on interest-bearing debt. 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 2016 (including margin).

Any redemptions of interest-bearing debt within one year are recognised as current liabilities.

Other payables and accrued liabilities

Other payables and accrued liabilities are measured at initial recognition 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 related to a stock dividend programme is deducted from the share premium reserve as well as the expenses related 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.

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

Net result on sale of investments

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 sale proceeds and the carrying value of the investment properties in NSI's most recently published (interim) balance sheet.

Costs

Service costs not recharged

NSI acts as principal with respect to service costs, whereby the costs incurred are recharged to the tenants. Service costs relate to the costs of gas, water and electricity, cleaning, security, etc., costs which can be recharged to tenants based on the lease agreement. Service costs that are not recharged relate to costs in the event of vacant premises and/or other irrecoverable service costs as a result of contractual limitations or service costs not recoverable from tenants.

Operating costs

The 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 expenses

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 case of listed stocks, 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 expenses

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 could 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.

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 are not included in the distributable earnings.

In addition, there are legal restrictions on the activities that may be undertaken by an 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 and deferred 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 account of earnings elements exempt from tax and non-deductible costs and 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 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 only come into effect for fiscal years commencing after 1 January 2016. However, the Group did not apply 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 on financial assets, and new general requirements for hedge accounting. Furthermore, IFRS 9 shall apply the provisions of IAS 39 for the recognition and derecognition of financial instruments. IFRS 9 is effective for fiscal years beginning on or after 1 January 2018. Early application is permitted.

The Group is currently assessing the potential impact of the adoption of IFRS 9 on the consolidated financial statements.

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. The 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. Earlier application is permitted.

The Group is currently assessing the potential impact of the adoption of IFRS 15 on the consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces the previous leases Standard (IAS 17 Leases) and provides a framework for the recognition of lease contracts. This new standard requires lessees to recognise assets and liabilities for all leases for leasing contracts with a lease term exceeding 12 months. IFRS 16 was published in January 2016 and is effective from 1 January 2019. The EU has not yet adopted this standard.

The Group is currently assessing the potential impact of the adoption of IFRS 16 on the consolidated financial statements.

The following new or amended standards are not expected to have a significant effect on the consolidated financial statements of the Group:

- IFRS 12: Disclosure of interests in other entities, effective as of 1 January 2017; and
- IAS 7: Improvements in the presentation of the Cash Flow Statement.

The following amended standards are adopted:

- IFRS 11 'Joint arrangements', related to the recognition of acquisitions or interests in joint arrangements;
- IAS 16 and IAS 38: clarification of acceptable methods of depreciation and amortization;
- IAS 1: 'Disclosure Initiative'; and
- Annual improvements to IFRSs 2012-2014 cycle.

1. SEGMENT INFORMATION

In connection with the sale of the remaining holding in Intervest Offices & Warehouses N.V. in the first half of 2016, the decision was taken to present the holding as discontinued operations in the 2016 consolidated financial statements, in line with IFRS 5. The comparative figures have been adjusted accordingly.

In addition, following the sale of the holding in Intervest Offices & Warehouses N.V. the reporting segments were reassessed in line with IFRS 8. As a result, the breakdown of segments was adjusted in the first half of 2016 compared to the 2015 financial statements. Previously based on geography, the segments are now based on real estate segments in line with management's shift to steering the operations at this level from the beginning of 2016. The results of the real estate segments are monitored and reported on separately. In the interim report the following six segments were presented: Offices, HNK, Retail, Large Scale Retail, Industrial and Other activities.

In December 2016, NSI decided to initiate the sale of the Retail and Large Scale Retail segments. These two segments are monitored and reported as one segment and are therefore presented together.
In addition, the former segments Industrial and Other activities are monitored as one segment and are therefore presented together in the segment Other.

As from year-end 2016 NSI has two segments which are reported separately and together form the company's strategic business units. The strategic business units operate in several real estate segments and are managed separately because they require different market strategies. These segments are geographically located in the Netherlands.

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

Segment reporting income statement 2016:

	Offices	HNK	Other	Total continuing activities	Retail	Belgium	Total disconti-nued operations	Total 2016
Gross rental income	48,906	11,827	2,393	63,126	31,397	66	31,462	94,589
Service costs recharged to tenants	6,967	2,752	90	9,810	2,610	25	2,635	12,445
Service costs	-8,649	-4,604	-175	-13,428	-3,179	15	-3,164	-16,592
Operating costs	-7,572	-3,441	-281	-11,294	-4,837	-48	-4,886	-16,179
Net rental income	**39,652**	**6,534**	**2,028**	**48,214**	**25,991**	**57**	**26,048**	**74,262**
Revaluation of investments	2,341	-5,863	-1,742	-5,264	-50,081	16	-50,064	-55,328
Other income	-12	-	9	-3	-	1,050	1,050	1,047
Net result on sales of investments	-482	-67	-5,394	-5,943	-	1,513	1,513	-4,430
Segment result	**41,499**	**605**	**-5,099**	**37,004**	**-24,090**	**2,636**	**-21,454**	**15,551**
Administrative expenses excl depreciation costs tangible fixed assets and amortisation costs intangible fixed assets	-420	-727	-8,278	-9,425	-141	-25	-166	-9,591
Depreciation costs tangible fixed assets	-	-60	-106	-166	-9	-	-9	-176
Amortisation costs intangible fixed assets	-	-	-83	-83	-29	-	-29	-112
Impairment goodwill	-4,022	-855	-419	-5,296	-2,909	-	-2,909	-8,205
Financing income	12	4	-	16	8	5	13	29
Financing costs	-12	-	-19,999	-20,011	-	58	58	-19,953
Movements in fair value derivatives	-	-	1,751	1,751	-	-	-	1,751
Net financing costs	-	4	-18,248	-18,243	8	63	71	-18,173
Share in the result of participations	-	-	-	-	-	565	565	565
Result before tax	**37,057**	**-1,033**	**-32,233**	**3,791**	**-27,171**	**3,239**	**-23,932**	-20,141
Corporate income tax	-	-	54	54	-	2,253	2,253	2,308
Total operational result after tax	**37,057**	**-1,033**	**-32,179**	**3,845**	**-27,171**	**5,493**	**-21,678**	**-17,833**
Minority interest				-			-	-
Investment result attributable to shareholders NSI	**37,057**	**-1,033**	**-32,179**	**3,845**	- **27,171**	**5,493**	**-21,678**	**-17,833**

Segment reporting balance sheet 2016:

	Offices	HNK	Other	Total continuing activities	Retail	Belgium	Total discontinued operations	Total 2016
Investment properties	612,626	148,870	8,938	770,434	-	-	-	770,434
Other assets	954	1,706	2,270	4,931	1,030	144	1,174	6,105
Asset held for sale	5,075	-	-	5,075	382,158	2,690	384,848	389,923
Non-allocated assets	-	-	-	-	-	-	-	-
Total assets	**618,655**	**150,576**	**11,208**	**780,440**	**383,188**	**2,834**	**386,022**	**1,166,462**
Long-term liabilities	-	-	525,701	525,701	-	-	-	525,701
Current liabilities	14,280	5,482	9,368	29,130	4,692	41	4,733	33,862
Liabilities directly associated with assets classified as held for sale	-	-	-	-	2,645	-	2,645	2,645
Non allocated liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**14,280**	**5,482**	**535,068**	**554,830**	**7,336**	**41**	**7,377**	**562,208**
Purchases of real estate and investments in existing properties	65,223	8,959	270	74,451	6,971	-	6,971	81,422

Segment reporting income statement 2015:

	Offices	HNK	Other	Total continuing activities	Retail	Belgium	Total discontinued operations	Total 2015
Gross rental income	43,077	8,013	5,956	57,045	33,750	23,039	56,790	113,835
Service costs recharged to tenants	6,814	2,516	275	9,605	2,740	7,100	9,840	19,445
Service costs	-9,429	-4,049	-460	-13,939	-3,622	-7,680	-11,302	-25,241
Operating costs	-6,349	-2,842	-5,149	-14,339	-3,832	1,456	-2,376	-16,715
Net rental income	**34,113**	**3,638**	**621**	**38,372**	**29,036**	**23,916**	**52,952**	**91,324**
Revaluation of investments	8,302	1,648	-2,494	7,456	-7,319	-992	-8,312	-856
Other income	-	-	-	-	-	2,858	2,858	2,858
Net result on sales of investments	3,826	-	888	4,714	391	120	511	5,225
Segment result	**46,241**	**5,285**	**-985**	**50,542**	**22,108**	**25,901**	**48,009**	**98,550**
Administrative expenses excl depreciation costs tangible fixed assets and amortisation costs intangible fixed assets	-378	-604	-5,683	-6,665	-22	-2,032	-2,054	-8,720
Depreciation costs tangible fixed assets	-	-60	-71	-131	-	-56	-56	-187
Amortisation costs intangible fixed assets	-	-	-56	-56	-30	-8	-37	-93
Impairment goodwill	-	-	-	-	-	-	-	-
Financing income	14	25	429	467	31	2,470	2,501	2,969
Financing costs	-5	-0	-24,208	-24,213	-	-6,082	-6,082	-30,295
Movements in fair value derivatives	-	-	6,332	6,332	-	728	728	7,060
Net financing costs	9	25	-17,447	-17,413	31	-2,884	-2,854	-20,266
Share in the result of participations	-	-	-	-	-	1,798	1,798	1,798
Result before tax	**45,873**	**4,647**	**-24,242**	**26,277**	**22,086**	**22,719**	**44,806**	**71,083**
Corporate income tax	-	-4	-91	-94	-	-146	-146	-241
Total operational result after tax	**45,873**	**4,643**	**-24,332**	**26,183**	**22,086**	**22,574**	**44,660**	**70,843**
Minority interest				-		-7,049	-7,049	-7,049
Investment result attributable to shareholders NSI	**45,873**	**4,643**	**-24,332**	**26,183**	**22,086**	**15,524**	**37,610**	**63,793**

Segment reporting balance sheet 2015:

	Offices	HNK	Other	Total continuing activities	Retail	Belgium	Total discontinued operations	Total 2015
Investment properties	586,242	123,200	-	709,442	425,174	-	425,174	1,134,617
Other assets	9,990	2,671	14,708	27,369	5,404	52,306	57,710	85,079
Asset held for sale	4,310	-	61,228	65,538	-	3,310	3,310	68,848
Non-allocated assets	-	-	-	-	-	-	-	-
Total assets	**600,542**	**125,871**	**75,936**	**802,349**	**430,578**	**55,616**	**486,194**	**1,288,544**
Long-term liabilities	-	-	542,338	542,338	-	-	-	542,338
Current liabilities	14,758	3,464	58,141	76,363	4,001	2,497	6,497	82,861
Liabilities directly associated with assets classified as held for sale	-	-	-	-	2,625	-	2,625	2,625
Non allocated liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**14,758**	**3,464**	**600,479**	**618,701**	**6,625**	**2,497**	**9,122**	**627,824**
Purchases of real estate and investments in existing properties	172,305	9,490	172	181,967	3,431	32,261	35,692	217,660

2. NET RENTAL INCOME

	Gross rental income		Service costs not recharged		Operating costs		Net rental income	
	2016	2015	2016	2015	2016	2015	2016	2015
Offices	48,906	43,077	-1,682	-2,616	-7,572	-6,349	39,652	34,113
HNK	11,827	8,013	-1,852	-1,533	-3,441	-2,842	6,534	3,638
Other	2,393	5,956	-84	-185	-281	-5,149	2,028	621
Total	**63,126**	**57,046**	**-3,618**	**-4,334**	**-11,294**	**-14,339**	**48,214**	**38,372**

Gross rental income does not include rental guarantees received (2015: €0.0).

Gross rental income includes a sum of €6.2 million (2015: €5.2 million) in rent 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:

	2016	2015
First year	€60.4 million	€65.0 million
Second to fourth year	€136.6 million	€132.8 million
As of fifth year	€123.1 million	€121.2 million

3. OPERATING COSTS

	2016	2015
Municipal taxes	2.720	2,244
Insurance premiums	312	577
Maintenance costs	2.291	3,095
Contributions to owner associations	179	99
Property management (including attributed administrative expenses)	2.522	4,321
Letting costs	2.937	3,477
Other expenses	332	526
Total	**11.294**	**14,339**

Other expenses include write-downs related to debtors. External management fees and administrative costs related to operations are allocated to the management of real estate.

An amount of €0.2 million (2015: €0.1 million) relates to operating costs related to vacant properties.

4. REVALUATION OF INVESTMENT PROPERTIES

	positive	negative	2016 total	positive	negative	2015 total
Investment properties in operation	42,363	-47,177	-4,815	37,075	-30,592	6,483
Lease incentives lease incentives			-449			972
Total	**42,363**	**-47,177**	**-5,264**	**37,075**	**-30,592**	**7,456**

5. NET RESULT ON SALE OF INVESTMENT PROPERTIES

	2016	2015
Proceeds of sale investment properties	63,642	44,844
Book value at time of sale	69,108	39,125
Total	**-5,466**	**5,719**
Sales costst	-477	-1,005
Total	**-5,943**	**4,714**

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.

During 2015 the following assets were sold:
- 24 office properties, including 14 (non-core) properties the sale of which was agreed in 2014;
- 2 industrial assets; and
- 1 shopping centre.

Sales costs include the costs of real estate agents and legal fees.

6. ADMINISTRATIVE COSTS

	2016	2015
Management costs	12,041	10,067
Audit costs	279	246
Consultancy costs	363	399
Appraisal costs	405	359
Compensation of supervisory board members	244	247
Other costs	753	615
Total	**14,085**	**11,933**
Allocated to the operating costs	-4,111	-4,782
Allocated to real estate portfolio	-300	-300
Total	**9,674**	**6,851**

Where management costs are directly related to the operation of the investment properties portfolio, they are recharged to the operating costs. Where management costs are directly related to the development of the investment properties portfolio, they are capitalised.
Management costs attributable to asset management amounted to €1.5 million in 2016 (2015: €2.1 million).
In 2016 management costs included a number of one-off costs associated with the CEO change and an internal reorganisation including severance payments related to settlement agreements, recruitment costs for new staff, temporary staff and consultancy costs totalling around €2.1 million.

Notes to the management costs
These costs relate to:
- management;
- asset management;
- property management;
- administrative services; and
- secretarial services.

The composition of the management costs was as follows:

	2016	2015
Salaries	7,962	5,695
Social insurance costs	774	908
Pension costs	566	518
Other staff costs	484	582
Depreciation of tangible fixed and intangible assets	252	187
Other operating costs	2,003	2,178
Total	**12,040**	**10,067**

70 employees (65 FTE), including the Management Board (2015: 78 employees, 71 FTE), were employed by NSI during the reporting year. A defined contribution pension scheme is provided for employees.

7. IMPAIRMENT (GOODWILL)

	2016	2015
Impairment of goodwill	5,296	-
Total	**5,296**	**-**

The impairment relates to goodwill, which is further explained in note 16.

8. ASSETS AND LIABILITIES HELD FOR SALE

At the end of 2016 the Management Board decided to sell two assets, one in Belgium and one in the Netherlands. The transaction(s) are expected to be realised in 2017. In addition, in December 2016 NSI has decided to sell the assets in its Retail and Large Scale Retail portfolio. These transactions are expected to be executed within 12 months. See note 9 on discontinued operations for a further explanation.
Assets held for sale and related liabilities are summarised as follows:

Assets held for sale	2016
Balance at 1 January	68,848
Reclassification to/from investment properties in operation	379,155
Acquisitions	257
Investments	13
Divestments	-56,608
Revaluations	-1,742
Balance at 31 December	**389,923**
Offices	5,075
Retail	382,158
Belgium	2,690
Balance at 31 December	**389,923**

Liabilities directly related to assets held for sale	2016
Balance at 1 January	-
Reclassification to/from liabilities in operation	770
Reclassification to/from prepaid rent in operation	1,875
Balance at 31 December	**2,645**
Retail	2,645
Balance at 31 December	**2,645**

9. 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:

	2016	2015
Retail	-27,171	22,086
Belgium	5,493	22,574
Total	**-21,678**	**44,660**

9.1 DISCONTINUED RETAIL OPERATIONS

Income Statement	2016	2015
Gross rental income	31,397	33,750
Service costs not recharged	-569	-882
Operating costs	-4,837	-3,832
Net rental income	**25,991**	**29,036**
Revaluation of investments	-50,081	-7,319
Net result on sales of investments	-	391
Total net proceeds from investments	**-24,090**	**22,108**
Administrative expenses	-179	-52
Impairment Goodwill	-2,909	-
Net financing expenses	8	31
Result before tax	**-27,171**	**22,086**
Corporate income tax	-	-
Result after tax discontinued operations	**-27,171**	**22,086**
Result after tax attributable to:		
NSI shareholders	-27,171	22,086
Non-controlling interest	-	-
Result after tax discontinued operations	**-27,171**	**22,086**

Cashflow Statement	2016	2015
Cash flow from discontinued operations	45,157	17,126
Cash flow from discontinued investment activities	-6,901	1,081
Cash flow from discontinued financing activities	-	-
Net cash flow from discontinued operations	**38,256**	**18,207**

9.2 DISCONTINUED BELGIAN OPERATIONS

Income Statement	2016	2015
Gross rental income	66	23,039
Service costs not recharged	39	-580
Operating costs	-48	1,456
Net rental income	**57**	**23,916**
Revaluation of investments	16	-992
Other income	1,050	2,858
Net result on sales of investments	1,513	120
Total net proceeds from investments	**2,636**	**25,901**
Administrative expenses	-25	-2,095
Net financing expenses	63	-2,884
Share in the result of participations	565	1,799
Result before tax	**3,239**	**22,720**
Corporate income tax	2,253	-146
Result after tax discontinued operations	**5,493**	**22,574**
Result after tax attributable to:		
NSI shareholders	5,493	15,525
Non-controlling interest	-	7,049
Result after tax discontinued operations	**5,493**	**22,574**

Cashflow Statement Notes	Notes	2016	2015
Cash flow from discontinued operations		-41,747	47,909
Cash flow from discontinued investment activities		55,181	111,119
Cash flow from discontinued financing activities		-	
Net cash flow from discontinued operations		**13,434**	**150,558**

10. NET FINANCING EXPENSES

	2016	2015
Financing income		
Interest income (on loans and receivables)	-16	-40
Exchange rate differences	-	-427
Total	**-16**	**-467**
Financing expenses		
Interest costs	20,017	24,213
Exchange rate differences	-7	-
Total	**20,011**	**24,213**
Movement in value of financial derivatives	-	
Non realised movement in fair value of derivatives	-1,751	-6,332
Total	**-1,751**	**-6,332**
Total net financing expenses	**18,243**	**17,413**

Interest costs decreased compared to 2015 as a result of the significantly reduced average interest rates on both loans and derivatives.

11. CORPORATE INCOME TAX

Corporate income tax payable for the reporting period:

	2016	2015
Current book year	**-54**	**95**

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 an 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 subsidiary companies NSI Development B.V. and NSI Service HNK B.V. are for tax purposes not part of the fiscal investment institution NSI N.V. and are as such liable for corporate income tax.

Reconciliation of effective tax rate

		2016		2015
Result before tax continued operations		3,791		26,278
Result before tax discontinued operations		-23,932		44,806
Result before tax		-20,141		71,084
Tax at the rate in the Netherlands	25.00%	-5,035	25.00%	17,771
Exempt due to fiscal status		-734		-13,860
Tax of subsidiary companies under other tax regimes		5,715		-3,816
Total		**-54**		**95**

12. EARNINGS PER SHARE

The calculation of earnings per share at 31 December 2016 is based on the result attributable to ordinary shareholders of - €17.8 million (2015: €63.8 million) and a weighted average number of outstanding ordinary shares during 2016 (143,342,678), adjusted for treasury stocks (140,837), of 143,201,841 (2015: 143,201,841).

Weighted average number of ordinary shares on 31 December

	2016	2015
Weighted average number of ordinary shares	**143,201,841**	**143,201,841**
Number of ordinary shares outstanding entitled to dividend on 31 December	**143,201,841**	**143,201,841**

	2016 result	diluted result	2015 result	diluted result
Direct investment result	0.34	0.34	0.35	0.35
Indirect investment result	-0.47	-0.47	0.09	0.09
Total investment result	**-0.12**	**-0.12**	**0.44**	**0.44**
Result after tax continued operations	0.03	0.03	0.18	0.35
Result after tax discontinued operations	-0.15	-0.15	0.26	0.09
Total result after tax from operations	**-0.12**	**-0.12**	**0.44**	**0.44**

13. INVESTMENT PROPERTIES

The breakdown of the investment properties in operation and under development was as follows:

	2016	2015
Investment properties in operation	769,634	1,133,617
Investment properties under development	800	1,000
Total	**770,434**	**1,134,617**

Investment properties in operation and investment properties under development are recognised at fair value. The fair value is determined on the basis of one of the following levels in the fair value hierarchy:

Level 1: valuation on the basis of quoted prices in active markets for identical assets or liabilities;

Level 2: valuation of assets and liabilities based on (external) observable information; and

Level 3: valuation of assets and liablities based wholly or partially on (external) unobservable information.

A number of input variables for the valuation process, which could significantly impact the valuations, are not directly observable in the market. This is the reason why the fair value of the investment properties is established on the basis of level 3 of the fair value hierarchy. The fair value of the investment properties 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. The fair value also reflects, in a similar way, costs and investments which could be expected with regard to a specific property. 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 and the costs can be measured reliably. All other costs of maintenance and repairs are recognised as costs as at the moment that they are incurred.

The fair value of the full Dutch investment properties portfolio is being appraised twice a year. Until 2017, 50% of the portfolio was appraised on 30 June and 50% 31 December by external independent registered appraisers. As from 2017, the full portfolio is being appraised by external independent registered appraisers twice a year. These valuations are assessed and analysed based on the methods and assumptions used, as well as the outcome.

At 31 December 2016, also 100% (2015: 100%) of the investment properties were externally appraised by certified independent appraisers. 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.

If no current prices are available on an active market, the valuations are determined on the basis of a net initial yield calculation, whereby the net market rents are capitalised. The returns applied are specified for the type of real estate, 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 valuation technique used to determine the fair value of the investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and the fair-value measurement
Net discounted cash flow calculation. The valuation model is based on the present value of net 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. 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.	• Growth forecast for market rent level • Periods of vacancy following expiration of a lease • Occupancy rate • Rent-free periods and other lease incentives • Theoretical net yield	The estimated fair value increases (decreases) if: • The expected growth of market rent levels is higher (lower) • The periods of vacancy are shorter (longer) • The occupancy rate is higher (lower) • The rent-free periods are shorter (longer) • The estimated maintenance costs/ investments are higher • The net yield is lower (higher)

The yields reflect market practice and are calculated by dividing the (theoretical) rent of the real estate property by the fair value, expressed as a percentage. The total net initial yield at 31 December 2016 was 8.4% (2015: 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 by market and asset-specific knowledge.
These ranged from 5.1% to 45.5% in the Netherlands (2015: 5.5% to 17.3%). The valuation also takes into account comparable market transactions.
The most important valuation assumptions are:

	2016	2015
Average effective contractual rent per sqm (in €)		
Offices	148	148
HNK	155	170
Retail	135	138
Other	91	65
Average market rent per sqm (in €)		
Offices	134	132
HNK	159	145
Retail	123	136
Other	78	61
Average theoretical gross yield (in %)	10.6	10.8
Average theoretical net yield (in %)	8.5	8.4
Vacancy (in %)	20.2	22.7

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

Investment properties in operation

The development of each type of investment property was as follows:

	Offices	HNK	Retail	Other	Total 2016
Balance at 1 January	585,242	123,200	425,174	-	1,133,616
Purchases	60,725	-	-	-	60,725
Investments	4,498	8,959	6,971	-	20,428
Reclassification category	-29,155	29,155	-	-	-
Reclassification into assets under development	-	-	-	-	-
Reclassification into assets held for sale	-5,935	-	-382,158	8,938	-379,155
Sales	-6,520	-6,600	-	-	-13,120
Revaluations	2,971	-5,844	-49,987	-	-52,860
Balance at 31 December	**611,826**	**148,870**	**-**	**8,938**	**769,633**

	Offices	HNK	Other	Total continuing operations	Retail	Belgium	Total discontinued operations	Total 2016
Accruals in relation to lease incentives	5,020	801	142	5,962	556	-	556	6,519

	Offices	HNK	Retail	Other	Total 2015
Balance at 1 January	424,322	97,228	431,075	674,696	1,627,321
Purchases	168,833	-	-	30,107	198,940
Investments	3,468	6,022	3,431	2,311	15,233
Reclassification category	-1,655	-	-	1,655	-
Reclassification into assets under development	4,250	17,730	-	-	21,980
Reclassification into assets held for sale	-4,310	-	-	-62,578	-66,888
Sales	-13,830	-	-4,230	-5,536	-23,596
Revaluations	4,165	2,220	-5,102	-4,930	-3,648
Deconsolidation IOW stake	-	-	-	-635,725	-635,725
Balance at 31 December	**585,242**	**123,200**	**425,174**	**-**	**1,133,617**

	Offices	HNK	Other	Total continuing operations	Retail	Belgium	Total discontinued operations	Total 2016
Accruals in relation to lease incentives	4,590	781	-	5,371	462	-	462	5,834

The composition of the investment properties portfolio by percentage was as follows:

Investment properties in operation	2016	2015
Offices	79%	52%
HNK	19%	11%
Retail	0%	31%
Other	1%	6%
Total	**100%**	**100%**

Securities

On 31 December 2016, properties with a book value of €314.3 million (2015: €1,009.3 million) were mortgaged as security for loans drawn and current account overdraft facilities at banks amounting to € 129.8 million (2015: €604.6 million). The level of security can be varied within the financing facilities, enabling NSI to create additional loan capacity within the existing facilities or to allocate the part of the security to another financing facility.

Estimates

The value of the investment properties implies an average theoretical net yield of 8.4% (2015: 8.4%). If, on 31 December 2016, the yields applied for the valuation of the investment properties had been 100 basis points lower than those currently used, the value of the investment properties would increase by 13.6% (2015: 13.8%). In that case NSI's equity would be €157 million (2015: €165 million) higher due to a higher positive result. The loan-to-value would then decrease from 44.1% (2015: 43.2%) to 38.8% (2015: 38.5%).

Investment properties under development

	2016	2015
Balance at 1 January	1,000	17,950
Reclassification into real estate in operation	-	-21,980
Reclassification into real estate for sale	-	-620
Investments	-	3,472
Sales	-	-520
Revaluations	-200	2,698
Balance at 31 December	**800**	**1,000**

Investment properties under development include one land position at 31 December 2016. The value of the land position at Cosunpark in Breda, the Netherlands, was determined externally.

14. FINANCIAL FIXED ASSETS

Participations recognised in accordance with the equity method

On 18 June 2015, NSI reduced its interest in Intervest Offices & Warehouses ("IOW") in Belgium from 50.2% to 15.2%.
NSI sold its entire remaining holding in IOW in the first quarter of 2016. For this reason, the recognition of this holding has been adjusted in the comparative figures for 2015. NSI has adjusted the 2015 figures and reclassified the former holding into 'assets held for sale with continuing operations' for 2015.
In the 2015 financial statements 2015 NSI recognised its 15.2% interest in Intervest Offices & Warehouses as an 'investment in associate' in accordance with IAS 28.
The reason for this is that while at the end of 2015 NSI no longer had the control it did have in previous years in the sense of IFRS 10, it still had significant influence in the company. This significant influence was based on NSI's demonstrable influence in the Board of Management (comparable with a Supervisory Board under Dutch law) of Intervest Offices & Warehouses, where four of the seven seats on the board were occupied by people related to NSI N.V. known as non-independent directors. In addition, the CEO of NSI held a seat on the Management Committee of the company (the body that actually provides direction for its business activities; comparable with a management board under Dutch law). Finally, at the end of 2015 NSI was still the largest shareholder with considerable effective voting rights at shareholders' meetings due to low turnout of other shareholders. However, this did not result in a situation of control as in previous years in view of NSI's sharply reduced position in the company and the increased interests of institutional shareholders. Furthermore, the free float of Intervest Offices & Warehouses shares was around 71%.

The impact on the recognition of this holding is as follows:

Balance Sheet
IOW is no longer consolidated in NSI's balance sheet as from 18 June 2015.
The remaining 15.2% interest in IOW (2,476,241 shares) was revaluated at 18 June 2015 in accordance with its fair value per share (IOW share price: €20.02).
As from 18 June 2015 IOW was classified as an associate and was valued in accordance with the equity method. This means that the value of the stake follows the fluctuations in IOW's net asset value (NAV).
NSI's remaining holding in IOW at 31 December 2015 was recognised as 'Investments accounted for using the equity method'.

Profit and Loss Account
In the profit and loss account for the first six months of 2015, the 50.2% interest held in IOW until 18 June 2015 and subsequently the remaining holding of 15.2% until the sale of the entire holding in the first quarter of 2016 contributed to the result. The results from Belgian operations, amounting to €5.5 million (2015: €15.5 million) are reflected in the 'result from discontinuing operations'.

Result on Sales
In 2015 NSI sold 5.7 million IOW shares (representing a 35% interest in IOW) at €19.50 per share.
In total, this transaction and the revaluation led to a result of €3.0 million. The selling costs for this transaction were €2.4 million. These costs are included in the net result on sales of investments. In the first quarter of 2016, the remaining 2,476 million shares were sold for €53.5 million. This led to a result on sales of investments of €1.5 million in 2016.

15. 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.

	2016	2015
Book value at 1 January	1,692	1,952
Investments	38	167
Divestments	-39	
Depreciation	-176	-187
Deconsolidation IOW stake	-	-240
Book value at 31 December	**1,516**	**1,692**
Purchase price	1,949	2,037
Cumulative depreciation	-433	-345
Book value at 31 December	**1,516**	**1,692**

16. INTANGIBLE ASSETS

Goodwill

	2016	2015
Balance at 1 January	8,205	8,205
Impairment losses	-8,205	
Balance at 31 December	**-**	**8,205**
Purchase price	8,205	8,205
Cumulative impairment losses	-8,205	
Book value at 31 December	**-**	**8,205**

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. As from 2016, in line with the revised segments (as explained in note 1), the impairment test is performed at the level of the new segments, with goodwill as at 1 January 2016 being reallocated based on the value of the investment properties as at 1 January 2016.

At the end of 2016 it was determined that the cash flows were not sufficient to cover the costs currently allocated. This is mainly the result of a rising cost base within the organisation and a lower basis of investment properties with which to compensate for this cost structure. The discount factor applied to future cash flows at the end of 2016 was 10% (end-2015: 11.96%). No end date has been set for the cash flows.
Management estimates that there are no company-specific factors, such as specific synergies, at segment level that would make a buyer be prepared to pay more than the market value of the property.
The above prompted management to decide to fully write down goodwill as at the end of 2016.

Capitalised software

	2016	2015
Balance at 1 January	202	244
Investments	185	109
Divestments	-82	-50
Depreciation	-112	-93
Deconsolidation stake IOW	-	-8
Balance at 31 December	**193**	**202**
Purchase price	542	501
Cumulative depreciation	-349	-299
Book value at 31 December	**193**	**202**

External implementation and development costs related to a new management information system were capitalised in 2009 and 2010. The ERP management information system became operational in 2010 and its development continues. Further investments were made in a data warehouse and in CRM systems during 2016.

17. ASSETS HELD FOR SALE

At the end of 2016 the Management Board decided to sell two assets, one in Belgium and one in the Netherlands. It is expected that the transaction(s) will be realised in 2017. In addition, NSI has decided to sell the assets in its Retail and Large Scale Retail portfolio. The transactions are expected to be executed within 12 months after balance sheet date. See note 9 on discontinued operations for more information.

	2016	2015
Balance at 1 January	68,848	22,905
Reclassification of investment properties in operation	379,155	67,508
Investments	270	14
Divestments	-56,608	-22,905
Revaluation	-1,742	1,326
Balance at 31 December	**389,923**	**68,848**

18. DEBTORS AND OTHER ACCOUNTS RECEIVABLE

	2016	2015
Total Debtors	4,489	3,724
Provision doubtful debtors	-2,887	-3,083
Debtors	**1,602**	**641**
Corporate income tax	13	28
Value added tax (VAT)	-	
Tenant loans	173	196
Other accounts receivable and accrued income	541	404
Total	**2,329**	**1,269**
Fixed	173	196
Variable	2,156	1,073
Total	**2,329**	**1,269**

The Debtors item concerns receivables from tenants which are overdue and is reported after deduction of a provision for impairments. Information about the Group's credit risks related to debtors and other receivables, as well as impairment losses can be found in note 24.

19. CASH AN CASH EQUIVALENTS

	2016	2015
Bank balances	2,066	22,305
Cash	1	1
Total	**2,067**	**22,306**

Under the cash and cash equivalents, an amount of €1.33 million is not freely available.

20. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

Issued capital

The authorised share capital is divided into 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 (2015: 143,342,678), of which 140,837 shares were held as treasury stocks. Consequently, dividend is distributed over 143,201,841 shares and all ratios per share are calculated on that basis.

	2016	2015
Balance at 31 December	**65,872**	**65,872**

Number of shares issued:

	2016	2015
Number of issued shares	143,342,678	143,342,678
Treasury stocks	140,837	140,837
Balance at 31 December	**143,201,841**	**143,201,841**

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 related to company shares held by the Group are suspended until these shares are issued again.

Share premium reserve

	2016	2015
Balance at 31 December	**923,435**	**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

	2016	2015
Balance on 1 January	-392,353	-219,652
Profit appropriation for 2015 and 2014 respectively	63,794	-136,897
Final dividend in cash 2015 and 2014 respectively	-20,048	-17,184
Interim dividend in cash 2016 and 2015 respectively	-18,616	-18,616
Exchange-rate differences	4	-4
Balance at 31 December	**-367,219**	**-392,353**

Dividend

After the balance sheet date, the 2016 final dividend is to be distributed in the form of cash, stock or a combination of both as proposed by the Management Board, subject to approval by the General Meeting of Shareholders on 21 April 2017. This proposal was not included as a liability in the balance sheet at 31 December 2016.

	per share	Total	per share	Total
		2016		2015
Interim dividend paid	€0.13	18,616	€0.13	18,616
Proposed final dividend	€0.14	20,048	€0.14	20,048
Total	**€0.27**	**38,664**	**€0.27**	**38,664**

The 2016 fiscal distribution requirement amounts to €24.0 million (2015: €38 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 provide added 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 return on equity, which is defined by NSI as the direct investment result divided by equity. Management also monitors the level of dividend to be paid to ordinary shareholders.
Management seeks to achieve a balance between a higher return that could be achieved through a higher level of debt capital, on the one hand, and the benefits and security of a healthy financial position, on the other. In addition, management safeguards capital by monitoring the loan/property value ratio and the debt owed to credit institutions/equity ratio.

The ratio of debt owed to credit institutions/property investments was 44.1% on 31 December 2016 (2015: 43.2%). The ratio of debt owed to credit institutions/equity was 46%/54% on 31 December 2016 (2015: 44%/56%).

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

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 within a range of 60% - 65%; 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:

Country	LTV in %		Individugraden voldoen aan de norm al LTV's are compliant	
	2016	2015	2016	2015
NSI group level	44.1	43.2	Yes	Yes

In 2016 NSI and its subsidiaries complied with the LTV requirements agreed with banks on both an individual and consolidated level.

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 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 Dutch FBI status.
NSI complied with this requirement in both 2015 and 2016.

Interest coverage ratio

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:

Country	ICR multiple		Individual ICR's are compliant	
	2016	2015	2016	2015
NSI group level	3,8 x	3,2 x	Yes	Yes

In 2016 NSI and its subsidiaries complied with the independent and consolidated interest coverage ratio requirements agreed with banks.

Solvency

Based on the covenants, adjusted shareholders' equity at group level must be at least 40%. In 2016 this was 53.1% (2015: 53.0%) in line with the covenants.

In the past year no changes were implemented to NSI's capital management approach.
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.

21. LOANS

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

	2016	2015
Balance at 1 January	564,618	792,872
Drawdowns	232,000	521,337
Redemptions	-285,507	-457,406
Amortisation financing costs	-207	-3,069
Deconsolidation IOW stake	-	-289,116
Balance at 31 December	**510,904**	**564,618**
Redemption obligation on long-term debt	500	47,047
Balance at 31 December	**510,404**	**517,571**

The remaining debt on the loans after five years, based on the current loan portfolio and not taking refinancing into account, is €128.5 million (2015: €99.5 million).

The remaining maturities of the loans were as follows:

	Fixed interest	Variabele interest	2016 total	Fixed interest	Variabele interest	2015 total
Up to 1 year	-	500	500	600	46447	47047
From 1 to 2 years	-	500	500	17,280	-	17,280
From 2 to 5 years	-	383,458	383,458	54,174	346,628	400,802
From 5 to 10 years	-	126,446	126,446	-	99,489	99,489
More than 10 years	-	-	-	-	-	
Total loans	**-**	**510,904**	**510,904**	**72,054**	**492,564**	**564,618**
Average interest rate (excluding interest-rate swaps)		2.0%		3.8%	2.0%	

	Secured loans	Unsecured loans	2016 total	Secured loans	Unsecured loans	2015 total
Loans with variable interest	129,750	384,000	513,750	495,376	-	495,376
Loans with fixed interest	-	-	-	72,055	-	72,055
Costs of loans	-715	-2,131	-2,846	-2,813	-	-2,813
Total loans	**129,035**	**381,869**	**510,904**	**564,618**	**-**	**564,618**

In 2017 €0.5 million (2016: €44.1 million) of financing will expire. These loans expiring in 2017 will be covered by the available financing facility.
A remaining average maturity of 4.2 years (2015: 3.9 years) has been agreed with the banks. The weighted average annual interest on the loans and interest-rate swaps outstanding at end-2016 was 2.8% including margin (end-2015: 3.7%).
In the 2016 financial year €0.9 million of financing costs were capitalised (2015: €3.7 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 €129.8 million), mortgages were established on real estate valued at €314.3 million (2015: €1,009.3 million), in some cases combined with pledges on rental income.
On 31 December 2016 the company's undrawn committed credit facilities totalled €121 million (2015: €78 million).
The fair value of the loans on 31 December 2016 was €510.9 million (2015: €565 million).

22. DEBTS TO CREDIT INSTITUTIONS

The item Debts to credit institutions concerns cash loans and current account overdrafts with banks. NSI has concluded credit arrangements with a number of banks, of which a part is available as overdraft facility. In the case of cash-pool arrangements, cash and cash equivalents and debts to credit institutions are offset.

The weighted average interest on available credit facilities as per year-end 2016 was 1.6% (2015: 1.5%) per annum including margin.

	2016	2015
Credit facilities	40,000	40,000
Of which unused	36,571	39,980
Balance at 31 December	**3,429**	**20**

23. OTHER PAYABLES AND ACCRUED LIABILITIES

	2016	2015
Creditors	3,708	2,043
Tax	2,861	5,510
Interest	1,371	3,653
Operating costs	12,826	13,848
Deposits	2,277	2,562
Payables on purchases and other investments	1,216	685
Prepaid rent	2,589	7,962
Other accounts payable	3,084	2,156
Total	**29,933**	**38,419**

The average term of the leases to which these deposits included in this overview relate is 3.1 years (2015: 4.8 years).

24. FINANCIAL INSTRUMENTS – FAIR VALUES AND 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.

	Notes	31-12-16 Fair value level	Amortised cost price	Fair value total	31-12-15 Fair value level	Amortised cost price	Fair value total
Financial assets valued at amortised cost price							
Debtors and other accounts receivable	18	2	2,329		2	1,269	
Cash	19	1	2,067		1	22,306	
Financial liabilities valued at fair value through profit or loss							
Derivatives	24	2		15,297	2		24,767
Financial liabilities valued at amortised cost price							
Loans	21	2	510,904		2	564,956	
Debts to credit institutions	22	2	3,429		2	20	
Other accounts payable	23	2	27,344		2	30,457	

Financial risk management

In the normal conduct of business, the group is subject to credit risk, liquidity risk, interest rate risk and currency 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.

For the risks associated with the valuation of investment properties, please refer to note 13. The policy and monitoring of risks are reviewed regularly and adjusted if necessary to reflect changes in market conditions and the group's operations.

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 ensue 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:

	Notes	2016	2015
Debtors and other accounts receivable	18	2,329	1,269
Cash	19	2,067	22,306
Total		**4,396**	**23,575**

Banks

The risks associated with a possible non-performance by counterparties are minimised by entering into transactions for loans and derivative financial instruments 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 security 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:

	2016	2015
Up to 1 month expired	769	660
1 month to 3 months expired	282	5
3 months to 1 year expired	571	782
More than 1 year expired	2,866	2,277
Total	**4,489**	**3,724**

Aside from bank guarantees, guarantee deposits for €3.0 million (2015: €2.6 million) were posted with regard to the receivables, of which € 0.8 million relate to 'Assets held for sale'.

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

	2016	2015
Balance at 1 January	3,083	3,325
Addition to the provision	380	540
Impairment bad debts	-576	-543
Deconsolidation stake Intervest Offices & Warehouses	-	-239
Balance at 31 December	2,887	3,083

Impairment losses recognised at 31 December 2016 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.

Liquidity risk

Liquidity risk involves the risk of the group having problems fulfilling its financial obligations in cash or other financial assets. 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 €121 million (2015: €78 million).

The interest and repayment obligations were safeguarded for 2017 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 4.2 years (2015: 3.9 years).

At year-end 2016 NSI had € 285 million of current account committed credit facilities with banks at its disposal, of which €164 million was drawn. The undrawn committed credit facilities of the interest-bearing loans and current account credit facilities amounted to € 121.0 million at 31 December 2016. Furthermore, cash and cash equivalents amounted to €1.5 million at 31 December 2016. This brings the total of unused credit facilities and cash and cash equivalents to €122.5 million at 31 December 2016.

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

31-12-16	Book value	Contractual cash flow	< 6 months	6 -12 months	1 - 2 years	2 - 5 years	>5 years
Balance at 1 January							
Addition to the provision	510,904	550,994	4,972	4,972	9,944	404,483	129,139
Impairment bad debts	3,429	3,429	-	-	-	-	-
Deconsolidation stake Intervest Offices & Warehouses	27,344	27,344	-	-	-	-	-
Total	**541,677**	**581,767**	**4,972**	**4,972**	**9,944**	**404,483**	**129,139**
Derivatives							
Hedging interest rate swaps	15,297	19,265	1,995	1,995	3,990	10,188	1,097
Total	**556,974**	**601,032**	**6,717**	**6,717**	**13,434**	**413,171**	**132,736**

31-12-15	Book value	Contractual cash flow	< 6 months	6 -12 months	1 - 2 years	2 - 5 years	>5 years
Non-derivative financial liabilities							
Loans	564,618	612,426	7,759	50,672	27,837	422,988	103,170
Debts to credit institutions	20	20	20	-	-	-	-
Other liabilities	30,457	30,457	30,457	-	-	-	-
Total	**595,095**	**642,903**	**38,236**	**50,672**	**27,837**	**422,988**	**103,170**
Derivatives							
Hedging interest rate swaps	24,767	28,451	4,042	4,042	6,457	10,477	3,433
Total	**619,862**	**672,354**	**42,278**	**55,214**	**34,794**	**433,465**	**106,603**

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.

Market risk

Market risk is the risk that changes in rent prices, the number of months of vacancy and incentives affect the income of the group or the value of investments. The purpose of market risk management is to manage and control market risk exposures within acceptable limits while simultaneously optimising returns. The group uses derivatives to manage the market risk of interest rates. Such transactions take place within the guidelines laid down in the treasury policy.

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 real estate. 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 2016 the interest coverage ratio was 3.8 (end-2015: 3.2), which is higher than the level of 2.0 agreed with the banks. At the end of 2016 the Loan-to-Value was 44.1% (end-2015: 43.2%), which means that NSI is in compliance with all the covenants of the outstanding loan agreements.

Variable-rate loans expose NSI to uncertainty about interest expenses. Derivatives are used to manage interest rate risk. NSI aims to hedge the majority of the outstanding loans for the medium to long term. On 31 December 2016 NSI held financial derivatives with a nominal value of € 394.3 million (2015: €474.3 million) for the purpose of managing the interest rate risk on its loans.

If the variable interest rate were to rise 1% compared to 31 December 2016, the interest expenses for 2016 would increase and equity would decrease by €1.2 million (2015: €0.2 million), assuming no changes to the portfolio or financing (including margins). The financial derivatives are discounted 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/Libor 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.

2016	Effective interest %	Total	< 1 year	1-2 years	2- 5 years	>5 years
Fixed interest loans						
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 at 31 December		**510,404**	**-**	**500**	**380,154**	**129,750**

2015	Effective interest %	Total	< 1 year	1-2 years	2- 5 years	>5 years
Fixed interest loans	3.8	72,054	600	17,280	54,174	-
Variable interest loans	2.0	18,264	18,264	-	-	-
Fixed interest as a result of swaps	1.6	474,300	-	125,000	270,000	79,300
Total	**3.7**	**564,618**	**18,864**	**142,280**	**324,174**	**79,300**
Redemption obligations		47,047	47,047	-	-	-
Balance at 31 December		**517,571**	**-28,183**	**142,280**	**324,174**	**79,300**

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:

	Notes	Categories under IAS 39	Book value	2016 fair value	Book value	2015 fair value
Financial assets						
Debtors and other accounts payable	18	B	2,329	2,329	1,269	1,269
Cash	19	D	2,067	2,067	22,306	22,306
Total			**4,396**	**4,396**	**23,575**	**23,575**
Financial liabilities						
Interest-bearing debt	21	E	510,904	510,904	564,618	564,955
Financial derivatives	24	A	15,297	15,297	24,767	24,767
Current liabilities	20, 21	E	33,362	33,362	38,439	38,441
Total			**559,563**	**559,563**	**627,824**	**628,163**

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 are based on broker quotes. These quotes are regularly tested for reasonableness 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.

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

	2016				2015			
Maturity	Number of contracts	nominal	Fair value assets	Fair value liabilities	Number of contracts	nominal	Fair value assets	Fair value liabilities
Up to 1 year								
From 1 to 5 years	15	265,000	-	2,905	21	395,000	-	11,103
From 5 to 10 years	8	129,300	-	12,392	3	79,300	-	13,664
Total swaps	**23**	**394,300**	**-**	**15,297**	**24**	**474,300**	**-**	**24,767**
Total derivatives index-linked loan	-	-	-	-	2	54,000	-	
Total derivatives	**23**	**394,300**	**-**	**15,297**	**26**	**528,300**	**-**	**24,767**

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 1.84% to 2.77% (2015: 0.182% to 4.445%) and with maturity dates between 2019 and 2023 (2015: between 2017 and 2022).

The weighted average remaining maturity of the derivatives is 4.3 years (2015: 4.0 years). NSI is hedged at a weighted average interest rate of 0.7% (2014: 1.6%), excluding margin. 23% of the current loans (2015: 13.9%) are subject to variable interest rates and are therefore not hedged.

25. INVESTMENT OBLIGATIONS

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 2018. The implementation of the plan is taking place in stages. The total investment is €11.0 million.

26. OFF-BALANCE SHEET LIABILITIES

The company has entered into investment commitments for an amount of €4.2 million (2015: €0.5 million) relating to investment properties under construction. The obligations relating to lease cars amount to €0.6 million (2015: €0.8 million). Moreover, the company has unused credit facilities amounting to €121 million (2015: €78 million).

Receivable resulting from claims

The Dutch tax authority has imposed an additional assessment for transfer tax on VastNed Offices/Industrial N.V. (‘VNOI’) as well as an additional assessment for corporate tax relating to alleged tax obligations of companies acquired by VNOI in the past. In the fourth quarter of 2007, a settlement was reached with the tax authority for a total amount of €4.2 million. NSI is endeavouring to recoup this amount from the seller and a guarantor and is currently still involved in legal proceedings against the seller. In a lawsuit against the guarantor with regard to the transfer tax, the court awarded the claim for a total of €3.3 million in full to VNOI in December 2008. Guarantor has not gone into appeal against that judgment. But meanwhile guarantor went into insolvency and the bankruptcy has been declared due to lack of assets in 2011.

In the legal proceedings against the seller, the Amsterdam District Court issued its ruling on 22 July 2015 awarding a principal sum of approximately €3.9 million, plus statutory interest. The statutory interest amounts to €3.6 million at present. The seller filed an appeal against this ruling with the Court of Appeal in Amsterdam on 22 October 2015. On 31 May 2016 NSI submitted its statement of defence to be heard in appeal. The seller submitted its statement of defence to be heard in appeal on 12 July 2016. On 16 September 2016 arguments were presented before the Enterprise Chamber of the Amsterdam Court. The case is on the cause list for the court to rule on the matter on 4 April 2017.

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 real estate that was demolished, 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 Dutch owners’ association (VvE) and NSI, and the former mining company. The settlement of damage between the parties involved will be a lengthy process, however, management expects the costs to NSI to be limited. The current proceedings initiated by both the Dutch owners’ association (VVE) and NSI against the insurance firms will involve an appearance of the parties in court in April 2017.

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 will defend 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 will take place in May 2017.

27. 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% as per 31 December:

	31-dec-16	31-dec-15
ICAMAP Investments SARL	5.0%	N/A
BlackRock, Inc.	5.1%	3.0%
BNP Paribas Investment Partners SA	4.6%	4.9%
Cohen & Steers Capital Management, Inc.	4.6%	12.3%
Phoenix Insurance Company Ltd.*)	3.7%	3.7%
Norges Bank	3.0%	3.0%
CBRE Clarion Securities, LLC	2.5%	5.0%
Voya Financial Inc.	N/A	3.0%

Supervisory Board and Management Board members

The members of the Supervisory and Management Boards of NSI N.V. have no direct personal interest in the investments made by NSI N.V., nor did they have such an interest at any time in the past year. The company is aware of any real estate investment 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

	2016	2015
Henk Breukink (chairman)	53	52
Henk Jan van den Bosch	28	41
Gerard de Greef	12	38
Luurt van der Ploeg	41	38
Nico Tates	41	41
Karin Koks - Van der Sluis	25	0
Harm Meijer	25	0
Total	**225**	**210**

includes the payment they 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 2016 (2015: 0).

Remuneration of the Management Board

2016	salary	variable*	severance payment	pension costs	social security	total	equity holding end 2016 in # shares
Bernd Stahli	139	-	-	13	3	155	100,000
Johan Buijs	466	175	466	72	66	1,245	69,423
Anne de Jong	290	134	-	12	30	466	-
Daniël van Dongen	310	146	-	40	31	527	15,961
Total	**1,205**	**455**	**466**	**137**	**130**	**2,393**	**185,384**

* Excluding social security contributions

2015	salary	variable	severance payment	pension costs	social security	total	equity holding end 2016 in # shares
Johan Buijs	463	148	-	60	20	691	69,423
Daniël van Dongen	303	73	-	39	15	430	15,961
Total	**766**	**221**	**-**	**99**	**35**	**1,121**	**85,384**

At the Extraordinary Shareholders' Meeting on 25 August 2016 Bernd Stahli was appointed CEO as from 1 September 2016. Anne de Jong was appointed CIO at the general annual shareholders' meeting of 29 April 2016, having served as non-statutory director at NSI since 1 May 2015.
Johan Buijs stepped down as CEO on 1 September 2016, but remained employed with NSI as advisor until 31 December 2016. In connection with the termination of his contract, Mr Buijs received a severance payment equal to one year's pay, in accordance with the terms of his contract.
NSI shares held by directors are purchased at their own risk and expense.

Remuneration of the Management Board

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.

From 1 January 2012 the variable component has consisted solely of a long-term share plan (LTSP).
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. Next, 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 LTAP 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 current LTSP period of the CFO commenced on 1 January 2015 and expires on 31 December 2017. The current LTSP period of the CIO commenced on 1 May 2015 and expires on 31 December 2017. The LTSP contract of Johan Buijs has been terminated in connection with the termination of his employment with NSI.
The amount reserved for the LTSP for the 2016 financial year was €455 thousand (no payments relating to the period 2012-2015 were made in 2016). €175 thousand of this relates to a liability in connection with the termination of Mr Buijs' LTSP contract and €280 thousand related to a reservation in connection with the LTSP contracts of Daniel van Dongen 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.

28. COST RATIO (PREVIOUSLY TOTAL 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 2016 this ratio is was 4.9% (2015: 4.7%). This cost ratio is calculated as total expenses (operational costs, non-recharged service costs, administrative expenses and corporate tax) divided by the weighted average net asset value for the latest financial year.

COMPANY BALANCE SHEET

BEFORE PROPOSED 2016 PROFIT APPROPRIATION (x €1,000)

	Notes	31-12-16	31-12-15
Assets			
Financial fixed assets	3	1,130,937	1,248,637
Tangible fixed assets		41	153
Intangible fixed assets		193	57
Total fixed assets		**1,131,170**	**1,248,847**
Other accounts receivable		136	140
Cash		676	1,873
Total current assets		**812**	**2,013**
Total Assets		**1,131,982**	**1,250,860**
Equity			
Share capital	4	65,872	65,872
Share premium	4	923,435	923,435
Participations reserve	4	48,588	35,021
Currency translation reserve	4	-	-4
Earnings reserve	4	-415,809	-427,370
Result for the financial year	4	-17,833	63,794
Total equity attributable to shareholders		**604,254**	**660,748**
Liabilities			
Interest-bearing liabilities		510,404	517,571
Financial derivatives		9,941	18,266
Total long-term liabilities		**520,344**	**535,837**
Required redemption of long-term debt		500	47,047
Debts to credit institutions		146	20
Other accounts payable and accrued liabilities		6,738	7,208
Total current liabilities		**7,384**	**54,275**
Total liabilities		**527,728**	**590,112**
Total equity and liabilities		**1,131,982**	**1,250,860**

COMPANY INCOME STATEMENT (x €1,000)

	Notes		2016		2015
Administrative costs	6		-5,238		-7,208
Financing income	7	-		-74	
Financing expenses	7	-18,410		-19,283	
Movements in fair value of derivatives	7	1,326		2,924	
Net financing expenses			-17,084		-16,433
Corporate income tax			-		-
Corporate result after tax			**-22,322**		**-23,642**
Result associates	5		4,489		87,436
Total operational result after tax			**-17,833**		**63,794**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. 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 Supervision Act.

2. PRINCIPLES OF VALUATION AND DETERMINATION OF THE RESULT

The company financial statements have been prepared in accordance with Article 362 Paragraph 8 Book 2 of the Dutch Civil Code. This means that the principles for the processing and valuation of assets and liabilities and the determination of the result as described in the disclosure to the consolidated financial statements also apply to the company financial statements, unless stated otherwise. For a description of these principles, please refer to pages 52 to 61. 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.

3. FINANCIAL FIXED ASSETS

	2016	2015
Group companies	-	-
Receivables	1,130,937	1,248,637
Total	**1,130,937**	**1,248,637**

The development was as follows:

	Group companies	Receivables	2016	Group companies	Receivables	2015
Balance at 1 January	-	1,248,637	1.248,637	-	1.064,982	1,064,982
Results associates	-	4,489	4,489	-	87,436	87,436
Dividend received from group companies	-	-12,544	-12,544	-	-71,746	-71,746
Changes in receivables from group companies	-	-109,646	-109,646	-	167,965	167,965
Balance at 31 December	**-**	**1,130,937**	**1,130,937**	**-**	**1.248,637**	**1,248,637**

4. EQUITY

The development of shareholders' equity in the financial year under review was as follows:

	Issued share capital	Share premium	(Statutory) reserve participa-tions	(Statutory) currency translation reserve	Earnings reserve	Result for the financial year	Total equity
Balance at 1 January 2016	65.872	923,435	35,021	-4	-427,370	63,794	660,748
Result after tax 2016						-17,833	-17,833
Currency translations on foreign participations				4			4
Total comprehensive income 2016				**4**		**-17,833**	**-17,829**
Distributed final dividend in cash in 2015					-20,048		-20,048
2015 profit appropriation			13,567		50,227	-63,794	0
Distributed 2016 interim dividend in cash					-18,616		-18,616
Balance at 31 December 2016	**65.872**	**923,435**	**48,588**	**0**	**-415,808**	**-17,833**	**604,254**

The development of shareholders' equity in the previous financial year was as follows:

	Issued share capital	Share premium	(Statutory) reserve participa-tions	(Statutory) currency translation reserve	Earnings reserve	Result for the financial year	Total equity
Balance at 1 January 2015	65.872	923,435	55,704		-275,356	-136,897	632,758
Result after tax 2015						63,794	63,794
Currency translations on foreign participations				-4			-4
Total comprehensive income 2015				**-4**		**63,794**	**63,790**
Distributed final dividend in cash in 2014					-17,184		-17,184
2014 profit appropriation			-20,683		-116,214	136,897	
Distributed 2015 interim dividend in cash					-18,616		-18,616
Balance at 31 December 2016	**65.872**	**923,435**	**35,021**	**-4**	**-427,370**	**63,794**	**660,748**

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 reserve.

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 at ultimo 2016 and 2015.

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 the interim dividend of €0.13 (2015: €0.13) per share already distributed into consideration, a final dividend of €0.14 (2015: €0.14) per share has been proposed. An amount of -€ 5.0 million (2015: €13.6 million) will be added to the revaluation reserve, which is determined at individual property level. The remainder of the result will be added to the earnings reserve.

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 2016 financial year the Management Board, with the approval of the Supervisory Board and in line with the applicable dividend policy (i.e. a payout of at least 75% of the direct result), proposes a final dividend of € 0.14 per share.

This puts the total dividend for 2016 at €0.27 per share, of which €0.13 per share was already distributed as an interim dividend on 9 August 2016.

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.

The financial calendar has been adjusted slightly to give shareholders sufficient time to decide between a stock and/or cash dividend. Provided that the General Meeting of Shareholders approves this dividend proposal, the final dividend will be made payable from 15 May 2017.

Based on the number of outstanding shares eligible for dividend (143,201,841), the total amount of the final dividend is €20.0 million and will be withdrawn from the earnings reserve.

The development of the proposed profit appropriation is as follows:

(x € 1,000)	
Result for the financial year 2016	-17,833
Final dividend 2016	-20,048
On balance added to the reserves	**-37,881**

NSI is offering shareholders the option to receive this final dividend in cash. 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.

5. ADMINISTRATIVE COSTS

	Notes	2016	2015
Management costs		8,084	6,008
Audit costs	9	279	246
Consultancy costs		272	345
Appraisal costs		405	359
Compensation of supervisory board members		244	247
Other costs		110	4
Total		**9,394**	**7,208**
Allocated to real estate entities		-4,156	-
Total		**5,238**	**7,208**

The breakdown of management costs was as follows:

	2016	2015
Salaries	4,949	3,284
Social insurance costs	556	257
Pension costs	413	373
Other employee costs	387	271
Depreciation of tangible and intangible assets	150	94
Other operating costs	1,630	1,728
Total	**8,084**	**6,008**

6. NET FINANCING EXPENSES

	2016	2015
Financing income		
Interest income (on loans and receivables)	-	-
Exchange -rate differences	-	74
Total	**-**	**74**
Financing expenses		
Interest costs	18,410	19,283
Exchange -rate differences	-	-
Total	**18,410**	**19,283**
Movement in value of financial derivatives		
Movements in fair value of derivatives	-1,326	-2,924
Total	**-1,326**	**-2,924**
Total net financing expenses	**17,084**	**16,433**

7. LIABILITIES NOT APPEARING IN THE BALANCE SHEET

Liability

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.

8. AUDIT FEES

KPMG Accountants N.V. (2015) and PricewaterhouseCoopers Accountants N.V. (2016) charged the following fees to NSI and its subsidiaries:

	2016	2015
Review of the financial statements	168	207
Other reviews (review interim results and prospectus)	25	39
Total	**193**	**246**

9. EVENTS AFTER BALANCE SHEET DATE

Daniel van Dongen, CFO of NSI since 15 October 2009, has announced that he wishes to take the next step in his career after eight years at NSI. For this reason he will not be available for reappointment at the AGM of 21 April 2017.
On 13 February 2017 the Supervisory Board signed an agreement with Mr. Van Dongen to settle the details regarding the termination of his management agreement. In the coming months Mr. Van Dongen will oversee the closing of the 2016 annual accounts. He will step down as CFO after the AGM of 21 April 2017 but remain with the company until 30 June 2017 to assist in the handover of his activities.

On February 13th an office asset and a related retail asset in Heerlen were sold and transferred to the local municipality. On 1 March 2017 NSI bought a 12,000 sqm office property in Utrecht for an amount of €20.5 million.

Hoofddorp, 9 March 2017

The Management Board
Bernd Stahli, *CEO*
Daniël van Dongen, *CFO*
Anne de Jong, *CIO*

The Supervisory Board
Henk Breukink, *Chairman*
Luurt van der Ploeg
Nico Tates, Vice Chairman
Harm Meijer
Karin Koks-Van der Sluijs

OTHER DATA

Statutory provisions in respect of profit appropriation

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

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of NSI N.V. as at 31 December 2016 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;
- the accompanying company financial statements give a true and fair view of the financial position of NSI N.V. as at 31 December 2016 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 2016 of NSI N.V., with office location in Hoofddorp and statutory seat in 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 2016;
- the following statements for 2016: 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 2016;
- 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.

Independence

We are independent of NSI N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Our audit approach

Overview and context

NSI N.V. is an investor in commercial real estate that is held to generate rental income or an increase in value, or a combination of both.

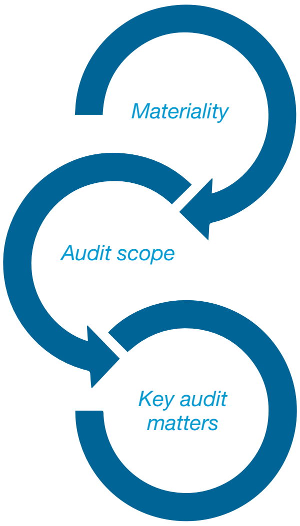
The group comprises several components and therefore we considered our group audit scope and approach as set out in the section 'the scope of our group audit'.

The strategic reorientation in December 2016 has had a significant impact on the group and its consolidated financial statements presented for the financial year 2016 and consequently on our audit. We also paid attention to the areas that are related to the specific activities of the group. In the following paragraphs we explain the key audit matters or areas of focus we have identified as a result.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at areas which require a high level of judgement by the board of management, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. On pages 53 and 54 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 in the valuation of investment properties and assets held for sale and the impairment assessment of goodwill, we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we identified the classification and presentation of assets held for sale / discontinued operations as key audit matter because of the specific IFRS requirements which have to be met for this classification and the impact of the presentation on the balance sheet and the statement of comprehensive income. More information can be found in the section ‘Key audit matters’.

Besides the above mentioned key audit matters, other areas of focus in our audit were the valuation of derivatives, purchases and sales of investment properties, accurate and complete accounting of rental income, compliance with the requirements of the ‘Fiscale Beleggingsinstelling (‘FBI’)’ and compliance with bank covenants. 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 board of management 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 entity. We therefore included real estate valuation experts and specialists in the areas of valuation of derivatives and IT in our team.
The outlines of our audit approach were as follows:



Materiality
- Overall materiality: €1,000,000, based on 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 the impairment charge related to goodwill.

Audit scope
- We conducted the 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
- Valuation of goodwill
- Classification and presentation of assets held for sale / 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’.

We set certain quantitative thresholds for materiality. 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 on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€1,000,000
How we determined it	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 the impairment charge related to goodwill.
Rationale for benchmark applied	We have applied this benchmark based on our analysis of the common information needs of users of the financial statements. On this basis we believe that this benchmark 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 €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 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 decided per financial statement line item which audit procedures needed to be performed in relation to the audit of the consolidated financial statements.

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

As the audit of the 2016 consolidated financial statements is our first year as independent auditor of NSI N.V., we have conducted specific procedures in this regard, like:

- Procedures performed in order to obtain sufficient comfort on the opening balance sheet per 1 January 2016, including the related communication with the previous auditor and a review of the audit file 2015 of the previous auditor;
- Audit procedures performed to obtain our initial understanding of the entity and its environment, including the IT related control environment. Based on the information obtained we have prepared our risk assessment, the scope of our audit and our audit plan. We have discussed our audit plan with the board of management and the audit committee.

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, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

We have performed our audit procedures relating to these key audit matters in the context of our audit of the financial statements as a whole. Our findings related to individual key audit matters should be read in this context and should not be considered as separate opinions on these matters or on specific elements of the financial statements.

Key audit matter	*How our audit addressed the matter*
Valuation of investment property *Refer to note 13 to the financial statements.* NSI N.V. has investment property on the balance sheet valued at € 770 million and assets (also investment property) held for sale, as a result of the strategic reorientation, valued at € 390 million as at 31 December 2016. The valuation of the investment property and assets held for sale, which are valued at fair value, requires a high level of judgment by the board of management. This is due to factors including the individual nature of each property, as well as the specific location and the outlook in terms of future rental income and costs of each property. A relatively minor adjustment in assumptions in the valuations of each individual property can lead to a material difference in the financial statements. Due to the size of these assets relative to the balance sheet total and given the significant estimation uncertainty associated with the valuation of these assets we have considered the valuation of investment property as a key audit matter. The directors make use of external appraisers to determine the fair value of the individual properties. As at 31 December 2016, all properties were valued by external appraisers. The external appraisers were appointed by the board of management and perform their valuations in accordance with the standards prescribed by the Royal Institution of Chartered Surveyors (RICS). In determining the valuation of a property the external appraisers considered up-to-date, object-specific information included in the current lease contracts. Next, the external appraisers made assumptions with regard to elements such as the capitalisation factor, the market rent and the expected vacancy period based on available market information and transactions, in order to arrive at a series of valuation results from which they derive a point estimate. Given the unique nature of each property, the assumptions used took into consideration the individual characteristics at tenant level and the quality of the object as a whole. The board of management adopted the results of the external valuations in the 2016 financial statements without amendment.	We assessed the competence, capabilities and objectivity of the external appraisers appointed by the directors. We read the engagement letter issued by the board of management and spoke with the external appraisers in order to verify that the engagement of the external appraisers was appropriate, suitable for the valuation of the investment property in the 2016 financial statements and in order to verify that no restrictions were imposed on the scope of the engagement. We assessed for all valuation reports whether the valuation methods as applied by the external appraisers are acceptable for the purpose of the valuation of the underlying investment property. We have determined that the external valuation reports are suitable for the valuation of the investment property in the financial statements. We reconciled for all reports the appraised value in the valuation reports with the financial administration. In addition, for a sample of the reports, we reconciled standing data included in the valuation report such as rental income, the duration of lease contracts and square metres with the lease administration and the lease contracts. We have no material findings. Next, for a sample of the reports we verified the assumptions used by the external appraisers in their valuations (including the capitalisation factor, the market rent and the expected vacancy period) against external data (including market transactions). For this assessment we have made use of our own PwC investment property valuation experts. Due to the high level of judgment by the board of management in the valuation of investment property and the existence of alternative assumptions and valuation methods, we assess if the result of the external valuation is within an acceptable range. For the valuation reports included in our sample, we have concluded that the fair value of these properties fall within this range. We also examined the suitability of the explanatory note in the financial statements regarding the (impact of sensitivity on the valuation of the) assumptions, given the importance of this information for users of the financial statements, in view of the estimation uncertainty inherent to the valuation of investment property. We have no material findings.

Key audit matter	*How our audit addressed the matter*
Valuation of goodwill *Refer to note 16 to the financial statements.* In 2007 NSI N.V. acquired a property management organisation, whereby for an amount of EUR 8.2 million goodwill has been recognised. On an annual basis, the board of management tests the goodwill for impairment, by evaluating whether the cash flows arising from the cash-generating units are higher than the costs of internal property management. In this test, the board of management makes significant assumptions, such as the allocated cash inflows and the allocation of costs to the property management. The sale of the remaining part of the shares in Intervest Offices & Warehouses in the first quarter of 2016 and the intended sale of the retail portfolio resulting from the strategic reorientation in December 2016, resulted in redefinition of the reportable segments. As a result, the impairment test has been performed on the level of the redefined segments. The board of management have reallocated the goodwill to the redefined segments based on the relative value of the investment property per segment on 1 January 2016. At yearend 2016 the board of management determined that future cash inflows for each of the cash-generating units will be insufficient to recoup the amount of goodwill. This is mainly due to the rising cost base of the organisation and a lower investment property investment base to offset the cost base, as a result of the intended sale of the retail portfolio. The outcome of the impairment test resulted in a complete write-off of goodwill. Because of the significant estimation uncertainty in the goodwill impairment test and the amount of this write-off why we considered the valuation of goodwill as a key audit matter in our audit.	We have assessed whether the reallocation of goodwill to the redefined segments was correctly implemented in accordance with the relative value of the investment property in the segments as at 1 January 2016. We have no material findings. We have verified whether the significant assumptions in the impairment calculations, such as the cash inflows allocated to the cash-generating units and the allocation of costs related to property management are in line with external market data, the assigned management fee calculated in determining fair value of the real estate investments, and the internal allocation of costs to property management. In addition, we verified the mathematical correctness of the impairment test prepared by the board of management. We have no material findings.
Classification and presentation of assets held for sale / discontinued operations *Refer to notes 1, 8, 9 and 17 to the financial statements.* In December 2016 the board of management launched a strategic reorientation, which included the decision to sell the retail portfolio. As at the balance sheet date the sale process had progressed sufficiently in order to classify the retail portfolio as assets held for sale. Given that retail property is an important segment and is therefore considered as a disposal group, the board of management recognised the 2016 result of this segment of the portfolio as result from discontinued operations. The board of management also have adjusted the comparative figures for this segment. In addition, in the first half of 2016 the board of management have sold the remaining stake held by NSI N.V. in Intervest Offices & Warehouses N.V., a Belgian legal entity. In the breakdown of segments used up to the end of the 2015 financial year Belgium was a separate reportable segments. The board of management recognised the result of this entity under discontinued operations in 2016. The board of management also adjusted the comparative figures for this segment. We consider the classification and presentation of assets held for sale / discontinued operations as a key audit matter due to the specific IFRS requirements which have to be met for this classification and the impact of the presentation on the balance sheet and the statement of comprehensive income.	We assessed whether the requirements of IFRS 5 were met with regard to the classification of the retail portfolio as assets held for sale. We also have assessed whether the retail property and Belgium met the requirements for classification as discontinued operations. We assessed whether as per balance sheet date the board of management and the supervisory board were committed to sell the retail portfolio and actively had initiated the sales process. We also assessed the likelihood of the retail property being available for immediate sale in its current state and whether it is highly probable that the sale will take place. We assessed the classification and presentation of the retail portfolio as assets held for sale and the classification and presentation of the retail portfolio and Belgium as discontinued operations in the financial statements as presented by the board of management. We have no material findings. We also examined whether the comparative figures in the consolidated statement of comprehensive income for the discontinued operations for the retail portfolio and Belgium were accurately and fully adjusted. We have 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:
- the board of managements' report, consisting Key figures, NSI at a glance, CEO comments, Strategy, Income, Cost and results, Netherlands property market overview, Real estate portfolio, Balance sheet, NAV & financing, Risk management and internal control, Sustainability, Corporate governance, Detail of the Board of Management, Details of the Supervisory Board, Report of the Supervisory Board, NSI share, Glossary, EPRA performance indicators.
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

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 all 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 Book 2 of the Dutch Civil Code and the Dutch Standard on Auditing 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The board of management is responsible for the preparation of the other information, including the board of managements' report and the other information pursuant to Part 9 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 26 October 2015 by the supervisory board subject to a formal resolution by the shareholders at the annual meeting held on 29 April 2016. We have a total period of uninterrupted engagement appointment of 1 year.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the board of management and the supervisory board for the financial statements

The board of management 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 board of management 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 board of management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of management should prepare the financial statements using the going-concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The board of management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 9 March 2017
PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. E. Hartkamp RA MRE

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2016 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 board of management.
- Concluding on the appropriateness of the board of managements' 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.

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 attaches value to providing information through means of road shows, presentations, press releases, quarterly reports, annual reports and other publications, as well as providing information via the Company's website. All relevant publications are placed on the Company's website.

Share capital

All the issued shares of NSI are ordinary shares with a nominal value of €0.46 each. The total number of shares issued remained unchanged at 143,342,678 shares as per 31 December 2016, of which 140,837 shares were held as treasury stocks. Consequently, 143,201,841 shares are entitled to dividend and all ratios per share are calculated on that basis.

Major Shareholders

Pursuant to 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% and over in NSI up to 31 December 2016.

	Per 31 December 2016	Per 9 March 2017
ICAMAP Investments SARL	5.0%	5.0%
BlackRock, Inc.	5.1%	5.1%
Phoenix Insurance Company Ltd.*)	3.7%	3.7%
Cohen & Steers Capital Management, Inc.	4.6%	3,0%
BNP Paribas Investment Partners SA	4.6%	4.6%
Norges Bank	3.0%	3.0%
CBRE Clarion Securities, LLC	2.5%	3.0%
AXA Investment managers S.A.		3.0%

Financial Calendar

Publication annual report	10 March 2017
Publication trading update Q1 2017	20 April 2017
Annual General Meeting	21 April 2017
Publication half year results	25 July 2017
Publication trading update Q3 2017	26 October 2017

Dividend policy and Dividend distribution

NSI's dividend policy is to distributes at least 75% of the direct result in cash. NSI distributes dividend twice a year.

AGM decision on final dividend 2016	21 April 2017
Ex-dividend date	25 April 2017
Record date	26 April 2017
Payment of final dividend	15 May 2017
Setting interim dividend 2017	25 July 2017

Fiscal Investment Institution (FBI)

NSI qualifies as a fiscal investment institution (FBI) in the sense of Article 28 of the 1969 Netherlands Corporate Income Tax Act (Wet Vpb 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 dividends.

Performance of the NSI share

	2016
Share price low	€3.41
Share price high	€4.22
Closing price on 31 December 2016	€3.59
Proposed dividend per share	€0.27
# outstanding ordinary shares as 31 December 2016	143,201,841
Market capitalisation at 31 December 2016	€513 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

COST RATIO (EPRA)
The EPRA costs include all administrative, net service costs and operating expenses as reported under IFRS, excluding ground rent costs. These cost are to be reflected including and excluding direct vacancy costs.
The EPRA costs 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 (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.

FBI-REGIME
NSI qualifies as a fiscal investment institution ("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 between debt and the book value of real estate of 60%, maximum ownership of shares by one legal entity or natural persons, and the obligation to pay out the annual profits by way of dividends within eight months after the end of the financial year.
Before 2014, activities permitted under the FBI legislation were limited to portfolio investments activities only. Effective 1 January 2014, new legislation went into effect 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.

INTERNAL RATE OF RETURN (IRR)
Internal rate of return (IRR) is a metric used in capital budgeting measuring the profitability of potential investments.

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 interest.

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 interest.

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 (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 growth in rent is corrected for the impact of acquisitions, divestments and properties transferred from and to the development portfolio and between segments (eg. 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, but net of cash and cash equivalents, expressed as a percentage of the total real estate investments, including assets held for sale.

MARKET VALUE REAL ESTATE INVESTMENT (FAIR VALUE)
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each 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 the total liabilities. In NSI this matches the shareholders' equity (so excluding non-controlling interest 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 rather than the average number of shares is used.

NET ASSET VALUE (NAV; EPRA-DEFINITION) [1]
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 the 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 INVESTMENTS
The net result on sales of real estate investments reflects the disposal price paid by a third party for a property minus the value 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.

REAL ESTATE INVESTMENTS HELD FOR SALE
Real estate investments will be reclassified to real estate investments 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.

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 at the same time an investment property can be considered standing and non standing, dependent on the comparison periods used (e.g. year-on-year and quarter-on-quarter)

TRIPLE NET ASSET VALUE (NNNAV; EPRA) [1]
The EPRA NNNAV is designed to provide a spot measure of NAV including all assets and liabilities at fair value. This measure is adjusting the EPRA NAV for the market to market of the financial instruments, debt and deferred taxes.

VACANCY RATE (EPRA)
Vacancy rate (EPRA)1: 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 lease in portfolio's. It can be calculated either over the full lease term (up to expiration date) of the contracts or over the firm lease tem of the contracts (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 KEY PERFORMANCE INDICATORS[1]

EPRA key performance indicators

		2016		2015	
	Table	(€k)	Per Share (€)	(€k)	Per Share (€)
EPRA Earnings	1	47,325	0.33	48,567	0.34
EPRA NAV	2	619,551	4.33	685,515	4.79
EPRA NNAV	2	600,799	4.20	657,934	4.59
EPRA Net Initial Yield (NIY)	3	6.0%		5.7%	
EPRA Topped-up NIY	3	6.4%		6.3%	
EPRA Vacancy Rate	4	21.4%		24.3%	
EPRA Cost Ratio (A)	5	32%		33%	
EPRA Cost Ratio (B)	5	28%		28%	

EPRA Earnings (€k)

	2016	2015
Rental income	94,589	90,813
Service costs not recharged	-4,147	-5,277
Operating costs	-16,179	-17,080
Net revenue from operations	**74,262**	**68,456**
Administrative expenses	-8,375	-6,029
Net financial expenses	-19,931	-22,020
Direct result before tax	**45,957**	**40,407**
Income tax expenses	54	2
Direct result after tax	**46,011**	**40,409**
Discontinued operations	2,818	10,215
Direct result	**48,829**	**50,575**
Adjustments	-1,504	-2,008
EPRA Earnings	**47,325**	**48,567**
EPRA Earnings per share (€)	**0.33**	**0.34**

EPRA NAV

	2016		2015	
	(€k)	Per Share (€)	(€k)	Per Share (€)
Shareholders' equity attributable to NSI shareholders	604,254	4.22	660,748	4.61
Fair value of financial derivatives[2]	15,297	0.11	24,768	0.17
EPRA NAV	**619,551**	**4.33**	**685,515**	**4.79**
Fair value of financial derivatives	-15,906	-0.11	-24,768	-0.17
Fair value of debt	-2,846	-0.02	-2,813	-0.02
EPRA NNNAV	**600,799**	**4.20**	**657,934**	**4.59**

[1] The EPRA performance indicators are calculated on the basis of the definitions published by the EPRA
[2] Not corrected for DVA/CVA

EPRA Yield (€k)

	31/12/2016	31/12/2015
Investment property including asset held for sale[3]	1,162,937	1,201,915
Less developments	-800	-1,000
Total property investments	**1,162,137**	**1,200,915**
Allowance for estimated purchasers' costs	81,350	84,064
Gross up completed property portfolio valuation (B)	**1,243,487**	**1,284,979**
Annualised cash passing rental income	92,964	94,979
Property outgoings	-18,450	-20,130
Annualised net rents (A)	**74,514**	**74,849**
Add: notional rent expiration of rent free periods or other lease incentives	4,947	6,678
Topped-up net annualised rent (C)	**79,461**	**80,527**
EPRA Net Initial Yield (A/B)	**6.0%**	**5.7%**
EPRA Topped-up Net Initial Yield (C/B)	**6.4%**	**6.3%**

4.EPRA Vacancy Rate (€k)

	2016	2015
Estimated rental value of vacant space (A)	24,853	29,842
Estimated rental value of the whole portfolio (B)	116,230	123,031
EPRA vacancy rate (A/B)	**21.4%**	**24.3%**

EPRA Cost ratio[4] (€k)

	2016	2015
Administrative costs	9,879	8,037
Operating costs	16,179	17,080
Service costs not recharged	4,147	5,277
Ground rent costs	-244	-183
EPRA costs (including direct vacancy costs) (A)	**29,961**	**30,211**
Direct vacancy costs	-3,800	-5,097
EPRA costs (excluding direct vacancy costs) (B)	**26,161**	**25,114**
Gross rental income less ground rent costs	94,589	90,813
EPRA gross rental income (C)	**94,589**	**90,813**
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**31.7%**	**33.3%**
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**27.7%**	**27.7%**

[3] For the yield calculation HNK Hoofddorp (NSI's HQ) is included for 100%
[4] EPRA cost ratio 2015 excluding consolidation IOW

Colophon

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NSI
Antareslaan 69-75
Postbus 3044
2130 KA Hoofddorp

T 020 76 30 300
F 020 25 81 123
E info@nsi.nl
www.nsi.nl

Editing and texts
NSI

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Monter, Amsterdam

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Wiebke Wilting

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Antareslaan 69-75
Postbus 3044
2130 KA Hoofddorp

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F 020 25 81 123
www.nsi.nl