PRELIMINARY RESULTS

FULL YEAR 2019

- Restructuring completed, focus shifts even more to selective development and services offering
- LTV of 27.4% provides financing capacity for developments and selective acquisitions
- Strong momentum in operational business with like-for-like net rental growth of 5.2%
- Agreement with ING on Laanderpoort development project, start Q1 2022
- EPRA NAV of € 48.0 per share (up 20.7% vs year-end 2018)
- EPRA EPS of € 2.64 per share (stable vs FY 2018)
- Vacancy rate of 7.1% (down 6.7pp vs Q4 2018)

INDEX

FINANCIAL CALENDAR

Publication annual report 2019	5 March 2020
Publication trading update Q1 2020	16 April 2020
Publication half year results H1 2020	13 July 2020
Publication trading update Q3 2019	22 October 2020
AGM	24 April 2020
Ex-dividend date (final dividend 2019)	28 April 2020
Record date	29 April 2020
Dividend election period	30 April – 14 May 2020
Payment of final dividend	19 May 2020

For additional information please contact:
NSI N.V.
Investor Relations

Dirk Jan Lucas
T +31 (0)20 763 0368
E ir@nsi.nl

Publication date:
28 January 2020

NSI HIGHLIGHTS

KEY FINANCIAL METRICS[1]

REVENUES AND EARNINGS

	2019	2018	Change
Gross rental income	82,831	83,721	-1.1%[2]
Net rental income	67,227	69,228	-2.9%[2]
Direct investment result	49,439	48,745	1.4%
Indirect investment result	146,858	42,780	243.3%
Total investment result	196,297	91,525	114.5%
Earnings per share	10.47	4.95	111.3%
EPRA earnings per share	2.64	2.64	-0.1%
Dividend per share	2.16	2.16	0.0%
EPRA cost ratio (incl. direct vacancy costs)	28.4%	26.5%	1.9 pp
EPRA cost ratio (excl. direct vacancy costs)	26.3%	25.0%	1.3 pp

BALANCE SHEET

	31 December 2019	31 December 2018	Change
Investment property	1,263,089	1,202,691	5.0%
Assets held for sale	15,903	3,940	303.6%
Net debt	-352,632	-447,909	-21.3%
Equity	903,308	733,283	23.2%
IFRS equity per share	47.75	39.48	21.0%
EPRA NAV per share	47.97	39.75	20.7%
EPRA NNNAV per share	47.40	39.20	20.9%
Net LTV	27.4%	36.9%	-9.5 pp
Number of ordinary shares outstanding	18,917,764	18,574,298	1.8%
Weighted average number of ordinary shares outstanding	18,751,178	18,473,101	1.5%

KEY PORTFOLIO METRICS

	31 December 2019					
	Offices	HNK	Other	TOTAL	31 December 2018	Change
Number of properties	48	14	3[3]	65	95	-31.6%
Market value (€m)[4]	964	262	61	1,287	1,214	6.0%
Annual contracted rent (€m)[5]	56	20	6	81	87	-6.4%
ERV (€m)[6]	63	23	6	92	102	-9.6%
Lettable area (sqm k)	317	127	47	491	603	-18.5%
Average rent / sqm	191	190	155	188	179	5.1%
EPRA vacancy[7]	4.0%	14.5%	10.1%	7.1%	13.8%	-6.7 pp
EPRA net initial yield	4.5%	4.6%	6.3%	4.6%	5.2%	-0.6 pp
Reversionary yield	6.5%	8.8%	9.8%	7.1%	8.5%	-1.4 pp
Wault (years)	4.5	3.1	5.8	4.2	4.4	-3.2%

1 These preliminary results are unaudited.
2 On a like-for-like basis GRI growth is 7.8% and NRI growth is 5.2%.
3 At the end of 2019 four retail assets, all part of the Zuidplein shopping centre in Rotterdam, were consolidated into one asset.
4 Reported in balance sheet at book value incl. right of use leasehold (IFRS 16), excl. lease incentives and part of NSI HQ (own use).
5 Before free rent and other lease incentives.
6 Excluding ERV for investment properties under construction (Bentinck Huis and Donauweg).
7 In line with EPRA-guidelines EPRA vacancy rate excludes Bentinck Huis and Donauweg, which are currently being redeveloped.

CEO COMMENTS

We are pleased to present the results over FY 2019. We are now seeing the full fruits of the team's efforts over the past three years. The portfolio is cleaned up, the balance sheet is in great shape and we have a pipeline of value-add initiatives to drive future returns.

The next phase for NSI, as we explain in our 'Vision NSI 2024' on the following pages, will be about continued portfolio optimisation, property development and expanding our services offering.

Ready for the next phase

It is due to the team's strong commitment to executing the strategy and the favourable economic climate that we have been able to establish a solid foundation for the business. This is most visible in the below market vacancy rate of 7.1% and the low LTV of 27.4%. We have left the restructuring phase firmly behind us and have moved on to a new and exciting phase for the business, the team, our customers and our shareholders.

The key performance indicators below summarise the turnaround over the past three years. The decision to move to a higher quality, more focused, asset portfolio and to a stronger balance sheet has not come at a cost to our cashflow so far. This is almost entirely due to the positive effects of our strong leasing activity, the ability to acquire attractive assets, sell vacant assets at reasonable prices and the improvement in admin and financing costs over this period.

KPI's portfolio turnaround 2016-2019

	Dec 2019	Dec 2016
Vacancy rate (%)	7.1%	21.4%
Number of Assets (#)	65	165
Average asset Value (€m)	19.8	7.0
% of assets in offices	95%	66%
% of office assets in G4	79%	46%
LTV (%)	27.4	44.1
EPRA EPS (€)	2.64	2.64
DPS (€)	2.16	2.16

At the end of 2019, adjusted for three assets sold in Q4 which will be delivered in early 2020, we have only two retail assets and five non-HNK offices (one in Delft and four in Hoofddorp) located outside our target markets.

We intend to retain 't Loon shopping centre in Heerlen until all legal proceedings related to the 2011 sinkhole issue have come to a final conclusion. We also, at least for now, intend to retain our interest in Zuidplein shopping centre in Rotterdam as we expect to be able to further optimise this asset, whilst at the same time the wider centre is being refurbished.

Going forward we will run our remaining non-target city offices in Delft and Hoofddorp as part of our overall portfolio strategy, with the aim to further prune and strengthen the investment portfolio.

Acquisitions vs developments

The continued strength of the investment market has pushed prices for prime assets to such a level that it is often as attractive, if not more attractive, to selectively pursue new development, even when recognising the higher risk related to development.

The LTV, at 27.4%, is rather conservative and gives capacity to pursue developments and selective acquisitions, even beyond the planned redevelopment projects at Laanderpoort and Vitrum.

In our Q3 report we signalled two potential acquisition opportunities. One of these has fallen away, whilst discussions for the other are ongoing. We continue to see interesting acquisition opportunities and remain as diligent and disciplined as ever in our approach.

EPS/DPS trajectory to 2024

Whilst the operational business is sound and improving, due to our net disposals in late H2 2019 and the subsequently lower LTV our EPRA EPS will be lower in 2020. Based on the in-place portfolio we forecast a FY 2020 EPRA EPS in the range of €2.30 - €2.40.

We are likely to see a further temporary negative effect on EPRA EPS beyond 2020 due to the development pipeline. In 2021 we are set to lose the rental income of Vitrum (€3.6m), as we start an 18-month redevelopment of this asset. In 2022 we expect to lose the rental income from the existing Laanderpoort asset (€2.7m) for a period of around 27 months.

As a result of these two projects and all other things being equal, our internal projections suggest that EPRA EPS could 'bottom out' in FY2021 or FY2022 and rise again in subsequent years as the projects complete and lease up. We are now pencilling in an EPRA EPS of circa €2.20 for FY2021, circa €2.25 for FY2022, circa €2.55 for FY2023 and circa €2.75 for FY2024. It goes without saying that these projections are fluid and are likely to change over time.

We will do our best to mitigate the near term negative effects of our development pipeline, but we believe the pipeline is a necessary step to help drive total shareholder returns and create a better, more sustainable, business in the long run. On completion of both projects we will have a better overall portfolio and a higher level of EPRA EPS. This makes a compelling case for both projects, even before the likely development profits.

We focus on the long term sustainable level of recurring EPRA EPS when determining the appropriate level of dividend. We are as such willing to look beyond the upcoming temporary EPRA EPS decline. As we project a return to a healthy dividend cover for FY2024 and beyond, we intend to maintain a dividend of €2.16 per share during the period of EPRA EPS decline up to 2022, even if this means a temporarily higher pay-out ratio.

Organisation

Anne de Jong, CIO, announced his departure in early December. We would like to thank Anne for the significant contribution to NSI during the successful turnaround in recent years. We wish him well in his future endeavours.

Subsequently, we have decided to change the board structure to a two person board, supported by a management team. This should better accommodate the needs of the business for the period ahead.

Outlook for 2020

We have a solid foundation in place and we have a plan to create further value for our customers and shareholders. The economic outlook is supportive and with signs of supply shortage in many of our markets, we remain confident about the outlook.

We have made considerable progress on our ESG initiatives in 2019, in particular the reduction of energy and water consumption. We were pleased with our first GRESB score of 71 points in 2019 and because of our efforts expect to see a further uplift in 2020.

We are pleased to once again propose a stable final dividend of €1.12 per share including, as usual, a stock dividend alternative. The full year dividend is therefore maintained at €2.16.

Bernd Stahli

A CLEAR AMBITION FOR 2024

NSI is ready for the next phase. In early 2017 NSI re-set its strategy and purpose, by aiming to become the leading specialist in the Dutch office market, with a strong and efficient platform and an emphasis on total return through active asset management, value-add initiatives and active capital recycling.

It is now time for an updated strategy and purpose, one that puts the customer front and centre. “We enable our customers to achieve maximum productivity and growth, providing best-in-class, flexible, space solutions and an unparalleled level of services in modern, healthy, sustainable buildings in prime locations.”

This is clearly an ambition, one that will guide us in our activities for the coming years. Going into 2020 we are having multiple sessions with the wider NSI team to fine-tune the strategy and purpose and to set priorities, timelines and deliverables with respect to three key elements: portfolio optimisation, development and services.

The portfolio optimisation for the coming years will focus on further strengthening our exposure and our positioning at or near the major transport hubs in our focus cities. We expect these hubs will turn into locations where ‘work, education, healthcare, sleep, eat and play’ are being offered on an integrated basis to create new, more vibrant, city districts. We embrace this trend and recognise both the necessity and its potential. Where appropriate and where possible we will take an active role in contributing to this future.

An attractive €850m development pipeline

Over the past two years or so we have managed to put together a considerable development pipeline. The current potential pipeline has an all-up cost of circa €850m, of which circa €150m is the combined book value of existing assets related to this pipeline and €700m is the capex to be spend in the years ahead.

This pipeline is a valuable asset at a time when prime investment yields have fallen to record lows. We estimate an average yield on cost for our development programme of 6% to 6.5%. Development, selectively, is therefore one of the better ways to drive further shareholder value, even on a risk-adjusted basis.

We recognise that we are at the start of building up a track record. In general we prefer to minimise risks related to development where possible, but this is especially relevant for the first project. We have prepared the balance sheet with a low LTV and with fixed rate debt that extends in duration beyond the expected delivery time table for our projects. This, in combination with having the right organisation and processes, prime locations, sensible pre-letting requirements and reputable partners will help mitigate many of the development risks.

Near-term projects

We have two near-term projects, Laanderpoort and Vitrum, both in Amsterdam. Given the current LTV of 27.4% the balance sheet has capacity to pursue both projects. On a pro-forma basis, taking into account circa €150m in potential capex for both projects, the LTV will increase to a still modest 34%, before any potential valuation gains on either project.

Laanderpoort, Amsterdam (circa €120m in capex)

We have signed a preliminary cooperation and lease agreement with ING for the redevelopment of Laanderpoort. The 35,000 sqm project will see circa 31,000 sqm leased to ING, with the remainder to become a version of our in-house flex office brand HNK.

Demolition of the existing structure is foreseen for Q1 2022, with start of the new development shortly thereafter. The necessary approvals from the municipality of Amsterdam will still have to be obtained. The delivery date is foreseen in Q3 2024.
The lease and development agreement with ING is structured such that the rent ultimately to be paid by ING is a function of building costs, with caps and floors. We have agreed a yield of circa 6%, which based on today’s capex and all-up cost projections equates to a rent level that is in line with market rents for the area.

The capex for the project is circa €120m and in combination with the current book value of circa €40m and the development margin we expect this asset to be NSI’s largest asset on completion.

Vitrum, Amsterdam (circa €30m in capex)

We are currently working out detailed plans for this 11,600 sqm asset adjacent to the main South-Axis market. The existing tenant is set to vacate this building end H1 2021. A major refurbishment is foreseen, with total capex of circa €30m. Works are expected to take 12 to 18 months.

The asset is a circa 5 mins walk from the Amsterdam Zuid train station. With prime office rents at €500 psm for the prime South-Axis market, we expect to achieve a substantial uplift on completion compared to the in-place rent of just €275 psm today.

Ongoing minor projects (circa €11m in capex)

At Bentinck Huis in The Hague building works are progressing on schedule, with delivery for this redevelopment project foreseen for early Q2. We are spending circa €8m to upgrade this asset to one of the best, most sustainable, assets in The Hague.

At Donauweg in Amsterdam we are spending circa €3.5m to upgrade a 4,600 sqm office/industrial asset. This area, adjacent to the upcoming Amsterdam Sloterdijk area, is improving and attracting a wide range of businesses. Completion is foreseen H2 2020.

Medium-term projects

In addition to the two main projects of Laanderpoort and Vitrum we are working on numerous other potential projects. We have so far publicly commented on potential re-developments at Centerpoint and Motion, whilst plans for additional projects are evolving. Some of these potential projects are far away, whilst others are possibly more near to medium term.

The medium term pipeline includes several mixed-use development projects. Centerpoint is a case in point. We fully embrace the trend towards more mixed-use development, as we recognise both the necessity from a city/district planning point of view as well as the long term operational/value-creation potential.

The start dates for the medium-term projects remain unclear and to a large extend will depend on zoning, planning, pre-lets and appropriate levels of de-risking of the more near-term projects, as well as the available balance sheet capacity.

Centerpoint, Amsterdam

We are working on plans to redevelop our existing 15,000 sqm of offices in a central location in the Zuid-Oost district of Amsterdam. At this stage we are investigating the viability of demolishing the existing buildings and working on plans to deliver 60,000 - 90,000 sqm of mixed-use space.

Motion, Amsterdam

We are working on plans to add up to 10,000-25,000 sqm of new office or mixed-use space on the parking lot adjacent to our existing Motion asset in Amsterdam Sloterdijk. At this stage we are working with advisors on the potential viability of a scheme and are in early discussions on zoning plans with the municipality.

Space-as-a-Service

We have made good progress at HNK in recent years in terms of operating performance. Yet, in terms of concept and in number of openings of new HNK's, we recognise there is more work to do.

In 2020 we are stepping up our efforts and will review our concept, product and services. This review will not be limited to HNK and will include the entirety of the NSI portfolio. We fully recognise that customer behaviour and demands are structurally shifting, with flexibility, hospitality, services, amenities and unburdening (Dutch: ontzorgen) increasingly becoming key considerations.

'Corporates do not want an office, they want a productive workforce'. As our asset base is shifting to better locations, we notice that for more of our customers the focus on productivity is becoming less about costs and more about using space differently, by providing the right mix of quiet space, meeting space, project space and social space, so that their businesses can thrive.

We recognise this trend we see it as our role to help our customers, many of which do not have the in-house know-how, time, people or interest to organise space effectively. If we get this right we are likely to be rewarded for it, be it in the form of higher rent levels or a structurally higher level of occupancy.

It is our aim to offer mid-size to larger corporates a rather seamless product with a menu card of potential services. Where necessary and appropriate we will team up with local specialist partners to help provide this offering. We expect all of this will be possible within the existing FBI legislation.

We expect that our review will confirm that not all assets currently owned by NSI or HNK can accommodate the service offering that we believe will be necessary going forward. This will be an input to our portfolio strategy and asset rotation plans for the coming years.

Sustainability

We see ESG as integral to our business and our annual report will include an elaborate section on our initiatives and results.

We are increasingly experimenting with sensors to analyse building usage and monitor energy efficiency, we are placing screens and are introducing portals to engage with our customers on circularity, sustainability, energy usage and building use. We expect to further extend our data collection and to use the data more often to advise our customers.

INCOME, COSTS AND RESULT

Introduction

EPRA EPS for 2019 is € 2.64, of which € 1.24 in H1 and € 1.40 in H2. The EPRA EPS is stable compared to last year, despite the net disposals of assets in 2019 and the higher number of weighted average shares outstanding. EPRA EPS in Q4 2019 was better than forecast due to later than expected transport dates for assets sold and positive one-offs related to VAT and debtors.

The EPRA NAV per share is up € 8.22 or 20.7% per share, primarily driven by a positive revaluation of the portfolio which accounts for € 7.79 per share. Additionally, the NAV is positively impacted by the result on disposals and retained earnings.

Rental income

Gross rental income is down 1.1% in 2019 compared to the prior year. Gross income is positively impacted by acquisitions (€ 5.0m) and positive like-for-like rental growth (€ 4.7m), but was negatively impacted by disposals (-€ 10.0m). On a like-for-like basis gross rents are up 7.8% overall and up 9.5% for the assets in target cities.

The NRI margin, at 81.2%, has deteriorated by 1.5pp compared to last year, as a result of higher maintenance costs in 2019. Net rents are up by €2.6m or 5.2% on a like-for-like basis, with the target cities up by 7.5%. These results are largely driven by the positive leasing momentum in the portfolio in both 2018 and 2019.

Service costs

Non recoverable service charges are up € 0.4m in 2019 versus 2018, both in absolute terms and on a like-for-like basis. Asset rotation and lower vacancy had a positive effect on the non-recoverable service charge in 2019, with the negative effect largely due to a one-off service charge reconciliation in the second half of 2018.

Operating costs

Operating costs are 5.6% (€ 0.7m) higher compared to 2018. This is primarily due to higher maintenance expenses (€ 1.4m). These higher costs and slightly lower gross rental income explain the increase in the EPRA cost ratio in 2019 (+1.9pp).

Administrative costs

Administrative expenses are stable compared to 2018. Staff costs have slightly increased because of higher provisions for variable compensation for the management board. This is largely offset by a reduction in other administrative costs.

Net financing costs

Financing costs are down € 2.7m (21.3%) compared to 2018. In 2018 financing costs were negatively impacted by a € 2.1m one-off related to a debt refinancing. Furthermore, the average amount of debt outstanding was lower in 2019 compared to the previous year.

Indirect costs and results

In 2019 the portfolio is appraised to be 11.6% higher by the external valuers, resulting in a € 144.6m positive revaluation. This positive trend is also confirmed by our disposals in 2019, which were done at a € 8.7m or 6.8% premium to book value.

A fall in interest rate swap rates in 2019 has resulted in a € 5.1m negative mark-to-market effect relating to NSI's interest rate swaps. The total indirect result for 2019 is € 146.9m or € 7.83 per share.

Post-closing events and contingencies

In January our interest in retail asset 'De Hagenborgh' in Almelo was sold. Furthermore, in two separate transactions, office assets in Zoetermeer (1) and Amersfoort (1) will be sold in Q1.

Income segment split 2019

	Offices			HNK					TOTAL	
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corporate	2019	2018
Gross rental income	27,471	21,895	6,297	4,755	9,202	3,439	9,773		82,831	83,721
Service costs not recharged	-447	-373	285	-131	-475	-311	-148		-1,601	-1,237
Operating costs	-2,918	-3,939	-963	-819	-2,315	-779	-2,268		-14,003	-13,256
Net rental income	**24,105**	**17,583**	**5,619**	**3,804**	**6,411**	**2,348**	**7,357**		**67,227**	**69,228**
Administrative costs								-7,948	-7,948	-7,950
Earnings before interest and taxes	**24,105**	**17,583**	**5,619**	**3,804**	**6,411**	**2,348**	**7,357**	**-7,948**	**59,279**	**61,279**
Net financing result								-9,840	-9,840	-12,506
Direct investment result before tax	**24,105**	**17,583**	**5,619**	**3,804**	**6,411**	**2,348**	**7,357**	**-17,788**	**49,439**	**48,773**
Corporate income tax								-1	-1	-28
Direct investment result / EPRA earnings	**24,105**	**17,583**	**5,619**	**3,804**	**6,411**	**2,348**	**7,357**	**-17,789**	**49,439**	**48,745**

DUTCH PROPERTY MARKET OVERVIEW

Economic outlook

The Dutch economy continues to perform well relative to the rest of the eurozone. For 2020 economic growth is forecast at 1.5%, versus a 1.0% growth forecast for the wider Eurozone.

The continued strength of the economy has resulted in a low unemployment rate of 3.5% at the end of 2019. Employment growth in the service sector is outpacing wider employment growth, which is having a positive effect on office demand. Not only do we see that corporates require more space, but also that the war for talent has put the focus on high-quality space in prime locations.

Investment market

Investment volumes have been high for several years, but 2019 was a record year with € 20.8bn of transactions. Residential is the most popular sector, followed by Offices. In the office market an investment volume of € 5.9bn was recorded, down 2% compared to 2018. The volume decline in Offices is more due to a lack of supply of available investment product than a shortage of investor demand. The data suggests that international investors remain the most active investors in Dutch offices.

In previous years the focus for investors was primarily on the Amsterdam market and selectively on other G4 cities (the four largest cities in The Netherlands). In 2019 the regions gained popularity, with 70% of all transactions taking place outside the traditional G4. This trend also resulted in a substantial increase in the number of smaller deals. No less than 84% of transactions were smaller than € 20m.

The focus on regional markets is in contrast to what we were expecting a year ago. At the end of 2018 we saw Dutch banks retracting from some of the more provincial markets and we were expecting a slowdown in transactions and selectively in pricing. Interestingly, the regional and secondary markets have been supported by the entry of new participants in the Dutch financing market in 2019. International investors and financing platforms have filled the void left by the Dutch banks, albeit at higher interest rates than the traditional banks. Financing is now no major consideration and is generally easy to obtain for the most liquid sectors of Residential, Offices and Industrial.

Office market

According to CBRE the best word to describe the state of the Dutch office market in 2019 is ‘scarcity’. This is true both the occupational side and the investment side. Whereas in previous years the fall in the vacancy rate outside the larger cities was to a large extend driven by change-in-use projects, in 2019 it was mostly net absorption that contributed to lower vacancy.

In many prime locations the vacancy rate is now historically low. These low levels are fuelling rental growth in most markets. In the G4 prime rental levels are equal to or in excess of previous peaks.

Amsterdam

In Amsterdam the vacancy rate is down to 1.5%, compared to an average of 7.6% over the past 10 years. Amsterdam is now starting to see the effect of a local planning environment in which new supply has been limited for years. In combination with a high level of demand, as the city benefits from a continued influx of people, there is a shortage of supply. Rents are going up as a result.

The Netherlands, and in particular Amsterdam, is becoming an increasingly popular destination for expats. The Amsterdam population is forecast to grow by 150,000 in the next 15 years, whilst the highest population growth in the Netherlands (percentage-wise) is expected to be in Utrecht.

Prime Office gross initial yields in Amsterdam are now in line with Paris and Frankfurt at 3.0%, with assets currently on the market at a yield level of under 3%. These levels are substantially lower than the gross initial yield of 5.4% for NSI’s Amsterdam portfolio.

In Amsterdam prime rents are now € 500 psm, achieved both in the city centre and the South Axis market, and prime rents are likely to rise above this level in 2020. CBRE is expecting 7% rental growth in 2020.

In search for product we see that investors are bidding up all kinds of office assets, including secondary assets in more peripheral locations and potential redevelopment projects.

Other markets

Utrecht is arguably the second office market after Amsterdam, achieving rents of € 285 psm and yields of 4.5%. This market will see a significant pick up in new supply in the coming years, mostly around the central train station. We do not view this as a threat but considerate to be a positive trend that will help cement Utrecht’s position as core office market for investors.

The market in Rotterdam is lagging Amsterdam, but the direction of travel is similar. The vacancy rate at the end of 2019 is 9.7% versus a 10-year average of 17.4%. Prime rents in Rotterdam are now € 245 psm. CBRE is expecting 2.5% rental growth in 2020.

The Hague, which in terms of stock is the second largest office market in The Netherlands, has benefitted from redundant office space being transformed to residential use and from the government increasing their need for space. The vacancy rate has declined from over 10% in 2016 to below 4% in the CBD and city centre today. There is a shortage of good quality offices and rents are rising. Following a 10% increase in prime rents in 2019 to € 220 psm, further growth is expected in 2020.

Eindhoven’s office market is establishing itself as a core office market. Most investors are nowadays referring to the G5 instead of the G4. Eindhoven is the heart of the “Brainport district”, attracting (international) high tech businesses dependent on a skilled labour force. The local economy is thriving and demand for office space is strong, resulting in rental growth. A challenge for Eindhoven is the relatively old office stock. Investments to modernise existing stock or to develop new space are slowly picking up. The investment market in Eindhoven is no longer driven by local interest, but has started to attract international capital, resulting in a pick-up in capital values.

REAL ESTATE PORTFOLIO

NSI sold 30 assets in 2019, eight retail assets, one industrial asset and 21 office assets. The disposal proceeds of € 128.5m (excluding costs) reflect a 6.8% premium to the most recent book value. Compared to the December 2018 book value, the office assets were sold at a 12.7% and the retail assets at a 1.5% discount, before costs.

Two office assets were acquired in Q1 2019, in Amsterdam and Leiden, for a total of € 30.8m including acquisition costs. A small retail asset in Leiderdorp, part of a package transaction with Retail Estates in H1 2017, was transferred back to NSI in early H2 2019 and was subsequently sold in December.

Asset rotation[8,9]

	# Assets	Acquisition/ Net sales price	Net result on sale	Contract rent
Offices acquisitions	2	30.8		2.0
Reversed disposal				
Other	1	0.8		
Additions	**3**	**31.5**		**2.0**
Offices	21	76.3	9.5	6.6
Other	9	52.3	-0.8	5.1
Disposals	**30**	**128.5**	**8.7**	**11.7**
Delta	-27	-97.0	8.7	-9.7

NSI was a net seller in 2019, with disposal proceeds exceeding acquisition costs by € 97m. The number of assets continues to fall. The average asset value at the end of 2019 is up to € 19.8m (Q4 2018: € 12.8m).

At the end of December 2019 the held for sale portfolio consists of two office assets (Europaweg, Zoetermeer and De Hoefse Wing, Amersfoort) and one retail asset (De Hagenborgh, Almelo), where a sale has been agreed and the transfer of title is set for Q1 2020.

Portfolio breakdown

	# Assets	Market value (€ m)	Market value (%)
Offices	46	949	74%
HNK	14	262	20%
Other	2	60	5%
TOTAL Investment property	**62**	**1,271**	**99%**
Held for sale	3	16	1%
TOTAL Portfolio	**65**	**1,287**	**100%**

8 Acquisitions at acquisition price including costs
9 Including sales and acquisition costs

Vacancy

EPRA vacancy

	Dec 18	LFL	Non-LFL	Dec 19
Offices	11.1%	-2.6%	-4.6%	4.0%
HNK	23.2%	-8.7%		14.5%
Other	11.2%	-0.8%	-0.3%	10.1%
TOTAL	**13.8%**	**-4.1%**	**-2.7%**	**7.1%**
Target Cities	11.3%	-4.3%	-1.3%	5.6%
Other	21.1%	-2.6%	-3.5%	15.0%

The EPRA vacancy rate is down to 7.1%, a 6.7pp decline throughout the year. On a like-for-like basis the vacancy fell by 4.1pp. Strong net letting in the Offices segment in Q4 is the main contributor. The current vacancy rate includes about 0.3pp of intentional vacancy, related to planned re-developments and other value-add initiatives.

Rents

On a like-for-like basis net rents are up 5.2%. Offices rents are up by 8.4% on a gross basis and 6.2% on a net basis, reflecting the positive impact of both asset rotation and progressive lease up. HNK continues to show strong growth, albeit from a lower base. In the target cities net rents are up strongly, by 7.5% YTD, reflecting the continued strength of these markets.

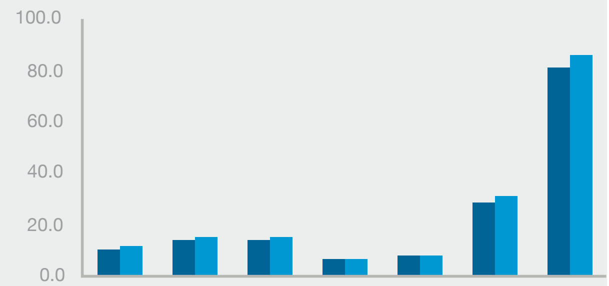
Net rent growth like-for-like (€ m)

	2018	2019	L-f-l
Offices	34.5	36.6	6.2%
HNK	10.5	11.8	11.7%
Other	4.8	4.0	-16.4%
TOTAL	**49.9**	**52.4**	**5.2%**
Target Cities	40.2	43.2	7.5%
Other	9.6	9.2	-4.6%

Reversionary potential / ERV bridge

The portfolio is 5.4% reversionary, up 4.3pp since the end of the previous year. A result of both rising ERVs and asset rotation.

Annual expirations and reversion



	2019	2020	2021	2022	2023	2023+	TOTAL
Contract rent	10.6	13.8	13.6	6.7	7.6	28.8	81.1
ERV	11.1	15.0	14.6	6.5	7.4	30.9	85.4
# Contracts	455	149	141	97	102	126	810
Reversion	4.8%	8.9%	6.9%	-2.4%	-2.6%	7.2%	5.4%

The reversion rate in the Offices segment has increased significantly to 8.6%, partly because the like-for-like ERV growth of 4.4% is outpacing inflation, but mainly due to the disposal of assets outside the target cities, which had negative reversion.

At HNK, with new lease contracts on average being agreed above ERV, contracted rent is up by 17% compared to December 2018. ERVs grew by 2.0% over the same period. ERVs for HNK do not reflect the premium generated on “conventional” let space, but show the rental level the valuer expects to achieve if the building is let excluding the HNK services and amenities. We therefore expect to lease space at a higher premium than the reversion ratio is indicating.

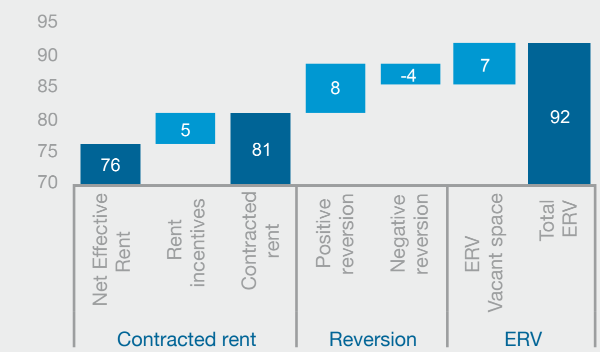
Reversion[10]

	Dec 18	Dec 19
Offices	2.3%	8.6%
HNK	3.2%	1.1%
Other	-8.4%	-9.7%
TOTAL	**1.1%**	**5.4%**
Target Cities	5.2%	7.6%
Other	-10.2%	-6.5%

ERV like-for-like (€ m)

	Dec 18	Dec 19	L-f-l
Offices	58	60	4.4%
HNK	23	23	2.0%
Other	6	6	-7.1%
TOTAL	**87**	**89**	**2.9%**

Bridge Contracted Rent to ERV – December 2019 (€m)



EPRA yields

The EPRA net initial yield is down 60 bps to 4.6%, due to the effects of asset rotation and an 11.6% increase in capital values in 2019. The fall in yields is reflective of wider market conditions. Pressure on yield levels remains as investor demand continues to be high. In search for yield and for product investors are increasingly looking beyond Amsterdam to the other G4 markets. This trend is also visible in the NSI portfolio, where the gross yield in Amsterdam fell by 0.4pp to 5.4% and in our other target markets by 0.8pp to 6.4%.

10 Reversion = ERV let space / contractual rent

Yields

	EPRA net initial yield		Gross initial yield		Reversionary yield	
	Dec 18	Dec 19	Dec 18	Dec 19	Dec 18	Dec 19
Offices	5.1%	4.5%	6.8%	6.0%	7.8%	6.7%
HNK	4.6%	4.6%	8.0%	7.5%	10.8%	8.8%
Other	6.9%	6.3%	8.9%	9.7%	9.2%	9.8%
TOTAL	**5.2%**	**4.6%**	**7.2%**	**6.4%**	**8.5%**	**7.3%**
Target Cities	4.8%	4.4%	6.6%	6.0%	7.8%	6.9%
Other	7.0%	6.4%	9.8%	9.9%	11.2%	10.9%

Valuations

The portfolio is appraised externally twice a year. Most assets saw a change in external appraiser in H1 2019, in accordance with our standard appraiser rotation process. Colliers has been appointed as valuer in addition to CBRE, JLL and Cushman & Wakefield.

Capital values are up by 11.6% or € 146m. The valuation of Offices is up by 11.9%. HNK values are up by 22.5%, continuing the strong positive trend of recent years, following a 9% uplift in 2018 and 10% rise in 2017. The ‘Other’ segment is down by 8.8%, as the Dutch retail investment market remains difficult.

Amsterdam has seen the highest increase in capital values of all our markets, up 15.7%, with assets in our other Target Cities up by a very respectable 13.2%. These valuation uplifts are driven by strong occupancy growth, income growth and a fall in yields.

Revaluations

	Market value (€ m)	Revaluation			
		Positive	Negative	TOTAL	%
Offices	949	117	-8	109	11.9%
HNK	262	48	0	48	22.5%
Other	60	0	-11	-11	-8.8%
TOTAL Portfolio	**1,271**	**165**	**-19**	**146**	**11.6%**
Target Cities	1,156	156	-6	150	14.6%
Other	131	10	-13	-3	-1.4%

Capital expenditure

Defensive capital expenditure was € 4.2m in 2019. The largest expenses were € 0.6m at the Koningin Wilhelminaplein, € 0.5m at Centerpoint, € 0.5m at Q-port and €0.4m at Zuidplein. Most of the offensive capex is spent on Bentinck Huis (€ 5.8m) and HNK The Hague (€ 1.1m) for connecting the E tower to the club space.

Capital expenditure

	Offensive	Defensive	TOTAL
Offices	6.0	3.7	9.7
HNK	4.2		4.2
Other		0.5	0.5
TOTAL Portfolio	**10.2**	**4.2**	**14.4**

Development and renovations

At the end of 2019 NSI has two assets classified as development - Investment property under construction, Bentinck Huis in The Hague and Donauweg in Amsterdam.

The redevelopment of Donauweg in Amsterdam is set to complete in H2 2020, at which time the asset will transfer back to investment property. This asset is already being marketed.

The redevelopment of Bentinck Huis is on track. Building works are likely to run into early Q2 instead of late Q1 due to an unforeseen issue related to the technical part of the historic building.

The existing Laanderpoort asset will only transfer to Investment Property under Construction in 2022 once all the necessary contracts are in place and demolition works are about to commence. For the from period January 2021 (when the current lease expires) to early 2022 (the expected date of demolition) ING will pay half rent for the building, subject to certain conditions related to the development project.

Offices

The Offices portfolio has seen a massive transformation compared to the portfolio NSI had at the end of 2016 when the new strategy was set out. Back in 2016 NSI had 108 offices in 54 cities with an EPRA vacancy rate of 21.3%. Today, excluding assets held for sale, the portfolio consists of 46 assets in 9 cities with a 4.0% vacancy. The majority of these assets are located in economic growth areas in close proximity to public transport hubs with strong accessibility by car. Furthermore, the portfolio offers substantial value-add potential. This is a strong foundatoin to further optimise and grow the portfolio.

The EPRA vacancy rate is down to 4.0% at year end, a fall of 7.1pp compared to the beginning of the year and well below the national average. The biggest drop was realised at the end of the year with strong letting results in Q4. Amsterdam is the largest contributor as the EPRA vacancy rate fell 6.6% on a like-for-like basis over the quarter to a modest 1.3%.

Strong positive momentum in Amsterdam Sloterdijk was converted with several new lease contracts signed. Q-Port is now fully let and Motion is almost fully let. At Centerpoint in Amsterdam Southeast a three-year lease contract for circa 5,000 sqm was signed in Q4, offering the team the necessary time and flexibility to prepare the asset for a potential redevelopment.

In the Hooghuisstraat in Eindhoven the government renewed its lease on circa 5,800 sqm of office space and signed a new lease for an additional 1,950 sqm.

Key office metrics - breakdown by segment

	Dec 19				
	Amsterdam	Other Target Cities	Other NL	TOTAL	Dec 18
Number of properties	17	24	7	48	67
Market value (€ m)	563	366	35	964	881
Market value asset (€ m)	33	15	5	20	13
Market value (€ sqm)	3,936	2,530	1,205	3,042	2,233
Ann. contract rent (€ m)	30	22	3	56	59
Average rent / sqm	220	174	125	191	179
Reversion	14.2%	2.3%	-1.3%	8.6%	2.3%
Lettable area (sqm k)	143	145	29	317	394
ERV (€ m)	35	24	4	63	68
EPRA vacancy	1.3%	7.2%	9.3%	4.0%	11.1%
EPRA net initial yield	4.2%	4.6%	7.1%	4.5%	5.1%
Reversionary yield	6.3%	7.1%	10.2%	6.7%	7.8%
Wault (years)	4.3	4.8	3.8	4.5	4.6

At the end of December 2019 Amsterdam makes up 58% of the total office portfolio Of the seven remaining offices in ‘Other NL’ two are held for sale and will leave the balance sheet in Q1. The other five are located in Delft and Hoofddorp.

Like-for-like[11]

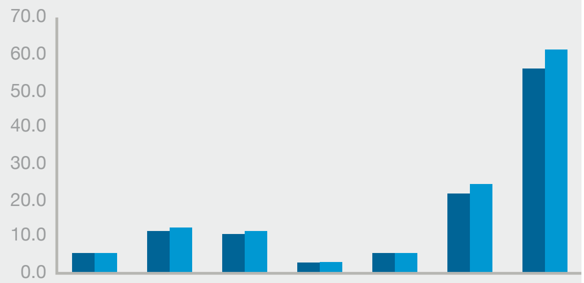
	NRI growth %	Revaluation %	ERV growth %
Amsterdam	13.8%	14.2%	6.1%
Other Target Cities	-3.4%	12.1%	1.6%
Other Netherlands	6.9%	12.4%	7.6%
Total	**6.2%**	**13.3%**	**4.4%**

Like-for-like GRI is positive at 8.4%. Due to temporarily higher maintenance expenses in Rotterdam, The Hague and Eindhoven the like-for-like NRI is slightly lower, at a positive 6.2%.

Following extensive asset rotation in recent years and strong ERV growth of 4.4% in 2019, the overall office portfolio is now 8.6% reversionary. This is up from 2.3% at the end of 2018.

11 NRI like-for-like 2019 compared to 2018, only includes assets in portfolio throughout all 12 months 2019 and all 12 months 2018, transformation and development projects are excluded. Revaluation and ERV growth relate to standing investments in portfolio on 31 December 2019 and 31 December 2018.

Offices - Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
Contract rent	5.0	11.0	10.4	2.8	4.7	21.7	55.6
ERV	5.3	12.1	11.3	2.8	4.8	24.0	60.3
# Contracts	36	44	36	19	24	40	199
Reversion	5.6%	10.0%	8.5%	1.7%	2.7%	10.7%	8.6%

HNK

The composition of the HNK portfolio has not changed since the opening of HNK Schinkel in 2018. At December 2019 35.9% of the HNK portfolio by value is located in Amsterdam. We plan to include an HNK in our redevelopment at Laanderpoort, which is set to open in late 2024.

The EPRA vacancy rate at the end of 2019 is 14.5%, down from 23.2% at the end of 2018. The largest contributor to the drop is a 10-year firm lease with BDO for 4,814 sqm at HNK The Hague. Other noticeable letting achievements include a 1,500 sqm in HNK The Hague, 1,600 sqm in HNK Den Bosch and 590 sqm in HNK Utrecht Central.

The majority of the remaining vacancy is now at HNK Rotterdam Scheepsvaartkwartier. Of the 7,000 sqm of vacant space, 2,000 sqm is let and the lease will commence in May 2020. The vacancy rate in the market is falling and we expect this to lead to a further pickup in lettings in Rotterdam. We also have several inquiries in other HNKs which should lead to a further improvement in occupancy. For the end of 2020 the target is to have an EPRA vacancy rate below 10% for the total HNK portfolio.

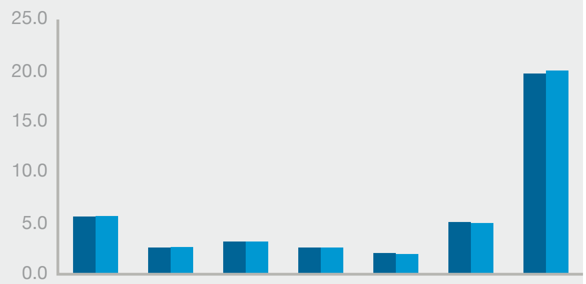
Like-for-like Gross Rental Growth for the HNK portfolio is positive 9.2%. Having said that, polarisation remains high with Amsterdam up 22.1% whilst assets outside of NSI's target markets down 0.4%. NRI growth is 11.7% on a like-for-like basis, with Amsterdam up 19.2% and the HNKs outside target markets up a notable 7.9%. The latter increase is driven by strong results at HNK Ede.

The 22.5% revaluation of the HNK portfolio in 2019 is a result of a € 2.8m increase in contractual rents and a 50 bps fall in the gross initial yield, driven by our assets in Amsterdam.

Key HNK metrics - breakdown by segment

	Dec 19				
	Amsterdam	Other Target Cities	Other NL	TOTAL	Dec 18
Number of properties	3	6	5	14	14
Market value (€ m)	94	134	34	262	210
Market value asset (€ m)	31	22	7	19	15
Market value (€ sqm)	3,444	2,097	956	2,062	1,650
Ann. contract rent (€ m)	5	10	4	20	17
Average rent / sqm	218	196	150	190	188
Reversion	15.8%	-4.2%	-6.0%	1.1%	3.2%
Lettable area (sqm k)	27	64	36	127	127
ERV (€ m)	7	12	5	23	23
EPRA vacancy	6.7%	14.5%	25.6%	14.5%	23.2%
EPRA net initial yield	4.1%	4.7%	5.8%	4.6%	4.6%
Reversionary yield	7.1%	8.8%	13.7%	8.8%	10.8%
Wault (years)	2.5	3.4	3.6	3.1	3.2

HNK - Annual expirations and reversion (€m)



	2019	2020	2021	2022	2023	2023+	TOTAL
Contract rent	5.3	2.4	2.9	2.4	1.8	4.8	19.5
ERV	5.5	2.6	2.9	2.4	1.7	4.7	19.8
# Contracts	375	51	51	24	24	32	557
Reversion	2.0%	7.4%	1.6%	-0.8%	-3.7%	-0.7%	1.1%

Other

Significant progress is made on the disposal of non-core retail assets. At the end of 2019 only three retail assets remain, of which 'De Hagenborgh' in Almelo is a held-for-sale asset.

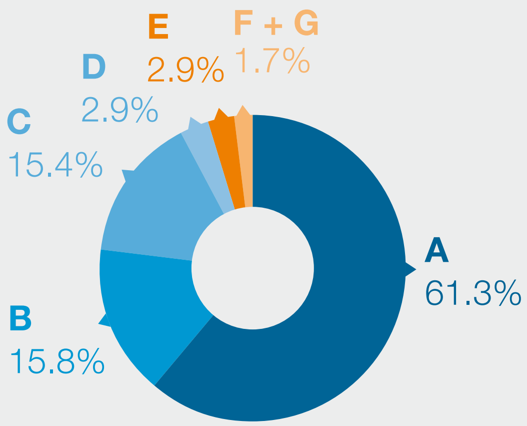
Following the disposal in Almelo only two retail assets remain. The four holdings that form NSI's interest in the Zuidplein shopping centre in Rotterdam have been consolidated into a single asset. Given the quality of the income, current valuations, the low overall portfolio LTV and the need for income to support the cashflow for the upcoming development phase the disposal of this asset has been put on hold. Shopping centre 't Loon in Heerlen will also be retained until all legal proceedings relating to the 2011 sinkhole issue have come to a conclusion

ESG

In September NSI received a GRESB score for the first time. The 71 points received out of 100 is in line with the benchmark average. There are several easy wins and the ambition is to improve the score in 2020.

By value 93% of our total portfolio has an energy label C or better. We have plans in place for all non-conforming assets and expect that by the end of 2020 all but two or three of our assets will have a C label or better. NSI's ambition goes further and this is visible in the HNK portfolio, where 88% of the assets by value have an A label and the remainder a C label.

Portfolio breakdown of energy labels by value



BALANCE SHEET, NAV AND FINANCING

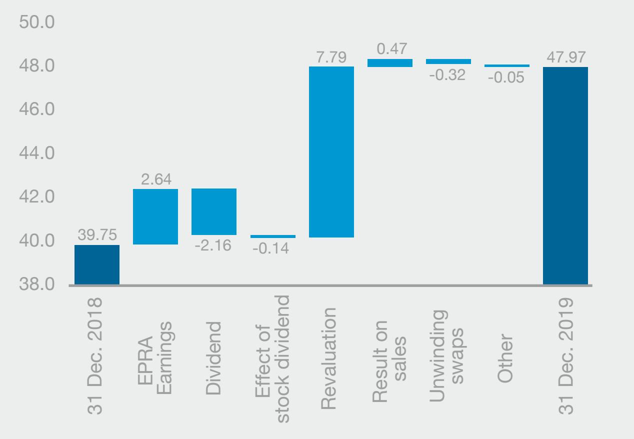
Balance sheet

At the end of December 2019 two office assets and one retail asset with a combined value of € 16m are classified as held for sale.

Net asset value

The EPRA NAV at the end of December 2019 is € 907m, an increase of 22.9% over the 12-month period (€ 738m at YE 2018). Due to a small rise in the number of shares following the issuance of stock dividend, the EPRA NAV per share increased by 20.7% from € 39.75 at the end of 2018 to € 47.97 at the end of 2019. The change in the NAV is explained in the following bridge.

EPRA NAV per share bridge



The gap between EPRA NAV and EPRA NNNAV of € 0.57 per share reflects the negative fair value of derivatives and the market value of the debt.

The issue price of the stock dividend in May was € 39.20 on an ex-dividend basis, in line with the YE 2018 NAV. The issue price of the stock dividend in August was € 42.64 on an ex-dividend basis, in line with the June 2019 NAV. The issuance of stock dividend has had a small negative impact of €0.14 per share on 2019 EPRA NAV.

Funding

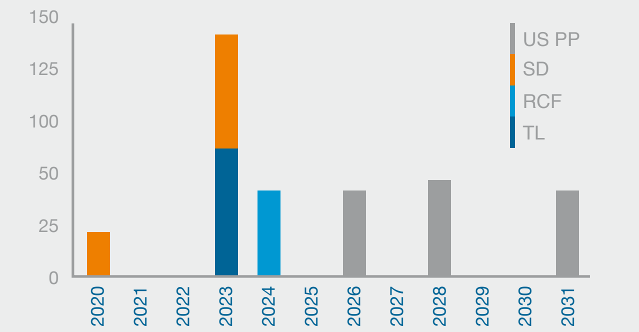
NSI refinanced most of its debt in 2018. The current treasury objectives are 1) to maintain sufficient flexibility and capacity in the debt structure to fund and de-risk both the development pipeline and potential acquisitions, 2) to take advantage of the current relatively flat interest curve by pushing out maturities and diversifying the maturity profile, and 3) to increase funding sources and diversify the investor base.

In line with the strategy, in April NSI agreed to extend the RCF by one year. As a result the € 300m RCF, of which € 40m was drawn by December 2019, is now set to mature in April 2024.

In August NSI issued € 40m of 12-year unsecured notes to affiliates of Athene Asset Management, a subsidiary of Apollo Global Management. The notes are euro denominated and have a fixed coupon of 1.70%.

In December NSI repaid € 100m of the Term Loan in order to diversify its funding sources and maturity profile, in line with treasury objectives.

Maturity profile of loans (€m)



At the end of December 2019 the average loan maturity is 5.4 years (December 2018: 5.0 years). Of debt drawn 73% is unsecured (85% of available debt) and the cost of debt is 2.1%. The focus in 2020 will be to further extend maturities and further increase the funding diversification to reduce the reliance on bank financing and lower the risk of large maturities during the period of major development activity.

Net debt -2019 (€m)

	Dec 19	Dec 18	Δ
Debt outstanding	342.8	439.1	-96.3
Amortisation costs	-1.3	-1.4	0.1
Book value of debt	**341.5**	**437.7**	**-96.2**
Cash and cash equivalents	-1.4	-0.2	-1.2
Debts to credit institutions	12.6	10.5	2.1
Net debt	**352.6**	**447.9**	**-95.3**

Net debt is down by € 95.3m in 2019. This is primarily driven by net disposals and retained earnings over the period. Taking into account debt to credit institutions our remaining committed undrawn credit facilities are circa € 250m.

Leverage and hedging

The LTV is 27.4% at December 2019, down 9.5 percentage point compared to December 2018 (36.9%). After the transfer of the assets held for sale the pro forma LTV will fall to 26.5%. As a result of lower financing costs the ICR increased to 6.8x at the end of December, well above the 2.0x covenant.

NSI is using swaps to hedge its interest rate risk on variable rate loans. The funds received from the issue of fixed rate notes, in combination with net disposal proceeds, were used to lower the RCF and Term loan, both of which have a variable rate. As a result the volume hedge ratio increased above NSI's internal limit of 100% in Q3 2019. To bring the volume hedge ratio below 100%, in September, € 127.5m of swaps were broken at a cost of € 6.0m. The maturity of derivatives and fixed rate debt is 5.2 years at the end of December 2019 and the maturity hedge is 98% (target range: 70-120%). The notional amount of swaps outstanding and fixed rate debt is €343m. The volume hedge at the end of the year is 100% (target range: 70-100%).

Covenants

	Covenant	Dec 15	Dec 16	Dec 17	Dec 18	Dec 19
LTV	≤60%	43.3%	44.1%	36.9%	36.9%	27.4%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	5.5x	6.8x

CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2019		2018
Gross rental income		82,831		83,721
Service costs recharged to tenants	12,817		13,465	
Service costs	-14,418		-14,702	
Service costs not recharged		-1,601		-1,237
Operating costs		-14,003		-13,256
Net rental income		**67,227**		**69,228**
Revaluation of investment property		144,642		46,418
Net result on sale of investment property		8,728		841
Net result from investments		**220,597**		**116,488**
Administrative costs		-7,948		-7,950
Other income and costs		-1,402		18
Financing income	2		27	
Financing costs	-9,841		-12,532	
Movement in market value of financial derivatives	-5,110		-4,497	
Net financing result		-14,950		-17,003
Result before tax		**196,297**		**91,553**
Corporate income tax		-1		-28
Total result for the year		**196,297**		**91,525**
Other comprehensive income				
Total comprehensive income for the year		**196,297**		**91,525**
Total comprehensive income attributable to:				
Shareholders		196,297		91,525
Total comprehensive income for the year		**196,297**		**91,525**
Data per average outstanding share:				
Diluted as well as non-diluted result after tax		10.47		4.95

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2019	31 December 2018
Assets		
Investment property	1,263,089	1,202,691
Derivative financial instruments		323
Tangible fixed assets	1,531	777
Intangible fixed assets	366	510
Other non-current assets	7,662	6,319
Non-current assets	**1,272,649**	**1,210,619**
Debtors and other receivables	1,101	1,755
Cash and cash equivalents	1,433	245
Assets held for sale	15,950	3,940
Current assets	**18,484**	**5,940**
Total assets	**1,291,133**	**1,216,559**
Shareholders' equity		
Issued share capital	69,617	68,353
Share premium reserve	919,661	920,935
Other reserves	-282,266	-347,531
Total result for the year	196,297	91,525
Shareholders' equity	**903,308**	**733,283**
Liabilities		
Interest bearing loans	315,765	436,407
Derivative financial instruments	3,978	5,327
Other non-current liabilities	5,365	4,080
Non-current liabilities	**325,108**	**445,813**
Redemption requirement interest bearing loans	25,725	1,250
Derivative financial instruments	208	43
Creditors and other payables	23,930	25,602
Debts to credit institutions	12,576	10,497
Liabilities directly associated with assets held for sale	279	71
Current liabilities	**62,717**	**37,464**
Total liabilities	**387,825**	**483,277**
Total shareholders' equity and liabilities	**1,291,133**	**1,216,559**

CONSOLIDATED CASH FLOW STATEMENT

		2019		2018
Result from operations after tax		196,297		91,525
Adjusted for:				
Revaluation of investment property	-144,642		-46,418	
Net result on sale of investment property	-8,728		-841	
Net financing result	14,950		17,003	
Corporate income tax	1		28	
Depreciation and amortisation	520		223	
		-137,900		-30,005
Movements in working capital:				
Debtors and other receivables	-948		-88	
Creditors and other payables	-2,746		1,015	
		-3,694		927
Cash flow from operations		**54,703**		**62,447**
Financing income received		2		27
Financing costs paid		-9,480		-9,751
Settlement of derivatives		-5,971		
Tax paid		-31		-57
Cash flow from operating activities		**39,222**		**52,666**
Purchases of investment property and subsequent expenditure		-45,886		-178,539
Proceeds from sale of investment property		128,539		120,139
Investments in tangible fixed assets				-58
Disinvestments in tangible fixed assets		2		
Investments in intangible fixed assets		-68		-104
Cash flow from investment activities		**82,588**		**-58,563**
Dividend paid to the company's shareholders		-26,271		-31,887
Proceeds from interest bearing loans		100,000		519,712
Transaction costs interest bearing loans paid		-179		-1,297
Repayment of interest bearing loans		-196,250		-487,838
Cash flow from financing activities		**-122,701**		**-1,309**
Net cash flow		**-891**		**-7,206**
Cash and cash equivalents and debts to credit institutions - balance as per 1 January		**-10,252**		**-3,046**
Cash and cash equivalents and debts to credit institutions - balance as per 31 December		**-11,143**		**-10,252**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019:

	Issued share capital	Share premium reserve	Other reserves	Result for the year	Shareholders' equity
Balance as per 1 January 2019	**68,353**	**920,935**	**-347,531**	**91,525**	**733,282**
Total result for the year				196,297	196,297
Total comprehensive income for the year				**196,297**	**196,297**
Profit appropriation - 2018			91,525	-91,525	
Distribution final dividend - 2018	646	-651	-13,926		-13,931
Interim dividend - 2019	618	-624	-12,335		-12,340
Contributions from and to shareholders	**1,264**	**-1,274**	**65,264**	**-91,525**	**-26,271**
Balance as per 31 December 2019	**69,617**	**919,661**	**-282,266**	**196,297**	**903,308**

2018:

	Issued share capital	Share premium reserve	Other reserves	Result for the year	Shareholders' equity
Balance as per 31 December 2017	**67,583**	**921,715**	**-408,212**	**91,602**	**672,688**
Change in accounting policy following IFRS 9			956		956
Balance as per 1 January 2018	**67,583**	**921,715**	**-407,256**	**91,602**	**673,644**
Total result for the year				91,525	91,525
Total comprehensive income for the year				**91,525**	**91,525**
Profit appropriation - 2017			91,602	-91,602	
Distribution final dividend - 2017	402	-407	-16,407		-16,412
Interim dividend - 2018	368	-373	-15,469		-15,474
Contributions from and to shareholders	**770**	**-780**	**59,725**	**-91,602**	**-31,887**
Balance as per 31 December 2018	**68,353**	**920,935**	**-347,531**	**91,525**	**733,282**

SEGMENT INFORMATION

Segment split income statement 2019

	Offices			HNK					
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corporate	TOTAL
Gross rental income	27,471	21,895	6,297	4,755	9,202	3,439	9,773		82,831
Service costs recharged to tenants	2,815	2,925	1,312	996	2,259	1,115	1,395		12,817
Service costs	-3,262	-3,299	-1,026	-1,127	-2,729	-1,426	-1,543		-14,413
Service costs not recharged	-447	-373	285	-131	-475	-311	-148		-1,601
Operating costs	-2,918	-3,939	-963	-819	-2,315	-779	-2,268		-14,003
Net rental income	**24,105**	**17,583**	**5,619**	**3,804**	**6,411**	**2,348**	**7,357**		**67,227**
Revaluation of investment property	67,923	35,977	4,246	21,058	23,195	3,224	-10,981		144,642
Net result on sale of investment property	1,350	3,169	5,021				-811	0	8,728
Net result from investment	**93,378**	**56,728**	**14,886**	**24,862**	**29,606**	**5,573**	**-4,435**	**0**	**220,597**
Administrative costs								-7,948	-7,948
Other income and costs								-1,402	-1,402
Net financing result								-14,950	-14,950
Result before tax	**93,378**	**56,728**	**14,886**	**24,862**	**29,606**	**5,573**	**-4,435**	**-24,300**	**196,297**
Corporate income tax								-1	-1
Total result for the year	**93,378**	**56,728**	**14,886**	**24,862**	**29,606**	**5,573**	**-4,435**	**-24,301**	**196,297**
Other comprehensive income									
Total comprehensive income for the year	**93,378**	**56,728**	**14,886**	**24,862**	**29,606**	**5,573**	**-4,435**	**-24,301**	**196,297**
Attributable to shareholders	93,378	56,728	14,886	24,862	29,606	5,573	-4,435	-24,301	196,297

Segment split balance sheet 2019

	Offices			HNK					
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corporate	TOTAL
Investment property	561,353	362,693	19,969	93,999	132,820	32,189	60,066		1,263,089
Other assets	2,067	3,442	106	363	730	681	274	4,432	12,094
Assets held for sale			15,200				750		15,950
Total assets	**563,419**	**366,135**	**35,275**	**94,362**	**133,550**	**32,870**	**61,090**	**4,432**	**1,291,133**
Non-current liabilities	1,050	497	115	1,394	1,216	324	179	320,332	325,108
Current liabilities	2,187	151	-181	-1	121	173	174	59,815	62,438
Liabilities directly associated with assets held for sale			260				20		279
Total liabilities	**3,237**	**648**	**193**	**1,394**	**1,337**	**497**	**373**	**380,147**	**387,825**
Purchases of investment property and subsequent expenditures	27,510	12,615	338	967	3,097	110	1,250		45,886

Segment split income statement 2018

	Offices			HNK					
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corporate	TOTAL
Gross rental income	22,027	19,432	11,978	3,452	8,457	3,455	14,920		83,721
Service costs recharged to tenants	2,260	3,519	2,036	819	2,138	1,044	1,649		13,465
Service costs	-2,494	-3,866	-2,447	-732	-2,226	-1,105	-1,832		-14,702
Service costs not recharged	-234	-347	-411	88	-88	-60	-183		-1,237
Operating costs	-2,198	-2,699	-1,657	-981	-2,552	-1,238	-1,931		-13,256
Net rental income	**19,595**	**16,385**	**9,910**	**2,559**	**5,817**	**2,156**	**12,806**		**69,228**
Revaluation of investment property	27,106	20,767	-8,648	17,715	1,779	-2,517	-9,786		46,418
Net result on sale of investment property		2,547	-757				-949		841
Net result from investment	**46,702**	**39,699**	**505**	**20,275**	**7,597**	**-361**	**2,071**		**116,488**
Administrative costs								-7,950	-7,950
Other income and costs								18	18
Net financing result								-17,003	-17,003
Result before tax	**46,702**	**39,699**	**505**	**20,275**	**7,597**	**-361**	**2,071**	**-24,934**	**91,553**
Corporate income tax								-28	-28
Total result for the year	**46,702**	**39,699**	**505**	**20,275**	**7,597**	**-361**	**2,071**	**-24,962**	**91,525**
Other comprehensive income									
Total comprehensive income for the year	**46,702**	**39,699**	**505**	**20,275**	**7,597**	**-361**	**2,071**	**-24,962**	**91,525**
Attributable to shareholders	46,702	39,699	505	20,275	7,597	-361	2,071	-24,962	91,525

Segment split balance sheet 2018

	Offices			HNK					
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corporate	TOTAL
Investment property	469,845	322,468	79,846	71,604	106,528	28,854	123,544		1,202,691
Other assets	1,200	3,257	194	281	522	531	336	3,609	9,929
Assets held for sale		940	3,000						3,940
Total assets	**471,045**	**326,665**	**83,040**	**71,885**	**107,050**	**29,385**	**123,880**	**3,609**	**1,216,559**
Non-current liabilities	574	376	335	970	1,104	264	457	441,733	445,813
Current liabilities	4,629	4,400	-7,741	782	1,272	-1,647	1,613	34,084	37,392
Liabilities directly associated with assets held for sale			71						71
Total liabilities	**5,203**	**4,776**	**-7,334**	**1,752**	**2,376**	**-1,383**	**2,069**	**475,818**	**483,277**
Purchases of investment property and subsequent expenditures	90,701	73,626	836	4,905	5,951	294	2,226		178,539

EPRA KEY PERFORMANCE MEASURES

KEY PERFORMANCE INDICATORS

	2019		2018	
	€ ‘ 000	per share (€)	€ ‘ 000	per share (€)
EPRA earnings	49,439	2.64	48,745	2.64
EPRA cost ratio (incl. direct vacancy costs)	28.4%		26.5%	
EPRA cost ratio (excl. direct vacancy costs)	26.3%		25.0%	
EPRA property related capital expenditure	46,012		178,539	

	31 December 2019		31 December 2018	
	€ ‘ 000	per share (€)	€ ‘ 000	per share (€)
EPRA NAV	907,493	47.97	738,330	39.75
EPRA NNNAV	896,695	47.40	728,076	39.20
EPRA NRV	984,732	52.05	811,173	43.67
EPRA NTA	984,366	52.03	810,664	43.64
EPRA NDV	896,437	47.39	727,730	39.18
EPRA net initial yield (NIY)	4.6%		5.2%	
EPRA topped-up net initial yield	4.9%		5.6%	
EPRA vacancy rate	7.1%		13.8%	

NOTES TO THE EPRA KEY PERFORMANCE INDICATORS

EPRA Earnings

	2019	2018
Gross rental income	82,831	83,721
Service costs not recharged	-1,601	-1,237
Operating costs	-14,003	-13,256
Net rental income	**67,227**	**69,228**
Administrative costs	-7,948	-7,950
Net financing result	-9,840	-12,506
Direct investment result before tax	**49,439**	**48,773**
Corporate income tax	-1	-28
Direct investment result / EPRA earnings	**49,439**	**48,745**
Direct investment result / EPRA earnings per share	2.64	2.64

EPRA Vacancy

	31 December 2019	31 December 2018
Estimated rental value of vacant space	6,504	14,085
Estimated rental value of the whole portfolio	91,949	101,766
EPRA vacancy	7.1%	13.8%

EPRA Cost ratio

	2019	2018
Administrative costs	7,948	7,950
Service costs not recharged	1,601	1,237
Operating costs (adjusted for municipality taxes)	14,003	13,256
Leasehold	-47	-245
EPRA costs (including direct vacancy costs)	**23,504**	**22,196**
Direct vacancy costs	-1,680	-1,237
EPRA costs (excluding direct vacancy costs)	**21,824**	**20,960**
Gross rental income	82,831	83,721
EPRA gross rental income	**82,831**	**83,721**
EPRA cost ratio (incl. direct vacancy costs)	28.4%	26.5%
EPRA cost ratio (excl. direct vacancy costs)	26.3%	25.0%

EPRA Capex

	2019	2018
Acquisitions	31,687	146,245
Development	5,958	15,062
Like-for-like portfolio	7,088	14,792
Other	1,279	2,440
EPRA capital expenditure	**46,012**	**178,539**

EPRA Yield

	31 December 2019	31 December 2018
Investment property including assets held for sale	1,287,310	1,214,430
Developments	-30,650	-15,500
Property investments	**1,256,660**	**1,198,930**
Allowance for estimated purchasers' costs	87,966	83,925
Gross up completed property portfolio valuation	**1,344,626**	**1,282,855**
Annualised cash passing rental income	76,262	82,118
Annualised property outgoings	-14,510	-15,150
Annualised net rent	**61,752**	**66,968**
Notional rent expiration of rent free periods or other lease incentives	4,790	4,491
Topped-up annualised net rent	**66,542**	**71,459**
EPRA net initial yield	4.6%	5.2%
EPRA topped-up net initial yield	4.9%	5.6%

EPRA NAV

	31 December 2019		31 December 2018	
	€ ' 000	per share (€)	€ ' 000	per share (€)
Equity attributable to shareholders	903,308	47.75	733,283	39.48
Fair value of derivative financial instruments	4,185	0.22	5,047	0.27
EPRA NAV	**907,493**	**47.97**	**738,330**	**39.75**
Fair value of derivative financial instruments	-4,294	-0.23	-5,211	-0.28
Fair value of debt	-6,505	-0.34	-5,043	-0.27
EPRA NNNAV	**896,695**	**47.40**	**728,076**	**39.20**

EPRA NAV (New reporting standard)

	31 December 2019			31 December 2018		
	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
IFRS Equity attributable to shareholders	**903,308**	**903,308**	**903,308**	**733,283**	**733,283**	**733,283**
Hybrid instruments						
Diluted NAV	**903,308**	**903,308**	**903,308**	**733,283**	**733,283**	**733,283**
Revaluation of investment property in operation (if IAS 40 is used)						
Revaluation of investment property under construction (if IAS 40 is used)						
Revaluation of other non-current investments						
Revaluation of tenant leases held as finance leases						
Revaluation of trading properties						
Diluted NAV at fair value	**903,308**	**903,308**	**903,308**	**733,283**	**733,283**	**733,283**
Deferred tax in relation to fair value gains of investment property						
Fair value of financial instruments	4,185	4,185		5,047	5,047	
Goodwill as a result of deferred tax						
Goodwill as per IFRS balance sheet						
Intangibles as per IFRS balance sheet		-366	-366		-510	-510
Fair value of fixed interest rate debt			-6,505			-5,043
Revaluation of intangibles to fair value						
Real estate transfer tax	77,239	77,239		72,844	72,844	
NAV	**984,732**	**984,366**	**896,437**	**811,173**	**810,664**	**727,730**
Fully diluted number of shares	18,917,764	18,917,764	18,917,764	18,574,298	18,574,298	18,574,298
NAV per share	**52.05**	**52.03**	**47.39**	**43.67**	**43.64**	**39.18**

GLOSSARY

ASSETS HELD FOR SALE
Investment property will be reclassified to assets held for sale if it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the concerning investment property must be available for immediate sale in its present condition, taking into account the common terms for sale of such property and its sale must be highly probable. This means the property must be actively marketed for sale at a price that is reasonable compared to its current market value and the sale should be expected to be effectuated within one year from the date of reclassification.

AVERAGE RENT PER SQM (€ P.A.)
The total annual contracted rent divided by the total leased square meters.

COST RATIO (EPRA)
EPRA costs include all administrative costs, net service costs and operating expenses as reported under IFRS, but do not include ground rent costs. These costs are reflected including and excluding direct vacancy costs. The EPRA cost ratio is calculated as a percentage of gross rental income less ground rent costs.

DUTCH REIT (FBI-REGIME)
NSI qualifies as a Dutch Real Estate Investment Trust (fiscale beleggings-instelling or FBI) and as such is charged a corporate income tax rate of 0% on its earnings. The tax regime stipulates certain conditions, such as a maximum ratio of 60% between debt and the book value of real estate, maximum ownership of shares by one legal entity or natural persons, and the obligation to pay out the annual profit by way of dividends within eight months after the end of the financial year.
Before 2014, activities permitted under FBI legislation were limited to portfolio investments activities only. Effective 1 January 2014, new legislation that allows FBI's to perform enterprise-type business activities within certain limits. These activities must be carried out by a taxable subsidiary and must support the operation of the FBI's real estate business.

EARNINGS (EPRA)
EPRA earnings is a measure of operational performance and represents the net income generated from operational activities. It excludes all components not relevant to the underlying net income performance of the portfolio.

EARNINGS PER SHARE (EPRA EPS)
Indicator for the profitability of NSI; portion of the EPRA earnings attributable to shareholders allocated to the weighted average number of ordinary shares.

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION (EPRA)
Association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors.

ESTIMATED RENTAL VALUE (ERV)
The estimated amount at which a property or space within a property, would be let under the market conditions prevailing on the date of valuation.

HNK
HNK stands for 'Het Nieuwe Kantoor', (which means 'The New Office'). HNK is NSI's flexible office concept and offers an inspiring environment with stylish workplaces, office spaces, meeting areas, catering facilities and various ancillary services. HNK offers different propositions, including memberships (flexible workstations), managed offices (fully equipped offices), bespoke offices and meeting rooms.

INTEREST COVERAGE RATIO (ICR)
Debt ratio and profitability ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing net rental income during a given period by net financing expenses during the same period.

INVESTMENT RESULT - DIRECT
The direct result reflects the recurring income arising from core operational activities. The direct result consists of gross rental income minus operating costs, service costs not recharged to tenants, administrative costs, direct financing costs, corporate income tax on the direct result, and the direct investment result attributable to non-controlling interests.

INVESTMENT RESULT - INDIRECT
The indirect result reflects all income and expenses not arising from day-to-day operations. The indirect result consists of revaluations of property, net result on sales of investment, indirect financing costs (movement in market value of derivatives and exchange rate differences, corporate income tax on the indirect result, and the indirect investment result attributable to non-controlling interests.

INVESTMENT RESULT - TOTAL
The total result reflects all income and expenses; it is the total of the direct and the indirect investment result.

LEASE INCENTIVES
Adjustments in rent granted to a tenant or a contribution to tenants' expenses in order to secure a lease. The impact of lease incentives on net rental income is straight line over the firm duration of the lease contract under IFRS.

LIKE-FOR-LIKE RENTAL INCOME
Like-for-like growth figures aim at assessing the organic growth of NSI. In the case of like-for-like rental income the aim is to compare the rental income of all or part of the standing portfolio over a certain period with the rental income for the same portfolio over a previous period (i.e. year-on-year and/or quarter-on-quarter). In order to calculate like-for-like growth, the nominal increase in rent is adjusted for the impact of acquisitions, divestments and properties transferred to and from the development portfolio and between segments (e.g. office to HNK).

LOAN TO VALUE (LTV, NET)
The LTV-ratio reflects the balance sheet value of interest-bearing debts plus short term debts to credit institutions, net of cash and cash equivalents, expressed as a percentage of the total real estate investments, including assets held for sale.

MARKET VALUE INVESTMENT PROPERTY (FAIR VALUE)
The estimated amount for which a property should change hands on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein each party had acted knowledgeably, prudently, and without compulsion. The market value does not include transaction costs.

NET ASSET VALUE (NAV)
The net asset value represents the total assets minus total liabilities. At NSI this equates to the shareholders' equity (excluding non-controlling interests as stated in the balance sheet). The NAV is often expressed on a per share basis; in this calculation the number of shares outstanding at reporting date is used rather than the average number of shares is used.

NET ASSET VALUE (NAV, EPRA DEFINITION)
The EPRA NAV reflects fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not impacting the company on the long-term, as the fair value of financial derivatives and deferred taxes, are therefore excluded.

(NRV, NTA, NDV, EPRA DEFINITION)
see EPRA BPR guidelines on EPRA website:
https://www.epra.com/finance/financial-reporting/guidelines)

NET MARGIN
The net margin measures operating efficiency; it indicates how effective NSI is in managing its expense base. It is calculated as net rental income as a percentage of gross rental income.

NET RESULT ON SALES OF INVESTMENT PROPERTY
The net result on sales of investment property reflects the disposal price paid by a third party for a property minus the value at which the respective property was recorded in the accounts at the moment of sale, net of sales costs made. The sales costs include costs of real estate agents and legal costs, but can also include internal costs made which are directly related to transaction.

RANDSTAD
The Randstad is the central-western area of the Netherlands, consisting primarily of the four largest Dutch cities (Amsterdam, Rotterdam, The Hague and Utrecht) and their surrounding areas.

RENT - EFFECTIVE RENT
The effective rent reflects the contractual annual rent after straight-lining of rent free periods and rental discounts.

RENT - GROSS RENTAL INCOME (GRI)
Gross rental income reflects the rental income from let properties, after taking into account the net effects of 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-LETTINGS AND RENEWALS)
The reversionary rate measures the rental gain/loss of a deal as the difference between the new rent (after the deal) and the old rent (before the deal).

STANDING PORTFOLIO
Standing portfolio is used in like-for-like calculations and concerns the real estate investments at a specific date that have been consistently in operation as part of NSI's portfolio during two comparable periods. Note that an investment property can be considered both standing and at the same time non standing, depending on the comparison periods used (e.g. year-on-year and quarter-on-quarter).

TARGET CITIES
Target cities G4 refers to the locations Amsterdam, The Hague, Rotterdam, Utrecht, Eindhoven, Den Bosch and Leiden, being the focus cities of NSI in the Netherlands.

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

VACANCY RATE (EPRA)
Vacancy rate (EPRA): reflects the loss of rental income against ERV as a percentage of ERV of the total operational portfolio.

WEIGHTED AVERAGE UNEXPIRED LEASE TERM (WAULT)
This ratio is used as an indicator of the average length of leases in portfolios. It can be calculated over the full lease term of the contracts either up to expiration date or up to break option date.

YIELD
Yield can generally be defined as the income or profit generated by an investment expressed as a percentage of its costs or the total capital invested.

- EPRA net initial yield: annualised net effective cash passing rent (including estimated turnover rent and other recurring rental income) net of non-recoverable property operating expenses as a percentage of the gross market value of the real estate investments in operation;
- EPRA topped-up net initial yield1: EPRA net initial yield adjusted for expiring lease incentives;
- Reversionary yield: the anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.