NEPI Rockcastle – Horsing around in the Stable

Irreconcilable international earnings, enriching management through M&A, hoodwinking investors through misleading analysis via rejection of independent investigation.

NEPI Rockcastle (JSE:NRP) is a JSE-listed entity holding one of the largest real-estate investment portfolios in Eastern Europe. Viceroy's investigations have uncovered numerous inconsistencies within NEPI Rockcastle's financial reporting and major links to an established financial fraud:

- Local filings for NEPI's Romanian subsidiaries suggest company figures are massively overstated for at least the past 3 years. Romania is NEPI's largest geographical income segment in which consolidated 2017 group accounts show net profit before tax of EUR 284.87m (2016: EUR 221.90m). Local income statements show these companies operate at losses of over >EUR 40m (2016: >EUR 50m) for the same period.
- Viceroy believe corporate or tax-effective structure or transfer pricing does not adequately explain the substantial differences in Romanian earnings generation as NEPI's reported income tax expenses in Romania also do not match local filings. Given the criminal implications of misrepresenting tax numbers to the Romanian tax office, we assume NEPI chose to instead mislead its shareholders.
- NEPI's recent acquisition of Rockcastle was immediately followed by a massive write-down of subsidiary loans reflecting uncollectable debt from SPVs. When taken together with the purchase premium for the business of almost 80%, it is clear that the only winners in the Rockcastle acquisition were Resilient Stable insiders.
- NEPI's former chairman Corneliu-Dan Pascariu was involved in Romanian real-estate venture CEEIF, funded by the Peregrine Financial fraud perpetrated by Russell Wasendorf Sr. NEPI purchased Romanian assets from CEEIF before the Peregrine Financial fraud came to light. Court filings establish that CEEIF and several subsidiary development & holding companies were utilized by Wasendorf Sr. to embezzle cash.
- Despite having financial recourse for beneficial ownership of ~11% of CEEIF's purported book value of >EUR 60m, Peregrine's Receiver, Michael M. Eidelman, had no interest in pursuing these recoveries. Eidelman's **investigations alleged CEEIF was insolvent, did not discount asset values to CEEIF's pro-rata minor stakes, hid assets and liabilities from its balance sheet, and had no audited financial statements.** Given Pascariu's involvement as a major shareholder and financier through Unicredit, at which he was chairman at the time, it would have to have been extremely neglectful to not detect this activity.
- NEPI shareholders issued a written request on 8 August 2018 for an independent investigation into potential trading of associated companies, suspicious capital raising activity and property transactions. NEPI rejected demands for an independent investigation, instead establishing a subcommittee of its own members to investigate themselves, and their predecessors.
- Even without considering the above points, NEPI is fundamentally overpriced when compared with peers.

Based on our analysis, we see a significant downside to NEPI's share price driven by an unwarranted overvaluation and the likelihood of substantially lower-than-reported earnings. Were NEPI to trade in-line with peers we believe shareholders would face an 25% downside, **however**, given the suspected extent of financial misrepresentation, we believe the company's shares are worth substantially less.

We believe stakeholders should reinforce their demands for an independent forensic investigation into the company's operations and veracity of its financial consolidation and tax compliance. Until such time, Viceroy believe NEPI carries a high investment risk.

For more research into the Resilient Stable, readers should refer to the leaked internal memo by 36One Asset Management which we believe was published around the end of 2017. Viceroy have hosted an embedded Scibd link to this report on our website. Viceroy have no business relationship with 36One Asset Management and have never discussed NEPI Rockcastle with them.

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within NEPI Rockcastle or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroyresearch@gmail.com.

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The authors may continue transacting directly and/or indirectly in the securities of issuers covered on this report for an indefinite period and may be long, short, or neutral at any time hereafter regardless of their initial recommendation.

1. Stonewalled: the investor letter

In September of 2018 a collection of asset managers wrote to the members of the "Resilient stable" consisting of NEPI Rockcastle PLC, Resilient REIT Limited, Fortress REIT Limited and Greenbay Properties Limited[1]. These shareholders demanded an independent investigation by one of the big-four auditing firms into allegations of misconduct including share price manipulation and insider dealing.

On September 3, 2018 NEPI Rockcastle issued its rebuttal saying it had set up its own subcommittee to conduct a probe consisting of its board chair, audit chair, CEO and CFO.

> The members of the sub-committee are the newly elected chair of the board, Robert Emslie; the chair of the audit committee, Andre van der Veer; CEO Alex Morar; and CFO Mirela Covasa.

Figure 1 Rockcastle defies calls for neutral investigation – Business Day[2]

This subcommittee plans to investigate the alleged existence malfeasance possibly within its own members, or their predecessors. We believe this half-measure is indicative that the company has something to hide.

2. The Romania portfolio

NEPI Rockcastle's operations are fairly straightforward at face value. Each NEPI Rockcastle property (or small portfolio of related properties) is managed by a Single-Purpose Vehicle (SPV). SPV's are financed by loans (in some circumstances we have also found equity injections) from NEPI Rockcastle holding companies, which in turn are financed by both the listed parent entity and external debt. These holding companies are not necessarily domiciled in the same country as the SPV and finance the operations of several countries.

Romania is the largest and most profitable geographical segment in NEPI's portfolio. Operations in the country accounted for 57% of the company's retail and office sector revenue in 2017.

Local filings for NEPI's Romanian subsidiaries obtained by Viceroy Research suggest company earnings figures are massively overstated for at least the past 3 years. Consolidated 2017 group accounts show net profit before tax of EUR 284.9m (2016: EUR 221.9m). Local income statements show that NEPI's Romanian subsidiaries operated at combined losses of over EUR 41m (2016: >EUR 50m loss) over the same period.

Country results 31 Dec 2017	Net rental and related income	Profit before tax	Investment property
Romania	133,259	284,870	1,993,943
Poland	32,465	12,203	1,232,225
Bulgaria	7,297	10,385	476,180
Slovakia	26,633	47,894	405,065
Hungary	5,270	5,903	289,900
Croatia	15,679	20,685	245,275
Czech Republic	8,137	13,492	171,470
Serbia	3,313	5,206	111,724
United Kingdom	32	(1,080)	1,727
Holding	-	(931,102)	-
Total	**232,085**	**(531,544)**	**4,927,509**

Figure 2 Geographical breakdown of revenue – NEPI Rockcastle Annual Report 2017

Analysis of Romanian Portfolio	2017		2016		2015	
	Profit before tax	Implied tax expense	Profit before tax	Implied tax expense	Profit before tax	Implied tax expense
Portfolio total (RON)	(189,225,209)	(4,552,827)	(257,826,281)	(8,010,088)	(501,962,327)	(328,729)
Portfolio total (EUR)	(41,044,462)	(987,545)	(56,799,645)	(1,764,638)	(111,015,996)	(72,703)
NEPI Reported Figures (EUR)	284,870,000	(36,708,000)	221,898,000	(25,569,000)	149,429,000	(11,260,000)
Difference (EUR)	(325,914,462)	35,720,455	(278,697,645)	23,804,362	(260,444,996)	11,187,297

Figure 3 Summary of NEPI Romanian subsidiary filings

[1] https://www.scribd.com/document/387229167/Resilient-letter#from_embed
[2] https://www.businesslive.co.za/bd/companies/property/2018-09-03-rockcastle-defies-calls-for-neutral-investigation/

2.1. How REITs are typically structured

Seasoned REIT investors will know that it is preferable for income to accrue at the ultimate holding company level and not at the SPV level for tax minimization purposes, as holding companies are typically domiciled in low-tax/no-tax jurisdictions. For those not familiar with a REIT structure, below is a sample capital flow you will see in most international REITs:

1. SPV's purchase/develop income-generating assets through debt funding from parent holding company.
2. The vast majority of income generated from SPV's makes its way back to the parent company through interest payments on debt issued to buy/develop/maintain income-generating assets. This is referred to as transfer pricing.
3. The parent company is domiciled in an income-tax haven: for NEPI this is the Isle of Man.

The purpose of establishing this type of structure is obviously to minimize tax. Naturally, most geographies attempt to plug this tax "loophole" by implementing regulations (i.e. the arm's length lending principle) which essentially force SPV's to recognize at least some taxable profits locally.

At the end of the day, revenues, expenses and taxes incurred in local subsidiaries should reconcile back to the ultimate holding company. Viceroy's review of NEPI's local Romanian accounts show this is not the case with NEPI.

As part of our due diligence process, **Viceroy has obtained local filings of NEPI's individual Romanian entities from 2014 to 2017.** At a high level, these filings suggest that:

- NEPI's Romanian segment generated EUR >40m in *losses* in 2017 (2016: >EUR 50m) – a EUR 325m (2016: EUR 278m) difference to NEPI's reported figures. Our research suggests this is *inclusive* of EUR 66m (2016: EUR 103m) of non-cash, property revaluation gains implying the cash loss is much greater.
- A rudimentary balance sheet analysis of local Romanian filings suggests NEPI generated EUR 276m (2016: EUR 177m) of NPAT locally. The only way this could consolidate with year-on-year local Income Statement losses is through EUR 317m (2016: EUR 233m) of Other Comprehensive Income (OCI), which is not reasonable as property revaluations are recorded in the Income Statement. Many of the local balance sheets assets also do not even reconcile (i.e. assets do not equal the sum of liabilities and equity).
- NEPI's 2017 annual report recognizes EUR 36.71m of tax in Romania. For taxes to be recognized and paid in Romania, subsidiaries would have to operate at a profit. In reality, local Romanian filings suggest that NEPI subsidiaries collectively recognized only EUR 1.66m (2016: EUR 2.44m) in local taxes on significant earnings losses.
- Viceroy have obtained every filing for every Romanian subsidiary from 2014 through to 2017, with the exception of NEPI Fifteen Real-estate Administration SRL, which we could not locate within the Romanian companies register. Further, Viceroy have been able to consolidate fixed asset values and revenues of local filings to that of NEPI's consolidated financial report notes. These figures are verified by NEPI's independent valuers. Expenses and earnings are not.
- Internal consolidations between these local entities could not explain the extent of these losses.

Our analysis of revenue and earnings reported in local Romanian filings suggest NEPI's reported performance has been adulterated.

2.2. A summary of NEPI subsidiary filings in Romania

Local income statement filings of NEPI's subsidiaries in Romania show this portfolio generated a **pre-tax *loss* of EUR ~53m in 2017 (2016: EUR 77m), contrary to the EUR 221m profit claimed by NEPI to shareholders.** Below is a table showing the aggregated financials of NEPI's Romanian subsidiaries.

Analysis of Romanian Portfolio (RON)			2017		
Name	**Revenue**	**Expenses**	**Profit before tax**	**Tax**	**Profit after tax**
Aurora Mall Buzau SRL	19,792,711	(14,875,202)	4,917,509	(839,944)	4,077,565
Bel Rom Trei SRL	18,752,153	(16,506,853)	2,245,300	(821,460)	1,423,840
Braila Promenada Mall SRL	53,725,786	(59,134,989)	(5,409,203)	-	(5,409,203)
Brasov Shopping City SRL	7,339,422	(8,384,938)	(1,045,516)	-	(1,045,516)
City Park Constanta SRL	43,349,377	(27,195,138)	16,154,239	(2,329,342)	13,824,897
Cluj Business Centre SRL	50,933,406	(47,458,966)	3,474,440	-	3,474,440
Constanta Shopping City SRL	112,549,051	(129,295,380)	(16,746,329)	-	(16,746,329)
Deva Shopping City fka Mercureal SA	51,679,860	(60,093,474)	(8,413,614)	-	(8,413,614)
Floreasca Business Park SRL	43,898,529	(61,116,950)	(17,218,421)	-	(17,218,421)
Floreasca Centre SRL	169,099	(1,548,355)	(1,379,256)	-	(1,379,256)
Galaţi Shopping City SRL	41,701,606	(57,987,729)	(16,286,123)	-	(16,286,123)
General Building Management SRL	7,051,385	(9,038,225)	(1,986,840)	-	(1,986,840)
General Investment SRL	22,194,742	(22,519,467)	(324,725)	(328,319)	(653,044)
Iris Titan Shopping Center SRL fka Degi Titan SRL	62,544,193	(51,520,257)	11,023,936	-	11,023,936
Lakeview Office Building SRL	45,274,489	(45,218,982)	55,507	-	55,507
Marketing Advisers SRL	2,118,874	(1,854,650)	264,224	-	264,224
Mega Mall Bucureşti SRL fka ELJ Vatra SRL	150,264,356	(228,004,908)	(77,740,552)	-	(77,740,552)
Modatim Business Facility SA	23,897,671	(13,184,033)	10,713,638	(1,612,726)	9,100,912
NEPI Bucharest One SRL	13,092,677	(9,473,741)	3,618,936	-	3,618,936
NEPI Bucharest Two SRL	10,782,336	(8,227,654)	2,554,682	-	2,554,682
NEPI Eighteen Property Services SRL	745	(188,174)	(187,429)	-	(187,429)
NEPI Four Real Estate Solutions SRL	2,273,855	(20,132,362)	(17,858,507)	-	(17,858,507)
NEPI Investment Management SRL	53,605,469	(52,802,917)	802,552	(203,411)	599,141
NEPI Seventeen Land Development SRL	644	(14,618)	(13,974)	-	(13,974)
NEPI Six Development SRL	2,000	(25,129)	(23,129)	-	(23,129)
NEPI Sixteen Real Estate Investments SRL	3,634,659	(28,129,900)	(24,495,241)	-	(24,495,241)
NEPI Ten Development Solutions SRL	10,048,503	(11,868,916)	(1,820,413)	-	(1,820,413)
NEPI Three Building Management SRL	1,806,732	(2,565,171)	(758,439)	-	(758,439)
New Energy Management SRL	6,068,211	(5,232,523)	835,688	(133,757)	701,931
NRE Sibiu Shopping City SRL	38,833,698	(47,325,620)	(8,491,922)	-	(8,491,922)
Otopeni Warehouse and Logistics SRL	2,672,243	(2,603,359)	68,884	(93,386)	(24,502)
Ploiesti Shopping City SRL	52,592,342	(55,147,938)	(2,555,596)	-	(2,555,596)
Promenada Mall Bucureşti S.R.L. fka Floreasca City Centre SRL	114,441,760	(110,848,261)	3,593,499	-	3,593,499
Ramnicu Valcea Shopping City SRL	3,727,135	(14,691,244)	(10,964,109)	-	(10,964,109)
Real Estate Asset Management SRL	639	(13,078)	(12,439)	-	(12,439)
Retail Park Pitesti SRL	25,146,102	(28,867,857)	(3,721,755)	-	(3,721,755)
Severin Shopping Centre CRL	20,447,553	(23,980,101)	(3,532,548)	-	(3,532,548)
Shopping City Piatra Neamt SRL	27,922,964	(35,489,859)	(7,566,895)	(915,392)	(8,482,287)
Shoppping City Timisoara SRL	66,185,257	(97,777,134)	(31,591,877)	-	(31,591,877)
Targu Jiu Development SRL	25,409,165	(33,723,890)	(8,314,725)	-	(8,314,725)
Targu Mures Shopping City SRL	17,137,569	(16,102,576)	1,034,993	(161,848)	873,145
Timisoara City Business Centre One SRL	19,562,271	(20,662,409)	(1,100,138)	(212,915)	(1,313,053)
Timisoara Office Building SRL	12,547,834	(22,367,405)	(9,819,571)	-	(9,819,571)
Victoriei Office Building SRL	9,128,891	(27,751,099)	(18,622,208)	-	(18,622,208)
Vulcan Value Centre SRL	29,446,721	(40,019,933)	(10,573,212)	-	(10,573,212)
Total (RON)	**1,323,754,685**	**(1,570,971,364)**	**(247,216,679)**	**(7,652,500)**	**(254,869,179)**
Total (EUR)	**287,132,981**	**(340,756,257)**	**(53,623,275)**	**(1,659,888)**	**(55,283,164)**
NEPI Segment Report (EUR)			**284,870,000**	**(36,708,000)**	
Difference			**(338,493,275)**	**35,048,112**	

Figures 4 Viceroy analysis of Romanian filings

To avoid double-counting local holding companies, we have also isolated the SPV's that hold income-generating assets as detailed in NEPI's reported schedule of properties, annexed in their annual reports:

Analysis of Romanian Portfolio (RON)			2017		
Name on annual report	**Local Filing Revenue (RON)**	**Expenses**	**Profit before tax**	**Implied tax expense**	**Profit after tax**
Retail					
Aurora Shopping Mall	19,792,711	(14,875,202)	4,917,509	(839,944)	4,077,565
Braila Mall	53,725,786	(59,134,989)	(5,409,203)	-	(5,409,203)
City Park	43,349,377	(27,195,138)	16,154,239	(2,329,342)	13,824,897
Iris Titan Shopping Center	62,544,193	(51,520,257)	11,023,936	-	11,023,936
Mega Mall	150,264,356	(228,004,908)	(77,740,552)	-	(77,740,552)
Pitesti Retail Park	25,146,102	(28,867,857)	(3,721,755)	-	(3,721,755)
Shopping City Galati	52,592,342	(55,147,938)	(2,555,596)	-	(2,555,596)
Promenada mall	114,441,760	(110,848,261)	3,593,499	-	3,593,499
Severin Shopping Center	20,447,553	(23,980,101)	(3,532,548)	-	(3,532,548)
Shopping City Deva	51,679,860	(60,093,474)	(8,413,614)	-	(8,413,614)
Shopping City Galati	41,701,606	(57,987,729)	(16,286,123)	-	(16,286,123)
Shopping City Piatra Neamt	27,922,964	(35,489,859)	(7,566,895)	(915,392)	(8,482,287)
Shopping City Sibiu	38,833,698	(47,325,620)	(8,491,922)	-	(8,491,922)
Shopping City Sibiu	25,409,165	(33,723,890)	(8,314,725)	-	(8,314,725)
Shopping City Timisoara	66,185,257	(97,777,134)	(31,591,877)	-	(31,591,877)
Regional Strip Centres	29,446,721	(40,019,933)	(10,573,212)	-	(10,573,212)
Total Retail	**823,483,451**	**(971,992,290)**	**(148,508,839)**	**(4,084,678)**	**(152,593,517)**
Office					
City Business Centre	19,562,271	(20,662,409)	(1,100,138)	(212,915)	(1,313,053)
Floreasca Business Park	43,898,529	(61,116,950)	(17,218,421)	-	(17,218,421)
The Lakeview	45,274,489	(45,218,982)	55,507	-	55,507
The Office Cluj Napoca	50,933,406	(47,458,966)	3,474,440	-	3,474,440
Total Office	**159,668,695**	**(174,457,307)**	**(14,788,612)**	**(212,915)**	**(15,001,527)**
Industrial					
Otopeni Warehouse	2,672,243	(2,603,359)	68,884	(93,386)	(24,502)
Rasnov Industrial Facility	10,782,336	(8,227,654)	2,554,682	-	2,554,682
Total Industrial	**13,454,579**	**(10,831,013)**	**2,623,566**	**(93,386)**	**2,530,180**
WIP Developments					
Victorei Office	9,128,891	(27,751,099)	(18,622,208)	-	(18,622,208)
Shopping City Targu Mures	17,137,569	(16,102,576)	1,034,993	(161,848)	873,145
Ramnicu Valcea Mall	3,727,135	(14,691,244)	(10,964,109)	-	(10,964,109)
Total WIP Developments			**(28,551,324)**	**(161,848)**	**(28,713,172)**
Portfolio total (RON)	**996,606,725**	**(1,157,280,610)**	**(189,225,209)**	**(4,552,827)**	**(193,778,036)**
Portfolio total (EUR)	**216,171,972**	**(251,023,423)**	**(41,044,462)**	**(987,545)**	**(42,032,006)**
NEPI Reported Figures (EUR)			**284,870,000**	**(36,708,000)**	**248,162,000**
Difference (EUR)			**(325,914,462)**	**35,720,455**	**(290,194,006)**

* Note: we were unable to locate reconcile "Shopping City Satu Mare" to a Romanian subsidiary.

Figure 5 Viceroy analysis of Romanian filings

This figure, that we believe is more accurate, results in a pre-tax loss of EUR ~41m in 2017 (2016: EUR ~58m), EUR ~326m less than reported by NEPI for the period.

Filings for these companies are publicly available through Romania's Ministry of Public Finance's website at:

http://www.mfinante.gov.ro/pjuridice.html

Viceroy has consulted with REIT specialists and have worked to disprove legitimate and illegitimate explanations for this discrepancy. We present these below.

The inconsistencies highlighted in our analysis suggests earnings in Romania have been fabricated at either the consolidated or local level.

2.4. Consolidating local balance sheets

An analysis of NEPI's local subsidiaries' balance sheets shows these losses cannot be consolidated year-on-year.

The applicable raw data will be attached to this report for review, however we have summarized these findings for the purpose for brevity:

Balance Sheet Profit Analysis 2016-2017	EUR 000's
Opening equity value	479,709
Closing equity value	751,204
Difference	**271,495**
Less: paid up capital yoy	(4,711)
Implied NPAT - 2017	**276,206**
Balance Sheet Profit Analysis 2015-2016	**EUR 000's**
Opening equity value	226,691
Closing equity value	479,709
Difference	**253,018**
Less: paid up capital yoy	75,825
Implied NPAT - 2016	**177,193**

Figure 6 Viceroy analysis of NEPI subsidiaries' balance sheets

Where local income statements suggest the Romanian segment recorded a EUR 41m (2016: EUR 58m) loss, the same entities' balance sheets indicate a EUR 276m (2016: EUR 177m) profit.

Consider the following:

- While we have accounted for additional paid-up capital in our calculation, we have not considered dividends that may have been paid to the immediate holding companies. The inclusion of any dividends would increase the implied NPAT at the local subsidiary level.
- The only way this can possibly consolidate to the same entities' income statements is through a *massive* "other comprehensive income" item, which can only substantially consist of:
    - Revaluation of assets – **note that only operating or held-for-sale assets can be revalued here.** For instance, the value of NEPI's regional office (if owned by the Company) could be appreciated as other comprehensive income. Investment property (which is substantially all NEPI's fixed asset base) **must** be revalued on the Income Statement.
    - FOREX – not applicable at local operation level.

These discrepancies add another layer of complexity to those we have identified in NEPI's accounts. We have been unable to reconcile the balance sheets and income statements year-on-year at the local level.

Further, there are several entities in which the balance sheet does not reconcile at all[3], where total assets do not equal the sum of total liabilities and equity for several years.

Viceroy perceive these substantial accounting discrepancies as a major red flag and reinforce our belief that these earnings have been adulterated.

[3] Aurora Shopping Mall, City Park, Shopping City Piatra Neamt and Shopping City Sibiu

2.5. Lack of local filings not valid argument for profit discrepancy

We believe one of the criticisms we will receive is that we have missed subsidiaries in Romania, thus reflecting a below-reported figure for earnings locally.

NEPI discloses each of its subsidiaries in its annual report. We have collected filings for every single Romanian subsidiary listed, except for NEPI Fifteen Real-estate Administration SRL, which we were unable to find within the Romanian National Trade Register.

5. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

The Company has direct investments and indirect holdings in other Group companies that were included in the consolidated financial statements, and are detailed below. The Group has considered all its shareholdings, both direct and indirect, and there are no unconsolidated holdings or entities that meet the criteria set out in IFRS. In addition, based on the Group's assessment there is no evidence that would indicate additional subsidiaries, joint ventures or associates other than those indicated in the table below.

Figure 7 Investment in subsidiaries and joint ventures – NEPI Rockcastle Annual Report 2017

NEPI's Dutch subsidiary NE Property Cooperatief's debt prospectuses also outlines the corporate structure in Romania:

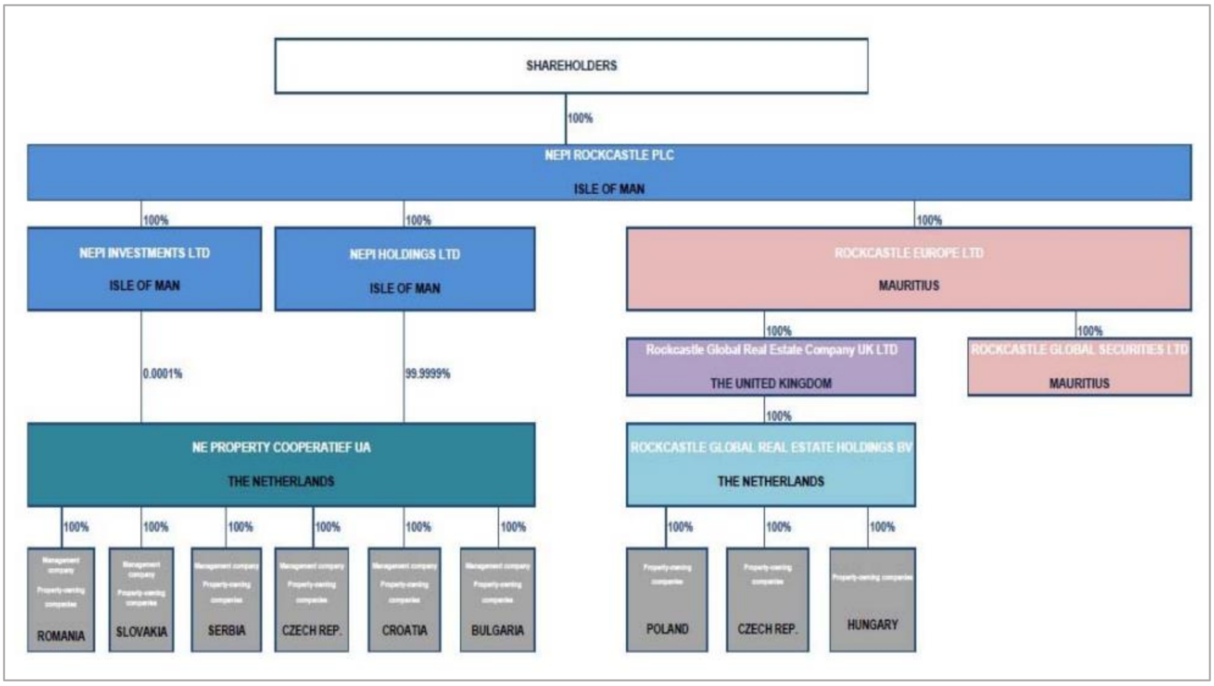


Figure 8 Summarized holding structure – NE Property Cooperatief Notes Issue dated 15 Nov 2017[4]

The image is somewhat pixelated, so we note that the Romanian entities are grouped on the bottom left and captioned with "Management Company" and "Property Owning Company".

There does not appear to be any other Romanian holding companies in the structure which we have overlooked, which is consistent with the asset holding structure as described in NEPI's annual report.

Further, the fixed asset value of property-holding entities in local filings (Figure 9 below) matches that of NEPI's annual report disclosures to a reasonable margin of error. The value of these properties had been assessed by third parties (in this case Cushman & Wakefield) relatively recently[5]. For avoidance of doubt, Viceroy does not believe these properties are fictitious – we simply do not believe NEPI's P&L accurately reflects the earnings generated from these properties per local filings.

[4] http://www.bvb.ro/Juridic/files/NRO24/NE%20Property%20Cooperatief%20UA-base-prospectus.pdf
[5] http://nepirockcastle.com/portfolio/valuations/

NEPI Romanian Portfolio Analysis	2017		2016		2015	
(EUR '000)	NEPI Annual Report	Local Filings	NEPI Annual Report	Local Filings	NEPI Annual Report	Local Filings
Net profit before tax	284,870	(41,044)	221,898	(56,800)	149,429	(111,016)
Tax	(36,708)	(988)	(25,569)	(1,765)	(11,260)	(329)
Net profit after tax	**248,162**	**(42,032)**	**196,329**	**(58,564)**	**138,169**	**(111,345)**
Investment Property	**1,993,943**	**2,066,147**	**1,771,863**	**1,768,732**	**1,417,875**	**1,422,269**

Figure 9 Viceroy Analysis

Using estimates of investment property fair value movements in Romania, Viceroy believe we believe we have reconciled locally reported revenues against operating revenues as disclosed by NEPI in its schedule of properties. Note that these investment property figures would also have been independently verified in a property valuation, whereas earnings are typically not tested.

Fair value assessment - 2017	**EUR 000's**
Group property asset value (closing)	4,927,509
Romanian property asset value (closing)	1,993,943
Romanian property asset proportion (closing)	40.5%
Group fair value adjustment	162,855
Romania estimated fair value adjustment	**65,900**
NEPI reported Romanian operating revenues	**145,303**
Local filings suggested revenues (incl. FV adjustments)	216,172
Less: Romanian estimated fair value adjustment	(65,900)
Local filings suggested operating income estimate	**150,272**
Difference	*(4,969)*
Fair value assessment - 2016	**EUR 000's**
Group property asset value (closing)	2,546,772
Romanian property asset value (closing)	1,771,863
Romanian property asset proportion (closing)	69.6%
Group fair value adjustment	148,473
Romania estimated fair value adjustment	**103,297**
NEPI reported Romanian operating revenues	**133,807**
Local filings suggested revenues (incl. FV adjustments)	219,804
Less: Romanian estimated fair value adjustment	(103,297)
Local filings suggested operating income estimate	**116,507**
Difference	*17,300*

Figure 10 Viceroy Analysis

We have therefore assumed that property revaluations are inclusive in local filing revenues. If this is not the case, this situation is made even more obscure as it suggests:

1. Both **revenues *and* expenses indicated in local filings would far exceed those reported by the Company** and fluctuate excessively year-on-year. This is not realistic in a REIT – rent yields are reasonably consistent and well-documented;
2. Local asset bases are growing on capex, which is not the case given suggested cash flows; and/or
3. Property revaluation is recorded in Other Comprehensive Income, which is not IFRS compliant.

2.6. Transfer pricing does not explain these profit discrepancies

We believe the possibility of earnings being moved offshore prior to closing accounts is also not viable.

If the primary business activity of Holding companies was to issue debt and collect interest, we should see significant earnings power within "Holding" subsidiary segments from interest income, and significantly lower net profit before tax within operating geographies.

This is not the case. If the EUR ~326m earnings shortfall within local Romanian accounts were transfer priced to holding company lenders, this would have made significant positive impact on the NEPI's "Holding" segment profit before tax figures, and negative impact on Romanian profit before tax.

Country results 31 Dec 2017	Net rental and related income	Profit before tax	Investment property
Romania	133,259	284,870	1,993,943
Poland	32,465	12,203	1,232,225
Bulgaria	7,297	10,385	476,180
Slovakia	26,633	47,894	405,065
Hungary	5,270	5,903	289,900
Croatia	15,679	20,685	245,275
Czech Republic	8,137	13,492	171,470
Serbia	3,313	5,206	111,724
United Kingdom	32	(1,080)	1,727
Holding	-	(931,102)	-
Total	**232,085**	**(531,544)**	**4,927,509**

Country results 31 Dec 2016	Net rental and related income	Profit before tax	Investment property
Romania	113,780	221,898	1,771,863
Slovakia	21,426	48,218	376,301
Croatia	2,599	7,557	239,125
Czech Republic	4,517	4,436	82,725
Serbia	3,210	3,644	76,758
Holding	-	(16,629)	-
Total	145,532	269,124	2,546,772

**The Holding segment represents management and holding entities in Isle of Man,The Netherlands, Mauritius, and United Kingdom*

Figures 11 Geographical breakdown of revenue – NEPI Rockcastle Annual Report 2017

We accordingly expected that the large profit before tax disclosed by NEPI in Romania implies that tax is subsequently paid on this *profit*. NEPI also discloses in its annual report that it does indeed pays tax on *profits* in Romania, and thus Romanian entities must make a *profit*. There are no profits at the local level according to local filings.

Reconciliation between applicable and effective tax rate

The reconciliation between the tax expense and the Group's gross accounting profit multiplied by the Company's income tax rate for the year ended 31 December 2017 and the year ended 31 December 2016 is as follows:

	31-Dec-2017	31-Dec-16
Group (Loss)/Profit before taxation*	354,623	269,124
At Company's income tax rate 0% (2016: 0%)	-	-
Effect of higher tax rates in foreign jurisdictions:		
Tax in Romania		
- Corporate income tax	(1,698)	(1,325)
- Deferred tax expense for taxable temporary differences (net)	(35,010)	(24,244)

Figure 12 Tax rate reconciliation – NEPI Rockcastle Annual Report 2017

At this point, it is worth noting that local Romanian filings show NEPI entities have recorded substantially less in tax expenses than reported by NEPI in Figure 12 above. **NEPI appears to have recorded unrealized gains in its local P&L filings, so the exclusion of deferred tax would not be IFRS compliant.**

Tax assessment		EUR 000's
	2017	2016
Local filings (incl. holding companies) tax expense	(1,686)	(2,441)
NEPI reported tax expense in Romania	(36,708)	(25,569)
Difference	**(35,022)**	**(23,128)**

Figure 13 Viceroy analysis

Further, local filings suggest that losses and CAPEX in Romania have been floated by paid-up capital (i.e. issuing extra shares), alongside issuing debt. This is not consistent with the transfer pricing model.

In our opinion this is inexplicable and inconsistent with NEPI's policy on transfer pricing and taxes in foreign jurisdictions:

Transfer pricing - transactions between related entities should be carried out at an at arm's length basis. Local tax authorities may challenge the pricing of related party transactions.	Low	Loss of tax efficiency in the structure and additional tax liability. Non-compliance with regulatory requirements could lead to fines, penalties and censures.	The economic substance of transactions is aligned with fiscal regulations and expectations from tax authorities, and documented annually. The Organisation for Economic Co-operation and Development (OECD) tax measures and initiatives, European Directives as well as local fiscal legislation are closely monitored, while adequate processes and controls are implemented to ensure fiscal compliance.	Shareholders Local authorities

Figure 14 Tax Policy – NEPI Rockcastle Annual Report 2017

For further reference and completeness, we have annexed our entire raw data set of Romanian subsidiary filings to this report.

Viceroy believe with a high level of conviction that NEPI's segment reports have been fabricated either in its consolidated group accounts or within local Romanian filings. The latter would constitute tax fraud.

This is not unrealistic given the way in which NEPI pays out its dividends – mostly via scrip. The consolidated group does not need cash at the listed entity level to meet its relatively low ~5% dividend yield, given >70% was paid out in shares in 2017. At face value, it indeed seems that the group's investments have been primarily funded through raising equity (which for early shareholders is largely favorable), leaving the group cash-heavy at the end of periods and again demanding a large book premium on unutilized capital.

We anticipate that the Resilient Stable will no doubt respond to this report by raising the company's dividends. This would be pretty straightforward with a >70% scrip uptake.

2.7. Improper Romanian consolidation by Viceroy not feasible explanation for profit discrepancies

Another criticism we believe this analysis will attract is that our analysis does not properly account for intra-company transactions within Romanian subsidiaries.

This is valid in the sense our figures will not be 100% accurate, however the extraordinary EUR ~326m difference between NEPI's reported Romanian profits and the results we have collected from local filings is simply not explainable by improper consolidation within Romanian entities.

2.8. Auditor spread

NEPI's auditors, PwC, are a global firm with the capacity to reduce audit risk by overseeing all of NEPI's subsidiary audits. This is not the case. We note that within the Romanian portfolio alone, local filings suggest the use of at least 4 audit firms in Romania, including a single-office local auditor for one of NEPI's local holding companies and for Valcea Shopping City.

More concerning is the fact that only 8 of the Romanian SPVs have listed auditors in their registry documents. Many local SPV's do not have listed auditors at all. Limited filings Viceroy have obtained from other geographies indicate an even greater spread of auditors reviewing NEPI's operations. A sample list is as follows:

- PricewaterhouseCoopers Romania – 4 entities
- Ernst & Young Romania – 1 entity
- KPMG Romania – 1 entity
- Focus Audit SRL Romania – 2 entities
- PricewaterhouseCoopers – Czech Republic
- VGD Audit – Czech Republic

This list is in no way complete. We simply do not have the capacity to pull more records (we have reviewed hundreds).

Curiously, if we group all 8 local Romanian SPVs that have listed auditors, earnings results are more in line with what we would expect for a REIT, with 4 to 5 of the 8 SPVs showing profits before tax over the last 3 years.

According to local filings, only ~7 of the 45 SPVs are profitable in any year in aggregate.

While it suggests that NEPI only audits its more profitable SPVs, this would be premature given the small sample size of entities with listed auditors. Nonetheless, this circumstance does not inspire confidence and we believe this is a major risk that should be investigated further by an independent third party.

2.9. Ballooning receivables balance

Local filings also show extremely high receivables balances at NEPI's Romanian SPV's.

Receivables Analysis - 2017	EUR 000's
Revenue	216,172
Less: Fair value adjustment estimate	(65,900)
Operating revenue estimate	**150,272**
Receivables	33,243
Receivable days	**81**
Receivables Analysis - 2016	**EUR 000's**
Revenue	219,804
Less: Fair value adjustment estimate	(103,297)
Operating revenue estimate	**116,507**
Receivables	33,606
Receivable days	**105**

Figure 15 Analysis of NEPI's Romanian Portfolio – Receivable days analysis

REIT investors would know that almost three months of outstanding rent receivables are not commonplace and are indicative of poorly managed accounting departments and/or industry downturn.

These receivables are not limited to service-producing entities which may include inter-group transactions, but a number of office buildings, malls and warehouses. For instance, Ramnicu Valcea Shopping City SRL has over 1,800 receivable days and is a regional shopping center.

2.10. Key takeaways on consolidation

There is a glaring inconsistency between NEPI's segment reporting and local financial filings in Romania, which Viceroy believe stems from overblown reported expenses and, perhaps consequentially, under-recognized tax.

It would be a stretch to say this portfolio is massively loss-making. The fact of the matter is that as far as investments go, retail real-estate assets are reasonably stable and generally profitable. Our main issue is the lack of consistency within earnings. The major discrepancies between reported vs. actual on-the-ground accounts, the lack of consolidation between filings year-on-year, and the lack of any reasonable explanation for these inconsistencies leads us to believe NEPI has adulterated its accounts.

It's worth noting at this stage that the accounts of NEPI's Dutch holding company, NE Property Cooperatief, do consolidate with the ultimate parent company. Therefore, we can isolate this issue exactly between the Romanian entities and the Dutch holding company, it should not take an external auditor long to find glaring inconsistencies in these accounts.

Audit 101 is centered around understanding how to minimize audit risk, such as man-made mistakes. The best way to minimize these risks is to conduct the audit yourself. Viceroy perceive the vast spread of auditors across NEPI's SPVs, even within a geography, as a major red flag as inter-firm communications allow significant room for error.

Viceroy believe it is possible that earnings or cash have been smoothed, washed or otherwise mistreated through a third party or off-balance sheet entity. We believe it would be prudent for shareholders to demand the appointment of an independent forensic accountant to investigate this matter, specifically the cash trail.

Lastly, we have performed only preliminary assessments of NEPI's other geographies' accounts. At this stage, we have found SPV's in Czech Republic displaying certain similarities to those of Romanian SPV's. We are in the process of obtaining financial statements for other geographies, however simply to not have the resources to conduct a full investigation given the limited transparency of certain jurisdictions.

3. The Rockcastle Acquisition

NEPI announced the acquisition (quasi-merger) of Rockcastle Global Real-Estate Company Limited ("Rockcastle") on December 14, 2016 for consideration of EUR 2.3b. **The goodwill on the transaction amounted to a massive EUR 886m – a 62% premium to book value for a REIT!**

Investment property	1,205,521
Investment property under development	10,819
Other non-current assets*	340,358
Non-current liabilities, excluding deferred tax	(501,398)
Current assets**	430,389
Current liabilities	(23,217)
Deferred tax liabilities	(26,359)
Total identifiable net assets at fair value	**1,436,113**
Goodwill arising on acquisition	886,167
Total consideration paid through issue of shares	**2,322,280**

Figure 16 Business Combinations and Significant Asset Deals – NEPI Rockcastle Annual Report 2017

This EUR 886m premium was written off in its entirety within 6 months of the acquisition.

	Note	Group 31 Dec 2017	Group 31 Dec 2016	Company 31 Dec 2017	Company 31 Dec 2016
Revenues from rent and expense recoveries		336,977	209,890	-	-
Property operating expenses		(104,892)	(64,358)	-	-
Net rental and related income	**25**	**232,085**	**145,532**	**-**	**-**
Administrative expenses	26	(15,191)	(8,186)	(5,250)	(14)
EBITDA*		**216,894**	**137,346**	**(5,250)**	**(14)**
Net result from financial investments		**(6,028)**	**14**	**(156)**	**-**
Income from financial investments at fair value through profit or loss	13	18,084	738	201	-
Fair value and net result on sale of financial investments at fair value through profit or loss	13	(24,112)	(724)	(357)	-
Acquisition fees	27	(10, 681)	(4,339)	-	-
Fair value adjustments of investment property	28	162,022	143,163	-	-
Foreign exchange loss		(1,255)	(127)	(4)	-
Gain/(Loss) on disposal of investment property		9	(485)	(429)	-
Other operating income		-	-	2,787	-
Profit/(loss) before net finance (expense)/ income		**360,961**	**275,572**	**(3,052)**	**(14)**
Net finance (expense)/ income	**29**	**(22,906)**	**(13,059)**	**37,436**	-
Finance income		2,567	4,784	38,108	-
Finance expense		(25,473)	(17,843)	(672)	-
Fair value adjustment of Interest rate derivatives financial assets and liabilities		500	228	(274)	-
Share of profit of joint ventures	33	16,068	6,383	-	-
Impairment of goodwill**	32B	(886,167)	-	-	-
Impairment of investments in and loans to subsidiaries	32B	-	-	(886,167)	-
(Loss)/Profit before tax		**(531,544)**	**269,124**	**(852,057)**	**(14)**

Figure 17 Income statement – NEPI Rockcastle Annual Report 2017

Note that the parent company's accounts show this write-off was attributed to impairment of investments in, and loans to subsidiaries.

> The impairment of investments in and loans to subsidiaries recognised in the Financial Statements of the Company represents impairment of investments of €300,385 thousand and impairment of loans to subsidiaries of €585,782 thousand following the NEPI Rockcastle merger.

Figure 18 Impairment – NEPI Rockcastle Annual Report 2017

It's fair to assume this impairment, which represents 27% of total loans to Rockcastle subsidiaries, appears to be representative of a largely non-performing internal loan book and is consistent with the problems which NEPI appear to have in Romania.

3.1. Beyond face value – the massive Rockcastle rip-off

NEPI holders were left holding the bag as a result of NEPI's acquisition of Rockcastle – plain and simple.

As if a 62% premium to book value (for a REIT!) was not excessive, Viceroy's analysis of the fine-print will show that the premium was actually closer to 80%.

Note that a large portion of Rockcastle's book value was made up of listed security investments (equities and derivatives, such that the gross exposure is much greater than the value). These financial instruments were quoted as being "highly liquid", and thus determining a fair value is quite straightforward – a market value is used.

Investment property	1,205,521
Investment property under development	10,819
Other non-current assets*	340,358
Non-current liabilities, excluding deferred tax	(501,398)
Current assets**	430,389
Current liabilities	(23,217)
Deferred tax liabilities	(26,359)
Total identifiable net assets at fair value	**1,436,113**
Goodwill arising on acquisition	886,167
Total consideration paid through issue of shares	**2,322,280**

**out of which Financial investments at fair value through profit or loss of €302,808 thousand*

***out of which cash in the subsidiaries acquired in the transaction amounts to €23,421 thousand and Equity derivative collateral of €383,619 thousand*

Figure 19 Business combinations and significant asset deals – NEPI Rockcastle Annual Report 2017

The problem with this is that because these financial instruments already trade in public markets, the fair value is already inclusive of any applicable premium or discount, and any book value premium should *not* apply to their value.

To find the adjusted goodwill, we revised the calculation to exclude the premium on these assets:

Revised Rockcastle Premium	EUR 000's
Total identifiable net assets at fair value	1,436,113
Less: Fair value of financial investments	302,808
Subtotal	**1,133,305**
Goodwill arising on acquisition	886,167
Adjusted premium on NEPI acquisition	**78.2%**

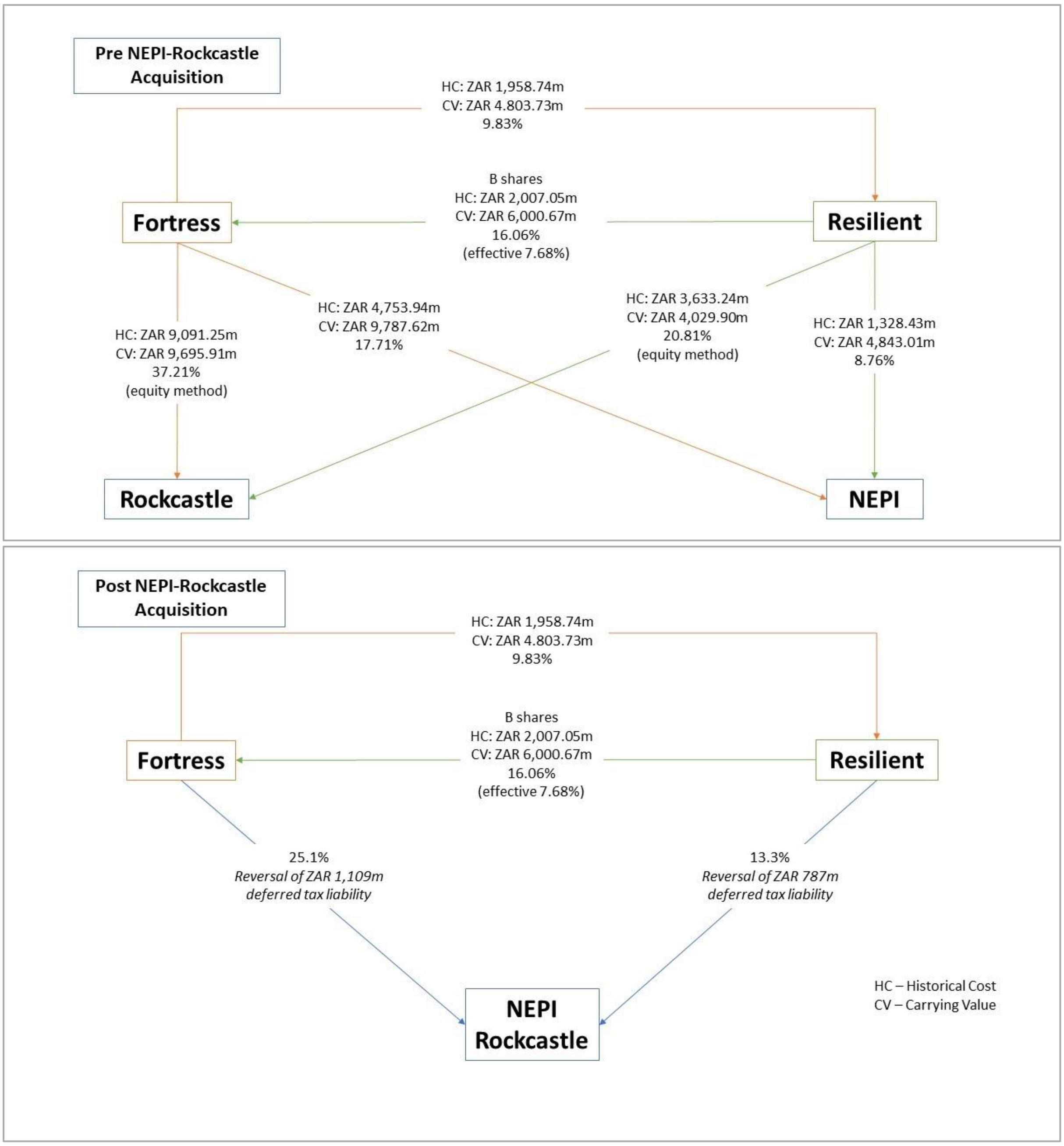
Figure 20 Viceroy analysis on Rockcastle acquisition

As an aside, the leaked 36One Asset Management analysis on the Resilient Stable highlighted that this issue was also applicable to Resilient and Fortress, given their cross-holding of shares, among many other issues. Viceroy highly recommend readers seek out this report as additional reading.

A link to the 36One report can be found on our website.

3.2. Enriching management

Many insiders benefitted from NEPI's excessively priced transaction. Resilient Properties was an 8.76% holder at time of sale. Fortress, another entity in the Resilient stable, was a 17.71% holder at the time of acquisition. Insiders including the CEO and CFO of Rockcastle owned another 2.43%.



Figures 21 & 22 "Resilient Stable" ownership structure

The goodwill associated with this extremely over-priced acquisition allowed insiders to gain an excessively large portion of NEPI at the detriment of NEPI holders, who had to bear Rockcastle-related losses manifested in the aforementioned write-offs in an extremely dilutive transaction:

> Following approvals in the Annual General Meetings of shareholders of the respective entities as well as all outstanding conditions precedent to the merger transaction having been fulfilled or waived, the merger transaction was implemented with reference to an effective share swap ratio of 4.7 Rockcastle shares for one NEPI share (the Swap Ratio). NEPI and Rockcastle have transferred all assets and liabilities, including ownership interests in their respective subsidiaries, effectively transferring their entire businesses to the Company. In exchange, the Company has issued ordinary shares (Company Shares) to NEPI and Rockcastle, in line with the Swap Ratio.

Figure 23 Business combinations and significant asset deals – NEPI Rockcastle Annual Report 2017

It is also noteworthy that Rockcastle claimed US$55.6m in distributable earnings in the half year ending June 30, 2017, right before the closing of the NEPI acquisition[6].

Rockcastle's history prior to its acquisition is nothing short of miraculous: as of June 30, 2014, the company had EUR 0 in investment property and was largely invested in global real-estate securities. All investment property was acquired in a very short 1.5 years.

	THE GROUP		
	30 June 2015	30 June 2014	30 June 2013
	USD'000	USD'000	USD'000
ASSETS			
Non-current assets			
Investment property	58,708	-	-
Straight-lining of rental revenue adjustment	415	-	-
Investment property under development	7,436	-	-
Listed security investments	2,161,724	1,565,259	689,257
Investments in and loans to joint ventures	41,727	5,192	-
Rockcastle management incentive loans	25,129	17,000	4,387
	2,295,139	1,587,451	693,644

Figure 24 Balance sheet – Rockcastle Annual Report 2015

All of which begs the question as to why this subprime transaction was completed with such an excessive premium.

3.3. Key Takeaways

We believe it is prudent for NEPI investors to investigate this transaction further – Viceroy believe they have been hoodwinked. The excessive valuation given to Rockcastle's property portfolio is unheard of.

[6] https://nepirockcastle.com/wpcontent/uploads/2017/08/nepi-rockcastle-results-h1-20171.pdf

4. Origins: Peregrine Financial & CEEIF

NEPI was incorporated on July 23, 2007 and listed on the AIM market of the London Stock Exchange on August 22, 2007. Though not largely publicized by the company, NEPI's original purpose has to do with an obscure company by the name of Central and Eastern European Investment Fund ("CEEIF"), a Cyprus incorporated entity with financial ties to fraudulent US entity Peregrine Financial Group.

In NEPI's 2008 annual report the company mentioned it had acquired a portfolio of Romanian properties from Oceanis International BV.

> On February 8, 2008 the Group concluded the acquisition of General Investment SRL and General Building Management SRL, together owning a portfolio of buildings in 18 cities in Romania from Oceanis International BV (part of the Avrig Group; Avrig is a shareholder in the Investment Manager) at a weighted yield of 7.6%. The acquisition for a maximum total consideration of €46 million was

Figure 25 Further acquisitions – NEPI Annual Report 2008[7]

Dutch filings show that Oceanis International BV's parent company is "CEEIF Central and Eastern Euro":

> **Information organizational structure:**
>
> Oceanis International BV is a company owned by a foreign entity. The top owner of Oceanis International BV is: CEEIF Central and Eastern Euro, located in PC 1082 Nicosia in Cyprus.

Figure 26 Oceanis International BV drimble.nl profile[8]

…formerly known as CEEIF Central and Eastern European Investment Fund.

CEEIF CENTRAL AND EASTERN EUROPEAN INVESTMENT LIMITED

Company Number	HE112753
Status	Active
Incorporation Date	3 July 2000 (almost 18 years ago)
Company Type	Limited Company
Jurisdiction	Cyprus
Registered Address	Κλήμεντος, 33, Floor 4, Flat 401 1061, Λευκωσία, Κύπρος Cyprus
Previous Names	CEEIF CENTRAL AND EASTERN EUROPEAN INVESTMENT FUND LIMITED GATESTONE LIMITED
Directors / Officers	ALNAIR SECRETARIES LIMITED, secretary GICA SERBAN, director NICOLAE CIOBANU, director
Registry Page	https://efiling.drcor.mcit.gov.cy/Drc...

Figure 27 CEEIF Central and Eastern European Investment Limited opencorporates.com profile[9]

NEPI's 2008 purchase of the Raiffeisen portfolio was not the only transaction between the company and the CEEIF group of entities. In 2010, NEPI purchased a 33,000m^2 property from Central and Eastern European Real-estate Shareholdings BV (CEERES) and Oceanis International BV for EUR 14.9m.

[7] These properties, originally referred to as the Raiffeisen portfolio and later the "regional office portfolio" are currently held for sale. Based on 2017 valuation reports conducted by Cushman Wakefield prior to the NEPI Rockcastle merger, the majority are as yet unsold.

[8] https://drimble.nl/bedrijf/delft/17276128/oceanis-international-bv.html

[9] https://opencorporates.com/companies/cy/HE112753

8 **Goodwill**

Retail Park Auchan Pitesti

The Group entered into a sale and purchase agreement with Central Eastern European Real Estate Shareholdings BV and Oceanis International BV to acquire a 33,000 square meter commercial centre anchored by Auchan and Bricostore, and the related common areas ("Retail Park Auchan Pitesti"). Retail Park Auchan Pitesti is owned by Connect Investment SRL, a company which also owns a 7,000 square meter shopping gallery which is linked to Retail Park Auchan Pitesti ("Iris Mall") and the related common areas. The sellers of Connect Investment SRL had an obligation to separate Iris Mall and the common areas into two separate companies. At the time of the acquisition the Group also obtained a call option over Iris Mall, which it exercised subsequent to the year-end.

The effective date of the acquisition is 1 January 2010.

Figure 28 Goodwill – NEPI Annual Report 2010

CEERES is another CEEIF subsidiary:

Information organizational structure:

Central Eastern European Real Estate Shareholdings BV is a company owned by a foreign entity. The top owner of Central Eastern European Real Estate Shareholdings BV is CEEIF Central and Eastern Euro, located in PC 1082 Nicosia in Cyprus.

Figure 29 Central and Eastern European Real-estate Shareholdings BV drimble.nl profile[10]

While not known about publicly at the time of these transactions, CEEIF was partially funded through fraudulently obtained funds embezzled from US commodity futures business, Peregrine Financial Group, by its CEO and owner Russell Wasendorf Sr.

As a result of his investigation, the Receiver concluded (i) the funds used by Wasendorf to acquire the Equity Interest were embezzled from PFG, (ii) the funds used by Wasendorf to make loans or additional equity contributions to CEEIF were embezzled from PFG, (iii) Avrig 35 and the SPVs, taken as a whole, was insolvent, and (iv) a distribution to the Receiver pursuant

Figure 30 US CFTC v. Peregrine Financial Group & Russell R. Wasendorf Sr.[11]

Readers should be aware of the Peregrine Financial Group fraud, which resulted Peregrine's July 2012 closure after being placed under investigation for a US$200m shortfall in customer funds[12]. Peregrine's chief executive, Russell R. Wasendorf Sr., was arrested and charged for several offences regarding the CFTC.

Filing's by Wasendorf Sr.'s receiver Michael M. Eidelman show that Wasendorf Sr. held an undivided beneficial interest in Price Nominees Limited, which in turn held 11.3% of CEEIF.

THE EQUITY INTEREST

A. Corporate Structure

6. Wasendorf owns an undivided beneficial interest in Price Nominees, which in turn owns an approximately 11.3% equity interest in Central and Eastern European Investment Fund, Limited ("CEEIF"), which directly or indirectly owns a number of entities, each of which owns real estate located primarily in Romania.[3]

Figure 31 US CFTC v. Peregrine Financial Group & Russell R. Wasendorf Sr.

[10] https://drimble.nl/bedrijf/delft/19821352/central-eastern-european-real-estate-shareholdings-bv.html
[11] Case: 1:12-cv-05383 Document #: 288 Filed: 10/03/13
[12] https://archives.fbi.gov/archives/omaha/press-releases/2013/peregrine-financial-group-ceo-sentenced-to-50-years-for-fraud-embezzlement-and-lying-to-regulators

Wasendorf Sr. also made and received payments to and from CEEIF: ostensibly investments and returns on such which are listed below. Note that some of these investments are direct from Peregrine Financial Group accounts!

Wasendorf Payment Analysis

Date	To/From Account (Name)	To/From Account(Number)	Payments from Wasendorf	Payments to Wasendorf	Wasendorf Account (Name)
1999	Rhombus Asset Management		500,000		R. Wasendorf
1/18/2001	CEEIF Central and Eastern European Investment	Bank of Cyprus 8075	250,000		Peregrine Financial Group
12/31/2002	Rhombus Asset Management	Lakeside Bank 9910		53,415	R. Wasendorf
1/15/2003	Rhombus Asset Management		3,160		R. Wasendorf
1/15/2003	Rhombus Asset Management	Lakeside Bank 9910	6,261		R. Wasendorf
4/28/2003	Rhombus Asset Management		250,000		R. Wasendorf
4/28/2003	Rhombus Asset Management	Lakeside Bank 9910	250,000		R. Wasendorf
9/16/2004	CEEIF Central and Eastern European Investment		350,000		LIT Subsidized Funds
12/14/2004	Rhombus Asset Management	Lakeside Bank 9910	200,000		Peregrine Financial Group
1/21/2005	Rhombus Asset Management	Lakeside Bank 9910	550,000		Peregrine Financial Group
7/12/2005	Rhombus Asset Management	Lakeside Bank 9910	26,000		Peregrine Financial Group
11/25/2005	Rhombus Asset Management	Lakeside Bank 9910	30,000		Peregrine Financial Group
1/26/2006	Rhombus Asset Management	Lakeside Bank 9910	30,000		Peregrine Financial Group
6/22/2006	CEEIF Central and Eastern European Investment	Cyprus 8301		2,475,202	Wasendorf & Associates
6/22/2006	Rhombus Asset Management	Lakeside Bank 9910		506,796	R. Wasendorf
10/19/2006	CEEIF Central and Eastern European Investment		889,808		Peregrine Financial Group
2006	CEEIF Central and Eastern European Investment			2,071,928	R. Wasendorf
2006	CEEIF Central and Eastern European Investment			318,583	R. Wasendorf
2006	CEEIF Central and Eastern European Investment			84,425	R. Wasendorf
2/26/2007	CEEIF Central and Eastern European Investment		1,000,000		Peregrine Financial Group
7/12/2007	CEEIF Central and Eastern European Investment	Cyprus 8301		1,541,855	Wasendorf & Associates
7/17/2007	Rhombus Asset Management	Lakeside Bank 9910		909,054	R. Wasendorf
1/31/2008	CEEIF Bucharest Romania	Unicredit Tiriac Bank 7020	1,000,000		Peregrine Financial Group
3/03/2008	CEEIF Central and Eastern European Investment	Unicredit Tiriac Bank 7020		1,012,048	Peregrine Financial Group
4/08/2008	CEEIF Central and Eastern European Investment	Hellenic Bank Public Company 8302		446,199	Wasendorf & Associates
4/15/2008	CEEIF Bucharest Romania		1,600,000		
6/11/2008	CEEIF Central and Eastern European Investment		1,600,000		Peregrine Financial Group
8/18/2010	Telecom & Technology B.V.		744,535		R. Wasendorf
8/30/2011	Telecom & Technology B.V.			1,119,642	PFG Inc. Forex Customer Funds
6/05/2012	Dynamic Asset Management	EximBank SA	250,000		Peregrine Financial Group
Total			**9,529,764**	**10,539,147**	

Figure 32 Viceroy Analysis

Filings from the Wasendorf proceedings as well as another case dispute between CEEIF's founders show that the business was funded through a combination of inappropriately obtained funds and high-interest loans.

> Hergan and Mo obtained high interest loans from third party lenders. The money from the loans solicited by Hergan was deposited in Rhombus' accounts, and Rhombus sent those funds to the European companies. The loans solicited by Mo were sometimes deposited in

Figure 33 Rhombus Asset Management v. Mo[13]

The Peregrine Financial Group fraud became known in mid-2012[14], after NEPI had purchased several properties from CEEIF.

On both sides of the transaction was none other than Dan Pascariu, former Chairman of NEPI and Chairman of Unicredit Tiriac Bank at the time.

[13] Case No. 1-15-2287

[14] https://www.reuters.com/article/us-broker-pfgbest-document/iowa-broker-pfgbest-collapses-after-hiding-millions-idUSBRE8691F520120711

Corneliu Dan PASCARIU

He began his career at the Romanian Foreign Trade Bank in 1973, becoming President and CEO of this bank in 1990. Between 1994 and 1996 he was CEO of Bank Bucharest - a new banking institution created by Alpha Credit Bank of Greece EBRD - and Chairman of the Board of Directors of Bucharest Investment Group, Bucharest Bank's investment banking branch. Between 1996 and 1998 he was Chairman of the Board of Directors of Creditanstalt Financial Advisers, the investment banking branch of Creditanstalt Bankverein Austria.

From 1998 to June 2007 he was President and CEO of the Bank Austria Creditanstalt subsidiary in Romania. Following the merger with the UniCredit local subsidiary, since June 2007, he is the Chairman of the Supervisory Board of UniCredit Bank. He is also a non-executive member of the Board of Directors of the leasing subsidiaries, UniCredit Group's investment banking in Romania.

He is the founder and the first President (between 1991 and 1994) of the Romanian Banking Association, as well as co-founder and associate professor of the Romanian Banking Institute.

Figure 34 UniCredit Organizational Structure profile for Corneliu Dan Pascariu[15]

Court documents show Pascariu held 6% of CEEIF as of 2013:

Shareholder	Percentage Equity Interest
Alexander Hergan	26.61042%
Mark Proskine	20.33498%
Lapythia Limited	20.00001%
Price Nominees Limited.	11.37319%
Bonython Trade Limited	10.83196
Dan Pascariu	6.39987%
Dragos Petrescu	0.11545%
ECEREC	4.00006%
James Lapera	0.16703%
Alan Hambourger	0.16703%

Figure 35 US CFTC v. Peregrine Financial Group & Russell R. Wasendorf Sr.

This was not a simple shareholder interest either. Court documents from a dispute within CEEIF show that Pascariu met and was involved with CEEIF's creators and co-financiers Glenna Mo, Mark Proskine and Alexander Hergan as far back as at least 2006, a year before NEPI's inception.

¶ 7 In 1998, Mo, Hergan, Mark Proskine, and Russell Wasendorf (collectively the Rhombus shareholders), formed Rhombus, an Illinois corporation, to finance the development of Romanian real estate. At the time of Rhombus' formation, Mo served as secretary and was issued 13,600 shares in Rhombus, which represented 17% of the total issued shares.

¶ 8 In 2000, the Rhombus shareholders formed CEEIF, an entity incorporated under the laws of Cyprus, as a holding company for Rhombus' Romanian projects. CEEIF, through Romanian

Between June 6 and June 10, 2006, Mo and Pawlan met with Hergan, Proskine, and Dan Pascariu[4] in Romania. Neither Pawlan nor Mo disclosed their attorney-client relationship or the

Figures 36 & 37 Rhombus Asset Management v. Mo

[15] https://www.unicredit.ro/ro/institutional/Banca/Structura-organizationala.html

UniCredit Tiriac Bank was also a *creditor* of CEEIF, having supplied further funds for investment in property:

> In connection with their investigation, the Receiver and Trustee met with four banks, each of whom are owed significant debt on one or more or the properties owned by an SPV. The Receiver and the Trustee met with the representatives from the following lenders to discuss the outstanding secured debt on such properties, threatened or actual legal proceedings (e.g., foreclosure, bankruptcy, etc.) and the likelihood that the properties could be sold or developed for a profit:
>
> - UniCredit Tiriac Bank
> - Bancpost
> - Highline Financial Group
> - Raiffeisen Bank International AG

Figure 38 *US CFTC v. Peregrine Financial Group & Russell R. Wasendorf Sr*.

Upon discussions with lenders, the Receivers administering Peregrine asked for relief from obtaining further value from CEEIF, which they considered was "insolvent", despite concluding that loans made to CEEIF were embezzled directly from Peregrine.

Further, CEEIF's finances were in such a state that Recievers had serious concerns regarding the integrity of CEEIF's calculations.

> 14. The Receiver has serious concerns about the integrity of CEEIF's calculations, including, among others, the following:
>
> (i) Based upon information collected from the Receiver's private investigator and from his diligence trip to Romania, the Receiver believes that, while there may be equity in certain properties, on a consolidated basis, CEEIF is insolvent

> based on both a "balance sheet test" and its inability to timely meet its financial obligations as they become due;
>
> (ii) The valuation for each parcel of real estate owned or partially owned by CEEIF represents the entire value of the real estate, notwithstanding that CEEIF may own only a fractional interest;
>
> (iii) CEEIF's management has been unable to verify the values attributed to the properties. Since sales and/or refinancing of commercial properties in Romania is uncommon, there are no comparables to look to for values;
>
> (iv) Certain assets and liabilities are not reported on CEEIF's financial statements; and
>
> (v) The financial statements were internally created and were not reviewed or audited by any third party.

> As a result of his investigation, the Receiver concluded (i) the funds used by Wasendorf to acquire the Equity Interest were embezzled from PFG, (ii) the funds used by Wasendorf to make loans or additional equity contributions to CEEIF were embezzled from PFG, (iii) Avrig 35 and the SPVs, taken as a whole, was insolvent, and (iv) a distribution to the Receiver pursuant

Figures 39, 40 & 41 US CFTC v. Peregrine Financial Group & Wasendorf Sr.

Given the extent of Pascariu's involvement in CEEIF, it is unrealistic for stakeholders to assume Pascariu was unaware of the fraudulent matter in which the company was funded. There were only a handful of shareholders involved in the business, and the bank at which Pascariu was Chairman was a lender to the business despite receivers later expressing "serious concerns about the integrity of CEEIF's calculations" and its unaudited financial accounts.

Viceroy believe the sale of Romanian assets by CEEIF to NEPI was a deliberate and conscious method of trying to limit future liabilities by divesting and distributing asset values as fast as possible.

NEPI investors are further reminded that the sale of these assets occurred at the bottom of a Romanian property cycle. Why else would these transactions have taken place?

5. Resignation of Corneliu Dan Pascariu

NEPI Rockcastle chairman Pascariu announced his retirement and that he would not stand for re-election at the AGM on July 12, 2018.

> Shareholders are advised that Mr. Dan Pascariu has notified the board of directors ("**the Board**") that, after serving as independent chairman of NEPI Rockcastle and its predecessor, New Europe Property Investments plc ("**NEPI**"), for over 9 years, he intends to retire and not stand for re-election at the annual general meeting of shareholders to be held on 28 August 2018 ("**the AGM**"). A revised notice of AGM will be issued in due course.

Figure 42 NEPI Rockcastle changes to the board of directors[16]

This is curious because Pascariu had only recently put himself up for re-election on April 30, 2018 and was previously ratified as Chairman after the Rockcastle acquisition in mid-2017.

> **2. Resolution 2**
> To re-elect, by way of separate resolutions, the following Directors of the Company who in terms of article 87.1 of the Company's articles of association ("**Articles of Association**"), are required to retire at the Company's first Annual General Meeting, and all being eligible, have offered themselves for re-election.
>
> **2.1. Dan Pascariu (Independent Non-Executive Chairman)**
> Dan Pascariu is a prominent figure in Romanian banking. His career started at the Romanian Bank for Foreign Trade in 1973, where he held the position of Chairman and CEO. Mr. Pascariu is a non-executive Chairman of the Supervisory Board of Unicredit Bank, Romania. The founder and first President of the Romanian Banking Association, as well as a co-founder and associate professor at the Romanian Banking Institute, Mr. Pascariu is currently on the board of directors of various financial institutions in Romania and abroad.
>
> Mr. Pascariu served as Chairman of New Europe Property Investments Plc's ("**NEPI**") Board from 2009, and was appointed as Independent Non-Executive Chairman of NEPI Rockcastle on 15 May 2017.

Figure 43 Results of NEPI Rockcastle 2016 annual general meeting

Further, Pascariu has made no such claims of retirement from other board appointments as chairman of the supervisory board at UniCredit Tiriac Bank[17] and as director of Romanian bank-owned payment processor Transfond[18].

[16] https://www.moneyweb.co.za/wp-content/uploads/ftp/senspdfs/SENS_20180712_S402178.pdf
[17] https://www.unicredit.ro/en/institutional/the-bank/organizational-structure.html
[18] http://www.transfond.ro/en/about-us/management

6. Fundamentally overpriced

It would be remiss to exclude a valuation of NEPI within this report, however it is worth noting that this valuation is independent of the evidence presented in this report. Given the potential extent of financial misrepresentation, any valuation should be taken with a grain of salt.

Given the potentially vast misrepresentations in NEPI's financial accounts, we believe a valuation based on reported figures would not even represent a baseline downside.

If NEPI were to trade in line with peers, Viceroy believe its shares should trade between 13%-25% lower based on price-to-book and dividend yield respectively.

Assuming NEPI Rockcastle's financials were indeed clean – which does not appear to be the case – the company trades at sales, earnings, book and dividend multiples vastly exceeding its competitors.

NEPI Comps					EV/Sales		EV/EBITDA		Dividend	Book Value	
	Last Price (LCL)	Market Cap (LCL mm)	Enterprise Value (LCL mm)	2018	2019	2020	2017	2018	Yield (%)	per sh.	P/BV
South Africa											
Growthpoint Properties	2,369	70,383	124,184	13.74	13.09	13.09	15.16	14.64	8.81	25.6	0.93
Fortress REIT	1,713	36,745	54,434	24.19	23.04	23.04	29.16	23.44	8.29	16.4	1.05
Hyprop Investments	8,853	22,654	29,914	10.96	10.63	10.63	15.12	12.90	8.55	103.0	0.86
Resilient REIT	6,228	26,466	42,917	15.26	13.62	13.62	15.51	16.54	9.08	61.5	1.01
Vukile Property Fund	2,054	18,450	24,338	10.37	9.42	9.42	15.83	13.70	8.22	20.1	1.02
Investec Property Fund	1,523	11,214	18,804	12.19	11.58	11.58	12.16	11.23	9.10	17.8	0.86
SA Corporate RE	390	9,870	15,611	10.16	9.91	9.27	10.45	9.91	11.34	5.3	0.74
Echo Polska Properties	1,960	1,013	2,147	15.34	13.76	N/AV	18.20	16.14	9.22	1.2	1.04
Average			**39,044**	**14.03**	**13.13**	**12.95**	**16.45**	**14.81**	**9.07**		**0.94**
NEPI Rockcastle	**11,938**	**4,295**	**5,897**	**16.29**	**14.38**	**13.70**	**16.75**	**14.93**	**6.92**	**6.8**	**1.10**
% difference				**16%**	**10%**	**6%**	**2%**	**1%**	**-24%**		**17%**
Europe											
Klepierre	29.0	9,101	20,978	16.85	16.47	16.08	20.16	19.37	6.77	32.83	0.88
British Land Co	580.2	5,610	8,448	14.06	14.19	14.19	16.67	18.53	5.22	9.25	0.75
Hammerson	415.6	3,211	6,590	17.14	17.98	18.55	18.19	19.10	6.23	7.51	0.73
Intu	186.3	2,524	7,277	11.35	11.11	11.57	17.78	17.43	7.51	3.30	0.56
NewRiver REIT	237.0	719	1,060	10.47	10.03	10.03	15.84	14.97	8.99	2.95	1.00
Altarea Cogedim	185.2	2,975	7,188	3.03	2.82	2.80	20.92	16.50	6.75	121.26	1.53
Mercialys	12.7	1,169	2,842	15.38	14.85	14.36	18.03	17.35	9.29	7.52	1.69
Wereldhave	29.6	1,194	2,996	13.53	15.29	15.08	16.97	18.89	9.45	46.78	0.63
Unibail-Rodamco-Westfield	154.9	21,417	53,701	23.54	20.99	20.14	26.11	24.24	6.97	184.92	0.84
Globe Trade Centre*	8.3	3,994	1,912	13.29	11.47	10.11	13.46	13.48	4.00	2.05	0.93
Average				**13.86**	**13.52**	**13.29**	**18.41**	**17.99**	**7.12**		**0.95**
NEPI Rockcastle	**11,938**	**4,295**	**5,897**	**16.29**	**14.38**	**13.70**	**16.75**	**14.93**	**6.92**	**6.8**	**1.10**
% difference				**17%**	**6%**	**3%**	**-9%**	**-17%**	**-3%**		**15%**
*Inward listing in South Africa											

Figure 44 Viceroy Analysis – Source: Bloomberg – current at 10.15am ET, November 27, 2018

Finding comparable REITs to NEPI is a difficult process given the geographical spread of their properties. We believe the closest comparable entities are **Echo Polska** (Echo) and **Globe Trade Centre** (GTC), which manage portfolios substantially contained within Eastern Europe. NEPI trades at a price/book premium to both Echo and GTC. Echo is expected to pay substantially larger dividends of 9.27% (32% higher).

In comparison with all major South African listed REITs above:

- NEPI trades at an average price/book premium of 15%
- NEPI is expected to deliver the lowest dividend yield of all South African peers, **24% below average**
- NEPI trades at the highest sales ratios (with the exception of outlier Fortress).

In comparison with 'safer' European REIT's, NEPI Rockcastle trades at the highest end on sales and earnings and at a large book/value premium.

This is made more obscure given the majority of NEPI's dividends are paid out in scrip. In reality, the cash distribution (by consequence of poor cash generation) to NEPI shareholders is minimal.

Were NEPI to trade in-line with peers we believe shareholders would face a 25% downside, however we are unable to quantify a target price given the suspected extent of financial misrepresentation and accordingly **believe the company's shares are worth substantially less.**

6.1. Compounding premiums

This is without taking into account the compounding premium problem with REIT's, which was explored extremely thoroughly in 36One's research into several south African REITs:

"The true attraction of mortgage trusts lies in their ability to generate capital gains for their shareholders by selling additional shares at a premium over book value. If a trust with a book value of $10 and a 12% return on equity doubles its equity by selling additional shares at $20, the book value jumps to $13.33 and per share earnings go from $1.20 to $1.60.

Investors are willing to pay a premium because of the high yield and the expectation of per-share earnings growth. The higher the premium, the easier it is for the trust to fulfill this expectation. The process is a self-reinforcing one. Once it gets under way, the trust can show a steady growth in per-share earnings despite the fact that it distributes practically all its earnings as dividends. Investors who participate in the process early enough can enjoy the compound benefits of a high return on equity, a rising book value, and a rising premium over book value."

- *The case for mortgage trusts, George Soros*

The process described above leads to REIT's trading at a premium, which is not in itself a problem. However, when shares in REIT 1 are held by REIT 2 any buyer of shares in REIT 2 is now paying the premium twice: once for the share of REIT 2 and again for the inflation of REIT 2's book by the premium of REIT 1's shares. This is again compounded when a group of REITs own sizable shares in each other

The practical upshot of the above exploit is that investors who get in early in the timeline can make outsized gains. This was clearly in play with NEPI Rockcastle which sits at the bottom of the Fortress/Resilient REIT network.

The above-mentioned phenomena of REIT's generation of capital gains is only limited by regulatory oversight and the willingness of a market to buy newly issued shares. Normally investors are willing to pay a moderate price premium in exchange for decent yields however we believe the REIT space in South Africa to be so heavily manipulated that no legitimate buyers remain.

7. Conclusion

Based on our research we believe NEPI Rockcastle's investors are largely in the dark regarding the true nature and performance of the company's operations. The company has failed to keep up its end of the bargain, with filings bearing no resemblance or relationship to local filings for its Romanian Portfolio.

Viceroy believes NEPI Rockcastle carries significant risks for the following reasons:

1. The discrepancy between the company's accounts and local filings;
2. The manner and outcome of the Rockcastle acquisition, and;
3. The company's involvement with entities associated with fraud in the case of CEEIF and leadership by similarly involved individuals (Pascariu).

Further, we are uncertain as to whether the issues with NEPI's Romanian operations are present in any other geographies. Our investigations into this remain ongoing. We recommend investors remain cautious regarding the company until:

1. A review of the company and its operations is conducted by a fully independent third-party;
2. The company provides investors provided a full historical reconciliation of local accounts to company filings;
3. The company continues to provide reconciliation of local accounts to company filings.

Were NEPI to trade in-line with peers we believe shareholders would face a 25% downside, however we are unable to quantify a target price given the suspected extent of financial misrepresentation and accordingly believe the company's shares are worth substantially less.