



NEPI Rockcastle – Mucking Out the Stable

Profit Stripping ‘Non-REIT Style’

On November 28th, 2018 Viceroy Research released a report regarding NEPI Rockcastle (JSE: NRP) detailing what we believed to be overinflated profits in the company’s Romanian operations. NEPI issued a response to our research and hosted a call for concerned investors.

Unusually NEPI provided some clarity in terms of their accounting treatments. We maintain our belief that NEPI is fundamentally overvalued with reservations regarding the sustainability of distributable income, the tax treatment in foreign jurisdictions and the status of the overall company. This we will update on.

- NEPI Rockcastle have not sought to deliver any scope of investigation in response to a request by investors in August 2018, and claim it is the prerogative of investors to identify the exact issues they want investigated. It seems clear what issues 10 of South Africa’s largest financial firms sought clarity on: potential trading of associated companies, suspicious capital raising activity and property transactions.
- Per our original report, we were of the opinion that transfer pricing is not an adequate explanation as to why statutory losses are incurred in Romania. This is due to transfer pricing legislation in Romania and the EU. On further investigation, these hard currency, unsecured, intra-group loans are disclosed in NEPI’s Dutch subsidiary at rate of 8%-12%, compared to the Romanian mortgage rate of 4.5-5% and safe harbor limit of 4%. This is a stark contrast to the CFO’s description, in which she did not provide the figures, but guided the rate was between 4% to 8%.
- Having obtained the filings of Dutch subsidiary, NE Property Cooperatief UA, we find it untenable how a local CFO or Financial Controller locally can advocate a “fair” and arm’s length transfer pricing interest rate on unsecured loans of 8%, formerly 12%. Essentially, stakeholders holders at the local level are being punished for an excessive and non-arm’s length priced loan. We make this assumption based on local Euro borrowing costs within Romania with an LTV of circa 28% as disclosed by NEPI.
- NEPI uses the entirety of its funds earmarked for deferred tax payments to inflate its distributable earnings figure. In effect, the company is likely improving their dividend figures at the expense of future disbursements.
- New anti-abuse legislation will materially hamper NEPI’s transfer pricing model going forward in Romania, Netherlands, and across the EU. Given the extent of transfer pricing, this will impact NEPI’s distributable earnings.
- Taking a step back, it is delayed outgoings, not earnings, that substantiate ~20% of distributable earnings. **The Romania tax channeling is in fact one of many adjustments that allow this unsustainable dividend practice.** Other items that deserve scrutiny include the dividend contribution of stocks, the antecedent dividend add back and the sale of financial investments.
- At a property yield of 6.77%; after accounting for cash costs, interest costs, taxes, and the stock trading at a premium to NAV, we fail to see how NEPI can justify a 7.5% dividend unless holders choose to take their dividend as scrip, which is dilutive and makes future dividends even harder to justify. Accordingly, we maintain our view that the stock is fundamentally overvalued.
- Of concern is that large money managers, including PIC, have continuously chosen to take dividends as scrip.
- SENS trading data shows entities associated with the Resilient stable associate Roque Hafner traded large amounts of NEPI shares at least for the period between May 2016 and May 2018. Hafner was implicated in the media as being involved in the Resilient insider trading scandal and several Hafner entities used to trade Resilient shares also traded NEPI shares.

We reiterate our belief that NEPI Rockcastle’s shares carry a high investment risk and are fundamentally overvalued, which will become increasingly unattractive over time given what we believe are unsustainable distribution practices.



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

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1. Transparency into Corporate Governance

NEPI Rockcastle have not sought to deliver any scope of investigation in response to a request by investors in August 2018, and claim it is the duty of investors to identify the exact issues they want investigated.

It seems clear what issues 10 of South Africa's largest financial firms sought clarity on: potential trading of associated companies, suspicious capital raising activity and property transactions.

When the share price performance and associated values were significantly underperforming and extensively written down, this seemed like a prudent request. Investors raising concerns should not need to guess the "under-the-hood" issues of any company especially of that company whose share price performance is now being investigated for stock manipulation.

Our view is shared across the media, as per the Business Live article entitled "NEPI Rockcastle rejects call by 10 of SA's largest financial institutions for probe."¹

We have already highlighted in our original report that the Rockcastle acquisition was extremely dilutive to NEPI shareholders to the benefit of Rockcastle shareholders, a large portion of which were insiders. This is due to the excessive ~80% book value premium NEPI paid for the company, which was written off in full within 6 months.

Tax benefits to insiders

The large premium afforded to Rockcastle holders by NEPI will have resulted in large windfall gains for many of its major holders.

The almost immediate write down of Rockcastle's goodwill post-transaction essentially meant that minority interest intangible losses provided an almost equal tax benefit to the same insiders.

To clarify, not only were NEPI shareholders left holding the bag in an extremely dilutive, expensive transaction, but insiders essentially walked away with tax-free **distributable income**.

2. Financial statements

We give kudos to NEPI's increased transparency in their response, which broke down its Romanian GAAP to IFRS reconciliation responsible for turning a statutory EUR 56.1m loss to a EUR 284.9m.

	€million
Statutory loss before tax in Romanian subsidiaries, excluding joint ventures	(56.1)
Add fair value gains from valuation of investment property (recognised in the Statement of Comprehensive Income for IFRS; recognised as equity reserves in Romanian GAAP)	133.0
Exclude effect of intra-Group transactions (mainly finance expenses)	119.8
Exclude effect of depreciation expense (only recognised in Romanian GAAP)	45.6
Exclude exchange rate differences (recognised for Romanian GAAP purposes; irrelevant for IFRS as EUR is the functional currency)	38.3
Other accounting treatment differences	4.3
IFRS consolidated profit before tax	284.9

Figure 1 Reconciliation of Statutory loss to IFRS consolidated profit before tax – NEPI Rockcastle Update on Viceroy Report

Per our original report, we are of the opinion that transfer pricing is not an adequate explanation as to why statutory losses are incurred in Romania. This is due to transfer pricing legislation in Romania and the EU.

Romanian transfer pricing legislation is aligned with OECD guidelines, where related party transactions must be carried out at arm's length/fair value. Interest payments exceeding the safe harbor limit of 4% are non-

¹ <https://www.businesslive.co.za/bd/companies/property/2018-10-02-NEPI-rockcastle-rejects-call-by-10-of-sas-largest-financial-institutions-for-probe/>



deductible (as alluded to by the CFO on NEPI's conference call) and cannot be carried forward to subsequent years. It's also worth noting that forex losses arising from these foreign currency loans are also non-deductible.

On further investigation, these hard currency, unsecured, **intra-group loans are disclosed in NEPI's Dutch subsidiary at rate of 8-12%**, compared to the Romanian mortgage rate of 4.5-5% and safe harbor limit of 4%. This is a stark contrast to the CFO's description, in which she did not provide the figures, but guided the rate was between 4-8%.

No securities or guarantees have been agreed for intercompany loans. The contractual maturity is 31 December 2021 or 31 December 2017. For loans that expired as at 31 December 2017, management has classified these as non-current as they are not expected to be received in the next financial year. Interest rates on the intercompany loans were decreased from 12% to 8% effective 1 October 2016.

Figure 2 Extract – NE Property Cooperatief UA. Annual Report 2017

We do not have the insight into NEPI's accounts necessary to assess the tax liabilities.

From the perspective of the borrower, we do not believe these transactions have been conducted at arm's length. Should the lender have been a third party, the cash profit at the local subsidiary (Statutory Loss – Depreciation Expense – FOREX) could not feasibly service this loan, and liabilities would hike due to FOREX costs.

Deferred Tax Expense

Understandably, these Romanian companies will likely never turn a statutory profit, resulting in deferred taxes. This does not appear to be solely from fair value increments, but also transfer pricing. NEPI monetizes its deferred tax liabilities: using them to increase its distributable income.

RECONCILIATION OF PROFIT FOR THE YEAR TO DISTRIBUTABLE EARNINGS	Group 31 Dec 2017	Group 31 Dec 2016
(Loss)/Profit for the year attributable to equity holders	(579 694)	234 968
Reverse indirect result	776 019	(108 683)
Foreign exchange loss	1 255	127
Acquisition fees	10 681	4 339
Fair value adjustments of investment property for controlled subsidiaries	(162 022)	(143 163)
(Gain)/Loss on disposal of investment property	(9)	485
Fair value and net result on sale of financial investments at fair value through profit or loss	24 112	724
Income from financial investments at fair value through profit or loss	(18 084)	(738)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for controlled subsidiaries	(500)	(228)
Deferred tax expense for controlled subsidiaries	46 199	34 808
Impairment of goodwill	886 167	-
Adjustments related to joint ventures		
Fair value adjustments of investment property for joint ventures	(14 344)	(7 252)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for joint ventures	(439)	227
Deferred tax expense for joint ventures	2 903	2 034
Foreign exchange gain for joint ventures	100	(46)
Company specific adjustments	17 004	(558)
Amortisation of financial assets	(1 807)	(3 730)
Realised foreign exchange loss for controlled subsidiaries	(769)	(101)
Realised foreign exchange gain for joint ventures	3	7
Accrued dividend for financial investments	19 803	1 202
Accrued interest on share-based payments	-	2
Fair value adjustment of Investment property for non-controlling interest	(392)	2 514
Deferred tax expense for non-controlling interest	166	(452)
Antecedent dividend	6 861	3 974
Antecedent dividend - Rockcastle distribution Jun 2017	49 531	-
Distributable earnings	269 721	129 701

Figure 3 Reconciliation of profit for the year to distributable earnings – NEPI Rockcastle Annual Report 2017

Without these adjustments, NEPI's distributable earnings would have totaled EUR 220.45m (2016: EUR 92.41m), a -18.27% adjustment (2016: -28.06%).

This is not a sustainable practice, as it benefits current shareholders in cash at the expense of future shareholders when liabilities become due.



Regulatory change

Romanian legislation effective at the start of 2018 limits the excess debt cost amount deductible to EUR 200,000 per company per year plus 10% of accounting profit with excessive indebtedness costs added back, effectively limiting NEPI's Romanian tax deferrals.

Anti-avoidance rules

Thin capitalization applicable to deductibility of interest expenses rules have been repealed starting with 2018. Therefore, starting with January 1st, 2018, the Tax Code introduces a new concept "the excess debt cost" defined as the difference between the debt costs incurred and the interest revenues and other assimilated revenues incurred by the Company. The excess debt costs are deductible within a threshold of EUR 200,000 / year. The excess debt costs above this EUR 200,000 threshold may benefit from an extra deduction limited to 10% of the accounting profit adjusted downwards with the non-taxable revenues and upwards with the corporate income tax expenses, the excess debt costs and deductible tax depreciation. If the base computed as described before is zero or negative, the excess debt costs are non-deductible in the current period, but they can be carried forward for unlimited period of time and they can be deducted in the next periods applying the same mechanism described above.

Figure 4 Anti avoidance rules – ACCACE 2018 Tax Guidelines²

Dutch regulations effective January 1, 2019 will limit the deductibility of net interest expenses to 30% of adjusted taxable profit.

Earnings stripping rule

The earnings stripping rule is a measure that limits the deductibility of 'excess' net interest expenses. According to this new rule, excess interest costs (i.e. the balance of interest costs and interest income, including foreign exchange results on the loans) are only deductible up to 30 per cent of the adjusted Dutch taxable profit (the EBITDA for tax purposes).

The earnings stripping rule contains a threshold of 1,000,000 euro. This means that deduction of excess interest expenses up to and including 1,000,000 euro is in any case not restricted by the earningsstrippingrule.

Figure 5 Dutch implementation of directive against tax avoidance (ATAD 1)³

This legislation alone will significantly impact NEPI's distributable earnings rate.

These new rules on profit-stripping and deductions effective 2018 in Romania and 2019 in the Netherlands will greatly limit NEPI's ability to bump their distributable earnings in this manner.

If correct, this practice can only continue as long as investors largely choose to receive their dividend in scrip instead of cash.

As an aside the only Romanian entities who list auditors on their annual filings appear to be profitable and accordingly pay tax. If NEPI assert their Romanian entities are audited by PWC, then their filings have not been properly updated.

² <https://accace.com/wp-content/uploads/2017/02/2018-02-Tax-Guideline-Romania-EN-compressed.pdf>

³ <https://www.pwc.nl/en/budget-day/dutch-implementation-of-directive-against-tax-avoidance.html>



Profit distribution scheme

Due to the unfavorable nature of loans to SPV's by NE Property Cooperatief and the related nature of these companies, we believe that the loans made during 2016 and 2017 should have been classified as profit distribution schemes.

This is according to law 227/2015 entered effect on January 1, 2016 and was replaced in 2018 with the regulations detailed above.

(11) When a taxpayer grants a loan/credit to an affiliated person or when he receives such a loan/credit, regardless of its purpose and destination, the arm's length price for such a service is the interest that would have been agreed by independent persons for such services provided under comparable conditions, including the administration fee for the credit or the loan. In the case of funding services among affiliated persons, for the allocation of revenues is analyzed:

a) whether the loan is in the interest of the carrying out the beneficiary's activity and has been used for that purpose;

b) if there was a profit distribution scheme.

The classification of the loan in the profit distribution scheme will be made if, at the date of the loan, no reimbursement of the loan is clearly expected or the contract contains unfavorable clauses for the payer.

Figure 6 Law 227/2015 of the Romanian Tax Code⁴

It was previously difficult to assess the transfer pricing model in effect in NEPI's Romania segment and the circumstances around these loans do not particularly apply to other business types within Romania, even if we account for safe harbor laws. For instance:

1. A professional services company with the same corporate structure and profits at an IFRS level, would not suffer a statutory loss at the local level as profits are not dependent on unrealized capital gains. A reversal of unfair interest charges would immediately incur income taxes for the business on a pro-forma basis as there would be no pre-existing statutory loss.
2. In NEPI's case; as there is a large statutory loss due as fair value gains have not been recognized on the income statement, the reversal of unfair interest charges is not subject to tax until the break-even point is reached providing a huge tax benefit.

Essentially the reconciliation of Romanian GAAP to IFRS, the Romanian tax code and NEPI's structure provide a unique situation wherein the company can almost completely eliminate its tax expenses.

However as detailed above, we believe these loans were profit distribution schemes and may be retroactively reclassified as such for the years 2016 and 2017 by the authorities.

Dividends – The general withholding tax rate on dividends paid to a nonresident is 5%. A 5% rate also

Figure 7 Deloitte International Tax Romania Highlights 2018⁵

In the re-classification of a loan into a profit distribution scheme, it will be deemed whether, at the time of grant, the parties did not expect the loan to be reimbursed or if the financing agreement contains provisions that are disadvantageous for the payer. Notwithstanding the lack of clear regulation in respect of hybrids, should the tax authorities reclassify a hybrid loan into a profit distribution scheme and therefore characterise any interest paid as a dividend, the tax consequence would be the nondeductibility of the interest paid.

Figure 8 Real Estate: The Tax Landscape⁶

⁴ https://static.anaf.ro/static/10/Anaf/Prezentare_R/Law227_11042018.pdf

⁵ <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-romaniahighlights-2018.pdf>

⁶ <https://www.ndkp.ro/articles/real-estate-the-tax-landscape/>



This would negate the majority of savings NEPI was able to generate on its interest payments during those periods, as well as the size of the interest payments during that period.

NEPI does disclose the risk of its transfer pricing being challenged in its annual report but reports this risk as “low” as of 2017, as well as acknowledging the requirement that related entity transactions should be carried out at arm’s length.





Transfer pricing - transactions between related entities should be carried out at an 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
Risk of inappropriate tax residency, double taxation on income.	Medium	 	Loss of tax efficiency in the structure. Non-compliance with regulatory requirements could lead to fines, penalties and censures.	The Group has a sound tax strategy. The local economic substance of transactions is aligned with fiscal regulations and expectations from tax authorities. Local fiscal legislations are closely monitored and processes and controls are implemented to ensure fiscal compliance.	Shareholders Local authorities

Figure 9 Tax risks – NEPI Rockcastle annual report 2017

We don’t believe intra group loans at a 8-12% interest rate are arm’s length transactions. This claim of arm’s length transactions is also mirrored in NE Property Cooperatief’s debt prospectus.

There are uncertainties in the Romanian taxation system

The Group's operations are affected by the tax rules in force from time to time in the jurisdictions where the Group conducts operations or has assets. These rules include corporate tax, real estate tax, value added tax, rules regarding tax-free disposals of shares, other governmental or municipal taxes and interest deductions and subsidies. The Group's tax situation is also affected by transactions conducted intra-Group and by transactions between the Group and residential co-operatives that are considered to be priced on market terms. Although the Group's business is conducted in accordance with its interpretation of applicable tax laws and regulations, and in accordance with advice the Group has received from its tax advisors, the possibility that the Group's interpretation is incorrect, or that such laws and regulations change, possibly with retroactive effect, cannot be excluded. Furthermore, future changes in applicable laws and regulations may affect the conditions of the business of the Group. In particular, starting with 1 January 2016 a New Fiscal Code and a New Fiscal Procedural Code will enter into force. Although the changes they bring are generally beneficial, there may initially be issues in interpreting and applying the new codes, particularly because secondary legislation clarifying them has not yet been approved.

Figure 10 NE Property Cooperatief prospectus



Key Takeaways

In our original report, we did not directly attribute Romania's lack of profits to any specific reason, however highlighted many potential reasons for why the numbers did not stack up. We give kudos to NEPI's increased transparency in their response, which broke down its Romanian GAAP to IFRS.

If we take step back, what matters to NEPI is whether its dividend is sustainable. A property yield of 6.77%, cannot reasonably justify a dividend of 7.5%. NEPI's trick lies in the distributable earnings report.

The Romania tax item is in fact one of many adjustments that allow this unsustainable dividend practice. Other items that deserve scrutiny include the dividend contribution of stocks, the antecedent dividend add back and the sale of financial investments. Financial investments have contributed to large portions of NEPI's distributable income, despite the company inferring that it planned to reduce investments in these securities in favor of *increasing direct property investments*. The sale of these investments is inherently non-recurring.

13.3 Following the implementation of the merger transaction, NEPI Rockcastle, intends to reduce its exposure to listed securities in favour of increasing direct property investments.

Figure 11 Circular to shareholders – Merger of NEPI and Rockcastle

RECONCILIATION OF PROFIT FOR THE PERIOD TO DISTRIBUTABLE EARNINGS	30 Jun 2018	31 Dec 2017	30 Jun 2017
Profit/(Loss) for the period attributable to equity holders	149 042	(579 694)	154 891
Reverse indirect result	(13 409)	776 019	(78 498)
Foreign exchange loss	1 157	1 255	13
Acquisition fees	3 241	10 681	1 523
Fair value adjustments of investment property	(86 143)	(162 022)	(92 171)
Gain on disposal of investment property	-	(9)	(695)
Fair value and net result on sale of financial investments at fair value through profit or loss	72 091	24 112	(89)
Income from financial investments at fair value through profit or loss	(29 564)	(18 084)	(363)
Fair value adjustment of Interest rate derivatives financial assets and liabilities	(94)	(500)	(236)
Deferred tax expense	27 916	46 199	25 208
Impairment of goodwill	-	886 167	-
Adjustments related to joint ventures			
Fair value adjustments of investment property for joint ventures	(3 108)	(14 344)	(13 875)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for joint ventures	(92)	(439)	(310)
Deferred tax expense for joint ventures	1 176	2 903	2 424
Foreign exchange loss for joint ventures	11	100	73
Company specific adjustments	17 408	17 004	(778)
Amortisation of financial assets	(911)	(1 807)	(881)
Realised foreign exchange loss	(476)	(769)	(79)
Realised foreign exchange gain/(loss) for joint ventures	(2)	3	1
Accrued income from financial investments at fair value through profit or loss	18 733	19 803	181
Fair value adjustment of Investment property for non-controlling interest	15	(392)	-
Deferred tax expense for non-controlling interest	49	166	-
Antecedent dividend	-	6 861	1 277
Antecedent dividend - Rockcastle distribution Jun 2017	-	49 531	49 531
Distributable earnings	153 041	269 721	126 438
Less: Distribution declared	(153 041)	(269 721)	(126 438)
Interim distribution*	(153 041)	(126 438)	(126 438)
Final distribution	-	(143 283)	-

In normal circumstances, a scheme like this would quickly run out of cash. In this instance, over 70% of the dividend cost was paid through the payment of a stock dividend. This unusual measure was widely accepted largely because the shareholder base is largely composed of Resilient, Fortress, and their related parties.



3. FSCA Investigation into market manipulation

NEPI – together with Fortress, Resilient and Greenbay – are currently subject to a FSCA investigation into prohibited trading practices, specifically market manipulation. Other members of the Resilient Stable are also subject to ongoing insider trading and misleading reporting cases (alongside Steinhoff and Capitec).

Key management resignations

NEPI's co-CEO, Spiro Noussis, and former Rockcastle CFO and executive director, Nick Maltulovich, have both submitted intentions to resign from NEPI just one month after FSCA investigations into the Resilient Stable's conduct was announced. Mr. Noussis resigned from his role as co-CEO with immediate effect.

We are of the opinion there are significantly red flags when **audit committee chairman** and independent non-executive director Michael Mills did not stand for re-election as announced by the company in May⁷, following the release of the 36One Resilient report in February. We believe these key management resignations following negative developments for NEPI Rockcastle imply these directors were aware of these issues.

4. Ties to individuals implicated in Resilient scandal

SENS data has revealed that Roque Hafner, an individual tied to the Resilient Share Price Manipulation investigation, has been actively heavily trading NEPI Rockcastle shares at least as recently as May 2018. It has been alleged that Hafner was responsible for manipulating the share prices of companies within the Resilient stable, including NEPI during the Rockcastle acquisition period.

Desmond De Beer, a current non-executive director at NEPI and the former CEO of Resilient, has been linked with a web of characters involved in the potential share price manipulation of the Resilient stable⁸. While Hafner's intentions are unknown to us, we note that one occasion wherein Hafner heavily traded the shares of a De Beer-related company resulted in an FSCA investigation.

WARREN THOMPSON: Just to get this right, you are saying **the Hafner family trust controlled by Mr Hafner** was the sole shareholder in those K companies?

SHAUKET FAKIE: **The ultimate beneficiary. That's correct.**

which confirmed that he'd been both the sole director and shareholder of the companies since December 2, 2014.

But while communicating his review findings, Fakie initially contradicted **Oberholzer, claiming that Roque Hafner, a one-time business associate of Resilient founder Des de Beer**, was the owner of the "K" companies. Fakie later corrected his statement, confirming that Oberholzer was the sole shareholder, but that **Hafner had lent Oberholzer the money to buy the shares.**

The 2016 audited financial statements for Sentola Limited – a company incorporated in Cyprus and controlled by Hafner's family trusts – show Hafner is the majority

shareholder of all four "K" companies. But he's not the only shareholder: it shows that Sentola is only a 74% shareholder.

This directly contradicts what Oberholzer told Moneyweb, and Fakie. In addition to the shareholder registers he provided, on April 13 he stated: "I did not tell Fakie that Roque Hafner's family trust was the ultimate beneficial owners of the "K" companies, and in fact you were aware that I am the sole shareholder."

But responding to Moneyweb's questions, following the evidence he was given this week, he stated: "The position is as follows: Sentola owned 74% of the shares up to the end of 2016, whereafter it was taken

Figures 12 & 13 Ex-AG clarifies 'K' Shareholding – The Citizen (Gauteng) 9

⁷ https://www.marketscreener.com/NEPI-ROCKCASTLE-PLC-37488492/pdf/833788/NEPI%20Rockcastle%20PLC_Nomination.pdf

⁸ <https://www.pressreader.com/south-africa/financial-mail/20180405/281552291422483>

⁹ <https://www.pressreader.com/south-africa/the-citizen-kzn/20180504/282398400040695>



Hafner, through his investment vehicles the Hafner family trust and Sentola Limited, has been actively trading NEPI Rockcastle shares from May 2016 to at least May 2018.

Some of these trades were conducted by the same entities implicated in the Resilient scandal including the infamous “K” entities, so named for their similar names. To our knowledge the following companies are associated with, or controlled by Roque Hafner and have traded NEPI Rockcastle shares¹⁰:

Company Name	Relationship to Hafner
K2012040668	Implicated in Resilient scandal
K2012040151	Implicated in Resilient scandal
K2012040925	Implicated in Resilient scandal
SENTOLA LIMITED	Owned by Hafner family trust
RCG TRADE & FINANCE SA(PTY)LTD	Subsidiary of Sentola Limited

In addition, the following companies may be related to Hafner based on naming convention.

- RCG TRADE & FINANCE SA(PTY)LTD(NO.2)
- K2011110358 (PTY) LTD
- K2014070733 (PTY) LTD
- K2013028198
- HAFNER PETA JOY
- HAFNER ANDREW PETER
- K2016125414 (SOUTH AFRICAN) (PTY) LTD

From trading data we have obtained, these companies combined purchased 53,374,018 shares and sold 42,659,848 shares from May 2016 to at least May 2018, and we have only assessed month/month movements. This data is available from SENS.

5. Conclusion – An Investor Letter

In the conference call November 29, 2018, NEPI Rockcastle invited interested parties to raise tangible concerns that would be investigated.

We raise various concerns regarding NEPI’s most recent statements, we have also downloaded a copy of the NEPI Rockcastle Investor call to avoid any disputes between our findings and those of the CFO and NEPI representations with said tax authorities.

We now raise these concerns with the Auditors, the Audit Committee and the Board of Directors. Our response was largely delayed as we had to provisionally check with the Romanian Tax Authority regarding the scheme that NEPI have set up: essentially a block of malls where rental income/profits are “stripped” that would otherwise be taxed, including but not limited to conflicting data on the Safe Harbor rules regarding interest rates and Forex items.

We have also been in contact with a large audit firm to assess the Romanian transfer pricing data, and while we reserve concerns to the tax treatment, this would be speculative with publicly available information.

Our analysis so far has been limited to the company’s operations in Romania and NE Property Cooperatief extends loans at the 8-12% interest rate to entities in several jurisdictions. We are yet to investigate whether these other loans were conducted on an arm’s length basis.

¹⁰ <http://newswire.randswiss.com/2018/03/20/the-groundsman-with-r1-billion-in-the-resilient-stable/>