IR Integrated Report

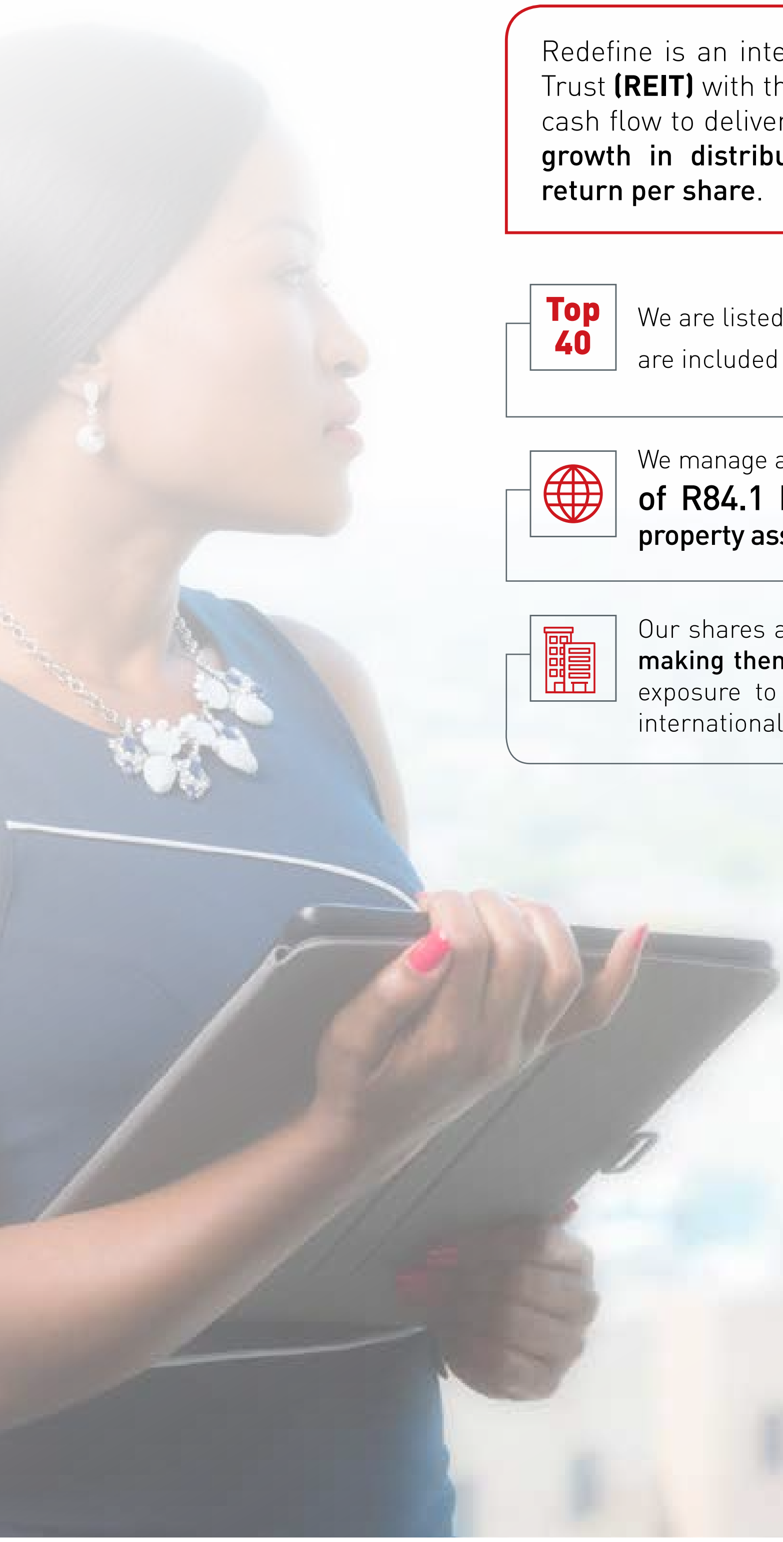
# SUSTAINED Value

2017

REDEFINE PROPERTIES

We're not landlords. We're people.

# About Redefine



Redefine is an internally managed Real Estate Investment Trust **(REIT)** with the primary goal of growing and improving cash flow to deliver quality earnings, to underpin **sustained growth in distribution, which supports growth in total return per share**.

Top 40

We are listed on the Johannesburg Stock Exchange (JSE) and are included in the **JSE Top 40 index.**

We manage a diversified property asset platform with a **value of R84.1 billion, comprising local and international property assets.**

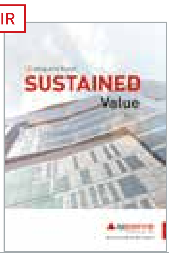
Our shares are among the **most actively traded on the JSE, making them a highly liquid, single-entry point** for gaining exposure to quality domestic properties, and a spread of international commercial real estate markets.

# Our reporting suite

We remain committed to reporting transparently to our wide range of stakeholders.

To view the full suite, please visit our website www.redefine.co.za

IR

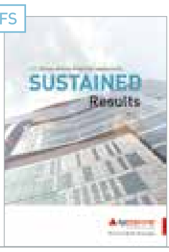


**Integrated report (IR)**

Our integrated report is the primary report to our stakeholders. It is structured to show the relationship between the interdependent elements involved in our value creation story, in compliance with:

- The International Integrated Reporting <IR> Framework
- The Companies Act, No 71 of 2008, as amended (Companies Act)
- The JSE Listings Requirements
- King IV report on Corporate Governance for South Africa 2016 (King IV)

AFS



**Group annual financial statements (AFS)**

A comprehensive report of the group's financial performance for the year, in compliance with:

- The Companies Act
- The JSE Listings Requirements
- King IV
- International Financial Reporting Standards (IFRS)

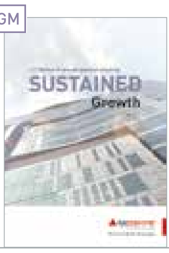
ESG

**Environmental, social and governance (ESG) report**

A detailed account of the group's holistic performance for the year, including environmental, social and governance elements. The report also includes the **remuneration report** and the social, ethics and transformation committee report, in compliance with:

- The Companies Act
- The JSE Listings Requirements
- King IV

AGM



**Notice of annual general meeting (AGM)**

Supporting information for shareholders to participate in the annual general meeting, in compliance with:

- The Companies Act
- The JSE Listings Requirements
- King IV

# Contents



## HOW TO NAVIGATE OUR REPORT

Throughout our integrated report, the following icons are used to show the connectivity between sections:

### CAPITALS

- Financial capital
- Social and relationship capital
- Manufactured capital
- Intellectual capital
- Human capital
- Natural capital

### STRATEGIC MATTERS

- Operate efficiently
- Invest strategically
- Optimise capital
- Engage talent
- Grow reputation

## FEEDBACK

Your feedback is important to us and we welcome your input to enhance our reporting processes. Please visit www.redefine.co.za or email investorenquiries@redefine.co.za

# About our report

**This report was developed to communicate with all our stakeholders.**

## Integrated thinking and materiality

Our value creation story (see page 8) is structured to show the relationship between the various elements involved in achieving our stakeholder goals. By analysing the risks and opportunities identified in our operating context, stakeholder engagement process and internally identified risks and opportunities, we have determined which matters are most important to Redefine's value creation in the short, medium and long term. We have used these as points of reference to ensure we have only reported on those matters that could have a substantial effect on our ability to deliver stakeholder value.

## Boundary and scope

The major emphasis is placed on the group's South African operations as they account for 73% of the group's distributable earnings and 81% of the group's property asset platform. With regard to operational numbers, such as gross lettable area (GLA), we only include statistics from our directly owned South African property portfolio. Details of our investments in subsidiaries, joint ventures, jointly controlled assets and associates appear in our annual financial statements. Detailed information on our separately listed and managed interests in associates and listed investments, which comprises the bulk of our other property assets, is provided in their annual reports, which are available on their websites.

We have used issues arising from our stakeholder engagement processes and the quality of our relationships as key in determining which matters to report on.

## Forward-looking statements

This report may contain forward-looking statements with respect to Redefine's future performance and prospects. While these statements represent our judgements and future expectations, a number of risks, uncertainties and other important factors could cause actual results to differ materially from our expectations. These include factors that could adversely affect our business and financial performance.

## Assurance

Redefine has adopted a combined assurance framework with the aim of integrating assurance, provided by internal and external assurance providers, on risk areas facing the group. Redefine utilises the five lines of assurance approach to co-ordinate and optimise our risk and assurance efforts. Combined assurance includes executive and senior management monitoring and oversight, internal audit and external assurance providers, as well as board and the relevant committees' oversights (refer to our ESG report).

## Board responsibility statement

Redefine's board of directors acknowledges its responsibility to ensure the integrity of the integrated report. The board has accordingly applied its collective mind and, in its opinion, this integrated report addresses all material matters, offers a balanced view of its strategy, and how it relates to the organisation's ability to create value in the short, medium and long term. The report adequately addresses the use of, and effects on, the capitals and the manner in which the availability of these capitals is impacting on Redefine's strategy and business model. We, as the board, believe that this report has been prepared in accordance with the International Integrated Reporting <IR> Framework.

**Marc Wainer**
Executive chairman

**Bridgitte Mathews**
Deputy chairperson & lead independant non-executive director

**Andrew König**
Chief executive officer

**Bernie Nackan**
Independent non-executive director

**David Nathan**
Independent non-executive director

**Harish Mehta**
Non-executive director

**Leon Kok**
Financial director

**Marius Barkhuysen**
Independent non-executive director

**Ntombi Langa-Royds**
Independent non-executive director

**Phumzile Langeni**
Independent non-executive director

## Our integrated reporting boundary

Risks and opportunities arising from our **operating context**
See page 12

Risks and opportunities arising from our **property investments**
See page 18

### Financial reporting boundary

Redefine Properties Limited

Joint ventures and jointly controlled assets

Investment in associates over which Redefine has significant influence

Subsidiaries

Risks and opportunities arising from our **stakeholder engagement**
See page 16

# Who we are

**Our VISION** is to be the best South African REIT.

**Our MISSION** is to create sustained value for all our stakeholders.

**Our primary GOAL** is to grow and improve cash flow.

## Our values

Our values-driven culture guides our daily behaviours and actions to create and uphold our brand promise.

- Challenge the norm
- Make it happen
- Respect personal relationships
- Oneness
- Mean it

## What sets us apart

**We're not landlords. We're people.**

Property is our commodity, but people are our business. We believe it is our unique and focused approach to relationships that enables us to create and sustain meaningful value for our stakeholders.

...

## What matters most

We execute our strategic objectives in an integrated manner, by focusing on what matters most.

- Operate efficiently
- Invest strategically
- Optimise capital
- Engage talent
- Grow reputation

# Sustaining value

## How we deliver sustained value

We want to be the best, not necessarily the biggest, South African REIT. For us, value encompasses more than profitability or size. Our strategy is centred around people and this is communicated through our tagline: **"We're not landlords. We're people."** Relationships are central to who we are and what we want to achieve.

We create **SUSTAINED value** for all our stakeholders, by placing people at the heart of what we do.

**Value for Redefine, therefore, means to achieve our stakeholder goals – distributing sustained value to each of these groups over the long term.**

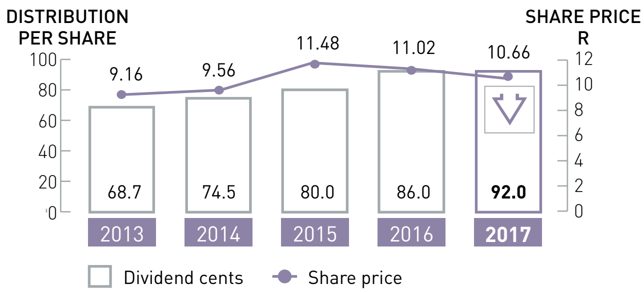
i Refer to page 28 on the value delivered to our stakeholders, and our definition of value for each

## How we deliver value to our key stakeholders

### Investors & Funders

**Source of sustained growth in total returns**

TOTAL RETURN TO SHAREHOLDERS



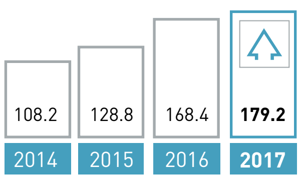

Full year distribution **up 7.0% to 92 cents**

Re-packaged investor **value proposition & increased communication** channels

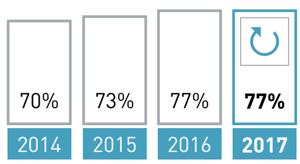
### Employees

**Employer of Choice**

ANNUAL EMPLOYEE REMUNERATION (Rm)




EMPLOYEE ENGAGEMENT SCORE




**36 947** man hours spent on training and development

**Employee engagement programme** include communications and other activities

**Employee value proposition** re-positioned and communicated

## Tenants

**Provider of relevant space**

Development of a **tenant engagement strategy** including a tenant experience programme

**Internalised retail marketing resources** that drives tenant communication and activities to attract shoppers

**4 398 121 m²** of quality spaces (GLA)

Over **R20 billion** of tenant turnover in retail spaces

**43 Green Star** rated buildings

## Brokers & Suppliers

**Preferred business partner**

**National database of over 300 brokers** actively engaged with Redefine

**89%** of Redefine's procurement spend contributed towards empowering suppliers

Pro-active **broker engagement programme**

## Communities

**Responsible community participant**

**Contributed R3.8 million** in the form of corporate social investment activities

Created **943 mentorship** hours available to future stakeholders through ***The Mentorship Challenge***

**Revised community engagement strategy** to ensure impactful and meaningful contributions to the communities in which we operate

**Level 4** Black Economic Empowerment **(BEE)** rating under revised sector codes

Value distributed | Positive | Negative | In progress/ongoing


# ESSENTIAL READS

To create sustained value for our stakeholders we understand that it's not about what we do – it's a matter of being different at what we do.

2017

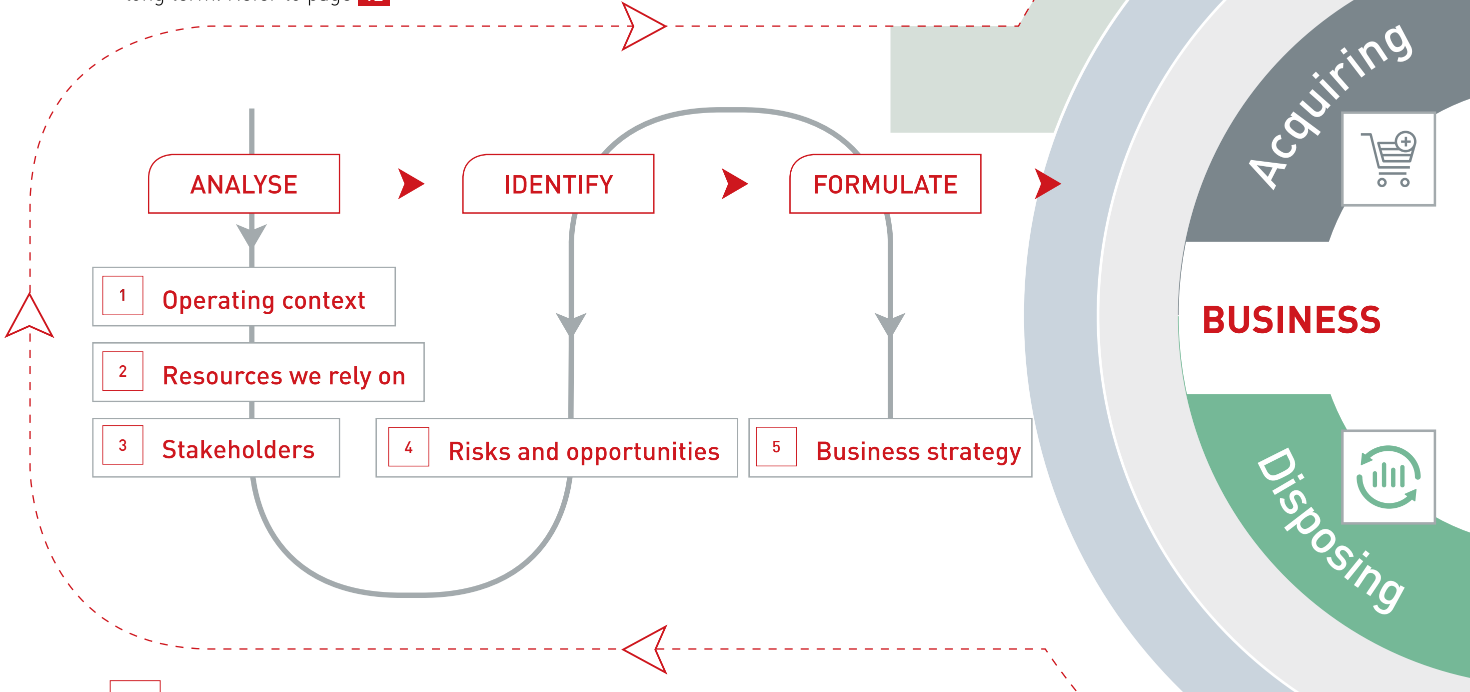
Kyalami Corner, Kyalami

# Our value creation story

**Our value creation story demonstrates the relationship between the various elements involved in achieving our stakeholder goals. By gaining an in-depth understanding of all the factors that impact our ability to create sustainable value for our stakeholders, we're better able to plan and adjust our business in a constantly changing environment filled with challenges to overcome and opportunities to exploit.**

## 1 Operating context

We analyse our operating context: global, local and property-specific, to determine which risks and opportunities have the greatest impact on our ability to create value in the short, medium and long term. Refer to page 12




## 2 Resources we rely on

### Financial capital

We invest the financial capital received from our equity investors to deliver capital appreciation on their investments, as well as income in the form of distributions. We also obtain financial capital from various debt funders, which we return to them in the form of interest and loan repayments. Refer to page 54

### Manufactured capital

We actively manage our manufactured capital to generate cash flow from rental and property-related activities, which translates into capital appreciation. Refer to page 60

### Human capital

The knowledge, skill, attitude and innovation of our employees enable us to realise our vision to be the best (but not necessarily the biggest) South African REIT. Refer to page 86

### Social and relationship capital

Collaborative stakeholder engagement makes our day-to-day operations more effective, ensuring we remain socially relevant in the communities where we operate. Refer to page 92

### Intellectual capital

Our values-driven culture and organisational knowledge-based intangible assets are critical to our ability to sustain and grow the business. Refer to page 98

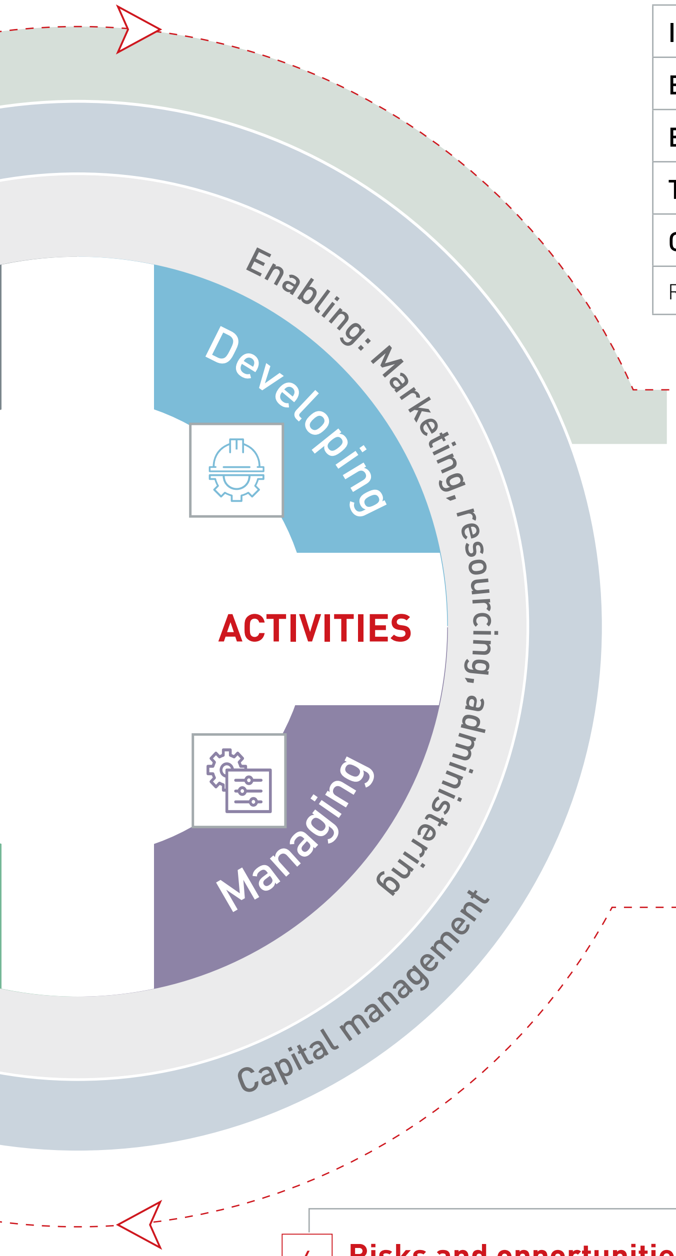
### Natural capital

Our business actions, namely developing, operating, occupying and redeveloping buildings, are dependent on natural capital. Refer to page 104

## 6 Value creation

**Key stakeholder goals:**

| | |
|---|---|
| Investors & Funders | Source of sustained growth in total returns |
| Employees | Employer of choice |
| Brokers & Suppliers | Provider of relevant space |
| Tenants | Preferred business partner |
| Communities | Responsible community participant |
| Refer to page 28 | |




6 VALUE CREATION

## 5 Business strategy: What matters most

We have prioritised our risks and opportunities to determine which matters are most material to our ability to create sustained value in the short, medium and long term. As such, we have identified five strategic matters that enable an integrated approach to the creation of sustained value for all our stakeholders:

- Operate efficiently
- Invest strategically
- Optimise capital
- Engage talent
- Grow reputation

Our performance is measured against what matters most by using relevant key performance indicators (KPIs). Refer to page 22

## 4 Risks and opportunities

Examining our capabilities to respond to the risks and opportunities identified in our operating context, resources and our stakeholder relationships, enables us to determine our strategic approach. Refer to page 18

## 3 Stakeholders

We believe that our relationships with people are our strategic differentiator.

The quality of relationships and the issues raised by stakeholders inform the assessment of our top risks and opportunities. Refer to page 16

# Business model: Our activities and their impacts

**We carefully manage our inputs, that is the resources we rely on, in order to carry out our day-to-day business activities. In this way, we deliver outputs and outcomes that lead to long-term value creation. Beyond this, we seek to actively manage our business model to ensure we enhance the positive and minimise the negative outcomes of our business, sustaining value for all our stakeholders.**

## Resources we rely on

### FINANCIAL CAPITAL

- Solid credit metrics
- Redefine is a liquid JSE counter
- High level of fixed debt

### MANUFACTURED CAPITAL

- A diversified property asset platform with a value of R84.1 billion, comprising local and international property investments

### HUMAN CAPITAL

- Stable and highly engaged workforce
- Strong brand alignment
- 424 skilled property and financial professionals, up 13% from 2016

### SOCIAL AND RELATIONSHIP CAPITAL

- Integrated stakeholder engagement strategy being formulated and implemented
- Board gender and diversity policy
- Board succession planning

### INTELLECTUAL CAPITAL

- Values-driven culture
- Systems that enhance the management of our property portfolio
- Nimble operating model

### NATURAL CAPITAL

- Renewable and non-renewable energy sources
- Land under management
- Water sources

## Activities

Our business activities are all geared to ensure our ability to secure long-term leases with blue-chip tenants to provide sustained value creation for all our stakeholders.

### CAPITAL MANAGEMENT

We have a disciplined approach to capital management. We evaluate the prospective returns of each option to inform our allocation of capital. Underpinning our business activities are the choices we make with regards to how we **source, deploy, manage** and, at times, **recycle** our financial capital in line with our investment strategy, to generate sustained value for our stakeholders.

### MANAGING

We actively manage our diversified portfolio to enhance efficiency and maximise returns.

### ACQUIRING

Our strategy is to grow and improve the quality of our core portfolio by acquiring buildings, wherever possible, with triple net leases to blue-chip tenants who offer secure cash flows and negligible vacancy rates.

### DEVELOPING

Driven by demand and opportunity, we develop innovative, operationally efficient and cost-effective buildings and redevelop existing properties to realise further value.

### DISPOSING

We sell secondary assets to recycle the capital into opportunities that have better long-term capital growth prospects once all other alternative uses for the property have been exhausted.

### ENABLING

The activities that grow the value of our property portfolio, namely managing, disposing, acquiring and developing, are underpinned by shared services that enable the business to perform these functions in a manner that creates value over the short, medium and long term.

## Primary outputs

QUALITY REAL ESTATE INVESTMENTS, EMBEDDED IN SOCIETY, THAT DELIVER SUSTAINED CASHFLOW

i Refer to page 26 for a discussion on the trade-offs that influence value creation over time

| Outcomes | Managing our positive and negative outcomes |
|---|---|
| See page 54 **FINANCIAL CAPITAL**<br>+ Raised **R7.1 billion** in debt<br>+ Raised **R6.5 billion** in capital<br>- Paid **R2.6 billion** in interest<br>- Distributed **R4.4 billion** in dividends | → Restructured of expensive debt<br>→ Leveraged offshore holdings to reduce cost of debt<br>→ Recycled secondary assets to contain the loan-to-value (LTV) ratio<br>→ Competitive pricing and good demand in Debt Capital Markets (DCM) |
| See page 60 **MANUFACTURED CAPITAL**<br>+ Expanded property assets by **R11.4 billion** to **R84.1 billion**<br>+ Grew total assets to **R91.5 billion**, up **R11.7 billion**<br>- Disposed of 26 non-core properties, valued at **R1.7 billion** | → Remained opportunistic and invested where we believe the best market opportunities lie<br>→ Poland is a market that holds great promise for growth through acquisition, development and extensions – retail in particular<br>→ Continued to protect, expand and improve existing well-located local properties, mostly through development activity<br>→ Purpose-built student accommodation in Australia poses expansion opportunities |
| See page 86 **HUMAN CAPITAL**<br>+ Engagement capital score of **77%** (2016: 77%)<br>+ Invested over **R12 million** in training and development<br>+ **41 learnership** participants (2016: 27)<br>- Staff turnover up to **12.6%** (2016: 9%) | → Advanced learnership programme<br>→ Leveraged long-term incentive plan<br>→ Deepened accountability and performance management<br>→ Continued focus on transformation agenda |
| See page 92 **SOCIAL AND RELATIONSHIP CAPITAL**<br>- **BEE level 4** under the revised sector codes (down from 3)<br>+ **23.5%** of the company is black-owned<br>+ New developments contributed to job creation and community upliftment<br>- Employment equity and gender diversity among top management remained challenging | → Conducted stakeholder engagement surveys and continuously improve stakeholder engagement strategies<br>→ Implemented an integrated CSI strategy<br>→ Established a BEE committee to encourage sustainable and meaningful transformation |
| See page 98 **INTELLECTUAL CAPITAL**<br>+ Enhanced corporate governance structures<br>- Potential culture dilution due to the high rate of acquisitions and consolidations | → Continued to improve governance practices through implementation of best practice<br>→ Built on values-driven culture<br>→ Encouraged innovation and challenged the norm<br>→ Leveraged off our partners' expertise and specialist skills |
| See page 104 **NATURAL CAPITAL**<br>+ **3 793** smart meter installations<br>+ **43** Green Star-rated buildings<br>+ **2 289** tonnes of waste diverted from landfill<br>+ **10 330 333** KWh saved through optimisation and renewable projects<br>- Total emissions of **774 221** tonnes $CO_2e$ | → Pursued further renewable sources of energy<br>→ Reduced waste-to-landfill<br>→ Pursued a waste management footprint assessment<br>→ Optimised energy and water use<br>→ Pursued further Green Star ratings<br>→ Ensured sustainable practices awareness throughout the organisation |

+ Increase in capital - Decrease in capital

# Our operating context

## Where we invest

### POLAND

| | * | ** |
|---|---|---|
| Echo Polska Properties N.V. | 39.5% | R4.8bn |

### UNITED KINGDOM

| | * | ** |
|---|---|---|
| RDI REIT PLC | 29.5% | R3.9bn |
| International Hotel Properties Limited | 27.5% | R0.2bn |

### AFRICA

| | * | ** |
|---|---|---|
| Oando Wings Development Limited | 37.2% | R0.6bn |
| Grit Real Estate Income Group | 6.3% | R0.2bn |

* % Ownership ** Value of investment

Carried at fair value Equity accounted

For detailed disclosure of our investments, refer to AFS

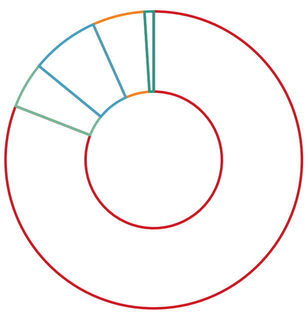
### SOUTH AFRICA

| | * | ** |
|---|---|---|
| Property portfolio | 100% | R64.0bn |
| Respublica | 51% | R1.0bn |
| Loans receivable | 100% | R3.1bn |

### AUSTRALIA

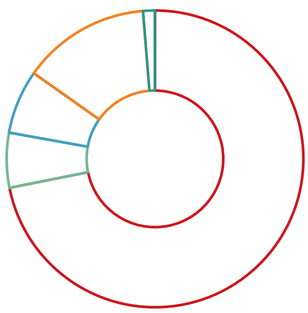
| | * | ** |
|---|---|---|
| Journal Student Accommodation Fund | 90.0% | R0.5bn |
| Northpoint | 50.0% | R0.9bn |
| Cromwell Property Group | 25.4% | R4.9bn |

### GEOGRAPHIC CONTRIBUTION TO PROPERTY ASSETS



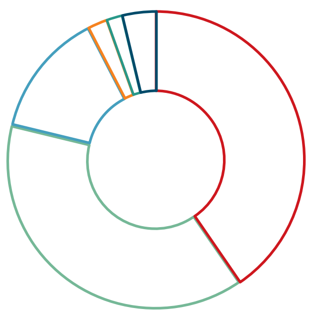
| | |
|---|---|
| Local | 81% |
| UK | 5% |
| Australia | 7% |
| Poland | 6% |
| Africa | 1% |

### GEOGRAPHIC CONTRIBUTION TO DISTRIBUTABLE INCOME



| | |
|---|---|
| Local | 72% |
| UK | 6% |
| Australia | 7% |
| Poland | 14% |
| Africa | 1% |

### GROUP ASSETS BY SECTOR



| | |
|---|---|
| Retail | 40% |
| Office | 38% |
| Industrial | 14% |
| Student accommodation | 2% |
| Hotel | 2% |
| Specialised and loans | 4% |

# Factors to consider in our chosen markets

## Our global context

| Positive factors | Negative factors |
|---|---|
| → Local partners aligned to our interests<br>→ Reducing imbalances in many emerging markets, leading to a growing middle class<br>→ Growth in selected markets<br>→ Continuing monetary easing in Europe leading to low cost of funding<br>→ Ease of doing business continues to improve as a result of globalisation | → Growing competition for capital<br>→ Ongoing global financial market volatility<br>→ Tepid economic growth as a consequence of Brexit<br>→ Social instability and terrorism<br>→ Populist liberal governments pose tax risks<br>→ Intense globalised competition<br>→ Onerous regulatory environment |

### OUR RESPONSE

- Diversify geographically through exposure to stable macroeconomic fundamentals and hard currencies
- Exploit positive initial income yield spreads
- Invest in value-add opportunities, offering development and asset management potential, to counter low organic growth
- Hedge international income to improve visibility of income
- Manage balance sheet risk through gearing offshore assets with in-country funding

## South African context

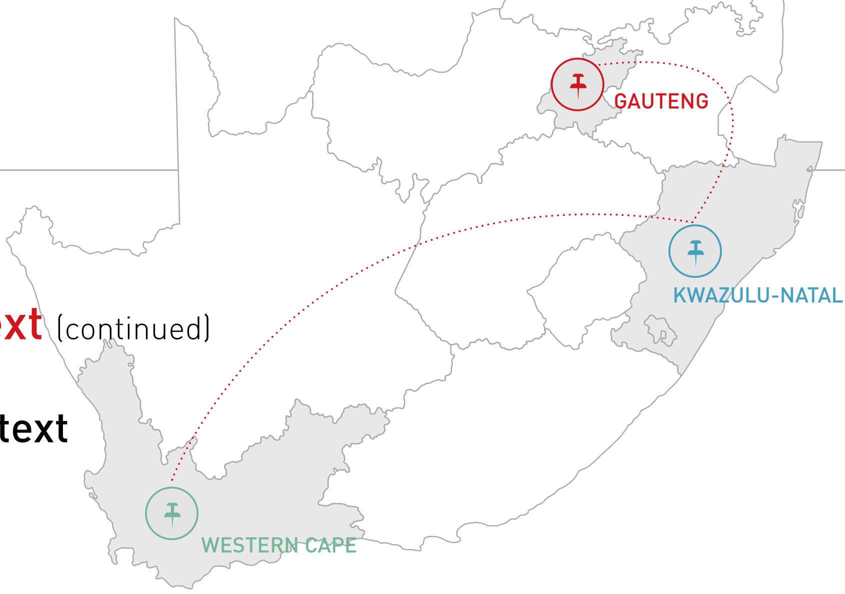
| Positive factors | Negative factors |
|---|---|
| → Increasing liquidity in capital markets<br>→ Emerging alternative real estate asset classes<br>→ International retailers looking to expand locally<br>→ Improving financial viability of investing in renewable sources of electricity as solar photovoltaic (PV)<br>→ Growing demand for student housing<br>→ Non-GLA income opportunities<br>→ Positive market response to ANC elective conference | → Weak economic growth<br>→ Subdued business and consumer confidence<br>→ Scarcity of skilled staff<br>→ Policy uncertainty<br>→ Risk of further credit downgrades<br>→ Competition for capital intensifying |

### OUR RESPONSE

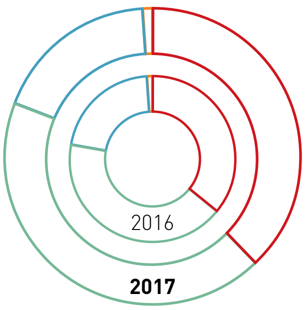
- Focus on redevelopments to improve, protect and expand existing properties in well-located areas
- Convert existing secondary properties for alternative uses such as student accommodation
- Engender a culture of excellence through training
- Develop to expand in under-represented defensive asset categories
- Diversify geographically and sectorally
- Recycle secondary assets that no longer meet Redefine's investment criteria
- Intensify balance sheet management
- Extend brand promise to all stakeholders

# Our operating context (continued)

## Our South African context

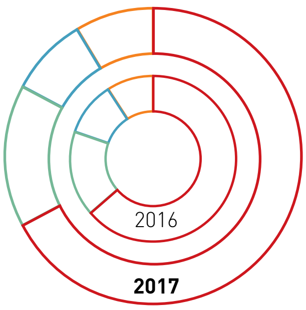



### SECTORAL SPREAD BY VALUE



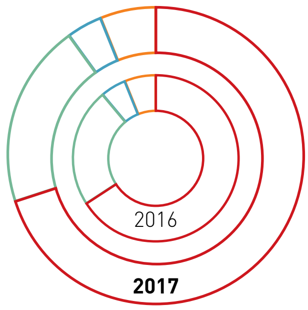

| | VALUE (%) 2017 | 2016 |
|---|---|---|
| Office | **38** | 36 |
| Retail | **43** | 42 |
| Industrial | **18** | 21 |
| Specialised | **1** | 1 |

### GEOGRAPHICAL SPREAD BY NUMBER OF PROPERTIES

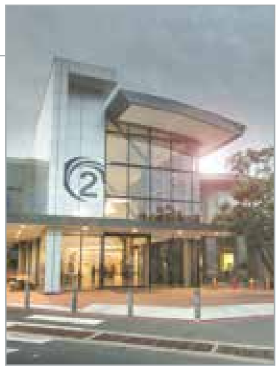



| | NO. PROPERTIES 2017 | 2016 |
|---|---|---|
| Gauteng | **220** | 199 |
| Western Cape | **51** | 52 |
| KwaZulu-Natal | **28** | 33 |
| Other | **28** | 28 |
| **Grand Total** | **327** | 312 |

### GEOGRAPHIC SPREAD BY VALUE




| | VALUE (%) 2017 | 2016 |
|---|---|---|
| Gauteng | **70** | 66 |
| Western Cape | **20** | 23 |
| KwaZulu-Natal | **4** | 5 |
| Other | **6** | 6 |



### RETAIL TRENDS

**The battle for market share continues to intensify**

- Growing battle for market share due to low household consumption and increasing retail supply
- This battle for market share is between centre formats, merchandise categories and between tenants
- Potential for greater competition
- Challenging lease renewals, with larger tenants downscaling significantly
- Increasing security threats
- Trading densities across the South African retail landscape are showing negative real growth
- Growing signs of polarisation in shoppers – choosing convenience and one-stop shopping
- Decreasing frequency of shopper visits, but increased spending per visit
- Spending has shifted from big-ticket items and apparel to the things people need

### OUR RESPONSE

- Ensure relevance by optimising tenant mix and centre design
- Differentiate experience by focusing on the basics – convenience, safety, cleanliness, tenant mix and parking
- Market strategically within each catchment area to maintain retail spend (market share)
- Embrace online shopping trends to improve relevance and communication channels
- Manage trading density growth, occupancy costs and vacancies through space optimisation and tenant mix

## OFFICE TRENDS

### Oversupply in the market

- Remains a tenants' market with rentals generally moving sideways
- Demand for high-quality space in prime nodes remains healthy
- Downsizing of space, flexi-hours and hot-desking fuelling reduction in requirements
- Users demanding well-located, modern and efficient facilities
- Flexible lease terms and co-working environments are becoming the new normal
- Growing trend of third-party tenant representation among the larger corporates

### OUR RESPONSE

- Focus on tenant retention
- Rejuvenate office premises constantly to ensure that they remain relevant to users' needs
- Adopt a forward-looking approach in preparing for challenging future lease negotiations
- Increase focus on tenant and broker relationships, as well as tenant experience management
- Improve operational sustainability through facilities and utility management interventions
- Increase the number of Green Star-rated buildings

## INDUSTRIAL TRENDS

### Defensive but price-sensitive

- Ongoing need for efficiency and accessibility continues to drive demand
- Contracting in manufacturing sectors such as the textile industry
- Increasing power demand on new sites
- Differing tenant profiles based on the regions in which they operate
- Tenants demand improved design, latest technology and space capabilities
- Increasing demand for volatility in the commodity and retail supply chain sectors affects lease terms
- Rental growth on shorter leases remains lean while retention has been good

### OUR RESPONSE

- Focus on logistics and warehousing
- Implement an improvement roadmap on buildings to enhance tenant retention
- Improve facilities to retain tenant occupancy
- Substantial development-land-bank in key nodes will present opportunities to satisfy demand

# Stakeholder relationships

**We believe that good quality relationships with all our stakeholders support our ability to create value. By establishing good lines of communication with our various stakeholders and maintaining a constructive relationship with them, we enhance our business sustainability by being better able to identify and address risks and opportunities. We identified our key stakeholders in order to engage with them in the most effective manner. Refer to ESG report for a detailed list of our stakeholders, their concerns and our response.**

**GAUGING THE QUALITY OF THE RELATIONSHIP**

This scale represents our internal assessment of the quality of our relationships

| | |
|---|---|
| ★☆☆☆☆ | **1.** No existing relationship |
| ★★☆☆☆ | **2.** Relationship established but much work to be done to improve quality of relationship |
| ★★★☆☆ | **3.** Relationship established, value-generating connection, but still room for improvement |
| ★★★★☆ | **4.** Good-quality, mutually beneficial relationship, with some room for improvement |
| ★★★★★ | **5.** Strong relationship of mutual benefit |

**MEASURING THE IMPACT OF RELATIONSHIPS:** In order to formulate meaningful engagement strategies with our stakeholders, we have identified our material stakeholder groups according to their levels of influence on us, our impact on them, and the level to which we collaborate, involve or consult with them.

COLLABORATE INVOLVE CONSULT

Refer to page 93 and ESG for more details on our approach to stakeholder engagement

## Investors & Funders ★★★☆☆

### Source of sustained growth in total returns

**ISSUES RAISED**

- Clarity on Redefine's offshore strategy
- Transparency on Redefine's transformation strategy
- Independence of the board
- Concern around the role of the executive chairman
- Clarity on the investment case and value proposition

**OUR STRATEGIC RESPONSE**

To ensure investors and analysts are exposed to and given an opportunity to engage with the investment proposition, our communications plan for 2017/2018 includes specific themes that underpin the value proposition and delivery on our promise, as well as other topical issues that were highlighted in the perception survey.

We have restructured the board to improve governance.

**KEY RISK/OPPORTUNITY IDENTIFIED**

**Risk**

- Lack of investor confidence

**Opportunity**

By clearly communicating our strategy and demonstrating consistent delivery on this, we build confidence in our leadership and further investment interest in Redefine.

## Employees ★★★★☆

### Employer of choice

**ISSUES RAISED**

- Perceived lack of communication
- Long-term incentive (LTI) schemes
- Transformation
- Career development plans and growth opportunities

**OUR STRATEGIC RESPONSE**

We enhanced communication during 2017 through our extensive employee engagement programme. This programme focused on clearly communicating our employee value proposition (EVP) with regard to strategy and performance, culture and sustainability, training and development and rewards and recognition.

**KEY RISK/OPPORTUNITY IDENTIFIED**

**Risk**

- Staff retention and attraction
- Slow pace of transformation
- Meeting the high expectations of our people-centric brand promise

**Opportunity**

Continuing to enhance our EVP and clearly communicating it to existing and potential employees enables us to attract and retain the best talent.

Enhanced change management programmes to ensure successful delivery on our tenant engagement programme at all touch points, is a key focus.

## Tenants ★★★☆☆

### Provider of relevant space

**ISSUES RAISED**

- Inconsistent service levels throughout the tenant lifecycle
- Utility supply interruptions
- Increased costs of occupation

**OUR STRATEGIC RESPONSE**

We continue to improve our product offering to remain competitive, focusing on greening our buildings to assist with supply interruptions. Enhancing our relationships with tenants through consistent service delivery, remains a key focus.

**KEY RISK/OPPORTUNITY IDENTIFIED**

**Risk**

- Provide spaces that keep up with the latest trends

**Opportunity**

Understanding and adapting to disruptive and innovative technology that may impact on tenants' needs.

## Property brokers & Suppliers ★★★★☆

### Prefered business partner

**ISSUES RAISED**

- Information supply and response times
- Late payments
- Lack of time to conclude contracts and agreements

**OUR STRATEGIC RESPONSE**

We are focused on enhancing our operational efficiency and fine-tuning our structures to build strong relationships with our brokers and suppliers. We understand, however, that in optimising costs there are relational trade-offs that need to be carefully managed.

**KEY RISK/OPPORTUNITY IDENTIFIED**

**Risk**

- Loss of potential tenants due to breakdown of relationships with brokers
- Inability to deliver on our brand promise if suppliers are not aligned to our values

**Opportunity**

By improving our internal processes, we can enhance our broker and supplier relationships and deliver on our brand promise.

## Communities ★★★☆☆

### Responsible community participant

**ISSUES RAISED**

- Commitment to make a positive impact on the communities in which we operate

**OUR STRATEGIC RESPONSE**

We strive to continuously review and improve our corporate social investment (CSI) strategy. A more integrated approach has been taken to engage with the communities in which we operate and to manage impact. We also seek development opportunities in under-resourced areas.

**KEY RISK/OPPORTUNITY IDENTIFIED**

**Risk**

- Reputational risk to our brand if communities don't believe we are committed to them

**Opportunity**

We seek to add value to the communities surrounding our buildings through carefully planned developments that enhance our surrounds. These benefits include job creation during development and the day-to-day operations of the buildings and that of our tenants, offering the correct tenant mix that adds to a community lifestyle and through localised corporate social investment.

# Top-of-mind risks and opportunities

## What does risk and opportunity mean to Redefine?

It revolves around our ability to create sustained value to our stakeholders. **A risk** is expected to negatively impact, and an **opportunity** is expected to positively impact our ability to deliver sustained value to our stakeholders.

Our risk management processes incorporate our strategy, governance, compliance and performance processes. For us, risk management involves achieving an appropriate balance between realising opportunities for gain while minimising the adverse impacts of these risks.

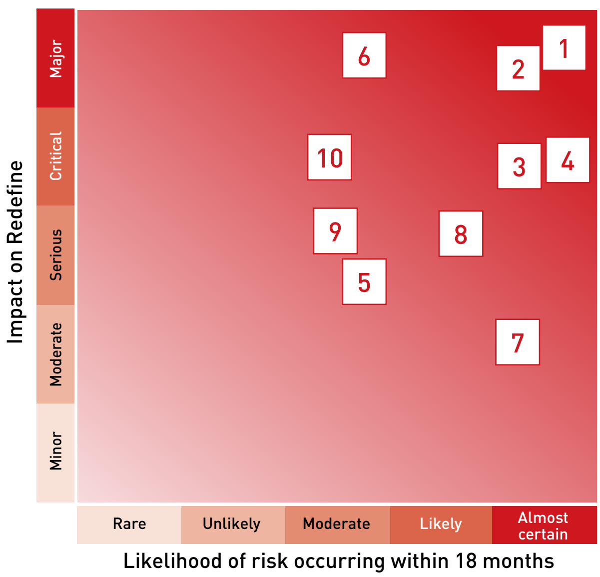
Risk is carefully managed across the organisation to effectively and proactively identify, assess, quantify and mitigate risk events while capitalising on opportunities, providing our stakeholders with reasonable assurance that our strategic objectives will be achieved.

### RISK ACTIVITY AND RESPONSIBILITIES

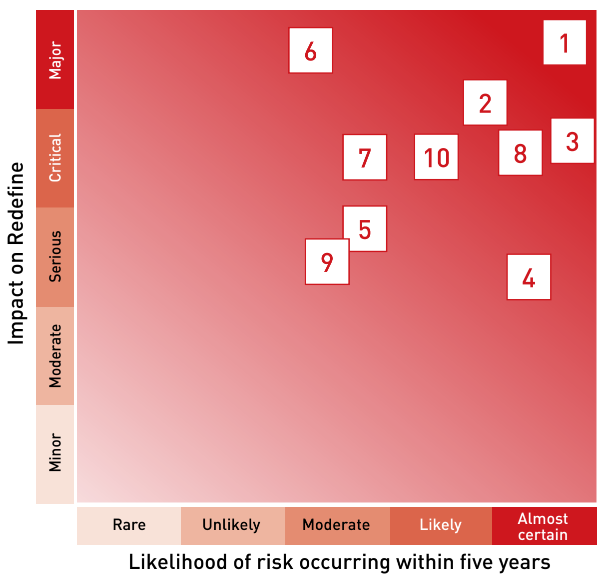
| | Risk governance | Risk assessment | Risk monitoring and reporting | Risk quantification | Risk assurance | Risk orientation & awareness | Risk response |
|---|---|---|---|---|---|---|---|
| Board of directors | ■ | ■ | ■ | | | | |
| Chairperson of the committees of the board | ■ | | ■ | | | | |
| Audit & risk committee | ■ | ■ | ■ | ■ | ■ | | |
| Coordinating risk function | ■ | | | | | | |
| Executive management | | ■ | ■ | ■ | ■ | ■ | ■ |
| Senior operational management | | ■ | ■ | ■ | | ■ | ■ |
| Internal audit | | | | | ■ | | |

As part of the risk assessment process, risks are assessed over the short, medium and long term. The heatmaps below provide an overview of the assessment of Redefine's top 10 strategic risks, with the strategic risks considered from an inherent risk perspective (before considering mitigating efforts) and from:

AN 18-MONTH TIME HORIZON




A FIVE-YEAR TIME HORIZON



| Root causes | Implications for value creation | Mitigating actions and opportunities | Focus* | Capital** | Outlook |
|---|---|---|---|---|---|
| **1 Uncertainty and impact from potential further sovereign credit downgrades** | | | | | **No movement (2016: 1)** |
| → Political uncertainty<br>→ Poor growth outlook<br>→ Rising government debt<br>→ Current account deficit<br>→ Inflationary pressures<br>→ Rising interest rates | Credit rating downgrades result in decreased availability and increased cost of capital as financial institutions need to hold more money in reserve. This makes it more difficult to obtain credit, and the credit that is granted comes at a higher cost, impacting on our ability to fund new acquisitions and developments | → Appropriate diversification of foreign and local assets<br>→ Diversification of funding sources<br>→ Hedging of funding<br>→ Income hedging policy in place<br>→ Spreading debt maturity profile<br>→ Geographical diversification | | | Addressing the underlying causes of the downgrades will be a complicated socio-political process. That said, we have adjusted our strategic approach to cope with prolonged difficulties in the economy, and continue to diversify appropriately. |
| **2 Prolonged sluggish or negative economic growth** | | | | | **No movement (2016: 2)** |
| → High inflation<br>→ Political uncertainty<br>→ Slowdown in domestic economy<br>→ Electricity shortages<br>→ Weakening Rand<br>→ Rising interest rates<br>→ Government policy uncertainty<br>→ Low business and consumer confidence | Macro-environment weaknesses could reduce demand for space and increase the potential for tenant defaults, thereby undermining rental income levels<br><br>Pressure on expansion and growth | → Ensure appropriate tenant selection criteria for good-quality tenants, monitor tenant strength and effective credit management<br>→ Appropriate diversification of foreign and local assets<br>→ Increase focus on the development of a sound defensive asset base<br>→ Enhance efficiency to maintain margins<br>→ Geographical diversification | | | We have adapted our strategic approach to cope with a prolonged slow growth and subdued confidence environment, focusing on efficiencies, differentiation and diversification. |
| **3 Impact of disruptive technologies (risk description broadened)** | | | | | **(2016: 9)** |
| → Changing tenant needs, usage of space, etc.<br>→ Change in appeal of property locations<br>→ Outdated energy-efficient buildings<br>→ Properties become aesthetically outdated<br>→ Unprecedented pace of change in technology and innovation<br>→ Disruption to tenants' business models affecting use of / demand of space | Digital platforms, the internet and solid media will reduce barriers<br><br>The collaborative economy will impact on the need for short-term space<br><br>In time, driverless cars will be commercialised – we already have Uber<br><br>Retail is being reshaped by online shopping<br><br>Logistics will be reshaped by online shopping and delivery methods such as drones | Disruption underpins the need to change how we harness technology – we will therefore be looking at various adaptations to the way we do business, including:<br>→ Online and virtual reality leasing<br>→ Flexible leasing approach<br>→ Sizing of stores and malls<br>→ Alternative use of potentially excess parking – retail and offices<br>→ Embrace rise of online shopping to improve relevance<br>→ Adopt a digital approach to communication and use technology as a key offering, and to access shopper information<br>→ Adapt reputation management interventions to cope with social media | | | The rate of change of all businesses needs to keep pace with advances in technology and this area will receive increasing focus within our business in years to come. |
| **4 Financial market volatility (risk description broadened)** | | | | | **(2016: Outside top 10)** |
| → Political uncertainty<br>→ Inflationary pressures<br>→ Monetary policy<br>→ Weakening Rand<br>→ Global interest rates<br>→ Credit rating downgrading<br>→ Volatility of exchange rates | Reduced distributable earnings<br><br>Difficulty accessing further funding<br><br>Negative impact on property capitalisation rates | → Ensure hedging policy in place<br>→ Diversify funding sources<br>→ Spread debt maturity profile<br>→ Geographical diversification<br>→ Pro-active investor/funder relationship management | | | Volatility in financial markets is expected to continue, which forces us to focus on those variables under our control and to further embed our risk management practices in our daily decision-making. |

* Addressed through a focus on what matters most

** Capitals mostly impacted by related risk/opportunity

# Top-of-mind risks and opportunities (continued)

| Root causes | Implications for value creation | Mitigating actions and opportunities | Focus* | Capital** | Outlook |
|---|---|---|---|---|---|
| **5 Misalignment with international (in-country) partners (emerging risk)** | | | | | **(2016: -)** |
| → Changes in Redefine's strategic direction<br>→ Incongruent ethics and values<br>→ Changes in regulatory requirements in-country<br>→ Breakdown in relation with in-country management<br>→ Changes in in-country management | Value destruction<br><br>Harm to reputation<br><br>Failure to execute offshore strategies | → Ensure due diligence and partner selection<br>→ Ensure representation on the board<br>→ Strategic and economic alignment<br>→ Oversight and monitoring of business plans and strategy<br>→ Oversight of governance practices | | | We focus in maintaining a continuous alignment of interests with local partners through ongoing strategic support and involvement. |
| **6 Lack of sustainable growth in total return** | | | | | **(2016: 3)** |
| → Downgrading of Redefine's credit rating<br>→ Changes in tenant space demands and usage thereof<br>→ Extreme pressure to produce short-term financial returns<br>→ Sluggish or negative economic growth<br>→ Adverse currency fluctuations | Damage to our reputation and negative impact on our liquidity through a loss of shareholder confidence (share price deterioration)<br><br>Restricted access to funding, which would place pressure on expansion and growth | → Regularly forecast and monitor actual performance<br>→ Conservative hedging policies<br>→ Ongoing stakeholder engagement<br>→ Long-term asset management plans<br>→ Geographic diversification<br>→ External benchmarking of executive remuneration<br>→ Transparent reporting<br>→ Pipeline projects hedge risk | | | Our ability to deliver on sustainable growth in total return is enhanced by our relentless focus on what matters most. |
| **7 Inability to achieve transformation targets (risk description broadened)** | | | | | **(2016: 6)** |
| → Scarce skills impacts appropriate equity profile<br>→ Economically not feasible to comply with all aspects of the code<br>→ Challenging to monitor shareholding<br>→ Lack of policy direction from government<br>→ New BEE codes introduced | Direct impact on our ability to attract and retain tenants, in particular those tenants who require a landlord with a rating that will maintain or improve their own rating<br><br>Impacts on ability to compete on development bids and leases as a result of impact on reputation (in particular professional firms as tenants)<br><br>Potential to negatively impact on relevance | → Implement and monitor of the BEE compliance strategy, while keeping abreast of any changes in the legislation and scorecard<br>→ BEE committee established to continuously assess and drive areas of improvement<br>→ Established the Redefine Empowerment Trust to maintain empowerment credentials | | | We remain focused on increasing the number of employees from designated groups and continue to proactively seek and develop the right candidates – those candidates who best support our overall business objectives.<br><br>We support the principles of diversity and practise equality of opportunity among all our employees, and we have adopted a board diversity policy to ensure that, over time, we promote gender diversity among senior management. |

| Root causes | Implications for value creation | Mitigating actions and opportunities | Focus* | Capital** | Outlook |
|---|---|---|---|---|---|
| **8 Increased competition for capital, tenants and assets** | | | | | **(2016: 5)** |
| → Lack of demand for new spaceing<br>→ Increasing supply of space<br>→ Increasing flows of investment capital to real estate<br>→ Lack of GDP growth<br>→ Increasing competition in listed real estate companies and foreign entrants<br>→ Dependence on renewal of rental contracts | Diminishing pool of acquisitions, which could increase the cost of property investments<br><br>Increased competition for tenants could increase vacancies and result in poorer rentals, resulting in reducing profitability and an inability to achieve our strategic objectives | → Growing our brand is a means of setting us apart, in an increasingly competitive marketplace.<br>→ Appropriate sector and geographical diversification of assets<br>→ Exploration of alternative asset classes | | | We will continue to actively manage the variables we can control and explore opportunities in order to differentiate ourselves in a competitive market. |
| **9 Failure to comply with local and international laws and regulations** | | | | | **(2016: 7)** |
| → Lack of awareness of existing and new legislation<br>→ Complexity and large volume of legislation<br>→ Lack of compliance culture<br>→ Economic pressures<br>→ Risk of human error<br>→ Geographic expansion into new markets, creating a need to understand the local regulatory requirements | The volume and increasing complexity of new and amended legislation that is being introduced in South Africa and internationally often requires the reallocation of financial and human resources to implement and address the legislation requirements. Not complying, however, could have the following consequences:<br>→ Possible loss of REIT status<br>→ Harm to reputation<br>→ Imposition of fines and penalties/sanctions<br>→ Loss of insurance cover or increased premiums | → Ensure better systems and processes and resources (through monitoring and oversight) are in place to assist in achieving compliance requirements, supported through education and training.<br>→ The implementation and monitoring of our compliance framework systematises compliance issues and reduces man-hours spent. | | | Compliance and risk management are no longer regarded as a governance obligation, but rather as a proactive value creation function that will underpin our sustainability. |
| **10 Utility supply failure** | | | | | **(2016: 8)** |
| → Utility suppliers have insufficient supply capacity<br>→ Poor maintenance by utility suppliers<br>→ Utility suppliers lack the appropriate skills<br>→ Natural causes (e.g. prolonged drought)<br>→ Inability of councils to deliver services<br>→ Deteriorating water supply and quality | Challenges experienced with electricity supply on tenants to run their businesses profitably<br><br>Increases on operating costs to supply essential utilities to our tenants | → Smart metering project roll-out<br>→ PV solar and backup generators<br>→ Enhancing relationships with local councils<br>→ Location of properties in well-serviced areas<br>→ Focus on building efficiencies to reduce consumption | | | We will continue to focus on decreasing our dependence on natural capital resources through the development and acquisition of more sustainable buildings to mitigate the risk of utility supply failure, as well as to enhance our brand and attract quality tenants who are willing to sign long-term leases for better performing buildings. |

* Addressed through a focus on what matters most

** Capitals mostly impacted by related risk/opportunity

i Refer to page 18 for an overview of the assessment of the strategic risks considered from an inherent risk perspective

# Our game plan:
# Advancing our integrated thinking

## Adapting our approach to sustained value creation in a slow growth, subdued confidence environment

| | |
|---|---|
| We are opportunistic and invest where we believe the best market opportunities lie | We have deepened our unique approach to relationships |
| Our focus is on real estate and related investments – not a particular sector | We will continue to protect, expand and improve existing well-located local properties, mostly through development activity |
| Our strategy is aligned to long-term trends and is tweaked for opportunities and risks | Our secondary assets are recycled to contain the LTV ratio |
| We continue to actively manage the variables we can control | Poland is a market that holds great promise for growth through acquisition, development and extensions – retail in particular |
| We uphold Redefine's values | Purpose-built student accommodation in Australia poses expansion opportunities |
| We maintain alignment throughout the business | We leverage off our holding in RDI REIT PLC and support them in corporate activities |

## Focusing on what matters most

### An integrated approach to making strategic choices

To sustain growth, we need to manage more than simply our finances and properties. We need to make strategic decisions that develop and preserve all our capitals – financial, manufactured, human, social and relationship, intellectual and natural.

# Scorecard by strategic matter

We measure our performance against what matters most, using relevant key performance indicators (KPIs) that are linked to our remuneration structures.

### Our primary long-term objective

To increase our total returns through improved cash flow and capital appreciation in order to deliver sustained growth.

| | |
|---|---|
| How we calculate our total return | **Total return** = distribution per share + net tangible asset value (NTAV) growth per share |
| How we measure up | **Total return:** 2017: 6.6% \| 2016: 12.9% R |

R Link to executive directors' remuneration

## OPERATE EFFICIENTLY

### Why it matters most

Operational efficiency is not only about cutting costs. It's about finding the best possible way to do what we do with the capitals at our disposal. In the current environment, we need to weatherproof our cash flow by focusing on the variables under our control.

Related risks (refer to pages 19 to 22) 1 3 4 5 6 7 8 9 10

**KPI: NOI margin** R

**Target: Greater than 80%**

### Five-year trend

| 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| 79.9% | 81.2% | 82.0% | 82.1% | 82.7% |

### Focus 2018

We've demonstrated our ability to adopt an approach of continuous improvement, as evidenced by the improvement in our NOI margin over the last five years. This will stand us in good stead as we expect a continuation of the tough leasing environment, which will constrain revenue growth. The focus for 2018 will therefore be to continue to drive innovation in the business to ensure that our cost base remains proportionate to our revenue growth and our business processes remain relevant in an ever-changing business environment.

R Link to executive directors' remuneration

## INVEST STRATEGICALLY

### Why it matters most

We are seasoned property and financial professionals. We use our combined years of experience to make strategic choices to selectively deploy the six capitals that create enduring benefit for our organisation, while creating value for our investors, tenants and all other stakeholders. This insight sets us apart and is material to our future success.

Related risks(refer to pages 19 to 22) 1 2 3 4 5 6 7 8 9 10

**KPI: NAV per share** R

**Target: NAV growth of greater than 5%**

### Five-year trend

| 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| | 12.0% | 6.0% | 2.1% | (3.1%) |
| 870.7 | 975.1 | 1 033.7 | 1 055.7 | 1 022.5 |

### Focus 2018

One blemish on our performance scorecard, this year, was the decrease in our net asset value by 33.2 cents per share (3.1%). This was largely caused by depreciation in the value of our unhedged foreign investments due to a stronger Rand against, principally, the Australian Dollar (AUD) and the British Pound (GBP) and subdued underlying performance from our investments in RDI REIT PLC and Cromwell. Unfortunately, our local asset platform's marginal value appreciation was not sufficient to counter this negative effect.

Our focus for 2018 will be to redress this decline through active asset management, conservative balance sheet management and carefully considered capital allocation.

R Link to executive directors' remuneration

Outcome: Positive | Negative | In progress

# Scorecard by strategic matter (continued)

## OPTIMISE CAPITAL

### Why it matters most

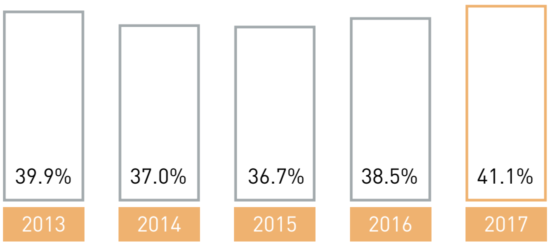
We need to have adequate funding available to deploy capital into the right property opportunities and meet operational requirements. Exposure to interest rate and currency volatility needs to be responsibly managed. We also need to ensure that our existing portfolio is optimally funded to increase our returns and ensure sustained and predictable growth. By optimising capital, we make the best use of scarce financial capital to create value for our stakeholders - liquidity trumps credit.

Related risks (refer to pages 19 to 22) 1 2 9 10

**KPI: LTV** R

**Target: Maintain LTV ratio of below 40%**

### Five-year trend




### Focus 2018

Our LTV, as at 31 August 2017 breached our long term comfort ceiling of 40% for the first time at 41.1%. This was principally caused by the depreciation of the value of our unhedged foreign investments, and the high LTV of the development-focused Pivotal fund acquisition.

Our immediate focus for 2018 will be to contain our LTV ratio through recycling of assets, funding local acquisitions with equity and conservative balance sheet management.

R Link to executive directors' remuneration

## ENGAGE TALENT

### Why it matters most

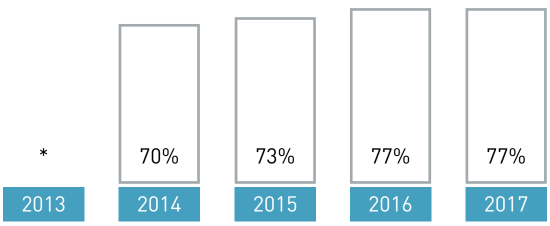
Recruiting and developing individuals who have the qualifications, know-how and people skills and are aligned to Redefine's human and relationship capital, necessary to support our people-centric business, is an ongoing challenge that we seek to address to continue our growth trajectory. Inspiring our human capital to go above and beyond the call of duty, through various programmes, ensures that we harness these capitals to their best potential to achieve our vision to be the best in all aspects of what we do.

Related risks (refer to pages 19 to 22) 1 3 9 10

**KPI: Engagement score** R

**Target: Maintain or improve previous year's engagement score**

### Five-year trend




### Focus 2018

We understand that there is nothing more powerful than our employees' passion and the initiative in our efforts to be the best in all aspects of what we do. We attempt to measure our level of employee engagement to ensure we create the right conditions for all people to give of their best each day, committed to our goals and values, motivated to contribute to organisational success and with an enhanced sense of their own wellbeing.

Our focus for 2018 will be to encourage a culture of innovation and deepen levels of accountability.

** Did not participate*

R Link to executive directors' remuneration

## GROW REPUTATION

### Why it matters most

Our brand is the essence of who we are and the glue that holds our business together. We differentiate ourselves through a dedicated people-centric approach to all aspects of what we do, focusing on excellence in the context of relationships. The strength of our brand is the key factor to differentiate our offering and secure our success in a market that is fiercely competitive.

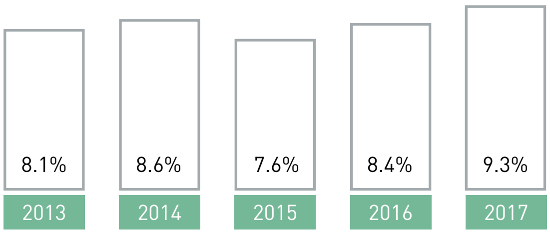
Growing our reputation in the execution of all aspects of what we do leverages off relationship capital.

Related risks (refer to pages 19 to 22) 1 3 4 7 8 9 10

KPI: **Forward yield** R

**Target: Distribution forward yield of equal or less than R186**

### Five-year trend




### Focus 2018

Our distribution forward yield ultimately reflects the market's rating of our ability to deliver sustained value in the form of growing distributions and capital growth. We benchmark ourselves against the government long bond yield. Our current rating of 9.3% represents a premium of approximately 20bps to the R186, which has a negative impact on our overall cost of capital. Our key focus area for 2018 will be to address this through a relentless focus on what matters most.

R Link to executive directors' remuneration

# Our trade-offs

## Unpacking the tough choices we made

We strive to allocate our capital and resources in the best possible way to create sustained value for all our stakeholders. Given the constrained and interconnected nature of the capitals we rely upon, we must make tough choices about where to allocate our resources to generate sustained value.

Our five strategic focus areas act as a compass, guiding our decision-making in an integrated manner, allowing us to focus on what matters most to optimise the outcomes of our strategic choices.

Below are some of the primary trade-offs made in 2017 and the rationale behind these decisions.

### BALANCING SHORT-TERM PERFORMANCE EXPECTATIONS AND LONG-TERM VALUE CREATION

#### Understanding the trade-off

Real estate is a long-term asset class. We need to make decisions today that will often only bear fruit in the future. Our single most significant trade-off is managing a long-term strategy against short-term stakeholder performance expectations.

At times, to ensure sustained value creation, we need to make decisions that are right for our property assets in the long term, but may have negative short-term consequences.

#### How this played out in 2017

Defensive spend on our properties is a short-term cost that can negatively impact our bottom line, but, if not undertaken, can render a building irrelevant in the medium to long-term. Investing in our buildings, particularity our retail centres, can however result in significant benefits for tenants and shoppers, including lower operating costs through green building elements that preserve natural capital, increasing our social and relationship capital and their financial capital, enabling sustained value creation for Redefine in the long term.

**R1 billion** invested in defensive spend during 2017

Refer to for more information

We seek to manage our impacts and trade-offs vigorously to improve the long-term outcomes of our activities for our business and meet the short-term expectations of our stakeholders.

#### Related capitals

#### Related strategic matters

### MANAGING WHERE WE ALLOCATE OUR FUNDING

#### Understanding the trade-off

Our ability to raise financial capital is critical to our business and determines our ability to expand our property asset base. However, we don't have an unlimited supply of funding, forcing us to make difficult choices about where and how to invest.

#### How this played out in 2017

Investing internationally offers secure income returns and more favourable funding costs. When we invest offshore, we strive to maximise gearing levels to take advantage of the lower funding costs and to also provide a natural Rand hedge, against the offshore assets. The impact of this decision is that we must then be far more conservative on our local gearing levels, limiting how much we can invest locally. This means possibly having to pass up favourable investments locally for international options.

**R1.4 billion** invested internationally, with **64%** funded internationally.

Refer to for more information

#### Related capitals

#### Related strategic matters

## BALANCING TENANT RETENTION AND PROFITABILITY

### Understanding the trade-off

Given the challenging macroeconomic context, there is significant pushback on local lease renewal and rental escalations from our tenants. Tenant retention and managing vacancies are crucial to our profitability and preserving cash flow. Our leases are long-term that escalate over time, offering a stable, growing source of income, which is critical to our business.

### How this played out in 2017

In the current environment, we are always balancing the tension between accepting lower rentals over vacancies. For several negotiations this year, we were faced with the question of whether we renew leases at lower rental rates or accept a higher vacancy risk whilst sourcing higher rental offers.

We engage fully with our current and future tenants and continuously review our risk appetite and controls to ensure we have a full understanding of any risk before carefully making any decision.

**Tenant retention remained above 80% in 2017, at 92.6%**

Refer to for more information

### Related capitals

### Related strategic matters

## MANAGING DISCRETIONARY SPEND TO ENSURE DISCRETIONARY EFFORT

### Understanding the trade-off

In challenging times, it can be easy to aggressively cut discretionary spend, bolstering profits in the short term, with potential negative long-term consequences.

### How this played out in 2017

Reducing our investment in our staff training, CSI and marketing may increase short-term profitability, but adversely impacts our employees' productivity, contribution and engagement, as well as our brand and reputation.

To manage this, we are continually reviewing our discretionary spend to ensure it works hard and is a targeted investment, thereby ensuring our stakeholders and our business receive the maximum benefit from this investment.

**R12 million** invested in training and development, up **71.4%** from 2016

**R36 million invested in marketing and related activities** (2016: R34 million)

Refer to for more information

### Related capitals

### Related strategic matters

## MANAGING ADMINISTERED COSTS

### Understanding the trade-off

Given the constant and uncontrollable hike in administered costs, reducing our buildings' natural capital consumption is a priority. While our investment in green technology lowers occupation costs and attracts quality tenants for the long term, the investment can be costly in the short term.

### How this played out in 2017

We believe that the long-term financial capital returns from our investments in solar PV and smart-metering and natural capital savings (from reduced electricity consumption) will add more value than what is detracted in the short term.

Total installed solar PV capacity now **7 807 kWp**

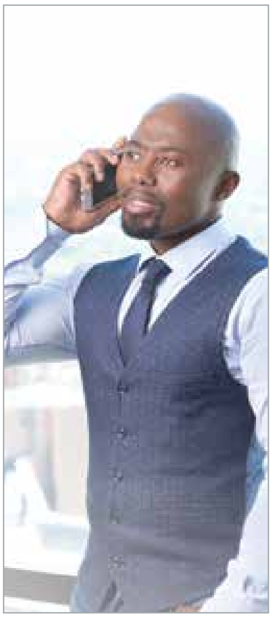
Refer to for more information

### Related capitals

### Related strategic matters

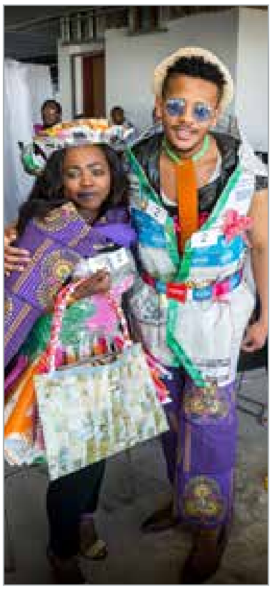
# Delivering sustained stakeholder value

Value for Redefine is about meeting our stakeholder goals. Due to the quality of our relationships and our extensive engagement strategies, we are able to prioritise what each of our key stakeholders value most, but also what value Redefine strives to achieve from each relationship in return.



## Investors & Funders

| Source of sustained growth in total returns | Value creation indicators* |
|---|---|
| **Value for Investors & Funders**<br>→ Solid investment case & understanding of the business strategy<br>→ Continued, sustained growth in capital and distributions<br>→ Assurance that business activities and decisions are aligned to strategy – creating sustained value<br>→ Assurance that sustainability & compliance to governance principles is considered and integrated into business strategy<br>→ Access to senior management to raise issues and concerns | → Total return to shareholders<br>→ Distribution growth<br>→ Perception management through engagement strategies |
| **Value for us**<br>→ Provision of capital<br>→ Liquidity of our shares<br>→ Fair rating of Redefine shares<br>→ Open dialogue in order to understand their concerns | |



## Employees

| Employer of Choice | Value creation indicators* |
|---|---|
| **Value for Employees**<br>→ A work-environment that provides sustainable income<br>→ Opportunities for learning, development and growth<br>→ Career growth prospects<br>→ The opportunity to make valuable contributions<br>→ Quality relationships | → Employee remuneration<br>→ Investment in training and development<br>→ Employee engagement score |
| **Value for us**<br>→ Delivery on our strategic goals and brand promise<br>→ Filling the skills gap: nurturing and developing future talent (developing skills within, as well as attracting and up-skilling new talent)<br>→ Addressing transformation issues<br>→ Engaged employees that make valuable contributions to deliver on business strategy | |

* *To ensure we distribute value to our stakeholders, we have identified the key indicators that measure both our financial, as well as non-financial value-creation goals.*

i Refer to page 4 about these indicators

## Tenants

### Provider of relevant space

#### Value for Tenants
- Quality spaces that deliver on business needs and keep up with the latest trends at market-related rentals
- Retail spaces that attract shoppers and create an environment for business growth
- Quality relationships and support in business operations
- Responsible, compliant business partner

#### Value for us
- Deliver superior offering that enhances our premises
- Tenant growth and timeous payment
- Participation in our efforts to promote and improve our buildings
- Positive partnerships and renewals of leases

#### Value creation indicators*
- GLA/Footprint
- Tenant turnover
- Green Star-rated buildings
- Tenant experience management
- Business initiatives that provide support to tenants


## Brokers & Suppliers

### Preferred business partner

#### Value for Brokers & Suppliers
- Spaces that deliver on their clients' needs and keep up with the latest trends at market-related rentals
- Opportunities and partnerships that assist in growing their business
- Responsible and compliant business partner

#### Value for us
- Primary focus and preference to let out Redefine spaces
- Attraction of quality tenants to promote and improve our buildings
- Delivering services aligned to Redefine's values and with a positive impact on brand and reputation

#### Value creation indicators*
- Broker engagement activities and programmes
- Procurement spend empowering suppliers

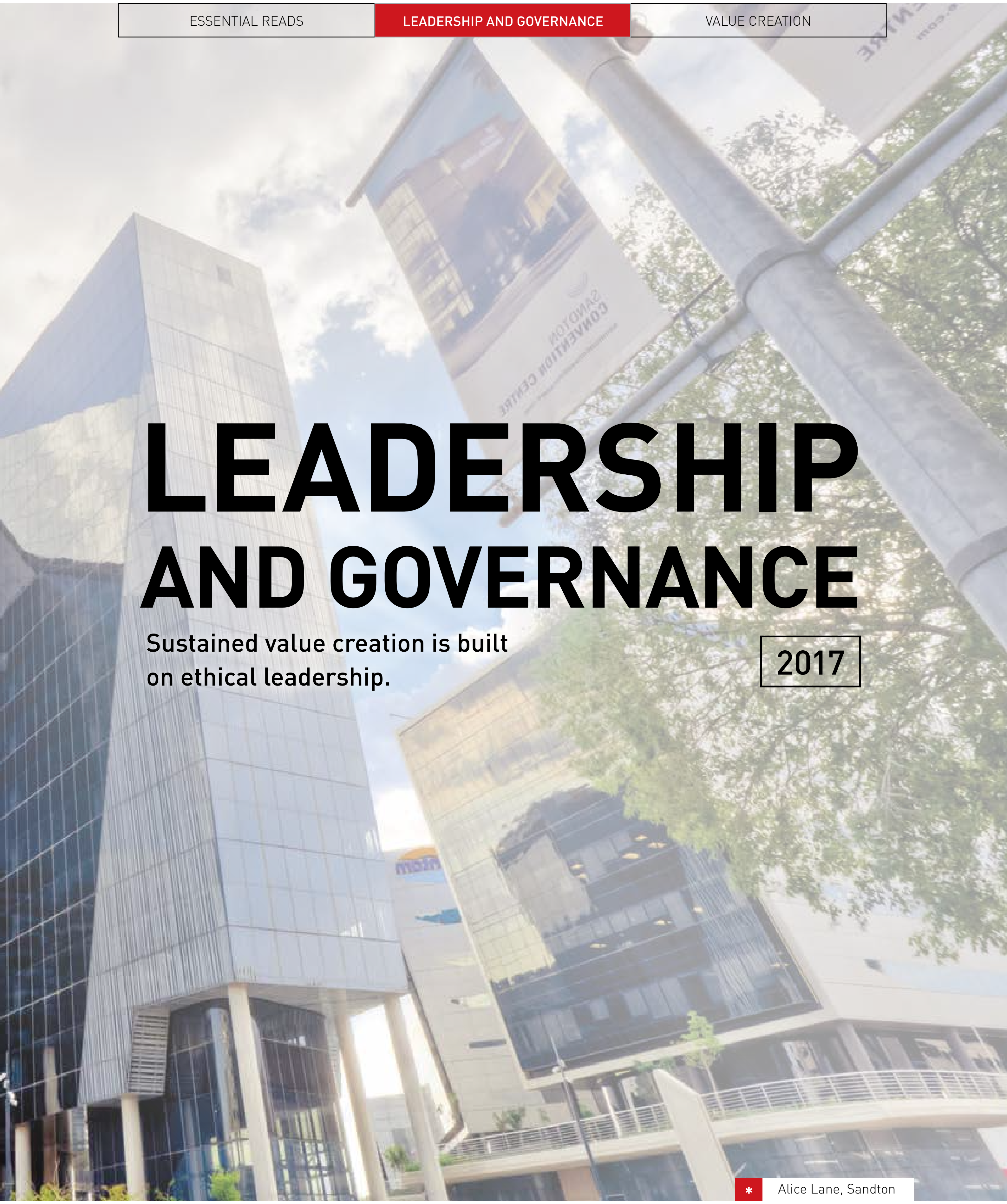
## Communities

### Responsible community participant

#### Value for Communities
- Improved environment around our spaces – including basic services (food, healthcare, security, sports facilities, education, etc)
- Employment and business opportunities
- Opportunities to resources and other exposure

#### Value for us
- Active contribution to improve environments and lives of communities around our spaces
- Attracting quality tenants with relevant, quality offerings suitable for the community
- Attracting employees for our tenants and creating career opportunities for communities around our spaces
- Creating a pool of future potential stakeholders: investors, tenants, shoppers and employees

#### Value creation indicators*
- CSI initiatives and spend
- Community engagement and improvement programmes
- BEE rating



# LEADERSHIP AND GOVERNANCE

Sustained value creation is built on ethical leadership.

2017

Alice Lane, Sandton

# Board of directors

The calibre and commitment of our leadership is key to achieving our strategic objectives. Our board is responsible to our stakeholders for setting Redefine's strategy.

### Marc Wainer (69)
**Executive chairman**
Appointed: 1999

### David Nathan (68)
**Independent non-executive director**
*CA(SA)*
Appointed: 2014

### Bridgitte Mathews (48)
**Deputy chairperson**
**Lead independent non-executive director**
*CA(SA), Hdip Tax*
Appointed: 2017

### Bernie Nackan (73)
**Independent non-executive director**
*BA Econ, SEP*
Appointed: 2009

### Andrew König (50)
**Chief executive officer**
*BCom, BAcc, CA(SA)*
Appointed: 2011

## Harish Mehta (67)
**Non-executive director**
*BSc, MBA*
Appointed: 2009

## Marius Barkhuysen (61)
**Independent non-executive director**
Appointed: 2015

## Leon Kok (46)
**Financial director**
*BCom, BCom Hons (Acc), CA(SA)*
Appointed: 2014

## Phumzile Langeni (43)
**Independent non-executive director**
*BCom, BCom Hons*
Appointed: 2015

## Ntombi Langa-Royds (55)
**Independent non-executive director**
*BA (Law), LLB*
Appointed: 2015

# Summarised corporate governance review

The board believes that good governance contributes to value creation in the short, medium and long term and improves the trust and confidence of the company's stakeholders. A summarised account of the work done by the board during the 2017 financial year follows and describes how the board has applied principles of good governance in order to enable and support the company's value creation process.

## Board of directors

| Designation | Other public company appointments | AR | REM | NOM | SET | INV |
|---|---|---|---|---|---|---|
| **L Kok** | | | | | | |
| **Financial director** | | | | | 🟥 | |
| **A König*** | | | | | | |
| **Chief executive officer** | Cromwell Property Group (Australia); Echo Polska Properties N.V. (Netherlands); ; RDI REIT PLC (UK); (alternate director to M Wainer) | | | | | 🟥 |
| **M Wainer** | | | | | | |
| **Executive chairman** | Cromwell Property Group (Australia); Echo Polska Properties N.V. (Netherlands); RDI REIT PLC (UK) | | | | | 🟥 |
| **M Barkhuysen** | | | | | | |
| **Independent non-executive director** | | | | | | 🟥 |
| **N Langa-Royds** | | | | | | |
| **Independent non-executive director** | Kumba Iron Ore Limited; Mpact Limited; Murray & Roberts Holdings Limited | | | | ⬛ | |
| **P Langeni*** | | | | | | |
| **Independent non-executive director** | Astrapak Limited; Imperial Holdings Limited; Massmart Holdings Limited; Metrofile Holdings Limited; Transaction Capital Limited | ⬛ | | | | |
| **B Mathews** | | | | | | |
| **Deputy chairperson and lead independent non-executive director** | Africum Limited; OneLogix Group Limited; PSG Financial Services Limited; PSG Group Limited | | ⬛ | 🟥 | | |
| **H Mehta** | | | | | | |
| **Non-executive director** | The Spar Group Limited; Tiso Blackstar Group SE (UK) | | 🟥 | 🟥 | | |
| **B Nackan*** | | | | | | |
| **Independent non-executive director** | RDI REIT PLC (UK); Rezco Collective Investments Limited | 🟥 | 🟥 | ⬛ | | ⬛ |
| **D Nathan*** | | | | | | |
| **Independent non-executive director** | | 🟥 | | | 🟥 | |

* *Standing for re-election at the AGM in February 2018*

🟥 Committee member ⬛ Committee chair

## ATTENDANCE

Board and committee meetings were held quarterly in line with the group's financial reporting cycle. A separate risk and strategy workshop was held in September 2017. All directors attended at least 75% of the meetings of the board and the committees on which they served during the 2017 financial year.

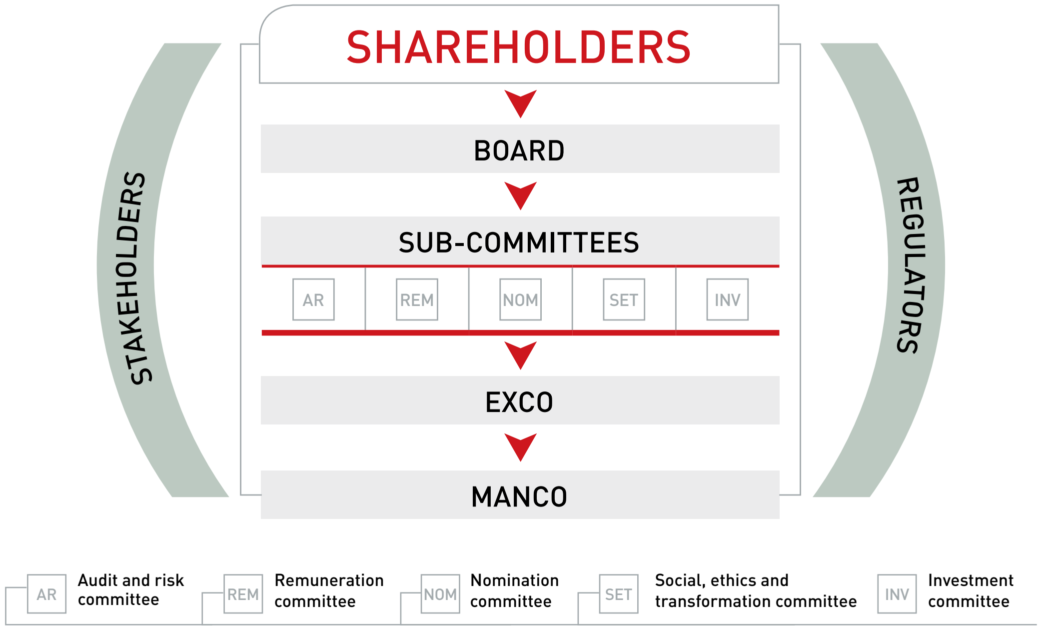
## EXPERTISE

Indicates the relevant board members' specific areas of expertise.

**Leadership**
**Technology and information governance**
**Finance**
**Compliance and governance**
**Industry/ operations**
**Environmental sustainability**
**Risk and opportunity management**
**Sales and marketing**
**Tax**
**Human resources**

## GOVERNING STRUCTURES AND DELEGATION

The company's governance structure provides for delegation of authority while enabling the board to retain effective control. The board delegates authority to established board committees, as well as to the CEO, with clearly defined mandates.




## LEADERSHIP ROLES AND FUNCTIONS

The board is led by an executive chairman and therefore, in compliance with paragraph 3.84(c) of the JSE Listings Requirements and as recommended by King IV, a lead independent director has been appointed.

The role of the chairman is distinct and separate from that of the chief executive officer (CEO), and the separation of responsibilities is designed to ensure that no single person has unfettered decision-making powers and that appropriate balances of power and authority exist on the board.

| | |
|---|---|
| **Executive chairman** | Responsible for leading the board and for ensuring the integrity and effectiveness of the board and its committees. Ensures high standards of corporate governance and ethical behavior. |
| **Lead independent director** | Maintains the effectiveness of the board by providing leadership and advice when the executive chairman has a conflict of interest, without detracting from or undermining his authority.<br><br>Provides support to the executive chairman, is available as a trusted intermediary for the other directors, as necessary, and chairs a meeting of the non-executive directors at which the performance of the executive chairman is considered. |
| **Chief executive officer** | Responsible for the effective management and running of the company's business in terms of the strategies and objectives approved by the board.<br><br>Chairs the company's executive committee, leads and motivates the management team and ensures that the board receives accurate, timely and clear information about the company's performance. |

i Refer to ESG on our governance practices, including details of governing structures, governance functional areas and board and committee mandates, as well as attendance of meetings and remuneration report

# Board composition and refreshment

As evidenced below, the board comprises the approriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities. The diversity in its membership across, various attributes, creates value by promoting better decision-making and effective governance.

## DIVERSITY OF EXPERTISE

**Policy:** Create an experienced board with the appropriate balance of knowledge and skills in areas relevant to the group, required to govern effectively.

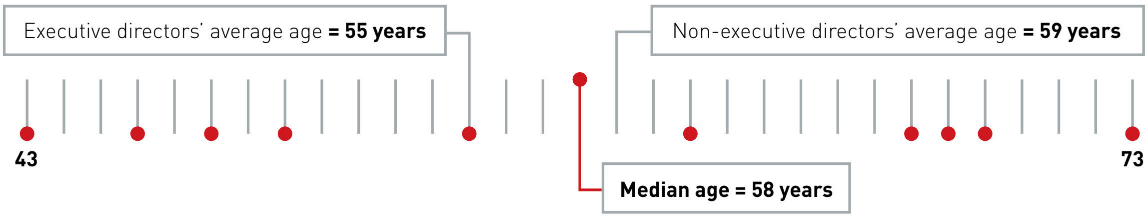
The following areas of expertise are relevant to Redefine:

| Area | % | Directors |
|---|---|---|
| Leadership | 60% | 6/10 directors |
| Finance | 60% | 6/10 directors |
| Industry/ operations | 50% | 5/10 directors |
| Risk and opportunity management | 90% | 9/10 directors |
| Tax | 40% | 4/10 directors |
| Technology and information governance | 10% | 1/10 directors |
| Compliance and governance | 70% | 7/10 directors |
| Environmental sustainability | 20% | 2/10 directors |
| Sales and marketing | 40% | 4/10 directors |
| Human resources | 40% | 4/10 directors |

Technology and information management and environmental sustainability have been identified as areas that require specific training and development in 2018. Furthermore, these areas of expertise will be specifically sought when appointing non-executive directors in the future.

## DIVERSITY OF AGE

**Policy:** Executive directors retire from their positions and from the board at the age of 65. Our retirement policy does, however, make provision to extend this working relationship beyond the normal retirement age. Non-executive directors, 70 years or older, retire from the board at every annual general meeting and are submitted for re-election, if eligible.

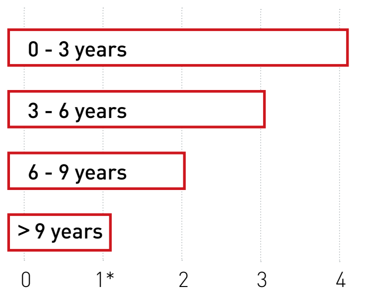



## DIVERSITY OF TENURE

**Policy:** Periodic, staggered rotation of board members so as to ensure the introduction of members with new expertise and perspectives while retaining valuable knowledge, skills and experience, and maintaining continuity.

**Non-executive director average tenure = 3,6 years**

Succession plans make provision for the identification, mentorship and development of future members.




* *Executive director*

## INDEPENDENCE

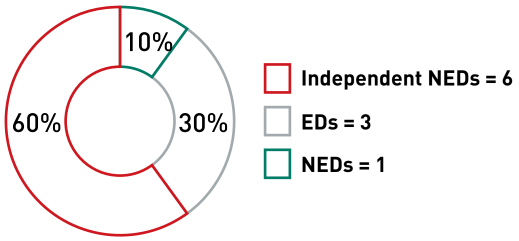
**Policy:** Comprises a majority of non-executive directors, the majority of whom should be independent.

### Perceptual independence

Directors' independance is judged from the perspective of a reasonable and informed third party, based on *inter alia* the prevailing circumstances, conflicts of interest, whether perceived or actual, and other relevant considerations.

### Statutory independence

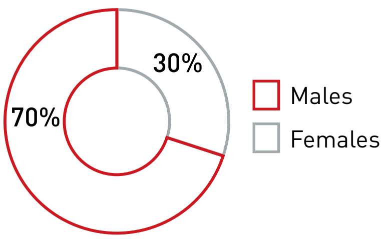
All directors act with independence of mind and in the best interests of the company, in accordance with their statutory duties.



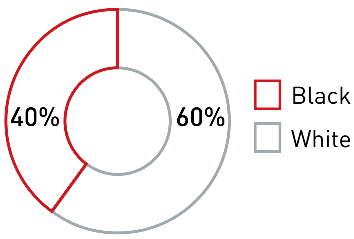

## GENDER AND RACIAL DIVERSITY

**Policy:** Redefine's gender diversity policy promotes a voluntary target of 40% female representation on the board over a three-year period, while the racial diversity policy promotes a voluntary target of 50% black representation on the board over the same period.

GENDER



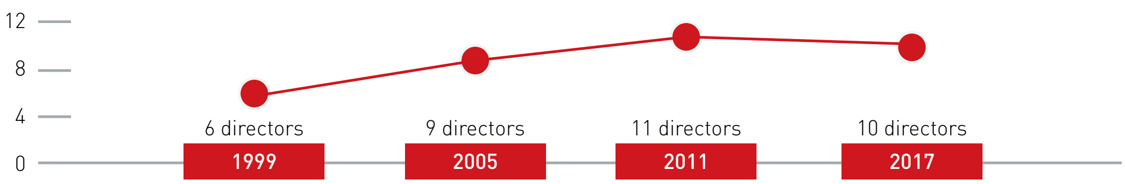

RACE



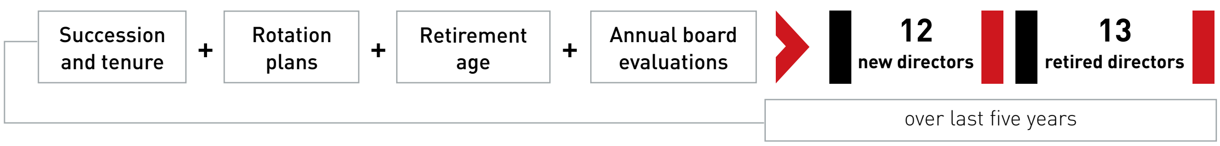

| | Diversity progress | |
|---|---|---|
| GENDER | 2017 | 2015 |
| Females | 30% | 9% |
| Males | 70% | 91% |
| RACE | | |
| Black | 40% | 18% |
| White | 60% | 82% |

## BOARD SIZE

**Policy:** Sufficient number of directors to meet regulatory requirements and provisions of the company's memorandum of incorporation




## BOARD REFRESHMENT



# Summarised corporate governance review (continued)

## Board effectiveness – demonstrating leadership and accountability as custodians of corporate governance

The board leads the company with **integrity** and **competence** and in a manner that is **responsible, accountable, fair and transparent**, so as to ensure leadership that results in the achievement of the company's strategic objectives and positive outcomes over time. The board assumes collective responsibility for **strategy, policy, oversight and accountability** and has adopted a stakeholder-inclusive approach in the execution of its governance role and responsibilities. The board understands that a well-governed company inspires the confidence of stakeholders and lowers the cost of capitals, and that inclusive and integrated governance, that aspires to sustainability, is good for society and the economy.

The decisions and actions taken by the board in directing the company, shape and determine its prospects and longer-term viability and ensure that the company subscribes to full compliance with applicable laws, regulations and governance practices.

## Value creation through our governance structures

- Compliance with applicable laws, regulations and governance practices
- Collective responsibility for primary governance roles
- Custodians of corporate governance
- Cultivation and exibition of ethical characteristics

### ACTIVITIES

- Leadership, ethics and corporate citizenship
- Strategy, performance and reporting
- Risk, oversight and compliance
- Remuneration
- Stakeholder relations
- Corporate governance

### OUTCOMES

Enable and support the company's value creation process

i Refer to activities and outcomes on page 39

### VALUE CREATION

**Achievement of and benefits realised through good governance outcomes**

- Ethical culture
- Effective control
- Good performance
- Legitimacy

**Delivery on strategic matters**

- Operate efficiently
- Invest strategically
- Optimise capital
- Engage talent
- Grow reputation

**Achievement of stakeholder goals**

- Source of sustained growth in total returns
- Employer of choice
- Provider of relevant space
- Prefered business partner
- Responsible community participant

| Activities | Outcomes |
|---|---|
| **Leadership, ethics and corporate citizenship**<br>→ Set the tone of the company's values, including principles of ethical business practice<br>→ Approved formal code of business conduct and ethics policies<br>→ Commissioned Independent ethics management system audit<br>→ Monitored protected disclosure and whistle-blowing mechanisms<br>→ Disclosed directors dealings in accordance with JSE Listings Requirements<br>→ Disclosed and proactively monitored conflicts of interest subject to legal provisions<br>→ Participated in induction, training and development programmes, where relevant | → Independent, informed and effective judgment on material decisions<br>→ Ethical and effective leadership, resulting in the achievement of strategic objectives and positive outcomes over time<br>→ Sound ethical foundation throughout the company, resulting in ethical interaction with stakeholders<br>→ Responsible corporate citizenship status<br>→ Continuous development of director competence |
| **Strategy, performance and reporting**<br>→ Oversaw and constructively challenged strategic direction in relation to risks, opportunities, resources and relationships<br>→ Held annual risk and strategy workshop to debate, refine and approve strategy<br>→ Approved key performance measures and targets for assessing achievement of strategic objectives<br>→ Approved 2018 budget<br>→ Considered material acquisitions, disposals, investments and capital expenditure<br>→ Conducted review of strategic policies and procedures to ensure effective implementation of strategy<br>→ Approved management's determination of relevant reporting frameworks and basis for determining materiality | → A well-governed company, run for the purpose of and in a manner that is intent on delivering value<br>→ Realisation of the company's core purpose and values through its strategy<br>→ Reliable external reports that enable stakeholders to make an informed assessment of the company's performance<br>→ 2016 Integrated report ranked second in the EY Excellence in Integrated Reporting Awards |
| **Risk, oversight and compliance**<br>→ Reviewed and evaluated strategic risks and associated opportunities<br>→ Considered an appropriate risk appetite for the company and approved risk appetite gramework<br>→ Commenced implementation of revised business continuity arrangements<br>→ Considered potential impact of a South African sovereign rating downgrade and of disruptive technologies<br>→ Reviewed solvency, liquidity and going-concern status, and agreed dividend payments<br>→ Oversaw technology and information management<br>→ Monitored corporate activities<br>→ Approved Integrated Report, annual financial statements, financial results and results announcements | → Appropriate governance structures and processes in place to ensure effective control of the company<br>→ Risk and compliance management practices that support the company in setting and achieving its strategic objectives<br>→ Ethical and responsible use of technology and information<br>→ Submission of the annual REIT compliance declaration and the annual compliance certificate, confirming the company's compliance with the JSE Listings Requirements |
| **Remuneration**<br>→ Approved remuneration policy and oversaw that implementation and execution achieved started objectives<br>→ Approved and implemented malus and claw-back policy<br>→ Monitored executive directors' compliance with minimum shareholding requirement<br>→ Approved and implemented long-term staff incentive scheme<br>→ Considered and applied Binding General Rulings issued by SARS regarding VAT registration for non-executive dircetors | → Fair, responsible and transparent remuneration<br>→ Provision for voting by shareholders on the remuneration policy and implementation report<br>→ Alignment between executive director and stakeholder interests |
| **Stakeholder relations**<br>→ Identified material stakeholders and oversaw formulation of stakeholder engagement strategies<br>→ Conducted independent annual perception survey with investors and analysts<br>→ Engaged with various institutional investors regarding remuneration and other ESG matters and considered feedback<br>→ Oversaw facilitation by management of regular and pertinent communication with shareholders | → Stakeholder-inclusive approach adopted in the execution of governance roles and responsibilities<br>→ Reasonable needs, interests and expectations of stakeholders, balanced in the best interests of the company over time<br>→ ESG policies and practices, integrated into the company's strategy and daily operations in order to realise long-term value<br>→ Equitable treatment of shareholders that protects minority interests |
| **Corporate governance**<br>→ Approved appointment of Bridgitte Mathews as lead independent director<br>→ Refreshed composition of board committees, giving due attention to diversity considerations<br>→ Considered independent board evaluation report and implemented action plans<br>→ Approved racial diversity policy and monitored progress made in terms of gender diversity policy<br>→ Considered the recomendations of King IV, for which disclosure on the application can be found on the company's website – www.redefine.co.za | → Strengthened independence of the board and its committees<br>→ Continued improvement in the performance and effectiveness of the board<br>→ Achieved voluntary gender diversity targets at board level<br>→ Substantial compliance with the spirit and principles of King IV |

# Executive chairman's interview

## Marc Wainer

**→ Q: From your perspective as executive chairman, please comment on the past year regarding the external operating context.**

At Redefine, we have come to expect the unexpected. Disruption, volatility and uncertainty are here to stay. Looking back at 2017, it's fair to say that these applied to all the jurisdictions we operate in.

Locally, the year was marked by a stark lack of confidence from both business and consumers on the back of political/policy uncertainty and the impact of the sovereign credit rating downgrade and, of course, resultant low economic growth.

In Europe, the divorce proceedings of the United Kingdom from the European Union commenced and are expected to be drawn out and complicated, making the past year particularly tough and fraught with uncertainty.

...

**→ Q: Within this context, how would you describe the group's performance for 2017?**

Given the difficult operating environment, especially locally, I believe the group has performed well. From a property investment perspective, we have, over the past years advanced our strategy to create a diversified asset platform because we know that, while there are continuous risks and uncertainty to deal with, there's also always opportunity to capture.

And that's where we focus – on finding the value creation opportunities, on tenant retention, and on cash flow.

The offshore low-interest rate environment created an opening for us to exploit attractive income yield spreads by investing abroad, utilising in-country debt funding. This, coupled with a natural Rand hedge on the capital invested, has made international investments more appealing.

Looking at Australia, there has been some talk about the Cromwell business, but we're happy with our investment and continue to support Cromwell and its management.

In South Africa, it was a case of expecting the unexpected. We're focused on improving, expanding and protecting our domestic property portfolio while recycling capital from assets that no longer meet our investment criteria. Aside from the completion of several development projects in our retail, office and industrial portfolios, one of the highlights was the completion of the Redefine head office in Rosebank, Johannesburg. It brought our people together and boosted morale. The building is a modern, fully-let, quality property and speaks to the type of asset we are continually looking to add to our portfolio.

...

**→ Q: You're passionate about mentorship and social responsibility, as embodied in the new Redefine-sponsored *The Mentorship Challenge*. Can you tell us a little about this initiative?**

THE MENTORSHIP CHALLENGE
WITH MARC WAINER

Of course, business, I believe, has a huge role to play in addressing some of the ills facing South Africa.

We have enormous challenges and opportunities with the high levels of youth unemployment. We cannot thrive in a country if the majority of our youth are unemployed during their most productive working years. If each business can do a little more, many opportunities can be opened up to address rising despair among one of the world's youngest, but most unproductive workforces.

In this vein, I've taken the lead on the Redefine-sponsored *The Mentorship Challenge*, with the objective of creating a bank of mentorship hours, which our young talent can tap into. On a personal level, my participation in the Challenge has given me incredible insight into the talent we have in South Africa and how. with some advice and a gentle push, so much more potential can be unleashed.

*The Mentorship Challenge* demonstrates Redefine's commitment to making a tangible difference in South Africa. It offers talented and passionate young people a chance to thrive and help build a better South Africa for us all.

***I sincerely hope that this show will inspire my peers in the corporate world as much as it has inspired me.*** We need business in South Africa to take up the mantle of mentorship and give back to communities in a meaningful and sustainable way.

...

**→ Q: There's been a lot of talk about disruptive technology. What does this mean for Redefine?**

The pace and scale of the innovations, driven by technology, we're seeing is unprecedented.

I've been in business for decades now. The one thing I know for sure is that we need to adapt to remain relevant. As a business, we've embarked on scenario planning to look at disruptive technologies that will re-engineer modern urban nodes of the future. For example, we're asking ourselves how driverless cars and online shopping will affect our business model in the short to medium term.

Understanding this, we're on the lookout for new ways to extend the life of our buildings. We believe that shopping centres, for example, could become hubs for communities to spend quality time with their families after trading hours. It's this type of value-add that will keep people coming back for the experience, not just the merchandise.

***It's an exciting time to be in business!***

...

**Q: What are the prospects for Redefine in the year ahead?**

We expect the year ahead to be even tougher. Operating conditions and the lack of political stability and policy certainty will test businesses like never before.

Internationally, the Brexit negotiations will continue, offering little in the way of stability in that part of the world.

**Q: Finally, do you have any closing thoughts you would like to share?**

Notwithstanding the challenges, looking back and blaming conditions simply creates a mindset for future poor performance excuses. The playing field is the same for everyone. It is what it is. We have to do whatever we can to outperform. Tough times breed character and Redefine will, relatively speaking, thrive and emerge even stronger.

***I still look forward to coming to work every day knowing that whatever the day will bring, as a collective, the executive team has the talent and commitment to deal with it.***

It is an honour and privilege to have their support and loyalty, for which I am extremely grateful.

I'd like to express my gratitude to everyone of our stakeholders: investors, employees, tenants, brokers, suppliers / service providers and the communities in which we operate, for their continued support.

A special thank you to our board for their considered counsel. I'm grateful to work with such an extraordinary team of people.

**"Business, I believe, has a huge role to play in addressing some of the ills facing South Africa."**

**Marc Wainer**
Executive chairman

# Chief executive officer's review

## Andrew König

Integrated thinking forms the blueprint for our integrated report – our value creation story for all our stakeholders. Our report contains the most relevant information on what matters most in creating sustained value for our key stakeholders.

## Our 2017 operating context

We can safely conclude that the macroeconomic environment, both at home and internationally, is undergoing seismic shifts. In a counter-intuitive, disruptive environment, our reference points are continuously reset.

On the international stage, protectionist, anti-trade rhetoric continued to be exacerbated by political leanings to the right, a rise in terrorism, a surge in populism, and the threat of a nuclear conflict in Asia Pacific.

Domestically, we have steadily adjusted to operating in a deteriorating credit rating environment, the ongoing threat to judiciary independence, heightened political upheaval fueled by the changing of the guard within the country's ruling party, and the rising debate around "state capture".

It is no surprise that, in this environment, business confidence has fallen to levels not seen since the 2009 recession and consumer confidence has been subdued for the longest period since the early 1980s.

In the absence of credible initiatives to reduce uncertainty and buoy confidence, it is unclear where the drivers of real growth in South Africa will come from in the short to medium term.

***With all of these forces at play, giving in to the pervasive negativity could be easy. But, at Redefine, we believe in making things happen and to look beyond the current cycle.***

As an agile, non-hierarchical organisation, we are pragmatic and quick to adapt, especially during times such as these. Collectively, the board and our executive management team have adjusted our strategic approach to cope with this period of prolonged slow growth and a low sentiment environment.

## Creating value in a changing context

The unexpected is here to stay. For us, relentlessly **focusing on what matters most** is critical if we want to not only withstand the downturn, but thrive as we **create long-term value for our stakeholders by being the best in all aspects of what we do.**

We understand that to sustain value, we need to manage more than simply our finances and properties. We need to apply integrated thinking by making strategic choices that develop and preserve our relationships and natural resources too. As such, we have identified five strategic matters that enable the application of integrated thinking to sustained value creation, namely:

- Operate efficiently
- Invest strategically
- Optimise capital
- Engage talent
- Grow reputation

During the year, we continued to make steady progress in executing our strategy. In a constrained environment, there is a flight to quality assets. Our strategy ensures that we are continuously improving the quality of our local property portfolio, while divesting underperforming assets and diversifying geographically into real estate opportunities that offer growth. ***We expanded our property assets by R11.4 billion to R84.1 billion, with our international real estate investments, valued at R16.0 billion, representing 19.0% of our total portfolio.***

## Local growth

During the year, our primary domestic portfolio focus was on protecting, expanding and improving existing well-located properties, primarily through redevelopments and selected acquisitions.

The active portfolio vacancy rate decreased marginally during the year by 0.3% to 4.6%. Leases covering 536 310m$^2$ were renewed during the year at an average rental increase of 2.9% (down from 3.3%), reflecting the difficult operating environment, with the tenant retention a pleasing 92.6%. A further 406 406m$^2$ was let across the portfolio. Net arrears increased to R67.9 million, representing 7.5% of the gross monthly rental, largely due to The Pivotal Fund Limited (Pivotal) acquisition.

We completed projects totalling R3.2 billion during the year. We are currently managing R4.7 billion in value of active new developments and R0.5 billion of refurbishment projects. We have committed to new development projects totaling R0.8 billion.

Retail redevelopments totalling R1.1 billion were completed to protect, expand and upgrade major malls, and projects amounting to R714.5 million are underway.

In the office porfolio, we completed several development projects totalling R1.5 billion, including the prestigious Alice Lane Building 3, a R948.1 million project, and commenced work on the R712 million Rosebank Link development.

In the industrial sector, we completed development projects totalling R404.1 million, including a R194 million redevelopment at 34 Wrench Road, Isando, in Gauteng, and commenced a R600.3 million print facility for Hirt & Carter at Cornubia in KwaZulu-Natal.

The acquisition of Pivotal, which was completed during the first half of the financial year, was successfully integrated into the business and has significantly improved the quality of our portfolio – especially our office portfolio, where 76% of our assets, by value, are P- and A-grade. Through this transaction, we acquired 32 Pivotal properties valued at R10.4 billion, including developments in progress and land holdings for future development.

Recycling capital, through the disposal of assets no longer aligned with our long-term investment strategy, has been an area of focus in sourcing and optimising capital. We disposed of 25 properties with a GLA of 259 203m$^2$ that did not meet our strict investment criteria, to various buyers for an aggregate consideration of R1.9 billion, at an average yield of 8.4%. In addition, agreements, subject to the usual conditions precedent, were concluded for the disposal of properties for an aggregate consideration of R2.4 billion, with a GLA of 227 699m$^2$, at an average yield of 8.2%.

Furthermore, during the year under review, we sold our 22.8% interest in Delta to an empowerment consortium for a consideration of R1.5 billion. We also disposed of our total interest in Arrowhead Properties Limited and Emira Property Fund Limited, for a combined value of R1.0 billion.

Our investment in local student accommodation offers us the opportunity to diversify into a new asset class. Respublica's current bed capacity of 5 873 will grow to 9 403 beds by 2019 once committed expansion activity is completed, with Hatfield Square Blocks C and D in Pretoria, comprising 535 and 1 030 beds respectively, making up the bulk. The extension of Yale Village by a further 350 beds, and the spread outside Gauteng into Bloemfontein (469 beds), Cape Town (570 beds) and Pietermaritzburg (576 beds), accounts for the balance of the expansion activity.

The Rosebank Park Central residential project, totalling R426 million, has begun and is a high growth opportunity for the group.

**"We expanded our property assets by R11.4 billion to R84.1 billion, with our international real estate investments, valued at R16.0 billion, representing 19.0% of our total portfolio. "**

# Chief executive officer's review (continued)

## Strategic international diversification

Our international investment strategy is centred on geographic diversification and taking advantage of positive initial income yield spreads. We concentrate on capturing development and asset management opportunities to counter the low offshore organic growth rates.

In Poland, Redefine participated in Echo Polska Properties' (EPP) EUR150 million capital raise, by subscribing for 47.7 million shares at R18.50 (EUR1.27) per share to maintain our shareholding of approximately 40%, which equated to R882.9 million. We have seen great results from our investment and believe there is scope for further expansion in this market.

In Australia, the AUD130 million redevelopment of Northpoint Tower, anticipated to be completed in March 2018, poses significant capital upliftment potential given the buoyant office market in Sydney and the strategic location of the property.

During the year, we acquired another purpose-built student accommodation development site in Melbourne for AUD26 million, with a bed capacity of at least 650. Once both student accommodation sites have been developed, we expect to have a bed capacity of 1 500 beds in Australia.

In the UK, arrangements have been concluded between RDI REIT PLC and Redefine Properties for the sale of all Redefine's shares in International Hotel Properties. We also sold our joint venture interest in the German retail portfolio for EUR49 million to RDI REIT PLC during April.

## Managing our capital strategically

Access to well-priced capital is critical to our business and is challenging in the current operating environment. In this context, Redefine's forward yield at 9.3% is expensive and in our view, punitive, especially as the R186 (10-year government bond) is currently on a yield of 8.6%. Recycling of capital therefore remained a prominent feature of our capital optimisation strategy during 2017 and will continue in 2018, starting with the sale of N1 City Mall to Growthpoint and Thibault Square, which has realised R1.5 billion.

In 2017, we continued our proactive programme to restructure expensive debt, leverage offshore holdings to reduce the overall cost of debt and lean towards competitive pricing and good demand in debt capital markets.

A combination of the recalibration of Redefine's Moody's local credit rating to Aa1.Za and a drying up of bond issues, on the back of a slowdown in expansion, has had a beneficial impact on Redefine's bond programme. The upgrade in the Moody's rating means that Redefine's paper is now classified by the banks as High Quality Liquid Assets (HQLA), opening the door for the banks to participate in Redefine's bond programme as they aggressively look to grow their exposure to HQLA to meet regulatory reserve requirements by the end of 2019. The banks' participation has also driven margins down.

In addition to competing with banks, regular fixed-income investors are sitting on excess cash due to the overall slowdown in investments (with fewer issues coming to market) and a general market aversion to investing in state-owned entities. This situation poses an opportunity for Redefine to optimise debt funding through issuing well-priced, unsecured bonds to refinance higher-priced, secured bank debt.

A balance sheet management focus for us in the new year will be lowering our LTV ratio to our comfort zone (no more than 40%) through funding local acquisitions with equity, containing debt funding through conserving capital and benefiting from the recent Rand weakness, which will lift the value of our international asset base.

## Delivering sustained value through engaged human talent

We employ extraordinary people who embody the values of our organisation because we believe that there is nothing more powerful than our employees' passion, skill and initiative in our quest to be the best in all aspects of what we do.

This year, following extensive engagement with our leadership, we launched our new employee engagement programme to ignite the individual and collective talents of our people to enable the implementation of our strategic objectives. The **Heads up, Hearts in, Hands on** programme was launched at our staff engagement roadshow, held in Johannesburg. During this time, we shared with staff how our vision, mission and strategic objectives are enabled through our stakeholder engagement strategy. The emphasis of the plan is to encourage employees to consider stakeholder engagement as a front of mind matter.

Furthermore, we are placing a strong emphasis, through our internal rewards and recognition programme, on encouraging our staff to be innovative and think differently in the new normal environment.

This year, we were pleased to have achieved an employee engagement capital score of 77%, well above the benchmark of 61%. This metric is designed to give the organisation an overall score that gauges employee commitment, discretionary effort and intent to remain within the company.

We understand the importance of investing in our employees to enable them to be the best authentic version of who they are destined to be. This year, we invested 36 947 man hours in training and development and 41 participants enrolled in our learnership programme, now in its fifth year.

We support the principles of diversity and practise equality of opportunity among all our employees. We believe that the diverse knowledge and skills of our workforce benefit our entire organisation, fostering creativity and expanding our approach to problem-solving and responsiveness to changing conditions. In 2017, we adopted a diversity policy to ensure that, over time, we promote gender diversity among senior management.

Our guiding principles to address transformation, retain and attract talent, and meet the career advancement objectives of our people, are achieved through simplicity and straight talk. We recognise that we have a lack of diversity at the mid- to top-tier levels in our business and have implemented a long-term incentive plan to address this critical matter.

## Sustaining value through responsive strategies

We are principally invested in South Africa. A better South Africa means a better Redefine. We therefore seek to be an agent of social change by pursuing financial success in a way that also yields societal benefits. In 2017, Redefine disbursed R1.7 billion in contributions to society through direct and indirect taxes, and community investments.

Corporate social investment (CSI) is not just a catchphrase at Redefine. We want our investments into social upliftment to truly address some of the challenges the country faces in order to create meaningful change. The growth in unemployment, especially among the youth, who make up circa 36% of the South African population and account for roughly 70% of total unemployment, remains deeply concerning to us.

When young people cannot find employment, and cannot earn a living, this youth bulge becomes a demographic time bomb. We believe that this is a direct risk to our properties, which are embedded in the communities in which they operate.

With this in mind, we are revisiting our approach to corporate social investment, to better serve the communities in which we operate, to make a sustainable difference. We are also looking to engage with tenants and local communities to make use of their services and ensure that new developments create local employment opportunities beyond completion, through revisiting our lease conditions.

The plight of informal traders competing with national retailers in disadvantaged areas was highlighted by the recent Competition Commission hearings into the retailers' exclusivity clauses contained in their leases, requiring us to be sensitive to unintended consequences caused by our properties and to look at how best we integrate our presence with local communities' needs to meet value expectations – such as providing informal traders with secure facilities to operate from, which we already have at Golden Walk's taxi rank in Gauteng. Furthermore, we will continue to develop pop-up stores as an incubator for small businesses who also offer 'new merchandise' options.

Redefine's approach to transformation is to create benefit for the wider society. During the year, we achieved a level 4 contribution status under the new codes, which provides us with a 100% BEE procurement recognition level and in turn benefits our valued clients' BEE scorecards. We remain committed to BEE and are continually striving to improve our score.

Meeting our communities' needs includes preserving valuable natural resources that we all rely on. Our environmental strategy focuses on facilitating the reduction of our environmental footprint while having a positive effect on asset values and reducing vacancy rates. During the year, we increased our total installed solar PV capacity to 7 807 kWp from 4 000 MWp. We also increased our Green Star South Africa certifications from 14 to 43.

## Outlook and appreciation

Our strategy is designed to create sustainable value over the short, medium and long term, managing risk while optimising reward. Looking ahead, there will be a strident focus on the protection and expansion of our asset portfolio and remaining relevant to the communities in which we operate while adapting to fast-moving, modern consumer lifestyles.

We will continue to actively manage the variables we control: upholding and living Redefine's values, maintaining alignment throughout our business and deepening our unique approach to relationships.

I believe that all our achievements this year were made possible by our excellent team. My appreciation, therefore, goes to all my colleagues for their relentless efforts to soar to greater heights.

I would like to thank the board for their guidance during the year. To our stakeholders, thank you for your continued support of Redefine.

**I know that, with all our Heads up, Hearts in and Hands on, we can realise our vision: To be the best Real Estate Investment Trust in South Africa**.

**Andrew König**
**Chief executive officer**

# Financial director's review
## Leon Kok

**Our financial performance and value creation for shareholders is measured through the increase in distribution per share and the generation of growth in net tangible asset value per share, which amounted to a total return of 6.6% for the year (2016: 12.9%).**

## Distribution

Redefine's board declared a distribution of 47.18 cents per share (2016: 44.30) for the six months ended 31 August 2017, an increase of 6.5% (2016: 8.0%) on the comparable period. This brings the full year distribution to 92.00 cents per share (2016: 86.00), resulting in year-on-year growth of 7.0% (2016: 7.5%), in line with market guidance. Total revenue showed significant growth of 17.3% (2016: 0.0%), benefiting from a number of substantial quality acquisitions made in recent years. Gross distributable income for the year increased by 22.2% (2016: 21.8%) to R4.8 billion (2016: R4.0 billion). For more information, see AFS.

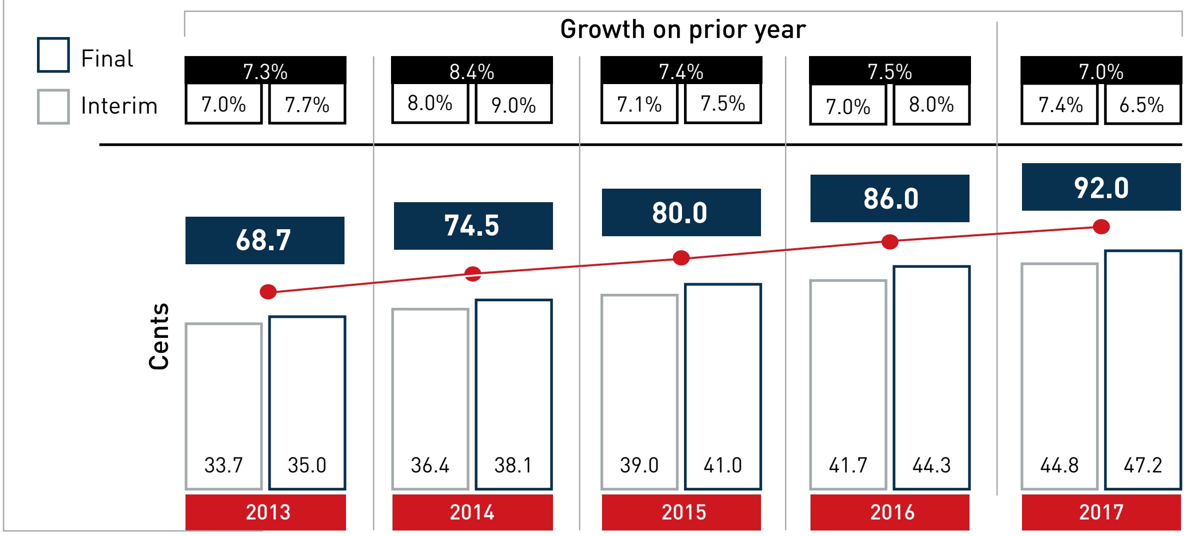
Redefine's property portfolio contributed virtually its total revenue (2016: 98.5%), with minimal income from listed securities (2016: 1.5%), following the disposal of the remaining South African listed securities.

Operating costs were stable at 34.2% (2016: 34.4%) of contractual rental income. Net of electricity and utility recoveries, operating costs were 15.9% (2016: 17.9%) of contractual rental income, benefiting from improved recoveries and metering of consumption. The cost-to-income ratios are calculated in accordance with the SA REIT Association's best practice recommendations.

Redefine's international property investments contributed 27.3% (2016: 25.9%) of distributable income.

The company's use of distribution per share as a relevant measure of results for trading statement purposes remains unchanged from prior periods.

### DISTRIBUTION PER SHARE GROWTH



## SIMPLIFIED DISTRIBUTABLE INCOME STATEMENT

The simplified distributable income statement provides a functional analysis of the contributers to our financial result.

| | 2017 R'million | 2016 R'million | Change % |
|---|---|---|---|
| Net property income | **4 951** | 4 244 | 16.7% |
| Listed security income | **181** | 163 | 11.0% |
| Fee income | **15** | 32 | (53.1%) |
| Total revenue | **5 147** | 4 439 | 15.9% |
| Administration costs | **(232)** | (180) | 28.9% |
| Net operating profit | **4 915** | 4 259 | 15.4% |
| Net finance charges | **(1 402)** | (1 330) | 5.4% |
| Taxation | **2** | 2 | 0% |
| South African distributable income | **3 515** | 2 931 | 19.9% |
| International distributable income | **1 316** | 1 023 | 28.5% |
| Distributable income | **4 831** | 3 954 | 22.1% |

i Refer to the AFS for a traditional IFRS statement of profit and loss and other comprehensive income.

### NET PROPERTY INCOME

Net operating income (NOI) from the property portfolio grew year-on-year by 16.7% (2016: 33.9%), driven mainly by the completed developments and acquisitions during the current and prior years. The active portfolio's NOI growth was 4.2% (2016: 4.1%). This modest growth is a function of depressed local economic conditions and prolonged negative business confidence and consumer sentiment. We define properties owned for the full period in both years as the active portfolio.

The active portfolio margin was well maintained at 82.7% (2016: 82.6%), despite the relatively subdued revenue growth of 4.1% (2016: 4.5%) which bears testimony to responsible and effective cost management.

### LISTED SECURITY INCOME

Redefine disposed of its total interest in Arrowhead Properties Limited and Emira Property Fund Limited, for a combined cash value of R1.0 billion.

During June 2017, Redefine sold its 22.8% interest in Delta to an empowerment consortium for a consideration of R1.5 billion. The consortium funded this transaction with a vendor loan from Redefine at an interest rate of prime plus 2.0% for an initial period of five years, with an extension option of three years. The shares are ceded to Redefine as security for the loan. In terms of IFRS, Redefine has assessed that this constituted a deemed sale as it retained substantially all risks and rewards of the ownership of these shares. As Redefine does not have significant influence nor continued involvement in the Delta shares held as security for its vendor loan, this investment is classified with other listed securities and measured at fair value through profit or loss.

### FEE INCOME

The decrease in fee income from the prior year of 53.1% relates predominantly to a reduction in development fees earned.

### ADMINISTRATION COSTS

The growth in administration costs on the prior year of 28.9% is largely driven by payroll costs and other administration-related costs which was principally due to the acquisition of the Pivotal Group.

### NET FINANCE CHARGES

Net finance charges increased by 5.4% on the prior year due to Redefine's increased interest-bearing borrowings, as explained in the sources and uses of capital section, which was partially offset by higher capitalised interest due to the higher development activity, and the reduced funding cost due to the restructuring of debt.

### INTERNATIONAL DISTRIBUTABLE INCOME

The increase in international income on the prior year of 28.5% is mainly due to the investment in Poland through EPP which was implemented in the last quarter of 2016 and was therefore included in the current year for 12 months (2016: two months).

# Financial director's review (continued)

## Simplified statement of financial position

The statement of financial position shows the position of the group's assets, liabilities and equity at 31 August, and reflects what the group owns, owes and the equity attributable to shareholders.

As a REIT, the assets on our statement of financial position generate our income, through both capital appreciation and rental income, while the liabilities and the equity line items reflect where our funding was obtained. Refer to the AFS for a traditional IFRS statement of financial position.

| | 2017 R'million | 2016 R'million |
|---|---|---|
| Property-related assets | 84 148 | 72 687 |
| Goodwill and intangible assets | 5 809 | 5 304 |
| Other assets | 1 535 | 1 821 |
| Total assets | 91 492 | 79 812 |
| | | |
| Shareholders' interest | 53 786 | 49 641 |
| Interest-bearing borrowings | 34 713 | 28 190 |
| Total funding | 88 499 | 77 831 |
| Other liabilities | 2 993 | 1 981 |
| Total equity and liabilities | 91 492 | 79 812 |

### THE PRIMARY DRIVERS OF OUR STATEMENT OF FINANCIAL POSITION:

**Where we invest** – our manufactured capital, which is our investment properties, listed securities and investments in associates and joint ventures, loans receivable and non-current assets held-for-sale, collectively referred to as 'property-related assets'

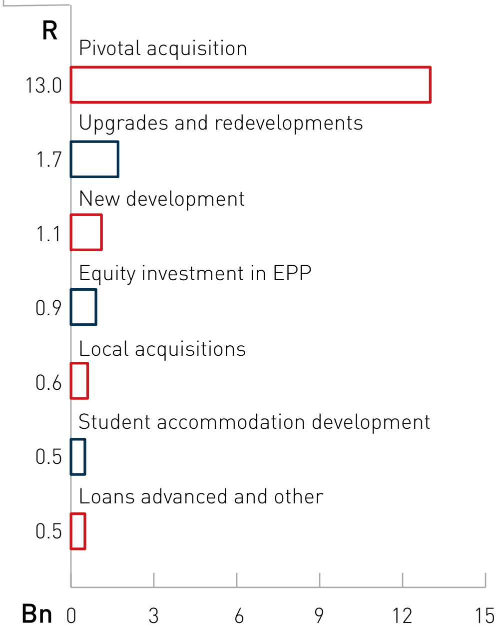
**How we fund** – our financial capital is shown in the balance sheet as shareholders' interest and interest-bearing borrowings

## Sources and uses of capital

The following funding and investment activities were undertaken to extend and diversify our platform for sustained value creation:

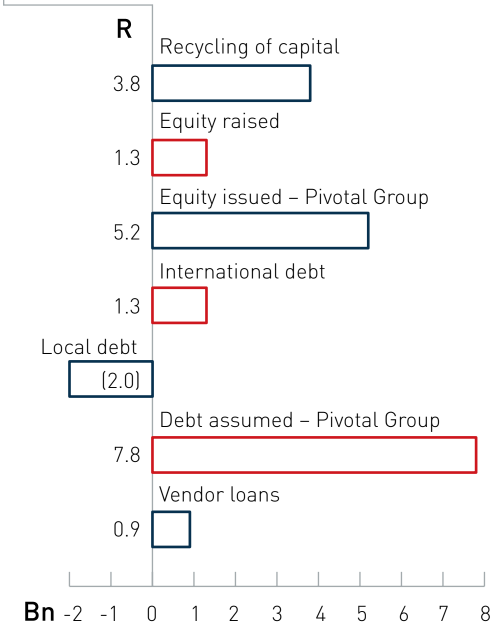
**Where we invest – Uses of capital**

**TOTAL R18.3 billion**



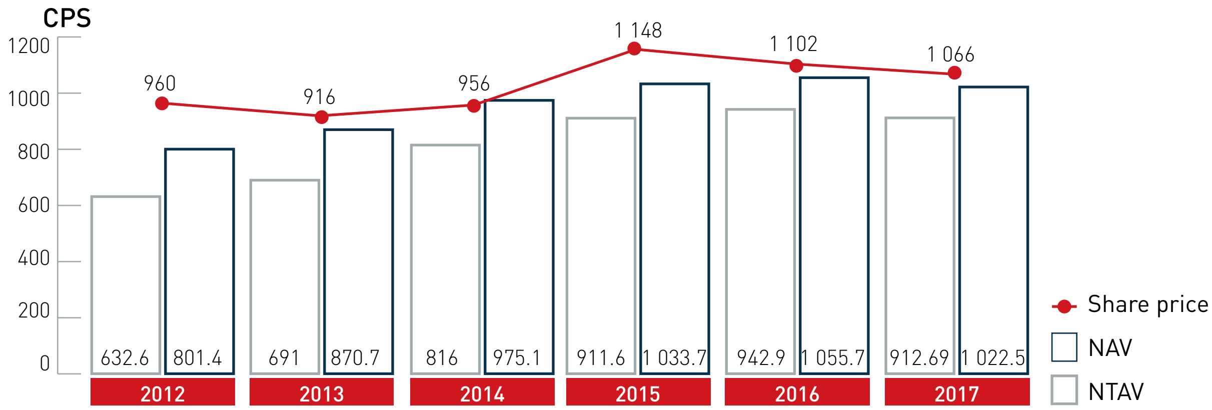

**How we fund – Sources of capital**

**TOTAL R18.3 billion**

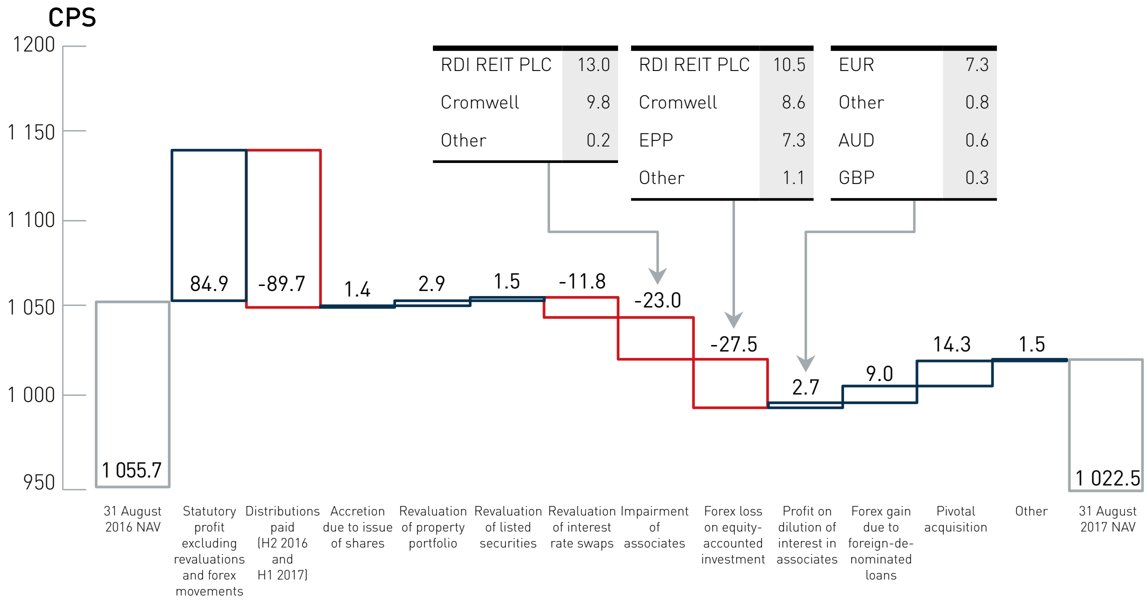


## NAV PERFORMANCE

The decrease in NAV per share of 33.2 cents per share (3.1%) in FY2017 was largely caused by the depreciation in the value of our unhedged foreign investments, due to a stronger Rand against, principally, the AUD and GBP, as well as subdued underlying performance from our investments in the RDI REIT PLC and Cromwell. Unfortunately, our local asset platforms' marginal value appreciation was not sufficient to counter this negative effect.




## DRIVERS OF NAV PERFORMANCE



## Sensitivity analysis

Redefine has a diversified asset base which is robust and capable of absorbing risks to provide a platform for sustainable growth. Given the environment we operate in and current economic conditions, we are subject to a number of variable factors outside of management control. The analysis below provides some insight to these factors and their potential impact on distributable income per share:

| 2018 OUTLOOK SENSITIVITY ANALYSIS | FORECAST 2018 IMPACT (CENTS PER SHARE) |
|---|---|
| Change in vacancy by 10 000m² | 0.2 |
| Change in municipal charges by 5% | 0.1 |
| Change in bad debts by R5 million | 0.1 |
| Change in admin costs by 5% | 0.2 |
| Change in interest rate by 50bps | 0.1 |
| Change in international listed securities distribution by 1% | 0.2 |
| Change in GBP/ZAR exchange rate by R1 | 0.4 |
| Change in EUR/ZAR exchange rate by R1 | 0.3 |
| Change in AUD/ZAR exchange rate by R1 | 0.3 |
| Change in USD/ZAR exchange rate by R1 | 0.1 |

## Appreciation

We believe that relationships support our ability to create sustainable value. By establishing good lines of communication with our stakeholders and maintaining constructive relationships with them, we enhance our business sustainability by being better able to meet stakeholder needs.

In line with this objective, our integrated report is a valuable tool, communicating our value creation journey, in all its facets, to our diverse stakeholder groups. This year, we made significant progress against this objective, as measured by the feedback we have received on our report. Not only has it been positively received by our immediate stakeholders, but it has also been in the public spotlight, winning a number of awards. These include:

**Second with honours in EY's Excellence in Integrated Reporting Awards 2017**
(out of the top 100 JSE-listed companies)

**Best 2016 Integrated Report Award**
from the SA Publications Forum

**"A" rating and best in Financials sector**
in the Nkonki SA Top 100 JSE-listed companies and SOCs Integrated Reporting Awards 2017

These awards bear testimony to our pursuit of being the best in everything we do and motivates us to continue improving our stakeholder engagement processes.

**Leon Kok**
Financial director

Rosebank Link, Rosebank

# VALUE CREATION

We adopt an integrated approach to understanding our business. We believe that in order to create sustained value for our stakeholders, we need to look beyond short-term returns, integrating all the capitals into each facet of our everyday business.

2017

# Financial capital

## What financial capital means to Redefine

Our financial capital is the pool of funds available to us for deployment, which includes debt and equity funding, as well as the capital profits retained from the recycling of assets.

### Creating value

How we manage and utilise our financial capital is fundamental to our ability to create sustained value for our stakeholders, particularly the financial stakeholders. Our ability to access cost-effective funding, either through equity or debt, is a key determinant of our commercial success. The maintenance of sound credit metrics, and the grou p's ability to manage its total cost of capital, makes a significant contribution to its sustainability and its ability to fund expansion of its distributable income.

## Highlights

→ **International funding** restructured

Recycling of capital realised **R3.5 billion**

→ **Broadened** quality-rated funding sources

Cost of debt funding reduced to **7.3%**

→ Income **hedging policy adopted**

**88.7%** of debt interest rates now hedged

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| Downgrading of the South African sovereign global credit rating and heightened risk that the local rating will also be downgraded to junk impairs our ability to raise funding and increases the cost thereof | To address this, we have broadened our funding sources and optimised our foreign exchange debt, extended average term of hedges and increased percentage hedged |
| Political risk and economic uncertainty continues to increase financial market volatility | Optimise maturity profiles, broaden funding sources, adopt conservative hedging strategy and maintain credit metrics |

# Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Target the lowest available cost of fixed and variable debt funding | ▲ |
| Optimise funding maturity profiles | ↻ |
| Maintain LTV at or below 40% | ▼ |
| Optimise funding structures | ▲ |
| Maintain strong credit metrics | ↻ |
| Optimise working capital | ▲ |
| Broaden quality-rated funding sources | ▲ |
| Improve investment profile to maintain current forward yield | ▼ |
| Ensure visibility of income through hedging | ↻ |
| Protect against interest rate fluctuations | ▲ |
| Maintain liquidity | ▲ |

▲ Achieved target ↻ Still in progress/ongoing[1] ▼ Did not achieve target

[1] *Performance elements still in progress may refer to those aspects of the business that will remain ongoing objectives due to the nature of our business or to elements not yet achieved in a previously defined timeline.*

# Priorities for 2018

- → Reduce **LTV** to at or **below 40%**
- → Manage **cash resources**
- → Optimise **gearing** of **international investments**
- → Optimise **working capital**
- → Maintain strong **credit metrics**
- → Optimise **funding maturity profiles**
- → Broaden quality-rated **funding sources**
- → Maintain **liquidity**

# Financial capital (continued)

## How we source and use our financial capital

| R'million | 2017 | 2016 |
|---|---|---|
| Stated capital | **43 071** | 36 526 |
| Interest-bearing borrowings | **34 713** | 28 190 |
| **Funding structure** | **77 784** | 64 716 |
| **FUNDING RAISED DURING THE YEAR** | | |
| **ISSUE OF SHARES** | | |
| For cash | **-** | 1 549 |
| Dividend reinvestment plan | **1 338** | 1 797 |
| For assets | **5 207** | - |
| **Total equity raised** | **6 545** | 3 316 |
| **NET INTEREST-BEARING BORROWINGS RAISED/(REPAID)** | | |
| **Bank funding** | **1 797** | 4 695 |
| Secured | **5 626** | (480) |
| Unsecured | **(3 829)** | 5 175 |
| **Debt capital market funding** | **4 726** | (87) |
| Bonds | **5 038** | 25 |
| Commercial paper | **(312)** | (112) |
| **TOTAL FUNDING RAISED** | **13 068** | 7 924 |

i Refer to the AFS for a traditional IFRS statement of financial position

## Managing our liquidity profile to meet future cash requirements and debt maturities

Liquidity risk is managed through proactive renegotiation of short-term debt maturities, optimisation of maturity profiles, monitoring forecast and actual cash flows, and ensuring there is an optimal funding and cash management plan in place for each asset acquisition or disposal. Redefine maintains a healthy level of undrawn, committed revolving bank facilities to meet immediate funding needs and cover short-term debt maturities. Revolving bank facilities reduce the need to hold unproductive cash resources and are cost-effective as the cash earns interest at the borrowing rate versus the cash deposit rate. Redefine's liquidity requirements are managed by monitoring forecast and actual cash flows, recyling of manufactured capital to avoid expensive funding, and renegotiating and extending debt facilities coming up for renewal to ensure manageable levels of debt maturities in any given financial year.

### UNDRAWN COMMITTED FACILITIES


## Extending our maturity profile

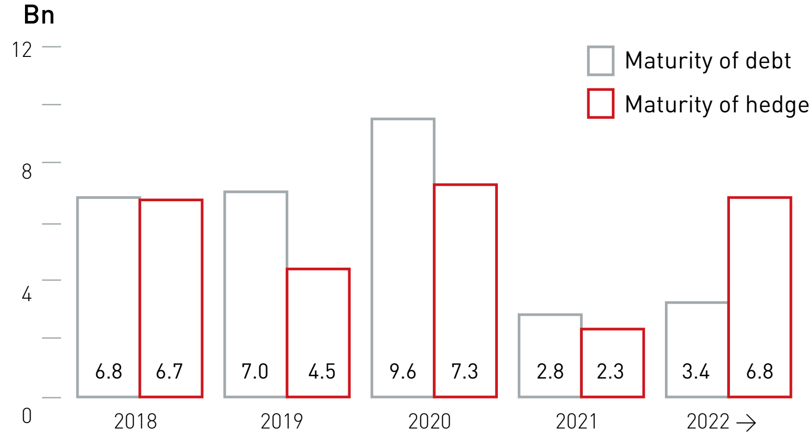
Redefine manages its maturity profile by aiming to spread the repayment dates to ensure that approximately 25% of the group's interest-bearing borrowings mature in any given financial year. Redefine proactively reviews its facilities and extends, restructures (for better terms) and renews upcoming maturities. Redefine actively monitors the financial markets, which assists in the fast and efficient execution of a funding plan for any new acquisition opportunities that may arise.

Maturities between each of the sources of finance are spread in order to mitigate the risk of refinancing. As a result, at 31 August 2017, Redefine had R6.8 billion in the short-term portion of interest-bearing borrowings. Redefine is currently in various stages of negotiation to refinance these facilities at acceptable terms.

### AVERAGE TERM OF SOUTH AFRICAN DEBT

| | |
|---|---|
| **2017** | **2.4 years** |
| 2016 | 2.5 years |
| 2015 | 3.3 years |
| 2014 | 3.2 years |

### MATURITY PROFILE OF SA DEBT AND HEDGES




## Maintaining adequate protection against interest rate movements

Volatile interest rate movements result in increased borrowing costs, reducing distributable income. International and local economic conditions impact on the cost of Redefine's debt through movements in bond yields and central bank monetary policy. To manage this risk, Redefine fixes the cost of variable South African interest rate borrowings by entering into derivative instruments (interest rate swaps and caps). The board has set a hedging target of 75% of South African interest-bearing borrowings to be fixed for as long as possible. To take advantage of the lower interest rate environment internationally, Redefine prefers to enter into fixed-rate loans for its international borrowings.

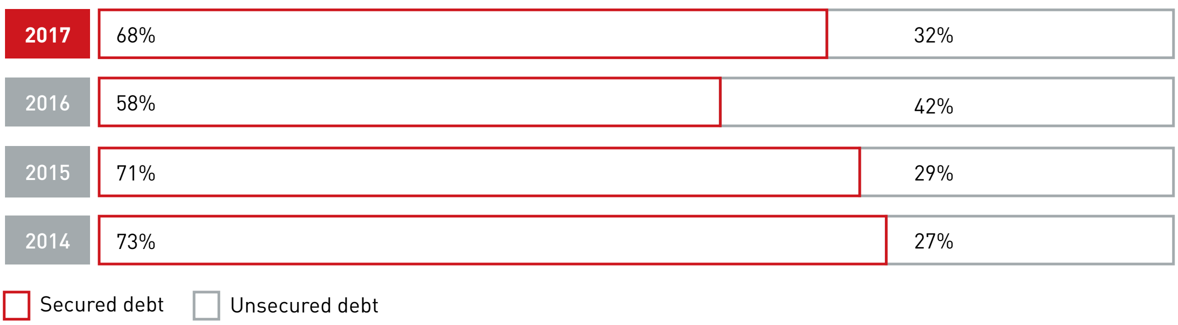
### % OF SOUTH AFRICAN DEBT HEDGED

| **2017** | 2016 | 2015 | 2014 |
|---|---|---|---|
| **93.0%** | 82.1% | 81.3% | 78.0% |

## Diversifying our funding sources

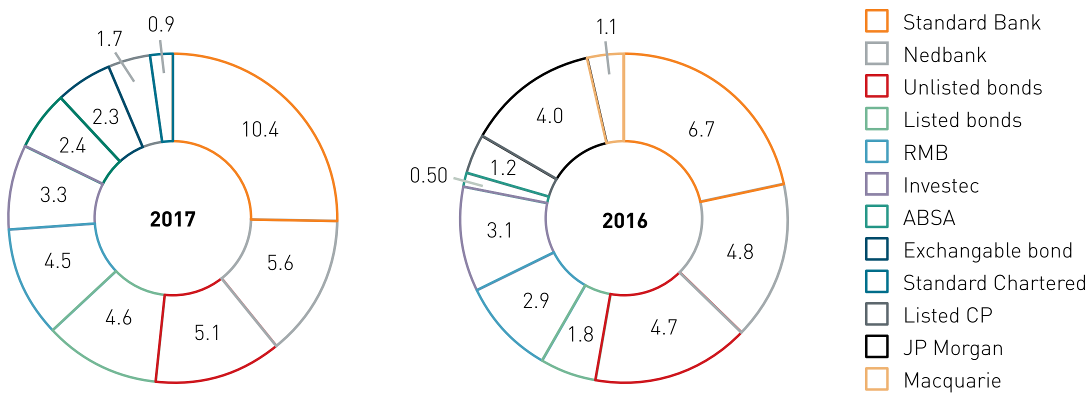
Concentration risk may arise from a credit crisis, the introduction of Basel III requirements or prudential limits, which are imposed by debt providers. Redefine limits the concentration risk by diversifying the sources of funding among financial institutions (the banks) and the debt capital market. Our HQLA credit rating, the size and the quality of our unsecured assets, as well as the equity headroom on unencumbered assets, allows us to arrange unsecured debt.

### SECURED VERSUS UNSECURED SOURCES OF DEBT (%)



# Financial capital (continued)

## SOURCES OF DEBT (Rbn)



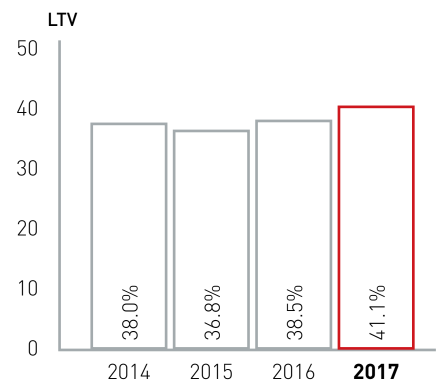

# Maintaining strong credit metrics

We strive to maintain an average LTV target range of 35% to 40%, believing this is the optimal level of gearing over the long term. During June 2017, Moody's refreshed the Redefine credit rating which remains unchanged, except for Redefine's national credit rating which improved as follows:

| Global long-term | Global short-term | National long-term | National short-term |
|---|---|---|---|
| **BAA3** | **P-3** | **AA1.ZA** | **P-1.ZA** |

On 29 November 2017 Moody's have advised Redefine that it's global scale rating has been placed under review for downgrade, following the weakening of the South African government credit profile. Redefine has encumbered R52.9 billion (2016: R38.8 billion) of its property assets against secured borrowings of R21.9 billion (2016: R16.4 billion). For unsecured lenders (currently R12.8 billion), R62.2 billion of property assets are available (the remaining unsecured property assets of R31.2 billion, plus the secured assets' funding headroom of R31.0 billion) to support their exposure.

Redefine is looking to increase its level of unsecured borrowings by leveraging this situation, which has the added benefit of providing the unsecured lender with a diversified asset pool.




90 Rivonia, Sandton

# Manufactured capital

## What manufactured capital means to Redefine

Our manufactured capital is our diversified property asset platform, comprising local and international property investments, which effectively represents the deployment of financial capital.

We are tasked with allocating our manufactured capital to ensure its highest and best use to sustain long-term value creation.

### Creating value

We allocate capital where we believe sustained stakeholder value can be created and reduce risk by diversifying our property portfolio. To this end, we continue to invest in well-located properties that are high value, high quality and more efficient, with a focus on blue-chip tenants to secure growth in rentals and to diversity geographically by investing offshore – all of which result in improved cash flow.

## Highlights

- Completed the **acquisition** of Pivotal as part of our drive to **improve** the quality of our **local portfolio**
- Acquired two attractive **development sites** for **student accommodation** in Australia with the potential to cater for up to **1 500 additional beds**
- Property assets expanded by **R11.4 billion to R84.1 billion**

Reduced vacancy to **4.6%** from 4.9% in a tough trading environment

Completed developments totalling **R3.0 billion**

Sold our holding in Delta Property Fund to a black women-led BEE consortium for **R1.5 billion**

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| **Local political instability and policy uncertainty continues to contribute to weak domestic economic growth** | → To address these challenges we have focused on the factors we can control, looking inward to ensure we have a sharper focus on operational efficiency and effectively managing relationships<br>→ We continue to build our diversified, quality property platform – both through acquiring the right properties and by disposing of non-core assets<br>→ We invest in local and international properties that are strategically selected to attract and retain top tenants, accomplish steady growth and secure growth prospects in the long run |
| **Weak growth in certain international markets** | → Given the low growth in the United Kingdom and Australia, we continually review our exposure to these markets while balancing our international portfolio with investments in high-growth markets such as Poland, which holds great promise for growth through acquisition, development and extensions |
| **The availability, cost and competition for capital continues to increase, inhibiting our ability to acquire and develop new buildings** | → Recycling of capital became a prominent feature in capital management during 2017<br>→ Given that our current cost of capital and LTV ratio is at the upper end of our comfort zone (circa 41%), this trend is expected to continue into the 2018 financial year |
| **Ongoing municipal inefficiencies in some municipalities regarding delays in the town planning processes and utility billing** | → We'll continue to reposition our portfolio around quality and location. Ownership of properties in municipalities that are not meeting service delivery standards, and are slow in processing regulatory permissions, are being carefully reviewed. Ongoing consideration and action is being initiated to move business operations out of such municipalities |

# Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Expand foreign income and capital growth opportunities at low risk | ▲ |
| Optimise asset allocation between defensive and secondary properties | ▲ |
| Explore investments outside traditional sectors | ↻ |
| Maintain a long-term strategy per asset | ↻ |
| Recycle capital to sustain future growth | ↻ |
| Limit speculative development to a maximum 5% of portfolio value | ▲ |
| Exploit non-GLA income opportunities | ↻ |
| Extend lease expiry profile | ↻ |
| Reduce vacancies | ↻ |

▲ Achieved target ↻ Still in progress/ongoing[1] ▼ Did not achieve target

# Priorities for 2018

- Tenant **retention** is a top-of-mind priority, as well as **reducing vacancies** and extending the lease expiry profile
- In a constrained environment, there is a flight to quality. Therefore, we continue to **improve**, **expand** and **protect** our domestic properties in order to **attract** and **retain quality** tenants
- Non-core assets (secondary properties, Africa and listed securities) to be **recycled**
- Expand **foreign income** and **capital growth** opportunities at low risk
- **Maintain** and **implement** a long-term strategy per asset
- Continue to identify **innovative** non-GLA income **opportunities**
- Maintain operating margins and **optimise energy**, **water usage and recoveries** in our existing buildings
- **Increased** focus on tenant and broker **relationship management**
- Facilities and **utility management** interventions to further **improve operational sustainability**
- Focus on **growth** in **renewal** rentals

# Local property portfolio

## Overview

Looking back on 2017, it was a challenging year for South African businesses across the spectrum. The year brought further political, social and economic uncertainty, coupled with a weakening economic outlook and a volatile demand for space. As a result, our primary local portfolio focus remained on protecting, expanding and improving our properties. This, along with an emphasis on upgrading the quality (relevance) and efficiency, as well as extending the lease maturity profile of our local portfolio, bore fruit during the year. Our high-quality assets are well-matched to the changing needs of our tenants and shoppers, which we see as a vital advantage in securing leases in uncertain times.

As at 31 August 2017, Redefine's diversified local property portfolio was valued at R64.0 billion (2016: R51.6 billion). Despite our focus on maintaining, protecting and improving our existing portfolio, we remain open to local acquisition opportunities and are poised to capture them by taking decisive action which is in line with our strategy to secure long-term growth for our investors.

Accordingly, during the year, Redefine acquired all of the shares in property developer and capital growth fund, The Pivotal Fund Limited, in a share swap transaction. This deal further diversifies our portfolio by investing in high-quality assets, while the share swap conserves our use of cash and debt. As a result of this acquisition, the company acquired 32 properties, valued at R10.4 billion (including developments in progress and land holdings for future development). The portfolio consists of 17 office, 10 retail and five industrial properties. The initial areas of focus in such a significant acquisition included the integration of the portfolio in terms of property management systems, staff onboarding, entrenching Redefine's culture and aligning goals to our strategic objectives through asset management interventions.

During the year, the active portfolio vacancy rate decreased marginally during the year, by 0.3% (2016: 0.5%) to 4.6% (2016: 4.9%). Leases covering 536 310m² (2016: 492 126m²) were renewed during the year at an average rental increase of 2.9% (2016: 3.3%), with the tenant retention rate a pleasing 92.6% (2016: 91.8%). A further 406 406m² (2016: 401 128m²) was let across the portfolio.

25 properties with a GLA of 259 203m², which did not meet Redefine's investment criteria, were disposed of during the year to various buyers for an aggregate consideration of R1.9 billion, at an average yield of 8.4%. In addition, agreements, subject to the usual conditions precedent, were concluded for the disposal of properties for an aggregate consideration of R2.4 billion with a GLA of 227 699m², at an average yield of 8.2%.

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Office | Retail | Industrial | Specialised | Land | Total |
| Number of properties | 118 | 79 | 101 | 4 | 25 | 327 |
| Total GLA (m²) (million) | 1.4 | 1.4 | 2.0 | 0.03 | - | 4.8 |
| Vacancy (%) | 8.1 | 3.3 | 3.3 | - | - | 4.6 |
| Asset value (R billion) | 23.3 | 26.2 | 11.2 | 1.0 | 2.4 | 64.0 |
| Average property value (R million) | 183 .0 | 287.0 | 107.0 | 304.0 | 96.0 | 182.0 |
| Value as % of portfolio | 36.0 | 41.0 | 17.0 | 2 .0 | 4 .0 | 100 .0 |
| Average gross rent per m² (R) | 147.0 | 160.0 | 48.0 | 159.0 | - | 128.0 |
| Weighted average retention rate by GLA (%) | 87.0 | 94.0 | 95.0 | 100.0 | - | 93.0 |
| Weighted average renewal rental growth by GLA (%) | 0.1 | 2.0 | 5.6 | - | - | 1.7 |
| Weighted average lease period by GMR (years) | 3.3 | 3.7 | 5.1 | 4.0 | - | 3.8 |
| Weighted average portfolio escalation by GLA (%) | 7.7 | 6.9 | 7.7 | 7.9 | - | 7.5 |

Developments offer the opportunity to protect, refine and improve the quality of our assets

**Unlock new income streams**

**Strengthen tenant relationships**

**Extend the lifespan of our core properties**

In addition to Redefine's own developments, we participate with other development firms to offer customised and creative development solutions, either through improvements to existing premises or through greenfield developments, designed and developed according to a tenant's specific requirements.

Development projects in progress in the existing portfolio

**R5.2 billion**

Future committed development projects total

**R3.0 billion**

| 2016 | | | | |
|---|---|---|---|---|
| **Office** | **Retail** | **Industrial** | **Specialised** | **Total** |
| 119 | 82 | 109 | 2 | 312 |
| 1.3 | 1.3 | 1.9 | – | 4.5 |
| 8.7 | 3.6 | 3.4 | – | 4.9 |
| 18.7 | 21.5 | 11 | 0.4 | 51.6 |
| 157.0 | 262.5 | 100.5 | 205.2 | 164.3 |
| 36.3 | 41.7 | 21.2 | 0.8 | 100.0 |
| 121.8 | 144.4 | 42.3 | 147.0 | 94.2 |
| 89.4 | 90.9 | 93.7 | 100.0 | 91.8 |
| 3.4 | 6.5 | 3.5 | – | 4.5 |
| 7.6 | 7.5 | 7.2 | 8.4 | 7.8 |
| 3.3 | 3.1 | 5.7 | 4.8 | 3.8 |

**David Rice**
Chief operating officer

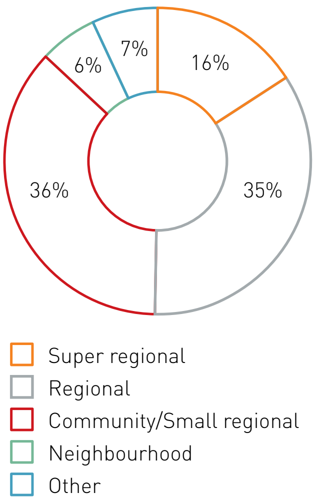
# Manufactured capital (continued)

## RETAIL PORTFOLIO

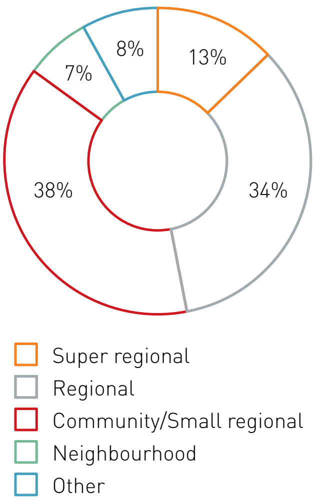
### Key indicators

- → The retail portfolio value **increased** from **R21.5 billion to R26.2 billion** with a GLA of 1.4 million $m^2$ (2016: 1.3 million $m^2$)
- → Rent-to-turnover ratios averaged **9.3% (2016: 7.3%)**
- → Footcount has **declined by 0.1%** on average (2016: -1.0%), mainly due to development activity at Benmore Gardens and Centurion Mall
- → The vacancy rate has **decreased to 3.3%** (2016: 3.6%)
- → The tenant retention rate by GLA was **93.6%** (2016: 90.9%), with an average **growth** in renewal rentals of **2.2%** (2016: 6.5%), a satisfactory result in a tight market
- → Trading density growth of **0.4%** (2016: 5.4%). Impacted by Centurion Lifestyle, Centurion Mall and the Boulders

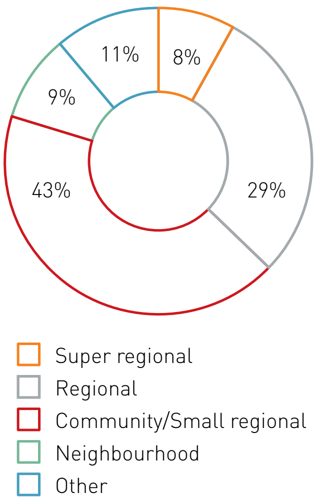
VALUE BY TYPE




GMR BY TYPE




GLA BY TYPE




## Top 5 properties by value

### CENTURION MALL

| | |
|---|---|
| **Location** | Pretoria, Gauteng |
| **GLA** | 118 533 $m^2$ |
| **Property valuation** | R4.1 billion |
| **Occupancy** | 96% |
| **Average footcount per month** | 1.2 million |
| **Major anchor tenants** | Woolworths, Pick n Pay, Checkers Hyper, Dis-Chem, Game, Edgars, Truworths and Foschini |

## EAST RAND MALL (50% OWNERSHIP)

| | |
|---|---|
| **Location** | Boksburg, Gauteng |
| **GLA (50%)** | 34 389 m² |
| **Property valuation (50%)** | R1.3 billion |
| **Occupancy** | 98% |
| **Average footcount per month** | 1.0 million |
| **Major anchor tenants** | Edgars, Woolworths, H&M, Ster-Kinekor, Truworths and Foschini |

## KENILWORTH CENTRE


| | |
|---|---|
| **Location** | Claremont, Western Cape |
| **GLA** | 53 387 m² |
| **Property valuation** | R1.3 billion |
| **Occupancy** | 100% |
| **Average footcount per month** | 0.8 million |
| **Major anchor tenants** | Pick n Pay, Checkers, Woolworths, Game, Edgars and Virgin Active |

## GOLDEN WALK

| | |
|---|---|
| **Location** | Germiston, Gauteng |
| **GLA** | 45 251 m² |
| **Property valuation** | R1.1 billion |
| **Occupancy** | 99% |
| **Average footcount per month** | 1.3 million |
| **Major anchor tenants** | Shoprite, Pick n Pay and Woolworths |

## BLUE ROUTE MALL

| | |
|---|---|
| **Location** | Tokai, Western Cape |
| **GLA** | 55 496 m² |
| **Property valuation** | R1.0 billion |
| **Occupancy** | 100% |
| **Average footcount per month** | 0.7 million |
| **Major anchor tenants** | Checkers, Woolworths, Ster-Kinekor and Edgars |

# Manufactured capital (continued)

## RETAIL PORTFOLIO (continued)

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| **Push back from tenants on rental levels and annual escalations** | → We have a strong focus on optimising tenant mix and space utilisation to improve trading densities |
| **Low household consumption growth and increasing retail supply, resulting in increased competition for market share and depressed trading conditions** | → To address these challenges, we focus on:<br>→ Marketing to drive footcount, increase dwell time and differentiation, as well as to improve spend per head<br>→ Differentiating our centres based on experiential offerings with an associated brand positioning<br>→ Keeping tenant mix relevant to market and brand positioning<br>→ Attracting new retailers entering the South African Market, e.g. Leroy Merlin, Decathlon and H&M |
| **Increase in administered costs** | → We remain focused on implementing initiatives to optimise utility costs and contesting municipal valuations, where appropriate |
| **Rising labour costs, primarily contract security and contract cleaning services** | → We continue to pursue cost-savings initiatives, using economies of scale across the portfolio |
| **Ongoing low performance of several department stores** | → We support our tenants through initiatives such as restructuring lease terms, space allocation and re-leasing of excess area to alternate tenants |
| **Increase in crimes perpetrated in malls** | → We continue to explore and implement preventative security measures and procedures, including staff training and new technology, as well as cooperation with community policing forums and SAPS |

### Overview

The lack of economic growth continues to contribute to weak consumer confidence. As a result of the tough trading conditions, there is significant push back from tenants regarding lease renewal rentals, escalations, duration of leases and tenant installation contributions. Continuous engagements are being held with national retail role players, with a particular emphasis on lease discussions.

In addition, retailers continue to close secondary and non-performing stores with a focus on "right-sizing".

Coupled with this, super-regional and regional centres continue to lose market share due to cannibalisation and convenience shopping, and accordingly continue to see a reduction in footfall.

Shoppers are looking for a personal experience, and shopping centres must differentiate their product offering.

This requires innovative marketing and management, an appealing product, and a real understanding of our shoppers and their requirements, to drive tenant mix.

### Development activity

| Property | Description | Total cost R | Yield | Completion date |
|---|---|---|---|---|
| **Development projects completed during the year** | | | | |
| Matlosana TWT | New value retail development | 7 763 000 | 9.3% | December 2016 |
| Kyalami Corner | New retail development | 449 130 088 | 8.6% | April 2017 |
| Benmore Gardens Phase 2 | Retail redevelopment | 75 594 000 | 7.2% | December 2016 |
| East Rand Mall | Alterations and additions | 233 354 490 | 5.6% | November 2016 |
| Sammy Marks Square | Extension and redevelopment | 7 514 620 | 16.0% | November 2016 |
| Stoneridge Phase 1 | Mall upgrade | 41 289 000 | 1.5% | October 2016 |
| Kenilworth Shopping Centre | Alterations and additions | 280 560 000 | 8.9% | April 2017 |
| South Coast Mall Phase 3 | Extension and redevelopment | 32 273 736 | 6.7% | May 2017 |
| **Total** | | **1 127 478 934** | **10.4%** | |

| Property | Description | Total cost R | Yield | Completion date |
|---|---|---|---|---|
| **Current redevelopments in progress** | | | | |
| Benmore Phase 3-4 | Retail redevelopement | 252 177 768 | 6.6% | November 2017 |
| Centurion Mall Phase 2 | Retail redevelopement | 199 929 520 | 6.3% | September 2017 |
| Park Meadows Phase 1 | Retail redevelopement | 12 774 000 | 8.3% | June 2017 |
| **Total** | | **464 881 288** | **6.5%** | |
| **Current new developments in progress** | | | | |
| Stoneridge Phase 2 | New international hardware retailer | 249 675 000 | 9.3% | August 2018 |
| **Total** | | **249 675 000** | **9.3%** | |
| **Future redevelopment projects** | | | | **Start date** |
| Matlosana Access Road | Road construction project | 51 897 916 | N/A | August 2017 |
| Centurion Mall Phase 3 & 4 | Retail and commerial | 491 242 000 | 6.0% | June 2017 |
| Brackengate: Planet Fitness | Retail | 64 682 978 | 10.0% | September 2017 |
| **Total** | | **607 822 894** | **7.3%** | |

## Responding strategically

### KEY FOCUS AREAS IN THE RETAIL PORTFOLIO DURING THE YEAR INCLUDED:

#### Differentiating

Shopper experience is the quintessential driving force in retail – respecting time, individuality, choices and the needs of each shopper. Our focus is to distinguish our centres from those of our competitors, creating outstanding places for modern consumer lifestyles. Differentiation through a defining brand positioning, as well as strong tenant mixes with new players, including new international companies, is also a critical area of focus. Getting the basics right is an ongoing priority – this includes ensuring convenience (access and egress), safety, cleanliness (toilets), signage, tenant mix and managing parking tariffs to promote dwell time without penalising visitors by charging more for a longer stay. During the year, we also focused on developing specific marketing initiatives within each catchment area to absorb a higher portion of the declining retail spend.

#### Ensuring rigorous management

Optimising efficiency and strong relationship management are crucial to our ongoing success in a constrained operating environment. Managing trading density growth, occupancy costs and vacancies through space optimisation and tenant mix have been areas of focus and require ongoing engagement with all parties. We have also introduced category-based leasing across the retail portfolio, and we now have dedicated people who focus on specific merchandise categories. We believe that these combined actions will work toward further reducing vacancies and increasing income growth going forward.

#### Growing the contribution of non-GLA income

Building the contribution of non-GLA income gained significant traction during the year. Initiatives included promotional courts, kiosks, pop-up stores, in-mall media, exterior media, digital media, exhibitions and entertainment and rooftop management. Contributing to available entertainment will draw shoppers into the super-regional centres, as well as assist with dwell time and average spends.

During the year, we also expanded into third-party digital advertising. We have rolled out digital LED screens to a number of locations, including exterior sites and in-mall. While the process of attaining council approval has presented a significant challenge, we are reasonably pleased with the progress made to date. This move towards digital screens allows us to capitalise on the growing trend in the advertising industry towards digital media, which encourages more significant levels of engagement and offers more flexibility in contrast to static billboards. The initial cost of the screens is much higher than frames for static billboards and involves ongoing maintenance and data expenses. However, income derived from this type of media is significantly higher.

# Manufactured capital (continued)

## RETAIL PORTFOLIO (continued)

### WHAT IS NON-GLA?

Non-GLA income refers to the income we can derive from spaces within our portfolio that do not form part of our regular revenue streams.

### MEASURING OUR PERFORMANCE

**R61.1 million** in non-GLA revenue versus **R46.9 million** in 2016.

**29.9%** growth.

**R10.4 million**
(2016: R10.4 million)

Exterior media

Focus on iconic digital solutions on key sites, aggressive roll-out planned for 2018.

**R15.8 million**
(2016: R12.0 million)

Rooftop management

Growth of **31%** on prior year. Development of a standard pricing model and improved process and awareness in the business.

**R1.6 million**
(2016: R1.0 million)

Connectivity (Fibre)

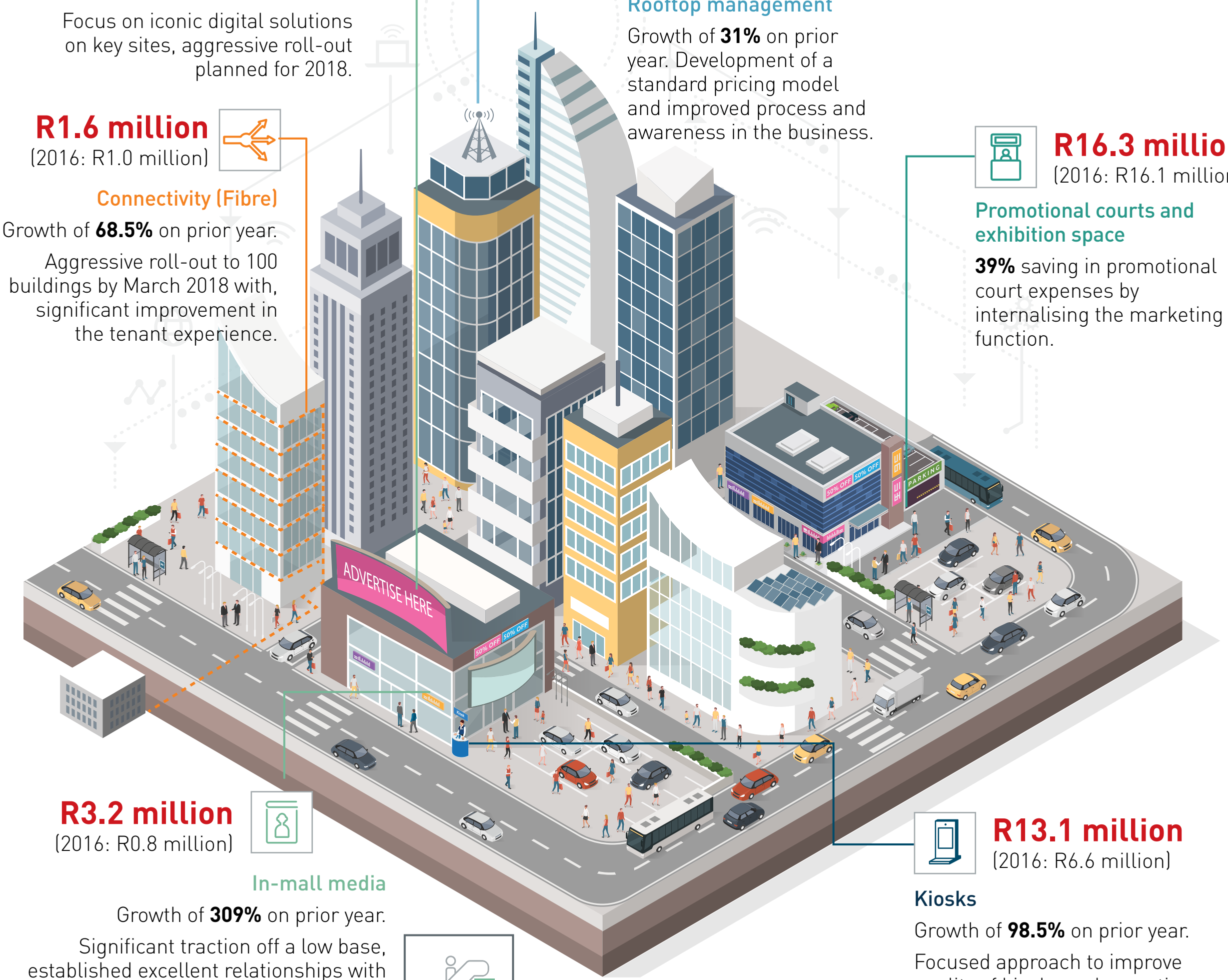
Growth of **68.5%** on prior year.

Aggressive roll-out to 100 buildings by March 2018 with, significant improvement in the tenant experience.

**R16.3 million**
(2016: R16.1 million)

Promotional courts and exhibition space

**39%** saving in promotional court expenses by internalising the marketing function.




**R3.2 million**
(2016: R0.8 million)

In-mall media

Growth of **309%** on prior year.

Significant traction off a low base, established excellent relationships with different media partners, each specialists in their specific mall classification.

**R13.1 million**
(2016: R6.6 million)

Kiosks

Growth of **98.5%** on prior year.

Focused approach to improve quality of kiosks and executing a strategic leasing plan.

Other

Additional focus on identification of new revenue streams and innovation. Good growth, delivering over **R600 000** in 2017.

## Outlook

The retail sector remains a highly competitive environment, characterised by low growth and oversupply. Continued tension in retail lease negotiations is expected and astute management will be required to achieve a favourable balance between escalations, vacancies and strategic tenancies. Consumer spending will remain subdued, and the retail sector will continue to be a battlefield for market share.

Regional and super-regional centres will likely continue to experience lower growth while convenience centres are likely to outperform. Retailers will continue to focus on the cost of occupation in a bid to maintain margins and, combined with increases in administered costs and declining sales growth, rental levels will be under pressure.

In this challenging operating context, there will be a continued focus on marketing and brand positioning of each retail asset, improving tenant mix, innovative leasing strategies, including entertainment elements that attract shoppers, and focused cost control.

Retail statistics and consumer spending patterns indicate that consumers are favoring community and regional shopping centres, with community centres leading trading density growth by 2.7%.

The rent-to-sales ratio for centres in these categories are also low relative to super regionals, indicating that the current rentals and associated growth is sustainable in these centres.

Redefine's exposure to community and regional centres (77% by value and 72% of its gross monthly rental) places the retail portfolio in a good position to address the market challenges facing the retail sector, and to deliver sustainable returns.

## MEETING TENANTS' NEEDS

As French home-improvement and gardening retailer, LEROY MERLIN, prepares to open its first store in South Africa, Redefine is proud to be partnering with them as they embark on this journey.

Part of the ADEO Group, which boasts a workforce of 89 000 employees worldwide, LEROY MERLIN is the world's third largest international DIY retailer, operating in over 12 countries with nearly 400 chain-stores.

To differentiate itself, LEROY MERLIN aims to offer a variety of internationally sourced products and specialised advice for a customer of any level of expertise and will pay particular attention to staying close to their customers. Each store has between 30 000 and 60 000 products available and aims to assist the shopper in every aspect of their project. The new store will open at Stoneridge Mall in Modderfontein during the second part of 2018. Consisting of 16 343m² of gross lettable area and over 450 parking bays, the store will be the first in the country.

The lower level will boast a showroom and 3 000m² material yard, while the upper level will contain 8 810m² of trading floor with an office mezzanine, as well as a storage and pick-up area.

The project involved converting a specification document, suited to the European environment, into one adapted for the South African market, while still providing the tenant with their expected level of quality, look and feel.

We hope to build a lasting relationship with LEROY MERLIN and have subsequently commenced negotiations elsewhere in the Redefine portfolio.

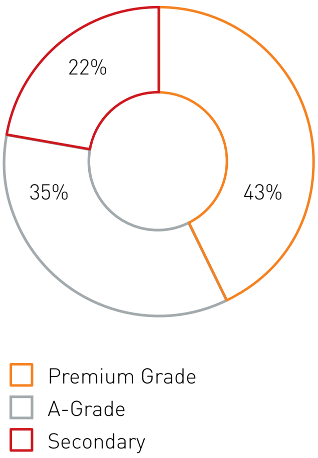
# Manufactured capital (continued)

## OFFICE PORTFOLIO

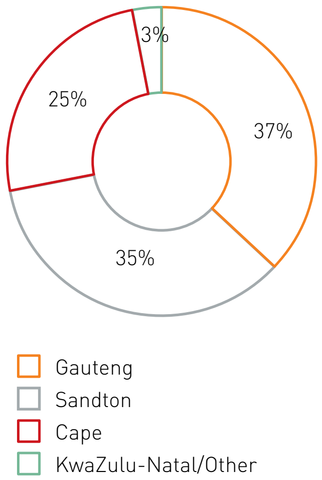
### Key indicators

- The office portfolio value **increased** from **R18.7 billion to R23.3 billion**, principally due to the acquisition of the Pivotal portfolio. The core portfolio remained relatively static, showing a **growth** in value of **1.25%** with a GLA of 1.4 million m$^2$ (2016: 1.3 million m$^2$)
- The portfolio is **70%** let to **P-** and **A-grade** tenants
- Vacancies **improved** to **8.1%**, which is lower than the prior year's 8.7% due to challenging economic conditions
- Tenant retention rate by GLA was **87.1%;** however, the cost of retaining tenants is high
- Average **growth** in renewal rentals of **0.1%**

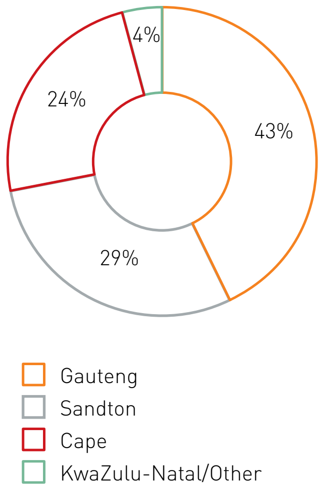
VALUE BY GRADE




VALUE BY LOCATION




GMR BY LOCATION




## Top 5 properties by value

### ALICE LANE

| | |
|---|---|
| **Location** | Sandton, Gauteng |
| **GLA** | 70 758 m$^2$ |
| **Property valuation** | R2.6 billion |
| **Occupancy** | 87% |
| **Key tenants** | Bowman Gilfillan, Marsh and Sanlam |

## BLACK RIVER OFFICE PARK

| | |
|---|---|
| **Location** | Observatory, Western Cape |
| **GLA** | 71 474 m² |
| **Property valuation** | R1.5 billion |
| **Occupancy** | 97% |
| **Key tenants** | Dimension Data and Adidas |

## 90 RIVONIA ROAD

| | |
|---|---|
| **Location** | Sandton, Gauteng |
| **GLA** | 39 864 m² |
| **Property valuation** | R1.2 billion |
| **Occupancy** | 97% |
| **Key tenant** | Webber Wentzel |

## THE TOWERS

| | |
|---|---|
| **Location** | Foreshore, Western Cape |
| **GLA** | 59 358 m² |
| **Property valuation** | R1.1 billion |
| **Occupancy** | 98% |
| **Key tenants** | Standard Bank, Vodacom, City of Cape Town and Innovation Holdings |

## 115 WEST STREET (50% OWNERSHIP)

| | |
|---|---|
| **Location** | Sandton, Gauteng |
| **GLA** | 20 546 m² |
| **Property valuation** | 0.8 billion |
| **Occupancy** | 100% |
| **Key tenant** | Alexander Forbes |

# Manufactured capital (continued)

## OFFICE PORTFOLIO (continued)

| CHALLENGES | STRATEGIC RESPONSES |
| --- | --- |
| **Lacklustre economic growth, coupled with increased vacancies in the office sector, continue to place pressure on rentals and returns across the office portfolio**<br>**Furthermore, new supply coming into the market, even in prime nodes such as Sandton and Rosebank, means increased competition and higher vacancies in secondary properties** | → There is still evidence of healthy demand for high-quality accommodation in prime nodes. Our office properties are primarily situated in these nodes, geographically spread across South Africa's major metropolitan areas, and are substantially let to blue-chip tenants<br>→ We also continue to improve our product offering to remain competitive and working proactively to incentivise prospective tenants to relocate through innovative deal structures and tenant installation offerings, combined with competitive rentals |
| **The demand from tenants to reduce space and consolidate offices continues, complemented by the demand for serviced office and flexible leases, as more staff members work remotely** | → By targeting flexible workspace companies and opportunities within the South African market, we have been able to capitalise on this market trend and are continuously growing the contribution from these tenants |
| **Third-party tenant representation remains a key trend, placing growing pressure on property owners to stay competitive, driving down asking rentals and increasing the cost of tenant installations** | → Our approach to business, investment and specifically tenant retention, allows us to be in a position to respond appropriately to third-party professional tenant representation.<br>→ We build professional relationships, have the products in key locations and price competitiveness due to innovative deal structuring, where necessary |
| **Increased pressure on core building design elements, specifically relating to occupancy and space efficiency** | → All our new developments are built to meet these design specifications, as well as our long-term asset management strategies |

### Overview

Political uncertainty and weak economic growth, coupled with an oversupply of office space in the market in general, continued to place pressure on rentals and returns across the office portfolio. Although there is still potential for additional development in prime nodes, it is likely that developers will take a more cautious approach, refraining from speculative developments – awaiting sufficient demand from tenants. Remaining relevant through refurbishment and redevelopment of well-located properties, to ensure continuity of rental growth and to stay competitive in a tough leasing market, remains a focus.

### Development activity

| Property | Description | Total cost R | Yield | Completion date |
| --- | --- | --- | --- | --- |
| **Office developments and re-developments completed during the year** | | | | |
| Alice Lane 3 | New commercial development | 948 109 098 | 9.5% | April 2017 |
| Hill on Empire A | New commercial development | 162 065 636 | 9.0% | April 2017 |
| Rosebank Towers | New development (RDF 42.5% share) | 306 153 151 | 9.5% | November 2016 |
| Rosebank Corner | Commercial upgrade | 19 804 852 | 12.2% | December 2016 |
| Sandhurst Office Park | Commercial upgrade | 101 788 014 | 1.5% | September 2016 |
| **Total** | | **1 537 920 751** | **9.0%** | |

| Property | Description | Total cost | Yield | Completion date |
|---|---|---|---|---|
| **Current new office developments in progress** | | | | **Start date** |
| 2 Pybus | New commercial development | 475 518 700 | 8.0% | April 2019 |
| Loftus Phase 1 & 2 | New mixed-use development | 598 036 917 | 9.1% | March 2018 |
| Park Central | Residential | 425 775 822 | 13.1% | June 2019 |
| Rosebank Link | New commercial development | 712 131 090 | 8.7% | November 2018 |
| **Total** | | **2 211 462 529** | **10.0%** | |

## Responding strategically

### KEY FOCUS AREAS IN THE OFFICE PORTFOLIO DURING THE YEAR INCLUDED:

SPACE2SPEC

#### Tenant retention and attraction remains essential

Tenant retention remains our top priority in a very competitive environment. During the year, we continued with our leasing campaign, Space2Spec, to ensure the offering of selected properties is even more attractive by allowing the new tenant to customise the rental on selected secondary properties. Ensuring our buildings are both aesthetically appealing, as well as operationally efficient, remains key in attracting and retaining quality tenants. Facilities and utility management interventions to further improve operational sustainability, therefore, remain priorities. During the year, we increased the number of Green Star-rated buildings to 43 existing properties (2016: 14).

#### Driving development, as well as refurbishment and redevelopment

We completed several developments, totalling R1.5 billion, at a yield of 8.9%. Alice Lane Building 3, a R984 million development, was completed during April 2017. The R712 million Rosebank Link development, strategically located near the Gautrain station, is anticipated to be finalised end of 2018, well in advance of competing speculative developments in the Rosebank node. The R476 million redevelopment of 2 Pybus (adjoining 90 Rivonia Road) to house advocates' chambers is well underway for completion in April 2019, and is 75% pre-let. Loftus Phase One, an office, gym, retail and hotel development totalling 34 850m$^2$ and costing R598 million, is expected to be completed in March 2018. Post year end, demolition works commenced at the Galleria site in preparation for mixed-use development.

#### Targeting flexible workspace

Working practices are changing, with office workers and their employers gradually adopting a more relaxed view of the traditional nine-to-five, five-days-a-week working structure, fuelling space reduction requirements most apparent with sections of the commercial market such as sales and administration. To capitalise on this trend, we've partnered with a flexible workspace solutions company, increasing our exposure in this area of the market.

The **R712 million** Rosebank Link development, strategically located near the Gautrain station, is anticipated to be finalised end of 2018, well in advance of competing speculative developments in the Rosebank node.

# Manufactured capital (continued)

## OFFICE PORTFOLIO (continued)

### Outlook

We foresee no marked improvement in overall office vacancy rates during 2018, with high vacancy rates in both secondary and prime nodes as new developments come online and demand for serviced office and flexible leases are expected to increase as more staff members work remotely.

In a constrained environment, a continued focus on sustainability and increased operational efficiency of buildings will remain top of mind for tenants. Our aim is for all new offices to have at least a 4-star green rating and we made impressive progress during the year on rating existing buildings. This focus on sustainability is particularly pertinent given the water crisis faced in the Western Cape.

Tenant retention will remain a focus going forward. The challenge currently in the market is a strong downward pressure on expiry rentals. We will also continue to focus on the redevelopment of existing well-located buildings, rather than large-scale development of new buildings.

Concentrated property management and building tenant relationships to secure long-term tenancies is vital. Increased focus on broker relationships and tenant experience management will also be priorities to differentiate ourselves in the market.

### ADVOCATING FOR OUR TENANTS

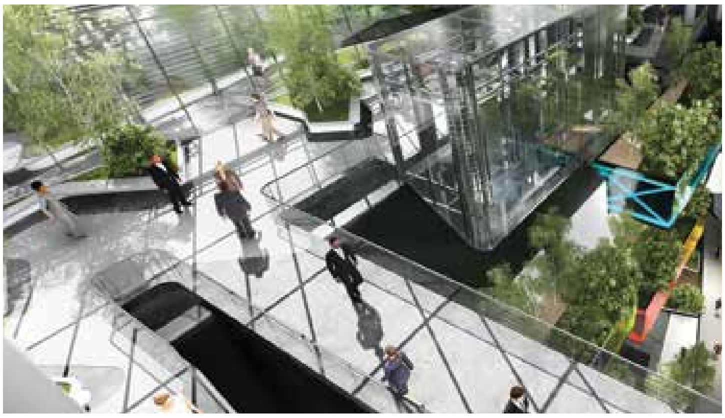
In an era defined by fast-paced innovation, we realise we need to anticipate the needs of our tenants in order to remain the landlord of choice. Our new R476 million Sandton-based office development, Advocates (2 Pybus), has been designed with advocates' needs in mind, seeking to match the exacting demands of legal services in a functional and aesthetically pleasing manner.

Our vision for the building was to create a landmark office development to represent the pursuit of business and the legal practice. The scheme offers a contemporary yet sleek and timeless design, which is both internationally inspired and locally grounded, responding to the site specifics. The design knits the new building into the supporting environment and creates a generous and welcoming architectural form, which contributes to and engages positively with its surrounds. We have sought to modernise the traditional work experience, creating a space that meets operational efficiency and client expectations.

The building has 15 levels in total, 6 parking levels, 8 office levels and a ground floor – and will offer 13 500 m$^2$ GLA. It is surrounded by blue-chip tenants – and is near the Sandton Gautrain station and bus networks.

As part of the best-practice good business journey, the Advocates building is one that is being built with sustainability at the forefront of our thinking and is set to achieve a 4-star GBCSA green rating.  A combination of sensible passive design principles and selected active technologies will be used to minimise the impact of the building and its ongoing use on the environment, as well as to enhance the experience of working in and visiting the building.

## MAKING THE LINK



The new 15-storey office tower, located at 173 Oxford Road in the heart of the bustling and cosmopolitan Rosebank has aptly been named Rosebank Link. The building will have direct, convenient and safe access to the Gautrain station through a landscaped ground-level pedestrianised thoroughfare. It will offer tenants a unique location, immediately adjacent to The Zone and Rosebank Mall, and will offer an estimated gross lettable area of 19 000m$^2$ of office space, with approximately 817m$^2$ of retail on the ground floor.

Construction commenced during July 2016 and is expected to be completed by the end of 2018. The project will see the existing building transformed into an expressive steel and glass-clad structure, a signature visual that will have an imposing presence on the skyline.

Rosebank, with its recent facelift from an older office node to a mixed-use precinct, is attracting tenants looking to move out of their outdated and inefficient office spaces to more modern and Green Star-rated properties.

Rosebank Link is designed to draw as much daylight as possible into the building, with a multi-storey, enclosed north-facing atrium, fashioned to capture sunlight. Landscaped terraces on the upper two floors are part of the overall design. The green terraces will complement the upper two floors by benefiting the tenancies with spectacular views and creating external breakaway areas. Contributing further to Rosebank Link's green credentials, are smart metering throughout, motion sensor-based internal lighting, backup water, and backup on-site power generation for essential building services only.

**Mike Ruttell**
Executive director: development

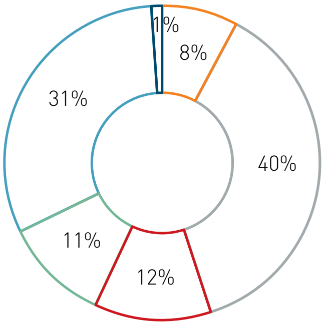
# Manufactured capital (continued)

## INDUSTRIAL PORTFOLIO

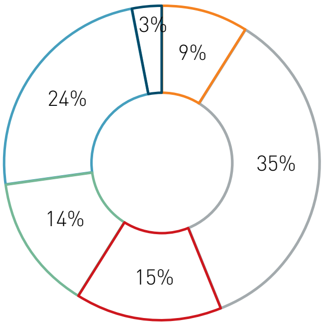
### Key indicators

- → The industrial portfolio value **increased** from **R11.0 billion to R11.2 billion**, with a GLA of R2.0 million $m^2$ (2016: 1.9 million $m^2$)
- → Vacancies improved to **3.3%** (2016: 3.4%)
- → Retention rate by GLA was **95.2%** (2016: 93.7%)
- → Average **growth** in renewal rentals of **5.6%** (2016: 3.5%)
- → Developable bulk of **1.3 million $m^2$**

VALUE BY TYPE




GLA BY TYPE

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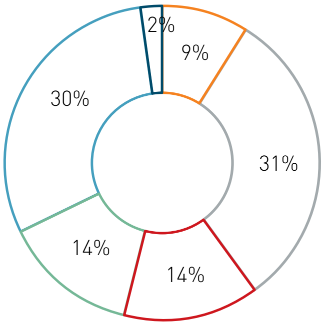



Warehousing Heavy grade industrial Light manufacturing Industrial units Modern logistics Other

## Top 5 developed properties by value

### MACSTEEL PORTFOLIO


| | |
|---|---|
| **Location** | Various |
| **GLA** | 552 641 $m^2$ |
| **Property valuation** | R3.4 billion |
| **Occupancy** | 100% |
| **Key tenant** | Macsteel |

## PEPKOR ISANDO

| | |
|---|---|
| Location | Isando, Gauteng |
| GLA | 107 017 m$^2$ |
| Property valuation | R0.8 billion |
| Occupancy | 100% |
| Key tenant | Pepkor Trading |

## ROBOR

| | |
|---|---|
| Location | Elandsfontein, Gauteng |
| GLA | 120 277 m$^2$ |
| Property valuation | R0.6 billion |
| Occupancy | 100% |
| Key tenant | Robor |

## CATO RIDGE DC

| | |
|---|---|
| Location | Cato Ridge, KwaZulu-Natal |
| GLA | 50 628 m$^2$ |
| Property valuation (R'million) | R0.3 billion |
| Occupancy | 100% |
| Key tenants | Massmart and Pepkor Trading |

## WINGFIELD PARK

| | |
|---|---|
| Location | Boksburg, Gauteng |
| GLA | 56 486 m$^2$ |
| Property valuation (R'million) | R0.3 billion |
| Occupancy | 93% |
| Key tenants | Sandvik and Kintetsu World Express |

# Manufactured capital (continued)

## INDUSTRIAL PORTFOLIO (continued)

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| Macroeconomic conditions, including the contraction in manufacturing sectors such as textile, automobile and furniture industries and supplier-based operations to the mining sector, continued to place pressure on tenants | → We continue to focus on working with our tenants to improve the efficiency of our buildings and negotiate conditions that support their businesses. We have implemented an asset improvement roadmap on existing buildings to enhance tenant retention and buffer against rent reversions |
| Increased development costs are placing pressure on yields | → We focus our development expenditure on those areas that will reap the most benefit for Redefine and our tenants in the long term while leveraging our relationships with professionals in the industry to ensure we achieve the best prices for each stage of development |
| Keeping pace with the demand for buildings that meet new trends in operational and energy efficiency | → Focusing on tenant-driven development schemes and innovative design methods |
| Lead time with local authorities continues to weigh on efficiency. Concerns include town planning processes, services installation and additional municipal infrastructure required by new builds | → Proactive engagement remains vital. We seek to establish positive relationships with local authorities and capable town planners |

### Overview

The industrial market is highly competitive, but has become a defensive sector for Redefine with its long-lease maturity profile. Portfolio rentals remain under pressure as tenants continue to demand shorter lease terms, and corporate representation of tenants for the purpose of business assessment and the negotiation of lease terms gain a greater presence in the market.

The continuing rise in transport costs and the knock-on impact this has on tenants has continued to play a role in the location tenants choose for their businesses. The location of industrial property in proximity to major highways, close to ports and surrounded by sound road infrastructure, remains key to securing longevity in tenant tenure.

Demand for quality assets in prime nodes remains high, however, and our portfolio's long lease profile has proven to be defensive in challenging market conditions.

A focus on acquiring hi-tech industrial assets within prominent warehousing nodes remains a priority.

### Development activity

| Property | Description | Total cost R | Yield | Completion date |
|---|---|---|---|---|
| **New projects completed during the year** | | | | |
| 34 Wrench Road | New industrial facility | 193 721 000 | 8.1% | March 2017 |
| Midway Park | New industrial facility | 124 724 799 | 8.0% | October 2016 |
| Golf Air 2 | New industrial facility | 85 665 904 | 8.5% | December 2016 |
| **Total** | | **404 111 703** | **8.2%** | |

| Property | Description | Total cost R | Yield | Completion date |
|---|---|---|---|---|
| **Current new projects in progress** | | | | |
| S&J Infrastructure Phase 1 | Infrastructure project | 131 418 896 | N/A | December 2017 |
| Atlantic Hills Phase 1 & 2 | Infrastructure project | 145 626 810 | N/A | March 2018 |
| Brakengate GEA | New industrial | 65 865 089 | 9.0% | March 2018 |
| Brakengate Phase 1 | Bulk infrastructure installation | 341 892 057 | N/A | May 2018 |
| Brakengate Bidvest | Bidvest and spec development | 81 388 224 | 9.09% | March 2018 |
| Hirt & Carter | New industrail facility | 600 358 474 | 8.5% | July 2019 |
| **Total** | | **1 366 549 550** | **7.6%** | |
| **Current redevelopments in progress** | | | | **Start date** |
| Amalgamated Tedelex | Industrial demolition | 982 756 | N/A | November 2017 |
| Denver Industrial | Industrial demolition | 1 749 796 | N/A | September 2017 |
| **Total** | | **2 732 552** | **N/A** | |

## Responding strategically

### KEY FOCUS AREAS IN THE INDUSTRIAL PORTFOLIO DURING THE YEAR INCLUDED:

#### Developing key nodes

The location of industrial property in proximity to major highways, close to ports and surrounded by sound road infrastructure remains key to securing longevity in tenant tenure. We, therefore, focus on nodes that appeal to our tenants' interest in saving on transport costs, where possible.

In March 2017, the R194 million redevelopment at 34 Wrench Road in Isando, Gauteng – one of the country's first warehouses equipped with high-efficiency LED lighting at a stacking height of 15 metres – was completed. We also commenced the R600 million, 45 700m$^2$ print facility for Hirt & Carter at Cornubia, north of Durban.

In the Western Cape, the first three developments are underway at Brackengate 2 for GEA and Bidvest, where negotiations on the warehousing and logistics segment are progressing well, and sales of non-core land are well advanced. In the east of Gauteng, the installation of main public roads infrastructure at S&J Industrial Estate is expected to be complete by November 2017, which we believe will drive momentum on leasing and interest by owner-occupiers inside the 163-hectare precinct.

#### Maintaining tenancies

It is costly for tenants to relocate and by improving our facilities, we can assist our tenants in managing the cost of occupation while meeting their operational requirements. Our asset improvement roadmap is, therefore, a pragmatic strategy to enhance tenant retention and buffer against rent reversions.

Aged properties located within strong industrial nodes are evaluated for redevelopment and measured against what is available in the market – finding the most efficient way to deploy capital. The property management teams have begun to engage with tenants earlier in their lease periods to discuss renewal terms and opportunities to enhance their business premises.

#### Gaining new tenancies

We incorporate key design elements in warehousing developments to functionally differentiate our offering in desirable nodes such as Cape Town and Gauteng, where we have a substantial land bank. Additionally, our Space2Spec letting incentive – the first of its kind in industrial vacancies – has improved letting in the industrial portfolio.

#### Continued focus on logistics and warehousing

While vacancies remain high among older industrial and warehousing units predominantly serving the manufacturing industries, demand continues to grow for new highly efficient logistics and warehousing units along main arterial routes. Logistics and warehousing are focus areas that continue to advance Redefine's strategy of diversifying, growing and improving the quality of the industrial portfolio.

# Manufactured capital (continued)

## INDUSTRIAL PORTFOLIO (continued)

### Outlook

The industrial sector is set to continue to face significant challenges in line with the broader economy. As long as economic growth remains constrained in SA, industrial developments will continue to struggle against low rental growth.

Despite these headwinds, demand for modern logistics and warehouse space is set to multiply in major nodes, and experts believe the industrial property sector offers great potential for growth, especially in developing quality generic warehousing and distribution centres that are intelligently designed to meet changes in user demand. To capture these opportunities in industrial property, an agile approach is required to understand and meet industry needs in line with the efficiency of movement and the handling of goods.

### DEVELOPING FOR THE FUTURE

During the year, we announced the launch of S&J Industrial Estate, one of our largest industrial developments to date. Once part of the larger Simmer & Jack Mine, the S&J Industrial Estate spans over 163 hectares of developable land, located on a prime site along the N3 highway, adjacent to the Geldenhuys interchange.

Majority-owned by Redefine Properties, which has committed R154 million for the bulk infrastructure to date, together with Abland, this acquisition meets Redefine's strategy of identifying quality property opportunities in desirable nodes, enabling the business to secure strong lease covenants. With the main bulk infrastructure project on track, top structure developments are possible from early 2018.

Located among the burgeoning commercial and residential areas of Germiston, Bedfordview, Meadowdale and Alberton, the site, once fully developed, is set to create over 5 000 new jobs.

The development rights secured can accommodate manufacturing, logistics and commercial uses and include the opportunity for a fuel station, as well as a convenience retail centre within the node. With a focus on logistics and light manufacturing, businesses operating from the new estate will be able to circumvent the congestion that frequently occurs at Gillooly's interchange when travelling to and from Durban port and inland destinations.

S&J will feature urban design that seeks to improve the landscape value of the estate while retaining and celebrating its heritage. Elements like the winding house, left behind by the mine and dating back to the 1950s, will be incorporated into the aesthetics of the estate.

Forming part of the greater bulk services project, construction of the two main roads within the estate will be completed by November 2018. Once complete, these roads will unlock upwards of 118 hectares of developable land, of which approximately 60% will be available for disposal to owner-occupiers.

Having already received enquiries for over 380 000m² in industrial land sales and development, we expect market interest to increase further once the major bulk services and roads, due for completion early in 2018, are established.

# HIGH-RETURN INVESTMENTS

In this sector, we are looking to diversify our domestic portfolio into higher yielding, non-traditional property asset classes.

## Unlocking value in student accommodation

There remains an undersupply of quality well-located student accommodation, resulting in a strong demand for student housing. For Redefine, it provides an opportunity to recycle well-located secondary offices into student accommodation. Our exposure to student accommodation is through our 51% holding in Respublica Student Living (RSL), a company that specialises in the development and management of student residences.

RSL's current bed capacity of 5 873 will grow to 9 210 beds by 2019 once committed expansion activity is completed, with Hatfield Square Blocks C and D, comprising 535 and 1 030 beds respectively, making up the bulk. The extension of Yale Village by a further 195 beds and the spread outside Gauteng into Bloemfontein (469 beds), Cape Town (570 beds) and Pietermaritzburg (576 beds) accounts for the balance of the expansion activity.

### Development activity

| Property | Description | Total cost R | Yield | Completion date |
|---|---|---|---|---|
| **New residential student accommodation completed during the year** | | | | |
| Yale Village | Residential conversion | 76 660 377 | 9.7% | February 2017 |
| Respublica MGI | Residential revamp | 12 891 331 | N/A | February 2017 |
| **Total** | | **89 551 708** | **9.7%** | |
| **Current new residential student accommodation in progress** | | | | |
| Hatfield Square | Student accommodation | R852 483 508 | 10.6% | October 2018 |
| Tolkien House | Student accommodation | R103 362 535 | 10.5% | February 2018 |
| **Total** | | **955 846 043** | **10.5%** | |
| **Future residential student accommodation development projects** | | | | **Start date** |
| Claremont Respublica | Student accommodation | R231 681 683 | 10.0% | September 2017 |
| **Total** | | **231 681 683** | **10.0%** | |

### THE CASE FOR STUDENT ACCOMMODATION

Where others see challenges, we make it our business to seek out and capitalise on opportunities by meeting the needs of our stakeholders. In understanding our interest in student accommodation, it is essential to understand three important drivers:

→ **Growth in student enrolment rates**
As of 2016, there were over 1.8 million students enrolled at universities and technical colleges in South Africa. The Department of Higher Education and Training reports that, between 2009 and 2014, there was an increase of 15.7% (131 375 new students) in public university enrolments and a 67% (289 060 new students) increase in registrations at technical and vocational education and training colleges.

→ **Growth in state financial aid**
In total, funding allocation to higher education increased from approximately R17 billion in 2009/2010 to R37 billion in 2016/2017. The National Student Financial Aid Scheme recorded an increase in funding from Treasury, amounting to R15 billion in 2017, compared to R1.5 billion in 2009/2010. This has resulted in over 400 000 students in South Africa gaining access to funding that was previously unavailable to them. The expansion and reprioritisation of funding is set to continue in the medium term. A direct consequence of the expanded access to funding is that more students were able to seek accommodation.

→ **Increased demand for purpose-built student accommodation (PBSA)**
Residences on university and college campuses have not kept up with the steep growth in enrolments and on average provide for only 20% of the accommodation demand. This vacuum presents a significant opportunity for us.

# Manufactured capital (continued)

## Specialised

Rosebank Park Central, a uniquely positioned site (best suited for residential use) on the corner of Baker Street and Keyes Avenue in Rosebank, comprising 160 luxury apartments, has begun. To date, we have spent R20 million on the project, with a further R315 million required to complete the project. Thus far, 50% of the units are sold.

### FROM OFFICES TO HOMES: THE JOURNEY TO PARK CENTRAL


Our development of Park Central demonstrates our ability to capture opportunities as they arise. Understanding that the Rosebank residential market is experiencing a shortage of quality accommodation and, having a uniquely located site with a second grade office building, the decision was taken to pursue this new development in order to capitalise on the opportunity in the market, making the best use of a site that was no longer attractive for office tenants.

Park Central is a multi-million Rand, high-rise residential apartment block being developed on a site vacated by the removal of the six-storey Sasol building situated next to the Rosebank Library Park, within walking distance of the Gautrain Rosebank station, Rosebank Mall, as well as medical facilities. The homes are being sold off-plan and are priced from R2 million for an entry-level apartment to R16 million for a luxury penthouse. A show unit can be viewed at the Pam Golding Properties sales centre at 7 Sturdee Avenue.

The building will form part of an integrated urban precinct, with a vision to include pedestrian links via the parks to the Gautrain station through to the Rosebank Mall to assist residents to achieve a highly integrated lifestyle. A great deal of attention has been paid to environmental factors in the design of Park Central, as well as in the design of the individual units. Design highlights include magnificent sky gardens, manicured park and roof gardens and easy access to a host of facilities, among which is a pool and entertainment areas, gym and secure pedestrian precincts.

## Capturing opportunity through locally listed securities

The holding in Delta Property Fund, acquired through the disposal of a significant portion of secondary government tenanted office properties, was sold to a black women-led BEE consortium for R1.5 billion at the end of June 2017. Interests in Emira and Arrowhead were disposed for cash during the year. Redefine no longer holds any locally listed securities in its portfolio.

## Extracting value through additional opportunistic investments

While we pursue opportunities to enhance our income, we continue to comply with REIT status limits on non-property income.

Opportunistic investments include:

- Loans of R3.1 billion to various third parties, attracting commercial interest rates
- Solar PV projects totalling R155 million rolled out and new developments incorporating solar PV
- Non-GLA income R53 million – growth of 19.2% in 2017

### Outlook

In a challenging macroeconomic environment, creativity is key. Going forward, capitalising on alternative revenue streams, such as Solar PV and non-GLA income that are in line with our strategic input, will remain a focus.

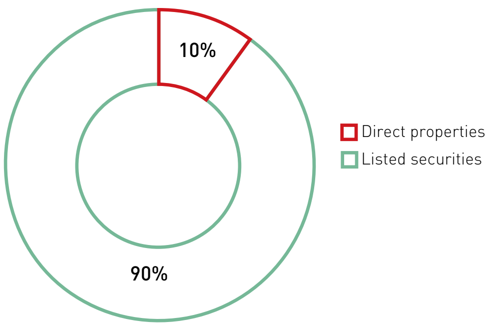
# INTERNATIONAL PORTFOLIO

Our international strategy is centred on geographic diversification and exploiting attractive initial income yield spreads.

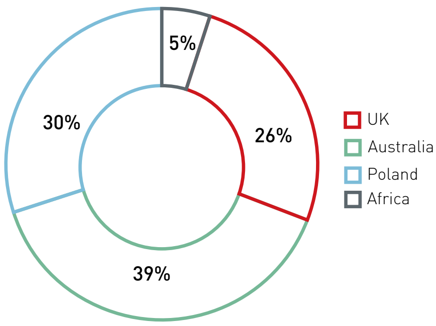
## International game plan – Geographic diversification in hard currency markets

| | |
|---|---|
| **Investment criteria** | → Local partner representation and aligned interests |
| | → Opportunities for scale |
| | → Liquid real estate market |
| | → Free flow of currency |
| | → Sophisticated tax regimes and rules of law |
| **Our focus** | → Contained exposure to UK, Australia and Poland |
| | → To provide strategic and financial support to our local partners |
| | → Invest directly where there is potential for capital uplift through value-add opportunities |
| | → Support listed investments in corporate activities |
| | → Extend and increase the level of hedged income as and when the Rand weakens |
| | → Hedge balance sheet naturally through same-currency gearing |

### INTERNATIONAL COMPOSITION




### GEOGRAPHIC SPREAD




## Outlook

We will continue to review our investments given the low growth in the United Kingdom and Australia. We do, however, see opportunity amid the challenges faced in the international property markets and will continue to broaden our exposure through expansion in Poland and develop our presence in student accommodation in Australia.

# Manufactured capital (continued)

| | UNITED KINGDOM<br>Focusing on income in a low-growth environment | AUSTRALIA<br>Exposure to stable market and global real estate investment manager |
|---|---|---|
| **Redefine's interests** | → RDI REIT PLC (formerly Redefine International) **29.5%**<br>→ International Hotel Properties (IHL) Ltd **27.5%** | → Cromwell Property Group **25.3%**<br>→ Northpoint joint venture **50%**<br>→ Journal Student Accommodation Fund **90%** |
| **GBP (2016)**<br><br>**Platform profile** | → RDI REIT PLC directly owns a **GBP1.5 billion** portfolio, **27%** of which is invested in German retail properties<br>→ IHL manages a UK-based hotel portfolio, valued at **GBP106 million** | → Cromwell has a direct property investment portfolio in Australia valued at **AUD2.4 billion** and total assets under management of **AUD9.8 billion** across Australia, New Zealand and Europe<br>→ Northpoint owns a landmark building in North Sydney with **44 levels** of mixed office and retail space<br>→ Journal owns two PBSA development sites in Melbourne |
| **Share of direct assets** | **R8.3 billion** | **R9.6 billion** |
| **Key operational highlights** | → RDI REIT PLC on track to securing **50%** interest in IHL<br>→ RDI REIT PLC occupancy high at **97.7%**<br>→ RDI REIT PLC disposals of **GBP148 million** at **12.2%** premium<br>→ IHL manages nine hotels with **1 143** rooms | → Cromwell elected not to proceed with its plans to IPO a Singapore REIT to secure recurring income for Cromwell Europe, but is currently reviewing its position<br>→ Cromwell sold its stake in IOF, realising a gain of **AUD25 million** and achieving an **18%** IRR<br>→ Completion of **AUD130 million** redevelopment of Northpoint on track for March 2018<br>→ **AUD139 million** development underway of Leicester St PBSA facility (**804 beds**), for completion by 2019 |
| **Redefine activity in 2017** | → German joint venture sold to RDI REIT PLC for **£49 million**<br>→ Concluded agreement to dispose entire IHL stake to RDI REIT PLC | → Acquired second PBSA development site in Melbourne for **AUD26 million**, with bed capacity of at least **650 beds** |
| **Strategy** | Support corporate activities to secure growth through expansion of portfolio and recycling secondary assets | → Support corporate activities to secure growth through expansion of portfolio and recycling secondary assets<br>→ Expand the PBSA operation into a scalable operation<br>→ Currently **1 454 beds** |
| **Websites** | www.rdireit.com | www.cromwell.com.au |

| | **POLAND** Emerging market growth in hard currency | **AFRICA** Acquired with the Pivotal portfolio |
|---|---|---|
| | → Echo Polska Properties (EPP) **39.6%** | → GRIT **6.3%**<br>→ Oanda Wings **37.2%** |
| | → **74.1%** exposed to retail<br>→ **25.9%** offices | → GRIT operates in five African countries<br>→ Oanda Wings owns two office towers in Lagos with a GLA of **27 000m²** |
| | **R10.5 billion** | **R1.3 billion** |
| | → Portfolio has expanded by **EUR510 million** since listing<br>→ Expansion almost exclusively in retail<br>→ Strategy to become a pure retail play advanced through sale of three office buildings<br>→ Concluded a conditional agreement to acquire retail portfolio for **EUR692 million** | As the region does not meet Redefine's investment criteria, both investments present recycle opportunities |
| | → Participated in EPP's **EUR150 million** equity raise – **ZAR860 million** invested<br>→ Refinanced funding of EPP | |
| | Support expansion of EPP's retail portfolio through acquisition, development and extensions to transition property portfolio to a pure retail play | |
| | www.echo-pp.com | |

# Human capital

## What human capital means to Redefine

Our human capital refers to our employees – our key resource and a strategic differentiator. Their knowledge, skills, attitude and innovation enable us to realise our vision of being the best South African REIT.

### Creating value

We strive to cultivate and harness the power of our employees' passion and commitment, differentiating ourselves through a dedicated people-centric approach to business as our employees go above and beyond the call of duty.

## Highlights

→ Certified as a **Top Employer** for **2018** by the **Top Employers Institute**

→ **Completed the fifth of our learnership programmes** with **23%** of the 2016 class **employed** full-time at **Redefine**

Maintained our overall employee engagement capital score at **77%**

Invested more than **R12 million** in training and development

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| **Attracting, retaining and engaging key staff in an environment where there is a shortage of experienced people** | Strengthening our employer brand to position Redefine as an employer of choice through deepened employee engagement strategies and benchmarking our progress through initiatives such as the Top Employer certification |
| **Meeting the high expectations of our people-centric brand promise** | We have an extensive employee engament programme to embed our values into the everyday practices of our people, and drive intiatives to ensure consistent delivery on our brand promise |
| **Employee transfers following an acquisition or disposal impact our transformation efforts as we strive to reach a demographic balance in an industry plagued by skills shortages** | Continuing to grow talent that complement our transformation efforts through initiatives such as our learnership programme, leadership development and other internal development programmes |

Learnership 2017

# Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Focusing on further utilising our human capital to advance our business and create value | ↻ |
| Enrich employee engagement practices | ↻ |
| Energise a culture of reward and recognition | ▲ |
| Accelerate transformation | ↻ |
| Promote a values-driven culture | ▲ |
| Refine key performance areas | ↻ |
| Ensure employee demographics are relevant | ▼ |

▲ Achieved target ↻ Still in progress/ongoing ▼ Did not achieve target

# Priorities for 2018

- → Prioritise, monitor and implement **key engagement** initiatives to support the business
- → Focusing on **succession** and **career development** strategy implementation
- → Improve **employee communication**, **information** and **knowledge-sharing** through effective utilisation of technology

# Our human capital strategy

Our human resource strategy focuses on strengthening the intangible capital of our organisation, that is the capability, energy and integrity our employees bring to their roles, which in turn, contributes to the success of the business and maximises our stakeholders' value.

During the year, our human capital focus was on encouraging innovation to develop a creative attitude to problem-solving and promote a responsiveness to change. This will be an ongoing focus in the year ahead as we endeavour to equip our people to thrive in a challenging ever-changing operating context.

# Unpacking our staff profile

| Employees | Average age | Average tenure | Total staff turnover | Female staff |
|---|---|---|---|---|
| 424 (up 13% from 2016) | 40 | 5 years | 12.6% | 54% |

## EMPLOYMENT EQUITY NUMBERS

| | Total male | Total female |
|---|---|---|
| African | 93 | 73 |
| Coloured | 20 | 34 |
| Indian | 8 | 28 |
| White | 72 | 92 |
| Foreign nationals | 4 | 0 |

☐ TOTAL MALE ☐ TOTAL FEMALE

# Ensuring and measuring meaningful engagement

Our employees are our brand ambassadors. We therefore endeavour to engage meaningfully with them to better understand and respond to their legitimate needs and concerns, but also to motivate them to deliver on our brand strategy and business objectives.

## Entrenching our employee value proposition

During 2016, we developed and launched our employee value proposition (EVP), which captures not only our promise to our employees, but also what Redefine expects from our employees in return.

In our recent brand strength survey, the value of Redefine's engaged employee base was highlighted. Employees were seen to be committed to Redefine's brand promise and to delivering on that promise and living the values. Our ongoing engagement strategy, therefore, comprises various communications and engagements to maintain and grow this strong base, using our EVP themes.

i Refer to ESG report for more information on our EVP themes.

## Measuring our success

Our employee engagement survey is a critical part of understanding our employees' levels of engagement. During 2017, our employees were again provided with the opportunity to share their views by participating in the 2017 employee engagement survey. This is the fourth year we have asked our employees to participate in this confidential web-based survey, on topics such as career and professional development, manager quality and rewards and recognition.

We achieved an overall engagement capital score of 77%, with the benchmark set at 61% (2016: 77% with a benchmark of 60%). The engagement capital score is a metric designed to give the organisation an overall score of the amount of commitment, discretionary effort and "intent-to-stay", exhibited by employees. The score Redefine achieved indicates that we have maintained high levels of employee engagement.

Our employee engagement survey is performed annually to monitor any developments in these scores.

i Refer to ESG report for more information on our engagement capital scores.

## Assessing our employer brand

We value external feedback on employment practices as an important part of improving our business, which is why we once again participated in the Top Employer certification.

We are pleased to report that we were recognised as a Top Employer in South Africa by The Top Employers Institute for our exceptional employee offerings, for the third consecutive year. Redefine is the only listed South African REIT that has been certified as a Top Employer 2018.

top EMPLOYER SOUTH AFRICA 2017
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

# Building our relational brand from the inside out

A key component of our human capital management is embedding our unique culture and values to inform the way we do business. We use a variety of platforms to support this, including our onboarding process, employee roadshows and our internal communication platforms, one of which are our Team Chat forums. Team Chats ensure that vital themes and essential information flows from senior management to teams throughout the business. Through the Team Chat forums, line managers are encouraged to facilitate two-way communication with their teams to share key messages, but also identify areas for consideration to enhance employee engagement.

To reinforce the importance of and drive behaviour to live our brand, our annual employee roadshow focused on the theme of **'heads up, hearts in and hands on'**. The theme encapsulates our unique approach to relationships and unpacked how our stakeholder engagement strategy supports our vision, mission and strategic objectives.

While we have conducted employee roadshows for a number of years, this was the first roadshow to be held with employees from all regions in a single venue. The roadshow was spread over two separate sessions of two days each for business continuity purposes.

## Leveraging the strength of diversity

As a South African company, we understand the importance of real transformation in our business. We are committed to encouraging diversity through all levels of our organisation, up to and including leadership. We support the principles reflected in the Employment Equity Act and are committed to creating a diverse and equitable workplace.

During the year, we made progress in attaining our transformation goals at senior and professional levels, supported by a comprehensive employment equity plan with specific implementation goals and targets, but recognise that there is still much work to be done to achieve true diversity across the organisation.

An ongoing challenge to our transformation efforts is the impact of employee transfers and resourcing models. When properties are sold or acquired, the employees associated with these assets transfer out of or into the business as part of sale and acquisition agreements. These business transactions can have an impact on our employment equity statistics, which is exacerbated by the shortage of specific skills in our sector. To address these challenges, we remain focused on increasing the number of employees from designated groups and continue to proactively seek and develop the right candidates, those candidates who best support our overall business objectives.

## Measuring and managing performance

We recognise that by clearly communicating strategically aligned goals and basing our remuneration practices on these goals, we ensure that time is not wasted on immaterial tasks and we focus on what matters most. To achieve this, we have cascaded our strategic matters and objectives throughout the organisation.

During this process, strategic matters were broken up into key performance areas (KPAs) and key performance indicators (KPIs), assigned to measure the achievement of these KPAs against predetermined business goals and targets.

Living the brand promise – **We're not landlords. We're people."** – is central to our business and is measured as part of the behavioural competencies during our performance review process. We want our people to know that the value they bring to our organisation is as much what they do as it is how they do it.

While we are pleased with the progress made, we acknowledge that we still have work ahead to ensure we have more robust measurement criteria in place, and that consideration is given to emerging trends in performance-scoring techniques. The process of creating, monitoring and evaluating KPIs that are aligned with strategic objectives is ongoing and needs constant focus to ensure we have clear KPIs and targets to support the business.

## Recognising and rewarding achievements

During the year, we enhanced our reward and recognition programme with the introduction of the Brilliance Awards. These awards are based on five performance categories:

| | | | | |
|---|---|---|---|---|
| Collaboration | Results | Service | Integrity | Innovation |

Each one of these categories is delivered on by living our ethos and values. Furthermore, we introduced the Above and Beyond Awards to assist our leaders in building high-performing teams. We also introduced a long-term staff incentive scheme for all our staff, which is aligned to individual and company performance.

i Refer to ESG report for more information on our remuneration process.

heads up hearts in hands on

# Human capital (continued)

## Learnership programme

Our learnership programme offers an exciting opportunity for candidates, while simultaneously growing the pool of qualified and skilled people entering our sector. The programme offers graduates, school-leavers and previously unemployed people from designated groups the opportunity to gain work experience at Redefine. Starting with only five learners in 2013, our learnership programme entered its fifth year during 2017 and has grown to include 41 learners. Since inception, the programme has graduated 108 learners and was expanded this year to include our Cape Town region.

Our learnership programme is critical to creating a sustainable pipeline of talent in our skill-scarce operating environment.

| | 2017 % | 2016 % | 2015 % |
|---|---|---|---|
| Retention conversion (learners retained for an additional year) | **23** | 25 | 29 |
| Permanent conversion (learners absorbed permanently into the business) | **8*** | 23 | 50 |

** Ongoing as and when employment opportunities become available*

Our retention conversion rate speaks to learners retained for an additional year, where they are exposed to further training and development at a higher level. When opportunity arises, top performers are given the option to take on full-time positions within the group.

This year, we extended the programme to include full-time employees within Redefine, who may have the necessary experience in a particular field, but lack the qualification to move into an area of greater responsibility and therefore better remuneration prospects. This has been an exciting move for us, further embedding our ethos of growing talent from within in a pragmatic way that meets our employees' needs as well, as the needs of the company.

## Cultivating a culture of learning and development

We are committed to making financial resources available for training and staff development. Through Redefine's various business-specific training initiatives, we aim to reach our annual training target of 80% of our workforce attending a minimum of one training event in the year. We are committed to identifying, transferring and developing scarce or critical skills to optimise competence in critical areas of business.

**36 947**
staff-hours spent in training

**3 145**
training interventions

**R8 421 667**
Direct cost of training (course costs and other costs such as travel, accommodation, catering, venue, etc.)

**R12 447 847**
Total cost of training (direct cost + salaries of qualifying categories)

## Ensuring an ethical culture

Along with our values of

**oneness** | **make it happen** | **respect personal relationships** | **mean it** | **challenge the norm**

Redefine recognises the importance of ethics in the workplace and strives to create a culture that does not tolerate unethical conduct.

During the year, we conducted an ethics management system audit to establish the depth and clarity of our leaders' understanding of ethics and, specifically, the extent of our ethical practices, indicating whether or not the fundamentals necessary for effective ethics management are in place. We are pleased to report that the results of the audit were strong, indicating a sound ethical foundation.



* Artwork from our recent social media Learnership campaign

* Redefine roadshow 2017

# Social and relationship capital

## What social and relationship capital means to Redefine

Property is embedded in the community. As a result, we see social and relationship capital as the link between our business and society. By managing this capital, we are able to create and identify new opportunities to deliver enduring value and mutual benefit to the societies in which we operate.

### Creating value

Property is our commodity, but people are our business. We differentiate ourselves through a dedicated people-centric approach to business, focusing on excellence in the context of relationships. We nurture this culture internally and extend it externally in the way we engage with and add value to the lives of our stakeholders.

## Highlights

- Made progress in developing a more integrated approach to community engagement and ensuring **larger-scale collaboration with the communities** surrounding our properties
- **Completed phase 1 of our customer relationship management (CRM) system** and work commenced on compiling a comprehensive database to improve engagement with our key stakeholders
- Launched ***The Mentorship Challenge*** – a first of its kind programme that aims to mobilise leaders across business sectors to get involved and mentor the youth of our country

Managed to secure **level 4** rating for BEE under the revised sector codes

Commenced work on a **tenant experience** programme

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| The impact of increasing unemployment, particulary amongst youth in the communities surrounding the buildings in our portfolio, is becoming a more significant future risk | → We are fine-tuning our CSI strategy to directly address some of the risks relating to the communities surrounding our buildings |
| Translating our brand promise into messaging that appeals to our diverse stakeholder groups | → We have translated the brand promise into a meaningful message through the formulation of a clear value proposition and development of an investor-specific engagement strategy<br>→ We commenced work on alignment of the overall brand campaign to ensure this appeals to all audiences |
| Reputation management is becoming an increasing focus in business operations as community involvement and social media can cause incidents to quickly escalate and become public knowledge that poses a sizeable reputational risk | → Through our integrated stakeholder engagement strategy, we seek to create relevant touchpoints with all our stakeholders.<br>→ Touchpoints ensure that stakeholders are able to contact us directly to have their concerns heard and addressed in a personal manner, nullifying the need for social media and other platforms to voice concerns and dissatisfaction |

# Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Completing phase 1 and scoping and implementing phase 2 of our CRM project | ↻ |
| Enhancing our website and implementing our digital strategy with supporting measurement tools | ▲ |
| Finalising a consolidated national CSI strategy, which includes CSI initiatives throughout the portfolio (retail centre initiatives and vacant and non-GLA space donations) | ↻ |

▲ Achieved target ↻ Still in progress/ongoing ▼ Did not achieve target

# Priorities for 2018

- → Finalise our **tenant engagement strategy** and **develop** a tenant experience programme
- → Implement our **CRM system** to drive delivery of the tenant experience programme initiatives
- → Finalising and implementing an **integrated community engagement programme** and formulating a consolidated approach that integrates the outcomes of various programmes to drive **key business deliverables**
- → Continually **assess our technology**, approach to social media and other innovative solutions to remain ahead of the curve in terms of **marketing initiatives**, but also our offering to tenants, shoppers and other stakeholders

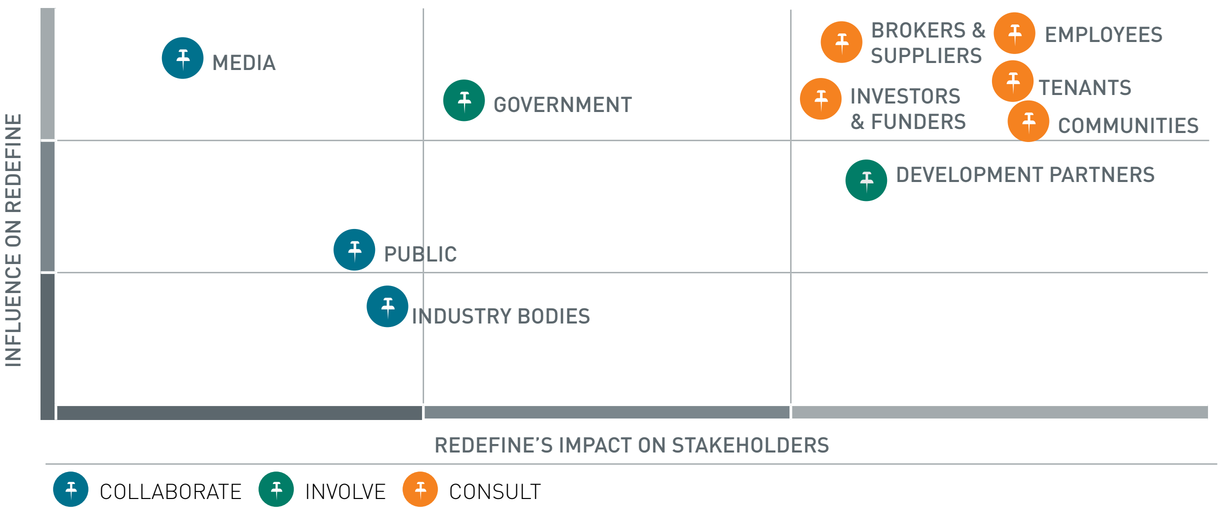
# Taking an integrated approach to stakeholder engagement

We believe that it is our unique approach to relationships that sets us apart and allows us to deliver sustained growth to all our stakeholders.

In order to formulate meaningful engagment strategies with all our stakeholders, we have identified our material stakeholder groups according to their levels of influence on us, our impact on them, and the level to which we collaborate, involve or consult with them.

**Our key stakeholders are our:**

Investors & funders, employees, tenants, brokers & suppliers and the communities in which we operate.



# Social and relationship capital (continued)

Through our integrated stakeholder engagement strategy, key risks and opportunities are identified and a needs analysis is done in order to develop tailor-made solutions for each of our key stakeholder groups. This includes translating our brand promise into value propositions that suit stakeholder groups' respective needs and then formulating engagement plans that drive consistent experiences at each stakeholder touchpoint.

## Investors and analysts

As the providers of financial capital, our investors and funders are critical to our success. We are aware that we need to understand their concerns and meet their needs. In addition to our ongoing interactions with our investors and funders, we commission an annual independent perception research study to measure, through qualitative and quantitative research, their perceptions of us.

In the perception survey, conducted in the last quarter of 2016, key issues raised included:

1. **Clarity on Redefine's strategy (overall and in terms of international investments)**
2. **Transformation strategy (at board level and in general)**
3. **Independence of the board**
4. **Role of the executive chairman**
5. **Clarity on the investment case and value proposition**

Historically, communication of Redefine's positioning strategy of 'Redefining relationships', articulated in the pay-off line **"We're not landlords. We're people**", was aimed explicitly at tenants and brokers. From the perception survey undertaken, it was evident that this positioning strategy and pay-off line did not resonate with the investor community of Redefine.

To address this concern, we revised our investor value proposition, linking the investor value proposition and Redefine's positioning strategy and, in doing so, clarifying what **"we're people"** means in the world of an investor.

The new investor value proposition and positioning strategy can be summarised in the diagram below:

**OUR PROMISE**

At Redefine, we know that top investors see great strategy beyond the brick and mortar, they see it in our results

We believe that there are five pillars of our investment proposition that position us uniquely to deliver real value to our investors in the short, medium and long term. These are unique to Redefine and encapsulate what our investors get when they choose Redefine.

**Diversified property platform** | **Agile approach** | **Extraordinary talent** | **People-centricity** | **Sustained value**

**STRATEGY**

**SUSTAINED VALUE CREATION**

To ensure investors and analysts are exposed to and given an opportunity to engage with the investment proposition, our communications plan for 2017/2018 includes specific themes that underpin the value proposition and delivery on our promise, but also other topical issues that were highlighted in the perception survey, for example quality, diversified portfolio, transformation, sustainability, etc. These themes have been communicated through a range of existing platforms, but are supported by a media plan with additional exposure to reach our investors (as well as potential new investors), through multiple channels.

Following the launch of this campaign, the 2017 investor perception survey was conducted during July 2017 and similar concerns were highlighted. We will therefore re-assess and improve the 2017/2018 investor engagement plan, set out above.


## Tenants

We know that our tenants are critical to our business and without them, we would not survive. Our tenants want their expectations not only met, but also consistently exceeded.

While current engagement plans are in place to ensure our tenants' legitimate needs and concerns are dealt with professionally, timeously and proactively, we have launched a project to investigate, scope and specify the business needs for a more extensive tenant engagement strategy. The project aims to analyse our current initiatives, identify the needs of our tenants and determine which interactions or touchpoints they deem most important, but furthermore what their expectations are in terms of their experiences at each of these touchpoints. The outcome of this will be a customer journey map.

From the customer journey map, we will compile a tenant experience programme that will include the formulation of a tenant-specific value proposition, based on feedback from the analysis described above. The CRM system will then be used as a tool to drive implementation and consistent delivery of this strategy.

### THE PRIMARY OBJECTIVES OF THE TENANT ENGAGEMENT STRATEGY CAN BE SUMMARISED AS:

Ensuring a consistent approach to how we deal with our tenants at all touchpoints throughout their life cycle in dealing with Redefine

**The CRM system aims to:**
- Create a centralised database (stored on a central source) of potential and current tenants' information (in order to ensure compliance with legislation and corporate governance in terms of the information kept)
- Create a tool for measurable, direct marketing activities
- Increase business efficiency and productivity through streamlined and automated processes
- Generate centralised reports on key business indicators

### PROGRESS TO DATE WITH REGARD TO THE TENANT ENGAGEMENT STRATEGY INCLUDES:

- An integrated tenant engagement committee was established
- A consulting firm was appointed to conduct research and create a customer journey map, to inform the tenant experience programme
- The CRM system has been customised and installed, and training and workshops commenced during August 2017. We anticipate that this programme will become a vital tool in the delivery of the overall tenant engagement strategy
- Database capturing commenced and will be finalised during 2018

# Social and relationship capital (continued)

## Employees

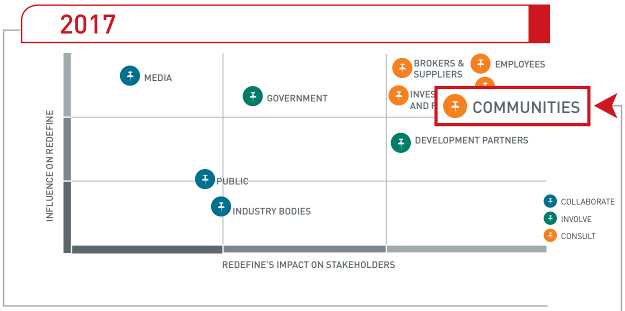
At Redefine, we understand that there is nothing more powerful than our employees' passion and we want our people to know that the value they bring to our organisation is as much who they are as it is what they do. During 2016, we successfully developed and launched our employee value proposition – which captures not only our promise to our employees, but also what Redefine expects from employees in return.

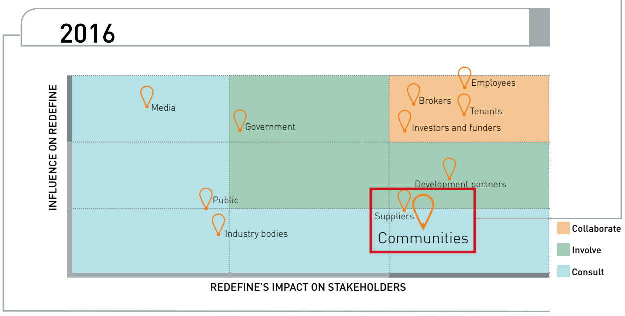
i Refer to page 89 on how we engage with our employees

## Communities

During the year, we reassessed and revised our community strategy, understanding that the communities in which we operate have a greater impact on our business than we have previously calculated. We believe it is essential to involve them in our decision-making processes to ensure that the best decisions are being made for the sustainability of our business. We have, therefore, reassessed our strategy and will commence work to achieve the following:

- → Assess each building in our portfolio and consider immediate risks and opportunities for Redefine, based on the needs of the communities surrounding these buildings
- → From there, the buildings with the highest risk and opportunity scores will be identified and an engagement plan will be created, per building, to address the top issues that have been identified in the respective communities




While work is already in progress, during 2018 we will focus on finalising an integrated engagement programme for the communities in which we operate, and formulating a consolidated CSI strategy that amalgamates outcomes of various programmes to drive key business deliverables (such as filling the skills gap and developing and providing opportunities for prospective future tenants).

Maintaining existing partnerships is also important to us. We continue to assess our impact and try to find ways to enable more sustainable support solutions that facilitate the long-term sustainability of the organisations we invest in.

i Refer to ESG report on the projects we continued to support during 2017.

During the year, we also launched *The Mentorship Challenge* with Marc Wainer. We believe the show is not only socially relevant, but also a good fit for us at Redefine, clearly demonstrating how our people-centricity translates into social upliftment.

As South Africa suffers from what is commonly called a 'crisis of leadership', we believe that it is up to corporates to step into the breach and provide leadership for future generations. We are, therefore, proud of our sponsorship of this weekly television show, which takes entrepreneurial insight beyond the boardroom to a place where bright young minds meet seasoned leadership legends to exchange ideas and perspectives.

THE MENTORSHIP CHALLENGE
WITH MARC WAINER

We genuinely believe that *The Mentorship Challenge* is an innovative way to make a real difference in people's lives, and demonstrates our commitment to our country and its future leaders.

# Focusing on broad-based growth

We want to achieve more than simply financial returns. As a South African business, we realise that the socioeconomic challenges facing the country are immense and we are committed to being a responsible and active corporate citizen.

We seek to create long-lasting, robust and broad-based benefit for the broader South African society. We believe that by empowering South Africans through education, we can go a long way towards overcoming the barriers to transformation and, at the same time, create the skills that the country needs.

In keeping with this focus,
Redefine has established an empowerment trust,
issuing to the trust shares, valued at approximately

**R3 billion**

The trust, which has been structured as a capital-preserving trust, will continue in perpetuity. Its primary focus is on activities to improve education and training through the provision of scholarships, bursaries and community development programmes. The trust operates independently and is managed by external independent trustees.

## Our BEE performance during 2017

We are committed to the objectives of BEE and we endeavour to explicitly integrate the tenets in our business. The revised property sector codes were promulgated during June 2017. Certain new elements were significantly increased. Despite the fact that these codes were released in the latter part of our financial year, we were pleased to achieve a level 4 contributor-status. We have made meaningful organisational changes to embrace the spirit of BEE, including forming a BEE committee. It remains a priority to improve our compliance to the codes.

## BEE scorecard*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Ownership | 26.30 | 21.24 | 23.00 |
| Management control | 2.60 | 2.62 | 2.46 |
| Employment equity | 2.47 | 3.70 | 2.61 |
| Skills development | 16.48 | 13.32 | 13.05 |
| Enterprise & supplier development | 27.01 | 10.00 | 10.00 |
| Socio-economic development | 0.29 | 0.15 | 0.35 |
| Economic development | 5.00 | 14.82 | 12.55 |
| **Overall score** | **80.16** | **81.26** | **80.42** |
| BEE contributor level | **4.00** | 3.00 | 3.00 |

** As rated by Honeycomb BEE Ratings (Pty) Ltd*

# Intellectual capital

## What intellectual capital means to Redefine

Intellectual capital refers to the expertise and knowledge in our organisation that does not go home at night and which sets us apart. It's a key driver of sustainable growth. It encompasses our culture, our governance and leadership structures, our processes, our remuneration philosophy, our approach to risk management, as well as our technology, property and relationship management systems and the way in which we innovate these resources. It is distinct from human capital in that it can be reproduced and shared.

## Creating value

In an ever-changing environment, steered by economic uncertainty and change driven by technology, Redefine is of the view that the source of our economic value no longer depends only on our 'bricks and mortar' income-earning asset base, but on how we manage and use these assets and adapt to change to ensure we extract the highest and best value. We also recognise that people are our business and our unique approach to relationships is what sets us apart.

Execution is more important than the strategy itself. In a fiercely competitive environment, leveraging and consistently challenging our intellectual capital to remain relevant, enables us to implement our strategy in the most effective and efficient way possible, which, in turn translates into sustainable value creation for our stakeholders.

## Highlights

- **Finalised development** of tailored **CRM system** and commenced work on creating one **centralised database** containing information of all stakeholders
- **Implemented** an **integrated approach** to board reporting – with board reports structured around the **six capitals**
- **Incorporated** the **intellectual capital** and **experiences** of employees from Pivotal/Abreal

**Conducted** an ethics **management system** audit

Our leadership **practices** are rooted in **ethical behavioural** principles

**Policies**, **procedures** and standards **support** the **achievement** of business success

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| **Cultivating a culture of thought leadership, through continuous exposure to the latest trends, not limited to our industry** | Commenced work on formulating an innovation programme and establishing a thought leadership platform among leaders |
| **Driving new projects that are outside of the normal scope of business timeously and effectively with existing resources** | Employment of specialist external business consultants and more efficient project management processes explored |
| **Intellectual capital often resides in our human capital, that is knowledge gained not translated to systems and processes that exist in the organisation. Therefore, when employees leave, this knowledge leaves with them** | We continue to focus on formalising our understanding of intellectual capital and ensuring it transfers across the organisation in such a way as to gain maximum sustainable benefit for the business and all stakeholders |
| **Impact of disruptive technology on our business model** | Our agility and organisational learning capacity support leaders in responding to the changing environment and challenging current assumptions around our business and operating model to relentlessly and continuously drive innovation |

## Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Harness the intellectual capital acquired through the expansion of our senior management structure | ↻ |
| Integrate and align our assurance processes to maximise risk and governance oversight in support of our combined assurance approach | ↻ |
| Optimise information-sharing platforms | ↻ |
| Encouraging a culture of innovation | ▼ |
| Evaluating the security, functionality and efficiency of business processes and systems | ↻ |
| Translating learnings from stakeholder engagement surveys into sustainable business practices | ↻ |

▲ Achieved target ↻ Still in progress ▼ Did not achieve target

## Priorities for 2018

- → **Encourage** a culture of **continuously assessing technology**, social media and other solutions and actively drive **innovation programmes** among **employees** and **external stakeholders** to ensure we remain relevant
- → **Finalise customer** journey map and **identify key opportunities** to streamline business processes and functions to meet our tenants' needs more **efficiently**
- → **Optimise** business **processes** and information-**sharing** platforms
- → Formalising and **developing** an ethics **management framework**
- → **Maturing IT** governance and **service standards**

# Intellectual capital (continued)

## Integrated approach to sustainable value creation

The risks and opportunities that arise in the course of our business are not only financial. Understanding this truth, we recognise that if we want to be an agile and responsive business, we need to integrate broader value systems into our strategic thinking.

We believe doing this gives us a competitive advantage, and we strive to assimilate this thinking into every level of the business by making it an integral part of our strategy. Our strategy was designed to factor in all the capitals our business needs – financial, manufactured, human, social and relationship, intellectual and natural. We measure our progress against our strategic objectives, using carefully chosen key performance indicators, which are tied to remuneration across the organisation. Refer to remuneration in ESG report for more information.

## Ensuring governance and leadership structures that support value creation

Our corporate governance supports our overall value creation process, taking a holistic view of the business.

Our board structures provide for the delegation of authority while enabling the board to retain effective control. The board delegates authority to relevant board committees and to the CEO with, clearly defined mandates. The CEO and company secretary monitor and maintain the delegations of authority and ensure that they are reviewed on an annual basis.

To entrench integrated thinking into our governance processes, this year we implemented an integrated approach to board reporting – with board reports structured around the six capitals to ensure we are measuring, monitoring and managing all of our capitals throughout the business.

Our board is accountable to our shareholders, and an important part of our value creation story.

During the year, we completed a thorough review of our board and committee structures in order to enhance our corporate governance and to accelerate transformation.

Throughout the review process, the board focused on ensuring that the leadership remained stable, with carefully selected new members timeously succeeding departing members. The board has also focused on implementing the King Code recommendation that the board is comprised of – mostly non-executive directors of whom the majority should be independent.

To accommodate this and enhance our transformation objectives, Günter Steffens, an independent non-executive director, and Mike Watters, a non-executive director, stepped down from the board and did not make themselves available for re-election.

Furthermore, David Rice, our chief operating officer, and Mike Ruttell, our executive director for development, withdrew from the board, while remaining key members of our executive management team and standing invitees to board meetings.

Bridgitte Mathews joined the board as an independent non-executive director, chairperson of the remuneration committee and a member of the nominations committee. Bridgitte was also appointed as board deputy chairperson and assumed the position of lead independent director during the year.

Phumzile Langeni, an existing independent non-executive director, was appointed as chairperson of the audit and risk committee and Ntombi Langa-Royds, also an existing independent non-executive director, was appointed as the chairperson of the social, ethics and transformation committee.

The board is now satisfied that its composition has the appropriate mix of knowledge, skills, experience, diversity and independence. For more information on our summarised corporate governance review, refer to page 34 and for a detailed understanding, refer to our ESG report.

## Supporting ethical leadership

Ethical leadership is fundamental to Redefine, and the board subscribes to the highest levels of integrity in conducting the company's business and in dealing with stakeholders. The board has approved a formal code of business conduct that is central to the growth and sustainability of the company and is designed to entrench a culture of intolerance towards unethical conduct, fraud and corruption.

This code of business conduct addresses Redefine's responsibilities to all our stakeholders, is to assist in the elimination of dishonest practices and promote strong business relationships. Redefine has a whistle-blowing facility available to all stakeholders.

i Refer to ESG report for more information on our corporate governance

During the year, we undertook an ethics management system audit. Refer to page 86 for our human capital section.

> Our code of business conduct is central to the growth and sustainability of the company and is designed to entrench a culture of intolerance towards unethical conduct, fraud and corruption.

# Risk management

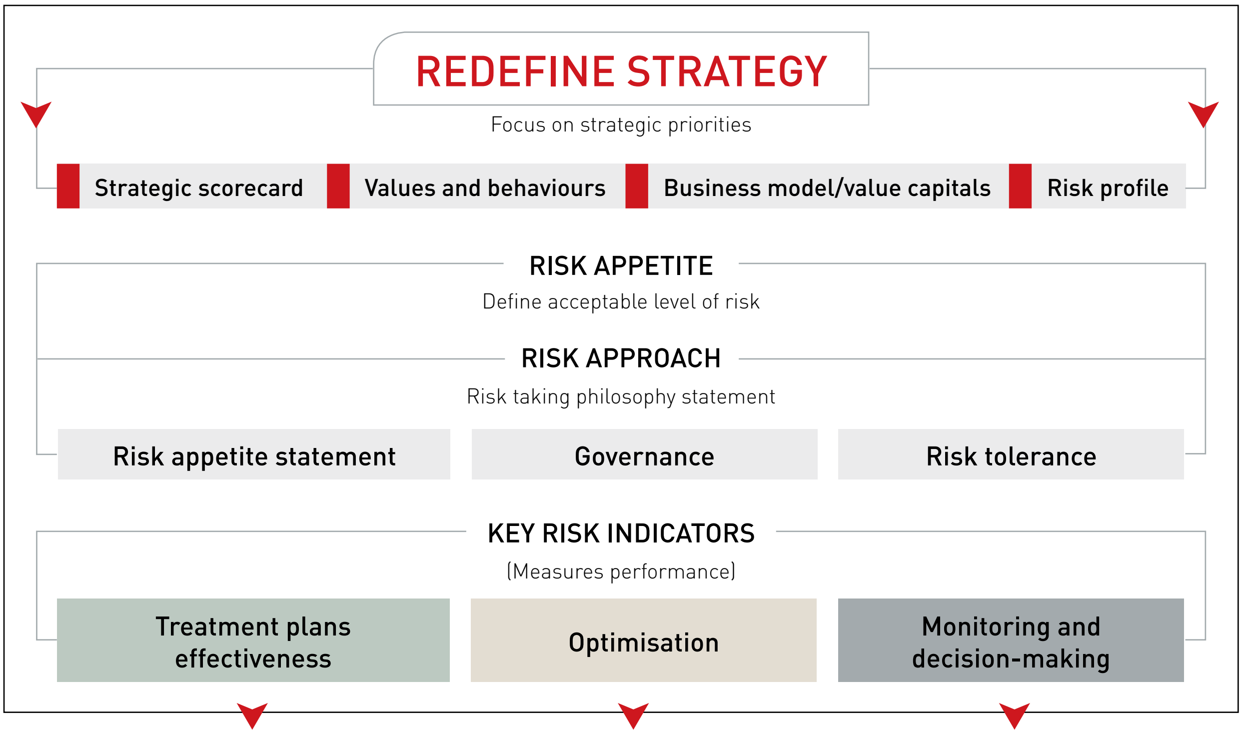
The board has overall responsibility for monitoring risk management and internal controls, and recognises the importance of identifying and actively monitoring the full range of financial and non-financial risks. By regularly reviewing the risk appetite of the business, the board ensures that risk exposure remains appropriate. The board has delegated risk management to the audit and risk committee, supported by our internal audit division, which reviews the risk management plan and monitors developments. Day-to-day management of risk lies with executive management. Their duty includes the ongoing identification, assessment and mitigation of risks, as well as the design, implementation and evaluation of the internal risk management process.

## Risk management system

Our risk management process demonstrates integrated strategy, governance, risk, compliance and performance processes and values.

During the year, we integrated the combined assurance framework into our enterprise risk management. Combined assurance is an evolutionary journey, and we do expect our approach to mature as we refine, optimise and adjust, in line with changes in our business and assurance strategy.

We have made progress with regard to refining our risk appetite model. We recognise that all companies have to assume a certain degree of risk, but there are limits to how much risk Redefine is willing to assume in our pursuit of generating stakeholder value. Assuming too much exposure to risk could place the company in jeopardy if several key risks were to materialise in rapid succession, and in extreme situations could cause corporate failure. It is vital, therefore, that we manage risk within defined parameters.




| | | |
|---|---|---|
| 1 | STRATEGIC PRIORITIES | → Strategic scorecard and priorities provide context for a meaningful and targeted risk management discussion |
| 2 | BUSINESS MODEL/VALUE CAPITALS | → Indicators of success align appetite, risk and indicators to factors influencing achievement of strategic priorities |
| 3 | APPETITE | → Truly understanding value drivers and risk causes is the key to designing leading indicators to support proactive management of risks |
| 4 | RISK INDICATORS | → A risk appetite statement allows the board to clearly set expectations and enable management to make decisions accordingly |
| 5 | DECISION-MAKING | → Leverage existing performance metrics to support the development of meaningful leading indicators |

# Intellectual capital (continued)

## Systems that enhance the management of our property portfolio

### Building and utility management

During the previous year, we took a decision to tender all our major services, including security, cleaning, hygiene, electrical and garden services to fewer contractors. The intention was to reduce the number of contractors being dealt with and enable us to systematise our dealings with these contractors. During this year, this project bore fruit, with major savings in certain areas.

We also focused our efforts on developing new and refining existing policies and procedures across the property management function to govern the various disciplines that fall under property management. This will enable a consistency of application in the way work is conducted in this area, enabling us to operate more efficiently.

### Managing relationships

During the year, we finalised development of our tailored CRM system and commenced work on creating one centralised database for all stakeholders. Refer to page 95 for more information on this system, in our social and relationship capital section.

## Building for the future

Technology is changing the way we live our lives on a daily basis. It makes sense that the buildings where we live, work and play change too – becoming more technologically advanced, more sustainable and more efficient.

We believe that smart buildings are the way of the future. We therefore actively pursue a smart-building philosophy, that is seeking ways to increase the relevance of our assets to their users and the community in which our assets operate, thus future-proofing them through innovative components that enhance experience and lifestyle. Some of these elements include:

**WiFi**

Our WiFi system allows us to collect rich data and unlock unique insights about our shoppers, seeing how they move in and around our shopping centres. It enables us to increase user engagement with our brand, using personalised offers and promotions to drive footfall and build loyalty

**Fibre**

Fibre infrastructure offers users the benefits of high-speed internet, Voice over IP with crysta-clear voice quality. The value adds of fibre technology are endless and evolve every day, enhancing building relevance while meeting and exceeding our tenant requirements

**Rooftop**

In partnership with Jasco, we are ensuring that our rooftop spaces are managed proactively to maximise value, with a specific focus on new developments, where connectivity requirements are planned upfront

**Parking apps**

Redefine has partnered with Admyt to make our shoppers' lives that much easier. Ticketless parking means no more searching for cash to pay for parking, lost tickets or reaching out of windows at the boom gate – just smooth entry and exit every time through licence plate recognition

**Energy management**

Refer to page 108 for information about our engery efficiency initiatives

**Remote diagnostics**

Through the advancement of technology, we are able to monitor a vast number of building systems remotely or set parameters within which these systems need to operate. Any deviations will trigger an alarm, which can then quickly and effectively be dealt with before it escalates. By doing this, many systems can operate more efficiently as well as effectively without constant staff oversight, which in the long run reduces operating costs, as well as inconvenient breakdowns

**WiFi**

Aggressive roll-out to additional malls in 2018, completed pilot at Boulders with over 15 000 registrations in 12 weeks

**Rooftop management**

Fully integrated approach to ensure all new developments include custom-built connectivity solutions

**Fibre**

Fast-tracking connectivity with a target of 100 buildings by March 2018, and 30 buildings currently live

**Parking apps**

Adoption of best-of-breed retail solutions and customised office solutions to greatly enhance the parking experience in all our buildings

**Remote diagnostics**

Monitoring of various building systems

**Energy management**

Ensuring our buildings are energy-efficient is a top priority

# Natural capital

## What natural capital means to Redefine

We consider natural capital to be all renewable and non-renewable environmental resources and processes that support current and future prosperity for our business and all our stakeholders.

### Creating value

We understand that nature underpins global wealth creation and that our properties are embedded in the environment. Our environmental strategy, therefore, focuses on reducing our environmental footprint while enhancing our assets and decreasing vacancy rates.

We also strive to share our learnings with our delivery partners, retailers and visitors to help encourage them to reduce their consumption.

Ultimately, we want to create a more sustainable operating environment for the benefit of all.

## Highlights

- Significant progress made in our existing building certifications – **moving from 10 to 29 Existing Building Performance (EBP) Green Star SA certifications**
- **Black River Park won an award** for sustainable facilities management at the South African Facilities Management Association (SAFMA) Awards
- **Runner-up in the 10-year award for property investor/owner** with the highest number of Green Star SA certifications

Our total installed solar capacity to date is **7 807 kWp** up from 4 MWp in 2016

Total number of Green Building Council South Africa certifications **increased to 43**

Conducted our first **full waste footprint**

| CHALLENGES | STRATEGIC RESPONSES |
|---|---|
| Rising cost of electricity within our South African context | Fast-progressing technologies continue to assist us in bolstering the case for renewable energy and green leases for tenants |
| Water challenges faced, especially in the Western Cape | The crisis has presented an opportunity to rigorously examine our current practices. To improve water efficacy within our buildings, we engage with our tenants regarding their water usage, which has opened the door for further engagement on other sustainability-related areas such as the use of green cleaning products |
| Policy uncertainty challenges our renewable energy focus | We continue to engage with relevant industry bodies to ensure the best outcomes for Redefine and all the stakeholders involved |
| Influencing tenants to sign green leases – committing to mutual disclosure, target-setting and investment | Innovation and technology continue to open up improved ways to operate and manage our properties, especially in terms of water and energy efficiency, and providing quality spaces for our tenants. Simplifying shared cost/benefit structures to reduce the impact of economic variables is increasingly implemented to improve tenant buy-in |

# Reflecting on 2017

In our 2016 integrated report, we reported on certain priorities for our 2017 financial year.

| This is how we did | Our performance |
|---|---|
| Better understand our water usage and implement enhanced water management systems | ↻ |
| Continue to pursue Green Star ratings on our developments and existing buildings | ▲ |
| Continue to encourage our tenants to adopt green leasing and green procurement principles | ↻ |
| Continue to optimise energy and water use in our existing buildings | ↻ |
| Continue to implement renewable sources of energy | ▲ |
| Better understand our waste management footprint and investigate opportunities to reduce waste-to-landfill | ↻ |

▲ Achieved target ↻ Still in progress/ongoing ▼ Did not achieve target

# Priorities for 2018

- → Continue to implement enhanced **water management systems** and develop a critical response programme for resource access and distribution
- → Persist in pursuing **Green Star ratings** on our **developments** and **existing** buildings
- → Continue to implement **renewable sources** of energy
- → Investigate **opportunities** to **improve** our **environmental management systems** to enhance resource conservation and efficiency
- → Continue to **analyse** our **waste management footprint** and investigate opportunities to **reduce waste-to-landfill**

# Understanding our impacts

We dedicate the time and resources to participate in various indices. We believe that by contributing and benchmarking our progress against our peers, we are able to learn from our results and make adjustments to achieve our sustainability goals and overarching business objectives.

During 2017, we participated in the following initiatives:

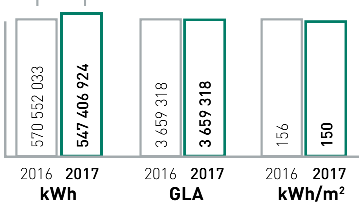
## Carbon footprint

Redefine's overall carbon footprint has increased by **3% from 751 743 $tCO_2e$ in 2016 to 774 221 $tCO_2e$ in 2017.**

Using a like-for-like comparison on properties in the portfolio in 2016 and 2017, electricity consumption, which contributes to the majority of our **carbon footprint, has decreased by 4.06%**

**LIKE-FOR-LIKE BENCHMARKING (KWH/M²)**

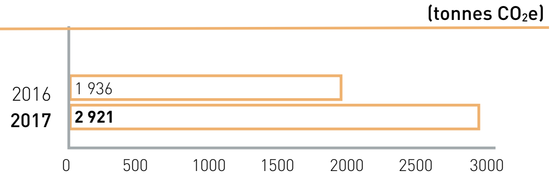
2016 vs 2017 = **4.06% reduction**



# Natural capital (continued)

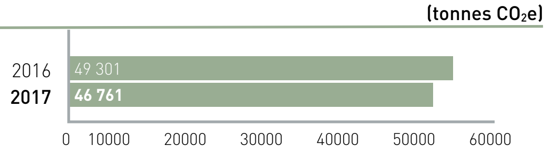
SCOPE 1

**DIRECT EMISSIONS**
(mobile combustion, stationary combustion and refrigerant gases)



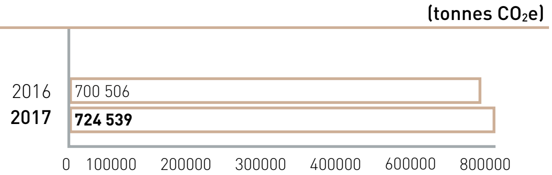

SCOPE 2

**INDIRECT EMISSIONS**
(electricity consumption)

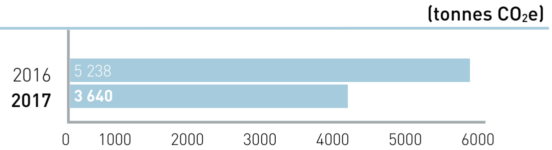



SCOPE 3

**INDIRECT EMISSIONS**
(tenant electricity use, business travel, travel reimbursements and employee commuting)




**NON-KYOTO GASES**




## BENCHMARKING SCOPE 2 AND SCOPE 3

Electricity ($tCO_2e/m^2$)


## Carbon Disclosure Project (CDP)

For 2017, Redefine received a disclosure **score of B** – (2016: A), which is in line with performance of participating SA REITs.

### CDP PEER COMPARISON

| | |
|---|---|
| B | **Redefine Properties** |
| B | Attacq |
| B | Emira Property Fund |
| B | Growthpoint |
| A- | Hyprop |

## Water footprint

To better understand our total water footprint, we submitted our second CDP Water Disclosure during 2017, which has assisted us in providing an integrated understanding of our water use and impacts.

Our total water withdrawal footprint for 2017 was **3 664 166 kl.**

During the year, we also continued the monitoring of water consumption to ensure early leak detection and began the deployment of automatic shutdown and sensor systems to optimise operational efficiency. Furthermore, we are in the process of rolling out online water monitoring and leak detection systems to a number of buildings in the portfolio.

## Waste footprint

2017 will mark Redefine's first full waste footprint assessment. **2 289 tonnes diverted from landfill.**

**38%** of internally managed waste removal is recycled. We continue to seek ways to improve our recycling efforts.

# Reducing our impacts and capitalising on opportunity

## Optimising efficiency

During the year, we implemented a number of optimisation projects, resulting in annual savings of **2 971 000 kWh**. Our estimated energy savings over the past four years, according to GRESB categories, can be summarised as follows (in MWh):

Building energy management system upgrades/replacements **= 353**

Installation of high-efficiency equipment and appliances **= 6 145**

Installation of on-site renewable energy **= 3 942**

Occupier engagement/ informational technologies **=114**

Cumulative energy savings*

**TOTAL: 10 554 MWh**

** As per the Global Real Estate Sustainability Benchmark (GRESB) methodology, the information disclosed in 2017 is based on 2016 data.*

In 2017, we have achieved a **combined energy reduction** through optimisation and renewable energy projects of

**10 330 333 kWh**

## Our green building journey

Pursuing green development, as well as green existing building certification, bolsters our aim of delivering sustained value to stakeholders by supporting the creation of a more sustainable operating environment.

Redefine registered as a member of the GBCSA in 2013 and focuses on building all new developments to a minimum Green Star rating of level 4, as certified through the GBCSA's assessment criteria on design and as-built basis.

We have also continued the journey of pursuing Green Star SA ratings on our existing buildings. During 2017, Redefine registered 20 of our office buildings for Green Star SA ratings under the Existing Building Performance tool from the GBCSA.

# Natural capital (continued)

To date, Redefine has received
**43 Green Star**
certifications

GREEN BUILDING COUNCIL
OF SOUTH AFRICA

We continue to pursue certifications with the GBCSA because we believe it adds value to our buildings, and therefore our business. Green building presents the following benefits:

**DEVELOPER**
Why build a green building?

**Higher sales price | Quicker sales/letting**

- Ability to secure finance
- Rapid return on investment
- Increased market value
- Reduced vacancies

**TENANT**
Why lease a green building?

**Health and wellbeing | Increased productivity**

- Reduced downtime
- Lower operating costs
- Lower maintenance costs

- Lower refurbishment costs
- Corporate image and prestige value
- Compliance with legislation and Corporate Social responsibility (CSR) requirements
- Lower transaction fees

**Slower depreciation | Increased occupancy rates | Lower exit yield**

**OWNER**
Why own a green building?

Furthermore, through the development and implementation of a number of policies addressing environmental sustainability aspects such as a green procurement policy and tenant guidelines, we have continued to encourage tenants to adopt green leasing and green procurement principles. In the year to come, we will focus on negotiating green leasing with all new and existing tenants in our Green Star properties.

## Capitalising on renewable energy

Solar energy currently represents the cheapest and most sustainable way to generate renewable electricity. The technology has also leapfrogged to such an extent that return on investment is continuously improving as prices fall. As the panels use space on top of the commercial buildings, they shield it from the sun, leaving it cooler, further lowering energy consumption.

Redefine's total installed PV capacity to date is 7 807 kWp, up from 4 MWp in 2016. The total cost savings achieved from existing plants and plants commissioned during the course of the year is approximately R12.2 million.

Another 14.38 MWp of PV installations are currently under construction, which will increase Redefine's total installed capacity to 22.2 MWp during the 2018 financial year, with projects being identified on an ongoing basis. The projected cost saving from the total installed capacity of 22.2 MWp is approximatly R32.3 million per annum and escalating.

### KEY RISK FOR RENEWABLE ENERGY

Policy uncertainty remains a key risk for our renewable energy focus. In December 2016, the Department of Energy (DoE) released a draft amendment to the Electricity Regulation Act for public comment. The amendment specifically addresses licensing exemption conditions for embedded generation systems such as solar PV. Redefine submitted a detailed response to the DoE, addressing areas of concern and seeking clarification due to ambiguity of the stipulated licensing exemption conditions. There has been no further update from the DoE regarding the draft amendment, however, we continue to engage with relevant industry bodies in this regard.

While this was our position at year end, an update to the Electricity Regulation Act was gazetted in November 2017, detailing the conditions for licensing exemption. We are currently scrutinising the potential impact of these regulations on our forecasted renewable energy roll-out ability and associated income.

East Rand Mall, Boksburg

# Natural capital (continued)

## Managing the impact of our buildings

During 2017, we implemented a number of pre-certified GBCSA – approved policies and plans at 29 of our properties to further address the impact of our buildings on the environment.

### Indoor air quality and thermal comfort

AREAS OF FOCUS

Measurement of volatile organic compounds, $CO_2$, CO and degrees Celsius to ensure air quality. Improved air quality and thermal comfort result in greater occupancy productivity

### Low-emitting materials

AREAS OF FOCUS

Using non-toxic materials such as low volatile organic compounds paints improves air quality and environmental impact

### Alternative transport opportunities

AREAS OF FOCUS

Reduced carbon emissions through the availability and access to shared and/or alternative transport opportunities

### Green cleaning

AREAS OF FOCUS

Using biodegradable products reduces the environmental impact of the building

### Operational efficiency

AREAS OF FOCUS

Smart operations decrease the waste of natural resources and increase the life span of equipment

### Green tenant guidelines

AREAS OF FOCUS

Guiding tenants to ensure the use of environmentally friendly and energy- and water-efficient products throughout the building

### Acoustics

AREAS OF FOCUS

Improved acoustics increase occupancy comfort and can be achieved through quiet heating, ventilation and air conditioning systems and the use of sound-absorbing materials

# Shareholders' diary

| | |
|---|---|
| Notice of meeting posted to shareholders | On or before 29 December 2017 |
| Integrated report and annual financial statements available online | On or before 29 December 2017 |
| Annual general meeting | 15 February 2018 |
| 2017 Half-year end | 28 February 2018 |
| Summarised interim financial results for 2018 | 14 May 2018 |
| Interim dividend declaration | 14 May 2018 |
| 2018 Financial year end | 31 August 2018 |
| Summarised annual financial results for 2018 | 12 November 2018 |
| Final dividend declaration | 12 November 2018 |

** Please note that these dates are subject to alteration*

# Administration

## REDEFINE PROPERTIES LIMITED

Incorporated in the Republic of South Africa
Registration number 1999/018591/06
JSE Share Code RDF ISIN: ZAE000190252
Approved as a REIT by the JSE

### Registered office and business address

Rosebank Towers, Office Level 5, 19 Biermann Avenue, Rosebank 2196
PO Box 1731, Parklands 2121
Telephone +27 11 283 0000
Email **investorenquiries@redefine.co.za**
**www.redefine.co.za**

### Independent auditors

KPMG Inc
85 Empire Road, Parktown 2193
Telephone +27 11 647 7111

### Company secretary

B Baker
Telephone +27 11 283 0041
Email **bronwynb@redefine.co.za**

### Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, Office Level 2, 19 Biermann Avenue, Rosebank 2196
Telephone +27 11 370 5000

### Corporate advisor and sponsor

Java Capital
2nd Floor, 6A Sandown Valley Crescent, Sandton 2196
Telephone +27 11 722 3050

### Investor relations

Should you wish to be placed on the mailing list to receive regular 'breaking news' email updates, please send an email to **investorenquiries@redefine.co.za**

# Definitions

| | |
|---|---|
| AFS | Annual financial statements |
| AGM | Annual general meeting |
| AUD | Australian Dollar |
| BEE | Black economic empowerment |
| bn | Billion |
| Bps | Basis points |
| Brexit | The prospective withdrawal of the United Kingdom (UK) from the European Union (EU) |
| CEO | Chief executive officer |
| Companies Act | Companies Act, No 71 of 2008 (as amended) |
| CRM | Customer relationship management |
| Cromwell | Cromwell Property Group, a fund listed on the Australian Stock Exchange |
| CSI | Corporate social investment |
| Delta | Delta Property Fund Limited |
| DOE | Deptarment of Energy |
| Emira | Emira Property Fund Limited |
| EPP | Echo Polska Properties, listed on both the Luxembourg Stock Exchange and JSE |
| ESG | Environmental, Social and Governance |
| EVP | Employee value proposition |
| GBCSA | Green Building Council of South Africa |
| GBP | British Pound |
| GDP | Gross domestic product |
| GLA | Gross lettable area |
| GMR | Gross monthly rental |
| GRESB | Global Real Estate Sustainability Benchmark |
| GRIT | Grit Real Estate Income Group |
| HQLA | High Quality Liquid Assets |
| IFRS | International Financial Reporting Standards |
| IHL | International Hotel Properties |
| IT | Information technology |
| JSE | Johannesburg Stock Exchange |
| King IV | King IV report on Corporate Governance for South Africa 2016 |
| Kl | Kiloliters |
| KPAs | Key performance areas |
| KPIs | Key performance indicators |
| kWh | Kilowatt hour |
| LTV | Loan-to-value ratio |
| MW | Megawatts |
| MWh | Megawatt hour |
| MWp | Megawatt peak |
| NAV | Net asset value |
| NOI | Net operating income |
| NTAV | Net tangible asset value |
| PBSA | Purpose-built student accommodation |
| Pivotal | Pivotal Property Fund Limited |
| PV | Photovoltaic |
| RDI REIT PLC | RDI REIT PLC, a company listed on both the JSE and London Stock Exchange |
| Redefine/the company/the group | Redefine Properties Limited, a company listed on the JSE |
| REIT | Real Estate Investment Trust |
| Respublica | Respublica Student Living Proprietary Limited |
| SA | South Africa |
| SARS | South African Revenue Services |
| STI | Short-term incentive |
| tCO2e | Tonnes of carbon dioxide equivalent |
| UK | United Kingdom |
| VAT | Value added tax |
| ZAR | South African Rand |

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REDEFINE PROPERTIES

We're not landlords. We're people.