# Octodec


creating value
beyond financial return

# Integrated report 2017

2017
Tshwane,
Golden Mile

1902
Market Place,
Pretoria

# contents

# our approach to reporting

Octodec Investments Limited (Octodec) reports in an integrated manner. We believe that by doing so we can provide our stakeholders with the information on our integrated thinking that they need to make informed decisions about our business. Our aim with this report is to demonstrate how Octodec creates value for its stakeholders.

Our reporting also takes into account feedback from our stakeholders on the information they require to assess our performance against their investment strategies and priorities. Our integrated report, which is our primary report to our stakeholders, covers the period 1 September 2016 to 31 August 2017. Its scope includes the Octodec property portfolio (located in the Gauteng province of South Africa), growth prospects and the key functions over which we exercise control. These have not undergone any significant change to their size, structure or ownership during the year under review. Our previous integrated report covered the period 1 September 2015 to 31 August 2016. Details of our company structure are provided on page 78 of this report.

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To ensure comparability, all significant information is reported on a like-for-like basis and there are no restatements.

## How to access the information you need from our print and online reporting

### Our icons

High street shops

Government buildings

Shopping centres

Mixed-use buildings

Offices

Parking

Industrial

Development pipeline buildings

Residential

Hotels

Hospitals

King IV™

### Our reports

**Available in print**

**Available online**
Our integrated report for 2017 in pdf format

Our annual results for 2017 in pdf format

64 **Page number/s should you wish to access additional information in this report**

AFS **Annual financial statements**

WWW **Worldwide web**

# how we prepared our report

We use the International Integrated Reporting Council's (IIRC) integrated reporting <IR> framework to guide us in structuring our report, showing the connectivity between material information, our strategy, governance, performance and prospects and how our strategy affects and is affected by financial, human, social and relationship and environmental issues.

## Our integrated reporting

- **complies** with the South African Companies Act 71 of 2008 and the JSE Listings Requirements
- **explains** the governance practices Octodec has applied (guided by the King IV™ principles relevant to Octodec) that we are confident are assisting us in achieving an ethical culture, good performance, effective control and legitimacy

**Our annual financial statements:**

- **comply** with International Financial Reporting Standards (IFRS)
- are **audited** by Deloitte & Touche. Their unqualified audit report is available in our annual financial statements on page 93

93 AFS

This year we have also identified the United Nations Sustainable Development Goal (SDG) to which Octodec is making a contribution, and that is SDG 11, Sustainable cities and communities. The aim of SDG 11 is to make cities and human settlements inclusive, safe, resilient and sustainable. By the year 2050 about two-thirds of humanity will live in cities. While cities are centres of culture, business and life they are also often centres of extreme poverty. To make cities sustainable we need to upgrade and create good affordable housing, create green spaces and work to get more people involved in urban planning decisions. We believe that our commitment to providing safe, dignified accommodation and unlocking value in urban spaces supports the sustainable development of the cities of Tshwane and Johannesburg.

### Forward-looking statements

Certain statements in this report constitute forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, objectives or achievements of Octodec, as well as the industry in which it operates, to be materially different from the projected results, performance, objectives or achievements expressed or implied by these forward-looking statements. The performance of the Octodec group is subject to the effect of changes in the economic environment and prevailing market conditions.

# board approval

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The Octodec board assumes responsibility for the integrity of the integrated report.

The board has critically assessed and satisfied itself as to the Octodec combined assurance model. The model includes both external assurance services, such as internal and external audit, as well as internal assurance functions provided by the various operational line managers in the business, risk and compliance and other oversight functions. It enables an effective internal control environment that supports the integrity of information used for internal decision-making by management, the board and its committees, and supports the integrity of the integrated report.

The board also considered materiality for the purposes of the integrated report and estimated the effect that the presence or absence of an item of information might have on the accuracy or validity of a statement in the integrated report, or a decision by a stakeholder. Materiality was therefore judged on its inherent nature, impact and use value, as well as the context in which it occurs. Our overall objective with the integrated report is to provide information that could substantively affect Octodec's ability to create value over the short, medium and long term.

Some of the detailed governance matters in our integrated report are cross referenced to the Octodec website. This includes information such as the board charter and the board committee terms of reference. We therefore urge the readers of our integrated report to read the report with the supporting documentation referred to on our website.

The board is of the view that, to the best of its knowledge Octodec's integrated reporting addresses all matters material to its stakeholders' decision-making by explaining how Octodec creates value over time takes into consideration the organisation's impact on the environment in which it operates and its stakeholders.

The board unanimously approved our integrated reporting for 2017 on 7 December 2017.

| | |
|---|---|
| **Sharon Wapnick**<br>Chairman | **Myron Pollack**<br>Non-executive director |
| **Derek Cohen**<br>Lead independent non-executive director | **Pieter Strydom**<br>Independent non-executive director |
| **Gerard Kemp**<br>Independent non-executive director | **Anthony Stein**<br>Financial director |
| **Akua Koranteng**<br>Independent non-executive director | **Jeffrey Wapnick**<br>Managing director |

# measuring our performance

## creating value for our stakeholders

**203.1 cents**

total distribution per share

(2016: 201.5 cents per share)

**0.8%** year-on-year growth in distribution to shareholders

(2016: 6.5% year-on-year growth in distribution)

**0.7%**

increase in net asset value (NAV) per share to R29.33 as at 31 August 2017

(2016: 5.2% increase in NAV)

**5.3%**

like-for-like growth in rental income year-on-year

(2016: 5.3% like-for-like growth in rental income year-on-year)

All-in weighted average cost of borrowings at **9.2%**

(2016: 9%)

Loan to value (LTV) at **37.1%**

(2016: LTV at 38.3%)

**82.1%**

of exposure to interest rate risk hedged

(2016: 82.9% of exposure to interest rate risk hedged)

**9%** reduction in common area electricity consumption over the past five years

**95%**
of our employees are black South Africans

(2016: 95% of our employees were black South Africans)

**R0.9 million**
invested in employee training

(2016: R0.8 million invested in employee training)

**R5 million**
invested in social upliftment

(2016: R4.9 million invested)

Our supplier development programme created **38 permanent positions** and **14 part-time positions**

**R7.5 million**
invested in enterprise and supplier development

(2016: R6.5 million invested)

measuring our performance

# five-year financial summary

## Highlights

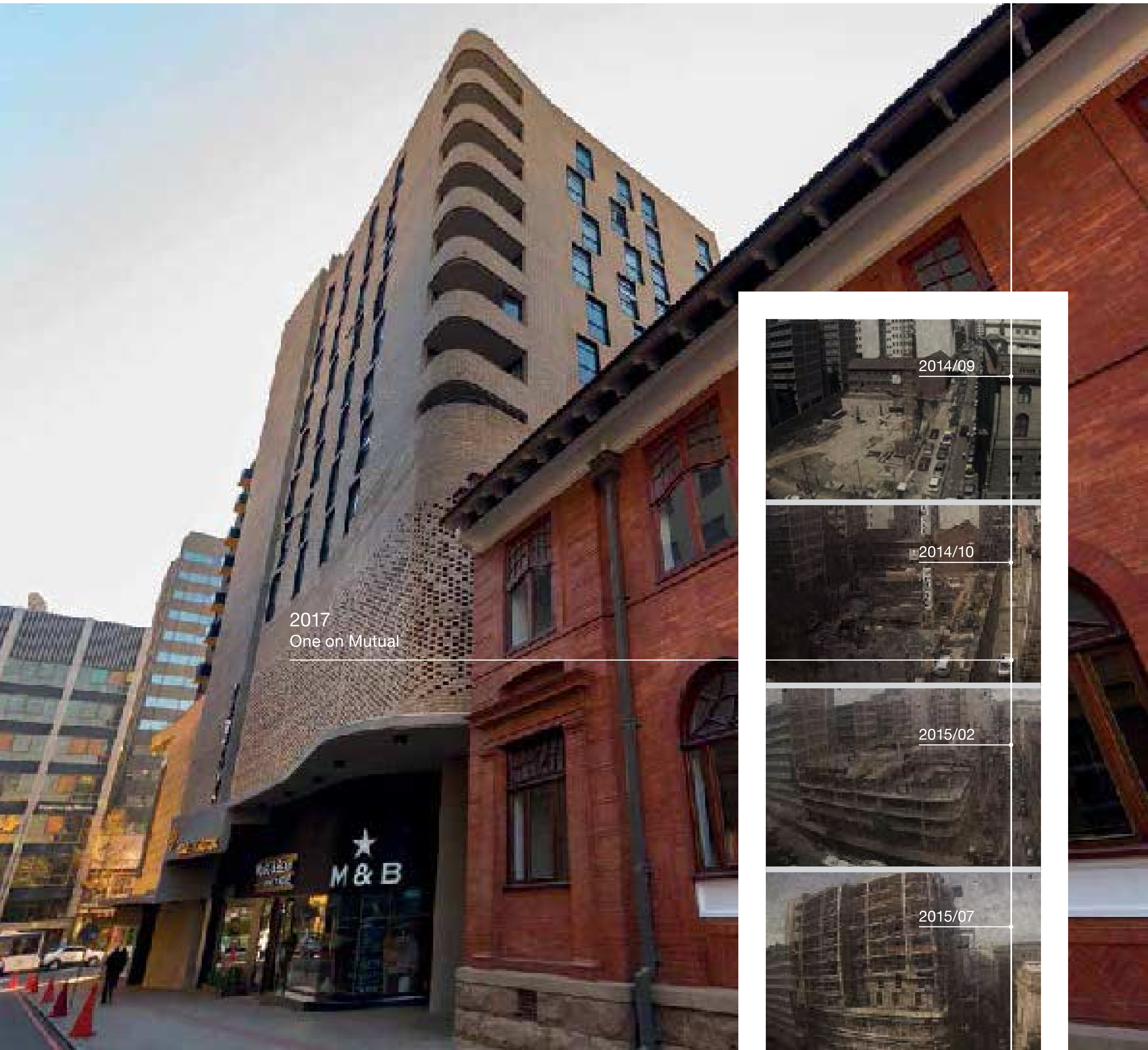
**12.8%**
annual compounded return over five years

**9.4%**
annual compounded return over ten years

| | **2017** | 2016 | 2015** | 2014 | 2013 |
|---|---|---|---|---|---|
| Investment property and straight-line rental accrual (R'000) | **12 549 048** | 12 065 688 | 11 380 104 | 3 471 507 | 3 214 696 |
| Shareholders' funds (R'000) | **7 828 229** | 7 413 800 | 6 987 679 | 2 889 449 | 2 417 008 |
| Interest-bearing borrowings (R'000) | **4 826 334** | 4 779 027 | 4 380 873 | 1 551 763 | 1 414 021 |
| Revenue – earned on contractual basis (R'000)* | **1 836 251** | 1 767 871 | 1 634 159 | 540 359 | 505 732 |
| Net property income – earned on contractual basis (R'000)* | **914 802** | 906 337 | 819 032 | 249 992 | 225 622 |
| Interest received (including investment income from joint ventures) (R'000) | **28 750** | 20 455 | 15 610 | 73 951 | 36 417 |
| Net interest paid (R'000) | **408 702** | 394 751 | 376 491 | 125 665 | 110 638 |
| Distribution (R'000) | **536 432** | 510 750 | 228 839 | 206 602 | 170 497 |
| Profit/(loss) on sale of investment property (R'000) | **2 943** | 8 490 | (61) | 44 | 15 |
| Net operating profit to rental income (%) | **49.7** | 51.4 | 50.1 | 46.3 | 44.6 |
| Net operating profit to property investments (%) | **7.3** | 7.5 | 7.2 | 7.2 | 7.0 |
| Expenses (net of recoveries) to rental income (%) | **36.0** | 34.8 | 35.8 | 36.7 | 37.7 |
| Shares/linked units in issue ('000) | **266 864** | 254 551 | 252 322 | 117 348 | 108 225 |
| Distribution per share/linked unit (cents) | **203.1** | 201.5 | 189.2 | 175.7 | 157.6 |
| Growth in distribution per share/linked unit (%) | **0.8** | 6.5 | 7.7 | 11.5 | 14.8 |
| Net asset value per share/linked unit (cents) | **2 933** | 2 913 | 2 769 | 2 462 | 2 233 |
| Market price per share/linked unit year-end (cents) | **2 274** | 2 299 | 2 425 | 2 106 | 1 966 |
| Market capitalisation at year-end (R'000) | **6 068 495** | 5 852 127 | 6 118 803 | 2 471 347 | 2 127 702 |

**Excludes the straight-lining of lease rental*
***With effect from 1 September 2014 Octodec acquired the remaining interest in Premium that it did not already own. Thereafter Premium became a 100% subsidiary.*

2017
One on Mutual, inner court




2017
One on Mutual

2014/09

2014/10

2015/02

2015/07

# our strategy

## We have a clear vision for our business which is to...

Unlock value in urban spaces for our stakeholders by reviving and redeveloping redundant or underperforming properties.

We applied the experience we had already gained upgrading our office, retail and industrial spaces to our first residential redevelopment, a conversion from an office building in the Tshwane CBD, which was completed in 1998. By 31 August 2017 we had redeveloped over 50 residential properties. 44 (See pages 44 to 63 for a review of our portfolio.)

Focused on enhancing the short-, medium- and long-term value of our property portfolio by redeveloping property to create and enhance value in urban spaces.

## We'll continue to achieve our vision by following our four-part strategy

1. Grow our existing portfolio by focusing on redeveloping and upgrading properties 47
2. Maintain our medium-term focus on growing our residential portfolio in our core areas of expertise 48
3. Continue to investigate new opportunities by exploring equity growth opportunities including joint ventures and strategic partnerships 47
4. Apply our expertise in diversified locations

## Our performance against strategy

**Legend**

Achieved
Partially achieved
Not achieved

## What we achieved in 2017

| | | More information |
|---|---|---|
| Medium-term focus on growing our residential portfolio | **7.5% increase** in the number of residential units added to our portfolio | 48 |
| Grow our existing portfolio focusing on redeveloping and upgrading properties | **R328 million growth** in the value of our portfolio | 34 |
| Continue to investigate new opportunities | **New approach** at One on Mutual | 50 |
| | **Progress with our** investment at The Manhattan | 47 |

## Key performance indicators

- 44 Overall our portfolio showed positive like-for-like rental growth of 5.3% (2016: 5.3%) (see page 44)
- 32 Our focus on cost control resulted in a ratio of net property expense (property expenses, net of recoveries and excluding administration costs) to rental income of 30.9% (2016: 29.6) (see page 32)
- 47 Total vacancies in our portfolio as at 31 August 2017 were at 17.7% of our total GLA (2016: 15.6% of our total GLA) (see page 47)
- 10 Strong collections — bad debts at below 1% (see page 10)
- 47 Two new completed developments, one in Tshwane and one in Sunninghill, Johannesburg, added to our portfolio (see page 47)
- Mixed-use redevelopment in Tshwane, Sharon's Place (previously Centre Forum), retail portion completed in July 2017.

**We will achieve our strategic objectives and create value beyond financial return by:**

- hand-picking and acquiring properties in key locations for redevelopment
- the geographical concentration of our property portfolio makes it easier to manage and extract value from our portfolio
- redeveloping and reworking our existing portfolio
- enhancing our tenant profile
- attracting tenants, investors and other stakeholders to the benefits of CBD business through changing perceptions regarding the CBDs
- creating cost- and resource-efficient business solutions that ensure the sustainability of our business while recognising that the need to invest in our properties may impact distributions in the short term

## Supported by key resources and relationships

64 Financial resources

66 Relationships

65 Our people

64 Physical resources

69 Know-how

73 Natural resources

# leadership review

Globally, the leadership of organisations is being challenged by the need to address a diverse range of issues. In South Africa, we've added our own issues to the mix. Financial and political instability, a poorly performing economy, inequality, social tensions, disruption, population growth, urbanisation, growing unemployment, climate change and our consumption of natural resources faster than they can regenerate, are just some of the challenges we face.

The sense that the financial crisis of 2008 and other similar crises resulted from short-term thinking, has prompted a shift towards long-term thinking with the aim of ensuring value is created in a sustainable manner. Several initiatives, including the United Nations Sustainable Development Goals, also seek to achieve value creation in a sustainable manner. Stakeholders have greater expectations than ever before and shareholder and civil society activism is on the increase. In this context organisations need to be able to show their stakeholders that they are creating value in a sustainable manner by making more but using fewer resources to do so.

Corporate governance practices that contribute to the achievement of good performance, an ethical culture, effective control and legitimacy are essential if we are to create value for our stakeholders by ensuring the long-term sustainability of our business. We therefore welcome the introduction of King IV™ with its focus on the contribution good corporate governance makes to value creation. We recognise that to achieve good corporate governance it must be practised across our business and we have therefore identified Octodec's application of the King IV™ principles throughout this report.

2017
Tshwane

Sharon Wapnick and
Jeffrey Wapnick

# The operating environment

The ongoing uncertainty and unpredictability of our socio-economic environment continues to negatively impact our economy, the spending power of both individual South Africans and corporate South Africa and, consequently, our business.

Our business has its roots in the uncertain times of the early 1980s (through Tomkor Limited) when we chose to invest in the Pretoria CBD. By buying these properties and redeveloping them we have contributed to urban renewal while also addressing the need for dignified, safe, accommodation in the CBDs close to where people work. We take pride in having created safe, secure, well-positioned accommodation that has contributed towards the upliftment of the CBD.

We've experienced tough times in the property business on several occasions and have continually been able to create value for our stakeholders. We've also developed the skills and relationships necessary to manage properties successfully in the inner cities, and have kept our bad debts at below 1%.

# Our performance against strategy

The long-term focus of our strategy is on redeveloping and upgrading our portfolio to create long-term value for all our stakeholders. While this may on occasion limit short- and medium-term returns, we believe that the right approach is to continue building value. See the financial director's review on pages 30 to 35 for information on our financial position and pages 44 to 63 for information on the performance of our portfolio.

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The diversity and granularity of our portfolio exposes us to a range of market sectors, protects us from the consequences of losing a large tenant and contributes to our resilience in challenging times. For example, while certain segments of the retail sector are not performing as well as they have been, our high street shops are attracting national brands and, despite a slowing in the growth of this segment in the second half of the year, it is still substantially outperforming other retail segments. This balances out the flat performance of our residential properties. See pages 44 and 63 for our performance in these sectors.

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## Growing our existing portfolio focusing on redeveloping and upgrading properties

In the year under review we completed our new project, One on Mutual, a relatively more upmarket residential offering than our usual offering. It has been particularly well received with strong demand for both its residential and retail components.

Construction of the Sharon's Place development in Tshwane is nearing completion. Letting of the retail component of this development is going well with national retailers such as Shoprite, Clicks and KFC taking significant space.

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## Continue to investigate new frontiers

The Manhattan, a joint venture residential complex in Sunninghill, Johannesburg, which is in a new geographic area for Octodec, has not let as well as we had hoped. Letting has improved since a new approach has been adopted to the letting of these units. Despite the current environment, we continue to investigate new frontiers and new value-creating opportunities they may offer.

## Medium-term focus on growing our residential portfolio

This year we are seeing an increase in competition in the residential property sector in the Tshwane CBD and in Hatfield (student node) and more so in the Johannesburg CBD, with other property companies also beginning to offer aspirational residential units in the CBDs and introducing new businesses to the CBD. We are pleased to see others contributing to the renewal of the CBDs in this way. Each time a building is upgraded it tends to result in the improvement of adjacent buildings and bit by bit the city is transformed and sustainable businesses are introduced to the CBD.

In Hatfield, the first area where we experienced a drop-off in residential rentals during the year under review, our research has shown that the *Fees Must Fall* campaign in late 2016 resulted in fewer rentals to students because parents were reluctant to commit to leases when they were not certain that their children would be able to study at the university. Increased competition has also affected the area. See the residential property sector on page 48.

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# Maintaining and growing distributions to our shareholders

At the time of announcing our interim results we indicated that we expected the growth in our distributable income per share to be approximately 6% for the 2017 financial year based on several assumptions, including that there would be no further deterioration in the economic, social and political environment; this has not been the case.

The growth of our distributable income was negatively impacted by the loss of income during the let-up phase of our two new properties The Manhattan and One on Mutual, a slowdown in rental growth, more specifically rental income growth in the residential sector, repairs and maintenance costs and net utility expenses.

## Relationships

We would like to take this opportunity to recognise the various stakeholders who play an important role in the environments in which we operate.

We are committed to providing the investor community with the information it needs to make informed decisions regarding our business and we engage regularly to achieve this. We are cognisant of the positive impact that our developments have in the areas surrounding our buildings and we will continue to engage with all stakeholders to address, explain, describe and show what we do so that investors can better understand and appreciate what we strive to do with our properties and developments. 66 See the relationships section on page 66.

> ‘The more an organisation’s business model positively impacts on society and the environment, the more the quality of life in developing economies will improve. This improvement, in turn, will positively affect the prospects for those organisations.’
>
> *Foreword to King IV™*
> *Report on Corporate Governance 2016*

## The way forward

The quote we have taken from the foreword of the King IV™ report echoes what we have always believed and what we have achieved in value creation for Octodec’s stakeholders over the years.

The commitment of the mayors of both Tshwane and Johannesburg to take back their cities and provide their citizens with safe, dignified environments has also been encouraging in terms of achieving urban renewal.

We will continue to ensure efficient management of our properties, which includes proactive maintenance programmes designed to ensure the preservation of the dignity of our tenants and avoid overcrowding. In this way we will maintain the value we have created in our properties.

This year we will be piloting more affordable micro residential units to address a need we have identified.

As long as conditions remain as they are we expect the year ahead to be challenging. To ensure we perform optimally in this environment, continue to create value and protect the sustainability of our business we will continually review potential risks and opportunities and how best to address their impact on the business or the opportunities they create.

Our experienced management team, combined with our diversified portfolio with its large number of tenants, sound operating fundamentals and prudent capital management all contribute to Octodec’s resilience in these difficult times.

We have already responded to the increased competition and changing trends in the residential sector by adjusting our tenant offering without compromising our recovery of rentals and our standards. This approach, combined with prudent cost management, will support our overall performance in the year ahead.

The disposal of non-core or non-performing properties remains a major focus area for the year ahead.

We expect the worsening economic climate, together with the financial impact of the phased take-up of rental space in our greenfield developments (which is normal when newly built rental units are introduced to the residential market), to result in no growth in distributions per share for the 2018 financial year.

## Renegotiation of our management agreement

The renegotiation of our management agreement has been a very thorough, lengthy and robust process conducted in a transparent and professional manner. An ad hoc committee, led by the lead independent non-executive director, was established to ensure Octodec gets the fairest possible arm’s length deal for its stakeholders in terms of its management agreement. The members of this committee are all non-executive directors. We are confident that the final agreement, which is to be voted on by shareholders in the new year, will be fair to both parties.

# Welcome

We are delighted to welcome Akua Koranteng, a new independent non-executive director to our board. Akua's appointment has contributed to the gender and racial diversity of our board, and introduced fresh thinking to our discussions. She brings considerable property knowledge to our board both in terms of her academic qualifications (see page 28 of the leadership section of this report), as well as her work experience in the Structured Property Finance division of Rand Merchant Bank, the Corporate Finance division of Merrill Lynch and as head of capital investments at Sifiso Learning Group. Her board experience includes a non-executive directorship of Jones Lang La Salle and a directorship of Zinza Investments, a commercial real estate advisory and investments company. She is also a member of our investment and social, ethics, remuneration and transformation committees.

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# Appreciation

Our thanks go to the board and the company secretary for their commitment and valued contributions to our company and to our executive management, and our employees and those of City Property for their excellent service in challenging times. Your efforts made it possible for us to achieve an increase in distributions to our shareholders at a time when the country was experiencing a period of recession.

**Sharon Wapnick**
Chairman

**Jeffrey Wapnick**
Managing director


2017
President Towers

# the relationship between Octodec and City Property

The relationship between Octodec and City Property is governed by a management agreement that was entered into by both parties and approved by Octodec shareholders in 2011, through which Octodec outsourced its property and asset management to City Property. City Property therefore plays a key role in our business.

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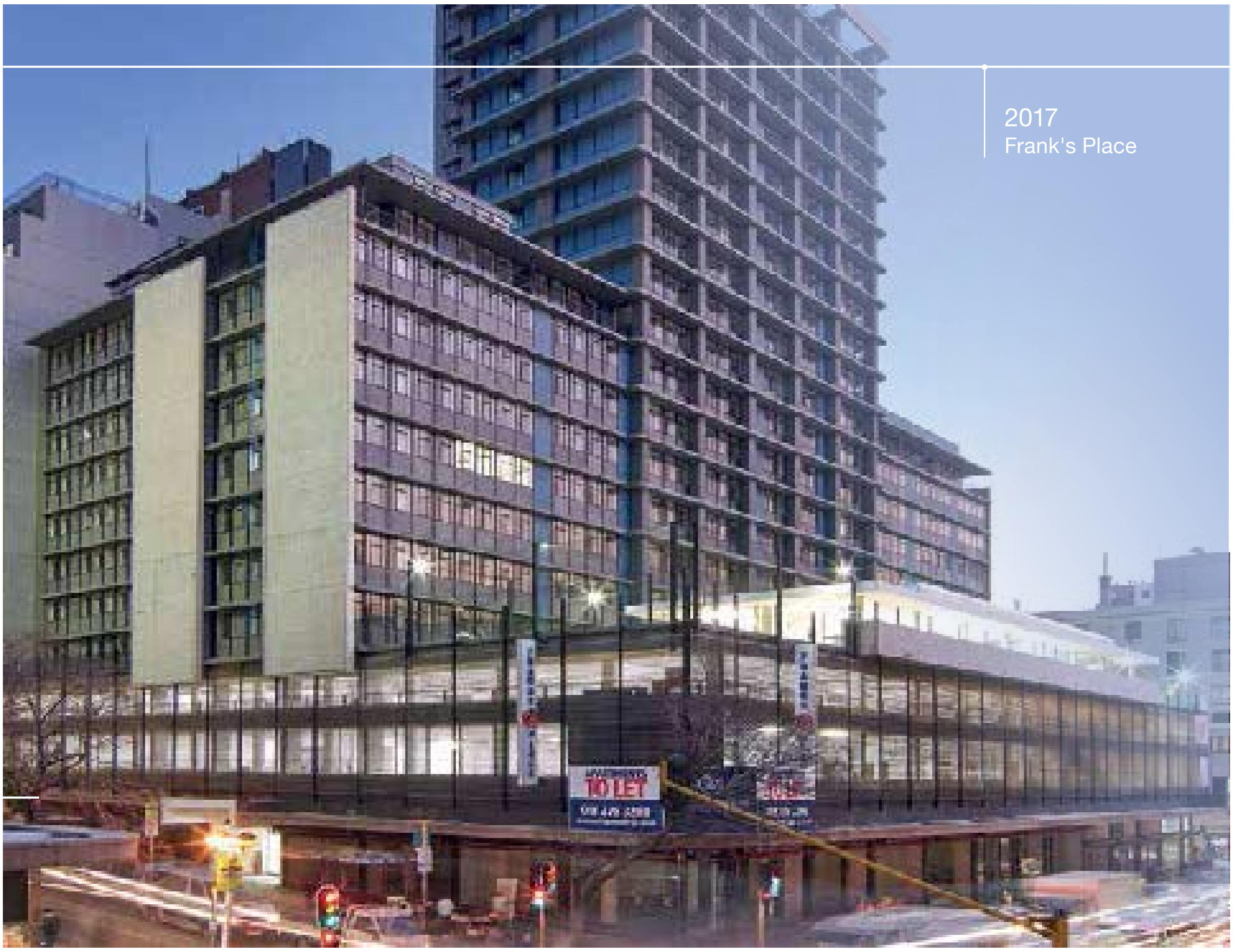
The agreement, which expires at the end of the second quarter of 2018, is currently being renegotiated. See pages 70 to 71 of this report, which reviews the:

- City Property leadership structure
- responsibilities assigned to City Property with regard to its property management, asset management and the specialist services it provides to Octodec
- how City Property is remunerated
- City Property's approach to risk, compliance, technology and information governance, human capital, transformation and its commitment to being a good corporate citizen
- Octodec outsource model with City Property




2017
Frank's Place

# our business

## innovatively unlocking long-term stakeholder value in spaces where people can thrive

Octodec listed on the JSE in 1990 and gained real estate investment trust (REIT) status in 2013. It is included in the JSE's two main property indices. Known for our ability to unlock value in urban spaces by redeveloping underperforming properties, we are one of the major owners of property in the central business districts (CBDs) of Tshwane, the administrative capital of South Africa, and Johannesburg, the economic hub of South Africa.

### We unlock value through:

- specialised expertise and experience in property management and development
- fostering long-term relationships with key stakeholders
- creating innovative property opportunities that deliver long-term sustainable stakeholder value
- scale and concentration of properties that enable management efficiencies

Our market capitalisation as at 31 August 2017 was:

**R6.1 billion**

2016: (R5.9 billion)

### We are committed to:

- investing in our people
- transforming our business
- sharing the value we create with the communities in which we operate
- responsible use of scarce resources and reducing the impact of our properties on climate change
- delivering long-term stakeholder value
- contributing to the sustainability of our cities by creating aspirational affordable accommodation



# ownership structure

(Ownership above 1%)

| Shareholder | % Ownership |
|---|---|
| Wapnick family and directors | 38.9 |
| Old Mutual | 5.2 |
| Government Employees Pension Fund | 4.9 |
| Stanlib | 4.8 |
| Nedbank Group | 3.8 |
| Eskom Pension and Provident Fund | 2.3 |
| Prudential | 2.3 |
| Momentum | 1.9 |
| Sanlam | 1.8 |

# business model

**maintaining a balance between growing distributions and sustainable earnings in the long term and investment in the community, properties and employees**

## our revenues

Rental income and recoveries generated from our properties

## our value propositions

**For our customers**
We provide safe, quality aspirational accommodation in residential, retail, office, industrial and mixed-use space in Tshwane, Johannesburg and surrounding areas

**For our employees**
The opportunity to earn, learn and grow in a safe and supportive environment

**For our shareholders**
Invest capital wisely in the rejuvenation and redevelopment of properties to unlock value and maintain and grow distribution to our shareholders

**For society**
Our investment in the security, education, well-being and sustainability of the communities in which we operate is an important part of our commitment to building dignity and creating shared value

## our activities

- Growing our portfolio with strategic investments
- Managing and redeveloping our assets and properties with the aim of unlocking short-, medium- and long-term value
- Continually evaluating our portfolio with a view to creating value
- Access to available sources of funding to minimise the cost of capital and maintain gearing below 40%

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*For more information see pages 18 to 21*

## key resources and relationships

**Physical resources**, granular and diverse portfolio which consists of the properties in our diverse portfolio

**Financial resources** from equity and debt funding

**Our people and know-how** in the form of:

- the competencies, knowledge and experience in financial, property and asset management of the people who manage our business
- the innovative approach we have to our business
- bespoke, efficient scalable systems, control and processes designed to manage high volumes of transactions and communication with our tenants
- governance, information management, compliance and risk structures

**Relationships**

- the investor community, our tenants, employees and the communities in which we operate
- key suppliers and service providers, including City Property

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*For more information see pages 66 to 68*

**unlocking value in urban spaces**

## our costs

These include:

- finance costs
- administration of high volume of transactions associated with over 14 500 tenants
- management of our buildings
- employee remuneration
- capital expenditure
- utilities
- marketing
- social investment
- taxes
- corporate costs

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*For more information see pages 30 to 35*

## operating context: issues impacting value

- Increasing urbanisation and densification of South Africa resulting in an influx of people into the Tshwane and Johannesburg CBDs
- Deterioration in retail trading performance, particularly in large shopping malls
- The impact of the poorly performing economy on the industrial sector
- Oversupply in the office market
- Political and social instability exacerbated by sovereign credit downgrades
- Compliance with legislation and regulations
- Competition and temporary oversupply in certain student-centric nodes

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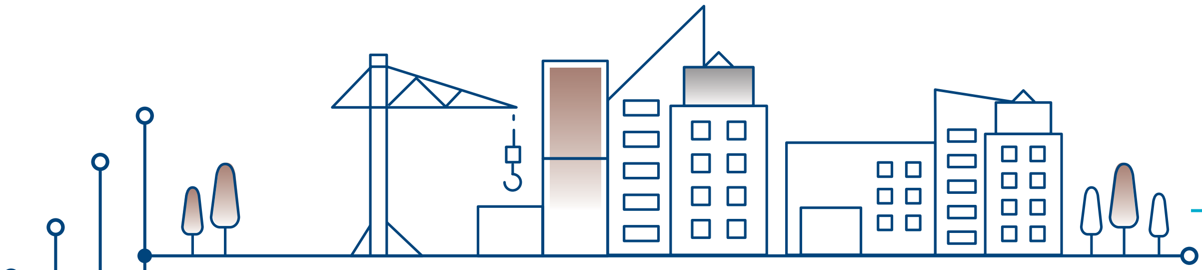
*For more information see pages 18 to 21*

**medium-term focus on growing our residential portfolio**



growing our existing portfolio focusing on redeveloping and upgrading properties

# managing the trade-offs that influence our value creation over time

### Impact on short- and medium-term gains of investing for the long term

Our investments in property redevelopments temporarily reduce our revenue from rentals. However, by attracting better quality tenants at higher rentals and longer lease periods they enable improved long term revenue generation and capital growth.

*See page 49 for more information*

### Investigating new opportunities

Achieving our strategic objective of continuing to investigate geographic diversification by investing in, for example, a new geographic area such as our investment in The Manhattan, a new joint venture residential property development in Sunninghill, Johannesburg, also temporarily reduces our financial capital. It does, however, provide us with the advantage of further diversifying our portfolio.

### Development pipeline

Properties in our development pipeline don't contribute to short- and medium-term financial gains. They do, however, provide us with a competitive advantage in the CBDs of Tshwane and Johannesburg where increasing urbanisation and densification are resulting in increased demand for and investment in properties in the CBDs, which will create value for our stakeholders in the long term.

### Costs and environmental impact

Our substantial investment in research, systems and infrastructure to reduce our use of electricity and water is paying off in the reductions we are achieving in consumption per user of both. The reduction in electricity usage, of course, also results in a reduction in carbon emissions.

### Relationships

Our chairman is not independent, however, we believe the intellectual and human capital she contributes to the board outweighs any possible concern. In addition, to address any possible concern we have appointed a lead independent non-executive director.

# outcomes

### Financial resources

- Value realised through our ability to maintain and grow distribution to our shareholders with a 0.8% increase in total distribution for the year to 203.1 cents per share
- Total return to shareholders from a combination of capital growth (share price movement and distribution) of 7.7%
- Weighted average cost of finance at an acceptable level of 9.2% per annum (2016: 9.0%) in an environment of increasing upward pressure on interest rates

*See the financial review on pages 30 to 35*

### Physical resources

- 1.9% increase year-on-year in like-for-like valuation of property portfolio. The proceeds from the sale of almost all the properties we sold in 2017 exceeded their valuations at 2016

*See financial review on page 30*

- Continuing to extract value from our high street shops, achieving core growth in rental income of 5.7% through strong demand from nationals. High street shop core vacancies decreased from 9.1% in FY2016 to 8.8% in the year under review
- 5.3% growth in like-for-like rental income in year under review
- Lower growth of 2.5% in like-for-like rental income in residential portfolio (2016: like-for-like growth of 5.6%)
- Average residential sector occupancy rates of 95% (2016: all-time record of between 98% and 99%)
- R328 million invested in properties in Tshwane and Johannesburg and surrounding areas in the year under review
- Increased granularity and diversification of our portfolio addressing risk and exploiting opportunities
- Total core vacancies of 10.7% in our portfolio at an acceptable level in current environment

### Our people and know-how

- Unique intellectual capital gained over time as pioneers in the management and redevelopment of inner city properties
- Understanding of the property market and changing tenant needs leading to effective, innovative decision-making
- Upskilling employees provides building managers with a career path in property management
- Digitalisation of our business increasing efficiency and scalability, improving our ability to communicate with our tenants

### Relationships

- Effective stakeholder relationships and partnerships contributing to inner city upliftment

### Our social investment commitment

- R7.5 million (in monetary and non-monetary contributions) invested in communities and in enterprise development in FY2017
- Safer inner cities
- Making safe, quality accommodation available where people want to live, work and play
- Increased procurement from black-owned SMMEs, which created 52 jobs
- Community upliftment through efforts to increase their self-sufficiency

*For more information see pages 75 to 77*

continue to investigate new opportunities

# operating context

This year we have identified the following issues in our operating context that have important positive or negative implications for our business strategy

- Increasing urbanisation of South Africa resulting in an influx of people into the Tshwane and Johannesburg CBDs
- Deterioration in retail trading performance, particularly in large shopping malls
- Greater demand for affordable shops accessible to large numbers of shoppers
- The impact of the poorly performing economy
- Oversupply in certain areas in the office and residential sectors
- Political and social instability exacerbated by the possibility of further sovereign credit downgrades

## Increasing urbanisation of South Africa

- The United Nations estimates that 71.3% of South Africa's population will be living in urban areas by 2030 and nearly 80% by 2050
- This urbanisation process has resulted in a 37.5% growth in the population of Johannesburg and a 36.4% growth in the population of Tshwane between 2001 and 2011*

*Data from the census conducted in 2011*

- There is a move to economic nodes close to public transport and the gravitation of young professionals to city centres is resulting in densification
- Demand for quality, secure, inner city accommodation is exceeding supply
- The increase in competition in the Hatfield area has negatively impacted the performance of our residential portfolio

### Octodec's strategic response:

**medium-term focus is on growing our residential portfolio**

**focusing on redeveloping and upgrading properties**

**defensive maintenance programmes in place to prolong the lifespan of buildings**

36
48

Our residential property portfolio's concentration of about 9 500 apartments and 14 500 tenants in the CBDs of Tshwane and Johannesburg (± 29% of combined concentration by rentals) (see maps on pages 36 and 41) is well positioned to take advantage of urbanisation and densification trends (see pages 48 to 52 for details of the performance of our residential property portfolio).

The geographic concentration of our property portfolio in specific nodes makes it easier to manage and allows us to have a positive impact by improving not only our assets but also the area surrounding them.

Our strategies are underpinned by our vision, which has both a commercial and social focus.

**The social benefit:**
Our unique offering of well-located, aspirational and secure residential units in the Tshwane and Johannesburg metros is contributing to the rebirth of the inner cities.

By providing clean, well-maintained, aesthetically pleasing safe accommodation, parking, well-lit common areas, recreation areas and a high standard of customer service we are both enhancing the quality of life of those who wish to live, work and play in our inner cities and contributing to the vibrant urban culture of the cities of Tshwane and Johannesburg.

**The commercial benefit:**
Octodec is achieving an enhanced tenant profile in our redeveloped and new buildings. We attract quality tenants prepared to pay for quality space tailored to meet their needs and with whom we can establish long-term sustainable relationships.

# Greater demand for affordable shops accessible to large numbers of shoppers protects Octodec from the deterioration in retail trading performance, particularly in large shopping malls

The South African Property Association's research of the market in 2016 revealed that:

- the community/high street shopping segment showed retail sales growth of 12.05% in 2016. The consumer's preference for the convenience this segment offers has resulted in an improved occupancy rate
- neighbourhood shopping centres showed retail sales growth of 7.32%
- small regional shopping centres retail sales grew by 4.44%
- large regional shopping centres achieved 3.76% sales growth

## Octodec's strategic response:

**growing our existing portfolio by focusing on redeveloping, upgrading and creating new spaces**

Octodec's diversified investment in the retail property sector is in the two segments of this sector where demand remains strong:

- high street shops that currently offer retailers more opportunities for growth than traditional malls and where demand for space is growing
- neighbourhood shopping centres, which are the second best performers after high street shops

This diversification has protected our retail portfolio from the deterioration in growth experienced in larger shopping malls.

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**Trends such as urbanisation and densification are also driving specific retail development to cater for the growing needs of consumers in emerging catchment areas. (see page 53 to 57 of this report for more information on the impact of this trend on the performance of Octodec's retail portfolio)**

**Our high street shops**
**(72.7% of our retail property portfolio)**
Our high street shops, most of which are on the ground floors and in the walkways and arcades of our mixed-use buildings, with either residential or office space on the floors above, are well positioned to meet the needs of our city dwellers and commuters by providing them with easy access to shops.

Our leasing policy is aimed at ensuring that our high street shops offer shoppers the range of brands and brand value they want at prices they can afford.

**High-quality neighbourhood convenience and regional shopping centres**
**(27.3% of our retail property portfolio)**
We have five well-positioned shopping centres, three of which are in Tswhane and two in Johannesburg, which contribute approximately 10% of our total property portfolio rental income.

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See pages 53 to 57 of the operating review in this report for information on the performance of this sector of our portfolio.


2017
The high street shops in Tshwane's 'Golden Mile' on Helen Joseph Street, which is a pedestrian walkway

# The impact of the poorly performing economy on the industrial property sector

- This sector is affected by low business confidence, subdued economic growth and continued development activity with only 65% of new developments pre-let
- It continues to suffer from intense competition and a high rate of vacant space

*Source: SAPOA Industrial vacancy report for 2016*

## Octodec's strategic response:

**redeveloping and reworking our existing portfolio**

**creating cost and resource-efficient business solutions that ensure sustainability while recognising that the need to invest in our properties may impact short-term distributions**

- Octodec's focus has been on redeveloping centrally located small industrial properties to tenant's requirements which has attracted a better quality tenant with improved rentals
- Owning a stock of properties gives us an advantage as to the competitive rentals we can offer tenants. The high cost of new builds puts new owners at a disadvantage in terms of the rentals they need to charge to recover their investment in the property
- The central location of our properties supports our objective of establishing a strong position in an area
- Businesses are increasingly looking for ways to optimise their distribution networks and reduce costs. Our industrial properties, both in terms of their position and facilities, are ideal for smaller-scale operations
- We also provide well-priced, conveniently located manufacturing spaces suited to the needs of smaller manufacturers for whom price and location are critical factors

# Oversupply in the office market

- This sector continues to suffer from intense competition and a high rate of vacant space in certain areas
- Multiple new developments are coming on stream in existing and new nodes, which has resulted in a general oversupply of office space in certain areas
- A significant factor is the considerable amount of space vacated by large corporates consolidating multiple tenancies into single, newly built, large-scale campuses

## Octodec's strategic response:

**continually improving the quality of our tenants**

**redeveloping and reworking our existing portfolio**

There is an increasing demand from small businesses for the individual pockets of office space we have available in both the Tshwane and Johannesburg CBDs, which don't seem to have been affected by new developments.

Our office buildings in Tshwane also enjoy strong demand from government for well-positioned offices.

# Political and social instability exacerbated by low economic growth

- The property sector has been negatively affected by the current environment, resulting in increased vacancy rates and lower rentals in the residential, retail, industrial and office property sectors
- South Africa's credit rating downgrade has led to higher funding costs
- Political and social instability, as well as low economic growth, has also contributed to the increase in funding costs and the decrease in consumer spending and lack of investor confidence

## Octodec's strategic response:

**creating cost- and resource-efficient business solutions that ensure sustainability while recognising that the need to invest in our properties may impact short-term distributions**

Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts in respect of 82.1% of its borrowings.

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The granularity and diversity of Octodec's portfolio means our risk is spread not only over the various property sectors, but also over our more than 14 500 tenants (see our lease profile on page 46 of this report for information in this regard).

This translates into a portfolio that is both resilient and resistant to the good or bad fortunes of any one tenant or industry sector. The multi-level diversification we have achieved has worked well for us in both positive and negative operating environments.

We are offering flexible leasing options such as no deposit on certain residential properties, where appropriate.

The Manhattan

# risks and material issues

## Risk governance

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The board of Octodec sets the direction for how we approach and address risk including the development of our risk appetite and the setting and monitoring of risk tolerances. We manage the risks we identify within the risk tolerance levels established by the board of directors using effective control systems.

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While the board has delegated its responsibility for the governance of risk to the audit and risk committees, it retains ultimate accountability for the governance of the risks that could impact Octodec's ability to achieve its business objectives (see the governance framework on page 78).

### Octodec's enterprise risk management (ERM) framework

Our ERM framework and policy clearly define Octodec's risk management philosophy, which is closely aligned with Octodec's business strategy and designed to encourage and instil a risk management culture in Octodec. The aim of the framework is to:

- provide a structure within which management can operate to enforce a proactive ERM process
- ensure that the risk management efforts of Octodec are optimised
- facilitate enhanced performance

In its role as managing agent responsible for the asset and property management of Octodec's property portfolio, City Property is responsible for managing a substantial number of risks on Octodec's behalf. Our board and management, through their monitoring and reporting processes, ensure that City Property is accountable for the management of these risks and that its approach to risk management is aligned with that of Octodec.

**ERM framework**

| Risk governance | ERM process |
| --- | --- |
| Oversight provided by the board and internal and external assurance providers to ensure the **effective governance** and **performance** of Octodec | Accountability for risk rests with the Octodec board<br>The board provides input into the risk and opportunity identification process<br>Board level risk mitigation |
| Octodec management is **responsible** and **accountable** for developing a culture of monitoring performance and compliance throughout the business | Octodec's risk and opportunity register is developed following **consultation with all internal stakeholders of Octodec** including the board of directors as well as City Property's management and employees<br>Risk mitigation by Octodec management and employees<br>Octodec's asset and property management and operational risk registers developed by City Property management and employees<br>67 Risk mitigation at operational level by City Property (see page 67) |

## Business level risk management

Octodec's risk management function sets the tone for risk management in City Property and provides the framework for the identification and mitigation of risks and opportunities in its everyday processes.

Each City Property department has its own risk register through which it actively identifies, monitors and manages the risks for which it is responsible.

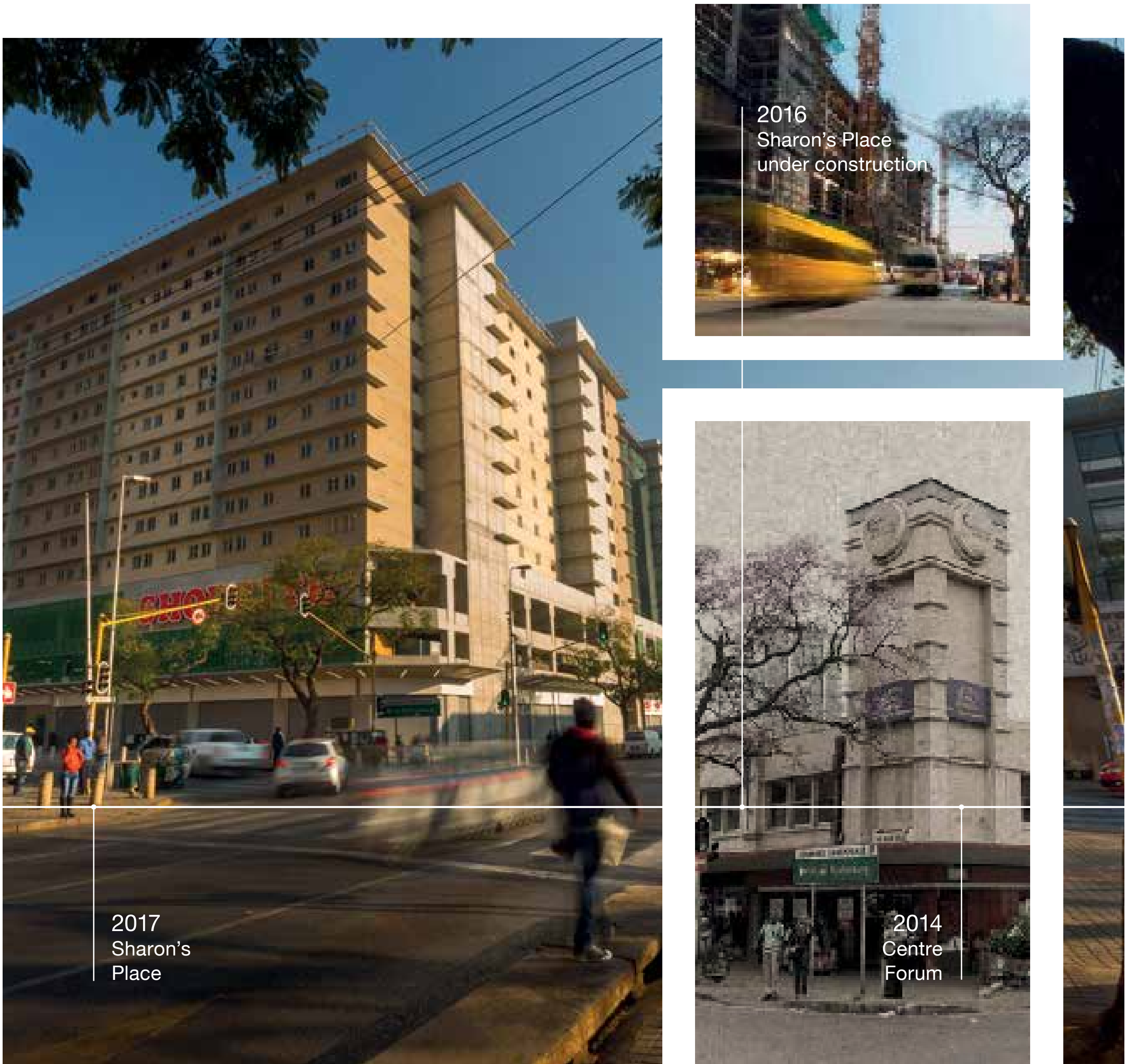
The internal auditors KPMG, collect the relevant information, evaluate Octodec's risks and report directly to the Octodec audit and risk committees on their findings.

# The matters material to our ability to create value

## Our approach

Octodec identifies its most material matters through a range of engagement processes with the stakeholders, which we have identified as being key to our ability to create value. Internally, these processes include interviews, workshops and feedback from within Octodec. Externally, the stakeholders from whom we seek feedback include investors, providers of debt, government, councils, regulators, industry bodies, our tenants, informal trader associations and taxi associations. Following this process the issues we identify as material are presented to the Octodec board for its input and approval.

In the table that follows we have matched our material matters to our top ten risks.



2016
Sharon's Place
under construction

2017
Sharon's
Place

2014
Centre
Forum

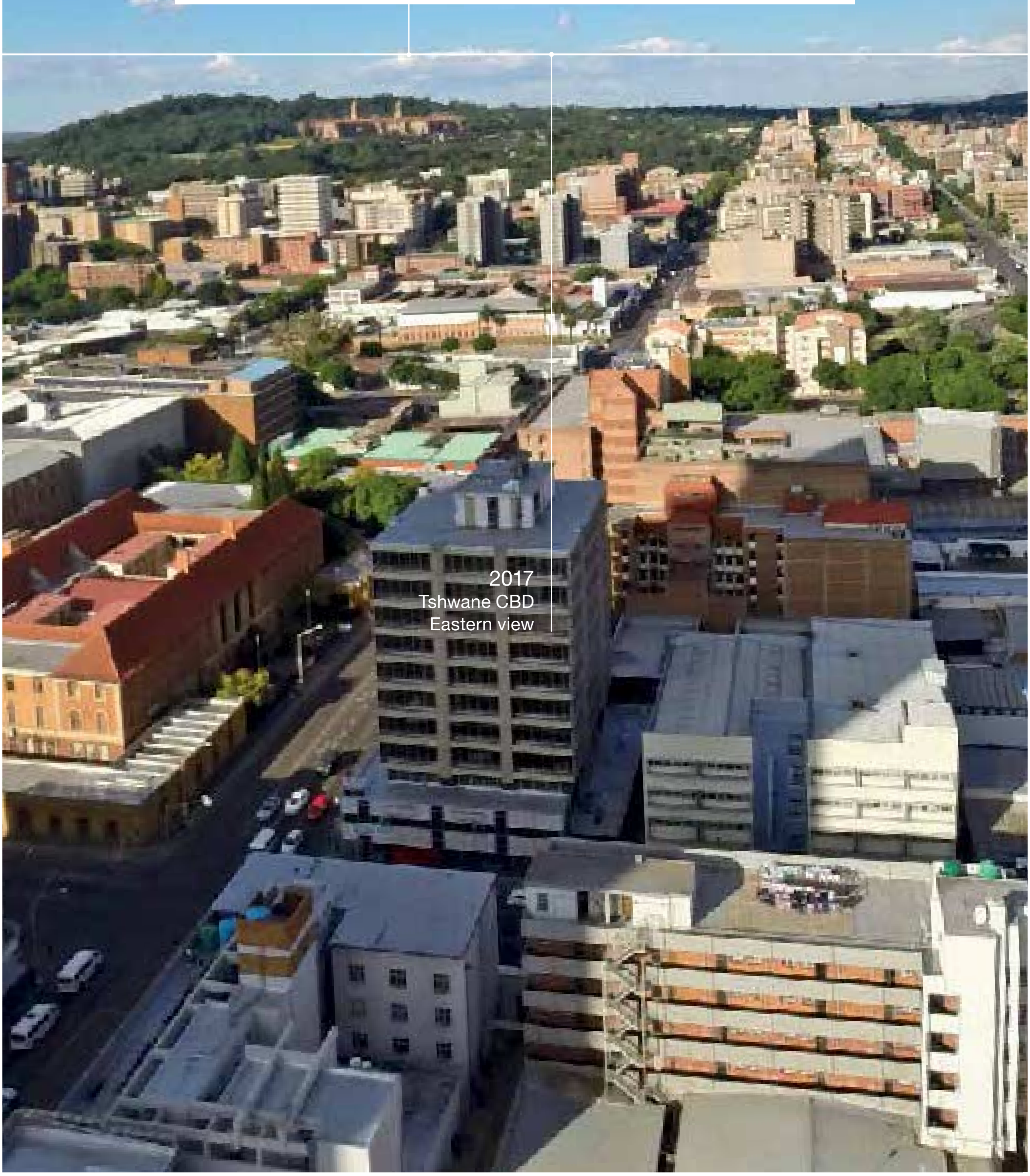
# Octodec's top ten risk and material issues

| Residual risk ranking | Risk description and potential impact | Material issues | Actions taken to address the risks and opportunities they present | More information |
|---|---|---|---|---|
| 1 | Sovereign credit rating downgrade by major rating agencies, resulting in sustained levels of low growth coupled with severe and sustained austerity measures, reduced availability of funding, increase in funding costs, reduced demand for rental space and increased potential for tenant default | Socio-political environment<br><br>Effective and efficient capital management<br><br>Stakeholder engagement and responsiveness | **Ensuring that Octodec can protect the sustainability of the business by responding rapidly and appropriately to changes in the external environment**<br>• Continual monitoring by executives of external environment, coupled with ensuring Octodec has the appropriate agility to address change rapidly<br>**Effective and efficient capital management**<br>• Sound treasury management policies have been implemented<br>• A treasury function is in place and financing at fixed interest rates and interest rate swap contracts assist in maintaining an appropriate interest rate hedged position<br>• The total loans hedged are currently at 82.1% of the total interest-bearing borrowings<br>• A loan-to-value ratio of below 40% is maintained (currently at 37.1%) and we hedge our interest<br>• Borrowing and funding sources are diversified<br>• Appropriate responsibilities, test presumptions and practicalities are assigned, and Octodec has ensured that all City Property business units have prepared their internal structures and processes to respond quickly to changes, as and when they occur<br>• Octodec has adopted a conservative approach to capital management<br>• Octodec regularly engages with its providers of capital about Octodec's risk management, profitability and future funding requirements<br>• Regular and consistent monitoring by executives of Octodec's financial management, coupled with ensuring that Octodec has the appropriate financial agility to manage the type of change that further sovereign credit rating downgrades would trigger by hedging our interest rate exposure and managing our LTV | |
| 2 | Increased levels of social unrest could result in a reduction in the confidence levels of our stakeholders and an increase in the possibility of our properties being damaged during unrest | Socio-political environment<br><br>Making the right decisions in the current environment that will result in sustainable growth in our asset base | **Achieving sustainable growth and maintaining stakeholder confidence**<br>• To achieve the sustainable growth of our asset base, attract new tenants to our buildings and maintain and grow investor confidence in Octodec, we continue to investigate opportunities to diversify our property portfolio by geographic area and property type. (see pages 66 to 68 of the performance review section of this report).<br>**Protecting our investments and maintaining and growing our stakeholder relationships**<br>• The management teams and employees of both Octodec and City Property, on Octodec's behalf, work hard to maintain and build relationships with the stakeholder groups that play key roles in the socio-political environment in which we operate. As a result we are well-positioned to engage and seek assistance and support when necessary. We are also kept well-informed regarding any potential social unrest<br>• The comprehensive insurance programme Octodec has in place addresses the potential loss arising out of our properties being damaged during social unrest | 66 |
| 3 | Power and water resources which remain under threat for sustained periods of time, as well as deteriorating municipal and court systems, could undermine rental income levels, the sustainability of long-term tenants and the ability to effectively collect on defaulting tenants | The optimum management of our properties in a competitive environment<br><br>Management of City Property relationship<br><br>Stakeholder engagement and responsiveness | • Generators have been installed at our larger properties and we are investigating the installation of generators at smaller buildings<br>• We are also continually investigating and identifying alternative sources of power to complement the use of generator power during electricity outages<br>• Octodec is actively involved in lobbying through various forums and as a member of the Green Building Council of South Africa, we are committed to reducing the amount of electricity and fuel consumed per person in our building<br>• We continually engage with our water and power suppliers to ensure we maintain good relationships with them<br>• To reduce consumption of both water and power resources in our properties, we monitor consumption to detect abnormalities in usage<br>• We monitor and manage power consumption per property to ensure tenant recoveries are optimised<br>• Internal dispute resolution policies are in place and we negotiate settlements with defaulting tenants to limit the need to take legal action | |

| Residual risk ranking | Risk description and potential impact | Material issues | Actions taken to address the risks and opportunities they present | More information |
|---|---|---|---|---|
| 4 | Non-compliance with legislation could result in litigation and possible prosecution and cost of compliance increasing | Increasing governance, regulatory and compliance requirements | • To ensure Octodec complies with applicable legislation, dedicated legal and company secretariat teams within City Property monitor Octodec's compliance with legislation<br>• To ensure that City Property is achieving the transformation and broad-based black-economic empowerment targets agreed with Octodec, City Property monitors its performance monthly and provides quarterly reports to the Octodec board and its committees | |
| 5 | Acquisition of properties based on incorrect assumptions and poor quality due diligence could affect the company's medium to long-term income. | Making the right decisions in the current environment that will result in sustainable growth in our asset base | • All projects or major renovations and new developments exceeding R10 million require board approval<br>• Robust due diligence exercises are performed on all potential investment or disposal opportunities<br>• The effective operation of Octodec's investment committee, which is a subcommittee of our board, ensures appropriate due diligence is undertaken and that the decisions taken by the committee are well-informed<br>• Technical advice and the services of specialist consultants are obtained where appropriate<br>• We use reputable building contractors and professional advisors on our projects | |
| 6 | Geographic and sectoral concentration could result in increased potential of major structural damage and financial loss in the event of negative political activity and the demise of the municipalities and city improvement districts (CIDs) | Making the right decisions in the current environment that will result in sustainable growth in our asset base | • Octodec's urban renewal initiatives are assisting with the improvement of specific areas, particularly in the city of Tshwane where our property investments are encouraging surrounding property owners to upgrade and maintain their properties<br>• Our cross-sector diversification provides us with diversified revenue streams | |
| 7 | Increased levels of political uncertainty in South Africa (societal or political unrest) could impact the safety of Octodec's employees and the ability of these employees to carry out their work, reduce the ability of Octodec to continue to maintain business performance sustainability and result in the introduction of 'tight/restrictive' capital constraints | Socio-political environment<br><br>Stakeholder engagement and responsiveness | • Octodec provides physical protection for its assets in retail centres<br>• On-site security, including closed circuit television (CCTV) cameras and security guards to ensure the safety of employees and tenants and to protect assets<br>• Octodec proactively monitors the adequacy of the insurance it has in place to mitigate the loss of assets<br>• Octodec's management team is committed to maintaining good relationships with its external stakeholders and invests considerable time and effort in engaging with these stakeholders to understand their concerns, working with them to address these concerns and avoid the damaging impact of social and political unrest on our business<br>• Continual monitoring of the potential for social or political unrest by Octodec executives and ensuring we have the appropriate agility to respond rapidly to minimise the impact of any unrest on our business<br>• We have assigned appropriate responsibilities, test presumptions and practices, and ensured that all Octodec and City Property business units have prepared their internal structures and processes to respond quickly to changes as and when they occur<br>• Octodec has ensured that City Property has appointed a dedicated occupational health and safety officer who is responsible for emergency procedures and plans | |

| Residual risk ranking | Risk description and potential impact | Material issues | Actions taken to address the risks and opportunities they present | More information |
|---|---|---|---|---|
| 8 | Exposure to the constantly changing macro-economic environment | Socio-political environment<br><br>Making the right decisions in the current environment that will result in sustainable growth in our asset base | • The assets in Octodec's defensive property portfolio are spread across a variety of property sectors. In addition, having over 14 500 tenants in our portfolio mitigates the risk of losing one large tenant<br>• Octodec's budgeting process is aligned to a dynamic zero-based budgeting model<br>• Stringent credit controls are in place in respect of tenant arrears as are stringent prospective tenant vetting controls | |
| 9 | Diminished shareholder confidence may result in fewer investment opportunities, lower capital growth and reduced long-term distributions | Stakeholder engagement and responsiveness<br><br>Making the right decisions in the current environment that will result in sustainable growth in our asset base | • Octodec builds and maintains relationships with its shareholders through regular interaction, roadshows and continual communication on value-relevant information including, but not limited to, forecasted distribution growth<br>• An external investor relations team facilitates stakeholder interaction<br>• The ongoing implementation of an effective three-level combined risk management assurance model provides stakeholders with comfort regarding the management of risk in Octodec<br>• Octodec's commitment to sustainable and ethical business practices based on honest and transparent interaction provides our stakeholders with relevant information on the competitive landscape in which the business operates | |
| 10 | Ineffective management of Octodec's assets which could result in an inability to generate revenue and compete in a competitive market | Making the right decisions in the current environment that will result in sustainable growth in our asset base<br><br>The optimum management of our properties in a competitive environment<br><br>Management of our relationship with City Property | • A fixed term property and asset management agreement negotiated with City Property<br>• Continuous oversight by the board of directors and Octodec's management of key operational matters within City Property that could impact Octodec's assets<br>• Annual key performance targets are being negotiated with the executive management of City Property and these will be monitored by Octodec's board of directors<br>• The implementation of Octodec's strategic objectives in collaboration with the executive management of City Property | |


1918
Pretoria CBD
Eastern view


2017
Tshwane CBD
Eastern view

# leadership

As at 7 December 2017


## Non-executive directors

### Sharon Wapnick (54)

**BA LLB (cum laude)**
**Chairman**

Chairman of the investment committee and a member of the nominations, risk and social, ethics, remuneration and transformation committees

Sharon, who joined the board on 4 October 1994, has considerable experience in the property sector, as well as in legal-related property matters. She is an attorney and a senior partner of Tugendhaft Wapnick Banchetti & Partners and a director of various unlisted companies including City Property.

### Myron Pollack (70)

**CA(SA)**

A member of the audit, investment, risk, nominations and social, ethics, remuneration and transformation committees

Myron joined the board on 4 October 1994. His areas of expertise include finance and property.

# Independent non-executive directors

## Derek Cohen (66)

**AEP (Unisa)**
**Lead independent director**

Chairman of the nominations committee and a member of the audit, investment, risk, and social, ethics, remuneration and transformation committees

Derek, who joined the board on 1 October 2009, has many years of experience in banking and finance and provides consulting services with a specific focus on mergers, acquisitions and corporate finance-related matters. He is chairman of the Smart Life Insurance Company Limited.

## Gerard Kemp (63)

**MSc (Mining Engineering), DPLR, MDP**

Chairman of the social, ethics, remuneration and transformation committee and a member of the audit, investment, risk and nominations committees

Gerard has been a member of the board since 1 October 2013. He was formerly the chief executive officer of KCS Resources Proprietary Limited, a division of Transafrika Resources and the Pamodzi Resources Fund. Prior to that he was director of business development (resources) at Rand Merchant Bank (RMB), head of investment banking and head of equities research at BoE Merchant Bank and BoE Securities. Gerard was formerly an independent non-executive director of Keaton Energy Holdings Limited.

## Akua Koranteng (37)

**BCom (Hons) (Economics), Master of Finance (Real estate)**

Akua, who joined the Octodec board on 1 September 2017, is a member of the investment and social, ethics remuneration and transformation committees

Currently head of Capital Investments at the Sifiso Learning Group Proprietary Limited, Akua's academic background in real estate finance, as well as her work experience in the Structured Property Finance division of Rand Merchant Bank and her current directorship of Zinza Investments Proprietary Limited, a commercial real estate advisory and investments company, equip her to make a very valuable contribution to the Octodec board's deliberations, as does the financial experience she gained in the Corporate Finance division of Merrill Lynch. Akua previously held the position of non-executive director on the board of international real estate specialists Jones Lange LaSalle Proprietary Limited.

## Pieter Strydom (69)

**MCom (cum laude), CA(SA)**

Chairman of the audit and risk committees and a member of the nominations, investment and social, ethics, remuneration and transformation committees

Pieter was appointed to the Octodec board on 6 February 2012. He has 45 years of experience in external auditing, special investigations and all disciplines of risk management, and serves on the boards of Old Mutual Nigeria Life Assurance Company Limited, Old Mutual West Africa Limited, Old Mutual General Insurance Company Nigeria Limited, and the Smart Life Insurance Company Limited.

# Executive directors

## Jeffrey Wapnick (57)

**BCom**
**Managing director**

Member of the risk committee

Jeffrey, who was appointed to the board on 2 October 1998, is responsible for the management of the group, with a strong emphasis on the upgrading and development of properties. He has a wealth of experience in the property industry. He is also managing director of City Property.

## Anthony Stein (50)

**CA(SA)**
**Financial director**

Member of the risk committee

Anthony was appointed to the board on 1 July 2009. He has considerable experience in finance in a listed company environment, as well as in the property industry and was the treasurer of the SA REIT Association from its inception until 2015. He is the chief financial officer of City Property.

# performance

## Financial director's review

This year we have chosen to present our financial review in a condensed and simplified form for ease of reference and understanding. It should be read together with the full audited financial statements set out on pages 91 to 142.

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### Dividend to shareholders

We have included a simplified income statement showing the distributable income for the twelve-month period ended 31 August 2017. The income statement reflects the operating results and excludes fair value and other non-cash flow adjustments required in terms of IFRS. The group's accounting policies applied in the preparation of the audited financial statements are consistent with those applied in the previous financial statements.

Octodec's dividends are based on sustainable income generated from rentals. The rental Octodec receives from its property portfolio, including the distributable income from its equity-accounted investments, less operating costs, interest on debt and normal taxation, is distributed to shareholders bi-annually. Octodec does not distribute its capital profits.

Given the nature of its business, Octodec uses dividend per share as its key performance measure, as it is considered a more relevant performance measure than earnings or headline earnings per share.

We declared a total dividend of 203.1 cents per share for the twelve-month period compared to 201.5 cents declared in the prior comparative period, an increase of 0.8%. The dividend for the year was made up of an interim dividend of 104.8 cents and a final dividend of 98.3 cents per share. In rand terms, total distributable income increased to R536.4 million, a 5.0% increase.

**Five-year distribution trend (cents per share)**

| | **2017** | 2016 | 2015* | 2014 | 2013 |
|---|---|---|---|---|---|
| **Salient financial features** | | | | | |
| **Distribution per share/linked unit (cents)** | **203.1** | 201.5 | 189.2 | 175.7 | 157.6 |
| **Growth in distribution per share/linked unit (%)** | **0.8** | 6.5 | 7.7 | 11.5 | 14.8 |

**With effect from 1 September 2014 Octodec acquired the remaining interest in Premium that it did not already own. Thereafter Premium became a 100% subsidiary and the distribution per share above includes 100% of the profit in Premium.*

# Review of results

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Our ability to deliver on our strategic objective of unlocking value in our portfolio through developments and refurbishments/upgrades resulted in a number of important achievements. For further details refer to page 47 of the integrated report.

The distributable income was negatively impacted by a number of factors, including the following:

- the anticipated losses during the let-up phase of our new developments, One on Mutual and The Manhattan. Furthermore, due to a slowdown in the rental market, a result of the weaker economy, and increased competition, the let-up and rentals achieved for these developments were below our expectations. The losses after interest for The Manhattan and One on Mutual are at R6.1 million and R6.3 million respectively, for FY17
- increased cost pressures, mainly relating to repairs and maintenance, utilities and assessment rates
- rental growth across all sectors is under pressure, more specifically residential
- increases in corporate costs, such as fees paid in respect of once-off professional fees and additional costs relating to compliance and enterprise risk management
- increase in costs relating to the hedging of interest rate increases. Additional swap contracts were entered into, for an amount of R1.25 billion, commencing in January 2017.

| | % | **Year to 31 August 2017 (R'000)** | Year to 31 August 2016 (R'000) |
|---|---|---|---|
| **Distributable earnings** | | | |
| **Revenue – earned on contractual basis** | 5.4 | **1 836 251** | 1 742 871 |
| Operating costs | 6.7 | **(843 636)** | (790 529) |
| **Net rental income from properties** | 4.2 | **992 615** | 952 342 |
| Administrative costs | 9.6 | **(77 813)** | (71 005) |
| **Operating profit** | 3.8 | **914 802** | 881 337 |
| Interest received | | **18 094** | 10 138 |
| Share of income from joint ventures | | **12 238** | 14 026 |
| **Distributable profit before finance costs** | | **945 134** | 905 501 |
| Finance costs | 3.5 | **(408 702)** | (394 751) |
| **Shareholder distributable earnings** | 5.0 | **536 432** | 510 750 |
| Number of shares in issue ('000) | | **266 864** | 254 551 |
| Dividend per share (cents) | | **203.1** | 201.5 |
| Growth in dividend (%) | | **0.8** | 6.5 |

| | **Year to 31 August 2017 (R'000)** | Year to 31 August 2016 (R'000) |
|---|---|---|
| **Reconciliation of earnings to distributable earnings** | | |
| Total comprehensive income attributable to equity holders | **687 695** | 857 162 |
| Profit on sale of investment properties | **(2 943)** | (8 490) |
| Reversal of impairment of loans | **–** | (378) |
| Fair value changes | | |
| Investment property | **(235 106)** | (285 914) |
| Investment property – joint ventures | **(2 572)** | (6 872) |
| **Headline earnings attributable to equity holders** | **447 074** | 555 508 |
| Straight-line rental income accrual | **4 905** | (2 567) |
| Fair value changes of interest rate derivatives | **77 010** | (17 191) |
| Once-off reinstatement contribution from tenant | **–** | (25 000) |
| Deferred taxation | **7 443** | – |
| **Distributable earnings attributable to equity holders** | **536 432** | 510 750 |

Revenue (before straight-line rental income accrual) and net rental income from properties increased by 5.4% and 4.2% respectively compared to the prior comparative twelve-month period.

Our core portfolio, representing those properties held for the previous comparable period with no major development activity, reflected like-for-like rental income growth of 5.3%. The rental from offices and retail shopping centres showed the strongest growth of 8.4% and 6.4%, respectively.

The office sector growth of 8.4% is mainly attributable to a lease concluded in 2016 for the Centre Walk property in respect of 9 365m$^2$. One of our primary objectives continued to be the improvement of the quality of our portfolio of properties in order to attract new tenants, resulting in a slight improvement in the rental income growth in the industrial sector. The residential portfolio showed lower growth in like-for-like rental income of 2.5%, which is mainly attributable to increased vacancies and lower escalation of rentals in Hatfield and the Tshwane CBD, which previously were strong student nodes. A number of new competitors have entered the Hatfield market, resulting in increased supply of residential properties available for rental. With the increased competition in the residential sector we have responded by offering tenants a competitive offering, which should improve the overall performance in 2018.

The ratio of net property expenses (property expenses net of recoveries and excluding administration costs) to rental income (excluding amounts attributable to straight-line rental income accrual) for the group increased to 30.9% (FY16: 29.6%). Bad debt write-offs and provisions during the year increased slightly to 0.9% of total tenant income (FY16: 0.8%). Despite the sustained economic pressure, arrears and doubtful debt provisions remain at acceptable levels as a result of tight credit risk management. No significant deterioration is anticipated in the near future.

The SA REIT Association issued best practice recommendations outlining the need to provide consistent presentation and disclosure of relevant ratios in the SA REIT sector, which will ensure information and definitions are clearly presented, enhancing comparability and consistency across the sector. Octodec's cost to income ratios are set out below.

| | **2017 %** | 2016 % |
|---|---|---|
| **Cost to income ratios (excluding straight-line rental income accruals)** | | |
| Gross property operating costs to income ratio | **45.9** | 45.4 |
| Net property operating costs to income ratio | **30.9** | 29.6 |
| Gross administrative costs to income ratio | **4.2** | 4.1 |

Finance costs (after interest capitalised) for the period amounted to R408.7 million, an increase of 3.5% compared to the prior year. The all-in weighted cost of borrowings increased marginally to 9.2% per annum (FY16: 9.0%). This is mainly due to increased borrowings to fund developments and projects, as well as the cost of additional interest rate hedging contracts entered into during the period. Interest income, including interest received from joint ventures, increased to R28.7 million (FY16: R22.1 million). The increase relates mainly to the interest received on the long-term loans that have been granted to joint venture partners.

## Financing in 2017

During the period under review, Octodec issued 12.3 million shares and raised R263.3 million through the dividend reinvestment alternative. The equity raised was used to finance Octodec's investment activities.

Total borrowings increased to R4.8 billion. The increase was, however, partly negated by the proceeds from the dividend reinvestment alternative offered by Octodec as well as the proceeds of properties disposed of during the year. The group's loan to value ratio (LTV) (value of interest-bearing borrowings, net of cash, divided by the fair value of its investment portfolio) at 31 August 2017, is 37.1% (FY16: 38.3%). The decrease in LTV is mainly attributable to the revaluation of the property portfolio, a reduction in borrowings due to the proceeds of properties disposed of during the period, as well as the capital raised from the dividend reinvestment alternative.

Octodec had unutilised available banking facilities amounting to R625.9 million at 31 August 2017.

| | Amount 31 August 2017 R'000 | Weighted average interest rate per annum % 31 August 2017 | Amount 31 August 2016 R'000 | Weighted average interest rate per annum % 31 August 2016 |
|---|---|---|---|---|
| Interest-bearing borrowings | | | | |
| Bank borrowings | **3 710.3** | **9.1** | 4 023.9 | 9.2 |
| – Nedbank | **2 785.3** | **9.2** | 2 998.5 | 9.3 |
| – Standard Bank | **925.0** | **8.9** | 1 025.4 | 8.9 |
| Domestic medium term note programme (DMTN) | **1 116.0** | **8.5** | 755.1 | 8.5 |
| Total borrowings | **4 826.3** | **9.0** | 4 779.0 | 9.1 |
| Cost of swaps | | **0.2** | | (0.1) |
| **Total borrowings** | 4 826.3 | 9.2 | 4 779.0 | 9.0 |
| | | | | |
| Loan to value ratio (%) | | **37.1** | | 38.3 |
| % of borrowings hedged | | **82.1** | | 82.9 |
| Weighted average term of debt | | **1.4 years** | | 2.3 years |
| Weighted average term of interest rate swaps | | **1.6 years** | | 2.2 years |
| Weighted annual average cost of borrowings (all-in cost) (%) | | **9.2** | | 9.0 |
| Undrawn debt facilities available on demand (R'000) | **625.9** | | 618.7 | |

A breakdown of the loan expiry profile as at 31 August 2017 follows, with a weighted average maturity of 1.4 years. The intention is to extend the loan maturity profile.

Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts in respect of 82.1% (31 August 2016: 82.9%) of its borrowings, with such hedges maturing at various dates between 2018 and 2021.

The hedges in place are for a weighted average period of 1.6 years. Interest rate swap contracts were concluded in respect of an additional amount of R1.25 billion during the reporting period for a four-year term, commencing in January 2017.

Octodec participates in a DMTN programme through its subsidiary Premium. Octodec is the guarantor of the programme. As at 31 August 2017 the total issuance was at R1.116 billion, or 23.1% (FY16: R755.1 million or 15.8%) of the group's borrowings. Global Credit Rating's long- and short-term national Scale Issuer ratings assigned to Octodec changed from A(ZA) and A1(ZA) to A-(ZA) and A1-(ZA) respectively, with the outlook as stable.

Octodec has remained well within its agreed covenant ratios under its financing arrangements.

**Loan expiry profile**

| | R'000 | % of total borrowings |
|---|---|---|
| 2018 | 1 572 817 | **32.6** |
| 2019 | 2 439 975 | **50.6** |
| 2020 | 525 506 | **10.8** |
| 2021 | 288 036 | **6.0** |
| **Total** | **4 826 334** | **100.0** |

**Expiry profile of fixed rate loans and interest rate swap contracts (per financial year)**

| | R'000 | % of total borrowings |
|---|---|---|
| 2018 | 1 350 580 | **34.1** |
| 2019 | 1 361 400 | **34.4** |
| 2020 | 500 000 | **12.6** |
| 2021 | 750 000 | **18.9** |
| **Total** | **3 961 980** | **100.0** |

## Capital expenditure

47

Development and capital expenditure amounted to R328 million (FY16: R438 million). This relates to various projects undertaken during FY17 with Sharon's Place and One on Mutual accounting for R160 million and R16 million respectively. During the financial period four major projects were under construction (see page 47 for details).

We are in the planning phase of the mixed-use development of Reinsurance House which is situated in a prime location in the Johannesburg CBD. We will only commence with development if a suitable yield is achievable. The total cost of this development is expected to be approximately R90 million.

New and redeveloped properties grow our rental income stream. However, phased take-up of units tends to have a negative impact on results in the short term. Depending on the number of units, it takes between six and twelve months for residential developments to achieve full occupancy levels. As a result the distribution growth is expected to be negatively impacted in the 2018 financial year during the let-up of Sharon's Place and The Manhattan.

# Disposals

In line with the decision to dispose of non-core or non-performing properties, the group disposed of a further sixteen properties during the period under review, nine of which have been transferred for a total consideration of R77.8 million. Transfer of the remaining seven properties for a total consideration of R58.3 million is expected to take place in the 2018 financial year.

**Transferred before 31 August 2017**

| Property | Location | Total consideration R'million | Profit/(loss) on disposal R'million | Transfer date | Exit yield % |
|---|---|---|---|---|---|
| Frederika Street | Gezina, Tshwane | 7.8 | 0.1 | 3 Feb 2017 | 8.0 |
| Karkap | Gezina, Tshwane | 5.5 | 0.4 | 3 Feb 2017 | 10.7 |
| Muntstreet | Waltloo, Tshwane | 10.9 | 2.1 | 28 Feb 2017 | 7.8 |
| Raschers | Johannesburg CBD | 6.1 | 0.2 | 26 Nov 2016 | 2.7 |
| Paulefko | Tshwane CBD | 4.4 | 0.9 | 17 Oct 2016 | 9.7 |
| Blagil | Hatfield, Tshwane | 2.1 | (0.1) | 26 Nov 2016 | 9.9 |
| High Court Building and Somerset House | Johannesburg CBD | 14.5 | (0.1) | 26 Nov 2016 | 0.0 |
| Fine Art House and Fine Art Court | Johannesburg CBD | 17.5 | 0.3 | May 2017 | 3.5 |
| Valhof | Valhalla, Tshwane | 9.0 | (0.1) | June 2017 | 10.5 |
| **Total** | | **77.8** | **3.7** | | |

**Property transfers expected to take place after 31 August 2017**

| Property | Location | Total consideration R'million | Profit/(loss) on disposal R'million | Expected transfer date | Exit yield % |
|---|---|---|---|---|---|
| Pretwade | Wadeville, Johannesburg | 10.5 | 0.2 | November 2017 | 11.0 |
| Iskemp | Isando, Johannesburg | 18.0 | 2.7 | November 2017 | 1.8 |
| 119 and 121 Albertina Sisulu Street | Johannesburg CBD | 5.3 | (0.2) | November 2017 | 0.7 |
| Swemvoor | Gezina, Tshwane | 9.1 | 0.4 | December 2017 | 12.0 |
| Sharp Centre | Tshwane CBD | 5.7 | 0.6 | October 2017 | 6.1 |
| Viskin | Tshwane CBD | 3.0 | 1.0 | December 2017 | 11.0 |
| Tronap | Tshwane North | 6.7 | 0.0 | November 2017 | 11.0 |
| **Total** | | **58.3** | **4.7** | | |

# Changes in fair value

It is the group's policy to perform internal valuations of all the properties at the interim stage and at year-end. The valuations are based on the income capitalisation method, which is consistent with the basis used in prior years. The property portfolio was internally valued at R12.6 billion, after a net increase in valuation of R235.1 million or 1.9% for the twelve-month period ended 31 August 2017.

In accordance with the JSE Listings Requirements, all our properties are valued at least once over a rolling three-year period by external independent valuation experts: Van Zyl Valuers CC (Gert van Zyl) and Amanda de Wet Consultants and Investors CC (Amanda de Wet). They are both registered valuers in terms of section 19 of the Property Valuers Profession Act 47 of 2000, and have extensive experience in commercial property valuations. Their valuations at 31 August 2017, amounting to R3.6 billion, (31 August 2016: R3.1 billion), representing 28.3% (FY16: 25.3%) of the portfolio by value, were 1.9% less (FY16: 0.7% more) than the directors' valuation. The directors are confident, taking all factors into account, that their valuations represent fair market value.

The mark-to-market value of interest rate swaps contracts, which protect the group against adverse interest rate movements, resulted in a fair value loss of R77.0 million.

The increase in the valuation of investment properties contributed to the 0.7% increase in the net asset value (NAV) to R29.33 per share.

# Forecast

The continuing weakness in the economy and the resultant slowdown in consumer confidence has negatively impacted Octodec. Notwithstanding the economic challenges, the experienced management team, combined with the diversified portfolio with its large number of tenants, sound operating fundamentals and prudent capital management, will contribute towards Octodec's resilience in these difficult times.

Octodec has already responded to the increased competition and changing trends in the residential sector by adjusting the tenant offering without compromising on recoverability of rentals and other standards. This, combined with prudent cost management, will support the overall performance during these trying times.

The disposal of non-core or non-performing properties also remains a major focus area.

The worsening economic climate, together with the effect of the phased take-up of rental space in the greenfield developments, which is normal when introducing newly built rental units to the residential market, will probably result in no growth in distributions per share for the 2018 financial year.

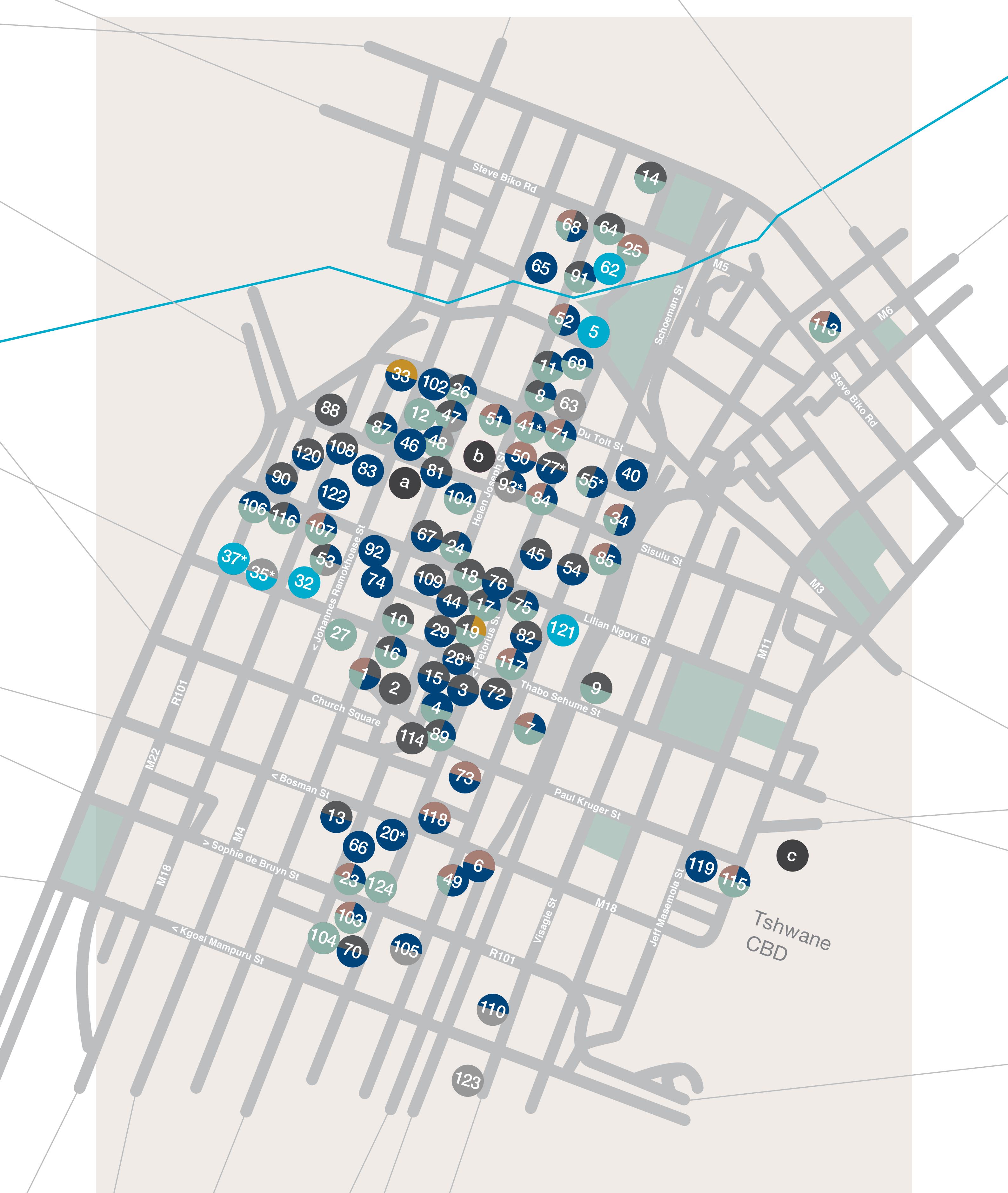
This guidance is based on the following:

- forecasted investment property income is calculated using contractual rentals and assumed market-related renewals
- allowance for vacancies has been established using assumptions and historical experience
- no major corporate and tenant failures are assumed
- no further deterioration in the economic and social environments
- the phased take-up of rental space in greenfield developments is based on historical experience adjusted for the current economic environment

This forecast has been neither reviewed nor reported on by the group's auditors.

**Anthony Stein**
Financial director

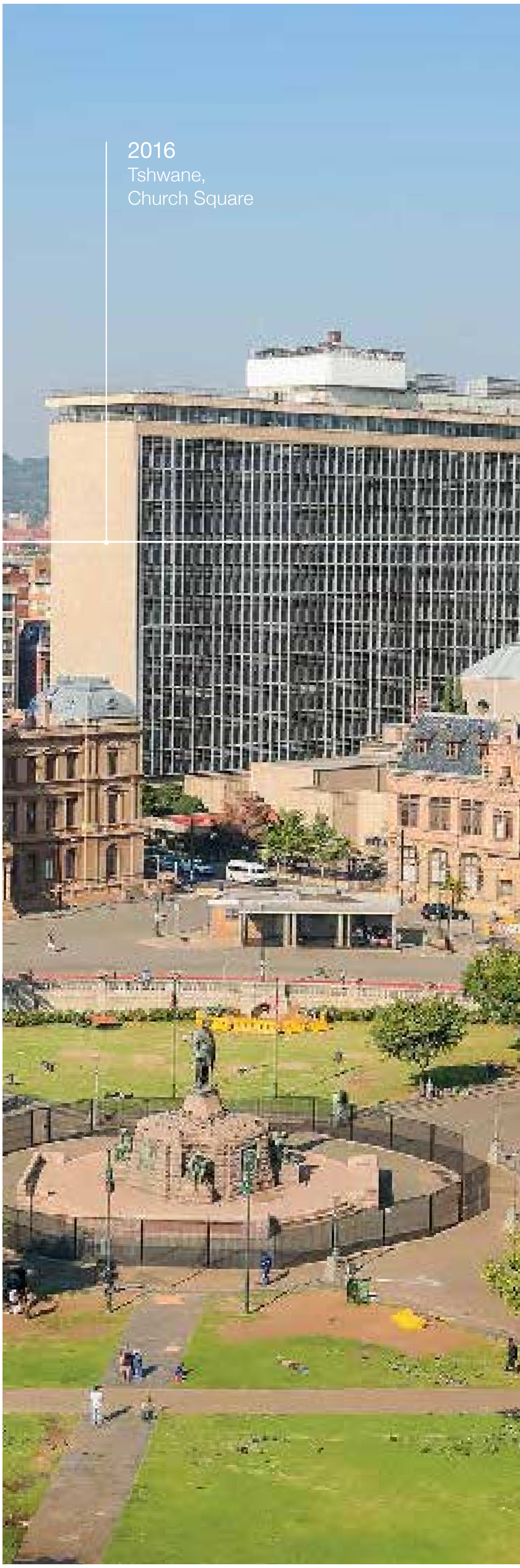
# Our properties in the Tshwane CBD



| | Property name | Residential | Offices | High street shops | Industrial | Shopping centre | Development pipeline | Parking |
|---|---|---|---|---|---|---|---|---|
| 1 | One on Mutual | ● | ● | ● | | | | ● |
| 2 | 28 Church Street | | ● | | | | | |
| 3 | 250 Pretorius Street | | ● | ● | | | | |
| 4 | 288 Pretorius Street | | ● | ● | | | | |
| 5 | 470 Pretorius Street | | | | ● | | | |
| 6 | Alec's Place | ● | | ● | | | | |
| 7 | Amanda Court | ● | | ● | | | | ● |
| 8 | Apollo Centre | | ● | ● | | | | ● |
| 9 | AVN | | ● | | | | | ● |
| 10 | Bank Towers | | ● | | | | | ● |
| 11 | Benrico | | ● | ● | | | | ● |
| 12 | Bosch Building | | | | | | | ● |
| 13 | Boschurch | | ● | ● | | | | |
| 14 | BP Leyds Street | | | | ● | | | ● |
| 15 | Burlan | | ● | ● | | | | |
| 16 | Capitol Towers North | | ● | ● | | | | ● |
| 17 | Central House | | ● | ● | | | | ● |
| 18 | Central Towers | | ● | ● | | | | |
| 19 | Centre Walk | | ● | | | ● | | ● |
| *20-22 | City Corner (1) (2) (3) | | | ● | | | | |
| 23 | City Place | ● | | ● | | | | ● |
| 24 | City Towers | | ● | ● | | | | ● |
| 25 | Corner Place | ● | | | | | | ● |
| 26 | CPA House | | ● | ● | | | | ● |
| 27 | Curpro | | | | | | | ● |
| *28-30 | Cuthchurch (1) (2) (3) | | ● | ● | | | | |
| 31 | Daloria | | | ● | | | | ● |
| 32 | Damalis | | | | | | ● | |
| 33 | De Proes (1) (2) (3) | | | ● | | ● | | |
| 34 | Demar | ● | | ● | | | | ● |
| *35-36 | Dupro (8) (9) | | | | | | ● | |
| *37-39 | Du Proes (4) (5) (6) | | | | | | ● | |
| 40 | Dusku | | | ● | | | | |
| *41-43 | Eland House (012central) | ● | | ● | | | | ● |
| | Maravin (012central) | | ● | ● | | | | |
| | FNB Church Street (012central) | | | ● | | | | |
| 44 | Filkem | | ● | ● | | | | |
| 45 | Gov Pret | | ● | ● | | | | ● |
| 46 | Hacklu Enterprises | | | ● | | | | |
| 47 | Jardown 1 (Downies) | | ● | ● | ● | | | ● |
| 48 | Jardown 2 (Dome) | | | ● | ● | | | ● |
| 49 | Joan's Place | ● | | ● | | | | ● |
| 50 | Karps | ● | | ● | | | | |
| 51 | Ken's Court | ● | | ● | | | | ● |
| 52 | Leo's Place | ● | ● | ● | | | | ● |
| 53 | Letari Building | | ● | ● | ● | | | ● |
| 54 | Locarno House | | ● | ● | | | | |
| *55-61 | Louis Pasteur (1) (2) (3) (4) (5) (6) | | ● | ● | | | | |
| 62 | LPA | | | | | | ● | |
| 63 | Ludwigs Building | | | | ● | | | |

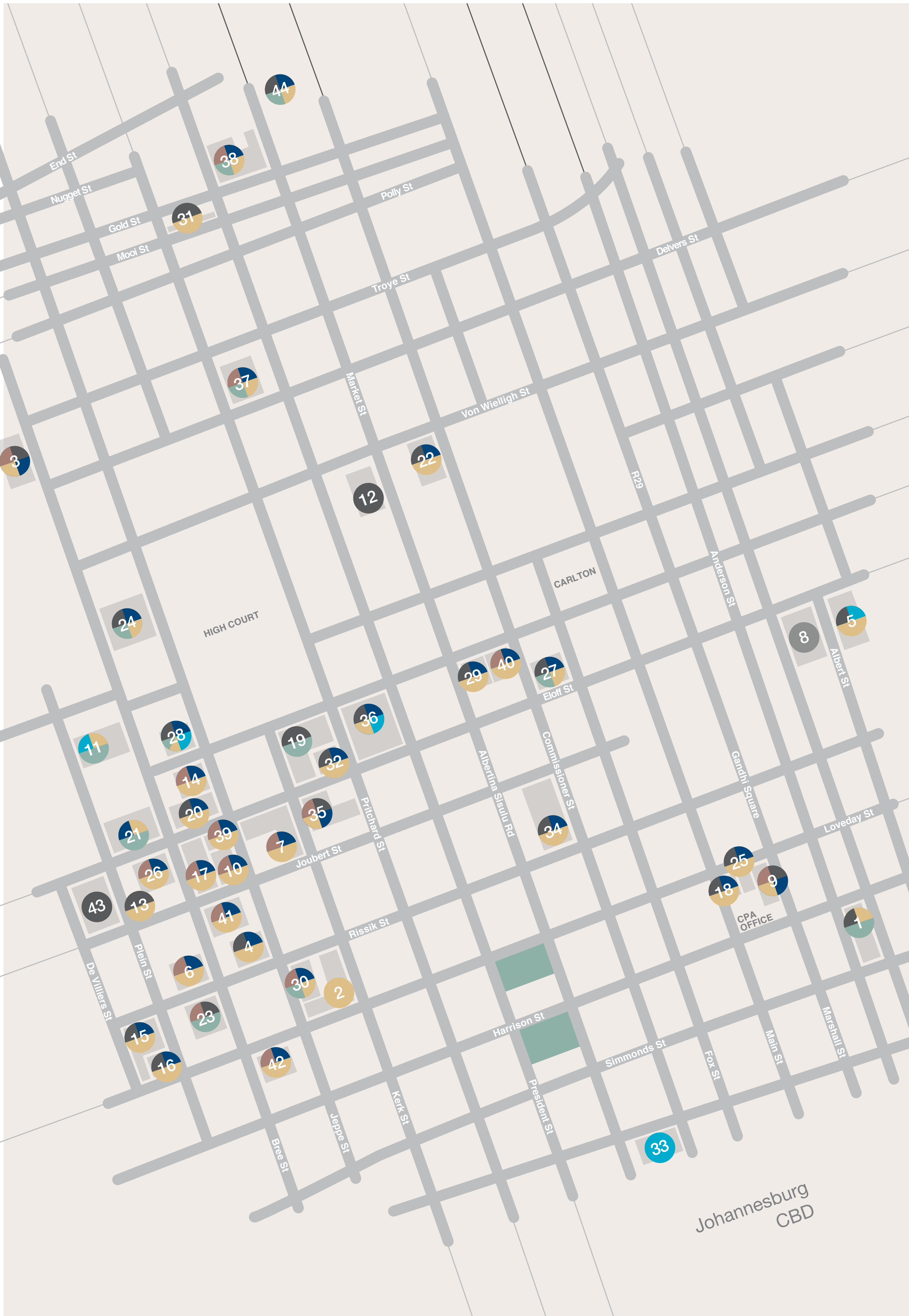
| | Property name | Residential | Offices | High street shops | Industrial | Shopping centre | Development pipeline | Parking |
|---|---|---|---|---|---|---|---|---|
| 64 | MBA Building | | ● | | | | | ● |
| 65 | McCarthy Church Street | | | ● | | | | |
| 66 | Midchurch | | | ● | | | | |
| 67 | Navy House | | ● | ● | | | | |
| 68 | Nedbank Plaza | ● | ● | ● | | | | ● |
| 69 | Numall | | | ● | | | | ● |
| 70 | Olivetti | | ● | ● | | | | |
| 71 | Orpheum Mansions (012central) | ● | | ● | | | | ● |
| 72 | Perl Modes Building | | ● | ● | | | | |
| 73 | Pete's Place | ● | | ● | | | | |
| 74 | Poyntons | | | ● | | | | |
| 75 | Praetor Forum | | ● | ● | | | | ● |
| 76 | Premium Towers | | ● | ● | | | | |
| *77-80 | Pretjolum (1) (2) (3) (4) | | ● | ● | | | | |
| 81 | Pretoria Midtown | | ● | ● | | | | ● |
| 82 | Prime Towers | | ● | ● | | | | |
| 83 | Prinsben | | | ● | | | | |
| 84 | Prinschurch | | ● | ● | | | | ● |
| *85-86 | Prinsman Place (1) (2) | ● | | ● | | | | ● |
| 87 | Prinsproes | | ● | ● | | | | ● |
| 88 | Prinstruben | | ● | | | | | |
| 89 | Protea Towers | | ● | ● | | | | ● |
| 90 | Provincial House | | ● | ● | | | | |
| 91 | Provisus | | ● | ● | | | | ● |
| 92 | Rapier | | | ● | | | | |
| *93-101 | Rezmep (2) (3) (4) (5) (6) (7) (8) (012central) | | ● | ● | ● | | | |
| 102 | Ross Electrical | | | ● | | | | |
| 103 | Russell's Place | ● | | ● | | | | ● |
| 104 | Samchurch | | | ● | | | | ● |
| 105 | Schoecourt | | | ● | ● | | | |
| 106 | Scott's Corner | | | ● | | | | ● |
| 107 | Sharon's Place | ● | | ● | | | | ● |
| 108 | Shepstru | | ● | ● | | | | |
| 109 | Shoprite | | ● | ● | | | | |
| *110-112 | SKD (1) (2) | | | ● | ● | | | |
| 113 | Parking at Sophie de Bruin | | | | | | | ● |
| 114 | Standard Bank Chambers | | ● | | | | | |
| 115 | Station Place | ● | | ● | | | | ● |
| 116 | Steynscor | | ● | ● | | | | ● |
| 117 | Steyn's Place | ● | | ● | | | | ● |
| 118 | Time Place | ● | | ● | | | | |
| 119 | Tuel | | | ● | | | | |
| 120 | Valcourt | | ● | ● | | | | |
| 121 | Van Riebeeck | | | | | | ● | |
| 122 | Vanstrub | | | ● | | | | |
| 123 | Viskin | | | | ● | | | |
| 124 | Volks Auctioneers | | | | | | | ● |

a) Tshwane House
b) SARB
c) Gautrain station


2016
Tshwane,
Church Square

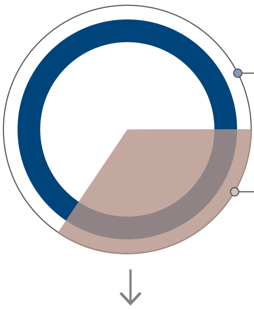

1905
Pretoria,
Church Square

# Our properties in the Johannesburg CBD



| | Property name | Residential | Offices | Mixed use | Industrial | Shopping centre | Development pipeline | Shops | Parking |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Anderson Place | | ● | | | | | ● | ● |
| 2 | Arlington House | | | | | | | ● | |
| 3 | Armadale | ● | ● | ● | | | | ● | ● |
| 4 | Bradlows Corner | | ● | ● | | | | ● | |
| 5 | Braam Fischer Towers | | ● | ● | | | ● | ● | |
| 6 | Brisk Place | ● | | ● | | | | ● | |
| 7 | Castle Mansions | ● | | ● | | | | ● | |
| 8 | City Block | | | | ● | | | | |
| 9 | CPA Place | ● | ● | ● | | | | ● | ● |
| 10 | Dan's Place | ● | | ● | | | | ● | |
| 11 | Education Centre | | | | | | ● | ● | ● |
| 12 | Elephant House | | ● | | | | | | |
| 13 | Empisal | | ● | | | | | ● | |
| 14 | Essenby | ● | | ● | | | | ● | |
| 15 | Fedsure House | | ● | ● | | | | ● | ● |
| 16 | Focus House | | ● | ● | | | | ● | |
| 17 | Frank's Place | ● | | ● | | | | ● | ● |
| 18 | Howard House | | ● | ● | | | | ● | |
| 19 | Inner Court | | ● | | | | | | ● |
| 20 | Jeppe House | | ● | ● | | | | ● | |
| 21 | King's Park Arcade | | | ● | | | | ● | ● |
| 22 | Klamon Towers | | ● | ● | | | | ● | |
| 23 | Lara's Place | ● | ● | | | | | | ● |
| 24 | Lister Medical Centre | | ● | ● | | | | ● | ● |
| 25 | London House | | ● | ● | | | | ● | |
| 26 | Lusam Mansions | ● | | ● | | | | ● | |
| 27 | Marlborough House | | ● | ● | | | | ● | ● |
| 28 | Medical Towers | | ● | ● | | | ● | ● | ● |
| 29 | Mr Price | | ● | ● | | | | ● | |
| 30 | Plaza Place | ● | | ● | | | | ● | ● |
| 31 | Presmooi | | ● | ● | | | | ● | |
| 32 | Record House | | ● | ● | | | | ● | |
| 33 | Reinsurance House | | | | | | ● | | |
| 34 | Ricci's Place | | ● | ● | | | | ● | ● |
| 35 | Royal Place | ● | ● | ● | | | | ● | ● |
| 36 | Shoprite Eloff | | ● | ● | | | ● | ● | |
| 37 | Splendid Place | ● | | ● | | | | ● | ● |
| 38 | Tali's Place | ● | | ● | | | | ● | ● |
| 39 | Temple Court | ● | | ● | | | | ● | |
| 40 | The Brooklyn | ● | | ● | | | | ● | |
| 41 | Union Club | ● | | ● | | | | ● | |
| 42 | Vuselela Place | ● | | ● | | | | ● | ● |
| 43 | Wits Technikon | | ● | | | | | | |
| 44 | Works @ Main | | ● | ● | | | | ● | ● |

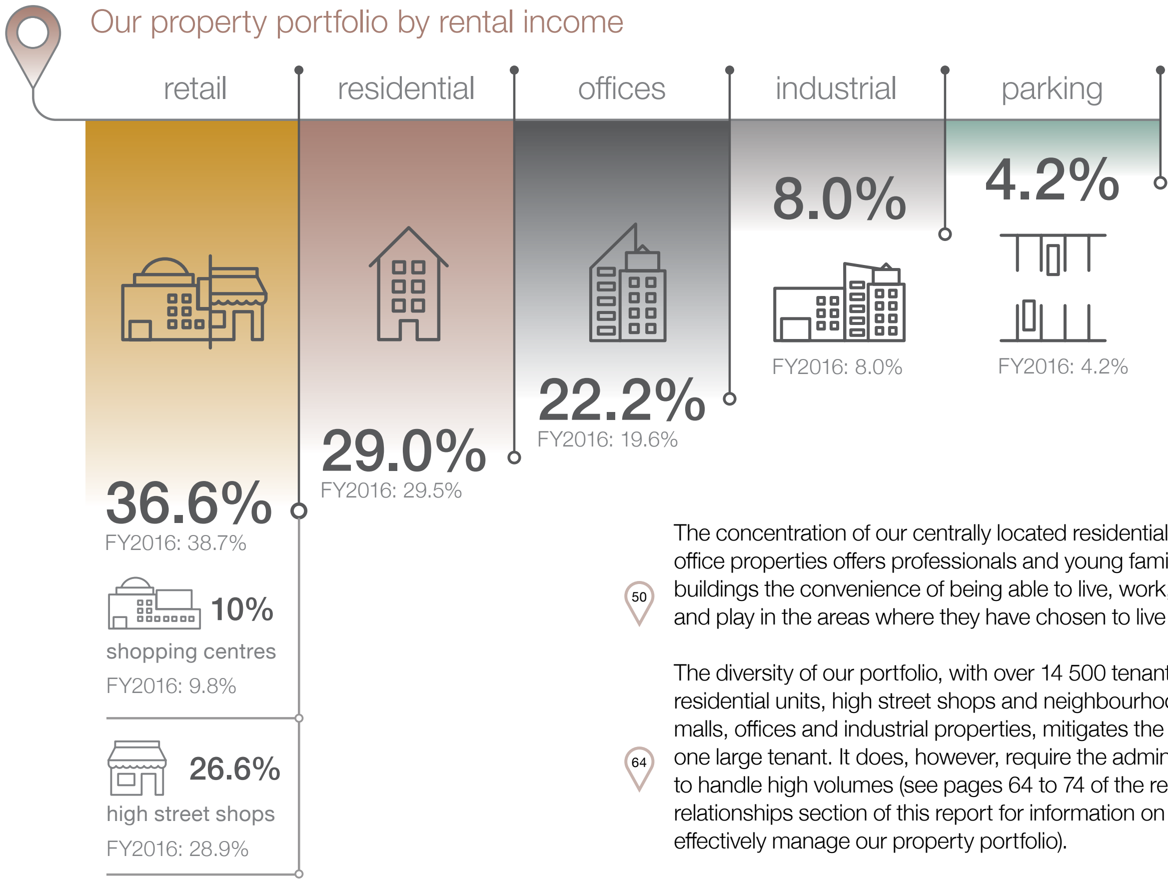
# Our diverse property portfolio



**66.5%** of our portfolio is in Tshwane

**33.5%** of our portfolio is in Johannesburg

## Our property portfolio by rental income




50

The concentration of our centrally located residential, retail and office properties offers professionals and young families living in our buildings the convenience of being able to live, work, shop and play in the areas where they have chosen to live (see page 50).

64

The diversity of our portfolio, with over 14 500 tenants in our residential units, high street shops and neighbourhood shopping malls, offices and industrial properties, mitigates the risk of losing one large tenant. It does, however, require the administrative ability to handle high volumes (see pages 64 to 74 of the resources and relationships section of this report for information on our ability to effectively manage our property portfolio).

### Doorstep healthcare and education facilities

Our buildings are also home to medical centres in the centre of Tshwane and in Johannesburg. Lister Medical Centre houses a community of healthcare practitioners and specialists who are reviving the medical node in the Johannesburg CBD, as does the Louis Pasteur Medical Centre in the Tshwane CBD.

We recently renovated the old Wits Technikon, which is rented by The Basa Educational Institute Trust which provides schooling to learners from Grade R to Grade 12. The trust is a non-profit organisation, established in 1993, whose objective is to establish and run quality, formal, low fee, independent primary and secondary schooling for the previously disadvantaged communities in South Africa.

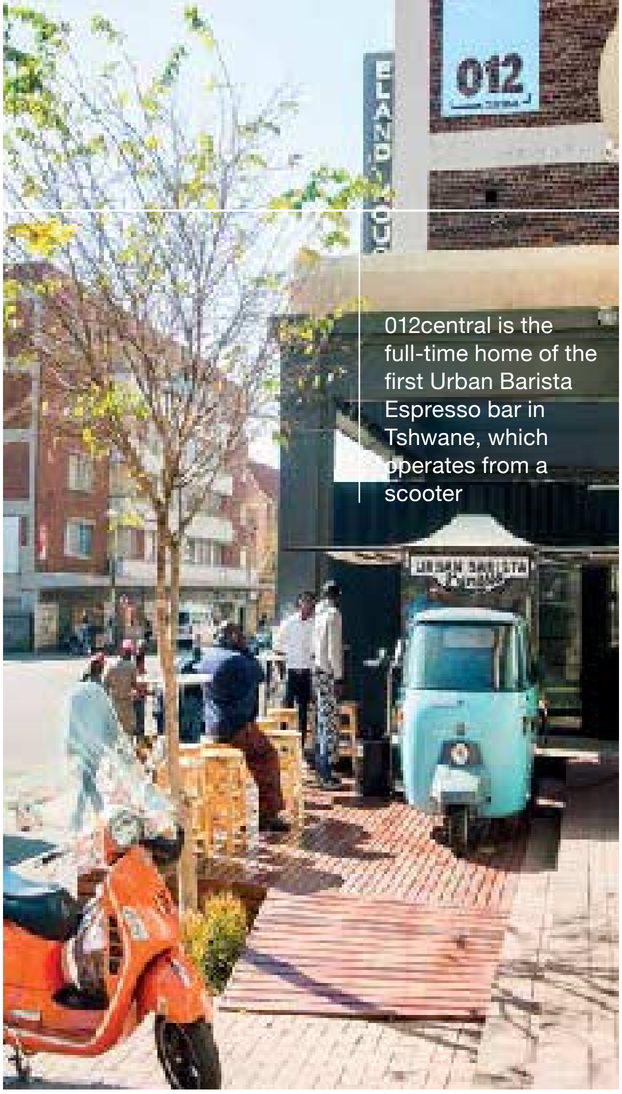
We ensure short- and medium-term value through the uncompromising approach we've applied to the maintenance of our buildings since we acquired them. We build long-term value through our new projects, redevelopments and upgrading of our buildings

Our main focus is on the upgrading and redevelopment of existing properties in the Johannesburg and Tshwane CBDs. Octodec's property investments include retail, residential, office and industrial sector properties and many of our properties are mixed-use properties.

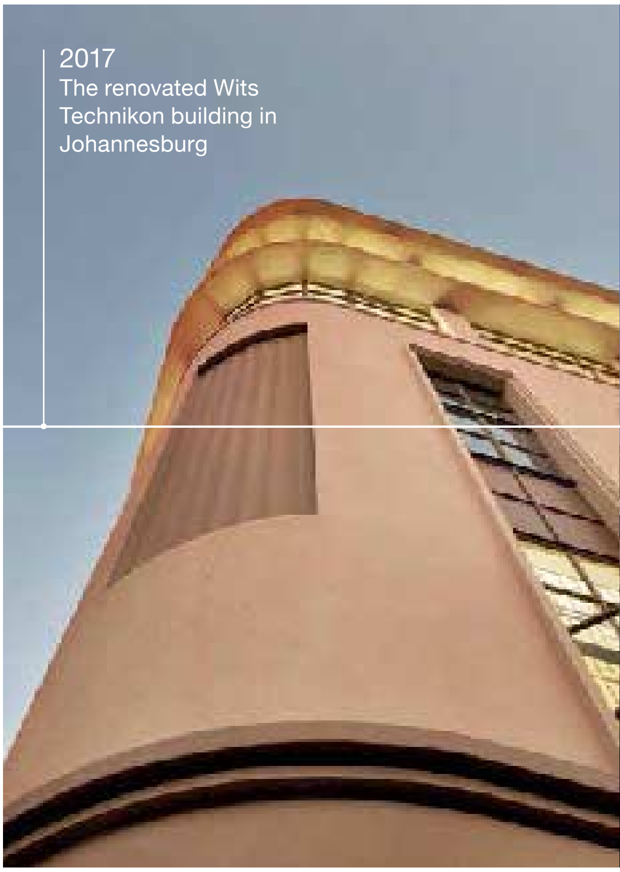
## Our contribution to inner city renewal

Our mission to provide our tenants with places in which to relax and socialise, and attract people into the CBD has been applied to our development of the 012central event venue (see: 012central.co.za) and the use of the roof of our Bank Towers building for functions in Tshwane.

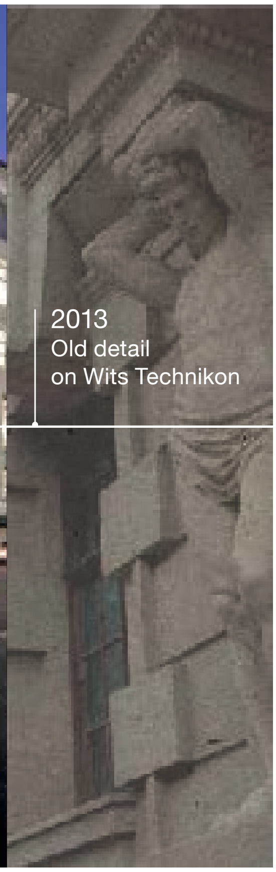
Entertainment thrives in 012central and the people it serves can feel at home. It showcases what the city has to offer and draws in people who don't usually come into the city. During this financial year 012central hosted 126 events and about 27 000 feet passed through its doors. The variety of events hosted at 012central has increased dramatically. Some of the events included: the Pretoria Institute of Architecture Design-Build Conference; Europe Day, hosted by the European Union with guests including EU member nations and their ambassadors; South African National Space Agency (SANSA) International Conference; the first ever of the TEDx talk series to be held in Tshwane, which received over one million viewing impressions and which will be hosted at 012central again next year; Tshwane's first Gin and Tonic Festival and six weddings. 012central has become the full-time home of the first Urban Barista Espresso Bar in Tshwane, which operates from a modified Piaggio Ape scooter, offering quality coffee to the people of Tshwane, including the employees of the Reserve Bank across the road from 012central.




012central is the full-time home of the first Urban Barista Espresso bar in Tshwane, which operates from a scooter



2017
The renovated Wits Technikon building in Johannesburg



2013
Old detail on Wits Technikon

# property portfolio review

## Key statistics of our portfolio

| | **2017** | 2016 |
|---|---|---|
| Number of properties (including those owned in joint ventures) | **315** | 324 |
| Investment property including joint ventures (R'000) | **12 776 378** | 12 302 213 |
| Rental income (R'000) | **1 430 450** | 1 352 014 |
| Percentage increase in rental income (%) (like-for-like) | **5.3** | 5.3 |
| Gross lettable area (GLA) ($m^2$) | **1 665 062** | 1 669 120 |
| Vacancies ($m^2$) | **294 132** | 260 657 |
| Vacancies as percentage of GLA | **17.7** | 15.6 |
| Core vacancies as percentage of GLA | **10.7** | 9.8 |
| Property redevelopment pipeline vacant GLA ($m^2$) | **88 724** | 94 961 |
| Acquisitions during the year (Total cost R'000) | **–** | 31.5 |
| Total consideration on disposals during the year (R'000) | **77.8** | 55.5 |
| Profit on disposals (R'000) | **2.9** | 8.5 |
| Profit on disposals in current year | **3.7** | 8.5 |
| Less: Commission paid relating to sales in prior year | **(0.8)** | – |

Mothballed office space for redevelopment or disposal

**88 724 GLA m²**

Consideration for disposal

**R77.8 million**

Profit on disposals

**R3.7 million**

## Lease expiry profile

Octodec's portfolio features a mix of short to long-term leases. The majority of our leases provide for a monthly agreement at expiry of the lease. When this occurs an effort is made to conclude longer-term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises.

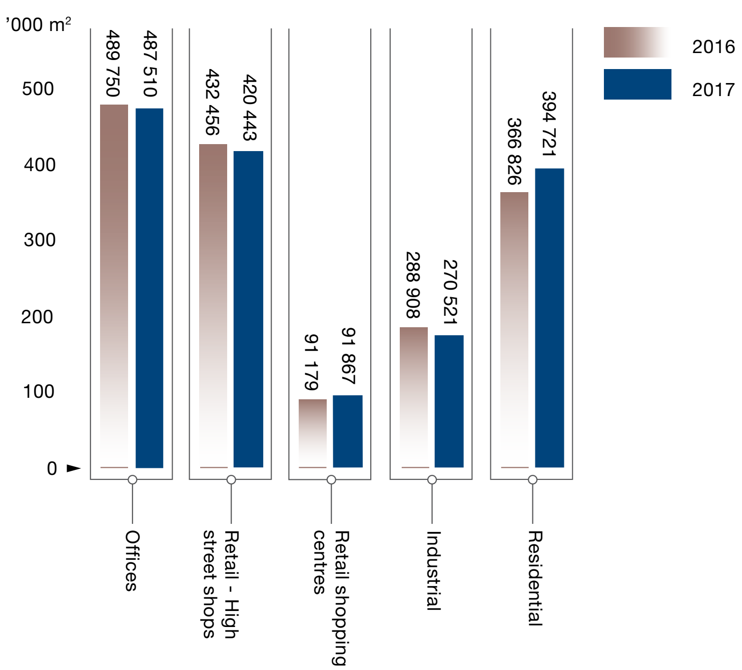
| | **Gross lettable area (GLA) m²** | **%** | **Monthly contractual rent R'000** | **%** |
|---|---|---|---|---|
| Residential (12 months and less) | 346 027 | 21 | 34 946 | 29 |
| Monthly commercial* | 234 506 | 14 | 15 544 | 13 |
| to 31 August 2018 | 317 555 | 19 | 25 461 | 21 |
| to 31 August 2019 | 170 060 | 10 | 14 321 | 12 |
| to 31 August 2020 | 148 485 | 9 | 13 149 | 11 |
| to 31 August 2021 | 81 118 | 5 | 7 948 | 7 |
| Thereafter | 73 179 | 4 | 7 371 | 6 |
| Vacancies | 294 132 | 18 | | – |
| **Total** | **1 665 062** | **100** | **118 740** | **100.0** |

**Due to the mixed-use of our investment property and the large number of tenants, it was not possible to provide the lease expiry profile by sector as required by section 13.18(e) of the JSE Listing Requirements, other than the split between residential and commercial sectors. Commercial sector includes office, retail and industrial sectors.*

## Our top 10 properties

| Building | Location | Sector | Size (m²) |
|---|---|---|---|
| **The Fields** | Hatfield, Tshwane | Mixed use | 53 971 |
| **Killarney Mall** | Killarney, Johannesburg | Shopping centre | 46 945 |
| **Centre Walk** | Tshwane CBD | Mixed use | 25 407 |
| **Woodmead Value Mart** | Woodmead, Johannesburg | Shopping centre | 18 093 |
| **Kempton Place** | Kempton Park, Johannesburg | Mixed use | 32 582 |
| **Sharon's Place** | Tshwane CBD | Mixed use | 19 146 |
| **Louis Pasteur Medical** | Tshwane CBD | Mixed use | 22 622 |
| **Nedbank Plaza** | Arcadia, Tshwane | Mixed use | 23 031 |
| **Steyn's Place** | Tshwane CBD | Mixed use | 15 638 |
| **Jeff's Place** | Tshwane CBD | Residential | 14 771 |

### Available to rent (GLA)




**Key**

Hotel

High street shops

Offices

Shopping centre

Residential

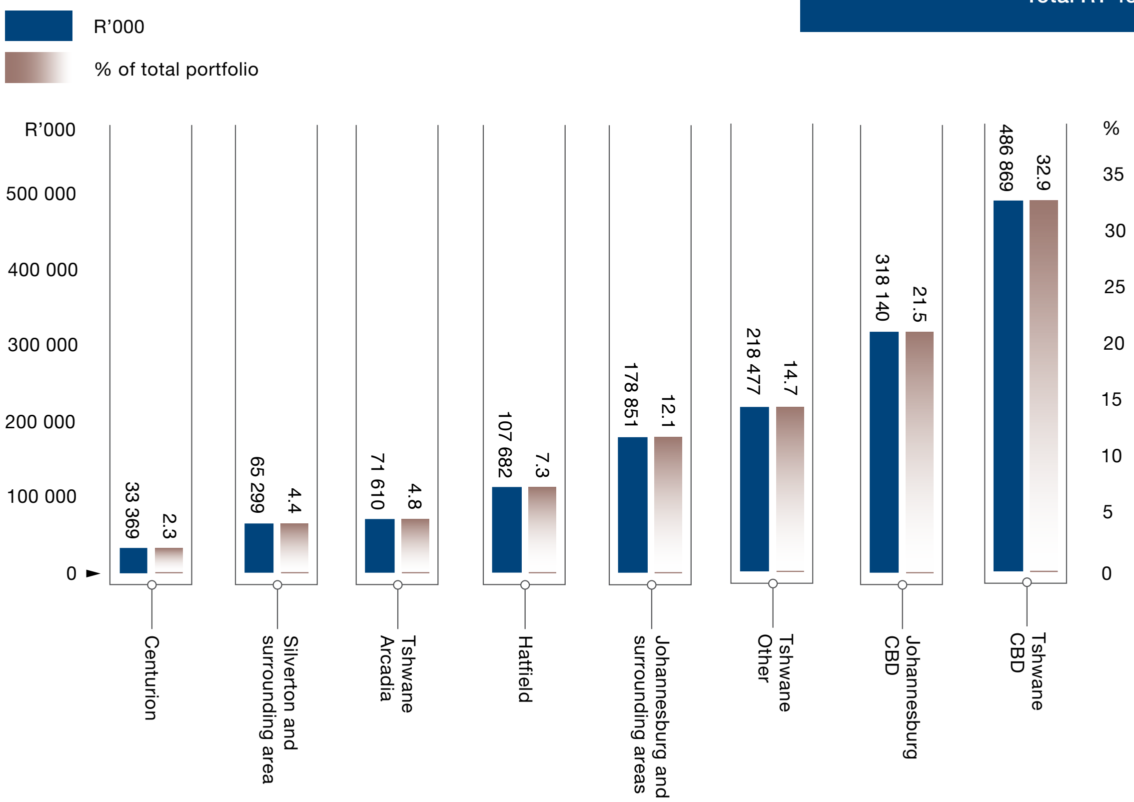
Parking bays

Hospital

Industrial

Total 2017 rental income **R1 480 297 million**
Less joint ventures of R49 847 million
Total R1 430 450 million

## Geographical analysis of our rental income by rentable area





2017
012central
The Sheds

2014
012central original site

## Vacancies

Vacancies in the Octodec portfolio at 31 August 2017, including properties held for redevelopment, amounted to 17.7% (31 August 2016: 15.6%) of gross lettable area. The core vacancies, which exclude the gross lettable area relating to properties held for development and those currently being redeveloped, amounted to 10.7% (31 August 2016: 9.8%).

**Vacancies by sector**

| | Total lettable area m² | Total vacancies % | Properties held for redevelopment or recently developed % | Core vacancies % |
|---|---|---|---|---|
| **31 August 2017** | | | | |
| Offices | 487 510 | 33.8 | (18.2) | 15.6 |
| High street shops | 420 443 | 10.3 | (1.5) | 8.8 |
| Shopping centres | 91 867 | 4.6 | – | 4.6 |
| Industrial | 270 521 | 12.3 | – | 12.3 |
| Residential | 394 721 | 12.3 | (5.1) | 7.2 |
| **Total** | **1 665 062** | **17.7** | **(7.0)** | **10.7** |
| **31 August 2016** | | | | |
| Offices | 489 750 | 34.7 | (19.4) | 15.3 |
| High street shops | 432 456 | 9.1 | – | 9.1 |
| Shopping centres | 91 179 | 5.4 | – | 5.4 |
| Industrial | 288 908 | 10.8 | – | 10.8 |
| Residential | 366 827 | 4.0 | (0.4) | 3.6 |
| **Total** | **1 669 120** | **15.6** | **(5.8)** | **9.8** |

In the three newest developments undertaken by Octodec, being Sharon's Place, One on Mutual and the Manhattan, the space remaining vacant at year-end included 3 928m² of high street shops and 20 195m² of residential space.

# Investing for growth

## Developments

To meet one of our strategic objectives of growing our existing portfolio and adding to our stock of manufactured capital we have invested in four projects over the past two years at a total cost of approximately R653.4 million:

**One on Mutual**, a mixed-used property adjacent to Church Square in the Tshwane CBD, which consists of 142 residential units, ground-floor retail premises and parking, was completed in the first quarter of 2017 at a total cost (excluding land) of R155 million. The retail premises are fully let and the residential units are almost fully let. The annual
50 marginal yield is expected to be 7.1% in due course. See page 50 for more information on this project.

**The Manhattan**, a 180-unit residential development in Sunninghill, Johannesburg, was completed at the end of
10 2016. The total cost of this 50%-held joint venture is R80.9 million. See the page 10 for more information on this project. The letting of this development has been slow with occupancy level at 31 August at 45%. Marketing efforts to let this development are in full swing. Once fully let the annual yield is expected to be 9.0%.

**Sharon's Place**, a redevelopment of a Tshwane CBD property previously known as Centre Forum adjacent to the new Tshwane House municipal offices, is a mixed-use property with 400 residential units, ground floor retail and parking. The total cost of the project, excluding land costs is R356 million. The initial annual yield, excluding land costs, is expected to be 7.3% when fully let. The retail portion of the property was completed in July 2017 and is well let. We expect the residential portion of the project to be completed in the first quarter of 2018.

**Midtown**, an office upgrade, is also adjacent to the new Tshwane House municipal development in the Tshwane CBD. The property consists of 7 133m² of offices, 944m² of retail and 90 parking bays. The total cost of this project is R56.5 million at a fully let annual yield, inclusive of land costs, of 9.5%. The first phase of the renovation is complete at a cost of R17.3 million. We will commence work on the second phase when a suitable office tenant is secured.

The group has several smaller projects under way, in line with our strategy to upgrade and extract value from our property portfolio. These projects will not only enhance the value of our portfolio, but will also contribute to the uplifting of the Tshwane and Johannesburg CBDs in which Octodec is invested. We recently completed upgrading the Wits Technikon building at a total cost of R16.1 million. The initial yield on the upgrade cost is 15.0%.

## Future developments

There is a large amount of inherent value in the number of properties Octodec has accumulated over the years with a view to redeveloping them. We are in the planning phase of the development of the residential property. Reinsurance House, which is situated in a prime location in the Johannesburg CBD. We will only start developing this property if a suitable yield is achievable. The total cost of this development is expected to be approximately R90 million.

# residential property sector review

## Key performance statistics

| | 2017 | 2016 |
|---|---|---|
| Number of properties | **70** | 68 |
| Number of residential units (mostly upgraded, well-located secure accommodation) | **9 509** | 8 840 |
| **Gross lettable area (GLA)** | **394 721m²** | 366 827m² |
| **Rental income** | **R415 million** | R407 million |
| **Growth in rental income year-on-year (like-for-like)** | **2.5%** | 5.6% |
| Total vacancies at year-end | **12.3% of GLA** | 4.0% of GLA |
| Core vacancies at year-end | **7.2% of GLA** | 3.6% of GLA |

## Leading the way

Octodec listed in 1990 and since then has been creating value for its shareholders. In 1998, it pioneered the conversion of a Tshwane CBD office block into residential units. Using market research and credit bureau information we gain an understanding of the needs and affordability thresholds of the tenants to whom our apartments appeal. We take these factors into account when pricing our rentals. Our research has also shown that the tenants attracted to our units are likely to pay their rent on time. Our low bad debt record supports the research findings.

1998

### Weighted average monthly rentals:

**R3 700**
for a bachelor unit (average size 30m²)

**R4 300**
for a one-bedroom unit (average size 44m²)

**R5 700**
for a two-bedroom unit (average size 63m²)

## Contributing to the United Nations Sustainable Development Goals

We are proud that through our commitment to providing safe, dignified accommodation and unlocking value in urban spaces we contribute to the achievement of the United Nations Sustainable Development Goal 11, which is to make cities inclusive, safe, resilient and sustainable, while at the same time creating short-, medium- and long-term value for our stakeholders.

## Portfolio growth

Since our first conversion of a Tshwane CBD property into residential units to meet the demand for quality accommodation at affordable prices in 1998, demand for residential units in the inner cities of Tshwane and Johannesburg have, until recently, outstripped supply. Barring any unforeseen circumstances and subject to the anticipated slow take up of units at Sharon's Place (see page 49), we anticipate occupancy levels will not deteriorate further.

2017
Corner Place, Tshwane

## Pursuing our strategic objectives

In line with our medium-term focus on growth in our residential portfolio, One on Mutual, centrally located in the Tshwane CBD, was completed in February 2017. The One on Mutual 142-unit mixed-use property, which was designed to meet the market appetite for more upmarket accommodation, has been well received.

Notwithstanding the current lull in the market we know from experience where the rental 'sweet spot' is and believe that opportunities remain to unlock value in this space.

Our joint venture, The Manhattan in Sunninghill, Johannesburg, which has 180 units, is in line with our strategy of investigating new opportunities.

## Well positioned to take advantage of medium- and long-term growth opportunities

Octodec's development pipeline of buildings in both the Tshwane and Johannesburg CBDs positions us well both for growth in our chosen nodes and to benefit from the sale of properties that in terms of our current strategy are non-core, in an increasingly more competitive market (see the map on pages 36 to 41). This is being driven by the increased interest in developing residential properties.

36

The slowing of the economy and higher vacancy rates have put pressure on rental growth. We will only pursue pipeline projects where our return on investment is acceptable. This may delay some of our developments.

## Performance of our residential portfolio

- The average gross monthly salary of our residential applicants is R28 000
- 17% of our residential applicants have a gross monthly salary above R35 000

In FY 2017:

- 31% of our tenants were government employees
- 30% of the people legally occupying our residential units are students whose parents have signed the leases

Challenges we currently face are increased competition in the Johannesburg CBD and Hatfield, Tshwane.

We have also responded to the change in the residential letting market by making flexible leasing options available to our tenants. These have been well received.

## Outlook for our residential property portfolio

This sector is well known to Octodec, which pioneered the conversion of office blocks into quality residential apartments two decades ago. The success of this sector has attracted several developers who have entered the market in the hope of emulating the Octodec recipe. The impact of the *Fees Must Fall* campaign at the end of 2016, combined with new entrants to the market in both Tshwane and Johannesburg, resulted in a temporary oversupply of units in this market, which had a slightly negative impact on our performance in this sector.

Providing our tenants with a safe environment and being able to manage access to our buildings is an important part of the service we offer our tenants. The installation of biometric and electronic tag systems at our buildings assists with access management and we believe the provision of security monitoring via a central network and control room has increased the safety of our tenants and has helped to reduce the number of security guards we require

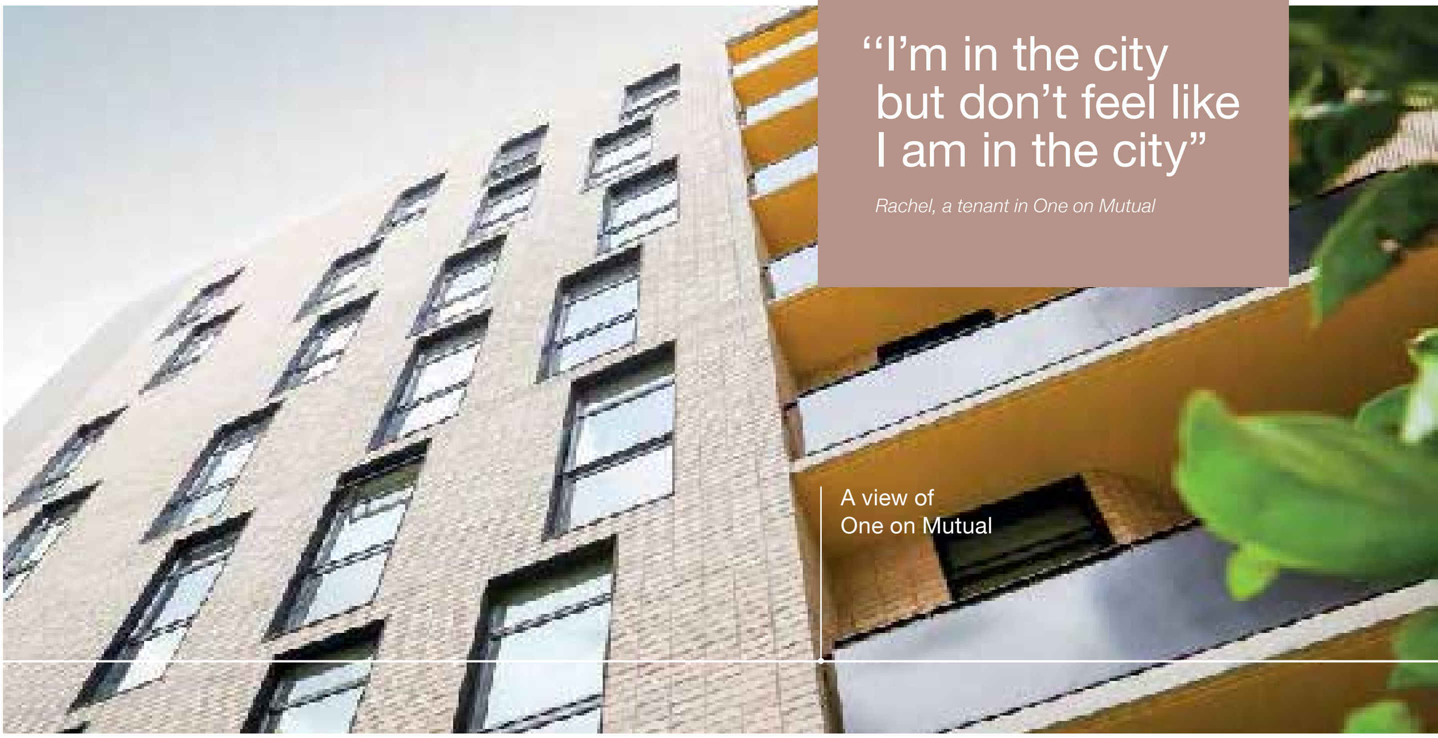
When Sharon's Place introduces a further 400 units to the Tshwane CBD market we anticipate a slow uptake of these units. Its entry to the market may also further impact overall vacancies for a limited period of time.

We remain comfortable that the growing need for quality well-located accommodation and our pipeline of well-positioned buildings acquired many years ago at a fraction of what they would cost today, together with our strong management expertise, will differentiate our offering. The agility of the systems Octodec uses has allowed us to implement flexible leasing options, which have already positively impacted our vacancies in this sector. We are confident that we will see an overall improvement in our performance in this sector in the year ahead.

We are committed to a 24-hour turnaround time on repairs in our buildings

51 *(see page 51)*

# Residential property feature



A view of One on Mutual

> "I'm in the city but don't feel like I am in the city"
>
> *Rachel, a tenant in One on Mutual*

## A new approach to inner city life

One on Mutual was built on a mostly undeveloped site in the centre of Tshwane, close to Church Square, several government offices and the Palace of Justice, which provided an excellent opportunity to densify the urban landscape. It is also near the Gautrain station and currently two of our tenants live in Tshwane and catch the Gautrain to work in Johannesburg. The mixed-use development includes high street retail and 142 apartments, which are a mix of bachelor and one- and two-bedroom units accessed through a secure foyer. The apartments are arranged around a central courtyard on the fourth floor of the building, which includes a large landscaped entertainment area with braai facilities, seating space and a playground for children. This style of entertainment area has become a feature of Octodec's new and redeveloped residential properties.

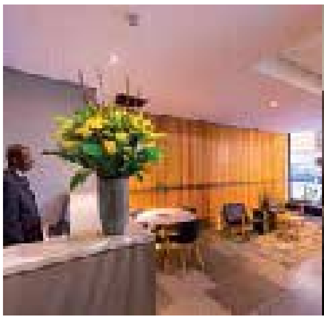
The building's position on the corner of a busy intersection offers our retail tenants the best possible exposure to pedestrian and vehicle traffic and provides our residential tenants with convenient access to a supermarket and a coffee shop. The urban interface of the building is driven by the pedestrian experience with the aim of enhancing this experience. The existing sidewalk was upgraded and opened up to welcome users into the retail and courtyard spaces. A patterned brick wall wraps around the parking levels adding to the streetscape aesthetics. Face brick, textured plaster, off-shutter concrete and glass have been used to layer the façade and accentuate the dynamic architectural form of the building. One on Mutual tenants also have the wide selection of shops in our neighbouring Capital Towers arcade on their doorstep.

Across the courtyard from One on Mutual, which includes a sculpture by Angus Taylor, is the famous heritage building, ***Ons Eerste Volksbank***, constructed in 1930. Octodec has restored and refurbished the building to include an upmarket/retail component on the ground floor and offices on the first floor.

Walkway next to One on Mutual

Inside a One on Mutual unit

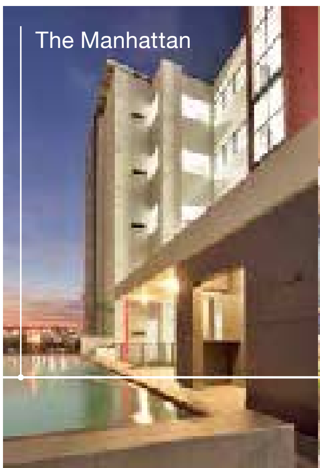
The refurbishment is in keeping with the building's original architectural character, which was an adaptation of the Cape Dutch style of architecture.



The security of our tenants is very important to us and One on Mutual, in addition to having fingerprint identification, is also protected by a network of cameras.

Tselo Mononyane the building manager at One on Mutual

Tselo Mononyane, an experienced building manager who managed several buildings before moving to One on Mutual, lives in the building with his wife and children. He told us that 'This is a very busy job because whatever is reported I act on immediately. I don't want to reach 24 hours and it is not attended to.' This is in keeping with our commitment to our tenants that wherever possible repairs or maintenance work required will be completed within 24 hours unless there is a reason why it can't be. Tselo is obviously doing a good job of meeting the 24-hour deadline as Rachel told us that she was most impressed that we always fixed anything that goes wrong within 24 hours. She was also impressed by the quality of the fixtures and fittings.



The Manhattan

A cake shop in Central Towers

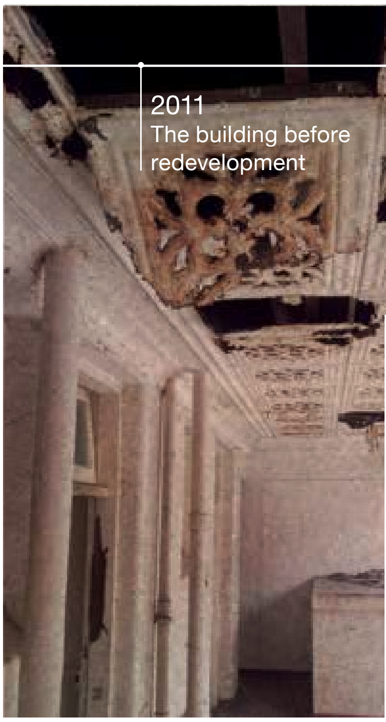
**What Rachel, a tenant in One on Mutual, had to say**

We met Rachel in the Mugg & Bean, which is one of the One on Mutual retail tenants. She was already a tenant in a one-bedroom apartment in one of our buildings, but she needed a two-bedroom apartment and there wasn't one available in her building. She heard about One on Mutual, which was still being built, and went to have a look. 'It was just what I've been looking for all along. I just love the ambience of the reception area. I decided I'm taking it. I didn't even know how much it cost.'

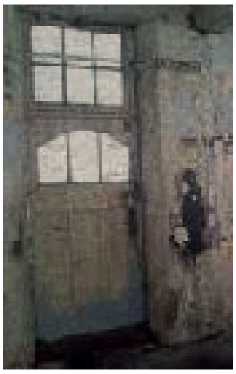
Now Rachel lives and works on the same street, so she can walk to work and pop home at lunch time. She told us that sometimes she forgets she has a car because she hardly ever needs to use it.

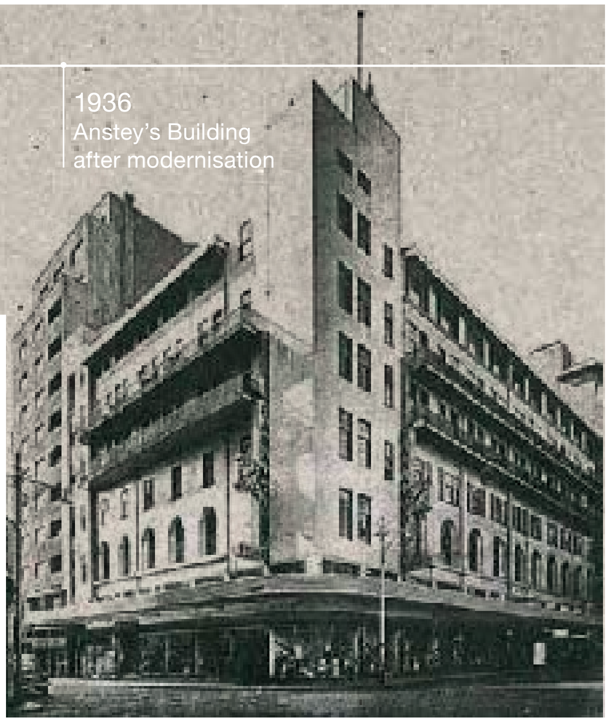
'My one daughter's on a gap year and she's doing a lot of research using the Wi-Fi in the building. The one thing I love about your buildings is the children's playground. My younger daughter can play safely inside the building. Also, we can go and relax there, get to know our neighbours and have functions.'

The recreation area in One on Mutual



2011
The building before redevelopment





1936
Anstey's Building after modernisation

## A very special redevelopment in the Johannesburg CBD restores dignity to two historic buildings

This Anstey's Building, originally commissioned in 1911 by Norman Anstey, the owner of one of Johannesburg's best known department stores, built using Edwardian architectural principles and decorated with a neo-classical turret, can be found on the corner of Kerk and Jeppe streets in Johannesburg. In 1936 it was significantly altered, presumably to fit in with the ever-popular trend towards modernism and Art Deco, by Paramount Stores, a division of OK Bazaars. This alteration was much to the detriment of the original structure. Further changes were made to the building in 1965 and 1998.

By 2012, when Octodec commissioned architects to redevelop the building and combine it with the neighbouring Castle Mansions as a mixed-use residential complex, it was in a very poor condition. The ten-storey Art Deco Castle Mansions on Eloff Street, the city's most fashionable street at the time, was the tallest and most modern building in South Africa when it was built in 1931. Great care was taken to retain and restore as much of the original features of the buildings as possible, which were joined by means of a sky bridge. Tenants enter the complex through Castle Mansions. Windows and doors were refurbished or replaced with modern replicas, the façades restored and the interiors repaired and fitted out with well-appointed modern apartments. A recreation area was provided for the tenants.

### The building after redevelopment

2016
Kerk Street Building

An apartment in the Kerk Street Building

# retail property sector review

## Key performance statistics

| | 2017 | 2016 |
|---|---|---|
| High street shops (GLA) | **420 443m²** | 432 456m² |
| Shopping centres (GLA) | **91 867m²** | 91 179m² |
| **Gross lettable area (GLA)** | **512 310m²** | 523 635m² |
| High street shops rental income | **R380 million** | R398 million |
| Shopping centres rental income | **R143 million** | R135 million |
| **Rental income** | **R523 million** | R533 million |
| **Growth in rental income year-on-year (like-for-like)** | | |
| High street shops rental income growth | **5.7%** | 5.4% |
| Shopping centres rental income growth | **6.4%** | 4.7% |
| Retail – total vacancies at year-end | **9.3% of GLA** | 8.5% of GLA |
| Retail – core vacancies at year-end | **8.0% of GLA** | 8.5% of GLA |
| High street shops total and core vacancies | **10.3% and 8.8% of GLA** | 9.1% of GLA |
| Shopping centre total and core vacancies | **4.6% of GLA** | 5.4% of GLA |

# Sector performance

A key finding of the South African Property Owners Association (SAPOA) Retail Trends Report, which researched the performance of the sector in the year ended September 2016, was that community (the equivalent of our high street shops) and neighbourhood shopping centres are outperforming the rest of the sector.

Overall, trading density (sales per square metre, annualised) increased by **5.4%** (2016: 6.4%) year-on-year

High street shops' trading density grew by **12.0%** in 2017 and **43%** over the past five years

Neighbourhood shopping centres' trading density increased **7.3%** in 2017 and **22%** over the past five years

## Our retail property portfolio

Well-positioned to meet the needs of our tenants we ensure our high street shops offer the range of brands and brand value the emerging middle-class shopper wants

Offer retailers more growth opportunities than traditional malls

Strong demand from national retailers for well-located CBD retail space (particularly supermarkets and fashion)

**512 310m² GLA** (2016: 523 635 m²)

**R523 million** in rental income (2016: R533 million)

**Shopping centres**

Weighted average rentals of **R137/m²** for our community shopping centres in FY2017 (2016: R129/m²)

Weighted average rentals of **R87/m²** for high street shops in FY2017 (2016: R83/m²)

Total vacancies **9.3% of GLA** (2016: 8.5% of GLA)

Core vacancies **8.0%** (2016: 8.5%)

When letting our high street shops we view the high street like a shopping centre, endeavouring to ensure we provide discriminating shoppers with the range of brands, services and food outlets they would find in an upmarket shopping mall.

The convenience of high street shopping makes it popular with both CBD residents and commuters, who shop in high street outlets on their way to and from work.

75

Many of our tenants are small businesses. We recognise that their success is our success and refer you to pages 75 to 77 of the resources and relationships section of this report for information on our efforts to help our small business tenants succeed.

## Shopping centre portfolio

We have six high-quality neighbourhood convenience shopping centres:

- **Johannesburg:** Killarney Mall (classified as a small regional centre) and the Woodmead Value Mart
- **Tshwane:** Elardus Park (Tshwane East), Waverley Plaza, Gezina City and Blaauw Village

Our neighbourhood shopping centres typically provide the convenience of easy access to affordable key services and stores most shoppers need, such as banks, clothing, food outlets, grocery stores, home stores, pharmacies, restaurants, stationers, and shoe shops.

We invest in research that guides our approach to our shopping centres. Based on this research and our own data we see scope for investing in the extension and redevelopment of our existing shopping centres rather than in greenfield developments.

## The performance of Octodec's retail portfolio

The weak economy has certainly impacted retailers nationally. Retail in the CBDs was largely unaffected by economic conditions for most of the year. Their proximity to government offices, major pedestrian routes and transport nodes enabled high street shops, which have shown a 43% growth over the past five years, to outperform their counterparts in traditional shopping malls. The low cost of occupation in the CBD in areas, where the same quality of retail space is available as that in traditional shopping malls, has proved to be attractive to retailers and shoppers alike. For example, Shoprite opened a second branch of Shoprite Checkers at Sharon's Place, which is performing well, only three blocks away from their original store in the Tshwane CBD.

Our neighbourhood shopping centres, which are well located close to residential areas, have also managed to weather the poor economy and continue to present a value proposition.

Our quality upgrades have attracted quality national tenants to our retail portfolio

Our well-managed shopping centres have out performed the sector with rental income growth of 6.4%

## Outlook for our retail property portfolio

The retail sector is experiencing a marked reduction in consumer spending as a result of the tough economic environment and the effect on consumer confidence of the socio-political environment. Also, new shopping centres entering the market place have increased competition in this sector.

The vacancies in the retail sectors in which we operate – high street shops and neighbourhood shopping centres – remain lower than in other sectors. The demand from prospective tenants and shoppers for our well-positioned community convenience centres and high street shops offering an affordable shopping experience, is still on the increase. The demand from shoppers is creating increased competition among retailers, including independent fashion retailers, who are increasing their market share through a more affordable offering. National retailers, such as Shoprite Checkers, Clicks and Pick n Pay, are taking up new premises in the CBDs at favourable rentals. Our well-positioned offering in both the high street shopping sector and the neighbourhood shopping centre sector provides us with a platform for continued solid growth in this sector.

We see scope for extensions and redevelopments of existing retail centres rather than greenfield developments

# Retail property feature

Well known national brands are a feature of high street shopping in both the Tshwane and Johannesburg CBDs. In addition to the Shoprite store in our building on Lillian Ngoyi Street, Tshwane, which is used by an average of 250 000 shoppers every month and is one of Shoprite's top ten performing stores countrywide, Shoprite has opened an additional store in nearby Sharon's Place.

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(See the resources and relationships section of this report on page 64 for information on the assistance we provide our small business tenants with the aim of ensuring the sustainability of their businesses and their tenancies).

## High street shops


2017
Pretoria high street shops

## Shopping centres

Our six high-quality neighbourhood shopping centres are conveniently located to offer easy access to the type of affordable shopping and services most shoppers want. They include Killarney Mall and the Woodmead Value Mart in Johannesburg, and Elardus Park, Waverley Plaza, Gezina City and Blaauw Village in Tshwane.


2017
Woodmead Value Mart

**Woodmead Value Mart**

Woodmead Value Mart is fully let with a waiting list of potential tenants who want space in this centre known for offering exceptional value to shoppers. Despite the current economic environment, a well-known international brand store is doing so well in the Woodmead Value Mart that they have increased the size of their store by 25%.


2017
Inside Waverley


2017
Elardus Park
Parking


2017
Blaauw Village


2017
Killarney
Mall

# office property sector review

## Key performance statistics

| | **2017** | 2016 |
|---|---|---|
| Let to government (by percentage of total rental income from offices) | **42.2%** | 35.7% |
| Other (by percentage of total rental income from offices) | **57.8%** | 64.3% |
| **Gross lettable area (GLA)** | **487 510m²** | 489 750m² |
| Mothballed office space | **88 724m²** | 94 961m² |
| Percentage of office space mothballed (opportunities to sell, develop or enter into partnerships) | **18.2%** | 19.4% |
| **Rental income** | **R317 million** | R269 million |
| **Growth in rental income year-on-year (like-for-like)** | **8.4%** | 5.2% |
| Total vacancies in Tshwane at year-end | **26.0%** | 24.0% |
| Total vacancies in Johannesburg at year-end | **46.4%** | 51.6% |
| Total vacancies at year-end | **33.8% of GLA** | 34.7% of GLA |
| Core vacancies at year-end | **15.6% of GLA** | 15.3% of GLA |

**Our office portfolio consists of diverse offerings suited to:**

- government
- smaller individualised offerings for smaller corporates, newly qualified graduates starting out in the CBD, professionals and small enterprises who for various reasons want to be in the CBD close to the courts and government and municipal offices

The smaller individual offices are a focus area for Octodec as there is substantial growth potential in this market. We developed our Tower brand to meet the increasing demand for these smaller individualised offerings. We also have the ability in our Tower brand to provide facilities that can be shared by companies, such as boardrooms. A particular advantage of our buildings is that we have the flexibility to offer tailored solutions to meet our tenants' needs.

# Sector performance

Affected by the
**lack of growth**
drivers in our economy

Research conducted by SAPOA in the second quarter of 2017 recorded a
**national office vacancy rate of**

**11.8%**
which is the highest level recorded in 12 years

**Excess supply**
in the market is a significant factor affecting this vacancy rate

## The performance of Octodec's office portfolio

Our property portfolio consists, in the main, of older buildings categorised as B-grade offices. Their central location lends itself to three types of office tenants: corporates, government and SMMEs. Our portfolio has held its own for the most part, achieving some positive growth and an increase in occupancy levels.

We have been able to improve the environmental impact of our office buildings through retrofitting. Aesthetic upgrades of these offices make them more competitive and once upgrades are complete returns are good. The capex required to upgrade ageing buildings can be substantial, however, it is necessary if we are to retain our existing tenants and attract new tenants. The type of SMME businesses that rent our offices tend to thrive in a growing economy as does the demand for office space, but when they are struggling as they are in the current economic climate, the demand for office space falls off and is flat, at best.

## Outlook for our office portfolio

We are confident that once the economy improves the performance of this sector will improve as SMMEs thrive and their demand for office space grows again. What does remain a concern is the reduction in the issuing of government tenders, as well as a lack of interest from government tenants.

We are critically assessing these properties with a view to understanding how best to unlock their value in the short to medium term. We will focus on every aspect of these properties, including operational issues such as the availability of parking facilities, as well as possible joint ventures with appropriate partners that would improve their ownership structure.

# Office property feature

## Reviving the medical node in the Johannesburg CBD

Before the exodus from the Johannesburg CBD in the 1980s Lister Medical Centre was home to Johannesburg's pre-eminent medical specialists.

Since our renovation of the building in 2015, which has been ongoing in the current year, the Lister Medical Centre has regained its status as an important healthcare centre providing a wide range of medical services to the people of Johannesburg and contributing to the regeneration of the city.

## Midtown – a well-positioned mixed-use property ideal for small businesses

The renovation of Midtown, an office upgrade, is also adjacent to the new Tshwane House municipal development in the Tshwane CBD. The property consists of 7 133m² of offices, 944m² of retail and 90 parking bays. The total cost of this project is R56.5 million at a fully let annual yield, inclusive of land costs, of 9.5%. The first phase of the renovation is complete at a cost of R17.3 million. We will commence work on the second phase when a suitable office tenant is secured.

2017
Lister Medical Centre, Johannesburg

# industrial property sector review

## Key performance statistics

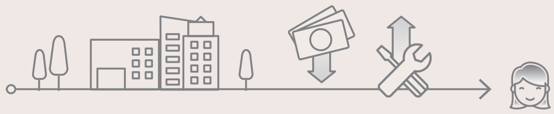
| | **2017** | 2016 |
|---|---|---|
| GLA in Tshwane | **217 090m²** | 235 306m² |
| GLA in Johannesburg | **53 431m²** | 53 602m² |
| **Total GLA** | **270 521m²** | 288 908m² |
| **Rental income** | **R115 million** | R110 million |
| **Growth in core rental income year-on-year** | **5.8%** | 3.3% |
| Total and core vacancies at year-end | **12.3% of GLA** | 10.8% of GLA |

Transpharm, a division of Shoprite Checkers.

## Competitive advantage

Our ability to offer competitive rates in centrally located, well-maintained and managed small industrial properties that have been in our portfolio for some time gives Octodec a competitive advantage over new builds

Properties in ideal locations for SMMEs



## Our industrial offering includes

- existing and well-maintained warehouses, mini factories, workshops and industrial parks that allow us to price our offering more competitively than new entrants to the market
- there is demand for properties we have recently upgraded
- the low cost of occupation in our offering is a competitive advantage
- focus on understanding our customers' business and supporting their growth and sustainability

**Transpharm, a division of Shoprite Checkers, one of South Africa's largest pharmaceutical wholesalers and distributors, is a tenant in one of our upgraded industrial properties.*

# Sector performance in 2016

**National industry vacancy rate*** as at December 2016 was **5.8%**

up from 2.3% in December 2015

Tshwane area recorded an average **vacancy rate** of **7.2%**

Johannesburg area recorded a **vacancy rate of** **5.7%**

Tshwane area showed an average base **rental growth** of **1.2%**

Octodec achieved a growth in **core rental income** of **5.8%** (FY2017)

Standard industrial units, warehousing and light manufacturing properties **came under some pressure during the period**

Supply **well below peak levels** of 2007/08

**SAPOA 2017 Industrial vacancy report*

# Industrial property feature

## The Tannery

The Tannery is a 38 000m² industrial park in the heart of Silverton, Tshwane East. In 2016 - 2017 the five units in the park were redeveloped to meet the additional requirements of our existing tenants and to attract additional quality tenants. The rebranding of the park as part of the redevelopment recognised the origins of the park.

The onsite management team and skilled maintenance team provide tenants with a high standard of service delivery, in particular on repairs and maintenance turnaround times. The 24-hour security on site provides tenants with peace of mind.

2017
The Tannery exterior

Inside
The Tannery

# parking property sector review

## Key performance statistics

| | **2017** | 2016 |
|---|---|---|
| Average monthly residential rentals | **R380 per bay** | R360 per bay |
| Average monthly commercial rentals | **R650 per bay** | R600 per bay |
| **Rental income** | **R61 million** | R58 million |
| **Growth in core rental income year-on-year (like-for-like)** | **4.6%** | 7.2% |

## Sector dynamics

**Our focus** on increasing our revenue from our parking bays, which account for **4.2%** (2016: 4.2%) of our portfolio rental income, has resulted in **acceptable income growth**

**The challenge** with older buildings in the CBDs is that they were built at a time when not many tenants required parking

An increasing number of our residential tenants have motor cars and require secure covered parking and there is a **strong demand for parking** from government and residential tenants in the Tshwane CBD

We do everything we can to **ensure** that all our new and redeveloped residential and office properties **have sufficient secure parking bays** in the building

# resources and relationship review
## what we draw on to create value

Strategic, financial and operational aspects, including information technology, process and analytical innovation, meter and energy management and marketing, are key to sustaining the growth of Octodec and ensuring sustainable long-term stakeholder value.

## financial resources

**R626m**
debt facilities available

**R235m**
capital appreciation of properties

**R536.4m**
distribution to shareholders

**R130.8m**
cash on hand at year-end

We use the financial resources available to us to maintain and grow our business and make it possible for us to achieve our strategic objectives.

They include

- cash flow from rental income
- resources we obtain from equity and debt funding
- proceeds from the disposal of properties
- capital appreciation of our properties.

As a REIT we are tasked with investing our capital wisely in order to return earnings to shareholders in the form of distributions on a sustainable basis.

We use our financial resources to manage, refurbish and redevelop our existing portfolio and grow our portfolio through acquisitions and developments. The disposal of non-core properties adds to our financial resources.

We also use our financial resources to develop and remunerate our employees, to deliver on our social commitments and to minimise our impact on the environment.

30 Detailed information on our financial performance can be found in the financial director's review on pages 30 to 35.

## physical resources

**R1.43 billion**
rental income generated in 2017

**1.9%** year-on-year increase in value of property portfolio

GLA decreased due to sales of non-core properties

One on Mutual and The Manhattan introduced more units into the market

We use our physical resources, which are the land and properties we own, to create value and grow our financial resources.

They achieve this for us by generating rental income, which in turn we use to increase the quality and value of our property portfolio through ongoing maintenance, refurbishment, new builds and redevelopment.

We also grow our physical resources through the purchase of additional properties from which we unlock value through refurbishment and redevelopment.

44 Detailed information on our property portfolio can be found in the review of our property portfolio on pages 44 to 63.

# our people

The individual skills, competencies and experience of our people collectively create value, deliver our business objectives and achieve our aspiration of creating value beyond financial return.

**242** → employees as at 31 August 2017

**95%** of Octodec's employees are black

**R900 000** invested in our employees' skills development in 2017

**All** of our employees received training during the year under review

We depend on our talented and experienced people to turn our vision and strategy into results. We aim to make Octodec a great place to work so that we can continue to attract, develop, retain and inspire the best people and empower them to deliver our strategic objectives.

Our employment policies ensure that we provide a workplace based on:

- mutual respect
- fairness
- integrity
- non-discrimination
- equal opportunity at all levels
- open and two-way engagement with our employees.

## Employee benefits and remuneration

Octodec provides its employees with benefits additional to the legally mandated employee benefits. These benefits include a pension or provident fund and group life assurance, which has several components. After 30 years' service employees receive a cash reward in recognition of their service to the company. The average length of service for Octodec employees is eight years.

Employees can select from pension or provident fund options, all of which include a fixed employer contribution of 10%. Employee contributions range from 4.25% to 7.5%, with varying life, income disability and funeral cover benefits. These funds are invested in low-risk investment portfolios.

Group life assurance, which is payable on the death of an employee, includes options for disability, income protection, family benefits and other value-added services such as free ambulance services, legal advice and trauma counselling.

Employees who are given disability status and who are unable to perform their duties will receive 75% of their monthly pensionable salary until they are able to return to work or they reach pensionable age.

## Health and wellness

An annual wellness day is held every year, which has an holistic approach, providing information and guidance on both health and financial wellness during which guidance on decisions relating to benefit options is available to enable employees to make informed decisions.

All our employees and their family members have access to the ICAS employee assistance programme. The programme provides ad hoc counselling services that are available via telephone or face-to-face; emotional support counselling; life management services for family care; legal and financial issues; critical incident management for employees recovering from traumatic incidents; and coaching services.

## Learning and development

Octodec promotes a culture of lifelong learning and most of the training programmes we offer are accredited. Our learning and development programmes are aligned to our strategic objectives. They include a matrix of learnerships and operational and leadership development.

Training plays an important role in our succession planning. Our assistant building managers are trained to take over as building managers should the need arise. Our building management team receives regular operational training and during the year under review our building managers attended a supervisory management training course.

### Remuneration

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Information on the remuneration of our employees is provided in the remuneration review on pages 87 to 89 of this report.

# relationships

Our business is about people. A wide range of stakeholders is key to a people-focused business like ours. Our relationships with the investor community, government, regulators, municipalities, business partners, service providers (including City Property and certain specialist services) and the communities in which we operate, all impact directly or indirectly on our business and its reputation.

These relationships are part of everything we do and are vital inputs to our business model.

## Our stakeholder relationships

Our engagement with our stakeholders, summarised in the graphic, is very important to us. Engaged stakeholders can help us achieve our strategic objectives when they understand what we aim to achieve in the inner city, and support our activities.

We are committed to working with all those who have a stake in the inner cities and who are as committed as we are to the rebirth of our cities.

Our engagement with:

### Councils and inner city stakeholders

Establishing and maintaining ethical relationships built on mutual understanding and trust with the city councils of Tshwane and Johannesburg, is particularly important to us as the councils are also responsible for supplying our buildings with electricity, water and infrastructure, without which we would not be able to rent out our properties.

Members of the Octodec team build relationships with the councils and attend all council events to which Octodec is invited. We work with councils with the aim of helping to resolve operational, security and cleanliness issues in the cities.

**Our employees**

- Company culture
- Fairness
- Growth opportunities that improve economic access
- Rewards and benefits
- Engagement
- Training and development

65

**Communities in which we operate**

- Our investment in socio-economic development in underprivileged communities
- Address inner city safety and cleanliness concerns
- Upliftment
- Potential future tenants

76

**The councils of Tshwane and Johannesburg**

- Working together to revitalise the cities
- Project approvals
- Compliance with building regulations and controls
- Rates charged for utilities

66 73

**Inner city stakeholders including informal traders, taxi associations and activists**

- Regular constructive engagement to understand their concerns and provide them with information on Octodec's plans and how these plans will impact them
- Recognise their concerns and address them where possible

23

### City Property

- In operation since 1968
- Compliance with the terms of the management agreement with Octodec
- Application of its unique inner city property experience to provide Octodec with a competitive advantage in its chosen area of operation
- Governance that supports the application of King IV™ governance principles

70

### The investor community

- Distribution prospects
- Strategic objectives and Octodec's ability to deliver on these
- Sustainability of the business
- Growth prospects
- Good corporate governance
- Possible impact of economic and political environment on profitability

68

### Suppliers

- Prompt payment
- Meeting ethical standards
- Meeting quality and pricing standards
- Participation in Octodec's enterprise development programme

68 75

### Joint venture partners

- Transparency and accountability
- A common vision for our joint ventures
- Compliance with building regulations

### Property and industry forums

- Industry initiatives
- Access to research and benchmarking information
- Access to expertise in green building science through membership of the Green Building Council of South Africa

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### Tenants and potential tenants

- Recognition of their concerns and addressing these concerns where possible
- Prompt attention to repairs and maintenance
- Regular communication on issues affecting them
- Contact centre

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We have also committed ourselves to supporting the Tshwane Vision 2035, which is to create a city that is liveable, resilient and inclusive. Our event venue 012central, and other facilities we are making available for events, are part of our efforts to support Vision 2035 and bring people into the CBD (see page 43).

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We engage with our inner city stakeholders and the councils in face-to-face meetings and in some cases through written communication.

## Investors and potential investors

We communicate with the investor community through our reporting, results presentations, SENS announcements, city tours, one-on-one meetings and at our annual general meeting. Our board makes every effort to ensure that our reporting, presentations, press releases and SENS announcements provide stakeholders with the information they require to make informed assessments of our performance and our short-, medium- and long-term prospects.

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## Our tenants

Our goal is to provide all our tenants with outstanding customer service. Keeping them informed and providing them with channels through which they can quickly and easily communicate with us is an important part of our customer service. Our building and property managers meet face-to-face with our tenants and also send them SMS messages and emails to keep them informed. When there is a problem with municipal services such as electricity or water we liaise closely with the council and keep our tenants updated on the status of the outage or problem by SMS.

We use facilitated tenant group sessions to gain insight into areas where the customer service to our tenants can be improved and to identify how we can improve our offering to our tenants.

## Our employees

The geographic separation of our employees provides us with a communication challenge, which we address through WhatsApp and SMS messaging, meetings, emails and weekly feedback from our managing director.

Our residential building managers are always on the move within their buildings so they need to be able to communicate and receive communications wherever they are. During the year under review we provided them with devices which, by giving them access to emails wherever they are, keep them up to date and allow them to communicate quickly and easily within Octodec. To learn how these devices have also helped our building managers be more efficient and provide better customer service to our tenants see the Know-how section on page 69 of this report.

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## The role of City Property in our communication with our tenants

The communication roles for which City Property is responsible are key to the achievement of the customer service delivery targets we have set ourselves. These include City Property's contact with our tenants through a centralised contact centre. Its multi-channel functionality offers our tenants the option of communicating through a call centre, or mobile and social media platforms.

To make it easy for our tenants, and in particular our residential tenants, City Property's offices in both Tshwane and Johannesburg are in close proximity to our residential properties.

The City Property procurement team is in regular contact with the suppliers who handle our repairs and maintenance. To check the quality of work provided by suppliers, City Property regularly gets feedback from their property managers on the quality of the service provided by suppliers. To help suppliers improve their service delivery the results of these surveys are fed back to them.

City Property also works with the municipalities of Tshwane and Johannesburg to resolve billing-related issues emanating from the thousands of utility bills City Property processes for Octodec every month. If these issues are not resolved they will add to Octodec's utility costs. City Property is able to resolve, on average, 87% of all queries within 30 days.

# know-how

Our ability to establish successful relationships with our stakeholders is a key element of our know-how. The financial resources we invest in the development of our employees also contribute to our stock of know-how.

## The role of City Property's extensive experience in inner city asset and property management in our business

The graphic below lists the property and asset management and specialist services Octodec has outsourced to City Property.


**Key know-how we require:**

## the ability to recreate, redevelop, unlock and enhance value in properties in the Tshwane and Johannesburg CBDs

Octodec has a track record, starting with our first residential redevelopment in 1998, of successfully redeveloping properties and unlocking and enhancing value in the Tshwane and Johannesburg CBDs through a unique sense of innovation and our visionary perspective.

**Octodec's unique experience in the inner city market gives us a competitive advantage. Much of our success depends on our collective knowledge and the way in which we apply our expertise to the best effect in the active management of our resources and relationships.**

City Property provides the specialist leasing, portfolio management, marketing skills and commitment to delivering excellent customer service necessary to secure an appropriate mix of tenants for the various sectors of our diverse portfolio, keep vacancies low and achieve a rental income that will allow us to create value for our stakeholders.

### Property management

- Billing
- Collections
- Insurance administration
- Leasing and lease administration
- Parking management
- Payment of accounts and other expenses
- Property accounting
- Utilities management

### Asset management

- Financial management
- Strategic management, supervision, implementation and advice relating to acquisitions, disposals, upgrades and renovations
- Treasury management

### Specialist services

- Account management
- Commercial and residential leasing and portfolio management
- Coaching and training
- Company secretarial services
- Credit control
- Human resources management
- Information systems and processes
- Legal
- Maintenance and repairs
- Marketing and events management
- Payroll administration
- Tenant installations
- Risk and compliance management

# City Property's leadership structure and shareholding

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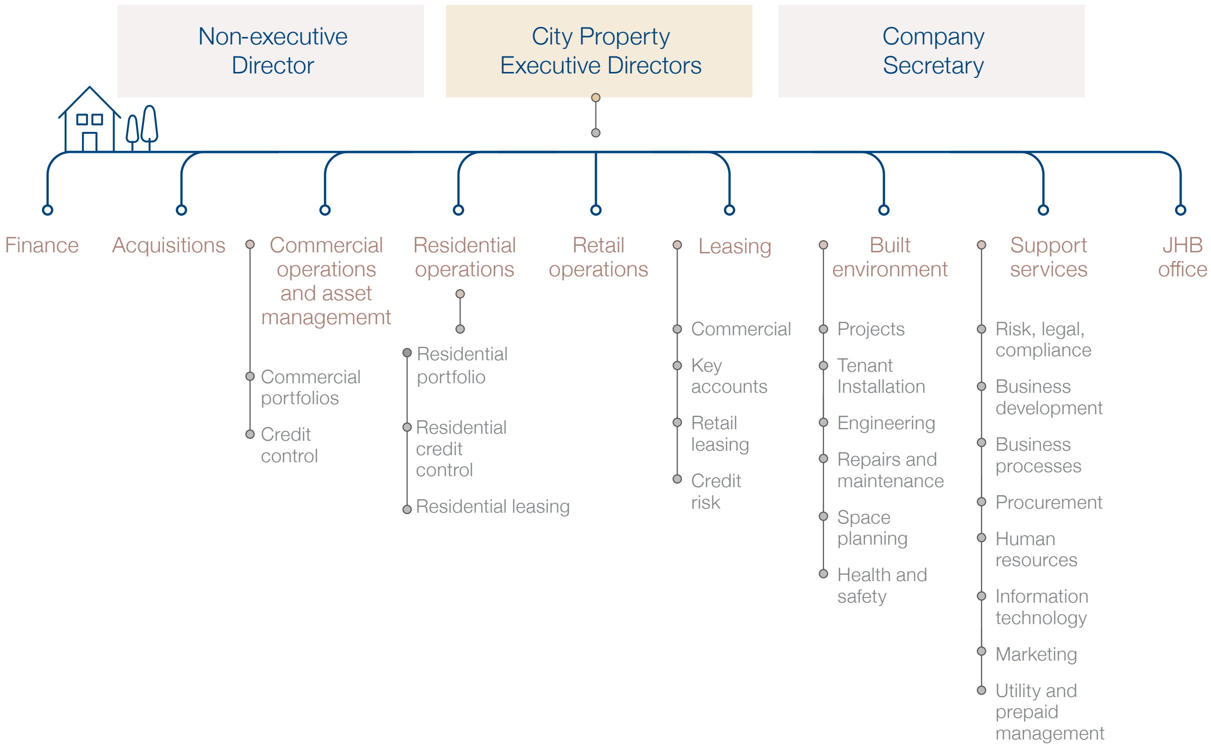
City Property, which specialises in property and asset management in key strategic nodes in Tshwane and Johannesburg, is a private company. It is owned by the Wapnick family and falls under the control of Jeffrey Wapnick. The Wapnick family also has a major shareholding in Octodec (see page 15 of this report for details). The company has over 40 years' experience in operating in the CBDs of Tshwane and Johannesburg and surrounding areas, during which it has grown and adjusted its skills to meet the unique and constantly changing requirements of its operating environment.

# City Property structure




# Responsibilities assigned to City Property and the agreements in place with regard to its property management, asset management and the specialist services it provides to Octodec

## The management of Octodec's assets

City Property carries out all responsibilities relating to the management of Octodec's assets in accordance with a schedule of delegated authority (SODA), which is periodically reviewed, updated and approved by the Octodec board. The SODA also serves to manage the exposure of the Octodec assets to various risks.

# How City Property is remunerated

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The current management agreement provides for a formula for the calculation of a fee that is payable to City Property. This fee is partially linked to the performance of Octodec. We would refer you to page 127 of the Octodec annual financial statements for further information.

City Property prepares operational and finance reports for Octodec and these are discussed and debated at the Octodec board and subcommittee meetings. The City Property structure, together with its bespoke systems, is able to provide Octodec with flexible solutions.

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# City Property's approach to risk, compliance, technology and information governance, human capital, transformation and its commitment to being a good corporate citizen

## Risk governance

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A co-sourced risk management model implemented by City Property identifies and rates risks on a comprehensive risk matrix, which complements the Octodec board's approach to risk governance (see pages 22 to 27 of this report for information on Octodec's approach to the governance of risk). The model provides Octodec with comfort regarding City Property's ability to limit the risks to which its assets are exposed.

## Compliance

City Property manages compliance for Octodec, using specialised software. Reports on controls in place, as well as non-compliance and corrective action taken, are provided to both the Octodec audit and risk committees every quarter.

## Technology and information governance

City Property has robust and technologically advanced mechanisms in place to identify potential threats to its Information and to protect its information in the event of a physical or cyber-attack. These security and disaster recovery measures are determined with the input of recognised IT providers.

An incident and crisis management programme has been developed and it is led by the organsation's IT Manager, is cross functional and inter-departmental.

The organisation has geared itself for a more data intensive operating environment. This includes the upgrading of communication lines from traditional copper to state-of-the-art fibre connectivity. City Property's network infrastructure is able to cater for the introduction of newer technologies that talk to the needs of the business.

Its protection mechanisms (firewall, web access restrictions and e-mail filters) are updated regularly in accordance with industry standards and best practice.

## Human capital

People are central to the execution and sustainability of City Property's strategy. During FY2017 City Property employed 560 people City Property promotes and encourages diversity, transformation and sound employee relations. Its aim is to position City Property as the preferred employer in its business sector.

## Transformation

City Property was rated a level 6 B-BBEE contributor on the old Property Sector Charter. We have not as yet obtained a rating under the amended B-BBEE 2017 Property Sector Code.

# Towards service excellence

Octodec's relationship with its tenants starts when they apply to lease one of our properties. It's therefore critical that their leasing experience reflects the values of the Octodec brand and that we deliver excellent levels of customer service. Our leasing process is outsourced to City Property, which has been provided with clearly defined service delivery standards to which it must adhere. We continually monitor delivery against these standards to ensure they are achieved.

The systems City Property has developed to manage this process on our behalf throughout the period of a lease are designed to handle the high volumes of tenants we have in the inner cities of Tshwane and Johannesburg. City Property also minimises our risk of exposure to bad debts by:

- conducting appropriate in-depth investigation of the credit history of a potential tenant
- assessing the creditworthiness of the potential tenant, as well as the suitability of the tenant for a particular building, at business approval meetings
- drawing up leases with checks and balances that also reduce Octodec's credit risk exposure

City Property's ability to manage the number and variety of Octodec's tenants allows us to provide our tenants with a level of customer service that gives us a competitive advantage.

## The systems and processes that make it all work

Octodec's business model requires an administratively intense infrastructure. City Property provides us with a robust and carefully managed IT infrastructure.

**Key know-how we require:**

The ability to maintain strict control of property expenses in the administratively intense infrastructure required for Octodec's business model

Octodec has outsourced the challenging task of its asset and property management to City Property, which was established in 1968. City Property has demonstrated that it has the specialist operational skills necessary to cost-effectively and efficiently manage our over 14 500 tenants in a diverse range of properties, including inner city residential and multi-tenanted commercial property, and to minimise our exposure to bad debts. 30 (See page 30 of the financial director's review.)

An optical fibre network connecting its operational offices in Pretoria and Johannesburg allows for faster and more efficient flows of data. Demands on the network are constantly reviewed and adjustments are made when required.

Octodec has started to roll out wireless and fibre networks across its buildings in both Tshwane and Johannesburg, which has allowed for centralisation and efficiency in managing the access control systems to our buildings, tenant directory listing screens, telephony and personal computer connectivity.

Our data is a valuable asset and we take appropriate measures to safeguard it.

Both Octodec and City Property take cyber risk very seriously. We continually review, assess and manage this risk and conduct penetration and threat testing against our networks and data. The process stress tested our infrastructure and highlighted areas of vulnerability, which are being addressed.

During the year under review City Property further automated and enhanced our residential leasing process. Our commercial leasing process was also streamlined and simplified as part of our ongoing efforts to improve the service Octodec gives its tenants.

Octodec's residential building managers use the Mobilog system to conduct the inspections that take place when a tenant moves into or out of a residential unit. This information is then sent through electronically to the leasing office, speeding up the refunding of deposits and reducing the use of paper.

City Property also provides a range of value-added services to Octodec including the:

- in-depth monitoring of utility charges and identification of exceptions
- resolution of disputes on utility charges
- monitoring of municipal property valuation rolls and supplementary valuation rolls, providing input as and when requested and submitting objections and appeals if and when necessary
- investigation of innovative technology solutions that can result in savings or increased efficiencies, from detecting water leaks to creating management efficiencies
- dedicated key account leasing team, which provides personalised attention to government and national tenants
- space planning department that is able to rapidly remeasure units to cater for new divisions, ensure the integrity of unit sizes and update plans
- technical teams, which check the quality of the services provided across a broad spectrum and help devise innovative solutions to various property-related issues
- marketing team, which is able to respond to business needs by devising innovative campaigns that alert tenants to leasing options as they come to market

## Our tenants' success is our success

Octodec wants its small business tenants to succeed and contribute to the growth of small business that is so important in South Africa. Their success benefits us all.

The City Property tenant installation department ensures that the standard of retail and industrial tenants' branding and installations is in line with that of our buildings. It also helps our small business tenants achieve a high-quality look and feel, frequently on a very limited budget.

# The role of procurement in cost-effective quality management

The City Property supply chain office has on average between 3 000 and 4 000 repair or maintenance jobs under way on Octodec buildings every month.

**Key know-how we require:**

project management skills

This is key to the success of our redevelopment strategy and City Property's project team, which undertakes our projects, has gained considerable experience over the years in addressing the challenges of repurposing old buildings to achieve quality, cost-effective outcomes.

11

A dedicated team manages the procurement process. In line with the Octodec procurement policy approved by the board in 2017, best practice is applied across our tightly controlled procurement processes. To ensure Octodec's exacting standards are met, in terms of the quality of work undertaken and the products used in our buildings, we have strict quality control processes in place.

Security services are one of our major expenses. An in-depth knowledge of the strengths and weaknesses of the security companies available and market-related prices for the various services is essential. A member of the City Property procurement team is dedicated to the procurement of security services for Octodec. The safety of our tenants is paramount, so all security companies are vetted before they are contracted by Octodec. The performance of the companies we use and the security equipment installed in our properties is constantly monitored to ensure they are keeping our buildings safe.

# natural resources

We make use of natural resources to build, refurbish and redevelop our properties. These include renewable (timber and water) and non-renewable (fossil fuels, mineral and metals) resources and processes such as energy consumption, waste creation and emissions. Our approach to minimising our impact on the environment in which we operate is based on legal compliance and our commitment to limiting our use of scarce resources and their cost to the business.

City Property's ability to manage the use of utilities in our buildings plays a key role in minimising our impact on the environment.

## Resource efficiency

**We have achieved:**

9% **reduction in common property electricity** consumption over the past five years

upgrading the air conditioning system in Killarney Mall **reduced energy costs** by **R960 000** a year

Every Octodec apartment is fitted with a prepaid electricity meter through which approximately R43 million in aggregate was vended in the year under review, representing close to 22 million kWh. To ensure the tariffs we charge our tenants are fair, a vast amount of modelling and thought goes into setting them. We apply the National Energy Regulator of South Africa's (NERSA) mandated regulations to the tariffs we charge.

The practice of bridging meters by bypassing the secure collection mechanisms (prepaid meter) that have been installed, effectively results in stealing electricity from the landlord, as the landlord then carries the cost of the electricity consumed and is not able to recover it from the tenant. This is the scourge of metering in the property sector. The industry standard in South Africa of income leakage through bridging in residential apartments is about 5%. In the Octodec portfolio, due to the depth of knowledge and expertise we apply to the management of our electricity meters, it is less than 0.03%.

## Meeting our commitment to reduce the impact of our properties on the environment

We recognise our responsibility to reduce the impact on the environment of Octodec's substantial property portfolio. We support regular continued professional development (CPD) programmes to ensure we consider new technologies that may contribute to a reduction in greenhouse gas emissions and increase our cost efficiency.

Octodec is a member of the Green Building Council of South Africa and we work with the council to establish suitable initiatives.

Most of our developments are refurbishments, which limits the scope for energy-saving initiatives. Despite this we have been able to achieve a significant reduction in our overall electricity consumption in the past five years, using LED lighting, heat pumps and installing inverter air conditioning systems.

Some examples of how energy-saving initiatives have driven down demand and where sustainability concerns have been considered include:

### Killarney Mall

In 2016 the first phase of installing new chillers in the air conditioning system at Killarney Mall helped reduce energy demand from 3.5 MVA to 2.5 MVA. By early 2017 the second phase had been completed and the chillers fitted with variable speed drive compressors, which adjust dynamically to the energy demand. Energy demand decreased immediately by 400 000 kWh per annum, which gave us a R960 000 saving, R360 000 of which was as a result of the reduction in demand charge we achieved.

### Residential

A second (and in some cases a third) round of retrofits of lighting in common areas in our residential properties is under way. Advances in LED technology coupled with the larger scale of our residential sector has made this possible.

### Solar systems

City Property, on behalf of Octodec, is actively investigating the installation of a photo-voltaic (PV) system. Feasibility studies have been carried out.

### Heat pumps

Heat pumps have been fitted into all of Octodec's newer buildings. The use of heat pumps to heat water requires about 60% less energy than conventional geysers. Their use is helping our tenants to reduce their energy consumption and, consequently, their energy costs.

### Bulk check meters

Bulk check meters have been installed in all our buildings. These allow for early detection of the failure of energy-related equipment which can lead to excessive energy use.

### Our efforts to avoid water wastage in our buildings

The primary way we can reduce water consumption in our buildings is by making sure there are no water leaks, using active meter reading, encouraging our tenants to use water sparingly and providing them with information on how to do so. Where possible we install water meters in units, which encourages tenants to manage their water usage.

In our efforts to reduce wastage through water leaks we sourced and tested Aquatrip leak-detection meters and are now implementing them in key Octodec buildings. This equipment detects a serious leak immediately and is a major game-changer in reducing both our water loss and costs.

### Waste disposal

The disposal of waste is likely to become a major challenge for property owners in the near future as landfill sites fill up and municipalities make property owners responsible for recycling their own waste. We are preparing for such an eventuality, which includes researching the possibility of Octodec funding a recycling plant. Where we use private contractors we ensure they have the correct permits and are using the correct waste disposal sites.


Inside Killarney Mall Office Tower

# meeting our social investment commitment

## Building sustainability in small business

**69%** of our preferred supplier database complies with the BEE requirement of the property charter

**over R120m** of Octodec's discretionary procurement during the year under review was **spent with black-owned businesses**

**over R73m** of our procurement was from businesses with at least 30% black women ownership

**over R127m** of our procurement was from small businesses

**R3.7m** invested in enterprise development (R549 000 in cash and R3.2 million in non-cash contributions)

2016: R4.0 million (R325 532 in cash and R3.7 million in non-cash contributions)

**R3.7m** invested in supplier development (R3.1 million in cash and R628 000 in non-cash contributions)

(2016: R2.5 million made up of R2.3 million in cash contributions and R194 000 in non-cash contributions)

Our enterprise and supplier development programme is an important part of our social investment. The focus of our programme is on making sure our investment is making a difference in the businesses that are its beneficiaries. During the year under review we invested R3.7 million in supplier development.

In 2016 we supported eight of our suppliers by providing them with office space, equipment, bookkeeping software and/or training, depending on what support they needed. To assist our suppliers with human resource management during the year under review we provided them with supervisory and human resource management skills training. We continued to provide our beneficiaries with premises at no charge during the year under review and also provided them with equipment and software. The software has helped our suppliers integrate their till point systems with their back office systems.

Our support of our suppliers during the year under review created 38 permanent positions and 14 part-time positions in their businesses.

Since we took the decision to try to use our tenants as suppliers wherever possible, there has been a significant increase in the number of Octodec's commercial tenants who have become our suppliers.

# Supporting our communities

During the year under review Octodec invested R5 million (2016: R4.9 million) in several corporate social investment projects.

As part of our Mandela Day initiative we partnered with the non-profit company, Rise Against Hunger, whose focus is on reaching vulnerable hungry children. City Property and Octodec employees helped pack 12 096 bags. As each bag could feed six people, we were able to provide 72 576 meals.

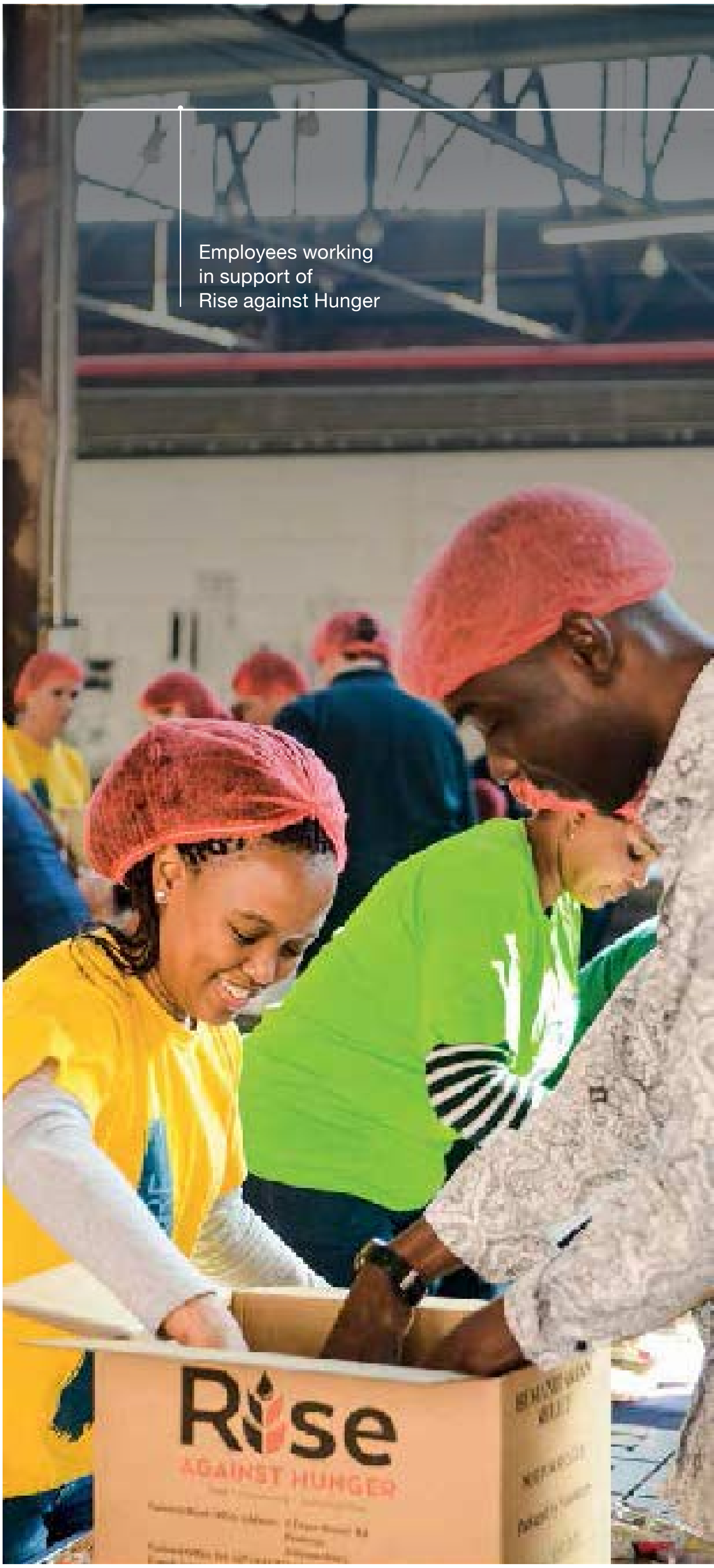
This financial year we continued with our support of the Dignity Dreams project by providing the organisation with free premises. The project also provided 36 000 packs, each of which includes six reusable SABS absorbency approved sanitary pads, which last for up to three-and-a-half years.

We also continued to support Trees for Homes and planted a further 750 trees in 375 homes in Mahube Valley, Ward 17, Mamelodi. The trees are a mixture of indigenous and fruit trees. Ten people were trained to care for the trees and provided with temporary jobs. Not only will these trees assist with the greening of the environment, but the fruit production has the potential to contribute to food security in the area.

Octodec's participation in a bursary programme managed by SAPOA began last year with the sponsorship of five black students for the 2017 academic year. These bursaries are for study towards a property management or related qualification.

Octodec continues to support security initiatives in Arcadia and Hatfield. We plan to return these security personnel to the Tshwane CBD as soon as the authorities have given the go-ahead.

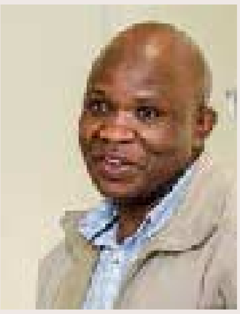
Octodec has partnered with a level 1 B-BBEE cleaning company and other CBD property owners to clean the central Tshwane CBD at night while the city is quiet. The impact of this initiative on the cleanliness of the city is noticeable and we are seeking council's support for financial participation in this initiative.




Employees working in support of Rise against Hunger

## Enterprise development at work

**Miriam Manyeruke, the managing director of Mijeb Investments,** started out working on very small building and maintenance contracts. Her commitment to a culture of excellence and a quality of work that speaks for itself soon saw her being awarded ever bigger projects. She plans to build a legacy and wants to motivate young women in particular to overcome barriers and succeed, even in male-dominated industries like the construction industry. Mijeb, which is one of Octodec's suppliers, has 12 permanent employees. During the year under review it benefited from our enterprise development programme, receiving a new Hyundai bakkie, assistance with office automation, office space, equipment, computers and employee training. Miriam told us that the continued support Mijeb has received from the Octodec enterprise development programme has made it possible for it to pursue its growth strategy (she was able to create an additional three jobs in her business this year) and prove that women can leave an indelible mark in the construction industry with the appropriate support structures.



**Ludwick Sebetola, who set up his own building and maintenance company, Ludtelo Trading**, in 2011, started out as an Octodec tenant and then began working on small maintenance projects for us in 2016. He told us that he appreciates how Octodec's management has recognised and empowered him to take on bigger jobs. He also respects the way our well-trained building managers and cleaners care for the buildings as if they were their own, and enjoys working with them. As a participant in our enterprise development programme he received assistance with vehicle financing, office automation, office space, furniture and equipment, employee training, tools, toolboxes, scaffolding and marketing support. The extra work Ludwick is doing for Octodec has created nine new jobs in his business.

The sculpture by Angus Taylor in the courtyard next to One on Mutual

# corporate governance review

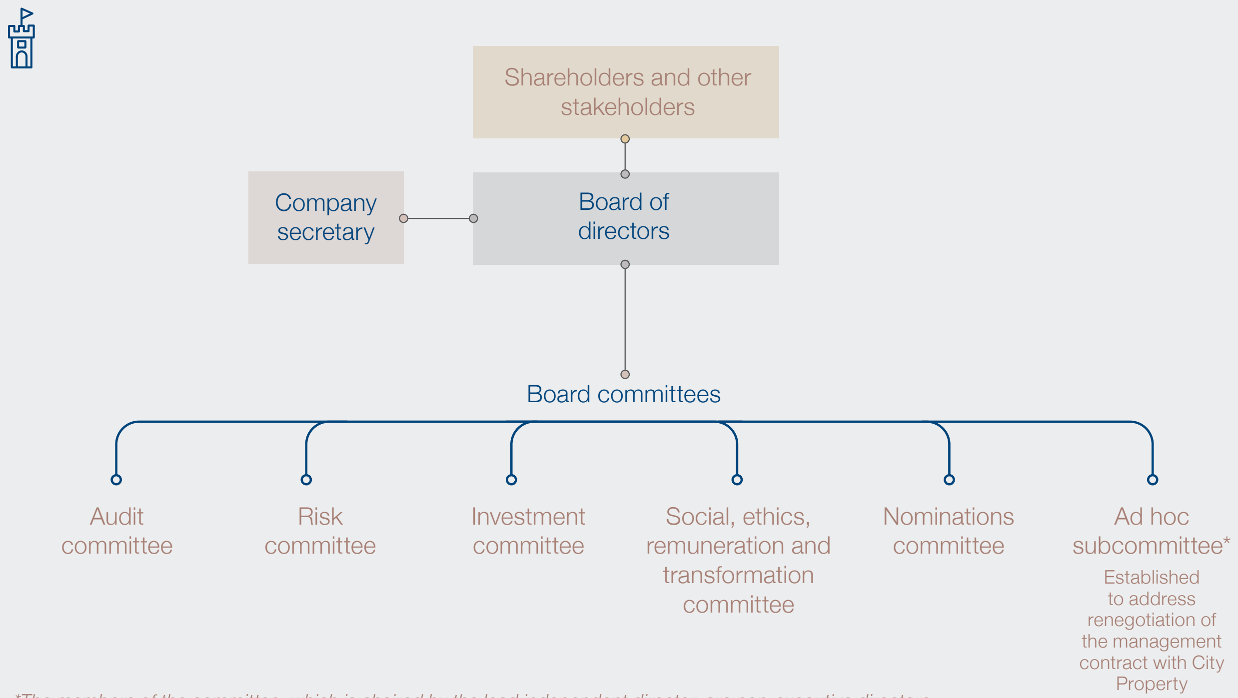
Our strategy is supported by our high standards of corporate governance, which we continually review to ensure they support effective decision-making; provide robust controls and are aligned to evolving local and global best practice.

The Octodec board welcomes the latest update of the King Code of Governance Principles, King IV™, which was introduced to South Africa in late 2016. Its outcomes-driven approach to corporate governance corresponds with Octodec's commitment to consistent improvement and value creation.

Our board has applied the King Code of Governance Principles (King III) throughout Octodec since its inception. In line with the approach of King IV™, this corporate governance review includes our assessment, against the King IV™ principles applicable to our business, of the outcomes our approach to corporate governance has achieved. We recognise that this is the first step on our King IV™ journey and will be spending time in 2018 further analysing our practices to support the various principles and outcomes in terms of King IV™. This analysis may well result in a change in our practices to support our application of the principles.

Consistent with King IV™'s apply and explain approach to disclosure, Octodec considers and applies the principles of corporate governance that are relevant to it.

## Our governance framework




*The members of the committee, which is chaired by the lead independent director, are non-executive directors: Derek Cohen, Gerard Kemp, Myron Pollack and Pieter Strydom*

### Board and committee activities during the year under review

During the year under review the board attended a King IV™ workshop. The nominations committee recommended to the board that the board and its committees had been well established and were functioning satisfactorily. The action plans for areas identified for improvement were approved by the board with the agreement that progress reports be presented to the relevant body until the satisfactory implementation of these plans.

**The board considered the following matters during its meetings:**

- Financial performance
- Board committee feedback
- Operational performance (including the performance of City Property)
- Strategic development and monitoring of performance against strategy
- Governance and risk management
- Reputation management
- Stakeholder engagement

In the year ahead the board will continue to:

- ensure we have the ability to react rapidly to the changing environment
- ensure our strategic objectives remain valid
- address risk management, including protecting our business against cyber crime, which remains a strategic imperative

Following the year-end the board will continue to focus on finalising the renegotiation of Octodec's management agreement with City Property, which it expects to be presented for approval by shareholders at a special general meeting in the second quarter of 2018.

## Audit committee

In addition to its usual duties the audit committee:

- reviewed the valuations of Octodec's properties at 28 February 2017 and 31 August 2017, subsequent to the recommendations made by the investment committee
- reviewed the requirements in terms of section 45 of the Companies Act relating to loans and other financial assistance (bonds, loans and cash flows) granted to its subsidiaries and joint ventures
- considered proposals to simplify the structure of the group
- reviewed the annual financial statements of Premium and recommended them for approval by the directors of Premium
- reviewed the delegated authorities in respect of the authority levels of executive directors and the board and board committees

While the committee will continue to address all matters reserved for its attention in its terms of reference the following is expected to require the committee's attention in 2018:

- a review of the internal audit model, co-sourced, or internal versus outsourcing only
- a review of the combined assurance model
- consideration of the technology and information governance and business continuity

## Risk committee

In addition to its usual duties the risk committee:

- approved the new appointment of a chief risk officer for Octodec
- recommended the newly developed Octodec risk management policy and the risk management framework, aligned to Octodec's strategic objectives, for approval by the board
- on the recommendation of management approved the appointment of a new compliance officer for Octodec
- agreed to perform, and received feedback, on an internal audit relating to a risk management maturity assessment of the risk management process of Octodec against a global risk management methodology review of Octodec's risk register.

While the committee will continue to address all matters reserved for its attention in its terms of reference the following additional activities are expected to require the committee's attention in 2018:

- enterprise-wide risk and opportunity management
- cyber risk and business continuity assessment of risk
- greater regulatory scrutiny

## Investment committee

In addition to its usual duties the investment committee:

- considered various properties for disposal and made recommendations to the board
- reviewed the outcome of recent investments in major upgrades, redevelopments and developments
- received and reviewed a report on the revaluation of investment properties at 28 February 2017 and 31 August 2017

While the committee will continue to address all matters reserved for its attention in its terms of reference the following will require the committee's attention in 2018:

- a drive to dispose of the properties previously approved by the board for disposal
- ensuring the investment strategy is aligned with the Octodec strategy

## Social, ethics, remuneration and transformation committee

90

The committee's report that follows on page 90 provides information on its activities in FY 2017 and its plans for FY 2018.

## Nominations committee

In addition to its usual duties:

- the nominations committee interviewed a number of candidates for the position of independent non-executive director of the Octodec board and recommended the appointment of Akua Koranteng to the board, which was approved by the board on 30 August 2017
- considered the roles and responsibilities of the various committees

The committee will continue to address all matters reserved for its attention in its terms of reference in 2018.

## Ad hoc subcommittee

The committee's focus included:

- participating in and considering independent investigations and analysis into how best to structure the management agreement between Octodec and City Property with the intention of finalising the new management agreement with City Property for shareholders' approval in the second quarter of 2018

2017
Shoprite in the
Tshwane CBD

1899
Church street,
Pretoria

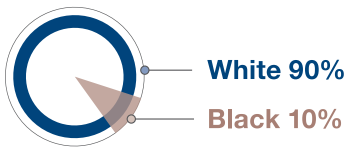
# Our board and its committees

As at 31 August 2017

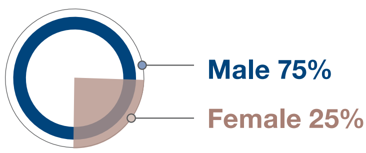
| Name and status of director | Length of service | Attendance at meetings: Board[1] | Committees: Audit (see page 96) | Risk[2] | Investment | Nominations | Social, ethics, remuneration and transformation | Ad hoc subcommittee* | Directors to be re-elected |
|---|---|---|---|---|---|---|---|---|---|
| **Non-executive directors (non-independent)** | | | | | | | | | |
| **Sharon Wapnick** (Chairman of the board and the investment committee) | 23 years 11 months (appointed chairman 1 October 2011) | 9/9 | 5/5 | 5/5 | 3/3 | 1/1 | 3/3 | 6/8[5] | |
| **Myron Pollack** | 21 years 11 months | 9/9 | 5/5 | 5/5 | 3/3 | 1/1 | 3/3 | 8/8 | ✓ |
| **Non-executive directors (independent)** | | | | | | | | | |
| **Derek Cohen** (Lead independent director and chairman of the nominations commitee) | 7 years 11 months | 9/9 | 5/5 | 5/5 | 3/3 | 1/1 | 3/3 | 8/8 | |
| **Gerard Kemp** (Chairman of social, ethics, remuneration and transformation committee) | 3 years 11 months | 8/9[3] | 5/5 | 5/5 | 3/3 | 1/1 | 3/3 | 8/8 | ✓ |
| **Pieter Strydom** (Chairman of the audit and risk committees) | 4 years 7 months | 9/9 | 5/5 | 4/5[4] | 3/3 | 1/1 | | 7/8[4] | |
| **Executive directors** | | | | | | | | | |
| **Jeffrey Wapnick** (Managing director) | 18 years 11 months | 9/9 | 5/5 | 5/5 | 3/3 | 1/1[+] | 3/3[+] | 3/8[5] | |
| **Anthony Stein** (Financial director) | 8 years 2 months | 9/9 | 5/5 | 5/5 | 3/3 | 1/1[+] | 3/3[+] | 3/8[5] | |

## Board composition as at 7 December 2017

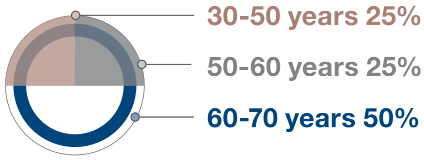
**Racial composition**




**Gender composition***




**Board composition by age**




*The diversity target set by the board, which was that female membership of the board should be 25%, was met.

** Ad hoc subcommittee established to renegotiate City Property management agreement*
*+ By invitation*
*1 Includes a two-day board strategic workshop*
*2 Includes a strategic risk workshop*
*3 Apologies received for board meeting on 26 October 2016*
*4 Apologies received for strategic risk workshop and ad hoc subcommittee meeting on 20 July 2017*
*5 Attended by invitation only. The chairman of the ad hoc subcommittee determines who will be invited to its meetings in advance of each meeting.*

***Invitees** to the audit committee include chief risk officer, Stephanie Ainsworth, Jacolene Swacina (portfolio manager), Anabel Vieira (senior financial manager) and Dianne van der Merwe (Group treasurer) while Stephanie Ainsworth also attends the risk and social, ethics, remuneration and transformation committees as an invitee and Kobus Henning of KPMG attends the risk committee as an invitee. Heather Prinsloo, who is responsible for human capital, attends the social, ethics, remuneration and transformation committee as an invitee.*

***External advisers** from Deloitte Africa and KPMG attend audit committee meetings, while PwC attends the ad hoc subcommittee meeting*

# application of King IV™

## The outcome of our efforts towards achieving good corporate governance in Octodec, in line with the principles of King IV™

| | King IV™ principles | Practices in place to support the achievement of value creation through good corporate governance | More about the practices in action |
|---|---|---|---|
| 1 | The governing body should lead ethically and effectively | • The board sets the standards of ethical conduct for the group, which are set out in the board-approved code of ethics (the code)<br>• The chairman of the board ensures that the behaviour of board members is in accordance with Octodec's ethical standards<br>• By appointing strong, independently-minded directors to its board and separating and clearly defining the roles and responsibilities of the chairman and the managing director, Octodec has equipped its board to make quality decisions using the correct procedures<br>• The board of Octodec has established procedures to enable the directors, prescribed officers and employees of Octodec to notify the company of any actual or potential conflict situation and to declare any significant interest in the company or its contracts | 09 *Statement in leadership review*<br>*The board's terms of reference are available from the company secretary* |
| 2 | The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture | • Ultimate responsibility for implementing the code is delegated to the managing director of Octodec<br>• The code makes it clear that we do not tolerate acts of bribery or fraud by our employees, contractors, suppliers, joint venture partners and other business partners<br>• Reports on compliance with the code and whistleblower hotline reports and any ensuing actions to address fraud and corruption, which include City Property's performance in terms of the code, are monitored by the board and its committees<br>• Our suppliers are required to commit to doing business in an ethical and transparent manner | 90 *See page 90* |
| 3 | The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen | • The implementation of the board-approved strategy governing Octodec's corporate social investment and enterprise supplier development programme is an important part of our efforts to achieve our aspiration to be a responsible corporate citizen<br>• Our commitment to providing safe, dignified accommodation and treating our tenants fairly while creating short-, medium- and long-term value for our stakeholders is also part of our aspiration to be a responsible corporate citizen | 73 *Our tenants' success is our success*<br>75 *See pages 75 to 77: meeting our social investment commitment*<br>48 *See pages 48 to 52: residential property* |
| 4 | The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process | Our board performs its duties within a framework of policies and controls that provide for effective risk assessment and management of our economic, environmental and social performance, which ensure it has a thorough understanding of the sustainability of the business.<br>It achieves this through a schedule of matters reserved for its consideration and decision, which include:<br>• setting and regularly reviewing strategy and the business model<br>• monitoring performance against strategy and business plans<br>• establishing Octodec's risk appetite and tolerance levels in line with our risk appetite policy and monitoring performance against risk appetite measures<br>• regular review by the governance framework established by the board of performance against key financial and sustainability performance indicators. | 22 *See pages 22 to 26 for risk management section*<br>10 *Leadership review – performance against strategy* |

| King IV™ principles | Practices in place to support the achievement of value creation through good corporate governance | More about the practices in action |
|---|---|---|
| 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and custodian of corporate governance in the organisation | The board collectively reviews and approves Octodec's reporting including the integrated report to ensure it addresses all matters material to our stakeholders in the short, medium and long terms; oversees the issuing of the integrated report and ensures that all reports required to be issued in compliance with legal requirements are issued. | 03 *Board approval*<br>66 *See page 66 for more information on stakeholder engagement* |
| 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation | The board takes responsibility for overall corporate governance and ultimate control of the group's various businesses.<br>It reviews and approves:<br>• group-wide policies and frameworks<br>• acquisitions and disposal of assets<br>• group-wide policies and frameworks<br>• dividend policy<br>• capital expenditure.<br>The Octodec board recognises that it is accountable for the organisation's performance and ensures it is provided with reporting and disclosure that allows it to track performance. This includes tracking the performance of City Property against its management agreement with Octodec.<br>13 See page 13 and 70 to 71 for information on the City Property/ Octodec relationship | *See the board's terms of reference which are available from the company secretary* |
| 7 The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively | **Board structure**<br>The company has a unitary board structure, comprising two executive directors and six non-executive directors, the majority of whom are independent non-executive directors as defined by King IV™.<br>• By appointing strong, independently minded directors to its board and separating and clearly defining the roles and responsibilities of the chairman and the managing director, as set out in the board charter, it ensures a balance of power and authority and precludes any one director from exercising unfettered powers of decision-making. The chairman is responsible for leading the board and for its effectiveness<br>• Our non-executive chairman cannot be classified as independent; we have, therefore, in terms of the JSE Listings Requirements and King IV™, appointed a lead independent director<br>• The board has delegated responsibility for ensuring the board has the appropriate balance of knowledge, skills, experience, diversity and independence to the nominations committee | 28 *See pages 28 to 29 for CVs of our leadership provide insight into their knowledge, skills and experience*<br>*The nominations committee's terms of reference are available from the company secretary* |

# The outcome of our efforts towards achieving good corporate governance in Octodec, in line with the principles of King IV™ – continued

| King IV™ principles | Practices in place to support the achievement of value creation through good corporate governance | More about the practices in action |
|---|---|---|
| 7 Principle 7 – continued | **Diversity and independence**<br>The appointment of Akua Koranteng to our board on 1 September 2017, who received both formal and informal induction to the board, increased both the diversity and independence of our board and met the target set by the board that females should make up 25% of board membership. Fifty per cent of its members are now independent non-executives.<br>As none of the independent non-executive directors have served for more than nine years, no annual independence assessment was required to be performed.<br>**Rotation of directors**<br>In accordance with our memorandum of incorporation (MOI) one third of our directors are required to retire from office at every annual general meeting, based on their tenure since they were previously elected or re-elected to the board.<br>**Company Secretary**<br>It is the board's opinion that the appointed company secretary, City Property and its representative, Elize Greef, who has over 20 years' experience as a company secretary:<br>• maintains an arm's length relationship with the board<br>• administers the proceedings and affairs of the directorate and the company in accordance with the relevant laws<br>• effectively performs the role of gatekeeper of good corporate governance<br>• assists directors regarding their responsibilities and professional development<br>After asessing her abilities, the board believes that she has the requisite qualifications and expertise to fulfil this role as required by the JSE Listing Requirements. | |
| 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties | Octodec's delegation of authority framework, board charter (which is closely aligned to the King IV™ recommendations) and MOI, which are reviewed annually, ensure that:<br>• the board retains effective control<br>• the board's responsibilities and powers are established<br>• appropriate management structures are in place to achieve delegation of authority<br>The majority of our board committees are chaired by independent non-executive directors who attend our annual general meetings to respond to any shareholder queries.<br>Both the statutory audit and social, ethics, remuneration and transformation committees operate in terms of the Companies Act and as recommended by King IV™. | *The terms of reference which set out delegation of certain matters to the committees are available from the company secretary*<br>*The mandates and charter governing the board and its committees are also available from the company secretary* |

| | King IV™ principles | Practices in place to support the achievement of value creation through good corporate governance | More about the practices in action |
|---|---|---|---|
| 9 | The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness | In accordance with the recommendation of King IV™, performance assessments of the board, its committees, chairman and individual members will be conducted every alternate year. The next assesment will be performed in the year ending 31 August 2018. | |
| 10 | The governing body should ensure that the appointment of and delegation to management contributed to role clarity and the effective exercise of authority and responsibilities | Through Octodec's delegation of authority policy the board delegates authority to the executives of Octodec.<br>The board appoints the managing director, the financial director and the company secretary of Octodec who are accountable to the board. The managing director is responsible for the execution of the agreed strategy and the day-to-day business of Octodec. The board has also delegated responsibility for certain stakeholder engagement to the managing director.<br>On 28 October 2016, the board re-appointed the managing director for a period of five years expiring on 28 October 2020. | 13 *See pages 13 and 70 to 71 for Octodec's relationship with City Property* |
| 11 | The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives | The board, which has committed Octodec to a process of risk management and sound and effective systems of internal control:<br>• determines the group's risk appetite and levels of risk tolerance<br>• establishes the issues that could have the greatest impact on Octodec's ability to achieve its strategy and create value for its stakeholders<br>Our risk management policy and framework, which is closely aligned with Octodec's business strategy:<br>• clearly defines Octodec's risk management philosophy<br>• is designed to encourage and instil enterprise-wide risk management culture in Octodec<br>While the board has delegated its responsibility for risk management to the risk committee, it retains ultimate accountability for the governance of the risks that could impact Octodec's ability to achieve its business objective, including any risks associated with the City Property management agreement. | 22 *See pages 22 to 26 in the risk management section* |
| 12 | The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives | • Our board sets Octodec's technology and information management strategy which is implemented by City Property<br>• The audit and risk committees assist the board with measuring and monitoring the implementation of this strategy<br>• Information management is an integral part of our risk management process<br>• If key risks are identified the necessary remedial action is taken<br>• Information management assets are managed through an asset register and various information management and human resource policies | 72 *See pages 72 for the systems and processes that make it work* |

# The outcome of our efforts towards achieving good corporate governance in Octodec, in line with the principles of King IV™ – continued

| | King IV™ principles | Practices in place to support the achievement of value creation through good corporate governance | More about the practices in action |
|---|---|---|---|
| 13 | The governing body should govern compliance with applicable law and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen | The Octodec board has delegated responsibility to Octodec's management for ensuring the company complies with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen. To achieve this Octodec has contracted the City Property legal and company secretarial teams to identify, prioritise, manage, monitor and report on Octodec's compliance. City Property has compliance management software in place that monitors and tracks the core legislation applying to Octodec and which also allows us to identify and prioritise the most current, proposed and impending legislation relevant to Octodec. Controls have also been developed to minimise the risk of non-compliance. The audit, risk, social, ethics remuneration and transformation committees monitor Octodec's compliance with regard to applicable legislation and non-binding rules, codes and standards Octodec has adopted. | |
| 14 | The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term | It is essential that our strategy, risks, performance and rewards are aligned if we are to create shareholder value. The social, ethics, remuneration and transformation committee is tasked with:<br>• ensuring that directors are fairly rewarded for their contribution to the overall performance of the company<br>• monitoring Octodec's remuneration policies and practices to ensure they are designed to align performance with reward and to attract and retain the right talent | 87 *See pages 87 to 89 remuneration review* |
| 15 | The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports | **Octodec's combined assurance model:**<br>• provides the board and its committees with oversight of the activities associated with the management of Octodec's risks and opportunities<br>• is embedding a culture and practice of risk and opportunity management | |
| 16 | In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time | Stakeholder engagement is one of Octodec's key focus areas. The board is responsible for communicating with the investor community, which it does mainly through the managing director and chief financial officer.<br>Octodec's business is about people, and it has a wide range of stakeholders. Our stakeholders, their concerns and our response to these concerns can be found on pages 66 to 77. | 66 *See pages 66 to 77 for information on how we have approached our stakeholder engagement* |

# remuneration review

## Remuneration governance

Our social, ethics, remuneration and transformation committee monitors and makes recommendations regarding Octodec's remuneration policies and practices and is mandated by the board to ensure that our remuneration philosophy and policy are:

- aligned with Octodec group's business strategy and the interests of its shareholders
- communicated to our stakeholders

The social, ethics, remuneration and transformation committee reviews:

- remuneration strategies, policies and practices
- succession plans
- talent reviews

It also approves:

- executive and non-executive directors' fees for recommendation to the board
- the Octodec employee short-term incentive framework for the new financial year

In light of King IV™ recommended practices, the social, ethics, remuneration and transformation committee has reviewed our remuneration policy to ensure it includes all the appropriate elements of remuneration in Octodec.

During the year under review the committee also approved resolutions (as required by the Companies Act and recommended by King IV™), which will be tabled for shareholders to vote on at the annual general meeting. They cover the following:

- a binding vote on directors' fees
- an advisory vote on the Octodec remuneration policy
- an advisory vote on the remuneration policy implementation report

The committee reviewed the:

- performance of the pension and provident funds against set benchmarks. It also sought independent professional advice in relation to the performance of the fund, in particular its risk-focused tactical asset allocation and the application of contributions to the benefits, value-added services and additional benefits linked to the fund and risk benefit policies of the existing retirement funding
- outcome of the implementation of the Paterson Grading system in Octodec
- proposed amendments to the directors' remuneration policy, which were subsequently approved by the board
- reward and recognition programme, which resulted in an adjustment to salaries when compared against each other, such that all staff earn well above the national minimum wage

### Our remuneration philosophy

The aim of Octodec's remuneration philosophy, which was approved at our annual general meeting on 29 January 2017 by 81.67% of the voting rights exercised by investors, is to ensure it promotes the achievement of our strategic objectives in the short, medium and long term and the creation of value for our stakeholders.

It also commits Octodec to remunerating its directors, prescribed officers and employees fairly, responsibly and transparently and to ensuring that our remuneration is market related.

### Our remuneration strategy and policy

The primary purpose of our remuneration strategy and policy is to attract and retain high-calibre, high-performing and independent-minded directors and employees who subscribe to our shared values, ethical culture and our aspiration to be a good corporate citizen.

Our remuneration policy promotes an equitable remuneration structure that supports ethical behaviour as set out in our code of ethics.

In terms of the management agreement between City Property and Octodec, all administrative functions relating to human resource practices and the administration of the payroll of Octodec employees are undertaken by City Property. To ensure appropriate oversight of corporate governance practices in City Property, the Octodec social, ethics, remuneration and transformation committee receives quarterly reports, which include information provided by City Property. This information allows the committee to monitor the remuneration practices relating to Octodec employees so as to ensure that they are fair, responsible and transparent, and that salaries are market related.

### Employee remuneration

Octodec's 242 employees include building managers, handymen, general workers and cleaners.

The payment structure for each Octodec employee is on a cost to company basis. Employees are paid twelve equal monthly amounts in arrears, less voluntary and statutory deductions. To ensure that our payment structure is fair, all positions in Octodec have been graded and the salary packages, which have been benchmarked, are in line with market criteria. Octodec's building managers are provided with quality accommodation in the buildings that they manage, enabling them to make themselves easily available to deal with issues on site and saving them travelling costs. Our current minimum wage is 70% more than the proposed minimum wage. Salary packages are structured to align them with prevailing income tax legislation.

## Employee remuneration – continued

We believe that remuneration should match and incentivise performance. Our employees' performance bonuses are based on the achievement of agreed key performance indicators (KPIs) aimed at motivating employees to achieve and exceed our business objectives. Bonuses are paid in November of each year.

In addition to the performance bonuses paid to employees meeting and exceeding their KPIs, Octodec has introduced a reward and recognition programme through which employees are recognised and rewarded every quarter for espousing the company's values and exceeding expectations. At year-end three annual winners are selected, who receive a monetary reward.

## Retirement and group risk benefits

The benefits available to Octodec employees include a pension or provident fund and group life assurance, which has a number of components.

The pension and provident funds cater for various options which are selected by the employees, all of which include a fixed employer contribution of 10%. In addition, the employee contributions range from 4.25% up to 7.5%, with varying life, income disability and funeral cover. As a general rule, a portion of these funds is invested into low-risk investment portfolios.

Group life assurance, which is payable on death of an employee, includes options for capital disability, income protection, family benefits and other value-added services which include free ambulance services, legal advice and trauma counselling.

Financial wellness days are facilitated for our employees during which guidance on decisions relating to their benefit options is available to enable them to make informed decisions.

## Remuneration of directors and prescribed officers

Our approach to the remuneration of our executive and non-executive directors is underpinned by our remuneration policy. The key principles of this policy are that:

- the remuneration of Octodec's directors should be consistent with market-related best practice and sufficient to attract talent to our board and retain this talent
- the quantum and structure of the remuneration of our directors will be reviewed annually by the social, ethics, remuneration and transformation committee, who will make recommendations to the board on any changes they believe should be made to directors' remuneration.

It is the board's view that the fees paid to executive and non-executive directors should recognise their responsibility to provide input on an ongoing basis throughout the year, not only through their attendance at meetings, and that the remuneration of our directors should be sufficient to attract talent to our board and retain that talent.

The social, ethics, remuneration and transformation committee believes that Octodec's remuneration philosophy and policy supported the achievement of our strategic objectives in the year under review and contributed to value creation by ensuring we retained the talent we need to achieve our strategic objectives. Octodec views its executive directors as prescribed officers, as defined in terms of the Act. There are no service contracts in place with these directors.

The executive directors are remunerated by Octodec for their services as directors. This remuneration includes the committees on which they serve and attend by invitation.

Octodec is also establishing key performance indicators (KPIs) for its executive directors, which will be aligned with the KPIs in the new City Property management agreement and published in our integrated report for 2018.

# Remuneration policy implementation report

Directors' fees for the periods 1 September 2016 to 31 August 2017 and 1 September 2017 to 31 August 2018 increased by 6%, as approved at the annual general meetings held on 29 January 2016 and 27 January 2017 respectively. 144 As per special resolution number 3 on page 144, the board proposed no increase in remuneration to be paid to the directors for the period 1 September 2018 to 31 August 2019.

Directors receive an annual retainer for services they render as directors of Octodec, which is paid quarterly, in arrears, in four equal instalments. In addition to receiving a retainer, directors are entitled to a fee for each board, subcommittee and annual general meeting that they attend. These fees are also paid quarterly in arrears. Both the retainer and 89 attendance fees payable to directors, which are set out on page 89, are reviewed annually by the social, ethics, remuneration and transformation committee and the board, and are also subject to the approval of the company's shareholders at the annual general meeting. Directors are not entitled to receive any remuneration or company benefits (including pension schemes or share arrangements) other than retainer and meeting fees.

Resolutions covering the proposed remuneration of Octodec's directors for the period 1 September 2018 to 31 August 2019 as well as the non-binding advisory resolutions on the remuneration policy and the remuneration policy implementation report will be proposed at our next annual general meeting. Please refer to special resolution 144 number 3 and ordinary resolutions numbers 6 and 7 on pages 144 and 146 of the notice of annual general meeting.

The Octodec remuneration philosophy and directors' fees were put to shareholder vote at the previous annual general meeting and endorsed with an overwhelming majority (2016: 81.67% and 88.71% respectively). The endorsement of the remuneration policy and implementation report is tabled as a non-binding advisory vote. However, the outcome of each vote will be acknowledged when considering the remuneration policy and the implementation thereof.

In the event that, either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board will initiate engagement with the relevant shareholders and the outcome thereof will be disclosed in the 2018 integrated report.

The board will continue to encourage regular dialogue with shareholders to create and maintain a mutual understanding of what performance and value creation for the group constitutes for evaluating the remuneration policy.

## Remuneration paid by Octodec

| | Annual retainer (R) | | Board and board committee meeting fees (R) | | Total (R) | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Non-executive directors** | | | | | | |
| **Sharon Wapnick** (Chairman of the board and the investment committee) | **636 000** | 600 000 | **475 940** | 433 000 | **1 111 940** | 1 033 000 |
| **Derek Cohen** (Lead independent director and chairman of the nominations commitee) | **265 000** | 250 000 | **551 200** | 597 000 | **816 200** | 847 000 |
| **Gerard Kemp** (Chairman of the social, ethics, remuneration and transformation committee) | **265 000** | 250 000 | **479 120** | 551 000 | **744 120** | 801 000 |
| **Myron Pollack** | **265 000** | 250 000 | **521 520** | 528 000 | **786 520** | 778 000 |
| **Pieter Strydom** (Chairman of the audit and risk committees) | **265 000** | 250 000 | **517 280** | 589 000 | **782 280** | 839 000 |
| **Executive directors and prescribed officers** | | | | | | |
| **Anthony Stein** | **265 000** | 250 000 | **410 220** | 399 000 | **675 220** | 649 000 |
| **Jeffrey Wapnick** | **265 000** | 250 000 | **391 140** | 399 000 | **656 140** | 649 000 |
| **Total** | **2 226 000** | **2 100 000** | **3 346 420** | **3 496 000** | **5 572 420** | **5 596 000** |

| | **12 months to 31 August 2017** | 12 months to 31 August 2016 |
|---|---|---|
| **Fee per meeting** | | |
| Board meeting (including annual general meeting) | **15 900** | 15 000 |
| Attendance at subcommittee meeting of the board | **19 080** | 18 000 |
| Chairman of subcommittee of the board | **23 320** | 22 000 |
| Attendance at an ad hoc subcommittee meeting of the board | **19 080** | 18 000 |
| Chairman of an ad hoc subcommittee meeting of the board | **23 320** | 22 000 |

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Refer to note 35.4 for the remuneration paid by City Property to directors of Octodec.
See page 81 for meeting attendance.

# social, ethics, remuneration and transformation committee activities in the year under review

My responsibility as chairman of Octodec's social, ethics, remuneration and transformation committee is to report on the matters within this committee's mandate for the period ended 31 August 2017, in accordance with the requirements of the Companies Act.

Our social, ethics, remuneration and transformation committee comprises four independent non-executive directors and two non-executive directors. The managing director, financial director, company secretary, chief risk officer and the human resources executive of City Property attend the committee's meetings, by standing invitation.

The committee schedules three meetings a year at which it reviews reporting on:

- its statutory duties as listed in section 72 of the Companies Act and regulation 43 of the Companies Regulations, 2011
- human resource strategies, policies and practices which are continually renewed and updated
- adherence with the requirement of the South African Employment Equity Act, No 55 of 1998 and Basic Conditions of Employment Act, No 75 of 1997
- remuneration policies and practices
- empowerment credentials
- environmental management
- climate change
- stakeholder engagement
- implementation of the group's transformation strategy
- corporate social responsibilities

Key focus areas of the committee during the year under review were:

- monitored and reviewed performance against:
  - The 10 principles set out in the United Nations Global Compact
  - OECD recommendations on corruption
  - Employment Equity Act, No 55 of 1998, as amended
  - Broad-Based Economic Empowerment Act, No 53 of 2003, as amended
- periodically reviewed the performance against the strategy, objectives and board-approved annual corporate social investment budget
- reviewed all community investment strategic sponsorships, donations and charitable contributions
- reviewed reports on the environment, health, public safety and consumer relationships
- monitored infringements of the company's corruption and business integrity policy to ensure robust controls remained in force
- reviewed the company's ethical policies and processes, including the whistleblowers' hotline and considered their effectiveness
- monitored the company's activities in terms of labour, employment and remuneration
- monitored the balance between workforce transformation activities and ensuring we have adequate skills
- reviewed the newly introduced Paterson job grading and wage benchmarking as well as the revised human resources strategy remuneration policy and implementation reporting
- following the conclusion of the self-assessment of the subcommittee for the period ended 31 August 2015, various agreed board action plans were monitored to ensure that they were successfully implemented to the satisfaction of the committee

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I refer you to Octodec's approach to remuneration on page 87 of this report

## Conclusion

Octodec continues to meet its social, environmental and governance commitments. The group also has suitable policies and frameworks in place to sustain its commitment to social and economic development, fair labour practices which are continually renewed and updated, environmental responsibility and good corporate citizenship.

There has been no material non-compliance with legislation or regulation or non-adherence with codes of best practice in terms of the area within the committee's mandate during the year under review.

This committee is accountable to the board and reports, through its chairman, to shareholders at the company's annual general meeting on matters within its mandate.

The committee is satisfied it has considered and discharged its responsibilities for the financial year in line with its terms of reference, King IV™ and the Act.

**Gerard Kemp**
Chairman
7 December 2017

# audited financial statements

## contents

# directors' responsibility and approval of the annual financial statements

The directors are required by the Act, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report.

It is their responsibility to ensure that the annual financial statements fairly present the state of the consolidated and separate financial statements of Octodec Investments Limited as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the Act. The group's external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate disclosures in line with the accounting policies of the group. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates and have been audited in compliance with section 29(1) of the Act.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment.

The directors are of the opinion, based on the information and explanations given by management and results of internal audits, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group and company's cash flow forecast and, in the light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the next twelve months.

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The annual financial statements set out on pages 98 to 142, which have been prepared on the going concern basis, were approved by the board of directors on 7 December 2017 and were signed on their behalf by:

**Sharon Wapnick**
Chairman

**Jeffrey Wapnick**
Managing director

# certification by company secretary

In terms of section 88(2)(e) of the Act, I certify that Octodec Investments Limited has lodged with the Companies and Intellectual Property Commission of South Africa all the returns required of a public company by the Act, as amended, and that all such returns appear to be true, correct and up to date.

**Elize Greef**
Company secretary

City Property Administration Proprietary Limited
7 December 2017
Tshwane

# independent auditor's report

## Report on the audit of the consolidated and separate financial statements

### Opinion

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We have audited the consolidated and separate financial statements of Octodec Investments Limited (the group) set out on pages 101 to 130, which comprise the statements of financial position as at 31 August 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 August 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the company for the current period.

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| **Valuations of investment property** | |
| As disclosed in note 2 of the consolidated financial statements, the investment property's carrying value amounted to R12.6 billion (2016: R12.1 billion) with a fair value adjustment of R235 million (2016: R286 million) that was taken to net profit during the current financial year.<br><br>The group's investment property balance comprises both completed developments and developments that are currently under construction. Furthermore, the property portfolio of the group includes properties in different sectors being Commercial, Residential, Industrial and Retail. As per the JSE Listings requirements, the Group has a third of its properties valued by independent, external valuers on an annual basis. The company employs a valuation technique using the net income capitalisation method.<br><br>The assumptions with the most significant impact on the valuations that are performed are:<br>• rental income;<br>• property specific expense ratios;<br>• long-term vacancy rates; and<br>• capitalisation rates.<br><br>The value of developments under construction comprise the cost of the land and development costs and is carried at fair value. Where the fair value cannot be determined, due to the complex nature of valuing developments under construction, they are carried at cost.<br><br>The valuation of investment property was identified as a key audit matter due to the significance of the balance and due to the significant judgement that was required in determining the fair value of the investment property. | In evaluating the valuations that were performed by management of City Property Administration (CPA) and reviewed by the directors of Octodec (executive management) on the investment properties, focus was placed on the capitalisation rates and the long-term vacancy rates as these areas required significant judgement. The rental income and property operating costs have significant impact on the valuations and were also detail tested, however, these areas do not require significant judgement. We performed various procedures, including the following:<br><br>**Design and implementation and operating effectiveness testing:**<br>As per the understanding obtained of investment property, we identified the review of the internal investment property valuations by the senior financial manager and financial director as a relevant control. The design and implementation of this control was assessed as well as the operating effectiveness tested. Additionally, the approval of the acquisitions and disposals by the investment committee was also identified as a relevant control and therefore the design and implementation was assessed and operating effectiveness tested.<br><br>**Independent valuers:**<br>We assessed the competence, capabilities and objectivity of the independent valuers, and verified their qualifications. In addition, we discussed the scope of their work with management and reviewed the terms of the engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. |

# independent auditor's report – continued

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| **Valuations of investment property** | |
| | We held meetings with each of the independent valuers to confirm that the valuation method used is based on the income approach which is a valuation technique within the scope of IFRS 13 – Fair value measurement and industry norms.<br>We performed a comparison of the valuations that were performed by the Directors and those performed by the independent valuers and followed up on major discrepancies with both the directors and the independent valuers.<br><br>**Completed developments:**<br>Using a sampling method, we selected a sample of properties to be tested. We tested the inputs used in the valuation being rental income, property operating costs, vacancy rates and capitalisation rates for the sample selected and found these to be accurate, reliable and complete. Furthermore, we performed a sensitivity analysis on the long-term vacancy rates and compared the capitalisation rates used by the directors to the available market data in order to determine the appropriateness thereof.<br><br>**Developments under construction:**<br>We tested a selection of costs that were capitalised during the current year in order to ensure the validity, completeness and accuracy thereof. We ensured that the cost that were capitalised met the recognition requirements of IAS 16 – Property, plant and equipment and found these to be appropriately capitalised.<br><br>We found that the valuation models and assumptions used by the directors were appropriate and the valuations obtained for the completed developments and developments under construction were in line with market comparable data.<br><br>The disclosure relating to investment property was found to be appropriate. |

## Other Information

The directors are responsible for the other information. The other information comprises the report of the directors, audit committee's report, the certification by company secretary as required by the Companies Act of South Africa, and the integrated report, which we obtained prior to the date of this report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte and Touche has been the auditor of Octodec Investments Limited for 26 years.

**Deloitte & Touche**
Registered Auditor
Per: Patrick Kleb
Partner
7 December 2017

Buildings 1 and 2, Deloitte Place
The Woodlands
Woodlands Drive
Woodmead, Sandton

# audit committee report

Octodec's independent audit committee (the committee) is pleased to present its report for the financial year ended 31 August 2017. The committee has discharged its responsibilities as mandated by the board, which also allows it to execute its statutory duties in compliance with the Act, as well as the King IV™ principles applicable to audit committees. The committee's terms of reference, which are available from the company secretary, are aligned with the legislation, regulations and principles set out above.

## Composition, meetings and assessment

The committee comprised four non-executive directors, three of whom, including its chairman, are independent directors:

**Pieter Strydom**
MCom CA(SA)
Chairman

**Derek Cohen**
AEP

**Gerard Kemp**
MSc (Mining Engineering) DPLR. MDP

**Myron Pollack**
CA(SA)

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A brief profile of each of the members can be viewed on pages 28 and 29.

The committee met on five occasions during the year under review and all members were present at these scheduled meetings.

The chairman of the board, managing director, financial director, KPMG (internal auditors), Deloitte & Touche (external auditors), chief risk officer as well as the senior financial manager of City Property attend these meetings by invitation. Separate meetings are scheduled with the internal and external auditors to allow open discussion without the presence of management. During these meetings no matters of material concern were raised.

## Objective and scope

The main purpose of the committee is to:

- perform its statutory duties as prescribed by the Act;
- review and report back to the board on all financial matters relating to the group;
- further assist the board in discharging its duties relating to safeguarding of assets, the operation of adequate systems, control and reporting processes and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- provide a forum for discussing business risk and control issues and for developing recommendations for consideration by the board; and
- oversee the activities of internal and external audits.

The committee has evaluated the consolidated and separate annual financial statements for the year ended 31 August 2017 and, based on the information provided to the committee, considers that they comply in all material respects with the requirements of the various Acts and regulations governing disclosure and reporting in the annual financial statements;

The committee is satisfied that an adequate system of internal control is in place to reduce significant financial risks faced by the group to an acceptable level and that these controls have been effective throughout the period under review. The system is designed to manage rather than eliminate the risk of failure and to maximise the opportunities to achieve business objectives. This can provide only reasonable but not absolute assurance.

The committee received confirmation from the internal auditors that based on the scope of work, the approach followed and the results of the reviews, including the remedial action plans that had been agreed upon by management, nothing had come to the attention of the internal auditors that would suggest that the prevailing systems of internal controls and the risk management activities throughout the company for the year ended 31 August 2017 were not in all material aspects satisfactory.

## Committee activities

In line with its terms of reference, the committee:

- determined the fees to be paid to the external auditors and its terms of engagement;
- determined the fees to be paid to the internal auditors and its terms of reference;
- reviewed the quality of the external audit reports and management letters;
- considered and satisfied itself that other services provided by the external auditors were not significant and did not have any impact on their independence;
- assessed the work done by the internal auditors so as to ensure their independence and effectiveness;
- reviewed and updated the existing internal audit charter and approved amendments thereto to cater for a co-sourced model;
- reviewed and pre-approved the provision of non-audit services rendered by the external auditors during the year;
- reviewed the newly introduced combined assurance model;
- reviewed the effectiveness of the internal financial controls;
- reviewed the quarterly compliance and significant legal matters report;
- reviewed any whistleblowers' reports received;
- reviewed City Property's chief information officer's report;
- reviewed the accounting practices and internal financial controls of the group; and
- reviewed the documented assessments, as prepared by management, of the going concern status of the group.

## Annual confirmations

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- **Annual financial statements and integrated report**
  The committee recommended the annual financial statements as well as the 2017 integrated report to the board for approval. The external auditors, have provided shareholders with an independent opinion on page 93 on whether the annual financial statements for the year ended 31 August 2017 fairly present, in all material respects, the financial results for the year and the financial position of the company and the group at 31 August 2017. The committee also recommended the annual financial statements of the 100% held subsidiary, Premium to its directors for approval.

- **Independence and reappointment of the external auditor is reaffirmed**
  The committee is satisfied that the external audit firm and designated lead auditor are independent as defined by the Act. To this end the committee considered fees for non-audit services paid to the external auditor in terms of its non-audit services policy. The committee, in consultation with executive management, agreed to an audit fee for the 2017 financial year, which is considered appropriate for the work that was done. Audit fees are described in note 21 to the financial statements.

  In accordance with paragraph 3.84(h)(iii) of the JSE Listings Requirements, the committee assessed the suitability of both Deloitte & Touche and Patrick Kleb for appointment as auditor firm and designated audit partner. In addition, the committee reviewed the performance of the external auditors and recommended the appointment of Deloitte & Touche as external auditor for the 2018 financial year and Patrick Kleb as the designated lead auditor. This will be the twenty-sixth year of the firm and the fourth year of the lead auditor as auditors of the company and group.

- **Risk management policy**
  The risk committee has adopted and implemented a risk management policy and has monitored compliance to the policy and is satisfied that Octodec has, in all material respects, complied with the policy during the year under review.

- **Evaluation of the expertise and experience of the financial director and the finance function**
  The committee is satisfied with the experience, expertise and adequacy of resources within the finance function and of the financial director. The committee is satisfied that the company has established appropriate financial reporting procedures and that these procedures are operating.

- **Solvency and liquidity**
  Based on the quarterly solvency and liquidity tests performed, the committee was comfortable in its declaration to the board that the company and group are a going concern.

- **Effectiveness of internal controls**
  Using the assurance obtained from the various assurance providers the committee recommended to the board that it issues a statement as to the adequacy of the company's internal control measures.

- **Compliance with JSE's report back on proactive monitoring**
  On 20 April 2017, the audit committee considered the JSE's report issued on 13 February 2017 and, where necessary, has taken appropriate action to address the important findings and focus areas identified by the JSE. The audit committee is satisfied that all such findings and focus areas are adequately addressed by the company and no further remedial action is necessary.

**Pieter Strydom**
Chairman of the Audit Committee
7 December 2017

# report of the directors

for the year ended 31 August 2017

## To the shareholders of Octodec Investments Limited

The directors have pleasure in submitting their report for the year ended 31 August 2017.

**Preparation of the annual financial statements**
The audited annual financial statements were prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Act, under the supervision of Mr AK Stein CA(SA), in his capacity as financial director.

**Nature of business**
Octodec Investments Limited is a REIT listed on the JSE under the "Financials – Real Estate Holdings" sector, investing in retail, office, industrial and residential properties and deriving income from the rental of its properties and its investments.

**Stated capital**
The authorised stated capital comprises 500 000 000 (2016: 500 000 000) shares of no par value. At 31 August 2017 there were 266 864 319 (2016: 254 551 320) shares in issue.

Octodec provided shareholders with an option to reinvest their dividends (the dividend reinvestment alternative). The following shares were issued under specific authority to issue shares in terms of the dividend reinvestment alternative to shareholders who elected to receive the shares in lieu of dividends:

| | % of shares taken up | Number of shares issued |
|---|---|---|
| **Date of declaration** | | |
| 28 November 2016 | 54.6 | 6 988 142 |
| 26 May 2017 | 44.1 | 5 324 857 |

**Dividends**
Given the nature of its business, Octodec uses dividend per share as the key performance measurement as it is considered a more relevant performance measure.

| Summary of consolidated results for the year | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Operating profit | **909 897** | 908 904 |
| Fair value changes of investment properties | **235 106** | 285 914 |
| Fair value changes of interest rate derivatives | **(77 010)** | 17 191 |
| Reversal of impairment of loans | **–** | 378 |
| Profit on sale of investment property | **2 943** | 8 490 |
| Interest and other income | **32 904** | 31 036 |
| Profit from ordinary activities before finance costs and taxation | **1 103 840** | 1 251 913 |
| Finance costs | **(408 702)** | (394 751) |
| Profit before taxation | **695 138** | 857 162 |
| Taxation | **(7 443)** | – |
| Profit for the year | **687 695** | 857 162 |
| Other comprehensive income for the year | **–** | – |
| Total comprehensive income for the year attributable to shareholders | **687 695** | 857 162 |
| **Reconciliation of profit to distributable earnings** | | |
| Total comprehensive income attributable to shareholders | **687 695** | 857 162 |
| Profit on sale of investment properties | **(2 943)** | (8 490) |
| Reversal of impairment of loans | **–** | (378) |
| Fair value changes | | |
| Investment property | **(235 106)** | (285 914) |
| Joint ventures | **(2 572)** | (6 872) |
| Interest rate derivatives | **77 010** | (17 191) |
| Straight-line rental income accrual | **4 905** | (2 567) |
| Once-off contribution from tenant | **–** | (25 000) |
| Deferred taxation | **7 443** | – |
| Distributable earnings attributable to shareholders | **536 432** | 510 750 |
| **Distribution to shareholders (cents)** | | |
| Interim | **104.8** | 98.4 |
| Final | **98.3** | 103.1 |
| | **203.1** | 201.5 |

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### Subsidiaries

The company's interests in property-owning subsidiaries are fully set out on pages 140 to 141.

### Management contract and administration

The group's investment properties continue to be managed (in terms of an agreement) by City Property, the entire share capital of which is effectively owned by the Wapnick family. The agreement ends in July 2018 and is currently being re-negotiated.

### Valuation of portfolio

Octodec's property portfolio was valued by the directors at an amount of R12.6 billion (2016: R12.1 billion) as at 31 August 2017. Over a three-year cycle, all properties are valued on a rotational basis by independent external valuers. The valuation of R3.6 billion of the property portfolio was performed by external valuers: Van Zyl Valuers CC (Gert van Zyl) and Amanda de Wet Consultants and Investors CC (Amanda de Wet) as at 31 August 2017 and was 1.9% less (2016: 0.7% more) than the directors' portfolio valuation. The directors are confident, taking all factors into account, that the directors' valuation represents fair value.

### Net asset value

The net asset value per share is 2 933 cents (2016: 2 913 cents). The closing price per share at 31 August 2017 was 2 274 cents (2016: 2 299 cents), representing a discount of 22.5% (2016: 21.1%) to the net asset value per share.

### Events after the reporting date

Other than the dividend which was declared post the reporting date and is a non-adjusting event, there have been no subsequent events that require reporting.

### Directorate

The directors of the company during the year under review were:

### Executive directors

JP Wapnick – Chief executive officer
AK Stein – Chief financial director

### Non-executive directors

S Wapnick (Chairman)
DP Cohen (Lead independent director)
GH Kemp (Non-executive independent director)
MZ Pollack (Non-executive director)
PJ Strydom (Non-executive independent director)
AA Koranteng (Non-executive independent director) (appointed 1 September 2017)

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### Directors' remuneration

We refer you to the detailed information on directors remuneration set out on page 89 and 129 of this report.

# report of the directors – continued

for the year ended 31 August 2017

**Directors' shareholding**

The beneficial and non-beneficial interest held by the directors in the company at the reporting date amounted to:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Direct beneficial** | **Indirect beneficial** | **Indirect non-beneficial** | **Total** | **%** |
| MZ Pollack | **547 347** | **–** | **2 188 738** | **2 736 085** | **1.0** |
| AK Stein | **180 948** | **335 495** | **159 406** | **675 849** | **0.2** |
| JP Wapnick | **39 374** | **15 338 906** | **22 597 467** | **37 975 747** | **14.2** |
| S Wapnick | **38 842** | **15 338 906** | **16 149 424** | **31 527 172** | **11.8** |
| | **806 511** | **31 013 307** | **41 095 035** | **72 914 853** | **27.2** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Direct beneficial | Indirect beneficial | Indirect non-beneficial | Total | % |
| MZ Pollack | 547 347 | – | 2 197 127 | 2 744 474 | 1.1 |
| AK Stein | 172 284 | 305 274 | 145 049 | 622 607 | 0.2 |
| JP Wapnick | 37 489 | 14 536 276 | 20 581 696 | 35 155 461 | 13.8 |
| S Wapnick | 36 983 | 14 536 276 | 14 802 467 | 29 375 726 | 11.5 |
| | 794 103 | 29 377 826 | 37 726 339 | 67 898 268 | 26.6 |

**Changes in directors' shareholding after year-end**

There have been no changes in directors' shareholding from reporting date to the approval of the annual financial statements.

**Going concern**

The current liabilities exceed the current assets by R1.644 billion (2016: R872 million), mainly due to the fact that the majority of unsecured notes and some secured loans will be maturing in the 2018 financial year. The process to refinance these loans has already started and both Nedbank Limited and Standard Bank of South Africa Limited have approved new loans to replace the loans maturing in the 2018 financial year. The group also has R626 million of undrawn debt facilities as well as R41.9 million overdraft facility available to fund current operations.

The board has considered the solvency and liquidity tests taking the above into consideration, and has determined that the group has adequate resources to continue to operate for the next twelve months. The annual financial statements have been prepared on the going concern basis.

**Corporate governance**

The board endorses the contents of the King Report on Governance for South Africa (King IV™).

**Auditors**

Deloitte & Touche have expressed their willingness to continue in office and resolutions proposing their reappointment will be submitted at the annual general meeting.

**Company secretary**

City Property Administration Proprietary Limited
CPA House
101 Du Toit Street
Tshwane 0002

PO Box 15, Tshwane 0001

# statements of financial position

at 31 August 2017

| | Notes | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | **12 568 875** | 12 219 234 | **8 243 389** | 7 131 179 |
| Investment property | 2 | **12 153 834** | 11 776 839 | **1 102 803** | 1 073 377 |
| Straight-line rental income accrual | 3 | **110 864** | 115 849 | **17 818** | 14 138 |
| Plant and equipment | 4 | **5 300** | 6 810 | **94** | 40 |
| Tenant installations and lease costs | 5 | **44 550** | 57 133 | **928** | 2 003 |
| Investment in subsidiaries | 6 | **–** | – | **7 044 899** | 5 955 921 |
| Investment in joint ventures | 7 | **177 480** | 172 582 | **–** | – |
| Other financial assets | 9 | **75 000** | 51 849 | **75 000** | 51 849 |
| Derivative financial instruments | 10 | **1 847** | 38 172 | **1 847** | 33 851 |
| **Current assets** | | **560 397** | 373 661 | **136 847** | 130 086 |
| Trade and other receivables | 11 | **143 342** | 131 552 | **14 127** | 13 432 |
| Derivative financial instruments | 10 | **1 736** | – | **868** | – |
| Other financial assets | 9 | **213** | – | **213** | – |
| Cash and bank balances | 12 | **130 756** | 69 109 | **64 939** | 60 154 |
| | | **276 047** | 200 661 | **80 147** | 73 586 |
| Non-current assets held for sale | 13 | **284 350** | 173 000 | **56 700** | 56 500 |
| **Total assets** | | **13 129 272** | 12 592 895 | **8 380 236** | 7 261 265 |
| **Equity and liabilities** | | | | | |
| **Equity** | | **7 828 229** | 7 413 800 | **5 242 809** | 5 070 450 |
| Stated capital | 14 | **4 221 477** | 3 958 207 | **4 221 477** | 3 958 207 |
| Non-distributable reserve | 15 | **3 269 053** | 3 112 885 | **792 866** | 842 710 |
| Distributable reserve | | **337 699** | 342 708 | **228 466** | 269 533 |
| **Non-current liabilities** | | **3 381 370** | 4 106 208 | **2 846 961** | 2 146 200 |
| Long-term borrowings | 16 | **3 253 517** | 4 023 911 | **2 799 540** | 2 137 025 |
| Derivative financial instruments | 10 | **47 421** | 9 308 | **47 421** | 9 175 |
| Deferred taxation | 17 | **80 432** | 72 989 | **–** | – |
| **Current liabilities** | | **1 919 673** | 1 072 887 | **290 466** | 44 615 |
| Trade and other payables | 18 | **342 548** | 317 771 | **63 630** | 44 615 |
| Short-term borrowings | 16 | **1 572 817** | 755 116 | **223 311** | – |
| Derivative financial instruments | 10 | **4 308** | – | **3 525** | – |
| **Total equity and liabilities** | | **13 129 272** | 12 592 895 | **8 380 236** | 7 261 265 |

# statements of profit and loss and other comprehensive income

for the year ended 31 August 2017

| | | consolidated | | company | |
|---|---|---|---|---|---|
| | Notes | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **Revenue** | 19 | **1 831 346** | 1 770 438 | **175 071** | 163 118 |
| Property operating costs | 20 | **(843 636)** | (790 529) | **(84 017)** | (76 302) |
| **Net property income** | | **987 710** | 979 909 | **91 054** | 86 816 |
| Administrative expenses | 21 | **(77 813)** | (71 005) | **(24 388)** | (69 351) |
| **Net operating profit** | | **909 897** | 908 904 | **66 666** | 17 465 |
| Fair value changes to investment property | 2.4 | **235 106** | 285 914 | **20 465** | 31 465 |
| Fair value changes to interest rate derivatives | | **(77 010)** | 17 191 | **(72 907)** | 3 108 |
| **Profit from operations** | | **1 067 993** | 1 212 009 | **14 224** | 52 038 |
| Profit on sale of investment properties | | **2 943** | 8 490 | **2 598** | 152 |
| (Impairment)/reversal of impairment of loans and investments | | **–** | 378 | **(10 727)** | – |
| Interest income | 22 | **18 094** | 10 138 | **9 567** | 3 263 |
| Income from subsidiaries | 23 | **–** | – | **639 034** | 645 395 |
| Share of profit of joint ventures | 24 | **14 810** | 20 898 | **–** | – |
| **Profit from ordinary activities before finance costs** | | **1 103 840** | 1 251 913 | **654 696** | 700 848 |
| Finance costs | 25 | **(408 702)** | (394 751) | **(209 071)** | (158 339) |
| **Profit before taxation** | | **695 138** | 857 162 | **445 625** | 542 509 |
| Taxation | 26 | **(7 443)** | – | **–** | – |
| **Profit for the year** | | **687 695** | 857 162 | **445 625** | 542 509 |
| Other comprehensive income | | **–** | – | **–** | – |
| **Total comprehensive income for the year attributable to shareholders** | | **687 695** | 857 162 | **445 625** | 542 509 |
| | | **Cents** | Cents | | |
| **Basic and diluted earnings per share** | 28 | **263.3** | 338.9 | | |

# statements of changes in equity

for the year ended 31 August 2017

| | Stated capital R'000 | Non distri-butable reserve R'000 | Distri-butable reserve R'000 | Total R'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Balance at 1 September 2015** | 3 907 819 | 2 799 231 | 280 629 | 6 987 679 |
| Total comprehensive income for the year | – | – | 857 162 | 857 162 |
| Issue of new shares | 50 388 | – | – | 50 388 |
| Dividends paid | – | – | (481 429) | (481 429) |
| Transfer to non-distributable reserve | | | | |
| Profit on sale of investment properties | – | 8 490 | (8 490) | – |
| Fair value changes | | | | |
| – Investment property | – | 285 914 | (285 914) | – |
| – Joint ventures | – | 6 872 | (6 872) | – |
| – Interest rate derivatives | – | 12 378 | (12 378) | – |
| **Balance at 31 August 2016** | **3 958 207** | **3 112 885** | **342 708** | **7 413 800** |
| Total comprehensive income for the year | **–** | **–** | **687 695** | **687 695** |
| Issue of new shares | **263 270** | **–** | **–** | **263 270** |
| Dividends paid | **–** | **–** | **(536 536)** | **(536 536)** |
| Transfer to non-distributable reserve | | | | |
| Profit on sale of investment properties | **–** | **2 943** | **(2 943)** | **–** |
| Deferred tax | | **(7 443)** | **7 443** | **–** |
| Fair value changes | | | | |
| – Investment property | **–** | **235 106** | **(235 106)** | **–** |
| – Joint ventures | **–** | **2 572** | **(2 572)** | **–** |
| – Interest rate derivatives | **–** | **(77 010)** | **77 010** | **–** |
| **Balance at 31 August 2017** | **4 221 477** | **3 269 053** | **337 699** | **7 828 229** |
| **Company** | | | | |
| **Balance at 1 September 2015** | 3 907 819 | 808 855 | 242 308 | 4 958 982 |
| Total comprehensive income for the year | – | – | 542 509 | 542 509 |
| Issue of new shares | 50 388 | – | – | 50 388 |
| Dividends paid | – | – | (481 429) | (481 429) |
| Transfer to non-distributable reserve | | | | |
| Profit on sale of investment properties | – | 152 | (152) | – |
| Fair value changes | | | | |
| – Investment property | – | 31 465 | (31 465) | – |
| – Interest rate derivatives | – | 2 238 | (2 238) | – |
| **Balance at 31 August 2016** | **3 958 207** | **842 710** | **269 533** | **5 070 450** |
| Total comprehensive income for the year | **–** | **–** | **445 625** | **445 625** |
| Issue of new shares | **263 270** | **–** | **–** | **263 270** |
| Dividends paid | **–** | **–** | **(536 536)** | **(536 536)** |
| Transfer to non-distributable reserve | | | | |
| Profit on sale of investment properties | **–** | **2 598** | **(2 598)** | **–** |
| Fair value changes | | | | |
| – Investment property | **–** | **20 465** | **(20 465)** | **–** |
| – Interest rate derivatives | **–** | **(72 907)** | **72 907** | **–** |
| **Balance at 31 August 2017** | **4 221 477** | **792 866** | **228 466** | **5 242 809** |

# statements of cash flows

for the year ended 31 August 2017

| | Notes | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|---|
| **Cash (utilised)/generated from operating activities** | | | | | |
| Cash generated from operations | 29 | **948 325** | 878 613 | **82 228** | 22 448 |
| Interest income | | **18 094** | 10 138 | **648 601** | 648 658 |
| Finance costs | | **(439 201)** | (416 659) | **(213 675)** | (163 222) |
| Dividends paid | | **(536 536)** | (482 838) | **(536 536)** | (481 912) |
| **Net cash (utilised)/generated from operating activities** | | **(9 318)** | (10 746) | **(19 382)** | 25 972 |
| **Cash utilised in investing activities** | | | | | |
| Acquisition of investment property | | | | | |
| – Refurbishments | | **(127 248)** | (178 923) | **(7 159)** | (11 534) |
| Acquisition of investment property under development | | **(169 383)** | (242 804) | **(18 949)** | (90 971) |
| – New acquisitions | | **–** | (31 537) | **–** | (31 537) |
| – Developments | | **(169 383)** | (211 267) | **(18 949)** | (59 434) |
| Acquisition of plant and equipment | | **(332)** | (312) | **(81)** | – |
| Tenant installation and lease costs | | **(6 398)** | (15 526) | **31** | (944) |
| Proceeds on disposal of investment property | | **77 200** | 55 450 | **24 298** | 9 500 |
| Amounts advanced to subsidiaries | | **–** | – | **(1 099 705)** | (1 200 579) |
| Increase in other financial assets | | **(23 364)** | (51 849) | **(23 364)** | (51 849) |
| Income from joint ventures | | **9 913** | 10 008 | **–** | – |
| **Net cash utilised in investing activities** | | **(239 612)** | (423 956) | **(1 124 929)** | (1 346 377) |
| **Cash generated from financing activities** | | | | | |
| Issue of new shares | | **263 270** | 50 388 | **263 270** | 50 388 |
| Proceeds from long-term borrowings | | **1 916 093** | 1 958 767 | **1 758 226** | 1 859 966 |
| Repayment of long-term borrowings | | **(2 686 487)** | (852 030) | **(1 095 711)** | (413 964) |
| Proceeds from short-term borrowings | | **1 572 817** | 755 116 | **223 311** | – |
| Repayment of short-term borrowings | | **(755 116)** | (1 463 699) | **–** | (179 141) |
| **Net cash generated from financing activities** | | **310 577** | 448 542 | **1 149 096** | 1 317 249 |
| **Net increase/(decrease) in cash and bank balances** | | **61 647** | 13 840 | **4 785** | (3 156) |
| Cash and bank balances at the beginning of year | | **69 109** | 55 269 | **60 154** | 63 310 |
| **Cash and bank balances at the end of year** | 12 | **130 756** | 69 109 | **64 939** | 60 154 |

# notes to the financial statements

for the year ended 31 August 2017

## 1. Significant accounting policies

### 1.1 Basis of preparation

The consolidated and company financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the Act, and have been rounded to the nearest thousand (R'000). The financial statements have been prepared on the historical cost basis, except for the measurement of investment property and certain financial instruments at fair value, and incorporate the principal accounting policies set out below. The accounting policies adopted and methods of computation are consistent with those applied in the financial statements of the previous year.

### 1.2 Basis of consolidation

1.2.1 Investment in subsidiaries

Subsidiaries are those entities controlled by the group. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are stated in the company's financial statements at cost, less any impairment losses.

1.2.2 Investment in joint ventures

A joint venture is an arrangement in which the group has joint control, whereby the group has rights to the net assets held under the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control under the arrangement, which occurs only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group's share of the profit or loss and the other comprehensive income of equity-accounted investees, until the date on which the investment ceases to be a joint venture or when the investment is classified as held for sale.

When the group transacts with a joint venture of the group, profits and losses resulting from transactions with the joint venture are recognised in the group's consolidated and company financial statements only to the extent of interests in the joint venture that are not related to the group.

1.2.3 Interest in joint operations

A jointly controlled operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Jointly controlled operations are accounted for by including the group's share of the jointly controlled assets, liabilities, revenues and expenses on a line-by-line basis in the financial statements from the date that joint control commences until the date that joint control ceases.

The group accounts for these assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

When the group transacts with a joint operation in which a group entity is a joint operator, the group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the group's consolidated annual financial statements only to the extent of the other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the group does not recognise its share of the gains and losses until it resells those assets to a third party.

### 1.3 Reserves

Realised profits on the disposal of investment properties, although legally distributable, are transferred to a non-distributable reserve, as it is the group's policy to regard such profits as not being available for distribution. Gains and losses on revaluation of investment property and on interest rate derivatives net of deferred tax as applicable, are similarly transferred to a non-distributable reserve as are revaluation reserves of associates and joint ventures.

### 1.4 Share capital

Ordinary shares are classified as equity. Transaction costs are deducted from equity to the extent they are incremental costs directly related to the equity transaction that would otherwise have been avoided.

### 1.5 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment properties will flow to the entity, and the cost of the investment properties can be measured reliably.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. A gain or loss arising from a change in fair value is recognised in profit or loss and transferred to a non-distributable reserve in the statement of changes in equity in the period in which it arises. Subsequent refurbishing expenditure relating to investment properties that have been recognised is added to the carrying amount of the investment properties when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment properties, will flow to the entity. All other subsequent expenditure is expensed in the period in which it is incurred.

Investment properties are derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the investment properties and is recognised in the statement of profit and loss and other comprehensive income for the period and transferred to the non-distributable reserve in the period in which it arises.

# notes to the financial statements – continued

for the year ended 31 August 2017

**1.5 Investment property – continued**
Investment properties erected on land secured by means of long-term land leases are classified as investment properties.

1.5.1 Properties under development
Properties under development comprise the cost of the land and development and are stated at fair value. If the fair value cannot be reasonably determined it is stated at cost and is not depreciated. Investment properties that require development are transferred from investment property to investment property under development when development commences.
On completion of the development these properties become part of investment property.

1.5.2 Fair value
At the reporting date all investment properties are measured at fair value as determined by management. The investment committee considers the valuations to determine the appropriateness of the valuation techniques and inputs used for fair value measurements. The valuation process is reviewed by the investment committee and approved by the board of directors at each reporting period.

In estimating the fair value of investment properties, the group uses market-observable data to the extent it is available. In accordance with the JSE Listings Requirements, independent valuations are obtained on a rotational basis to determine the reasonableness of the directors' portfolio valuation, ensuring that every property is independently valued every three years.

**1.6 Non-current assets held for sale**
A non-current asset is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and the sale is highly probable to occur within one year. For the sale to be highly probable, the appropriate approval must be obtained from the board to dispose of the asset.

On initial classification as held for sale, generally, non-current assets are measured at the lower of the carrying amount and fair value less costs to sell, with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. However, investment property within the scope of IAS 40 continues to be measured in accordance with that standard (refer to 1.4.2 above).

Non-current assets held for sale are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

**1.7 Plant and equipment**
Plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Subsequent expenditure relating to an item of plant and equipment that has already been recognised is added to the carrying amount of the asset to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the entity.

The residual value and the useful life of each asset are reviewed at each financial year-end. Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is based on the cost of the asset less its residual value and recognised on a straight-line basis, over the current estimated useful lives of the assets. The estimated useful lives of the assets for the current and comparative periods are:

| | |
|---|---|
| • Furniture, fittings and carpets | 6 years |
| • Security equipment | 5 – 6 years |
| • Lifts | 12 years |
| • Air-conditioning equipment | 6 years |
| • Motor vehicles | 4 years |

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit and loss and other comprehensive income.

**1.8 Financial instruments**
Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. All transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss are expensed immediately in profit and loss.

1.8.1 Financial assets
Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined by management at the time of initial recognition.

1.8.2 Financial liabilities
Financial liabilities are classified as either 'financial liabilities at FVTPL' or 'other financial liabilities'. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method, except for short-term payments where the effect of discounting is immaterial.

1.8.3 Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loans, trade and other receivables and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment, except for short-term receivables where the effect of discounting is immaterial. Interest earned on loans, trade receivables and cash and cash equivalents is recognised on an accrual basis using the effective interest method.

**1.8 Financial instruments – continued**

1.8.4 Derivative financial instruments

The group uses derivative financial instruments to manage its exposure to interest rate risk arising from its financing activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, as the hedge relationship is not designated as a hedge for accounting purposes, the derivatives are accounted for as trading instruments. Derivative financial instruments are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.
The resulting gain or loss is recognised in profit or loss and other comprehensive income.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

1.8.5 Derecognition

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the entity is recognised as a separate asset or liability.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

1.8.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment for a portfolio of receivables includes the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the tolerance credit period of 60 days, as well as observable changes in local economic conditions that result in default on receivables.

An estimate is made for credit losses based on a review of all outstanding amounts at year-end. Doubtful debts are written off to profit or loss during the year in which they are identified. A reversal of an impairment of financial assets at amortised cost is recognised immediately in profit and loss.

**1.9 Impairment of non-financial assets**

At each reporting date the group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell, and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

The group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

**1.10 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**1.11 Taxation**

Current and deferred tax expenses are recognised in profit and loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax expenses are also recognised in other comprehensive income or directly in equity respectively.

1.11.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit and loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's current tax is calculated using tax rates that have been enacted by the end of the reporting period.

1.11.2 Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

# notes to the financial statements – continued

for the year ended 31 August 2017

**1.11 Taxation – continued**

1.11.2 Deferred tax – continued

The group is a REIT and any capital gains arising on the disposal of investment property are exempt from capital gains tax. The group therefore does not recognise deferred tax on the changes in fair value of investment properties. Deferred tax is also not calculated on timing differences of those assets and liabilities that when reversed will be distributed to shareholders. Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets are not recognised as the company is a REIT and any subsequent profits will be distributed to the shareholders and therefore the likelihood of utilising a deferred tax asset is remote.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the period-end and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

**1.12 Revenue**

1.12.1 Rental income and recoveries

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises revenue from rental income and operating cost recoveries and excludes value added taxation. Rental income is recognised on the straight-line basis over the lease term and recoveries are recognised on the accrual basis. Turnover-based rental is recognised when it is due in terms of the lease agreement and the amount can be measured reliably.

1.12.2 Income from investments

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends are recognised when the shareholder's right to receive payment has been established and the amount of income can be measured reliably.

**1.13 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

1.13.1 The group as lessor – operating leases

Contractual rental income is recognised on a straight-line basis over the period of the lease term and rental income based on a percentage of turnover is recognised when due and the amount can be measured reliably.

An adjustment is made to contractual rental income earned to bring to account in the current period, the difference between the rental income to which the group is currently entitled and the rental for the period calculated on a straight-line basis.

Income from leases is disclosed under revenue in the statement of profit and loss and other comprehensive income.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. These include tenant installation costs and commission paid in respect of the securing of leases.

1.13.2 The group as lessee

Operating lease payments, which are based on a percentage of rental income, are charged to the statement of profit and loss and other comprehensive income.

**1.14 Fair value information**

The group measures financial instruments, such as derivatives and investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed, when the carrying value of these instruments does not reasonably approximate their fair value at the reporting date.

1.14.1 Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.
The different levels have been defined as follows:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Input for the asset or liability that is not based on observable market data (unobservable input)

**1.15 Critical accounting judgements and estimates**

In the application of the accounting policies above, the directors are required to make judgements about the carrying amount of assets and liabilities that are not apparent from other sources. The estimates and judgements are based on historical experience and other factors, including expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Areas in which estimates and judgements are made include the following:

1.15.1 Investment property

In the application of the accounting policies which are described in note 2, management is required to make judgements, estimates and assumptions about the fair value of investment properties that are not readily apparent from other sources.

The fair value of investment properties is determined using current rentals, expected market rentals, expected vacancies, maintenance requirements and appropriate capitalisation rates. The valuations are regularly compared to actual transactions executed by the group and those obtained by the market. Market rentals are determined by reference to current market rentals for similar buildings in the same location and condition.

1.15.2 Derivatives

The fair values of interest rate swaps are calculated based on the present value of future estimated cash flows and using the market interest rate indicated on the SA swap curve.

### 1.16 Segmental reporting

The group determines and presents operating segments based on information that is provided internally to the chief operating decision-maker, namely the managing director.

Segment results that are reported to the chief operating decision-maker include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

On a primary basis the operations are organised into six major operating segments:

- Industrial
- Office
- Retail shops
- Retail shopping centres
- Parking
- Residential

The chief operating decision-maker assesses each investment property on an individual basis in making decisions about its performance.

### 1.17 Standards applicable to the group not yet effective

The group has not adopted the following new and revised IFRSs that have been issued but are not yet effective:

**IFRS 9 – *Financial instruments* effective for financial years beginning on or after 1 January 2018**

IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances.

The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets.

IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, and in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.

The group will adopt the standard in its 2019 financial statements. The board has considered the impact on the financial assets and liabilities and believes that the financial assets and liabilities will continue to be classified and measured on the same basis as is currently classified and measured under IAS 39. The application of the expected credit loss is not considered to result in a material difference from the method currently used in calculating the impairment loss under IAS 39.

**IFRS 15 – *Revenue from contracts with customers* effective for financial years beginning on or after 1 January 2018**

IFRS 15 replaces the two revenue recognition standards IAS 18 – *Revenue* and IAS 11 – *Construction contracts* and their related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a performance obligation is satisfied, which is when the goods or services underlying the particular performance obligation are transferred to the customer.

IFRS 15 also contains comprehensive disclosure requirements.

The group will adopt the standard in its 2019 financial statements. The group revenue component impacted by the adoption of the standard is "Recoveries" and "Other income". Management will undertake an exercise to analyse existing and new contracts to identify those with performance obligations. The impact on the financial statements has not yet been fully determined.

**IFRS 16 – *Leases* effective for financial years beginning on or after 1 January 2019**

IFRS 16 replaces IAS 17 – *Leases* and its related interpretations when it becomes effective. IFRS 16 will result in almost all the leases of lessees being recognised in the statement of financial position as it removes the distinction between operating and finance leases with the only exception being for short-term and low-value leases. Under the new standard the lessee will recognise an asset representing the right of use of the asset and a financial liability to pay rentals.

The accounting for lessors will not change significantly and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The new standard contains extensive disclosures for both lessees and lessors.

The group has non-cancellable lease commitments in respect of land of R55.2 million. Management has considered the impact of the new standard on the treatment of leases as a lessee and does not believe that it will have a material impact on the financial performance or financial position of the group when it adopts the standard in its 2020 financial statements.

**Amendments to IAS 40 – *Investment property* for financial years beginning on or after 1 January 2018**

This amendment clarifies that a transfer to or from investment property necessitates an assessment of whether a property meets, or has ceased to meet the definition of investment property.

The amendments  can either apply retrospectively or prospectively. The group will apply these amendments prospectively and they should not have any impact on the financial position of the group in the future.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | Notes | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|---|
| **2. Investment property** | | | | | |
| Developed | | **11 777 991** | 11 300 939 | **1 035 660** | 937 818 |
| Under development | | **375 843** | 475 900 | **67 143** | 135 559 |
| | | **12 153 834** | 11 776 839 | **1 102 803** | 1 073 377 |
| The group's investment properties are leased out under operating leases. | | | | | |
| **2.1 Reconciliation of investment property – developed** | | | | | |
| Carrying value at beginning of year | | **11 300 939** | 10 652 898 | **937 818** | 952 084 |
| Refurbishments | | **127 248** | 178 923 | **7 159** | 11 534 |
| Disposals | | **(14 494)** | (46 233) | **–** | (8 968) |
| Transferred from under development | | **195 700** | 340 210 | **78 700** | – |
| Fair value changes | | **318 247** | 336 093 | **28 986** | 36 175 |
| Transfer to non-current assets held for sale | | **(149 649)** | (160 952) | **(17 003)** | (53 007) |
| | | **11 777 991** | 11 300 939 | **1 035 660** | 937 818 |
| **2.2 Reconciliation of investment property – under development** | | | | | |
| Carrying value at beginning of year | | **475 900** | 612 433 | **135 559** | 47 685 |
| Acquisitions | | **–** | 31 537 | **–** | 31 537 |
| Upgrades and developments including borrowing costs | | **199 535** | 232 525 | **23 553** | 63 937 |
| Transferred to developed | | **(195 700)** | (340 210) | **(78 700)** | – |
| Fair value changes | | **(103 892)** | (60 385) | **(13 269)** | (7 600) |
| | | **375 843** | 475 900 | **67 143** | 135 559 |
| **2.3 Reconciliation of valuation to carrying value – investment property** | | | | | |
| Valuations at end of year | | **12 598 898** | 12 129 631 | **1 178 343** | 1 146 058 |
| *Less:* | | | | | |
| Straight-line rental income accrual | 3 | **(110 864)** | (115 849) | **(17 818)** | (14 138) |
| Plant and equipment | 4 | **(5 300)** | (6 810) | **(94)** | (40) |
| Tenant installation and lease costs | 5 | **(44 550)** | (57 133) | **(928)** | (2 003) |
| Non-current assets held for sale | 13 | **(284 350)** | (173 000) | **(56 700)** | (56 500) |
| **Carrying amount at end of year** | | **12 153 834** | 11 776 839 | **1 102 803** | 1 073 377 |

The investment properties are valued bi–annually by management of City Property and the portfolio valuation is reviewed by the investment committee and approved by the board.

Over a three-year cycle, all properties are valued on a rotational basis by independent external valuers. Van Zyl Valuers CC (Gert van Zyl) and Amanda de Wet Consultants and Investors CC (Amanda de Wet) are registered valuers in terms of section 19 of the Property Valuers Profession Act, 47 of 2000 and have extensive experience in property valuations. The portfolio of properties representing 28.3% of the total portfolio was valued at 1.9% less (2016: 0.7% more) than the directors' portfolio valuation. The directors are confident, taking all factors into account, that the directors' valuations represent fair market value.

Investment property amounting to R42.6 million (2016: R315 million) currently under development is stated at cost due to the difficulty in determining a reliable fair value.

**2.4 Fair value information**

The fair value of the group's investment property as at 31 August 2017 was arrived at on the basis of a valuation technique using the net income capitalisation method, by taking into account prevailing market rentals, occupation levels and capitalisation rates. The range of annual capitalisation rates applied to the property portfolio is between 8.0% (2016: 8.0%) and 13.0% (2016: 12.0%) with a weighted annual average of 9.2% (2016: 9.2%).

The second key input used in the valuation calculation is the long-term net operating income margin, of which the expense ratio is the significant unobservable input. Expense ratios used ranged from 4.5% to 49.2% (2016: 5.9% to 58.5%) with a weighted average of 24.5% (2016: 24.2%).

The third key input used in the valuation calculation is the long-range vacancy factor. The expected long-range vacancy factor takes into account historic and future vacancy trends. The long-range vacancy factor indicates the expected vacancy to be applied over the long term that best approximates the actual experience. The long-range vacancy factor used ranged from 0.0% to 30.0% (2016: 0.0% to 40.0%) with a weighted average of 5.8% (2016: 4.8%).

In estimating the fair value of the properties the highest and best use is taken into account.

There have been no changes in judgements or estimates of amounts or valuation techniques from the previous reporting periods.

Investment property has been categorised as a Level 3 fair value measurement and there have been no transfers made between Levels 1, 2 or 3 during the year under review. (Refer to the fair value information in accounting policies.)

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |

## 2. Investment property – continued

### 2.4 Fair value information – continued

**Relationship of unobservable inputs to fair value**

An increase of 1% in the capitalisation rate while all other inputs remain constant would result in a decrease in the carrying amount of investment property of R1.2 billion (2016: R1.2 billion). A decrease of 1% in the capitalisation rate while all other inputs remain constant would result in an increase in the carrying amount of investment property of R1.5 billion (2016: R1.5 billion).

An increase/decrease of 1% in the weighted average of the expense ratios used to calculate the long-term net operating income margin while all other inputs remain constant would result in an increase/decrease in the carrying amount of investment property of R167.4 million (2016: R158.0 million).

**Reconciliation of fair value changes to investment property**

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| Investment property – developed | **318 247** | 336 093 | **28 986** | 36 175 |
| Investment property – under development | **(103 892)** | (60 385) | **(13 269)** | (7 600) |
| Non-current assets held for sale | **20 751** | 10 206 | **4 748** | 2 890 |
| | **235 106** | 285 914 | **20 465** | 31 465 |

### 2.5 Investment property pledged as security

The group has encumbered certain of its investment properties to secure mortgage loan facilities as set out in note 16. There are no other restrictions on the realisability of investment property or distribution of its income.

### 2.6 Investment property held under operating leases

Woodmead Value Mart and Intersite are situated on leasehold land and classified as investment property. The lease of Woodmead Value Mart commenced in April 1995. The term of the lease is 40 years and is renewable for a further 40 years at the election of Woodmead Value Mart Proprietary Limited, a subsidiary of the group. The lease of Intersite commenced in September 1996 for a period of 50 years.

131 A schedule of investment properties owned by the group is set out on pages 131 to 137.

## 3. Straight-line rental income accrual

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| Carrying value at beginning of year | **115 849** | 114 773 | **14 138** | 14 150 |
| Net movement during the year | **(4 905)** | 2 567 | **3 829** | 591 |
| Disposals | **(6)** | (73) | **–** | – |
| Transferred to non-current assets held for sale | **(74)** | (1 418) | **(149)** | (603) |
| | **110 864** | 115 849 | **17 818** | 14 138 |

## 4. Plant and equipment

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| Cost | **22 949** | 31 839 | **387** | 824 |
| Accumulated depreciation | **(17 649)** | (25 029) | **(293)** | (784) |
| Carrying value | **5 300** | 6 810 | **94** | 40 |
| **Movement during the year:** | | | | |
| Carrying value at beginning of year | **6 810** | 8 646 | **40** | 71 |
| Disposals | **(111)** | – | **–** | – |
| Additions | **332** | 312 | **81** | – |
| Transferred to non-current assets held for sale | **–** | (374) | **–** | – |
| Depreciation charge | **(1 731)** | (1 774) | **(27)** | (31) |
| | **5 300** | 6 810 | **94** | 40 |

Plant and equipment which forms an integral part of investment property is pledged as security as per note 2.5.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **5. Tenant installation and lease costs** | | | | |
| Carrying value at beginning of year | **57 133** | 60 407 | **2 003** | 2 230 |
| Additions | **6 398** | 15 526 | **(31)** | 944 |
| Transferred to non-current assets held for sale | **(176)** | (50) | **–** | – |
| Amortisation | **(18 805)** | (18 750) | **(1 044)** | (1 171) |
| | **44 550** | 57 133 | **928** | 2 003 |
| **6. Investment in subsidiaries** | | | | |
| Shares at cost | | | **3 057 989** | 3 057 990 |
| Net amounts due by subsidiaries | | | **3 986 910** | 2 897 931 |
| Amounts due by subsidiaries | | | **3 986 936** | 2 897 965 |
| Amounts owed to subsidiaries | | | **(26)** | (34) |
| | | | **7 044 899** | 5 955 921 |

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A schedule of the company's interest in subsidiaries is set out on pages 140 to 141.

The group has pledged and ceded the shares and loan accounts of certain of its subsidiary companies to secure banking facilities granted to the group (refer note 16).

| | consolidated | |
|---|---|---|
| | **2017 R'000** | 2016 R'000 |
| **7. Investment in joint ventures** | | |
| Cost of investment | **1** | 1 |
| Loans to joint ventures | **131 230** | 128 187 |
| Reserves since acquisition | **46 249** | 44 394 |
| | **177 480** | 172 582 |

A loan of R80,6 million bears interest at prime plus 1% per annum and a loan of R9.6 million bears interest at 15% (2016:16%) per annum. The remaining loans are interest free.

| **Proportion of ownership interest/voting rights held by the group** | **2017 %** | 2016 % |
|---|---|---|
| **Name of joint venture** | | |
| Gerlan Properties Proprietary Limited | **50** | 50 |
| Jardtal Properties Proprietary Limited | **50** | 50 |
| Prensas Properties Proprietary Limited | **50** | 50 |

The joint ventures are property investment companies deriving income from rentals.

All the above joint ventures are accounted for using the equity method in these consolidated financial statements. Octodec has the right to cast 50% of the voting rights at shareholder meetings for each of the above joint ventures.

The companies are all incorporated in the Republic of South Africa and have the same financial year-end as the company except for Gerlan Properties Proprietary Limited (Gerlan) which year-end is 30 June. A change of reporting date is not possible as this is the same year-end as Bidvest Group Limited, the joint venture partner and manager of Gerlan. For the purpose of applying the equity method of accounting, the financial statements of Gerlan for the year ended 30 June 2017 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 August 2017.

| | consolidated | |
|---|---|---|
| | **2017 R'000** | 2016 R'000 |
| **7. Investment in joint ventures – continued** | | |
| **7.1 Summarised financial information of the joint ventures as at 31 August 2017** | | |
| The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with IFRS. | | |
| As the financial information for each joint venture is not individually material when compared as a percentage to the group's total assets, the financial information is disclosed in aggregate. | | |
| **Aggregate information of joint ventures that are not individually material** | | |
| **Assets** | | |
| **Non-current** | **490 700** | 477 200 |
| Investment property | **482 508** | 467 073 |
| Straight-line rental income accrual | **6 958** | 8 771 |
| Tenant installations and lease costs | **1 234** | 1 356 |
| **Current** | **9 444** | 15 333 |
| Trade and other receivables | **2 798** | 15 330 |
| Loan – Tenant deposits | **3 205** | – |
| Cash and bank balances | **3 441** | 3 |
| | **500 144** | 492 533 |
| **Equity and liabilities** | | |
| **Equity** | **92 500** | 88 788 |
| Share capital | **5 768** | 5 768 |
| Non-distributable reserve | **98 560** | 94 787 |
| Accumulated loss | **(11 828)** | (11 767) |
| **Non-current liabilities** | **395 203** | 287 767 |
| Shareholder loan accounts | **193 501** | 110 712 |
| Long-term borrowings | **180 698** | 167 277 |
| Derivative financial instruments | **1 137** | 1 079 |
| Deferred taxation | **19 867** | 8 699 |
| **Current liabilities** | **12 441** | 115 978 |
| Trade and other payables | **12 441** | 13 321 |
| Shareholder loan accounts | **–** | 80 600 |
| Short-term borrowings | **–** | 22 057 |
| | **500 144** | 492 533 |
| **Results of operations – 12 months ended 31 August 2017** | | |
| Revenue | **67 941** | 68 698 |
| Profit before taxation | **12 326** | 25 808 |
| Taxation | **(5 015)** | (1 394) |
| Profit for the year | **7 311** | 24 414 |
| Other comprehensive income | **–** | – |
| Total comprehensive income for the year | **7 311** | 24 414 |
| The above profit for the year includes the following: | | |
| Fair value changes to investment property | **4 143** | 6 611 |
| Depreciation and amortisation | **362** | – |
| Interest income | **546** | 473 |
| Interest expense | **30 820** | 28 739 |
| **7.2 Reconciliation of the above summarised financial information to carrying amount of the interest in joint ventures** | | |
| Net assets of the joint ventures | **92 500** | 88 788 |
| 50% proportion of the group's interest in the joint ventures | **46 250** | 44 395 |
| Loans to joint ventures | **131 230** | 128 187 |
| Carrying amount of the group's interest in joint ventures | **177 480** | 172 582 |

**7.3 Commitments and contingencies of joint ventures**

The group has signed sureties for R190.5 million (2016: R190.5 million) for Jardtal Properties Proprietary Limited and R11 million (2016: R11 million) for Prensas Properties Proprietary Limited for loan facilities provided by Nedbank Limited.

The group has commitments of Rnil (2016: R39 000) in respect of capital expenditure relating to the upgrade of certain properties in the name of the joint ventures. These development costs will be funded by way of existing bank facilities.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| **8. Joint operation** | | | | |
| **The Manhattan (50% interest)** | | | | |
| Included in the assets and liabilities of Octodec is the undivided half share of the immovable property development, The Manhattan, which was acquired on 13 May 2015 and completed in December 2016. The other 50% undivided share is owned by Burcress Proprietary Limited. | | | | |
| **Assets** | | | | |
| Non-current assets | | | | |
| Investment property | **76 600** | 76 222 | | |
| Current | **2 012** | – | | |
| Trade and other receivables | **241** | – | | |
| Cash and bank balances | **1 771** | – | | |
| | **78 612** | 76 222 | | |
| **Equity and liabilities** | | | | |
| Equity | **(14 905)** | 521 | | |
| Non-distributable reserve | **(14 400)** | – | | |
| Accumulated loss | **(1 505)** | 521 | | |
| Non-current liabilities | | | | |
| Long-term borrowings | **91 353** | 70 818 | | |
| Current liabilities | | | | |
| Trade and other payables | **2 164** | 4 883 | | |
| | **78 612** | 76 222 | | |
| Results of operations – 1 January 2017 to 31 August 2017 | | | | |
| Revenue | **892** | – | | |
| Loss for the year | **(14 905)** | – | | |
| Other comprehensive income | **–** | – | | |
| Total comprehensive loss for the year | **(14 905)** | – | | |
| The above loss for the year includes the following: | | | | |
| Fair value changes to investment property | **(14 400)** | – | | |
| Interest income | **19** | – | | |
| The Manhatten project was completed in December 2016 and available for letting from January 2017. | | | | |
| **9. Other financial assets** | | | | |
| Loan to joint operation partner | | | | |
| Non-current asset | **75 000** | 51 849 | **75 000** | 51 849 |
| Current asset | **213** | – | **213** | – |
| | **75 213** | 51 849 | **75 213** | 51 849 |

The loan to the joint operation partner is secured by a mortgage bond over their 50% share of the immovable property and bears interest at prime overdraft rate less 0.5% per annum and is repayable by no later than the third anniversary of the pre-let date. (the earlier of: the first anniversary of the date of completion of the development and the date upon which the property is 98% let). The date of completion of the development was December 2016 and the development is not anticipated to be 98% let before December 2017.

The group has a commitment to fund the joint operation partner to a maximum of R75 million.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **10. Derivative financial instruments** | | | | |
| **Interest rate derivatives** | | | | |
| Carrying value at beginning of year | **28 864** | 11 673 | **24 676** | 21 568 |
| Fair value changes | **(77 010)** | 17 191 | **(72 907)** | 3 108 |
| | **(48 146)** | 28 864 | **(48 231)** | 24 676 |
| **Reconciliation to statement of financial position** | | | | |
| Derivative financial instruments | | | | |
| Non-current assets | **1 847** | 38 172 | **1 847** | 33 851 |
| Current assets | **1 736** | – | **868** | – |
| Non-current liabilities | **(47 421)** | (9 308) | **(47 421)** | (9 175) |
| Current liabilities | **(4 308)** | – | **(3 525)** | – |
| | **(48 146)** | 28 864 | **(48 231)** | 24 676 |

The notional principal amount of the outstanding swap contracts for the group at year-end was R3.6 billion (2016: R4.8 billion) and for the company R3.2 billion (2016: R4.3 billion).

**Fair value information**

The fair values of the interest rate swaps are determined on a mark-to-market valuation calculated by discounting the estimated future cash flows based on the terms and maturity of each contract and using the market interest rate indicated on the SA swap curve.

**Fair value hierarchy**

Derivative financial instruments have been categorised as a Level 2 and there have been no significant transfers made between Levels 1, 2 or 3 during the year under review.

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| **11. Trade and other receivables** | | | | |
| Net trade receivables | **49 644** | 40 356 | **3 396** | 1 859 |
| Trade receivables | **71 160** | 57 436 | **5 823** | 3 807 |
| *Less:* Provision for impairment | **(21 516)** | (17 080) | **(2 427)** | (1 948) |
| Other receivables – utility and assessment rate recoveries | **61 075** | 62 660 | **8 536** | 9 496 |
| Other receivables – assessment rate refunds | **10 551** | 12 992 | **326** | 484 |
| Sundry receivables | **13 919** | 9 014 | **778** | 585 |
| | **135 189** | 125 022 | **13 036** | 12 424 |
| Payments in advance | **8 153** | 6 530 | **1 091** | 1 008 |
| | **143 342** | 131 552 | **14 127** | 13 432 |

All trade and other receivables are short-term in nature. Interest is charged at prime plus 4% (2016: 4%) on arrear tenant balances.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **12. Cash and bank balances** | | | | |
| Cash on hand and bank balances | **89 424** | 27 063 | **23 607** | 18 108 |
| Bank account held for residential tenant deposits | **41 332** | 42 046 | **41 332** | 42 046 |
| | **130 756** | 69 109 | **64 939** | 60 154 |

The bank balance held for residential tenant deposits is not available for use by the group.

The group has overdraft facilities of R41.9 million (2016: R45.5 million) which are reviewable on an annual basis.

The group's overdraft facility is unsecured and bears interest at the prime overdraft rate.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **13. Non-current assets held for sale** | | | | |
| **Reconciliation of investment property held for sale** | | | | |
| Carrying value at beginning of the year | **173 000** | – | **56 500** | – |
| Transferred from investment property | **149 649** | 160 952 | **17 003** | 53 007 |
| Transferred from straight-line rental income accrual | **74** | 1 418 | **149** | 603 |
| Transferred from tenant installation and lease costs | **176** | 50 | **–** | – |
| Transferred from plant and equipment | **–** | 374 | **–** | – |
| Fair value changes | **20 751** | 10 206 | **4 748** | 2 890 |
| Properties disposed of | **(59 300)** | – | **(21 700)** | – |
| Carrying value at the end of the year | **284 350** | 173 000 | **56 700** | 56 500 |

A decision was made by the board to dispose of 35 non-core or underperforming investment properties.

The non-current assets will be sold piecemeal and the properties are expected to be disposed of by August 2018.

The properties classified as held for sale are valued using the net income capitalisation method as detailed in note 2.4 except for those where a firm offer has been received in which case it is valued at the offer value.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **14. Stated capital** | | | | |
| **Authorised** | | | | |
| 500 000 000 ordinary shares of no par value | **500 000** | 500 000 | **500 000** | 500 000 |
| **Issued** | | | | |
| 266 864 319 (2016: 254 551 320) ordinary shares of no par value | | | | |
| Carrying value at beginning of year | **3 958 207** | 3 907 819 | **3 958 207** | 3 907 819 |
| 2017: Issue of 12 312 999 ordinary shares of no par value, in terms of a dividend reinvestment programme | **263 270** | – | **263 270** | – |
| 2016: Issue of 2 229 536 ordinary shares of no par value in terms of a dividend reinvestment programme | **–** | 50 388 | **–** | 50 388 |
| | **4 221 477** | 3 958 207 | **4 221 477** | 3 958 207 |

The unissued ordinary shares are under the control of the directors and are subject to the conditions of the company's memorandum of incorporation, the JSE Listings Requirements and the Act. This authority remains in force until the company's next annual general meeting. All shares are fully paid up.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **15. Non-distributable reserve** | | | | |
| Capital reserve arising on disposal of investment property | **26 145** | 23 202 | **13 837** | 11 239 |
| Fair value changes to investment property | **2 379 343** | 2 151 680 | **642 273** | 621 808 |
| Fair value changes to derivative financial instruments | **(32 348)** | 44 662 | **(55 756)** | 17 151 |
| Fair value changes to joint venture reserves | **28 526** | 25 954 | **–** | – |
| Additions through business combination | **867 387** | 867 387 | **192 512** | 192 512 |
| | **3 269 053** | 3 112 885 | **792 866** | 842 710 |

| | Interest rate % | Expiry date | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|---|---|
| **16. Borrowings** | | | | | | |
| **16.1 Loans at amortised cost** | | | | | | |
| **Secured loans** | | | | | | |
| Nedbank Limited | | | | | | |
| Loan 1 | 1-month JIBAR plus 1.85 | | **–** | 287 251 | **–** | – |
| Loan 2 | Prime less 1.63 | | **–** | 174 634 | **–** | – |
| Loan 3 | Prime less 1.77 | | **–** | 334 282 | **–** | – |
| Loan 4 | Prime less 1.67 | | **–** | 378 735 | **–** | – |
| Loan 5 | Prime less 2.15 | | **–** | 24 340 | **–** | – |
| Loan 6 | Prime less 1.26 | 2 May 2019 | **1 176 364** | – | **1 176 364** | – |
| Loan 7 | Prime less 2.15 | 2 May 2019 | **30 166** | 30 167 | **–** | – |
| Loan 8 | Fixed at 12.15 | 2 May 2018 | **160 000** | 160 000 | **–** | – |
| Loan 9 | Prime less 2.15 | 2 May 2018 | **25 552** | 25 552 | **–** | – |
| Loan 10 | Fixed at 12.06 | 2 May 2018 | **40 580** | 40 580 | **–** | – |
| Loan 11 | Fixed at 12.06 | 2 May 2018 | **100 000** | 100 000 | **–** | – |
| Loan 12 | Prime less 2.15 | 1 June 2018 | **29 999** | 30 000 | **–** | – |
| Loan 13 | Prime less 2.15 | 2 July 2018 | **790** | 790 | **–** | – |
| Loan 14 | Prime less 1.77 | 3 September 2018 | **259 953** | 277 975 | **259 953** | 277 975 |
| Loan 15 | Prime less 1.79 | 1 October 2018 | **74 988** | 74 988 | **–** | – |
| Loan 16 | Fixed at 11.72 | 1 October 2018 | **75 000** | 75 000 | **–** | – |
| Loan 17 | Fixed at 11.01 | 1 November 2018 | **36 400** | 36 400 | **–** | – |
| Loan 18 | Prime less 1.65 | 3 December 2018 | **50 697** | 50 697 | **50 697** | 50 697 |
| Loan 19 | Prime less 1.67 | 3 December 2018 | **16 369** | 16 369 | **–** | – |
| Loan 20 | Prime less 1.67 | 1 February 2019 | **4 738** | 4 738 | **–** | – |
| Loan 21 | Prime less 2.15 | 1 March 2019 | **30 724** | 30 950 | **–** | – |
| Loan 22 | Prime less 2.00 | 3 June 2019 | **27 726** | 27 726 | **–** | – |
| Loan 23 | Prime less 1.00 | 1 March 2018 | **34 385** | 34 385 | **–** | – |
| Loan 24 | Prime less 1.63 | 2 May 2019 | **537 066** | 537 578 | **537 066** | 537 578 |
| Loan 25 | Prime less 1.26 | 3 February 2020 | **73 814** | 245 406 | **73 814** | 245 406 |
| Standard Bank of South Africa Limited | | | | | | |
| Loan A | Prime less 1.33 | 1 September 2019 | **293 826** | – | **293 826** | – |
| Loan B | 3-month JIBAR plus 1.52 | 31 December 2017 | **223 311** | 233 255 | **223 311** | 233 255 |
| Loan C | Prime less 1.18 | 1 September 2020 | **288 036** | 277 681 | **288 036** | 277 681 |
| Loan D | Prime less 1.55 | 27 November 2018 | **119 784** | 139 579 | **119 784** | 139 579 |
| Loan E | Prime less 1.70 | | **–** | 118 912 | **–** | 118 912 |
| Loan F | Prime less 1.45 | | **–** | 52 013 | **–** | 52 013 |
| Loan G | Prime less 1.92 | | **–** | 115 027 | **–** | 115 027 |
| Loan H | Prime less 1.92 | | **–** | 88 901 | **–** | 88 901 |
| | | | **3 710 268** | 4 023 911 | **3 022 851** | 2 137 024 |
| **Unsecured loans** | | | | | | |
| Domestic medium-term note programme (DMTN) | | | | | | |
| PMM 21 - issuance 12 months | 3-month JIBAR plus 1.30 | 2 September 2016 | **–** | 95 000 | **–** | – |
| PMM 23 - issuance 6 months | 3-month JIBAR plus 1.00 | 2 September 2016 | **–** | 55 000 | **–** | – |
| PMM 24 - issuance 6 months | 3-month JIBAR plus 1.00 | 7 September 2016 | **–** | 55 000 | **–** | – |
| PMM 25 - issuance 12 months | 3-month JIBAR plus 1.35 | 7 March 2017 | **–** | 209 856 | **–** | – |
| PMM 26 - issuance 6 months | 3-month JIBAR plus 1.10 | 4 November 2016 | **–** | 259 948 | **–** | – |
| PMM 27 - issuance 6 months | 3-month JIBAR plus 1.10 | 25 November 2016 | **–** | 69 985 | **–** | – |
| PMM 29 - issuance 12 months | 3-month JIBAR plus 1.30 | 4 September 2017 | **119 000** | – | **–** | – |
| PMM 30 - issuance 12 months | 3-month JIBAR plus 1.30 | 7 September 2017 | **50 000** | – | **–** | – |
| PMM 33 - issuance 6 months | 3-month JIBAR plus 1.00 | 1 September 2017 | **65 000** | – | **–** | – |
| PMM 34 - issuance 12 months | 3-month JIBAR plus 1.30 | 7 March 2018 | **260 000** | – | **–** | – |
| PMM 35 - issuance 6 months | 3-month JIBAR plus 1.00 | 6 November 2017 | **158 500** | – | **–** | – |
| PMM 36 - issuance 12 months | 3-month JIBAR plus 1.30 | 4 May 2018 | **134 000** | – | **–** | – |
| PMM 37 - issuance 6 months | 3-month JIBAR plus 1.00 | 27 November 2017 | **160 000** | – | **–** | – |
| PMM 38 - issuance 36 months | 3-month JIBAR plus 1.85 | 12 June 2020 | **155 000** | – | **–** | – |
| Accrued interest | | | **14 566** | 10 327 | **–** | – |
| | | | **1 116 066** | 755 116 | | |
| | | | **4 826 334** | 4 779 027 | **3 022 851** | 2 137 024 |
| **Reconciliation to statement of financial position** | | | | | | |
| Non-current | | | **3 253 517** | 4 023 911 | **2 799 540** | 2 137 025 |
| Current | | | **1 572 817** | 755 116 | **223 311** | – |
| | | | **4 826 334** | 4 779 027 | **3 022 851** | 2 137 025 |

# notes to the financial statements – continued

for the year ended 31 August 2017

## 16. Borrowings – continued

### 16.1 Loans at amortised cost – continued

The group has R626 million (2016: R633 million) undrawn debt facilities available on demand as at 31 August 2017. The facilities are secured by mortgage bonds over various properties with a fair value of R10.7 billion (2016: R10.7 billion), and cession of shares from certain subsidiaries.

**2017**

Loans 1 to 5 which had expiry dates of 2 May 2019, were consolidated into loan 6 in the name of Octodec.
Loans E to H which had expiry dates of 31 August 2019, were consolidated into loans A and C in the name of Octodec.
PMM 21 to PMM 27 have been refinanced by PMM 29 to PMM 36.

Subsequent to year end, PMM 29, PMM 30 and PMM 33 which matured on 4,7 and 8 September 2017 respectively, have been refinanced by PMM 39 for R171million and PMM 40 for R55 million maturing on 4 September 2018. PMM 35 which matured on 6 November 2017 and PMM 37 on 27 November 2017, have been refinanced by PMM 44 for R158.5 million maturing 6 May 2018 and PMM 42 for R180 million maturing on 28 May 2018, respectively.

| | consolidated | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Carrying value R'000 | Fair value R'000 | Carrying value R'000 | Fair value R'000 |
| **16.2 Fair value of long-term loans** | | | | |
| **Loans at fixed interest rates** | | | | |
| Nedbank Limited | **441 980** | **421 879** | 411 980 | 426 441 |

The fair values of the fixed-interest rate loans were determined using the discounted cash flow method. The average annual interest rate used to discount the cash flows on the fixed-interest loans was 8.99% (2016: 9.76%), based on the quoted swap rate at year-end for loans with similar maturities. The average credit risk margin used was 1.21% (2016: 1.46%) based on the group's most recent fixed-rate loan agreements with Nedbank Limited.

The fair value of long-term loans has been categorised as a Level 2 fair value measurement and there have been no transfers made between Levels 1, 2 or 3 during the year under review.

| | consolidated | | company | |
|---|---|---|---|---|
| | 2017 R'000 | 2016 R'000 | 2017 R'000 | 2016 R'000 |
| **17. Deferred taxation** | | | | |
| The deferred tax liability arises from the following temporary differences: | | | | |
| Tax losses available for set-off against future taxable income | **(104 280)** | (133 608) | **(704)** | (7 619) |
| Building allowances – pre conversion to a REIT | **178 943** | 178 943 | **–** | – |
| Wear and tear allowance | **19 250** | 19 574 | **704** | 710 |
| Fair value changes – derivative financial instruments | **(13 481)** | 8 080 | **–** | 6 909 |
| | **80 432** | 72 989 | **–** | – |
| **Reconciliation of movement for the year** | | | | |
| Carrying value at beginning of year | **72 989** | 72 985 | **–** | – |
| Tax losses available for set-off against future taxable income | **29 329** | (5 070) | **6 915** | (870) |
| Wear and tear allowance | **(325)** | 263 | **(6)** | – |
| Fair value changes – derivative financial instruments | **(21 561)** | 4 811 | **(6 909)** | 870 |
| | **80 432** | 72 989 | **–** | – |

A REIT cannot claim building allowances. Allowances claimed in previous years will be recouped on sale of the investment properties where applicable. The deferred tax liability was therefore retained.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **18. Trade and other payables** | | | | |
| Trade payables | **111 921** | 58 998 | **29 947** | 11 220 |
| Tenant deposits | **93 811** | 92 714 | **10 617** | 12 154 |
| Accrued expenses – utilities and assessment rates | **76 180** | 63 222 | **3 137** | 2 797 |
| Accrued expenses – repairs and maintenance | **10 393** | 9 972 | **872** | 974 |
| Other payables | **40 244** | 88 151 | **10 505** | 15 994 |
| Unclaimed dividends | **2 207** | 2 073 | **1 477** | 1 332 |
| | **334 756** | 315 130 | **56 555** | 44 471 |
| VAT payable | **7 792** | 2 641 | **7 075** | 144 |
| | **342 548** | 317 771 | **63 630** | 44 615 |
| The group has financial policies in place to ensure that all payables are paid within the credit framework. Amounts are settled within payment terms to ensure that no interest is payable. | | | | |
| **19. Revenue** | | | | |
| Rental income | **1 428 347** | 1 349 946 | **120 395** | 114 140 |
| Once-off reinstatement contribution from tenant | **–** | 25 000 | **–** | – |
| Turnover rental income | **2 103** | 2 068 | **172** | 334 |
| Straight-line rental income accrual | **(4 905)** | 2 567 | **3 829** | 591 |
| Recoveries and other income | **405 801** | 390 857 | **50 675** | 48 053 |
| | **1 831 346** | 1 770 438 | **175 071** | 163 118 |
| **20. Property operating costs** | | | | |
| **Fees for service** | | | | |
| Collection fees | **123 736** | 116 190 | **10 312** | 9 482 |
| Commissions | **12 194** | 13 408 | **923** | 1 003 |
| **Other** | | | | |
| Assessment rates | **99 026** | 83 538 | **11 094** | 9 253 |
| Depreciation of plant and equipment | **1 731** | 1 774 | **27** | 31 |
| Amortisation of tenant installation and commission | **18 805** | 18 750 | **1 044** | 1 171 |
| Operating lease – minimum lease payments | **1 045** | 1 045 | **–** | – |
| Operating lease – contingent | **5 886** | 4 940 | **–** | – |
| Employee costs | **30 894** | 29 206 | **3 387** | 2 912 |
| Repairs and maintenance | **76 713** | 63 879 | **6 148** | 4 763 |
| Security costs | **64 892** | 63 460 | **5 188** | 5 401 |
| Utilities | **283 911** | 273 753 | **35 367** | 33 569 |
| Other property expenditure | **124 803** | 120 586 | **10 527** | 8 717 |
| | **843 636** | 790 529 | **84 017** | 76 302 |
| **21. Administrative costs** | | | | |
| **Auditors' remuneration** | | | | |
| External audit fee | **2 760** | 2 693 | **2 760** | 2 693 |
| Internal audit fees | **1 414** | 859 | **1 414** | 859 |
| **Fees for services** | | | | |
| Management fees | **51 471** | 50 044 | **2 938** | 50 044 |
| Directors' emoluments | **5 622** | 5 596 | **5 622** | 5 596 |
| Other administrative costs | **16 546** | 11 813 | **11 654** | 10 159 |
| | **77 813** | 71 005 | **24 388** | 69 351 |

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| **22. Interest income** | | | | |
| Tenants | **8 222** | 6 617 | **837** | 587 |
| Bank | **3 199** | 1 183 | **2 077** | 474 |
| Loans and sundry receivables | **6 673** | 2 338 | **6 653** | 2 202 |
| | **18 094** | 10 138 | **9 567** | 3 263 |
| **23. Income from subsidiaries** | | | | |
| Dividends received | **–** | – | **613 748** | 641 361 |
| Interest received | **–** | – | **25 286** | 4 034 |
| | **–** | – | **639 034** | 645 395 |
| **24. Share of profit of joint ventures** | | | | |
| Management fees | **500** | 700 | **–** | – |
| Interest received | **10 656** | 10 317 | **–** | – |
| Equity-accounted earnings | **3 654** | 9 881 | **–** | – |
| Share of earnings | **1 082** | 3 009 | **–** | – |
| Share of fair value change to investment property | **2 572** | 6 872 | **–** | – |
| | **14 810** | 20 898 | **–** | – |
| **25. Finance costs** | | | | |
| Interest rate derivatives | **2 074** | 15 602 | **2 587** | 5 906 |
| Borrowings | **436 666** | 400 578 | **211 080** | 157 316 |
| Other suppliers | **461** | 479 | **8** | – |
| *Less:* Interest capitalised | **(30 499)** | (21 908) | **(4 604)** | (4 883) |
| | **408 702** | 394 751 | **209 071** | 158 339 |
| **26. Taxation** | | | | |
| Deferred taxation | **(7 443)** | – | **–** | – |
| **Reconciliation of the income tax expense for the year to accounting profit** | | | | |
| Profit before tax | **695 138** | 857 162 | **445 625** | 542 509 |
| Income tax expense calculated at 28% (2016: 28%) | **194 638** | 240 005 | **124 775** | 151 903 |
| Non-taxable income – fair value changes | **(80 110)** | (100 167) | **(8 151)** | (10 069) |
| Non-taxable equity income | **(520)** | (2 784) | **–** | – |
| Non-deductible expenses | **29 777** | 7 207 | **25 326** | 1 558 |
| Amounts not credited to the statement of profit and loss and other comprehensive income | **17 056** | 10 871 | **1 112** | 803 |
| Allowances | **(22 494)** | (12 710) | **(2 747)** | (867) |
| Wear and tear | **(10 033)** | (7 797) | **(237)** | (279) |
| Provision for doubtful debts | **(1 506)** | (1 196) | **(170)** | (136) |
| Prepaid expenses | **(2 182)** | (1 828) | **(306)** | (282) |
| Finance costs | **(8 773)** | (1 889) | **(2 034)** | (170) |
| Reversal of allowances/deductions granted in previous years | **3 024** | 3 398 | **419** | 573 |
| Exempt capital gains | **(980)** | (2 377) | **(728)** | (42) |
| Qualifying distribution | **(150 230)** | (143 010) | **(150 230)** | (143 010) |
| Assessed losses utilised/limited | **(258)** | (433) | **–** | (2 007) |
| Prior period adjustment to deferred tax | **7 539** | – | **–** | – |
| Limitation of REIT distribution | **10 224** | – | **10 224** | – |
| Other | **(223)** | – | **–** | 1 158 |
| | **7 443** | – | **–** | – |
| Effective tax rate | **1.1%** | 0.0% | **0.0%** | 0.0% |

The group and company have tax losses amounting to R589.7 million (2016: R591.2 million) (company R44.3 million (2016: R44.3 million)) which can be utilised against future taxable income.

| | consolidated 2017 R'000 | consolidated 2016 R'000 | company 2017 R'000 | company 2016 R'000 |
|---|---|---|---|---|
| **27. Leases** | | | | |
| **27.1 As lessor** | | | | |
| Non-cancellable rental lease agreements | | | | |
| Within one year | **842 342** | 891 701 | **98 867** | 103 511 |
| One to five years | **1 108 103** | 1 024 558 | **169 218** | 162 377 |
| More than five years | **99 604** | 63 569 | **22 371** | 28 030 |
| | **2 050 049** | 1 979 828 | **290 456** | 293 918 |

Rental receivable represents contractual rental income excluding other recoveries for leases in existence at year-end.

Leases are entered into for an average period of between 1 and 10 years. Residential leases are for a 12-month period and provide for a monthly agreement at expiry.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **27. Leases – continued** | | | | |
| **27.2 As lessee** | | | | |
| Future minimum lease payments | | | | |
| Within one year | **1 046** | 1 046 | **–** | – |
| Two to five years | **4 183** | 4 183 | **–** | – |
| More than five years | **49 964** | 51 009 | **–** | – |
| | **55 192** | 56 238 | **–** | – |
| The land leases above relate to Woodmead Value Mart and Intersite and will be funded from the proceeds of rental income. The lease contracts provide for the greater of the future minimum lease payment and 23.9% of gross monthly rental in respect of Woodmead Value Mart and 6% in respect of Intersite. The lease of Woodmead Value Mart has an option to be renewed for another 40 years. | | | | |
| **28. Earnings, headline earnings and distributable earnings per share (cents)** | | | | |
| The calculation of basic earnings per share is based on net income attributable to shareholders and the number of shares in issue during the year. | | | | |
| **Reconciliation of earnings to headline earnings** | | | | |
| Profit after taxation | **687 695** | 857 162 | | |
| Adjusted for: | | | | |
| Profit on sale of investment property | **(2 943)** | (8 490) | | |
| Reversal of impairment of loans | **–** | (378) | | |
| Fair value changes | | | | |
| Investment property | **(235 106)** | (285 914) | | |
| Investment property – joint ventures | **(2 572)** | (6 872) | | |
| **Headline earnings attributable to shareholders** | **447 074** | 555 508 | | |
| **Reconciliation of headline earnings to distributable earnings** | | | | |
| Fair value adjustments | | | | |
| Interest rate derivatives | **77 010** | (17 191) | | |
| Straight-line rental income accrual | **4 905** | (2 567) | | |
| Deferred taxation adjustment | **7 443** | – | | |
| Once-off reinstatement contribution from tenant | **–** | (25 000) | | |
| **Distributable earnings attributable to shareholders** | **536 432** | 510 750 | | |
| Actual number of shares in issue (000) | **266 864** | 254 551 | | |
| Weighted number of shares in issue (000) | **261 207** | 252 888 | | |
| | Cents | Cents | | |
| Basic and diluted earnings per share | **263.3** | 338.9 | | |
| Basic headline and diluted headline earnings per share | **171.2** | 219.7 | | |
| Distribution per share | **203.1** | 201.5 | | |
| Given the nature of its business, Octodec uses distribution per share as its key performance measure, as it is considered a more relevant performance measure than earnings or headline earnings per share. | | | | |
| **29. Cash generated from operations** | | | | |
| Profit before taxation | **695 138** | 857 162 | **445 625** | 542 509 |
| Adjusted for: | | | | |
| Straight–line rental income accrual | **4 905** | (2 567) | **(3 829)** | (591) |
| Fair value changes of investment property | **(235 106)** | (285 914) | **(20 465)** | (31 465) |
| Fair value changes of interest rate derivatives | **77 010** | (17 191) | **72 907** | (3 108) |
| Profit on disposal of investment property | **(2 943)** | (8 490) | **(2 598)** | (152) |
| Impairment/(reversal of impairment) of loans | **–** | (378) | **10 727** | – |
| Finance costs | **408 702** | 394 751 | **209 071** | 158 339 |
| Interest income | **(32 904)** | (31 036) | **(648 601)** | (648 658) |
| Depreciation and amortisation | **20 536** | 20 524 | **1 071** | 1 202 |
| Operating income before working capital changes | **935 338** | 926 861 | **63 908** | 18 076 |
| (Increase)/decrease in trade and other receivables | **(11 790)** | (28 730) | **(695)** | 767 |
| Increase/(decrease) in trade and other payables | **24 777** | (19 518) | **19 015** | 3 605 |
| | **948 325** | 878 613 | **82 228** | 22 448 |

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated | |
|---|---|---|
| | **2017 R'000** | 2016 R'000 |
| **30. Contingencies** | | |
| The group has issued guarantees for the provision of certain services to its subsidiaries: | | |
| Tshwane Metropolitan Muncipality | **12 800** | 12 800 |
| City Power – Johannesburg | **800** | 800 |
| Eskom | **190** | 190 |
| Centurion Town Council | **39** | 39 |
| **31. Commitments** | | |
| **Capital expenditure** | | |
| The Octodec group has commitments of R220.2 million (2016: R325.3 million) in respect of approved capital expenditure relating to the redevelopment and refurbishments of certain properties. These developments will be financed by way of existing and additional approved bank facilities. | | |
| **32. Retirement benefits** | | |
| The employees of the group belong to a provident fund and contributions to the fund are charged to profit and loss in the year they are incurred. The group has no obligation to cover any unfunded benefits. | | |
| Amount contributed by the group to the fund | **1 736** | 1 005 |

## 33. Capital management

The group's policy is to have an adequate capital base so as to maintain stakeholder confidence and to sustain future development of the business. The capital comprises shareholders' equity, including capital and reserves. The level of distributions paid is determined with reference to the liquidity and solvency of the group as well as consideration of budgets, forecasts and JSE Listings Requirements. There were no changes in the group's approach to capital management during the year.

**Loan to value ratio**

The board reviews the capital structure on a quarterly basis. As part of the review, the board considers the cost of capital and the risks associated therewith over time. The group and company's current borrowings amount to 37.1% (2016: 38.3%) and 36.5% (2016: 29.2%) respectively of its total investment portfolio. This is within the guidance given by the board of a loan to value ratio not exceeding 40%.

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| Total borrowings (note 16) | **4 826 334** | 4 779 027 | **3 022 850** | 2 137 025 |
| *Less:* Cash and cash equivalents | **(89 424)** | (69 109) | **(23 607)** | (60 154) |
| Net debt | **4 736 910** | 4 709 918 | **2 999 243** | 2 076 871 |
| Total investment portfolio* | **12 776 378** | 12 302 213 | **8 214 294** | 7 101 979 |
| Loan to value ratio | **37.1%** | 38.3% | **36.5%** | 29.2% |

**Total investment portfolio includes the investment property (at valuation), property under development, non-current assets held for sale, and investment in joint ventures.*

**Financial covenants**

The following financial covenants apply in respect of the consolidated financial position of the group.

*Nedbank Limited*

- Net rental income (gross rental income less property operating expenses, administration costs and management fees, but excluding rental income attributable to existing vacancies) before net interest paid, tax, depreciation and amortisation, income from revaluation of properties and any abnormal items divided by net interest paid (all interest paid on third party debt, but excluding interest and distributions payable to shareholders, less any interest earned), shall be at least 2.0 times
- Total debt (all interest-bearing debt excluding tenant deposits, tax payable and trade creditors, but including all financial liabilities arising from underlying interest rate derivatives) expressed as a percentage of total assets (value of direct investment in property holdings plus investments held in unlisted companies) shall not exceed 60%

Standard Bank of South Africa Limited

- The loan to value ratio shall not exceed 55% (loan to value shall mean the ratio of the outstanding balance under the facilities granted by Standard Bank to the value of the properties bonded to Standard Bank)
- The group's overall debt shall not exceed 50% of total assets
- The ratio of earnings before net interest payable, taxation and any non-cash items in respect of the investment properties to net interest charged (interest payable less any interest receivable) shall not be less than 2.0 times
- The ratio of net rental income (all rental income from properties bonded to Standard Bank less all property-related expenses) to all interest payable in respect of the facilities granted by Standard Bank shall not be less than 1.8 times

The group complied with all financial covenants during the year and at year-end.

## 34. Financial risk management

The group's financial instruments consist mainly of deposits with banks, bank overdrafts, interest rate swaps, trade receivables and payables and loans to and from subsidiaries. In respect of all financial instruments listed above,the carrying value approximates fair value.

The group is exposed to the following risks arising from its exposure to financial instruments:

- Credit risk
- Interest rate risk
- Liquidity risk

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **34.1 Credit risk** | | | | |
| Credit risk relates mainly to cash deposits, cash equivalents and trade and other receivables. The group only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The concentration of credit risk is limited due to the large and unrelated tenant base. | | | | |
| Before accepting any new tenant, a vetting process is applied to assess the potential tenant's credit quality. The group monitors the financial position of its tenants on an ongoing basis. Provision is made for specific doubtful debts and all balances 120 days and over. Balances between 60 and 90 days are provided for based on estimated recoverable amounts by reference to past default experience. At year-end management did not consider there to be any material credit risk exposure. The carrying amount of financial assets represents the maximum credit exposure. | | | | |
| All of the group's trade and other receivables have been reviewed for impairment. Certain trade receivables were found to be impaired and a provision of R21.5 million (2016: R17.0 million) (company R2.4 million (2016: R1.9 million)) has been recorded accordingly. | | | | |
| Included in the group's trade receivable balance are tenant balances with a carrying amount of R49.6 million (2016: R40.3 million) (company: R3.4 million (2016: R1.8 million)) which are past due at reporting date and not provided for, as there has not been any significant change in the credit quality and the amounts are still considered recoverable. | | | | |
| The ageing of trade receivables outstanding and not provided for is as follows: | | | | |
| 30 days or less | **37 916** | 4 365 | **1 806** | 466 |
| More than 30 days and less than 60 days | **2 456** | 30 999 | **227** | 216 |
| More than 60 days and less than 90 days | **9 272** | 4 992 | **1 363** | 1 177 |
| | **49 644** | 40 356 | **3 396** | 1 859 |
| Reconciliation of provision for impairment of trade and other receivables: | | | | |
| Carrying value at beginning of year | **17 080** | 12 928 | **1 611** | 462 |
| Additional provisions for the year | **17 647** | 14 152 | **2 419** | 1 757 |
| Amounts written off as uncollectable | **(13 211)** | (10 000) | **(1 603)** | (271) |
| | **21 516** | 17 080 | **2 427** | 1 948 |

### 34.2 Interest risk

At 31 August 2017, the group had borrowings of R4.8 billion (2016: R4.8 billion) (company R3.0 billion (2016: R2.1 billion)) at various interest rates. The all-in weighted average cost of borrowings, including the cost of interest rate swaps, was 9.2% (2016: 9.0%) (company 9.1% (2016: 8.8%)) per annum. At the reporting date, 82.1% (2016: 82.9%) (company 106% (2016: 140%)) of borrowings were fixed or hedged by way of interest rate swap contracts.

At 31 August 2017, the group was exposed to changes to interest rates through bank borrowings. The exposure of borrowings to interest rate movements was 17.9% (2016: 17.1%) (company 0% (2016: 0%)) of total borrowings. A breakdown of the borrowings is detailed in note 16.

Interest rate trends are constantly monitored and appropriate steps taken to ensure the group's exposure to interest movements is managed. The policy is to reduce interest rate risk exposure on long-term financing by entering into fixed interest rate contracts as well as swap rate contracts.

The group analyses its interest rate exposure on a continuous basis and calculates the impact on profit and loss of a defined interest rate shift by using different scenarios. The scenarios are calculated only for liabilities that represent the major interest-bearing obligations and the impact on post-tax profit. A 0.5% per annum shift would represent a maximum increase or decrease of R3.1 million (2016: R2.9 million) (company Rnil (2016: Rnil)) in post-tax profits per annum. The calculations are done monthly to verify that the maximum additional expense is within limits.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated Nominal amount R'000 | consolidated All-in weighted average interest rate per annum % | company Nominal amount R'000 | company All-in weighted average interest rate per annum % |
|---|---|---|---|---|
| **34. Financial risk management – continued** | | | | |
| **34.2 Interest risk – continued** | | | | |
| **2017** | | | | |
| **Fixed-rate borrowings expiry** | | | | |
| May 2018 | **160 000** | **12.15** | **–** | **–** |
| May 2018 | **100 000** | **12.06** | **–** | **–** |
| May 2018 | **40 580** | **12.06** | **–** | **–** |
| October 2018 | **75 000** | **11.72** | **–** | **–** |
| October 2018 | **36 400** | **11.01** | **–** | **–** |
| | **411 980** | **11.90** | **–** | **–** |
| Variable rate borrowings excluding interest rate derivatives | **4 414 354** | **8.70** | **3 022 851** | **8,80** |
| **Total borrowings** | **4 826 334** | **8.90** | **3 022 851** | **8,80** |
| 2016 | | | | |
| **Fixed-rate borrowings expiry** | | | | |
| May 2018 | 160 000 | 12.15 | – | – |
| May 2018 | 100 000 | 12.06 | – | – |
| May 2018 | 40 580 | 12.06 | – | – |
| October 2018 | 75 000 | 11.72 | – | – |
| October 2018 | 36 400 | 11.01 | – | – |
| | 411 980 | 11.90 | – | – |
| Variable rate borrowings excluding interest rate derivatives | 4 367 047 | 8.80 | 2 137 025 | 8.90 |
| **Total borrowings** | 4 779 027 | 9.10 | 2 137 025 | 8.90 |

| | consolidated Amount R'000 | consolidated Average all-in margin over/(below) variable rate per annum % | company Amount R'000 | company Average all-in margin over/(below) variable rate per annum % |
|---|---|---|---|---|
| **Interest rate derivatives maturity** | | | | |
| **2017** | | | | |
| September 2017 | **100 000** | **0.56** | **50 000** | **0.56** |
| January 2018 | **150 000** | **0.68** | **50 000** | **0.68** |
| April 2018 | **200 000** | **(1.40)** | **100 000** | **(1.40)** |
| May 2018 | **50 000** | **1.38** | **50 000** | **1.38** |
| July 2018 | **400 000** | **0.43** | **400 000** | **0.43** |
| August 2018 | **150 000** | **0.38** | **50 000** | **0.65** |
| November 2018 | **500 000** | **(0.07)** | **500 000** | **(0.07)** |
| January 2019 | **750 000** | **(0.54)** | **750 000** | **(0.54)** |
| January 2020 | **500 000** | **0.79** | **500 000** | **0.79** |
| January 2021 | **750 000** | **1.20** | **750 000** | **1.20** |
| Total interest rate derivatives | **3 550 000** | **0.29** | **3 200 000** | **0.33** |
| Fixed-rate borrowings | **411 980** | **–** | **–** | **–** |
| **Total fixed-rate loans and interest rate derivatives** | **3 961 980** | **0.29** | **3 200 000** | **0.33** |

| | consolidated | | company | |
|---|---|---|---|---|
| | Amount R'000 | Average all-in margin over/ (below) variable rate per annum % | Amount R'000 | Average all-in margin over/ (below) variable rate per annum % |
| **34. Financial risk management – continued** | | | | |
| **34.2 Interest risk – continued** | | | | |
| **Interest rate derivatives maturity** | | | | |
| 2016 | | | | |
| February 2017 | 650 000 | 0.30 | 550 000 | 0.30 |
| May 2017 | 50 000 | 1.12 | 50 000 | 1.12 |
| June 2017 | 100 000 | 1.00 | 100 000 | 1.00 |
| July 2017 | 100 000 | 0.59 | 100 000 | 0.59 |
| August 2017 | 350 000 | 0.50 | 250 000 | 0.56 |
| September 2017 | 100 000 | 0.31 | 50 000 | 0.31 |
| January 2018 | 150 000 | 0.43 | 50 000 | 0.43 |
| April 2018 | 200 000 | (1.68) | 100 000 | (1.68) |
| May 2018 | 50 000 | 1.13 | 50 000 | 1.13 |
| July 2018 | 400 000 | 0.14 | 400 000 | 0.14 |
| August 2018 | 150 000 | 0.13 | 50 000 | 0.40 |
| November 2018 | 500 000 | (0.36) | 500 000 | (0.36) |
| January 2019 | 750 000 | (0.82) | 750 000 | (0.82) |
| Total interest rate derivatives | 3 550 000 | 0.09 | 3 000 000 | 0.09 |
| Fixed-rate borrowings | 411 980 | – | – | – |
| **Total fixed-rate loans and interest rate derivatives** | 3 961 980 | 0.09 | 3 000 000 | 0.09 |

| | **Floating interest rate per annum R'000** | **Fixed interest rate per annum R'000** | **Total R'000** |
|---|---|---|---|
| **34.3 Cash flow interest rate risk** | | | |
| **Interest payable on borrowings** | | | |
| **Consolidated 2017** | | | |
| Current interest rate | **8.1% – 9.25%** | **11.01% – 12.15%** | |
| Due in less than one year | **311 267** | **37 127** | **348 394** |
| Due in one to two years | **184 155** | **1 427** | **185 582** |
| Due in two to three years | **40 342** | **–** | **40 342** |
| Due in three to four years | **72** | **–** | **72** |
| **Company 2017** | | | |
| Current interest rate | **8.5% – 9.1%** | **–** | |
| Due in less than one year | **253 440** | **–** | **253 440** |
| Due in one to two years | **163 812** | **–** | **163 812** |
| Due in two to three years | **29 033** | **–** | **29 033** |
| Due in three to four years | **72** | **–** | **72** |
| Consolidated 2016 | | | |
| Current interest rate | 8.35% – 9.5% | 11.01% – 12.15% | |
| Due in less than one year | 362 122 | 49 192 | 411 314 |
| Due in one to two years | 318 963 | 37 060 | 356 023 |
| Due in two to three years | 207 792 | 1 400 | 209 192 |
| Due in three to four years | 43 395 | – | 43 395 |
| Company 2016 | | | |
| Current interest rate | 8.35% – 9.5% | – | |
| Due in less than one year | 309 053 | – | 309 053 |
| Due in one to two years | 299 028 | – | 299 028 |
| Due in two to three years | 201 567 | – | 201 567 |
| Due in three to four years | 43 395 | – | 43 395 |

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| | Less than 1 year R'000 | Between 1 and 2 years R'000 | Between 2 and 5 years R'000 | Over 5 years R'000 |
|---|---|---|---|---|
| **34. Financial risk management – continued** | | | | |
| **34.4 Liquidity risk** | | | | |
| The group's risk to liquidity is reduced as a result of the undrawn banking facilities to cover future commitments. Cash flows are monitored on a monthly basis to ensure that cash resources are adequate to meet funding requirements. | | | | |
| The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows. | | | | |
| **Consolidated 2017** | | | | |
| Borrowings | **1 572 817** | **2 439 975** | **525 506** | **288 036** |
| Trade and other payables | **342 548** | **–** | **–** | **–** |
| **Company 2017** | | | | |
| Borrowings | **223 311** | **2 143 864** | **367 640** | **288 036** |
| Trade and other payables | **54 683** | **–** | **–** | **–** |
| Consolidated 2016 | | | | |
| Borrowings | 755 116 | 624 561 | 3 399 350 | – |
| Trade and other payables | 315 698 | – | – | – |
| Company 2016 | | | | |
| Borrowings | – | 233 255 | 1 903 770 | – |
| Trade and other payables | 43 283 | – | – | – |

| | Loans and receivables R'000 | At amortised cost R'000 | At fair value R'000 | Level 2 R'000 |
|---|---|---|---|---|
| **34.5 Analysis of financial instruments** | | | | |
| **Consolidated 2017** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | **–** | **130 756** | **–** | **–** |
| Derivative financial instruments | **–** | | **3 583** | **3 583** |
| Trade and other receivables | **135 189** | **–** | **–** | **–** |
| Other financial assets | **75 213** | **–** | **–** | **–** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **–** | **–** | **51 729** | **51 729** |
| Trade and other payables | **–** | **334 756** | **–** | **–** |
| Long-term borrowings | **–** | **3 253 517** | **–** | **–** |
| Short-term borrowings | **–** | **1 572 817** | **–** | **–** |
| **Company 2017** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | **–** | **64 939** | **–** | **–** |
| Derivative financial instruments | **–** | **–** | **2 715** | **2 715** |
| Trade and other receivables | **13 036** | **–** | **–** | **–** |
| Other financial assets | **75 213** | **–** | **–** | **–** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **–** | **–** | **50 946** | **50 946** |
| Trade and other payables | **–** | **56 555** | **–** | **–** |
| Long-term borrowings | **–** | **2 799 539** | **–** | **–** |
| Short-term borrowings | **–** | **223 311** | **–** | **–** |

| | Loans and receivables R'000 | At amortised cost R'000 | At fair value R'000 | Level 2 R'000 |
|---|---|---|---|---|
| **34. Financial risk management – continued** | | | | |
| **34.5 Analysis of financial instruments – continued** | | | | |
| **Consolidated 2016** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | – | 69 109 | – | – |
| Derivative financial instruments | – | – | 38 172 | 38 172 |
| Trade and other receivables | 125 022 | – | – | – |
| Other financial assets | 51 849 | | | |
| **Financial liabilities** | | | | |
| Derivative financial instruments | – | – | 9 308 | 9 308 |
| Trade and other payables | – | 315 698 | – | – |
| Long-term borrowings | – | 4 023 911 | – | – |
| Short-term borrowings | – | 755 116 | – | – |
| **Company 2016** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | – | 60 154 | – | – |
| Derivative financial instruments | – | – | 33 851 | 33 851 |
| Trade and other receivables | 12 424 | – | – | – |
| Other financial assets | 51 849 | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | – | 43 283 | – | – |
| Long-term borrowings | – | 2 137 025 | – | – |
| Derivative financial instruments | – | – | 9 175 | 9 175 |

## 35. Related party transactions

A related party is a person or entity that is related to Octodec.

A person or a close member of that person's family is related to Octodec if he/she:

(i) has control or joint control of the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management of the reporting entity.

**Related parties where control existed during the year are as follows:**

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**Directors:** S Wapnick; DP Cohen; GH Kemp; MZ Pollack; AK Stein; PJ Strydom and JP Wapnick.
**Subsidiary companies:** Refer to schedule of interest in subsidiaries on pages 140 and 141.
**Other:** City Property Administration Proprietary Limited, a company which manages the group's property portfolio and over which significant influence is exercised by JP Wapnick.
Tugendhaft Wapnick Banchetti and Partners, a firm of attorneys that renders legal services and over which significant influence is exercised by S Wapnick.

**Related parties over which significant influence is exercised:**

Gerlan Properties Proprietary Limited
Jardtal Properties Proprietary Limited
Prensas Properties Proprietary Limited

**Related parties where control did not exist during the year:**

**Jointly controlled asset:** The Manhattan

### 35.1 City Property Administration Proprietary Limited

**Pricing policy**

- Fixed percentage of collections made
- Commission based on a percentage of the cost of property acquisitions and property sales
- Fixed percentage of the aggregate of the group's average market capitalisation and total indebtedness to banks and other financial institutions in respect of mortgage bond loans and other unsecured loans

# notes to the financial statements – continued

for the year ended 31 August 2017

## 35. Related party transactions – continued

### 35.1 City Property Administration Proprietary Limited – continued

| | |
|---|---|
| **Management fee** | 0.5% of the average market capitalisation (based on daily closing price) plus secured and unsecured loans |
| **Collection fee** | |
| Commercial | 5% plus VAT of gross receipts |
| Residential | 7.5% plus VAT of gross receipts |
| Offices | 7.5% plus VAT of gross receipts for lettable units smaller than 500m² and the remainder at 5% plus VAT of gross receipts |
| **Commission** | |
| Major repairs and renovations | 5% plus VAT of cost of repairs between R30 000 and R10 million and 3% plus VAT of cost above R10 million |
| Acquisition of properties | 3% plus VAT of cost and if in excess of R10 million by agreement between parties |
| New construction and development | By agreement between parties, but not less than 3% plus VAT of the cost |
| Properties disposed of | 2%-3% plus VAT of the proceeds and in excess of R6.0 million by agreement between parties |
| **Letting fee** | |
| Commercial | A percentage of gross receipts plus VAT as follows:<br>2.5% – first two years<br>1.25% – next three years<br>0.75% – next three years<br>0.5% – balance of the lease term,<br>in respect of new commercial leases and for the renewal of existing leases,<br>R2 000 plus VAT or 50% plus VAT of the first month's rental, whichever is the lesser |
| Residential | R1 000 plus VAT in respect of new residential leases |

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| The following related party transactions took place in the group during the year under review: | | | | |
| **Type of transactions** | | | | |
| Income | | | | |
| Rent received | **9 961** | 8 292 | **6 579** | 6 324 |
| Expenditure | | | | |
| Management fees | **51 471** | 50 044 | **2 938** | 50 044 |
| Collection fees | **123 736** | 116 190 | **10 312** | 9 482 |
| Commissions paid | **11 591** | 12 623 | **711** | 846 |
| Commissions paid on sale and purchase of investment property, major repairs and renovations, and new construction | **4 967** | 6 169 | **1 023** | 375 |
| Trade and other receivables | **605** | – | **–** | – |
| Trade and other payables | **–** | 2 507 | **146** | 946 |
| **35.2 Tugendhaft Wapnick Banchetti and Partners** | | | | |
| **Pricing policy** | | | | |
| Market related | | | | |
| **Expenditure** | | | | |
| Professional and legal fees | **639** | 1 515 | **33** | 633 |

| | consolidated | | company | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| **35. Related party transactions – continued** | | | | |
| **35.3 Related party transactions with subsidiaries** | | | | |
| **Dividends received** | | | | |
| Anke Properties Proprietary Limited | **–** | – | **6 495** | 6 763 |
| IPS Investments Proprietary Limited | **–** | – | **66 017** | 135 350 |
| Killarney Mall Properties Proprietary Limited | **–** | – | **11 600** | 16 000 |
| Octprop Properties Proprietary Limited | **–** | – | **–** | 1 232 |
| Premium Properties Limited | **–** | – | **360 000** | 293 400 |
| Presmooi Proprietary Limited | **–** | – | **102 250** | 90 400 |
| Ramreg Properties Proprietary Limited | **–** | – | **1 151** | 1 065 |
| Tribeca Properties Proprietary Limited | **–** | – | **5 150** | 4 440 |
| Waverley Plaza Properties Proprietary Limited | **–** | – | **30 285** | 26 200 |
| Woodmead Mart Proprietary Limited | **–** | – | **30 800** | 55 830 |
| | **–** | – | **613 748** | 630 680 |
| **Interest received** | | | | |
| Premium Properties Limited | **–** | – | **7 274** | 8 319 |
| Woodmead Mart Proprietary Limited | **–** | – | **18 012** | 6 396 |
| | **–** | – | **25 286** | 14 715 |
| Refer to notes 6 and 23 for further information. | | | | |
| **35.4 Directors' and prescribed officers' remuneration** | | | | |
| S Wapnick (Chairman) | **1 112** | 1 033 | | |
| DP Cohen (Lead independent director) | **816** | 847 | | |
| GH Kemp | **744** | 801 | | |
| MZ Pollack | **787** | 778 | | |
| AK Stein | **675** | 649 | | |
| PJ Strydom | **782** | 839 | | |
| JP Wapnick | **656** | 649 | | |
| | **5 572** | 5 596 | | |
| VAT and SDL contributions | **50** | – | | |
| | **5 622** | 5 596 | | |

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Salary R'000** | **Pension fund contributions R'000** | **Total R'000** | Salary R'000 | Pension fund contributions R'000 | Total R'000 |
| AK Stein | **2 597** | **47** | **2 644** | 2 154 | 43 | 2 197 |
| JP Wapnick | **2 707** | **–** | **2 707** | 2 658 | – | 2 658 |
| S Wapnick | **1 435** | **–** | **1 435** | 1 223 | – | 1 223 |
| | **6 739** | **47** | **6 786** | 6 035 | 43 | 6 078 |

There are no service contracts in place with the directors of Octodec. The proportionate salaries paid by City Property for Messrs JP Wapnick and AK Stein, the executive directors of Octodec, who are employed by City Property, are based on an approximation of the time spent on Octodec in relation to their employment at City Property for the year ended 31 August 2017. Ms S Wapnick, the non-executive chairman, was remunerated by City Property on an approximation of her time spent on Octodec affairs.

# notes to the financial statements – continued

for the year ended 31 August 2017

| | consolidated | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | **R'000** | **%** | R'000 | % |
| **36. Segmental report** | | | | |
| **36.1. Segmental reporting** | | | | |
| The group earns revenue in the form of property rentals. On a primary basis the group is organised into six operating segments: | | | | |
| Office | | | | |
| High street shops | | | | |
| Shopping centres | | | | |
| Industrial | | | | |
| Parking | | | | |
| Residential | | | | |
| **Rental income by sector** | | | | |
| Offices | **317 388** | **22.2** | 269 100 | 19.6 |
| High street shops | **379 847** | **26.6** | 398 439 | 28.9 |
| Shopping centres | **143 201** | **10.0** | 134 786 | 9.8 |
| Industrial | **114 799** | **8.0** | 110 253 | 8.0 |
| Parking | **60 704** | **4.2** | 57 775 | 4.2 |
| Residential | **414 511** | **29.0** | 406 661 | 29.5 |
| Total rental income | **1 430 450** | **100.0** | 1 377 014 | 100.0 |
| Recoveries | **400 896** | | 393 424 | |
| Revenue | **1 831 346** | | 1 770 438 | |

Further segmental results cannot be allocated on a reasonable basis due to the "mixed use" of certain of the properties. It is the group's policy to invest predominantly in properties situated in the Gauteng area, therefore the group has not reported on a geographical basis.

| | consolidated | |
|---|---|---|
| | **2017 R'000** | 2016 R'000 |
| **36.2. Reconciliation of earnings to distributable earnings** | | |
| **Reconciliation of earnings to headline earnings** | | |
| Profit after taxation | **687 695** | 857 162 |
| Adjusted for: | | |
| Profit on sale of investment property | **(2 943)** | (8 490) |
| Reversal of impairment of loans | **–** | (378) |
| Fair value changes | | |
| Investment property | **(235 106)** | (285 914) |
| Investment property – joint ventures | **(2 572)** | (6 872) |
| **Headline earnings attributable to shareholders** | **447 074** | 555 508 |
| **Reconciliation of headline earnings to distributable earnings** | | |
| Fair value adjustments – interest rate derivatives | **77 010** | (17 191) |
| Straight-line rental income accrual | **4 905** | (2 567) |
| Deferred taxation | **7 443** | – |
| Once-off reinstatement contribution from tenant | **–** | (25 000) |
| **Distributable earnings attributable to shareholders** | **536 432** | 510 750 |

**37. Events after reporting date**

A dividend of 98.3 cents per share (2016: 103.1 cents per share) was declared after the reporting date.

The directors are not aware of any other events subsequent to 31 August 2017 and up to the date of approval of these financial statements, not arising in the normal course of business which are likely to have a material effect on the financial information contained in this report.

# property portfolio information

for the year ended 31 August 2017

## 1. Investment properties owned by the group

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Centurion** | | | | | | | |
| Andpot* | Warehouses | 47 | | 988 | 3 029 | 1 752 | – |
| FNB Centurion* | Shops | 151 | – | 3 048 | 6 590 | 1 863 | 53.5 |
| Lenchen Centre* | Shops | 118 | – | 4 719 | 9 245 | 3 331 | – |
| Lenchen Park* | Shops and workshops | 72 | – | 4 745 | 11 000 | 5 435 | – |
| Prime Cure House*† | Offices | 77 | – | 2 847 | 4 622 | 2 689 | – |
| The Hangar | 260 flats | – | 5 624 | 17 022 | 19 342 | 19 962 | 7.2 |
| Weighted average rental and vacancy per location | | **93** | **5 624** | **33 369** | **53 828** | **35 032** | **6.9** |
| **Hatfield** | | | | | | | |
| Absa Hatfield† | Offices | 141 | – | 7 513 | 1 276 | 3 448 | – |
| Blagil* | House | Sold | – | 57 | – | – | – |
| Highlands* | 18 flats | – | 6 959 | 1 236 | 1 461 | 1 156 | 18.2 |
| Intersite* | Gym and office | 118 | – | 6 313 | 17 213 | 5 599 | 22.0 |
| Protea Hotel* | Hotel and shops | 71 | – | 5 065 | 2 803 | 5 363 | – |
| Talland (2)* | Motor showroom | 119 | – | 272 | 1 664 | 570 | – |
| The Fields* | Hotel, shops, offices and 765 flats | 116 | 5 794 | 87 226 | 19 793 | 53 971 | 10.3 |
| Weighted average rental and vacancy per location | | **121** | **6 377** | **107 682** | **44 210** | **70 107** | **10.0** |
| **Hermanstad** | | | | | | | |
| Erf One Eight One* | Factories, workshops and warehouses | 29 | – | 4 166 | 30 610 | 12 865 | – |
| Hannyhof Centre | Shops | 56 | – | 1 152 | 5 733 | 1 754 | – |
| Hardwood | Warehouse | 27 | – | 363 | 5 239 | 1 112 | – |
| Pretboy | Factories | 42 | – | 507 | 5 102 | 850 | – |
| Steyns Industrial Park* | Warehouses | 31 | – | 5 222 | 25 240 | 11 668 | – |
| Talkar | Warehouses | 47 | – | 4 691 | 12 759 | 6 873 | – |
| Weighted average rental and vacancy per location | | **39** | **–** | **16 101** | **84 683** | **35 122** | **–** |
| **Johannesburg and surrounding areas** | | | | | | | |
| 3 West Street* | Shops and offices | 76 | – | 2 867 | 2 009 | 3 272 | 14.2 |
| CCMA Place* | Shops and offices | 80 | – | 3 830 | 1 785 | 4 152 | 5.9 |
| Druthon Centre* | Shops and offices | 72 | – | 1 765 | 2 362 | 3 398 | 41.8 |
| Erand Gardens*† | Offices | 133 | – | 4 911 | 6 484 | 2 663 | – |
| Iskemp | Warehouse and offices | 32 | – | 1 288 | 12 742 | 6 980 | 47.7 |
| Kempton Place*^ | Shops and 469 flats | 97 | 4 959 | 33 284 | 39 770 | 32 582 | 14.9 |
| Killarney Mall* | Shopping centre and offices | 136 | – | 77 612 | 57 603 | 46 945 | 8.4 |
| Kyalami Crescent* | Warehouses and mini factories | 54 | – | 6 060 | 3 503 | 9 634 | – |
| McCarthy Midrand*† | Motor dealerships | 90 | – | 4 050 | 8 639 | 3 692 | – |
| Motor City Strijdom Park | Shops and workshops | 86 | – | 5 275 | 10 326 | 6 769 | 26.2 |
| Pretwade | Workshops | 33 | – | 1 426 | 6 719 | 3 380 | – |
| The Manhattan^ | Greenfield residential development | – | 7 279 | 805 | 13 335 | 9 900 | 55.0 |
| Woodmead Value Mart* | Value Mart shopping centre | 150 | – | 35 678 | 42 255 | 18 093 | – |
| Weighted average rental and vacancy per location | | **116** | **6 119** | **178 851** | **207 532** | **151 460** | **10.6** |
| **Johannesburg CBD** | | | | | | | |
| 119 Albertina Sisulu Street* | Shops and offices | Vacant | – | – | 496 | 1 639 | 100.0 |
| 121 Albertina Sisulu Street* | Shops | 60 | – | 440 | 245 | 613 | – |

*Properties securing long-term borrowings (notes 2 and 16).

^Properties in which the group has a 50% interest.

†Single tenanted property

# property portfolio information – continued

for the year ended 31 August 2017

## 1. Investment properties owned by the group – continued

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Johannesburg CBD** – continued | | | | | | | |
| Anderson Place* | Shops and offices | 63 | – | 5 650 | 992 | 5 385 | – |
| Arlington House* | Shops and offices | 142 | – | 4 451 | 2 480 | 2 905 | 13.2 |
| Armadale* | Shops and 82 flats | 84 | 5 176 | 10 132 | 1 982 | 12 356 | 13.9 |
| Bradlows Corner* | Shops | 64 | – | 1 331 | 991 | 2 168 | 25.0 |
| Bram Fischer Towers* | Shops, offices and parking | 77 | – | 7 328 | 2 447 | 11 697 | 35.7 |
| Brisk Place* | Shops and 93 flats | 85 | 4 075 | 6 262 | 1 004 | 5 624 | 8.1 |
| Castle Mansions* | Shops and 177 flats | 136 | 4 235 | 19 086 | 2 477 | 16 164 | 4.1 |
| City Block | Workshops | 19 | – | 874 | – | 4 074 | – |
| CPA Place* | Shops, offices and 194 flats | 102 | 4 699 | 6 503 | 991 | 4 818 | 3.6 |
| Dan's Place* | Shops and 150 flats | 124 | 5 039 | 9 708 | 1 490 | 8 116 | 13.6 |
| Education Centre* | Shops, offices and parking | 141 | – | 4 477 | 1 983 | 10 924 | 76.6 |
| Elephant House* | Offices | 67 | – | 2 942 | 990 | 4 777 | 31.8 |
| Empisal | Shops and offices | 73 | – | 1 428 | 497 | 1 628 | – |
| Essenby | Shops and 116 flats | 158 | 5 003 | 7 536 | 992 | 6 306 | 17.1 |
| Fedsure House* | Shops, offices and parking | 59 | – | 1 172 | 3 488 | 19 896 | 99.9 |
| Fine Art Court | Shops and 35 flats | Sold | 3 823 | 1 349 | – | – | – |
| Fine Art House | Shops and offices | Sold | – | 381 | – | – | – |
| Focus House* | Shops and offices | 55 | – | 1 890 | 501 | 3 033 | 3.2 |
| Frank's Place* | Shops and 106 flats | 123 | 4 569 | 16 249 | 2 234 | 12 278 | 8.8 |
| High Court Building and Somerset House | Shops, offices and 20 flats | Sold | – | 109 | – | – | – |
| Howard House | Shops and offices | 102 | – | 1 572 | 248 | 1 627 | 8.8 |
| Inner Court* | Shops, offices and parking | 99 | – | 12 908 | 3 733 | 23 548 | 54.5 |
| Jeppe House* | Shops and offices | 63 | – | 5 204 | 988 | 7 777 | – |
| John Street* | Warehouses | 40 | – | 6 621 | 14 782 | 14 300 | 6.7 |
| Kings City Parkade* | Shops and parking | 218 | – | 7 149 | 1 985 | 1 578 | – |
| Klamson Towers* | Shops and offices | 77 | – | 4 883 | 992 | 6 571 | 21.0 |
| Lara's Place* | Shops, offices, 142 flats and parking | 120 | 4 401 | 10 372 | 1 495 | 7 323 | 6.9 |
| Lister Medical Centre* | Shops and offices | 91 | – | 17 353 | 1 983 | 15 172 | 32.3 |
| London House | Shops and offices | 44 | – | 2 025 | – | 4 240 | 11.8 |
| Lusam Mansions* | Shops, store room and 82 flats | 181 | 3 650 | 4 332 | 497 | 3 753 | 11.8 |
| Marlborough House | Shops and offices | 118 | – | 8 600 | 2 775 | 8 259 | 25.8 |
| Medical Towers* | Shops and offices | 168 | – | 1 918 | 991 | 5 607 | 85.0 |
| Mr Price* | Shops and offices | 110 | – | 4 292 | 991 | 3 413 | 5.7 |
| North City* | Shops and offices | 94 | – | 6 817 | 1 489 | 8 607 | 38.6 |
| Plaza Place* | Shops and 214 flats | 77 | 4 141 | 10 631 | 1 495 | 8 370 | 10.3 |
| Presmooi | Shops and offices | 52 | – | 2 339 | 2 975 | 4 094 | 1.4 |
| Raschers | Shops | Sold | – | 66 | – | – | – |
| Record House* | Shops and 41 flats | 148 | 3 956 | 2 529 | 248 | 1 516 | – |
| Reinsurance House | Offices | Mothballed | – | – | 1 986 | 15 034 | 100.0 |
| Reliance Centre* | Offices and warehouses | 36 | – | 2 332 | 1 691 | 7 099 | 23.3 |
| Ricci's Place* | Shops and 281 flats | 125 | 4 557 | 15 772 | 2 475 | 10 421 | 10.7 |
| Royal Place* | Shops, offices and 155 flats | 103 | 4 736 | 16 894 | 10 773 | 14 643 | 14.2 |
| Selby 515* | Factories | 40 | – | 3 327 | 12 288 | 6 416 | – |
| Shoprite – Eloff Street*† | Shops and offices | 8 | – | 3 198 | 3 968 | 31 740 | – |
| Splendid Place* | Shops and 150 flats | 153 | 5 162 | 8 932 | 1 492 | 8 514 | 12.0 |
| Tali's Place* | Shops and 337 flats | 60 | 3 941 | 18 305 | 3 718 | 17 894 | 12.9 |

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Johannesburg CBD –** continued | | | | | | | |
| Temple Court* | Shops and 45 flats | 142 | 4 473 | 2 848 | 249 | 2 335 | 4.5 |
| The Brooklyn* | Shops and 154 flats | 55 | 3 911 | 5 964 | 992 | 6 070 | 2.0 |
| Union Club* | Shops and 72 flats | 236 | 4 357 | 5 023 | 644 | 3 687 | 11.9 |
| Vuselela Place* | Shops, offices and 193 flats | 179 | 4 216 | 11 148 | 1 735 | 9 098 | 2.8 |
| Wits Technikon*† | Colleges | 30 | – | 3 836 | 3 969 | 16 937 | – |
| Works@Main* | Shops and offices | 27 | – | 1 652 | 991 | 5 109 | 3.5 |
| Weighted average rental and vacancy per location | | **68** | **4 406** | **318 140** | **110 918** | **415 153** | **24.1** |
| **Tshwane – Arcadia** | | | | | | | |
| 470 Pretorius Street† | Vacant land | – | – | 306 | 917 | 917 | – |
| Apollo Centre | Shops, offices and parking | 54 | – | 5 437 | 2 552 | 9 844 | 18.4 |
| Benrico* | Shops, offices, store and parking | 42 | – | 1 277 | 1 499 | 2 442 | 21.9 |
| BP Leyds Street* | Garage and vacant land | 62 | – | 1 435 | 5 452 | 1 411 | – |
| Corner Place* | 112 flats | – | 4 964 | 5 818 | 1 913 | 3 722 | 4.9 |
| Craig's Place* | 154 flats | – | 4 733 | 8 069 | 2 889 | 5 149 | 7.7 |
| LPA Beleggings | Workshop | 30 | – | 380 | 1 914 | 1 054 | – |
| Leo's Place | Shops and 167 flats | 143 | 5 058 | 8 552 | 3 416 | 6 353 | 13.3 |
| Ludwigs | Showroom | 44 | – | 845 | 2 552 | 1 529 | – |
| MBA Building* | Offices | 90 | – | 2 677 | 1 276 | 3 050 | 13.9 |
| McCarthy Church Street*† | Motor dealerships | 108 | – | 4 114 | 6 461 | 3 199 | – |
| Monaco | 27 flats | – | 6 141 | 1 718 | 4 718 | 2 649 | 5.9 |
| Nedbank Plaza* | Shops, offices, 144 flats and parking | 97 | 6 034 | 19 258 | 10 207 | 23 031 | 32.2 |
| Numall* | Shops and college | 62 | – | 4 302 | 8 588 | 5 220 | – |
| Provisus* | Offices and shops | 99 | – | 6 789 | 2 552 | 5 854 | 1.0 |
| Tiny Town | House, 14 cottages and vacant land | – | 7 661 | 633 | 7 492 | 1 640 | 49.3 |
| Weighted average rental and vacancy per location | | **76** | **5 765** | **71 610** | **64 398** | **77 064** | **16.4** |
| **Tshwane CBD** | | | | | | | |
| 228 Pretorius Street | Shops and offices | 88 | – | 3 762 | 696 | 3 485 | 2.7 |
| 250 Pretorius Street* | Shops and offices | 84 | – | 2 868 | 812 | 4 033 | 28.5 |
| 28 Church Square* | Shops and offices | 82 | – | 5 436 | 1 276 | 6 786 | 11.6 |
| Alec's Place* | Shops and 95 flats | 132 | 5 177 | 5 742 | 1 357 | 5 182 | 14.7 |
| Amanda Court* | Shops and 23 flats | 93 | 5 073 | 2 771 | 2 186 | 2 603 | 3.5 |
| AVN*† | Shops, offices and parking | 90 | – | 8 324 | 2 374 | 7 073 | – |
| Bank Towers* | Offices | 124 | – | 9 182 | 1 722 | 7 527 | 16.6 |
| Bosch Building | Parking | – | – | 424 | 1 276 | – | – |
| Boschurch | Shops | 74 | – | 801 | 638 | 922 | – |
| Burlan* | Shop and offices | 59 | – | 1 154 | 480 | 1 951 | – |
| Callaway* | Shop and warehouse | 40 | – | 1 003 | 2 552 | 2 002 | – |
| Capitol Towers North* | Shops and offices | 93 | – | 15 425 | 2 966 | 13 883 | 1.2 |
| Central House* | Shops and offices | 127 | – | 6 625 | 2 552 | 5 592 | 20.8 |
| Central Towers* | Shops and offices | 132 | – | 7 327 | 1 299 | 7 459 | 37.5 |
| Centre Place* | Shops, 234 flats and parking | 182 | 4 665 | 18 394 | 3 509 | 11 142 | 17.2 |
| Centre Walk* | Shops, offices and parking | 108 | – | 34 577 | 7 582 | 25 407 | 4.5 |
| City Corner* | Shops | 117 | – | 1 958 | 1 740 | 1 460 | 2.4 |
| City Place* | Shops and 298 flats | 102 | 4 912 | 17 855 | 5 725 | 11 513 | 5.5 |
| City Towers* | Shop and office | 103 | – | 2 288 | 1 134 | 2 944 | 37.8 |
| CPA House* | Shops, offices and parking | 81 | – | 8 149 | 5 104 | 7 893 | – |
| Curpro | Parking | 271 | – | 546 | 2 552 | 157 | – |
| Cuthchurch* | Basement, shops and offices | 109 | – | 9 136 | 2 551 | 9 656 | 47.3 |
| Daloria* | Shops | 64 | – | 1 121 | 1 873 | 1 538 | – |
| Damalis | Vacant land | 140 | – | 248 | 917 | 499 | 100.0 |
| Demar Building* | Shops, basement parking and 70 flats | 44 | 5 366 | 4 635 | 2 225 | 4 991 | 4.3 |
| Du Proes | Vacant land | – | – | 1 570 | 5 204 | 1 835 | 4.1 |

*Properties securing long-term borrowings (notes 2 and 16).
†Single tenanted property

^Properties in which the group has a 50% interest.

# property portfolio information – continued

for the year ended 31 August 2017

## 1. Investment properties owned by the group – continued

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Tshwane CBD – continued** | | | | | | | |
| Dupro | Vacant land | – | – | 136 | 1 933 | 903 | 58.0 |
| Dusku* | Motor showroom | 53 | – | 214 | 334 | 336 | – |
| Eland House | Shops, warehousing and 21 flats | 133 | 4 911 | 1 296 | 2 552 | 1 497 | 29.7 |
| Filkem House | Shops, offices and basement | 160 | – | 2 108 | 443 | 1 568 | 34.8 |
| FNB Church Street | Shops and offices | 36 | – | 460 | 761 | 1 523 | 30.6 |
| Govpret* | Shops, offices and parking | 98 | – | 7 942 | 2 552 | 6 216 | – |
| Hacklu Enterprises | Shops | 119 | – | 931 | 986 | 683 | 2.2 |
| Indacom | Shops and warehouses | 33 | – | 2 307 | 6 663 | 5 917 | – |
| Jardown* | Shops, warehousing and workshops | 43 | – | 3 964 | 12 175 | 9 056 | 31.3 |
| Jeff's Place* | 384 flats and parking | – | 4 632 | 20 789 | 4 842 | 14 771 | 5.9 |
| Joan's Place* | Shops and 28 flats | 122 | 3 695 | 1 468 | 1 195 | 1 187 | 8.8 |
| Karps* | Shops and 6 flats | 58 | 5 057 | 720 | 2 764 | 2 370 | 28.5 |
| Ken's Court* | Shop and 46 flats | 63 | 5 417 | 3 604 | 3 166 | 3 681 | 11.4 |
| Letari Building | Shops, offices and warehouses | 33 | – | 997 | 2 561 | 3 008 | 17.5 |
| Lisa's Place | 97 flats | – | 4 920 | 4 809 | 2 552 | 3 090 | 8.9 |
| Locarno House* | Shops and offices | 110 | – | 4 527 | 1 703 | 5 355 | 35.7 |
| Louis Pasteur* | Shops, offices, hospital and parking | 84 | – | 38 900 | 12 760 | 35 061 | 1.1 |
| Maravin | Shops | 82 | – | 413 | 553 | 790 | 46.8 |
| MidChurch | Shops | 19 | – | 54 | 654 | 1 424 | 100.0 |
| Midtown | Shops, offices and parking | 92 | – | 715 | 2 136 | 8 382 | 100.0 |
| Navy House* | Shops and offices | 116 | – | 5 266 | 1 235 | 6 881 | 48.9 |
| Olivetti House | Offices | 65 | – | 2 889 | 2 582 | 3 791 | 4.7 |
| One on Mutual | Greenfield residential development with retail and parking | 102 | 5 345 | 3 838 | 2 552 | 7 475 | 31.1 |
| Orpheum Mansions | Shops and 22 flats | 72 | 4 567 | 2 322 | 1 485 | 2 739 | – |
| Parking@Sophie de Bruyn | Parking | – | – | 225 | 1 181 | – | – |
| Paulefko | Shop | Sold | – | 62 | – | – | – |
| Perl Modes Building* | Shops and college | 97 | – | 2 591 | 1 577 | 2 170 | – |
| Pete's Place* | Shops and 181 flats | 166 | 4 368 | 8 671 | 1 782 | 6 916 | 8.9 |
| Potmeul | Vacant land | – | – | – | 16 523 | – | – |
| Potproes* | Shops, workshop, warehouse, filling station and motor showroom | 47 | – | 4 386 | 30 071 | 9 217 | 7.4 |
| Poyntons* | Shop and offices | 59 | – | 2 396 | 2 001 | 3 150 | – |
| Praetor Forum* | Shop and offices | 100 | – | 5 685 | 2 132 | 6 105 | 26.7 |
| Premium Towers | Shop and offices | 118 | – | 7 701 | 1 418 | 7 724 | 29.1 |
| Pretjolum* | Shops, offices, workshop and warehouse | 50 | – | 4 127 | 9 316 | 6 833 | 2.1 |
| Prime Towers* | Shops, offices and basement | 91 | – | 3 852 | 638 | 4 118 | 13.3 |
| Prinsben* | Shops | 73 | – | 1 043 | 2 552 | 1 312 | 13.9 |
| Prinschurch* | Shops, offices and parking | 123 | – | 3 561 | 2 552 | 13 128 | 85.8 |
| Prinsman* | Shops, offices, parking and 175 flats | 68 | 4 803 | 13 718 | 12 979 | 12 202 | 14.8 |
| Prinsproes | Shops and offices | 36 | – | 1 708 | 2 378 | 4 622 | 73.9 |
| Prinstruben | Shops | 55 | – | 1 119 | 2 552 | 2 209 | 5.1 |

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Tshwane CBD – continued** | | | | | | | |
| Protea Towers* | Offices and parking | 114 | – | 6 195 | 1 862 | 9 371 | 44.7 |
| Provincial House | Shops and offices | 41 | – | 252 | 1 060 | 2 175 | 65.6 |
| Rapier* | Shops | 129 | – | 1 511 | 5 710 | 920 | – |
| Rezmep | Shops, offices and warehousing | 76 | – | 10 905 | 12 298 | 12 435 | 8.3 |
| Ross Electrical | Shop | – | – | – | 583 | 263 | 100.0 |
| Russell's Place* | Shops and 191 flats | 92 | 4 429 | 10 634 | 3 022 | 8 144 | 9.0 |
| Samchurch* | Shops, basement and vacant land | 309 | – | 742 | 3 237 | 189 | – |
| SchoeCourt | Shops and storeroom | 26 | – | 782 | 2 738 | 2 451 | 5.3 |
| Scott's Corner* | Shops | 74 | – | 4 582 | 5 104 | 4 810 | – |
| Sharon's Place* | Greenfield residential development with shops and parking. | – | – | 1 274 | 8 922 | 19 146 | – |
| Sharp Centre | Shops and offices | 40 | – | 951 | 2 552 | 2 128 | 8.6 |
| Shepstru* | Shops, offices and storeroom | 41 | – | 1 550 | 2 378 | 3 050 | 0.8 |
| Shoprite* | Shops and offices | 64 | – | 15 414 | 7 358 | 18 900 | – |
| SKD | Offices, shops and warehouse | 39 | – | 1 789 | 7 962 | 3 975 | 7.6 |
| Standard Bank Chambers* | Offices and bank | 79 | – | 6 825 | 1 741 | 7 782 | 14.7 |
| Station Place* | Shops and 369 flats | 31 | 4 600 | 18 193 | 7 656 | 16 329 | 6.7 |
| Steyn's Place* | Shops and 381 flats | 148 | 4 748 | 23 224 | 3 816 | 15 638 | 6.5 |
| Steynscor* | Shops and offices | 137 | – | 7 306 | 5 104 | 3 812 | – |
| Time Place | Shops and 144 flats | 120 | 4 262 | 7 484 | 1 429 | 5 381 | 10.9 |
| Toitman | Shops and offices | 48 | – | 1 315 | 13 034 | 2 139 | – |
| Tom's Place* | 320 flats | – | 4 682 | 17 123 | 6 816 | 9 984 | 9.1 |
| Tuel | Shops | 69 | – | 969 | 740 | 1 093 | – |
| Valcourt | Shops and offices | 34 | – | 961 | 3 480 | 2 575 | 11.2 |
| Vanstrub | Shops and warehouse | 53 | – | 3 320 | 5 104 | 4 450 | 6.1 |
| Viskin | Workshop | 52 | – | 217 | 3 536 | 312 | – |
| Van Riebeeck Building | Offices | – | – | – | 2 552 | 9 661 | 100.0 |
| Volks Building* | Parking | – | – | 516 | 1 276 | – | – |
| Weighted average rental and vacancy per location | | **84** | **4 953** | **486 869** | **344 163** | **522 056** | **20.7** |
| **Tshwane East** | | | | | | | |
| Elarduspark Shopping Centre* | Shopping centre | 143 | – | 17 208 | 1 876 | 12 220 | 12.4 |
| Odeon Forum*† | Offices | 137 | – | 8 057 | 6 788 | 3 121 | – |
| Weighted average rental and vacancy per location | | **139** | **–** | **25 265** | **8 664** | **15 341** | **9.9** |
| **Tshwane North** | | | | | | | |
| Blaauw Village*^ | Shopping centre | 110 | – | 9 389 | 17 862 | 7 265 | 1.1 |
| Erf Agt Nul Nege | Shops | 62 | – | 872 | 2 552 | 1 755 | 54.2 |
| Erf Six Five One | Factories | 40 | – | 571 | 2 552 | 1 355 | – |
| Normed* | Shops and offices | 59 | – | 3 729 | 7 655 | 5 902 | 14.4 |
| Ramreg | Shops, house and 19 flats | 72 | 4 026 | 1 677 | 5 104 | 1 765 | – |
| Rosnew | Shops, workshop and petrol station | 84 | - | 5 195 | 19 016 | 6 437 | 21.1 |

**Properties securing long-term borrowings (notes 2 and 16).*

*†Single tenanted property*

*^Properties in which the group has a 50% interest.*

# property portfolio information – continued

for the year ended 31 August 2017

## 1. Investment properties owned by the group – continued

| Property name and location | Description of buildings | Weighted average rental per m² at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m² | GLA m² | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Tshwane North – continued** | | | | | | | |
| Tronap Investments | Shops | 44 | – | 890 | 2 552 | 1 598 | – |
| Weighted average rental and vacancy per location | | **80** | **4 026** | **22 323** | **57 293** | **26 077** | **12.8** |
| **Tshwane Other** | | | | | | | |
| Persequor Park* | Offices and parking | 113 | – | 11 831 | 16 526 | 8 073 | – |
| 91 Rauch | Land | – | – | – | 1 983 | – | – |
| Rentmeester Park* | Offices and parking | 103 | 4 115 | 21 397 | 17 232 | 12 259 | 0.7 |
| Valhof* | Shops and offices | Sold | – | 1 162 | | – | – |
| Weighted average rental and vacancy per location | | **121** | **4 115** | **34 390** | **35 741** | **20 332** | **0.4** |
| **Tshwane West** | | | | | | | |
| Asland* | Warehouse and workshops | 32 | – | 1 915 | 9 993 | 5 276 | 13.4 |
| Carlzeil* | Workshops and warehouses | 37 | – | 2 285 | 14 040 | 8 677 | 20.0 |
| Goleda | Shops, showroom, warehouse, workshops and 10 flats | 28 | – | 1 668 | 11 240 | 7 504 | 28.9 |
| Grariv* | Two flats | – | 5 772 | 117 | 6 828 | 270 | – |
| Henwoods | Factories | 47 | – | 1 904 | 5 710 | 3 577 | 7.4 |
| H&S Mansions | Shops, factories and 10 flats | 31 | 4 417 | 1 572 | 3 847 | 3 504 | 0.9 |
| Imbuia* | 11 flats | – | 5 163 | 617 | 12 529 | 1 155 | 27.3 |
| Ischurch* | Shops, offices, warehouse, 8 flats, workshops and house | 33 | 4 170 | 2 502 | 13 336 | 6 778 | 13.4 |
| Jakaranda* | 33 flats | – | 4 270 | 1 679 | 12 529 | 1 782 | – |
| Kiaat* | 40 flats | – | 4 247 | 2 028 | 12 529 | 3 080 | 10.0 |
| Lasmitch Properties† | Warehouse and showroom | 26 | – | 1 016 | 2 855 | 3 272 | – |
| Lutbridge | Shops and warehouse | 32 | – | 1 939 | 7 138 | 5 328 | 1.5 |
| Metromitch* | Shops, showroom, warehouse and 33 flats | 31 | 4 740 | 4 592 | 13 364 | 10 245 | 15.6 |
| Mimosa* | 18 flats | – | 4 985 | 1 071 | 12 529 | 1 890 | 11.1 |
| Mitchpap | Shops and warehouses | 39 | – | 1 930 | 5 710 | 4 414 | 12.0 |
| Nedwest Centre* | Shops and warehouses | 44 | – | 4 357 | 40 740 | 9 367 | 5.8 |
| Panag Investments | Shops and workshops | 40 | – | 950 | 2 855 | 1 970 | – |
| Rosemitch* | Warehouse, workshop and 14 flats | 22 | 3 394 | 3 086 | 15 703 | 9 759 | 22.5 |
| Rovon Investments | Shops, workshops and warehouses | 49 | – | 1 927 | 9 719 | 4 304 | 30.1 |
| Soutwest Properties* | Warehouses and workshops | 57 | – | 1 411 | 2 855 | 1 839 | – |
| Syringa* | 40 flats | – | 4 558 | 2 103 | 12 529 | 3 633 | 13.7 |
| Weighted average rental and vacancy per location | | **34** | **4 632** | **40 669** | **228 578** | **97 624** | **668** |

| Property name and location | Description of buildings | Weighted average rental per m$^2$ at 31 August 2017 – commercial | Weighted average rental per unit at 31 August 2017 – residential | Rental income R'000 | Site area m$^2$ | GLA m$^2$ | Vacancy at 31 August 2017 % |
|---|---|---|---|---|---|---|---|
| **Silverton and surrounding areas** | | | | | | | |
| Brianley | Warehouse and workshops | 38 | – | 4 707 | 16 372 | 13 268 | 23.1 |
| Janvoel | Shops | 41 | – | 880 | 4 461 | 1 798 | – |
| Muntstreet | Factories | 18 | – | 714 | – | – | – |
| Notrevlis | Shops and warehouses | 53 | – | 1 025 | 5 093 | 2 173 | 0.7 |
| Sildale Park* | Industrial park | 43 | – | 12 054 | 113 414 | 22 771 | 8.3 |
| Silver Place* | Shops, 232 flats and parking | 43 | 5 144 | 22 047 | 23 555 | 26 167 | 4.6 |
| Silverfas* | Warehouses | 33 | – | 1 031 | 3 850 | 2 694 | – |
| Silvertondale 36* | Workshops and warehouses | 48 | – | 829 | 2 058 | 1 818 | – |
| Supmall | Shops | 62 | – | 943 | 2 364 | 1 326 | – |
| Tomzeil* | Warehouse and workshops | 39 | – | 3 427 | 16 865 | 6 586 | 23.3 |
| The Tannery Industrial Park* | Industrial park | 45 | – | 17 642 | 64 834 | 38 234 | 19.3 |
| Weighted average rental and vacancy per location | | **47** | **5 144** | **65 299** | **252 866** | **116 835** | **12.9** |
| **Sunnyside** | | | | | | | |
| Karelia Flats* | 48 flats | – | 4 235 | 2 381 | 1 276 | 1 464 | 3.6 |
| Les Nize Flats* | 55 flats | – | 3 837 | 2 584 | 992 | 1 456 | 10.7 |
| Savyon Place* | Shops and 28 flats | 153 | 5 167 | 3 018 | 1 637 | 2 617 | 1.6 |
| Selmar* | 19 flats | – | 5 066 | 1 090 | 1 276 | 1 512 | 15.8 |
| Sunnyside Galleries* | Offices, shops and 5 flats | 71 | 5 257 | 3 620 | 5 369 | 4 094 | 1.8 |
| The Pavilion* | Shops | 138 | – | 4 653 | 3 448 | 2 350 | 10.8 |
| The Village* | Shops | 73 | – | 4 245 | 7 226 | 5 023 | 3.1 |
| Unity Heights* | Shops and 24 flats | 118 | 5 760 | 2 626 | 1 211 | 2 254 | 2.1 |
| Weighted average rental and vacancy per location | | **96** | **4 887** | **24 217** | **22 435** | **20 770** | **4.9** |
| **Waverley, Gezina, Moot** | | | | | | | |
| Bouwer Broers | Shops | 44 | – | 1 191 | 3 844 | 2 719 | 27.5 |
| Frederika straat | Shops | Sold | – | 404 | | – | – |
| Gerlan^† | Motor dealership showroom | 233 | – | 1 210 | 1 276 | 5 174 | – |
| Gezina City Shopping Centre* | Shopping centre | 61 | – | 11 773 | 43 153 | 16 218 | – |
| Karkap Properties | Shops | Sold | – | 290 | | – | – |
| Motor City Capital Park | Shops, storerooms and workshops | 64 | – | 5 363 | 17 669 | 7 461 | 16.0 |
| Orion | Shops, warehousing and 22 flats | 43 | 4 542 | 1 770 | 1 862 | 2 405 | 14.9 |
| Ou Holland | Shops and 22 flats | 61 | 4 595 | 1 532 | 2 552 | 2 351 | 19.7 |
| Swemvoor | Shops and offices | 37 | – | 1 159 | 2 552 | 2 383 | 0.3 |
| Trekfred | Vacant land, parking and shops | 77 | – | 2 411 | 6 379 | 2 792 | 3.9 |
| Trekmin* | Shops, 48 flats and parking | 70 | 4 900 | 7 744 | 11 483 | 9 350 | 9.7 |
| Troymona | Houses | – | – | 155 | 1 081 | – | v |
| Waverley Plaza Shopping Centre* | Shopping centre | 146 | – | 20 510 | 36 215 | 11 236 | 1.2 |
| Weighted average rental and vacancy per location | | **95** | **4 679** | **55 512** | **128 066** | **62 089** | **6.3** |
| Weighted average rental and vacancy per location | | **79** | **4 826** | **1 480 297** | **1 643 375** | **1 665 062** | **17.1** |
| Investment properties 100% held | | **78** | **4 832** | **1 430 450** | **1 583 475** | **1 613 971** | |
| Investment properties 50% held | | **66** | **4 435** | **49 847** | **59 900** | **51 091** | |
| | | **79** | **4 826** | **1 480 297** | **1 643 375** | **1 665 062** | |

**Properties securing long-term borrowings (notes 2 and 16).*
*^Properties in which the group has a 50% interest.*
*†Single tenanted property*

# property portfolio analysis

for the year ended 31 August 2017

| | rental income | | property value | | gross lettable area | | site area | |
|---|---|---|---|---|---|---|---|---|
| | R'000 | % of total portfolio | R'000 | % of total portfolio | $m^2$ | % of total portfolio | $m^2$ | % of total portfolio |
| **2.1 Geographical spread by location** | | | | | | | | |
| Centurion | 33 369 | 2.3 | 298 300 | 2.3 | 35 032 | 2.1 | 53 828 | 3.3 |
| Hatfield | 107 682 | 7.3 | 919 200 | 7.0 | 70 107 | 4.2 | 44 210 | 2.7 |
| Hermanstad | 16 101 | 1.1 | 142 800 | 1.1 | 35 122 | 2.1 | 84 683 | 5.2 |
| Johannesburg and surrounding areas | 178 851 | 12.1 | 1 584 800 | 12.1 | 151 460 | 9.1 | 207 532 | 12.6 |
| Johannesburg CBD | 318 140 | 21.5 | 2 741 450 | 20.9 | 415 153 | 24.9 | 110 918 | 6.7 |
| Silverton and surrounding areas | 65 299 | 4.4 | 540 000 | 4.1 | 116 835 | 7.0 | 252 866 | 15.4 |
| Sunnyside | 24 217 | 1.6 | 168 700 | 1.3 | 20 770 | 1.2 | 22 435 | 1.4 |
| Tshwane – Arcadia | 71 610 | 4.8 | 647 600 | 4.9 | 77 064 | 4.6 | 64 398 | 3.9 |
| Tshwane CBD | 486 869 | 32.9 | 4 561 309 | 34.8 | 522 056 | 31.4 | 344 163 | 20.9 |
| Tshwane East | 25 265 | 1.7 | 216 500 | 1.7 | 15 341 | 0.9 | 8 664 | 0.5 |
| Tshwane North | 22 323 | 1.5 | 176 700 | 1.3 | 26 077 | 1.6 | 57 293 | 3.5 |
| Tshwane Other | 34 390 | 2.3 | 250 400 | 1.9 | 20 332 | 1.2 | 35 741 | 2.2 |
| Tshwane West | 40 669 | 2.7 | 328 900 | 2.6 | 97 624 | 5.9 | 228 578 | 13.9 |
| Waverley, Gezina, Moot | 55 512 | 3.8 | 512 940 | 4.0 | 62 089 | 3.8 | 128 066 | 7.8 |
| **Total 2017** | **1 480 297** | **100.0** | **13 089 599** | **100.0** | **1 665 062** | **100.0** | **1 643 375** | **100.0** |
| Total 2016 | 1 430 870 | 100.0 | 12 606 710 | 100.0 | 1 669 120 | 100.0 | 1 600 646 | 100.0 |

The weighted average annual capitalisation rate applied was 9.2% (2016: 9.2%)

| | Gross lettable area $m^2$ | Rental income R'000 | Average rental per $m^2$ |
|---|---|---|---|
| **2.2 Rental income by sector by rental area** | | | |
| Offices | 487 510 | 317 388 | 77 |
| High street shops | 420 443 | 379 847 | 88 |
| Shopping centres | 91 867 | 143 201 | 137 |
| Industrial | 270 521 | 114 799 | 40 |
| Residential (per unit) | 394 721 | 414 511 | 4 472 |
| Parking (per bay)* | – | 60 704 | 625 |
| **Total** | **1 665 062** | **1 430 450** | |

*Currently our parking is not included in our GLA for reporting purposes.*

| | $m^2$ | % of total vacancies | % of total gross lettable area | % of total portfolio properties held for redevelopment | % of core vacancies |
|---|---|---|---|---|---|
| **2.3 Vacancy profile by location** | | | | | |
| Centurion | 2 428 | 0.8 | 6.9 | | 6.9 |
| Hatfield | 7 001 | 2.4 | 10.0 | | 10.0 |
| Hermanstad | – | – | – | | – |
| Johannesburg and surrounding areas | 21 601 | 7.3 | 14.3 | (0.5) | 13.8 |
| Johannesburg CBD | 100 170 | 34.1 | 24.1 | (3.2) | 20.9 |
| Silverton and surrounding areas | 16 173 | 5.5 | 13.8 | | 13.8 |
| Sunnyside | 1 020 | 0.3 | 4.9 | | 4.9 |
| Tshwane – Arcadia | 12 632 | 4.3 | 16.4 | | 16.4 |
| Tshwane CBD | 107 843 | 36.7 | 20.7 | (3.2) | 17.5 |
| Tshwane East | 1 513 | 0.5 | 9.9 | | 9.9 |
| Tshwane North | 3 333 | 1.1 | 12.8 | | 12.8 |
| Tshwane Other | 91 | 0.0 | 0.4 | | 0.4 |
| Tshwane West | 16 411 | 5.6 | 16.8 | (0.1) | 16.7 |
| Waverley, Gezina, Moot | 3 916 | 1.4 | 6.3 | | 6.3 |
| **Total 2017** | **294 132** | **100.0** | **17.7** | **(7.0)** | **10.7** |
| Total 2016 | 260 657 | 100.0 | 15.6 | (5.8) | 9.8 |

| | Total GLA | Vacancy GLA m² | % of total vacancies | % of sector gross lettable area | GLA of properties held for redevelopment | Vacancy - GLA - core | % of core vacancies |
|---|---|---|---|---|---|---|---|
| **2.4 Vacancies by sector** | | | | | | | |
| Offices | 487 510 | 164 729 | 56.0 | 33.8 | 88 724 | 76 005 | 15.6 |
| Retail – shops | 420 443 | 43 148 | 14.7 | 10.3 | 6 416 | 36 732 | 8.7 |
| Retail – shopping centres | 91 867 | 4 260 | 1.4 | 4.6 | – | 4 260 | 4.6 |
| Industrial | 270 521 | 33 301 | 11.3 | 12.3 | – | 33 301 | 12.3 |
| Residential | 394 721 | 48 694 | 16.6 | 12.3 | 20 195 | 28 499 | 7.2 |
| **Total 2017** | **1 665 062** | **294 132** | **100.0** | **17.7** | **115 335** | **178 797** | **10.7** |
| Total 2016 | 1 669 120 | 260 657 | 100.0 | 15.6 | 96 613 | 164 044 | 9.8 |

Some properties were remeasured and some reclassifications made to the 31 August 2016 values to ensure comparability to the current year.

| | **2017 %** | 2016 % |
|---|---|---|
| **2.5 Rental escalations*** | | |
| The weighted average rental escalation per sector is as follows: | | |
| Industrial | **7.8** | 7.4 |
| Offices | **7.9** | 7.4 |
| High street shops | **7.6** | 7.5 |
| Shopping centres | **7.6** | 7.5 |

The leases in respect of residential accommodation and parking are for a 12-month period and therefore do not have an escalation clause in the agreement. Thereafter the lease is on a month-to-month basis with an increase at a negotiated percentage.

**Due to the mixed-use of our investment property and the large number of tenants, the weighted average rental escalation profile was extracted by sector but could not further be analysed by GLA as required by section 13.18(g) of the JSE Listing Requirements.*

| | **2017 % of gross lettable area** | 2016 % of gross lettable area |
|---|---|---|
| **2.6 Tenancy profile** | | |
| Profile | | |
| A | **18.8** | 20.8 |
| B | **3.8** | 6.7 |
| C | **38.7** | 35.2 |
| D | **23.3** | 21.7 |
| Vacancies | **15.4** | 15.6 |
| | **100.0** | 100.0 |

A – Large national tenants, listed tenants, government and major franchises
B – National tenants, other franchisees and medium professional firms
C – All other local tenants comprising approximately 2 820 tenants
D – Residential tenants

*The information contained in the property portfolio analysis includes 100% of the joint ventures referred to on pages 21 to 23 and not only the group's share of 50%.*

# schedule of interest in subsidiaries

for the year ended 31 August 2017

| Subsidiary name | **Cost of shares 2017 R** | Cost of shares 2016 R | **Amounts owing by/(to) subsidiaries 2017 R** | Amounts owing by/(to) subsidiaries 2016 R |
|---|---|---|---|---|
| Alert Investments Share Block Proprietary Limited | **600** | 600 | **(600)** | (600) |
| Anke Properties Proprietary Limited | **1 000** | 1 000 | **21 426 314** | 21 429 626 |
| Carine Properties Share Block Proprietary Limited | **107 875** | 107 875 | **(200)** | (300) |
| Cold Air Investments Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Dirk du Toit Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Dusku Investments Share Block Proprietary Limited | **803 933** | 803 933 | **(100)** | (100) |
| Elarduspark Shopping Centre Proprietary Limited | **7 362 821** | 7 362 821 | **(1 000)** | (1 000) |
| Erf 181 Hermanstad Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Erf 651 Pretoria North Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Erf 809 Share Block Proprietary Limited* | **95** | 95 | **(95)** | (95) |
| Fawn Properties Share Block Proprietary Limited | **–** | 200 | **–** | (200) |
| Frederika Straat Beleggings Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Gezfarm Properties Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Goleda Properties Share Block Proprietary Limited | **200** | 200 | **(200)** | (200) |
| Hannyhof Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Hardwood Properties Share Block Proprietary Limited | **3** | 3 | **(3)** | (3) |
| Henwoods (Pretoria) Development Company Share Block Proprietary Limited* | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Heracle Share Block Proprietary Limited | **753 047** | 753 047 | **(1 000)** | (8 442) |
| Indacom Properties Share Block Proprietary Limited* | **16** | 16 | **(16)** | (16) |
| IPS Investments Proprietary Limited^ | **968** | 968 | **1 202 101 063** | 896 605 824 |
| Janvoel Properties Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Karkap Properties Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Killarney Mall Properties Proprietary Limited | **2 392 153** | 2 392 153 | **261 887 974** | 257 527 041 |
| Lasmitch Properties Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Lutbridge Investment Share Block Proprietary Limited | **70** | 70 | **(70)** | (70) |
| Metromitch Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Middle Pip Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Mitchpap Share Block Proprietary Limited* | **200** | 200 | **(200)** | (200) |
| Muntstreet Properties Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Nedwest Centre Share Block Proprietary Limited | **4 000** | 4 000 | **(4 000)** | (4 000) |
| Octprop Properties Proprietary Limited | **100** | 100 | **15 155 496** | 26 094 187 |
| Panag Investments Share Block Proprietary Limited | **200** | 200 | **(200)** | (200) |
| Potproes Properties Share Block Proprietary Limited | **3 086 426** | 3 086 426 | **(1 000)** | (1 000) |
| Premium Properties Limited# | **3 024 919 806** | 3 024 919 806 | **972 798 051** | 338 945 166 |
| Presmooi Proprietary Limited* | **523 031** | 523 031 | **895 131 888** | 869 348 393 |
| Pretboy Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Pretvin Share Block Proprietary Limited | **4 000** | 4 000 | **(4 000)** | (4 000) |
| Pretwade Share Block Proprietary Limited | **2** | 2 | **(2)** | (2) |
| Prinsben Properties Share Block Proprietary Limited* | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Prinstruben Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Ramreg Properties Proprietary Limited | **1** | 1 | **4 552 358** | 4 676 409 |
| Rovon Investments Share Block Proprietary Limited* | **316 642** | 316 642 | **(4)** | (4) |
| Rumpro Investments Share Block Proprietary Limited | **1 713 213** | 1 713 213 | **(120)** | (120) |
| SKD Beleggings (Skof Vyf) Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Steynscor Share Block Proprietary Limited | **18** | 18 | **(18)** | (18) |
| Swemvoor Investments Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Talkar Properties Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Tribeca Properties Proprietary Limited | **11 752 737** | 11 752 737 | **49 952 444** | 57 246 503 |
| Tronap Investments Share Block Proprietary Limited | **100** | 100 | **(100)** | (100) |
| Tuel Share Block Proprietary Limited | **300** | 300 | **(300)** | (300) |
| Viskin Share Block Proprietary Limited | **1 000** | 1 000 | **(1 000)** | (1 000) |
| Waverley Plaza Properties Proprietary Limited | **794 399** | 794 399 | **102 472 588** | 117 834 410 |
| Woodmead Mart Proprietary Limited | **3 438 345** | 3 438 345 | **461 458 048** | 308 258 061 |
| | **3 057 989 201** | 3 057 989 401 | **3 986 910 096** | 2 897 931 750 |

All the subsidiaries are 100% owned by the company and the places of business are in the Republic of South Africa and are all included in the consolidated financial statements of the group.

The subsidiaries' principal activities are that of property companies, deriving income from rentals. There are no restrictions on the subsidiaries other than the cession of shares to secure long-term borrowings.

**Ceded shares securing long-term borrowings (note 16).*
*#Premium Properties Limited – wholly owned subsidiaries*
*Bartlucia Investments Share Block Proprietary Limited*
*Brianley Properties Share Block Proprietary Limited*
*Centpret Properties Proprietary Limited*
*Centuria 369 Proprietary Limited*
*Du-Proes Share Block Proprietary Limited*
*Filkem House Share Block Proprietary Limited*
*Hacklu Enterprises Share Block Proprietary Limited*
*L.P.A. Beleggings Share Block (Eiendoms) Beperk*
*Landjack Properties Proprietary Limited*
*Notrevlis Share Block Proprietary Limited*
*Prinsman Properties Share Block Proprietary Limited*
*Prinsproes Properties Share Block Proprietary Limited*
*Roslev Properties Share Block Proprietary Limited*
*Savyon Building Proprietary Limited*
*Tomzeil Share Block Proprietary Limited*

*^IPS Investments Proprietary Limited - wholly owned subsidiaries*
*Inspret Properties Proprietary Limited*
*Grariv Properties Share Block Proprietary Limited*
*Johnbuild Properties Proprietary Limited*
*Joybee Properties Proprietary Limited*
*OPC Properties Proprietary Limited*
*Simprit Properties Share Block Proprietary Limited*
*Vuselela Investments Proprietary Limited*
*Waltpost Properties Proprietary Limited*

# shareholders' analysis

for the year ended 31 August 2017

| | Number of shareholdings | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|
| **Shareholders' classification** | | | | |
| 1 - 1 000 | 762 | 19.46 | 356 982 | 0.13 |
| 1 001 - 10 000 | 2 172 | 55.48 | 8 485 758 | 3.18 |
| 10 001 - 100 000 | 750 | 19.16 | 24 197 126 | 9.07 |
| 100 001 - 1 000 000 | 179 | 4.57 | 55 953 869 | 20.97 |
| Over 1 000 000 | 52 | 1.33 | 177 870 584 | 66.65 |
| **Total** | **3 915** | **100.00** | **266 864 319** | **100.00** |
| **Distribution of shareholders** | | | | |
| Assurance companies | 23 | 0.59 | 5 984 614 | 2.24 |
| Close corporations | 66 | 1.69 | 27 511 319 | 10.31 |
| Collective investment schemes | 137 | 3.50 | 61 197 592 | 22.93 |
| Control accounts | 2 | 0.05 | 100 | 0.00 |
| Custodians | 34 | 0.87 | 3 059 813 | 1.15 |
| Foundations and charitable funds | 106 | 2.71 | 7 694 505 | 2.88 |
| Hedge funds | 5 | 0.13 | 627 520 | 0.24 |
| Insurance companies | 2 | 0.05 | 13 415 | 0.01 |
| Investment partnerships | 10 | 0.26 | 82 408 | 0.03 |
| Managed funds | 14 | 0.36 | 198 970 | 0.07 |
| Medical aid funds | 3 | 0.08 | 85 974 | 0.03 |
| Organs of state | 6 | 0.15 | 15 960 831 | 5.98 |
| Private companies | 152 | 3.88 | 72 756 885 | 27.26 |
| Public companies | 3 | 0.08 | 350 873 | 0.13 |
| Public entities | 3 | 0.08 | 103 971 | 0.04 |
| Retail shareholders | 2 771 | 70.78 | 27 668 126 | 10.37 |
| Retirement benefit funds | 58 | 1.48 | 11 619 061 | 4.35 |
| Scrip lending | 9 | 0.23 | 631 516 | 0.24 |
| Stockbrokers and nominees | 22 | 0.56 | 3 098 617 | 1.16 |
| Trusts | 489 | 12.47 | 28 218 209 | 10.58 |
| **Total** | **3 915** | **100.00** | **266 864 319** | **100.00** |
| **Shareholder type** | | | | |
| **Non-public shareholders** | | | | |
| Directors and associates | 65 | 1.66 | 103 828 743 | 38.91 |
| **Public shareholders** | 3 850 | 98.34 | 163 035 576 | 61.09 |
| **Total** | **3 915** | **100.00** | **266 864 319** | **100.00** |
| **Fund managers with a holding greater than 3% of the issued shares** | | | | |
| Stanlib Asset Management | | | 16 510 549 | 6.19 |
| Public Investment Corporation | | | 14 839 401 | 5.56 |
| Old Mutual Investment Group | | | 14 022 069 | 5.25 |
| Bridge Fund Managers | | | 8 704 772 | 3.26 |
| **Total** | | | **54 076 791** | **20.26** |
| **Beneficial shareholders with a holding greater than 3% of the issued shares** | | | | |
| Directors and associates | | | 103 828 743 | 38.91 |
| Old Mutual Group | | | 13 790 585 | 5.17 |
| Government Employees Pension Fund | | | 13 060 163 | 4.89 |
| Stanlib | | | 12 844 974 | 4.81 |
| Nedbank Group | | | 10 183 476 | 3.82 |
| **Total** | | | **153 707 941** | **57.60** |

| **Share price performance** | |
|---|---|
| Opening price 01 September 2016 | R22.99 |
| Closing price 31 August 2017 | R22.74 |
| Closing high for period | R25.24 |
| Closing low for period | R20.45 |
| Number of shares in issue | 266 864 319 |
| Volume traded during period | 36 559 480 |
| Ratio of volume traded to shares issued (%) | 13.70 |
| Rand value traded during the period | R844 635 330.00 |
| Market capitalisation at 31 August 2017 | R6 068 494 614.06 |

# notice of annual general meeting

OCTODEC INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1956/002868/06)
ISIN: ZAE000192258
JSE share code: OCT
(Octodec or the company)
REIT status approved

Notice is hereby given in terms of section 62(1) of the Companies Act, 71 of 2008, as amended (the Act), of the 25th annual general meeting (AGM) of shareholders of Octodec on Friday, 26 January 2018, at 11:30 that will be held at CPA House, 101 Du Toit Street, Tshwane, to consider and, if deemed fit, to approve, with or without modification, the ordinary and special resolutions listed below in the manner required by the Act, as read with the Listings Requirements of the JSE Limited (JSE Listings Requirements).

In terms of section 64(1)(a) of the Act, a shareholders' meeting may not begin until a quorum is present at the meeting. In terms of section 64(2)(a) of the Act, a meeting may not begin unless at least three shareholders are present or represented by proxy and are entitled to vote at the AGM. Kindly note that in terms of section 63(1) of the Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the AGM. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

## Presentation of annual financial statements

The consolidated audited annual financial statements of the company and its subsidiaries, incorporating the reports of the auditors, the audit committee and the directors for the year ended 31 August 2017, will be presented to shareholders as required in terms of section 30(3)(d) of the Act.

## Report of the social, ethics, remuneration and transformation committee

In accordance with regulation 43(5)(c), issued in terms of the Act, the chairman of the social, ethics, remuneration and transformation committee will present a verbal report to shareholders at the AGM.

## Resolutions for consideration and approval

**Special resolution 1 – To approve financial assistance to related and inter-related companies**

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT by way of special resolution as required in terms of sections 44 and/or 45(2) of the Act and the memorandum of incorporation (MOI), as a general approval, the board of the company may, from time to time, authorise the company to provide financial assistance to any of its present or future subsidiaries and/or any company that is or becomes related or inter-related to the company, at such times and on such terms and conditions as the directors of the company in their sole discretion may determine and subject to all relevant statutory and regulatory requirements being met, such authority to remain in place until renewed by way of special resolution passed at a duly constituted AGM of the company."

**Special resolution 2 – To authorise the company and/or its subsidiaries to acquire its shares**

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT the company and/or any of its subsidiaries be and are hereby authorised by way of a general approval as contemplated in section 48 of the Act and the JSE Listings Requirements, to acquire the issued securities of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine but subject to the MOI of the company, the provisions of the Act and the JSE Listings Requirements, where applicable, and provided that:

a. the repurchase of securities is implemented through the order book of the JSE trading system, without any prior understanding or arrangement between the company and the counterparties;
b. this general authority shall only be valid until the company's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
c. the company or any subsidiary is authorised thereto by its MOI;
d. the general repurchase by the company is limited to a maximum of 5% (five percent) in aggregate of the company's issued capital in any one financial year;
e. the general repurchase by the subsidiaries of the company is limited to a maximum of 5% (five percent) in aggregate of the company's issued share capital in any one financial year and not more than 10% (ten percent) in aggregate of the company's issued capital may be held by or for the benefit of all the subsidiaries taken together;
f. the repurchase is not made at a price greater than 5% (five percent) above the weighted average of the market value of the securities for five business days immediately preceding the date on which the repurchase was effected;
g. the repurchase does not take place during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period;
h. the company publishes an announcement after it or its subsidiaries have cumulatively acquired 3% (three percent) of the number of securities in issue at the time that the shareholders' authority for the repurchase is granted and for each 3% (three percent) in aggregate of the initial number acquired thereafter;
i. it reasonably appears that the company will satisfy the solvency and liquidity test immediately after completing the proposed distribution as contemplated in section 46(1)(b) of the Act;
j. the board of the company, by resolution, has acknowledged that it has applied the solvency and liquidity test, as set out in section 4 of the Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after completing the repurchase, as contemplated in section 46(1)(c) of the Act;
k. the company and the group are in a position to repay their debts in the ordinary course of business for a period of 12 (twelve) months after the date of such repurchase;
l. the assets of the company and the group being fairly valued are in excess of the liabilities of the company and the group for a period of 12 (twelve) months after the date of such repurchase;
m. the capital and reserves of the company and the group are adequate for a period of 12 (twelve) months after the date of such repurchase;
n. the available working capital is adequate to continue the operations of the company and the group for a period of 12 (twelve) months after the date of such repurchase; and
o. the company appoints only one agent to effect any repurchase on its behalf."

**Special resolution 3 – Approval of directors' remuneration for the period 1 September 2018 to 31 August 2019**

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT, in terms of section 66(9) of the Act, the company be and is hereby authorised to remunerate its directors for their services as directors (inclusive of the committees on which they serve, and attend by invitation as set out in the integrated report) and/or pay any fees related thereto on the basis and on any other basis as may be recommended by the social, ethics, remuneration and transformation committee and approved by the board of directors, provided that the aforementioned authority shall be valid with effect from 1 September 2018 for a period of 12 (twelve) months ending 31 August 2019, as follows:

| | 12 months to 31 August 2019 | 12 months to 31 August 2018 |
|---|---|---|
| **Annual retainer** | | |
| Board chairman | 675 000 | 675 000 |
| Lead independent director | 337 000 | 337 000 |
| Non-executive directors | 281 000 | 281 000 |
| Executive directors | 281 000 | 281 000 |
| **Fee per meeting** | | |
| Board meeting (including AGM) | 16 900 | 16 900 |
| Meeting fee for attendance at subcommittee meeting of the board | 20 200 | 20 200 |
| Chairman of subcommittee of the board | 24 700 | 24 700 |
| Meeting fee for attendance at an ad hoc subcommittee meeting of the board | 20 200 | 20 200 |
| Chairman of an ad hoc subcommittee of the board | 24 700 | 24 700 |

*The above fees exclude value added tax (VAT) which will be added by the directors in terms of current VAT legislation, if applicable.*

**Special resolution 4 – Authority to issue shares to directors who elect the share reinvestment alternatives**

To consider and if deemed fit to pass with or without modification the following special resolution:

"RESOLVED THAT, subject to the provisions of the Act, the JSE Listings Requirements and the MOI, the directors be and they are hereby authorised by way of a specific standing authority to issue ordinary shares as and when they deem appropriate, for the exclusive purpose of affording shareholders, who are also persons as contemplated in section 41(1) of the Act, opportunities from time to time to elect to reinvest their distributions in new ordinary shares of Octodec, for which purpose such ordinary shares are hereby placed under the control of the directors."

**Special resolution 5 – Approval of the amendments to Octodec's existing MOI**

To consider and if deemed fit to pass with or without modification the following special resolution:

"RESOLVED THAT in terms of section 16(1)(c), as read with section 16(5)(b) of the Companies Act, and clause 39 of the company's MOI, the company be and is hereby authorised to amend its MOI by the deletion of the existing clause 20.4 in its entirety and the substitution of existing clauses 20.3.3, 20.3.5, 20.3.6 and 20.3.7 of the MOI with the following new clauses:

**Clause 20.3.3**
"a Shareholder or his proxy must deliver to the company's registered office or at such other place within the Republic as is specified for that purpose in the notice convening the meeting, a copy of the instrument appointing a proxy before the proxy exercises that Shareholder's rights at a Shareholders' meeting;"

**Clause 20.3.5**
"the instrument or power of attorney appointing a proxy which is not received by or on behalf of the company by or through an electronic medium and the power of attorney or other authority (if any) under which the instrument or power of attorney is signed (or notarially certified copy of such power or authority) shall be deposited at the company's registered office or at such other place within the Republic as is specified for that purpose in the notice convening the meeting, before the proxy exercises that Shareholder's rights at a Shareholders' meeting. In default, the instrument or power of attorney shall not be treated as valid, provided that if the Shareholder appointing a proxy is registered on a branch register kept in any foreign country any instrument or power of attorney appointing a proxy and the power of attorney or other authority (if any) under which it is signed may be deposited as aforesaid at any such branch or other office of the company outside the Republic at which he is registered. The transfer secretary of the company in that place shall communicate to the company in the Republic by such means as the Directors may from time to time direct, a summary of all the votes for and against each resolution represented by valid proxies duly accepted by them, so that such communication shall be received by the company before the time appointed for the meeting to commence;"

**Clause 20.3.6**
"the instrument or power of attorney appointing a proxy which is received by or on behalf of the company by or through an electronic medium (where an address has been specified for that purpose in the notice of meeting or in the instrument itself), subject to any applicable law for the time being in force and to any terms and conditions decided on by the Directors from time to time, and the power of attorney or other authority (if any) under which the instrument or power of attorney is signed (or notarially certified copy of such power or authority) shall be received at that specified address, before the proxy exercises that Shareholder's rights at a Shareholders' meeting and in default the instrument or power of attorney shall not be treated as valid;"

**Clause 20.3.7**
"a vote given in accordance with the terms of an instrument or power of attorney appointing a proxy shall be valid notwithstanding the previous legal incapacity of the Shareholder or revocation of the instrument or power of attorney or the transfer of the Share in respect of which the vote is given, unless notice in writing of such legal incapacity, revocation or transfer shall have been received by or on behalf of the company at the Office or by or through an electronic medium (where an address has been specified for the purpose of receiving instruments of proxy or powers of attorney in the notice of meeting or in the instrument itself) before the proxy exercises that Shareholder's rights at a Shareholders' meeting;"

**Ordinary resolution 1 – Re-election of directors**

To elect, by way of separate resolutions, directors in the place of those retiring in accordance with the company's MOI. The directors retiring are Gerard Kemp and Myron Pollack who being eligible offer themselves for re-election.

**Ordinary resolution 1.1 – Re-election of Gerard Kemp**

"RESOLVED THAT Gerard Kemp be and is hereby re-elected as a director of the company."

29 An abridged curriculum vitae of Gerard Kemp is set out on page 29 of the integrated report of which this notice forms part.

**Ordinary resolution 1.2 – Re-election of Myron Pollack**

"RESOLVED THAT Myron Pollack be and is hereby re-elected as a director of the company."

28 An abridged curriculum vitae of Myron Pollack is set out on page 28 of the integrated report of which this notice forms part.

**Ordinary resolution 1.3 – Confirmation of appointment of Akua Koranteng**

To confirm the appointment of Akua Koranteng, who was appointed as a director of the company on 1 September 2017.

29 An abridged curriculum vitae of Akua Koranteng is set out on page 29 of the integrated report of which this notice forms part.

**Ordinary resolution 2 – To place the unissued shares under the directors' control**

To authorise the directors, as required by the company's MOI and subject to the provisions of section 41 of the Act, to allot and issue, at their discretion, the unissued but authorised shares in the share capital of the company, subject to the following terms and conditions:

a. No more than 10% (ten percent) of the company's issued shares will be allotted and issued by the directors other than by way of a transaction that will be subject to shareholders' approval; and
b. The maximum discount at which shares will be issued and allotted is 5% (five percent) of the weighted average price on the JSE Limited of those shares over 10 (ten) business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the shares (collectively, the company's undertaking) provided that such transaction(s) has/have been approved by the JSE Limited and is/are subject to the JSE Listings Requirements which authority shall endure until the next AGM of the company. The weighted average price shall be adjusted for a dividend where the "ex" date (being the day after the last day to trade in order to be entitled to such dividend) occurs during the 10 (ten) business days in question. Where the allotment or issue is undertaken in terms of a vendor consideration placing pursuant to the JSE Listings Requirements, the minimum placing price is subject to the pricing limitations set out in the JSE Listings Requirements.

**Ordinary resolution 3 – To approve the issue of shares for cash**

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED THAT, subject to not less than 75% (seventy five percent) of the shareholders present in person or by proxy and entitled to vote at the AGM at which this ordinary resolution is to be considered voting in favour thereof, in terms of the JSE Listings Requirements, the mandate given to the directors of the company that they are authorised by way of a general authority to issue all or any of the authorised but unissued shares in the capital of the company for cash as they in their discretion deem fit, be renewed subject to the following conditions and limitations:

a. this authority shall not extend beyond the later of the date of the next AGM of the company or the date of expiry of 15 (fifteen) months from the date of this AGM;
b. issues in terms of this authority shall not exceed 5% (five percent) (being an equivalent of 13 343 245 shares) in the aggregate of the number of shares in the company's issued share capital at the date of this notice of AGM;
c. the number of shares to be issued shall be based on the number of shares in issue at the date of this notice of AGM, less any shares issued in terms of this general authority by the company during the period. In the event of a sub-division or consolidation of issued shares during the period of this general authority, the general authority must be adjusted accordingly to represent the same allocation ratio;
d. an announcement giving full details, including the intended use of funds, will be published at the time of any issue representing, on a cumulative basis within the period, 5% (five percent) or more of the number of shares in issue prior to such issue;
e. in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 5% (five percent) of the weighted average traded price of such shares, as determined over a 30 (thirty) business day period to the date that the price of the issue is determined;
f. any such issue will only be made to public shareholders as defined by the JSE, and not related parties; and
g. the shares which are the subject of the issue for cash must be of a class already in issue or, where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue."

**Ordinary resolution 4 – To approve the re-appointment of members of the audit committee**

To approve, by way of separate resolutions, the appointment of the following non-executive directors as members of the audit committee:

4.1 Pieter Strydom (Chairman)
4.2 Derek Cohen
4.3 Gerard Kemp
4.4 Myron Pollack

**Ordinary resolution 5 – To approve the re-appointment of auditors**

To re-appoint, on the recommendation of the current audit committee, Deloitte & Touche as independent auditors of the company, the designated auditor, Patrick Kleb, meeting the requirements of section 90(2) of the Act until the conclusion of the next AGM.

**Ordinary resolution 6 – Non-binding advisory vote to approve the remuneration policy**

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

87
"RESOLVED THAT the remuneration policy for the year ended 31 August 2017 as set out on pages 87 to 89 of the integrated report of which this notice forms part be and is hereby approved."

**Ordinary resolution 7 – Non-binding advisory vote to approve the implementation of the remuneration policy**

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

88
"RESOLVED THAT the implementation of the remuneration policy for the year ended 31 August 2017 the details of which are set out on pages 88 to 89 of the integrated report of which this notice forms part be and is hereby approved."

**Ordinary resolution 8 – Specific authority to issue shares to afford shareholders distribution reinvestment alternatives**

To consider and if deemed fit to pass with or without modification the following ordinary resolution:

"RESOLVED THAT, subject to the provisions of the Act, the JSE Listings Requirements and the MOI, the directors be and they are hereby authorised by way of a specific standing authority (which is separate from and in addition to the authority referred to in special resolution 2 of the notice of this AGM) to issue ordinary shares of no par value (ordinary shares) as and when they deem appropriate, for the exclusive purpose of affording shareholders opportunities from time to time to elect to reinvest their distributions in new ordinary shares of Octodec, for which purpose such ordinary shares are hereby placed under the control of the directors."

**Ordinary resolution 9 – To provide signing authority**

To authorise any one director or the company secretary to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the AGM at which this ordinary resolution will be considered and approved.

"RESOLVED THAT any one director of the company or the company secretary be and is hereby authorised to do all such things as necessary and to sign all such documents as to give effect to all the ordinary and special resolutions passed at the AGM."

Other disclosures in terms of section 11.26 of the JSE Listings Requirements relating to special resolution 2.

The following additional information, some of which may appear elsewhere in the integrated report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

142
98
116

- major beneficial shareholders – page 142
- share capital of the company – page 98 of the annual financial statements and note 14 of the annual financial statements (page 116)

The directors may utilise this general authority to acquire its shares as and when suitable opportunities present themselves.

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## Directors' responsibility statement

The directors in office whose names appear on page 92 of the integrated report collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution 2 and certify that, to the best of their knowledge, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the JSE Listings Requirements.

## Material changes

Other than the facts and developments reported on in the integrated report, there have been no material changes in the financial position of the company and its subsidiaries since the company's financial year-end and the date of signature of the integrated report.

## Electronic participation

Octodec shareholders or their proxies may participate in (but not vote at) the AGM by way of a teleconference call. If they wish to do so, they must contact the transfer secretaries on +27 11 370 7873 or email proxy@computershare.co.za (Attention: Meetings Department) by no later than 11:30 on Friday, 19 January 2018 and identify themselves to the satisfaction of Computershare to obtain the dial in code and pin number. Shareholders participating in this manner will still have to appoint a proxy to vote on their behalf at the AGM of Octodec shareholders. Access by means of electronic communication will be at the expense of the Octodec shareholder.

## Record date

In terms of section 59(1)(a) and (b) of the Act, the board of the company has set the record date for the purpose of determining which shareholders are entitled to:

- receive notice of the AGM (being the date on which a shareholder must be registered in the company's securities register in order to receive notice of the AGM) as Friday, 8 December 2017; and
- participate in and vote at the AGM (being the date on which a shareholder must be registered in the company's securities register in order to participate in and vote at the AGM) as Friday, 19 January 2018.

The last day to trade in the company's shares in order to be recorded on the securities register of the company in order to be able to attend, participate and vote at the AGM is Tuesday, 16 January 2018.

## Voting

Voting will be conducted on every resolution proposed at the AGM of Octodec shareholders by way of a poll. Every Octodec shareholder shall therefore have that number of votes equal to the number of shares in Octodec held by him or her.

The percentage of voting rights that will, in terms of section 62(3)(c) of the Act, be required for the resolutions to be adopted is 75% (seventy five percent) in respect of the special resolutions and more than 50% (fifty percent) in respect of the ordinary resolutions other than ordinary resolution 3 which is required to be adopted by 75% (seventy-five percent) of shareholders present in person/or by proxy in terms of the JSE Listings Requirements.

## Proxies

An Octodec shareholder entitled to attend and vote at the AGM may appoint one or more persons as its proxy to attend, speak and vote in its stead. A proxy need not be a shareholder of Octodec. Octodec shareholders are referred to the attached form of proxy in this regard. If you are a certificated Octodec shareholder or a dematerialised Octodec shareholder with own-name registration and are unable to attend the AGM and wish to be represented thereat, you must complete and return the attached form of proxy in accordance with the instructions contained therein. The completed forms of proxy should be deposited at or posted to the office of the transfer secretaries of the company, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), or by email to proxy@computershare.co.za.

Alternatively, the form of proxy may be handed to the chairman of the AGM or to the transfer secretaries present at the AGM or at any time prior to the commencement of the AGM or prior to voting on any resolution proposed at the AGM. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM should the member subsequently decide to do so.

Additional proxy forms are obtainable from Octodec's company secretary, Octodec's website or the transfer secretaries.

If you have dematerialised your Octodec shares with a CSDP or broker, other than with own-name registration, you must arrange with them to provide you with the necessary letter of representation to attend the AGM or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into between you and the CSDP or broker, in the manner and cut-off time stipulated therein.

By order of the board

**Elize Greef**
Company secretary

City Property Administration Proprietary Limited

7 December 2017
Tshwane

# explanatory notes

## Presentation of annual financial statements

At the AGM, the directors must present the annual financial statements for the year ended 31 August 2017 to shareholders, together with the reports of the directors, the audit committee and the auditors. These are contained within the integrated report.

**Special resolution 1 – Financial assistance to related and inter-related companies**

Sections 44 and 45(2) of the Act authorise the board to authorise the company to provide direct or indirect financial assistance to a related or inter-related company as defined in the Act, subject to subsections (3) and (4) of section 45 of the Act and unless otherwise provided in the company's MOI. In terms of section 45(3) of the Act, a special resolution of shareholders is required in these instances. The main purpose of the special resolution as set out in the notice of the meeting is to approve the granting of inter-company loans, a recognised and well-known practice, details of which are also set out in the notes to the annual financial statements.

**Special resolution 2 – To authorise the company and/or its subsidiaries to acquire its shares**

The reason for and effect of the resolution is to authorise the company and its subsidiaries, by way of general approval, to acquire its own issued securities, on terms and conditions and in amounts to be determined by the directors of the company, subject to certain statutory provisions and the JSE Listings Requirements. Section 48 of the Act authorises the board of directors of a company to approve the acquisition of its own shares subject to the provisions of section 48 and section 46 having been met. The JSE Listings Requirements require the shareholders of the company to approve the authority to repurchase shares and the approval of a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at the AGM for special resolution 2 to become effective.

**Special resolution 3 – Approval of directors' remuneration for the period 1 September 2018 to 31 August 2019**

In terms of section 66(8) and section 66(9) of the Act, companies may pay remuneration to directors for their services as directors, unless otherwise provided by the MOI, and on approval of shareholders by way of a special resolution. Having regard to the low distribution growth of 0.8%, the sustained economic downturn and poor macro-economic conditions which continue to create challenges for the company, the board resolved not to propose an increase in the remuneration payable to the directors for the period 1 September 2018 to 31 August 2019.

Accordingly, the reason for and effect of special resolution 3 is to pre-approve the remuneration and fees payable to the directors as required in terms of sections 66(8) and 66(9) of the Act.

**Special resolution 4 – Authority to issue shares to directors who elect the share reinvestment alternatives**

Special resolution 4 is required to be passed to comply with the provision of section 41 of the Act which requires an issue of shares to present or future directors or officers of the company or their related persons to be approved by special resolution. To the extent that the company elects to offer shareholders the opportunity to reinvest their distributions, the passing of special resolution 4 will allow present or future directors or officers of the company to reinvest their distributions.

**Special resolution 5 – Approval of the amendments to Octodec's existing MOI**

The reason for and effect of special resolution number 5 is to align the MOI of Octodec with the Supreme Court of Appeal decision on 16 March 2017 of *Du Plessis Barry v Clearwater Estates NPC and Others (187/2016) [2017]* which held that "the plain wording of section 58(1)(a) and 58(3)(c) of the Companies Act read together and in the context with due regard to their purpose, is that a shareholder of a company may appoint at any time, anyone who is not a shareholder of the company as a proxy to participate in, and speak and vote at a shareholders meeting on behalf of the shareholder, provided that the proxy delivers a copy of the instrument appointing the proxy, to the company or to any other person on behalf of the company, before the proxy may exercise any rights of the shareholder at the meeting."

The full MOI is available upon request from the company secretary who can be reached via the following e-mail address: **elizeg@octodec.co.za**

**Ordinary resolution 1.1 – 1.2 – Re-election of directors**

In accordance with the company's MOI, one-third of the non-executive directors are required to retire at each AGM and may offer themselves for re-election. In addition, any person appointed to the board of directors following the previous AGM is similarly required to retire and is eligible for re-election at the next AGM.

The following directors are eligible for re-election: Gerard Kemp and Myron Pollack

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Brief biographical details of Gerard Kemp and Myron Pollack and the remaining members of the board are contained on page 28 to 29 of the integrated report of which this notice forms part.

The nominations committee has considered Gerard Kemp and Myron Pollack's past performance and contribution to the company and recommends that they be re-elected as directors.

**Ordinary resolution 1.3 – Confirmation of appointment of director**

Akua Koranteng was appointed as a director by the board of directors with effect from 1 September 2017. The appointment of Akua Koranteng thus needs to be approved and confirmed by shareholders in accordance with the MOI as provided for in the JSE Listings Requirements.

**Ordinary resolutions 2 and 3 – Placement and issue of shares for cash**

In terms of the Act, directors are authorised to allot and issue the authorised but unissued shares of the company, unless otherwise provided in the company's MOI or in instances as listed in section 41 of the Act. The JSE requires that the MOI should provide that shareholders in a general meeting may authorise the directors to issue unissued securities for cash as the directors in their discretion think fit, provided that such transaction(s) has/have been approved by the JSE and is/are subject to the JSE Listings Requirements.

The directors confirm that there is no specific intention to issue any shares for cash as at the date of this notice.

In addition, in terms of the JSE Listings Requirements, the authority to issue shares for cash as set out in ordinary resolution 3 requires the approval of a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at the AGM for ordinary resolution 3 to become effective.

**Ordinary resolutions 4.1 – 4.4 – Re-appointment of audit committee members**

In terms of section 94(2) of the Act, a public company must at each AGM elect an audit committee comprising at least three members who are directors and who meet the criteria of section 94(4) of the Act. Regulation 42 to the Act specifies that one-third of the members of the audit committee must have appropriate academic qualifications or experience in the areas as listed in the regulation.

The board of directors of the company is satisfied that the proposed members of the audit committee meet all relevant requirements.

**Ordinary resolution 5 – Re-appointment of auditors**

Deloitte & Touche has indicated its willingness to continue in office and ordinary resolution 5 proposes the re-appointment of that firm as the company's auditors with effect from 1 September 2018. Section 90(3) of the Act requires the designated auditor to meet the criteria as set out in section 90(2) of the Act. In accordance with paragraph 3.84 (h)(iii) of the JSE Listings Requirements, the audit committee has assessed the suitability of Deloitte & Touche and of Patrick Kleb for appointment as auditors.

The board of directors of the company is satisfied that both Deloitte & Touche and the designated auditor meet all of the relevant requirements.

**Ordinary resolution 6 – To approve the remuneration policy**

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Shareholders are reminded that in terms of King IV™, the passing of this ordinary resolution is by way of an advisory, non-binding vote. Should 25% (twenty five percent) or more of the votes cast vote against this ordinary resolution, Octodec undertakes to engage with shareholders as to the reasons therefor. The remuneration policy for the year ended 31 August 2017 is set out on pages 87 to 89 of the integrated report.

**Ordinary resolution 7 – To approve the implementation of the remuneration policy**

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Shareholders are reminded that in terms of King IV™, the passing of this ordinary resolution is by way of a non-binding advisory vote. Should 25% (twenty five percent) or more of the votes cast vote against this ordinary resolution, Octodec undertakes to engage with shareholders as to the reasons therefor. The remuneration policy for the year ended 31 August 2017 is set out on pages 87 to 89 of the integrated report.

**Ordinary resolution 8 – Specific authority to issue shares to afford shareholders distribution reinvestment alternatives**

Pursuant to the shareholders' distribution reinvestment programme that the company may implement with effect from its next distribution, shareholders will be provided with an election form on which they can indicate whether they wish to reinvest any of their distributions in shares in the company. The election form will provide details of the process and timing of the programme.

**Ordinary resolution 9 – Signing authority**

Authority is required to do all such things and sign all documents and take all such action as is necessary to implement the resolutions set out in the notice and approved at the AGM. It is proposed that the company secretary and/or any one director be authorised accordingly.

## General

Shareholders and proxies attending the AGM on behalf of shareholders are reminded that section 63(1) of the Act requires that reasonably satisfactory identification be presented in order for such shareholder or proxy to be allowed to attend or participate in the meeting. This could be in the form of an original or certified copy of an identity document, driver's licence or passport.

# form of proxy

OCTODEC INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1956/002868/06)
ISIN: ZAE000192258
JSE share code: OCT
(Octodec or the company)
REIT status approved

If shareholders have dematerialised their shares with a Central Securities Depository Participant (CSDP) or broker, other than with own-name registration, they must instruct the CSDP or broker concerned to provide them with the necessary letter of representation to attend the annual general meeting (AGM) or the shareholder concerned must instruct them as to how they wish to vote in this regard. This must be done in terms of the custody agreement entered into between the shareholder and the CSDP or broker concerned.

For use by certificated Octodec shareholders and own-name dematerialised Octodec shareholders only, at the AGM of Octodec shareholders to be held at CPA House, 101 Du Toit Street, Tshwane 0002 on Friday, 26 January 2018, commencing at 11:30, or at any adjournment thereof.

Any Octodec shareholders entitled to vote at the AGM may appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.

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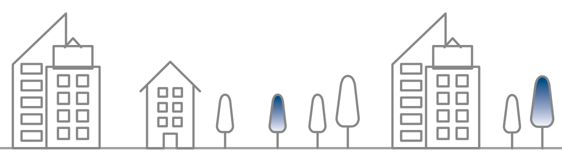
**The definitions commencing on page 154 of the integrated report to which this form of proxy is attached apply, mutatis mutandis, to this form of proxy.**

## This form of proxy is for the use by Octodec shareholders who hold certificated Octodec shares or who are registered as own-name in dematerialised form only



I/We

______________________________________________

(name/s in block letters) of (address)
being the registered holder/s of shares in Octodec, appoint (see note 1)

1. ______________________________________ or failing him/her,

2. ______________________________________ or failing him/her,

3. the chairman of the AGM

as my/our proxy to act for me/us and on my/our behalf at the AGM which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions (see note 2).

| | | Number of votes (1 vote per share) | | |
|---|---|---|---|---|
| | | In favour of | Against | Abstain |
| 1 | **Special resolution 1:** To approve financial assistance to related and inter-related companies | | | |
| 2 | **Special resolution 2:** To authorise the company and/or its subsidiaries to acquire its shares | | | |
| 3 | **Special resolution 3:** Approval of directors' remuneration for the period 1 September 2018 to 31 August 2019 | | | |
| 4 | **Special resolution 4:** Authority to issue shares to directors who elect share reinvestment alternatives | | | |
| 5 | **Special resolution 5:** Approval of the amendments to Octodec's existing MOI | | | |
| 6 | **Ordinary resolution 1.1 – 1.2:** To re-elect the directors required to retire in terms of the MOI: | | | |
| | 1.1 Gerard Kemp | | | |
| | 1.2 Myron Pollack | | | |
| | **Ordinary resolution 1.3:** To confirm the appointment of Akua Koranteng as director | | | |
| 7 | **Ordinary resolution 2:** To place the unissued shares under the directors' control | | | |
| 8 | **Ordinary resolution 3:** To approve the issue of shares for cash | | | |
| 9 | **Ordinary resolution 4.1 – 4.4:** To approve the re-appointment of members of the audit committee: | | | |
| | 4.1 Pieter Strydom (Chairman) | | | |
| | 4.2 Derek Cohen | | | |
| | 4.3 Gerard Kemp | | | |
| | 4.4 Myron Pollack | | | |
| 10 | **Ordinary resolution 5:** To approve the re-appointment of auditors | | | |
| 11 | **Ordinary resolution 6:** To approve the remuneration policy by way of a non-binding advisory vote | | | |
| 12 | **Ordinary resolution 7:** To approve the implementation of the remuneration policy by way of a non-binding advisory vote | | | |
| 13 | **Ordinary resolution 8:** Specific authority to issue shares to afford shareholders distribution reinvestment alternatives | | | |
| 14 | **Ordinary resolution 9:** To provide signing authority | | | |

***Note:** *Please indicate with an "x" or the number of Octodec shares in the spaces above how you wish your votes to be cast. If no indication is given, the proxy will vote or abstain in his/her discretion.*

Signed at ______________________________ on ____________________ 2017/2018

Signature/s ______________________________ ______________________________

Name in BLOCK LETTERS | (full name if signing in a representative capacity) | Assisted by (where applicable)

A proxy need not be a shareholder. A proxy may not delegate his/her authority to act on his/her behalf to another person. This proxy form will lapse and cease to be of force and effect immediately after the AGM of the company and any adjournments thereof, unless it is revoked earlier.

***Please read the notes below:***
*Summary of shareholders' rights in respect of proxy appointments as set out in sections 56 and 58 of the Act and notes to the form of proxy*

1. An Octodec shareholder entitled to attend and vote at the abovementioned meetings is entitled to appoint one or more proxies to attend, speak and, on a poll, vote in his/her stead or abstain from voting. The proxy need not be a member of Octodec. An Octodec shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different Octodec shares held by the Octodec shareholder.
2. A proxy may delegate the proxy's authority to act on behalf of the Octodec shareholder to another person.
3. The completion and lodging of this form of proxy will not preclude the relevant Octodec shareholder from attending the AGM of Octodec shareholders and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Octodec shareholder wish to do so. Accordingly, the appointment of a proxy in terms hereof is suspended at any time and to the extent that the Octodec shareholder chooses to act directly and in person in the exercise of any rights as an Octodec shareholder.
4. A proxy is entitled to exercise, or abstain from exercising, any voting right of the Octodec shareholder without direction, except to the extent that the voting instructions are set out in the relevant section of the proxy forms.
5. The appointment of a proxy shall remain valid until the end of the meeting contemplated in this appointment (including in respect of any adjournment or postponement of the AGM of Octodec shareholders), unless revoked in the manner contemplated in note 6 below.
6. An Octodec shareholder may revoke the proxy appointment by:
   (i) cancelling it in writing, or making a later inconsistent appointment of a proxy, and
   (ii) delivering a copy of the revocation instrument to the proxy and to Octodec. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the Octodec shareholder as of the later of
   (iii) the date stated in the revocation instrument, if any, or
   (iv) the date on which the revocation instrument was delivered to Octodec.
7. Please insert the number of Octodec shares, as the case may be, in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Octodec shares, as the case may be, exercisable by you, insert the number of Octodec shares, as the case may be, held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise and compel the chairman, if the chairman is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he/she deems fit, in respect of all the Octodec shareholder's votes exercisable thereat. An Octodec shareholder or its/his/her proxy is not obliged to use all the votes exercisable by the Octodec shareholder or its/his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Octodec shareholder or its/his/her proxy.

   For administrative purposes, forms of proxy should be completed and returned to the transfer secretaries:
   Hand deliveries of forms of proxy to:
   Computershare Investor Services Proprietary Limited
   Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
   Postal deliveries of forms to:
   Computershare Investor Services Proprietary Limited
   PO Box 61051, Marshalltown 2107 or by email to proxy@computershare.co.za.
   Alternatively, forms of proxy may be handed to the chairman of the AGM or to the transfer secretaries present at the AGM or at any time prior to the commencement of the AGM or prior to voting on any resolution proposed at the AGM.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
9. In the case of a joint holding, the first-named only is required to sign.
10. The authority of a person signing a proxy in a representative capacity must be attached to the form of proxy unless that authority has already been recorded by Octodec.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian as applicable, unless the relevant documents establishing capacity are produced or have been registered with the transfer secretaries.
12. If the instrument appointing a proxy or proxies has been delivered to Octodec, as long as that appointment remains in effect, any notice that is required by the Act or Octodec's MOI to be delivered by Octodec to the Octodec shareholder must be delivered by Octodec to
    (i) the Octodec shareholder or
    (ii) the proxy or proxies, if the Octodec shareholder has directed Octodec in writing to do so and paid any reasonable fee charged by Octodec for doing so.

# glossary

| | |
|---|---|
| **B-BBEE** | Broad-based black economic empowerment |
| **CBD** | Central business district |
| **City Property** | City Property Administration Proprietary Limited |
| **Companies Act** | Companies Act, No 71 of 2008 |
| **CSDP** | A central securities depository participant, appointed by individual Octodec shareholder(s) for the purpose of and in regard to dematerialisation in terms of the Securities Services Act, 36 of 2004 |
| **GLA** | Gross lettable area |
| **Group** | Octodec and its subsidiaries |
| **IFRS** | International Financial Reporting Standards |
| **Jhb** | Johannesburg |
| **JSE** | JSE Limited |
| **King IV™** | King IV report on corporate governance for South Africa |
| **MOI** | Memorandum of incorporation |
| **Octodec** | Octodec Investments Limited |
| **Premium** | Premium Properties Limited |
| **REIT** | Real estate investment trust as defined in section 1 of the Income Tax Act |
| **SAPOA** | South African Property Owners Association |
| **SENS** | Stock exchange news service |

**Octodec Investments Limited**
Incorporated in the Republic of South Africa
Registration number: 1956/002868/06
JSE share code: OCT
ISIN: ZAE000192258
REIT status approved

**Registered address**
CPA House, 101 Du Toit Street, Tshwane 0002
Tel: 012 319 8781, Fax: 012 319 8812, E-mail: info@octodec.co.za

**Directors**
S Wapnick (Chairman)[1], JP Wapnick (Managing director)[2],
AK Stein (Financial director)[2], DP Cohen[3], GH Kemp[4], AA Koranteng[5],
MZ Pollack[1], PJ Strydom[4]
[1] Non-executive director [2] Executive director
[3] Lead independent director [4] Independent non-executive director
[5] Akua Aboagyewaa Koranteng was appointed as a non-executive director on 1 September 2017

**Company secretary**
City Property Administration Proprietary Limited
Contact person: Elize Greeff
CPA House, 101 Du Toit Street Tshwane 0002
Tel: 012 357 1564, Email: elizeg@octodec.co.za

**Sponsor**
Java Capital Proprietary Limited
Contact person: Tanya de Mendonca
6A Sandown Valley Crescent, Sandown, Sandton 2196
PO Box 2087, Parklands 2121
Tel: 011 722 3059, Email: sponsor@javacapital.co.za

**Transfer secretaries**
Computershare Investor Services Proprietary Limited
Contact person: Leon Naidoo
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
Box 61051, Marshalltown 2107
Tel: 011 370 5000, Email: leon.naidoo@computershare.co.za

**Investor relations**
Instinctif Partners
Contact person: Frederic Cornet
The Firs, 302 3rd Floor, Cnr Cradock and Biermann Avenue, Rosebank 2196
Tel: 011 447 3030, E-mail: investorrelations@octodec.co.za

**www.octodec.co.za**

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Eloff St
Commissioner St
Albertina Sisulu Rd
Gandhi Square
Pritchard St
Loveday St
Joubert St
Rissik St
CPA OFFICE
Harrison St
Simmonds St
Plein St
De Villiers St
Fox St
Main St
Marshall St
President St
Kerk St
Jeppe St
Bree St
Johannesburg CBD