



HYPROP
INVESTMENTS LIMITED

Integrated annual report and consolidated financial
statements for the year ended 30 June 2018

**PROPERTY
INVESTMENT
EXCELLENCE**

30 YEARS

About this report

This integrated annual report for the year ended 30 June 2018 presents Hyprop's performance and activities for the financial year as well as the company's strategy to optimise value for all our stakeholders. We aim to create value in a sustainable and responsible manner, as described in this report.

Reporting scope and boundary

Hyprop is a specialist shopping centre Real Estate Investment Trust (REIT), which operates a portfolio of premium shopping centres in South Africa, sub-Saharan Africa (excluding South Africa) and South-Eastern Europe.

This report should be read in conjunction with the full annual financial statements for a comprehensive understanding of Hyprop and the year under review. Reporting on our sustainability initiatives covers only the South Africa and Nigeria-based operations, in line with the requirement that Hyprop reports on direct holdings that are consolidated.

The reporting process has been guided by the principles contained in the International Integrated Reporting Council's (IIRC) framework and the King Code on Corporate Governance 2016 (King IV). The annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), SAICA and Financial Standards Council financial reporting guides, the JSE Listings Requirements and the South African Companies Act 2008. Accounting policies used to prepare these financial statements are consistent with those applied in the prior year.

Our approach to materiality

This report provides information that we believe is of material interest to stakeholders who wish to make an informed assessment of Hyprop's ability to create value over the short-, medium- and long-term.

Material changes

Material changes to the size, structure or ownership of the group in the year under review include:

- Acquisition of The Mall in Sofia, Bulgaria, and a 90% interest in City Center One East and City Center One West, both in Zagreb, Croatia, via Hystead
- Completion of R276 million of capital projects in South Africa
- Disposal of non-core assets – Willowbridge North.

Assurance

Hyprop's external auditor, KPMG Inc, has audited the financial statements for the year ended 30 June 2018. KPMG's unqualified audit report is on pages 106 to 110. The scope of the audit was limited to information in the consolidated financial statements on pages 103 to 176.

Contact

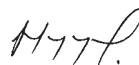
We regard this report as a further valuable opportunity to connect with our shareholders and respond to matters raised. We welcome your feedback on this report. Please direct this to investor relations, at investorrelations@hyprop.co.za.

Board approval

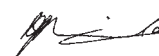
The audit and risk committee acknowledges its responsibility on behalf of the board to ensure the integrity of the Hyprop integrated annual report 2018. The committee has reviewed the report and believes that it appropriately and sufficiently addresses all material issues, and fairly presents the performance of Hyprop, its subsidiaries and joint ventures for the year ended 30 June 2018.

The consolidated annual financial statements included in this report, were approved by the board on 31 August 2018.

The remainder of the integrated report was approved on 22 October 2018.



Gavin Tipper
Chairman



Pieter Prinsloo
Chief executive officer

22 October 2018

Forward-looking statements

This integrated annual report contains forward-looking statements that, unless otherwise indicated, reflect our expectations as at 30 June 2018. Actual results may differ materially from the group's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. The group cannot guarantee that any forward-looking statements will materialise and, accordingly, readers are cautioned not to place undue reliance on these statements. The group assumes no obligation to update or revise any forward-looking statements if new information becomes available, other than as stipulated by the JSE Listings Requirements.

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Available online: <https://www.hyprop.co.za>

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Somerset Mall, Western Cape

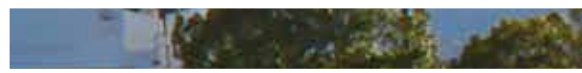




GROUP OVERVIEW



Hyprop is a leading specialist shopping centre Real Estate Investment Trust (REIT) listed on the JSE, with a market capitalisation at 30 June 2018 of R26,2 billion.



Performance highlights

Distributable earnings

up **10,5%**

Total annual dividend per share

up **8,8%**

EUR439
million

acquisitions
concluded in
EU countries
(via Hystead)

R276
million

capital projects
completed in SA



City Center One East, Croatia

VISION

Our goal is to be a leading specialist shopping centre REIT, offering shareholders access to income and capital growth through a portfolio of premium shopping centres



MISSION

- Partner of choice for tenants, shoppers, employees and investors
- Provide a trustworthy, transparent and sustainable investment
- Promote social and environmental sustainability
- Be a world-class REIT that adheres to global best practice

VALUES

- Sustainable business practices
- Good corporate citizenship
- Ethical and socially responsible behaviour



Group overview

We operate a portfolio of leading shopping centres in major metropolitan areas across South Africa, sub-Saharan Africa and South-Eastern Europe. The portfolio in South Africa includes super-regional centre Canal Walk, large regional centres Clearwater, The Glen, Woodlands Boulevard, CapeGate, Somerset and Rosebank malls, regional centre Hyde Park Corner and value centre Atterbury Value Mart.

The sub-Saharan African portfolio (excluding SA) includes interests in Accra Mall, West Hills Mall and Achimota Retail Centre (all in Accra, Ghana); Kumasi City Mall in Kumasi, Ghana; Manda Hill Centre in Lusaka, Zambia and Ikeja City Mall in Lagos, Nigeria.

Hyprop's investments in South-Eastern Europe, held via a 60% interest in UK-based Hystead, include Delta City Belgrade, Serbia; Delta City Podgorica, Montenegro; Skopje City Mall in Skopje, Macedonia; The Mall in Sofia, Bulgaria (acquired October 2017) and a 90% interest in City Center One East and City Center One West, both in Zagreb, Croatia (acquired in April 2018).

Our company structure, with in-house asset and property management, enables management to effectively execute the group strategy. Our capable teams employ a hands-on approach to managing assets for income and capital growth.

Strategy

Hyprop's focus remains on investing in high-quality shopping centres, particularly centres that dominate their markets in primary cities.

Each shopping centre is distinguished by:

- Quality, size, dominance and location, catering for middle to higher-income consumers
- Mix of flagship national and international retail tenants
- Being the preferred shopping destination in high-density, metropolitan areas.

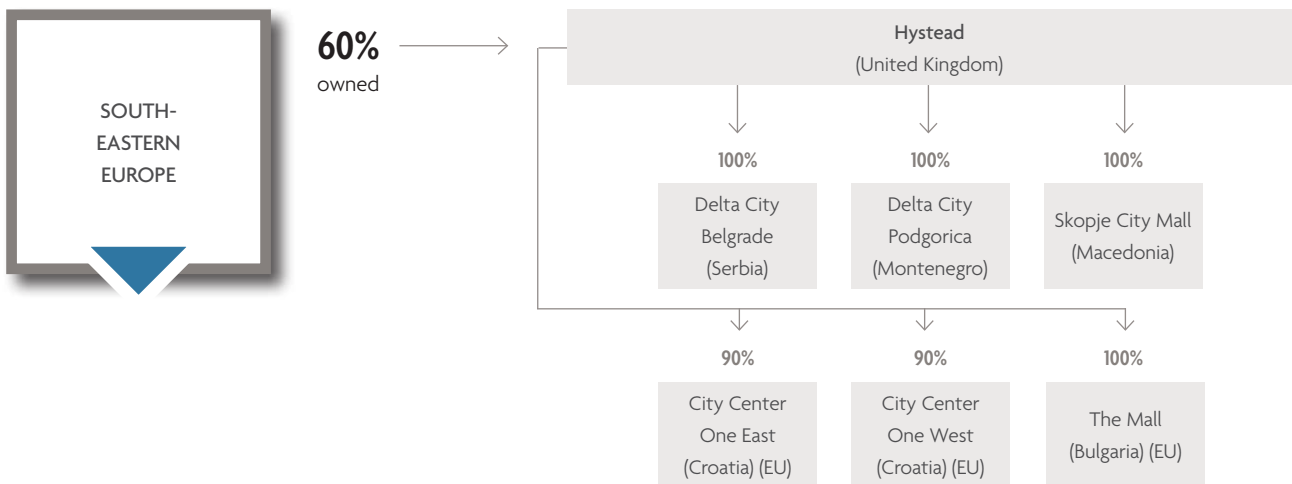
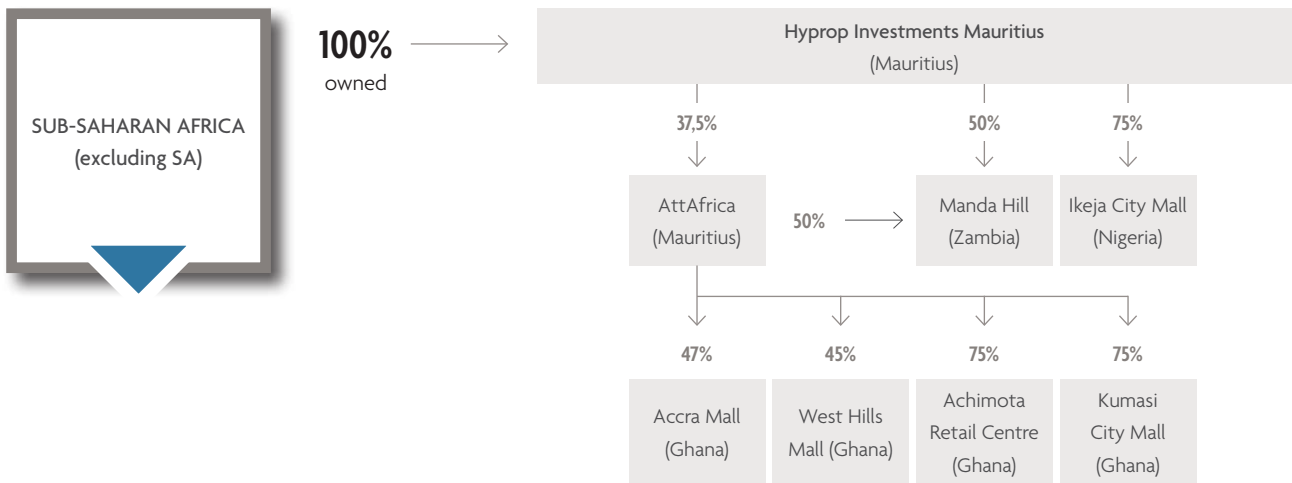
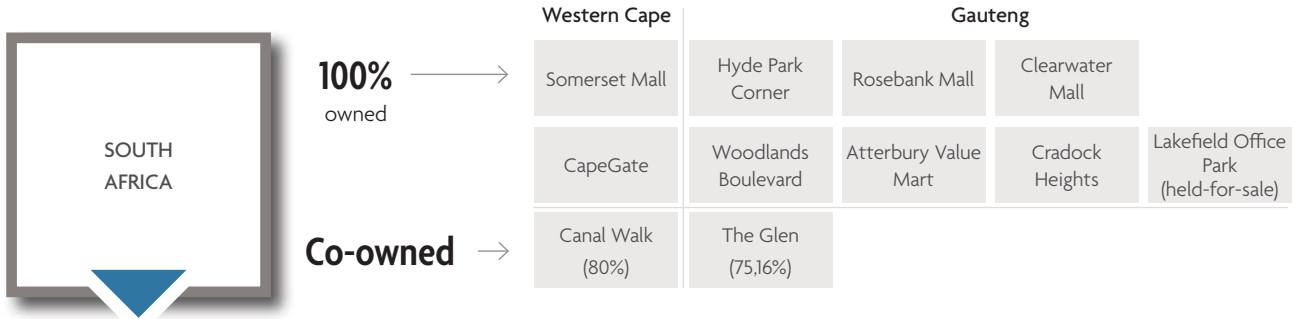
The three key business drivers are:

- Investing in South Africa and in Central and South-Eastern Europe
- Dominant, quality shopping centres in major metropolitan areas
- Asset management opportunities in our portfolio of 21 shopping centres across nine countries.

We aim to continuously optimise the quality of our existing portfolio through redevelopments and extensions. Redevelopments include extensive refurbishments to modernise shopping centres to meet evolving shopper and retailer needs. Extensions include tenant-driven enlargements of existing stores or the entry of new stores.

We target organic growth by enhancing the tenant mix and redeveloping existing shopping centres. We support this with a focus on appropriate rental levels and escalations, and control of tenant arrears and property expenses. Hyprop proactively identifies new retail and lifestyle trends to direct our growth potential and ensure that we retain and grow our loyal customer base across the portfolio.

Business structure



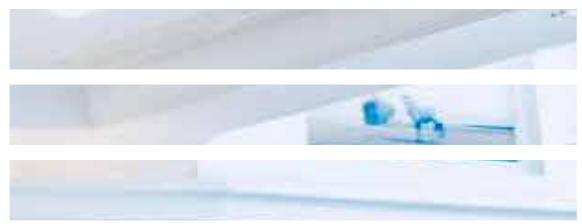


Canal Walk, Western Cape





LEADERSHIP REVIEW



Hyprop's malls are destinations of choice for shoppers. We will continue investing and innovating in order to ensure that our properties remain relevant and attractive, and demand for space by national and international retailers is supported.



Leadership review

Overview

The financial year under review was difficult for South African property companies with the property index down by 16,1% over the period. While this was partly attributable to much publicised concerns relating to particular companies in the sector, it was also a function of a difficult economic environment.

The South African property sector has performed strongly over an extended period. The sector has been the beneficiary of low international interest rates and a consequent search for yield, as well as a range of factors that supported earnings growth over a sustained period. These included relatively resilient consumers, international diversification by local companies, consolidation in the sector, a legacy of solid base rentals (for better quality property), reasonably strong escalations, and, with the recent exception of Stuttafords, no major tenant defaults.

In the months prior to the date of this report international interest rates have risen, with net sales of South African equities and bonds by foreigners. The South African economy has continued to underperform, affecting consumer spend and tenants' ability to pay rentals and accept rental increases, and larger scale tenant defaults have become a realistic possibility. These factors, together with company specific concerns, contributed to the repricing in the sector this year.

Financial performance

Hyprop declared a dividend of 380.2445 cents per share for the six months ended 30 June 2018, an increase of 9,3% on the corresponding period in 2017. The total dividend for the year of 756.5 cents per share is an increase of 8,8% on the prior year, a strong performance in difficult market conditions.

In May 2018, Hyprop completed a bookbuild, raising R778,7 million by way of an issue of 7,5 million new shares. The dividend per share for the six months ended 30 June 2018 included a full dividend to the new shares, despite them only being in issue for a portion of the period, and the total dividend was not increased by an antecedent dividend (to compensate for the dilution resulting from the additional shares in issue).

SA portfolio

The SA property portfolio continues to comprise the largest part of the group. On a portfolio basis these properties performed solidly, particularly when evaluated in the context of a very difficult market. The Glen produced muted returns as a result of the redevelopment activity as did the centres affected by the Stuttafords failure. These performances were partly offset by strong performances from CapeGate and Somerset Mall.

The period included significant investments in extending the Rosebank Mall and redeveloping and enclosing The Glen's food court. This was supplemented by ongoing investment in maintaining and enhancing the other properties. The disposal of non-core properties continued with the sale of Willowbridge North during the year.

Hyprop malls are destinations of choice for the South African shopper. We are, however, conscious of the intense levels of competition for constrained consumer spend in a low growth environment and the changing nature and demands of the customers that shop at our malls. We will continue investing and innovating in order to ensure that our properties remain relevant and attractive, and demand for space by national and international retailers is supported.

Online shopping has had a significant impact on retail centres in a number of developed countries and we monitor the trend towards online shopping locally very closely. Although the impact on South African malls has been limited, we work hard at anticipating likely changes in our shoppers' behaviour, use of technology and spending patterns.

Crime levels in South Africa are problematic and we recognise the importance of providing our customers with a safe and secure shopping environment. We maintain high standards of security in our centres and invest in technology where that investment brings meaningful and cost-effective improvements in levels of security.

Sub-Saharan Africa (excluding SA)

The sub-Saharan Africa portfolio (excluding SA) produced a better return than in the previous financial year, largely as a result of a low base due to our inability to repatriate funds out of Nigeria in 2017, and the consequent exclusion of Ikeja's earnings from distributable earnings.

A slow economic recovery in Nigeria, the challenges faced by the Zambian economy, and a higher than normal level of re-tenanting in Ghana, negatively affected the returns from the portfolio. Encouragingly, the level of normal arrears in Nigeria has been stable and there were improvements in footcount and trading densities in some of the Ghanaian shopping centres in the latter part of the year, with a consequent improvement in returns in the second semester.

South-Eastern Europe

The South-Eastern European portfolio performed well with the distributions from all of the properties exceeding budget. The properties are held via a UK company, Hystead, of which Hyprop owns 60%. Hystead acquired three properties during the period with The Mall in Sofia completed in October 2017 and two Zagreb centres completed in April 2018.



Left: Gavin Tipper, *Chairman*
Right: Pieter Prinsloo, *Chief executive officer*

The portfolio is evenly split between EU and non-EU countries on a numerical basis, but is weighted towards EU countries in value terms. All of the countries in which the properties are held are producing satisfactory levels of growth and exhibit strong economic fundamentals.

The Hystead portfolio has achieved a reasonable degree of scale and is managed by a European-based team, headed by experienced property executives.

We have been able to enhance the returns on the properties in the Hystead portfolio through active asset management. A number of opportunities have been identified for further expansions and the investments will be made as the necessary building approvals and tenant commitments are obtained.

Considerable progress was made on non-recourse asset-based funding for the Hystead properties, with all the properties now partially funded by offshore banks, at an average loan-to-value ratio of 47%.

As set out in the interim results announcement consideration was given to listing Hystead separately. Given the relatively weak market conditions and based on feedback from potential investors, the possible listing was terminated and Hystead will be held in an unlisted format for the foreseeable future. Any further acquisitions by Hystead will be supported by the existing shareholders.

Sustainability

We recognise the importance of a sustainable business and of integrating sustainability into the different facets of our operations. Our commitment to being a good corporate citizen pervades our approach to business and we endeavour to act in a responsible, balanced and commercially sensible manner. As such, we regularly evaluate the longevity of our business model and its relevance to the economies in which we operate.

We are conscious of our impact on the environment and have been measuring and mitigating this for several years. We have made meaningful progress and our process has become increasingly sophisticated, with demanding goals and accountability for outcomes.

Transformation is a priority for sustainable South African businesses. Hyprop has made substantial progress in this area by implementing initiatives that benefit our people, our business and the environments in which we operate.

Corporate governance

Hyprop is committed to the highest standards of corporate governance. Details of our governance structures and the extent to which we apply relevant principles of corporate governance, including King IV, and regulatory requirements, are set out in this integrated annual report.

Leadership review continued

Board changes

Laurence Cohen, the financial director, resigned from the board effective 31 July 2018.

Subsequent to the year-end, the board accepted Pieter Prinsloo's resignation, effective 31 January 2019. Morné Wilken will join Hyprop as chief executive officer with effect from 27 December 2018.

Pieter has added considerable value to the group during his tenure and led the growth of the company. The board thanks him for his contribution and wishes him well in his future endeavours.

Zuleka Jasper was appointed to the board as an independent non-executive director on 5 July 2018. On the same date, Wilhelm Nauta joined the board as an executive director.

Brett Till has been appointed as the financial director, effective 1 October 2018.

The board thanks Laurence for his valuable contribution over the last 15 years and welcomes the new directors to the board.

Shareholding

Hyprop, based on JSE criteria for public shareholders, has a 100% free float. Foreign shareholders owned 23% of the company at 30 June 2018, the same as at 30 June 2017. Trading volumes increased to 58,6% from 52,1% in 2017.

Top 10 beneficial shareholders

Rank	Shareholder	% held at 30 June 2018
1	Government Employees Pension Fund	12,6
2	Stanlib	4,9
3	Old Mutual	4,3
4	MMI Holdings Limited	4,3
5	Sanlam	3,8
6	Vanguard	3,4
7	Prudential Investment Managers	3,3
8	Investec	3,0
9	BlackRock	2,9
10	Eskom Pension and Provident Fund	2,8

Outlook

South Africa has been locked in a cycle of low growth and economic underperformance for a number of years. This has reduced fixed investment, limited the creation of new jobs and contributed to a volatile social and economic environment. The business sector is increasingly having to shoulder many of government's responsibilities, at significant cost, exacerbating a difficult situation.

The slow normalisation of international interest rates and concerns regarding the political and economic environments in South Africa have resulted in substantial net foreign equity and bond sales and are likely to continue to do so. South African REITs have been affected and a resumption of the shareholder return levels generated in recent years will require material adjustments to the South African macro-environment, with a corresponding increase in business and investor confidence.

Government has stated it is working to reduce corruption and inefficiency, restore confidence in the economy and attract foreign investment. These are challenging tasks, and it is essential that all of the major participants in the economy support these efforts and contribute to their success.

Should the country not achieve a marked improvement in governance levels, and a step change in the business environment, it will be necessary to change current business models to cater for a customer that will be poorer in an environment where the cost of doing business will increase at levels well beyond the official inflation rate, together with the likelihood of a more volatile and weaker currency and the inflationary risks associated with that. This will pose a significant challenge to many of our tenants and, in turn, will impact on our properties.

Hyprop's South African shopping centres are of a high quality and there is regular investment to enhance their appeal. They have proved to be resilient in the current downturn with continued demand for space and acceptable performance metrics. While we believe that the portfolio has the ability to weather a continuation of the current environment, it will be increasingly difficult to achieve historical rental escalations, and increases in interest rates and operating costs will put pressure on margins. Failures by larger tenants have become more common internationally and should any of our larger tenants fail, it will take time to find replacements for the space and the lost rentals and associated costs will affect our returns.

The returns from our African portfolio should improve over the next year, if the current trends in Ghana and Nigeria persist. There has been a substantial devaluation in the Naira since we acquired the Ikeja City Mall, which has impacted on the ability of tenants to pay US Dollar indexed rentals. Despite that, we have been able to control the levels of normal arrears and if the relative stability of the currency over recent months continues, the property revenue should stabilise. The challenges faced by the Zambian economy and an increase in retail offerings in Lusaka reduced the returns from Manda Hill during the period, however the centre is well tenanted and located, and should produce solid growth over time.

The greater European economy appears to have stabilised and, subject to the effects of a possible global trade war, has a positive outlook. Three of our European properties are in EU countries, with the other three in countries that demonstrate similar or higher levels of growth.

We have planned several extensions to certain of the European properties and these, together with ongoing asset management initiatives, should supplement the growth embedded in the leases.

Hystead will make further acquisitions where appropriate. The company will remain unlisted, with the existing shareholding structure in place until the current shareholders' agreement expires in 2021, or the shareholders agree to change the structure.

Prospects

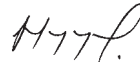
Hyprop expects dividend growth of between 5% and 7% for the year to 30 June 2019. This is lower than has been the case for a number of years but is reflective of lower growth in the South African property sector and the effects of the constrained consumer environment in South Africa. We will continue to invest in and manage our properties to ensure that they remain relevant and attractive to customers through the current economic cycle.

This guidance is based on the following key assumptions:

- Forecast investment property income is based on contractual rental escalations and market-related renewals
- Appropriate allowances for vacancies have been incorporated into the forecast
- No major corporate and tenant failures will occur
- Earnings from offshore investments will not be materially impacted by exchange rate volatility or disruption in the financial markets
- Exchange rates have been assumed at R13,50 and R15,50 to the US Dollar and Euro, respectively.
- This forecast has not been reviewed by the company's auditors.

Appreciation

On behalf of the board we thank our executives, management and staff for their considerable efforts during the year. We also thank our stakeholders for their support and our fellow board members for their guidance and support.



Gavin Tipper
Chairman



Pieter Prinsloo
Chief executive officer

22 October 2018

Financial review

Financial results

Total investments

Total investments of R37,3 billion (2017: R35,5 billion) consist of direct property investments in South Africa of R29,0 billion (2017: R28,3 billion), investments in sub-Saharan Africa (excluding SA) of R4,5 billion (2017: R4,5 billion) and investments in South-Eastern Europe of R3,8 billion (2017: R2,7 billion).

The investments in South-Eastern Europe, held via Hystead, are accounted for as an investment in a financial asset with the gains on the initial recognition of the financial asset being deferred and changes in fair value recognised through profit and loss. Accordingly, the investment does not appear in the consolidated statement of financial position, except for the change in the fair value of the financial asset, and an equity contribution totalling R152,6 million.

Net asset value

The net asset value per share at 30 June 2018 increased by 3,2% to R102,98 (2017: R99,78). The increase was mainly due to an increase in the independent valuation of the South African investment property portfolio, as well as the increase in the Hystead financial asset, offset by an impairment of the AttAfrica and Manda Hill shareholder loans.

Distributable earnings statement and reconciliation to dividend declared

	12 months to June 2018 R000	12 months to June 2017 R000
South African property portfolio	1 937 661	1 916 927
Continuing operations	1 929 055	1 854 471
Properties sold	8 606	62 456
Investments in sub-Saharan Africa (excluding SA)	78 368	56 972
Investments in South-Eastern Europe	187 802	101 823
Fund management expenses	(65 142)	(67 347)
Net interest	(280 846)	(321 337)
Other income	46 671	36 533
Distributable earnings	1 904 514	1 723 572
Dividend for six months – first half	933 127	861 423
Dividend for six months – second half	971 387	862 149
Total dividend	1 904 514	1 723 572
Total shares in issue – first half	248 441 278	248 441 278
Treasury shares in issue – first half	(446 260)	(410 659)
Shares in issue for distributable earnings – first half	247 995 018	248 030 619
Additional treasury shares – second half		(131 587)
Shares issued – May 2018	7 453 238	
Shares in issue for distributable earnings – second half	255 448 256	247 899 032
Dividend per share (cents) – first half	376,3	347,3
Dividend per share (cents) – second half	380,2	347,8
Dividend per share (cents)	756,5	695,1
Dividend per share growth (%) – first half	8,3	16,6
Dividend per share growth (%) – second half	9,3	8,0
Dividend per share growth (%)	8,8	12,1

Total distributable earnings for the year grew by 10,5% (2017: 13,2%), largely due to income from the investments in South-Eastern Europe, particularly the new acquisitions in Skopje, Macedonia (November 2016), Sofia, Bulgaria (October 2017) and the two malls in Zagreb, Croatia (April 2018). The inclusion of distributable earnings from Ikeja City Mall in Lagos, Nigeria, which were excluded in the prior year due to US Dollar availability constraints, also contributed to the growth for the year. Hyprop's international investments contributed 16,4% (2017: 11,3%) of distributable earnings.

The net interest cost of R280,8 million (2017: R321,3 million) was lower than in the previous year due to the application of cash from non-core asset sales of R867 million in 2017 and R230 million in 2018, as well as the proceeds of the new share issue in May 2018 of R778,2 million, to the reduction of debt and to capital expenditure in the South African portfolio. The remaining cash was placed on deposit.

Fund management expenses reduced during the year due mainly to asset management fees received from Hystead of R17,3 million (2017: R13,6 million).

Other income includes credit enhancement income of R46,7 million (2017: R36,5 million) for the funding guarantee provided by Hyprop in respect of a portion of the South-Eastern European investments.

Treasury shares are held in respect of an equity-settled staff incentive scheme. During the year the share scheme purchased an additional 155 000 shares at an average price of R117,19.

Reconciliation from headline earnings to distributable earnings

	12 months to June 2018 R000	12 months to June 2017 R000
Headline earnings	1 890 850	1 594 424
Distributable earnings adjustments	13 664	129 148
Change in fair value: derivative instruments	(29 085)	5 074
Derecognition of financial guarantee	(11 984)	
Financial asset – right to receive dividends	(87 761)	163 855
Investments in sub-Saharan Africa (excluding SA) ⁽¹⁾	(57 602)	(29 928)
South African subsidiaries ⁽¹⁾	(2 190)	1 212
South-Eastern Europe		(44 221)
Impairment of loans from joint ventures	166 441	25 377
Capital items and other items	(3 641)	6 153
Deferred and normal taxation	39 486	1 626
Distributable earnings	1 904 514	1 723 572

⁽¹⁾ Net effect of converting IFRS earnings to distributable earnings

Financial review continued

South African portfolio

Business segment	12 months to June 2018		12 months to June 2017	
	Revenue R000	Distributable earnings R000	Revenue R000	Distributable earnings R000
Shopping centres	2 684 578	1 792 727	2 580 200	1 723 648
Value centres	151 214	106 796	139 857	102 490
Total retail	2 835 792	1 899 523	2 720 057	1 826 138
Total standalone offices ⁽¹⁾	47 166	29 532	46 908	28 332
Investment property (excluding properties sold)	2 882 958	1 929 055	2 766 965	1 854 470
Properties sold ⁽²⁾	10 797	8 606	108 637	62 457
Total investment property	2 893 755	1 937 661	2 875 602	1 916 927

⁽¹⁾ Consists of Lakefield Office Park (held-for-sale) and Cradock Heights

⁽²⁾ Willowbridge North was sold during the year. Properties sold in the prior year included Somerset Value Mart, Willowbridge South, Glenfield and Glenwood office parks

Growth in distributable earnings (excluding properties sold) for the year was 4,0%. The growth in distributable earnings in the second half of the year (excluding properties sold) was 6,0% compared to 2,1% in the first half. Construction work at Rosebank Mall and The Glen, and the Stuttafords vacancies at Canal Walk, Clearwater Mall and Rosebank Mall, reduced the growth in distributable earnings, primarily in the first half of the year.

CapeGate and Somerset Mall were the best performers in the portfolio with both recording growth in distributable earnings of 8,7%. Despite being negatively affected by the Stuttafords vacancy and construction work in the La Piazza area, Canal Walk recorded distributable earnings growth of 5,4%.

Due to the impact of the weak economic conditions on consumer spend, overall growth in trading density reduced to 0,5% (2017: 1,4%). Good trading density growth was recorded at CapeGate (6,8%) and Clearwater Mall (4,4%).

Cost-to-income ratios

	June 2018	June 2017
Net basis (%)	15,8	15,7
Gross basis (%)	33,0	33,3

The net cost-to-income ratio increased marginally, mainly due to increases in municipal rates in the Pretoria portfolio from July 2017 and a slight reduction in recoveries across the portfolio. The improvement in the gross cost-to-income ratio is due to additional income on completed developments.

Tenant arrears

Tenant arrears were R18,9 million (excluding outstanding deposits) at year-end (2017: R13,7 million) or 0,6% of rental income (2017: 0,4%). Bad debts of R10,3 million (2017: R8,9 million) were written off during the year. The provision for bad debts increased to R8,9 million (2017: R6,5 million).

Although tenant arrears increased during the period, the arrears are a relatively small percentage of rental income and are within market norms.

Vacancies

Sector	Rentable area (m ²) June 2018	Change in vacancy during the period (m ²)	% of total rentable area	
			June 2018	June 2017
Retail	10 714	(2 132)	1,6	1,9
Office	3 255	(1 459)	5,5	7,9
Total	13 969	(3 591)	1,9	2,4

Despite the tough trading environment for retailers, vacancies in the portfolio reduced from 2,4% to 1,9%. Somerset Mall, Canal Walk, Woodlands Boulevard and CapeGate had vacancies of less than 1%. The largest vacancies in the retail portfolio were at The Glen (4 378m²), Clearwater Mall (1 988m²) and Atterbury Value Mart (1 751m²). The Glen vacancy included vacancies resulting from the food court redevelopment of 1 100m². Since the opening in April 2018, positive interest from retailers has been received for this area.

The decrease in office vacancies from 7,9% to 5,5% is mainly due to lettings at the Rosebank Mall and Canal Walk offices.

Lettings

New leases and renewals of 133 400m² (18,5% of the total rentable area) with a contract value of R1,9 billion, were concluded during the year, at a net rental growth of 1,0% (2017: 4,0%) and an average escalation of 7,7% (2017: 7,9%).

Leases of approximately 106 000m² (15% of total rentable area) will expire in the 2019 financial year. As at 30 June 2018, the Edcon Group occupied 67 300m² (2017: 70 102m²) in Hyprop's shopping centres. In the 2019 financial year approximately 1 380m² of the space will not be renewed, while a further 8 600m² is under review with the objective of finding replacement tenants. We will continue to work with the Edcon Group to address their space requirements, to the extent possible, as their business develops.

Valuations

Business segment	Value attributable to Hyprop			Value per rentable area
	Rentable area (m ²)	June 2018 R000	June 2017 R000	June 2018 (R/m ²)
Shopping centres	653 258	27 351 847	26 490 589	45 965
Value centres	48 848	1 303 000	1 248 000	26 675
Total retail	702 106	28 654 847	27 738 589	44 623
Total standalone offices ⁽¹⁾	20 354	323 000	310 798	15 869
Total (excluding properties sold)	722 460	28 977 847	28 049 387	43 813
Properties sold ⁽²⁾			225 000	
Investment property	722 460	28 977 847	28 274 387	43 813

⁽¹⁾ Consists of Lakefield Office Park (held-for-sale) and Cradock Heights

⁽²⁾ Willowbridge North was sold during the year

Investment property was independently valued by external registered valuers at 30 June 2018 resulting in a net increase in value of R646,9 million (2017: R1 263,8 million). The weighted average capitalisation rate of the portfolio is 6,6% (2017: 6,6%). All discount and capitalisation rates remained largely the same as in the previous year. The sharp increase in municipal rates from July 2018 had a negative impact on the valuation of the Johannesburg shopping centres. Hyprop has objected to the increase.

In terms of IAS 40: *Investment property* and IFRS 13: *Fair value measurement*, investment properties are measured at fair value through profit or loss using valuation inputs which are categorised as level 3 on the fair value hierarchy. There were no transfers between levels 1, 2 and 3 during the year.

Financial review continued

Capital expenditure

The following major projects were successfully completed during the year:

Shopping centre	Project	Hyprop's share Rm	Completion date
Rosebank Mall	Additional 4 300m ² rentable area	127,0	April 2018
The Glen	Food court enclosure and additional retail	90,9	April 2018
Canal Walk	Additional retail in La Piazza area	41,6	November 2017
Woodlands Mall	Nu Metro refurbishment	16,0	December 2017

The projects were completed on schedule and below budgeted cost. Since the completions, a positive trend in the number of visitors to the centres has been recorded.

With a focus on improving quality and sustainability in the shopping centres a total of R66,9 million (2017: R177,9 million) was spent on refurbishments, new equipment, tenant installations and sustainable technology.

Smaller projects completed during the year included the refurbishment of the Hyde Park Corner offices (R14 million) and the replacement of the façade of the Rosebank Mall offices (R10 million). Opportunities are currently being explored with regard to the rightsizing of various stores, and creating space for tenants who are not yet in all of the shopping centres. Also, an upgrade of the food courts at Woodlands Boulevard and Canal Walk are in the planning stage.

The various water-saving initiatives in the Western Cape region (the use of borehole water, capturing of run-off water and the treatment of effluent grey water) are all in the final stages of commissioning. As a result of these initiatives, together with the installation of back-up water storage, the exposure of the Western Cape shopping centres to water outages has been significantly reduced. Other ongoing water-saving initiatives in the portfolio included the use of grey and borehole water at The Glen, and the installation of waterless urinals and aerators in the public bathrooms across the portfolio.

Disposals

Willowbridge North was sold during the year for R225 million. Transfer took place in September 2017.

A conditional sale agreement has been concluded for the last non-core property in the portfolio, Lakefield Office Park.

Investments outside South Africa

The functional and reporting currencies for the investments in sub-Saharan Africa (excluding SA) and South-Eastern Europe are the US Dollar and Euro, respectively.

The exchange rates used to convert to Rand were as follows:

	June 2018		June 2017	
	Average rate R	Year-end spot rate R	Average rate R	Year-end spot rate R
US Dollar	12,53	13,70	13,63	13,04
Euro	15,27	16,00	14,53	14,90

The average rates are a weighted average of the actual exchange rates on the dates that the foreign currency dividends were received in South Africa. The year-end spot rate is the rate used to translate balance sheet items at year-end.

Hyprop fixes the exchange rates on US Dollar and Euro income for six months in advance of receipt of dividends.

Investments in sub-Saharan Africa (excluding SA)

	Hyprop share of distributable earnings	
	June 2018 R000	June 2017 R000
Distributions received	254 639	168 241
Interest and expenses	(176 271)	(111 269)
Net	78 368	56 972

Distributable earnings from the investments in sub-Saharan Africa (excluding SA) increased to R78,4 million (2017: R57,0 million), due to the inclusion of distributable earnings of R24,0 million (2017: Rnil) from Ikeja City Mall, Lagos, Nigeria.

Vacancies

	City/country	Hyprop's effective shareholding (%)	Rentable area (m ²)	June 2018 vacancy (%)	June 2017 vacancy (%)
Ikeja City Mall	Lagos, Nigeria	75,0	22 223	3,1	
Manda Hill	Lusaka, Zambia	68,8	42 002	4,1	5,4
Accra Mall	Accra, Ghana	17,6	21 311	6,8	
West Hills Mall	Accra, Ghana	16,8	28 272	10,4	5,3
Achimota Mall	Accra, Ghana	28,1	15 534	1,9	6,1
Kumasi City Mall	Kumasi, Ghana	28,1	18 604	13,0	26,5
Total portfolio			147 946	6,4	6,5

The financial performance of the portfolio overall was negatively impacted by vacancies and tenant replacements during the year. Vacancies in Accra Mall and West Hills Mall increased mainly due to the withdrawal of Truworths and Identity from Ghana, and the downsizing of fashion tenants. Income from Manda Hill shopping centre (Lusaka, Zambia) reduced due to re-tenanting of shops at lower rentals at the beginning of the financial year. Game (replacing the previous second food anchor) is due to open in November 2018 at Achimota and West Hills, which will strengthen the tenant mix.

The economic growth prospects in Ghana have improved and we have seen a general increase in trading densities in recent months. Demand for shops has improved at some centres and vacancies have reduced at Manda Hill, Kumasi and Achimota. At Ikeja City Mall, trading conditions and rent collection have been stable over recent months while the Nigerian economy has slowly gained momentum, benefiting from higher oil prices and improved foreign exchange liquidity.

Hyprop share of shareholder loans/investment property

At 30 June 2018 the Hyprop share of the US Dollar value of the AttAfrica portfolio, Manda Hill and Ikeja City Mall was USD282,9 million (2017: USD281,8 million) at a weighted average capitalisation rate of 8,3% (2017: 8,4%).

	Hyprop share	
	June 2018 R000	June 2017 R000
AttAfrica and Manda Hill (joint ventures)	2 918 721	3 005 821
Ikeja City Mall, Lagos, Nigeria (75%)	1 552 015	1 476 553
Total effective investment in sub-Saharan Africa	4 470 736	4 482 374

Financial review continued

The small net reduction in the Rand value over the period was mainly due to the repayment of a portion of the AttAfrica shareholder loan (R65,6 million) and an impairment of the shareholder loans to AttAfrica and Manda Hill (R166,4 million), offset by an increase in value due to Rand depreciation against the US Dollar (R146,9 million) at year-end.

Certain of the properties in the portfolio have been affected by the economic conditions in recent years and are producing lower investment returns than what was originally anticipated. As a result the income received from those properties over the next few years will be lower than previously modelled. The shareholder loans in AttAfrica and Manda Hill, which reflect Hyprop's share of the value of the underlying property investments at group level, have therefore been impaired. Should a sale not take place before maturity of the shareholder loans to AttAfrica in 2020, it is likely that the structure will be renegotiated and extended.

As disclosed in the interim results announcement, Hyprop is investigating a reduction of its exposure to the investments in sub-Saharan Africa (excluding SA).

Investments in South-Eastern Europe

Hyprop's investments in South-Eastern Europe are held through a UK company, Hystead, in which Hyprop has a 60% interest. The portfolio consists of six high-quality, dominant shopping centres, located in five capital cities in South-Eastern Europe. The total rentable area of the portfolio is approximately 230 000m² with Hystead's share of the gross asset value being EUR740,6 million.

	Hyprop share of Hystead's distributable earnings	
	June 2018 R000	June 2017 R000
Distribution received	276 083	147 059
Interest and expenses	(88 281)	(45 236)
Net distributable earnings	187 802	101 823

The significant increase in net distributable earnings is mainly due to the inclusion of income from Skopje City Mall in Skopje, Macedonia (acquired November 2016), The Mall in Sofia, Bulgaria (acquired October 2017) and City Center One East and City Center One West in Zagreb, Croatia (acquired April 2018). Distributable earnings also benefited from the depreciation of the Rand against the Euro.

Vacancies

	City/country	Hyprop's effective shareholding (%)	Rentable area (m ²)	June 2018 vacancy (%)	June 2017 vacancy (%)
Delta City Belgrade	Belgrade, Serbia	60	29 850		
Delta City Podgorica	Podgorica, Montenegro	60	23 718		
Skopje City Mall	Skopje, Macedonia	60	36 241		
The Mall, Sofia	Sofia, Bulgaria	60	51 211	0,4	n/a
City Center One East	Zagreb, Croatia	54	47 191	0,3	n/a
City Center One West	Zagreb, Croatia	54	42 373		n/a
Total portfolio			230 584	0,1	

At 30 June 2018, apart from small vacancies at The Mall in Sofia and City Center One East, the Hystead portfolio was fully let.

Benefiting from strong macro-economic conditions, trading in the South-Eastern European shopping centres remains positive with the centres reporting good growth in trading density. Demand for space remains high and various extension plans are under consideration.

Hyprop share of investment property

At 30 June 2018 the Hyprop share of the Euro value of the Hystead portfolio was EUR444,4 million (2017: EUR179,9 million) at a weighted average capitalisation rate of 7,5% (2017: 8,7%).

	Hyprop share	
	June 2018 R000	June 2017 R000
Delta City Belgrade, Belgrade, Serbia (60%)	1 248 250	1 162 200
Delta City Podgorica, Podgorica, Montenegro (60%)	738 388	685 698
Skopje City Mall, Skopje, Macedonia (60%)	894 899	833 208
The Mall, Sofia, Bulgaria (60%)	1 533 427	n/a
City Center One East, Zagreb, Croatia (54%)	1 296 259	n/a
City Center One West, Zagreb, Croatia (54%)	1 399 960	n/a
Total effective investment in South-Eastern Europe	7 111 183	2 681 106

The total Rand equivalent value of Hyprop's share of investment property in South-Eastern Europe increased due to the acquisition of The Mall in Sofia, Bulgaria and the two centres in Zagreb, Croatia. The Rand equivalent value of the Delta City Centres and Skopje City Mall increased marginally due to the depreciation of the Rand against the Euro.

Acquisitions

Hystead made the following acquisitions during the year:

The Mall, Sofia, Bulgaria

The Mall shopping centre in Sofia, Bulgaria was acquired effective 4 October 2017 for EUR155 million at a 7,3% yield. The Mall, with a rentable area of 51 200m², is one of the dominant shopping centres in Sofia.

In June 2018, Hystead acquired the former Hypermarket premises which is currently vacant and is connected to The Mall. These premises will be refurbished and integrated with The Mall, at a total cost of EUR23 million, and will introduce a supermarket of 2 450m² as well as additional line shops of 9 550m². The anticipated refurbishment starting date is October 2018 and the development will take approximately six months to complete, at an estimated initial yield of 9%.

City Center One East and City Center One West, Zagreb, Croatia

Hystead acquired a 90% interest in two dominant shopping centres situated in Zagreb, Croatia (City Center One West and City Center One East) with rentable areas of 42 373m² and 47 191m², respectively, effective 20 April 2018, for EUR283,5 million (7% yield). Hystead entered into a joint venture agreement with WKB3 (which retains a 10% interest in the centres), an Austrian-based company that developed and managed the centres, for the management of the properties.

During the year Hystead established a European-based executive management team, which provides management support to the onsite property management teams at each of the shopping centres. The asset management of the Zagreb shopping centres is undertaken jointly by the Hystead management team and by CC Real, the operating company of WKB3.

Funding

With effect from June 2018, all of the shopping centres are part funded with non-recourse asset-backed loans through offshore banks, at an average loan-to-value ratio of 47% (EUR349,9 million). The debt has a weighted average interest rate of 3,6% and a loan term of 4,5 years, with 45% of the interest rates hedged for the full term.

Financial review continued

Borrowings

	June 2018 Rm	June 2017 Rm
South African debt	2 950	4 114
Bank debt	600	1 814
Corporate bonds	2 350	2 300
USD bank debt (Rand equivalent)	4 513	4 391
EUR bank debt (Rand equivalent)	3 795	2 673
Cash and cash equivalents	(715)	(1 126)
Net borrowings	10 543	10 052
Loan-to-value (%)	28,1	28,9
Debt at fixed rates (%)		
South African debt (%)	113,6	100,9
USD debt (%)	63,5	70,4
Maturity of fixes (years)	3,1	3,4
South African debt (years)	3,8	3,9
USD debt (years)	2,4	2,7
Maturity of facilities (years)	3,1	2,5
South African debt (years)	3,8	2,2
USD debt (years)	2,7	2,6
Cost of funding		
South African debt (%)	9,4	8,9
USD debt (%)	4,8	4,7
EUR debt (%)	1,7	2,2
Debt capital market (DCM) % of total debt	21	21

South African debt

The South African bank debt is secured against South African investment property, while the DCM funding is unsecured.

During the period, the following maturing corporate bonds and facilities were repaid:

Type	Amount	
	Rm	Date repaid
Five-year corporate bond	300	September 2017
Five-year corporate bond	450	April 2018
Nedbank debt	1 200	June 2018

In March 2018, Hyprop issued two new long-term corporate bonds, a R452 million five-year bond and a R348 million seven-year bond, (refer to *note 17 – Borrowings*) at margins of 1,6% and 1,9%, respectively, which were used to repay part of the Nedbank debt. Equity of R778,7 million was raised in May 2018 (under general authority at an average price of R105) and that cash, as well as proceeds from previous asset sales was utilised to reduce the South African debt.

At 30 June 2018, 113,6% of the interest rate exposure was hedged. This will reduce in the first quarter of the 2019 financial year with the expiry of a R100 million interest rate hedge in August 2018, and the potential raising of R250 million of new debt to fund capital requirements.

The interest rate on the South African debt increased due to the increase in the maturity profile of the corporate bonds.

US Dollar-denominated debt

The Rand equivalent of the US Dollar-denominated bank debt increased during the year, largely due to Rand depreciation against the US Dollar. The US Dollar debt includes debt in Hyprop Mauritius, as well as 75% of the in-country debt relating to Ikeja City Mall (Lagos, Nigeria).

Two bank loans in Hyprop Mauritius of USD40 million and USD20 million were consolidated and refinanced through a three-year USD60 million bank facility. During the year a portion of an expiring bank facility of USD30 million was partly repaid and refinanced through a USD23 million facility, of which only USD16,7 million was utilised.

In-country debt relating to Ikeja City Mall (Lagos, Nigeria) of USD56,5 million (Hyprop share: USD42,4 million) was refinanced for three years and converted to an interest only loan.

Euro-denominated debt

Equity funding in Hystead of EUR396 million has been provided through bank loans secured by shareholder guarantees. As per the shareholders' agreement, Hyprop guarantees 90% of the equity funding and PDI, Hystead's other shareholder, 10%. PDI provides further back-to-back guarantees to Hyprop for 11,7% of the total amount and for the remaining 18,3% that Hyprop guarantees, Hyprop receives 60% of the applicable PDI dividend as credit enhancement income. This agreement is in place until May 2021.

EUR234 million of the equity funding, provided by way of bridge loans, will be refinanced by October 2018 and replaced with three-year term loans, at an estimated average fixed interest rate of 2,1%. The balance of the equity funding was previously financed using three-year term loans, due to expire in May 2020.

The Euro debt is not consolidated in the Hyprop statement of financial position. For the purposes of the above table (including calculation of the loan-to-value ratio), 60% of the debt and 60% of the corresponding asset values have been included (in line with Hyprop's 60% interest in Hystead).

Euro-denominated debt increased during the period due to the acquisition of The Mall in Sofia, Bulgaria in October 2017, and the two malls in Zagreb, Croatia, as well as the depreciation of the Rand against the Euro.

Management structure

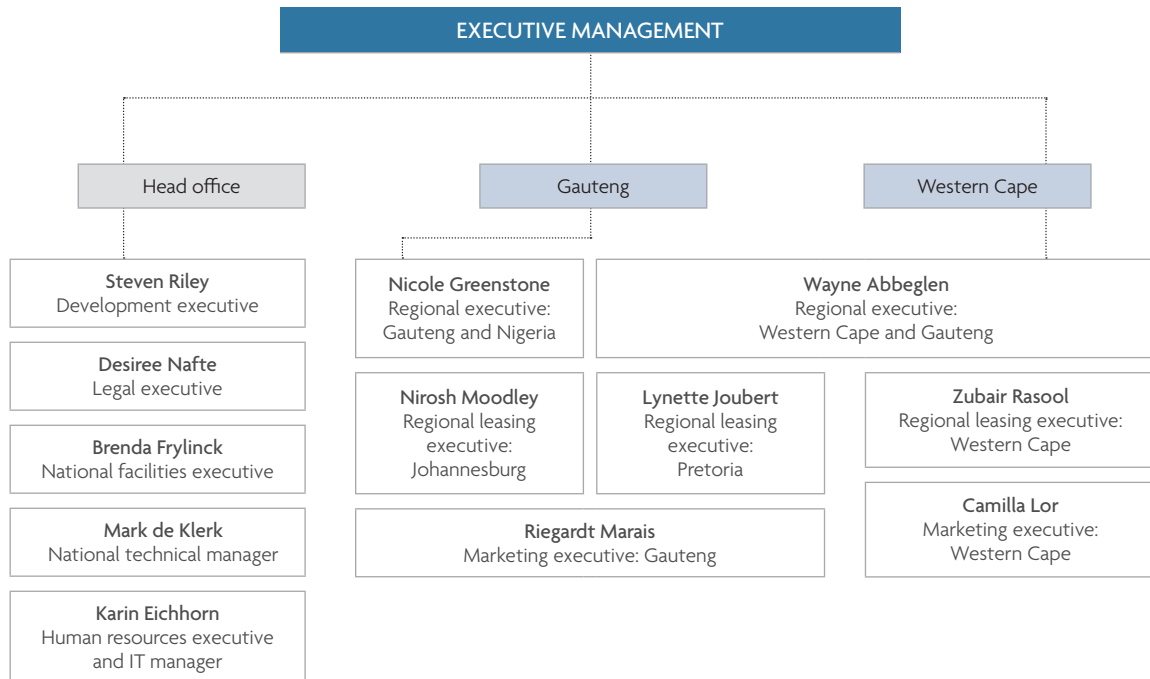
Committees				
	Audit and risk committee	Remuneration and nomination committee	Investment committee	Social and ethics committee
BOARD OF DIRECTORS				
Independent non-executive directors				
Gavin Tipper (chairman) Appointed: 2013	✓	✓ chair – nomination matters	✓	
Stewart Shaw-Taylor Appointed: 2000	✓	✓ chair – remuneration matters	✓	
Mike Lewin Appointed: 2010				✓ chair
Lindie Engelbrecht Appointed: 2011	✓ chair	✓		
Thabo Mokgatla Appointed: 2013	✓			
Nonyameko Mandindi Appointed: 2017				✓
Zuleka Jasper** Appointed: 2018	✓			
Non-executive directors				
Kevin Ellerine Appointed: 2009			✓	
Louis Norval Appointed: 2011			✓	
Executive directors				
Pieter Prinsloo ^α Chief executive officer Appointed: 2011			✓ chair	✓
Laurence Cohen ^{α*} Financial director (outgoing) Appointed: 2006				✓
Wilhelm Nauta** Investments director Appointed: 2018				
Brett Till*** Financial director (incoming) Appointed: 2018				

^α Prescribed officer

* Resigned effective 31 July 2018

** Appointed effective 5 July 2018

*** Appointed effective 1 October 2018



Board of directors

Independent non-executive directors



Gavin Tipper (53)

Chairman
CA(SA)

Gavin has been involved in the financial services industry for over 20 years, and was an executive director of Coronation Limited and a technical partner at KPMG South Africa.

Appointed: Chairman 2013

Committees: Audit and risk, remuneration and nomination, investment



Lindie Engelbrecht (43)

CA(SA)

Lindie was an executive director (members and global alliances) at SAICA. Her previous roles include director at Ernst & Young in climate change and sustainability services, CEO of the Institute of Directors of Southern Africa and director at KPMG focusing on governance and assurance. She has also served on various NPO boards and audit committees.

Appointed: 2011

Committees: Audit and risk (chair), remuneration and nomination



Thabo Mokgatla (43)

CA(SA)

Thabo began his career as a senior lecturer in accounting and taxation at the University of the North West. He worked as finance manager of the North West Parks Board, centre manager in the Rustenburg office of the auditor-general and finance manager of Royal Bafokeng Administration. He currently serves on the boards of a number of listed companies.

Appointed: 2013

Committee: Audit and risk



Zuleka Jasper (44)

CA(SA)

Zuleka is an internationally certified Leadership and Life Transformation Coach. She previously held the role of Professional Practice Director (Audit Quality Leader) for Deloitte Africa. She was a Deloitte audit partner for more than 12 years, served on various committees at the Independent Regulatory Board for Auditors (IRBA) and is a member of the ATC Examinations Committee at SAICA. Zuleka left the audit profession in January 2018. She is currently contracted to the Deloitte Global University in Brussels as a faculty member for one of its leadership programmes and to Deloitte South Africa as a coach (technical and otherwise) and assessor for leadership programmes.

Appointed: 2018

Committee: Audit and risk



Mike Lewin (63)

BCom, BAgri management

Mike has over 25 years' experience in the property industry and headed the group retail division of Redefine Properties Limited until December 2013. He was previously with Edgars Consolidated Stores Limited for 18 years, as its property development executive.

Appointed: 2010

Committee: Social and ethics (chair)



Stewart Shaw-Taylor (66)

CA(SA)

Stewart has over 30 years' experience in investment banking and real estate. Prior to retiring from Standard Bank, he was head of real estate investments: corporate and investment banking, responsible for its equity-related real estate activities. He currently serves on a number of listed and unlisted boards.

Appointed: 2000

Committees: Audit and risk, remuneration and nomination, investment



Nonyameko Mandindi (52)

BSc (QS) Executive masters

Nonyameko is a professional quantity surveyor with experience in all aspects of the infrastructure, property investment and development value chain. She is currently executive director of property development and investment venture, Kusile Africa Ventures Proprietary Limited, and Petals Global Proprietary Limited and a non-executive director of Hudaco Industries Limited, SVA International Proprietary Limited and ITISA.

Appointed: 2017

Committee: Social and ethics

Non-executive directors



Louis Norval (62)

BSc (QS)
Louis co-founded Attfund Limited and was executive chairman and chief executive of Attfund Retail Limited when it was acquired by Hyprop. He is executive chairman of Homestead Group Holdings Limited as well as managing director of the Parkdev Group of Companies. Louis is a non-executive director of Capital and Regional Plc (a UK focused specialist retail property REIT listed on the London Stock Exchange and with a secondary listing on the JSE) and Hystead Limited. He also serves as non-executive chairman of the Trigen Group.
Appointed: 2011
Committee: Investment



Kevin Ellerine (50)

National Diploma in Company Administration
Kevin joined the family business, Ellerine Holdings, in 1991 as merchandise manager. In 1993, he became property manager of Ellerine Bros Proprietary Limited and was appointed managing director of the property division in 2000. He sits on several boards of all property and private equity companies in which Ellerine Bros is invested.
Appointed: 2009
Committee: Investment

Executive directors



Pieter Prinsloo (53)

Chief executive officer
Prescribed officer
BSc (QS)
Pieter was CEO of Hyprop from 2002 to 2009, and was reappointed in May 2011. As a quantity surveyor, he has been involved in every aspect of property development, management and finance for over 21 years, including senior positions at Sanlam Properties, Standard Bank Properties and Absa Commercial Property Finance.
Appointed: 2011
Committees: Investment (chair), social and ethics

Executive directors continued



Wilhelm Nauta (47)

Investments director
CA(SA)
Wilhelm has extensive experience in investment analysis, investment management, business strategy and mergers and acquisitions (M&A). He started his career at Deloitte & Touche (financial institutions team) in Johannesburg, before joining BJM Securities as an investment analyst in the banking, insurance and property sectors. He subsequently worked for Royal Bafokeng Holdings as a manager in the strategic investments area, and for the Blend Property Group as an executive director and chief investment officer. Wilhelm joined Hyprop in 2016 and is responsible for M&A and investment activities.
Appointed: 2018



Laurence Cohen (45)

Outgoing financial director
Prescribed officer
CA(SA)
Laurence joined the group in 2003 as financial director of Hyprop Management Company, after three years in Grant Thornton's corporate finance division. He has been extensively involved in various aspects of the group during his tenure at Hyprop, which ended with his resignation in July 2018. Laurence formerly chaired the accounting and JSE committee of the SA REIT Association, and was instrumental in developing best practice recommendations for the SA REIT sector.
Appointed: 2006
Committees: Social and ethics
Resigned: 31 July 2018



Brett Till (49)

Financial director
CA(SA)
Brett has been appointed as financial director with effect from 1 October 2018. He has extensive experience in corporate finance, due diligence work, financial management and reporting, corporate governance, company and commercial law and taxation and exchange control compliance. Brett started his career at Fisher Hoffman Stride in Johannesburg, before joining Rebhold Limited in 1998 as a financial executive. He was then appointed as the group chief financial officer in 1999, which position he held until 2007. Brett joined Mentor Africa Limited, a private investment company, in 2007, as the chief financial officer, where he had various financial and corporate finance responsibilities.
Appointed: 2018



CapeGate, Western Cape

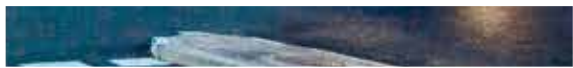




PORTFOLIO REVIEW



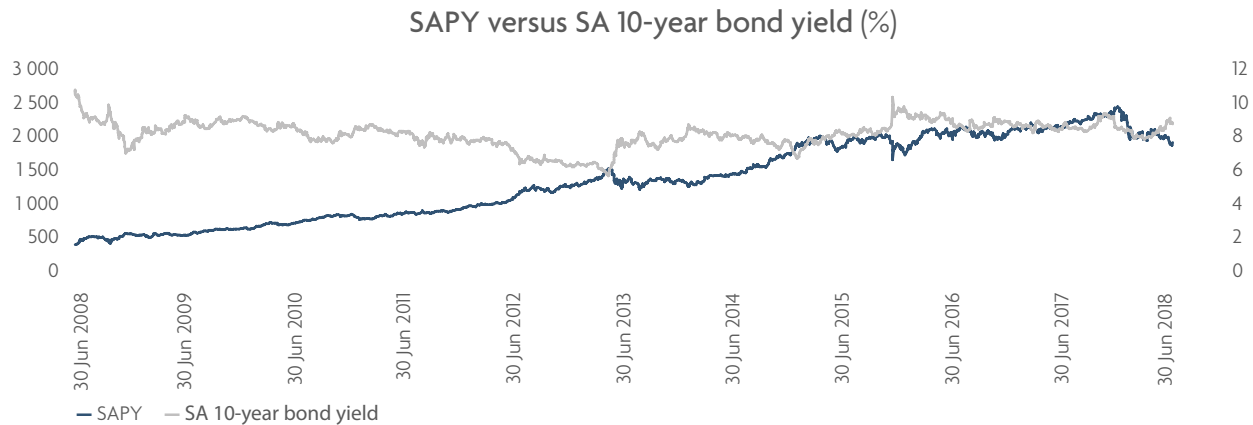
Hyprop's portfolio spans 1 042 058m² in retail GLA across nine countries with an annual footcount of 176 million.



The markets in which we operate

South Africa

Over the past 10 years the South African listed property sector has grown almost six-fold to R600 billion and has often been the annual top performing asset class locally.



Source: Investing.com

However, the sector has seen a sharp downward correction over the last six months, mainly due to a steep decline in listed property prices driven by valuation concerns related to specific companies which affected the sector as a whole, and a deterioration of general economic conditions in South Africa. Consumer spending has declined given a number of general macro- and specific factors including the recent VAT hike, spike in fuel prices and increase in property rates. As a result, the SAPY's total return for the first six months of 2018 was (21.4%), underperforming bonds (3.9%), cash (3.5%) and equities (1.7%) for the first time in many years.

The Rand has been extremely volatile in 2018 and has weakened from a strong position in February 2018 to recent lows. In June 2018, driven by the ongoing trade dispute between the US and other countries, Moody's raising concerns around political risks in South Africa and the widening current account deficit, the Rand weakened by 7.8% against the US Dollar and 6.8% against the Euro. In June 2018 the South African 10-year bond increased by 29 basis points to 9.0%, which put further pressure on listed property valuations at 30 June.

In addition, three new relevant indices have been introduced over and above the SAPY and the JSE Capped Property Index (PCAP), namely the Trade Property Index (J800), All Property Index (J803) and SA REIT Index. The intention was to provide a broader range of indices for benchmarking and an improved representation of JSE property companies. However, the consequent rebalancing of portfolios has resulted in some short-term price volatility.

Of the R6,1 billion raised by the sector in the calendar year to date, one-third was generated by dividend reinvestment and another 13% was raised in off-market transactions, which means that very little equity was being offered to and taken

up by the market. This "equity raise failure" is far more a factor of weak ratings than of the lack of need for capital.

From a vacancies perspective, the financial difficulties of the Edcon Group had a sector-wide impact. Their stores have been losing increasing amounts of market share to international retailers such as H&M and Zara. The group's consequent revision of its store composition including the merging of Boardmans into Edgars, has seen vacancies at affected malls creep up.

Locally, there is an oversupply of property space in most regions, especially Gauteng. This, together with waning demand is making it increasingly difficult to achieve dividend growth. The fundamentals in the sector will only improve once there is a substantial drop in the number of speculative developments. For the near future, our focus will therefore likely be on tenant retention rather than on developments. However, success in this regard and in the achievement of rental growth will largely depend on the country achieving sustainable GDP growth and even then, it will take time before this will result in reasonable rental growth. Most economists expect GDP growth of only 1.2% in 2018 and 1.9% in 2019.

Given this framework locally, international investments remain a compelling option for the listed property sector. Currently over 50% of SA listed property is exposed to offshore markets and this diversification provides an alternative source of distribution growth for the sector. Offshore earnings have grown from about 0% in 2008 to almost 40% in recent years.

Quality large shopping centres that are located in nodes benefiting from high-density residential and commercial developments and that are able to connect with their communities by providing for their social needs, will remain the most defensive property investments in South Africa.

South-Eastern Europe

The increase in investment activity by South African property funds in central and eastern European markets continued in the year under review, as the region provides attractive investment alternatives to South Africa.

While valuations in the region are clearly attractive, it is critical to ensure that potential volatility is reflected in prices.

The region has continued to benefit from strong economic growth, supported by a greater allocation of EU funds for investments across the Balkans, resilient export demand and growing tourism.

South-Eastern European retail has done well as the respective markets find an equilibrium, with supply levels catching up to a growing consumer base.

Bulgaria

Household spending benefited from a strong labour market and public sector wage increases, although higher inflation is expected to reduce some of the now available disposal income. The attraction of foreign direct investment and EU-funded capital spend, with low interest rates, will support further economic growth.

Croatia

Economic activity should remain strong in 2018, benefiting from a dynamic tourism industry which is a key source of employment and export revenues, as well as robust consumer spending supported by falling unemployment.

Macedonia

Although annual economic growth slowed moderately due to lower investment and government consumption, private consumption and retail sales grew strongly.

Meanwhile, in mid-June Macedonia and Greece reached a provisional agreement over a name dispute which has dragged on for decades and should pave the way for Macedonia's EU accession.

Serbia

The economy is expected to record its best performance in a decade this year, driven by robust domestic demand. A more flexible monetary policy, economic reforms aimed at bolstering the private sector, improving fiscal policies and reviving infrastructure investment, should continue to boost Serbia's growth potential.

Montenegro

Public and private consumption slowed down recently, but a strong increase in fixed investments, up by almost a third year on year, boosted the economy. In addition, export growth outpaced imports and reached the highest level in years.

Hystead will grow this portfolio to the extent that further opportunities become available at prices that meet our investment criteria.

Sub-Saharan Africa (excluding SA) (SSA)

SSA's economy is showing signs of recovery after a tough three-year period, with 2018 Q1 GDP growth of 3,0% slightly better than the 2,7% increase in Q4 2017. The consensus forecast (source: *focus-economics.com*) for the SSA GDP growth for 2018 is 3,5%, supported by higher commodity prices and solid domestic demand.

However, several risks to the positive outlook remain. Many economies are burdened by high debt, making them especially vulnerable to fluctuations in the global financial markets, while a sharp slowdown in China's growth momentum could dramatically affect economic activity and demand for mineral resources in the region. Despite this, the current outlook for GDP growth in 2019 is to accelerate to 3,7%.

Ghana

The Ghanaian economy continued its strong performance in H1 2018, which started in 2017 when GDP growth reached a five-year high. Easing inflationary pressures and a softening monetary policy stance are likely to fuel domestic demand growth, supported by robust private consumption and healthy investment activity.

Nigeria

The recovery in the Nigerian economy struggled to gain momentum at the start of 2018, after having hit a two-year high in Q4 2017. However, a stronger expansion in the oil sector helped offset the underperforming non-oil economy. More recent economic data suggests that the economy is regaining some lost momentum, benefiting from the higher oil prices and improved foreign exchange rate liquidity. GDP growth is set to increase 2,5% in 2018, which is down a notch from last year.

Zambia

While the Zambian economy remains resilient, various challenges are becoming apparent, most notably a reduction in exports, rising external debt and a reduction in foreign reserves. On the positive side, private sector activity increased recently, powered by a record surge in new business.

Even though SSA does provide long-term investment prospects, Hyprop will continue to seek investment opportunities in regions where it can achieve better returns, for example in South-Eastern Europe, while at the same time reducing its exposure to SSA.

Property portfolio

SOUTH AFRICA

CLEARWATER

(large regional)

General manager Lauren Meyer

The prime shopping destination in Johannesburg's western suburbs, located in a rapidly expanding residential corridor.

Retail GLA 87 083m ²	Retail vacancy 1 988m ²	Stores 220
Parking bays 5 125	Footcount 10,2 million	Ownership 100%

rosebankmall

(large regional)

General manager Danie de Beer

In the heart of cosmopolitan Rosebank, the mall provides amenities to a range of shoppers, business executives and international visitors.

Retail GLA 65 886m ²	Office GLA 18 351m ²	Stores 150
Parking bays 2 808	Footcount 11,7 million	Ownership 100%
Retail vacancy 717m ²	Office vacancy 296m ²	



(large regional)

General manager Glen Maboe

A premium shopping destination of choice for the affluent suburbs south of Johannesburg.

Retail GLA 80 428m ²	Retail vacancy 4 378m ²	Stores 147
Parking bays 3 700	Footcount 11,5 million	Ownership 75,16%

atterbury
value mart

(value/lifestyle)

General manager Rendani Phaswana

A convenient one-stop shopping destination in Pretoria.

Retail GLA 48 848m ²	Retail vacancy 1 751m ²	Stores 92
Parking bays 2 135	Footcount *	Ownership 100%

* No footcount is recorded as Atterbury is a strip mall

woodlands

(large regional)

General manager Lionel van Lis

Nestled between eight exclusive residential estates in the east of Pretoria.

Retail GLA 71 643m ²	Retail vacancy 618m ²	Stores 150
Parking bays 4 200	Footcount 8,1 million	Ownership 100%

HYDE PARK
CORNER

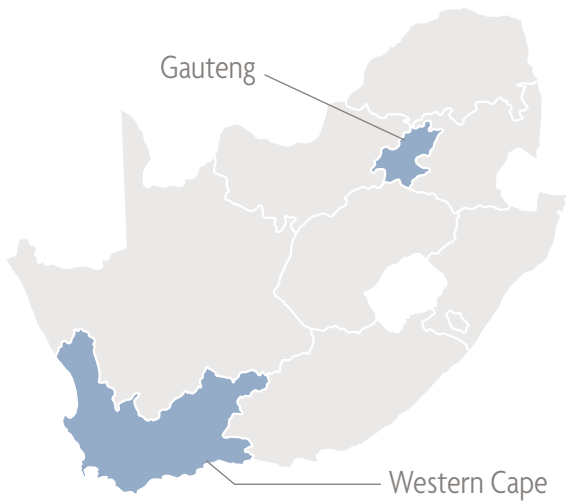
1969

(regional)

General manager Jacqui McGeehan

Destination of choice for discerning shoppers in Johannesburg.

Retail GLA 28 543m ²	Office GLA 10 221m ²	Stores 116
Parking bays 1 730	Footcount 4,5 million	Ownership 100%
Retail vacancy 537m ²	Office vacancy 1 797m ²	



CANAL WALK

(super regional)

CEO Canal Walk Gavin Wood

One of Africa's premier super-regional shopping centres, situated in Century City, Cape Town.

Retail GLA 148 264m ²	Office GLA 10 132m ²	Stores 369
Parking bays 8 004	Footcount 20,1 million	Ownership 80%
Retail vacancy 342m ²	Office vacancy 296m ²	



SOMERSET MALL

(large regional)

General manager Mandy Bellamy

Situated in the scenic foothills of the Helderberg, the mall is an indispensable part of the community.

Retail GLA 69 054m ²	Retail vacancy 75m ²	Stores 176
Parking bays 3 955	Footcount 10,9 million	Ownership 100%

CapeGate

(large regional)

General Manager Nicholas Oliphant

Conveniently located at the NI Okavango interchange in Cape Town's northern suburb of Brackenfell.

Retail GLA 63 756m ²	Retail vacancy 308m ²	Stores 156
Parking bays 2 897	Footcount 11 million	Ownership 100%

Canal Walk, Western Cape

Property portfolio continued

SUB-SAHARAN AFRICA

(excluding SA)

Ikeja City Mall

General manager Sonja de Necker

Dominant mall in Lagos, Nigeria. The tenant mix includes South African brands such as Mr Price, Spur, MTN and international brands Nike, Lacoste, Tommy Hilfiger, TM Lewin, Mango, iStore, KFC and Max.

Retail GLA 22 223m ²	Retail vacancy 679m ²	Stores 95
Parking bays 732	Footcount 7,8 million	Ownership 75%

Achimota Retail Centre

General manager Olivia Torpey

Located in the town of Dome on the Accra-Nsawam highway, this centre's contemporary design includes environmental features such as grey water harvesting, area specific landscaping and a building management system.

Retail GLA 15 534m ²	Retail vacancy 292m ²	Stores 56
Parking bays 550	Footcount 6,0 million	Ownership 28,1%

Accra Mall

General manager Olympio Agbodza

Well located on Spintex Road, Accra Mall is an enclosed, air-conditioned shopping centre with international fashion brands and some South African retailers.

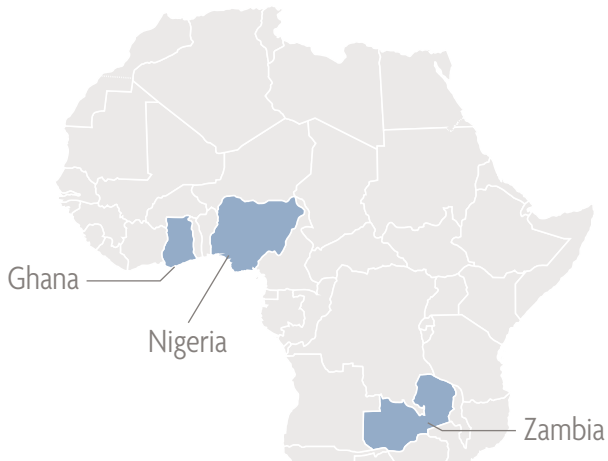
Retail GLA 21 311m ²	Retail vacancy 1 452m ²	Stores 76
Parking bays 662	Footcount 7,2 million	Ownership 17,6%

West Hills Mall

General manager Jonathan Lotter

The largest formal shopping centre in West Africa. Located on a major thoroughfare in New Weija (Accra), it has brought formal retail to the local community since opening in late 2015.

Retail GLA 28 272m ²	Retail vacancy 2 933m ²	Stores 66
Parking bays 1 145	Footcount 5,4 million	Ownership 16,8%



Kumasi City Mall

General manager Esther Duah

Located on the corner of Lake and Hudson roads in Kumasi, this mall introduces convenient shopping in a high-density area.

Retail GLA 18 604m ²	Retail vacancy 2 420m ²	Stores 76
Parking bays 662	Footcount 6,2 million	Ownership 17,6%



Manda Hill

General manager Frazer Mulenga

This mall in Lusaka offers shoppers the ideal destination to fulfil their retail needs across local and international tenants.

Retail GLA 42 002m ²	Retail vacancy 1 713m ²	Stores 99
Parking bays 1 434	Footcount 10,7 million	Ownership 68,8%



Kumasi City Mall, Ghana

Property portfolio continued

SOUTH-EASTERN EUROPE

The Mall

General manager Dimitre Kehaiov

The Mall is a dominant shopping centre in Sofia and is regarded as one of the best shopping centres in Bulgaria.

Retail GLA 51 211m ²	Retail vacancy 190m ²	Stores 182
Parking bays 1 840	Footcount 8,4 million	Ownership 60%

City Center One East

General manager Marin Šimič

City Center One East opened in spring 2012. The opening gave a new character to the entire eastern part of the city.

Retail GLA 47 191m ²	Retail vacancy nil	Stores 140
Parking bays 2 400	Footcount 6,5 million	Ownership 54%

City Center One West

General manager Helena Krstulović

City Center One West opened in 2006 as the first classic shopping mall in Croatia.

Retail GLA 42 373m ²	Retail vacancy nil	Stores 140
Parking bays 2 100	Footcount 5,7 million	Ownership 54%

Skopje City Mall

General manager Ebru Radevski

This mall in Skopje offers shoppers the ideal destination to fulfil their retail needs across local and international tenants.

Retail GLA 36 264m ²	Retail vacancy nil	Stores 131
Parking bays 915	Footcount 8,7 million	Ownership 60%



Delta City Podgorica

General manager Zorica Miskovic Pavicevic

Delta City Podgorica is a contemporary and dominant shopping centre, housing a range of international retailers.

Retail GLA 23 718m ²	Retail vacancy nil	Stores 80
Parking bays 919	Footcount 5,9 million	Ownership 60%



Delta City Belgrade

General manager Zorana Lazarević

A modern and well-established shopping centre in New Belgrade, in a densely populated municipality in the capital city.

Retail GLA 29 850m ²	Retail vacancy nil	Stores 122
Parking bays 1 200	Footcount 9,7 million	Ownership 60%



City Center One West, Croatia



The Glen, Gauteng





VALUE CREATION



As an income-focused REIT, investors benefit from Hyprop's active asset management which results in real estate investments that generate long-term capital and income growth. Material risks are detailed in our risk management section on pages 42 to 47.



Business model

	What we use	What we achieve	The value we create
Financial capital	<p>Invest equity and debt capital</p> <p>Raised equity of R779 million</p> <p>Raised R800 million in corporate bonds</p> <p>Reinvested disposal proceeds from the sale of non-core assets</p>	<p>Total investment returns to investors</p> <p>Sustainable dividend growth</p>	<p>Distribution up 8,8% to 756.5 cents per share</p> <p>Repaid debt of R1,95 billion</p> <p>Increased NAV by 3,2%</p> <p>Loan-to-value of 28,1%</p>
Manufactured capital	<p>Own high-quality, dominant shopping centres in large metropolitan areas</p> <p>Redevelop and expand the portfolio</p> <p>Pursue yield-enhancing acquisitions</p>	<p>Defensive nature of high-quality shopping centres provides sustainable income growth</p> <p>Well-maintained properties</p> <p>Geographic diversification</p> <p>Application of technology for effective utilities management</p>	<p>Concluded acquisitions of EUR439 million in SEE</p> <p>R276 million invested in developments in South Africa</p> <p>Located in capital cities in SEE</p> <p>Located in major metropolitan areas in SA and the rest of SSA</p>
Human capital	<p>Fair and responsible remuneration</p> <p>Training and development</p> <p>Implementation of employment equity plan</p> <p>Engaged employee relations</p>	<p>Recruit and retain talent</p> <p>Low staff turnover</p> <p>Competent employees that can execute the strategy</p> <p>Well-established, experienced employee knowledge base</p> <p>Transformation</p> <p>Ethical values and employee conduct</p>	<p>Average term of service nine years (2017: eight years)</p> <p>Employee tenure of 93% (2017: 92%)</p> <p>KPD targets overachieved for the year 110,9% (2017: 114,0%)</p> <p>Job vacancy 1,8% (2017: 3,5%)</p> <p>Number of black employees increased to 59% (2017: 55%)</p> <p>Low ratio of unproductive leave days</p> <p>88% of new employment from designated groups (2017: 83%)</p>

	What we use	What we achieve	The value we create
Social and relationship capital	<p>Manage stakeholder and information flow Hyprop Foundation used as vehicle to further corporate social initiatives</p>	<p>Effective controls and processes supporting transparent disclosure Sustainable social responsibility through education, community upliftment and enterprise development Employee, tenant and customer participation in CSI initiatives</p>	<p>Timely and transparent communication R1,9 million invested in CSI projects together with considerable donations of time, space and facilities (2017: R1,6 million) Community events hosted at our shopping centres</p>
Intellectual capital	<p>Skilled property and asset management team Experienced executive team Seasoned board members Information management</p>	<p>Internal asset and property management focusing on value-enhancing opportunities and achieving key performance deliverables Integrated property management – and human resources systems Effective leasing management by managing all areas of tenant interaction and relationships</p>	<p>Diverse tenant mix Vacancy rate improved to 1,9% Arrears at 0,6% of rent roll Contractual rental escalations of 7,7% Roll out of system for standardisation of leases Less than 1% server downtime (interrupted productivity) across the group (mainly due to maintenance)</p>
Natural capital	<p>Energy-efficiency programmes Water-saving programme Carbon emission measurement</p>	<p>Small and contained environmental footprint Environmentally efficient properties Participation in global environmental benchmarks</p>	<p>271 479 kilolitres of water saved (2017: 8 917 kilolitres) 29 128 MWh electricity saved (2017: 15 628 MWh) 83% of waste in South African portfolio recycled (2017: 79%) Third phase solar photovoltaic plant at Clearwater Mall completed R12,2 million cost savings to South African portfolio from energy-efficiency initiatives</p>

Risk and opportunity management

Hyprop views risk management as a core competency and is committed to effective risk management processes within industry practice. Hyprop has a structured and disciplined approach to group-wide risk management while maintaining a balance between risks and realising the opportunities associated with these risks.

The board of directors is ultimately responsible for risk management. Management assists the board by implementing a process to identify, assess, measure, monitor and report risks to the board via the audit and risk committee.

The audit and risk committee is supported by management reporting on various risks as well as reports from the independent internal audit service provider, PricewaterhouseCoopers.

Executive management implements controls to ensure the validity, accuracy and completeness of financial information. These controls are reviewed by the internal audit function and external audit. External audit reports on the fair presentation of the financial information at a statutory reporting level.

The risk management process is primarily designed to:

- Avoid, or reduce threats to strategic objectives to an acceptable level, and exploit beneficial opportunities to add sustainable value to Hyprop's activities
- Provide timely risk information and appropriate risk responses to assist in achieving strategic objectives
- Reduce operational performance uncertainty by minimising surprises and associated costs and losses
- Be owned and championed at all levels in the group
- Monitor and provide reporting on industry risk trends and ensure appropriate board, audit and risk committee and executive committee reporting
- Form an integral part of normal operations, processes and activities, and engender a culture of risk awareness.

Key principles

Hyprop's approach to risk management is based on several key principles:

- A practical and consistent risk process across the organisation
- Promoting and embracing a culture that recognises the importance of risk management by entrenching it in day-to-day processes, activities and decision-making
- Ensuring that risk identification, assessment and management are part of normal business activities
- Ensuring that the risk management process is aligned with Hyprop's values and strategic initiatives

- Clearly defining roles and responsibilities within the context of the risk management process
- Establishing and maintaining appropriate risk tolerances and focusing on risks that exceed defined thresholds
- Relevant and effective risk reporting.

Risk tolerance

A risk tolerance statement specifies how much risk an organisation is willing to accept in the pursuit of its business objectives. Hyprop's risk tolerance is expressed through approval by the board of:

- An annual budget which sets out targets for financial performance and provides guidance on reporting on unfavourable variances
- A board charter which sets out the powers which have been reserved by the board, as well as a delegation of authority document which defines the authorities being delegated to management
- Key performance deliverables (KPDs) indicating targeted outcomes (refer to the remuneration report). The risk culture is enhanced through the integration of the risk tolerances into an effective performance management framework
- A collection of statements which define the extent to which Hyprop is unwilling to tolerate an event (including any instance of material non-compliance with approved policies and procedures) which, if it occurred, could cause any one, or more, of the following:
 - The inability to meet any of its core service obligations within prescribed timeframes
 - The inability to meet any one, or more, of its financial obligations
 - Reputational loss to the company such that its ability to operate effectively is seriously affected
 - The death, or serious injury, of a customer or an employee while on duty
 - The inability to generate sufficient profit to sustain its current and future operations.

Relationship between internal audit and risk management

The internal audit function derives its responsibilities from the audit and risk committee, to which it reports at least quarterly.

The responsibilities include:

- Submitting an annual internal audit plan that indicates the extent and frequency of the work to be conducted
- Reporting the results of reviews with opinions and recommendations for future improvements
- Reporting on the progress against the internal audit plan and report back on any outstanding internal audit matters
- Coordinating the audit efforts with those of the external auditors.

Risk categories

Risk categories are identified by management (the executive committee) and presented to the audit and risk committee. The audit and risk committee reviews the categories and makes adjustments as appropriate.

Risks are classified into the following three categories:

- Internal risk: under the control of management,
- External risk with control: can be mitigated by management, and
- External risk without control: outside the control of management.

	Strategic objective	Key risk	Probable effect	Opportunity	Strategic response/mitigation
South African economy	Focus on sustainable income growth	Low GDP growth impacts business growth in South Africa	Slower retail sales growth affects retailers' financial positions and ability to pay rent	Continually improve the quality of our portfolio through acquisitions, developments and disposals. This focus ensures that we attract and retain quality tenants, while maintaining/ increasing shopper footcount in our shopping centres. The depressed economy may also facilitate local acquisition opportunities	Hyprop shopping centres are well established, in dominant locations and attract flagship stores
		Slowing consumer spend affects retailers' trading densities and rent-to-sales ratios	Leases not renewed		Contractual lease income with financially sound tenants (most are reputable national companies with strong balance sheets and proven business models)
		Downgraded sovereign credit rating	Discounted rentals to retain tenants		Geographic diversification (e.g. sub-Saharan Africa and South-Eastern Europe)
			Tenants more cautious on renewals and new lettings		High ratio of fixed interest rate debt
			Tenants taking less space, increase in vacancies, slower extension plans		Introduced unsecured debt via debt capital market funding (DCM) and raising of new equity
			Increased borrowing costs	The quality of our assets, scale of our organisation, and international diversification strategy will assist in mitigating the effects of a downgrade	

Risk and opportunity management continued

	Strategic objective	Key risk	Probable effect	Opportunity	Strategic response/mitigation
Political risk	Minimise political risk due to policy changes	Governments adopt policies that are unfavourable to foreign investors, particularly movement of capital, taxation and land ownership	Share price fluctuations Exchange rate fluctuations National credit rating affected	Low economic growth in South Africa, coupled with SA political uncertainty, has prompted Hyprop to diversify its geographic footprint into South-Eastern Europe	Hedge risks relating to exchange rates and interest rates
Leasing	Focus on sustainable income growth	Increased supply of retail space in the market Significant volume of leases expiring in any one year Restrictive clauses in leases	Discounted rentals to retain tenants Tenants become more demanding on leasing terms Increased vacancies Leases not renewed Lower rental growth Increase in vacancies Limitation on tenant selection	The quality and location of our shopping centres is one of our competitive advantages; despite this, Hyprop invests time and money into growing the Hyprop brand, as well as each individual shopping centre brand as a means to differentiate the group and its assets in an increasingly competitive marketplace	Meet tenant demand through extensions and tenant relocations Positioning Hyprop centres as defensive assets. Capital investments to retain quality and attractiveness to customers. Tenant incentives to retain key tenants Stagger major lease expiries Proactively manage lease expiries Ensure a strong pipeline of prospective tenants Not entering into new leases with restrictive clauses

	Strategic objective	Key risk	Probable effect	Opportunity	Strategic response/mitigation
BBBEE	Transformation and business opportunities	<p>BBBEE level</p> <p>Negative impact of new codes</p> <p>Transformation required in ownership</p>	Major tenants prefer landlord to have a reasonable BBBEE rating	Embrace transformation	Strategic imperative. Plan in place to achieve incremental and sustainable improvements that align with the company's strategy
Water	Reliable supply of water services	Negative impact of disrupted water supply at shopping centres	Prolonged water outages mean sub-optimal trading conditions	Seek sustainable technology options to limit our reliance on local utility suppliers	Implement alternative water supply and water-savings initiatives
Local councils	More efficient and effective utility cost management	Increased cost of occupancy from rates, taxes and utilities	<p>Cost and supply of electricity and water</p> <p>Excessive increases in cost of occupancy impacting recoveries and renewals</p>	Seek sustainable technology options to limit our reliance on local utility suppliers, thereby mitigating the risk of utility supply failure	<p>Numerous projects under way to reduce consumption</p> <p>Tenants guided by tenant criteria document, with guidelines on reducing electricity consumption</p> <p>Introducing smart metering as well as objections to high increases in municipal rates</p>
Security	Secure environment for our shoppers	Increased crime at shopping centres	<p>Hyprop forced to spend more on security equipment</p> <p>Negative impact on footcount</p> <p>Reputational damage for Hyprop and its shopping centres</p>	Enhanced security measures can differentiate our properties and improve stakeholder experience and time spent at our shopping centres	<p>Improve quality of service provider and continually invest in new security equipment</p> <p>Better engagement between shopping centre employees, service provider, community and local police</p>

Risk and opportunity management continued

	Strategic objective	Key risk	Probable effect	Opportunity	Strategic response/ mitigation
Emerging market investment in South-Eastern Europe	Increase portfolio and geographic diversification	Currency exchange rate risk	<p>Unable to repatriate funds due to illiquid currency markets or capital restrictions</p> <p>Reduced distributable income</p> <p>Weakening currencies place country tenants under pressure</p> <p>Excessive volatility in exchange rates</p>	Continually look for geographical diversification opportunities to improve the quality of our portfolio	Matching debt with income (EUR)
		Slowdown in consumer spend	Leases not renewed		<p>Consider hedging exposure in terms of material dividends received</p> <p>Hyprop shopping centres are well established, in dominant locations and attract flagship stores</p> <p>Strong lease agreements with financially sound tenants (most are reputable national companies with strong balance sheets and proven business models)</p>
		Operating environment	<p>Operating cost increases (specifically municipal rates and taxes)</p> <p>Cost of development increases</p>		Employ local, on-site executive and management teams
		Investment risk	Investment returns below expectations		Implement optimal holding structures
		Tax risk	Changes to tax laws in countries where Hyprop invests		

Investment in sub-Saharan Africa (excluding SA)	Strategic objective	Key risk	Probable effect	Opportunity	Strategic response/mitigation
	<p>Increase portfolio and geographic diversification</p>	<p>Currency exchange rate risk</p> <p>Slowdown in consumer spend</p> <p>Operating environment</p> <p>Investment risk</p> <p>Development risk</p>	<p>Unable to repatriate funds due to illiquid currency markets or capital restrictions</p> <p>Reduced distributable income</p> <p>Weakening currencies place country tenants under pressure</p> <p>Excessive volatility in exchange rates</p> <p>Leases not renewed</p> <p>Operating cost increases (specifically municipal rates and taxes)</p> <p>Cost of development increases</p> <p>Returns below expectations</p> <p>Default on shareholder funding</p> <p>Lower return or inability to achieve target return</p>	<p>Continually look for geographical diversification opportunities to improve the quality of our portfolio, guided by stringent investment criteria</p>	<p>Matching debt with income (USD)</p> <p>Consider hedging exposure in terms of material dividends received</p> <p>Hyprop shopping centres are well established, in dominant locations and attract flagship stores</p> <p>Strong lease agreements with financially sound tenants (most are reputable national companies with strong balance sheets and proven business models)</p> <p>Employ local, on-site management teams</p> <p>Implement optimal holding structures</p> <p>Reduce the size of the investment through disposals</p> <p>Not undertaking any new developments</p>

Stakeholder engagement

Engagement with stakeholders at all levels is a critical part of our business strategy. Hyprop is cognisant of our stakeholders' interests, concerns and expectations, and actively seeks to engage with them, realising that our long-term sustainability is dependent on creating sustainable value through our business. We engage stakeholders via various channels to determine their needs and respond appropriately.

Stakeholder engagement has a positive impact on Hyprop in terms of reputation management, and at the same time informs our business strategy, including risk assessment.

The board and executive team monitor and ensure that all communication to stakeholders is transparent, true and complies with the JSE Listings Requirements, where relevant. Management's goal is to ensure that stakeholders have relevant information to accurately assess our performance and prospects. The board considers the legitimate interests and expectations of stakeholders in its decision-making.

Approach

- The company's reputation hinges on its relationship with its stakeholders. The process for identifying and considering the legitimate interests and expectations of stakeholders is reviewed at least once a year by the board
- The board oversees the establishment of mechanisms and processes that support stakeholders as appropriate, in constructively engaging with the company
- Stakeholders who could materially affect Hyprop's operations are identified, assessed and engaged with as part of the risk management process
- The board has adopted guidelines that support a responsible communication programme
- Complete, timely, relevant, accurate, honest and accessible information is provided to stakeholders, as appropriate, while considering legal and strategic issues.

Key aims

- Ensure the safety and security of shoppers, tenants and employees, as far as possible. Operationally, this is the responsibility of each centre's management team and service providers
- Engage with analysts, tenants, financiers, regulators and local communities on risks and possible mitigation
- Engage with local communities for improvement and upliftment and to enhance corporate social investment
- Steady improvement in broad-based black economic empowerment (BBBEE) and employment equity
- Garner effective stakeholder feedback to inform and direct Hyprop's business and growth strategy.

Dispute resolution

Disputes with stakeholders are addressed in the appropriate forum and steps are taken to ensure that any disputes are resolved effectively, efficiently and expeditiously. Where applicable, alternative dispute resolution clauses are included in all service contracts and Hyprop complies with all such requirements.

CREATING VALUE FOR OUR KEY STAKEHOLDERS IN 2018

Tenants	Attracting shoppers and increase footcount
	Continuous marketing projects and events
	Variied tenant mix
	Improving the quality and sustainability in our shopping centres
	R67 million spent on refurbishments, new equipment and sustainable technology

Shoppers	Striving for the optimum tenant mix
	Enhancing shopping experience
	Maintaining global retail trends: H&M taking up space in four of Hyprop's shopping centres
	Creating spaces where families can spend quality time: Food court enclosure at The Glen Nu Metro upgrade at Woodlands Boulevard
	Hosting different types of events to attract shoppers with varied interests
	Safe shopping environment
	Security spend of R51,5 million
	Social interaction
	Multiple social touchpoints throughout the portfolio (650 000 followers across Facebook, Instagram and Twitter)
	Centralised portfolio database collecting data across all customer digital touchpoints
	Smart technology tracking shopper visits and in-centre behaviour, responsible data collection gearing towards location-based marketing and reward programmes
	In-house website and app development, to be scaled across portfolio
Seamless parking system at Hyde Park Corner, with a view to expand to other shopping centres	



Employees	Training and development
	Extensive training programmes to support career goals and transformation target
	<i>Refer to human capital report</i>
	Fair remuneration practices
	Performance-based remuneration structure
	Salary benchmarking and adjustments
	Adjusted entry level salary to R105 440 per annum (2017: R98 172)
	<i>Refer to remuneration report</i>
	Human resources relations
	Safe sustainable working environment
	Employee surveys
	Wellness days
Employee involvement in Hyprop Foundation initiatives	
Value long-term commitment and service excellence	
Ethical leadership and conduct	
Transformation	
Diverse non-discriminative workplace with equal opportunities	

- Stakeholder
- Expectation
- Response

Stakeholder engagement continued

Investors and financiers	Returns on investments, communications and good governance	Government and regulators	Compliance with regulations
	Distribution growth of 8,8% year on year		Percentage of Black employees increased to 59%
	Concluded acquisitions of three quality shopping centres in South-Eastern Europe		No serious occupational injuries
	Transparent, accurate, meaningful and timely information	Local communities and environment	Compliant with all relevant acts and regulations
	Covenant compliance		Hyprop Foundation
	Gearing of 28,1%	<i>Refer to social and relationship capital report</i>	
	Credit rating of Baa3	Environment	
	Corporate governance and ethical leadership	<i>Refer to natural capital report</i>	
<i>Refer to corporate governance report</i>			
Suppliers	Sustainable partnerships		
	Efficient contract management		
	Fair business practices and tender processes		



SUSTAINABILITY

The Mall, Bulgaria



We regard sustainability as interrelated between the natural environment, the economic environment and the social reality in which we operate, bearing in mind the influences of macro-, cultural and political factors.



Sustainability

Hyprop regards sustainability as a process of managing change with a balanced approach, in terms of which the use of resources, the direction of investments, the orientation of technological development and institutional responses are all applied with the intention to create value over the long term.

Hyprop is committed to corporate sustainability by taking into consideration its social, economic and environmental responsibilities, implementing ethical practices and good governance and understanding its impact on the natural environment. We endeavour to concentrate our efforts to integrate sustainability considerations into every aspect of the business – initiatives which include improving recycling initiatives, reducing waste and managing assets to be more

energy and water efficient and reducing carbon emissions in line with national targets. Hyprop is fully committed to sound sustainability principles while creating long-term economic value.

Reporting on our sustainability initiatives covers the holding company and our South African and Nigerian properties.



Clearwater Mall, Gauteng

Natural capital

Highlights

- **83%** of total waste by volume recycled
- **Cost savings of R12,2 million** due to implementation of LED lighting in common areas
- Fifth submission to **CDP on carbon emissions**
- Fifth successive **participation in GRESB**
- **First WDP submission** (water disclosure project)

Although our business has a low environmental impact, we aim to continually reduce this further during our daily operations. A key focus is on reducing consumption of natural resources where possible. The group's policy outlines the key focus areas of conducting business in a responsible manner – economically, socially and in a manner that is least impactful on the natural environment.

Management regularly monitors the execution, reporting and review of our environmental policy, culminating in an annual review by the social and ethics committee.

Hyprop's environmental strategy is derived from the policy and practically addresses the key environmental impacts of its operations, namely water, energy and waste. Our approach is informed by best practice, proven methods, ease of implementation, and the benefit-to-cost ratio of retrofitting green-design principles to existing buildings.

International benchmarking

Hyprop has advanced to voluntary participation in global environmental benchmarking programmes, stretching to meet challenging targets, namely:

- CDP, which is the global standard for environmental carbon reporting and is the only international system for measuring, disclosing, managing and sharing vital environmental information necessary for building sustainable economies. Our CDP submission is audited by KPMG's climate change and sustainability services division (fifth submission). In FY18 we achieved an A-score (based on the new scoring chart that emphasises actions to mitigate climate change rather than just reporting on carbon footprint). This is considered above average.
- The GRESB is an industry-driven index that assesses the sustainability performance of global real estate portfolios (public, private and direct). It is used by institutional investors to improve the sustainability performance of their own portfolios and of the global property sector (fifth submission).
- Hyprop improved its peer compatibility on GRESB to 102nd from 121st in 2017.
- The MSCI Investment Property Database tracks and publishes related electrical and water consumption analytics (fourth submission).

Hyprop incurred no fines for non-compliance with environmental laws and regulations during the year.

Hyprop has identified that while lower operating costs represent an overall fiscal aim of the group for responsible economic sustainability, there is a risk of higher utility costs.

Natural capital continued

Hyprop environmental scorecard FY18 (baseline June 2013)

	Target June 2018	Achieved June 2018	Target June 2019
Energy (kWh)	263 609 696	238 700 218	233 926 214
Water consumption (kℓ)	1 017 813	756 615	749 048
Waste recycling (volume) (%)	75	83	80
Scope 2 carbon emissions (tCO ₂ e)	27 383	25 160	24 657

FY18 milestone projects

We have completed our project focusing on energy-efficient lighting to reduce electricity consumption and maintenance costs.

The third phase of our solar photovoltaic (PV) plant on Clearwater Mall's parking roof was installed in September 2017. Total solar generation now makes up some 17% of the mall's total consumption, generating on average 4 755 841kWh of electricity per annum (equal to the consumption of 430 average households). The panels cover an area of around 17 000m², saving 2 521 tonnes of coal and reducing carbon emissions by over 4 518 tonnes per annum. In addition the roof was painted with high reflectant paint in line with green building principles.

Two boreholes were drilled, and associated tanks and pump equipment were installed at both Canal Walk and Somerset Mall to mitigate the effects of the drought as well as to comply with insurance recommendations. Water treatment equipment is to be installed in the new year to treat grey and borehole water back to potable standards.

At CapeGate a larger backup water tank has been installed to comply with insurance recommendations. Water treatment equipment will be installed to bring the borehole water back to potable standards.

Energy

Of Hyprop's total operational spend in a year, a large portion is on electricity (mostly consumed by tenants), making energy efficiency a financial imperative. We are implementing a range of energy-efficient solutions to better manage costs for the group and our tenants, improve our environmental performance and reach our targets.

Total electrical consumption

	June 2018	June 2017	June 2016
Direct non-renewable energy consumption (GJ) ⁽¹⁾ from diesel burnt	7 943	8 656	8 145
Direct renewable energy consumption (GJ) from solar PV	13 801	8 444	7 886
Direct energy consumption (GJ) from electricity consumed but not recovered	99 859	106 312	114 452
Indirect energy sold (GJ), i.e. electricity recovered from tenants	760 191	857 872	905 992
Electricity consumption (megawatt hours or MWh)	238 700	267 828	283 456
Energy consumption (GJ) – calculated	859 321	964 184	1 020 440

⁽¹⁾ Gigajoules

To monitor the effectiveness of these initiatives and year on year consumption patterns, we calculate our energy use intensity.

	June 2018	June 2017	2018/2017 % change	June 2016
Energy use intensity (GJ/m ²)	1,22	1,27	(4,0)	1,30
Kilowatt hours per occupied space (kWh/m ²)				
Retail	334	345	(3,2)	359
Office	191	275	(30,6)	242

Carbon emissions

Determining our carbon footprint

For an accurate baseline, we determined the group's scope 1 and 2 carbon footprint using the UK Department for Environment, Food and Rural Affairs (DEFRA) voluntary reporting guidelines and the revised reporting standard of the Greenhouse Gas Protocol, the accepted international tool for government and business leaders to understand, quantify and manage greenhouse gas (GHG) emissions.

Hyprop again participated in the CDP, submitting our audited carbon footprint for the year to June 2018. We maintained an A-score (based on the new scoring chart that emphasises actions to mitigate climate change rather than just reporting on carbon footprint). This is considered above average given that two of our peers dropped to a B+ rating.

Hyprop's carbon emissions

Total carbon emissions (tonnes of carbon dioxide equivalents (tCO ₂ e) – calculated	June 2018	June 2017	June 2016
Total carbon emissions broken down as:	261 323	280 990	289 939
Scope 1 ⁽¹⁾	15 302	17 912	7 096
Scope 2 ⁽²⁾	25 160	27 942	30 457
Scope 3 ⁽³⁾	220 861	235 136	252 386
Average volume of carbon emissions (scope 1 and 2) per hour worked (tCO ₂ e/h)	0,065	0,076	0,085

⁽¹⁾ Scope 1: all direct GHG emissions

⁽²⁾ Scope 2: indirect GHG emissions from consuming purchased electricity, heat or steam (scope 3 covers other indirect emissions, which for Hyprop are calculated as kWh purchased from the supply authority and resold to tenants)

⁽³⁾ Scope 3: includes tenant-driven increase in scope 3 emissions

Carbon tax

Based on current advice from our auditors, Hyprop will not be liable for any direct carbon tax under the anticipated law. However, this proposed tax has been placed on hold.

Water

We continue to investigate viable opportunities to reduce water consumption especially in drought-affected areas such as the Western Cape, for instance by installing water-efficient equipment, while improving our measurement and monitoring standards.

We rely on close cooperation from tenants and customers to reduce water consumption, while engaging with high water usage tenants in the Western Cape region on a weekly basis to ensure compliance with local authority water saving targets. For new developments, renovations and upgrades, water efficiency is one of the criteria in choosing technical equipment such as toilets, taps and dry condenser systems.

Hyprop monitors bulk water consumption daily at centres to identify unusual patterns that might indicate leaks.

Water measures	June 2018	June 2017	2018/2017 % change	June 2016
Total consumption (kilolitres (kℓ))	756 615	1 028 094	(26)	1 037 011
Average volume consumed per hour worked (ℓ/h)	1 828	2 236	(18)	2 349
Target for consumption, or reduction, against specific denominator (ℓ/h)	2 327	2 350	(1)	2 398
Water use intensity				
Retail: kℓ per occupied space (m ²)	1,06	1,36	(22)	1,35
Office: kℓ per occupied space (m ²)	0,57	1,01	(44)	0,97
Total: kℓ per occupied space (m ²)	1,05	1,36	(23)	1,31

Natural capital continued

Water-efficiency initiatives

Initiative	Objective	Current activities	Progress
Smart metering	Improve consumption measuring and monitoring; identify leaks from unusual flow patterns	Anomalies immediately flagged, limiting risk and consequential loss Council errors able to be challenged	Bulk check meters installed at all sites except Rosebank Mall which is scheduled for 2019 financial year
Fire system water consumption	Identify leaks and illegal use of water	Save water and avoid abuse of infrastructure	South African and Nigerian buildings monitored
Waterless urinals	Save water	Waterless urinals installed in all toilets at Clearwater Mall, head office and the new food court at The Glen	Waterless urinals to be installed at proposed toilet upgrades at Woodlands Boulevard and Canal Walk
Low volume aerators	Reduce water usage at wash hand basins	Aerators fitted at The Glen toilets and Atterbury Value Mart	Aerators to be fitted at another three sites

Waste

Recycling

Our approach to waste management aims to maximise recycling, minimise disposal to landfill and comply with legislation. On-site waste management system information is regularly reiterated to tenants, and Canal Walk and Clearwater Mall have public recycling stations. All centres have suitable waste-segregation facilities.

For development projects, we adhere to applicable regulations and consider best practice to optimise the environmental quality of our construction sites. Waste generated by construction is disposed of in line with responsible management plans.

In 2018, Hyprop recycled 83% (by volume) of total waste, up from 79% in 2017. While higher in percentage terms, lower group volumes reflect greater individual recycling efforts from our tenants. The target of 75% has been exceeded. According to our waste service provider, current market conditions dictate that a higher recycling target would involve an increasing marginal cost and would therefore be less economically viable.

Waste	June 2018	June 2017	June 2016
Total non-hazardous waste disposed (t)	2 725	3 963	5 646
Total hazardous waste disposed (t)	32	51	43
Total waste sent for recycling (t)	3 683	2 851	2 998
Waste sent for recycling (% t)	57	40,6	34,5
Recycling			
Number of loads ordered	5 133	7 689	7 293
Quantity of units collected (t)	68 503	64 769	68 166
Recycled (volume) (%)	83	79	78
Recycled (m ³)	57 537	55 692	64 861

Climate change

We have formally assessed the risks and opportunities presented by climate change as part of our annual submission to CDP and our group risk management process.

Key direct risks include:

- Change in temperature extremes – higher temperatures mean air-conditioning equipment will not cope in peak summer
- Sea-level rise – danger of flooding at coastal centres, notably Canal Walk
- Change in rainfall precipitation patterns – extreme rainfall can cause leaks and damage to tenant and Hyprop property
- Drought – successive droughts can lead to additional unbudgeted capital expenditure having to be spent as was the case in the Cape Region.

Environmental sensitivity

Canal Walk is in a biodiversity-rich area. Canal Walk is part of the greater Century City precinct, in a national wetland conservation area, Intaka Island. Intaka is an award-winning 16-hectare conservation area, rich in birdlife and indigenous plants. The precinct has an environmental management plan to which Canal Walk adheres: no sewerage, fertilisers, herbicides or chemicals are discharged into canals that run through the precinct; only biodegradable cleaning products are used for parking decks, walkways and walls to minimise water pollution. In addition, Hyprop contributes financially to the environmental management plan.



Woodlands Boulevard, Gauteng

Social and relationship capital

Hyprop believes in engaging our society and contributing to sustainable projects within the communities that surround our properties. The Hyprop Foundation was established in 2013 to focus the company’s CSI programme on addressing identified needs in those communities affected by our business operations.

The foundation’s long-term vision is to ignite a culture of participation by our people and all stakeholders through sustainable initiatives that create value in the short, medium and long term by focusing on four key areas:

- Education
- Community upliftment
- Health and wellness
- Environmental upliftment.

Funding

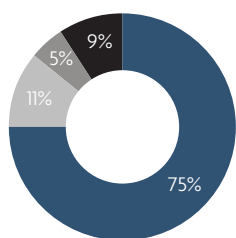
The foundation’s budgets and projects are approved and monitored by the social and ethics committee. In line with the objective of involvement, funding is generated through a system of Hyprop employees and relevant stakeholders (e.g. retail tenants) contributing their time and resources to identified initiatives, with the value of involvement converted to a Rand value. Funding contributed by Hyprop for the year grew by 19% to R1,9 million (2017: R1,6 million).

Identifying beneficiaries

All potential beneficiary partners are screened by the Foundation’s management committee and Hyprop remains involved in each initiative past the point of inception. To identify meaningful projects and beneficiaries, it considers the measurable impact prior to resources being allocated. Employee engagement is encouraged at this stage of the process and employees are entitled to nominate projects and beneficiaries, which will be reviewed by the foundation management committee. The decision to proceed is based on the proposal’s alignment to our core business and the foundation’s stated objectives.

As in prior years, the foundation’s key challenge remains the overwhelming need for assistance and the resulting volume of applications, with the aid requested often exceeding available funding.

Foundation spending
June 2018



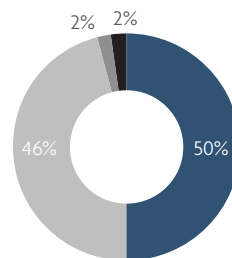
■ Education

■ Health and wellness

■ Communities

■ Environment

Foundation spending
June 2017



Milestone projects

Education

St Vincent's School for the Deaf

The foundation supplied funding to the school that enabled the school libraries to install e-readers into each library within the educational phases of the school. The learners are now able to access over 40 000 books at no cost and have access to fiction and non-fiction work in a safe, learning conducive environment.

LEAP Science and Maths Schools event at Canal Walk

LEAP's approach to education is multifaceted with interventions staged at different levels. Through initiatives aimed at different target groups they have created an education alliance that brings sustainable change. From learners to teachers to community leaders and education stakeholders, they have a broad network of partners that form the LEAP learning community.

LEAP Science and Maths Schools provide free education to students from high-need communities, and have mathematics, physical science and English as mandatory subjects. The school day is extended (nine hours), and they have Saturday classes and formal holiday programmes.

Every LEAP school is partnered with a more privileged school as well as township schools in the community the school serves. This three-way collaboration creates the opportunity to share excellence in all spheres.

The second annual, award winning Mandela Mosaic saw hundreds of people at the Canal Walk Centre devote their 67 minutes in honour of the late great statesman, Mr Nelson Mandela.

The event was held in the food court and 20 400 tins of food were used to build a larger than life mosaic of Madiba.

Ikamva Labantu

Funds donated were fully utilised by the Kwakhanya Early Childhood Development Programme in Khayelitsha where children from local communities enjoy the benefit of well resourced and professionally run preschools.

The Kwakhanya centre is a community hub for early childhood development and the donation enabled the trust to reach:

- 74 vulnerable babies, toddlers and children attending the award-winning Kwakhanya Preschool
- Principals and practitioners from 72 surrounding township preschools attending a practical learning programme
- Over 550 preschools getting assistance from the registration help desk, supported by a dedicated zoning service helping with the drawing and submission of their building plans as required for registration.

Children attending the school are continuously assessed to ensure that they achieve their developmental milestones. The school provides a space where trainee practitioners (teachers

who work in township preschools) can practice their new skills under the professional supervision and mentorship of the permanent staff.

School bursaries

The Hyprop school bursary initiative ran successfully for a third successive year. Hyprop continues to support education as a key objective in contributing towards a sustainable future for the children and relatives of its employees. We are an organisation which believes that investing in education yields the greatest return for our nation.

All Hyprop staff with school going children from preschool to grade 12 can apply and will be approved subject to the project's terms and conditions.

University of the Witwatersrand (Wits) partnership – student social space design competition

The Hyprop Foundation sponsored a design competition held by the Wits School of Architecture and Planning. The competition was held at the end of the first academic week in mid-February and used a design lecture day to enable all architecture students to participate as part of their academic programme. It was a "vertical studio" in which each group comprised students from different years of study, which was a great introduction to design for the new first year students.

The participants were briefed to create an inclusive space for students which would encourage integration and interaction, and explore creating a communal space that expresses the "modern" student and what it means to socialise as a member of a learning community on campus, and while this would be a prototype for all users, it should express the specific needs of students in the School of Architecture and Planning and the School of Construction Economics and Management, where students are able to work safely in a studio context after hours.

The multi-use space would need to accommodate up to approximately 200 people, where work can be exhibited and discussed, where the work is safe from theft or vandalism, where informal parties can be held, and where students work can be promoted to future employers or sponsors.

Submissions had to comply with:

- Safety and security requirements
- Disabled accessibility
- Issues of sustainability
- Low maintenance.

Three possible sites of intervention were selected and each group entering a design, could select one site for their project design. The designs were judged by a panel of industry specialists in conjunction with university staff.

Hyprop has been invited to sit on the advisory board of the School of Architecture and Planning.

Social and relationship capital continued

The Couture Educational Foundation

Villioti Fashion Institute is an accredited tertiary institution that takes pride in making the ordinary extraordinary. The foundation was established to afford highly talented people from underprivileged or otherwise disadvantaged backgrounds with an opportunity to pursue a career in fashion design by granting bursaries, scholarships and awards to select candidates.

All scholarships, bursaries or awards granted by the trustees in respect of study research or teaching are subject to the expectation that the beneficiary will apply the knowledge obtained from the study immediately in South Africa for a period at least equal to the period of the study.

The Hyprop Foundation provided bursaries for three students studying towards a diploma in fashion on a full-time basis at the Spero Villioti Design Academy.

Community upliftment

Casual Day

Launched in 1995, Casual Day is South Africa's leading fundraising and awareness campaign for persons with disabilities and is the flagship project of the National Council of and for Persons with Disabilities (NCPD). Each year on the first Friday of September, South Africans are encouraged to go to work or school dressed differently – either dress up or dress down – and to wear the official Casual Day sticker to show their support for persons with disabilities.

The theme for the 2017 Casual Day was “Let's celebrate our diversity!” This gave us the chance to show everyone who we really are as all the Hyprop staff were given their Casual Day stickers from the Hyprop Foundation and encouraged to participate and join in the themed day.

Mould Empower Serve (MES)

MES believes in a space where hope is possible, where values and norms are nurtured, where the disempowered are empowered, where human potential is developed and where dignity is restored. MES provides services regardless of age, religion or sexual orientation.

The residential care programme provides safe and secure accommodation to the homeless and vulnerable community in overnight shelters. The Hyprop Foundation is actively involved in assisting with the refurbishment of shelters.

During the latter part of the 2017 financial year Hyprop contributed to repairing, upgrading and renovating the Uthandweni Women's shelter. As part of upgrading of this facility, 20 bedrooms were added as well as additional bathrooms.

Hyprop assisted financially with upgrading of the MES head office to ensure the creation of a safe and uplifting environment for the employees. These projects were ongoing during FY18.

MES runs a youth enrichment programme which offers a safe haven to children, through empowering children and the youth not to fall victim to their circumstances, by establishing and nurturing a spirit of belonging, mastery, independence and generosity through spiritual, social, academic and art programmes. The second aspect is to encourage a culture of volunteerism among the youth of South Africa. The Joshua programme gives this opportunity to young servant leaders, who play a key role within the youth enrichment activities, such as holiday programmes, after school centres and the uplifting, encouraging and mentoring of future generations. Hyprop contributed to the upgrade of The Joshua's sleeping quarters as well as assisting with the holiday programme which runs twice a year.

MES launched their gymnastics programme five years ago with Hyprop Foundation. During the past year 185 young people were accommodated in the three ECD centres and another 20 from the primary school. The coaching takes place in partnership with Visions Gymnastics who provides two coaches to teach the children.

Environment

Wits – energy and water project

The Hyprop Foundation contributed towards an initiative undertaken by Wits “the Build Design Precinct Sustainability Project”. This project is an ongoing project that will initially begin with carrying out a monitoring programme of the electric and water consumption of three buildings within the School of Architecture and Planning at Wits:

- John Moffat Main Building
- John Moffat Extension
- New John Moffat Building.

Arbor Day

The 2017 Arbor Day benefited two schools. These were MC Weiler Primary School and Highlands North High School.

MC Weiler is a primary school in Eastbank, Alexandra, Johannesburg. The foundation contributed by erecting a school fence, planting trees and donating seeds for their vegetable garden.

Highlands North High School is a boys' high school established in 1939, situated on 4th Avenue in Highlands North, Johannesburg. The foundation contributed by revamping the school gardens, donating trees, manure, garden utensils and vegetable seeds.

Health and wellness

Smile Foundation

The Hyprop Foundation continued to support the Smile Foundation during FY18. Smile Foundation is a South African non-governmental organisation with a comprehensive health care vision for children living with facial conditions. Smile Foundation together with the country's academic hospitals work together to put the smile back onto children's faces with corrective facial reconstructive surgery and treatments.

The Smile Foundation helps children in need of surgery for treatable facial anomalies such as cleft lip, cleft palate, nose and ear conditions, facial paralysis (Moebius Syndrome), burn wounds and craniofacial abnormalities.

They are currently based in 11 of the best academic hospitals in South Africa. They continually support their teams of qualified compassionate medical staff by investing in further skills development programmes, as well as the purchasing of much needed medical equipment for the departments specialising in plastic and reconstructive surgery within these hospitals. "Because every child deserves to smile."

Intellectual capital

Hyprop enjoys a significant base of intellectual capital which is underpinned by our human resources. This is a competitive advantage in our industry, reinforcing our ability to attract the desired calibre of skills to drive long-term growth and the success of our business. Our proprietary and licensed software, licences, procedures and protocols support Hyprop's competitive advantage.

We achieve excellence by focusing on our areas of expertise:

■ Leadership

- A strong leadership team, driving a culture of high performance. Hyprop management is acknowledged by investment analysts as expert, consistent and transparent
- Effective partnerships with customers, suppliers, business peers as well as sector and research bodies

■ Asset management and transaction capability

- In-house asset management team (including directors and executive and general managers) with the knowledge and experience to make appropriate investment decisions
- Expertise in identifying new markets and opportunities to grow and expand the group's operations and enhance the current property portfolio
- Ability to conclude acquisition and capital projects on time and within budget

■ Funding

- Ability to raise finance on competitive terms

■ Legal resources

- In-house legal expertise to manage risk and legal processes efficiently and effectively, which includes the monitoring of tenant business rescue and liquidation processes. Valuable legislation updates are provided on matters affecting the business

■ Leasing structures

- Leasing, a core function of the business, is supported by a regional and on-site skilled management team. Processes are aligned with an on-line standardised leasing system

■ Information and technology management

Systems

- Innovative systems provide seamless and efficient reporting and a comprehensive overview of key portfolio metrics
- Real-time integrated property and financial management system
- Building management and analytical systems that monitor footcount, dwell time, spend per head, security monitoring and online utility management

Innovative equipment technology

- Constant equipment replacement plan to increase technology efficiencies

Monitoring business patterns and future trends

- Hyprop has a dedicated statistician to compile, evaluate, compare and interpret property statistics

■ Ongoing portfolio enhancement

- Improve and develop to constantly meet the standards of high-quality shopping centres and deliver a positive, meaningful experience to our shoppers in a clean and safe environment
- Extensions and refurbishments anticipate and accommodate changing consumer habits and ensure tenant loyalty

■ Investor dialogue

- The sustained confidence of investors achieved by open dialogue and transparent investor relations.

Investing in intellectual capital, comes at a cost in the short term, however, in the longer term the financial capital, as well as manufactured, natural, human, and social and relationship capital, are likely to be enhanced by our commitments.

Human capital

Our human capital remains an important priority. Our vision is to be an employer of choice by creating an enabling environment for all employees to reach their highest potential in an engaging, professional work environment. We reward performance excellence and address non-performance. Our employees are accountable for their individual actions, we support teamwork and the mutual exchange of knowledge. We foster mutual respect, regardless of cultures, genders and background, with zero tolerance for discriminatory behaviour. Our material focus areas within human capital address these key issues: human resources, company culture and transformation.

The company complies with employment laws and is committed to protecting human rights, ensuring that our code of ethics and disciplinary code are communicated to all employees.

Human resources

Our people are key to our business performance. Our human resources structure is based on delivering our strategy and addresses the operational demands of our business. Our head office is situated in Rosebank and management teams are deployed at our shopping centres ensuring efficient management, leasing and maintenance activities of our assets. Our goal is to attract and retain the right talented people whose values are aligned with the company's culture.

We offer competitive remuneration, comprehensive training support and skills transfer. Performance targets, training and skills development are reviewed annually and aligned with the group's strategy.

Employee profile

	June 2018	June 2017
Number of permanent employees ⁽¹⁾	221	219
Number of vacancies	4	8
Number of permanent positions	225	227
Job vacancy rate (%)	1,8	3,5
Average term of employment (years)	9	8
New positions created	5	6
Positions eliminated	7	11
Number of internal placements	9	8
Number of new appointments	17	15
Number of voluntary resignations	13	19
Number of retirements	nil	nil
Number of terminations	4	3
Number of employees transferred due to sale of asset	nil	5
Number of employees on disability insurance	5	5
Number of employees appointed on fixed term contracts	3	7
Number of employees appointed on casual contract	39	52
Employees who are permanently employed (%)	84	79
Average age of employees	43	44
Female employees (%)	54	55
Black employees (%)	59	55
Employees belonging to a trade union	nil	nil
Incidence of child or forced labour	nil	nil

⁽¹⁾ Excludes non-executive directors

Human capital continued

Company culture

Core values and employee code

Our employee code focuses on creating a work culture that is transparent, respectful, fair, non-exploitative (especially with regard to compensation and benefits), dynamic, promotes open and constructive dialogue with management, involvement in decision making and provides working conditions that are safe and encourages a work-life balance.

Our people are committed to our core employee values:

Excellence	We encourage each other to reach our highest potential. We reward performance and address non-performance
Integrity	We treat each other with trust, fairness and respect
Responsibility	We take responsibility for our actions and outcomes
Diversity	We support teamwork and the mutual exchange of knowledge regardless of cultures, genders and background

Employee relations

The national human resources manager is responsible for employee relations. An employee, disciplinary and grievance policy governs these relationships and is available on request, in hard copy at each management office, and on the website www.hyprop.co.za.

Hyprop has no unionised employees and there was no impact on the business due to industrial or labour unrest during the year.

There were six disciplinary cases during the year, primarily for misconduct, which resulted in four terminations.

Grievances

The company is committed to creating and maintaining a climate where all employees and stakeholders are treated with dignity and respect. Harassment in the workplace will not be tolerated under any circumstances and perpetrators will be severely disciplined. Grievances raised in respect of harassment

will be dealt with timeously, sensitively and confidentially and no person who raises a grievance about harassment will be victimised.

No grievances relating to harassment were reported during the year.

Non-discrimination

We do not tolerate discrimination. Any reported instances are immediately and appropriately dealt with under our code of ethics and conduct, and related disciplinary procedures. Policies are reviewed annually and distributed to employees.

No incidents of discrimination were reported during the year.

Health and safety

Our policy is to create a safe and healthy working environment, with procedures to manage occupational incidents, and compensation claims in line with legislation.

In brief, we aim to:

- Provide a health and safety programme that is effective, of a high standard, and is continuously reviewed and improved
- Comply with statutory provisions for health, safety and environmental matters that affect employees, customers, contractors and the public
- Ensure that all employees are properly informed of their responsibilities for health, safety and environmental matters and discharge these effectively
- Encourage employees to participate in preventing accidents and preserving health
- Provide the resources and training to achieve these objectives.

Each management team is responsible for executing this policy onsite through its operations manager. At group level, the national facilities manager is responsible for biannual audit reports, drawing on submissions from each centre.

Construction projects have health and safety consultants appointed to represent Hyprop and monitor activities onsite. On large and complex projects such as Rosebank and The Glen, the contractor has its own health and safety officer managing contractor teams and subcontractors.

There were no serious casualties or injuries during the year at any of our properties or projects.

Injuries on duty

	June 2018	June 2017
Workmen's compensation claims submitted	5	8
Serious occupational injury	nil	nil

Health and safety training and awareness

The company is focused on informing and training employees on health and safety. Various initiatives were arranged during the year, including:

Initiative	HIV/Aids	First aid	Firefighting	Stress management	Cancer	Healthy lifestyle	Injury on duty	Trauma counselling
Training by external suppliers	✓	✓	✓	✓			✓	
Health day consultations	✓			✓		✓		
Information distributed via the newsletters	✓			✓	✓	✓	✓	
Employee awareness days	✓				✓			
Voluntary testing and counselling	✓			✓		✓		✓

HIV/Aids

HIV/Aids remains a concern in South Africa that could affect the wellbeing of our employees, leading to emotional distress, absenteeism, employee turnover and lower productivity. As per the previous years, a formal risk assessment determined the impact of HIV/Aids on the group as negligible. Hyprop does not have targets for addressing its direct impact, nor does it have strategies for addressing indirect business risks (e.g. effect on customer base/supply chain).

Our HIV/Aids policy provides guidelines on creating a non-discriminatory workplace dealing with HIV testing, confidentiality and disclosure, providing equitable employee benefits, dealing with dismissal and managing grievance procedures. It ensures affected employees' rights to confidentiality. Where employees willingly disclose their status, it is kept confidential. Hyprop offers counselling, acceptance and support.

Every year, HIV/Aids awareness days are held at each management office conducted by professional nurses, with an external service provider conducting voluntary counselling and testing. Employees are offered the opportunity to test for HIV, cholesterol, sugar and stress levels.

Engagement

Regular interaction with our employees is critical in creating an engaged workforce. We engage with our employees through several channels which enable communication from leadership,

and forums through which our employees can provide feedback on their contributions, concerns and comments.

Employee forums

Staff meetings are management team specific, driving collaboration across members of the management teams and the departments that operate at the shopping centre.

Human resource site meetings are presented by the human resources management and include the employment equity forum meetings. These meetings provide opportunities for employees to provide feedback and ask questions of leadership. Three human resource meetings per management office were conducted during the year.

Employee self-service system (ESS)

The employee self-service system is used to communicate all payslip, IRP5 and employee payroll information. The system integrates with the payroll and is used for performance reviews, leave applications and approvals.

Employee events

Annual year-end functions focused on acknowledging long service and service excellence awards.

In total 18 long service awards were awarded during the year and six Hyprop excellence awards were issued to teams or individuals that worked in an exceptional manner to complete an assigned task or that independently took on an improvement initiative supported by the company.

Human capital continued

Company employee newsletter

The newsletter encompasses information and input from all our management teams, highlighting our financial achievements, company values, communicating events to various management teams, communicating staff wellness matters, policy updates and staff information notices, and containing information about changes, challenges and staff appointments.

Employee surveys

Annual surveys ensure we address any issues concerning employee morale, productivity and turnover. Two surveys were conducted during the year with one focusing on fair labour practices and the second on adding value and what can be improved.

Our fair practice survey indicated that 95,39% (target 90%) of employees currently feel that the company's benefits, processes and policies are implemented fairly and are non-discriminatory. The survey included our recruitment and disciplinary process, employee policy implementation, HIV/Aids education, remuneration, company benefits as well as the work environment and facilities.

Our value-add survey provided feedback to leadership on what our employees value most in our shopping centres and working environment, and what the company can do to add further value.

The outcome of the survey confirmed that our employees value working within a team where there is mutual respect, trust and solid values that promote a diverse and talented workforce. We believe in leading by example and value the input we receive from our employees. Suggestions to improve value were discussed with the executive team and include tenant mix, communication and office facilities.

Work days and leave

Work days

	June 2018	June 2017
Total working days	68 649	71 106
Total number of work days lost due to absenteeism (sick, family responsibility and maternity leave)	1 235	1 468
Percentage of total days lost due to absenteeism (sick, family responsibility and maternity leave) (%)	1,8	2,1
Total number of days lost due to industrial action	nil	nil
Percentage of total days lost due to industrial action (%)	nil	nil

Hyprop ethics line

Hyprop values its reputation and recognises that over and above any financial damage suffered, fraud may reflect adversely on our reputation.

Our aim therefore is to limit company exposure to fraud by taking firm and vigorous action against any individual or group perpetrating fraud against the company. We encourage our employees to be vigilant and to report any suspicion of fraud, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately. The company always expects employees to act with integrity, comply with financial regulations and to report concerns as soon as any impropriety is suspected.

The Hyprop ethics line, our anonymous tip-offs line, reports to the audit and risk committee and is administered by Whistle Blowers Proprietary Limited, an external service provider. All employees are made aware of this facility. Reporting is on an anonymous basis with feedback provided and action taken to remedy the matters raised.

During the year three calls were reported, investigated, and feedback given. None of the calls were of a serious nature.

Performance management meetings

Refer to the remuneration report.

The performance appraisal process is an opportunity for the manager and employee to review whether previously discussed performance expectations and goals have been met, to discuss professional development opportunities and to identify options for acquisition of additional skills and knowledge to foster performance improvement and career growth. Additionally, the appraisal provides appropriate documentation to support any recommended merit increases and/or other performance-based awards.

Employee development and training

Training

Our training and development programme is based on the operational requirements of the business, skills shortages in our industry and transformation imperatives.

Training needs are identified during employee reviews, while the group skills base is objectively assessed to identify focus areas for training in the year ahead.

Our training strategy aims to:

- Enhance the company's knowledge and skills base
- Enable employees to contribute to our business and growth
- Encourage further education to enhance competence in current positions and increase eligibility for promotion, and
- Support employment equity initiatives.

In the review period, a combination of internal and outsourced training sessions covered the following key areas:

Training spend

	June 2018 R000	June 2017 R000
Leadership	679	680
Business operations	443	431
Graduate and trade qualification programme	242	181
Green building management principals	200	45
Leasing and administration	64	nil
Health and safety	45	93
HIV/Aids	47	99
	1 720	1 528

New training providers were appointed for health and safety and HIV/Aids training which resulted in a cost saving during the year. We continued to promote and grow our graduate and trade qualification programme which has become a driving force in implementing our employment equity plan and driving diversity from the bottom up. Eighteen (2017: 10) employees are currently enrolled in various degree and trade qualification programmes. Green building and management principles focused on water and energy efficiency training and national lease training was presented in all regions.

Training by race profile and gender

	June 2018		June 2017	
	Training spend as a %	Number of training interventions	Training cost as a %	Number of training interventions
African	24	254	24	216
Coloured	11	118	11	136
Indian	3	59	7	39
White	61	343	56	267
Non-South African	1	2	1	2
Total	100	776	100	660
Male	51	321	53	306
Female	49	455	47	354
Total	100	776	100	660

Human capital continued

Succession planning

One of our primary objectives is to establish a succession plan by developing junior managers for middle management roles. This has proved effective with five out of the nine internal placements from designated groups.

Transformation and diversity

Employment equity

Hyprop is committed to promoting equal opportunities for, and fair treatment of, all employees, regardless of gender, race, sexual orientation, religion, language and age. Our employment equity plan focuses on eliminating discrimination and implementing internal measures to redress disadvantages and remove systemic barriers faced by designated groups, in order to ensure their equitable representation in all occupational categories.

The company recognises that past South African laws and practices were discriminatory, resulting in current disparities in employment, occupation and income in the national labour market. As a result, black people, women and people with disabilities are the most disadvantaged groups in South Africa.

Hyprop's revised employment equity plan has been approved for a five-year period (January 2017 to December 2021). The key objective of the revised plan is to ensure equal opportunities and fair treatment in employment, and that employees ultimately represent the economically active profile of the South African population demographic.

We are committed to:

- Creating and maintaining an environment that provides equal opportunities to all employees, with special consideration for historically disadvantaged groups
- Achieving equity in the workplace by:
 - Promoting equal opportunities and fair treatment by eliminating unfair discrimination
 - Implementing measures to redress disadvantages in employment experienced by designated groups in order to ensure their equitable representation in the workplace
- Ensuring that recruitment and selection (when recruiting) are aligned with our business strategy and based on fairness, objectivity and competency, and seek to redress historical imbalances to achieve representation
- Train and develop employees or prospective employees through an effective training and skills development programme
- Prohibiting any medical testing unless required by legislation, or an inherent requirement of the job, justifiable due to employment conditions, medical facts, social policy, or the fair distribution of employee benefits
- We understand that racial representation at all levels is required and we have implemented measures to ensure equal opportunity to grow in our organisation. These include revised recruitment policies, increased training and development opportunities and equal remuneration policies (as per section 6 of the Employment Equity Act).

For more information, please view the full employment equity policy and plan on our website (www.hyprop.co.za).

Total number of employees (including employees with disabilities)

	June 2018														June 2017				
	Male				Female				Foreign Nationals		Total	Total				Total (%)		Total (%)	
Occupational levels	A	C	I	W	A	C	I	W	M	F		A	C	I	W	B	W	B	W
Top management ⁽¹⁾	1	0	0	7	1	0	0	1	0	0	10	2	0	0	8	20	80	20	80
Senior management	2	0	1	9	0	0	1	10	0	0	23	2	0	2	19	17	83	16	84
Professionally qualified and experienced specialists and mid-management	6	2	2	15	5	5	2	17	0	0	54	11	7	4	32	41	59	30	70
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	5	3	2	5	15	10	6	19	1	2	68	20	13	8	27	60	40	42	58
Semi-skilled and discretionary decision-making	22	10	1	3	17	8	1	4	1	0	67	39	18	2	8	88	12	89	11
Unskilled and defined decision-making	7	0	0	0	0	0	0	0	0	0	7	7	0	0	0	100	0	100	0
Total permanent	43	15	6	39	38	23	10	51	2	2	229	81	38	16	94	59	41	55	45

Reported as per the Employment Equity Act.

A – African; C – Coloured; I – Indian; W – White; M – Male; F – Female; B – Black (Black represents African, Coloured and Indian)

⁽¹⁾ Top management includes non-executive directors

Gender diversity at board level

The Hyprop board recognises that diversity of skills, experience, background, knowledge, thought, culture, race and gender strengthens the board's ability to effectively carry out its duties and add value to the group. We acknowledge that further work is required to improve gender equality at board level. At 30 June 2018 the Hyprop board included two female directors, translating to 20% of board members being female.

Hyprop recognises that it plays a vital role in advancing gender equality, first in the workplace and then in broader society. We have implemented measures to ensure that women are given equal opportunity to grow in our organisation. These include revised recruitment policies, increased training and development opportunities and equal remuneration policies (as per section 6 of the Employment Equity Act).

Race diversity at board level

Hyprop acknowledges that further attention is needed to achieve equal racial representation at board level. At 30 June 2018 the board had 20% racial diversity, with two black directors.

	Male (%)				Female (%)				Total (%)	
	A	C	I	W	A	C	I	W	M	F
Occupational levels										
Board representation – June 2018	10			70	10			10	80	20
Board representation – June 2017	10			70	10			10	80	20
Movement for the year	0	0	0	0	0	0	0	0	0	0



Canal Walk, Western Cape



Rosebank Mall, Gauteng

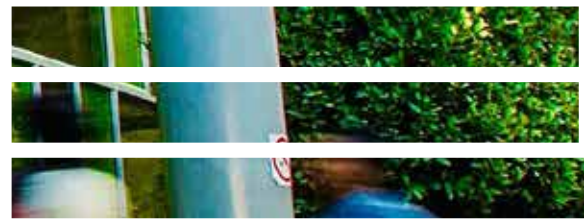




GOVERNANCE



The Hyprop board has exercised a strong focus on ethical leadership and good governance that incorporates the philosophies of sustainable development, integrated thinking, good corporate citizenship, stakeholder inclusivity and a recognition of the company's role and responsibilities in society.



Remuneration report

In the context of the accountability and transparency encouraged by King IV, this remuneration report is separated into three sections – a background statement, an overview of the remuneration policy and the remuneration implementation report which articulates the link between strategy, sustainable value creation, performance and remuneration.

Section 1: Background statement

The remuneration and nomination committee (the committee) is responsible for remuneration within the company. During the year it comprised three independent non-executive directors, Stewart Shaw-Taylor (chair), Lindie Engelbrecht and Gavin Tipper. The CEO, financial director and human resources executive attend meetings by invitation, but are excluded from any deliberations pertaining to their own remuneration.

The composition of the committee ensures that the remuneration of executives is set by independent non-executive directors who have no personal interest in the outcome, and who will give due regard to the interests of all stakeholders of the company.

The year under review was challenging for South African property companies. Net income has been negatively impacted and the company share price pulled back to lower levels by weak economic conditions. As would be expected, this had an impact on the remuneration of executive directors and senior executives, particularly as it pertains to annual cash incentives and the expected value of conditional unit plan shares. In these current circumstances, the committee believes that the remuneration policy, in its implementation, has been consistent with company performance and aligned to shareholder value.

Pursuant to its terms of reference, the committee strives through an effective remuneration policy to give the executive directors every encouragement to improve the company's performance and to ensure that they are fairly but responsibly rewarded for their individual contributions and performance. The remuneration policy has been reviewed to reflect the commitment to remunerating fairly, responsibly and transparently.

The committee is satisfied that the current remuneration policy has achieved the principles outlined in the policy. The remuneration philosophy and policy were reviewed during the year and comply with the recommended practices of King IV. A copy of the full remuneration policy is available on the website www.hyprop.co.za.

The committee considers the performance measures and targets for the short-term incentive plan to ensure that they are appropriate and support our strategy to create long-term value for all our stakeholders.

Section 2: Remuneration policy

Philosophy

As an internally managed REIT, the objective of the remuneration policy is to promote the delivery of Hyprop's strategic objectives, encourage individual performance and reward sustainable value creation. Our philosophy emphasises the role of employees in building long-term sustainable value through fair and balanced remuneration.

Hyprop's success depends on attracting and retaining talented, experienced and motivated individuals who can execute our business strategy to achieve our vision and mission. The company uses both short- and long-term incentives to achieve this and has been successful in so doing.

Key principles

- Ensure remuneration policies and practices are aligned with company strategy and values
- Enable the attraction and retention of talented, experienced and motivated individuals who can execute the business strategy
- Link salary structures and policies to performance objectives that support sustainable value creation over the short-, medium- and long-term
- Align long-term incentives with the strategic objectives of the company and the creation of long-term shareholder value
- Apply a fair and reasonable remuneration structure across the company by:
 - Ensuring that non-executive directors' fees are fair, transparent and responsible
 - Ensuring that the executive directors' and executive management's remuneration is fair and responsible in the context of overall company remuneration.
 - Considering the pay ratios between executives and other staff when determining annual salary increments

- Rewarding employees fairly, reasonably and responsibly for their contribution to the operating and financial performance of the company
- Identifying, investigating and addressing any remuneration disparities related to inter alia, race and gender.
- Ensuring that guaranteed pay is based on equal pay for work of equal value
- Ensuring that guaranteed pay for all employees is based on clear role descriptions, which are mapped and aligned with similar jobs. The Patterson job grading system is applied, with the six grades defining the employee's remuneration scale
- Implementing a training plan, which is critical in addressing remuneration disparities. Various training courses are provided to create an empowered work environment.

The remuneration and nomination committee
 The responsibilities of the committee are set out in a formal charter. Updates to the charter will consider the recommendations of King IV, or other relevant best practice, and will be approved as appropriate.

In executing its mandate relating to remuneration for non-executive directors, executive directors, executive

management and other staff, the board (as advised by the committee) will:

- Annually review the remuneration structures to ensure that they are performance-based, and linked to realistic performance objectives that support sustainable long-term growth,
- Ensure that stakeholders can make an informed assessment of reward practices and governance processes, and
- Ensure that the remuneration practices are compliant with all applicable laws and regulatory codes.

Voting

The remuneration policy and remuneration implementation report are put to separate non-binding advisory votes by shareholders at the annual general meeting of the company. If 25% or more of the voting rights vote against either of the non-binding resolutions, the board will formally engage with dissenting shareholders to understand and address all legitimate and reasonable concerns. At the annual general meeting held on 1 December 2017, the non-binding advisory votes on the company's remuneration policy received a 85,79% vote in support of the policy and the remuneration implementation report received 90,28% vote in support thereof.

Remuneration structure

Hyprop's remuneration structure is set out in the table below:

Element	Policy	Structure	Participation
Base salary	Provide a market-related level of base pay with due regard to the responsibilities of the position. Benchmarked against industry norms and adjusted based on an employee's experience, qualifications, the nature of work and the level of responsibility.	Review annually with increases effective from 1 January.	Junior, middle and senior management, executives and executive directors.
Short-term incentive	Short-term incentives, paid in cash, align with the group's annual performance strategy to support employee retention. Performance reviews are weighted against key performance deliverables (KPDs).	KPDs measured against targets on property and company level for the year. Cash bonus paid in December.	Junior, middle and senior management, executives and executive directors.
Long-term incentive scheme	Attract, motivate and retain executive directors, executives, senior managers and employees with specific core, critical and/or strategic skills.	Conditional unit plan. Two components: 70% performance-based, 30% retention-based.	Executive directors, executives, senior managers and employees with specific core, critical and/or strategic skills.

Remuneration report continued

Base salary

The fixed (guaranteed) component of remuneration includes a base salary, a pension contribution and benefits that are normally set at median remuneration levels when compared to the industry and national salary market.

Salary benchmarking

Remuneration benchmarking is considered annually. Basic salaries are benchmarked against median industry and national salary norms and adjusted based on an employee's experience, qualifications, responsibilities, nature of work and performance. Independent remuneration consultancies are used to provide the remuneration committee with market data to assist in remuneration decisions, where appropriate. Where surveys indicate that a job grouping is significantly out of line with the comparative benchmark, a remuneration adjustment may be considered.

Remuneration may exceed benchmarked levels where required, to attract and retain specialised skills or for employment equity purposes.

Salary increases and reviews

The remuneration and nomination committee reviews salaries on an annual basis taking cognisance of the approach set out above, as well as the need to eliminate any unfair discrimination. The following factors are considered during this process:

- Performance of the company,
- Projected inflation,
- Affordability, and
- Performance of the individual.

Performance management



A pro-rated increase is paid to employees who have not been in the employment of the company for the full financial year to which the annual increase relates.

Employee benefits

To define Hyprop as a preferred employer, we offer a range of employee benefits that exceed legislated minimum standards and include:

- Membership of a defined contribution pension fund with death, disability and funeral benefits,
- Four months partially paid maternity leave (paid at 50% of cost to company),
- Annual leave rising to 20 days after five years' consecutive service with the group, and
- Six days' paid study leave for approved qualifications.

Short-term incentive (STI)

Short-term incentives are linked to performance objectives that support business goals. Two components are considered when determining an employee's STI, namely key performance deliverables and targets, evaluated biannually, and individual performance reviews, conducted annually. The employee's level of responsibility and job grade determines the weightings allocated to each area of assessment.

Key performance deliverables (KPDs) and targets

KPD targets are set annually at company and portfolio level and performance is formally measured against the targets. These KPD targets are approved by the remuneration committee to ensure that employee performance is aligned with the company's strategy. Progress on the KPDs is communicated to management teams at mid-year with final evaluations at the end of the financial year.

Performance against company targets carries a 90% weighting, while individual reviews carry a 10% weighting at executive and senior management level. Executive directors are measured against company targets.

Individual performance reviews

Individual performance reviews are completed annually on the company's employee self-service system after performance discussions with the relevant line manager. These reviews assist the manager and employee to build on strengths and to identify areas for improvement.

All employees are subjected to the same appraisal process and rating criteria. This encourages equality and imposes standard measures of performance across the company. Criteria include:

- Professional conduct
- Business processes
- Customer service
- Business operations
- Employee management
- Implementation of company strategy.

A significant portion of senior management's reward is variable, based on achieving group performance targets, as well as individual contributions to the growth and development of their business, applicable division and the company.

Performance is measured on a five-point scale that offers a high degree of structure for appraisals.

Conditions for the performance component of the CUP:

	Vesting percentage ⁽¹⁾
Threshold	50% of awarded performance shares vest at threshold. No performance shares will vest for performance below threshold
On target	100% of awarded performance shares vest for performance on target
Stretch	150% of awarded performance shares vest for performance at stretch levels

⁽¹⁾ Linear vesting will apply for performance between "threshold" and "on target" or between "on target" and "stretch" performance. For example, where performance is exactly halfway between threshold and on target, the portion of performance shares that will vest will reflect a similar ratio, i.e. 75%

Performance review process

- Employees are rewarded based on the outcome of KPDs and performance reviews,
- STIs and salary increases are approved by the remuneration committee before payment,
- Exceptional performance is rewarded with higher incentives, after considering recommendations from general managers, regional executives and executive directors,
- The maximum potential STI for senior management is six months' salary and is subject to the remuneration committee's discretion and approval,
- Exceptional performance by senior management is considered and where justified may be rewarded at the remuneration committee's discretion. The reward may comprise up to an additional six months' salary,
- STIs are payable in December each year, and
- STIs for executive directors are aligned with strategic objectives and are at the remuneration committee's discretion.

Long-term incentives (LTI)

LTI reward decisions that support dividend and capital growth and are aligned to the company's strategic objectives and the creation of long-term shareholder value.

Conditional unit plan (CUP)

The CUP as an LTI was approved by shareholders in 2013 and the scheme applies until 2023. The purpose of the CUP is to further align employee performance with stakeholder interests and to retain skilled and talented employees. Annual allocations of performance and retention shares are made in a 70:30 ratio. Vesting of the performance shares is subject to performance conditions stipulated in the rules of the CUP and approved by the remuneration committee at the time of allocation.

Remuneration report continued

Performance condition	Detail	Weighting	Threshold	On target	Stretch
Growth in distribution per share relative to peer group ⁽¹⁾	Measured as simple growth in distribution per share over the performance period	40%	95%	102,5%	110%
Share price performance relative to peer group ⁽¹⁾	Measured as growth in share price over performance period (difference between share price at the end and start of performance period)	40%	95%	105%	120%
Strategic component	Determined by the remuneration and nomination committee	20%	Determined by the remuneration and nomination committee		

⁽¹⁾ Peer group comprises the five largest South African REIT companies, by market capitalisation, listed on the JSE

Under the CUP, shares are offered to executives, senior managers, operational and financial managers and employees with specific core, critical or strategic skills. Allocations are approved by the remuneration committee.

Performance shares vest three years after initial allocation, provided that the relevant performance conditions have been met.

Retention shares vest five years after initial allocation, subject to continuous employment over the vesting period. Participants are only able to receive dividends after the shares have vested.

Executive directors

Executive directors are permanent employees and their employment agreements include a notice period, but no restraints of trade. They are offered competitive remuneration packages, which are reviewed by the remuneration committee annually.

Minimum employment terms and conditions for executive directors are governed by South African legislation. If an executive director's services are terminated, the remuneration committee oversees any settlement, assisted by labour law advisers where appropriate.

Non-executive directors

Non-executive directors are remunerated competitively. There are no contractual arrangements applicable to compensate for loss of office.

The remuneration and nomination committee benchmarks fees every second year against a peer group of JSE-listed companies with CPI adjustments in the in-between years. Recommendations are made to the board, which proposes fees for approval by shareholders at the AGM.

Remuneration for non-executive directors comprises a base fee only. Non-executive directors do not receive STIs, nor do they participate in any LTI schemes, except if they have previously held executive office and are entitled to unvested benefits from that period.

The chairperson of the board and the chairpersons of the subcommittees are paid higher fees than the members of the board and subcommittees. Different fee levels are paid for the different subcommittees to reflect the complexity, risk and amount of preparation required. Committee fees paid to members are based on an annual fee.

Section 3: Implementation of the remuneration policy during the 2018 financial year

Retaining and attracting talent

An engaging work environment and competitive remuneration translates into committed employees and high retention rates, especially at senior level. While low employee turnover ensures continuity, and aligns group performance with our long-term strategic objectives, we understand the value of original insight and aim for an appropriate balance between internal and external appointments.

Employee turnover continued to be low and our average tenure of employees is higher than that of most peer companies.

Staff retention

	June 2018		June 2017	
	% retained	Average service years	% retained	Average service years
Total employee complement	93	9	92	8
Top management	100	11	100	10
Senior management*	83	9	96	8
Employee turnover	7		8	

* Two new appointments (leasing executive for the Johannesburg region and general manager at Woodlands), two internal appointments (regional executive and general manager at Clearwater Mall)

Base salaries

2018 salary increases

The remuneration and nomination committee considered the projected inflation rate, performance of the company and the affordability of the increased salary cost to determine the base salary increase for the year. As an added measure, the increase norm of 6% was compared to the salary increases allocated by peer companies. The increases applied were in line with the norm applied in the industry. To address the earnings gap, the remuneration and nomination committee, as per the previous three years, approved a minimum 7% salary increase for lower earning employees.

Base salaries increase applied

	June 2018		June 2017	
	Actual payroll increase	Salary increase applied %	Actual payroll increase	Salary increase applied %
Base salaries paid to employees earning above the Basic Conditions of Employment Act (BCEA) threshold (%)	2,0**	6	11,5***	6,4
Base salaries paid to employees earning below the Basic Conditions of Employment Act (BCEA) threshold (%)	8,8	7	0,7****	7,5
Total base salaries increased (%)	3,6		11,7	
Base salary paid to lowest paid employees (R)	105 044	7	98 172	17

** Actual payroll cost decreased due to timing on new appointments and reductions during the year

*** Actual payroll included two new executive appointments compared to previous year

**** Affected by the transfer of the Willowbridge management team to new owners in previous year

Salary benchmarking

The company's policy is to pay employees a base compensation that is close to the median of comparable companies. In addition, the variable compensation elements are set to enable the overall compensation to move towards the upper quartile for outstanding performance.

Benchmark reviews were conducted externally and include market analyses by industry specialists. Bespoke benchmarks include an industry peer group and comparable companies in various industries selected according to where we compete for talent.

The peer group used for the analysis included property management companies and South African REITs.

Adjustments were considered and approved for jobs that were significantly out of line with the survey report.

Remuneration report continued

Base salaries adjusted

	June 2018 Number of employees	June 2017 Number of employees
Executive directors	nil	nil
Executive and senior management	5	3
Employees	30	55
Total	35	58

The company uses the Patterson system to grade positions in the company. All position grades were reviewed during the year. Similar positions are aligned within a salary band taking into consideration an employee's experience, qualifications, the nature of work and the level of responsibility. This practice aligns with the company's commitment to fair remuneration and equal pay for work of equal value.

Base salaries paid

	June 2018		June 2017	
	R000	% increase	R000	% increase
Total base salaries paid	108 656	3,6	104 864	11,7
Base salaries paid to executive directors	7 319	6,1	6 900	6,4
Base salaries paid to executives and senior management	37 468	(1,5%)*	38 038	18,5**

* Base salaries paid to executives and senior management decreased due to the reduction of one regional executive position, timing on new appointments and salaries negotiated during the year

** Base salaries paid to executives and senior management in 2017 included two new positions

Base salary increases were effected 1 January 2018.

Employee benefits

Our employee surveys confirmed that our employee benefits contribute to the loyalty and commitment of our employees. Please refer to employee engagement: human capital report.

Pension fund (defined contribution)

211 employees are members of the company's pension fund and R12 million was contributed towards the pension fund during the year. Membership of the fund includes death, disability and funeral insurance.

	Benefit
Life insurance	Four times annual pensionable salary Education protector to third year tertiary education
Disability insurance	75% of monthly pensionable salary
Funeral insurance	R23 000

Maternity leave

R74 000 was paid to four employees who received four months' partial paid maternity leave during the year.

Short-term incentives (STIs)

Short-term incentives are determined based on the employee's individual performance and business units' score against the KPDs.

KPDs are measured to ensure we are achieving our strategic priorities and delivering value for our stakeholders.

The KPDs comprise financial, operational and strategic measures. KPDs for the 2018 financial year were approved by the remuneration committee in May 2017 and actuals were measured against targets and communicated to management in December 2017 and June 2018, respectively.

KPD score against targets and outcomes

Key performance indicator	June 2018			KPD score			June 2019	
	Weighting	Target	Stretch target	Total weighted	Score against target	Performance achieved	Weighting	Target
Financial – distribution growth	33%	8% distribution growth year on year	9% and above	38,0%	115%	8,8% distribution growth year on year	33%	5% to 7% distribution growth
Financial – budget management	27%	On budget	Exceed budget by 3%	31,1%	115%	Exceeded budget by 0,6%	25%	On budget
Leasing – vacancy movement, rentals, escalations and administration	17%	Vacancy increase – 0% increase year on year. Rentals achieved – on budget	Vacancies – reduced by 5% or more. Rentals achieved – 7,5% more than budget	16,2%	94%	Reduced vacancies year on year by 25,7% (13 968m ² (2017: 17 559m ²))	17%	Vacancy increase – 0% movement year on year. Rentals achieved – on budget
		Rental escalation on new and renewed leases – 7,5%	Rental escalation on new and renewed leases – 10% or more			Rentals achieved on budget Rental escalations achieved 7,7%		Rental escalation on new leases – 7%
		Lease administration – 2% outstanding documentation	Administration – 0% outstanding documentation			12% of lease documentation in the process of being finalised		Lease administration – 2% outstanding documentation
Tenant arrears – deposits and total arrears outstanding	6,5%	Total outstanding – 2% outstanding as a % raised of rent roll raised	Total outstanding – 0% outstanding as a % raised of rent roll raised	6,1%	92,5%	0,6% total arrears outstanding as a % raised on rent roll	7%	Total outstanding – 2% outstanding as a % raised of rent roll raised
		Deposits – 1,5% outstanding as a % of deposits raised	Deposits – 0% outstanding as a % of deposits raised			8,7% deposits outstanding as a % of deposit raised		Deposits – 1,5% outstanding as a % of deposits raised
Operations risk and environmental – building masterfile, waste recycling and energy saving	4%	Masterfile – 96% complete	Masterfile – 100% complete	5,2%	125%	Building master files 100% complete	6%	Masterfile – 96% complete. Waste recycling – 80% waste recycled. Energy saving – 3% kWh saving year on year
		Waste recycling – 75% waste recycled	Waste recycling – 85% or more waste recycled			83% waste recycling rate achieved		
		Energy saving – 3% kWh saving year on year	Energy saving – 5% or more kWh saving year on year			5,5% kWh saving achieved on various projects		
Employment equity	5%	70% of all appointments are black	80% of all appointments are black	5,8%	115%	77,6% of all new and internal appointments were black as defined in our EE report	5%	75% of all new appointments are black
BBBEE	3%	72% of all procurement are from companies with a BBBEE level of 1 to 4	80% of all procurement are from companies with a BBBEE level of 1 to 4	3,9%	130%	87% of all procurement was rated from between a level 1 and 4 BBBEE level	5%	75% of all procurement are from companies with a BBBEE level of 1 to 4
Trading performance – turnover and trading density	3%	4% turnover increase year on year, Footcount consistent with previous year	6% turnover increase year on year, 3% footcount increase year on year	2,3%	85%	0,5% trading density growth year on year.	3%	4% turnover increase year on year, footcount consistent with previous year
					77,5%	1,6% decline in footcount year on year		
Total	100%			110,9%			100%	

Remuneration report continued

Individual performance reviews

Individual performance reviews were conducted during October 2017. As per previous years, the rating process was done through the company's employee self-service system (ESS) after meetings were held between the employees and line managers. Discussions are structured to cover work goals achieved, training needs and job performance, and to set personal job goals for the next 12 months.

The performance of any employees that requires improvement is addressed during the next year through consultation, to align with company vision and values, and if required, training to assist with meeting job expectations.

	Performance review score %	% of employees reviewed	
		June 2018	June 2017
Performance requires improvement	66 to 95	8	5
Performance consistently meets expectations	100 to 110	51	52
Performance exceeds expectations	111 to 127	38	35
Exceptional performance delivery	128 to 140	4	8
		100	100

The remuneration and nomination committee considered the outcome of the performance management process and June 2017 KPD score (114,0%) before STIs were approved. STIs paid for the year aligned with the remuneration policy that rewards on performance.

STIs were impacted by the challenging South African environment that we operate in and the performance review scores, in which we have seen our net income growth impacted, the company share price pulled back to lower levels and that employee exceptional performances were harder to achieve.

2018 short-term incentives paid

	June 2018		June 2017	
	R000	% increase/ (decrease)	R000	% increase
Total STI paid	27,565	(1,7%)	28,040	10%
STI paid to executive directors	5,257	(12,3%**)	5,993	(1%)
STI paid to executives and senior management	12,957	5,2%	12,317	21%*

* Includes two new positions

** Impacted by net income growth and market conditions

Long-term incentive

Refer to financial note.

Award issue

An award issue was approved by the remuneration committee and made to 25 employees in July 2017.

Date of issue		Number of employees participated	% of total staff complement
01/01/2014	Performance shares vested	27	13
01/07/2014	Performance shares vested	26	13
01/07/2015		26	13
01/07/2016		26	12
01/01/2017 ⁽¹⁾		1	0,01
01/07/2017		25	11

⁽¹⁾ Special allocation approved due to new appointment

Shares vested

The 1 July 2014 award vested in October 2017.

The performance shares awarded are subject to performance conditions relating to distribution and share price growth compared to the five largest South African REITs. The comparative companies for the vested shares included Growthpoint, Redefine, Resilient, Fortress and Vukile.

Hyprop's distribution grew by 47%, over the three-year period from award date and was measured against the 48% weighted market cap average growth of the comparative peer group. The distribution growth performance condition was met between threshold and on target.

Hyprop's share price grew by 46%, over the three-year period from award date and was measured against the 43% weighted market cap average growth of the comparative peer group. The share price growth performance condition was met between on target and stretch.

The remuneration and nomination committee did not factor in a strategic component for the vesting and approved the 89,4% performance conditions met in October 2017.

Performance conditions met for shares awarded 1 July 2014

Key performance indicator	Threshold	On target	Stretch	Weighting	Calculated score %	% of the award that vested	Weighted total %
Growth in distribution per share relative to the peer group	Hyprop's growth in distribution per share relative to peer group: 95%	Hyprop's growth in distribution per share relative to peer group: 102,5%	Hyprop's growth in distribution per share relative to peer group: 110%	50	98,8	75	37,7
Share price performance to the peer group	Hyprop's share price performance relative to peer group: 95%	Hyprop's share price performance relative to peer group: 105%	Hyprop's share price performance relative to peer group: 120%	50	106,0	103	51,7
							89,4

Number of performance shares awarded, vested and forfeited

Award date	Number of employees participating	Number of performance shares issued	Performance conditions met %	Number of performance shares vested	Number of performance shares forfeited*	Number of performance shares due to vest
01/01/2014	27	107 561	100	100 413	7 148	
01/07/2014	26	110 422	89,4	93 363	17 059	
01/07/2015	26	78 282		729		77 553
01/07/2016	26	80 979		102		80 877
01/01/2017	1	5 982				5 982
01/07/2017	25	84 840				84 840

* Resignations and performance conditions not met

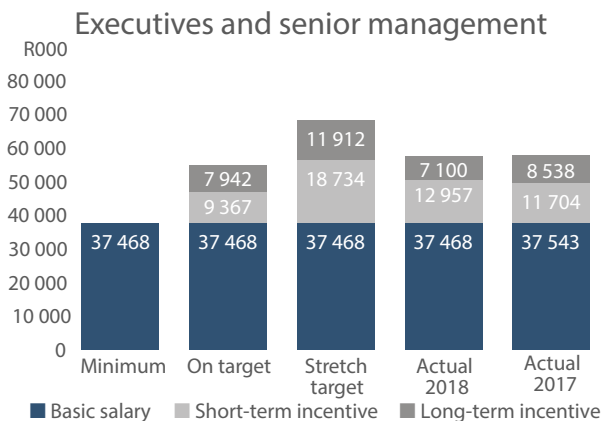
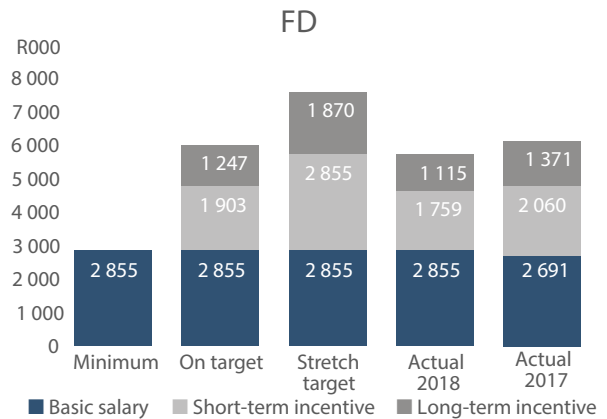
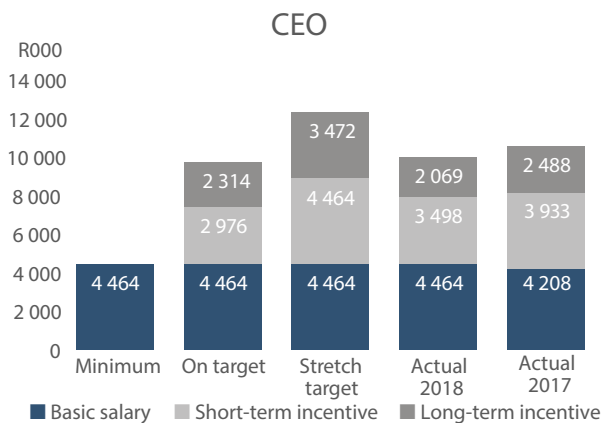
Remuneration report continued

Value of vested LTI

	June 2018		June 2017
	R000	% decrease	R000
Total value of LTI vested	10 284	(17,0)	12 397
LTI paid to executive directors	3 184	(17,5)	3 859
LTI paid to executives and senior management	7 100	(16,8)	8 538

Total compensation ratios

The outcome on the total compensation for executive directors and management, by applying the remuneration policy, confirms that the remuneration ratio STIs and LTIs ensure a balance between the short- and longer-term business objectives of the company.



Total compensation paid to executive directors

	June 2018 R000	2018/2017 movement %	June 2017 R000
LR Cohen			
Basic salary	2 362		2 221
Pension fund contributions	410		386
Performance bonus paid in December	1 759		2 060
Conditional unit plan	1 115		1 371
Other benefits	28		26
Company contribution UIF and SDL	55		59
Total cost to company	5 729	(6)	6 122
PG Prinsloo			
Basic salary	4 153		3 906
Pension fund contributions	196		184
Performance bonus paid in December	3 498		3 933
Conditional unit plan	2 069		2 488
Other benefits	16		13
Company contribution UIF and SDL	99		105
Total cost to company	10 031	(6)	10 629
Total	15 760	(6)	16 752

Remuneration report continued

Disclosure of the CUP for executive directors

	Shares issued	Date issued	Vesting date	Vested shares	Performance condition met %	Vesting price	Forfeit	Unvested shares
P Prinsloo								
Performance shares	20 153	01/01/2014	01/01/2017	20 153	100	123.46		
Retention shares	8 637	01/01/2014	01/01/2019					8 637
Performance shares	21 845	01/07/2014	01/07/2017	19 529	89,4	105.99	2 316	
Retention shares	9 362	01/07/2014	01/07/2019					9 362
Performance shares	15 794	01/07/2015	01/07/2018					15 794
Retention shares	6 769	01/07/2015	01/07/2020					6 769
Performance shares	16 147	01/07/2016	01/07/2019					16 147
Retention shares	6 920	01/07/2016	01/07/2021					6 920
Performance shares	17 091	01/07/2017	01/07/2020					17 091
Retention shares	7 325	01/07/2017	01/07/2022					7 325
Total	130 043			39 682			2 316	88 045
LR Cohen								
Performance shares	11 105	01/01/2014	01/01/2017	11 105	100	123.46		
Performance shares	11 769	01/07/2014	01/07/2017	10 522	89,4	105.99	1 248	
Total	22 874			21 627			1 248	

Non-executive directors' remuneration

	June 2018 R000	June 2017 R000
Independent non-executive		
Ethan Dube ⁽¹⁾ (paid to Vunani Capital Proprietary Limited)	2 961	2 652
Lindie Engelbrecht	543	541
Gavin Tipper	688	636
Mike Lewin	392	364
Thabo Mokgatlha	462	432
Stewart Shaw-Taylor	551	489
Nonyameko Mandindi ⁽²⁾	325	47
Non-executive	686	658
Kevin Ellerine	343	329
Louis Norval	343	329

⁽¹⁾ Resigned from the board on 1 December 2016⁽²⁾ Joined the board on 8 May 2017

Non-executive directors' earnings benchmarking

During the year the remuneration and nomination committee obtained independent advice from PricewaterhouseCoopers (PwC) on remuneration benchmarks for non-executive directors. The information used in the benchmarking exercise was obtained from publicly disclosed information for the identified comparator groups.

Three comparative groups were provided by the external consultants based on market capitalisation and industry:

1. A size-based comparator group consisting of the 12 companies listed on the JSE that ranked closest to Hyprop based on market capitalisation.
2. An industry-based comparator group consisting of 10 REIT companies listed on the Johannesburg Stock Exchange (JSE) that ranked closest to Hyprop based on market capitalisation.
3. An industry-based comparator group consisting of five REIT companies listed on the JSE that ranked closest to Hyprop on market capitalisation.

The industry group consisting of five REIT companies was used as the primary comparator group as it was determined, based on external advice, as being most relevant to Hyprop, with the other two groups being used to sense check the results. In a limited number of cases and where appropriate, outlier numbers were eliminated from the comparator group figures (there were two cases where the fees paid by another REIT were substantially higher than those relevant to Hyprop).

Structural fee adjustments are proposed for the following non-executive director responsibilities in order to align them to the relevant benchmarks:

- The chairman
- The chair of the audit committee
- The chair of the remuneration and nomination committee
- The members of the remuneration and nomination committee
- The chair of the social and ethics committee
- The chair of the investment committee
- The members of the investment committee.

In all of the above cases, the current level of fees was substantially below the average and median benchmark tolerance bands. The proposed adjustments will result in the fees remaining below the average or median benchmarks but falling within the tolerance bands. For the balance of non-executive director responsibilities the proposed fee adjustments are referenced to CPI.

The members of the investment committee have historically been paid solely on the basis of meetings attended. It is proposed that the fee basis is changed to an annual fee in line with the other committees but is set at a conservative level relative to the external benchmarks.

Non-executive directors' fees are benchmarked externally every second year with CPI adjustments in alternate years.

Corporate governance

Our commitment to accountable and transparent governance is fundamental to the sustainability of our business.

In line with its charter, the board acts as the focal point for, and custodian of, corporate governance by conducting its relationships with management, shareholders and other stakeholders in a manner that is consistent with accepted corporate governance principles.

King IV

The board is committed to the promotion of good corporate governance as integral to running the organisation and delivering outcomes that include an ethical culture, good performance, effective control and legitimacy.

The board recognises the importance of the triple context in which the company operates (economy, society and the environment) and seeks to ensure that operations are conducted in a manner that takes account of the six capitals (financial, intellectual, manufactured, human, social and relationship, and natural).

Corporate governance is approached with a view to meeting the following objectives:

- Reinforcing corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner
- Encouraging transparent and meaningful reporting to stakeholders
- Presenting corporate governance reports with reference to structure and process, as well as ethical consciousness and conduct.

The board is committed to applying the relevant recommendations of King IV and complying with the JSE Listings Requirements and the Companies Act. The board ensures it acts in the best interest of the company at all times. In this report, the directors have made disclosures pertaining to the code in line with the principles of King IV.

Key practices to ensure the achievement of good corporate governance include:

- Ensuring the board fulfils its responsibilities in accordance with the board charter, which is reviewed annually
- The board meets at least four times a year, with additional special meetings scheduled on an *ad hoc* basis as and when required
- The board has unrestricted access to all company information, records, documents and property
- The board and members of the board committees (audit and risk, remuneration and nomination, social and ethics) may take independent advice (at the company's expense) in the performance of their duties after following a process previously approved by the board.

Please view the full King IV principles application report online www.hyprop.co.za.

The Hyprop board

- The board evaluates and approves group strategy, assesses and considers group performance and measures executive management's performance against key performance deliverables.
- There is a clear division of responsibilities at board level, to ensure that no one director has unfettered powers of decision-making.
- The board is committed to the promotion of transformation and gender and racial diversity.
- Succession planning is in place to ensure that leadership structures are sustainable.
- The board oversees and provides guidance and advice on the group's financial, audit, governance and risk management controls.
- The board has responsibility for the remuneration process (specifically at senior level).
- The credentials of individual directors are presented to shareholders to enable them to assess both individual directors and the board as a collective.
- Real or perceived conflicts of interest are disclosed to the board and are managed appropriately.

Composition of the board

- In determining the optimal number of directors to serve on the board, the remuneration and nomination committee considers the knowledge, skills and experience of individuals. At present, the size of the board is considered appropriate, given Hyprop's scale and geographical diversification. This is reviewed periodically against the size of the company and its needs.
- At year-end, the board comprised 10 directors: six independent non-executives, two non-executives and two executives. The classification of directors is based on an annual assessment of their independence.
- At year-end, the board had two executive directors, namely the chief executive officer (CEO) and the financial director (FD).
- Diversity at board level receives regular consideration and the policies on gender and race diversity are available on our website www.hyprop.co.za.

The chairman of the board

- The chairman is an independent non-executive director, appointed in June 2013.
- He is not a former CEO.
- There is a formal description of the role of the chairperson: his role is separate from that of the CEO. He provides leadership and guidance to the board and encourages deliberations on all matters requiring directors' attention.
- Succession planning is in place for this role.

Non-executive directors

- Non-executive directors have diverse backgrounds in commerce and industry. Their collective experience enables them to provide sound, objective judgement in decision-making.
- At least one-third of directors retire by rotation every year, in line with the JSE Listings Requirements and Hyprop's Memorandum of Incorporation (MOI).
- A directors' code of conduct is addressed in the board charter.
- Independent non-executive directors serving for more than nine years are subject to an annual review process by the board to ensure their continued independence.
- The independence of non-executive directors is evaluated by the board annually.
- Directors' and officers' liability insurance is provided by the company.

Director development

- Directors have access to independent experts and other advisers for assistance in carrying out their duties if required (and after following a previously approved process).
- The board ensures that inexperienced directors are developed through mentorship programmes.
- Continuing professional development programmes are implemented as required.
- Directors are encouraged to further their professional development in their personal capacity.
- The board ensures that directors are regularly briefed on changes in risks, laws and the business environment.
- A formal induction programme is in place for new directors. This includes a briefing by the chairman, CEO, FD and Hyprop's JSE sponsor. New directors are introduced to key senior management at company and shopping centre levels, and site visits to shopping centres are facilitated.

Dealing in securities

- The board complies with the Financial Markets Act and JSE Listings Requirements applicable to trading in Hyprop's shares by directors, the company secretary, their associates and affected employees in closed periods (as defined).
- In conjunction with the FD and the JSE sponsor, the board ensures that trading in Hyprop shares by these individuals is disclosed on SENS.
- In line with company policy, directors and senior employees with access to Hyprop's financial results and other price-sensitive information are prohibited from dealing in the company's shares for specified periods before relevant announcements are released on SENS.
- All directors, employees and affected parties are notified before the company enters a closed period.

Conflicts of interest

- As per the code of conduct, directors must declare to the chairman and company secretary their shareholdings, additional directorships and any potential conflicts of interest.

Corporate governance continued

Company secretary

- CIS Company Secretaries Proprietary Limited is an independent practice providing company secretarial services to numerous JSE-listed companies.
- The board is satisfied that the company secretary and its representative, Gillian Prestwich, are sufficiently qualified and skilled to act in accordance with, and advise directors on, the recommendations of King IV, the Companies Act and other relevant legislation and regulations.
- The board reviews the relationship between the company secretary and itself as well as its committees annually.
- The board has determined that the company secretary is independent of management and does not take on any management or executive duties.
- The company secretary is not a director of Hyprop, nor a material shareholder in the company or any subsidiary, and has no major contractual relationship with the company or any director. Accordingly, the board is satisfied that the company secretary maintained an arm's-length relationship with all directors during the year under review.

Functions of the company secretary

The functions of the company secretary include:

- Guiding directors, collectively and individually, on their duties, responsibilities and powers.
- Providing information on legislation, regulation and relevant matters of ethics and good corporate governance.
- Recording the minutes of meetings, maintaining attendance registers, resolutions and directors' declarations of personal and financial interests, and records of all notices and circulars issued by the company.
- Preparing the notice of the annual general meeting.
- Filing annual and other statutory returns with the Companies and Intellectual Property Commission (CIPC) in terms of the Companies Act.

Board appointment process

- The board, supported by the remuneration and nomination committee, is responsible for the appointment of executive and non-executive directors.
- Identification and selection of candidates is conducted in a formal and transparent manner. The remuneration and nomination committee considers the blend of skills and experience that is required to drive the company's strategic and operational objectives and transformation goals.
- The appointment of new directors is confirmed by shareholders at the first annual general meeting following their appointment.

Rotation of directors

- As required by the JSE Listings Requirements, the company's MOI provides for one-third of the non-executive directors to retire by rotation after a three-year term. If eligible and available, these directors offer themselves for re-election.
- Directors who have been appointed to fill a casual vacancy during the year, retire at the next AGM, when they may make themselves available for re-election.

Succession planning

- The remuneration and nomination committee is responsible for ensuring that adequate succession planning is in place for directors and senior management, and that all committees are appropriately constituted and chaired. The board is satisfied that the depth of skills among current directors meets succession requirements. Succession planning at management level is actively monitored by executive management and communicated to the board.

Performance self-assessment

- The board is satisfied that all independent non-executive directors continue to meet the criteria for independence as defined by King IV.
- Board effectiveness is evaluated annually through an online questionnaire assessment. Results are reviewed by the chairman and any identified issues are discussed with the board and addressed as appropriate. The board and the committees were evaluated in July 2018.

Access to information

- Directors have unrestricted access to company records, information, documents, property and the company secretary. Non-executive directors have full access to the external and internal auditors, and to management. All directors are entitled, at Hyprop's expense, to take independent advice on any matters concerning the affairs of the company (in terms of an approved procedure).

Technology and information governance

The board, through the audit and risk committee, is responsible for governing relevant information and technology risks:

- Information and technology governance is an integral part of the company's approach to governance. Executive management is tasked with managing IT risks, with oversight from the audit and risk committee.
- The board is mindful of the importance of safeguarding company information and intellectual capital, and ensures that appropriate technology architecture is maintained to protect information.

- A governance framework supports effective management of IT resources and facilitates achieving the company's strategic objectives.
- The board reviews opportunities for improved efficiencies and value that technology can add to the business. Equally, it is conscious of risks that may affect the security of classified information and intellectual capital.
- The human resources executive is responsible for IT and has the appropriate levels of knowledge and experience. She interacts regularly with the audit and risk committee and executive management on IT governance matters.

Access to the board

- Shareholders can provide recommendations to the board at the annual general meeting, at one-on-one meetings and investor presentations, and through investor polls.

Board committees

- The board is satisfied that all board committees fulfilled their responsibilities during the year, in terms of their approved charters. Each committee's performance is reviewed annually.
- The need for additional and/or ad hoc committees is evaluated regularly. Hyprop's remuneration and nomination committees are combined. Discussions on nomination matters are led by the board chairman.
- Hyprop's audit and risk committees are combined.
- The chairs of the committees provide feedback to the board on a regular basis. In addition, the chairman of the board and committee chairs attend Hyprop's annual general meeting to answer questions from shareholders.

Board committee members

Audit and risk	Social and ethics	Investment	Remuneration and nomination
Lindie Engelbrecht (chair) ⁽¹⁾	Mike Lewin (chair) ⁽¹⁾	Pieter Prinsloo (chair)	Stewart Shaw-Taylor (chair ⁽¹⁾ , remuneration matters)
Gavin Tipper	Pieter Prinsloo	Stewart Shaw-Taylor	Gavin Tipper (chair ⁽¹⁾ , nomination matters)
Thabo Mokgatlha	Laurence Cohen		Lindie Engelbrecht
Stewart Shaw-Taylor	Nonyameko Mandindi	Louis Norval	
Zuleka Jasper		Kevin Ellerine	
		Gavin Tipper	
By invitation	By invitation	By invitation	By invitation
CEO	Financial managers	Investments director	CEO
FD	Legal executive	FD	FD
Financial managers	Developments executive		Human resources executive
External auditor	Human resources executive		
Internal auditor	Chairman		
Legal executive			
Human resources executive			
In attendance	In attendance	In attendance	In attendance
Company secretary	Company secretary	Company secretary	Company secretary

⁽¹⁾ The chairs of these committees are all independent non-executive directors

The committee charters are available to view online www.hyprop.co.za.

Corporate governance continued

The audit and risk committee

The committee:

- Comprises four members, all of whom are independent non-executive directors. Members are appointed by the shareholders of the company at each annual general meeting, on the recommendation by the board
- Chair is an independent non-executive director, whose appointment has been recommended by the board
- Ensures that Hyprop has established appropriate financial reporting procedures and that these are operating effectively
- Oversees cooperation between external and internal audit to avoid overlapping of audit scope
- Approves the external auditor's terms of engagement and remuneration
- Recommends to shareholders the appointment, reappointment and removal of the external auditor
- With regards to audit matters, has an independent role, operating as an overseer and makes recommendations to the board for its consideration and final approval
- Is accountable to both the board and shareholders
- Does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management
- Adopts and implements an appropriate risk management policy which, as a minimum, is in accordance with industry practice
- Monitors the process of assessment and management of risks, supporting sustainable value creation for the company on behalf of the board. The board's responsibility for risk governance is expressed in its charter as well as in the risk policy and plan
- Is responsible for ensuring that risks are managed in line with the company's level of risk tolerance, which is determined by the board on an annual basis
- Regularly reviews the risk matrix, prepared by the CEO, in conjunction with the FD and financial manager
- Ensures that the risk assessment process addresses risks affecting Hyprop's various income streams, critical dependencies, sustainability, and the legitimate interests and expectations of stakeholders
- Has oversight of the integrity of the annual financial statements (including subsidiaries) and, to the extent delegated by the board, other external reports issued by Hyprop
- Exercises oversight of governance of information and technology systems
- Confirms that it is satisfied that it has fulfilled its responsibilities as per the terms of its charter.

The following specific matters were considered by the audit and risk committee:

Going concern

The committee confirmed the going concern assumption as the basis of preparation of the consolidated financial statements having reviewed the solvency and liquidity tests undertaken for distributions at interim and year-end and has reported on going concern to the board.

External auditor

The committee has considered a report, containing the information detailed in paragraph 22.15(h) of the JSE Listings Requirements, received from KPMG motivating its independence and is satisfied with the independence of the external auditor and with the terms, nature, scope and proposed fee of the external auditor for the year ended 30 June 2018. The committee further confirms the suitability for appointment of KPMG, is in accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements.

Internal control and combined assurance framework

The committee reviews the reports of both the internal and external auditor, with respect to the group's internal control environment taking note of significant issues raised and the subsequent remedial responses thereto to satisfy themselves that the group's internal controls continue to operate effectively.

The committee reviewed the group's policies on risk assessment and regularly monitors the combined assurance dashboard and risk matrix covering both operational and financial reporting matters and provides feedback and recommendations on actions to mitigate the identified risks.

The committee approved the appointment of KPMG Services to provide limited assurance for selected sustainability development indicators. In addition the committee relies on management, the external auditor, internal audit as well as the group's independent ethics reporting telephone line to highlight any concerns, complaints or allegations relating to internal financial controls, the content of the financial statements and potential violations of the law or questionable accounting or auditing practices. Separate meetings are also held with management, the external auditor and the internal auditor every quarter unless a greater frequency is requested.

Financial director and finance function

The company's financial director (FD), Laurence Cohen resigned effective 31 July 2018. The committee confirms that it is satisfied with Laurence's experience and expertise during the year under review. Brett Till was appointed as FD effective 1 October 2018.

The consolidated financial statements have been audited in compliance with section 30 of the Companies Act of South Africa. Vasti Booysen CA(SA), financial manager is responsible for this set of financial statements and was supervised by Pieter Prinsloo in his capacity as CEO.

The consolidated financial statements are reviewed by management, the committee and the board, and are audited by the external auditor of the group. The committee is satisfied with the consolidated financial statements and the accounting policies used in their preparation, and has recommended the consolidated financial statements to the board for approval.

The committee is further satisfied that the company has established appropriate financial reporting procedures and that these procedures are operating effectively, as required by paragraph 3.84(g)(ii) of the JSE Listings Requirements.

The following is a description of the key accounting matters considered by the committee.

Key issue	Judgements in financial reporting	Audit and risk committee review	Conclusion
<p>Classification and valuation of investment in Hystead Limited (Hystead)</p>	<p>Judgements are applied by management in interpreting the IFRS implications of the suite of agreements in place to determine the appropriateness of the classification as a financial asset.</p> <p>Estimations and judgements were also applied in the determination of future cash flows, appropriate discount and exit cap rates and the application of annual and terminal growth rates.</p> <p>Having determined the valuation of the Hystead financial asset, judgement was further applied to the determination of the portion of that valuation that would be deferred as a day-one gain.</p>	<p>The committee reviewed the prior year treatment of Hystead and assessed the appropriateness of the accounting classification.</p> <p>The committee received briefings on the consistency of the valuation methodology and deferral of day-one gains and the expanded disclosure of these two elements in the 2018 financial statements.</p>	<p>Having considered management's views on the classification and measurement of the investment in Hystead, the committee concluded that the classification as a financial asset remained appropriate and the valuation was sound.</p>
<p>Sub-Saharan Africa loan recoverability</p>	<p>Judgements and assumptions were applied by management in calculating the recoverable amount of the loans extended to AttAfrica and Manda Hill particularly with respect to:</p> <ul style="list-style-type: none"> ■ determining the cash-generating units (CGU) and the ongoing appropriateness of the CGUs being used for the purpose of impairment testing ■ assumptions on future pricing, net cash inflows and discount rates. 	<p>The committee assessed the appropriateness of the CGUs and reviewed the impairment triggers.</p> <p>In considering the need for an impairment of the loans the committee considered the following:</p> <ul style="list-style-type: none"> ■ the long-term nature of the underlying investment ■ the remaining period of the loans and the probability of their extension upon maturity ■ that the negative net asset value included deferred tax liabilities on the revaluation of investment properties that Hyprop believed would not realise on the sale of shares in the SPVs ■ that Kumasi Mall (Ghana) recently opened in April 2017 and we expected further growth in the upcoming years. 	<p>The committee agreed with management's final impairment level taking a conservative view on the potential uplift in net asset value.</p>
<p>Classification and valuation of financial guarantees</p>	<p>Management applied judgement in determining the impact of financial guarantees extended in the South-Eastern Europe portfolio on the value of the financial asset recognised in respect of the Hystead investment.</p> <p>Management further sought external valuations for the financial guarantees.</p>	<p>The committee was briefed on the external valuations which supported the accounting entries and reviewed the adequacy of the disclosures relating to financial guarantees as well as the interaction of the financial guarantees on the financial asset valuation.</p>	<p>The committee agreed with management's classification and valuation of the financial guarantees.</p>

Corporate governance continued

The remuneration and nomination committee

- The committee comprises three members, all of whom are independent non-executive directors, and is chaired by an independent non-executive director
- Members are nominated by the board
- Reviews and recommends to the board the company's remuneration philosophy and policies for directors and employees
- Oversees implementation of the remuneration policy on behalf of the board
- Ensures that the remuneration strategy promotes the delivery of Hyprop's strategic objectives, encourages individual performance, rewards sustainable value creation, is comparable to the sectoral remuneration environment, and complies with relevant principles of good governance
- Ensures that stakeholders can make informed assessments of reward practices and governance processes
- Ensures that salary structures and policies motivate employees to deliver on company strategies and goals, and are linked to realistic performance objectives that support sustainable long-term growth
- Considers whether the objectives of the remuneration policy have been achieved
- Ensures that the ratio of fixed and variable pay – in cash, benefits and shares – is aligned with the achievement of the company's strategic objectives
- Reviews the effectiveness of performance measures that govern vesting of incentives
- Ensures that all benefits, including retirement benefits and other financial arrangements, are justifiable and correctly valued
- Selects an appropriate peer group when comparing remuneration levels
- Considers the performance of the CEO and FD, when determining their remuneration
- Addresses the remuneration of non-executive directors, executive directors, executive management (including prescribed officers) and other employees

- Oversees preparation of the remuneration report in the integrated annual report, to ensure it is accurate, complete and transparent, and clearly explains how the remuneration policy has been implemented.

The social and ethics committee

- The committee comprises four members, two independent non-executive directors and two executive directors.
- The committee is chaired by an independent non-executive director, who has been appointed by the board.
- Given the nature and size of Hyprop's operations, the current composition is appropriate. The committee is satisfied that it fulfilled its responsibilities in line with its charter.

The committee monitors the group's activities in terms of social, environmental and economic development, including:

- **Good corporate citizenship** – promoting ethical leadership, integrity and anticorruption, sustainability and value creation, equality, preventing discrimination and contributing to the development of the communities in which its activities are predominantly conducted
- **Environmental impact** – as a landlord, Hyprop has a low environmental impact, and aims to reduce this further in its daily operations. The committee reviews the environmental policy biannually and reports to the board on it
- **Stakeholder relations** – ensuring that all communications to stakeholders are transparent
- **Human capital** – labour and employment, education and skills development
- **Transformation** – broad-based black economic empowerment and employment equity.

The committee monitors compliance with Hyprop's code of conduct and ethics and other relevant social, ethical and legal requirements, as well as best practice. It reports to shareholders on matters in its mandate at the annual general meeting.

Attendance at board and committee meetings for the period 1 July 2017 to 30 June 2018 is shown below.

	Board	Audit and risk	Remuneration and nomination	Social and ethics	Investment
Independent non-executive directors					
Gavin Tipper (board chairman) ⁽¹⁾	6/6	6/6	2/2	2/2 ⁽⁶⁾	
Thabo Mokgatla	6/6	6/6			
Nonyameko Mandindi	4/6				
Lindie Engelbrecht ⁽²⁾	6/6	6/6	2/2		
Mike Lewin ⁽³⁾	6/6			2/2	
Stewart Shaw-Taylor ⁽⁴⁾	5/6	6/6	2/2		
Non-executive directors					
Kevin Ellerine	6/6				2/2
Louis Norval	6/6				2/2
Executive directors					
Pieter Prinsloo (CEO) ⁽⁵⁾	6/6	6/6	2/2	2/2	2/2
Laurence Cohen (FD) ⁽⁷⁾	6/6	6/6	1/2	2/2	2/2 ⁽⁶⁾

⁽¹⁾ Chair nomination committee ⁽²⁾ Chair audit and risk committee ⁽³⁾ Chair social and ethics committee ⁽⁴⁾ Chair remuneration committee

⁽⁵⁾ Chair investment committee ⁽⁶⁾ By invitation ⁽⁷⁾ Resigned effective 31 July 2018

The investment committee

- The committee comprises six members: two executive directors, two non-executive directors and two independent non-executive directors.
- The role of the committee is to:
 - Assist the board in considering investment opportunities in respect of properties, listed securities and other corporate actions
 - Approve acquisitions, disposals and capital expenditure in line with the limits of authority delegated to it and in line with the strategy determined by the board
 - Review the investment strategy
 - Set criteria and targets for investment
 - Approve proposals for developments, acquisitions and sales of properties
 - Periodically review due diligence processes for acquisitions
 - Approve equity and other strategic investments
 - Review market valuations by external valuers
 - Annually review the performance of the property portfolio
 - Make recommendations to the board for approval.

The investment committee meets as and when required.

Compliance with laws, rules, codes and standards

- The board monitors the company's compliance with applicable legislation, regulations, codes and standards.
- The board has discharged its responsibility to ensure an effective compliance framework by:
 - Establishing appropriate structures, including training programmes, stakeholder communication channels and compliance measurement systems
 - Tasking compliance to the legal executive, and human resources executives, supported by the company's sponsor and the company secretary
 - Highlighting areas of non-compliance, through the risk management process, supervised by the audit and risk committee
 - Periodically discussing the long-awaited property sector charter, particularly as regards transformation and related issues.

External advisers to board committees

The board committees use the services of independent external advisers as required, as and when required.

Board and committee meetings

The board meets at least four times a year, with *ad hoc* meetings as required. Notice of meetings and documentation is provided to directors timeously, allowing them to prepare for meetings and ensuring that they can make informed decisions.

Relevant legislation/regulations

As Hyprop is a listed REIT, it is required to comply with the JSE Listings Requirements and rules specific to REITs in South Africa, along with country-specific legislation and standards:

- Basic Conditions of Employment Act 75 of 1997
- Broad-Based Black Economic Empowerment Act 53 2003
- Companies Act 71 of 2008 (and Companies Regulations of 2011)
- Compensation for Occupational Injuries and Disease Act 130 of 1993
- Competition Act 89 of 1998
- Constitution of the Republic of South Africa 108 of 1996
- Consumer Protection Act 68 of 2008
- Electronic Communication Act 36 of 2002
- Employment Equity Act 55 of 1998
- Financial Intelligence Centre Act 38 of 2001
- Financial Markets Act 19 of 2012
- Income Tax Act 58 of 1962
- King IV Report on Corporate Governance for South Africa 2016
- Labour Relations Act 66 of 1995
- National Environmental Management Act 107 of 1998
- Occupational Health and Safety Act 85 of 1993
- Promotion of Access to Information Act 2 of 2000
- Amended Property Sector Code
- Protected Disclosures Act 2C of 2000
- Securities Services Act 36 of 2004
- Skills Development Act 97 of 1998
- Tobacco Products Control Act 83 of 1993
- Unemployment Insurance Act 63 of 2001
- Value Added Tax Act 89 of 1991.

There were no material non-compliance issues identified/ reported during the year.

Anticompetitive behaviour

During the period under review, Hyprop has not been party to anticompetitive behaviour or monopoly practices.

Documents available online

The following documents are available to view online www.hyprop.co.za:

- Board charter
- Audit and risk committee charter
- Investment committee charter
- Remuneration and nomination committee charter
- Social and ethics committee charter
- Code of conduct and company policy
- Employment equity policy and plan
- Memorandum of Incorporation
- Board gender diversity policy
- Board race diversity policy
- Remuneration policy.



Hyde Park Corner, Gauteng





VALUE ADDED STATEMENT AND FIVE-YEAR REVIEW

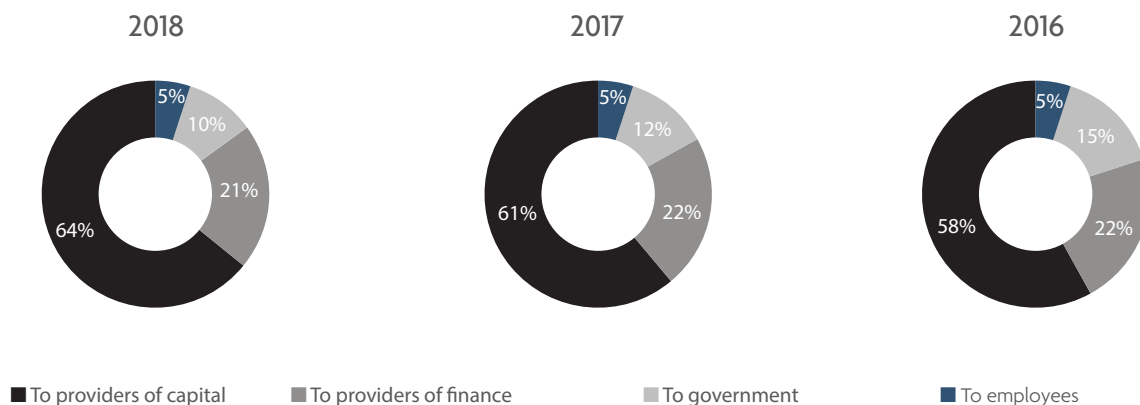


Value added statement

Value added is a measure of the wealth created by the group and its employees through its business activities. The table below sets out the value added and how it was shared.

	June 2018 Rm		June 2017 Rm		June 2016 Rm	
Income from:	2 971		2 838		2 658	
South Africa property portfolio	2 705		2 679		2 549	
Sub-Saharan Africa	78		57		84	
South-Eastern Europe	188		102		25	
Other income	47		37		7	
Fund management expenses	(65)		(67)		(64)	
Antecedent dividend					17	
Total value created	2 953		2 808		2 618	
Value distribution	Rm	% of total	Rm	% of total	Rm	% of total
To employees						
Remuneration and benefits	158	5,4	144	5,1	128	4,9
To providers of finance						
Net finance costs	281	9,5	321	11,5	394	15,1
To government						
Municipal charges	609	20,6	618	22,0	574	21,9
To providers of capital						
Distribution to shareholders	1 905	64,5	1 725	61,4	1 522	58,1
Total value distributed	2 953		2 808		2 618	

Value added statement



Five-year review

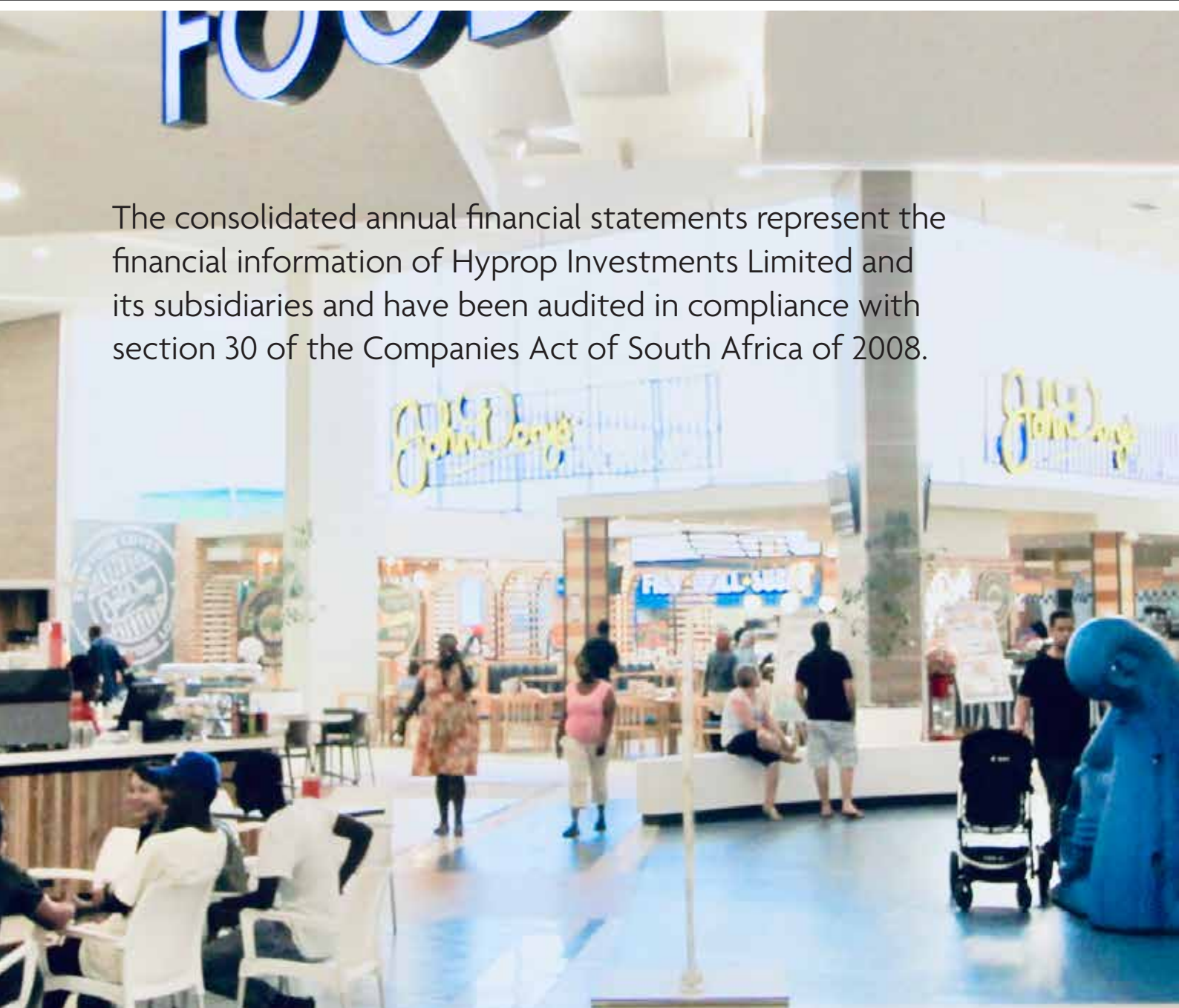
at 30 June

	June 2018 R000	June 2017 R000	June 2016 R000	June 2015 R000	June 2014 R000
Revenue	3 113 713	3 167 649	3 078 221	2 703 034	2 514 779
Investment property income	3 117 560	3 128 062	2 976 420	2 642 949	2 432 459
Straight-line rental income accrual	(3 847)	39 587	101 801	60 085	45 055
Listed property securities income					37 265
Property expenses	(1 049 892)	(1 073 877)	(993 861)	(887 918)	(837 822)
Net property income	2 063 821	2 093 772	2 084 360	1 815 116	1 676 957
Other operating expenses	(55 778)	(78 232)	(76 593)	(64 611)	(82 480)
Net interest	(282 273)	(336 502)	(366 176)	(351 647)	(394 721)
Received	312 550	294 177	323 759	157 344	65 645
Paid	(594 823)	(630 679)	(689 935)	(508 991)	(460 366)
Net operating income	1 725 770	1 679 038	1 641 591	1 398 858	1 199 756
Change in fair value	767 052	973 270	1 227 151	2 426 584	1 532 852
Investment property	646 359	1 181 786	1 382 134	2 467 113	1 655 897
Straight-line rental income accrual	3 847	(39 587)	(101 801)	(60 085)	(45 055)
Financial guarantee	87 761	(163 855)			
Listed property securities (on disposal)					(82 266)
Derivative instruments	29 085	(5 074)	(53 182)	19 556	4 276
Profit/(loss) on disposal	2 697	(526)		(5 768)	190 760
Investment in subsidiary		(2 557)		(30 011)	
Investment property	2 697	2 031		24 243	4 460
Listed property securities					168 869
Associate					17 431
Amortisation of debenture premium					102 806
Derecognition of financial guarantee	11 984				
Impairment of shareholder loan	(166 441)	(25 377)			
(Impairment)/reversal of impairment of joint venture	(10 102)	10 102	(10 102)		
Impairment of goodwill		(18 134)		(4 280)	(7 779)
Gain on bargain purchase (African Land)					102 895
Dividends received	182 778	146 350			
Other income	46 672	36 931			
Income before debenture interest	2 560 410	2 801 654	2 858 640	3 815 395	2 915 589
Debenture interest					(1 147 443)
Net income before equity-accounted investments	2 560 410	2 801 654	2 858 640	3 798 599	1 973 847
Share of loss from joint ventures		(50 380)	(41 007)	(17 447)	
Share of income from associate			457	652	462
Profit before taxation	2 560 410	2 751 274	2 818 090	3 798 599	1 974 309
Taxation	(39 486)	(4 340)	(50 930)	(19 023)	(17 719)
Profit for the year	2 520 924	2 746 934	2 767 160	3 779 576	1 956 590
Non-controlling interest	8 543	20 718	(16 313)		(8 103)
Total profit for the year attributable to shareholders (2014: unitholders) of the company	2 529 467	2 767 652	2 750 847	3 779 576	1 948 487
Investment property at fair value ⁽¹⁾	30 849 201	29 825 333	28 822 197	25 000 630	22 230 404
Distribution per share (2014: combined unit) (cents)	757	695	620	543	472

⁽¹⁾ Excludes investment property held-for-sale



Somerset Mall, Western Cape



The consolidated annual financial statements represent the financial information of Hyprop Investments Limited and its subsidiaries and have been audited in compliance with section 30 of the Companies Act of South Africa of 2008.



CONSOLIDATED ANNUAL FINANCIAL STATEMENTS



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Approval of the consolidated annual financial statements

for the year ended 30 June 2018

The consolidated annual financial statements are the responsibility of the directors. They are responsible for selecting and adopting sound accounting practices, for maintaining an adequate and effective system of accounting records, for safeguarding assets and for developing and maintaining a system of internal control that, among other objectives, will ensure that the preparation of the consolidated annual financial statements achieves fair presentation. The consolidated annual financial statements set out in this report have been prepared by the directors in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa. They are based on appropriate accounting policies that have been consistently applied and are supported by reasonable and prudent judgements and estimates. In addition, the directors are responsible for preparing the directors' report.

The consolidated annual financial statements have been prepared on the going concern basis as the directors have reason to believe that the company, and its subsidiaries, have adequate resources to continue operations for the foreseeable future.

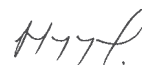
The external auditor is responsible for independently auditing and reporting on the consolidated annual financial statements in conformity with the applicable financial reporting framework. The report is set out on pages 103 to 176.

The consolidated annual financial statements were prepared by Vasti Booysen CA(SA), supervised by Pieter Prinsloo in his capacity as CEO.

The consolidated annual financial statements were approved by the board and are signed on its behalf by:



Pieter Prinsloo
Chief executive officer



Gavin Tipper
Chairman

Johannesburg

31 August 2018

Declaration of the company secretary

for the year ended 30 June 2018

We declare that, to the best of our knowledge, the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the South African Companies Act 71 of 2008, as amended, and that all such returns are true, correct and up to date.



CIS Company Secretaries Proprietary Limited

Gillian Prestwich
Company secretary

Johannesburg

31 August 2018

Report of the audit and risk committee

for the year ended 30 June 2018

The audit and risk committee has pleasure in submitting its report, as required by section 94(7)(f) of the Companies Act, for the period under review.

The committee is governed by a formal charter that codifies its role and responsibilities, including the responsibility for reviewing accounting, auditing and financial reporting matters. The committee reviews adherence to Hyprop's systems of internal controls and, where necessary, monitors improvements.

Members

All members of the audit and risk committee are independent non-executive directors, in compliance with the South African Companies Act and as recommended by King IV. The external and internal auditors and executive management are invited to attend every meeting of the committee.

Gavin Tipper's dual role as chairman of the board of directors and member of the audit and risk committee, is specifically approved by shareholders at the annual general meeting of the company.

Functions

During the period, the audit and risk committee:

- Considered any proposed changes to accounting policies
- Advised the board on any accounting implications of major transactions
- Reviewed the scope of work and reports of the internal audit function
- Recommended the appointment of external auditors for approval by shareholders
- Established guidelines for recommending the use of external auditors for non-audit services, to maintain independence
- Monitored compliance with REIT requirements, in accordance with the JSE Listings Requirements and confirmed that the risk management policy, which prohibits the company from entering into derivative transactions not in the ordinary course of business, has been complied with in all material respects
- Considered the JSE proactive monitoring process in respect of IFRS compliant consolidated financial statements.

The audit and risk committee is satisfied:

- With the independence of the external auditor, KPMG Inc., after considering the report to the audit committee motivating its independence
- With the terms, nature, scope and proposed fee of the external auditor for the year ended 30 June 2018
- With the consolidated financial statements and accounting practices used in their preparation of, and has recommended the consolidated financial statements, to the board for approval
- With the group's continuing viability as a going concern, which it has reported on to the board for the board's deliberation
- That the company's financial manager, Vasti Booysen CA(SA), has the necessary expertise and experience to carry out her duties, as required by paragraph 3.84(g)(i) of the JSE Listings Requirements
- That the company has established appropriate financial reporting procedures and that these procedures are operating effectively, as required by paragraph 3.84(g)(ii) of the JSE Listings Requirements.

Concerns and complaints received from within or outside the group relating to accounting practices and internal financial controls, and the content or auditing of the consolidated financial statements, were considered by the audit and risk committee and dealt with as appropriate.

Further detail on the audit and risk committee's consideration of key issues, going concern, internal and external auditors can be found on page 90.



Lindie Engelbrecht
Audit and risk committee chair

31 August 2018

Directors' report

for the year ended 30 June

The directors have pleasure in submitting their report, which forms part of the consolidated financial statements, for the year ended 30 June 2018.

Responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated financial statements of Hyprop, comprising the consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, as well as the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and financial pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa, and the directors' report.

The directors are also responsible for such internal control as the directors determine necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

Introduction

Hyprop is a specialist shopping centre REIT and operates a portfolio of shopping centres in South Africa (SA), sub-Saharan Africa (excluding SA) and South-Eastern Europe.

Directors' interests

The interests of directors in the shares of the company at 30 June were:

	2018		2018	2017		2017
	Beneficial	Non-beneficial	Non-beneficial	Beneficial	Non-beneficial	Non-beneficial
	Direct	Indirect	Indirect	Direct	Indirect	Indirect
Non-executive						
Gavin Tipper	4 000			4 000		
Louis Norval			3 447 855			3 500 000
Stewart Shaw-Taylor	21 500			21 500		
Kevin Ellerin		378 000			378 000	
Nonyameko Mandindi		2 940			2 250	
Executive						
Pieter Prinsloo		344 724			325 202	
Laurence Cohen		181 777			171 259	
	25 500	907 441	3 447 855	25 500	876 711	3 500 000

There were no changes to the interests of the directors between year-end and the date of approval of these consolidated financial statements.

The portfolio in South Africa includes super regional centre Canal Walk, large regional centres Clearwater, The Glen, Woodlands, CapeGate, Somerset and Rosebank Mall, regional centre, Hyde Park Corner, and value centre Atterbury Value Mart.

The sub-Saharan African portfolio (excluding SA) includes interests in Accra Mall, West Hills and Achimota Retail Centre (all in Accra, Ghana), Kumasi City Mall in Kumasi, Ghana, Manda Hill Centre in Lusaka, Zambia and Ikeja City Mall in Lagos, Nigeria.

Hyprop's investments in South-Eastern Europe, held via a 60% interest in UK-based Hystead Limited (Hystead), include Delta City Belgrade, Serbia, Delta City Podgorica, Montenegro, Skopje City Mall in Skopje, Macedonia, The Mall in Sofia, Bulgaria (acquired October 2017) and a 90% interest in City Center One Zagreb East and City Center One Zagreb West, both in Zagreb, Croatia (acquired in April 2018).

Strategy

Hyprop's strategy is to own dominant, quality shopping centres, where such assets can be acquired, or developed at attractive yields. Due to limited acquisition opportunities in South Africa, consideration is given to investments in other markets, where existing assets can be acquired at attractive yields and where attractive development opportunities exist.

Directors' report continued

for the year ended 30 June

Disposals

During the year, the following disposals were completed:

	Sale price	Transfer date
Willowbridge North	R225 million	September 2017
Greenstone – vacant land	R4,5 million	June 2018
Total	R229,5 million	

A conditional sale agreement has been concluded for the last remaining non-core property in the portfolio, Lakefield Office Park.

Capital structure

Hyprop is a REIT (Real Estate Investment Trust) in terms of the South African Income Tax Act (the Act) and in terms of the JSE Listings Requirements. In terms of section 25BB of the Act, the twice yearly dividend declared to Hyprop shareholders is deductible against Hyprop's taxable income. As a consequence of this deduction, South African income taxation is usually reduced to zero, and dividends received by South African Hyprop shareholders are received free of any South African income taxation at a Hyprop level.

Hyprop currently pays out 100% of distributable earnings as dividends to shareholders and therefore the company does not pay corporate income taxation. All other group entities pay in-country taxes as required. Refer to *note 1.21 – Taxation*.

Directorate

Laurence Cohen (FD) resigned from the board, effective 31 July 2018. Brett Till has been appointed as the FD and will commence employment on 1 October 2018.

Zuleka Jasper was appointed to the board as an independent non-executive director on 5 July 2018. On the same date, Wilhelm Nauta joined the board as an executive director.

The board thanks Laurence for his valuable contribution over the last 15 years and welcomes the new directors to the board.

Directors who served during the financial year are as follows:

GR Tipper ⁽¹⁾	MJ Lewin ⁽¹⁾
PG Prinsloo ⁽³⁾	L Norval ⁽²⁾
LR Cohen ⁽³⁾	S Shaw-Taylor ⁽¹⁾
KM Ellerine ⁽²⁾	TV Mokgatlha ⁽¹⁾
L Engelbrecht ⁽¹⁾	N Mandindi ⁽¹⁾

⁽¹⁾ Independent non-executive

⁽²⁾ Non-executive

⁽³⁾ Executive

Subsidiaries, joint arrangements and joint ventures

Disclosure of investments in subsidiaries, joint arrangements and joint ventures is included in notes 4 to 6 to the consolidated financial statements.

Administration and management

Property and asset management in Hyprop's South African operations are fully internalised. No property or asset management fees were paid in South Africa during the year.

Investments in sub-Saharan Africa (excluding South Africa)

Certain of the properties in the portfolio have been negatively affected by the economic conditions in recent years and are producing lower investment returns than originally anticipated and consequently the income to be received from those properties over the next few years will be lower than previously modelled. As at year-end the shareholder loans in AttAfrica and Manda Hill, which reflect Hyprop's share of the value of the underlying property investments at group level, have been impaired as appropriate.

Hyprop is investigating a reduction of its exposure to the investments in sub-Saharan Africa (excluding SA).

Investments in South-Eastern Europe

Hyprop's investments in South-Eastern Europe are held through a UK company, Hystead, in which Hyprop has a 60% interest. The portfolio consists of six high-quality, dominant shopping centres, located in five capital cities in South-Eastern Europe. In terms of the Hystead shareholder agreement (the shareholder agreement), Hyprop has joint control of Hystead.

The shareholder agreement also provides that, to the extent that Hystead receives distributions from its property investments, a contractual right by the Hystead shareholders have a contractual right to receive dividends from Hystead. This contractual right to receive dividends results in the investment in Hystead being accounted for as an investment in a financial asset (in terms of IFRS). Refer to *note 7 – Financial asset*.

Hystead acquired The Mall, Sofia in Bulgaria in October 2017 and City Center One East and City Center One West in Zagreb, Croatia in April 2018.

Funding in Hystead of EUR396 million has been provided through bank loans secured by shareholder guarantees, of which Hyprop's portion is EUR275 million. As per the shareholders' agreement, Hyprop guarantees 90% of the funding and PDI Investment Holdings Limited (PDI), Hystead's other shareholder, 10%. PDI provides further back-to-back guarantees to Hyprop for 11,7% of the total amount and for the remaining 18,3% of the PDI share that Hyprop guarantees. Hyprop receives 60% of the related PDI dividend as credit enhancement income. This agreement is in place until May 2021.

EUR234 million of the total funding in Hystead, provided by way of bridge loans, will be refinanced by October 2018 through three-year term loans, at an estimated average fixed interest rate of 2,10%. The balance of the funding comprises three-year term loans that expire in May 2020.

Audit and risk committee report

The audit and risk committee fulfilled its responsibilities during the year (refer to its report on page 102 for details). The committee satisfied itself as to the independence of the external auditor.

Auditor

KPMG Inc. was appointed as the external auditor in accordance with part C of section 90 of the Companies Act of South Africa. The external auditor's report to the shareholders on whether the consolidated financial statements are fairly presented in accordance with the applicable financial reporting framework follows on pages 106 to 110.

Directors' interest in contracts

No material contracts in which the directors have an interest were entered into during the year, other than those detailed in *note 33 – Related parties and related-party transactions*, to the consolidated financial statements.

Going concern

The directors are of the opinion that the group and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it was appropriate to adopt the going concern basis in preparing the consolidated financial statements.

The directors have satisfied themselves that the group and its subsidiaries are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

Trading statements

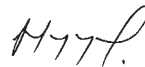
Hyprop uses dividend per share as the measure of financial results for trading statement purposes.

Approval of the consolidated financial statements

The consolidated financial statements of Hyprop Investments Limited, as identified in the first paragraph, were approved by the board of directors on 31 August 2018.

Company annual financial statements

The integrated report includes the audited consolidated financial statements. The audited financial statements of the company are available for review and inspection at the registered office of the company.



Gavin Tipper
Chairman

Johannesburg

31 August 2018



Pieter Prinsloo
Chief executive officer

Independent auditor's report to the shareholders of Hyprop Investments Limited

for the year ended 30 June

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hyprop Investments Limited (the group) set out on pages 111 to 176, which comprise the consolidated statement of financial position at 30 June 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement 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 financial statements present fairly, in all material respects, the consolidated financial position of Hyprop Investments Limited at 30 June 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with 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 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 matters

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. These matters were 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 these matters.

Valuation of investment property

Refer to the accounting policies in note 1.9, the key estimations and uncertainties in note 1.25 and note 2 to the financial statements

Key audit matter

The group's most significant asset is its investment property portfolio. Investment property is measured at fair value, with changes in fair value recognised in profit or loss.

The group used external valuers to value the investment properties. The valuation involves making significant judgements, particularly those around the current market conditions and rental levels.

The valuation also relies on the completeness and accuracy of the underlying lease and financial information provided to the valuers by management.

Due to the magnitude of the investment property portfolio held and the significance of the judgements made in measuring the investment property at fair value, this matter was considered to be a key audit matter.

How this matter was addressed in our audit

Our response to the key audit matter included performing the following audit procedures:

- We evaluated the competence, objectivity and integrity of the external valuers. This assessment included but was not limited to assessing their professional qualifications, experience and independence from the group
- Through discussions with the external valuers, we obtained an understanding of:
 - The valuation process adopted; and the significant assumptions used and critical judgement areas in the valuation process, including uncontracted revenue, vacancy profiles and capitalisation rates
- Based on this understanding, we evaluated the work of the external valuers by performing the following:
 - Compared the 2017 financial year forecast results for 2018 to actual 2018 results noting that forecasts were supported by actual results
- For properties where there was a significant change in value from prior year, the audit team with the assistance of our specialist, challenged the assumptions used by the external valuers and assessed information provided to the external valuers by management to value the properties. The procedures included but were not limited to the following:
 - Agreeing the forecast cash flows to the contracted revenue through inspection of the relevant underlying lease contract
 - Agreeing growth rates in the budgets to the escalation rates in the lease contracts
- Our corporate finance team evaluated the valuations of a sample of investment properties, and challenged the underlying inputs to the valuations
- We considered the adequacy and completeness of the disclosures associated with investment property valuation.

Independent auditor's report continued

for the year ended 30 June 2018

Classification and valuation of investment in Hystead Limited (Hystead)

Refer to the accounting policies in notes 1.7, 1.11.4 and 1.11.7, the key estimations and uncertainties in note 1.25, and to notes 2, 7 and 8 to the financial statements

Key audit matter	How this matter was addressed in our audit
<p>The group continues to grow its portfolio of investment properties in South-Eastern Europe, held through Hystead, a joint venture, and funded in Euro with credit enhancement provided mainly by Hyprop (referred to as the Hystead structure). During the year, Hystead acquired Manta (Croatia) and AP Retail (Bulgaria) and changes in the underlying funding structure that resulted in recognition of revised financial guarantees at fair value and a corresponding increase in the financial asset and subsequent fair value adjustment to profit and loss.</p> <p>The Hystead structure and the rights and obligations in the contracts underlying that structure are complex. The classification of the group's investment in Hystead as either an equity-accounted investment or a financial asset, and recognition of the credit enhancement as a financial guarantee, involves detailed analysis of Hyprop's contractual rights and obligations. Due to the changes in the structure, management re-evaluated whether the accounting treatment was still appropriate in the current year.</p> <p>The valuation of the right to receive dividends and deferral of that right, as well as the valuation of the financial guarantees, relies on the selection of the appropriate valuation models and management judgements about the inputs to those models.</p> <p>Due to the complexity of the Hystead structure and the significance of the judgements made in the related valuations, this matter was considered to be a key audit matter.</p>	<p>Our response to the key audit matter included performing the following audit procedures:</p> <ul style="list-style-type: none"> ■ Through inspection of the shareholders' agreement, funding agreements and other documents, as well as discussion with management, we gained an understanding of the transactions entered into in the prior year ■ We evaluated with assistance from our audit team members with specialised technical accounting skills, management's continued application of selected accounting policies in accordance with International Financial Reporting Standards, including: <ul style="list-style-type: none"> – classification of the investment as a financial asset – recognition of the right to receive dividends from that financial asset – recognition of the financial guarantees – deferral of unrealised gains – disclosure of the encumbered investment properties supporting the credit enhancement provided ■ We evaluated management's selection of the valuation model for the right to receive dividends and the financial guarantee, and the significant assumptions and judgements used in the valuation process, with assistance from our valuation specialists and their knowledge of the industry ■ We evaluated management's calculations of the change in the fair value of the financial asset and appropriate discount rates used ■ For a selection of key inputs to the valuation models, we compared the inputs used by management to available internal and external sources, and tested the accuracy of the internal inputs ■ We evaluated the adequacy of the disclosures about judgements made by management in relation to the investment in Hystead and the financial guarantee.

Recoverability of loan to AttAfrica Limited

Refer to the accounting policies in notes 1.7, 1.11.3 and 1.11.7, the key estimations and uncertainties in note 1.25 and to notes 6.1 and 10 to the financial statements

Key audit matter	How this matter was addressed in our audit
<p>The company's wholly owned subsidiary, Hyprop Mauritius Investments Limited (Hyprop MU), has an equity interest of 37,5% in AttAfrica Limited (AttAfrica) which is based in Mauritius. The interest is equity accounted in the group accounts. Hyprop MU has advanced a loan of USD185 million to AttAfrica which is governed by a shareholder loan agreement. The loan is interest-bearing and repayable at 30 June 2020. The loan is recognised as a loan receivable under IAS 39. Loans receivable are assessed for recoverability on an individual basis.</p> <p>Significant judgements, estimates and assumptions have been applied by management to:</p> <ul style="list-style-type: none"> ■ Determine if the loan or advance is impaired ■ Evaluate the adequacy and recoverability of collateral ■ Determine the expected cash flows to be collected ■ Estimate the timing of the future cash flows. This matter was considered to be a key audit matter. 	<p>Our response to the key audit matter included the following audit procedures:</p> <ul style="list-style-type: none"> ■ We involved legal specialists to ensure the interpretations of the shareholder agreement applied by management are reasonable ■ We evaluated management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry by independently assessing the reasonability of assumptions and judgements made by management <p>Specifically:</p> <ul style="list-style-type: none"> – We evaluated the estimated cash recoverable through the most likely scenarios which included the sale of shares of the investment holding at the loan expiry date – We evaluated the reasonableness of the discount rate applied by management in discounting the cash flows – We considered industry practice to determine if managements cash flow forecast is reasonable <ul style="list-style-type: none"> ■ We evaluated the adequacy of the disclosures about judgements made by management in relation to the impairment of the loans.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the report of the audit and risk committee and the declaration of the company secretary as required by the Companies Act of South Africa, and the approval of the consolidated financial statements which we obtained prior to the date of this report, and the integrated annual report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 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 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 financial statements

The directors are responsible for the preparation and fair presentation of the consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group'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 or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report continued

for the year ended 30 June 2018

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 and the group'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 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 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 to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- 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 directors 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 directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 directors, we determine those matters that were of most significance in the audit of the consolidated 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 KPMG Inc. has been the auditor of Hyprop Investments Limited for three years.



KPMG Inc.
Registered Auditor
Per Gary Parker
Chartered Accountant (SA)
Registered Auditor
Director

31 August 2018

KPMG Crescent
85 Empire Road
Parktown
2193

Consolidated statement of financial position

at 30 June

	Note	2018 R000	2017 R000
ASSETS			
Non-current assets			
		33 951 124	32 854 166
Investment property	2.1	30 141 027	29 128 477
South African portfolio		28 091 539	27 176 840
Ikeja City Mall (Lagos, Nigeria)		2 049 488	1 951 637
Straight-line rental income accrual	2.3	550 182	553 119
Building appurtenances and tenant installations	3	163 068	148 530
Investment in sub-Saharan Africa (excluding SA)		2 918 721	3 005 821
Loans receivable from joint ventures	10	2 918 721	2 995 718
Investment in joint ventures – sub-Saharan Africa	6.2		10 103
Financial asset	7.3	152 556	
Other investment	9	⁽ⁱ⁾	⁽ⁱ⁾
Loans receivable	10	18 723	17 434
Derivative instruments	18	6 846	785
Current assets		1 015 095	1 366 021
Loans receivable	10	40 716	
Trade and other receivables	11	258 071	230 741
Derivative instruments	18	815	9 530
Cash and cash equivalents	12	715 493	1 125 750
Non-current assets classified as held-for-sale	13	199 257	426 681
Total assets		35 165 476	34 646 868
EQUITY AND LIABILITIES			
Equity and reserves			
		26 395 237	24 882 553
Equity and reserves attributable to Hyprop shareholders		26 304 917	24 788 254
Stated capital	14	8 418 904	7 648 216
Non-distributable reserves	15.1	16 841 038	16 252 043
Share-based payment reserve	15.2	27 443	23 901
Retained income		1 004 408	861 877
Foreign currency translation reserve	16	13 124	2 217
Non-controlling interest	4.1	90 320	94 299
Liabilities			
Non-current liabilities			
		8 203 399	5 428 316
Borrowings	17	7 815 651	5 068 332
Financial guarantees	8.2	185 686	163 855
Derivative instruments	18	24 060	56 530
Deferred taxation	19	178 002	139 599
Current liabilities		558 683	4 322 925
Borrowings	17	69 343	3 832 306
Trade and other payables	20	486 090	489 681
Taxation		1 251	
Derivative instruments	18	1 999	938
Liabilities directly associated with non-current assets held-for-sale	13	8 157	13 074
Total liabilities		8 770 239	9 764 315
Total equity and liabilities		35 165 476	34 646 868

⁽ⁱ⁾ Value less than R1 000

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June

	Note	2018 R000	2017 R000
Revenue		3 113 713	3 167 649
Investment property income		3 117 560	3 128 062
Straight-line rental income accrual		(3 847)	39 587
Property expenses	23	(1 049 892)	(1 073 877)
Net property income		2 063 821	2 093 772
Other operating expenses		(55 778)	(78 232)
Operating income	23	2 008 043	2 015 540
Net interest		(282 273)	(336 502)
Earned	21	312 550	294 177
Incurred	22	(594 823)	(630 679)
Net operating income		1 725 770	1 679 038
Other income	8.1	46 671	36 931
Dividends received	29.4	182 778	146 350
Change in fair value		767 052	973 270
Investment property	2.2	646 359	1 181 786
Straight-line rental income accrual	2.2	3 847	(39 587)
Financial asset	7.2	87 761	(163 855)
Derivative instruments	18	29 085	(5 074)
Profit/(loss) on disposal		2 697	(526)
Investment property		2 697	2 031
Subsidiary			(2 557)
Derecognition of financial guarantee	8.2	11 984	
Impairment of loans from joint ventures	10	(166 441)	(25 377)
(Impairment)/reversal of impairment of joint venture	6.2	(10 102)	10 102
Impairment of goodwill			(18 134)
Net income before equity-accounted investments		2 560 409	2 801 654
Share of loss from joint ventures	6.2		(50 380)
Profit before taxation		2 560 409	2 751 274
Taxation	26	(39 486)	(4 340)
Current taxation		(4 381)	(2 714)
Deferred taxation		(35 105)	(1 626)
Profit for the year		2 520 923	2 746 934
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss (net of tax)	16	15 471	(27 623)
Exchange differences on translation of foreign operations		10 907	(12 380)
Exchange differences on translation of foreign operations: Non-controlling interest	16	4 564	(15 243)
Total comprehensive income for the year		2 536 394	2 719 311
Total profit for the year attributable to shareholders of the company		2 529 466	2 767 652
Non-controlling interest		(8 543)	(20 718)
Profit for the year		2 520 923	2 746 934
Total comprehensive income for the year attributable to shareholders of the company		2 540 374	2 755 272
Non-controlling interests	4.1	(3 980)	(35 961)
Total comprehensive income for the year		2 536 394	2 719 311
Basic earnings per share (cents)	28	1 015,8	1 118,5
Diluted earnings per share (cents)	28	1 015,0	1 110,8

Consolidated statement of changes in equity

for the year ended 30 June

	Attributable to owners of the company						
	Stated capital R000	Non-distributable reserve (NDR) R000	Share-based payment reserve (SBPR) R000	Foreign currency translation reserve (FCTR) R000	Retained income R000	Non-controlling interest (NCI) R000	Total equity R000
Balance at 30 June 2016	6 949 139	15 254 775	18 275	14 597	751 810	130 260	23 118 856
Total comprehensive income							
Profit for the year					2 767 652	(20 718)	2 746 934
Other comprehensive income for the year, net of taxation				(12 380)		(15 243)	(27 623)
Total comprehensive income				(12 380)	2 767 652	(35 961)	2 719 311
Transactions with owners of the company							
Contributions and distributions							
Vesting of shares	12 396		(7 348)				5 048
Issue of shares	695 655						695 655
Treasury shares purchased	(8 974)						(8 974)
Share-based payment			12 974				12 974
Dividends declared and paid (note 27)					(1 660 317)		(1 660 317)
Net transfer to non-distributable reserve		997 268			(997 268)		
Total contributions and distributions	699 077	997 268	5 626		(2 657 585)		(955 614)
Total transactions with owners of the company	699 077	997 268	5 626		(2 657 585)		(955 614)
Balance at 30 June 2017	7 648 216	16 252 043	23 901	2 217	861 877	94 299	24 882 553
Total comprehensive income							
Profit for the year					2 529 466	(8 543)	2 520 923
Other comprehensive income for the year, net of taxation				10 907		4 564	15 471
Total comprehensive income				10 907	2 529 466	(3 979)	2 536 394
Transactions with owners of the company							
Contributions and distributions							
Vesting of shares	10 174		(7 632)		(2 542)		
Issue of shares	778 676						778 676
Treasury shares purchased	(18 162)						(18 162)
Share-based payment			11 174				11 174
Dividends declared and paid (note 27)					(1 795 398)		(1 795 398)
Net transfer to non-distributable reserve		588 995			(588 995)		
Total contributions and distributions	770 688	588 995	3 542		(2 386 935)		(1 023 710)
Total transactions with owners of the company	770 688	588 995	3 542		(2 386 935)		(1 023 710)
Balance at 30 June 2018	8 418 904	16 841 038	27 443	13 124	1 004 408	90 320	26 395 237
Note	14	15.1	15.2	16		4.1	

Consolidated statement of cash flows

for the year ended 30 June

	Note	2018 R000	2017 R000
Cash inflows generated from operating activities		37 689	319 908
Cash generated from operations	29.2	2 133 136	2 159 602
Interest received		283 289	266 423
Interest paid		(580 208)	(441 049)
Dividends paid	27	(1 795 398)	(1 660 317)
Taxation paid	29.3	(3 130)	(4 751)
Cash inflows from investing activities		104 745	669 846
Acquisition of and additions to investment property	2	(263 640)	(123 721)
Additions to building appurtenances and tenant installations	3	(52 104)	(57 064)
Proceeds on disposal of assets classified as held-for-sale		229 759	874 233
Repayments of loans receivable from joint ventures		157 934	
Increase in investment in South-Eastern Europe	7.3	(30 979)	
Loans advanced to joint ventures		(59 061)	(109 506)
Dividends received	29.5	163 551	89 093
Increase in loans receivable		(40 715)	(3 189)
Cash outflows applied to financing activities		(510 777)	(44 833)
Borrowings repaid		(3 871 791)	(2 011 393)
Issue of shares	14	778 676	695 655
Borrowings raised		2 600 502	1 279 879
Purchase of Hyprop shares (long-term staff incentive scheme)	14	(18 164)	(8 974)
Net movement in cash and cash equivalents		(368 343)	944 921
Cash and cash equivalents at beginning of year		1 125 750	198 957
Cash disposed with subsidiary			(4 006)
Effects of exchange rate changes on cash and cash equivalents		(41 914)	(12 336)
Cash and cash equivalents transferred to non-current assets held-for-sale			(1 786)
Cash and cash equivalents at end of year	12	715 493	1 125 750

Notes to the consolidated financial statements

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements

1.1 Statement of compliance

These consolidated 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 Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, 2008.

1.2 Approval of the consolidated financial statements

The consolidated financial statements of Hyprop Investments Limited, were approved by the board of directors on 31 August 2018.

1.3 Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except for the measurement of investment properties, investment property classified as held-for-sale and certain financial instruments at fair value, and incorporate the principal accounting policies set out below. All values are presented in Rand thousands unless indicated otherwise.

Item	Measurement basis
Investment property	Fair value
Derivative financial instruments	Fair value
Investment property held-for-sale	Fair value
Financial asset – Hystead	Fair value

Fair value adjustments do not affect the determination of distributable earnings, but have an effect on net asset value per share to the extent that such adjustments are made to the carrying values of assets and liabilities. All accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 30 June 2017. Various new accounting standards, or revisions to current accounting standards, have been issued with effective dates applicable to future consolidated financial statements. Refer to *note 1.26 – Standards issued but not yet effective* for further information.

1.4 Going concern

The directors consider that the group and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

The directors have satisfied themselves that the group and its subsidiaries are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

1.5 Basis of consolidation

These consolidated financial statements incorporate the consolidated financial statements of the company and entities controlled by the company. Control is achieved when the company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the group. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal, as applicable. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. All intragroup transactions, unrealised profits and balances between group entities are eliminated on consolidation.

Non-controlling interests are measured at the proportionate share of the minorities' interest in the identifiable net assets at the acquisition date and adjusted in the same proportion for the profit or loss at each reporting date.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.6 Interests in joint operations

A joint 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 when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

When a group entity undertakes its activities under joint operations, the group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly.

The group accounts for the 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.

1.7 Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement derive benefits from the net assets of the joint arrangement.

The profits and losses, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5: *Non-current assets held-for-sale and discontinued operations*.

Under the equity method, the investment is initially recorded at cost and thereafter the carrying value is adjusted to recognise the investor's share of the post-acquisition profits or losses of the investee, distributions received and any adjustments that are required. The profits or losses are recognised in the statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

If the terms of interest that the company has in the joint venture provide that the investee is contractually obliged to distribute 100% of its net distributable earnings, the investment is accounted for as a financial asset and is not equity accounted. Refer to *note 1.11 – Financial instruments*.

When the reporting period of the investor is different to that of the joint venture, the joint venture prepares, for the use of the investor, financial statements as at the same date as the consolidated financial statements of the investor.

Where a group entity transacts with a joint venture of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

1.8 Building appurtenances and tenant installations

Building appurtenances and tenant installations are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all building appurtenances and tenant installations to write down the cost, less residual value, by equal instalments over their useful lives as follows:

- Tenant installations – period of lease
- Building appurtenances – three to 15 years.

1. Accounting policies and presentation of consolidated financial statements continued

1.8 Building appurtenances and tenant installations continued

Subsequent expenditure is capitalised when it is probable that future economic benefits will flow to the group and its cost can be reliably measured. All other expenditure is recognised as an expense in the period in which it is incurred. Gains and losses on the disposal of building appurtenances and tenant installations are recognised in profit or loss and are calculated as the difference between the proceeds and the carrying value of the item sold.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.9 Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under development for such purposes).

Investment property is initially recognised at cost including transaction costs. Cost includes initial costs, costs incurred subsequently to extend or refurbish investment property and the cost of any development rights.

Investment property is subsequently measured at fair value as determined on a semi-annual or annual basis by an independent registered valuer or fair value less cost to sell, based on market evidence. The valuations are done on an open-market basis and valuers use the discounted cash flow method. Gains or losses arising from changes in fair value, after deducting the straight-line rental income accrual, are included in profit or loss for the period in which they arise. These gains or losses are transferred to non-distributable reserves in the statement of changes in equity.

In instances where an investment property has been sold, but not yet transferred to the purchaser at year-end, the fair value is determined as the sale price.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the property. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

Realised gains or losses arising on the disposal of investment properties are recognised in profit or loss for the year and transferred to non-distributable reserves in the statement of changes in equity.

1.10 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. This condition is regarded as met only when the sale is highly probable and the non-current asset or disposal group is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

Investment property classified as held-for-sale is measured in accordance with IAS 40: *Investment property* at fair value with gains and losses on subsequent measurement being recognised in profit or loss in the line "Profit/loss on disposal – Investment property". Disposal groups and non-current assets held-for-sale are presented separately from other assets and liabilities in the statement of financial position. Prior periods are not reclassified.

Once classified as held-for-sale, assets are no longer depreciated.

1.11 Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised in the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group classifies financial instruments, or their component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are initially measured at fair value. All transaction costs relating to financial instruments measured at fair value through profit or loss are immediately expensed.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.11 Financial instruments continued

Derecognition of financial instruments

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 expire.

Offset

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, when the group has an enforceable right to set off the recognised amounts, and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Subsequent measurement

Subsequent to initial recognition, these instruments are measured as follows:

Financial assets

1.11.1 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost. Interest earned on cash invested at financial institutions is recognised on an accrual basis using the effective interest method.

1.11.2 Trade and other receivables

Trade and other receivables are carried at amortised cost less any accumulated impairments. An estimate is made of credit losses based on a review of all outstanding amounts at year-end. Evidence of impairment is considered on a tenant-by-tenant basis. Doubtful debts are provided for in the year in which they are identified, with such movements taken to profit or loss for the period. Short-term receivables are measured at original invoice amount when the effect of discounting is immaterial.

1.11.3 Loans receivable

Loans receivable are carried at amortised cost using the effective interest method, less any accumulated impairments. Interest earned is recognised on an accrual basis using the effective interest method.

1.11.4 Financial assets – right to receive dividends

Where the group has a contractual right to receive its share of net distributable earnings, the financial asset is designated at fair value through profit or loss (FVTPL). Subsequent to initial recognition, it is measured at fair value and changes to the fair value are recognised in the consolidated statement of profit or loss and other comprehensive income.

Any gain or loss on initial recognition is deferred, as the valuation method includes assumptions which are derived from unobservable inputs, and is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

Financial liabilities

1.11.5 Trade payables

Trade and other payables are measured at amortised cost. Short-term payables are measured at the original invoice amount when the effect of discounting is immaterial.

1.11.6 Non-derivative financial liabilities: Borrowings

Non-derivative financial liabilities, comprising long-term interest-bearing loans, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount of borrowings, is recognised over the term of the borrowings, in accordance with the group's accounting policy for borrowing costs.

1.11.7 Non-derivative financial liabilities: Financial guarantees

Financial guarantee liabilities are recognised initially at fair value and subsequently at the higher of the amount determined in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets*, as follows:

- Its initial amount (less amortisation, if appropriate); and
- The amount that it is probable that the group will pay (based on it being likely that the guarantee will be called).

At year-end, the group had issued guarantees to certain banks in respect of credit facilities granted to related companies.

1. Accounting policies and presentation of consolidated financial statements continued

1.11 Financial instruments continued

1.11.8 Derivative instruments

Derivatives are initially measured at fair value and are subsequently remeasured at fair value. Any directly attributable transaction costs are recognised in profit or loss as incurred.

1.12 Impairment

Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed at each reporting date to determine whether there is any evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised immediately in profit or loss.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the group on terms that the group would not consider otherwise;
- Indications that a debtor will enter bankruptcy;
- Adverse changes in the payment status of tenants;
- The disappearance of an active market because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. Value-in-use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, and is recognised in profit or loss. Goodwill is tested for impairment annually.

An impairment loss is reversed, with the exception of goodwill, if there has been a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss no longer exists.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1.13 Stated capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from equity.

1.14 Treasury shares

Company shares held by the Hyprop Investments Employee Incentive Scheme Proprietary Limited (incorporated for the benefit of employees) that have not yet vested are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost.

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Both distributions and unrealised losses on own shares are eliminated from group profit or loss for the year.

1.15 Foreign currency

Foreign currency transactions are translated to the respective functional currency of the group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rates at the dates that the fair values were determined.

Foreign currency differences arising on translation are recognised in profit or loss.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.15 Foreign currency continued

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the group's presentation currency (Rand) at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rand at the dates of the transactions (an average rate is used).

Foreign currency differences are recognised in other comprehensive income (OCI) and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest (NCI).

Foreign currency translation reserve

If the group disposes, in its entirety or partially, of a foreign operation, such that control or joint control is lost, the cumulative amount in the foreign currency translation reserve in respect of the foreign operation that is disposed of, is reclassified to profit or loss as part of the disposal. If the group disposes of a part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the group disposes of only part of a joint venture while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

1.16 Employee benefits

Short-term benefits

The cost of short-term employee benefits is recognised as an expense during the period in which the employees render the related service.

Short-term employee benefits are measured on an undiscounted basis. The accrual for employee entitlements to salaries, bonuses and annual leave represents the amount in respect of which the group has a present legal or constructive obligation to pay as a result of the employees' services provided up to the reporting date.

Post-employment benefits

Defined contribution plan

The defined contribution plan is a post-employment benefit plan under which the group pays contributions to a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when the related services have been rendered.

Long-term benefits

Share-based payments

Equity-settled share-based employee remuneration

The group operates equity-settled share-based conditional share plans (CUP) for its employees.

The grant date fair value of equity-settled share-based payment arrangements granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

All share-based remuneration is ultimately recognised as an expense in profit or loss, with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest.

1.17 Revenue

Investment property income

Investment property income comprises contractual rental income, operating cost recoveries, income from marketing and promotions and parking income. Contractual rental income (including tenant parking income) is recognised on a straight-line basis over the term of the lease. Income from marketing, promotions and casual parking is recognised when the amounts can be reliably measured.

Turnover rentals (variable rentals based on the turnover achieved by a tenant) are included in revenue when the amounts can be reliably measured.

1. Accounting policies and presentation of consolidated financial statements continued

1.18 Interest earned

Interest earned on cash invested at financial institutions is recognised on an accrual basis using the effective interest method.

1.19 Fair value measurements

Fair value is the price that would be received on sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

The group measures the fair value of an instrument using the quoted price in an active market when this is available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is substantially ready for its intended use. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on funds specifically borrowed in respect of the qualifying asset. Investment income earned on the temporary investment of borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Taxation

1.21.1 Current taxation

Hyprop is a REIT (Real Estate Investment Trust) in terms of the South African Income Tax Act (the Act) and in terms of the JSE Listings Requirements. In terms of section 25BB of the Act, the twice yearly dividend declared to Hyprop shareholders is deductible against Hyprop's taxable income. As a consequence of this deduction, South African income taxation is usually reduced to zero, and dividends received by South African Hyprop shareholders are received free of any South African income taxation.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year.

The charge for current taxation includes expected tax payable or receivable on the taxable income or loss for the year and any adjustment for taxation payable or receivable for previous years.

Current taxation liabilities or assets for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the taxation authorities, using the taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.21 Taxation continued

1.21.2 Deferred taxation

Deferred taxation is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- goodwill that arises on initial recognition in a business combination
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the group has not rebutted this presumption.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities and assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity.

1.22 Segment reporting

The group determines and presents operating segments based on information that is provided internally to the executive management committee (exco) and to the board of directors. The exco reviews the internal management reports of each segment monthly, while the board reviews internal management reports in respect of each segment at least quarterly.

On a primary basis, the operations are organised into the following business segments: shopping centres, value centres, standalone offices, investments in sub-Saharan Africa (excluding South Africa) and investments in South-Eastern Europe.

1.23 Basic headline and distributable earnings per share

Earnings per share are calculated based on the weighted average number of shares in issue for the year and profit attributable to shareholders. Headline earnings per share is calculated in terms of the requirements set out in Circular 4/2018: *Headline earnings* issued by SAICA.

Distributable earnings per share is calculated in terms of the SA REIT Association's Best Practice Recommendations.

1.24 Non-distributable reserves

The non-distributable reserves relate to items that are not distributable to shareholders, such as fair value adjustments on the revaluation of investment property and derivatives, any impairment adjustments, share-based payment transactions, profit or loss on sale of assets, the straight-line lease income adjustment, deferred taxation and reserves held by the non-controlling interests.

1.25 Key estimations and uncertainties

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the amounts reported for the group's income, expenses, assets and liabilities. Judgement in these areas is based on historical experience and reasonable expectations relating to future events.

Information on the key estimations and uncertainties that have the most significant effect on amounts recognised are set out below:

Investment property valuations

The valuation of investment properties requires judgement in the determination of, inter alia, future cash flows, appropriate discount rates and capitalisation rates. Refer to *note 2 – Investment property*.

1. Accounting policies and presentation of consolidated financial statements continued

1.25 Key estimations and uncertainties continued

Interests in co-ownerships

Judgement is required to identify the relevant activities of the co-ownerships. Interests in co-ownerships are seen as interests in joint operations. There is a sharing of control of the co-owned assets and decisions regarding major capital expenditure projects require unanimous consent by the parties sharing control.

In terms of the co-ownership agreements for Canal Walk and The Glen, material capital expenditure requires mutual consent of the co-owners. In view of the significant increases in development costs, most capital expenditure that is undertaken is material and accordingly these centres are not considered to be solely controlled by Hyprop.

The interests in these centres are treated as joint operations.

Control over an investee

Management assessed the acquisition of its interest in Hystead and whether it has control over Hystead. It concluded that the company has joint control, and not control, over Hystead.

Investments in joint ventures – equity-accounted investments versus financial instruments

In prior years, management assessed the acquisition of Hystead and considered whether it should form part of joint ventures and be equity accounted or whether the contractual right to receive dividends should be accounted for as a financial asset. The existing contracts give rise to a financial obligation in the Hystead entity to pay dividends.

Accordingly, Hyprop accounts for this investment as a financial asset. During the current year, Hystead acquired AP Retail in Sofia, Bulgaria and Manta in Croatia. Management reassessed the classification and accounting treatment of the investment in Hystead and concluded that classification as a financial asset remained appropriate.

Investments in joint ventures – valuation of financial instrument and deferral of day-one gain

The fair value of the right to receive dividends from Hystead has been valued, based on the present value of future cash flows, at the year-end.

The valuation method includes assumptions derived from unobservable inputs and therefore management has determined that the day-one gain should still be deferred but the fair value movement subsequent to that date should be taken through profit and loss.

Financial guarantees

Hyprop has provided guarantees to banks that have provided funding to Hyprop Mauritius and Hystead. The guarantees are supported by mortgage bonds over certain of Hyprop's South African shopping centres. On consolidation the Hyprop Mauritius guarantees are eliminated. In the case of Hystead (which is a holding company for the investments in South-Eastern Europe), Hyprop has provided guarantees for approximately 18,3% in excess of its 60% shareholding for which it receives an additional 11% share of the Hystead dividend as compensation.

Management assessed the obligations under the guarantees and concluded that these meet the definition of financial guarantees, and the change in value of the guarantees represents a charge or a credit to profit or loss.

The Hazard rate model is used for the valuation of the guarantees, which includes estimates relating to the possibility of a default on the repayment of these loans.

Municipal recoveries

Hyprop acts as a principal in regard to municipal recoveries and accounts for municipal recoveries on a gross basis.

Recovery of loans receivable

Manda Hill and certain of the properties in the AttAfrica portfolio have been negatively affected by the economic conditions of recent years and are producing lower investment returns than what was originally anticipated. The income received from those properties over the next few years is likely be lower than previously modelled. The shareholder loans to AttAfrica and Manda Hill, which reflect Hyprop's share of the value of the underlying property investments at group level, have therefore been impaired. Refer to *note 10 – Loans receivable*.

Key estimates and judgements made in determining the impairments were as follows:

- the long-term nature of the underlying investments;
- the remaining period of the loan (two years);
- the probability that the loans would be restructured and extended in 2020 (with respect to AttAfrica only as Manda Hill has no set maturity date);
- that the negative net asset value included deferred tax liabilities on the revaluation of investment properties that the company believes would not realise on the sale of shares in the SPVs;
- That Kumasi (Ghana) recently opened in April 2017 and future growth is expected.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.26 Standards issued but not yet effective

At the date of approval of these consolidated financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been early adopted by the group.

Management anticipates that all of the pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the consolidated financial statements or those for which the impact has not yet been assessed, is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the consolidated financial statements namely:

- IFRS 2: *Share-based payment* (effective periods beginning on/after 1 January 2018)
- IAS 40: *Investment property* (effective periods beginning on/after 1 January 2018)
- IFRIC 22: *Foreign currency transactions and advance considerations* (effective periods beginning on/after 1 January 2018)
- IFRIC 23: *Uncertainty over income tax treatments* (effective periods beginning on/after 1 January 2019).

New or amended standard and effective date	Summary of the requirements	Possible impact on group
<p>IFRS 9: <i>Financial instruments</i> (annual periods beginning on or after 1 January 2018, retrospectively except for hedge accounting)</p>	<p>The IASB issued the final IFRS 9: <i>Financial instruments</i>, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39: <i>Financial instruments: recognition and measurement</i>. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.</p>	<p>Classification and measurement: The group measures its financial instruments at amortised cost and at fair value through profit and loss (FVTPL), however the criteria for classification into these categories are significantly different. This may result in changes in classification between amortised cost and FVTPL. More specific assessment of these impacts will follow closer to the implementation date of the standard.</p> <p>Impairment: In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model in IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the group as the forward-looking component may introduce additional losses.</p> <p>Hedge accounting: The hedge accounting chapter in IFRS 9 incorporates limited changes to (a) increase the eligibility of both hedged items and hedging instruments and (b) introduces a principle-based approach to assessing hedge effectiveness. It is not expected to have a significant effect as the group does not apply hedge accounting.</p>

1. Accounting policies and presentation of consolidated financial statements continued
 1.26 Standards issued but not yet effective continued

New or amended standard and effective date	Summary of the requirements	Possible impact on group
<p>IFRS 16: <i>Leases</i> (annual periods beginning on or after 1 January 2019)</p>	<p>IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17: <i>Leases</i>, and related interpretations.</p> <p>IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position.</p> <p>No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.</p>	<p>As lessor: This new standard is not expected to have a significant impact on how the group (as lessor) accounts for leases due to the carry forward of the lessor accounting model from IAS 17. However, the group anticipates providing enhanced disclosures as required by IFRS 16, namely components of lease income, and information on risk management with respect to exposures to residual asset risk.</p> <p>As lessee: In the less common instance where the group is a lessee, we do not anticipate significant changes to the accounting as the single material leasehold property in the group is already capitalised in terms of IAS 40. More specific assessment of the impacts on other non-material leases will follow closer to the implementation date of the standard.</p>
<p>IFRS 15: <i>Revenue from contracts with customers</i> – Effective for the financial reporting period ending 30 June 2019</p>	<p>IFRS 15 requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.</p>	<p>Leases are specifically scoped out of IFRS 15. The standard will have an immaterial impact on the group when implemented.</p>

Notes to the consolidated financial statements continued

for the year ended 30 June

2. Investment property

	Note	2018 R000	2017 R000
2.1 Net carrying value			
Historical cost		14 973 825	14 830 378
Accumulated fair value movements		15 361 867	14 713 281
Assets classified as held-for-sale	13	(194 665)	(415 182)
		30 141 027	29 128 477
2.2 Movement for the year			
Investment property at valuation at 1 July		29 128 477	28 187 357
Capital expenditure		263 640	123 721
Foreign currency translation difference		98 216	(270 183)
Change in fair value		646 359	1 181 786
Interest capitalised	22	6 665	872
Straight-line rental income accrual		3 847	(39 587)
Transfer to non-current assets held-for-sale		(6 177)	(55 489)
		30 141 027	29 128 477
2.3 Reconciliation to independent valuation			
Investment property at valuation at year-end		30 141 027	29 128 477
Straight-line rental income accrual		550 182	553 119
Building appurtenances and tenant installations		163 068	148 530
Centre management assets		(5 076)	(4 794)
Independent valuation ⁽¹⁾		30 849 201	29 825 333
Capitalisation rate used to determine interest capitalised		8,3%	8,3%

⁽¹⁾ Excludes property held-for-sale

2.4 Encumbered investment property

The funding in Hystead Limited (Hystead) has been provided through bank loans secured by Hyprop and PDI guarantees. Hyprop's properties have been used as security for the bank funding. As Hystead is not consolidated, this bank funding does not appear on the consolidated statement of financial position. (Refer to *note 8 – Financial guarantees*.)

The following properties have been pledged as security by means of mortgage bonds (refer to *note 17 – Borrowings*):

To Standard Finance (Isle of Man) Limited and Standard Bank of South Africa Limited, to secure borrowing facilities of USD280 million and EUR111,5 million:

1. A 75,16% undivided share in The Glen
2. A 40% undivided share in Canal Walk
3. Woodlands Boulevard.

To Old Mutual Specialised Finance Proprietary Limited to secure borrowing facilities of R400 million:

Somerset Mall

To Rand Merchant Bank (a division of FirstRand Bank Limited) to secure borrowing facilities totalling R200 million, USD23 million and EUR164 million:

1. A 40% undivided share in Canal Walk
2. Clearwater Mall.

To Nedbank Limited to secure borrowing facilities totalling EUR92 million:

1. CapeGate
2. Atterbury Value Mart.

To Stanbic IBTC Bank PLC to secure borrowing facilities totalling USD31,6 million:

Ikeja City Mall

To Investec Asset Management Proprietary Limited to secure borrowing facilities totalling USD23,7 million:

Ikeja City Mall

Encumbered properties total R20,2 billion (2017: R22,1 billion).

2. Investment property continued

2.5 Investment property valuation

Valuation process

It is the policy of the group to obtain an independent valuation of the South African and Nigerian investment property portfolio on a six-monthly basis. Investment properties held by subsidiaries or associates of AttAfrica and Hystead are valued by independent valuers on an annual basis. More than one independent valuer may be used to provide the valuations. Investment property is reflected at fair value at 30 June 2018.

The South African portfolio plus Ikeja City Mall in Lagos, Nigeria, was valued at R30,8 billion (2017: R29,8 billion), excluding property held-for-sale. The portfolio was valued by three independent, professionally qualified property valuers:

Valuer and qualifications	Properties valued	Method
<p>Viking Valuations – led by Trevor King, managing director The investment properties were valued by Mr Trevor King, BSc Hons (Building Science, UCT), Dip Surveying (UK, Reading University), Professional Registered Valuer and member of SA Council for the Property Valuers Profession, Chartered Valuation Surveyor and Associate Member of the Royal Institute of Chartered Surveyors (MRICS). Mr King has over 32 years' experience in the property valuation industry. The valuations were conducted in accordance with local and International Valuation Standards.</p>	Eight South African properties (retail and offices)	Discounted cash flow
<p>Jones Lang LaSalle Proprietary Limited (JLL), led by Joshua Askew The investment properties were valued by, the valuations division of JLL led by Joshua Askew (BA (Hons) English and Philosophy, FRICS MIV(SA)), FRICS, Head of Valuation: Sub-Saharan Africa, National Director, RICS Regulated Valuer, Chartered Valuation Surveyor and Fellow of the Royal Institution of Chartered Surveyors. Licensed European Pfandbrief (Covered Bond) MLV Valuer.</p>	Two South African properties (both retail)	Discounted cash flow
<p>Mills Fitchet – Thomas Bate, partner/member Ikeja City Mall was valued by Mr T Bate, BSc (Urban Land Economics) University of Westminster London, MSc (Reading University UK), Chartered Valuation Surveyor (Royal Institute of Chartered Surveyors RICS), Professional Registered Valuer (SA Council of Valuers). Mr Bate has 37 years of international experience in the property valuation industry, including London and Sydney, before returning to South Africa. He also has considerable experience working in various parts of Africa. The valuations were conducted in accordance with International Valuation Standards.</p>	One Nigerian property (retail)	Discounted cash flow

Lakefield Office Park is classified as held-for-sale and valued at fair value less costs to sell. It was revalued at 30 June 2018 based on a conditional sale agreement.

The valuers work independently of each other and their valuations are combined to arrive at a fair value for the investment property portfolio.

The significant inputs and assumptions in respect of the valuation processes are developed in close consultation with management.

The valuation processes and fair value changes are reviewed by the audit committee and the board of directors at each reporting date. The directors confirm that there have been no material changes to the assumptions applied by the registered valuers.

The most significant inputs to the valuation process, all of which are unobservable, are the estimated rentals at the end of the lease, assumptions regarding vacancy levels, the discount rate and the reversionary capitalisation rate. The estimated fair value increases if the estimated rentals increase, vacancy levels decline or if discount rates (market yields) and reversionary capitalisation rates decline.

Notes to the consolidated financial statements continued

for the year ended 30 June

2. Investment property continued

2.5 Investment property valuation continued

The valuations are sensitive to all four assumptions. The inputs used in the valuations at 30 June 2018 were:

- The range of initial capitalisation rates applied to the portfolio was between 6,3% and 8,5% (2017: 6,3% and 8,5%) with the weighted average being 6,7% (2017: 6,7%). The initial capitalisation rates approximate the average annualised property yields
- The discount rates applied ranged between 12,3% and 14,5% (2017: 12,3% and 14,5%) with the weighted average being 12,4% (2017: 12,5%)
- The permanent vacancy factor applied for shopping centres ranged between 0,5% and 2,0% (2017: 0,5% and 2,0%) and offices between 0,5% and 2,0% (2017: 0,5% and 2,0%)
- An average market rental growth rate of 6% (2017: 6%) was adopted for renewals and new leases.

Changes in discount rates attributable to changes in market conditions can have a significant impact on property valuations.

Effect on valuation of investment property portfolio:

- A 25 basis point increase in the average discount rate will decrease the value of investment property portfolio by R662 million (2,0%) (2017: R634 million (2,0%))
- A 25 basis point decrease in the average discount rate will increase the value of investment property portfolio by R689 million (2,0%) (2017: R660 million (2,0%))
- A 25 basis point increase in the capitalisation rate will decrease the value of investment property portfolio by R1,21 billion (3,6%) (2017: R1,17 billion (3,6%))
- A 25 basis point decrease in the capitalisation rate will increase the value of investment property portfolio by R1,3 billion (3,9%) (2017: R1,26 billion (3,9%))

Valuation techniques underlying management's estimation of fair value

The valuations were determined using discounted cash flow projections, based on significant unobservable inputs. These inputs include:

- **Future rental cash flows:** Based on the location, type and quality of the properties and supported by the terms of any existing leases or other contracts or external evidence such as current market rentals for similar properties.
- **Discount rates:** The discount rate is the rate of return used in a discounted cash flow analysis to determine the present value of future cash flows, and takes into account an assessment of the uncertainty in the amount and timing of future cash flows.
- **Vacancy rates:** Based on current and expected future market conditions after expiry of any current leases, as well as tenant failures during the course of a lease.
- **Maintenance costs:** Includes necessary investment to maintain the functionality of the property for its expected useful life.
- **Capitalisation rates:** Based on location, size and quality of the properties and taking into account market data at the valuation date.
- **Terminal value:** Taking into account assumptions regarding maintenance costs, vacancy rates and market rentals.

The valuation methods applied by the independent valuers were the same as the prior year.

Fair value hierarchy

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. The three levels are explained as follows:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. These quoted prices are unadjusted.

Level 2 – these are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs that are unobservable inputs for the asset or liability.

2. Investment property continued
 2.5 Investment property valuation continued

	Recurring fair value measurements – level 3	
	2018 Valuation R000	2017 Valuation R000
South Africa⁽¹⁾		
Shopping centres	27 351 847	26 490 589
Value centres	1 303 000	1 248 000
Standalone offices	125 000	117 000
Sub-Saharan Africa (excluding South Africa)		
Ikeja City Mall (Lagos, Nigeria)	2 069 354	1 969 744
Total consolidated	30 849 201	29 825 333

⁽¹⁾ Excludes property held-for-sale

	Fair value less costs to sell – level 3	
	2018 Valuation R000	2017 Valuation R000
Assets held-for-sale	198 000	418 798
Total consolidated	198 000	418 798

Investment property held-for-sale was measured at fair value less costs to sell which, in instances where the property is already sold, but not yet transferred, is based on the sale price.

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield, with higher vacancy rates resulting in lower yields. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

Notes to the consolidated financial statements continued

for the year ended 30 June

3. Building appurtenances and tenant installations

	2018 R000	2017 R000
3.1 Cost		
Building appurtenances	234 018	196 768
Tenant installations	68 475	54 212
	302 493	250 980
3.2 Accumulated depreciation		
Building appurtenances	100 165	70 577
Tenant installations	39 260	31 873
	139 425	102 450
3.3 Net carrying value		
Building appurtenances	133 853	126 191
Tenant installations	29 215	22 339
	163 068	148 530
3.4 Movement for the year		
Net carrying value – 1 July	148 530	126 100
Capital expenditure	52 104	57 064
Foreign currency translation movement	147	(498)
Disposals		(171)
Write-off of assets	67	(10)
Classified as held-for-sale	369	(659)
Depreciation	(38 149)	(33 296)
Net carrying value	163 068	148 530

4. Subsidiaries

Details of the group's subsidiaries at the end of the year are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group	
			2018 %	2017 %
Hyprop Investments (Mauritius) Limited (Hyprop Mauritius)	Investing in indirect development or income-producing properties in sub-Saharan Africa (excluding SA)	Mauritius	100	100
African Land Investments Limited (African Land)	Dormant	South Africa	100	100
Hyprop Investments Employee Incentive Scheme Proprietary Limited (Hyprop Employee Incentive Scheme)	To hedge the obligation of the company to deliver Hyprop shares to employees, arising from allocations to employees in terms of the Hyprop Employee Incentive Scheme	South Africa	100	100
Hyprop Foundation NPC (Hyprop Foundation)	Company formed to further sustainability, enterprise development, socio-economic development and the corporate social initiatives of Hyprop	South Africa	100	100
Hyprop Ikeja Mall Limited (Hyprop Ikeja) ⁽¹⁾	Owns the shares in Gruppo Investments Nigeria Limited	Mauritius	100	100
Gruppo Investments Nigeria Limited (Gruppo) ⁽²⁾	Owns Ikeja City Mall in Lagos, Nigeria	Nigeria	75	75

⁽¹⁾ Wholly owned subsidiary of Hyprop Mauritius

⁽²⁾ Hyprop Ikeja owns 75% of the shares in Gruppo

4. Subsidiaries continued

4.1 Subsidiaries and transactions with non-controlling interests

Gruppo

Set out below is a summary of audited financial information for Gruppo, which owns 100% of the Ikeja City Mall in Lagos, Nigeria, and in which Hyprop has a 75% interest.

	2018 R000	2017 R000
Summarised statement of financial position		
Current assets	114 396	86 978
Current liabilities	(113 761)	(35 215)
	635	51 763
Non-current assets	2 072 511	1 972 763
Non-current liabilities	(1 712 560)	(1 648 020)
	359 951	324 743
Net assets	360 586	376 506
Non-controlling interest	90 320	94 299
Summarised statement of comprehensive income		
Revenue	224 577	249 902
Net (loss)/profit	(34 170)	82 871
Other comprehensive profit/(loss) (foreign currency translation reserve)	18 250	(60 972)
Total comprehensive (loss)/income	(15 920)	21 899
(Loss)/profit allocated to non-controlling interest	(3 980)	5 475
Dividends paid to non-controlling interest	nil	nil
Summarised cash flows		
Cash flows from operating activities	86 412	37 360
Cash flows applied to investing activities	(2 723)	(470)
Cash flows applied to financing activities	(78 363)	(77 094)

5. Joint operations

South African shopping centres, Canal Walk (80%) and The Glen (75,16%) are classified as joint operations. The group recognises its share of the assets, liabilities, income and expenses.

In terms of the co-ownership agreements, Canal Walk and The Glen are jointly controlled by Hyprop and Ellerine Bros.

■ Principal place of business:

- Canal walk: Cape Town, South Africa
- The Glen: Johannesburg, South Africa

The group's share of the joint operations' income and expenses are as follows:

	2018 R000		2017 R000	
	Canal Walk	The Glen	Canal Walk	The Glen
Revenue	905 620	297 090	862 738	302 300
Expenses	(283 702)	(87 659)	(274 428)	(91 065)
Interest received	2 187	173	2 269	197
Depreciation	(298)	(123)	(22)	(143)
Net income	623 807	209 481	590 557	211 289

Notes to the consolidated financial statements continued

for the year ended 30 June

6. Investment in joint ventures

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group	
			2018 %	2017 %
AttAfrica Limited (AttAfrica)	Investing in indirect development or income-producing properties in sub-Saharan Africa (excluding SA)	Mauritius	37,5	37,5
Manda Hill Mauritius Limited (Manda Hill Mauritius)	Property investment company	Mauritius	50	50

6.1 37,5% – joint venture – AttAfrica Limited (AttAfrica)

Hyprop Mauritius has a 37,5% interest in AttAfrica (formerly Atterbury Africa Limited), a Mauritius-based property investment company. The initial investment was made on 20 November 2012. Hyprop Mauritius has 50% of the voting rights on the board of AttAfrica and, accordingly, has joint control of AttAfrica.

	2018 R000	2017 R000
Initial investment in equity	(1)	(1)
<i>(1) Value less than R1 000</i>		
At 30 June 2018, Hyprop Mauritius' 37,5% share of AttAfrica's liabilities exceeded its share of the assets by R276 million (2017: R186 million).		
A summary of audited financial information of AttAfrica is as follows (all figures reflect 100% of AttAfrica):		
Summary of audited statement of profit or loss and other comprehensive income		
Revenue	283 396	233 881
Loss before taxation ⁽²⁾	(175 788)	(484 272)
Taxation	62 751	8 329
Loss for the year	(113 037)	(475 943)
Other comprehensive (loss)/income (foreign currency translation reserve)	(23 627)	22 699
Total comprehensive loss for the year	(136 664)	(453 244)
⁽²⁾ Loss before taxation includes:		
Net interest	(400 194)	(313 780)
Depreciation	(2 489)	(1 162)
Attributable to:		
Equity holders of the company	(116 106)	(319 426)
Non-controlling interest	(20 558)	(133 818)
Hyprop's share of losses of AttAfrica	nil	nil
– Share of loss from joint venture	(43 540)	(119 785)
– Limitation of loss from joint venture	43 540	119 785
Summary of audited statement of financial position		
Non-current assets	4 911 382	4 538 950
Current assets ⁽³⁾	132 254	339 945
Non-current liabilities	(5 083 572)	(5 271 037)
Current liabilities	(721 141)	(232 270)
Net liabilities	(761 077)	(624 412)
Capital and reserves	(761 077)	(624 412)
Shareholders' deficit	(728 692)	(511 350)
Non-controlling interest	(24 025)	(128 329)
Foreign currency translation reserve	(8 360)	15 267
⁽³⁾ Current assets include cash and cash equivalents of:	54 964	39 900
Unrecognised share of losses in AttAfrica	(276 395)	(186 031)
Commitments and contingent liabilities relating to AttAfrica	nil	nil
Guarantees	603 447	655 431

6. Investment in joint ventures continued

6.2 50 % – joint venture – Manda Hill Mauritius Limited (Manda Hill Mauritius)

Hyprop Mauritius has a 50% interest in Manda Hill Mauritius, a Mauritius-based property investment company. AttAfrica holds the other 50% of the shares in Manda Hill Mauritius. Hyprop Mauritius' effective economic interest in Manda Hill Mauritius is 68,75%. The effective date of the investment was 1 July 2014. Hyprop Mauritius has 50% of the voting rights on the board of Manda Hill Mauritius and, accordingly, has joint control of Manda Hill Mauritius.

	2018 R000	2017 R000
Initial investment in equity	(1)	(1)
<i>⁽¹⁾ Value less than R1 000</i>		
At 30 June 2018, Hyprop Mauritius' 50% share of Manda Hill Mauritius' assets exceeded its liabilities by R35,5 million (2017: R14,5 million).		
Summarised audited financial information of Manda Hill Mauritius is as follows (all figures reflect 100% of Manda Hill Mauritius).		
Summary of audited statement of profit or loss and other comprehensive income		
Revenue	150 620	170 078
Loss before taxation ⁽¹⁾	(27 847)	(117 382)
Taxation	(12 394)	(12 302)
Loss for the year	(40 241)	(129 684)
Other comprehensive loss (foreign currency translation reserve)	(1 913)	(13 356)
Total comprehensive loss for the year	(42 154)	(143 040)
<i>⁽¹⁾ Loss before taxation includes:</i>		
Finance cost	(90 792)	(108 582)
Depreciation	(4 358)	(3 109)
Attributable to:		
Equity holders of the company	(42 154)	(143 040)
Hyprop's share of losses of Manda Hill Mauritius		(50 380)
– Share of loss from joint venture	(21 077)	(64 843)
– Limitation of loss from joint venture	21 077	14 463
Summary of audited statement of financial position		
Non-current assets	1 902 794	1 834 321
Current assets ⁽²⁾	14 226	9 251
Non-current liabilities ⁽³⁾	(1 158 504)	(1 861 833)
Current liabilities	(829 596)	(10 663)
Net liabilities	(71 080)	(28 924)
<i>⁽²⁾ Current assets include cash and cash equivalents of:</i>	7 354	1 472
<i>⁽³⁾ Includes non-current financial liabilities</i>	(1 158 504)	(1 852 919)
Carrying amount of Hyprop's share in net assets		10 102
Commitments and contingent liabilities relating to Manda Hill Mauritius	nil	nil
Guarantees	nil	nil

Notes to the consolidated financial statements continued

for the year ended 30 June

7. Financial asset

Hyprop has a 60% interest in Hystead, a UK-based property investment company. The effective date of the investment was 3 December 2015.

The shareholders' agreement between Hyprop and the 40% shareholder (PDI investment Holdings Limited) includes reserved matters and voting rights such that Hyprop has joint control of Hystead. Hystead invests, directly or indirectly, in shopping centres in Europe.

	2018 R000	2017 R000
Percentage ownership interest (%)	60	60
Dividends received by Hyprop	180 525	146 350

In prior years, management assessed the provisions of the Hystead shareholders' agreement and considered whether the investment should form part of joint ventures and be equity accounted or whether the contractual right to receive dividends should be accounted for as a financial asset. The contracts in place give rise to a financial obligation in the Hystead entity to pay dividends.

Accordingly, Hyprop has accounted for this investment as a financial asset and classified the investment as such. During the current year, Hystead acquired AP Retail in Sofia, Bulgaria and Manta in Zagreb, Croatia. Management reassessed the classification and accounting treatment of the investment in Hystead and concluded that the classification as a financial asset remained appropriate.

The fair value of Hyprop's investment in Hystead was initially determined as R1,5 billion (EUR89,8 million) at the date of acquisition. The day-one gain of R1,5 billion was deferred (in accordance with IFRS), as the valuation method included assumptions derived from unobservable inputs. Subsequently the day-one gains on all acquisitions have been treated in the same manner and deferred. Subsequent fair value movements in the financial asset are recognised, resulting in a total deferred gain of R3,8 billion (EUR235,5 million) at year-end.

In return for credit enhancement provided to PDI by Hyprop, Hyprop receives an increased right to dividends from Hystead (disproportionate to its shareholding), while the guarantee is in place (refer to *note 8 – Financial guarantees*).

The fair value of Hyprop's investment in Hystead at 30 June 2018 was based on its right to receive estimated dividends from Hystead as a result of its ownership of 60% (2017: 60%) of the company as well as its right to the credit enhancement fee, equivalent to a further shareholding of 11% (2017: 18%) until the expiry of the shareholders' agreement in May 2021.

The most significant inputs to the valuation process, all of which are unobservable, are the discount rate and the exit capitalisation rate. The estimated fair value increases if the discount rates and exit capitalisation rates decline or if the growth rates increase.

The inputs used in the valuations at 30 June 2018 were:

- Growth rates between (17,8%) and 0,6% with a weighted average of (0,3%)
- Discount rates between 7% and 8% with a weighted average of 7,4%
- Exit capitalisation rates between 5,3% and 7,3% with a weighted average of 6%
- Terminal growth rates between 0,8% and 2% with a weighted average of 1,5%.

7. Financial asset continued

The following table provides a reconciliation of the opening balances and closing balances of the Hystead financial asset:

	2018 R000	2017 R000
7.1 Net financial asset	121 576	
Financial asset	3 891 691	2 022 282
Deferred gains on financial asset	(3 770 115)	(2 022 282)
Balance at 1 July – financial asset	2 022 282	1 472 754
Additions (new properties acquired)	2 626 646	661 868
Unrealised foreign exchange gain/(loss)	194 480	(112 340)
Change in percentage held (reduction in level of credit enhancement)	(402 631)	
Fair value movement through profit or loss	(549 086)	
Subtotal (fair value) at 30 June	3 891 691	2 022 282
Additions (directly related to financial guarantees)	33 815	163 855
Fair value movement through profit or loss	(33 815)	(163 855)
Balance at 30 June – financial asset	3 891 691	2 022 282
Balance at 1 July – deferred gains on financial asset	(2 022 282)	(1 472 754)
Additions (new properties acquired)	(2 626 646)	(661 868)
Unrealised foreign exchange (loss)/gain	(138 923)	112 340
Change in percentage held	393 864	
Fair value movement through profit or loss	623 872	
Balance at 30 June – deferred gains on financial asset	(3 770 115)	(2 022 282)
Net financial asset	121 576	
7.2 Movements through profit or loss	87 761	(163 855)
<i>Total movements on financial asset before guarantees</i>	121 576	
Movement on financial asset	1 869 409	549 528
Movement on deferral of financial asset	(1 747 833)	(549 528)
Fair value adjustment to financial asset on guarantees	(33 815)	(163 855)
7.3 Reconciliation of share of net assets to statement of financial position		
Opening balance	⁽¹⁾	⁽¹⁾
Additions (capital injection)	30 980	
Total movements on financial asset before guarantees	121 576	
Balance at end of the year	152 556	

⁽¹⁾ Value less than R1 000

Notes to the consolidated financial statements continued

for the year ended 30 June

8. Financial guarantees

Hyprop provided guarantees to banks for the funding provided for the acquisition of each of Hystead's investments in South-Eastern Europe (refer to *note 2.4 – Encumbered investment property* and *note 34 – Financial instruments – Fair values and risk management*).

Hyprop has guaranteed the obligations underlying the Euro funding agreements (EUR111,5 million and EUR164 million) and has given certain undertakings to and in favour of Rand Merchant Bank, Standard Bank and Nedbank.

During the year 46% of the loans guaranteed by Hyprop were refinanced through in-country asset backed finance, with 54% of the funding in Hystead secured by shareholder guarantees at 30 June 2018.

Per the shareholders' agreement, Hyprop guarantees 90% of the funding and PDI Investment Holdings Limited (PDI, the 40% shareholder) 10%. PDI has provided back-to-back guarantees to Hyprop for a further 11,7% of the total guaranteed amount and for the remaining, disproportionate 18,3% that Hyprop guarantees, it receives 60% of the related PDI dividend (the credit enhancement fee).

8.1	2018 R000	2017 R000
Credit enhancement fee ⁽¹⁾	46 671	36 931

⁽¹⁾ included in the consolidated statement of profit or loss and other comprehensive income under other income

This agreement is in place until May 2021, when the shareholders' agreement expires.

Recognition of the revised guarantees at fair value resulted in a credit to the statement of profit or loss and a change in the fair value of the financial asset and the financial liability relating to the investment in Hystead.

The valuation of these guarantees is dependent on estimated credit spreads, forecast cash flows and forecast interest rates, which require significant judgement.

8.2	2018 R000	2017 R000
Balance at 1 July	163 855	
Net change	21 831	163 855
Recognition of new financial guarantees	33 815	163 855
Derecognition of guarantees	(11 984)	
Balance at 30 June	185 686	163 855

9. Other investment

Details of the group's other investment at the end of the reporting period are as follows:

Name of investment	Principal activity	Place of incorporation and operation	Proportion of ownership interest	
			2018 %	2017 %
AttAfrica SA Proprietary Limited (AttAfrica SA)	Provides asset management and consulting services to AttAfrica	South Africa	37,5	37,5

The acquisition date of the investment was 14 July 2014.

Although Hyprop has a 37,5% interest, it neither participates on the board of AttAfrica SA, nor does it have significant influence over the entity. Therefore the investment is not an associate, nor is it equity accounted. The investment is carried at cost.

	2018 R000	2017 R000
Balance at beginning of the year	(2)	(2)
Balance at end of the year	(2)	(2)

⁽²⁾ Value less than R1 000

No impairment was recognised during the current year.

9. Other investment continued

The numbers below reflect 100% of AttAfrica SA:

	2018 R000	2017 R000
Statement of financial position – AttAfrica SA		
Total assets	15 161	11 711
Non-current assets	1 863	1 133
Current assets ⁽¹⁾	13 298	10 578
Total liabilities	(16 881)	(14 494)
Non-current liabilities ⁽²⁾	(1 300)	(1 300)
Current liabilities	(15 581)	(13 194)
Net liabilities	(1 720)	(2 783)
⁽¹⁾ Current assets include cash and cash equivalents	3 029	4 887
⁽²⁾ Includes non-current financial liabilities	(1 300)	(1 300)
Statement of profit or loss and other comprehensive income – AttAfrica SA		
Total revenue	26 707	24 593
Total profit/(loss) for the year	1 064	(4 754)

10. Loans receivable

		Foreign currency 2018 '000	Foreign currency 2017 '000	2018 R000	2017 R000
10.1 USD loan – AttAfrica	Net	USD173 350	USD187 372	2 375 009	2 444 203
The loan represents shareholder loan funding to AttAfrica, and is repayable in June 2020. The loan is unsecured and bears interest at an initial rate of 8%, escalating at 4% per annum. Hyprop Mauritius has a preferential right to receive interest on the loan to AttAfrica and has a 37,5% equity interest in AttAfrica.	Gross	USD184 757	USD189 317	2 531 287	2 469 580
	Impairment	(USD11 407)	(USD1 945)	(156 278)	(25 377)
10.2 USD loan – Manda Hill Mauritius	Net	USD39 685	USD42 279	543 712	551 515
The loan is unsecured, and bears interest at a variable rate which equates to Hyprop Mauritius' 50% share of distributable income from Manda Hill Mauritius. The loan is not repayable in the next 12 months.	Gross	USD42 279	USD42 279	579 252	551 515
	Impairment	(USD2 594)		(35 540)	
10.3 EUR loan – Vondelvlag Holding	Gross	EUR1 020	EUR1 020	16 323	15 199
The EUR1,04 million loan is unsecured, bears interest at 3,15%, payable quarterly, and is repayable in April 2021.					
10.4 EUR loan – Vondelvlag Stichting	Gross	EUR150	EUR150	2 400	2 235
The EUR150 000 loan facility, of which EUR144 894 has been drawn down, is unsecured, bears interest at 3,15%, payable quarterly, and is repayable in April 2021.					
10.5 EUR loan – Hystead Limited	Gross	EUR2 544		40 716	
The EUR2,5 million loan facility is unsecured and bears no interest. It is short term and was converted to equity after year-end.					
				2 978 160	3 013 152
Reconciliation to the statement of financial position					
Non-current loans receivable from joint ventures				2 918 721	2 995 718
Non-current loans receivable				18 723	17 434
Current loans receivable				40 716	
Total				2 978 160	3 013 152

Notes to the consolidated financial statements continued

for the year ended 30 June

10. Loans receivable continued

The table below reconciles the movement in the above balances during the year.

	AttAfrica USD loan R000	Manda Hill Mauritius USD loan R000	Vondelvlag Holding EUR loan R000	Vondelvlag Stichting EUR loan R000	Hystead Limited EUR loan R000	Total R000
2018						
Balance at beginning of the year	2 444 203	551 515	15 199	2 235		3 013 152
Advances during the year	59 061				40 716	99 777
Repayment during the year	(157 934)					(157 934)
Interest charged during the year	221 568	19 689	497	73		241 827
Interest received	(180 129)	(16 903)	(794)	(117)		(197 943)
Net movement in interest received in advance		(2 786)				(2 786)
Foreign currency translation	119 141	27 737	1 422	209		148 509
Impairment of loan (refer to note (a) below)	(130 901)	(35 540)				(166 441)
Balance at end of the year	2 375 009	543 712	16 324	2 400	40 716	2 978 161
2017						
Balance at beginning of the year	2 633 939	624 618	12 844	1 889		3 273 290
Advances during the year	130 827		3 864	568		135 259
Repayment during the year	(40 379)					(40 379)
Interest charged during the year	202 717	31 255	597	74		234 643
Repayment during the year						
Interest received	(143 105)	(25 981)	(712)	(60)		(169 858)
Net movement in interest received in advance		(5 275)				(5 275)
Foreign currency translation	(314 419)	(73 102)	(1 394)	(236)		(389 151)
Impairment of loan (refer note (a) below)	(25 377)					(25 377)
Balance at end of the year	2 444 203	551 515	15 199	2 235		3 013 152

(a) Impairments on loans receivable

Manda Hill Mauritius and certain of the properties in the AttAfrica portfolio have been negatively affected by the economic conditions of recent years and are producing lower investment returns than what was originally anticipated. The income received from those properties over the next few years is likely to be lower than previously modelled. The shareholder loans to AttAfrica and Manda Hill Mauritius, which reflect Hyprop's share of the value of the underlying property investments at group level, have therefore been impaired.

Key estimates and judgements made in determining the impairments were as follows:

In considering the need for an impairment of the loans to AttAfrica and Manda Hill account was taken of:

- the long-term nature of the underlying investments,
- the remaining period of the loan (two years),
- the probability that the loans would be restructured and extended in 2020 (with respect to AttAfrica only as Manda Hill has no set maturity date),
- that the negative net asset value included deferred tax liabilities on the revaluation of investment properties that the company believes would not realise on the sale of shares in the SPVs, and
- that Kumasi (Ghana) recently opened in April 2017 and future growth is expected.

The final impairment level was based on the view that the basis of valuation was conservative given that an uplift in net asset value was expected as certain of the newer properties bedded down and their trading improved.

11. Trade and other receivables

	2018 R000	2017 R000
Rent receivable	112 856	83 419
Allowance for doubtful debts	(49 624)	(33 944)
Municipal recoveries	60 211	55 462
Interest receivable		6 704
Dividend receivable	76 484	57 257
Withholding taxes receivable	13 482	8 969
Credit enhancement fee receivable	17 789	17 177
Prepayments	13 535	15 435
Municipal deposits	2 996	2 596
Other receivables	10 342	17 666
	258 071	230 741
Movements in allowance for doubtful debts		
Opening balance – 1 July	(33 944)	(28 635)
Allowance for doubtful debts raised during the year	(31 089)	(18 217)
Receivables written off during the year	17 509	10 027
Foreign currency translation adjustment	(2 100)	2 881
Closing balance – 30 June	(49 624)	(33 944)
Ageing of impaired receivables		
Current	2 772	3 406
30 days	1 791	3 286
60 days	1 218	3 403
90+ days	43 843	23 849
	49 624	33 944
Ageing of receivables past due but not impaired		
30 days	11 911	8 757
60 days	7 409	5 495
90+ days	27 872	17 594
Total	47 192	31 846

The allowance for doubtful debts has been determined on a tenant-by-tenant basis, taking into account the circumstances of each tenant, including factors such as defaults on payment terms, known insolvency and the legal status of the accounts.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Save for certain national tenants, a deposit in the form of cash or a bank guarantee is obtained from the tenant in terms of Hyprop's deposit policy. Furthermore, and only if required, a deed of suretyship is obtained from a tenant.

Management believes that there are no significant trade receivables that are doubtful that have not been provided for as doubtful debts or written off.

12. Cash and cash equivalents

	2018 R000	2017 R000
Cash held on call account as security for municipal and other guarantees	12 758	11 962
Bank balances and cash	702 735	1 113 788
Balance at end of the year	715 493	1 125 750

Notes to the consolidated financial statements continued

for the year ended 30 June

13. Non-current assets classified as held-for-sale

	Note	2018 R000	2017 R000
Assets and liabilities of disposal group held-for-sale			
Assets			
		199 257	426 681
Investment property	2.1	194 665	415 182
Building appurtenances and tenant installations		3 335	3 616
Trade and other receivables		1 101	6 324
Cash and cash equivalents		156	1 559
Liabilities			
Trade and other payables		(8 157)	(13 074)
		(8 157)	(13 074)
Net classified as held-for-sale		191 100	413 607
Movement in assets held-for-sale			
Investment property, building appurtenances and tenant installations			
Opening balance		418 796	1 230 773
Disposals		(226 607)	(868 125)
Transfers from building appurtenances, tenant installations and investment property		5 811	59 569
Depreciation			(3 421)
Closing balance		198 000	418 796
Working capital			
Opening balance		(5 189)	(15 050)
Disposals		1 468	16 277
Additions		(3 179)	(6 416)
Closing balance		(6 900)	(5 189)
Net classified as held-for-sale		191 100	413 607

Non-current assets held-for-sale consist of Lakefield Office Park.

During the year the following buildings were sold:

	Transfer date	2018 Sale price Rm	2017 Sale price Rm
Somerset Value Mart	September 2016		185
Glenfield Office Park	December 2016		180
Willowbridge South	March 2017		460
Glenwood Office Park	May 2017		42
Willowbridge North	September 2017	225	
Greenstone Park – vacant land	June 2018	4,5	
Total		229,5	867

A conditional sale agreement has been concluded for the last remaining non-core property in the portfolio, Lakefield Office Park. Transfer is subject to Competition Commission approval.

14. Stated capital

	2018 R000	2017 R000
Authorised		
500 000 000 no par value ordinary shares (2017: 500 000 000)		
Issued		
255 894 516 no par value ordinary shares (2017: 248 441 278)	8 462 327	7 683 651
243 256 092 – no par value ordinary shares (2017: 243 256 092)	7 683 651	6 987 996
7 453 238 (2017: 5 185 186) no par value ordinary shares – issued during the year	778 676	695 655
No par value ordinary treasury shares in issue ⁽¹⁾	(43 425)	(35 435)
387 246 – no par value ordinary treasury shares – 1 July (2017: 410 659)	(35 435)	(38 857)
155 000 shares purchased (2017: 77 000) ⁽²⁾	(18 162)	(8 974)
95 986 shares vested during the year (2017: 100 413)	10 174	12 396
Balance – issued stated capital at end of the year	8 418 904	7 648 216
Reconciliation – number of shares in issue		
Ordinary shares in issue	255 894 516	248 441 278
Balance – 1 July 2017	248 441 278	243 256 092
Issued during the year	7 453 238	5 185 186
Treasury shares in issue ⁽¹⁾	(446 260)	(387 246)
Balance – 1 July 2017	(387 246)	(410 659)
Purchased during the year ⁽²⁾	(155 000)	(77 000)
Vested during the year	95 986	100 413
Balance at end of the year	255 448 256	248 054 032

⁽¹⁾ Shares are held in treasury to hedge the company's obligations in terms of the long-term Hyprop Employee Incentive Scheme (conditional share plan (CUP)). Refer to note 25 – Employee remuneration

⁽²⁾ Purchased during the year by Hyprop Investments Employee Incentive Scheme Proprietary Limited

Notes to the consolidated financial statements continued

for the year ended 30 June

15. Reserves

15.1 Non-distributable reserves

	2018 R000	2017 R000
Revaluation of: Investment property	16 432 551	15 854 308
Listed property securities	616 759	616 759
Derivative instruments	(19 801)	(48 886)
Derecognition of guarantees	11 984	
Realised surplus/(loss) on disposal of: Investment property	168 383	165 687
Listed property securities	276 630	276 630
Subsidiaries	(131 010)	(120 907)
Joint venture (<i>Hystead</i>)	(76 094)	(163 855)
Associate	17 431	17 431
Shares (<i>African Land</i>)	(2 709)	(2 709)
Non-distributable reserves of associate	125 344	125 344
Impairment of goodwill	(577 847)	(577 847)
Gain on bargain purchase (<i>African Land</i>)	191 235	191 235
Impairment of loans receivable	(191 818)	(25 377)
Other		(55 770)
	16 841 038	16 252 043
15.2 Share-based payment reserve⁽¹⁾		
Share-based payment	27 443	23 901
Total	16 868 481	16 275 944

⁽¹⁾ Relates to the amortised share-based payment cost of the Hyprop Employee Incentive Scheme (CUP)

16. Foreign currency translation reserve (FCTR)

The foreign currency translation reserve arises from the conversion of foreign operations from their functional currencies to South African Rand on consolidation. Refer to note 4 – *Subsidiaries* and note 6 – *Investment in joint ventures*.

	2018 R000	2017 R000
Opening balance	2 217	14 597
Movement	15 471	(27 623)
Non-controlling interest	(4 564)	15 243
Closing balance	13 124	2 217

For more detailed disclosure on the group's foreign currency exposure and rates of conversion, refer to note 34 – *Financial instruments – Fair values and risk management*.

17. Borrowings

Facility	Secured by property ^{(1) (3)}	Capital repayment date	Interest rate %	2018 R000	2017 R000	
SA Rand bank facilities						
Nedbank Limited						
Repaid in June 2018		June 2018	Prime - 1,8	Repaid ⁽²⁾	1 214 754 ⁽⁵⁾	
Old Mutual Specialised Finance Proprietary Limited (OMSFIN)						
R400 million is fixed at an average rate of 9,55%	R400 million	Somerset Mall	July 2022	Three-month JIBAR +1,55	399 539	399 428
US Dollar bank facilities						
RMB						
During the year USD23 million loans expired and were refinanced for three years at a floating rate. USD5,0 million was fixed until May 2020	USD23 million	40% of Canal Walk	May 2018	LIBOR + 3,2	Refinanced	299 744 ⁽⁵⁾
At year-end the drawn down amount was R228,3 million (USD16,7 million) at an average rate of 3,9%	USD23 million	40% of Canal Walk and Clearwater	May 2020	Tranche A: LIBOR +3,2 Tranche B: LIBOR +2,7	228 336	
The Standard Bank of South Africa Limited						
83% of the drawn down amount of R1,4 billion (USD100 million) is fixed. The average rate is 4,7%	USD100 million	⁽⁴⁾	August 2019	LIBOR +2,75	1 370 070	1 304 466
69% of the drawn down amount of R1,5 billion (USD111,3 million) is fixed. The average rate is 4,3%	USD120 million	⁽⁴⁾	July 2020	LIBOR +2,40	1 524 663	1 448 212
Standard Finance (Isle of Man) Limited						
During the year two bank loans of USD40 million and USD20 million were consolidated and refinanced through a three-year USD60 million bank facility	USD40 million	⁽⁴⁾	October 2017	LIBOR +3,17	Refinanced	521 786 ⁽⁵⁾
75% of the R822 million (USD60 million) is fixed. The average rate is 4,3%	USD20 million	⁽⁴⁾	November 2018	LIBOR +2,85	Refinanced	260 893 ⁽⁵⁾
	USD60 million	⁽⁴⁾	October 2020	LIBOR +2,21	822 042	
Stanbic IBTC Bank PLC						
During the year the USD32,4 million facility was refinanced with a three-year bank facility	USD32,4 million	Ikeja City Mall	December 2017	LIBOR +6,25	Refinanced	423 945 ⁽⁵⁾
The drawn down amount of R433,1 million (USD31,6 million) is floating at an average rate of 7,9%	USD31,6 million	Ikeja City Mall	December 2020	LIBOR +6,25	433 150	
Investec Asset Management Proprietary Limited						
During the year the USD24,3 million facility was refinanced with a three-year bank facility	USD24,3 million	Ikeja City Mall	December 2017	LIBOR +6,25	Refinanced	317 597 ⁽⁵⁾
The drawn down amount of R324,4 million (USD23,7 million) is floating at an average rate of 7,9%	USD23,7 million	Ikeja City Mall	December 2020	LIBOR +6,25	324 414	

⁽¹⁾ Encumbered properties total R20,2 billion (2017: R22,1 billion)

⁽²⁾ The R1,5 million facility was repaid with corporate bond funding during the year (refer to new five and seven-year bonds below)

⁽³⁾ CapeGate and Atterbury Value Mart are also encumbered to Euro debt, refer to note 2 – Investment property

⁽⁴⁾ 40% of Canal Walk, 75,15% of The Glen and Woodlands is secured for borrowings from the Standard Bank of South Africa Limited and its subsidiary, Standard Finance (Isle of Man) Limited

⁽⁵⁾ Short term

Notes to the consolidated financial statements continued

for the year ended 30 June

17. Borrowings continued

	Capital repayment/ maturity date	Interest rate %	2018 R000	2017 R000
Debt capital market funding				
Corporate bonds				
Six-year bond – fixed	November 2019	Three-month JIBAR + 1,54	450 000	450 000
Five-year bond – repaid during 2018 year with cash from asset sales	September 2017	Three-month JIBAR + 1,50	Repaid	300 000 ⁽⁵⁾
Five-year bond – repaid during 2018 year with cash from asset sales	May 2018	Three-month JIBAR + 1,45	Repaid	450 000 ⁽⁵⁾
Five-year bond – fixed	November 2019	Three-month JIBAR + 1,50	200 000	200 000
Three-year bond – fixed	July 2019	Three-month JIBAR + 1,69	357 940	357 881
Four-year bond – fixed	July 2020	Three-month JIBAR + 1,79	424 894	424 841
Five-year bond – fixed	July 2021	Three-month JIBAR + 1,90	316 905	316 873
Five-year bond – fixed	March 2023	Three-month JIBAR + 1,60	452 000	
Seven-year bond – fixed	March 2025	Three-month JIBAR + 1,90	348 000	
Shareholder loans – unsecured – USD loan				
AIH International Limited (outside shareholder loan to Gruppo Investments Nigeria Limited, which owns Ikeja City Mall in Lagos, Nigeria) of USD17 009 500	March 2021	17,25	233 041 ⁽⁶⁾	210 218
			⁽⁵⁾ Short term	
			⁽⁶⁾ Short-term portion R69 343 (2017: R435 587)	
Total interest-bearing borrowings			7 884 994	8 900 638
Reconciliation to the statement of financial position				
Non-current			7 815 651	5 068 332
Long-term portion of interest-bearing borrowings			7 815 651	5 068 332
Current			69 343	3 832 306
Short-term portion of interest-bearing borrowings			69 343	3 832 306
Total borrowings			7 884 994	8 900 638

18. Derivative instruments

Derivative instruments comprise interest rate swaps and zero cost collars. The interest rate swaps are used to fix the interest rates on long-term debt facilities and corporate bonds, while the zero cost collars are used to fix the exchange rate in advance of the receipt of dividends from Hyprop Mauritius and Hystead.

		2018 R000	2017 R000
Opening balance at 1 July		(47 153)	(51 889)
Foreign exchange movement		(330)	10 748
Additions		5 850	(938)
Disposals		(8 883)	
Fair value adjustment		32 118	(5 074)
Balance at end of the year		(18 398)	(47 153)
Standard Bank of South Africa Limited			
Assets			
Non-current	Interest rate swap	6 017	
Current	Interest rate swap	815	
Liabilities			
Non-current	Interest rate swap	(8 900)	
Current	Interest rate swap	(277)	(18 086)
Current	Zero cost collars	(1 722)	(80)
Rand Merchant Bank (RMB)			
Assets			
Non-current	Interest rate swap	829	
Current	Interest rate swap		9 530
Liabilities			
Non-current	Interest rate swap	(1 380)	(13 194)
Current	Interest rate swap		(858)
Nedbank Limited			
Assets			
Non-current	Interest rate swap		785
Liabilities			
Non-current	Interest rate swap	(13 780)	(25 250)
		(18 398)	(47 153)
Reconciliation to the statement of financial position			
Non-current assets		6 846	785
Current assets		815	9 530
Non-current liabilities		(24 060)	(56 530)
Current liabilities		(1 999)	(938)
		(18 398)	(47 153)

Notes to the consolidated financial statements continued

for the year ended 30 June

18. Derivative instruments continued

The valuation of the derivative instruments was determined by discounting the future cash flows using the JIBAR or LIBOR swap curve.

Financial institution	Nominal amount	Fixed rate payable %	Expiry date	Variable rate receivable
Standard Bank	R100 million	8,02	13/8/2018	Three-month JIBAR
Standard Bank	R100 million	8,04	11/11/2019	Three-month JIBAR
Standard Bank	R100 million	8,50	3/2/2020	Three-month JIBAR
Standard Bank	R450 million	7,85	30/10/2020	Three-month JIBAR
Standard Bank	R300 million	7,82	31/10/2023	Three-month JIBAR
Standard Bank	R100 million	7,85	27/5/2024	Three-month JIBAR
RMB	R200 million	7,73	18/9/2019	Three-month JIBAR
Nedbank	R250 million	8,54	2/1/2020	Three-month JIBAR
Nedbank	R250 million	8,29	2/1/2020	Three-month JIBAR
Nedbank	R500 million	7,43	4/1/2021	Three-month JIBAR
Nedbank	R250 million	7,21	1/2/2021	Three-month JIBAR
Nedbank	R500 million	7,61	1/9/2021	Three-month JIBAR
Nedbank	R500 million	7,55	1/10/2021	Three-month JIBAR
Standard Bank	USD17,8 million	4,26	13/11/2018	Quarterly Three-month LIBOR
Standard Bank	USD27,1 million	2,11	30/10/2020	Quarterly Three-month LIBOR
RMB	USD4,98 million	2,10	18/5/2020	Three-month LIBOR

Further disclosure on the designation of the interest rate swaps and their risk mitigation role is provided in *note 34 – Financial instruments – Fair values and risk management*.

19. Deferred taxation

	2018 R000	2017 R000
Arising on:		
Wear and tear claims on investment property, building appurtenances and tenant installations	164 149	152 307
Taxation loss arising prior to REIT status	(78 122)	(78 122)
Fair value of investment property – Gruppo Investments Nigeria Limited	76 165	72 618
Fair value adjustment on convertible loans – Gruppo Investments Nigeria Limited	28 017	4 105
Rent and other receivables for Gruppo Investments Nigeria Limited	(12 207)	(11 309)
	178 002	139 599
Reconciliation of the movement in the deferred taxation liability		
Opening balance – 1 July	139 599	146 509
Sale of subsidiary		(184)
FCTR adjustment	3 299	(8 352)
Movement through profit and loss	35 104	1 626
Building appurtenances and tenant installations	12 078	12 036
Reversal of wear and tear allowances on asset sales	(264)	(14 297)
Fair value on investment property	(51)	(8 154)
Prior year deferred taxation adjustment	2 927	(912)
Fair value adjustment on convertible loans – Gruppo Investments Nigeria Limited	23 706	18 694
Rent and other receivables for Gruppo Investments Nigeria Limited	(3 292)	(5 741)
Balance at end of the year	178 002	139 599

Deferred taxation on temporary differences was calculated at 28% (2017: 28%) in respect of South African amounts. Ikeja City Mall temporary differences: 30% (2017: 30%); Ikeja City Mall Investment property: 10% (2017: 10%).

20. Trade and other payables

	Note	2018 R000	2017 R000
Trade payables and accrued expenses		154 636	139 407
Tenant deposits		86 647	78 038
Gift cards		15 425	11 642
Interest payable		44 980	93 044
Rent received in advance		86 944	70 110
Value added tax (VAT)		26 201	21 275
Municipal provisions		39 561	41 691
Employee provisions		28 064	26 142
Other payables		3 632	8 332
		486 090	489 681
21. Interest earned			
Positive bank balances		70 162	61 977
Loans receivable		242 388	232 200
		312 550	294 177
22. Interest incurred			
Interest-bearing borrowings		601 488	631 551
Interest capitalised	2.2	(6 665)	(872)
		594 823	630 679

Notes to the consolidated financial statements continued

for the year ended 30 June

23. Operating income

	2018 R000	2017 R000
Operating income is stated after the following:		
Income includes		
Contingent rental income (turnover rental)	46 246	46 132
Expenses include		
Depreciation	38 149	33 296
Small asset write-offs	81	43
Employee remuneration	147 163	131 193
Share-based payments (CUP) (refer to note 25 – Employee remuneration)	10 877	12 655
Forex losses	8 375	39 739
Property expenses per the statement of profit or loss and other comprehensive income include the following material expenses:		
Municipal expenses	623 982	635 955
Security expenses	51 493	51 139
Cleaning expenses	42 159	41 680
Marketing expenses	40 063	40 238
Maintenance costs	22 043	23 870
Directors' remuneration		
Independent non-executive		
Gavin Tipper	688	636
Lindie Engelbrecht	543	541
Mike Lewin	392	364
Stewart Shaw-Taylor	551	489
Thabo Mokgatlha	462	432
Nonyameko Mandindi ⁽¹⁾	325	47
Ethan Dube (paid to Vunani Capital Proprietary Limited)		143
	2 961	2 652
Non-executive		
Kevin Ellerine	343	329
Louis Norval	343	329
	15 760	16 752
Executive		
Pieter Prinsloo (CEO)	10 031	10 630
Basic salary	4 153	3 906
Pension fund contributions	196	184
Performance bonus (paid in December)	3 498	3 933
Incentive scheme	2 069	2 488
Other benefits	115	119
Laurence Cohen (FD) ⁽²⁾	5 729	6 122
Basic salary	2 362	2 221
Pension fund contributions	410	386
Performance bonus (paid in December)	1 759	2 060
Incentive scheme	1 115	1 371
Other benefits	83	84

⁽¹⁾ Independent non-executive director Nonyameko Mandindi was appointed to the board on 8 May 2017

⁽²⁾ Executive director, Laurence Cohen resigned from the board effective 31 July 2018

23. Operating income continued

Directors' beneficial interests under the long-term employee incentive scheme (CUP) (unvested)	Pieter Prinsloo Number of Hyprop shares	Laurence Cohen Number of Hyprop shares
Balance at 1 July 2016	82 560	44 833
Allocated during the year	23 067	12 428
Balance at 30 June 2017	105 627	57 261
Balance at 1 July 2017	105 627	57 261
Allocated during the year	24 416	13 154
Vested during the year	(39 682)	(21 626)
Forfeited during the year	(2 316)	(1 248)
Balance at 30 June 2018	88 045	47 541
Market value of shares at 30 June	2018 R000	2017 R000
Pieter Prinsloo	9 011	12 332
Laurence Cohen	4 865	6 685
24. Auditor's remuneration		
Auditor's remuneration – fees paid to external auditors for the attest function		
KPMG	2 628	2 362
Grant Thornton		186
Ernst & Young	477	627
	3 105	3 175
Auditor's remuneration – amounts paid for internal audit services		
PricewaterhouseCoopers	1 137	1 331
Other auditor's remuneration – amounts paid for other services		
KPMG	75	149
	1 212	1 480

Notes to the consolidated financial statements continued

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25. Employee remuneration

Equity-settled share-based employee remuneration

On 1 January 2014, the group implemented a long-term employee incentive scheme (the conditional share plan (CUP)), which consists of two components – performance shares and retention shares. Both the performance and the retention components of the scheme are settled in Hyprop shares.

In terms of the CUP, fully paid awards are made on an annual basis, comprising performance shares and retention shares. The split between performance and retention shares is 70%:30% for all participants.

Performance shares

The performance conditions for the shares allocated as performance shares are as follows:

- Growth in distribution per share relative to the peer group (weighting 40%)
- Share price performance relative to the peer group (weighting 40%)
- A strategic component, which is determined by the remuneration committee in line with the prevailing circumstance and projects at the time of the award (weighting 20%).

Each of the performance conditions is measured over a three-year performance period. Participants must be employed until the end of the vesting period to be eligible for the award.

Retention shares

Retention shares vest after five years, provided the participant is still employed by the group.

	Number of performance shares	Number of retention shares
Reconciliation of shares allocated in terms of the CUP		
Unvested at 30 June 2016	283 588	121 539
Granted	86 961	36 063
Forfeited	(3 368)	(405)
Vested	(106 370)	(3 591)
Unvested at 30 June 2017	260 811	153 606
Granted	84 840	35 114
Forfeited	(15 446)	(5 588)
Vested	(94 390)	(1 312)
Unvested at 30 June 2018	235 815	181 820
2017 – weighted average remaining vesting period (years)	1,0	2,5
2018 – weighted average remaining vesting period (years)	1,1	2,0

The weighted average share price of the shares that vested during the year was R105,99 (2017: R123,46).

25. Employee remuneration continued

Equity-settled share-based employee remuneration continued

The fair value of share options granted was determined using the Black Scholes model using a volatility metric of 20%. Expected dividends were incorporated into the valuation based on the historical dividend yield. The inputs used in the valuation, as well as the fair value arrived at, are detailed below.

Unvested equity instruments	Performance shares	Retention shares
Tranche 1		
Grant date		1 January 2014
Vesting period ends		31 December 2018
Fair value of the share option at grant date		R57,98
Share price at grant date		R76,50
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life		5 years
Risk-free rate after taxation		5,75%
Dividend yield (historic)		5,54%
Tranche 1 of the performance shares vested during the prior year at a fair value of R123,46 per share.		
Tranche 2		
Grant date		1 July 2014
Vesting period ends		30 June 2019
Fair value of the share option at grant date		R59,08
Share price at grant date		R79,51
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life		5 years
Risk-free rate after taxation		5,88%
Dividend yield (historic)		5,94%
Tranche 2 of the performance shares vested during the current financial year at a fair value of R105,99 per share.		
Tranche 3		
Grant date	1 July 2015	1 July 2015
Vesting period ends	30 June 2018	30 June 2020
Fair value of the share option at grant date	R105,76	R96,68
Share price at grant date	R121,00	R121,00
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life	3 years	5 years
Risk-free rate after taxation	5,97%	5,97%
Dividend yield (historic)	4,49%	4,49%
Tranche 4		
Grant date	1 July 2016	1 July 2016
Vesting period ends	30 June 2019	30 June 2021
Fair value of the share option at grant date	R112,56	R102,32
Share price at grant date	R129,89	R129,89
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life	3 years	5 years
Risk-free rate after taxation	6,26%	6,26%
Dividend yield (historic)	4,77%	4,77%
Tranche 5		
Grant date	1 January 2017	1 January 2017
Vesting period ends	31 December 2019	31 December 2021
Fair value of the share option at grant date	R100,11	R90,07
Share price at grant date	R117,31	R117,31
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life	3 years	5 years
Risk-free rate after taxation	6,43%	6,43%
Dividend yield (historic)	5,28%	5,28%

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25. Employee remuneration continued Equity-settled share-based employee remuneration continued

Unvested equity instruments	Performance shares	Retention shares
Tranche 6		
Grant date	1 July 2017	1 July 2017
Vesting period ends	30 June 2020	30 June 2022
Fair value of the share option at grant date	R97,66	R86,70
Share price at grant date	R116,76	R116,76
<i>The inputs used in the measurement of the fair value at grant date were as follows:</i>		
Expected life (years)	3	5
Risk-free rate after taxation (%)	6,4	6,4
Dividend yield (historic) (%)	6,0	6,0
The executive directors were allocated the following percentages of the total shares allocated:	Pieter Prinsloo (CEO)	Laurence Cohen (FD)
	%	%
Tranche 1		
Retention shares	19	10
Tranche 1 of the performance shares vested during the prior financial year		
Tranche 2		
Retention shares	20	11
Tranche 2 of the performance shares vested during the current financial year	20	11
Tranche 3		
Performance shares	20	11
Retention shares	20	11
Tranche 4		
Performance shares	20	11
Retention shares	21	11
Tranche 6		
Performance shares	20	11
Retention shares	21	11

The charge to the statement of profit or loss and other comprehensive income for the year ended 30 June 2018 amounted to R10,9 million (2017: R12,7 million). As the above are equity-settled share-based payments, the accounting treatment recognises the share-based payments in profit or loss on a straight-line basis over the vesting period, with a corresponding credit to equity.

26. Taxation

	2018 R000	2017 R000
Major components of the taxation expense		
Current taxation – current year	3 583	2 714
– prior year	798	
Deferred taxation – current year	32 178	2 538
– prior year	2 927	(912)
Taxation for the year	39 486	4 340
Reconciliation of taxation charge		
Net income before taxation at 28%	716 915	770 357
REIT dividend	(485 752)	(455 872)
Income exempt from tax and non-tax deductible expenses	(184 732)	(322 158)
Income taxation	798	
Deferred taxation	2 927	(912)
Imputed income from Hyprop Mauritius and Hystead	30 433	26 587
Adjustment in respect of foreign tax rates	(41 103)	(13 662)
Taxation expense recognised in statement of profit or loss and other comprehensive income	39 486	4 340
The taxation rate applied in the reconciliation is 28% (2017: 28%).		
Income exempt from tax and non-tax deductible expenses comprises the following:		
Change in fair value:		
Investment property	(182 436)	(344 327)
Derivative instruments	(8 144)	1 421
Financial guarantee	(3 356)	
Financial asset	(24 573)	45 879
Convertible loan – Gruppo	20 760	(998)
Straight-line rental income accrual	1 315	(9 551)
(Profit)/loss on disposal of assets	(755)	477
Non-taxable dividend received	(50 547)	
Impairment of joint venture	2 829	
Impairment of loan to joint venture	46 603	
Write-off of goodwill		5 078
Reversal of wear and tear allowances on asset sales	(264)	(14 297)
Other	13 836	(5 840)
Total income exempt from tax and non-tax deductible expenses	(184 732)	(322 158)
Unrecognised tax losses		
Estimated tax losses available for utilisation against future taxable income	279 008	279 007
Applied to reduce deferred taxation liability	(279 008)	(279 007)
27. Dividends and distributions		
Dividends declared and paid in the current year		
Total dividend declared and paid⁽¹⁾	1 795 398	1 660 317
Interim dividend in respect of the six months ended 31 December 2017 (31 December 2016)	933 205	861 410
Final dividend in respect of the six months ended 30 June 2017 (30 June 2016)	862 193	798 907
Total dividend per share for the year (cents)	724,1	695,1
Dividend declared in February 2018/2017	376,3	347,3
Dividend declared in August 2017/2016	347,8	347,8

⁽¹⁾ This amount is reflected in the statement of changes in equity

On 30 August 2018, the board of directors declared a gross dividend of 380.2 cents per share (2017: 347.8 cents) payable to shareholders recorded on the register on 25 September 2018.

Notes to the consolidated financial statements continued

for the year ended 30 June

28. Earnings per share

The calculation of basic and headline earnings per share has been based on profit attributable to ordinary shareholders, amended as shown in the reconciliation below. The weighted average number of ordinary shares outstanding has been used for both basic and headline earnings, with adjustments for treasury shares held. The effect of all dilutive potential ordinary shares is shown in both the earnings (diluted) and the weighted average number of shares outstanding (diluted).

	Total 2018 R000	Total 2017 R000	Diluted 2018 R000	Diluted 2017 R000
Earnings				
Reconciliation – basic to headline earnings				
Profit for the year attributable to shareholders of the company	2 529 466	2 767 652	2 529 466	2 767 652
<i>Dilutive earnings adjustments</i>				(16 090)
Retention share scheme				(6 754)
Performance share scheme				(9 336)
Profit attributable to shareholders of the company (basic/diluted earnings)	2 529 466	2 767 652	2 529 466	2 751 562
<i>Headline earnings adjustments</i>	(638 616)	(1 173 228)	(638 616)	(1 173 228)
Change in fair value of investment property	(646 359)	(1 181 786)	(646 359)	(1 181 786)
Impairment/(reversal of impairment) of investment in joint venture	10 102	(10 102)	10 102	(10 102)
Non-controlling interest – Gruppo	338	2 557	338	2 557
Profit on disposal of investment property	(2 697)	(2 031)	(2 697)	(2 031)
Impairment of goodwill		18 134		18 134
Headline earnings/diluted headline earnings	1 890 850	1 594 424	1 890 850	1 578 334
Weighted average number of ordinary shares (basic and headline)				
At 30 June 2018, the company had 255 894 516 shares in issue (2017: 248 441 278).				
Issued shares at 1 July	248 441 278	243 256 092	248 441 278	243 256 092
Effect of shares issued	1 041 411	4 645 358	1 041 411	4 645 358
Effect of treasury shares held	(458 469)	(460 050)	(458 469)	(460 050)
Effect of dilutive shares			183 082	279 131
Weighted average shares in issue	249 024 220	247 441 400	249 207 302	247 720 531
	Cents	Cents	Cents	Cents
Earnings and headline earnings per share				
Basic earnings per share	1 015.8	1 118.5	1 015.0	1 110.8
Headline earnings per share	759.3	644.4	758.7	637.1

29. Notes to the statement of cash flows

29.1 The following convention applies to figures other than adjustments:

Outflows of cash are represented by figures in brackets.

Inflows of cash are represented by figures without brackets.

	2018 R000	2017 R000
29.2 Cash generated from operations		
Net income before taxation	2 560 409	2 751 274
<i>Adjustments:</i>	<i>(475 938)</i>	<i>(545 518)</i>
Change in fair value: Investment property	(646 359)	(1 181 786)
Derivative instruments	(29 085)	(4 737)
Derecognition of financial guarantee Financial asset	(11 984)	163 855
Financial asset	(87 761)	18 134
Goodwill impairment	(2 697)	(2 031)
Profit on disposal: investment property	(2 697)	(2 031)
Loss on disposal: investment in subsidiary	(2 697)	2 557
Impairment of loans from joint ventures	166 441	25 377
Impairment/(reversal of impairment) of investment in joint venture	10 102	(10 102)
Share of loss from joint venture	(8 860)	50 284
Unrealised foreign exchange (gain)/loss	(8 860)	171 590
Depreciation	38 149	36 727
Share-based payment	10 877	5 627
Interest received	(312 550)	(294 177)
Interest paid	594 823	630 679
Dividends received	(182 778)	(146 350)
Loss on write-off of assets	(15 680)	12 396
Movement in provision – bad debt	(15 680)	(23 561)
Other non-cash items	1 424	(23 561)
Operating profit before working capital changes	2 084 471	2 205 756
Increase/(decrease) in working capital	48 665	(46 154)
Increase in trade and other receivables	(616)	(14 678)
Increase/(decrease) in trade and other payables	49 281	(31 476)
Cash generated from operations	2 133 136	2 159 602
29.3 Taxation paid		
Taxation payable at beginning of year		(2 037)
Per statement of profit or loss and other comprehensive income	(4 381)	(2 714)
Taxation payable at end of year	1 251	
	(3 130)	(4 751)
29.4 Dividends income		
Hystead Limited – joint venture (refer note 7 – Financial asset)	180 525	146 350
Word4Word Marketing – former subsidiary	2 253	
Total	182 778	146 350
29.5 Dividends received cash		
Opening balance dividend receivable	57 257	
Hystead Limited – joint venture (refer note 7 – Financial asset)	180 525	146 350
Word4Word Marketing – former subsidiary	2 253	
Less: Closing balance dividend receivable	(76 484)	(57 257)
Total	163 551	89 093

Notes to the consolidated financial statements continued

for the year ended 30 June

30. Commitments

	2018 R000	2017 R000
30.1 Capital commitments		
Approved and committed	165 912	240 585
Approved but not yet committed	176 236	208 857
	342 148	449 442
<p>The above expenditure will be financed out of available cash resources, banking facilities and debt capital market funding.</p>		
30.2 Operating expense commitments		
<p>Hyprop has entered into various service contracts for the cleaning, upkeep and general maintenance of its investment property portfolio.</p> <p>Operating expense commitments payable to service providers in future years have been classified as follows:</p> <ul style="list-style-type: none"> – Short-term contracts (up to one year) 2 768 2 413 – Medium-term contracts (greater than one year and up to five years) <p>Contracts which can be terminated on one month's notice have been included for one month only.</p>		
31. Minimum lease payments receivable		
<p>Minimum lease payments comprise contractual rental income and operating expense recoveries from investment property.</p> <p>The minimum lease payments receivable from tenants have been classified into the following categories:</p> <ul style="list-style-type: none"> – Short term (up to one year) 1 992 472 1 867 601 – Medium term (greater than one year and up to five years) 3 876 110 4 042 656 – Long term (greater than five years) 1 138 838 1 289 995 		
32. Retirement benefits		
<p>All eligible employees are members of a defined contribution pension fund which is administered by Evolution Corporate Benefits Proprietary Limited. The retirement funding and risk-related benefits are market-related. All benefits from the pension fund accrue to the members. The pension fund complies with all current legislation. The group has no obligations for post-retirement medical aid benefits.</p> <p>Contributions to the pension fund for group risk benefits are recognised as an expense 11 508 11 140</p>		

33. Related-parties and related-party transactions

	2018 R000	2017 R000
All related-party transactions were on terms equivalent to those in similar arm's-length transactions. Related parties with whom the group transacted during the year were:		
AttAfrica – co-investor and joint venture		
Loan receivable (refer to note 10 – Loans receivable)	2 375 009	2 444 203
Interest received	221 568	202 717
Manda Hill Mauritius – joint venture		
Loan receivable (refer to note 10 – Loans receivable)	543 712	551 515
Interest received	19 689	28 935
Hystead Limited (UK) – joint venture		
Dividend received	180 525	146 350
Dividends receivable included in trade and other receivables	76 484	57 257
Expense recovery receivable included in trade and other receivables		861
Loan receivable (refer to note 10 – Loans receivable)	40 716	
Guarantees	185 686	163 855
PDI Investments Limited – co-investor and directorship		
Credit enhancement fee: income	46 671	36 533
Credit enhancement fee: receivable included in trade and other receivables	17 789	17 177
Word4Word Marketing – former subsidiary		
Dividend received	2 253	

Refer to note 23 – Operating income for key management compensation.

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management

A – accounting classifications, fair values and risk association

The following table reflects the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The risks associated with the balances are also indicated.

	Note	Carrying amount			Fair value and fair value hierarchy			
		Designated at fair value through profit and loss R000	Amortised cost R000	Total R000	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
2018								
Financial assets measured at fair value								
Financial asset	7	121 576		121 576			121 576	121 576
Derivative instruments – non-current	18	6 846		6 846		6 846		6 846
Derivative instruments – current	18	815		815		815		815
		129 237		129 237		7 661	121 576	129 237
Financial assets not measured at fair value								
Loans receivable – non-current	10		2 937 444	2 937 444				
Loans receivable – current	10		40 716	40 716				
Trade and other receivables	11, 13		245 639	245 639				
Cash and cash equivalents	12, 13		715 649	715 649				
			3 939 448	3 939 448				
Financial liabilities measured at fair value								
Derivative instruments – non-current	18	24 060		24 060		24 060		24 060
Derivative instruments – current	18	1 999		1 999		1 999		1 999
		26 059		26 059		26 059		26 059
Financial liabilities not measured at fair value								
Long-term portion of interest-bearing borrowings	17		7 815 651	7 815 651				
Short-term portion of interest-bearing borrowings	17		69 343	69 343				
Financial guarantees – non-current	8		185 686	185 686				
Trade and other payables	13, 20		384 107	384 107				
			8 454 787	8 454 787				

34. Financial instruments – fair values and risk management continued
A – accounting classifications, fair values and risk association continued

	Note	Carrying amount			Fair value and fair value hierarchy			
		Designated at fair value through profit or loss R000	Amortised cost R000	Total R000	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
2017								
Financial assets measured at fair value								
Financial asset	7	(⁽¹⁾)		(⁽¹⁾)			(⁽¹⁾)	(⁽¹⁾)
Derivative instruments – non-current	18	785		785		785		785
Derivative instruments – current	18	9 530		9 530		9 530		9 530
		10 315		10 315		10 315		10 315
Financial assets not measured at fair value								
Loans receivable – non-current	10		3 013 151	3 013 151				
Loans receivable – current	10							
Trade and other receivables	11, 13		221 631	221 631				
Cash and cash equivalents	12, 13		1 115 347	1 115 347				
			4 350 129	4 350 129				
Financial liabilities measured at fair value								
Derivative instruments – non-current	18	56 530		56 530		56 530		56 530
Derivative instruments – current	18	938		938		938		938
		57 468		57 468		57 468		57 468
Financial liabilities not measured at fair value								
Long-term portion of interest-bearing borrowings	17		5 068 332	5 068 332				
Short-term portion of interest-bearing borrowings	17		3 832 306	3 832 306				
Financial guarantees – non-current	8		163 855	163 855				
Trade and other payables	13, 20		405 314	405 314				
			9 469 807	9 469 807				

⁽¹⁾ Value less than R1 000

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – Fair values and risk management continued

B – measurement

(I) Financial instruments measured at fair value

The following tables show the valuation techniques used in measuring level 2 and 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Derivatives	Market comparison: The valuation of the derivative instruments was determined by discounting the future cash flows using the JIBAR or LIBOR swap curves. Similar contracts are traded in active markets and the quotes reflect actual transactions in similar instruments.	Not applicable	Not applicable
Financial asset – Hystead Limited (Hystead)	Discounted cash flow: The valuation model uses the present value of the future net cash flows expected to be generated by the underlying shopping centres. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk adjusted discount rate as well as a risk adjusted cap rate.	Annual growth rate and terminal growth rate Exit cap rates and discount rates	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> ■ The annual growth rate was higher (lower); or ■ The exit cap rate was (higher) lower

(II) Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 during the current or prior years.

34. Financial instruments – fair values and risk management continued

B – measurement continued

(III) Level 3 fair values

Reconciliation of level 3 fair values

The following table shows a reconciliation of the opening balances to the closing balances for level 3 fair values:

	2018 R000	2017 R000
Balance at 1 July		
Balance at 1 July – financial asset	2 022 282	1 472 754
Additions (new properties acquired)	2 626 646	661 868
Unrealised foreign exchange gain/(loss)	194 480	(112 340)
Change in % held	(402 631)	
Fair value losses through profit and loss	(549 086)	
Subtotal (fair value) at 30 June	3 891 691	2 022 282
Additions (financial guarantees)	33 815	163 855
Fair value movement through profit and loss	(33 815)	(163 855)
Balance at 30 June – financial asset	3 891 691	2 022 282
Balance at 1 July – deferred gains on financial asset	(2 022 282)	(1 472 754)
Additions (new properties acquired)	(2 626 646)	(661 868)
Unrealised foreign exchange (loss)/gain	(138 923)	112 340
Change in % held	393 864	
Fair value gains through profit and loss	623 872	
Balance at 30 June – deferred gains on financial asset	(3 770 115)	(2 022 282)
Net financial asset	121 576	

There were no transfers out of level 3 during the current or prior years.

(IV) Valuation sensitivity analysis

Financial asset – Hystead

For the fair value of the investment in Hystead, changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	2018 R000		2017 R000	
	Increase	Decrease	Increase	Decrease
Profit or loss				
Change in annual growth rate – 1% (2017: 1%)	44 313	(44 313)	26 731	(26 731)
Change in discount rate – 1% (2017: 1%)	(30 678)	30 678	(90 654)	90 654
Change in exit cap rate – 1% (2017: 1%)	(42 040)	42 040	(378 887)	378 887

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management continued

C – financial risk management

The group has exposure to the following risks arising from financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Foreign exchange risk.

(I) Risk management framework

The board of directors (board) has overall responsibility for the establishment and oversight of the group's risk management framework. The board monitors the effectiveness of the internal control systems, assisted by the audit and risk committee. The committee is in turn assisted by management reporting, as well as reports from an outsourced internal audit service provider. The committee reports to the board on the findings of the internal audit function.

Executive management implement controls to ensure the validity, accuracy and completeness of financial information. Certain of these controls are reviewed by internal audit.

The audit and risk committee has an independent role, operating as an overseer and making recommendations to the board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The role of the committee includes ensuring that an appropriate risk management policy, aligned with industry practice, is adopted and implemented. For further detail on the role and mandate of this committee, please refer to its charter on the group's website.

(II) Interest rate risk

Interest rates are monitored and appropriate steps taken to ensure that Hyprop's exposure to interest rate fluctuations is limited. Through interest rate swaps, interest rates have been fixed for periods ranging from 2018 to 2024 with an average maturity of 2,9 years (2017: 3,4 years). The average rate of interest at year-end (excluding Euro debt)⁽ⁱ⁾ was 9,4% (2017: 8,9%) for Rand debt and 4,8% (2017: 4,7%) for USD debt (average rate of 6,7% (2017: 6,7%) for Rand and USD debt combined).

Exposure to interest rate risk

The interest rate profile of the group's interest-bearing financial instruments as reported to the management of the group is as follows:

	2018 R000	2017 R000
Total bank debt and debt capital market funding (excludes Euro debt) ⁽ⁱ⁾ :	7 884 994	8 900 638
Less: Non-controlling interest – Gruppo	(422 433)	(166 631)
Hyprop exposure	7 462 561	8 734 007
Total fixed debt	6 217 445	7 261 517
Total floating debt	1 245 116	1 472 490
	7 462 561	8 734 007
Debt at fixed interest rate (%)	83,3	85,2
South African debt (%)	113,6	100,9
USD debt (%)	63,5	70,4
Maturity of fixes (years)	2,9	3,4
South African debt (years)	3,3	3,9
USD debt (years)	2,4	2,7
Cost of funding (%)		
South African debt (%)	9,4	8,9
USD debt (%)	4,8	4,7

⁽ⁱ⁾ Euro debt is excluded from the above analysis as it is not consolidated in the consolidated statement of financial position

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(II) Interest rate risk continued

Fair value sensitivity analysis for fixed rate instruments

The group does not account for fixed rate financial assets or financial liabilities at fair value through profit or loss, and the group does not designate derivatives (interest rate swaps and forex collars) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect the values of these asset and liabilities and would not have a consequent effect on profit or loss.

Interest rate sensitivity analysis for variable rate instruments

The sensitivity analysis includes the exposure to interest rates for both derivatives and non-derivative instruments at the end of the financial year. For floating rate liabilities it is assumed that the liability outstanding at the end of the year was outstanding for the whole year.

Based on year-end floating debt, an interest rate increase/decrease of 150 basis points, while all other variables are held constant, would decrease/increase the group's profit for the year ended 30 June 2018 by R18,7 million (2017: R22,1 million).

(III) Credit risk

Receivables

The group is exposed to credit risk due to trade receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Save for national tenants, a deposit in the form of cash or a bank guarantee is obtained from tenants in terms of Hyprop's deposit policy. Furthermore, and only if required, a deed of suretyship will be obtained from a tenant.

	June 2018 R000	June 2017 R000
<i>Total amount held in bank guarantees and tenant deposits:</i>		
– Bank guarantees	229 296	192 117
– Tenant deposits	86 647	78 038

The credit risk in respect of loans receivable is generally mitigated by agreements with the counterparty. These agreements include claims which provide legal protection for Hyprop, common to such agreements.

Guarantees

The off-shore funding provided to Hystead and its subsidiaries has been supported by a guarantee from Hyprop. Hyprop has guaranteed obligations for third-party Euro funding amounting to EUR396 million (2017: EUR295 million) and has given certain undertakings to and in favour of Rand Merchant Bank, Standard Bank and Nedbank.

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(IV) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

This risk is minimised by holding cash balances and a floating loan facility. In addition, the company regularly monitors forecast cash flows and considers the matching of maturity profiles of financial assets and liabilities.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments.

	Contractual cash flows				
	Carrying amount R000	Total contractual in/(out) flows R000	One year or less R000	One to five years R000	More than five years R000
2018					
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(7 815 651)	(7 256 694)	(465 524)	(6 420 349)	(370 821)
Short-term portion of interest-bearing borrowings	(69 343)	(69 343)	(69 343)		
Financial guarantee ⁽¹⁾	(185 686)	(6 462 459)	(3 786 293)	(2 676 166)	
Trade and other payables	(384 107)	(384 107)	(384 107)		
	(8 454 787)	(14 172 603)	(4 705 267)	(9 096 515)	(370 821)
Derivative financial liabilities⁽²⁾					
Interest rate swaps	(26 059)	(100 813)	(41 096)	(57 853)	(1 864)
Total	(8 480 846)	(14 273 416)	(4 746 363)	(9 154 368)	(372 685)
2017					
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(5 068 332)	(5 831 019)	(160 656)	(5 670 364)	
Short-term portion of interest-bearing borrowings	(3 832 306)	(3 981 289)	(3 981 289)		
Financial guarantee ⁽¹⁾	(163 855)	(4 567 864)	(2 619 789)	(1 948 074)	
Trade and other payables	(405 314)	(405 314)	(405 314)		
	(9 469 807)	(14 785 486)	(7 167 048)	(7 618 438)	
Derivative financial liabilities⁽²⁾					
Interest rate swaps	(57 467)	(150 047)	(47 917)	(102 130)	
Total	(9 527 274)	(14 935 533)	(7 214 965)	(7 720 568)	

⁽¹⁾ The outflows disclosed for the financial guarantee in the table represent the potential contractual outflows in the event of the guarantee being called on

⁽²⁾ The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. These derivative financial instruments are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives as they are net cash-settled

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(V) Currency risk

The group is exposed to currency risk to the extent that there is a mismatch between the currencies in which revenue, operating costs and borrowings are denominated and the respective functional currencies of group companies. The primary functional currencies used by the group are the Rand, US Dollar and Euro. The group's investments in sub-Saharan Africa (excluding SA) expose the group to "in-country" local currency and US Dollar currency risk, while the group's investments in South-Eastern Europe expose the group to "in-country" local currency (in instances where the local currency is not the Euro or pegged to the Euro) and Euro currency risk. Dividends earned from foreign operations are currently hedged six months in advance of receipt.

The summary quantitative data about the group's exposure to currency risk as reported to management of the group is as follows.

	2018			2017		
	USD '000	EUR '000	Total Rand equivalent R000	USD '000	EUR '000	Total Rand equivalent R000
Loans receivable	213 034	1 170	2 937 444	229 651	1 187	3 013 407
Trade and other receivables	5 083	8 435	204 624	4 307	5 380	136 343
Cash and cash equivalents	3 498		47 923	4 721		61 581
Borrowings	(288 518)		(3 952 895)	(354 186)		(4 620 244)
Trade and other payables	(2 499)		(34 233)	(6 176)		(80 559)
Net exposure	(69 402)	9 605	(797 136)	(121 683)	6 567	(1 489 472)
Financial guarantee		(396 289)	(6 341 899)		(294 944)	(4 394 778)
Forward exchange contracts	543		7 439	(503)		(6 558)
Net exposure	(68 859)	(386 684)	(7 131 596)	(122 186)	(288 377)	(5 890 808)

The following significant exchange rates have been applied:

	2018		2017	
	Average rate	Year-end spot	Average rate	Year-end spot
USD1	12,85	13,70	USD1	13,63
EUR1	15,32	16,00	EUR1	14,53

Currency risk sensitivity analysis

A strengthening (weakening) of the Euro and US Dollar against the Rand at 30 June would have affected the Rand equivalent of financial instruments denominated in a foreign currency, and affected profit or loss, by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018			2017		
	Change % vs ZAR	Profit or loss		Change % vs ZAR	Profit or loss	
		Strengthening	Weakening		Strengthening	Weakening
USD1	1	6 838	(6 838)	5	73 671	(73 671)
EUR1	1	78 574	(78 574)	2	(1 549)	1 549

	2018			2017		
	Change % vs ZAR	Other comprehensive income		Change % vs ZAR	Other comprehensive income	
		Strengthening	Weakening		Strengthening	Weakening
USD1	1	(1 537)	1 537	5	(16 655)	16 655
EUR1	1	None as Hystead is not consolidated		2	None as Hystead is not consolidated	

Notes to the consolidated financial statements continued

for the year ended 30 June

35. Capital management

Hyprop's capital consists of equity and long-term debt in the form of bank debt and debt capital market funding. The company's capital management objective is to maintain a strong capital base to provide sustainable returns to shareholders over the long term. The company's borrowings are limited by its Memorandum of Incorporation and the JSE Listings Requirements to 60% (2017: 60%) of the directors' bona fide valuation of the consolidated property portfolio.

Hyprop's (theoretical) unutilised borrowing capacity can be summarised as follows⁽¹⁾:

	2018 R000	2017 R000
Value of property portfolio ^{(1) (2)}	33 996 901	33 249 951
60% thereof	20 398 141	19 949 971
Total gross borrowings (long term and short term) ⁽³⁾	(7 884 994)	(8 900 638)
Unutilised borrowing capacity ⁽⁴⁾	12 513 147	11 049 332

⁽¹⁾ Excludes investments in South-Eastern Europe

⁽²⁾ Refer to segmental analysis

⁽³⁾ Excludes Euro debt

⁽⁴⁾ In practice the board would be unlikely to allow gearing levels to increase to 60% or even close to 60% (in the absence of a specific transaction). The current long-term preferred gearing level is 35%

At year-end, long-term borrowings may become payable in accordance with the terms of the loan arrangements. The group's policy is to refinance the capital portion of the borrowings (in line with its capital objective above), while servicing interest.

The group is subject to various capital covenants imposed by lenders, which are managed as part of the overall funding and capital management process. The company has complied with all capital covenants specified in the debt agreements.

36. Events after the reporting date

Additional investment in Hystead

In July 2018, Hyprop converted some short-term loans, extended to Hystead, to equity to the value of R40,7 million.



SEGMENTAL ANALYSIS

Somerset Mall, Western Cape



Segmental analysis

for the year ended 30 June

	Property portfolio		
	Rentable area m ²	Total value R000	Value attributable to Hyprop R000
2018			
Shopping centres	653 258	30 027 300	27 351 847
Value centres	48 848	1 303 000	1 303 000
Total retail	702 106	31 330 300	28 654 847
Standalone offices	4 468	125 000	125 000
Held-for-sale ⁽²⁾	15 886	198 000	198 000
Sold during 2018			
Investment property	722 460	31 653 300	28 977 847
Investments in sub-Saharan Africa (excluding South Africa)			2 069 354
Investments in South-Eastern Europe			30 979
Other South African subsidiaries			2 918 721
Other income			
Fund management			
Net interest			
Straight-line rental income accrual			
Investment property – group	722 460	31 653 300	33 996 901
Reconciliation to statement of financial position			
Centre management assets			1 741
Held-for-sale ⁽³⁾			4 592
Loan receivable			18 724
Derivative instruments			7 661
Other current assets			1 135 857
			35 165 476
<i>Note</i>			
June 2017			
Shopping centres	644 196	29 105 600	26 490 589
Value centres	48 848	1 248 000	1 248 000
Total retail	693 044	30 353 600	27 738 589
Standalone offices	4 468	117 000	117 000
Held-for-sale ⁽⁴⁾	33 406	418 798	418 798
Sold during 2017			
Investment property	730 918	30 889 398	28 274 387
Investments in sub-Saharan Africa (excluding South Africa)			4 975 564
Investments in South-Eastern Europe			
Other South African subsidiaries			
Other income			
Fund management			
Net interest			
Straight-line rental income accrual			
Investment property – group	730 918	30 889 398	33 249 951
Reconciliation to statement of financial position			
Centre management assets			4 794
Held-for-sale ⁽³⁾			7 883
Loan receivable			17 434
Derivative instruments			10 315
Other current assets			1 356 491
			34 646 868

Note

⁽¹⁾ Includes financial guarantee

⁽²⁾ Includes Lakefield Office Park

⁽³⁾ Working capital held-for-sale

⁽⁴⁾ Willowbridge North and Lakefield Office Park

⁽⁵⁾ Note – no single tenant or tenant group represents more than 10% of the group's revenue

Statement of profit or loss and other comprehensive income		Statement of financial position		
Revenue ⁽⁵⁾ R000	Distributable earnings R000	Receivables R000	Payables R000	Loans ⁽¹⁾ R000
2 684 578	1 792 727	80 322	314 660	
151 214	106 796	6 450	11 818	
2 835 792	1 899 523	86 772	326 478	
11 222	6 055	265	2 094	
35 944	23 477	1 101	8 157	
10 797	8 606			
2 893 755	1 937 661	88 138	336 729	
223 730	78 368	54 039	44 689	4 935 716
	187 802			
	46 671	16 544	6 275	
75	(65 142)	100 451	106 554	2 949 278
(3 847)	(280 846)			
3 113 713	1 904 514	259 172	494 247	7 884 994
		(1 101)	(8 157)	
3 113 713	1 904 514	258 071	486 090	7 884 994
		11	20	17
2 580 200	1 723 648	71 132	278 609	
139 857	102 490	6 579	12 337	
2 720 057	1 826 138	77 711	290 946	
12 586	6 527	199	2 029	
68 780	47 930	6 324	13 074	
74 178	36 332			
2 875 601	1 916 927	84 234	306 049	
249 902	56 972	40 066	80 559	4 950 717
	101 823			
2 559	36 533	1 140	3 169	
	(67 347)	111 625	112 978	4 113 776
	(321 336)			
39 587				
3 167 649	1 723 572	237 065	502 755	9 064 493
		(6 324)	(13 074)	
3 167 649	1 723 572	230 741	489 681	9 064 493
		11	20	17

Segmental analysis continued

for the year ended 30 June

Reconciliation to statement of profit or loss and other comprehensive income

A reconciliation of distributable earnings to total profit for the year attributable to shareholders of the company is as follows:

	2018 R000	2017 R000
Distributable earnings⁽¹⁾	1 904 514	1 723 572
Adjusted for:		
Change in fair value of investment property	646 359	1 181 786
Change in fair value of derivatives	29 085	(5 074)
Profit on disposal of investment property	2 697	2 031
Loss on disposal of investments		(2 557)
(Impairment)/reversal of impairment of joint venture	(10 102)	10 103
Impairment of goodwill		(18 134)
Investments in sub-Saharan Africa (excluding SA)		32 642
Derecognition of financial guarantee	11 984	
Investments in South African subsidiaries		(1 212)
Investments in South-Eastern Europe		44 221
Impairment of loan	(166 441)	(25 377)
Recognition of financial guarantee	87 761	(163 855)
Loss on vesting of shares		(5 048)
Capital items not included for distribution purposes	54 552	(1 106)
Non-controlling interest in investments in sub-Saharan Africa (excluding SA)	8 543	
Taxation	(39 486)	(4 340)
Total profit for the year attributable to shareholders of the company	2 529 466	2 767 652
Shares in issue for distribution per share (excludes treasury shares)	255 448 256	247 899 032
Refer to <i>note 14 – Stated capital</i>		
Distribution per share (based on distributable earnings)	756,5	695,1

⁽¹⁾ This amount differs to the actual dividend due to rounding of the dividend per share. Refer to note 27 – Dividends and distributions



PROPERTY DISCLOSURES

CapeGate, Western Cape



Section 13 – Property disclosures

for the year ended 30 June

	2018			
	Rentable area m ²	%	Revenue attributable to Hyprop R000	%
Geographical profile				
Gauteng	431 254	60	1 646 005	57
Western Cape	291 206	40	1 236 953	43
Total	722 460	100	2 882 958	100
Sectoral profile				
Canal Walk	158 396	22	726 246	25
Super regional	158 396	22	726 246	25
Clearwater Mall	87 083	12	416 925	14
The Glen Shopping Centre	80 428	11	223 410	8
Woodlands Boulevard	71 643	10	282 122	10
CapeGate Regional Mall	63 756	9	208 807	7
Somerset Mall	69 054	10	301 900	10
Rosebank Mall	84 135	12	297 714	10
Large regional	456 099	64	1 730 878	59
Hyde Park Corner	38 763	5	227 454	8
Regional	38 763	5	227 454	8
Atterbury Value Mart	48 848	7	151 214	5
Value centres	48 848	7	151 214	5
Retail total	702 106	97	2 835 792	98
Standalone offices	20 354	3	47 166	2
Total	722 460	100	2 882 958	100

Tenant profile

Tenants in our portfolio are categorised by grade, although this is largely subjective given the strong retail nature of our portfolio:

- A grade: Large national tenants, large listed tenants and major franchises (including all national retailers and tenants in large listed groups)
- B grade: Smaller national and listed tenants, medium-sized franchises, medium to large retailers
- C grade: Smaller line stores (809 stores).

	% of rentable area	% of income
A grade	69	55
B grade	19	27
C grade	12	18

Vacancy profile

		2018	
	Rentable area m ²	Total area available for leasing m ²	Rentable area %
Retail			
Canal Walk	148 264	342	0,2
Super regional	148 264	342	0,2
Clearwater Mall	87 083	1 988	2,3
The Glen Shopping Centre	80 428	4 378	5,4
Woodlands Boulevard	71 643	618	0,9
CapeGate Regional Mall	63 756	308	0,5
Somerset Mall	69 054	75	0,1
Rosebank Mall	65 886	717	1,1
Large regional	437 850	8 084	1,8
Hyde Park Corner	28 543	537	1,9
Regional	28 543	537	1,9
Atterbury Value Mart	48 848	1 751	3,6
Value centres	48 848	1 751	3,6
Retail total	663 505	10 714	1,6
Offices			
Canal Walk	10 132	135	1,3
Cradock Heights	4 468	403	9,0
Hyde Park	10 221	1 797	17,6
Rosebank Mall Offices	18 249	296	1,6
Lakefield Offices	15 886	624	3,9
Offices total	58 956	3 255	5,5
Grand total	722 461	13 969	1,9

Section 13 – Property disclosures continued

for the year ended 30 June

Weighted average rental escalation profile

	2018		Rental escalation per year %
	Rentable area m ²	Weighted average rental/m ²	
Retail			
Canal Walk	148 264	345	6,8
Clearwater Mall	87 083	266	7,2
Somerset Mall	69 054	265	6,3
Rosebank Mall	65 886	227	7,2
Woodlands Boulevard	71 643	215	5,8
The Glen Shopping Centre	80 428	227	6,0
Hyde Park Corner	28 543	435	7,3
CapeGate Regional Mall	63 756	191	7,3
Shopping centres	614 657	270	6,7
Atterbury Value Mart	48 848	191	6,8
Value centres	48 848	191	6,8
Offices			
Canal Walk	10 132		7,1
Cradock Heights	4 468		7,6
Hyde Park	10 221		6,2
Rosebank Mall Offices	18 249		8,0
Offices total*	43 070	102	7,2
Grand total	706 575	251	

* Excludes Lakefield Office Park which is held-for-sale

Average annualised property yield

	Rentable area (m ²)	Hyprop share (Rm)	% change (from June 2017) ⁽¹⁾ %	Value (R/m ²)	Property yield %
South African portfolio					
Shopping centres	653 258	27 351 847	3,3	45 965	6,6 – 7,2
Value centres	48 848	1 303 000	4,4	26 675	8,5
Standalone offices	20 354	323 000	3,9	15 869	7,0 – 9,1
Total	722 460	28 977 847	3,3	43 813	6,6 – 9,1

⁽¹⁾ Excludes properties sold

Lease expiry profile

	2018/2019	2019/2020	2020/2021	2021/2022	2023+
By income	%	%	%	%	%
Canal Walk	15	19	26	8	32
Clearwater	8	38	25	13	16
The Glen	15	23	14	12	37
Woodlands Boulevard	15	24	34	13	15
CapeGate Mall	19	48	10	8	15
Somerset Mall	21	19	19	8	33
Rosebank Mall	26	29	7	7	31
Hyde Park Corner	24	25	18	9	23
Atterbury Value Centre Offices	24	17	23	10	26
Total	18	25	21	10	26

	Values vacancy	2018/2019	2019/2020	2020/2021	2021/2022	GLA 2023+
By rentable area	%	%	%	%	%	%
Canal Walk	0,2	12	22	16	6	44
Clearwater	2,3	4	20	38	8	27
The Glen	5,4	13	8	19	11	44
Woodlands Boulevard	0,9	10	32	15	15	27
CapeGate Mall	0,5	19	6	48	10	17
Somerset Mall	0,1	11	14	14	6	54
Rosebank Mall	1,1	20	5	23	3	48
Hyde Park Corner	1,9	24	13	31	5	25
Atterbury Value Centre Offices	3,6	23	20	13	9	33
Total	1,9	15	22	17	9	35

Section 13 – Property disclosures continued

for the year ended 30 June

Ikeja City Mall

Weighted average rental per m ²	Average rental USD/m ²
	48,9

Lease expiry portfolio

By income

Year	2019	2020	2021	2022	2023+
%	21	30	21	7	21

By rentable area

Year	Values vacancy	2019	2020	2021	2022	2023+
%	2,4	16	21	35	6	19

Vacancy profile	Total retail area available for leasing m ²	Rentable area %
	679	3,06

Tenant profile	% of rentable area	% of income
A grade	35	22
B grade	54	56
C grade	12	22

Property disclosures

for the year ended 30 June

South African portfolio

Top 10 tenants by rentable area

Rank	Tenant	% of total rentable area
1	Edcon Group	9,4
2	Woolworths	7,4
3	Massmart Group	7,0
4	Pick n Pay	6,8
5	Foschini Group	4,7
6	Mr Price Group	4,0
7	Pepkor Group	3,1
8	Truworths Group	2,4
9	Shoprite/Checkers	2,4
10	Nu Metro	2,4
		49,6

Top 10 tenants by income

Rank	Tenant	% of total income
1	Edcon Group	7,8
2	Foschini Group	6,7
3	Mr Price Group	4,0
4	Massmart Group	3,9
5	Truworths Group	3,1
6	Pepkor Group	3,0
7	Woolworths	3,0
8	Pick n Pay	2,6
9	Cape Union Mart Group	2,2
10	Cotton On Group	2,1
		38,4

Property disclosures continued

for the year ended 30 June

Ikeja City Mall

Retail portfolio by category	% of rentable area
Department store	
Apparel	21
Food	23
Home furnishing	9
Sporting/outdoor	3
Food services	18
Other	26
Total	100

Top 10 tenants by rentable area

Rank	Tenant	% of total rentable area
1	Shoprite	22,5
2	Silverbird Cinemas	7,3
3	Max	4,1
4	Mr Price	3,1
5	Rhapsodys	2,5
6	Redtag	2,3
7	Miniso	2,3
8	Cash & Carry	2,3
9	Playzone	2,3
10	Seven Eagles Spur	2,0

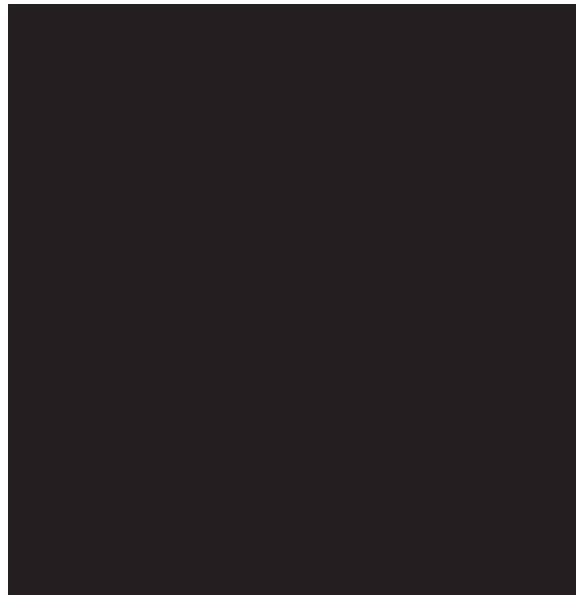
Top 10 tenants by income

Rank	Tenant	% of total rentable area
1	Shoprite	11,5
2	Max	4,2
3	Mr Price	3,0
4	Rhapsodys	3,0
5	Silverbird Cinemas	2,5
6	Cash & Carry	2,3
7	Tommy Hilfiger	2,2
8	Miniso	2,2
9	Playzone	2,0
10	Chicken Republic	1,8



SHAREHOLDER INFORMATION

Canal Walk, Western Cape



Shareholder analysis

Analysis of ordinary shareholders as at 29 June 2018

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	8 231	61,02	3 588 523	1,40
1 001 – 10 000	4 172	30,93	12 255 409	4,79
10 001 – 100 000	817	6,06	25 731 859	10,06
100 001 – 1 000 000	221	1,64	64 487 443	25,20
Over 1 000 000	48	0,36	149 831 282	58,55
Total	13 489	100,00	255 894 516	100,00
Distribution of shareholders				
Assurance companies	68	0,50	9 214 765	3,60
Close corporations	120	0,89	293 326	0,11
Collective investment schemes	366	2,71	73 006 916	28,53
Custodians	202	1,50	58 227 048	22,75
Foundations and charitable funds	224	1,66	3 168 494	1,24
Hedge funds	18	0,13	360 485	0,14
Insurance companies	19	0,14	271 622	0,11
Investment partnerships	48	0,36	201 192	0,08
Managed funds	48	0,36	1 292 969	0,51
Medical aid funds	18	0,13	603 049	0,24
Organs of state	6	0,04	36 569 567	14,29
Private companies	389	2,88	7 323 261	2,86
Public companies	9	0,07	2 515 755	0,98
Public entities	5	0,04	157 381	0,06
Retail shareholders	9 476	70,25	13 147 140	5,14
Retirement benefit funds	275	2,04	30 673 311	11,99
Scrip lending	23	0,17	4 086 930	1,60
Share schemes	1	0,01	446 260	0,17
Stockbrokers and nominees	24	0,18	4 956 640	1,94
Trusts	2 149	15,93	9 378 404	3,66
Unclaimed scrip	1	0,01	1	
Total	13 489	100,00	255 894 516	100,00
Shareholder type				
Non-public shareholders	13	0,10	33 799 444	13,19
Directors and associates	10	0,08	4 380 796	1,69
Government Employees Pension Fund > 10%	1	0,01	28 972 388	11,32
Share schemes	1	0,01	446 260	0,17
Public shareholders	13 476	99,90	222 095 072	86,81
Total	13 489	100,00	255 894 516	100,00
Beneficial shareholders with a holding greater than 5% of the issued shares				
Government Employees Pension Fund			32 236 056	12,61
Total			32 236 056	12,61

Total number of shareholdings
Total number of shares in issue

13 489

255 894 516

Shareholders' diary

for the year ended 30 June 2018

Financial year-end	30 June 2018
Publication of financial results	31 August 2018
Annual general meeting	30 November 2018
Annual report available to shareholders	31 October 2018
Publication of interim report	2 March 2019

These dates are provisional and are subject to change.

Distribution details

	2018 (cents per share)	2017 (cents per share)
Six months ended:		
30 June	380.2	347.8
31 December	376.3	347.3
	756.5	695.1

Administration

Registered office and business address

Registration number: 1987/005284/06
2nd Floor, Cradock Heights,
21 Cradock Avenue, Rosebank, 2196
PO Box 52509, Saxonwold, 2132
Tel: +27 11 447 0090
Fax: +27 11 447 0092
Website: www.hyprop.co.za
Email: investorrelations@hyprop.co.za

Corporate adviser and sponsor

Java Capital
2nd Floor, 6A Sandown Valley Crescent
Sandton, 2196

Company secretary

CIS Company Secretaries Proprietary Limited
Rosebank Towers
15 Biermann Avenue, Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown, 2107

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue, Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown, 2107

Independent auditors

KPMG Inc.
KPMG Crescent
85 Empire Road
Parktown
2193

Definitions

ALSI	All Share Index ranking the JSE top 40 listed companies by market capitalisation
AttAfrica	Atterbury Africa Limited, the company through which Hyprop Mauritius has invested
the board	The board of directors of Hyprop Investments Limited
CDP	The Carbon Disclosure Project
Companies Act	The South African Companies Act 71 of 2008
CUP	The Conditional Unit Plan (a long-term incentive)
DCM	Debt capital market
EU	European Union
Footcount	Number of visitors to a centre
GBCSA	Green Building Council of South Africa
GLA	Gross lettable area
GRESB	Global Real Estate Sustainability Benchmark
the current year	The year ended 30 June 2018
GRI	Global Reporting Initiative
The group	Hyprop and its subsidiaries and associates
Hyprop or the company	Hyprop Investments Limited
Hyprop Mauritius	Hyprop Investments Mauritius Limited
Hystead	Hystead Limited
JSE	JSE Limited, the South African securities exchange on which Hyprop is listed
King IV	King IV™* Report on Corporate Governance for South Africa trademark
Large regional	A shopping centre of GLA 50 000 to 100 000m ²
LTI	Long-term incentive
MOI	Memorandum of Incorporation
OHS	South African Occupational Health and Safety Act 85 of 1993
PDI	PDI Investment Holdings Limited
prior year	The year ended 30 June 2017
Regional	A regional shopping centre of GLA 30 000 to 50 000m ²
REIT	Real Estate Investment Trust
SAPY	South African Property Index
STI	Short-term incentive
Super regional	A shopping centre of GLA larger than 100 000m ²
Value centre	An open-air shopping centre with larger retail boxes

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