RDI REIT
Real Estate Diversified Income

# Investing in opportunity

## Annual Report 2019

## User guide

Welcome to the RDI REIT P.L.C. Annual Report 2019. In this interactive pdf you can do many things to help you easily access the information that you want, whether that's printing, searching for a specific item or going directly to another page, section or website.

These are explained below.

### Document controls

Use the document controls located at the top of the pages to help you navigate through this report.

### Navigating with tabs

Use the tabs to quickly go to the start of a different section.

### Links within this document

Throughout this report there are links to pages, other sections and web addresses for additional information.

# Welcome to the
# RDI REIT P.L.C.
# Annual Report 2019

**RDI is an established UK REIT focused on delivering long term sustainable income returns backed by strong real estate fundamentals.**

**Our income focused philosophy is supported by a relentless focus on maximising income returns across all aspects of our business.**

## Where we invest

**Our diversified portfolio is located in Europe's two strongest economies.**

United Kingdom

**£1.2bn**

focused on London and the South East

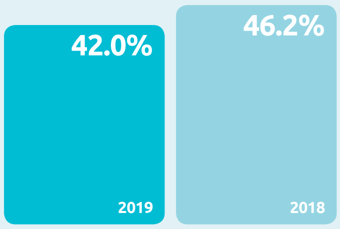
Germany

**£0.2bn**

focused on Berlin and Hamburg
(currently held for sale)

## At a glance

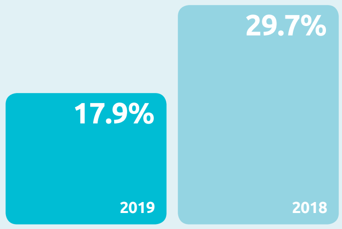
LTV




**42%**

Improved gearing

UK RETAIL EXPOSURE




**17.9%**

Significantly reduced

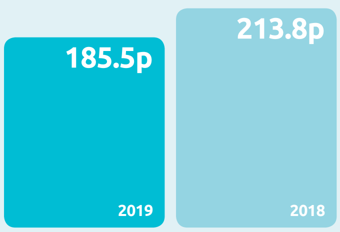
UNDERLYING EARNINGS


**-7.7%**

EARNINGS PER SHARE


**-8.5%**

EPRA NAV PER SHARE

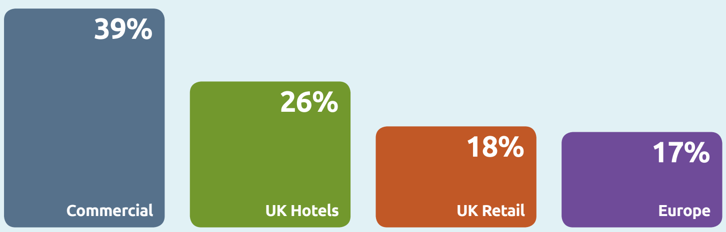



**-13.2%**

DIVIDEND PER SHARE


**-25.9%**

MARKET VALUE




**£1.4bn**

# Investment proposition

## Our portfolio is increasingly focused on sectors and assets benefiting from structural change and strong occupier demand, including the distribution and industrial sector, as well as our market leading Hotel and London Serviced Office operating platforms.

### Superior income
Committed to delivering an upper quartile dividend yield on NAV when compared to other UK REITs

### Sustainable income
Strong visibility on income supported by a diversified portfolio and tenant base

### Growing income
Medium term target to grow underlying earnings per share between 3 per cent and 5 per cent per annum

The year in review

# 2019 at a glance

## Retail exposure reduced and balance sheet leverage improved.

### Acquisition of industrial park – Farnborough

September 2018

Acquired Southwood Business Park, Farnborough, an industrial estate in Hampshire, for £26.3 million, reflecting a net initial yield of 6.2 per cent.

### Acquisition of distribution site – Bicester

September 2018

Forward funding of 13.5 acre land interest at Bicester, Oxfordshire, which was consented for the development of two distribution units totalling 285,000 sqft.

### Refinancing of £275m UK bank facility

January 2019

The Group's principal debt facility was refinanced at a competitive rate for a new five year term and provides a flexible credit facility with potential for cost of debt efficiencies.

### Planning consent granted – Charing Cross Road

June 2019

Resolution to grant planning permission providing for a 47 per cent increase in the property's overall area, through the development of an additional three floors of office space.

### Share consolidation

February 2019

RDI completed a share consolidation in the ratio of five old ordinary shares of 8 pence for one new ordinary share of 40 pence.

## Pieter Prinsloo appointment
April 2019

Following the retirement of Bernie Nackan in January 2019, Pieter Prinsloo was appointed to the Board as a Non-executive Director and representative of the Company's major shareholder.

## Aviva financed UK Shopping Centres
April 2019

Following an event of default in respect of a facility secured over four UK Shopping Centres, the Group entered into an agreement with the lender, Aviva, to progress a consensual sale.

## London Serviced Offices £75m refinancing
August 2019

London Serviced Office facility refinanced for a new seven year term at attractive rates, securing a 50bp reduction on the previous facilities' cost of debt.


## Sale of Bahnhof Altona, Hamburg
September 2019

RDI exchanged contracts to sell the Bahnhof Altona Center, Hamburg for €91 million. The sale reflected a net initial yield of 4.6 per cent and a 9.6 per cent premium to the last reported market value.

## Recycling of mature assets
2019

A number of smaller disposals were completed during the year, including Lakeview Business Park, Warrington and Centralofts, Newcastle.

The year in review

# Market context

## The rise of urbanisation, technology, Environmental, Social and Governance and access to talent are all playing a major part in the real estate strategies of small businesses and large corporates.

### Occupational markets

The strategic importance of real estate to occupiers continues to be an increasingly important aspect of our investment strategy. The rise of urbanisation, technology, ESG and access to talent are all playing a major part in the real estate strategies of small businesses and large corporates.

The Deloitte Crane Survey highlights the change and increasing importance of the technology, media and telecoms ("TMT") sector and the reduction in dependence on the financial services sector. The TMT sector accounted for 43 per cent of pre-letting activity in Central London in the third quarter of 2019 and has been rising steadily since 2017. FinTech has also become one of the fastest growing sectors in London.

With real estate broadly accepted to be relatively late cycle, asset selection is increasingly important as both occupiers and investors become more discerning.

#### Response

In line with trends, we are repositioning the portfolio to London and the southern part of the UK. London delivers 23 per cent of the UK's GDP and remains a global city with access to a highly skilled workforce to support the growth of knowledge intensive sectors.

Our strategy of repositioning to sectors with positive occupational demand is expected to deliver resilient income and capital returns.

Our UK retail exposure is now heavily weighted towards well located retail parks in Greater London and the South East. Our experience has been continued demand for the right locations with high levels of occupancy being maintained and current rental levels being supported, on average.

### Economy

Brexit continues to be seen as the greatest risk to the economy with businesses prioritising cost reduction over acquisitions and capital expenditure. UK GDP growth has slowed, impacted by domestic political uncertainty and softer global growth.

While the UK economy has proved relatively resilient, consensus forecasts for GDP growth in 2020 are well below trend at approximately 1.0 per cent. Unemployment rates remain below 4.0 per cent, however this has not resulted in any material wage growth or inflation, with general uncertainty resulting in low levels of consumer confidence.

Interest rates have stayed at very low levels in the UK and globally. Despite previous references to historically low rates, UK ten year swaps have dropped below 1.0 per cent from approximately 1.5 per cent last year. In this low growth, low interest rate environment, investment demand for sustainable income returns and capital preservation remains high.

#### Response

With interest rates remaining low in the UK, we have refinanced £350 million during the year, locking in attractive rates of interest for new five and seven year terms.

As the UK economy faces an extended period of uncertainty, and considerably greater volatility in the value of Sterling, we have taken the opportunity to capitalise on the relatively strong and stable German economic and investment market and to exit our German portfolio. The portfolio was well bid, with a number of properties now under contract or sold.

### Technology

Technology is impacting all aspects of the real estate market from consumer behaviour to occupier requirements. As a sector that has traditionally been slow to adopt new technologies, the pace of change is now being forced through businesses having to adapt to the changing demands of both customers and employees.

Cities with strong infrastructure and technology credentials are more likely to attract investment. Key issues for corporates include factors such as the business environment, technology and transport infrastructure, amenities and, importantly, access to talent. In this regard, London continues to be seen as a global city due to its access to talent and proximity to customers, investors and regulators.

#### Response

At RDI we consider changes in technology across the business, from improving day-to-day management of the portfolio and how we interface with occupiers and clients, to long term investment strategies.

At our Serviced Offices, increased demand for flexible space has been evident from the shift towards remote working, which is becoming commonplace.

Understanding the emotional and functional needs of our occupiers, clients and customers is increasingly important. Whether that be the availability of the very best IT products and infrastructure or working with retailers to deliver consistent messaging across digital channels.



## Investment and capital markets

The UK investment market has seen a substantial reduction in transaction volumes, largely attributed to ongoing Brexit delays and continued caution amongst investors. Investment volumes for the nine months to September 2019 were down 26.5 per cent on the same period last year. However, the UK, and London in particular, continues to be seen as a safe haven for international capital, with significant investment capital reported to be waiting for greater political certainty.

## Response

Our own investment activity has focused largely on disposals as part of the strategic repositioning of the portfolio. Disposals, including those exchanged or completed post year end, totalled £121.5 million and were heavily weighted towards the retail sector. Overall retail exposure reduced to 31.0 per cent post year end with further disposals identified in this sector.

Acquisitions activity focused on the industrial and distribution sector, with £52.3 million invested in two transactions. In general, the distribution sector has experienced strong growth in capital values supported by rental growth, but also a large volume of capital targeting the sector. We have sought to increase exposure to the sector selectively where asset specific opportunities have been identified.

**As the markets in which we operate change, so do we.**

## 2015

UK portfolio composition[1]

UK Retail
(100% Shopping Centres) 47%

UK Hotels 31%

UK Commercial
(0% Industrial & Distribution) 22%

## 2019

UK portfolio composition[1]

UK Commercial
(20% Industrial & Distribution) 47%

UK Hotels 31%

UK Retail
(7% Shopping Centres) 22%

(1) Percentage of total UK portfolio by market value.

The year in review

# Strategic priorities

| | Targets | Risks[1] |
|---|---|---|
| **Income focused portfolio** | • High quality, well located portfolio invested in sectors and areas benefiting from positive structural change and regeneration<br>• Diversified portfolio to limit income volatility through the property cycle<br>• Sufficient scale with demand led investment<br>• Cost efficient portfolio and operational platforms | • Competition for investments<br>• Weaker occupier and investor demand<br>• Declining market conditions<br>• Development and construction risk<br>• Low inflation environment<br>• Health, safety and environmental risks |
| **Efficient capital structure** | • Strengthen balance sheet through reduced leverage and more focused capital allocation<br>• Operational flexibility<br>• Competitive cost of capital | • General market dislocation and declining market conditions<br>• Changes in regulatory requirements<br>• Adverse movement in share price<br>• Poor timing of investment decisions<br>• Change in investment strategy of major shareholder |
| **Financial discipline** | • Focus on cost efficiencies delivering an efficient conversion of rental income to underlying earnings<br>• Fully covered dividend with 90-95 per cent pay-out ratio<br>• Strong interest cover<br>• Efficient debt collection<br>• LTV reduced to between 30-40 per cent | • Adverse interest rate movements or inflationary pressures<br>• Reliance on third party service providers<br>• Tenant defaults and CVAs<br>• Declining valuations leading to covenant breaches and inability to reduce LTV |
| **Scalable business** | • Material reduction in retail<br>• Recycling capital to areas with stronger demographics<br>• Increased exposure to distribution and industrial sectors<br>• Improved liquidity | • Significant external, political or financial event, including the UK's anticipated exit from the European Union<br>• Structural change in consumer or occupier behaviour<br>• Increased supply or competition<br>• Yield contraction experienced in sought-after sectors |

(1) Principal risks, their potential impact and mitigating factors are set out on pages 19 to 22.
(2) Key performance indicators are linked to strategic priorities on page 18.

**LTIP** – Part of Executive Directors' long term incentive plan arrangements.

**STIP** – Part of Executive Directors' short term incentive plan (annual bonus).

**ELTI** – Part of employees' long term incentive arrangements.

| Link to remuneration[(2)] | Outcomes | Accelerating our strategic priorities into 2020 |
|---|---|---|
| **LTIP** – Earnings, total property return<br>**STIP** – Earnings, NAV<br>**ELTI** – Earnings, total property return | • 131 leasing events concluded at 4.7 per cent above ERV<br>• Occupancy remains high at 95.9 per cent<br>• Income focused development adds over £1 million to net rental income<br>• Reversionary yield 60bps above current NIY | "We plan to reduce our retail exposure further" |
| **STIP** – Cash flow, personal objectives | • £350 million refinanced at attractive rates<br>• Pro forma LTV reduced to 42.0 per cent<br>• £121.5 million of mature asset disposals concluded with proceeds earmarked for debt reduction | "We continue to target debt reduction to within our new 30-40 per cent LTV target" |
| **LTIP** – Earnings, total property return, total shareholder return<br>**STIP** – Earnings, cash flow, NAV<br>**ELTI** – Earnings, total property return, total shareholder return | • Fully covered dividend<br>• Cost of debt reduced 50bps to 2.9 per cent<br>• Interest covered 3.3 times<br>• 96.3 per cent of rents collected within seven days | "The sale of our German assets is expected to materially improve cost efficiencies" |
| **LTIP** – Earnings, total property return<br>**STIP** – Earnings, cash flow<br>**ELTI** – Earnings, total property return | • Planning permission granted at Charing Cross Road<br>• UK Retail exposure reduced to 17.9 per cent with UK Shopping Centres now representing 5.7 per cent of the portfolio<br>• £121.5 million disposed at a 2.5 per cent premium to market value<br>• £52.3 million invested in distribution and industrial assets at attractive yields to acquisition costs<br>• European portfolio marketed for sale | "We plan to have 75 per cent of our portfolio located in Greater London and the South East of England, with the portfolio focused entirely on the UK" |

The year in review

# Strategy in action

## Income focused portfolio

### High quality, well located portfolio invested in sectors and locations benefiting from positive structural change and regeneration.

Our UK Office portfolio is now almost entirely focused on London, and within London we aim to invest our equity in areas undergoing positive change, either through regeneration or capital investment into infrastructure and transport projects.

Investing in less traditional parts of the city, but areas where development values are backed by major regeneration plans, results in good support for future income and capital growth.


Our property at Charing Cross Road is a great example of this. This part of London is benefiting from the arrival of Crossrail, an East-West link through London. The new 73 mile railway links Abbey Wood to Shenfield and the east of the city, with Heathrow Airport and Reading to the west.

The surrounding area is undergoing considerable regeneration in response to the remarkable demand experienced. Around 1 million sqft of new development has been consented, with around 75 per cent having been pre-let at rents exceeding £90 psf.

In respect to our own scheme, we have secured planning permission to add an additional three floors to the building, increasing its area by 41 per cent. The property is currently valued at £58.5 million and we estimate total development and letting costs to be in the region of £30 million, with a net valuation post development exceeding £110 million. With consent now achieved, our attention has turned to design optimisation, formalising agreements and pre-letting.

In addition to Charing Cross Road, two offices on the Southbank, just north of Elephant and Castle, present another exciting opportunity. This area of London is earmarked for a £3.5 billion regeneration into high rise, mixed use schemes. Our buildings form part of large key sites to which we are advancing strategic alliances with other landowners to prepare plans for submission. Office rents in the area have been rising dramatically and redevelopment presents a significant opportunity for increased massing on the sites.

Finally, at Kingston, an affluent London suburb, we own an office building located just a short walk from the town centre and train station. The area has been designated for regeneration and residential led development and our own site would accommodate a mid-rise, mixed use commercial and residential scheme of a higher density.

Our exposure to UK Offices represents 23 per cent of the total portfolio, by market value.

Charing Cross Road, London

> We are experiencing rental appreciation alongside the opportunity to redevelop these sites to increase massing and values in locations where regeneration and transport improvements are driving growth.
>
> **Adrian Horsburgh**
> Property Director

The year in review

# Strategy in action

## Scalable business

### Recycling capital to areas with stronger demographics.

With a diversified portfolio, we have the ability to recycle capital from parts of the portfolio which are not expected to meet our cost of capital in the medium term, into those sectors demonstrating stronger demographics and benefiting from strong occupier demand.

In the early part of the year we set out a continuation of our ambitious disposals programme focused on reducing retail exposure and increasing exposure to the distribution and industrial sector.

Distribution and industrial continues to experience strong demand, often exceeding supply, and therefore leading to strong rental appreciation. However, capital markets are extremely competitive for good quality stock, particularly in the South East of England.

Given our strong income focus, we have had to be a little more innovative towards new investment in the sector.

During the year we have successfully deployed £52.3 million in the sector through the acquisition of two assets, both located in the South East of England, the first at Bicester in Oxfordshire and the other at Farnborough in Hampshire.

Firstly, at Bicester, we are developing almost 300,000 sqft of new modern distribution space. The site consists of two units, the first, which completed in April 2019, has received a good level of enquiries with a number of proposals having been sent to prospective tenants. The second unit is due for practical completion in December 2019.

The Bicester acquisition presented a great opportunity for RDI to invest in the sector. The transaction was structured as a forward commitment to purchase, whereby we acquired the land but only pay for the units once complete. We therefore took leasing risk, but no development risk. Assuming we achieve our target rents, we expect the income yield on total cost to be in excess of 6.5 per cent.

At Farnborough, we secured a standing investment of 155,000 sqft. The area is one of limited supply and generally good economics. The estate is close to junction 4A of the M3, an area where the supply of units available to let in the market is extremely limited. The site itself has low coverage at 37 per cent when the generally accepted level of site cover is 50 per cent, meaning, on redevelopment, we could potentially add a further 50,000 sqft of accommodation.

We acquired the property in September 2018 at a net initial yield of 6.2 per cent with two vacant units. Since acquisition, we have increased net rent by 18 per cent and the properties' valuation by over 12 per cent.

Our exposure to the distribution and industrial sector represents 20 per cent of the total portfolio, by market value.

Link 9, Bicester

> Reduced exposure to retail and an enhanced weighting to performing assets provides a better base from which to build long term shareholder value.

**Stephen Oakenfull**
Deputy Chief Executive Officer

# Chief Executive's report

"While it has been a challenging year, we are proactively taking every step available to quicken the delivery of our strategic objectives so that the business is well positioned as we move forward in 2020.

**Mike Watters**
Chief Executive Officer

Operationally, our asset management team continues to produce a good performance, with over 130 leases completed in the year at 4.7 per cent above ERV.

At the interim results we set out specific initiatives to accelerate our strategic objectives including a lower leverage capital structure, reduction in retail exposure and more focused allocation of capital. A number of strategic disposals were identified including the disposal of our European portfolio consisting of German retail properties and certain ex-growth UK assets comprising largely regional offices and smaller retail assets. We expect these disposals, once complete, to materially reduce our exposure to an underperforming retail sector and further strengthen our balance sheet.

It has been a challenging year for the business, not least due to the uncertainty around the Aviva shopping centre portfolio. As previously announced, in light of the material valuation declines of this specific portfolio, material break costs associated with repayment of the facility and continued uncertainty in the retail sector, the Board took the decision not to commit further capital to this portfolio or the financing facility. As a result, and following extensive discussion with Aviva, a Standstill Agreement was entered into on 23 April 2019 which included an agreement to a consensual sales process. This has resulted in the net assets of this portfolio being derecognised from our accounts. Non-IFRS operational and financial comparisons have therefore been disclosed excluding the performance of the Aviva Portfolio. The facility remains non-recourse to the Group. Further details are contained within the financial review.

### Earnings and dividend

Underlying earnings decreased by 7.7 per cent to £49.4 million (31 August 2018: £53.5 million). Underlying earnings per share decreased by 8.5 per cent to 13.0 pence per share (31 August 2018: 14.2 pence per share).

During the year, net operating cash flows from the Aviva Portfolio were retained within the facility, following the Standstill Agreement on 23 April 2019. Underlying earnings for the year, excluding those from the Aviva facility, were 11.8 pence per share (31 August 2018: 11.9 pence per share) which provides a comparative measure of performance.

The Board has declared a second interim dividend of 6.0 pence per share, taking dividends for the full year to 10.0 pence per share. The dividend reflects a pay-out ratio of 76.9 per cent of underlying earnings for the full year. The lower pay-out ratio reflects the operational cash flows restricted within the Aviva facility to the point of derecognition on 23 April 2019 and therefore unavailable for distribution to shareholders. Notwithstanding the lower pay-out ratio, the full year dividend meets the UK REIT rules in respect of distributions, as it represents over 90.0 per cent of the Group's UK property rental income.

## Highlights

**131 leasing events**

Active year with leasing events totalling £15.1 million in gross rental income

**4.7%** above ERV

**EPRA occupancy**

Despite the challenges facing UK Retail, occupancy remains high

**95.9%**

**Annualised gross rental income (LfL)**

Year-on-year change, including activity concluded shortly after year end

**+1.8%**

### Balance sheet and financing

EPRA NAV decreased by 13.2 per cent to 185.5 pence per share (31 August 2018: 213.8 pence per share) largely as a result of the derecognition of the Aviva Portfolio and a like-for-like portfolio value decline of 2.9 per cent for the year. Unsurprisingly, valuation movements varied significantly between sectors with the UK Distribution and Industrial portfolio increasing 3.2 per cent or £5.7 million, while UK Retail declined 11.7 per cent or £33.6 million.

The Group's proportionate share of net debt reduced to £666.6 million (31 August 2018: £748.4 million), partly as a result of the derecognition of the Aviva Portfolio financing facility. £103.7 million of largely retail disposals have completed or exchanged post year end, which will reduce the Group's LTV on a pro forma basis to approximately 42.0 per cent (31 August 2018: 46.2 per cent).

£350.0 million of financing facilities were extended during the year, delivering a longer average debt maturity and securing attractive rates in the current low interest rate environment.

### Operating performance

Despite tough trading conditions, a strong asset management performance delivered robust operational results across the majority of the portfolio. Occupancy remains high at 95.9 per cent and increased to 97.2 per cent post period end with a number of lettings and regears being agreed. 131 leasing events were concluded during the year totalling £15.1 million of gross rental income, 4.7 per cent ahead of ERV. Overall, the portfolio's like-for-like gross rental income increased 1.8 per cent on an annualised basis including leasing activity shortly after year end. Underlying operational performances from both the Hotels and London Serviced Office portfolios remained resilient despite Brexit uncertainty, highlighting the strength of these assets and their operating platforms.

### More focused allocation of capital and reduction in retail exposure

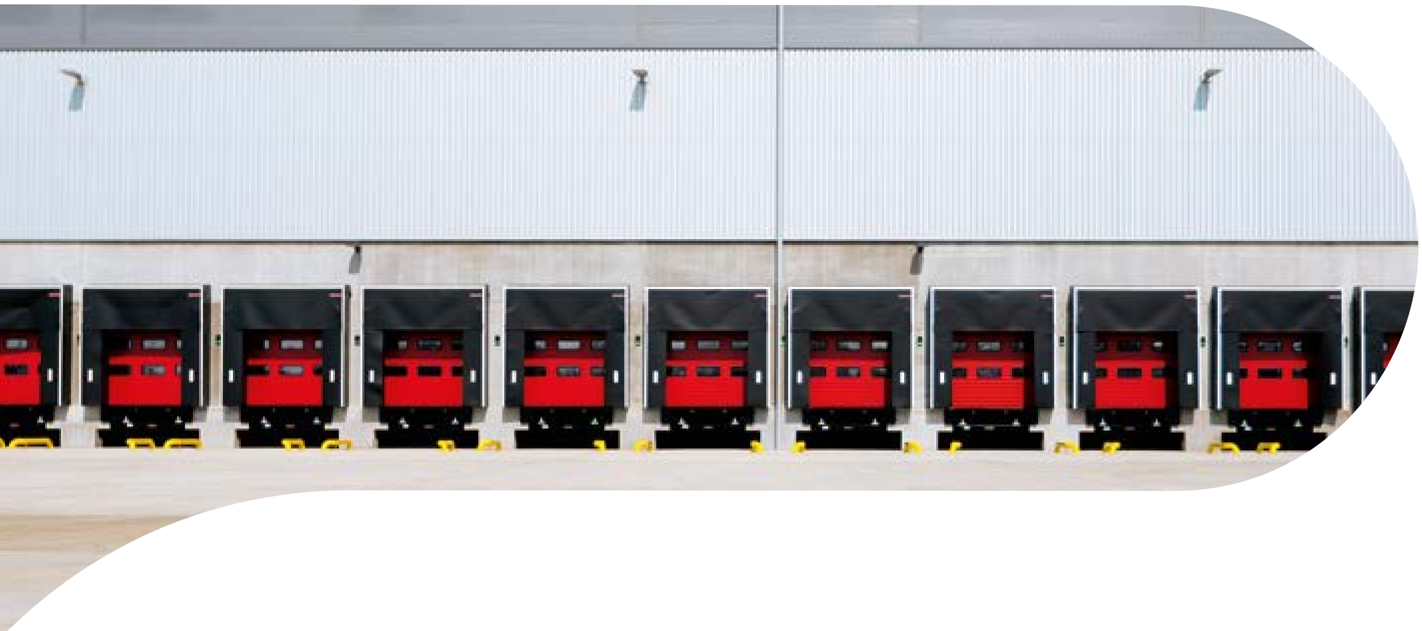
Investment activity during the year supported the continued repositioning of the portfolio to stronger growth sectors. The acquisition of Farnborough and forward funding of Bicester have increased exposure to the South East industrial and distribution market. The combined acquisitions totalled £52.3 million (excluding costs) and are anticipated to deliver a yield on cost of approximately 6.6 per cent.

Disposal activity was weighted towards the second half of the year, with a number of larger disposals completing post year end. Disposals (including those exchanged or completed post year end) totalling £121.5 million were agreed at prices 2.5 per cent ahead of the last reported market values, supporting a pro forma reduction in retail exposure to 31.0 per cent.

Our remaining UK retail exposure is now heavily weighted to Greater London and the South East in locations with stronger demographics and retailer demand. UK Shopping Centres now make up less than 6.0 per cent of the overall portfolio, with the balance of the UK Retail portfolio consisting largely of retail parks which have demonstrated solid occupier demand.

The remaining disposals programme is targeted at further reducing retail exposure to approximately 20 per cent and to a weighting of the overall portfolio to London and the South East of approximately 75 per cent.

# Chief Executive's report
continued



## Progressive sustainability performance

We are committed to measuring and improving our environmental, social and governance performance. We participate annually in the Global Real Estate Sustainability Benchmark ("GRESB") Real Estate Assessment and following our fourth consecutive response have increased our GRESB score by 24.0 per cent since 2016. We are delighted to have been awarded EPRA Gold for our 2018 Annual Report (non-financial content) published in accordance with the EPRA Sustainability Best Practice Recommendations ("sBPR"), demonstrating our clear focus to improving our ESG credentials.

## Share consolidation

On 11 February 2019 every five ordinary shares were consolidated into one ordinary share of 40.0 pence each. The consolidation resulted in 380,089,923 new consolidated ordinary shares being in issue which trade under the International Securities Identification Number code ("ISIN") of IM00BH3JLY32. Historic per share metrics throughout this statement have been adjusted to reflect the consolidation so that they are comparable with the per share metrics for the current year.

## Board changes

Following the conclusion of the 2019 Annual General Meeting, Bernard Nackan retired as a Director of RDI. Bernie, who had represented the Company's largest shareholder, Redefine Properties Limited, was replaced on the Board by Pieter Prinsloo in April 2019, whose depth of experience in property investments, development, management and finance has been a great asset to RDI during the year.

In October, Robert Orr tendered his resignation as independent Non-executive Director due to the demands of other external commitments and the Board would like to extend its gratitude to Robert for his invaluable contribution to the Company and his dedication during his four years with RDI. The search for Robert's replacement will begin in the new year and will be announced in due course.

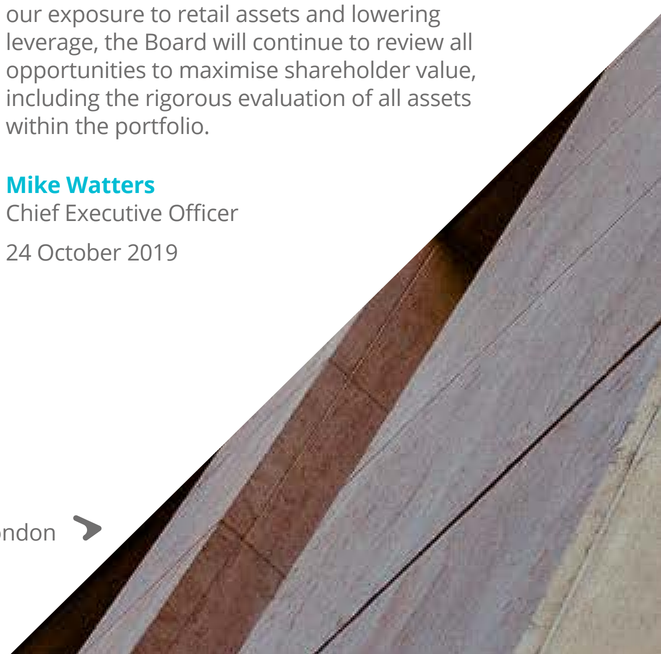
## Outlook

The last 12 months have presented a number of challenges for the businesses. The current political and economic uncertainty, combined with material structural changes to the retail landscape, has resulted in a significant underperformance by UK REITs with higher than average retail exposure and balance sheet leverage. While the majority of our portfolio has continued to deliver robust operational results, the Board recognises the discount of the current share price to NAV.

In order to address this, our strategic priorities are being accelerated to deliver a cleaner, simpler investment proposition and a lower leverage capital structure. While we have made material progress in repositioning the portfolio to date, reducing our exposure to retail assets and lowering leverage, the Board will continue to review all opportunities to maximise shareholder value, including the rigorous evaluation of all assets within the portfolio.

**Mike Watters**
Chief Executive Officer

24 October 2019



St Dunstan's Monument, London

# Income led business model

## Designed to deliver long term sustainable income returns backed by strong real estate fundamentals.

## Our resources

**Our assets**
Well located investments generating strong occupier demand. Creating spaces and places for people and businesses to grow and prosper.

**Our people**
We recruit and develop high calibre dynamic and entrepreneurial people, who have a high performance, results oriented approach.

**Our stakeholders**
We aim to build and foster long term relationships with all our stakeholders through collaborative and transparent interaction.

## Strategic priorities

### Income focused portfolio
Continuously improving our diversified portfolio's exposure to sectors demonstrating positive structural change, supporting security of income, with opportunities to drive income growth.

Read more on page 08

### Efficient capital structure
Focused on reducing leverage and further strengthening the balance sheet in support of greater operational flexibility and a more competitive cost of capital.

Read more on page 06

### Financial discipline
Clear and measurable medium term targets, focused on growing income and strengthening the balance sheet. Closely aligned to strategic objectives and management remuneration.

Read more on page 06

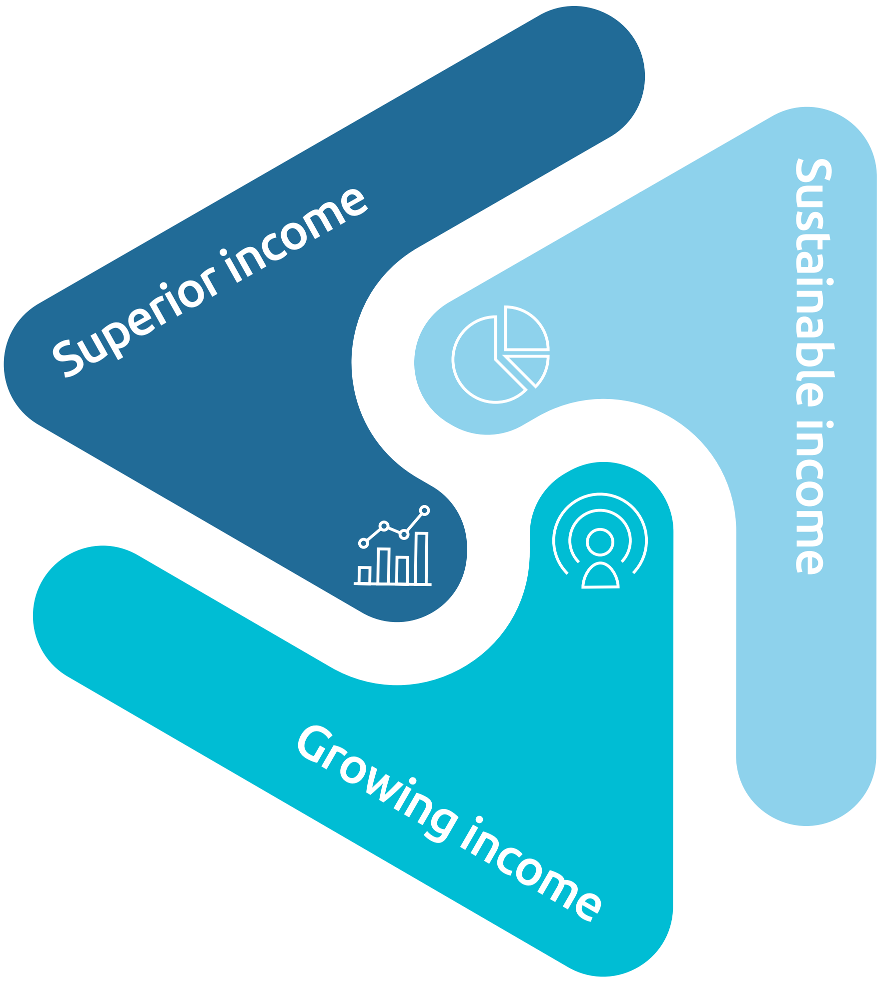
### Scalable business
Greater scale to drive longer term benefits, including greater access to capital markets and liquidity, whilst limiting volatility. Capital recycling to ensure we secure the right earnings enhancing opportunities for our shareholders.

Read more on page 10

## Underpinned by our culture

1. Hands-on, lean management team
2. Entrepreneurial spirit

## How we create value




## The value we add

**Shareholders**
Sector leading income yield.

**Employees**
Rewarding career development in a high performance and enjoyable team environment.

**Tenants**
Creating spaces that meet occupiers' and clients' requirements to help their businesses prosper.

**Suppliers**
We foster long term relationships with high performance, service oriented suppliers and service providers.

**Communities**
We strive to support and improve the communities in which we operate.

3 **Cultural focus on driving income**

4 **Efficient deal makers**

5 **In-house expertise**

6 **Strong relationships and alignment with strategic partners**

## Strategic report

# Key performance indicators

## Closely linked to strategic priorities and management incentives to align with shareholder returns and drive accountability.

| KPI | 2019 | 2018 | How we measure it | Our progress | Link to strategy |
|---|---|---|---|---|---|
| **LTV (%)** | 42.0 | 46.2 | Nominal value of drawn debt net of cash, divided by portfolio market value | A strategic priority. Improved following disposal activity. Target has been revised lower | Efficient capital structure |
| **UK Retail (%)** | 17.9 | 29.7 | Market value of UK Retail investments as a percentage of the total portfolio's market value | Significant reduction in exposure to this challenged sector | Scalable business |
| **Interest cover (times)** | 3.3 | 3.5 | Net rental income divided by net finance expense | Within target range | Financial discipline |
| **Weighted average cost of debt (%)** | 2.9 | 3.4 | Interest rate on loans, weighted by the amount borrowed relative to total borrowings | Ahead of target following derecognition of Aviva financed UK Shopping Centre portfolio and refinancing activity during the year | Efficient capital structure |
| **Rental income growth** (LfL % increase) | 0.0 | 2.1 | Growth in net rental income for properties held throughout the current and prior year; excludes acquisitions, disposals and properties under development | Growth below target range primarily due to accelerated refurbishment programme on UK Hotels | Income focused portfolio |
| **Underlying earnings per share (p)** | 13.0 | 14.2 | EPRA earnings adjusted for forex and fair value accretion of debt, divided by the weighted average number of shares during the year | Growth below target range following derecognition of the Aviva financed UK Shopping Centre portfolio | Financial discipline |
| **EPRA cost ratio (%)** | 16.4 | 15.6 | Administrative and direct property costs, excluding vacancy costs, as a percentage of rental income | Above target due to higher landlord costs and cost of maintaining sub-scale European portfolio prior to disposal | Financial discipline |
| **Weighted average debt maturity (yrs)** | 3.7 | 6.7 | Number of years to maturity on individual loans, weighted by the nominal value of the loan relative to total borrowings | Deteriorated following derecognition of Aviva financed UK Shopping Centre portfolio's long dated debt facility | Efficient capital structure |
| **EPRA NAV per share (p)** | 185.5 | 213.8 | EPRA net assets divided by diluted number of shares outstanding at the year end | Fallen due to valuation losses in the period and derecognition of Aviva financed UK Shopping Centre portfolio | Scalable business |

Income focused portfolio   Efficient capital structure   Financial discipline   Scalable business

# Principal risks and viability

## The Group seeks to minimise, control and monitor the impact of risks on profitability and the Group's strategic priorities whilst maximising the opportunities they present in the context of longer term viability.

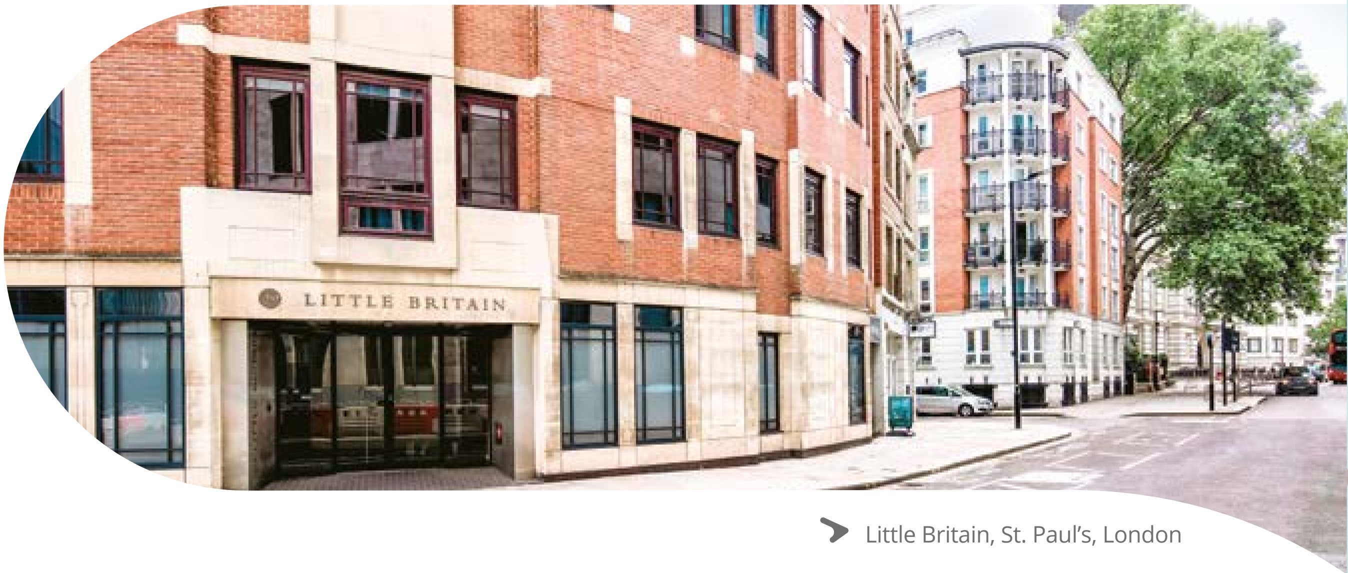
RDI acknowledges that it faces a number of risks which could impact the achievement of its strategy.

While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has an established risk management process to manage and mitigate risk. The Group's process for identifying and managing risk is set by the Board. The Board has delegated the oversight of risk to the Audit and Risk Committee. Risks are identified by applying a dual approach: "bottom up" at the operational level having established responsible risk-owners throughout the business and layered with a "top down" or corporate overlay as determined by the Board. Identified risks are then assessed by rating each risk gross and net of mitigating controls.

The Audit and Risk Committee reviews the risk management plan bi-annually with the design, implementation and monitoring being the responsibility of management on a day-to-day basis. Risks are considered in terms of their impact and likelihood from both a financial and reputational perspective.

Although not exhaustive, the principal risks facing the Group are categorised into four broad risk types: Strategic, Financial, Operational and Legal, Regulatory and Human Resources.

The potential impact of these risks and the mitigating controls in place to manage their impact are as follows:




Little Britain, St. Paul's, London

# Principal risks and viability

continued

## Strategic risks

Change

Risk owner

Primary responsibility: Mike Watters (CEO) and Stephen Oakenfull (Deputy CEO)

| Risk | Impact potential | Mitigation factors | Link to strategy |
|---|---|---|---|
| Continuing uncertainty surrounding the political and economic climate<br>Ongoing negotiations and extensions on the UK exit from the European Union has resulted in increased uncertainty over future policy, legislation and political leadership | • Ongoing and heightened economic and political uncertainty leading to general market dislocation, increased volatility with potential impact on property valuations, share price and delayed strategic decision making of investors, lenders and occupiers<br>• Constrained access to debt or capital markets impacting ability to address liquidity or covenant concerns<br>• Reduction in earnings as result of a lack of investor and occupiers confidence | • Close relationships with key shareholders and lenders<br>• Close monitoring of loan covenants and required cash cures<br>• Ongoing monitoring of proposals and emerging policy and legislation<br>• Balance sheet structure provides a degree of flexibility<br>• Stress testing the Group's medium term forecast to ensure financial position is sufficiently robust to support a theoretical no-deal Brexit | |
| Failure to formulate and execute an appropriate sustainable investment strategy and income returns. This includes, but is not limited to, gearing levels, diversification, incorrect timing of investment and capital recycling decisions, inadequate consideration of social and environmental impact of investment strategy, resulting in erosion of shareholder value | • Declining net asset value and total property return (income and capital), particularly with respect to UK Retail<br>• Declining total shareholder returns and increased share price volatility | • Annual review of investment strategy<br>• Defined asset appraisal process<br>• Investment Committee reviews all opportunities against pre-determined criteria<br>• Monitoring of macroeconomic and property market trends<br>• Flexible and agile decision making<br>• Clear messaging of Group strategy to the market and to analysts<br>• Ongoing dialogue and communication with lenders and brokers | |
| Significant business interruption, terrorist event or cyber crime | • Inability to access or operate properties<br>• Operational interruption and disruption<br>• Significant reduction in footfall<br>• Injury or loss of life of occupier, customer, employee or contractor<br>• Loss of key supplier | • Appropriate insurance in place at both a corporate and property level<br>• Geographic diversity of portfolio<br>• Maintenance of a comprehensive business continuity plan<br>• Major incident planning and monitoring of NaCTSO security advice<br>• Implementation and regular review of corporate cyber security systems<br>• Disaster recovery planning including frequent replication of data and offsite storage<br>• Robust security including CCTV and access controls | |
| Change in investment strategy of significant shareholder or joint venture partner | • Adverse movement in share price<br>• Perceived loss of confidence<br>• Disruption to implementation of strategic objectives | • Close relationships and open dialogue maintained with key shareholders and partners<br>• Clear income focused total return strategy targeting upper quartile performance<br>• Actively target new investors | |

Income focused portfolio | Efficient capital structure | Financial discipline | Scalable business

## Financial risks

Change

### Risk owner

Primary responsibility: Donald Grant (CFO)

| Risk | Impact potential | Mitigation factors | Link to strategy |
|---|---|---|---|
| Decline in market conditions, reduction in investor and occupier demand for UK real estate, and structural changes in retail consumer and commercial workforce behaviour | • Reduced availability of financing as a result of past or future events<br>• Inability to fund property investments<br>• Increased cost of finance<br>• Declining valuations leading to covenant breaches and cash cure requirements<br>• Pressure on maintaining sustainable income and a stable and growing dividend | • Mix of lenders and maturities of facilities<br>• Non-recourse debt structure<br>• Early refinancing of debt and focus on lower leverage capital structure<br>• Ensure sufficient liquidity and undrawn commitments to meet commitments and plausible stress scenarios<br>• Reduce dividend pay-out to ensure sufficient liquidity in the face of heightened market volatility<br>• Commitment to operational efficiencies and low-cost base<br>• Regular assessment of market conditions including bi-annual external valuations and monitoring of covenants<br>• Detailed capital planning and forecasting<br>• Portfolio diversified across sectors and geography; targeted reduction of retail exposure in both the UK and Germany and allocation of capital to sector with stronger growth prospects | |
| Adverse interest rate movements and inflationary pressures | • Increased cost of borrowing and hedging reducing financial and operational flexibility<br>• Adverse impact on property valuations | • Interest rate hedging policy providing interest rate protection<br>• Target staggered debt maturities<br>• Early refinancing where economically viable to lock in lower rates for longer | |
| Adverse foreign currency movements | • Reduced operating income prior to Europe portfolio targeted disposals<br>• Decreased Sterling equivalent asset or disposal values | • Debt facilities arranged in the currency of the related investment act as a partial hedge<br>• Exchange rates continuously monitored<br>• Amounts converted to Sterling at earliest opportunity<br>• Foreign currency forward contracts entered into prior to significant transactions | |

## Operational risks

Change

### Risk owner

Primary responsibility: Adrian Horsburgh (Property Director)

| Risk | Impact potential | Mitigation factors | Link to strategy |
|---|---|---|---|
| Failure to anticipate changes in the property cycle | • Reduced investment demand and declining property values<br>• Potential pressure on banking covenants | • Bi-annual external valuation of properties<br>• Diversified portfolio<br>• Active asset management<br>• Regular monitoring of covenants, including scenario modelling<br>• Continued focus on reducing retail exposure and capital recycling of mature assets | |
| Reduced occupier demand for space and deferral of decisions, increased supply, or occupier defaults, impacting the ability to buy, develop, manage and sell assets | • Reduced rental income and cash flow<br>• Loss of key tenants<br>• Increased void costs<br>• Declining property values | • Diverse tenant base<br>• Long leases and strong tenant covenants<br>• Open dialogue with tenants and property managers<br>• Review consumer trends<br>• Regular monitoring of tenants at risk<br>• Proactive monitoring of lease expiries and/or breaks to minimise periods of vacancy<br>• Reputable property managers and efficient rent collection procedures | |

Income focused portfolio · Efficient capital structure · Financial discipline · Scalable business

# Principal risks and viability

continued

## Operational risks continued

Change

Risk owner

Primary responsibility: Adrian Horsburgh (Property Director)

| Risk | Impact potential | Mitigation factors | Link to strategy |
|---|---|---|---|
| Inappropriate cladding or construction materials | • Increased devastation in case of fire | • Annual fire risk assessment<br>• Comprehensive review of cladding and insulation in place across portfolio and close liaison with national Health & Safety Executive | |
| Reliance on third party service providers (asset and property managers, offshore administrators and accountants) due to complex Group structure | • Financial or reputational impact<br>• Operational ineffectiveness<br>• Failure to comply with regulatory requirements in offshore jurisdictions | • Robust service level agreements in place<br>• Appropriate due diligence and tendering process for reputable service providers<br>• Regular engagement and active management of all service providers<br>• Periodic review and formal update of services provided in line with changes in the business | |

## Legal, regulatory and human resources risks

Change

Risk owner

Primary responsibility: All Executive Directors

| Risk | Impact potential | Mitigation factors | Link to strategy |
|---|---|---|---|
| Health, safety and environmental risks | • Loss or injury to employees, tenants or contractors<br>• Impact on reputation, adverse publicity or financial impact | • Policies in place with audit and risk assessments undertaken<br>• Environmental programme in place<br>• All properties actively managed<br>• Appointed dedicated Health & Safety Manager<br>• Comprehensive tendering process for contractors | |
| Changes in, or breach of, regulatory or legislative requirements | • Financial or reputational impact<br>• Reduced financial returns as a result of increased taxes across the Group's non-REIT residual business<br>• Adverse tenant behaviour | • Sound governance and internal policies<br>• Appointment of appropriately qualified employees<br>• Regular review of compliance e.g. REIT legislation<br>• Proactive identification of changes in legal and regulatory environment with planned response to changes prior to implementation<br>• Maintenance of a data protection policy to ensure compliance with EU GDPR Regulations | |
| Failure to recruit, develop and retain employees with the right skills and experience | • Ineffective decision making and failure to deliver against business objectives and performance<br>• Operational ineffectiveness | • Active succession planning to mitigate key person risk<br>• Clear employee objectives and annual performance appraisal to ensure alignment to business objectives<br>• Competitive and benchmarked remuneration to attract and retain talent<br>• Periodic employee engagement surveys and employee health and wellbeing initiatives | |

Income focused portfolio  Efficient capital structure  Financial discipline  Scalable business

# Viability

## Viability assessment period

The Directors have considered a three year time horizon in assessing longer term viability. This is underpinned by an average unexpired lease term and weighted average debt maturity comfortably exceeding three years. In the view of the Directors, this time horizon strikes a balance between establishing viability and assessing the Group's longer term prospects.

The Group's strategy set by the Board is reviewed annually and considers a three year time horizon, therefore for the purposes of this assessment the business prospects have been considered and its plans stress tested over the same period.

The Directors believe that focusing on the Group's strategic priorities will support the continued relevance, solvency and strategic viability of the Group in the longer term. As outlined on page 6 (and 7) the Group is focused on accelerating certain strategic priorities over the near and medium term, namely: the delivery of a lower leverage capital structure; more focused allocation of capital; and accelerated reduction in exposure to retail assets. The viability assessment has been aligned to these priorities.

## Consideration of key risks and uncertainties facing the Group

The nature of the Group's business and the industry in which it operates exposes it to a variety of risks. The principal risks and uncertainties faced are outlined on pages 19 to 23, whilst significant areas of judgement and uncertainty are discussed on pages 100 and 101. The Board regularly reviews these disclosures and assesses the appropriate controls and actions that can be taken to mitigate and manage the operations of the Group within an appropriate risk tolerance. The Directors have further considered their impact within the context of the Group's viability and prospects, with emphasis this year being placed on sustained deterioration of the UK Retail sector, notwithstanding the derecognition of the Aviva financed UK Shopping Centre portfolio, the unstable macroeconomic and political environment in the UK as a result of the anticipated but as yet unstructured departure from the European Union, and the Group's capital structure.

## Assumptions

In reaching their opinion, the Directors considered the Group's internal control environment together with the results of plausible but conservative scenarios or models. Key assumptions underlying the base-case scenario were as follows:

- across the Group's portfolio, property valuations continue to remain broadly stable, with negative movements in one segment likely to be offset by positive movements in another, given the diversified nature of the Group's investments and reduced exposure to UK Retail;
- proceeds of targeted property disposals are applied towards debt reduction, in line with the Group's strategic objective of a lower leverage capital structure;
- credit markets remain open and available to the Group to allow it to continue to refinance existing debt facilities as they mature, albeit at a likely higher cost of debt;
- the Group continues to have a diverse tenant base, with no particular concentration of credit risk;
- lease expiries will result in a void period prior to reletting, with incentives likely to be extended;
- inflation continues at levels in line with Bank of England targets; and
- Sterling remains stable relative to the Euro.

The Group's three year business plan was stress tested using both specific and cumulative "downside" assumptions to model a general deterioration in market conditions and operational returns, including flexing the key base-case assumptions set out above. In particular, key assumptions underlying the downside scenario were as follows:

- annual valuation declines impacting the Group's portfolio, the most significant of which being a 20 per cent reduction in the Group's remaining UK Shopping Centre valuations, to model a continuation of negative sentiment towards the UK Retail sector and tenant failures;
- an increase in non-income producing or defensive capital projects; and
- general reduction in the Group's underlying earnings, being the combined result of reduced rental and other income, extension of void periods and additional tenant incentives, increased bad debts, higher rates of inflation and a weakening in Sterling.

## UK's anticipated exit from the European Union ("Brexit")

Considering the unprecedented disruption that may result from a disorderly or no-deal Brexit, further Brexit specific considerations have been given to modelling a possible worst-case scenario which would not ordinarily be expected to occur. Key assumptions which were further considered were:

- further declines in valuation across the UK Portfolio, the most significant of which being a 25 per cent annual reduction in the Group's remaining UK Shopping Centre valuations;
- dislocation in the UK investment market hinders the ability to execute planned disposals;
- UK credit market unavailable for 12 months, restricting the Group's ability to refinance maturing debt facilities;
- escalation in the cost of capital expenditure;
- the occurrence of bad debts doubles;
- inflation and interest rates increase further; and
- Sterling reaches parity with the Euro.

## Conclusion

As a result of the work performed above and the various mitigating actions that are available to the Board in the unlikely event that the stress tests performed prove to be insufficient, the Directors are of the view that the Group's strategy provides a sound platform upon which to continue its business. The Directors therefore conclude that there is a sufficiently reasonable expectation that the Group can continue in operation and is capable of meeting its debts and obligations as they fall due during the next three years.

# Operating review

## What's in this section



## Portfolio overview

The portfolio has strong income characteristics with clear visibility of the medium term income profile and growth opportunities.

Key portfolio characteristics include:

- a weighted average lease length, excluding RBH managed hotels and London Serviced Offices, of 6.1 years to the first potential lease break and 7.7 years to expiry;
- 25.3 per cent of gross rental income subject to inflation-linked or fixed increases;
- rental growth potential with a reversionary yield of 6.0 per cent, 40 basis points higher than the current portfolio EPRA topped-up net initial yield;
- high and stable occupancy demonstrating robust occupier demand;
- RBH managed hotels and London Serviced Offices (excluding leases to gym operators) account for 36.2 per cent of the portfolio by annualised gross rental income; and
- over 360 tenants with no single tenant accounting for more than 3.6 per cent of gross rental income.

## Key statistics

**£1.4bn**
Market value of portfolio

**6.1 yrs**
WAULT to first break

**95.9%**
EPRA occupancy

**5.4%**
EPRA NIY

**25.3%**
Leases subject to indexation

**£93.7m**
Annualised gross rental income

St Dunstan's Monument, London

# Overview

## The portfolio has strong income characteristics with clear visibility of the medium term income profile and growth opportunities.

| Portfolio summary 31 August 2019 | Market value £m | Annualised gross rental income £m[1] | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs[2] | EPRA occupancy by ERV %[2] | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| UK Commercial | 557.8 | 32.0 | 34.5 | 4.8 | 5.1 | 5.7 | 5.7 | 92.0 | 15.3 |
| UK Hotels | 363.3 | 26.0 | 24.7 | 5.8 | 5.8 | 6.1 | 17.2 | 100.0 | 9.3 |
| UK Retail | 255.0 | 20.7 | 19.5 | 6.5 | 7.1 | 7.1 | 6.0 | 97.8 | 10.3 |
| **Total UK** | **1,176.1** | **78.7** | **78.7** | **5.5** | **5.7** | **6.1** | **6.5** | **94.9** | **12.0** |
| Europe | 247.2 | 15.0 | 14.5 | 5.0 | 5.0 | 5.5 | 5.0 | 99.1 | 94.7 |
| **Total** | **1,423.3** | **93.7** | **93.2** | **5.4** | **5.6** | **6.0** | **6.1** | **95.9** | **25.3** |
| Controlled assets | 1,397.2 | 91.9 | 91.4 | 5.4 | 5.6 | 6.0 | 6.1 | 95.8 | 24.7 |
| Held in JVs (proportionate share) | 26.1 | 1.8 | 1.8 | 6.3 | 6.3 | 6.6 | 5.1 | 99.9 | 53.2 |

(1) Annualised gross rental income for the London Serviced Office portfolio included as EBITDA net of management fees.

(2) Excluding the RBH managed hotels and London Serviced Office portfolios. Relevant operational metrics disclosed separately.

### Capital allocation and portfolio strategy

As set out at the half year, a number of assets have been identified for disposal to deliver a more focused allocation of capital to those sectors with stronger growth prospects. The targeted disposals are in line with the strategy of reducing exposure to retail and delivering a lower leverage capital structure.

Retail exposure across the portfolio has been successfully reduced to 35.3 per cent (31 August 2018: 45.6 per cent) with a further reduction to 31.0 per cent based on disposals agreed post year end. Further details of the disposal programme are provided below, which targets a reduction in retail exposure to approximately 20.0 per cent based on current market values.

The targeted repositioning of the portfolio will provide a materially higher exposure to growth sectors from within the existing portfolio, including the strong operational platforms across Hotels and London Serviced Offices, a higher exposure to the UK Distribution and Industrial portfolio and a significant re-weighting of the overall portfolio to Greater London and the South East, with approximately 75.0 per cent of the repositioned portfolio located in these stronger economic locations.

| Portfolio summary 31 August 2019 | % | Market value £m | Annualised gross rental income £m[1] | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs[2] | EPRA occupancy by ERV %[2] | Indexed % |
|---|---|---|---|---|---|---|---|---|---|---|
| UK Hotels | 25.5 | 363.3 | 26.0 | 24.7 | 5.8 | 5.8 | 6.1 | 17.2 | 100.0 | 9.3 |
| UK Offices | 19.4 | 276.1 | 15.7 | 16.8 | 5.0 | 5.0 | 5.5 | 3.2 | 91.0 | 4.3 |
| UK Distribution and Industrial | 16.2 | 231.3 | 12.4 | 13.4 | 4.4 | 4.8 | 5.4 | 6.6 | 93.7 | 26.1 |
| UK Retail | 16.5 | 234.5 | 17.4 | 16.2 | 6.1 | 6.6 | 6.5 | 6.1 | 98.2 | 12.2 |
| | 77.6 | 1,105.2 | 71.5 | 71.1 | 5.4 | 5.6 | 5.9 | 6.6 | 95.6 | 11.8 |
| **Assets identified for disposal** | | | | | | | | | | |
| Europe | 17.4 | 247.2 | 15.0 | 14.5 | 5.0 | 5.0 | 5.5 | 5.0 | 99.1 | 94.7 |
| UK mature assets | 5.0 | 70.9 | 7.2 | 7.6 | 7.3 | 8.1 | 9.8 | 5.7 | 91.6 | 13.7 |
| **Total** | **100.0** | **1,423.3** | **93.7** | **93.2** | **5.4** | **5.6** | **6.0** | **6.1** | **95.9** | **25.3** |

(1) Annualised gross rental income for the London Serviced Office portfolio included as EBITDA, net of management fees.

(2) Excluding the RBH managed hotels and London Serviced Office portfolios. Relevant operational metrics disclosed separately.

## Valuation overview

The like-for-like portfolio value decreased by £40.6 million or 3.1 per cent in local currency terms, net of capital expenditure, largely driven by outward yield movements in the UK Retail portfolio. Topped-up net rental income at the year end was 0.2 per cent higher than the prior year on a like-for-like basis. The portfolio valuation reflects a 5.6 per cent EPRA topped-up net initial yield and a 6.0 per cent reversionary yield.

The UK Distribution and Industrial portfolio delivered the strongest growth, with values increasing £5.7 million or 3.2 per cent. Although the tightening of investment yields in the distribution sector appears to have largely run its course, the valuation was supported by a £1.2 million or 12.7 per cent increase in topped-up net rental income. Regional office valuations declined £4.7 million or 8.4 per cent, largely as a result of additional vacancies at Plymouth and Reigate, resulting in topped-up net rental income declining 4.6 per cent. UK Retail valuations continued to suffer from a combination of factors including the ongoing rationalisation of store portfolios by many retailers, the continued impact of CVAs and administrations, and a lack of bank funding for new transactions. The resultant lack of investment demand for retail assets has seen yields continue to rise as demand is largely limited to opportunistic capital. Like-for-like UK Retail valuations declined £33.6 million or 11.7 per cent despite topped-up net rental income increasing 0.7 per cent. The valuation movement was driven by the topped-up net initial yield moving out 80bps. The UK Hotels portfolio valuation declined £6.8 million or 1.9 per cent, partly due to additional refurbishment costs in the year and a weaker trading performance from a limited number of the regional assets.

| **Valuation overview 31 August 2019** | Market value £m | EPRA topped up NIY %[1] | Reversionary yield %[1] | Topped-up net rental income change % | Gain/ (loss) £m[2] | Local currency gain/ (loss) % |
|---|---|---|---|---|---|---|
| London Serviced Offices | 163.4 | 6.0 | 5.8 | (0.6) | — | — |
| London and regional offices | 163.1 | 4.6 | 5.9 | (6.7) | (6.9) | (4.1) |
| Distribution and Industrial | 184.1 | 4.8 | 4.8 | 12.7 | 5.7 | 3.2 |
| **UK Commercial** | **510.6** | **5.1** | **5.7** | **1.9** | **(1.2)** | **(0.2)** |
| Managed hotels | 313.5 | 5.9 | 6.3 | (4.0) | (9.1) | (2.9) |
| Travelodge portfolio | 49.8 | 4.6 | 4.9 | — | 2.3 | 4.8 |
| **UK Hotels** | **363.3** | **5.8** | **6.1** | **(3.6)** | **(6.8)** | **(1.9)** |
| Shopping centres | 80.8 | 7.5 | 8.3 | (5.5) | (15.2) | (15.8) |
| Retail parks and other | 174.2 | 6.9 | 6.5 | 4.2 | (18.4) | (9.7) |
| **UK Retail** | **255.0** | **7.1** | **7.1** | **0.7** | **(33.6)** | **(11.7)** |
| **Total UK** | **1,128.9** | **5.7** | **6.1** | **(0.2)** | **(41.6)** | **(3.6)** |
| Shopping centres | 158.6 | 4.7 | 5.0 | 3.1 | (0.2) | (1.3) |
| Retail parks and other | 56.3 | 6.1 | 6.9 | 3.1 | 1.2 | 2.2 |
| **Europe** | **214.9** | **5.0** | **5.5** | **2.7** | **1.0** | **(0.7)** |
| **Total (like-for-like)** | **1,343.8** | **5.6** | **6.0** | **0.2** | **(40.6)** | **(3.1)** |
| Acquisitions | 47.2 | | | n/a | | |
| Development | 32.3 | | | 0.2 | | |
| **Total property portfolio market value** | **1,423.3** | **5.6** | **6.0** | **0.1** | | |

(1) Yields reported for total segment.

(2) Includes the effect of capital expenditure, amortisation of head leases, tenant lease incentives and foreign currency translation where applicable.

## Strategic report
### Operating review

# Overview
continued

## Leasing activity

It has been an active period with 131 lease events totalling £15.1 million being concluded, a 21.4 per cent or £2.7 million increase on the previous gross rental income and 4.7 per cent ahead of ERV. The £2.7 million increase in gross rental income included the letting of 22 previously vacant units for £0.9 million.

Portfolio occupancy reduced to 95.9 per cent (31 August 2018: 97.1 per cent), which included the impact of Unit 1a completing at Link 9, Bicester and asset management activity at Charing Cross Road to secure medium term vacant possession. On a like-for-like basis, occupancy was broadly stable. A number of positive letting transactions, post year end, increased occupancy to 97.2 per cent, with a corresponding increase in topped-up net rental income of £1.2 million.

| Lease events 31 August 2019 | Number of lease events | Annualised gross rental income 31 August 2018 £m | Increase in gross rental income £m | Annualised gross rental income 31 August 2019 £m | Gross rental income relative to ERV on lease events |
|---|---|---|---|---|---|
| UK Commercial | 18 | 18.2 | 1.6 | 19.8 | +6.5% |
| UK Retail | 34 | 20.5 | 0.6 | 21.1 | +6.2% |
| Europe | 74 | 14.5 | 0.3 | 14.8 | +0.8% |
| **Leasing activity (like-for-like)** | **126** | **53.2** | **2.5** | **55.7** | **+4.9%** |
| Lease events on acquisitions | 5 | — | 0.2 | 0.2 | (1.2)% |
| **Total leasing activity** | **131** | **53.2** | **2.7** | **55.9** | **+4.7%** |
| Managed hotels and LSO | — | 36.9 | (0.3) | 36.6 | |
| Other activity (incl. vacancies and CVAs) | | | (0.6) | (0.6) | |
| Acquisitions | | | 1.8 | 1.8 | |
| **Total** | **131** | **90.1** | **3.6** | **93.7** | |

Note: Excludes Aviva Portfolio.

- 58 rent reviews were completed in the year resulting in total gross rental income of £8.7 million, a 17.4 per cent (£1.3 million) increase over the previous gross rental income and 12.1 per cent (£0.9 million) ahead of ERV.
- 34 leases amounting to 237,500 sqft were renewed on break or expiry and 39 new leases and lease regears were signed in the year, accounting for a total gross rental income of £6.4 million (previous gross rental income £5.1 million), 3.7 per cent (£0.3 million) below ERV.
- The new leases include lettings on previously vacant space totalling 49,750 sqft across 22 units, generating an additional £0.9 million in gross rental income.
- Ten units were vacated in the year (11,764 sqft). Nearly all of this vacant space is within properties that have exchanged for sale or are being actively marketed for sale at the year end. Previous gross rental income was £0.1 million with landlord shortfalls increasing by £0.1 million.

## Acquisitions

As previously announced, £52.3 million of acquisitions (excluding transaction costs) were completed during the first half of the year in two transactions, including a forward commitment to acquire two newly developed distribution units in Bicester. The acquisitions increase the portfolio's exposure to the distribution and industrial sector in the South East. Once fully let, the acquisitions have the potential to deliver a yield on cost of 6.6 per cent on average, reflecting an attractive income return in a competitive investment market.

| Acquisitions | Purchase price £m | Net rental income £m | ERV £m | Reversionary yield % | EPRA NIY % | EPRA topped up yield % | WAULT yrs | EPRA occupancy by ERV % |
|---|---|---|---|---|---|---|---|---|
| Southwood Business Park, Farnborough | 26.3 | 1.7 | 2.0 | 7.2 | 6.2 | 6.2 | 5.1 | 90.7 |
| Link 9, Bicester forward funding | 26.0[(1)] | — | 2.0 | 6.5 | n/a | n/a | n/a | n/a |
| **Total** | **52.3** | **1.7** | **4.0** | **6.6** | | | | |

Note: All metrics as at acquisition.

(1) Total forward funding commitment, of which £10.3 million remains committed and yet to be settled.

### Southwood Business Park, Farnborough

Southwood Business Park was acquired in September 2018 for £26.3 million (excluding costs) at a net initial yield of 6.2 per cent. The property is situated within an established commercial area in Farnborough, Hampshire and is conveniently located within the M3 corridor, approximately 41 miles from Central London. The nine acre estate consists of 18 warehouse units totalling 154,849 sqft (14,385 sqm) with a low site cover of 37 per cent.

Since acquisition, occupancy has increased to 100 per cent, supporting an 18.8 per cent increase in topped-up net rental income. Recent letting deals have been completed at rents averaging £13.2 per sqft compared to the average rent of £12.9 per sqft on acquisition. The acquisition provides further opportunities to support medium to long term income growth through identified asset management initiatives.

### Bicester forward funding

Approximately 13.5 acres of land was acquired in Bicester as part of a total £26.0 million forward funding opportunity with Albion Land to develop two high quality distribution units of 120,000 sqft and 168,000 sqft respectively. The site is part of the successful Link 9 industrial and distribution development with good access to the M40.

Unit 1a of 120,000 sqft was completed in April 2019. Unit 1b is anticipated to be completed in late 2019 and £10.3 million has been committed for this final stage of development. The supply of modern distribution units along this section of the M40 corridor remains limited and current enquiries demonstrate healthy levels of interest. The transaction provides an opportunity to increase exposure to well located modern distribution units and is anticipated to deliver a 6.5 per cent yield on total cost once fully let.

## Disposals

A number of smaller disposals were completed during the year with more material disposals including Bahnhof Altona, Hamburg and Park Place, Leeds exchanging or completing post year end.

| Disposals | Sales price[(1)] £m | Market value prior to sale[(1)] £m | Premium/ (discount) to market value % | Net rental income £m | EPRA NIY[(2)] % |
|---|---|---|---|---|---|
| Eilenberg, Germany | 3.4 | 3.4 | — | 0.3 | 7.3 |
| Centralofts, Newcastle | 0.5 | 0.9 | (44.4) | 0.1 | 9.0 |
| Lakeview, Warrington[(3)] | 3.6 | 3.6 | — | 0.5 | 12.9 |
| Munich, Germany[(3)] | 10.3 | 9.9 | 4.0 | 0.3 | 2.9 |
| **Disposals exchanged or completed during the year** | **17.8** | **17.8** | **—** | **1.2** | **6.1** |
| Bahnhof Altona, Hamburg | 82.6 | 80.6 | 2.5 | 4.0 | 4.6 |
| Park Place, Leeds | 9.0 | 8.8 | 2.3 | 0.6 | 6.0 |
| Albion Street, Derby | 2.5 | 2.5 | — | 0.3 | 10.5 |
| Kaiserslautern, Germany (joint venture) | 3.8 | 3.5 | 8.6 | 0.2 | 5.5 |
| Waldkraiburg, Germany (joint venture) | 5.8 | 5.3 | 9.4 | 0.3 | 5.6 |
| **Disposals exchanged or completed post year end** | **103.7** | **100.7** | **3.0** | **5.4** | **5.0** |
| **Total** | **121.5** | **118.5** | **2.5** | **6.6** | **5.1** |

(1) JVs at proportionate share.
(2) EPRA NIY based on the sales price.
(3) The disposals of Lakeview, Warrington and Munich completed post year end.

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continued

## Disposals exchanged or completed post year end

### Bahnhof Altona Center, Hamburg

Contracts were exchanged post year end for the sale of the Bahnhof Altona Center for €91.0 million, reflecting a 2.5 per cent premium on the 31 August 2019 valuation and 9.6 per cent above the 28 February 2019 market value. The disposal is anticipated to complete on 31 December 2019 subject to certain conditions being satisfied. The agreed sales price reflects a 25.5 per cent increase over the original purchase price of €72.5 million in August 2013, with the additional benefit of the Euro having strengthened by approximately 6.0 per cent over the holding period. The centre has delivered consistent income returns with net operating income having increased 0.6 per cent since acquisition. The disposal is in line with the Group's strategy to reduce its exposure to the retail sector.

### Park Place, Leeds

Park Place was sold post year end for £9.0 million, a 2.3 per cent premium to the last reported market value, reflecting a net initial yield of 6.0 per cent. The disposal follows a lease regear to the Department for Work and Pensions on a new ten year lease with limited further upside anticipated in either rental or capital values.

### Albion Street, Derby

Contracts for the sale of Albion Street have been exchanged for a minimum consideration of £2.5 million. The sale has been agreed on the basis of a longstop completion date of 6 December 2019, allowing the property to be offered prior to this at auction. In the event that a sale is achieved in excess of £2.5 million, RDI is entitled to 50 per cent of the increase, less transaction costs.

### Kaiserslautern and Waldkraiburg

The portfolio of two retail warehouses held in joint venture was exchanged for sale at €20.4 million (Group share €10.6 million), a 9.1 per cent premium to current market value. The disposal is anticipated to complete prior to 31 December 2019, subject to certain conditions being satisfied.

All properties exchanged or completed post year end were classified as held for sale at 31 August 2019.

## Capital expenditure

Capital expenditure during the year totalled £8.2 million with a further £3.1 million committed towards the projects below. Capital expenditure included projects with incremental income returns and key projects during the year included:

| Significant projects | Description | Completion | Total project cost £m | Cost to complete £m | Incremental net rental income[(1)] £m | Anticipated yield on cost % |
|---|---|---|---|---|---|---|
| Holiday Inn Express, Edinburgh | HIEX Edinburgh, refurbishment and extension | September 2019 | 5.6 | 0.3 | 0.7 | 12.5% |
| Canbury Business Park, Kingston | Office refurbishment | September 2019 | 1.3 | — | 0.2 | 13.0% |
| London, Watford, The Arches Retail Park | Costa Pods | November 2019 | 1.2 | 0.4 | 0.2 | 16.0% |
| The Range, Edinburgh | Costa Pods | July 2019 | 0.8 | — | 0.1 | 9.1% |
| Ingolstadt, City Arcaden | Mixed use wing development | March 2020 | 2.9 | 2.4 | 0.2 | 8.5% |
| | | | **11.8** | **3.1** | **1.4** | **11.6%** |

(1) For the HIEX Edinburgh extension, incremental income has been calculated as the forecast annual revenue from the additional 25 bedrooms.

### Holiday Inn Express, Edinburgh

A 25 bedroom extension was completed in September 2019 for a total cost of £3.6 million with an additional £2.0 million spent on general improvements. Incremental revenues of £0.7 million are anticipated which would deliver a marginal return on capital of 12.5 per cent.

### Canbury Park, Kingston

A £1.3 million refurbishment to the office space is nearing completion. Sitel, an existing tenant, was downsized and took a new five year lease at £27.2 per sqft. The remaining space has been let to Interval International at £29.5 per sqft on a five year term. Total gross rental income for office space will increase to £1.4 million per annum, a 35.2 per cent increase above the previous gross rental income.

### Retail Parks, Costa Pods

Two new Costa drive-thru pods were agreed with total capex commitments of £2.0 million, delivering £0.3 million of additional gross rental income. One unit was completed at The Range, Edinburgh during the year with the second unit at The Arches Retail Park, Watford anticipated to compete in November 2019.

### Ingolstadt, City Arkaden

The second phase of development commenced during the year to finalise the remaining residential, office and retail units totalling approximately 1,700 sqm (18,300 sqft). The majority of the retail units have been pre-let, with the residential units to be marketed closer to practical completion anticipated in March 2020.

## Sustainability

Following the disclosure of our sustainability objectives and performance, we continue to demonstrate our active approach to addressing ESG improvement opportunities related to our people, process and the ownership of our properties. Amidst a national framework committed to net zero emissions by 2050, RDI has made a long term commitment to increase the number of our assets that hold green building certificates, to both verify building performance as well as aid in the identification of improvement opportunities. We added a further BREEAM In-Use assessment to our London Serviced Office portfolio at St Dunstan's, Monument and are set to achieve a "Very Good" rating for performance. We have made progress on our renewable energy target, increasing our procurement of renewable electricity from 42 per cent to 71 per cent across the UK and Europe. Our investment in electric vehicle charging points provides the public with the necessary infrastructure across our managed assets to service the increasing shift in consumer choice towards electric vehicles. We have demonstrated a commitment to our people in delivering an employee focused session on understanding the impact associated with health and wellbeing within the workplace and promoting a healthy approach to the way we do business.

# Business segments

## UK Commercial

### Highlights
- £52.3 million invested in the industrial and distribution sector during the year
- Planning permission granted at Charing Cross Road for a 41 per cent increase in overall area

| | |
|---|---|
| Occupancy (%) | 92.0 |
| Lettable area ($m^2$) | 192,716 |
| Annualised gross rental income (£m) | 32.0 |
| Properties | 55 |

### Incorporating
- Well located, multi-let distribution centres
- Four London Serviced Offices, centrally located within close proximity to public transport
- Four offices located in Greater London in areas benefiting from major regeneration and capital investment

**Market value**
**£557.8m**

**Percentage of portfolio**
39% 2019
32% 2018

## UK Hotels

### Highlights
- 2.9 per cent increase in RevPar
- 9.3 per cent of net income subject to CPI escalations

| | |
|---|---|
| Occupancy (%)[1] | 100.0 |
| Lettable area ($m^2$) | 77,391 |
| Annualised gross rental income (£m) | 26.0 |
| Properties | 18 |

(1) Of Travelodge branded hotels.

### Incorporating
- 18 predominantly limited service hotels primarily located in Greater London and Edinburgh
- Branded Holiday Inn, Holiday Inn Express, Crowne Plaza, Travelodge, DoubleTree by Hilton and Hampton by Hilton
- 25.3 per cent interest in RBH Hotel Group, the UK's largest independent hotel manager

**Market value**
**£363.3m**

**Percentage of portfolio**
26% 2019
23% 2018

# UK Retail

**Highlights**
- UK Shopping Centre occupancy improved to 98.8 per cent
- Footfall continues to outperform national average

| | |
|---|---|
| Occupancy (%) | 97.8 |
| Lettable area (m²) | 107,588 |
| Annualised gross rental income (£m) | 20.7 |
| Properties | 9 |

**Incorporating**
- Well located retail parks, four of which are in London, the South East of England and Edinburgh
- Two wholly owned UK Shopping Centres, one of which is located in the London suburb of Harrow and tenanted by leading retailers TK Maxx and Wilko. The centre is anchored by Vue Cinemas with a strong food and beverage offering

**Market value**
**£255.0m**

**Percentage of portfolio**

18% 2019

29% 2018


# Europe

**Highlights**
- Occupancy improved to 99.1 per cent
- Contracts exchanged for the disposal of Bahnhof Altona, Hamburg, for €91 million, reflecting a 9.6 per cent premium to last reported market value

| | |
|---|---|
| Occupancy (%) | 99.1 |
| Lettable area (m²) | 92,390 |
| Annualised gross rental income (£m) | 15.0 |
| Properties | 12 |

**Incorporating**
- Three well located shopping centres in Berlin, Hamburg and Ingolstadt
- Other assets comprising mainly retail parks
- All properties are held for sale

**Market value**
**£247.2m**

**Percentage of portfolio**

17% 2019

16% 2018

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# UK Commercial

The UK Commercial portfolio has been significantly repositioned, increasing exposure to Greater London and South East locations as well as to the Distribution and Industrial sector. The office portfolio, including the London Serviced Offices, is now 84.6 per cent weighted to Greater London with exposure to new Crossrail stations and London's expanding Southbank market. Exposure to the Distribution and Industrial sector has increased to 16.3 per cent of the overall portfolio following the forward funding of Link 9, Bicester and the acquisition of Southwood Business Park, Farnborough.


Link 9, Bicester

**London Serviced Offices (11.5 per cent of portfolio by value)**
Take up by serviced office operators has become a key component of the Central London office market, with flexible workspace operators accounting for 18 per cent of total take up in the first six months of the year; the largest proportion of any sector. However, flexible workspace still only accounts for approximately six per cent of total Central London office space (source: Instant Group), highlighting the relative infancy of the market.

The recent combination of an increased supply of flexible space, combined with business and investment decisions being delayed as a result of political and economic uncertainty, has resulted in a slowdown in activity in the second half of the financial year. Overall, EBITDA was ahead of management's expectations, with much of the outperformance weighted toward the first half of the year. Average occupancy across the year remained high at 93.6 per cent with the average desk rates reducing marginally.

## Key statistics

**£32.0m**
Annualised gross rental income

**92.0%**
Occupancy

**5.7 yrs**
WAULT to first break (excl. London Serviced Offices)

**192,716**
sqm

**55**
Number of properties

**4.8%**
EPRA NIY

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# UK Commercial
continued

RDI's strategic operating partner, Office Space in Town ("OSIT"), prioritises client retention over short term profitability. The portfolio's design led offices provide a high level of amenity space, natural light, good sound insulation and industry leading IT. During the year, a number of online and direct marketing initiatives were adopted to generate higher levels of direct sales, improving margins and customer contact.

As the sector matures, we expect business models backed by ownership of the underlying real estate, combined with high quality services, to remain resilient and outperform leasehold models with high operational gearing.

### Greater London and regional offices (11.5 per cent of portfolio by value)

The office portfolio is well positioned to capture growth from locations benefiting from major regeneration and capital investment into infrastructure and transport projects. Disposals of regional offices have resulted in the office portfolio's exposure to Greater London increasing to 69.1 per cent. Medium and longer term development opportunities at Charing Cross Road, Southwark and Canbury Park, Kingston provide a strong underpin to values and potential future upside.

Occupancy declined to 89.8 per cent (31 August 2018: 97.9 per cent) with topped-up net rental income at year end 6.7 per cent lower on a like-for-like basis, largely as a result of increased vacancy within the regional office portfolio. Post year end, leases totalling £0.6 million in annualised gross rental income have been agreed, increasing occupancy to 94.9 per cent and resulting in topped-up net rental income rising 10.9 per cent.

Key asset management initiatives and leasing activity completed during the year:

- a number of new leases were agreed at Canbury Business Park, Kingston including a new lease to Sitel of over 24,688 sqft of office space resulting in an increase of £0.1 million or 17.3 per cent above the previous gross rental income;
- a new lease was completed at Newington Causeway, Southwark on the 5,950 sqft third floor, generating £0.2 million of gross rental income from a previously vacant unit; and
- full planning permission was granted at Charing Cross Road, London following the completion of the section 106 agreement. The permission provides for a 41.4 per cent increase in the overall area of the property to 56,576 sqft through the development of three additional floors of office space and an improved reception. The building is currently fully let and is anticipated to remain occupied until 2021.

### UK Distribution and Industrial (16.3 per cent of portfolio by value)

The portfolio is well positioned to capture future rental growth with 37.1 per cent of the portfolio located in London and the South East, providing exposure to locations with higher growth prospects. The investment market continues to be supported by strong rental growth expectations which has maintained prime yields for industrial and distribution units at approximately 4.3 per cent.

In a competitive investment market, exposure to the sector has been increased through forward funding arrangements or acquisitions providing higher yields and asset management opportunities. Our exposure to the sector increased to 16.3 per cent of the overall portfolio by market value (31 August 2018: 11.0 per cent) following the Link 9, Bicester forward commitment and acquisition of Southwood Business Park, Farnborough.

Occupancy declined to 93.7 per cent (31 August 2018: 100 per cent) following the completion of Unit 1a at Bicester. Topped-up net rental income showed strong growth, increasing by £1.2 million or 12.7 per cent in the year on a like-for-like basis.

| UK Commercial 31 August 2019 | Market value £m | Annualised gross rental income £m(1) | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs(2) | EPRA occupancy by ERV %(2) | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| Offices – Serviced | 163.4 | 10.9 | 10.7 | 6.0 | 6.0 | 5.8 | n/a | n/a | — |
| Offices – Greater London | 112.7 | 4.8 | 6.1 | 3.6 | 3.7 | 5.0 | 3.2 | 91.0 | 13.9 |
| Offices – Regions | 50.4 | 3.9 | 4.3 | 5.8 | 6.5 | 8.0 | 5.8 | 88.2 | 25.3 |
| **UK Offices** | **326.5** | **19.6** | **21.1** | **5.1** | **5.3** | **5.8** | **4.3** | **89.8** | **8.4** |
| Distribution and Industrial | 231.3 | 12.4 | 13.4 | 4.4 | 4.8 | 5.4 | 6.6 | 93.7 | 26.1 |
| **UK Commercial** | **557.8** | **32.0** | **34.5** | **4.8** | **5.1** | **5.7** | **5.7** | **92.0** | **15.3** |

(1) Annualised gross rental income for the London Serviced Office portfolio included as EBITDA net of management fees.

(2) Excluding London Serviced Office portfolio. Relevant operational metrics disclosed separately.

| London Serviced Office portfolio Operational metrics | 31 August 2019 | 31 August 2018 |
|---|---|---|
| EBITDA per sqft (£) | **67.5** | 68.3 |
| EBITDA conversion from total revenue (%) | **62.2** | 63.4 |
| Average total revenue per available desk (£) | **823.6** | 819.1 |
| Average monthly desk rate – licence fee only (£) | **682.6** | 684.7 |
| Desk occupancy (%) | **93.6** | 92.2 |
| Average weighted stay (months) | **31** | 29 |

Key asset management initiatives and leasing activity completed during the year:

- Express Park in Bridgwater – a rent review was completed on a 133,651 sqft unit delivering £0.9 million of gross rental income, 13.6 per cent ahead of the previous gross rent and 8.0 per cent above ERV;
- BP petrol filling station, Egerton Park – a rent review was completed with an agreed gross rent of £0.2 million, a 13.1 per cent increase and 2.1 per cent below ERV; and
- two rent reviews at Camino Park, Crawley were agreed for £2.8 million, a £1.0 million or 55.2 per cent increase on the previous gross rental income and 8.6 per cent above ERV.

Link 9, Bicester

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# UK Hotels

As set out at the half year, new supply in both the London and the regional markets has dampened RevPar growth, however PwC continues to forecast RevPar growth in 2020 of 1.4 per cent and 0.8 per cent in London and the regions respectively. London's greater resilience is expected to be supported by leisure travel and the continued weak Pound. Occupancy is expected to be broadly flat with some growth in average daily room rates anticipated.

Hampton by Hilton, Gatwick

## Key statistics

**£26.0m**
Annualised gross rental income

**100.0%**
Occupancy

**17.2 yrs**
Travelodge portfolio WAULT to first break


**77,391**
sqm

**18**
Number of properties

**5.8%**
EPRA NIY

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# UK Hotels
continued

| RBH managed hotel portfolio<br>Operational metrics | **31 August 2019** | 31 August 2018 |
|---|---|---|
| Weighted average room rate (£) | **97.8** | 96.6 |
| Weighted average occupancy (%) | **86.1** | 84.8 |
| Weighted average revenue per available room (RevPAR) (£) | **84.9** | 82.5 |

The portfolio remains heavily weighted to Greater London and Gatwick Airport. London is a global city providing broad based demand and a deep and liquid investment market. Investor demand has remained strong in 2019, despite Brexit concerns, with increased investment activity from Asian, Middle Eastern and European investors attracted by strong long term fundamentals and the weaker Pound.

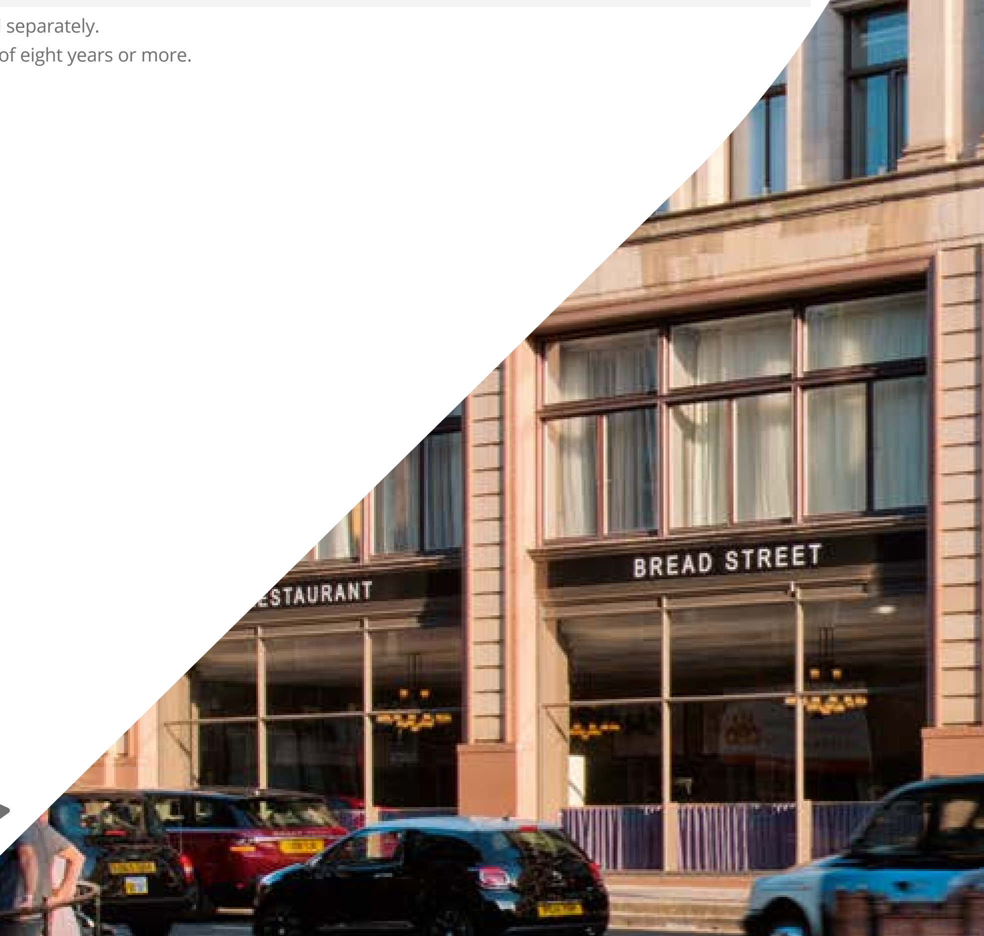
Underlying occupational metrics were positive with growth in room rates and occupancy delivering a 2.9 per cent increase in RevPAR. Like-for-like net income during the year decreased by £1.4 million, or 6.7 per cent, following additional refurbishment costs allocated to maintaining the quality of these assets. 9.3 per cent of the portfolio's net rental income is subject to CPI escalations, principally from the Travelodge portfolio.

### Strategic operational partner – RBH

Operating performance from the managed portfolio is supported by the Company's strategic partnership with RBH. RBH has established itself as one of the leading independent hotel operators in the UK. Alignment of interests is ensured through RDI's ownership of a 25.3 per cent stake in RBH. The holding in RBH contributed £0.9 million to underlying earnings during the year.

| UK Hotels<br>31 August 2019 | Market value<br>£m | Annualised gross rental income<br>£m | ERV<br>£m | EPRA NIY<br>% | EPRA topped up NIY<br>% | Reversionary yield<br>% | WAULT<br>yrs[1] | EPRA occupancy by ERV<br>%[1] | Indexed<br>% |
|---|---|---|---|---|---|---|---|---|---|
| Greater London | 186.4 | 12.3 | 11.6 | 5.5 | 5.5 | 5.8 | n/a | n/a | — |
| Regional | 127.1 | 11.2 | 10.5 | 6.5 | 6.5 | 6.9 | n/a | n/a | 0.9 |
| **RBH managed portfolio** | **313.5** | **23.5** | **22.1** | **5.9** | **5.9** | **6.3** | **n/a** | **n/a** | **0.4** |
| Travelodge[2] | 49.8 | 2.5 | 2.6 | 4.6 | 4.6 | 4.9 | 17.2 | 100.0 | 95.3 |
| **UK Hotels** | **363.3** | **26.0** | **24.7** | **5.8** | **5.8** | **6.1** | **17.2** | **100.0** | **9.3** |

(1) Excluding RBH managed hotels portfolio. Relevant operational metrics disclosed separately.
(2) Three of the five hotels let to Travelodge carry landlord lease extension options of eight years or more.




DoubleTree by Hilton, Edinburgh City Centre


BRASSERIE
DOUBLETREE
BY HILTON
EDINBURGH CITY CENTRE

# UK Retail

General investor sentiment towards the sector remains weak, influenced by the ongoing themes of structural change, the impact of online retailing, slowing retail sales and weaker consumer confidence. As a result, there is continued pressure on certain retailers to rationalise their physical store portfolios to fit the new retail landscape. The Group's remaining UK Retail portfolio is now heavily weighted to retail parks and Greater London and South East locations. The combination of stronger demographics and largely discount and convenience offerings is anticipated to prove more resilient, as demonstrated in the operational performance for the year.

Priory Retail Park, London

## Key statistics

**£20.7m**
Annualised gross rental income

**97.8%**
Occupancy

**6.0 yrs**
WAULT to first break

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**107,588**
sqm

**9**
Number of properties

**6.5%**
EPRA NIY

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# UK Retail
continued

### UK Shopping Centres (5.7 per cent of portfolio by value)

Following the derecognition of the Aviva Portfolio on 23 April 2019, the Group's overall exposure to UK Shopping Centres reduced materially to 5.7 per cent of the portfolio (31 August 2018: 18.0 per cent). The operating metrics below reflect the remaining two shopping centre assets, being St George's, Harrow and West Orchards, Coventry.

Occupancy improved to 98.8 per cent (31 August 2018: 97.9 per cent), however topped-up net rental income declined £0.4 million or 5.5 per cent, which was largely attributable to the Debenhams CVA at West Orchards, Coventry and the Monsoon CVA at St George's, Harrow which resulted in gross rental income reducing by £0.2 million. Footfall across the two centres increased by 3.2 per cent, significantly outperforming the national average over the same period, which was down by 2.7 per cent (source: Springboard).

### Retail parks (12.2 per cent of portfolio by value)

At an operational level, the Retail parks portfolio performed well and ahead of general market trends. Approximately 80 per cent of the portfolio by value is located in London, Edinburgh and the Southern part of the UK, and is underpinned by strong demographics and typically let to discount and convenience operators. Average contracted rents across the portfolio of £18.2 per sqft are, on average, being supported by current leasing transactions. Since acquisition, the topped-up net rental income has increased 2.6 per cent over a four year period.

Occupancy increased to 97.2 per cent (31 August 2018: 94.7 per cent) and topped-up net rental income increased 4.2 per cent.

Key asset management initiatives and leasing events completed during the year:

- at Priory Retail Park in Merton, South West London, The Gym Group signed a new 15 year lease for £0.3 million on the former Mothercare unit. The previous rent, prior to the Mothercare CVA, was £0.3 million;
- two new leases were signed at Banbury Cross on previously vacant units delivering £0.3 million of gross rental income at 24.2 per cent (£0.1 million) below ERV; and
- a further two leases have been agreed at Banbury Cross post year end which will take the park to full occupancy.

| **UK Retail 31 August 2019** | Market value £m | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| Shopping centres | 80.8 | 7.7 | 7.4 | 7.4 | 7.5 | 8.3 | 3.8 | 98.8 | 9.9 |
| Retail parks and other retail | 174.2 | 13.0 | 12.1 | 6.1 | 6.9 | 6.5 | 7.3 | 97.2 | 10.5 |
| **UK Retail** | **255.0** | **20.7** | **19.5** | **6.5** | **7.1** | **7.1** | **6.0** | **97.8** | **10.3** |


St. George's Shopping Centre, Harrow


vue
LATTE
MARGHERITA

# Europe

Liquidity and transaction volumes in Germany remain high, albeit below the levels seen in 2018. While the market as a whole remains buoyant, there is an increasing divergence in investment demand between sectors. Offices and distribution are experiencing the strongest demand while fashion led shopping centres are seeing a significant reduction in transaction activity. However, other areas of the retail market, including foodstores and retail warehousing, continue to attract investors, with yields near ten year lows.

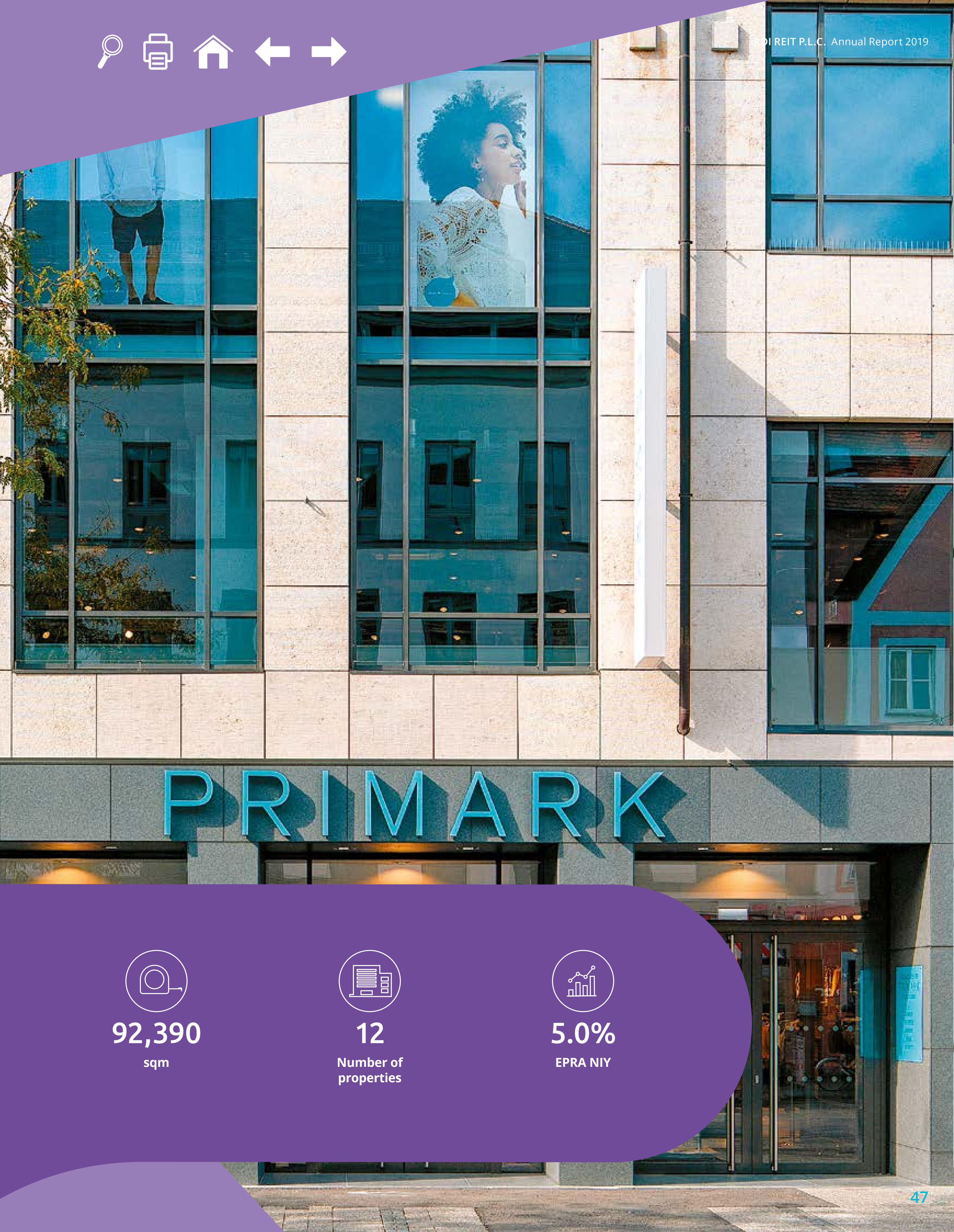
City Arcaden, Ingolstadt

## Key statistics

£15.0m
Annualised gross rental income

99.1%
Occupancy

5.0 yrs
WAULT to first break




**92,390**
sqm

**12**
Number of properties

**5.0%**
EPRA NIY

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# Europe
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The decision to exit Germany was driven by a number of factors, not least the outlook for certain parts of the retail market. While the German retail market has not seen the same level of online penetration as the UK, the impact of retailers changing their business models and addressing historic aggressive expansion initiatives is impacting demand for retail space across many Western European markets.

Occupancy across the European portfolio increased to 99.1 per cent (31 August 2018: 98.0 per cent) with topped-up net rental income 2.7 per cent higher in constant currency terms.

Rental income from the portfolio benefits from high levels of indexation, with 94.7 per cent of gross rental income subject to various forms of inflation linked rent reviews.

| **Europe 31 August 2019** | Market value £m | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| German shopping centres | 191.0 | 10.9 | 10.3 | 4.6 | 4.7 | 5.0 | 5.2 | 99.4 | 94.4 |
| German retail parks and other | 56.2 | 4.1 | 4.2 | 6.1 | 6.1 | 6.9 | 4.4 | 98.3 | 95.7 |
| **Europe** | **247.2** | **15.0** | **14.5** | **5.0** | **5.0** | **5.5** | **5.0** | **99.1** | **94.7** |

Lindenhof Center, Bremen


ALDI MARKT
Tifi's Eiscafe
30
ZONE
Tifi's Eis cafe

# Financial review

> Operational performance has remained robust whilst accelerating key strategic priorities of reducing leverage and exposure to the retail sector.
>
> **Donald Grant**
> Chief Financial Officer

Dividends paid during the year represent a yield on EPRA NAV of 5.8 per cent.


## Overview

Despite being an extremely challenging year, as demonstrated by the Group's IFRS loss for the year of £74.8 million (31 August 2018: IFRS profit £96.3 million), operational performance has remained robust whilst accelerating key strategic priorities of reducing leverage and exposure to the retail sector.

The Group's key recurring earnings metric, underlying earnings, decreased by 7.7 per cent from £53.5 million to £49.4 million during the year, 8.5 per cent on a per share basis. Removing the earnings that arose, in both the current and comparable year, from the Aviva financed UK Shopping Centre portfolio ("Aviva Portfolio"), underlying earnings per share decreased marginally by 0.8 per cent from 11.9 pence to 11.8 pence.

IFRS NAV attributable to shareholders was £685.6 million at 31 August 2019 while EPRA NAV was £706.5 million or 185.5 pence per share. This represents a decrease of 13.2 per cent during the year. This reduction in NAV is principally the result of the derecognition of the Aviva Portfolio, being £55.6 million or 14.6 pence, and valuation losses of £57.9 million or 15.2 pence.

The Group's principal debt facility was refinanced in January 2019 at a reduced level of £275.0 million, at a competitive rate for a new five year term. The Group subsequently completed on the early refinancing of the London Serviced Offices facility with total commitments of £75.0 million drawn in two tranches: £25.0 million in May 2019 and £50.0 million in August 2019. The refinanced facility matures in July 2026 and is secured at a weighted average fixed rate of 2.6 per cent, over 50bps lower than the cost of the previous financing facilities. Both refinancing transactions improved the debt maturity profile and reduced refinancing risk. Taken together with the derecognition of the Aviva Portfolio, the Group's cost of debt has reduced to 2.9 per cent (31 August 2018: 3.4 per cent).

## Derecognition of the Aviva financed UK Shopping Centre portfolio ("Aviva Portfolio")

Four of the Group's UK Shopping Centres, namely Grand Arcade (Wigan), Weston Favell (Northampton), Birchwood (Warrington) and Byron Place (Seaham), are financed by a long term fixed rate debt facility with Aviva. The facility is non-recourse, carries a fixed rate of interest of 5.5 per cent per annum and matures in April 2042.

During the first half of the year, the Group paid £9.7 million to cure an event of default resulting from a lender valuation. In addition, it was agreed that all net operating cash flows would be restricted and held within the facility to be applied against the debt.

## Highlights

**LTV**

Despite overall valuation decline, the LTV has been significantly improved during the year

**42%**

**Cost of debt**

£350m refinanced during the year to secure attractive rates and drive cost of debt lower

**2.9%**

**Debt maturity**

No material refinancing risk until 2022

**3.7 years**

In April, a further valuation was called by Aviva given concerns over the ongoing structural challenges facing the retail sector and several retailer failures. Despite the operating cash flow that had been retained, this valuation resulted in a further event of default.

After careful consideration, the Board concluded that it was not in the best interests of the Company and its shareholders to commit further capital to the facility. After considerable discussion with Aviva, both parties concluded that it was in their best interests to enter a consensual sales process to dispose of the four centres. On 23 April 2019, a Standstill Agreement was signed which has allowed for such a process to commence. The agreement has been extended and currently runs until 31 December 2019.

Although Aviva hasn't exercised its security, its rights under the facility agreement remain in force, with the Standstill Agreement capable of termination at any time.

As a result, the Group has determined that the transaction constitutes a loss of control. From an economic perspective, Aviva has the ability to enforce its rights and make material decisions regarding the portfolio at its absolute discretion. Whilst the Group continues to manage the assets on Aviva's behalf, the Group is no longer exposed to the variable returns from the portfolio's performance nor does the Group have the ability to influence that performance without consent from Aviva; and the sale of the assets and the value at which they are transacted will also be determined by Aviva.

From the date of the Standstill Agreement, the Group has ceased to consolidate the Aviva Portfolio and its related subsidiaries and derecognised the net assets at their carrying amounts. The resulting difference of £55.6 million has been recognised as a charge to the income statement.

### Disposals

During the year, the Board approved a marketing exercise for the prospective sale of the European portfolio, a separately identifiable line of business containing the Group's investment properties located in Germany. Offers for individual assets or sub-portfolios proved stronger than portfolio bids and, at 31 August 2019, exclusivity agreements had been entered into or were at advanced stages with preferred parties. It is management's expectation that the majority of sales will be completed within the forthcoming year. As such, all assets within the Europe portfolio have been classified as held for sale. By 31 August 2019, the Group had exchanged contracts on a property in Munich for a consideration of €11.4 million and has recognised the disposal on exchange as there were no significant conditions pending completion. The transaction is due to complete on 31 October 2019 and the related bank debt will be repaid in full. Post year end, the Group has exchanged contracts for the disposal of certain other German properties, most notably the Bahnhof Altona shopping centre in Hamburg, details of which are set out within the Subsequent Events note to the financial statements.

A number of mature UK assets have also been identified for sale, subject to completing asset management initiatives. Two assets have been disposed of for a gross consideration of £4.1 million and contracts have been exchanged on a further two properties subsequent to 31 August 2019, for minimum consideration of £11.5 million.

### Acquisitions

During the year, the Group increased its exposure to the Distribution and Industrial sector, by acquiring two property interests located in the South East of England, namely an industrial estate in Farnborough, Hampshire and a 13.5 acre land interest in Bicester, Oxfordshire. Consideration for both properties was £34.2 million, excluding transaction costs. The Group then entered into a development agreement on acquisition of the land interest at Bicester for the construction of two distribution units. The first unit was completed in April, for which the Group paid £7.8 million. Completion of the second unit is scheduled for December 2019, for which the Group has committed a further £10.3 million, payable upon completion.

# Financial review

continued

## Performance against strategic financial targets

| Strategic metrics | Medium term target | 31 August 2019 | 31 August 2018 | 31 August 2017 |
|---|---|---|---|---|
| Growth in underlying EPS (%) | 3.0 – 5.0 | **(8.5)** | 3.3 | n/a |
| Dividend pay-out ratio (%) | 90.0 – 95.0 | **76.9** | 95.1 | 94.5 |
| Income growth (like-for-like) (%) | 2.0 – 5.0 | **—** | 2.1 | 3.7 |
| Rent collection | >95 per cent within 7 days | **96.3** | 98.0 | 94.3 |
| LTV (%)[1] | Reduced to 30.0 – 40.0 | **42.0** | 47.3 | 50.0 |
| Interest cover (times) | >3.0 | **3.3** | 3.5 | 3.2 |
| Cost of debt (%) | Reduced to <3.2 | **2.9** | 3.4 | 3.1 |
| EPRA cost ratio (excl. direct vacancy costs) (%) | <15.0 | **16.4** | 15.6 | 19.8 |

(1) Pro forma LTV adjusted for transactions completed between 31 August and date of results announcement.

Earnings per share decreased during the year following derecognition of the Aviva Portfolio in April. Excluding Aviva, underlying earnings declined 0.8 per cent as a result of prioritising leverage reduction over reinvestment.

The Group fell short of its like-for-like income growth target this year as a result of the Group's commitment of additional funds towards the refurbishment activity within the UK Hotel portfolio. Excluding the additional charge of £1.4 million, like-for-like growth of 1.9 per cent would have been achieved.

LTV decreased during the year, despite declining asset valuations, due to the derecognition of the Aviva Portfolio and disposals of other mature assets. Adjusting for exchanged contracts post the balance sheet date, pro forma LTV stands at 42.0 per cent. The Group has adjusted its LTV target downwards to between 30 and 40 per cent.

Cost of debt at 2.9 per cent has decreased significantly below the lower end of the previous target range, primarily the result of derecognition of the Aviva Portfolio which carried a relatively high fixed rate cost of debt. As a result, this target has now been reset to less than 3.2 per cent.

The EPRA cost ratio remains above target, notwithstanding the progress made over the past two years. The planned disposal of the Europe portfolio is expected to result in an improved cost ratio due to the modest scale of the residual portfolio and the relatively high cost of maintaining the requisite operational platform in Germany.

The dividend pay-out ratio has fallen significantly below the Group's target of 90 - 95 per cent. This is discussed in more detail below.

## Presentation of financial information

The Board reviews information and reports presented on a proportionately consolidated basis, which includes the Group's share of interests in joint ventures. To align with how the Group is managed, this financial review has been presented on the same basis.

### Discontinued operation

The Group has determined that the co-ordinated sale of the Europe portfolio meets the criteria of a disposal group held for sale and further constitutes a discontinued operation, being a separable cash-generating unit, line of business and geographical operation of the Group. To comply with the presentation requirements of a discontinued operation under IFRS, the post-tax profit of the Europe segment has been presented separately in the income statement, in addition to separating the cash flows of the segment under the relevant activities in the statement of cash flows. Comparative information has been re-presented in line with requirements and for comparability purposes. The financial review has been aligned in this regard.

### Share consolidation and subsequent re-presentation

Following shareholder approval at the Company's Annual General Meeting, the Company completed a consolidation of its shares on a one new for five old basis, with the nominal value per share increasing from 8 pence to 40 pence per share. The Company's issued share capital on the record date for the consolidation, being Friday 8 February 2019, was 1,900,449,536. On Monday 11 February 2019, the first day of trading in the newly consolidated shares, the Company's issued share capital stood at 380,089,923. Where applicable throughout this review and the financial statements which follow, the comparative "per share" numbers have been re-presented accordingly.

### Aviva Portfolio

Given the significance of derecognising the Aviva Portfolio, and to aid comparability, this financial review presents the income statement, balance sheet and cash flow both including and excluding the Aviva Portfolio. Commentary focuses, where relevant, on financials excluding the Aviva Portfolio.

### Alternative performance measures

The Board uses a number of financial measures to assess and monitor its performance and position, most notable of which are underlying earnings, EPRA earnings and EPRA net asset value. Although a number of these are industry standard metrics, they are not defined under IFRS and are therefore considered alternative performance measures. This financial review discloses alternative performance measures alongside IFRS to align with the manner in which the business is managed and its performance assessed. Detailed disclosures of alternative performance measures including, where applicable, reconciliation to IFRS follows this financial review.

## Income statement

| | 31 August 2019 | | | | | 31 August 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | IFRS £m | Joint ventures £m | **Group total £m** | Aviva Portfolio £m | **Total excl. Aviva £m** | IFRS £m | Joint ventures £m | **Group total £m** | Aviva Portfolio £m | **Total excl. Aviva £m** |
| Rental income | 90.8 | 0.8 | **91.6** | (11.3) | **80.3** | 93.3 | 0.8 | **94.1** | (18.2) | **75.9** |
| Rental expense | (10.0) | — | **(10.0)** | 1.4 | **(8.6)** | (8.6) | — | **(8.6)** | 1.1 | **(7.5)** |
| Net rental income | 80.8 | 0.8 | **81.6** | (9.9) | **71.7** | 84.7 | 0.8 | **85.5** | (17.1) | **68.4** |
| Other income | 2.7 | — | **2.7** | — | **2.7** | 1.8 | — | **1.8** | — | **1.8** |
| Administrative expenses | (13.2) | 0.2 | **(13.0)** | — | **(13.0)** | (13.4) | — | **(13.4)** | — | **(13.4)** |
| Net operating income | 70.3 | 1.0 | **71.3** | (9.9) | **61.4** | 73.1 | 0.8 | **73.9** | (17.1) | **56.8** |
| Net finance costs | (25.0) | (0.5) | **(25.5)** | 5.3 | **(20.2)** | (25.7) | (0.6) | **(26.3)** | 8.6 | **(17.7)** |
| Tax and other | 0.8 | (0.1) | **0.7** | — | **0.7** | (0.7) | — | **(0.7)** | — | **(0.7)** |
| Restricted JV losses | — | (0.4) | **(0.4)** | — | **(0.4)** | 0.2 | (0.2) | **—** | — | **—** |
| Non-controlling interests | (4.6) | — | **(4.6)** | — | **(4.6)** | (4.1) | — | **(4.1)** | — | **(4.1)** |
| **Continuing underlying earnings** | 41.5 | — | **41.5** | (4.6) | **36.9** | 42.8 | — | **42.8** | (8.5) | **34.3** |
| Discontinued operation (incl. JVs and NCI) | 7.9 | — | **7.9** | — | **7.9** | 10.7 | — | **10.7** | — | **10.7** |
| **Total Group underlying earnings** | 49.4 | — | **49.4** | (4.6) | **44.8** | 53.5 | — | **53.5** | (8.5) | **45.0** |
| Company adjustments: | | | | | | | | | | |
| Debt fair value accretion adjustments | (0.4) | — | **(0.4)** | 0.4 | **—** | (0.6) | — | **(0.6)** | 0.6 | **—** |
| Foreign exchange loss | — | — | **—** | — | **—** | (0.8) | — | **(0.8)** | — | **(0.8)** |
| Discontinued operation | (0.2) | — | **(0.2)** | — | **(0.2)** | (0.2) | — | **(0.2)** | — | **(0.2)** |
| **EPRA earnings** | 48.8 | — | **48.8** | (4.2) | **44.6** | 51.9 | — | **51.9** | (7.9) | **44.0** |
| Fair value (loss)/gain on property | (56.6) | (0.3) | **(56.9)** | 17.9 | **(39.0)** | 5.6 | (0.3) | **5.3** | 28.6 | **33.9** |
| (Loss)/gain on disposal of property | (1.7) | — | **(1.7)** | — | **(1.7)** | 3.4 | — | **3.4** | — | **3.4** |
| Loss of control of Aviva | (55.6) | — | **(55.6)** | 55.6 | **—** | — | — | **—** | — | **—** |
| Loss on disposal of subsidiaries | — | — | **—** | — | **—** | (0.7) | — | **(0.7)** | — | **(0.7)** |
| (Loss)/gain on acquiring subsidiaries | (0.4) | — | **(0.4)** | — | **(0.4)** | 4.4 | — | **4.4** | — | **4.4** |
| Fair value movement on derivatives | (9.4) | (0.3) | **(9.7)** | — | **(9.7)** | 5.5 | 0.7 | **6.2** | — | **6.2** |
| (Impairment)/impairment reversal of investment in associate and JVs | (1.4) | — | **(1.4)** | — | **(1.4)** | 0.1 | — | **0.1** | — | **0.1** |
| Restricted JV losses | — | 0.6 | **0.6** | — | **0.6** | — | (0.4) | **(0.4)** | — | **(0.4)** |
| Tax and other | (0.7) | — | **(0.7)** | — | **(0.7)** | (0.6) | — | **(0.6)** | — | **(0.6)** |
| Discontinued operation (incl. JVs and NCI) | (2.9) | — | **(2.9)** | — | **(2.9)** | 21.0 | — | **21.0** | — | **21.0** |
| Non-controlling interests | 2.3 | — | **2.3** | — | **2.3** | (1.7) | — | **(1.7)** | — | **(1.7)** |
| **IFRS (loss)/profit attributable to shareholders** | (77.6) | — | **(77.6)** | 69.3 | **(8.3)** | 88.9 | — | **88.9** | 20.7 | **109.6** |
| **Weighted average ordinary shares (millions)** | | | | | **380.1** | | | | | **377.3** |
| **EPRA earnings per share (pence)** | | | | | **12.8** | | | | | **13.8** |
| **Underlying earnings per share (pence)** | | | | | **13.0** | | | | | **14.2** |
| **Underlying earnings per share (pence), excluding Aviva** | | | | | **11.8** | | | | | **11.9** |

# Financial review
continued

## Underlying earnings from discontinued operation (Europe segment)

| | 31 August 2019 | | | 31 August 2018 | | |
|---|---|---|---|---|---|---|
| | IFRS £m | Joint ventures £m | **Group total £m** | IFRS £m | Joint ventures £m | **Group total £m** |
| Rental income | 13.7 | 1.0 | **14.7** | 16.9 | 1.0 | **17.9** |
| Rental expense | (2.1) | (0.1) | **(2.2)** | (2.5) | (0.2) | **(2.7)** |
| Net rental income | 11.6 | 0.9 | **12.5** | 14.4 | 0.8 | **15.2** |
| Administrative expenses | (0.7) | (0.2) | **(0.9)** | (0.8) | (0.2) | **(1.0)** |
| Net operating income | 10.9 | 0.7 | **11.6** | 13.6 | 0.6 | **14.2** |
| Net finance costs | (3.1) | (0.1) | **(3.2)** | (2.5) | (0.2) | **(2.7)** |
| Joint venture profits | 0.6 | (0.6) | **—** | 0.4 | (0.4) | **—** |
| Tax and other | (0.1) | — | **(0.1)** | (0.5) | — | **(0.5)** |
| Non-controlling interests | (0.4) | — | **(0.4)** | (0.3) | — | **(0.3)** |
| **Underlying earnings** | 7.9 | — | **7.9** | 10.7 | — | **10.7** |

The above income statement tables are not presented in line with the requirements of IFRS. The tables segment the IFRS income statement in order to illustrate underlying earnings and EPRA earnings, both key alternative performance measures. A full reconciliation from IFRS (loss)/profit attributable to equity holders of the Parent is set out in Note 35 to the financial statements.

Net rental income, excluding the Aviva Portfolio, increased by £3.3 million or 4.8 per cent, primarily due to successful rent reviews in the Distribution and Industrial sector and the acquisition of an industrial estate in Farnborough in September 2018. Net rental income from UK Hotels fell due to accelerated refurbishment expenditure. Excluding the impact of acquisitions and disposals, net rental income was stable on a like-for-like basis.

Administrative costs have fallen by £0.4 million, however not yet at a rate sufficient to achieve the Group's EPRA cost ratio target of below 15 per cent. The Group expects to move closer to its target following the disposal of the Europe portfolio, given the relatively higher cost base of this segment.

Net finance costs increased by £2.5 million, £0.9 million of which relates to a charge on refinancing the Group's principal debt facility in January 2019 and £1.1 million of which is attributable to the full year impact of the London Serviced Office portfolio, acquired in January 2018. The residual increase relates to higher average interest rates applied to debt facilities which are either floating or subject to interest rate caps.

Non-controlling interests reflects the share of income attributable to minority shareholders, most notably within the UK Hotels and London Serviced Offices portfolios. The increase of £0.5 million reflects the full year impact of holding the London Serviced Offices.

The decrease of £2.8 million in underlying earnings from the discontinued Europe portfolio has arisen due to the German supermarket portfolio disposal in December 2017. On a like-for-like basis in local currency terms, net rental income increased 3.5 per cent as illustrated overleaf.

## Like-for-like net rental income analysis

| Net rental income | Year ended 31 August 2019 £m | Year ended 31 August 2018 £m | Change £m | Change % | Local currency change % |
|---|---|---|---|---|---|
| UK Commercial | 18.1 | 17.3 | 0.8 | 5.1 | 5.1 |
| UK Hotels | 21.8 | 23.2 | (1.4) | (6.0) | (6.0) |
| UK Retail | 18.8 | 18.7 | 0.1 | 0.7 | 0.7 |
| UK total | 58.7 | 59.2 | (0.5) | (0.6) | (0.6) |
| Europe (discontinued operation) | 11.0 | 10.6 | 0.4 | 3.8 | 3.5 |
| **Like-for-like net rental income** | 69.7 | 69.8 | (0.1) | — | — |
| Acquisitions | 12.6 | 7.2 | | | |
| Disposals and loss of control of Aviva | 10.3 | 23.3 | | | |
| Development and other | 1.5 | 0.4 | | | |
| **Total net rental income** | 94.1 | 100.7 | | | |

Like-for-like income in the UK Commercial portfolio increased 5.1 per cent, largely due to successful rent reviews, principally at Camino Park, Crawley and Express Park, Bridgwater, both in the Distribution and Industrial sector. This sector continues to benefit from sustained occupier demand and positive structural change.

The decrease of 6.0 per cent in UK Hotels is due to an accelerated refurbishment programme to ensure that brand standards and occupancy levels are maintained. Refurbishment costs are charged to income as tenant incentives.

UK Retail like-for-like net rental income increased by 0.7 per cent due to successful letting activity at Priory Retail Park in Merton, where two units were re-let at higher rental values.

In local currency terms, Europe like-for-like net rental income was up 3.5 per cent, primarily due to a number of lease events completing during the year, notably at Hamburg and Bremen. The portfolio also benefits from index linked rent reviews. In Sterling terms, income was up 3.8 per cent, reflecting the marginally weaker average GBP/EUR exchange rate during the year.

## Balance sheet

| | 31 August 2019 | | | 31 August 2018 | | | |
|---|---|---|---|---|---|---|---|
| | IFRS £m | Joint ventures £m | Group total £m | IFRS £m | Joint ventures £m | Aviva Portfolio £m | Total excl. Aviva £m |
| Property portfolio – carrying value[1] | 1,392.6 | 26.1 | 1,418.7 | 1,598.0 | 25.4 | (199.3) | 1,424.1 |
| Investment in and loans to JVs | 8.0 | (8.0) | — | 7.1 | (7.1) | — | — |
| Net borrowings | (653.5) | (14.4) | (667.9) | (730.6) | (14.8) | 133.0 | (612.4) |
| Other assets and liabilities | (4.1) | (3.7) | (7.8) | (11.7) | (3.5) | 3.5 | (11.7) |
| Non-controlling interests | (57.4) | — | (57.4) | (59.5) | — | — | (59.5) |
| **IFRS NAV** | 685.6 | — | 685.6 | 803.3 | — | (62.8) | 740.5 |
| Fair value of derivatives | | | 12.7 | 1.9 | | — | 1.9 |
| Deferred tax liabilities | | | 8.2 | 9.8 | | — | 9.8 |
| **EPRA NAV** | | | 706.5 | 815.0 | | (62.8) | 752.2 |
| Diluted number of shares (millions) | | | 380.9 | 381.3 | | 381.3 | 381.3 |
| **EPRA NAV per share (pence)** | | | 185.5 | 213.8 | | (16.5) | 197.3 |

(1) Market value adjusted to reflect finance lease liabilities and lease incentives. Includes both investment property and property held for sale.

Excluding the Aviva Portfolio, EPRA net asset value decreased 6.0 per cent to 185.5 pence per share, primarily as a result of a valuation decline within the Group's UK Retail portfolio.

# Financial review
continued

## Property portfolio

| Market value of the property portfolio | 31 August 2019 £m | 31 August 2018 £m | Valuation[1] Gain/(loss) £m | Valuation[1] Gain/(loss) % | Local currency gain/(loss) % |
|---|---|---|---|---|---|
| UK Commercial | **510.6** | 510.2 | **(1.2)** | **(0.2)** | **(0.2)** |
| UK Hotels | **363.3** | 364.9 | **(6.8)** | **(1.9)** | **(1.9)** |
| UK Retail | **255.0** | 286.0 | **(33.6)** | **(11.7)** | **(11.7)** |
| UK total | **1,128.9** | 1,161.1 | **(41.6)** | **(3.6)** | **(3.6)** |
| Europe | **214.9** | 213.5 | **1.0** | **0.5** | **(0.7)** |
| **Like-for-like property portfolio** | **1,343.8** | 1,374.6 | **(40.6)** | **(2.9)** | **(3.1)** |
| Acquisitions | **47.2** | — | | | |
| Disposals and loss of control of Aviva | **—** | 213.7 | | | |
| Development | **32.3** | 32.1 | | | |
| **Total property portfolio market value** | **1,423.3** | 1,620.4 | | | |

(1) Valuation includes the effect of capital expenditure, amortisation of head leases, tenant lease incentives and foreign currency translation where applicable.

UK Commercial valuations decreased marginally during the year, mainly the result of a weak performance within Regional Offices, where valuations declined 8.4 per cent. The Distribution and Industrial asset valuations continued to perform well, recording a 4.5 per cent like-for-like valuation gain.

The UK Hotel portfolio valuation decreased by 1.9 per cent, primarily due to refurbishment costs advanced as lease incentives to the RBH managed portfolio of IHG branded hotels. The Group's portfolio of five Travelodge branded hotels performed well, recording a 4.8 per cent increase in like-for-like values.

The downward valuation in UK Retail of £33.6 million was driven by valuation losses across both the remaining UK Shopping Centres, primarily West Orchards, Coventry and across the Retail Park portfolio. The valuation movement was almost entirely due to an outward yield shift and was in line with the UK All Retail IPD index for the comparable 12 month period. The valuation losses reflect continued weak investor sentiment and concerns over retailer viability.

In local currency terms, the European portfolio was marginally down. However, in Sterling terms, a 0.5 per cent increase in values has been recorded.

## Debt and gearing

| | 31 August 2019 £m | 31 August 2018 (as reported) £m | 31 August 2018 (excl. Aviva) £m |
|---|---|---|---|
| Nominal value of drawn debt | **(700.5)** | (808.2) | (663.1) |
| Cash and short term deposits | **33.9** | 59.8 | 54.7 |
| **Net debt** | **(666.6)** | (748.4) | (608.4) |
| **Market value of the property portfolio** | **1,423.3** | 1,620.4 | 1,425.4 |
| LTV (%) | **46.8** | 46.2 | 42.7 |
| LTV pro forma (%)[1] | **42.0** | 47.3 | 44.0 |
| Weighted average debt maturity (years) | **3.7** | 6.7 | 2.9 |
| Weighted average interest rate (%) | **2.9** | 3.4 | 3.0 |
| Interest cover (times)[2, 3] | **3.3** | 3.5 | 4.1 |
| Debt with interest rate protection (%) | **91.7** | 99.6 | 99.6 |
| Undrawn committed facilities | **20.0** | 75.0 | 75.0 |

(1) Pro forma LTV adjusted for transactions completed between 31 August and date of results announcement.

(2) Calculated as net rental income over net finance expense.

(3) Interest cover, excluding the contribution from the Aviva Portfolio, for the year ended 31 August 2019 was 3.6 times.

Removing the Aviva Portfolio debt from the comparative, the increase in net debt of £58.2 million is principally due to the acquisition of the industrial estate in Farnborough in September 2018 and the phased acquisition of the Bicester distribution units.

Adjusting for sales contracts which have been exchanged since 31 August, the Group's loan to value has reduced by 4.8 per cent to 42.0 per cent from 46.8 per cent at the balance sheet date. Given that leverage reduction is a key strategic priority for the Group, the medium term loan to value target has now been reduced to 30-40 per cent.

Excluding the long dated facility held with Aviva, which has been derecognised, the Group's weighted average debt maturity has been extended to 3.7 years following the refinancing of the Group's principal £275.0 million debt facility in January 2019, and the £75.0 million refinancing of the London Serviced Offices portfolio, which completed in August 2019.

The weighted average cost of debt has reduced slightly due to the competitive fixed rate achieved on the London Serviced Offices refinancing, 50 basis points below the average cost of the previous facilities.

Cash and undrawn committed facilities at 31 August 2019 was £53.9 million (31 August 2018: £134.8 million), with capital commitments of £16.4 million (31 August 2018: £9.5 million).

## Cash flow

| | 31 August 2019 | | | | 31 August 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | IFRS £m | Joint ventures £m | Aviva Portfolio £m | **Group excl. Aviva £m** | IFRS £m | Joint ventures £m | Aviva Portfolio £m | **Group excl. Aviva £m** |
| Continuing operating cash flows | 49.2 | 0.3 | (5.6) | **43.9** | 50.3 | 0.4 | (8.1) | **42.6** |
| Discontinued operating cash flows | 7.2 | 0.3 | — | **7.5** | 7.8 | 0.3 | — | **8.1** |
| **Operating cash flows** | 56.4 | 0.6 | (5.6) | **51.4** | 58.1 | 0.7 | (8.1) | **50.7** |
| Disposals | 0.2 | — | — | **0.2** | 74.7 | — | — | **74.7** |
| Acquisitions and development | (51.9) | — | 0.5 | **(51.4)** | (99.3) | — | 0.5 | **(98.8)** |
| Other | (0.1) | — | — | **(0.1)** | 0.7 | — | — | **0.7** |
| Discontinued investing cash flows | 1.3 | (0.1) | — | **1.2** | 105.2 | 0.2 | — | **105.4** |
| **Investing cash flows** | (50.5) | (0.1) | 0.5 | **(50.1)** | 81.3 | 0.2 | 0.5 | **82.0** |
| Net debt drawn/(repaid) | 17.1 | (0.2) | 0.4 | **17.3** | (74.0) | (0.4) | 0.8 | **(73.6)** |
| Cash lost on Aviva portfolio derecognition | (17.5) | — | — | **(17.5)** | — | — | — | **—** |
| Dividends paid | (40.9) | — | — | **(40.9)** | (41.1) | — | — | **(41.1)** |
| Other | (4.5) | — | — | **(4.5)** | (8.6) | — | — | **(8.6)** |
| Discontinued financing cash flows | 13.3 | (0.2) | — | **13.1** | (8.5) | (0.3) | — | **(8.8)** |
| **Financing cash flows** | (32.5) | (0.4) | 0.4 | **(32.5)** | (132.2) | (0.7) | 0.8 | **(132.1)** |
| Impact of foreign exchange movement | 0.6 | — | — | **0.6** | (1.0) | — | — | **(1.0)** |
| **Net cash flow** | (26.0) | 0.1 | (4.7) | **(30.6)** | 6.2 | 0.2 | (6.8) | **(0.4)** |

Operating cash flows are aligned to the Group's underlying earnings and are a key metric for ensuring dividend cover. Operating cash flows, excluding cash flows generated from the Aviva Portfolio, remain comfortably above dividend payments. The overall net cash outflow reflects both borrowing and net reinvestment activity following capital recycling activity in the prior year. On derecognition of the Aviva Portfolio, the Group lost £17.5 million which had been retained in restricted accounts since the initial event of default.

## Dividend

The Directors have declared a second interim dividend of 6.0 pence per share for 2019, which will be paid on 10 December 2019 to shareholders on the register on 22 November 2019.

The full year dividend of 10.0 pence per share represents a 76.9 per cent pay-out ratio on underlying earnings, below the Group's target of 90-95 per cent. The Board has had to carefully consider its liquidity requirements in light of the operational cash flows which were restricted within the Aviva facility up to the point of derecognition in April and were therefore unavailable for distribution to shareholders.

It remains the Company's intention to continue to meet the UK REIT rules in respect of distributions. These rules require the Company to pay a minimum of 90 per cent of its UK Group property rental profits to shareholders within 12 months of its financial year end. In respect of the current year, this requirement has been met.

## Going concern

At 31 August 2019, the Group's cash and undrawn facilities were £53.9 million and its capital commitments were £16.4 million. The Directors have considered severe but plausible downside scenarios, particularly in light of the current political and economic uncertainty faced as a result of the UK's anticipated departure from the European Union. Full details of these, including key assumptions, are set out in the Group's Viability Statement.

The Directors continue to be satisfied that the security of the Group's underlying income, headroom against financial covenants and strong interest cover taken together with the proceeds from sales contracts exchanged subsequent to the balance sheet date, provide a reasonable expectation that the Group will have the resources it requires to meet ongoing and future commitments. Accordingly, the 2019 consolidated financial statements have been prepared on a going concern basis.

**Donald Grant**
Chief Financial Officer

24 October 2019

# EPRA and other alternative performance measures

## Analysing our performance in line with industry standard measures to aid comparability.

### EPRA disclosures

The following is a summary of the EPRA performance measures included in the Group's results, which are a set of standard disclosures for the property industry as defined by the EPRA Best Practice Recommendations.

| Measure | Definition of measure | Note/ reference | 2019 | 2018 |
|---|---|---|---|---|
| Earnings | Earnings from operational activity | Note 35 | **£48.8m** | £51.9m |
| Net asset value | NAV adjusted for investments held at fair value and excluding items not expected to be realised | Note 36 | **£706.5m** | £815.0m |
| Triple net asset value | EPRA NAV adjusted to include fair value of financial instruments, debt and deferred taxes | Note 36 | **£682.6m** | £799.6m |
| Net initial yield | Annualised income based on passing rent less non-recoverable operating expenses expressed as a percentage of the market value of property | Other information | **5.4%** | 5.6% |
| Topped up initial yield | Net initial yield adjusted for the expiration of rent-free periods or other incentives | Other information | **5.6%** | 5.8% |
| Vacancy rate | Estimated rental value of vacant space divided by that of the portfolio as a whole[1] | Other information | **4.1%** | 2.9% |
| Cost ratio (incl. direct vacancy costs) | Administrative and operating costs expressed as a percentage of gross rental income | Other information | **19.6%** | 20.1% |
| Cost ratio (excl. direct vacancy costs) | Administrative and operating costs, adjusted for direct vacancy costs, expressed as a percentage of gross rental income | Other information | **16.4%** | 15.6% |
| Like-for-like rental income | Net income generated by assets which were held by the Group throughout both the current and comparable periods for which there has been no significant development which materially impacts upon income. Is used to illustrate change in comparable income values | Financial review | **—** | 2.1% |
| Like-for-like capital | Property which has been held at both the current and comparative balance sheet dates for which there has been no significant development. Is used to illustrate change in comparable capital values | Financial review | **(2.9%)** | 0.1% |

(1) Presented as EPRA occupancy rate (the inverse of vacancy rate) in the operating review.

## Other EPRA investment property reporting

### Accounting basis

Refer to accounting policies adopted in relation to the Group's property portfolio in Note 2 of the financial statements.

### Valuation information

Refer to Note 15 of the financial statements for valuation information.

### Investment and development assets

Refer to the operating review for detailed disclosure on the Group's sub-portfolio metrics and further information on the Group's significant development projects during the year ended 31 August 2019.

### Capital expenditure analysis

Refer to other information for detailed disclosure on the Group's capital expenditure during the year ended 31 August 2019.

## Other alternative performance measures

An alternative performance measure ("APM") is a financial measure of historical or future financial performance, position or cash flows of an entity which is not a financial measure defined or specified in IFRS. APMs are presented to provide a balanced view and useful information to the readers of the Group's results and are consistent with industry standards. The Group has considered the European Securities and Markets Authority ("ESMA") "Guidelines on Alternative Performance Measures" in disclosing additional information on its APMs.

All APMs are prepared on a proportionate basis to align with how the Group is managed. Further discussion of these measures can be found in the financial review. The table below summarises the additional non-EPRA APMs included in these results.

| Measure | Definition of measure | Note/ reference | 2019 | 2018 |
|---|---|---|---|---|
| Underlying earnings | EPRA earnings adjusted for the impact of non-cash debt accretion charges and FX gains and losses reflected in the income statement | Note 35 | **£49.4m** | £53.5m |
| Headline earnings | Additional earnings per share measure as required by the JSE, which exclude separately identifiable remeasurements in accordance with Circular 04/2018 | Note 35 | **£37.7m** | £57.1m |
| Net debt | Total nominal value of the Group's proportionate bank borrowings, less cash and cash equivalents | Note 23 | **£666.6m** | £748.4m |
| Loan to value | The ratio of net debt divided by the market value of investment property | Financial review | **46.8%**[1] | 46.2%[1] |
| Interest cover | The Group's net rental income divided by net finance expenses | Other information | **3.3** | 3.5 |
| Dividend pay-out ratio | Total dividend per share paid out to shareholders relative to the underlying earnings per share during the year | Other information | **76.9%** | 95.1% |
| Rent collection rate | Collection of quarterly rent as a percentage of total rent within seven days of billing | n/a | **96.3** | 98.0 |

(1) Pro forma adjusted to 42.0 per cent to reflect transactions between 31 August and the date of the results announcement (31 August 2018: 47.3 per cent).

# Corporate & social responsibility

> We have made significant improvement in the areas of monitoring and development of performance indicators, the so called "walking the talk".
>
> **Liz Peace**
> Chair of the CSR Committee

## Committee members

| | | |
|---|---|---|
| Liz Peace (Chair) | Independent | Appointed 25 January 2018 |
| Mike Watters | | Appointed 23 August 2014 |
| Adrian Horsburgh | | Appointed 23 August 2014 |
| Donald Grant | | Appointed 1 December 2016 |

## Committee meetings held during the year

### October 2018

**Matters discussed**

- Whistleblowing
- Stakeholder engagement
- CSR roadmap
- EPCs
- GRESB results

### January 2019

**Matters discussed**

- EPCs
- Health & Safety report
- Stakeholder engagement
- EPRA sBPR
- Data quality

### April 2019

**Matters discussed**

- Health & Safety report
- Social value assessment
- Stakeholder engagement
- Employee survey
- GRESB submission

### July 2019

**Matters discussed**

- Half year EPRA sBPR performance data
- ISO14001:2015
- Biodiversity policy
- Stakeholder engagement
- 2020 target setting

## Composition

The CSR Committee is chaired by Liz Peace, an independent Non-executive Director. As the primary purpose of the CSR Committee is to safeguard the interests of stakeholders, it was considered appropriate that Liz Peace be appointed the designated Director to represent employees' interests on the Board.

The Committee includes three of the four Executive Directors and meetings are attended by the CSR advisers, asset managers, the health and safety officer and the Company Secretary to ensure that the Group's CSR strategy is implemented into day-to-day operations.

## Operations

The CSR Committee met four times during the year. Attendance of meetings can be found on page 92. The Committee operates within Terms of reference, which were approved by the Board on 24 July 2018 and can be found on the Company's website **www.rdireit.com**

GRESB 2019

EPRA sBPR GOLD

## CSR target roadmap

### Progress achieved against CSR targets set for 2019

| Resilient governance | Resilient investment | Resilient assets |
|---|---|---|
| Continue to develop a German Health, Safety and Environmental programme to align with our UK approach.<br>✓✓ RDI has enhanced the German Health & Safety programme during the year with greater alignment with the UK programme. All Health and Safety issues are constantly being monitored and actions are undertaken immediately to resolve any issues or outstanding actions. | Continue to independently verify the performance of our assets through certification of our portfolio.<br>✓✓✓ Certification of HIX Southwark Hotel was completed in February 2019. St Dunstan's (Monument) serviced offices was selected for 2019 and achieved a "Very Good" rating in October 2019. | Undertake energy audits across our managed assets to identify actions to achieve 25 per cent reduction in energy use by 2030 (against 2017 baseline year). Review and report on progress made.<br>✓✓ Energy audits were completed at two of our Shopping Centres during the year, providing suitable energy conservation measures for no cost, low and high cost improvements. The audits also included analysis of water consumption and practices related to waste management to ensure a holistic appraisal of each site with respect to their impact on the environment. |
| Undertake third party verification of our EPRA environmental performance measures.<br>✓✓✓ We engaged with an external assessor to verify our EPRA environmental performance measures. | Demonstrate our commitment to procuring 100 per cent renewable energy in so far as reasonably practicable.<br>✓✓ Latest annual consumption figures illustrate 48 per cent of electricity sourced from renewable sources, an increase from 42% in the prior year. | Improve monitoring and reporting of waste data and performance across our managed assets.<br>✓✓ Waste management data has improved during the course of the year with access to better quality data reported and an increased number of assets, more efficient reporting underpinned by reporting expectations laid out within contractor agreements. |
| Implement a pilot scheme at selected assets for an Environmental Management System ISO14001 compliant.<br>✓✓✓ For the first time, RDI registered a property to ISO14001:2015 and was awarded a score of 81 per cent. Our centre managers have promptly resolved all outstanding actions from the assessment. | Complete an employee focus session on health and wellbeing.<br>✓✓✓ RDI continues to care for the health and wellbeing of our employees. We invited an external consultant to deliver a focus session to all employees. The session was received well and successfully increased awareness on physical and mental health. | Expand the tenant satisfaction survey to include all managed assets.<br>✓ Asset managers record all engagements with commercial tenants in a timely manner. This will be incorporated as part of RDI's stakeholder engagement initiative. |

✓✓✓ Good progress
✓✓ Sound progress
✓ Some progress

### CSR targets set for 2020

| Resilient governance | Resilient investment | Resilient assets |
|---|---|---|
| Pilot supplier self-assessment questionnaire to adhere to RDI REIT P.L.C. Code of Ethics for suppliers. | Improve coverage of our managed properties to Environmental Management Systems to ISO14001:2015 certification. | Implement a Biodiversity policy across the managed properties. |
| Integrate annual CSR performance targets for our employees with progress reported on annually. | Commit to procuring 100 per cent electricity on a renewable energy tariff, subject to availability, by 2022. | Continue to undertake actions to support the journey to achieving our corporate energy reduction target of 25 per cent by 2030. |
| Promote a standard tenant fit-out guide in accordance with industry best practice for all assets. | Continue to independently verify the performance of our assets through certification of our portfolio. | Further integrate ESG data within day-to-day operational performance management. |

# Corporate & social responsibility
continued


### Resilient governance
We will uphold the highest standards in ethical behaviour and support our workforce. We seek to operate in a manner that fosters open stakeholder engagement and demonstrates best practice in social and environmental risk management.

### Resilient investment
We undertake to realise the full potential of our investments for both our shareholders and the communities in which we operate.

### Resilient assets
We are mindful of our wider role as placemakers and we aim to contribute to the long term prosperity of the communities in which we invest. In doing so, we will undertake asset management which minimises risk and maximises asset value whilst providing the best experience possible for occupiers and visitors alike.

## Growing our business sustainably
RDI is committed to measuring and improving our environmental, social and governance ("ESG") performance.

RDI participates annually in the Global Real Estate Sustainability Benchmark ("GRESB") Real Estate assessment. Encouragingly this year, we have made significant improvement in the areas of monitoring and development of performance indicators, the so called "walking the talk".

This is reflected in the GRESB scores, which RDI has maintained at 62 per cent, and in delivering a significant improvement in the GRESB Aspects Monitoring and ("EMS") Environmental Management Systems and Performance Indicators.

The GRESB Public Disclosure Assessment specifically rates the accessibility of ESG information for listed property companies and Real Estate Investment Trusts. RDI maintained an 'A' rating for our level of public disclosure, above the GRESB global average of 'C'.

We will continue our focus on these areas in the forthcoming year.

## EPRA Sustainability Best Practices Recommendations ("sBPR")
RDI is committed to reporting in alignment with EPRA Sustainability Best Practices Recommendations and is proud to have received our first Gold award for our EPRA disclosure within our 2018 Annual Report. The EPRA sBPR Awards recognise companies for disclosing the best-in-class reports which aim to promote transparency by improving comparability and the quality of sustainability reporting for listed real estate companies across Europe.

RDI acknowledges the importance of advancing sustainability reporting practices within the real estate industry, providing investors and other stakeholders with greater transparency, and has aligned its sustainability disclosure in accordance to the majority of core requirements of the third version of sBPR. This consists of ten EPRA Social Performance Measures at corporate level, including diversity, gender pay gap, employee training and development, performance appraisals, employee turnover, injury and absentee rates, asset health and safety and community engagement metrics. We have also reported on EPRA Environmental Sustainability Performance Measures, covering energy consumption and associated GHG emissions, certification, water use and waste management across our portfolio. This year, RDI has decided to undertake third party verification of selected EPRA environmental performance measures.

## Taskforce on Climate-related Financial Disclosures ("TCFD")
RDI supports the recommendations of the TCFD and will seek to incorporate these recommendations into our reporting over time. We actively manage climate related issues across our business by, amongst others:

- upgrading assets with EPC ratings F&G to a minimum target rating of D;
- procuring electricity from renewable sources and committing to procure 100 per cent on renewable tariffs within three years;
- assessing flood risks across the portfolio with a view to reduce associated risk over time;
- encouraging and facilitating green forms of transportation;
- continuing to expand our building certification programme, targeting "Good" or "Very Good" ratings; and
- continuing the progress towards our stated energy reduction target of 25 per cent by 2030.

## Certifications
During the past year RDI has launched a programme to increase the number of assets that hold green building certificates, to verify building performance and help identify improvement opportunities. Following the first BREEAM In-Use assessment at our Southwark Hotel last year, which achieved a "Very Good" rating for performance, RDI has since undertaken an assessment at our St Dunstan's serviced office during the course of this year, which has achieved another "Very Good" rating for performance.

RDI has also achieved a "Very Good" rating in BREEAM New Construction at Bicester Link 9 (Plot 1A) for Shell & Core and at design stage for a drive-thru food & beverage outlet at The Arches Retail Park, Watford (Shell only). RDI is also proud to have achieved an impressive audit score of 81 per cent in compliance with the Environmental Management System ("EMS") certification standard ISO14001:2015 at our St George's Shopping Centre, Harrow and is committed to improving its EMS coverage throughout 2020.

## CSR employee objectives

We encourage our employees to engage in socially responsible initiatives. In the forthcoming year, each employee has been allocated a CSR objective upon which RDI will provide the support and time necessary for each individual to achieve their objective.

## CSR strategy

At RDI, we are committed to being environmentally and socially accountable to all stakeholders, particularly to our colleagues, customers, shareholders and the wider community in which we operate by understanding and proactively managing ESG risks and opportunities that can impact on income growth and net asset value.

Within the existing strategy our commitments and actions focus on three key pillars; Resilient governance, Resilient investment and Resilient assets. RDI seeks to ensure that our governance and risk management framework, together with the investment and asset strategy, continue to be resilient to the ever-changing economic, social and environmental landscape. Our CSR roadmap sets out a series of actions, targeting both short and medium term strategic objectives.

The CSR Committee uses targets and carefully selected KPIs to measure progress, reported by key stakeholders within the business responsible for the day-to-day management of those targets. The CSR Committee meets regularly to review progress against the CSR roadmap, review sustainability performance data and receive updates on current, potential and future compliance matters relating to UK and German CSR legislation.

## Resilient governance

### Approach

RDI seeks to operate efficient processes and procedures that demonstrate social and environmental risk management and foster open stakeholder engagement. RDI will also continue to uphold the highest standards of ethical behaviour and actively support our workforce.

RDI's approach to delivering on these commitments includes:

- complying with all applicable regulation and preparing for anticipated future regulation, and its implications;
- providing confidence to stakeholders of our sound management of CSR risks through our ongoing annual participation in the most prominent industry benchmark survey, the GRESB Real Estate Assessment;
- ensuring employees receive appropriate training on ESG issues, and providing bespoke training on sustainability topics to those that require it;
- maintaining best practice in health and safety management to the benefit of tenants, contractors, customers and employees;
- requiring suppliers to adhere to a code of ethics (available on our website **www.rdireit.com**), covering, inter alia, anti-bribery and modern slavery;
- continual relationship with first class sustainability advisers to provide leadership and guidance on sustainability across the business;
- fostering a culture of openness;
- operating a sustainability focused data management system; and
- from 2019 onwards, commissioning verification of our environmental reporting data, to ensure our disclosure and reporting is accurate.

With respect to our employees and, where applicable, stakeholders, RDI will:

- ensure there are no instances of discrimination either directly or indirectly;
- treat all employees, prospective employees, agents, contractors, tenants and suppliers fairly and equally, regardless of their gender, age, race, sexuality or disability;
- promote learning and development with a focus on fostering innovation;
- seek to diversify our workforce to support the nature of RDI's operations or the communities in which we operate, taking into account relevant skills, experience, knowledge, personality, ethnicity and gender whilst maintaining our responsibility to select the best candidate;
- recognise our social and moral duty to offer opportunities to people with disabilities and doing all that is practicable to meet their needs;
- uphold our commitments under our Code of Ethics which promotes honesty and integrity in business dealings and conduct commensurate with an organisation of our size. Any breaches will lead to disciplinary proceedings and, if appropriate, disciplinary action; and
- provide all employees with a handbook outlining RDI's key policies, which are designed to encourage a pleasant working environment, free from discrimination, undue stress or bullying. RDI recognises, respects and upholds all UK employment rights and human rights and outlaws any forms of modern slavery.

### Performance

Good progress was made during 2019 in relation to CSR governance. We implemented a pilot Environmental Management Scheme ("EMS") at one of our UK Shopping Centres that is ISO14001:2015 compliant.

The benefits of implementing ISO14001:2015 include the identification of areas for improvement and increased environmental efficiency, sharing best practice, identification of areas of non-compliance, protection against penalties, legal proceedings and reputational damage and providing essential credits for other certifications, such as GRESB and BREEAM In-Use.

# Corporate & social responsibility
continued

## Resilient governance continued

### Performance continued

Given the positive outcome of the pilot, we intend to continue improving our portfolio coverage. See Case Study on page 78.

In addition, we appointed Grant Thornton as our sustainability assurance provider to independently verify our key EPRA sBPR performance measures in accordance with ISAE3000. Sustainability assurance provides rigour and confidence in the quality of the data we collate and report.

Each year the CSR targets are structured to pursue continual improvement in our GRESB Real Estate Assessment score. GRESB results are categorised into Implementation and Measurement, to which a score is attached, and Management and Policy, which is also scored. In 2019, we maintained our 2018 overall score and notably increased our Aspect scores for Monitoring & EMS and Performance Indicators.

RDI developed and published a Board approved stakeholder engagement policy covering all areas of our business and elevated the prominence of stakeholder impact in Board decision making. Engagement initiatives are reported on quarterly to the Board through the CSR Committee.

RDI has met its 2019 obligations under the CRC Energy Efficiency Scheme for a final time, given the Government decision in March 2016 to close the scheme upon completion of the compliance year, which ended on 31 March 2019.

RDI has its own dedicated Health and Safety Manager whose role it is to provide guidance and support to tenants, contractors, customers and employees alike. The key objective being to improve reporting consistency and risk management across RDI.

Focused sustainability training which was delivered to all employees based at RDI's head office and across its operational locations, has been incorporated into RDI induction format and available resource materials for existing employees. Ensuring our employees are sustainability literate and made aware of related matters helps bring sustainability to life and allows for the integration of many initiatives into everyday activities throughout the workplace. RDI's employee induction programme now includes sustainability awareness, with attention drawn to RDI's CSR strategy and initiatives, highlighting available opportunities to collaborate.

RDI is committed to maintaining its culture of openness and transparency. Details of the Company's employees and culture are discussed on page 76.

It is RDI's aim to extend diversity within the Group and acknowledge, accept and accommodate the differences between individuals. RDI strives to treat all employees, prospective employees, agents, contractors, tenants and suppliers fairly and equally, regardless of their gender, sexual orientation, family status, race, colour, nationality, religious or political belief, age or disability.

RDI is committed to having an appropriate level of diversity that reflects the nature of RDI's operations and which best supports the achievement of strategic objectives. Over the last year there has been a slight improvement in diversity levels, as can be seen in the figures overleaf. The Nominations Committee regularly considers skills, experience, knowledge, personality, ethnicity and gender of the Board and has set a target to extend the female representation at Board level to at least one third by 2020.

In line with best practice, we continue to voluntarily reported RDI's gender pay gap. The most recently published analysis is set out below.

| | Mean | Median |
|---|---|---|
| Gender pay gap | 17% | 7% |
| Gender bonus pay gap | 52% | 14% |
| Proportion of females receiving a bonus | | 96% |
| Proportion of males receiving a bonus | | 92% |

Putting this in perspective, at RDI, women's mean hourly rate is 17 per cent lower than men's. In other words, when comparing mean hourly rates, women earn 83 pence for every £1 that men earn.

However, like many other companies in our sector, we have a lower proportion of females in middle management roles than we would like, as demonstrated below.

### Proportion of females and males in each quartile band

| | Female | Male |
|---|---|---|
| Upper | 33% | 67% |
| Upper middle | 14% | 86% |
| Lower middle | 2% | 98% |
| Lower | 52% | 48% |

We are satisfied that the apparent divergence in pay is wholly attributable to less female representation in higher-paying roles. RDI is committed to ensuring that equivalent roles attract equivalent pay, regardless of gender.

Employee turnover increased marginally in 2019. All employees are based in the UK or Germany, where there are few human rights issues. No human rights concerns or whistleblowing reports were received from employees during the year.

## Employees and diversity

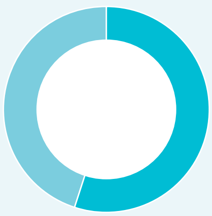
| | Total[1] | Men | %[1] | Women | %[1] |
|---|---|---|---|---|---|
| Board non-executives | 7 (7) | 5 | 71 (71) | 2 | 29 (29) |
| Board executives | 4 (4) | 4 | 100 (100) | 0 | 0 (0) |
| Senior management | 9 (8) | 3 | 33 (50) | 6 | 67 (50) |
| Other employees | 218 (232) | 119 | 56 (55) | 99 | 45 (45) |
| **Total (including Board non-executives)** | **238 (251)** | **131** | **55 (56)** | **107** | **45 (44)** |
| All employees working part time[2] | 36 (50) | 11 | 31 | 25 | 69 |
| All employee leavers (total)[2] | 51 (44) | | | | |

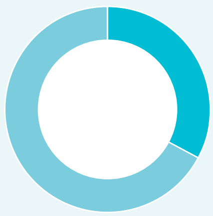
(1) Figures for 2018 are shown in brackets.
(2) All employees excludes Board non-executives.

### Gender split across RDI

**231** Employees

**9** Senior management




**Resilient investment**

### Approach

RDI seeks to implement an effective investment strategy that realises the full potential of our investments for both our shareholders and the communities in which we operate throughout the investment life cycle.

RDI's approach to delivering on this commitment includes:

- identifying investment risks during acquisition due diligence and opportunities to add value;
- considering the social and environmental performance of our assets;
- monitoring and measuring our resource consumption to identify efficiencies;
- reducing our carbon emissions footprint by reducing energy use and associated costs; and
- maintaining a high level of tenant satisfaction.

### Performance

RDI has again invested time with its CSR advisers to prepare utilities (electricity, fuels, district heating and water) and waste data sets aligned to the latest version of EPRA sBPR (sustainability best practice recommendations). We have included the properties with a specific indicator boundary based on operational control for utilities and waste management. Across the two geographic locations, data has been collated across 33 (out of 34) properties for energy, 22 (out of 24) for water and 23 (out of 32) for waste management.

The CSR Committee has continued to focus on improving its green building certification across the portfolio. The Committee identified and supported the certification to BREEAM In-Use on our serviced offices at our St Dunstan's, Monument location, on which a rating of "Very Good" was achieved. Various other assets and developments are being considered for certification as the CSR Committee recognises the benefits and increasing need for properties to be refurbished, managed and operated responsibly.

A tenant engagement programme was completed at our UK Shopping Centres. Overall, all centres achieved over 80 per cent of respondents as either satisfied or very satisfied. Centre managers follow up with tenants regarding issues, challenges and opportunities which came to light from the results. These follow up sessions are then documented as part of our stakeholder engagement programme.

# Corporate & social responsibility

continued

## Resilient assets

### Approach

RDI will undertake asset management which maximises asset values whilst providing the best experience possible for occupiers and visitors alike.

RDI's approach to delivering on this commitment includes:

- engaging with and contributing to charitable and community initiatives on an ongoing basis;
- engaging with local authorities and supporting their community campaigns;
- collaborating with tenants to conceive and promote joint community projects;
- understanding, enhancing and promoting RDI's role as a placemaker, with a focus on creating and maintaining prosperous communities in the local areas where we invest;
- ensuring key environmental and social risks are well managed when RDI is undertaking development activities and throughout the management of our portfolio; and
- wherever possible, facilitating the transition to greener energy use.

### Performance

RDI has set an energy reduction target, committing to reduce energy intensity by 25 per cent based on a 2017 baseline by the year 2030.

### Target methodology:

- reduction of 25 per cent by 2030;
- the energy intensity target applies across our managed UK retail parks, shopping centres and offices;
- with the intensity reported annually for each asset segment since 2017, expressed as electricity equivalent (kWh eq.) per segment specific area denominator per year;
- NLA (Net Lettable Area) is used as a denominator for offices, estimated CPA (Common Parts Area) for shopping centres and calculated car parking area for retail;
- the electricity equivalent is calculated to reflect the approximate thermodynamic differences between electricity, fuels and heat. Electricity = 1, fuels = 0.4 and thermals = 0.5, in line with REEB (The Real Estate Environmental Benchmark) methodology;
- change in energy use intensity is reported for each asset segment against the 2017 baseline year; and
- overall change in energy intensity is then calculated using the following predetermined weightings:
  - offices 80 per cent;
  - shopping centres 15 per cent; and
  - retail 5 per cent.

Meaning that our performance within the offices portfolio accounts for 80 per cent of our target, with shopping centres and retail contributing another 20 per cent.

### Other highlights from the year:

- we have continued monitoring Health, Safety and Environmental ("HSE") compliance audit scores across our UK portfolio whilst expanding coverage in both the UK and into the German portfolio;
- regular monitoring and reporting of the UK portfolio's EPC risk, to ensure all assets and units have a valid EPC rating;
- further improving energy, water and waste data coverage and quality;
- continued to participate in fundraising activities and charitable activities at each UK Shopping Centre. This year's elected charity is LandAid, who bring the property industry together to support life-changing projects for young people facing homelessness. We are excited to be working with them; and
- biodiversity initiatives such as consciously incorporating diverse plant species within landscaping projects at assets in Farnborough and Kingston and the installation of our first insect hotel at Banbury Cross Retail Park.

### Energy Performance Certification ("EPC") risk

RDI's exposure to EPC risk from the present and forthcoming requirements of MEES and present Section 63 legislation has been well managed, with every applicable UK property having a valid EPC rating. To future proof our portfolio, the CSR Committee has established a target to achieve a minimum EPC rating of D for all planned refurbishments and upgrade works to our portfolio assets.

### Performance data

RDI is committed to measuring and monitoring the environmental impact of energy, water usage and waste management which falls under its operational control. RDI has adopted the EPRA sBPR (3rd version) as the basis of its reporting in accordance with core requirements.

As committed during 2018, we have reviewed reporting processes, significantly reduced the number of estimated data points and improved overall data accuracy.

We have restated data for 2017 and 2018 where more accurate data was acquired. Notably, electricity data for 2017 was restated as data for two assets was confirmed to be incomplete.

Fuels usage has seen a significant adjustment due to an exclusion of tenant direct usage, which has been previously accounted for incorrectly at one asset. GHG emissions have been recalculated to reflect adjustment in energy use, as well as using the emissions factors from the environmental agency for Germany.

Water figures included significant estimates in the 2018 disclosure and have been replaced with actual data where possible.

Reporting boundary restated for 2017 and 2018, including properties sold during the respective reporting years. The data for these properties was included in the earlier disclosures where possible, and the adjusted boundaries now reflect this. Other points to report include:

- 2 per cent reduction in LfL energy use and 1 per cent reduction against the 2017 intensity target; and
- 5 per cent reduction in LfL GHG emissions.

Significantly improved data coverage for waste resulted in larger amounts reported and large year-on-year variances, upon which we are pleased to increase the data coverage. One asset this year sent waste to landfill. We will work with our contractors to address this issue in 2020.

# Independent practitioner's limited assurance report

## to the Board of RDI REIT P.L.C. on selected environmental data

We have been engaged by RDI REIT P.L.C. ("RDI") to perform limited assurance procedures in respect of selected environmental data (hereafter "Selected Information") contained in the RDI Corporate Social Responsibility Report for the year ended 31 August 2019 ("the Report").

### Scope and subject matter

The Selected Information subject to our limited assurance engagement for the year ended 31 August 2019 consists of:

- energy – totals in MWh for electricity, district heating and cooling, fuels;
- energy – proportion estimated (%);
- energy – renewables (%);
- greenhouse gas emissions – Scope 1, Scope 2 (location and market based) and Scope 3 greenhouse gas (GHG) emissions in tonnes $CO_2e$;
- greenhouse gas emissions – proportion estimated (%);
- water – water usage in $m^3$;
- water – proportion estimated (%);
- waste (landlord-managed) – total waste in metric tonnes;
- waste (landlord-managed) – proportion estimated (%);
- normalisation – ratios for Energy, GHG and Water; and
- disclosure coverage – number of assets.

The Selected Information subject to our limited assurance engagement for the year ended 31 August 2017 consists of:

- energy – totals in MWh for Electricity, District heating and cooling, Fuels;
- energy – proportion estimated (%); and
- energy – renewables (%).

The GHG data is reported in accordance with the criteria set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), jointly issued by the World Business Council for Sustainable Development and the World Resources Institute (the "GHG Protocol"). The location based GHG figures are calculated using emissions factors from both the UK Government and the International Energy Association for each respective reporting period. The market based GHG figures are calculated using supplier emissions factors. Together these all form the "Reporting Criteria".

### Responsibilities of RDI

Management is responsible for the preparation of the Selected Information contained in the Report. The Selected Information has been prepared in accordance with the Reporting Criteria. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error.

### Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Grant Thornton UK LLP applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our responsibility

Our responsibility is to express a limited assurance conclusion on the Selected Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagement 3000 (Revised), "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 (Revised)") and International Standard on Assurance Engagements 3410, "Assurance Engagements on Greenhouse Gas Statements" ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board. These standards require that we plan and perform this engagement to obtain limited assurance about whether the Selected Information is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) and ISAE 3410 involves assessing the suitability in the circumstances of RDI's use of the GHG Protocol as the basis for the preparation of the Selected Information, assessing the risks of material misstatement of the Selected Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Selected Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

### Our limited assurance procedures included:

The limited assurance procedures performed were based on our professional judgement and included:

- review and assessment of the systems processes and controls to aggregate, validate and report the data;
- discussions with key personnel responsible for the relevant process and governance thereof;
- review of information provided by third parties and through enquiry, the existence of any assurance provided on the quality of information and underlying processes and controls applied; and
- analytical procedures and sample testing on collated data and conversion factors applied.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Accordingly, we do not express a reasonable assurance conclusion.

### Limited assurance conclusion

Based on the procedures we have performed, as described in this report, and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information is not prepared, in all material respects, in accordance with the Reporting Criteria.

### Use of our report

This report is made solely to the Board of RDI, as a body, in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Board of RDI those matters we are required to state to them in an independent limited assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than RDI and the Board of RDI as a body, for our work, for this report, or for the conclusions we have formed.

**Grant Thornton UK LLP**
Chartered Accountants

Cambridge

24 October 2019

# Corporate & social responsibility

continued

## EPRA sustainability performance measures for our managed portfolio

| Impact area | Units of measurement | EPRA sBPR code | Indicator | Index |
|---|---|---|---|---|
| **Energy** | MWh | Elec-Abs, Elec-LFL | Electricity | Landlord Procured (Whole Building) |
| | | | | Landlord Procured (Common Parts/Shared Services) |
| | | | | Landlord Procured (Tenant Areas) |
| | | | | **Total** |
| | | | | **Renewable** |
| | | DH&C-Abs, DH&C-LFL | District heating and cooling | Landlord Procured (Whole Building) |
| | | | | **Total** |
| | | | | **Renewable** |
| | | Fuels-Abs, Fuels-LFL | Fuels | Landlord Procured (Whole Building) |
| | | | | Landlord Procured (Common Parts/Shared Services) |
| | | | | Landlord Procured (Tenant Areas) |
| | | | | **Total** |
| | | | | **Renewable** |
| | | | | **TOTAL ENERGY** |
| | | | | **Proportion estimated** |
| | kWh/revenue | Energ-Int | Energy intensity | Portfolio intensity – kWh/£million net rental income |
| | | | | Retail – kWh/car parking area (UK assets only) |
| | kWh/sqm | | | Offices – kWh/NLA (UK assets only) |
| | | | | Shopping centres – kWh/CPA (UK assets only) |
| | | | | **% change in energy intensity (Weighted Average)** |
| | | | | **Coverage – no. of assets** |
| | | | | **Total no. in organisational boundary** |

## Building Certification & Labelling (Cert-Tot) % floor area ($m^2$) covered in managed boundary

| | |
|---|---|
| % of managed portfolio BREEAM or SKA certified | 3% |
| % of managed portfolio BREEAM or SKA certified, including St Dunstan's[(1)] | 5% |

(1) St Dunstan's certification completed shortly after 31 August 2019.

| | Absolute (Abs) | | | | | Two year Like-for-Like (LfL) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | % change vs 2017 | % change vs 2018 | 2018 | 2019 | Trend | % change vs 2018 |
| | 7,530 | 5,873 | 7,465 | -1% | 27% | 4,517 | 4,495 | | 0% |
| | 5,844 | 5,412 | 5,289 | 0 | -2% | 5,215 | 4,969 | | -5% |
| | 132 | nr | 368 | 179% | — | 0 | 0 | — | — |
| | **13,506** | **11,286** | **13,122** | **-3%** | **16%** | **9,731** | **9,464** | | **-3%** |
| | **37%** | **42%** | **48%** | | | | | | |
| | 4,288 | 3,438 | 3,694 | -14% | 7% | 3,438 | 3,694 | | 7% |
| | **4,288** | **3,438** | **3,694** | **-14%** | **7%** | **3,438** | **3,694** | | **7%** |
| | **0%** | **0%** | **0%** | | | | | | |
| | 4,013 | 3,754 | 3,015 | -25% | -20% | 2,027 | 1,888 | | -7% |
| | 1,282 | 1,731 | 1,542 | 20% | -11% | 1,731 | 1,542 | | -11% |
| | 224 | 179 | 35 | -84% | -81% | — | — | — | — |
| | **5,519** | **5,665** | **4,592** | **-17%** | **-19%** | **3,758** | **3,430** | | **-9%** |
| | **0%** | **0%** | **0%** | | | | | | |
| | **23,313** | **20,388** | **21,408** | **-8%** | **5%** | **16,927** | **16,587** | | **-2%** |
| | **7%** | **6%** | **2%** | | | | | | |
| | 249.3 | 202.5 | 227.5 | -9% | 12% | | | | |
| | 4.7 | 4.7 | 4.4 | -5% | -6% | | | | |
| | 211.8 | 227.8 | 211.9 | 0% | -7% | | | | |
| | 175.6 | 171.0 | 160.2 | -9% | -6% | | | | |
| | | | | **-1%** | **-7%** | | | | |
| | **45** | **27** | **33** | | | **22** | **22** | | |
| | **53** | **55** | **34** | | | **25** | **25** | | |

# Corporate & social responsibility
continued

## EPRA sustainability performance measures for our managed portfolio continued

| Impact area | Units of measurement | EPRA sBPR code | Indicator | Index |
|---|---|---|---|---|
| **GHG emissions** | Tonnes $CO_2e$ | GHG-Dir-Abs, GHG-Indir-Abs, GHG-Indir-LfL | Direct Indirect | Scope 1 |
| | | | | Scope 2 (location based) |
| | | | | Scope 2 (market based) |
| | | | | Scope 3 |
| | | | | **TOTAL GHG[1]** |
| | | | | **Proportion estimated** |
| | | | | **Coverage – no. of assets** |
| | | | | **Total no. in organisational boundary** |
| | $tCO_2e$/revenue | GHG-Int | GHG intensity | $tCO_2e$/£million net rental income[2] |
| **Water** | Cubic metres | Water-Abs, Water-LfL | Water | Landlord Procured |
| | | | | **TOTAL WATER** |
| | | | | **Proportion estimated** |
| | | | | **Coverage – no. of assets** |
| | | | | **Total no. in organisational boundary** |
| | | Water-Int | Water intensity | $m^3$/£million net rental income |
| **Waste** | Tonnes | Waste-Abs, Waste-LfL | Total weight of waste by disposal route | Recycled |
| | | | | Off-site Materials Recovery Facility |
| | | | | Incineration with energy recovery |
| | | | | Sent to landfill |
| | | | % weight by disposal route | Recycled |
| | | | | Off-site Materials Recovery Facility |
| | | | | Incineration with energy recovery |
| | | | | Sent to landfill |
| | | | | **TOTAL WASTE** |
| | | | | **Proportion estimated** |
| | | | | **Coverage – no. of assets** |
| | | | | **Total no. in organisational boundary** |

(1) Scope 1 – emissions from combustion of fuel and operation of facilities.
Scope 2 – emissions from purchase of electricity, heat, steam and cooling.
Scope 3 – includes landlord-obtained consumption where sub-metered to tenants and transmission & distribution losses for electricity.

(2) GHG intensity is calculated including Scope 1, Scope 2 and Scope 3 emissions (total GHG emissions, location based). Scope 1 and 2 (location based) intensity is equal to 74 $tCO_2e$/£million net rental income for 2018 and 82 $tCO_2e$/£million net rental income for 2019.

| | Absolute (Abs) | | | Two year Like-for-Like (LfL) | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | % change vs 2018 | 2018 | 2019 | Trend | % change vs 2018 |
| | 1,034 | 856 | -17% | 704 | 644 | | -8% |
| | 6,460 | 6,839 | 6% | 4,689 | 4,558 | | -3% |
| | 6,174 | 6,398 | 4% | 4,261 | 3,708 | | -13% |
| | 304 | 366 | 20% | 267 | 197 | | -26% |
| | **7,798** | **8,062** | **3%** | **5,660** | **5,399** | | **-5%** |
| | **6%** | **2%** | | | | | |
| | **27** | **33** | | | | | |
| | **55** | **34** | | | | | |
| | 77 | 86 | 11% | | | | |
| | 107,245 | 119,915 | 12% | 101,134 | 102,301 | | 1% |
| | **107,245** | **119,915** | **12%** | **101,134** | **102,301** | | **1%** |
| | **8%** | **4%** | — | | | | |
| | **19** | **22** | | | | | |
| | **42** | **24** | | | | | |
| | 1,065 | 1,274 | 20% | | | | |
| | 281 | 839 | 198% | 255 | 336 | | 32% |
| | 90 | 350 | 289% | 78 | 87 | | 11% |
| | 1,092 | 1,709 | 56% | 1,053 | 1,086 | | 3% |
| | 0 | 11 | 100% | 0 | 11 | | 100% |
| | 19% | 29% | 50% | 18% | 22% | | 20% |
| | 6% | 12% | 96% | 6% | 6% | | 1% |
| | 75% | 59% | -21% | 76% | 71% | | -6% |
| | 0.0% | 0.4% | 100% | 0.0% | 0.7% | | 100% |
| | **1,464** | **2,909** | **99%** | **1,386** | **1,520** | | **10%** |
| | **30%** | **2%** | | | | | |
| | **14** | **23** | | | | | |
| | **54** | **32** | | | | | |

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# Corporate & social responsibility
continued

## EPRA social and governance performance measures

| EPRA code | Performance measure | Indicator | 2018 | 2019 |
|---|---|---|---|---|
| Diversity-Emp | Employee gender diversity | Board of Directors | 18% Female | 18% Female |
| | | | 82% Male | 82% Male |
| | | Employees | 44% Female | 45% Female |
| | | | 56% Male | 55% Male |
| Diversity-Pay | Gender pay ratio | Gender pay gap[1] | 20% Mean | 17% Mean |
| Emp-Training | Employee training and development | Average hours | 14.4 | 17.0 |
| Emp-Dev | Employee performance appraisals | Proportion of employees | 48% | 31% |
| Emp-Turnover | New hires | Total number and rate | 60 (25%) | 51 (22%) |
| | Turnover | Total number and rate | 44 (17%) | 64 (27%) |
| H&S-Emp | Employee health and safety | Injury rate (per 100 hours worked) | 0.3% | 0.6% |
| | | Absentee rate (per days scheduled) | 3% | 2% |
| | | Number of work related fatalities | 0 | 0 |
| H&S-Asset | Asset health and safety assessments | Proportion of assets[2] | 100% | 100% |
| H&S-Comp | Asset health and safety compliance | Number of incidents; unresolved within the required timeframe | 0 | 0 |
| Comty-Eng | Community engagement, impact assessments and development programmes | Proportion of assets[2] | 18% | 18% |
| Gov-Board | Composition of the highest governance body | Number of executive Board members | 4 | 4 |
| | | Number of independent/non-executive Board members | 1 Chairman<br>4 independent non-executives<br>2 non-executive | 1 Chairman<br>4 independent non-executives<br>2 non-executive |
| | | Average tenure on the governance body | 4.6 years | 5.4 years |
| | | Number of independent/ non-executive Board members with competencies relating to environmental and social topics | 1 | 1 |
| Gov-Selec | Process for nominating and selecting the highest governance body | Narrative on process:<br>**Process applicable for financial years 2018 and 2019:**<br>• Nominations Committee reviews the mix of the Board to identify any potential area of weakness;<br>• diversity is considered;<br>• an external executive search agency is engaged when searching for a new non-executive;<br>• a long list of diverse candidates with the right experience is drawn up;<br>• candidates with the right experience will be invited for an interview;<br>• a smaller number of candidates will be shortlisted; Those shortlisted will be discussed by the Nominations Committee;<br>• the best two candidates will be interviewed by the CEO followed by an interview with the Nominations Committee;<br>• in-depth discussion between the Nominations Committee and all the independent non-executives to consider each candidate; and<br>• final recommendation will be made to the Board followed by an announcement to the shareholders. | | |
| Gov-Col | Process for managing conflicts of interest | Narrative on process:<br>**Process applicable for financial years 2018 and 2019:**<br>• Directors are not to accept any other appointment or any arrangements which might be expected to lead to a conflict of interest arising, without the consent of the Board;<br>• any possible appointment is discussed with the Chairman to ensure that there are no conflicts of interest or that a Director's independence is not compromised; and<br>• the Company maintains a Conflicts of Interest Register. | | |

(1) Gender pay gap ratios reported in 2018 and 2019 relate to the 12 months ended 5 April 2017 and 5 April 2018 accordingly, in line with the Gender Pay Gap reporting regulations.

(2) Proportion of assets restated for 2018 for Asset health and safety assessments and Community engagement.

## EPRA commentary

We present consolidated property energy, greenhouse gas ("GHG"), water and waste data on both an absolute ("Abs") and like-for-like ("LfL") basis, covering assets in our UK and German portfolios. We believe that adopting this approach provides greater transparency and comparability for our stakeholders in respect to the environmental performance of assets under management.

As per mandatory greenhouse gas disclosure, our organisational boundary for environmental disclosure is based on the principle of operational control, and therefore includes all property assets where we are responsible for the procurement of energy, water and waste services. A total of 34 assets fall within the boundary for 2019 and 55 for the 2018 reporting period. The 2018 boundary has been restated to include assets sold in the first half of the financial year 2018.

During 2019 we have reviewed our data management processes and have increased data accuracy and reduced estimation. As a result, some of the asset level data has been restated for previous years, and this has been reflected in the EPRA Environmental Performance table.

In terms of absolute energy consumption change, electricity consumption increased by 16 per cent and gas consumption decreased by 19 per cent in the past year, predominately due to a combination of property disposals acquisitions and increased occupancy/ (and heating demand) across our multi-let properties. District heating consumption increased due to increased demand within our German shopping centre assets.

LfL electricity consumption decreased by 3 per cent and water consumption increased by 1 per cent.

In relation to intensity of environmental performance, we have continued to use net rental income as the denominator to be consistent with our GHG disclosure methodology. In addition, we have introduced performance against our energy intensity target.

## Methodology

RDI REIT P.L.C.'s carbon emissions disclosure has been produced in accordance with guidance issued in the ISO 14064-1:2006 international standard and the GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition). Location based emissions factors for the UK are sourced from BEIS for each respective reporting period and, for Germany, the latest emissions factors available from Umweltbundesamt (environmental agency in Germany). We reported both the "location-based" and "market-based" emissions resulting from purchased electricity to comply with the guidance on the reporting of Scope 2 GHG emissions under the GHG Protocol. The location-based method uses an average emissions factor for the national grid on which electricity consumption occurs. The market based method reflects emissions from the electricity that companies have chosen to purchase in the market. Where a market based emissions factor is unavailable the residual mix or location-based factor has been applied. This method has been used in alignment with the GHG Protocol's quality criteria. Data is disclosed in accordance with the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The boundary of RDI's carbon emissions disclosure is based on the principle of operational control. Therefore, emission sources within real estate assets owned and managed by RDI are included in the reported emission figures. We do not have responsibility for any emissions sources that are not included in our consolidated statement. Emission sources relating to occupier activities that do not fall under the operational control of RDI are excluded where possible. Where landlords obtain energy and the data split of consumption within tenant demises and landlord-controlled areas is unavailable, emissions associated to the whole building's energy consumption are included in Scope 2.

For 2018 and 2019, there have been no reported fugitive emissions from air conditioning refrigerant leaks and top-up of refrigerant volume.

## Data notes

Scope 1 emissions reduced by 17 per cent due to changes to our property portfolio, reduced demand for heating and via implantation of efficiency improvements across our assets in the UK. Scope 2 emissions have seen an increase due to portfolio changes and an increase in use of district heating and cooling which has offset reduction in our two year like-for-like portfolio electricity use.

## CSR adviser's statement

As RDI's strategic adviser on corporate social responsibility ("CSR"), Savills would like to acknowledge the continual improvement demonstrated by RDI in terms of their focus on how they have chosen to implement, maintain and improve their CSR strategy. RDI remains a proactive company that considers their CSR responsibility to be embedded within their core operations and integrated within their investment strategy for short, medium and long term growth. Our engagement with RDI has shown that employees have a high level of interest in CSR initiatives and are well equipped to support their implementation. By ensuring that sufficient time and resources are made available, RDI continues to effectively tackle both the straightforward and the more challenging targets ahead.

We confirm that the environmental data published in this report provides a true representation of RDI's current performance. Savills will continue to act in their capacity as external CSR advisers to RDI by providing suggestions for enhancement to CSR structure and focus, third party guidance and in assisting improvements to data coverage, data collection and reporting and to attain their 2020 CSR targets.

**Jonathan Hale**
Associate Director

Savills

24 October 2019

# Stakeholder engagement

## RDI recognises the importance of building strong relationships with our stakeholders to ensure the long term success of the Company for the benefit of stakeholders and shareholders alike.

## Engagement undertaken

### Employees
- Annual employee satisfaction survey completed with 82 per cent of respondents happy at work
- Employee feedback workshop held to report findings of survey and establish actions
- CEO addressed concerns in relation to the Cromwell offer with staff meetings and Company-wide email communication
- Three team-building sessions
- Annual training sessions – GDPR, anti-bribery, tax evasion and the new Corporate Governance Code
- Mental health and wellbeing awareness session held

### Agents & Consultants
- Monthly meetings for Retail portfolio
- Quarterly meetings for Commercial portfolio

### Environment
- Achieved EPRA Gold status for 2018 CSR performance measures
- ISO14001:2015 Accreditation achieved at St. George's shopping centre, Harrow
- BREEAM New Construction (Design Stage) Interim Certificate of a "Very Good" rating achieved for Unit 1b Link 9, Bicester and new Costa drive-thru at The Arches Retail Park, Watford
- EV charging points at our shopping centres have been used over 8,053 times, saving over 28.71 tonnes of $CO_2e$

### Investors
- Full year and half year results roadshows (United Kingdom and South Africa)
- Investor roadshows (London, Leeds and Manchester)
- HSBC Real Estate Conference
- Peel Hunt Property Conference
- Instinctif Investor and Analyst property tour – London
- Sales desk briefings
- Annual EPRA Conference
- Publication of quarterly Company factsheet – printed and online

### Suppliers
- Suppliers Code of Ethics distributed to all new and existing suppliers, improved procurement and prompt payment

### Government & Local Authorities
- Centre Managers at shopping centres in Harrow and Coventry hold position of Business Improvement District Chairperson
- Asset managers met with Council members, planning departments and BID representatives in Harrow and Coventry
- Meetings with Westminster Council regarding the redevelopment of Charing Cross Road, London
- Ongoing negotiations with Southwark Council in relation to Newington House and Coburg House
- Negotiations with Cherwell Council regarding Link 9, Bicester

### Tenants
- Tenant communication tool, Mallcomm, rolled out to include West Orchards, totalling 100 per cent of UK Shopping Centre portfolio
- Tenant review meetings held throughout the year

### Communities
- UK shopping centres ran an annual programme of events to engage with communities
- UK shopping centres nominated a Charity of the Year, supporting through awareness and fundraising
- Devised and implemented a literacy campaign working with local primary school children in Harrow
- Collaborated with Coventry BID and two universities to deliver a student event, welcoming 10,000 new students to the city
- Head office staff and associates participated in the Royal Parks half marathon to raise funds for charity

### Indices
- EPRA sBPR best practice recommendations utilised as our CSR disclosure benchmark. For our 2018 report, EPRA awarded us Gold Standard in recognition of the quality of our disclosures
- Active participation in GRESB. Following our fourth annual submission, we continue to target an improved score year-on-year

# Stakeholder engagement
continued

## Board engagement and decision making

Historically, Board engagement and decision making has primarily focused around the needs of investors. It is recognised that, going forward, both the Board and the Company culture must change to ensure that the needs of all stakeholders are considered and that this process be embedded into everyday operations.

This process started in 2018 with the identification of key stakeholders, as shown overleaf, and the adoption of a stakeholder engagement policy. Throughout 2019 Directors were provided with a list of decisions that were to be proposed during Board meetings and a list of those stakeholders that would be affected by those decisions when taken.

To build on this going forward, memorandums included in Board packs will provide information on the impact on stakeholders, and the policy on Matters Reserved for the Board will be amended to document the decision making process.

Although the Chairman and the executives meet regularly with investors and all feedback is relayed to the Board, the Board will seek to meet more stakeholders in 2020 and will be kept informed of all engagement undertaken by the Company, which is currently only reported to the CSR Committee. Further training will be provided to staff to re-iterate the importance of stakeholders to the business. Each employee, including the executives, has been set a CSR target as part of their performance objectives to embed CSR in the Company's culture. See page 110, Changes to the Remuneration Policy.

An overview of Board meetings and stakeholders considered can be found on page 91.

## Principal decisions

Principal decisions taken by the Board during the year were as follows, and are discussed in the Chairman's statement:

- disposal of the German portfolio, affecting investors, tenants, lenders, suppliers and employees;
- default on the Aviva financed UK shopping centre facility, affecting lenders, tenants and employees; and
- rejection of an offer for the Company by the Cromwell Property Group, affecting investors, tenants, lenders, suppliers and employees.

Principal decisions are those that are material to RDI but are also significant to any of our stakeholder groups. In deliberating principal decisions, the Board will consider feedback from stakeholders, ensure that high standards of business conduct are met, will strive to protect the Company's reputation, and will endeavour to act fairly between its members.

## Employees and Company culture

The Board was aware that the principal decisions taken during the year would likely unsettle staff and tried to address concerns by keeping employees well informed of events. Separately, meetings were held to explain the interim and final results of the Company and advise of the Company's progress during the year. Strategy was explained, the consequences of the Aviva event of default clarified and the offer from the Cromwell Property Group was communicated to all staff. Despite certain unsettling events, management were pleased that only a marginal increase in turnover was experienced. At the head office, exit interviews were conducted and comments reported to the executives.

Although employees are encouraged to ask questions and raise concerns at Group meetings, feedback and the level of staff satisfaction is more readily obtained through an anonymous employee survey held annually. Following a fall in the level of satisfied staff from 85 per cent to 82 per cent in 2019 an employee focus session was set up to address some of the points that had been raised. This session excluded management and the feedback obtained was reported to the executives and to Liz Peace, the Chairman of the CSR Committee, a Non-executive Director, who has been appointed the employee representative on the Board. As a result of the findings, a number of changes were implemented, with additional staff benefits being offered, an intranet introduced to aid internal communication, further team-building events organised and a health and wellbeing seminar arranged.

Despite certain concerns, the employee survey found that staff, on the whole, considered RDI to have a strong team spirit and that it was an enjoyable place to work. Senior management were seen to contribute to a positive work culture, demonstrating a strong work ethic that permeates down to the staff. The entrepreneurial nature of the executives and the agility of the Board to respond to opportunities created an exciting atmosphere in which to work, as an integrated team. People felt valued at work, with line managers operating an open-door policy and willing to listen to ideas, which could be quickly implemented. Employees have a clear understanding of their career path and are encouraged to reach their full potential at RDI. Employees are respected and are well rewarded, with the remuneration structure aligned with that of the executives.

As a small organisation, in terms of employees, RDI considers everyone's contribution to be important and the success of our culture relies on every team member living up to the Group's values. The Group's values are documented in a Code of Ethics which provides guiding principles to ensure adherence to the strictest standards of ethical conduct, fair dealing and integrity in its business practices. The Group's philosophy is underpinned by the principles of honesty, integrity, respect and dignity, and includes (but is not limited to):

- conduct befitting the reputation of the Group;
- confidentiality of information;
- protection and proper use of assets;
- conflicts of interest;
- anti-bribery;
- legitimate share dealings;
- diversity;
- best practice corporate governance;
- protection of the environment;
- to act as a considerate landlord;
- compliance with unlawful and unethical behaviour; and
- reporting of unlawful and unethical behaviour.

EPRA Social Performance measures regarding, inter alia, training, turnover, health and safety can be found on page 72.

Diversity within the Group is discussed on pages 64, 65 and 89.

### Suppliers

The Company's supply chain comprises contractors, subcontractors, goods and services suppliers and professional service providers. To ensure suppliers meet the high level of conduct that we set for ourselves, all current and new suppliers are required to confirm on an annual basis that they have adhered to the RDI Suppliers Code of Ethics. This expects suppliers, inter alia, to:

(i) not employ child labour;

(ii) pay at least the living wage;

(iii) ensure working hours are not excessive;

(iv) respect the right to collective bargaining; and

(v) ensure no harsh or inhumane treatment is tolerated.

Payment practices towards suppliers are to be reviewed in the coming year, and although RDI only meets the threshold of the Payment Practice and Performance Regulations 2017 on a consolidated basis, it is intended that the Company will report on this matter in 2020.

### Tenants

Tenant communication remains a vital element of our asset management strategy with tenant meetings arranged throughout the year across our portfolios.

In addition to face-to-face meetings, and following the successful implementation of Mallcomm in 2018 at two sites, the tenant communication mobile app was extended to include West Orchards shopping centre, Coventry. Mallcomm enables centre management teams to communicate with staff, from head office to store managers and shop staff, on a real time basis across a number of subjects including marketing, operations, security and health and safety. 100 per cent of the UK Shopping Centre portfolio is now utilising Mallcomm with tenant staff and centre staff at all three sites have praised the initiative. Average store log in rates are 73 per cent at Harrow and 98 per cent at West Orchards.

### Communities

Community relations is an important element of our culture, particularly active community initiatives, which are delivered at assets where there is an onsite management presence. The UK Shopping Centre portfolio focuses on strong community relations and each centre devises and implements an annual plan of events targeting and supporting the local community. This includes appointing a Charity of the Year each year, voted for by local shoppers, which is supported with awareness campaigns and fundraising support. Other activities include engaging with local schools, colleges and universities and community organisations.

An example of community engagement can be found within the St George's shopping centre literacy project case study below.

### Environment

In line with our CSR targets for 2019, a number of initiatives have been implemented throughout the year, including BREEAM In-Use and BREEAM New Construction certifications and an Environmental Management System pilot scheme at St. George's shopping centre which achieved the ISO14001:2015 accreditation.

## Case study

## Literacy project, St. George's shopping centre, Harrow

St. George's shopping centre is located in Harrow, Greater London, and is seen as the hub of the community due to its location, its retail mix and leisure offer, and because of its reputation for supporting and engaging with local stakeholders – shoppers, schools and community groups.

RDI was keen to continue to develop the strong community connections St George's has, and after learning that 21 per cent of children in Harrow are not currently reaching the expected standard of reading for their age, it become apparent that there was a need for additional literacy support in the borough's primary schools.

The marketing team at the centre developed a plan designed to kick-start a campaign to get primary school children in Harrow reading more and reading well.

The idea was to produce a book for children to enjoy all over the world, but with a direct benefit to children growing up in the London Borough of Harrow. RDI partnered with local author, David P Perlmutter, to run a series of creative writing workshops in three Harrow primary schools, with the aim to encourage children to think about what books they enjoy reading and to collect stories from the children about their lives in Harrow.

Using the children's stories as inspiration, the author wrote the story of Alaina, a nine-year-old girl from Harrow, cleverly weaving together many of the stories and the characters from the creative workshops.

St George's enlisted Corum Beanstalk, a London based literacy charity, who became the centre's Charity of the Year and the vehicle to deliver funds from the proceeds of the book to local primary schools.

Following a launch event attended by the children that participated in the book and the Deputy Mayor of the London Borough of Harrow, it is now on sale at St. George's shopping centre, and is also available in a downloadable format, with 70 per cent of profits from the sale of the book being utilised to fund additional literacy support for primary school children in the borough. The project has attracted much support, including from the local library services, the Business Improvement District and local businesses. The team behind the book continue to visit primary schools and libraries in the borough, and beyond, to offer reading workshops and promote the project.

### Stakeholders engaged:

# Stakeholder engagement
continued

## Case study
### Why we use sustainability benchmarks

At RDI REIT, we use a series of tools which have evolved since 2016 that help us to measure, guide and differentiate the effectiveness of our sustainability strategy and performance. We review our asset level performance via BREEAM and SKA certifications, monitor the health of our portfolio by active participation annually via GRESB and ensure the relevance of our corporate disclosure by aligning our reporting with EPRA sBPR. These tools have evolved over time and have engineered the way in which we manage risk, unearth opportunity and prepare for the scenarios which are presented by the present and future effects of climate change.

At an asset level, we recognise the BREEAM In-Use international certification as one of the best to understand a building's operational performance, assessing aspects such as health and wellbeing, energy, water, transport, waste management, pollution, land use and ecology.

At a portfolio level, responding to the GRESB Real Estate Assessment annually provides a structure to ensure continual and conjoined progress when it comes to governance, investments and assets "in-action".

Finally, at a corporate level, the EPRA Sustainability Best Practices Recommendations ("sBPR") provides a consistent way of measuring sustainability performance and is intended to improve quality and comparability of sustainability reporting for listed real estate companies across Europe.

**Stakeholders engaged:**

## IS014001:2015 Pilot scheme St. George's shopping centre, Harrow

In order to identify and mitigate the potential environmental impact of our assets, RDI REIT commissioned an Environmental Management System ("EMS") pilot scheme at St. George's shopping centre, Harrow, in line with the requirements of ISO14001:2015, an international standard which details key measures needed to achieve effective environmental management across an organisation or asset.

As the most widely adopted environmental management standard, examples of activities reviewed which can cause environmental impacts include the use of energy and water, disposal of waste and use of chemical substances in cleaning or maintenance. These activities can contribute to climate change, pollute local water supplies, contaminate ground and cause harm to human health.

Working with the management team at the property, RDI REIT's sustainability partners reviewed the property management practices and identified improvements necessary to meet the standard, as well as industry best practice. These recommendations to improve performance in line with ISO14001:2015 were formulated into an action plan, which has now been completed. The site is now operating in line with ISO14001:2015 and will be subject to an external certification audit by early 2020.

### Results

The benefits of implementing ISO14001:2015 include the following:

- identification of areas for improvement and increased efficiency;
- sharing best practice;
- identification of non-compliance areas;
- protection against fines, legal proceedings and reputational damage; and
- credits for other certifications, such as GRESB and BREEAM In-Use.

Operating an ISO14001 EMS at the property has helped to facilitate a number of key improvement initiatives, beyond just holding this certification. For example, the centre management team has introduced an F-Gas folder, containing important regulatory information including maintenance and contractor records, helping the team understand the whole process of F-Gas maintenance and management.

The audit also prompted improvements in waste management records, with a Waste Management Matrix introduced to catalogue all materials leaving the site as a waste stream. This helped the team identify areas where improvements could be made, such as holding copies of waste carrier licences where a third party manages the waste stream, including electrical waste managed by the M&E contractors.

Discussions on environmental considerations for the building are now a permanent item on the agenda of quarterly tenant, team and service provider meetings. This has enabled wider awareness of environmental issues in the centre, which will ultimately facilitate future initiatives aimed at improving the performance of the property, which is a key requirement in ISO14001:2015.

**Stakeholders engaged:**

## The Social Value Portal pilot scheme – Weston Favell shopping centre

In April 2019, RDI partnered with Social Value Portal to embark on a pilot scheme at Weston Favell shopping centre to improve our understanding of how our retail assets contribute to their local communities.

Social Value Portal, an online solution, enables organisations to measure and manage the contributions and impacts their company and supply chains make to society. Working with the property management team, Social Value Portal tailored a framework for Weston Favell reflecting the five themes for the National TOMs (themes, outcomes and measures) framework: promoting skills and employment, supporting growth and responsible regional business, healthier, safer and more resilient communities, protecting and improving our environment, and promoting social innovation in our communities.

The property management team gathered and provided employment, environmental, community and supplier data from 2018, in order to quantify the social, economic and environmental value created by the centre's activities. The portal also benchmarked results against the sector average.

Findings highlighted a number of positive outputs by Weston Favell shopping centre, culminating in a social value of £1 million, £33 value per $m^2$ versus a sector average of £27 per $m^2$.

### Stakeholders engaged:

| Measure | Delivered/ contributed | Social value | Sector average |
|---|---|---|---|
| **Promote local skills and employment** | | | |
| Local people employed (FTE) | 100% of workforce | £841,731 | 50% of workforce |
| Time donated to local school and college visits | 22 hours | £297 | (1) |
| Time donated to support young people into work | 58.5 hours | £5,515 | (1) |
| **Supporting growth of responsible regional business** | | | |
| Equipment or resources donated to non-profits and social enterprises (equivalent value) | £33,035 | £33,035 | £5,000 |
| Time donated to non-profits and social enterprises | 180 hours | £2,430 | — |
| **Healthier, safer and more resilient communities** | | | |
| Initiatives to reduce crime (cash) | £37,500 | £37,500 | £10,000 |
| Initiatives to promote health and wellbeing (cash invested) | £106 | £106 | £500 |
| Donations to local community projects (cash and materials) | £26,720 | £26,720 | £30,000 |
| Time donated to local community projects | 26 hours | £351 | (1) |
| **Protecting and improving our environment** | | | |
| Savings from energy efficiency measures against baseline ($CO_2e$) | 19 tonnes (4.5% improvement on baseline) | £1,262 | 2.5% improvement on baseline |
| Waste diverted from landfill against the REEB 95% benchmark | 232 tonnes | £19,623 | 2.5% above benchmark |
| Time dedicated to green infrastructure, including cleaning up local green spaces | 12 hours | £173 | (1) |
| **Promoting social innovation** | | | |
| Other donations of expert staff time for community events and customer forums | 440 hours | £36,960 | n/a |

(1) Total time donated equals 1.1 days volunteering per person, versus the sector average of 0.5 days per person.

## Case study

## Birchwood shopping centre Green Apple Award

In line with RDI's Corporate Social Responsibility framework, in 2019 Birchwood shopping centre undertook a review of their waste management strategy, which ultimately resulted in the centre being awarded a Green Apple for Environmental Best Practice by The Green Organisation, recognising, promoting and awarding environmental best practice around the world.

The centre worked closely with waste management company, B&M Waste Services, and implemented a series of new solutions to the waste management policy at the scheme. Initiatives included the removal of individual tenant bins, replaced with seven strategically located, easily accessible recycling zones, a colour-coding system devised specifically for the scheme and tenant needs, and one-to-one tenant meetings.

Positive outputs from the initiative included the centre becoming a zero waste to landfill site. Other environmental benefits included a reduction in the number of waste trucks visiting the site, thus reducing the centre's carbon footprint.

### Stakeholders engaged:

# Stakeholder engagement
continued

## Investors

The Board maintains an open dialogue with shareholders and engages with both existing and potential investors on Company strategy, management, remuneration and governance. The Chairman and the Executive Directors are the Company's primary representatives with institutional investors, analysts and major shareholders. All independent feedback is provided to the Board on a regular basis, along with recent analyst coverage.

The Company provides investors with regular announcements of significant events affecting the Group, including its business activity and financial performance. These announcements are available on the Group's website at **www.rdireit.com** along with results webcasts, analyst presentations, investor roadshows, property tours, capital market days, press releases and quarterly factsheets.

In addition, we believe that it is essential that the Company provides transparent reporting and, therefore, we have participated in GRESB and will strive for Gold standard disclosure of our EPRA performance measures, a standard we achieved in 2018.

Shareholders are encouraged to contact the executives to raise any matters of concern and to attend the AGM where they can meet and discuss the Company's operations with the Board of Directors.

## MiFID II

Following the restrictions under MiFID II, which became effective in January 2018, RDI has made significant efforts to improve its direct investor outreach and feedback programme. With external research materials and reliable consensus increasingly difficult to obtain, Company compiled consensus is now published on the website to allow all investors access to inclusive forecast figures.

We are aware that certain retail investors have been unable to freely invest in RDI shares due to a lack of clarity around which companies are obliged to produce a Key Information Document ("KID"). As an internally managed Real Estate Investment Trust with a premium listing under Chapter 6 of the FCA's Listing Rules, the PRIIPs (Packaged Retail and Insurance-based Investment Products) regulation does not apply to the Company.

Although there is therefore no requirement to publish a KID, the Company is looking at other means of ensuring investors are freely able to trade in the Company's shares.

## Corporate website www.rdireit.com

The website has recently been redesigned, with clear linkage to all areas of our business. Navigation to the latest updates, related presentation materials and regulatory shareholder information has also been improved.

All investor materials, including video content, are made available on the website, including quarterly factsheets with all the latest news and an easily downloadable Excel workbook containing all key figures and analysis.

## Annual General Meeting ("AGM") and shareholder feedback

The Board appreciates shareholders taking the time to attend the AGM, which gives investors the opportunity to meet with Directors and raise any questions they may have concerning the operations of the Company. AGMs are called on at least 20 business days' notice and shareholders are provided with comprehensive notes for the proposed resolutions.

## 2019 AGM results: 67 per cent of votes cast

There was a substantive vote against the resolutions giving Directors authority to allot shares up to the limits contained in the Notice of the AGM and for Directors to dis-apply pre-emption rights in connection with a Specified Investment up to the limit set out in the Notice of AGM. Although the authority levels were below standard UK recommendations, they exceeded South African guidelines. This position is not uncommon, with most of our dual listed peers receiving similar votes against. However, the Company has continued to liaise with shareholders and has agreed to halve the authority level to 10 per cent of the issued share capital at the 2020 AGM which will be in line with South African guidelines.

There was a substantial vote against the appointment of two of the Executive Directors; Stephen Oakenfull and Adrian Horsburgh. Discussions were held with the dissenting shareholder to understand their concerns. Having discussed the matter with the shareholder in question, the votes against were linked to concerns regarding the size of the Company's Board. This matter is under consideration by the Board and the Nominations Committee.

## 2020 AGM: To be held at 11.00 a.m. on 23 January 2020 at 20 St Dunstan's Hill, London EC3R 8HL

The voting results of all general meetings are published on the Company's website **www.rdireit.com**

## Key contacts for our shareholders

We have included contact details for the Company and our Registrars on page 209.

If shareholders have any concerns, which the normal channels of communication with the executive team or Chairman have failed to resolve, please contact the Senior Independent Director, Michael Farrow.

## Shareholder engagement and investor meetings

During the year the Company hosted over 100 meetings with potential and existing shareholders. RDI engaged with institutional investors and private wealth managers, with varying mandates across multiple geographies.

Shareholder engagements take the form of group meetings, one-on-one meetings, conference telephone calls, investor days, property site visits and the AGM. Investor meetings are typically attended by at least two members of the executive team. The executive management team also look to attend and contribute to key industry events and conferences.

Where significant views were expressed, either during or following the meetings, these were recorded and circulated to all Directors.

A summary of our investor engagement programme is shown in the table opposite.

A list of all future key events can also be found on the website at **www.rdireit.com/investors/key-dates-calendar**

**October 2018**

### Full year results roadshow (UK and South Africa)

All materials, including the presentation, webcast and analyst workbook, were made available on the Company's website.

### Sales desk briefings

We actively engage with sell side analysts to ensure key messages, strategic and financial information are accurately communicated. Consensus forecasts are updated when analysts provide updated research reports.

**5-12 November 2018**

### Investor roadshow, London (Wealth Managers)

Roadshow focusing on wealth managers and smaller investors.

**10 December 2018**

### HSBC Real Estate Conference

The CEO and Chairman attended the industry event which hosted a number of institutional investors.

**April/May 2019**

### Half year results roadshow (UK and South Africa)

All materials, including the presentation, webcast and analyst workbook, were made available on the Company's website.

### Sales desk briefings

We actively engage with sell side analysts to ensure key messages, strategic and financial information are accurately communicated. Consensus forecasts are updated when analysts provide updated research reports.

**1 May 2019**

### Peel Hunt Property Conference

The management team attended the conference and hosted a tour of the St Dunstan's serviced office in Monument, London.

**3 September 2019**

### Investor and analyst property tour

The management team hosted a group of South African investors and sell side analysts covering the Company's recent strategic initiatives together with site visits of a number of London assets.

**6 September 2019**

### Annual EPRA conference

The Deputy CEO and CFO attended the conference as part of the Company's ongoing industry engagement.

Directors' report
Governance

# Governance at a glance

## Compliance with the UK Corporate Governance Code (the "Code").

RDI is a UK REIT with a premium listing on the Main Market of the LSE and a secondary listing on the "Real Estate – Real Estate Holding and Development" sector of the Main Board of the JSE. The Company was incorporated in the Isle of Man with registered number 111198C in 2004 and was re-registered under the Isle of Man Companies Act 2006 in December 2013, with registered number 010534V. The Company's home state is the United Kingdom.

Further to the secondary listing of the Company in South Africa on 28 October 2013, the JSE accepted that RDI would primarily comply with the UK Corporate Governance Code 2016 as opposed to the provisions of the King IV Report on Governance for South Africa 2016. It should be noted that since 24 September 2018 and up until 31 August 2019 RDI was classed as a "smaller company" and complied with all the principles of the 2016 Code.

The 2018 UK Corporate Governance Code, as issued by the Financial Reporting Council in July 2018 (www.frc.org.uk), will apply to RDI from 1 September 2019.

In this transition year, and in preparation for the new Code, the Company has already adopted many of the provisions. Other matters, such as board composition for a "smaller company" and remuneration, are set to be addressed during the year.

## Matters to be addressed during 2020 to ensure compliance with the 2018 Code.

### Section 1: Board Leadership, and Company Purpose

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long term sustainable success of the Company, generating value for shareholders and contributing to wider society.

| | |
|---|---|
| **Board composition and roles** | **Page 74** |
| **Stakeholder engagement** | **Page 81** |

B. The board should establish the Company's purpose, value and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture.

| | |
|---|---|
| **Strategic priorities** | **Pages 06 and 07** |
| **Culture** | **Pages 76 to 89** |

C. The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and manage.

| | |
|---|---|
| **Board operations** | **Pages 90 and 91** |
| **Audit and Risk Committee** | **Pages 98 to 103** |

D. In order for the Company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

| | |
|---|---|
| **Chairman's statement** | **Pages 84 and 85** |
| **Stakeholder engagement** | **Pages 74 to 81** |

E. The Board should ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

| | |
|---|---|
| **Stakeholder engagement** | **Pages 74 to 81** |
| **Audit and Risk Committee** | **Pages 98 to 103** |

B – Details of the Company's purpose will be presented in the 2020 Annual Report.

D – Although Directors meet with shareholders, other forms of stakeholder engagement have historically been undertaken by management, however the Board will seek to be more active in this area in the coming year. A statement of its activities will be made in next year's annual report.

**Relationships with Shareholders**
See pages 80 and 81

### Section 2: Division of Responsibilities

F. The Chair leads the board and is responsible for its overall effectiveness in directing the Company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all Non-executive Directors, and ensures that Directors receive accurate, timely and clear information.

| | |
|---|---|
| **Board composition and roles** | **Page 88** |
| **Board operations** | **Pages 90 and 91** |

G. The Board should include an appropriate combination of Executive and Non-executive (and, in particular, independent Non-executive) Directors, such that no one individual or small group of individual dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the Company's business.

| | |
|---|---|
| **Board composition and roles** | **Page 88** |
| **Nominations Committee** | **Pages 93 to 97** |

H. Non-executive Directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

| | |
|---|---|
| **Board operations** | **Pages 90 and 91** |
| **Board composition and roles** | **Page 88** |
| **Nominations Committee** | **Pages 93 to 97** |

I. The Board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

| | |
|---|---|
| **Board operations** | **Pages 90 and 91** |
| **Audit and Risk Committee** | **Pages 98 to 103** |

G – Following the resignation of Robert Orr, the Board comprises four independent Directors (including the Chairman) and six non-independent Directors. Board composition is under review and will be addressed by the Nominations Committee during the coming year.

**Leadership**
See pages 86 to 89

## Section 3: Composition, Succession and Evaluation

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management.

Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

**Nominations Committee** **Pages 93 to 97**

K. The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

**Board composition and roles** **Pages 88 and 89**
**Nominations Committee** **Pages 93 to 97**

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.

**Nominations Committee** **Pages 93 to 97**

## Section 4: Audit, Risk and Internal Control

M. The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

**Audit and Risk Committee** **Pages 98 to 103**

N. The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

**Audit and Risk Committee** **Pages 98 to 103**

O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.

**Audit and Risk Committee** **Pages 98 to 103**
**Principal risks and viability** **Pages 19 to 22**

## Section 5: Remuneration

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.

Executive remuneration should be aligned to Company purpose and values, and be clearly linked to the successful delivery of the Company's long-term strategy.

**Directors' remuneration** **Pages 104 to 123**

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.

**Directors' remuneration** **Pages 104 to 123**

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances.

**Directors' remuneration** **Pages 104 to 123**

K – In 2020, Michael Farrow and Gavin Tipper will both have served on the Board for nine years. In order to aid succession planning, Michael Farrow is to step down at the 2021 AGM and Gavin Tipper will retire as Chair in 2021.
L – An external evaluation was last held in 2016 and it was intended that it be repeated this year. However, as Gavin Tipper will be stepping down as Chair in 2021, the Nominations Committee believed that an external evaluation in 2020, rather than 2019, would be more useful to a new Chairman.

The Company currently complies with the requirements under the 2018 Code, but will work with the internal auditor to further strengthen its internal procedures during 2020.

P – Shareholders will be asked to approve a new Remuneration Policy which will include the requirements under the 2018 Code, namely:

- shareholding guidelines;
- an additional two year holding period for LTIPs after the initial three year vesting period;
- post-employment shareholding requirements;
- extended malus and clawback provisions; and
- pension arrangements for newly appointed executives to be aligned with the workforce.

Pay ratios, and the impact of share price appreciation on LTIP awards, will be disclosed in next year's Annual Report.

**Effectiveness**
See pages 90 to 97

**Accountability**
See pages 98 to 103

**Remuneration**
See pages 104 to 123

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# Chairman's statement

> The Company is well placed to weather the current economic and political uncertainty and to take advantage of opportunities that may arise.
>
> **Gavin Tipper**
> Chairman of the Board

It has been a challenging year for RDI. The property sector has been under significant pressure, in part due to the sustained macroeconomic and political uncertainty in the United Kingdom, the significant challenges facing the retail sector as shopping patterns evolve, and the market's reaction to those challenges. In this context, the Company's exposure to retail, coupled with a relatively high level of gearing, contributed to a widening of the discount to net asset value at which the share price trades. In addressing these issues, RDI's priorities have been to reduce debt levels, to curtail our retail exposure and to ensure that operational trading metrics remain robust.

## Approach from Cromwell

In March the Company advised investors that it had received an unsolicited approach from the Cromwell Property Group regarding a potential offer to acquire the issued share capital in RDI. After due consideration and discussions with advisers, the Board concluded that the conditional offer undervalued the Company and its prospects, and as a result the offer was rejected and the market advised accordingly.

As expected, the approach led to uncertainty amongst employees. Management ensured that staff were kept informed and sentiment was monitored with feedback to the Board. Pleasingly, staff turnover was lower than anticipated.

## Aviva UK shopping centre facility

With the continuing deterioration in the UK retail investment market and the escalation in the number of retailer CVAs, the significant decline in retail property valuations continued. Most notably for RDI this impacted the Group's portfolio of UK shopping centres and, in April, gave rise to an event of default on a facility financed by Aviva, that was secured over four UK shopping centres. After extensive deliberations, the Board concluded that in light of the potential further deterioration in the retail sector, it could not justify any more equity investment and agreed a Standstill Agreement with Aviva for a consensual sales process. As a result of the Standstill Agreement, the Aviva portfolio has been derecognised, removing the Company's exposure to the capital value of the properties and the related debt. All relevant stakeholders, including centre management and the Company's key debt providers, were contacted to avoid disruption and provide context to the Aviva position.

## Valuations

Fair value losses for the period, including the loss arising on the effective disposal of the Aviva portfolio, were significant. The majority of the amount related to the Aviva portfolio, both in the period prior to the loss of control and on the deemed disposal, with a substantial portion of the residual amount relating to the other shopping centres the Company owns. The fair value losses on the Aviva portfolio and the other shopping centres were in line with the market and arose largely due to an outward yield shift. Looking forward, the Company's net financial exposure to these assets has declined significantly and the properties continue to be well managed.

## Delivery on strategic objectives

Considerable progress was made on the delivery of the Company's strategic priorities. Subsequent to a decision to sell the German portfolio given its retail composition, a weak Pound and a relatively strong German investment market, the portfolio was well bid with a number of sale contracts exchanged at attractive prices. Once completed, the disposal of this portfolio, along with the sale of certain mature UK assets, should reduce the Company's retail exposure to approximately 20 per cent, its LTV to approximately 30 per cent through application of the disposal proceeds, and facilitate cost savings due to the closure of the RDI office in Berlin.

As reflected in the detail elsewhere in this report, the underlying property assets were well managed with strong operational metrics and pleasing progress on a number of asset management initiatives.

Finally, a considerable portion of the Company's debt was refinanced at attractive rates, with a lengthening of the tenure of the facilities.

The Company has kept investors informed of the progress on its priorities, hosting investor days and property tours, as well as numerous meetings.

## Annual General Meeting

The Annual General Meeting held in January 2019 was well attended by shareholders and all resolutions were passed.

Resolutions which received 20 per cent or more votes against were:

- an authority allowing Directors to allot up to 20 per cent of the issued share capital. Although the limit requested had already been reduced to a level well below UK guidelines, South African shareholders continued to regard the proposed authority as excessive. After further engagement with shareholders, the matter has been reviewed by the Board and the authority sought at the forthcoming Annual General Meeting will be reduced to 10 per cent;
- disapplication of pre-emption rights. This was a disappointing outcome, as shareholder meetings had been held during the year to address concerns. The Board believes that it would be beneficial to shareholders to allow acquisitions via share placements, should opportunities arise; and
- the re-appointment of Stephen Oakenfull and Adrian Horsburgh. The matter was discussed with the dissenting shareholder and the votes against were linked to concerns regarding the size of the Company's Board. The structure of the Board is currently under consideration by the Board and its Nominations Committee.

## CSR Committee

The CSR Committee continues to raise awareness of environmental issues and stakeholder importance throughout the Company. Engagement with stakeholders is monitored by the Committee and, although historically engagement has been mostly undertaken by management, the Board will seek to be more active in this area in the coming year.

Employees and executives have been given personal CSR objectives and the Company continues to build on its GRESB score.

## Nominations Committee

Following the retirement of Bernie Nackan at the 2019 AGM, Redefine Properties Limited proposed the appointment of Pieter Prinsloo as its representative on the RDI Board. After following due process, the Nominations Committee recommended Pieter's appointment to the Board.

Marc Wainer, the second Redefine Properties Limited board representative, will step down at the 2020 AGM following his retirement from the board of Redefine Properties Limited. In October 2019, Robert Orr resigned from the Board, due to external commitments, and we offer our thanks to Marc and Robert for their considerable contribution during their tenure on the RDI Board.

During 2020, Michael Farrow and I will reach the maximum nine year tenure on the RDI Board. If re-elected at the AGM, Michael Farrow will step down from the Board at the 2021 AGM. I intend to remain in office during 2021 to aid continuity and succession planning. Planning for the departure of Directors has been a focus during the year and will provide an opportunity to increase Board diversity.

As a smaller company under the UK Corporate Governance Code 2016, the Board was compliant with the Code requirements during 2019, but will review the number of independent Directors on the Board next year, to align with the requirements of the 2018 Corporate Governance Code.

## Audit and Risk Committee

In light of the difficult macro conditions and the challenging retail environment, the Audit and Risk Committee focused on, inter alia, the risks faced by the Company and the process for identifying, monitoring and managing those, property valuations, and particularly the valuations of the retail assets, and the accounting treatment of the derecognition of the Aviva financed UK shopping centre portfolio and related debt.

## Remuneration Committee

The LTIP vesting this year was the first in terms of the Remuneration Policy approved by shareholders at the 2017 AGM. None of the allocated shares vested, in line with the performance of the Company over the relevant period.

The new Corporate Governance Code will apply to RDI from 1 September 2019 and the Remuneration Committee has made certain amendments to the Remuneration Policy which will be put to shareholders at the AGM on 23 January 2020. Details of the changes are set out on page 110.

## Investment Committee

The Investment Committee oversaw the various aspects of the disposal of the German portfolio, and the UK mature assets identified for sale.

## Evaluation

An external evaluation of the Board was last held in 2016 and it was intended that it be repeated this year. However, given that I intend to stand down in 2021, the Board agreed that an external evaluation in 2020 would be more helpful to an incoming Chairman. The performance of the Board and its committees was therefore reviewed using an online Board evaluation tool. Board members highlighted strategic risk ahead as their greatest area of concern.

## UK Corporate Governance Code 2018 ("2018 Code")

The 2018 Code will apply to the Company from 1 September 2019. The Company is in compliance with many of the requirements and the remaining areas will be addressed this coming year, with a full update in next year's report.

## Looking ahead

The decision to reduce the Company's retail exposure through the sale of the German assets, the consequent reduction on gearing, the refinancing of the substantial portion of the debt and the ongoing, strong operating results mean that the Company is well placed to weather the current economic and political uncertainty and to take advantage of opportunities that may arise.

The Board recommends that shareholders vote in favour of all of the resolutions proposed at the AGM to be held on 23 January 2020. The meeting will again take place at one of our London Serviced Offices and the Board will be on hand to answer any questions.

Finally, on behalf of the Board, I would like to thank all those who supported the Company during the year. With your continued support, we look to the future with optimism.

**Gavin Tipper**
Chairman of the Board

24 October 2019

# Directors' report
## Leadership

# Board of Directors


### GAVIN TIPPER MBA, CA, BCom, BAcc
**Chairman**

**Age:** 54 **Appointed:** August 2011

**Key skills:** Finance, UK listed companies, South Africa listed companies

**Skills and experience:**
- appointed as Chairman of RDI REIT P.L.C. in July 2018 having served as independent Non-executive Director since 2011;
- over 20 years' experience of companies listed in both the UK and South Africa;
- former technical partner at KPMG; and
- previously COO of the Coronation Holdings Group.

**External appointments**

Chairman of Hyprop Investments Limited and AVI Limited.


### MIKE WATTERS MBA, BSc Eng. (Civil)
**Chief Executive Officer**

**Age:** 60 **Appointed:** December 2013

**Key skills:** Finance, property, Europe, UK listed companies, South Africa listed companies

**Skills and experience:**
- over 28 years' experience in the investment banking and real estate industries;
- significant experience as a director of property and investment companies in the UK and SA; and
- former director of Redefine Properties Limited, Sycom Property Fund and Hyprop Investments Limited in SA, Cromwell Property Group in Australia and Sapphire Retail Fund in the UK.

**External appointments:**

Chairman of RBH Hotel Group Limited.

### STEPHEN OAKENFULL CFA, BSc (Hons) Construction Management
**Deputy Chief Executive Officer**

**Age:** 40 **Appointed:** December 2013

**Key skills:** Finance, property, Europe, UK listed companies

**Skills and experience:**
- over 19 years' experience working in corporate finance and real estate;
- former COO of Redefine International Fund Managers;
- former analyst at DTZ Corporate Finance in London; and
- former management consultant for Turner & Townsend.

**External appointments:**

None.

**Key to committees:**

- A Audit and Risk Committee
- C Corporate Social Responsibility Committee
- I Investment Committee
- N Nominations Committee
- R Remuneration Committee
- ● Denotes chair of a committee

**Changes to the Board**

**24 January 2019**
Retirement of Bernie Nackan

**24 April 2019**
Appointment of Pieter Prinsloo

**9 October 2019**
Resignation of Robert Orr


### ADRIAN HORSBURGH MRICS
**Property Director**

**Age:** 57 **Appointed:** March 2014

**Key skills:** Property, Europe, UK listed companies

**Skills and experience:**
- over 30 years' experience in the investment property market in all areas;
- former Retail Investment Director and International Director at Jones Lang LaSalle; and
- former Equity Partner and Trainee Surveyor in the investment department at King Sturge.

**External appointments:**

None.


### DONALD GRANT CA
**Chief Financial Officer**

**Age:** 45 **Appointed:** August 2015

**Key skills:** Finance, UK listed companies

**Skills and experience:**
- over ten years' experience working in various banking and broking institutions; and
- 11 years' experience working in the property sector.

**External appointments:**

None.


## MICHAEL FARROW FCIS MSc (Corporate Governance)

**Senior independent Non-executive Director**

**Age:** 65 **Appointed:** August 2011

**Key skills:** Finance, property, Europe, UK listed companies

**Skills and experience:**

- over 20 years' experience of UK listed and private property companies and funds working as a director and a company secretary;
- former Group Company Secretary of Cater Allen, Jersey;
- founding director of Consortia Partnership Limited, a Jersey licensed trust company; and
- former Chairman and Non-executive Director of Bellzone Mining plc.

**External appointments:**

Chairman of STANLIB Funds Limited. Non-executive Director of RedT Energy plc and Circle Property plc.


## SUE FORD ACA BSc (Hons)

**Independent Non-executive Director**

**Age:** 59 **Appointed:** December 2013

**Key skills:** Finance, UK listed companies

**Skills and experience:**

- over 30 years' experience working within various leading organisations overseeing finance, strategy and governance matters; and
- co-founder and former finance director for Metric Property Investment plc, now LondonMetric Property plc, an income focused, diversified FTSE 250 REIT.

**External appointments:**

Chairman of Westminster Almshouse Foundation.


## LIZ PEACE BA (Hons)

**Independent Non-executive Director**

**Age:** 66 **Appointed:** November 2017

**Key skills:** Property, UK listed companies

**Skills and experience:**

- over 40 years of experience in both the public and private sectors in the UK; and
- 13 years as Chief Executive Officer of the British Property Federation, the body that represents the interests of the commercial property industry in the UK.

**External appointments:**

Non-executive Director of R P S Group PLC. Chairman of various private companies.


## ROBERT ORR MRICS, BSc (Estate Management)

**Independent Non-executive Director**

**Age:** 60 **Appointed:** April 2015

**Resigned:** October 2019

**Key skills:** Property, Europe, UK listed companies

**Skills and experience:**

- over 30 years' experience of the German and European real estate markets;
- former Country Manager for Germany and former European CEO at JLL; and
- founded the International Capital Group for JLL.

**External appointments:**

Chairman of Tritax Eurobox PLC. Non-executive Director and adviser of various private companies and funds.


## PIETER PRINSLOO BSc (Quantity Surveyor)

**Non-executive Director**

**Age:** 54 **Appointed:** April 2019

**Key skills:** Finance, property, Europe, SA listed companies

**Skills and experience:**

- over 30 years of experience in property investment, development, management and finance;
- held senior positions at Sanlam Properties, Standard Bank Properties and Absa Commercial Property Finance; and
- former CEO of Hyprop Investments Limited.

**External appointments:**

CEO of Redefine Europe B.V. (a subsidiary of Redefine Properties Limited) and Non-executive Director of Echo Polska Properties N.V.

## MARC WAINER

**Non-executive Director**

**Age:** 70 **Appointed:** August 2011

**Key skills:** Finance, property, Europe, UK listed companies, SA listed companies

**Skills and experience:**

- over 40 years' experience in the property industry in South Africa;
- founder of Investec Property Group, Investec Bank's property division ; and
- founder and former Chairman of Redefine Properties Limited.

**External appointments:**

Non-executive Director of Echo Polska Properties N.V.

## Directors' report
### Leadership

# Board composition and roles

**Chairman – Gavin Tipper**

Responsible for the leadership and governance of the Board
Ensures that the Board operates effectively
Seeks regular engagement with major shareholders
Ensures that there is enough time for discussion of complex and contentious issues
Promotes open communication between executives and non-executives

**Non-independent CEO – Mike Watters**

Leads the Executive Directors in the day-to-day management of the business
Keeps the Board informed of all important matters
Develops Group objectives and strategy
Implements Board decisions
Identifies new business opportunities
Ensures effective communication with all shareholders
Develops a succession plan for executives

**Independent SID – Michael Farrow**

Provides a sounding board for the Chairman
Serves as an intermediary for the other Directors and shareholders
Appraises the performance of the Chairman with the Non-executive Directors
Chairs the Nominations Committee when it is considering succession of the Chairman

**Three non-independent executives Stephen Oakenfull, Adrian Horsburgh, Donald Grant**

Day-to-day management of the business within their area of expertise
Assist the CEO in developing strategy and the implementation thereof

**Three independent Non-executive Directors Sue Ford, Robert Orr(1), Liz Peace**

Appointment and removal of executives
Scrutinise the performance of management and individual executives against performance objectives
Support and constructively challenge the executives
Designated Director represents employees' interests on the Board

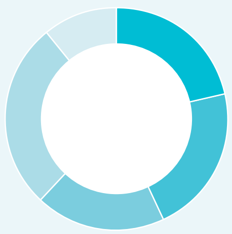
(1) Resigned 9 October 2019

**Two non-independent Non-executive Directors Marc Wainer, Pieter Prinsloo**

Represent the major shareholder, Redefine Properties Limited

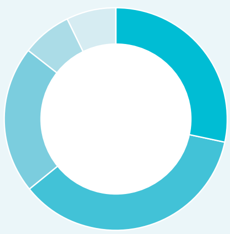
## Board statistics

### Experience



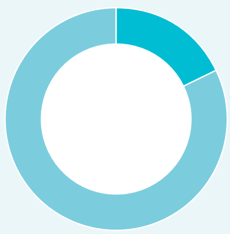
- F Finance – 8
- P Property – 8
- E Europe – 7
- U UK listed – 10
- S SA listed – 4

### Qualifications



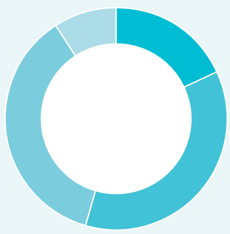
- Business – 4
- Property – 5
- Finance – 3
- Corp Gov – 1
- None – 1

### Gender diversity



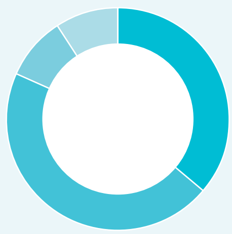
- Women – 18%
- Men – 82%

### Average age



- <50 – 18%
- <60 – 36%
- <70 – 36%
- 70+ – 9%

### Nationalities



- UK – 4
- SA – 5
- Jersey – 1
- NZ – 1

## The Board

### Board delegation and Board control

To assist in the effectiveness of its operations, the Board delegates certain matters to committees to review and make recommendations back to the Board.

All committees must operate within terms of reference set by the Board.

Day-to-day operations are carried out by the executives, who must adhere to policies and delegated authorities set by the Board.

### Nominations Committee

Considers the composition, skills and succession planning of the Board

### Audit and Risk Committee

Ensures that the Group's financial reporting and risk management is properly monitored, controlled and reported

### Remuneration Committee

Reviews remuneration of executives and senior management in accordance with an approved policy

### CSR Committee

Safeguards the interests of, and monitors engagement with, stakeholders through the operation of efficient processes and procedures that demonstrate social and environmental risk management

### Investment Committee

Operates in an informal manner.

Reviews all major acquisitions, disposals and capital expenditure and makes recommendations to the Board for final consideration.

The Investment Committee comprised Robert Orr (Chair), the CEO and Marc Wainer. Gavin Tipper also attended by invitation.

### Executive Committee

The Executive Committee comprises the four executives and meets informally on a weekly basis to discuss acquisitions and disposals, finance, asset management activities, operational matters, and to consider the status of any potential inside information.

Senior management attend monthly to aid communication across departments

## Board skills

The Board collectively has a strong knowledge of UK and European property, finance and capital market transactions on both the UK and SA exchanges.

The experience and qualifications of the Directors are outlined overleaf and show that the required skill sets are adequately covered by the current members of the Board. The skill and experience of the independent non-executives matches those of the executives, so they have an appropriate level of understanding to enable them to constructively challenge the executives on the operation of the Company. To aid the improvement of the RDI portfolio, the depth of property knowledge on the Board was further strengthened with the appointment of Pieter Prinsloo this year.

## Board diversity

The results of the Board evaluation showed that diversity was considered to be one of the Board's strengths. The Board comprises Directors originating from the UK, Jersey, SA and NZ. The majority, but not all, of Directors have had a university education and hold a professional qualification.

The age of Board members ranges from 40 to 71, with the average age of the Directors being 57. Gender diversity on the Board currently stands at 20 per cent (following the resignation of Robert Orr) with two female independent Non-executive Directors.

The Company's diversity policy has set targets of at least one third female membership on the Board by 2020, and at least one Director of colour by 2024. The Board will seek to broaden its diversity next year during the search for a new independent non-executive to replace Michael Farrow.

## Board culture

The boardroom culture is well natured and constructive and relationships between Executive and Non-executive Directors are good, although Non-executive Directors are not afraid to challenge executives during meetings, often leading to robust debates.

The Chairman and CEO set a tone of openness and thoroughness which is upheld by the Board, and Directors hold themselves to a high standard of integrity. The agility of the Board enables opportunities to be harnessed and addressed at short notice. All Directors advised that they enjoyed Board meetings, which is a key characteristic of a motivated and successful team. Directors are highly committed to their roles. Attendance of meetings can be found on page 92.

# Board operations

Each year, four scheduled Board meetings are held, aligned with the financial calendar. Board meetings operate under a formal quarterly Schedule of Matters Reserved for the Board to ensure that the Company's strategy and objectives, risks, Group operations, internal controls, policies and debt providers are all addressed or reviewed throughout the year.

Before each meeting, Directors are asked to confirm their directorships and shareholdings to ensure that any potential conflict of interest is disclosed. The Articles of Association permit a Director who has disclosed an interest in a transaction to vote and count in the quorum in relation to any resolution of the Board concerning the related transaction, if the Board so approves.

Management provide information seven days in advance of meetings to allow Directors sufficient preparation time. In order to embed the consideration of stakeholders into Board decision making, all proposals are highlighted at the front of each Board pack with a list of those stakeholders likely to be affected.

Meetings are minuted, with discussions and challenges from non-executives recorded to demonstrate that due consideration has been given by the Board on each matter.

Update calls are scheduled between Board meetings to keep Directors abreast of operational matters and to provide feedback received from investors. Additional Board meetings may be called on short notice, as required this year in order to address the breach of the Aviva facility.

Committees may be held to consider matters (i) in line with pre-approved delegated authority levels; (ii) to provide final approval of items that have been reviewed by the Board but have not yet been finalised; or (iii) to ensure independent oversight of transactions. During the year an independent committee was established, which excluded the Redefine Properties directors, to review an offer for the Company from the Cromwell Property Group.

The Board ensures that all important operational and transactional information is released to the market as soon as possible on the LSE, JSE and the Company website, to keep investors informed of developments. Where disclosure of inside information is delayed, insider lists are established, in accordance with the Company's share dealing policy and the Market Abuse Regulations, with the number of insiders minimised to maintain confidentiality and reduce the possibility of the information being leaked to the market.

Implementation of the strategy is carried out by management and co-ordinated by a small head office team of staff comprising asset managers, finance, marketing and company secretarial. The Executive Committee monitors the portfolio, recycling maturing assets and replacing with properties demonstrating stronger fundamentals. Due to the size of the team, the Company can work quickly to address issues and ensure that transactions are implemented in a swift and efficient manner. Reports on progress against objectives are monitored each quarter and fed back to the Board and to the Remuneration Committee.

| Agenda items | Strategic issues addressed under agenda items | | Leading to achievement of strategic objectives |
|---|---|---|---|
| • Stakeholders | List of proposed resolutions and stakeholders that could be affected by those decisions. | | Ensures that stakeholders are at the heart of the Board's decision making. |
| • Management report<br>• Report from the CEO<br>• Acquisitions and investments<br>• Disposals<br>• Portfolio report<br>• Special projects | • Disposal of Germany<br>• Disposal of mature assets<br>• Aviva event of default<br>• Review of Shopping Centre portfolio | • Redevelopment of Charing Cross Road<br>• Management of CVAs in shopping centres | **Income focused portfolio**<br>• Continuously improving our diversified portfolio |
| | • Forward funding of Link 9, Bicester<br>• Acquisition of Farnborough | • Development of Canbury Park<br>• Potential acquisitions | **Scalable business**<br>• Greater scale which results in long term benefits |
| • Finance and tax<br>• Financial results<br>• Budget<br>• Banking facilities and derivatives<br>• Treasury and foreign currency exposure | • Refinancing of AUK facility<br>• 99.6 per cent of borrowings fixed or hedged | • Aviva event of default | **Efficient capital structure**<br>• Focusing on strengthening the balance sheet |
| | • Allocation of capital expenditure<br>• LTV reduction | • Budget set and sensitivity test conducted<br>• Dividend | **Financial discipline**<br>• Improved accountability with clear and measurable targets. Converting rental income into profits with headroom on dividend |
| • Shareholder and investor relations | • Progress against strategic targets<br>• Shareholder information and trading statistics | • Reports on shareholder views<br>• Shareholder communications | **Stakeholder engagement**<br>• In line with the Company's stakeholder policy |
| • Marketing | • Communications on website etc | • Marketing initiatives | |
| • Corporate governance | • Report from the committees<br>• Compliance and regulatory updates | • Resolutions to be proposed at the AGM<br>• Control of inside information<br>• Health & Safety | |

| Date | Scheduled Board meetings | Ad hoc or committee meetings | Announcements | Stakeholders considered |
|---|---|---|---|---|
| September 2018 | • Operations update call | | | |
| October 2018 | • Financial results and associated matters<br>• Compliance<br>• AGM resolutions<br>• Board evaluation<br>• D&O Insurance<br>• Remuneration | • AUK Refinance<br>• CVAs | • Results and dividend declaration<br>• Executive contingent awards | Shareholders<br>Employees<br>Hotel customers |
| November 2018 | | • Aviva facility update | | Shareholders |
| December 2018 | • Operations update call | • Approval of Annual Report | • Posting of Annual Report | |
| January 2019 | • Review of Company policies<br>• Modern Slavery Statement<br>• Strategy session<br>• AGM | • Approval of AUK Finance facility | • Refinancing of £275 million UK bank facility<br>• Modern Slavery Statement published on website<br>• AGM voting results<br>• Share consolidation<br>• Bernie Nackan retirement | Shareholders<br>Customers<br>Tenants<br>Suppliers |
| March 2019 | • Operations update call | | | |
| April 2019 | • Interim results and associated matters<br>• Aviva facility update<br>• Offer by Cromwell Property Group<br>• Appointment of Pieter Prinsloo<br>• LSO refinancing<br>• Charing Cross Road<br>• Review of matters reserved for the Board | • Breach of Aviva facility<br>• Consideration of offer from the Cromwell Property Group | • Interim results and dividend declaration<br>• Aviva facility update<br>• Aviva Standstill Agreement<br>• Press speculation regarding an unsolicited approach from the Cromwell Property Group<br>• Statement regarding Cromwell Property Group withdrawal<br>• Appointment of Pieter Prinsloo | Tenants<br>Employees<br>Shareholders<br>Suppliers |
| June 2019 | • Operations update call | | • Planning permission granted for Charing Cross Road<br>• £75 million refinancing of London Serviced Office portfolio | |
| July 2019 | • LSO refinancing<br>• 2020 budget and sensitivity analysis<br>• Review of financial and marketing strategy<br>• Review of internal controls and risk management<br>• Aviva Standstill Agreement<br>• German portfolio disposal | • Meeting of independent non-executives only | • Completion of £75 million refinancing of London Serviced Office portfolio | Shareholders<br>Employees<br>Tenants<br>Suppliers |

# Attendance of meetings

## Due to the size of the Board and the various locations of Directors, Board dates are set at least two years in advance to give Directors sufficient notice of meetings and to ensure maximum attendance.

On average, Directors attended 17 meetings during the year and four update calls, although due to the Aviva breach and the Cromwell offer, Directors' time commitments were vastly increased due to the regular updates, provided by email or telephone, to keep the non-executives informed of events. In addition, meetings with advisers were held as requested to offer advice or answer any questions Directors may have on the matters concerned.

| | Experience | Qualifications | Appointment | Board[1] meetings | Update calls | Ad hoc Board meetings | Committee meetings | Nominations Committee | Audit and Risk Committee | Remuneration Committee | CSR Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gavin Tipper | F U S | MBA, CA, BCom, BAcc | 2011 | 6/6 | 4/4 | 3/3 | 3/3 | 3/3 | | 3/3 | |
| Michael Farrow | F P E U | FCIS, MSc | 2011 | 6/6 | 4/4 | 3/3 | 3/3 | 3/3 | 3/3 | 3/3 | |
| Sue Ford | F U | ACA, BSc (Hons) | 2013 | 6/6 | 4/4 | 3/3 | 4/4 | 3/3 | 3/3 | | |
| Robert Orr[A] | P E U | MRICS, BSc | 2015-2019 | 6/6 | 4/4 | 3/3 | 2/2 | | | 3/3 | |
| Liz Peace | P U | BA (Hons) | 2017 | 5/6[2] | 4/4 | 3/3 | 2/2 | | 3/3 | | 4/4 |
| Marc Wainer (Andrew Konig) | F P E U S | None | 2011 | 6/6[3] | 4/4 | 2/3[4] | 0/0 | | | | |
| Bernie Nackan[B] | S | BA (Econ) | 2014-2019 | 2/2 | 2/2 | 2/2 | 0/0 | | | | |
| Pieter Prinsloo[C] | F P E S | | 2019 | 2/2 | 2/2 | 0/0 | 0/0 | | | | |
| Mike Watters | F P E U S | MBA, BSc Eng (Civil) | 2013 | 6/6 | 4/4 | 3/3 | 5/5 | | | | 4/4 |
| Stephen Oakenfull | F P E U | CFA, BSc (Hons) | 2013 | 6/6 | 4/4 | 3/3 | 6/6 | | | | |
| Adrian Horsburgh | P E U | MRICS | 2014 | 6/6 | 4/4 | 3/3 | 3/3 | | | | 2/4[5] |
| Donald Grant | F U | CA | 2015 | 6/6 | 4/4 | 3/3 | 7/7 | | | | 4/4 |

(1) Board meetings includes the AGM and strategy session.
(2) Liz Peace – On joining the Board in November 2017 Liz advised that she would be unable to attend the October 2018 Board meeting due to prior commitments.
(3) Andrew Konig, Marc Wainer's alternate, attended the strategy session and AGM on 24 January 2019.
(4) Neither Marc Wainer nor Andrew Konig were able to attend an ad hoc meeting due to prior commitments with Redefine Properties Limited.
(5) Adrian Horsburgh was unable to attend two CSR Committee meetings due to property transactions taking place at the time.

(A) Robert Orr – Robert resigned from the Board on 9 October 2019 due to external work commitments.
(B) Bernie Nackan – Following Bernie's retirement from the Board of Redefine Properties Limited, he was no longer a representative of the Company's major shareholder and he therefore retired from the RDI Board at the Company's AGM held on 24 January 2019.
(C) Pieter Prinsloo – Pieter was appointed to the Board on 24 April 2019, and is a representative of Redefine Properties Limited.

**Key to experience:**
- F Finance
- P Property
- E Europe
- U UK listed companies
- S SA listed companies

Effectiveness

# Nominations Committee

"The structure of the Board is currently under review, to align it with the 2018 Corporate Governance Code."

**Gavin Tipper**
Chair of the Nominations Committee

## Committee members

| | | |
|---|---|---|
| Gavin Tipper (Chair) | Independent | Appointed 30 July 2014 |
| Michael Farrow | Independent | Appointed 15 December 2017 |
| Sue Ford | Independent | Appointed 30 January 2014 |

## Committee meetings held during the year

### October 2018

#### Matters discussed

- 2018 Board evaluation results
- Strategy team objective set for Executive Committee
- External Board evaluation set for 2020

### January 2019

#### Matters discussed

- Composition of the Board in compliance with 2016 UK Corporate Governance Code
- Succession planning
- Retirement of Bernie Nackan

### April 2019

#### Matters discussed

- Consideration of the appointment of Pieter Prinsloo and recommendation to the Board

## Committee composition

Led by the Chairman, the Board is collectively responsible for the long term success of the Company. It is therefore appropriate for the Nominations Committee, which is responsible for the composition of the Board, to be led by the Chairman. Gavin Tipper assumed the Chair in July 2018 and is assisted by two independent Directors. All of the Committee members have significant experience as directors of listed companies and are aware of the skills required to successfully manage a dual listed company with a diversified portfolio.

## Committee operations

The Committee met three times during the year and meetings were attended by all members and the Company Secretary.

The roles and responsibilities of the Nominations Committee are set out in its terms of reference, approved by the Board in January 2018. The Nominations Committee's primary objective is to ensure that the Board and its committees have the appropriate balance of skills, experience, independence and knowledge to enable the Board to discharge its duties effectively, and to ensure that there is appropriate succession planning.

Directors' report
Effectiveness

# Nominations Committee
continued

## Key matters discussed during the year

### Board composition

During the financial year, the day-to-day running of the Company was managed by four Executive Directors who also served on the Board. Shareholders' interests were safeguarded by four independent non-executives, and two non-executives, representing the largest shareholder, Redefine Properties Limited. Although this resulted in an imbalance of independent and non-independent directors, the composition of the Board worked well with no group of individuals dominating decision making. Furthermore, in September 2018, RDI left the FTSE 250 and, as a "smaller company", its structure was compliant with the 2016 Code.

At the AGM held in January 2019, there was a substantial vote against the appointment of two of the executives. Having discussed the matter with the shareholder in question, the votes against were linked to concerns regarding the size of the Company's Board. The Nominations Committee is actively reviewing the size of the Board and its compliance with the 2018 Code, and an announcement will be made in due course.

The Nominations Committee will seek to improve Board diversity with the forthcoming retirements of Michael Farrow at the 2021 AGM and Gavin Tipper during 2021, as per the table below. Prior to making an appointment, the Board requirements will be determined having regard to the current strategy and the consequent required skill set, and once a search agency has been selected, independent Non-executive Directors will be selected from an appropriately wide pool of candidates.

### Committee composition

Following the appointment of Gavin Tipper as Chairman of the Board in July 2018 the composition of the Board committees was reviewed. In so doing, the Nominations Committee assessed the skills, experience, knowledge and tenure of each of the Directors, before recommending changes to the Board for approval. The membership of the committees is set out on page 92 of the Annual Report.

## Succession planning

### Executives

Mike Watters was CEO of the external management company from 2008 and, following the internalisation of management, became CEO of Redefine International (the Company's former name) in 2013. The retirement or departure of such a long-standing employee is a significant risk to the Company and the Nominations Committee has overseen the development of the Deputy CEO, Stephen Oakenfull. This has involved mentoring, external management development programmes and a requirement for increased external networking.

In conjunction with the Remuneration Committee, the Nominations Committee included a specific focus on executive succession planning as an objective for the CEO in 2019. A succession plan has been drawn up to ensure that there are internal candidates earmarked to replace the CFO and the Property Director. Although all of the executives are currently male, the senior management layer is 67 per cent female and provides a strong, gender diverse pipeline. As vacancies arise consideration will be given to both external and internal candidates.

### Non-executives

| Non-executive | Tenure | Max tenure | Experience | | Succession plan |
|---|---|---|---|---|---|
| **Michael Farrow**<br>**Independent** | 8 years | 2020 | F P E U<br>FCIS MSc | SID<br>Remuneration Committee Chair<br>Nominations Committee member<br>Audit and Risk Committee member | Due to step down at the January 2021 AGM. SID, and member of all Code committees. As Chair of the Remuneration Committee he has overseen the implementation and revision of the remuneration policy. |
| **Gavin Tipper**<br>**Independent** | 8 years | 2020+ | F U S<br>MBA CA BCom BAcc | Chairman<br>Nominations Committee Chair<br>Remuneration Committee member | Appointed Chairman of the Board in July 2018. His tenure will be extended beyond nine years to stagger the departure of long-standing members from the Board. Due to step down in 2021. |
| **Sue Ford**<br>**Independent** | 6 years | 2022 | F U<br>ACA BSc | Audit and Risk Committee Chair<br>Nominations Committee member | An additional independent Director with financial expertise will be sought to assist Sue and act as her successor when Michael Farrow retires. |
| **Liz Peace**<br>**Independent** | 2 years | 2026 | P U<br>BA (Hons) | CSR Committee Chair<br>Audit and Risk Committee member | Liz brought a wealth of property experience to the Board and improved independence and diversity levels. |
| **Marc Wainer**<br>**Non-independent** | 8 years | n/a | F P E U S | Investment Committee member | Represents Redefine Properties Limited, the Company's major shareholder. Due to step down at the 2020 AGM. |
| **Pieter Prinsloo**<br>**Non-independent** | 1 year | n/a | F P E S<br>BSc | | Represents Redefine Properties Limited, the Company's major shareholder. |

## Succession requirements

Marc Wainer will retire from the Board at the 2020 AGM, Michael Farrow intends to step down at the 2021 AGM and it is intended that Gavin Tipper will continue to chair the Board into 2021 to assist in succession planning. This approach has been adopted as the Committee was of the view that losing three longstanding and experienced non-executives in a short period would be detrimental to the operation of the Board and its committees. The subsequent resignation of Robert Orr in October 2019, has strengthened the resolve of the Committee to adhere to this approach, notwithstanding that it will result in Gavin Tipper's tenure on the Board exceeding nine years. The new appointments of independent Directors will provide an opportunity to improve diversity, whilst maintaining the requisite skills necessary for the Board and its committees to operate effectively.

A Director with financial experience will be sought to supplement the level of financial expertise on the Board and on the Audit and Risk Committee. Michael Farrow has chaired the Remuneration Committee since 2013 and his replacement will need to have experience of remuneration matters, which are becoming increasingly complex. For the Investment Committee, additional members will be required to replace Robert Orr as Chair, and Marc Wainer, whose replacement will likely be a representative of Redefine Properties Limited.

All committees currently have three members, but in accordance with the 2018 Corporate Governance Code, only two members are required for smaller companies. The terms of reference for each of the committees has been amended accordingly.

| Year | Requirement | |
|---|---|---|
| FY20 | Female Independent NEDs | To meet the diversity targets set by the Board |
| | SID | TBC – to replace Michael Farrow |
| | Remuneration Chair | TBC – to replace Michael Farrow |
| | Investment Committee | TBC – to replace Robert Orr and Marc Wainer |
| FY21 | Chairman | TBC – to replace Gavin Tipper |
| | Nominations Chairman | The new Chairman – to replace Gavin Tipper |
| | Remuneration member | TBC – to replace Gavin Tipper |
| FY24 | Person of colour | To meet diversity targets set for the Board |

## Board evaluation

An external evaluation was last held in 2016 and it was intended that it be repeated this year. However, as Gavin Tipper will be stepping down as Chair in 2021, the Committee believed that an external evaluation in 2020, rather than 2019, would be more useful to a new Chairman.

An online questionnaire, as used in 2017 and 2018, was completed. This allowed Directors to anonymously evaluate the performance of the Chairman, and that of the individual Board members, and the Board committees.

The evaluation also covered Board composition, Board meetings, relations between Executive and Non-executive Directors, strategy, risks and engagement with stakeholders.

As the online system has been used for three years, the results of the process can be compared against prior years.

The Board's main strengths identified by the evaluation were:

- the diversity of thought;
- the good mix of skills and experience; and
- the thorough and constructive discussions.

# Nominations Committee

continued

### Board evaluation continued

The areas which were regarded as requiring improvement or which needed immediate attention are shown below, together with the actions for 2019 and the proposed actions for 2020.

**Key to Board evaluation table:**

✓✓✓✓ Excellent

✓✓✓ Good

✓✓ Requires improvement

✓ Requires immediate attention

| | 2017 | 2018 | 2019 | 2019 actions | 2019 evaluation results | 2020 action plan |
|---|---|---|---|---|---|---|
| **Long term strategic decision making** | ✓✓✓ | ✓✓ | ✓ | The executives were tasked with presenting an updated strategy to the Board as part of their objectives for the year. The strategy was discussed and agreed at the January 2019 Board meeting, resulting in the decision to sell the German assets and certain mature assets. | Although the strategic decision was reached to exit Germany, further strategic debate is needed in the current economic conditions. | Strategic debate to be a focus for 2020. |
| **Thorough risk analysis** | ✓✓✓✓ | ✓✓✓ | ✓✓ | The Audit and Risk Committee reviewed the register twice during the year and suggested improvements. | It was felt that the level of risk analysis had improved but there were concerns as to how well the Company was adapting to changes in the market given the current macroeconomic conditions. | Further improvements will be discussed at Audit and Risk Committee meetings. |
| **Shareholders and stakeholders** | ✓✓ | ✓✓ | ✓ | The CSR Committee monitored and reported to the Board on stakeholder engagement.<br>Each quarterly Board pack listed stakeholders that may be affected by Board decisions.<br>Employee discussion groups were held and feedback given to the Non-executive Director representative. | The Company should aim to further improve engagement with shareholders and stakeholders.<br>More clarity is needed in explaining the strategy to shareholders. | The executives are working hard to dispel misconceptions in the market regarding the sale of German assets and the Aviva shopping centres. |
| **Board composition** | ✓✓ | ✓✓ | ✓ | As the Company exited the FTSE 250, the Board was compliant during 2019 and no action was taken. | The Board was regarded as being too large now that the Company is no longer a constituent of the FTSE 250. | This matter is under review by the Nominations Committee. |
| **Succession planning** | ✓✓ | ✓✓ | ✓✓ | CEO is set an objective of addressing management succession planning. | Focus needed on the succession planning for the non-executives. | The search process to replace Michael Farrow will begin in 2020. |

Following last year's evaluation, the Nominations Committee and Remuneration Committee worked together in setting the objectives linked to variable remuneration for the executives, to ensure that improvements were made where necessary. These objectives and the resulting outcomes can be found on page 120 of the annual report on remuneration.

Although the executives met the majority of the targets, as a result of the current economic climate, further work has been requested in some areas. For example, a strategy was approved by the Board in January 2019, that included the disposal of certain of the German assets as well as certain mature assets. This has been communicated to the market and is currently being implemented. Nonetheless, concern was expressed in the evaluation as to how well the Company is adapting to continued changes in the market and strategy will therefore remain an area of focus.

### Appointment of Pieter Prinsloo

Redefine Properties Limited, the Company's largest shareholder, proposed Pieter Prinsloo as its representative on the Board, following the retirement of Bernie Nackan at the January 2019 AGM.

After conducting a thorough evaluation process, the Committee recommended Pieter's appointment to the Board and an announcement was made to the market on 24 April 2019.

## Appointment terms

All new non-executives are provided with a letter of appointment detailing the terms of their appointment and their expected time commitment. On signing, they confirm that there are no conflicts of interests inherent in their appointment. Non-executive Directors are not appointed for a specified term, but until they (i) are not re-appointed following retirement, (ii) are removed or they vacate office, (iii) resign or do not offer themselves for re-election, or (iv) terminate their appointment on three months' notice.

All new non-executives are given an induction by the CEO and Company Secretary, and a copy of the most recent Board evaluation results.

All Directors are expected to attend quarterly Board meetings, quarterly update calls, meetings of any committees of which they are a member, and shareholder meetings, as required. Non-executive Directors are expected to make themselves available for a minimum of eight days per year in the discharge of their duties.

The Board has agreed that any Director may, if necessary, in the furtherance of their duties, take independent professional advice at the Company's expense, subject to having first notified the Company Secretary of their intent to take such advice. Any payments by the Company for such advice are subject to applicable restrictions under company law.

The Company maintains liability insurance which covers Directors and officers of the Company and any subsidiary companies in the RDI Group.

## Conflict of interest policy

On appointment, and before each Board meeting thereafter, all Directors are asked to disclose any directorships, relevant shareholdings or any other potential conflicts of interest. Directors may not, without the consent of the Board, accept any other appointments as a Non-executive Director of a listed company, or enter into any arrangements which may reasonably be expected to lead to a conflict of interest. Prior to accepting any new appointments, they are also required to confirm that the appointments will not impact on their ability to meet their responsibilities as a Director of RDI.

If a conflict of interest arises, the conflicted Director may be asked to leave the meeting whilst the matter is discussed, or the matter may be reviewed by an independent committee of the Board.

## Directors' induction

The CEO provides an induction session that covers the Group's background, its historical activities, its key businesses and risks, its funding structure, strategy, property details and latest financial information. The Company Secretary provides a list of matters reserved for the Board, the corporate calendar and an overview of a Director's obligations for an Isle of Man company with a dual listing on the LSE and JSE. Any further information is provided according to the particular needs of each Director.

Meetings with key advisers are set up, as required, and tours of certain properties are undertaken to provide an overview of the Company's activities.

## Directors' training

As part of the Board evaluation, each of the Directors were assessed by the Board members. The Chairman discussed the results with each Director, any training and development needs were identified, and Directors were encouraged to update their skills and knowledge.

Advisers may be asked to present at meetings in order to provide Directors with relevant information on the Company and its regulatory environment. Opportunities are also provided for Directors to meet and discuss projects with members of senior management and property tours are undertaken to enable Directors to view the Company's assets and hold discussions with the responsible asset managers.

At each Board meeting Directors are updated on regulatory issues or changes in legislation and corporate governance matters. During this year, updates were provided on, inter alia, the 2018 Corporate Governance Code, The Companies (Miscellaneous Reporting) Regulations 2018, the Brydon and Kingman Review and the Shareholders Rights Directive II.

## Directors to retire at the AGM

Following the announcement in August 2019 that Marc Wainer had retired from the Board of Redefine Properties Limited ("RDF"), Marc Wainer will step down from the RDI Board at the 2020 AGM. His replacement will be advised in due course.

## Directors' re-election

All other Directors will be subject to annual re-election at the AGM on 23 January 2020. The Chairman is of the view that the Directors continue to be effective members of the Board, and that they collectively hold the requisite range of skills to enable the Board to operate successfully. Furthermore, the Directors function well together as a team.

The interests of each independent Director are monitored, taking into account the requirements of the Code, to ensure their independence is not compromised.

The Board is satisfied that Gavin Tipper, Michael Farrow, Sue Ford and Liz Peace remain independent in both character and judgement and comply with the independence criteria of the Code.

Gavin Tipper and Michael Farrow have both served on the Board for eight years. Their fellow Directors considered their performance on the Board to be either good, or outstanding and that they both devoted sufficient time to their roles as Directors, having attended all Board meetings and committee meetings as required.

In addition to being a member of the Nominations and Remuneration Committees, Gavin Tipper regularly attends Investment Committee meetings and receives details of the Audit and Risk Committee meetings, in order to be fully aware of all aspects of the Company's and the Board's operations.

All Directors are therefore recommended for re-election at the AGM on 23 January 2020.

Biographical details of those Directors to be appointed or re-appointed at the AGM can be found on page 86 and are contained in the Notice of Meeting.

**Gavin Tipper**
Chair of the Nominations Committee

24 October 2019

Directors' report
Accountability

# Audit and Risk Committee

> The Committee carefully considers all significant areas of judgement, not least the work undertaken by the Company's valuers.
>
> **Sue Ford**
> Chair of the Audit and Risk Committee

## Committee members

| | | |
|---|---|---|
| Sue Ford (Chair) | Independent | Appointed 30 January 2014 |
| Michael Farrow | Independent | Appointed 23 August 2011 |
| Liz Peace | Independent | Appointed 24 July 2018 |

## Committee meetings held during the year

### October 2018

**Matters discussed**

- Report from the valuers of the shopping centres
- Second interim dividend
- Financial stress testing
- Viability and going concern statements
- Risk matrix
- Review of external auditor
- External auditor report regarding the 2018 results
- Appointment of KPMG UK
- Internal auditor's report
- Review of annual attestations confirming that the 2018 results were fair, balanced and understandable
- Private meeting with the external auditors

### April 2019

**Matters discussed**

- Report from the valuers of the UK Shopping Centres and UK Hotels
- Aviva covenant position
- 2019 interim results
- Going concern and the interim dividend
- The Group's risk environment
- Report from the external auditor and audit plan
- Internal auditor's report
- Review of IT Policy
- JSE report on proactive monitoring of financial reporting

### July 2019

**Matters discussed**

- Significant areas of judgement and uncertainty
- Annual risk management review
- Annual report on internal controls and review of internal audit
- Effectiveness of the internal audit
- Internal auditor's report
- Private meeting with the internal auditor

## Committee composition

The Committee comprises three independent Non-executive Directors. The Board is satisfied that Sue Ford has recent and relevant financial experience, and the Committee as a whole has competence relevant to the property sector:

- Sue Ford is a qualified accountant who has previously held the post of CFO at a listed UK property company and has served on the Committee for five years;
- Michael Farrow has over 20 years' experience of UK listed and private property companies and funds where he worked as a director and a company secretary; and
- Liz Peace brings extensive knowledge of the property sector and has previously served as chair of the audit committee of a listed property company.

## Committee operations

The Committee met three times during the year and were attended by all members, with meetings aligned with the Company's financial reporting and risk management cycle. Meetings are attended by the CEO, Deputy CEO, CFO, Financial Controller, Company Secretary and the internal and external auditors. In October and April, the valuers also attend in order to present their property valuations to the Committee. The Committee operates within terms of reference, last approved by the Board in July 2017, which can be found on the Company's website **www.rdireit.com**. These set out the role of the Committee, in line with the FRC guidance and revised ethical standards published in 2016 and the 2016 UK Corporate Governance Code.

## Responsibilities

The Committee is primarily responsible for:

### Monitoring:

- the effectiveness of the Company's internal and external audit function;
- the integrity of the financial statements and all related announcements;
- the nature and level of non-audit services provided by the external auditor;
- compliance with statutory and listing obligations; and
- compliance with accounting policies.

### Reviewing:

- the Company's financial and internal controls;
- the Company's risk management function;
- the independence and objectivity of the external auditor;
- the Company's procedures for detecting fraud, bribery and tax evasion;
- the Company's response to changes in the regulatory environment; and
- significant financial reporting judgements contained in the financial statements.

### Recommending to the Board:

- the re-appointment of both the internal and external auditor;
- improvements or actions required in the provision of non-audit services by the external auditor;
- whether the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position and performance, business model and strategy, including the Group's long term viability and continued use of going concern basis of preparation;
- the interim and annual financial statements, including the appropriateness of accounting policies and key judgements made; and
- the dividend.

### Approving:

- the remuneration and terms of the engagement of the auditors.

As part of the Board's evaluation process, the effectiveness of the Committee, the performance of the Chair and feedback provided to the Board, were assessed. The Directors considered the Committee to work well and was challenging but supportive.

In carrying out its duties, the Committee meets regularly with the external valuers and the external and internal auditor.

## External valuers

The valuation of the Company's property portfolio is noted as a significant risk area by both the Company and its auditors. As such, external valuers are invited to attend Committee meetings on a rotational basis. This year BNP Paribas and Savills were asked to present at the October and April meetings to explain the basis on which the UK Shopping Centre, UK Hotel and UK Commercial portfolios had been valued:

a. describing the process and the considerations taken;
b. explaining the valuation methodology;
c. giving context to the valuation and market comparables;
d. providing valuation data; and
e. providing commentary on the detailed valuations for each asset.

An assessment of the processes undertaken is provided by an auditor with property valuation expertise, who advises on the appropriateness of the procedures and whether they consider them to be within an acceptable range. In each case, no issues were raised.

## External auditor and the external audit

KPMG UK was appointed following a tender process in 2018. The decision to place the audit out to tender aligned with the scheduled rotation of the audit partner of the previous auditor, KPMG Ireland, who had been in office since 2010. Full details of the tender can be found on page 92 of the 2018 Annual Report.

During the transition period, KPMG UK attended the October 2018 Committee meeting, but otherwise had no involvement in the 2018 year end audit.

Meetings are held with management during the year to discuss updates in the business. An audit plan was presented to the Committee in April. Materiality was set at £15.0 million which represents the level at which KPMG considered misstatements would reasonably influence users of the financial statements. Specific materiality was set at £2.3 million.

A closing meeting was held with management in October 2019 to discuss the auditor's report and any outstanding deliverables and a final meeting was held with the Committee to communicate the auditor's findings. The Committee also held a private discussion with KPMG, without management present, to discuss any issues that the auditor may wish to bring to their attention.

### Independence and effectiveness of external auditor

The Committee has reviewed the independence and effectiveness of the auditor, and has considered the following:

- assurances from KPMG as to the quality of the audit and the ongoing independence of the auditor, which were in line with the FRC Ethical Standards;
- publications were provided to management throughout the year on emerging issues and financial reporting updates. Written reports to the Committee were clear and concise and presentations at meetings were regarded as being balanced, clear and understandable;

# Audit and Risk Committee
continued

## External auditor and the external audit continued

### Independence and effectiveness of external auditor continued

- safeguards that limit the amount of non-audit services provided by KPMG, to protect their independence; and
- consultations with management considered that the KPMG team demonstrated competency and experience to perform effectively in their roles. Audit queries were raised and dealt with in a proactive and timely manner and there was sufficient challenge with regard to areas of judgement and estimate, internal controls and areas of heightened risk.

### Recommendation

Taking into regard the assurances from KPMG, safeguards in place, reports presented and feedback from management, the Committee concluded that the external auditor remained effective and maintained independence and has recommended KPMG's re-appointment to the Board.

## Non-audit services

A policy has been established outlining the circumstances where the engagement of the external auditors for non-audit services is considered acceptable or otherwise. Although judgement would be applied to each specific circumstance as it arises, the Committee has recommended, and the Board agrees, that the following services would not in most circumstances compromise auditor independence:

- tax compliance services;
- provision of accounting advice and guidance;
- general advice;
- acting as reporting accountant under the listing rules;
- due diligence work; and
- occasional reporting on the operation of internal controls.

Conversely, the Board believes that the services listed below would, in most circumstances, compromise auditor independence:

- accounts preparation and bookkeeping;
- design or implementation of complex tax and accounting structures;
- design or installation of financial systems;
- internal audit of financial systems;
- valuation services, except where required under statute (e.g. UK CA 2006 s596); and
- providing litigation support of an advocacy nature.

If the amount of non-audit services becomes excessive compared to the level of the audit fee, there may be a commercial threat to auditor independence.

Non-audit fees comprised the fees paid to the external auditor for the review of the Group's interim results. In addition, in the prior year the external auditor undertook certain tax compliance work for the Company which was not considered to compromise the auditor's independence.

The following fees were paid to the external auditor during the year and were included within net operating income in the Group's income statement.

| £m | **Year ended 31 August 2019** | Year ended 31 August 2018 |
|---|---|---|
| Audit and related fees | **0.3** | 0.4 |
| **Total** | **0.3** | 0.4 |
| Non-audit fees | **0.1** | 0.1 |
| **Total** | **0.4** | 0.5 |

## Significant judgements

The Committee considered all significant areas of judgement and uncertainty. Those of particular relevance, due to current year transactions, events or heightened risk factors, are set out below.

### Valuation of investment property

Investment property valuation remains the most significant judgement in the Group's financial statements. A number of assumptions underlie the valuations, such as market yields, which were a reflection of market evidence and were highly judgemental.

The Group uses valuations determined by independent valuers in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") as the fair value of its investment property. The valuations were based upon assumptions including estimated rental values, future rental income, anticipated maintenance costs, future development costs and appropriate market yields. The valuers also make reference to market evidence of transaction prices for similar properties. Where there is a lack of comparable transactional evidence then the degree of potential variability in valuations may widen. Further details in respect of assumptions and estimation uncertainties are provided in Note 2.1.

### Acquisition and loss of control

In April, an event of default occurred in respect to the UK Shopping Centre facility held with Aviva.

A Standstill Agreement was entered into, during which time Aviva took no action to accelerate its security under the facility agreement. Aviva retained all rights under the facility agreement including the ability to terminate the Standstill Agreement at any time.

After careful consideration it was concluded that this constituted a loss of control and therefore that it was appropriate to derecognise the net assets of the property holding subsidiaries.

The Group considered it would control an investee when it:

- had power over the investee;
- was exposed, or had rights, to variable returns from its involvement with the investee; and
- had the ability to affect those returns through its power over the investee.

Control was not based solely on legal ownership and would ordinarily lose control on completion of a contractual sale of the Group's interests in an investee on fair value terms with an independent third party. However, where other factors exist, such as the enforceable rights of a lender under bank debt covenants, the Group must consider whether the three criteria for control set out above continue to be met. If any one of the criteria was not met, the Group does not or has ceased to control the investee and therefore ceases to consolidate the results of that investee.

### Lease classification

The classification of leasehold interests in investment property as a finance lease or operating lease was an area of significant judgement under existing accounting standards (IAS 17) as:

- there were several quantitative and qualitative criteria by which judgement could be made as to whether the "risks and rewards" of ownership had transferred to the lessee; and
- classification as an operating lease did not require recognition of a liability on the balance sheet (currently, although this was to change with the introduction of IFRS 16, which takes effect for the Group from 1 September 2019).

This was of continued relevance for the year ended 31 August 2019, as a result of the leasehold interests in the IHL and the London Serviced Office portfolios that had been classified as operating leases (in line with the accounting treatment of these interests prior to acquisition).

The significance of this judgement will be reassessed on transition to IFRS 16 as practically all leasehold interests were required to be recognised on balance sheet as liabilities under the new leasing standard.

The Group considered the appropriateness of the classification of its leasehold interests in investment property as operating or finance leases on a property-by-property basis, based on the terms and conditions of each lease on inception. The assessment was based on a balanced evaluation of both the specific contractual terms and substance of each arrangement, such as: the lease term constituting a major part of the economic life of the property; the fair value of each asset relative to present value of minimum lease payments; a qualitative review of the transfer of the significant risks and rewards of ownership; and the allocation of the lease payments to the land and building elements of each property.

In all cases, the Committee was satisfied that judgements were well founded and that the conclusions reached were appropriate.

## Consistency, or changes of accounting policies and accounting standards

The following new accounting standards have become effective this year:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers'; and
- amendment to IFRS 2 (classification and measurement of share-based payment transactions).

These new standards have not had a material quantitative impact on the financial statements but have required expanded disclosure.

# Audit and Risk Committee
continued

## Internal audit and internal controls

The control environment surrounding the Group's finance function was subject to regular review by both management and the internal auditor.

An internal audit plan is agreed at the outset of each year to align with the annual risk management review. The internal auditor's plan therefore addresses principal risks identified, targets verification of critical mitigating actions or, if appropriate, provides independent assurance on the Company's response to significant changes in regulation or legislation. The plan allows for flexibility where required to address change or transactional activity throughout the year.

The Committee receives a summary of the status of the audit plan and on open issues arising from completed audits from Grant Thornton, the Company's internal auditor who attends and presents to the Committee regularly.

| Consideration of risks | Audit plan | Audit | Monitoring | Feedback |
|---|---|---|---|---|
| • RDI's principal risks<br>• Prior audit work risks identified<br>• Risk horizon<br>• Routine internal audit risks | Rationale and high level scope for each audit proposed is presented to the Committee for consideration | Internal audit undertaken. Every audit issue is given a rating, as is the overall report. Findings are reported back to the Committee | Actions required are monitored and the status of outstanding actions reported at each meeting | Feedback is sought from those engaged with the internal auditors at the conclusion of each audit |

During the financial year Grant Thornton has reported on, inter alia:

| Audit | Key risk | Rationale and scope of audit |
|---|---|---|
| **Treasury** | Inadequate management of treasury including hedging of interest rate exposure and foreign exchange | • Liquidity forecasting<br>• Review of hedging policies<br>• Management of loan covenants |
| **Budgeting and forecasting** | Inappropriate or inadequate budgeting and forecasting leading to poor decision making | • Effectiveness of the budgeting and forecasting processes<br>• Testing key controls around the monitoring of the business plan and budget, including cash flow forecasts, covenants and stress tests |
| **Occupancy management** | Reduced rental income and cash flow, increased void costs and declining property values if tenant occupancy levels not managed appropriately | • To assess the processes for granting tenant leases, reviewing consumer trends and monitoring tenants' viability |
| **Business continuity planning** | Ability to respond to a significant event or business interruption | • Assessment of the design of the major incident and business continuity plan |
| **Insurance** | Inappropriate or inadequate cover | • To consider the adequacy and completeness of insurance coverage for relevant assets<br>• Timeliness and completeness of reinstatement valuations |
| **London Serviced Offices outsourced finance function** | Core financial controls for the London Serviced Offices business are outsourced. | • To provide assurance over third party control environment<br>• Audit focus areas included: accounts payable, revenue and accounts receivable, cash and banking, month end procedures, reporting, segregation of duties, master data controls, liquidity planning, payroll updates and client deposits |

No audits were given a high audit risk grade. In all cases appropriate management responses were provided to findings and the status of outstanding actions reported to the Committee regularly. At the end of the year all actions had either been completed or were in progress in line with agreed plans.

## Review of effectiveness

The Committee was satisfied with the internal auditor's work and notes the contribution made to the ongoing improvement in the Company's internal controls and strategic planning. The Committee has therefore recommended to the Board that Grant Thornton continue to act as the Company's internal auditor for the 2020 financial year.

## Risk management

Following another thorough and challenging review process, the Committee was presented with the Company's risk register and those that management considered to be principal. This year's process identified the following key areas of change:

- economic and political risk has heightened as the political backdrop becomes increasingly uncertain, with the risk of a disorderly "no-deal" Brexit being at the forefront of minds, including the increased possibility of a general election;
- risks associated with the Group's strategy and reputation have increased, the security of sustainable long term income has come under increased pressure due to ongoing volatile market conditions;
- increased risks associated with liquidity and covenant headroom as a result of recent events and the resultant cash cures required during the year;
- increased risks associated with people management and retention on account of higher staff turnover during the year; and
- risk of disruption in executing the Group's strategy following comments by major shareholder.

## Governance

Both the external auditor and the Company Secretary provide corporate governance updates to the Committee advising of recent publications, guidance, legislation or regulations to ensure that the Company is responding to changes in the regulatory environment as appropriate.

A compliance matrix was presented to the Committee and the Board at the end of the year, advising whether the Company has complied with all of its policies and applicable regulation during the year.

All employees are provided with an induction on appointment covering the history of the Company, the culture, governance, and HR policies and all are given a handbook containing Company policies, which they must confirm that they have read and understood. During the year training was provided to staff on GDPR, tax evasion, anti-bribery, share dealing and the whistleblowing policies, through which employees can raise concerns.

A copy of the whistleblowing policy can be found on the Company's website **www.rdireit.com**. No incidences of whistleblowing occurred during the year.

## Review of internal controls, corporate governance statements and related disclosures

As part of the process of finalising the Annual Report and Accounts, the Board collectively and, in some instances, the Directors individually, are required to make certain disclosures and statements. In particular, the Board was required to make statements in respect of the system of internal controls and representations to the auditors contained within the UK Corporate Governance Code, including those within the remuneration report and Directors' responsibilities statement. There was also a requirement for each Director to confirm that all relevant information had been passed to the auditors so that they can undertake the audit and provide their opinion as well as stating that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.

The Committee received a significant amount of information during the course of the year which, when taken together, substantially provided the assurance to support the required disclosures and requirements. Management provided a schedule for the 2019 Annual Report and Accounts, which cross-referenced the required attestations to the various reports, documents and frameworks from which the Committee derived the necessary assurances.

The Committee reviewed a full draft of the 2019 Annual Report and Accounts, and considered whether they regarded the report as fair, balanced and understandable, whether key messages were clearly highlighted, and full explanations provided where necessary. Feedback was provided where areas of improvement were required.

Following the review, the Committee were of the opinion that the Annual Report provided the necessary information for shareholders to assess the Company's position, performance business model and strategy and recommended to the Board that the Annual Report could be approved and issued to shareholders.

**Sue Ford**
Chair of the Audit and Risk Committee

24 October 2019

# Directors' remuneration

> Key areas of focus for the year were the executive bonus and the review of the Remuneration Policy.
>
> **Michael Farrow**
> Chair of the Remuneration Committee

## Committee members

| | | |
|---|---|---|
| Michael Farrow (Chair) | Independent | Appointed 23 January 2013 |
| Gavin Tipper | Independent | Appointed 24 July 2018 |
| Robert Orr | Independent | Appointed 23 April 2015, resigned 9 October 2019 |

## Committee meetings held during the year

### October 2018

**Matters discussed**

- Consideration of Company performance
- Confirmation of results of 2018 bonuses and LTIP vesting
- Determination of 2019 salary increases and LTIP contingent awards
- Consideration of Non-executive Director fees
- Review of proposals for senior management salary, bonuses and LTIP awards

### January 2019

**Matters discussed**

- Review of executives' bonus objectives
- Review of financial bonus targets against original budget
- Review of Remuneration Policy

### April 2019

**Matters discussed**

- Review of executives' bonus targets
- Consideration of LTIP vesting in light of approach from the Cromwell Property Group

## Committee composition

The Committee comprised three independent Non-executive Directors during the financial year, each of whom were members of other Board committees. This ensures that the Remuneration Committee has a wide appreciation of the work, achievements or improvements required of the executives when establishing their objectives and determining the outcomes of the Remuneration Policy. For 2020, the Remuneration Committee will liaise with the CSR Committee to determine a personal CSR objective for each executive. This will add an extra non-financial measure to the bonus. CSR objectives have also been included in all employees' bonus targets in order to embed a CSR culture into the day-to-day operation of the Company.

## Committee operations

The Remuneration Committee met three times during the year and meetings were attended by all members and the Company Secretary. Deloitte attended the January 2019 meeting to provide advice to the Remuneration Committee primarily on the amendments to the Remuneration Policy. The Remuneration Committee operates within terms of reference, which were amended in April 2019 to align them with the 2018 Corporate Governance Code.

# Annual statement by the Chairman of the Remuneration Committee

## Introduction

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 August 2019. It should be noted that as an Isle of Man company, RDI is voluntarily reporting under the UK regulations in order to provide transparency to our shareholders. Key areas of focus for the year by the Remuneration Committee were the executives' bonus and the review of the Remuneration Policy.

## 2019 bonus

The original budget, on which financial bonus targets were originally based, had assumed that £90 million would be invested in new acquisitions during the financial year. In October 2018 the budget was revised by the Board due to a lack of attractive investment opportunities in the prevailing economic climate, and funds previously targeted for investment were redirected to a reduction of leverage. The Remuneration Committee agreed revised financial bonus targets that were consistent with the revised budget, but deferred a decision as to whether the revised targets should be applied until an overall assessment of Company and Executive performance could be undertaken at the end of the year. Those revised financial targets delivered a provisional payment to the Executive Directors of 10.3 per cent of salary out of a maximum 112.5 per cent of salary under this element of the bonus.

As outlined in the financial review, in April 2019 following a continuation of the unprecedented market conditions facing the UK retail sector, an event of default occurred on the Aviva loan facility. The Board took the decision to enter into a consensual sales process with the lender which triggered the derecognition of the portfolio and consequential loss of earnings. This decision was reached after the Board concluded that it was not in the best interests of the Company and its shareholders to commit further capital to the facility. Had the Board committed equity to cure the event of default, underlying earnings per share for year would have been expected to be 0.8p higher than reported (based on the shortfall in earnings from the Aviva portfolio post derecognition relative to budget) which would have resulted in a higher payment of 23 per cent of salary under the financial element of the bonus.

The Remuneration Committee carefully considered how derecognition of the Aviva portfolio should be reflected in the Executive Directors' bonuses. The Committee felt that there should be acknowledgment of the fact that this was a strategic decision by the Board in the best long-term interests of shareholders but also felt that it would not be appropriate to wholly exclude the financial impact of the portfolio derecognition. Accordingly, the Committee concluded that Executive Directors should receive a payment of 15.3 per cent of salary under the financial element of the bonus. In coming to this conclusion, the Committee also took into account other business achievements during the year including the following:

- the Company had received an approach by Cromwell Property Group. The Committee considered the Executive had managed both the approach and consequential uncertainty for the Company, its employees and stakeholders extremely well;
- the German portfolio was successfully marketed, with sales progressing well and premiums being achieved to book value; and
- LTV was reduced by 4.2 per cent and refinancing activity had materially improved reduced the cost of debt.

As individuals had performed well against their personal objectives, payouts for this element of the bonus were between 23.4 per cent and 28.1 per cent of salary out of a maximum 37.5 per cent of salary. Total bonus awards to Executive Directors were therefore between 38.7 per cent and 43.4 per cent of salary. The Committee was satisfied that this represented an appropriately significant decrease (approximately 65 per cent), year-on-year.

## Remuneration Policy

The current Remuneration Policy was approved at the AGM on 23 January 2017 by 79.91 per cent of shareholders, and the salary, bonus and LTIP contingent awards have since been made in accordance with this policy. The executives' remuneration paid for 2019 is summarised on the pages overleaf.

In accordance with the Companies (Directors Remuneration Policy and Directors Remuneration Report) Regulations 2013 the Remuneration Policy must be approved by shareholders every three years. Consideration of the new Remuneration Policy was started in April 2018 by the Remuneration Committee, following feedback from investors at the 2018 AGM.

Requests had been made for further disclosure regarding the financial and personal measures for the bonus targets and for the Remuneration Policy to be brought into line with best practice. Subsequently, additional disclosures were made in the 2018 Annual Report with regard to bonuses.

Feedback on the Remuneration Policy was considered by the Committee together with the proposed changes to the 2018 Corporate Governance Code and amendments to the policy were made in the following areas:

- shareholding guidelines for the executives;
- an additional two year holding period for LTIPs after the initial three year vesting period;
- post-employment shareholding requirements;
- extended malus and clawback provisions; and
- pension arrangements for newly appointed executives to be aligned with the workforce.

The revised policy was recommended by the Remuneration Committee for approval by the Board. The Committee is satisfied that there were no significant conflicts of interest in the process that it undertook to determine the revised policy.

The Company has also sought to improve the remuneration package for employees. Although workplace pension contributions rose from 2 per cent to a capped statutory minimum of 3 per cent from 6 April 2019, the Company agreed to contribute 5 per cent on a matched basis from 1 September 2018 to encourage employees to save for their retirement. Furthermore, following an employee survey at the beginning of the year, the benefits available to employees have been expanded. A comparison of remuneration for 2019 between the executives and employees is set out on page 108.

Turn over for remuneration at a glance

# Directors' remuneration
continued

## Remuneration at a glance

**Fixed pay**

| Award year | 2017 | 2018 | 2019 | 2019 Company performance |
|---|---|---|---|---|
| **Salary** (% increase) | +5%[1] | +4% | +2.5% | • LTV reduced by 4.2%<br>• Cost of debt reduced by 50bps<br>• UK Retail exposure reduced to 18% |
| **Taxable benefits** (% of salary) | 3-8% | 3-8% | 3-8% | |
| **Pension** (% of salary) | ≤12.5% | ≤12.5% | ≤12.5% | |

[1] Exceptional award of 15 per cent made to Stephen Oakenfull.

**Variable pay**

| Award year | 2017 | 2018 | 2019 | 2019 Executive performance |
|---|---|---|---|---|
| **STIP** (Max 150% of salary) 60% paid in cash, 40% settled in shares, deferred for two years | 121.9% | 120.0% | 38.7%-43.4% | |
| 112.5% Financial Objectives | | | 15.3% | ✘ Cash flow<br>✔ Earnings<br>✘ NAV growth |
| 37.5% Personal Objectives | | | | |
| Mike Watters | | | 23.4% | ✔✔ Reduction in Retail exposure<br>✔✔ Hotel strategy formulated<br>✔ Succession planning |
| Stephen Oakenfull | | | 27.2% | ✔✔ Simplified investment proposition<br>✔✔✔ Refinancing of £350m of bank facilities<br>✔✔✔ Improved disclosure |
| Adrian Horsburgh | | | 28.1% | ✔✔✔ Rent growth, increased WAULT<br>✔✔ £100m of assets recycled<br>✔✔✔ Forward funding of Bicester |
| Donald Grant | | | 24.4% | ✔✔ Improved quality of financials<br>✔✔ Improved corporate structure<br>✔✔ Cash flow and procurement improved |

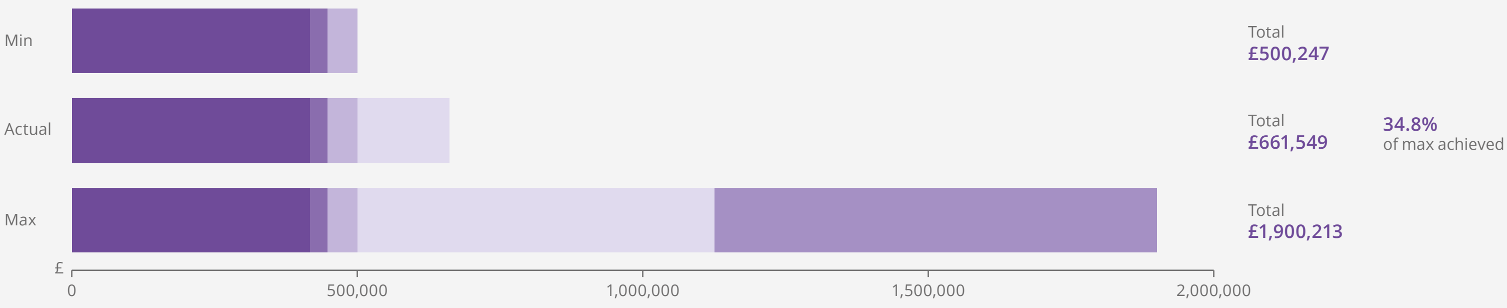
| Award year | 2017 | 2018 | 2019 | 2017-2019 Company performance |
|---|---|---|---|---|
| **LTIP 3yr vesting** (Max 200% of salary) | 0% | 0% | 0% | • UK Retail exposure down 30% to 18%<br>• LTV down to 42%<br>• Cost of debt down to 2.9% |

| Award year | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Total remuneration** (average % of maximum) | 51% | 49% | 36% |

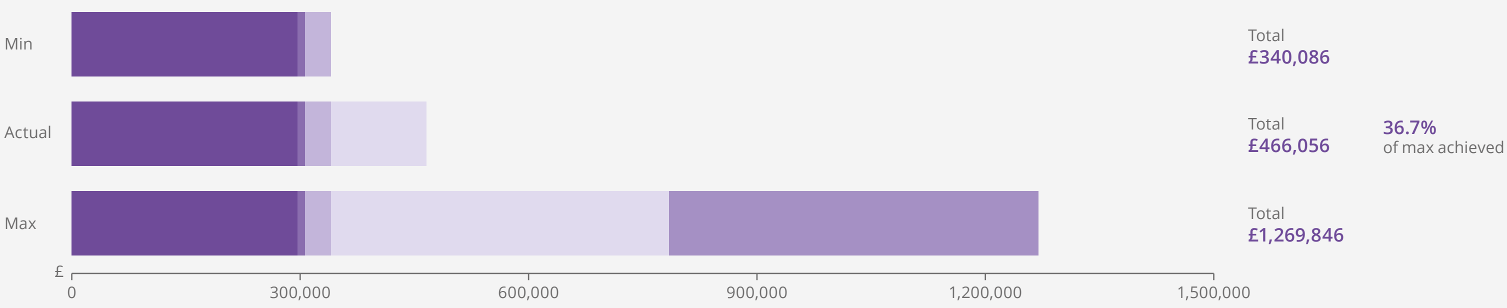
# Performance and reward at a glance for 2019

## Executive total reward – Minimum vs Actual vs Maximum

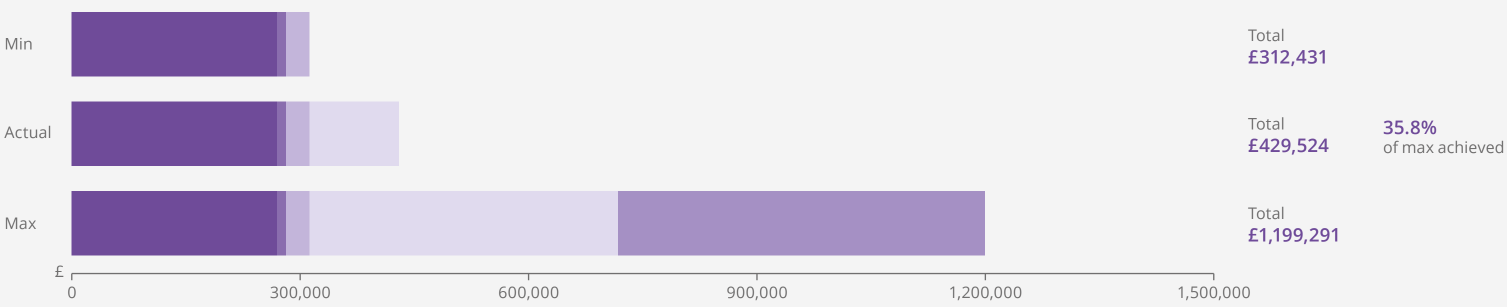
### MIKE WATTERS



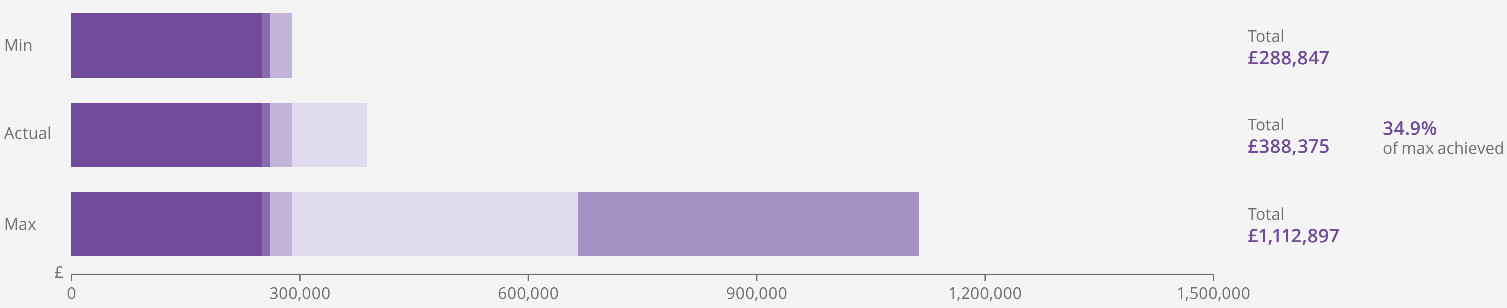

### STEPHEN OAKENFULL




### ADRIAN HORSBURGH




### DONALD GRANT




Salary  Taxable benefits  Pension  STIP  LTIP

# Directors' remuneration

continued

### Remuneration for the 2019 financial year

The previous pages provide a summary of the executives' performance against the Company's performance and the executives' total remuneration compared to possible minimum and maximum outcomes.

### 2019 salaries and fees: Awarded 1 September 2018

- Executives: All executives received a 2.5 per cent increase, which was in line with inflation. Salaries remain in the lower quartile of the Company's peer group.
- Non-executive Directors: Although it was acknowledged that the non-executive fees remained below market average, no fee increase was applied in 2019. Non-executive Directors who did not chair a Board committee received a fee of £45,000. Those who chaired a Board committee received £52,000 whilst the Chairman of the Board received £98,000.
- Employees: The average salary increase for employees for 2019 was 3.6 per cent.

### 2019 pensions

- Executives: Company contributions to Self-Invested Pension Plans ("SIPPs") were 12.5 per cent of salary for the CEO and 12.0 per cent of salary for other Executive Directors.
- Employees: Workplace pension contributions rose from 2 per cent of salary to a capped statutory minimum of 3 per cent of salary from 6 April 2019. To encourage employees to save for their retirement, the Company agreed to contribute up to 5 per cent of salary on a matched basis from 1 September 2018.

### 2019 benefits

- Executives: Other benefits comprise life assurance, private medical insurance, car allowance (CEO only), incapacity benefit, season ticket allowance and directors' and officers' insurance.
- Employees: Benefits include long term disability, death in service, private medical insurance, season ticket loan, training course sponsorship, membership subscription fee, cycle to work, child care vouchers, GP appointments, annual health check and flu vaccination.

### 2019 bonus: Awarded for the performance period 1 September 2018 to 31 August 2019

- Executives: Having performed within the target range for the earnings measure only, the financial performance targets set for both cash flow and NAV did not meet the target range set by the Board and no award has been attributed to these measures this year. As a result, the financial performance element achieved just 15.3 per cent of a maximum award of 112.5 per cent of salary.

  Taken together with personal performance, the executives have been awarded a bonus of between 38.7 per cent and 43.4 per cent of base salary, equating to between 25.8 per cent and 28.9 per cent of the possible maximum bonus. Disclosure of the annual targets and performance achieved has been provided on page 119.

  Of the total bonus award, 60 per cent will be settled in cash immediately with 40 per cent deferred in shares for two years, subject to continuous employment.
- Employees: Bonus is subject to the achievement of personal objectives. At the beginning of each year, employees discuss their objectives with their line manager for the year ahead. An evaluation is undertaken at year end and their performance measured against the targets. The outcome of the evaluation forms the basis on which the bonus award is made. The average employee bonus was 36 per cent of their base salary.

### 2016 LTIP vesting: Relating to the three year performance period ended 31 August 2019

- Executives: The performance period for the award related to the three years ending 31 August 2019 and was subject to performance conditions. The outcome of the LTIP award has again resulted in nil vesting.
- Employees: These apply to senior management only and are subject to performance targets as follows: 50 per cent aligned with executive performance targets; and 50 per cent subject to personal performance. Only the personal element of the award partially vested.

### 2019 contingent LTIP award: Awarded for the three year performance period from 1 September 2018 to 31 August 2021

- Executives: Contingent awards, equivalent to 200 per cent of salary, were made to each of the executives on 31 October 2018. These will be subject to the performance criteria set out in the Remuneration Policy approved at the 2017 AGM and will, subject to performance, vest on 31 October 2021.
- Employees: Contingent awards were made to senior staff of between 25-50 per cent of salary and awarded 31 October 2018.

### 2019 single figure remuneration

- Executives: On average, the executives received 34.8 to 36.7 per cent of their possible maximum remuneration.
- Employees: On average, employees received 91 per cent of their possible maximum remuneration.

## Statement of implementation of remuneration for the 2020 financial year and proposed changes to the Remuneration Policy

Set out below is a summary of the planned implementation of the proposed new Remuneration Policy, to be approved by shareholders at the AGM on 23 January 2020, for the financial year ending 31 August 2020. Proposed changes to the Remuneration Policy are shown overleaf.

### 2020 salary: awarded 1 September 2019

| | 2019 | 2020 |
|---|---|---|
| Mike Watters | 416,800<br>+2.5% | 426,200<br>+2.25% |
| Stephen Oakenfull | 296,400<br>+2.5% | 303,100<br>+2.25% |
| Adrian Horsburgh | 269,800<br>+2.5% | 275,900<br>+2.25% |
| Donald Grant | 250,700<br>+2.5% | 256,300<br>+2.25% |

Average salary increases of 4.5 per cent have been awarded to employees for 2020, which was arrived at using a base inflationary adjustment of +2.25 per cent with additional increases awarded to recognise extra responsibilities, progress made in professional exams and changes in roles. This year, for the second year running, the executives have been awarded an inflationary increase only.

### 2020 pension and benefits

Company contributions to Self-Invested Pension Plans ("SIPPs") remain at 12.5 per cent of salary for the CEO and 12 per cent of salary for other Executive Directors. Other benefits comprise life assurance, private medical insurance, car allowance (CEO only), incapacity benefit, season ticket allowance and directors and officers' insurance.

### 2020 annual bonus: To be awarded for the performance period 1 September 2019 to 31 August 2020

Executive Directors can be awarded a bonus of up to 150 per cent of salary. This is based on Underlying Earnings (30 per cent), EPRA NAV (30 per cent), Operating Cash Flow performance (15 per cent) and personal objectives including a CSR objective (25 per cent). 40 per cent of the total bonus awarded will be subject to a two year deferral period, to be settled in shares. Disclosure of the annual targets and performance achieved will be provided in the 2020 Annual Report.

### 2017 LTIP vesting: Relating to the three year performance period ending 31 August 2020

The awards made on 18 January 2018, for the performance period 1 September 2017 to 31 August 2020, will vest on 18 January 2021. These awards are subject to the policy performance conditions, approved by shareholders at the 2017 AGM. This requires the attainment of certain targets linked to underlying distributable earnings per share (50 per cent), relative TSR (25 per cent) and relative total property return (25 per cent) all measured over the three year performance period.

### 2020 contingent LTIP award: To be awarded for the three year performance period ending 31 August 2022

Executive Directors will usually receive an LTIP award over shares worth 200 per cent of salary. Due to the current low share price, the Remuneration Committee will make a contingent award over shares worth 150 per cent of salary, with the relevant performance targets being based on underlying distributable earnings per share (50 per cent), relative TSR (25 per cent) and relative total property return (25 per cent) all measured over a three year performance period with an additional two year holding period. These measures are intended to align the awards with the Company's strategic objectives and with shareholder interests. In particular: (a) the EPS measure is designed to incentivise distribution growth to shareholders; (b) the relative TSR measure (retained from the previous policy but with a reduced weighting) measures the total shareholder return of the Company against an appropriate index, and provides a direct link between shareholder returns and compensation; and (c) the relative total property return measure is designed to incentivise the enhancement of portfolio quality and distribution growth. Targets for these measures are set out on page 115.

Turn over for proposed amendments to the Remuneration Policy

# Directors' remuneration

continued

## Proposed amendments

Amendments to the Remuneration Policy, to apply to all awards made from 1 September 2019 and any shares related to those awards, subject to shareholder approval at the AGM on 23 January 2020. The changes shown below will bring the Remuneration Policy in line with the 2018 UK Corporate Governance Code.

| | 2017 Remuneration Policy | 2018 UK Corporate Governance Code |
|---|---|---|
| **Pension** | The Company contributes monthly to the Directors' personal pension plans. At the Company's discretion, a cash allowance of equivalent value may be offered.<br>The Company contributes between 9-12.5 per cent of their base salaries.<br>Values vary by directors and are reviewed periodically. | Only basic salary should be pensionable. Pension contribution rates for executives should be in line with the workforce. |
| **Bonus objectives** | Remuneration Committee liaises with the Nominations and Audit and Risk Committees when setting objectives. | Incentive schemes should drive behaviours consistent with Company purpose, values and strategy. |
| **Shareholding guidelines for executives** | There are no shareholding guidelines requiring the executives to hold shares in the Company, although all executives do have shareholdings that they have acquired themselves. | Remuneration schemes should promote long term shareholdings by executives that support alignment with long term shareholder interests. |
| **Additional two year holding period for LTIPs upon vesting** | LTIPs are subject to a three year vesting period. | Share awards granted should be subject to a total vesting and holding period of five years. |
| **Post-employment shareholding guidelines** | None | There should be a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. |
| **Discretion** | The Remuneration Committee may, acting fairly and reasonably, and having due regard to the performance of the Group during the vesting period, determine to what extent the performance targets are deemed to be satisfied, and the number of shares that vest. The Remuneration Committee may adjust (upward or downwards) the extent to which a LTIP award would otherwise vest if it considers that such level of vesting is not reflective of overall corporate performance or of the executives' personal performance. In appropriate circumstances, the Remuneration Committee may amend a performance condition provided that the amended condition is not materially less or more challenging to satisfy than the original condition was when set. | Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. |
| **Malus and clawback** | Malus and clawback is currently applied to LTIPs only due to:<br>• misstatement of financial results;<br>• an error in assessing the extent to which performance conditions were met;<br>• an act of omission contributing to reputational damage to the Company; and/or<br>• serious fraud or misconduct. | Remuneration schemes should include provisions that would enable the Company to recover or withhold sums or share awards. |
| **Executive not re-elected** | In the event that an executive is not re-elected by shareholders at an Annual General Meeting of the Company, the vesting of any awards will be subject to the discretion of the Remuneration Committee. | All Directors should be subject to annual re-election. |

| | Proposed changes to bring the 2020 Remuneration Policy in line with the 2018 UK Corporate Governance Code |
|---|---|
| | The Company contributes monthly to the Directors' personal pension plans and/or the Company pension plan. At the Company's discretion, a cash allowance of equivalent value may be offered.<br>Pension provision for any new Executive Director (whether externally appointed or internally promoted to the Board) from the start of the 2020 financial year will be aligned with the level of provision available to the majority of the workforce.<br>Incumbent Executive Directors at the start of the 2020 financial year remain eligible to receive a pension provision of up to 12.5 per cent of base salary. |
| | The Remuneration Committee will also liaise with the CSR Committee to ensure that the executives and all employees are set a CSR objective as part of their bonus targets.<br>The Remuneration Committee and the Company reserve the right to review the STIP at their absolute discretion. Each metric may be changed, replaced or varied from year to year at the absolute discretion of the Remuneration Committee. |
| | All Executive Directors will be expected to accumulate a minimum shareholding of vested STIP and LTIP shares and all vested STIP and LTIP shares will be held, net of tax, until executives have accumulated twice their base salary in such shares by the seventh anniversary of the shareholding requirement becoming applicable to an individual (unless the Remuneration Committee, at its discretion, varies the required time period, from time to time, for an individual to achieve the shareholding requirement). |
| | LTIPs will be subject to a three year vesting period and an additional two year holding period.<br>LTIPs awarded in 2019 will vest in 2022 and be subject to a holding period ending in 2024. |
| | On leaving the employment of the Company, LTIPs and STIPs vested under this policy will be subject to the following post-employment shareholding requirements:<br>• executives must hold the equivalent of twice their base salary in Vested STIP and LTIP shares for one year after leaving the employment of the Company; and<br>• thereafter, executives must hold the equivalent of their base salary in Vested STIP and LTIP shares for a further year;<br>unless the Remuneration Committee, at its discretion, varies the required time period, or shareholding requirement.<br>In the event that an executive has not yet accumulated a sufficient shareholding to meet the above post-employment shareholding requirements, the Remuneration Committee, in its discretion, will determine the level of shareholding required. |
| | The Remuneration Committee may, acting fairly and reasonably, and having due regard to the performance of the Group during the vesting period, determine to what extent the performance targets are deemed to be satisfied, and the number of shares that vest. The Remuneration Committee may, in its discretion, adjust (upward or downwards, including by reducing to nil) the extent to which a LTIP award would otherwise vest if it considers that such vesting level:<br>• materially deviates from the intention of the Directors' Remuneration Policy;<br>• is not appropriate in the context of circumstances that were unexpected or unforeseen at the date of grant; or<br>• is not reflective of overall corporate performance or of the executive's personal performance over the performance period, taking into account such factors as the Remuneration Committee considers relevant.<br>A similar discretion to override formulaic outcomes under the STIP can also be applied by the Remuneration Committee. |
| | Malus and clawback provisions have been extended to include corporate failure over a look back period of five years for LTIPs and a two year look back period for STIPs. Look back periods will apply to shares from date of award. |
| | In the event that an executive is not re-elected by shareholders at a general meeting of the Company, the executive would remain in office but would no longer be a member of the Board. |

# Directors' remuneration
continued

## Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors. No increase was awarded to non-executives in 2019. It was considered by the Board, that due to the increasing time commitment expected, Non-executive Director fees should be increased by 2.25 per cent in 2020 in line with the executives. Non-executive Directors who do not chair a Board committee will receive a fee of £46,000. Those who chair a Board committee receive £53,200 whilst the Chairman of the Board will receive £100,200.

| | 2019 fees | 2020 fees |
|---|---|---|
| Chairman of the Board | £98,000 | £100,200 |
| Audit and Risk Committee chair | £52,000 | £53,200 |
| Remuneration Committee chair | £52,000 | £53,200 |
| Investment Committee chair | £52,000 | £53,200 |
| Corporate Social Responsibility Committee chair | £52,000 | £53,200 |
| Base non-executive | £45,000 | £46,000 |

Aggregate fees for the seven Non-executive Directors total £351,800, which is within the limit approved by shareholders at the AGM on 25 January 2018 of £500,000. It is not considered necessary for the aggregate fee limit to be increased again this year.

## Annual General Meeting

The full remuneration report for the financial year ended 31 August 2019 can be found on page 118.

The Remuneration Committee recommends the remuneration report to shareholders and hopes that shareholders will support the resolution at the AGM on 23 January 2020.

**Michael Farrow**
Chair of the Remuneration Committee

24 October 2019

Introduction
Strategic report
Directors' report
Financial statements
Other information

# Policy report on remuneration (not subject to audit)

It is proposed that the Remuneration Policy, approved by shareholders at the January 2017 AGM, be aligned with the 2018 UK Corporate Governance Code. A summary of the changes to the executive remuneration policy can be found on page 110. No changes are proposed to the non-executive policy. Details of both policies can be found below and, if approved by shareholders at the AGM on 23 January 2020, will apply to all remuneration payments and shares awarded and vesting under the STIP and LTIP schemes from 1 September 2019.

## Remuneration Policy for the Chairman and Non-executive Directors

Remuneration comprises an annual fee for the Chairman and for Non-executive Directors. Additional fees may be paid at the discretion of the Board, if significant levels of additional time commitment are required. All fees are paid in Sterling.

### Summary

| Component | Purpose | Operation | Maximum potential value | Termination |
|---|---|---|---|---|
| **Annual fee** | A fixed market competitive fee to attract and retain non-executives of sufficient quality to constructively challenge the executives in delivering the Group's strategy. | The Remuneration Committee reviews the fees periodically and compares them to a peer group, taking into account the time spent, company size, ownership, sector, risk and other company specific factors. Its recommendations are then presented to the Board for approval. | Fees to the Non-executive Directors (other than alternative Directors) are determined by the Board, provided that such sums do not in the aggregate exceed £500,000, or as the Company may by ordinary resolution approve. | Directors are appointed for a term which expires when either the Director is (i) not re-appointed following retirement in accordance with the Articles of Association; (ii) removed or vacates office; (iii) resigns or does not offer himself for re-election; or (iv) terminates his appointment on three months' notice. There is no provision for loss of office payments. |

The Non-executive Directors do not receive remuneration other than fees but are entitled to be paid all reasonable travelling, hotel and other expenses properly incurred in attending meetings of the Board, committees of the Board, general meetings or otherwise in connection with the business of the Company (including any personal tax owing on such expenses).

### Letters of appointment

Each Non-executive Director has a letter of appointment, the terms and conditions of which are available for inspection at the Company's registered office.

## Remuneration Policy for the Executive Directors

The key objectives of the executive Remuneration Policy are to attract, retain and motivate the executives, to support strategy and to ensure the long term success of the Company. Performance measures and targets for incentive awards are selected so as to provide alignment with the Company's strategic goals. A summary of the elements of the executive Remuneration Policy is shown overleaf and is subject to:

1. **Minimum shareholding requirements: Twice base salary**
   All Executive Directors will be expected to accumulate a minimum shareholding of vested STIP and LTIP shares and all vested STIP and LTIP shares will be held, net of tax, until executives have accumulated twice their base salary in such shares by the seventh anniversary of the shareholding requirement becoming applicable to an individual (unless the Remuneration Committee, in its discretion, varies the required time period, for an individual to achieve the shareholding requirement).
2. **Post-employment holding period: Twice base salary for one year, once base salary for further year**
   On leaving the employment of the Company, executives will be subject to the following post-employment shareholding requirements:
   - executives must hold the equivalent of twice their base salary in vested STIP and LTIP shares for one year after leaving the employment of the Company; and
   - thereafter, executives must hold the equivalent of their base salary in vested STIP and LTIP shares for a further year;

   unless the Remuneration Committee, in its discretion, varies the required time period, or shareholding requirement.

In the event that an executive has not yet accumulated a sufficient shareholding to meet the above post-employment shareholding requirements at the time they cease to be an employee of the Company, the Remuneration Committee, in its discretion, will determine the level of post-employment shareholding required.

# Policy report on remuneration (not subject to audit) continued

## Summary of the executive Remuneration Policy, to be approved by shareholders at the AGM to be held on 23 January 2020

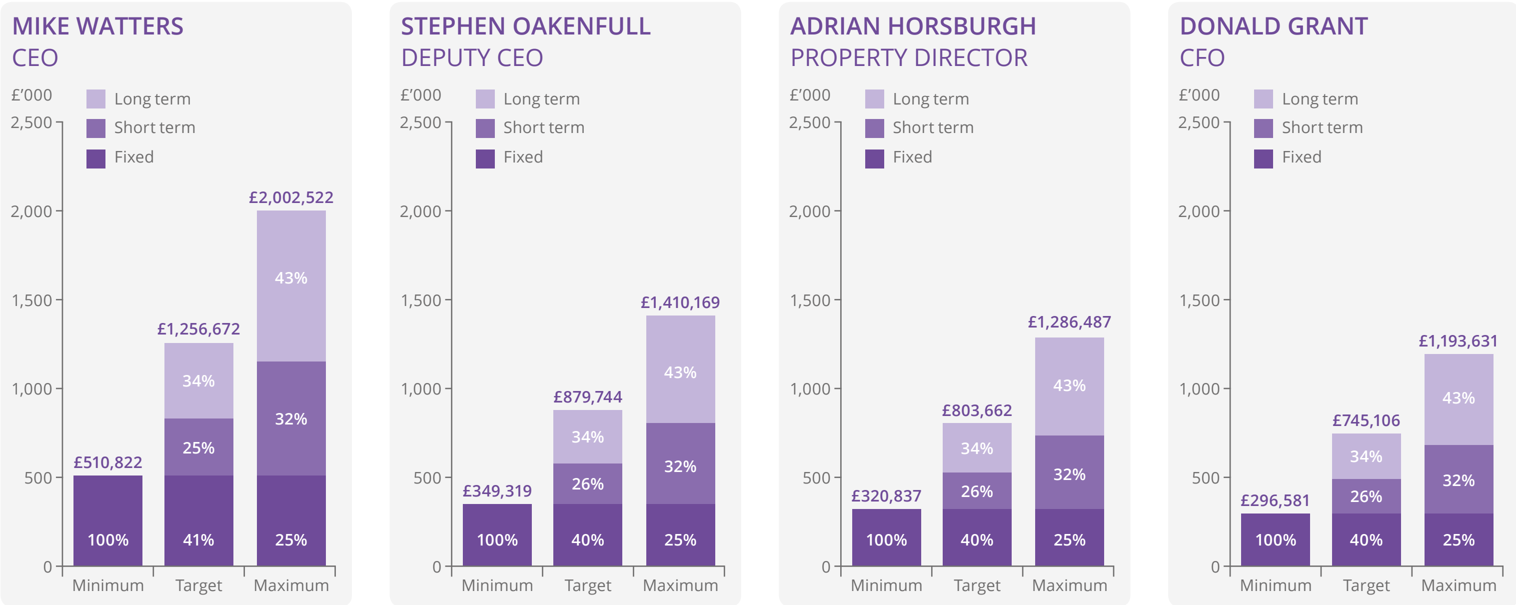
| Component | Purpose | Operation | Maximum potential value |
|---|---|---|---|
| **Base salary** | A fixed market competitive remuneration base to attract and retain executives of sufficient quality to deliver the Group's strategy. | Normally reviewed annually with changes effective 1 September. However, the Company is under no obligation to award an increase following the review. | No maximum salary is set.<br>Increases are dependent on the results of the annual review, and are normally in line with the average increase for the wider workforce, inflation and market data. However, increases may be made above this level, at the Remuneration Committee's discretion, to take account of individual circumstances such as an increase in scope and responsibility or to reflect the individual's development and performance in a role or for alignment to a market level. |
| **Pension** | Part of the overall package providing comprehensive remuneration and retirement benefits. | The Company contributes monthly to the Directors' personal pension plans and/or the Company pension plan. At the Company's discretion, a cash allowance of equivalent value may be offered. | Pension provision for any new Executive Directors (whether externally appointed or internally promoted to the Board) from the start of the 2020 financial year will be aligned with the level of provision available to the majority of the workforce.<br>Incumbent Executive Directors at the start of the 2020 financial year remain eligible to receive a pension provision of up to 12.5 per cent of base salary.<br>Values vary by Director and are reviewed periodically. |
| **Other benefits** | Part of the overall package providing comprehensive remuneration. | • Life assurance<br>• Private medical insurance<br>• Incapacity benefit<br>• Season ticket allowance<br>• Directors' and Officers' insurance<br>• Car allowance<br>• Other benefits may be provided as appropriate | As the costs of providing benefits will depend on a Director's individual circumstances, the Remuneration Committee has not set a monetary maximum. |
| **Bonus – Short Term Incentive Plan ("STIP")** | A short term incentive to reward executives on their personal performance and the Company's performance in line with shareholder returns. | Performance will be assessed based on specific KPIs: 75 per cent of the award will focus on financial measures and 25 per cent on personal objectives. The purpose of the personal objectives is to encourage leadership, loyalty of staff, and CSR, including communication with stakeholders, and shareholders.<br>The Remuneration Committee and the Company reserve the right to review the STIP at their absolute discretion. Each metric may be changed, replaced or varied from year to year at the absolute discretion of the Remuneration Committee. | Designed to offer an annual bonus of between 0 per cent to 150 per cent of the executives' base salary. Payable in cash and deferred shares.<br>40 per cent of awards to be settled in shares, subject to a two year deferral period.<br>Vested STIP shares must be retained until the minimum shareholding requirements have been attained.<br>Such awards entitle the executive to dividends which would have been received on the shares during the deferral period. |
| **Long Term Incentive Plan ("LTIP")** | A long term incentive to align the executives' interests with those of the shareholders and to promote the long term success of the Company. | Structured as a rolling annual award of performance shares with a three year performance period.<br>Awards are granted as:<br>• nil cost options to acquire shares; or<br>• contingent rights to receive shares<br>and may be settled in shares or exceptionally in cash.<br>Such awards may carry award dividends entitling the executive to dividends which would have been received on the shares during the vesting and holding period, payable either in Ordinary shares, or exceptionally in cash. | The aggregate number of shares which may be awarded may not exceed 4,600,000 over the ten year life of the LTIP.<br>Individual limits in any financial year shall not be greater than 200 per cent of the executive's base salary, but in exceptional circumstances an award can be made up to 400 per cent of the executive's base salary, providing that such an award does not exceed 1,400,000 shares.<br>Other than in specified circumstances outlined elsewhere in this policy, awards will vest at the end of a three year period, dependent on the performance conditions, and thereafter will be subject to an additional two year holding period.<br>Vested LTIP shares must be retained until the minimum shareholding requirements have been attained.<br>The Committee has various discretions relating to LTIP awards that are set out overleaf. |

| | Applicable performance measures | Clawback | Exit payments |
|---|---|---|---|
| | None | None | Termination of the service contract can be given by either party by way of notice in writing for a period not exceeding 12 months. Payment may be given in lieu of notice, subject to the Company's sole and absolute discretion, up to a maximum of one year's basic salary. There is no provision in the contracts for loss of office payments, other than those required by employment law. |
| | None | None | Payments cease on the leaving date.<br>Any payments made in lieu of notice would not include any benefits which the executive would have been entitled to receive during the period for which the payment in lieu was made. |
| | None | None | All benefits would cease on the leaving date. |
| | KPIs based on:<br>1. 15 per cent operating cash flow;<br>2. 30 per cent underlying distributable earnings;<br>3. 30 per cent adjusted NAV growth; and<br>4. 25 per cent personal objectives, which must include a CSR objective.<br>The financial KPIs (1-3) are calibrated according to the level of budget met:<br>• less than 90 per cent budget – Nil;<br>• meeting budget – 50 per cent; or<br>• 120 per cent of budget – 100 per cent.<br>The Committee has the discretion to determine that actual STIP payments should vary from levels calculated by reference to the achievement against formulaic targets, if it considers this to be appropriate. | In circumstances where:<br>• an error has been made in determining the extent to which the performance conditions were met; or<br>• financial results have been materially misstated; or<br>• the executive has contributed to serious reputational damage to the Company or engaged in serious fraud or misconduct; or<br>• corporate failure.<br>For a look back period of two years from date of award. | If the employment of an executive is terminated for any reason or if he is under notice of termination (whether given by the executive or the Company) the executive will cease to participate in the STIP and all awarded but unpaid STIP awards (including deferred shares) will be forfeited if he is a bad leaver. However, if the executive is deemed a good leaver, the Remuneration Committee may determine in its absolute discretion the amount of STIP award and unvested deferred shares that the executive will receive pro-rata'd to the period during which the executive was employed.<br>Vested STIP shares would be subject to the post-employment shareholding requirements. |
| | Awards will vest at the end of a three year period dependent on the following performance conditions:<br>• 50 per cent of the award is to be linked to underlying distributable earnings per share. 25 per cent of the award will vest upon attaining earnings per share comparable with the immediate proceeding financial year, with 100 per cent vesting achieved for average annual outperformance of CPI during the performance period of plus 1 per cent.<br>• 25 per cent of the award is to be linked to EPRA/NAREIT developed Europe Index TSR performance. 25 per cent of the award will vest for median performance with 100 per cent vesting achieved for upper quartile performance.<br>• 25 per cent of the award is to be linked to the relative total property return of the Company's UK assets in comparison to UK All Property Index. 25 per cent of the award will vest once performance reaches that of the benchmark with 100 per cent vesting achieved for 2 per cent outperformance. | In circumstances where:<br>• an error has been made in determining the extent to which the performance conditions were met; or<br>• financial results have been materially misstated; or<br>• the executive has contributed to serious reputational damage to the Company or engaged in serious fraud or misconduct; or<br>• corporate failure.<br>For a look back period of five years from date of award. | If the executive leaves employment of the Company other than as set out below, the award will lapse or cease to be exercisable on the leaving date.<br>If the executive leaves employment for reasons such as ill health, redundancy or retirement (or any other reason at the discretion of the Remuneration Committee) or in the event of a takeover, scheme of arrangement, demerger or winding up of the Company, the Remuneration Committee, acting fairly and reasonably, will determine whether and to what extent a performance target shall be deemed to be satisfied. Subject to that determination, the award will vest in proportion to the extent of the vesting period which has expired at the date of the relevant event.<br>In the event that an executive is not re-elected by shareholders at a general meeting of the Company, the executive would remain in office but would no longer be a member of the Board.<br>Vested LTIP shares would be subject to the post-employment shareholding requirements. |

# Directors' report
## Remuneration

# Policy report on remuneration (not subject to audit)
continued

### Implementation scenarios of the executive Remuneration Policy showing possible minimum, target and maximum remuneration




Fixed pay consists of base salary, benefits and pension.

- Benefits include life assurance, private medical insurance, car allowance (CEO only), incapacity benefit, season ticket allowance.
- Pensions are calculated on 12 per cent of base salary for Stephen Oakenfull, Adrian Horsburgh and Donald Grant. Mike Watters receives 12.5 per cent of base salary.

STIP (short term remuneration) is awarded as a percentage of base salary as follows: Minimum 0 per cent, Target 75 per cent and Maximum 150 per cent.

LTIP (long term remuneration) is awarded as a percentage of base salary as follows: Minimum 0 per cent, Target 100 per cent and Maximum 200 per cent.

### Overriding Remuneration Committee discretion

The Remuneration Committee may, acting fairly and reasonably, and having due regard to the performance of the Group during the vesting period, determine to what extent the LTIP performance targets are deemed to be satisfied, and the number of shares that vest. The Remuneration Committee may, in its discretion, adjust (upward or downwards, including by reducing to nil) the extent to which an LTIP award would otherwise vest if it considers that such vesting level:

- materially deviates from the intention of the Directors' Remuneration Policy; or
- is not appropriate in the context of circumstances that were unexpected or unforeseen at the date of grant; or
- is not reflective of overall corporate performance or of the executive's personal performance over the performance period, taking into account such factors as the Remuneration Committee considers relevant; or
- a similar discretion to override formulaic outcomes under the STIP can also be applied by the Remuneration Committee.

In appropriate circumstances, the Remuneration Committee may amend a performance condition provided that the amended condition is not materially less or more challenging to satisfy than the original condition was when set.

Furthermore, if before the end of the performance period there is a demerger, statutory reconstruction, change of control, compulsory acquisition or exercise prior to loss of corporation tax relief, the Remuneration Committee shall, acting fairly and reasonably, determine whether and to what extent a performance target shall be deemed to be satisfied.

Subject to the discretion of the Remuneration Committee, the Remuneration Policy may be amended to accommodate minor changes, for administrative, regulatory, tax or legislative purposes, without obtaining shareholder approval.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

(i) before the date the Company's first Remuneration Policy approved by shareholders in accordance with Section 439A of the Companies Act came into effect;

(ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration Policy in force at the time they were agreed; or

(iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" include the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

### Executive service contracts and recruitment remuneration arrangements

All Executive Directors have a service contract, comprising the remuneration elements detailed in the Remuneration Policy. There is no fixed length of service but the contract can be terminated by either party giving the other notice in writing for a period not exceeding (i) 12 months for the CEO and (ii) six months for the other executives.

On termination of the service contracts, the applicable payments for each of the remuneration elements are shown in the table on page 115. However, the Company reserves the right to make additional payments where such payments are made in good faith in discharge of an existing obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Directors' office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment. In certain circumstances, the Committee may, if it believes it is in the best interests of the Company, approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements.

The executive service contracts are available for inspection at the Company's registered office.

For future executive recruitment, or where an executive has been internally promoted, the elements and parameters shown above would be applicable. The base salary of new executives would be compared to the current executives and set at an appropriate level to the role. Bonuses and benefits would be in line with current executives, but pensions for new executives (whether externally appointed or internally promoted to the Board) from the start of the 2020 financial year would be aligned with the level of provision available to the majority of the workforce. Inclusion in the LTIP scheme would be at the Remuneration Committee's discretion within the limits set out in the policy table. There would be discretion to apply different performance measures or targets for an initial incentive award in exceptional circumstances. The Committee may provide costs and support if the recruitment requires relocation of the individual.

It is unlikely that additional compensation would be offered for the forfeit of any award from a previous employer but if such buyout awards were to be granted, the Remuneration Committee would generally seek to structure the awards on a comparable basis to awards forfeited.

If an Executive Director is appointed following the Company's acquisition of, or merger with, another company, legacy terms and conditions would be honoured.

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with the structure set out in the policy table for Non-executive Directors. If, in exceptional circumstances, a Non-executive Director was asked to assume an interim executive role, the Company retains the discretion to pay them appropriate executive compensation, in line with the policy.

### Re-election of Directors

All the Directors who wish to continue in office will be subject to re-election by shareholders at each AGM. In the event that an executive is not re-elected by shareholders at a general meeting of the Company, the executive would remain in office but would no longer be a member of the Board.

### Engagement with shareholders

The Company meets regularly with its major shareholders and feedback on remuneration has been taken into consideration in the establishment of this policy. Marc Wainer and Pieter Prinsloo are Non-executive Directors of the Company, representing the major shareholder Redefine Properties, and were present at the Board meeting that reviewed the Remuneration Policy amendments.

### Engagement with workforce

A meeting was held with the head office employees regarding their pay and how it aligned with that of the executives. The importance of CSR measures and the inclusion of CSR in their bonus objectives for 2020 was explained.

### Statement of consideration of employment conditions elsewhere in the Company

All employees have contracts with terms in line with standard market practice. Employees of the European portfolio are paid in Euros, and all other employees are paid in Sterling. Remuneration is similar in structure to the executive pay structures, containing the same three elements:

### Fixed element

Salary: All employees are offered a base salary. These are normally reviewed annually with changes effective 1 September and increases are in line with those offered to executives. However, as with the executives, the Company is under no obligation to award an increase following the review.

Benefits: Vary with seniority.

Pensions: To encourage employees to save for their retirement, the Company has agreed to contribute 5 per cent (2 per cent above the statutory minimum) on a matched basis for all employees.

### Short term incentive

Bonuses are paid entirely in cash and are awarded to all employees based on a personal performance measure. Bonuses are subject to the discretion of the executive or the Remuneration Committee for senior management. Payment of the bonus is usually conditional upon the employee being employed by the Group and notice not having been served on the date the bonus is paid.

### Long term incentive

Employees are eligible to participate in the Restricted Share Plan ("RSP") at the discretion of the Remuneration Committee. Under the RSP, share awards may be given as either a nil cost option award or as a contingent award. RSP awards are subject to performance targets set by the Remuneration Committee of which 50 per cent of the award is conditional on a corporate element with KPIs aligned to those of the executives' LTIP, and the remaining 50 per cent is derived from the grade achieved in each individual's annual performance review averaged across the performance period, the personal element. Shareholders approved the RSP at the EGM held on 29 November 2013 and authorised Directors to allot up to a maximum number of 4,600,000 ordinary shares for the purposes of the RSP. To date, 243,554 shares have vested, with most awards being settled in cash.

### Notice of Termination

For all employees, a notice period of between one and three months is required to terminate the contract and payment in lieu of notice will be given in appropriate circumstances.

## Directors' report
### Remuneration

# Annual report on remuneration

The information provided in this part of the Directors' remuneration report details how the Remuneration Policy approved by shareholders at the 2017 AGM has been implemented during the year ended 31 August 2019. This report, together with the Remuneration Committee Chairman's annual statement, will be subject to an advisory shareholder vote at the Annual General Meeting to be held on 23 January 2020.

### Single total figure of remuneration for Non-executive Directors (audited)

The table below shows the remuneration paid to all Non-executive Directors who served during the financial years ending 31 August 2019 and 31 August 2018. The Non-executive Directors do not receive any remuneration other than fees but are entitled to be reimbursed all reasonable travelling, hotel and other expenses properly incurred in attending meetings of the Board, committees of the Board, general meetings or otherwise in connection with the business of the Company.

| | Annual fees for 2019 | Actual fees paid for 2019 | Annual fees for 2018 | Actual fees paid for 2018 |
|---|---|---|---|---|
| Greg Clarke (former Chairman)(1) | — | — | 98,000 | 89,833 |
| Gavin Tipper (Chairman and former chair of the Audit and Risk Committee)(2) | 98,000 | 98,000 | 52,000 | 52,000 |
| Michael Farrow (Senior Independent Director and chair of the Remuneration Committee) | 52,000 | 52,000 | 52,000 | 52,000 |
| Sue Ford (chair of the Audit and Risk Committee) | 52,000 | 52,000 | 45,000 | 45,000 |
| Robert Orr (chair of the Investment Committee) (resigned 9 October 2019) | 52,000 | 52,000 | 52,000 | 52,000 |
| Liz Peace (chair of the CSR Committee)(3) | 52,000 | 52,000 | 45,000 | 34,986 |
| Marc Wainer | 45,000 | 45,000 | 45,000 | 45,000 |
| Bernie Nackan(4) | 45,000 | 18,750 | 45,000 | 45,000 |
| Pieter Prinsloo(5) | 45,000 | 15,774 | — | — |
| **Total** | 441,000 | 385,524 | 434,000 | 415,819 |

(1) Greg Clarke stepped down as Chairman of the Company on 24 July 2018. He received fees for his services as Chairman until 31 July 2018.
(2) Gavin Tipper was appointed Chairman of the Board with effect from 24 July 2018. His fee was adjusted with effect from 1 September 2018.
(3) Liz Peace was appointed as a Non-executive Director of the Company on 21 November 2017.
(4) Bernie Nackan retired from the Board on 24 January 2019. He received fees for his services until 31 January 2019.
(5) Pieter Prinsloo was appointed as a Non-executive Director of the Company on 24 April 2019.

### Payments to past Directors and for loss of office (audited)

Greg Clarke resigned from office as Chairman on 24 July 2018 and his fee ceased on 31 July 2018.

Bernie Nackan retired from the Board on 24 January 2019 and his fee ceased on 31 January 2019.

There were no other payments to former Directors during the year.

### Executive salaries

#### Single total figure of remuneration for Executive Directors (audited)

The table below shows remuneration paid to the Executive Directors during the financial years ending 31 August 2018 and 2019.

| | Year ending 31 August | Actual salary paid | Pension | Taxable benefits(1) | Annual bonus payable in respect of the financial year – cash | Annual bonus payable in respect of the financial year – deferred shares | LTIP shares vesting | Total remuneration received for year ended 31 August |
|---|---|---|---|---|---|---|---|---|
| Mike Watters | **2019** | **416,800** | **52,100** | **31,347** | **96,781** | **64,521** | **0** | **661,549** |
| | 2018 | 406,600 | 50,825 | 32,007 | 292,752 | 195,168 | 0 | 977,352 |
| Stephen Oakenfull | **2019** | **296,400** | **33,839** | **9,847** | **75,582** | **50,388** | **0** | **466,056** |
| | 2018 | 289,200 | 30,125 | 8,946 | 208,224 | 138,816 | 0 | 675,311 |
| Adrian Horsburgh | **2019** | **269,800** | **30,802** | **11,829** | **70,256** | **46,837** | **0** | **429,524** |
| | 2018 | 263,200 | 27,417 | 10,649 | 189,504 | 126,336 | 0 | 617,106 |
| Donald Grant | **2019** | **250,700** | **28,622** | **9,525** | **59,717** | **39,811** | **0** | **388,375** |
| | 2018 | 244,600 | 25,479 | 8,232 | 176,112 | 117,408 | 0 | 571,831 |

(1) Taxable benefits include the provision of private medical insurance, season ticket allowances and the CEO is given a £17,000 annual car allowance.

## Executive bonus (audited)

The maximum bonus for the year ended 31 August 2019 was capped at 150 per cent of annual base salary, with 40 per cent of any bonus being deferred in shares for two years.

Bonuses are based on the performance against three financial KPIs and each individual's personal objectives, apportioned as follows:

- 30 per cent underlying earnings;
- 30 per cent adjusted NAV;
- 15 per cent operating cash flow; and
- 25 per cent personal objectives.

The financial KPIs are compared to the Board approved budget as follows:

| Level of budget met | Bonus awarded (% of respective weighting) |
|---|---|
| Less than 90% of budget | Nil |
| Meeting budget | 50% |
| 120% of budget | 100% |

## Disclosure of annual bonus financial performance targets

Set out below are the financial performance targets and the Company's performance against these targets in respect of the year ended 31 August 2019. The annual bonus awards were based 75 per cent on financial measures and 25 per cent on the individual's performance against predetermined personal objectives during the year.

## Disclosure of 2019 annual bonus financial performance targets

| 2019 | Weighting | Target range[4] | Actual performance | Results | % pay-out of this element of the bonus[5] | Award to all executives % of salary[5] |
|---|---|---|---|---|---|---|
| Cash flow[1] | 22.5 | £16.6m – £22.1m | £16.3m | Below range | 0 | 0 |
| Earnings[2] | 45.0 | 12.4p – 16.5p | 13.0p | Within range | 34 | 15.3 |
| NAV growth[3] | 45.0 | +0.9% – +1.2% | (13.2)% | Below range | 0 | 0 |
| | | | | | | 15.3 |
| Personal objectives | 37.5 | Subject to performance and Remuneration Committee discretion | | Within range | 62.5 – 75.0 | 23.4 – 28.1 |
| **Total** | **150.0** | | | | | **38.7 – 43.4** |

(1) The Company's strategy of delivering sustainable and growing returns for shareholders is underpinned by its ability to cover dividends with operational cash flow. Ensuring debts are collected in a timely fashion is critical to the high pay-out model adopted by the Company.

(2) Earnings growth underpins our income led total return model. Growth in rents, but also strong cost control, converts rental income to dividends as efficiently as possible. As explained in the Remuneration Chairman's statement, the target range against which performance has been assessed is consistent with the revised budget approved by the Board in October 2018.

(3) Protecting and growing shareholder equity through sound capital allocation and capital recycling ensures the Company's investment decisions are well balanced and properly aligned to shareholder interests.

(4) As explained in the Remuneration Committee Chairman's statement on page 108, this target range is consistent with the revised budget approved by the Board in October 2018.

(5) The level of payout against the earnings was determined by the Remuneration Committee after an assessment of the impact of the derecognition of the Aviva financed UK Shopping Centre Portfolio, as discussed in the Remuneration Committee Chairman's statement on page 108.

# Annual report on remuneration
continued

### Executive bonus – personal objectives

The award made for personal objectives is at the Remuneration Committee's discretion. Each executive was set four personal objectives, one being a shared objective. Progress against these objectives, as considered by the Remuneration Committee, resulted in the following outcomes:

| | Name | Personal objectives | Outcome | Bonus outcome |
|---|---|---|---|---|
| 40% | ALL | Executives to set a short to medium term strategy (in conjunction with the Board) | ✓ | |
| 30% | Mike Watters | Determine a strategy to reduce the Group's exposure to retail shopping centres and timetable | ✓✓ | 23.4% (62.5% of maximum award) |
| 20% | | Explore strategic options for the hotel portfolio and make recommendations to the Board | ✓✓ | |
| 10% | | Succession planning for the executive and senior management team | ✓ | |
| 30% | Stephen Oakenfull | Develop strategic options to enhance RDI's investor universe and relative equity rating | ✓✓ | 27.2% (72.5% of maximum award) |
| 20% | | Ensuring certainty of medium term funding and achieving competitive market rates | ✓✓✓ | |
| 10% | | Enhance the quality and coverage of investor, analyst and key stakeholder engagement | ✓✓✓ | |
| 20% | Adrian Horsburgh | Enhance performance by continually reviewing/refining and implementing business plans | ✓✓✓ | 28.1% (75.0% of maximum award) |
| 20% | | Enhance performance by recycling assets and replacing with superior properties | ✓✓ | |
| 20% | | Seek out new opportunities and emerging sectors that may enhance the portfolio returns | ✓✓✓ | |
| 20% | Donald Grant | Improve quality of forecasting to provide clear internal and external guidance | ✓✓ | 24.4% (65.0% of maximum award) |
| 10% | | Simplify corporate structure for cost effective operation | ✓✓ | |
| 30% | | Active management of cash flow and procurement | ✓✓ | |

✓ Some progress
✓✓ Sound progress
✓✓✓ Good progress

### Executive Long Term Incentive Plans (audited)

On 31 October 2018, the Executive Directors received an LTIP award of shares worth 200 per cent of their 2018 salary. These awards are subject to the performance targets contained in the Remuneration Policy approved by shareholders at the AGM on 23 January 2017, measured over a three year performance period from 1 September 2018 to 31 August 2021. The award price was based on the share price at close of trading on 1 September 2018. LTIPs vest three years after the date of the contingent award, which must be made when the Company is not in a closed period.

The following contingent awards were made to Directors for the 2017, 2018 and 2019 financial years.

| 2019 | PSP contingent awards | Award price (p) | Value of award (£) | Basis on which award was made | Date of grant | Performance period | Performance conditions applicable (policy approved at 2017 AGM) | Date of vesting and vesting level achieved |
|---|---|---|---|---|---|---|---|---|
| Mike Watters | 482,611 | 168.5 | 813,200 | 200% of base salary | 31 October 2018 | Measured over the financial years ending<br>• 31 August 2019<br>• 31 August 2020<br>• 31 August 2021 | Vesting subject to the attainment of the performance targets being based on:<br>• 50% underlying earnings per share;<br>• 25% relative TSR; and<br>• 25% relative total property return | Awards will vest on 31 October 2021 |
| Stephen Oakenfull | 343,264 | 168.5 | 574,400 | | | | | |
| Adrian Horsburgh | 312,404 | 168.5 | 526,400 | | | | | |
| Donald Grant | 290,326 | 168.5 | 489,200 | | | | | |

| 2018[(1)] | PSP contingent awards | Award price (p) | Value of award (£) | Basis on which award was made | Date of grant | Performance period | Performance conditions applicable (policy approved at 2017 AGM) | Date of vesting and vesting level achieved |
|---|---|---|---|---|---|---|---|---|
| Mike Watters | 390,805 | 200.1 | 782,000 | 200% of base salary | 18 January 2018 | Measured over the financial years ending<br>• 31 August 2018<br>• 31 August 2019<br>• 31 August 2020 | Vesting subject to the attainment of the performance targets being based on:<br>• 50% underlying earnings per share;<br>• 25% relative TSR; and<br>• 25% relative total property return | Awards will vest on 18 January 2021 |
| Stephen Oakenfull | 277,961 | 200.1 | 556,200 | | | | | |
| Adrian Horsburgh | 252,974 | 200.1 | 506,200 | | | | | |
| Donald Grant | 235,082 | 200.1 | 470,400 | | | | | |

| 2017[(1)] | PSP contingent awards | Award price (p) | Value of award (£) | Basis on which award was made | Date of grant | Performance period | Performance conditions applicable (policy approved at 2017 AGM) | Vesting level achieved |
|---|---|---|---|---|---|---|---|---|
| Mike Watters | 339,688 | 219.3 | 774,766 | 200% of base salary | 25 January 2017 | Measured over the financial years ending<br>• 31 August 2017<br>• 31 August 2018<br>• 31 August 2019 | Vesting subject to the attainment of certain targets relating to the performance of the Company's TSR against the TSR of two comparator groups, each weighted at 50%:<br>• 50% underlying earnings per share;<br>• 25% relative TSR; and<br>• 25% relative total property return. | Nil as minimum threshold was not met for any of the measures |
| Stephen Oakenfull | 219,913 | 219.3 | 482,160 | | | | | |
| Adrian Horsburgh | 219,913 | 219.3 | 482,160 | | | | | |
| Donald Grant | 204,000 | 219.3 | 448,000 | | | | | |

(1) It should be noted that the shares awarded in 2017 and 2018 were consolidated into 40 pence shares on 11 February 2019, and the number of shares above have been restated accordingly.

Awards are based on the previous year's salary and were awarded at the share price at close on the first day of trading of each new performance period.

Awards cannot be made during closed periods and therefore awards are not granted until a closed or prohibited period has ended.

The awards will vest three years from the date of grant subject to continued employment and the satisfaction of performance targets. The figures above reflect the maximum number of shares that may vest. The actual number to vest will be dependent on performance against comparator targets over the applicable performance period.

## 2017, 2018 and 2019 LTIP awards vesting schedule

The 2017, 2018 and 2019 awards are subject to the LTIP policy approved by shareholders at the 2017 AGM with the relevant performance targets measured over a three year period being based on:

- 50 per cent on underlying earnings per share;
- 25 per cent on relative TSR; and
- 25 per cent on relative total property return.

The 2019 awards are subject to the following vesting schedule which forms part of our shareholder approved policy.

| Performance condition | Applicable measure | Vesting thresholds |
|---|---|---|
| Growth in underlying earnings per share | Immediately preceding financial year's earnings per share | • 25% on attaining previous earnings per share<br>• 100% on achieving average annual outperformance of CPI plus 1%<br>• Straight-line vesting between 25% and 100% |
| Relative TSR | FTSE EPRA/NAREIT Developed Europe Index | • 25% on achieving median performance<br>• 100% on achieving upper quartile performance<br>• Straight-line vesting between 25% and 100% |
| Relative total property return of the UK portfolio | UK All Property Index | • 25% for performance in line with index<br>• 100% achieved for 2% outperformance<br>• Straight-line vesting between 25% and 100% |

The Remuneration Committee may adjust (upward or downwards) the extent to which an LTIP award would otherwise vest if it considers that such level of vesting is not reflective of overall corporate performance or of the executive's personal performance.

## Directors' report
### Remuneration

# Annual report on remuneration
continued

### Statement of Directors' shareholdings and share interests (audited)

In respect of the current year, there were no requirements for Directors to own shares in the Company. However, the Remuneration Committee has addressed this in the Remuneration Policy that will be subject to shareholder approval at the Company's AGM in January 2020. With regard to shareholdings by independent non-executives, it is left to the individual's discretion. Some wish to align themselves with shareholders and others consider that the holding of shares compromises their independence. The table below shows the Directors' interests in shares as at 31 August 2019

| | Number of ordinary shares held as at 31 August 2019 | % of issued share capital | 2017 bonus[2] deferred shares due to vest on 29 November 2019 subject to continued employment | 2018 bonus[2] deferred shares due to vest on 1 December 2020 subject to continued employment | LTIP share awards due to vest on 18 January 2021 subject to performance conditions | LTIP share awards due to vest on 31 October 2021 subject to performance conditions | **Total** |
|---|---|---|---|---|---|---|---|
| Mike Watters | 1,350,871 | 0.36 | 95,258 | 115,827 | 390,805 | 482,611 | **2,435,372** |
| Stephen Oakenfull | 124,707 | 0.03 | 67,753 | 82,383 | 277,961 | 343,264 | **899,068** |
| Adrian Horsburgh | 12,836 | 0.00[1] | 61,662 | 74,977 | 252,974 | 312,404 | **714,853** |
| Donald Grant | 15,000 | 0.00[1] | 57,301 | 69,678 | 235,082 | 290,326 | **667,387** |
| Gavin Tipper | 101,726 | 0.03 | | | | | **101,726** |
| Michael Farrow | 0 | 0.00 | | | | | **0** |
| Sue Ford | 0 | 0.00 | | | | | **0** |
| Robert Orr (resigned 9 October 2019) | 4,706 | 0.00[1] | | | | | **4,706** |
| Liz Peace | 0 | 0.00 | | | | | **0** |
| Marc Wainer | 996,365 | 0.26 | | | | | **996,365** |
| Pieter Prinsloo | 0 | 0.00 | | | | | **0** |
| Bernie Nackan (retired 24 January 2019) | 4,316 | 0.00[1] | | | | | **4,316** |
| **Total** | **2,610,527** | **0.69** | | | | | **5,823,793** |

(1) Less than 0.01 per cent.

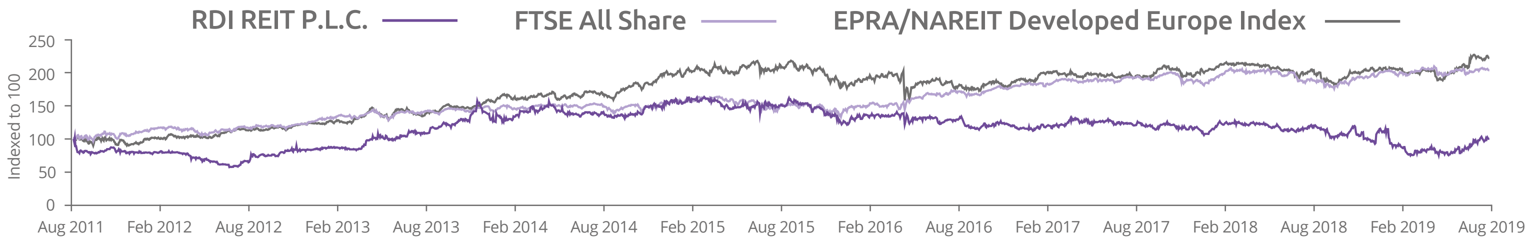
(2) It should be noted that the shares awarded in 2017 and 2018 were consolidated into 40p shares on 11 February 2019, and the number of shares above have been altered accordingly.

There have been no changes to Directors' shareholdings between 1 September 2019 and the date of this document.

2019 bonus deferred shares will be calculated with reference to the closing share price on 28 November 2019, and will be awarded to Executive Directors on 2 December 2019.

### Comparables
#### Company performance graph

The table below illustrates the performance of the Company, since the merger of Wichford P.L.C. and Redefine International plc in August 2011. This is measured against the performance of EPRA and the FTSE All Share Index, both of which the Company is a constituent.




The table below shows the total annual remuneration figure for the CEO for the years since the internalisation of management in December 2013.

| | For the year ending 31 August | Total remuneration | Annual bonus awarded as a percentage of the maximum possible award | LTIP vesting |
|---|---|---|---|---|
| **Mike Watters** | **2019** | **661,549** | **26%** | **0%** |
| Mike Watters | 2018 | 977,352 | 80% | 0% |
| Mike Watters | 2017 | 948,059 | 81% | 0% |
| Mike Watters | 2016 | 637,038 | 55% | 0% |
| Mike Watters | 2015 | 606,647 | 55% | n/a |
| Mike Watters | 2014 | 490,600 | 55% | n/a |

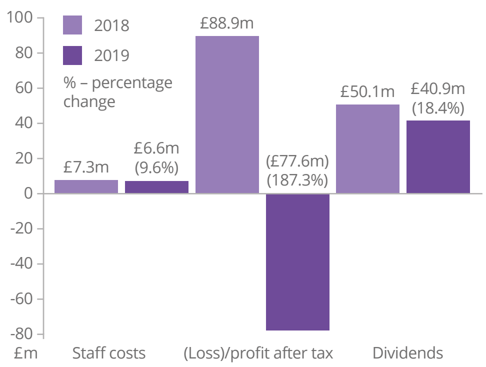
## Percentage change in remuneration of CEO

Pursuant to the salary reviews on 1 September 2019, the following increase in base salary, benefits and bonus (relative to prior year base salary, benefits and bonus) for the CEO is compared to the median of both senior management (being those employees with reporting lines to an Executive Director) and the median of the employees in the Company's head office, who are determined to be the most appropriate benchmark, due to the nature and location of the Company's residual workforce.

| Base salary | 2019 Salary[1] | Benefits[2] | Bonus[3] |
|---|---|---|---|
| Mike Watters | +2.25% | -2.1% | -66.9% |
| Median senior manager | +4.9% | +159.4% | +8.1% |
| Median employee | +4.7% | +195.6% | +4.6% |

(1) The base salary comparison is in relation to the 1 September 2019 salary review.
(2) The benefits comparison is in relation to benefits for the 2019 financial year compared to 2018.
(3) The bonus comparison is in relation to bonus for 2019 performance compared to bonus for 2018 performance.

## Relative importance of spend on pay




## Pensions

A workplace pension has been provided to all employees since 1 September 2016. The 1 per cent minimum contribution was increased from 6 April 2018 to 2 per cent of salary and was increased to 5 per cent from 1 September 2018, in excess of the required minimum contribution.

As part of the remuneration package approved by shareholders on 23 January 2017, the Company makes pension contributions to the executives' base salary of up to 12.5 per cent.

The Remuneration Policy, to be reviewed and approved by shareholders at the 2020 AGM, will align the pension of all new executives with that of the employees.

## Consideration by the Directors of matters relating to Directors' remuneration

The Directors who have served on the Remuneration Committee during the reporting year can be found on page 104.

No executives attend formal meetings of the Remuneration Committee other than when invited to discuss a specific matter. Deloitte were appointed as the Company's advisers in October 2016. Deloitte are members of the Remuneration Consultants Group and have no connection to the Company. The Remuneration Committee is satisfied that the advice received has been objective and independent.

Total fees paid to Deloitte during the financial year were £15,930 (2018: £12,620). Advice received was duly considered by the Remuneration Committee, and the Committee's proposals were presented to the Board for approval.

## Statement of voting at the Annual General Meeting

At the Company's AGM held on 24 January 2019, the Directors' remuneration report for the year ending 31 August 2018 was approved by shareholders. The voting results were as follows:

| Resolution | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| To approve the annual report on remuneration for the year ended 31 August 2018 | 1,261,071,029 | 99.81 | 2,369,824 | 0.19 | 5,627,008 |

At the Company's AGM held on 23 January 2017, the current Remuneration Policy was approved by shareholders. The results were as follows:

| Resolution | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| To approve the Directors' Remuneration Policy | 1,000,333,466 | 79.91 | 251,542,808 | 20.09 | 9,433,156 |

## Approval

This report was approved by the Board of Directors on 24 October 2019 and is signed on its behalf by:

**Michael Farrow**
Chair of the Remuneration Committee

24 October 2019

# Additional disclosures to the Directors' report

The Directors' report comprises pages 82 to 127 together with certain sections of the Annual Report incorporated by reference as outlined below:

- Annual General Meeting is to be held at 11.00 a.m. on 23 January 2020 at 20 St Dunstan's Hill, London EC3R 8HL;
- description of the business model can be found on page 16;
- future developments and the outlook for the Company are contained in the CEO report on page 12;
- important events that have taken place since the end of the financial year are described on page 196;
- details of financial instruments, and the financial risk management objectives and policies of the Company are detailed in pages 185;
- principal risks and uncertainties pertaining to the Group and the way in which it manages and controls these risks are outlined in the strategic report on page 19;
- the Company's three year viability statement can be found on page 23;
- disclosures regarding the employment of disabled people, human rights, social matters and employee involvement are contained in the corporate social responsibility report on page 63, although it should be noted that the Company employs less than 250 people;
- disclosures regarding employee engagement can be found on pages 76 and 117;
- how the Board has fostered business relationships with suppliers, customers and others can be found on page 74;
- principal decisions taken during the year are disclosed on page 76 and discussed in the Chairman's statement on page 84;
- diversity policy for the Group can be found on page 63 and the targets that have been set for the Board can be found on page 89;
- details regarding the Company's anti-bribery policy are found on page 63; and
- environmental and greenhouse gas reporting is included in the corporate social responsibility report on page 70.

## Results and proposed dividends

The consolidated statement of comprehensive income is set out on page 134 and shows a loss attributable to equity holders of the Parent of £76.7 million.

The Board declared an interim cash dividend of 4.0 pence per share on 25 April 2019, which was paid entirely in cash.

The Board has declared a second interim dividend of 6.0 pence per share to be paid on 10 December 2019 to those shareholders on the register as at 22 November 2019. This will result in a total dividend of 10.0 pence per share for the financial year. No scrip alternative has been offered on this occasion.

## Going concern

At 31 August 2019, the Group's cash and undrawn facilities were £53.9 million and its capital commitments were £16.4 million. Mindful of transactions occurring post the balance sheet date and having considered severe but plausible scenarios, the Directors are satisfied that the security of the Group's income taken together with an average debt maturity profile of 3.7 years, headroom against financial covenants and strong interest cover, continue to provide a reasonable expectation that the Group will have the resources it requires to meet ongoing and future commitments notwithstanding the unprecedented level of uncertainty currently facing the United Kingdom. Accordingly, the 2019 consolidated financial statements have been prepared on a going concern basis.

## Issued share capital

As at 31 August 2019, the Company's total issued share capital was 380,089,923 ordinary shares of 40.0 pence each.

On 24 January 2019, shareholders approved a share consolidation of every five ordinary shares issued, and to be issued as at 8 February 2019, into one ordinary share of 40 pence each (the "Consolidation"). The Consolidation was completed on 11 February 2019.

Further details of the authorised and issued share capital are shown in Note 27 to the consolidated financial statements. RDI has one class of share; all shares rank equally and are fully paid.

## Voting rights and restrictions of transfers of shares

Shareholders are entitled to receive notice of, to attend and to vote at, all general meetings of the Company. Further details on the voting rights of shareholders can be found in the Company's Articles, available on the website **www.rdireit.com**.

There are no specific restrictions on the size of shareholding nor on the transfer of ordinary shares imposed by the Articles of Association of the Company.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights, with one exception. In September 2016, Redefine Properties Limited issued a €150 million secured five year exchangeable bond exchangeable into shares of RDI REIT P.L.C. (the "Exchange Property"). This bond, and connected stock lending agreements, may result in restrictions on the transfer of securities or voting rights in connection with the Exchange Property. At 31 August 2019, €117.2 million remained outstanding.

## Notified shareholdings

As at the date of this report, the Company had been notified, or was otherwise aware, of the following persons who were directly or indirectly interested in three per cent or more of the issued share capital of the Company.

| Shareholder | Shareholding | Percentage held |
|---|---|---|
| Redefine Properties Limited | 111,883,112 | 29.44 |
| Allan Gray Asset Management | 30,982,871 | 8.15 |

## Dealings of Directors and their persons closely associated

The Company adheres to a strict Share Dealing Code in line with the Market Abuse Regulations, which prohibits persons discharging managerial responsibility ("PDMR") dealing in shares for a designated period preceding the announcement of its annual and interim financial results, or any other period considered price sensitive. PDMRs are advised of such periods and acknowledge their obligations and potential sanctions if the obligations are breached. Dealings in shares by PDMRs are strictly monitored during the year with the necessary RNS announcements and FCA notifications being made in respect of dealings performed by PDMRs or persons closely associated with them, as required.

During the year the following Directors' and former Directors' dealings occurred and were reported to the market:

| | Number of ordinary shares held as at 1 September 2018 | Acquisition 26 April 2019 | Acquisition 26 April 2019 | RBH distribution in specie 8 May 2019 | **Number of ordinary shares held as at 31 August 2019** |
|---|---|---|---|---|---|
| Gavin Tipper | 101,726 | — | — | — | **101,726** |
| Mike Watters (CEO)[(1)] | 1,330,686 | 16,000 | 4,185 | — | **1,350,871** |
| Stephen Oakenfull (Deputy CEO)[(2)] | 124,707 | — | — | — | **124,707** |
| Adrian Horsburgh | 12,836 | — | — | — | **12,836** |
| Donald Grant | 15,000 | — | — | — | **15,000** |
| Michael Farrow | — | — | — | — | **—** |
| Sue Ford | — | — | — | — | **—** |
| Robert Orr (resigned 9 October 2019) | 4,706 | — | — | — | **4,706** |
| Marc Wainer[(3)] | 967,642 | — | — | 28,723 | **996,365** |
| Pieter Prinsloo | — | — | — | — | **—** |
| Bernie Nackan (retired 24 January 2019) | 4,316 | — | — | — | **4,316** |
| **Total** | 2,561,619 | 16,000 | 4,185 | 28,723 | **2,610,527** |

(1) Mike Watters' shares are held through a pension fund structure.

(2) Stephen Oakenfull owns 10,000 shares in his own name and has a beneficial interest in 114,707 shares which are held in his wife's name.

(3) Marc Wainer holds 7,067 shares in his own name and has a beneficial interest in 989,299 shares of which a 40,066 shareholding is held in his wife's name, a 71,368 shareholding is held through the Drawood Trust and a 1,755,730 shareholding is held by Ellwain Investments (Pty) Limited of which he is a 50 per cent shareholder.

Directors' interests in the ordinary shares, including contingent awards made pursuant to the LTIP and deferred bonus shares, can be found in the Directors' remuneration report on page 122 and are set out in Note 32 "Related Party Transactions".

# Additional disclosures to the Directors' report continued

## Directors' appointment and Directors' powers

Subject to the Isle of Man Companies Act 2006, the Articles of Association of the Company and any directions given by special resolution of the Company, the business of the Company shall be managed by the Board, which shall exercise all the powers of the Company whether relating to the management of the business or not.

Subject to the provisions of the Isle of Man Companies Act 2006 and the Articles of Association of the Company, the Board shall have the power to appoint a person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed must retire at the next AGM and put themselves forward for re-election by the shareholders.

In addition to any power of removal conferred by the Isle of Man Companies Act 2006, the Company may by ordinary resolution remove any Director before the expiration of his period in office, and by ordinary resolution appoint another person who is willing to act as a Director in his or her place.

## Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs during a takeover bid. However, in the event of a takeover, scheme of arrangement, demerger or winding up of the Company, any awards made to the Executive Directors under the Performance Share Plan may vest early, subject to the relevant performance targets being met and at the discretion of the Remuneration Committee.

## Amendment of Articles

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders. The Company's Articles of Association were last amended on 24 January 2019.

## Political donations

During the financial year, RDI REIT P.L.C. made no political donations.

**Donald Grant**
Chief Financial Officer

24 October 2019

# Statement of Directors' responsibilities
## in respect of the Directors' report and financial statements

The Directors are responsible for preparing the Directors' report and the Group and Company financial statements in accordance with applicable law and regulations.

They have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that year. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Isle of Man Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of Group and Company financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

We confirm that to the best of our knowledge:

- the Group and Company financial statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position at 31 August 2019, and loss of the Group and profit of the Company for the year then ended, in addition to the undertakings included in the consolidation taken as a whole;
- the Directors' report and strategic report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the adoption of a going concern basis for the preparation of the Group and Company financial statements continues to be appropriate based on the year end position and having reviewed the forecast financial position of the Group.

We consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's position and performance, business model and strategy.

Signed on behalf of the Board on 24 October 2019.

**Mike Watters**
Chief Executive Officer

**Donald Grant**
Chief Financial Officer

# Independent auditor's report

to the members of RDI REIT P.L.C.

## 1. Our opinion is unmodified

We have audited the financial statements of RDI REIT P.L.C. ("the Company") and its subsidiaries (together "the Group") for the year ended 31 August 2019 which comprise the Group and Company Income statements, Statements of comprehensive income, Balance sheets, Statement of changes in equity, Statements of cash flows, and the related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 August 2019 and of the Group's loss and Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs as issued by the IASB"); and
- have been properly prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

| Overview | |
|---|---|
| **Materiality:** Group financial statements as a whole | £15.0m<br>1% of total assets |
| Lower materiality applied to certain items | £2.3m<br>Applied to rental and other income, expenses (administrative and rental) and finance expense |
| **Coverage** | 99.5% of total assets |
| **Key audit matters** | |
| **Group** | The impact of uncertainties due to the UK exiting the European Union on our audit |
| | Valuation of investment properties |
| **Group and the Parent Company** | Going concern |
| **Parent Company** | Recoverability of investment in subsidiary undertakings |

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## 2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, were as follows:

| | The risk | Our response |
|---|---|---|
| **The impact of uncertainties due to the UK exiting the European Union on our audit (Group)**<br>Refer to page 23 (Principal risks and viability) | **Unprecedented levels of uncertainty:**<br>All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on the valuation of investment properties, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.<br>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the Viability Statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.<br>100% (2018: 84%) of the investment properties and 5% (2018: 0%) of the non-current assets held for sale are located across the UK. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. | We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:<br>1. **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.<br>2. **Sensitivity analysis:** When addressing the valuation of investment properties and areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.<br>3. **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of investment properties we considered all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. |

| | The risk | Our response |
|---|---|---|
| **Going concern (Group and Parent Company)**<br>Refer to page 23 (Principal risks and viability) and page 141 (accounting policy) | **Disclosure quality:**<br>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the Company.<br><br>That judgement is based on an evaluation of the inherent risks to the Group and Company's business model, in particular, risks associated with Brexit, and how those risks might affect the Group and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.<br><br>The risks most likely to adversely affect the Group and Company's available financial resources over this period, which are impacted by Brexit, were:<br>• significant falls in real estate values impacting loan covenants and cash flows;<br>• tenant default impacting cash flow; and<br>• increased cost of debt impacting cash flows.<br><br>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed. | Our procedures included:<br>1. **Funding assessment:** Analysing the Group and Company's financing terms and reviewing Directors' forecasts and assumptions for ongoing covenant compliance and available headroom.<br>2. **Benchmarking assumptions:** Comparing the Group and Company's assumptions used in the cash flow projections to externally derived data in relation to key inputs such as property market valuation and cost inflation.<br>3. **Sensitivity analysis:** Considering sensitivities over the level of available financial resources indicated by the Group and Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, such as a fall in property values as a result of Brexit.<br>4. **Assessing transparency:** Assessing the completeness and accuracy of the disclosures in the Annual Report by assessing whether they reflect the position of the Group and Company's financing and the risks associated with the Group and Company's ability to continue as a going concern. |
| **Valuation of investment properties and non-current assets held for sale (Group)**<br>(2019: £1,150.3 million, £242.3 million; 2018: £1,598.0 million, £Nil)<br><br>Refer to page 100 (Audit and Risk Committee Report), page 144 (accounting policy) and pages 158 to 161 (financial disclosures). | **Subjective valuation:**<br>The Group owns a portfolio of property which includes shopping centres, retail parks, offices and hotels. 100% (2018: 84%) of the investment properties and 5% (2018: 0%) of the non-current assets held for sale are located across the UK while the remainder of the assets are located in Germany. This was identified as a key audit matter given the valuation of the investment property portfolio is inherently subjective and complex due to, among other factors, the nature and location of each property, occupancy, the expected future rental income, tenant covenant strength, yields and discount rates.<br><br>The wider challenges currently facing the UK retail real estate markets further contributed to the subjectivity for the year ended 31 August 2019.<br><br>The valuation is carried out by external valuers, Savills for the majority of the portfolio and BNP for the shopping centre portfolio (as defined in note 15 ), in accordance with the RICS Valuation – Professional Standards and the Group accounting policies which incorporate the requirements of International Accounting Standard 40, 'Investment Property'.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole due to the magnitude of the balance and the subjective nature of the valuation methodology and inputs which depend on the individual nature of each property. The financial statements (note 15) provide the Group's sensitivity disclosure. | Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), included:<br>1. **Assessing valuers' credentials:** Assessing the Group's external property valuers' objectivity, professional qualifications and capabilities through discussions with the valuers and reading their valuation report and terms of engagement.<br>2. **Methodology choice:** Critically assessing whether the valuation report and the valuation methodology adopted is in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards and that the methodology adopted was appropriate by reference to acceptable valuation practice.<br>3. **Benchmarking assumptions:** We selected a sample of properties using various criteria including analysis of capital movements by comparison to industry indices or published market trends. We held discussions with the Group's external property valuers to critically assess movements in property values for the sample selected. We evaluated and challenged the key assumptions upon which these valuations were based, by making a comparison to our own understanding of the market, comparable evidence relied on by the valuers and to industry benchmarks.<br>4. **Assessing transparency:** Considering the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of valuation of investment properties and non-current assets held for sale and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. |

# Independent auditor's report continued

to the members of RDI REIT P.L.C.

## 2. Key audit matters: our assessment of risks of material misstatement continued

| | The risk | Our response |
|---|---|---|
| **Recoverability of investment in subsidiary undertakings (Parent)**<br>(2019: £644.6 million; 2018: £657.1 million)<br>Refer to page 142 (accounting policy) and pages 162 and 183 (financial disclosures). | **Low risk, high value**<br>The carrying amount of the parent Company's investments in subsidiaries represents 98.2% (2018: 96.9%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit. | Our procedures included:<br>1. **Tests of detail:** Assessing the carrying value of the subsidiaries for any objective indicators of impairment and assessing the accuracy of management's fair value and impairment calculations, using EPRA NAV as fair value. |

## 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £15.0 million, determined with reference to a benchmark of total assets, of which it represents 1%.

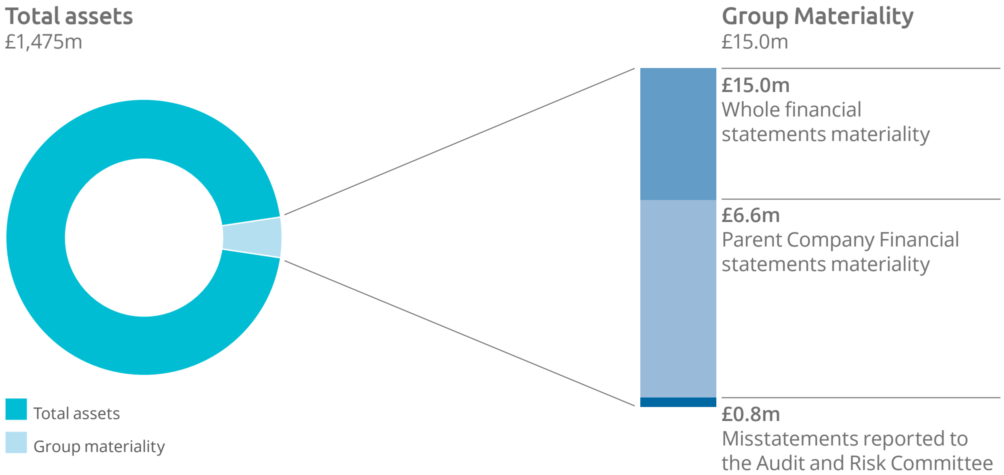
In addition, we applied a lower materiality of £2.3 million, to rental and other income, expenses (administrative and rental) and finance costs, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the Company's members' assessment of the financial performance of the Group.

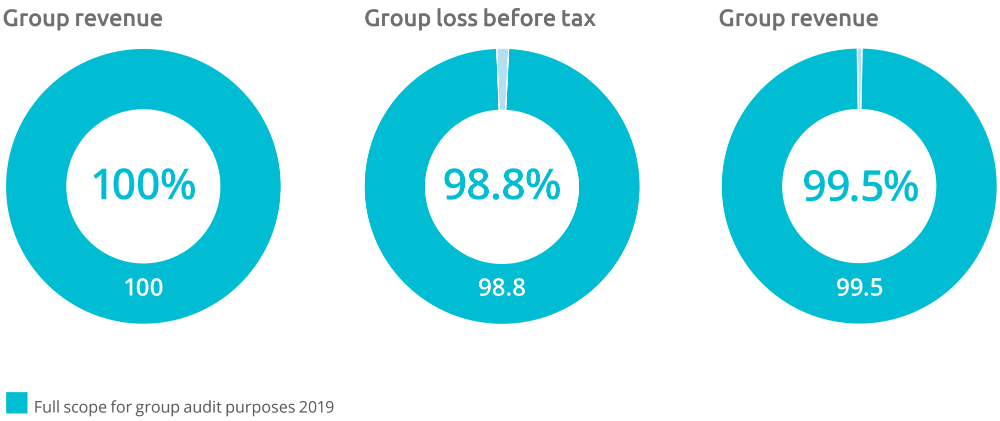
Materiality for the parent Company financial statements as a whole was set at £6.6 million, determined with reference to a benchmark of Company total assets, of which it represents 1%.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected misstatements exceeding £0.8 million or £0.1 million for misstatements of accounts audited to the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group consists of a number of components, which, with the exception of the London Serviced Office Portfolio ("LSO") entities and the Group's 25.3 per cent associate investment in RBH Hotel Group Limited ("RBH"), are accounted for at the Group's head office in London. The Group audit team audited the LSO components and the audit of all other components (including the audit of the Company), with the exception of RBH, within the Group as if it were a single aggregated set of financial information. These components represent 99.5 per cent of total assets, 98.8 per cent of Group loss before tax and 100 per cent of Group revenue. The audit was performed using the materiality levels set out above.

The remaining 0.5 per cent of total Group assets and 1.2 per cent of Group profit before tax is represented by the Group's investment in RBH, which is considered immaterial.



## 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

## 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Directors' remuneration report

In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company was required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

### Disclosures of principal risks and longer term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability statement (page 23) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability statement (page 23) as to how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's longer term viability.

### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

## 6. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 127, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## 7. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Section 80 (c) of the Isle of Man Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Richard Kelly** (Responsible Individual)
for and on behalf of KPMG LLP

Chartered Accountants and Recognised Auditors
15 Canada Square
London E14 5GL

24 October 2019

# Income statements
## for the year ended 31 August 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | | Re-presented[1] | | |
| Continuing operations | Note | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **Revenue** | 3 | **93.5** | 95.1 | **0.4** | 0.3 |
| Rental income | 4 | **90.8** | 93.3 | **—** | — |
| Rental expense | 5 | **(10.0)** | (8.6) | **—** | — |
| **Net rental income** | | **80.8** | 84.7 | **—** | — |
| Other operating income | 6 | **2.7** | 1.8 | **0.4** | 0.3 |
| Administrative costs and other fees | 7 | **(13.2)** | (13.4) | **(6.1)** | (6.7) |
| **Net operating income/(expense)** | | **70.3** | 73.1 | **(5.7)** | (6.4) |
| (Loss)/gain on revaluation of investment property | 15 | **(56.6)** | 4.7 | **—** | — |
| Gain on revaluation of investment property held for sale | 22 | **—** | 0.9 | **—** | — |
| (Loss)/gain on disposal of investment property | 15 | **(1.7)** | 1.6 | **—** | — |
| Gain on disposal of investment property held for sale | 22 | **—** | 1.8 | **—** | — |
| Loss on disposal of subsidiaries | 8 | **—** | (0.7) | **—** | — |
| Loss of control of Aviva Portfolio | 9 | **(55.6)** | — | **—** | — |
| (Loss)/gain on acquisition of subsidiaries | 10 | **(0.4)** | 4.4 | **—** | — |
| Other expense | 11 | **(0.2)** | (0.4) | **—** | — |
| Foreign exchange (loss)/gain | | **—** | (0.8) | **0.5** | (0.8) |
| | | **(44.2)** | 84.6 | **(5.2)** | (7.2) |
| **Intra-group transactions** | | | | | |
| Settlement of loans | 32 | **—** | — | **—** | (5.2) |
| Impairment of investment | 32 | **—** | — | **(0.2)** | — |
| Finance expense | 32 | **—** | — | **(2.0)** | — |
| Distributions | 32 | **—** | — | **13.2** | 149.8 |
| **(Loss)/profit from operations** | | **(44.2)** | 84.6 | **5.8** | 137.4 |
| Finance income | 12 | **0.2** | 0.2 | **0.1** | — |
| Finance expense | 12 | **(25.6)** | (26.5) | **—** | — |
| Other finance expense | 13 | **(0.3)** | — | **—** | — |
| Change in fair value of derivative financial instruments | | **(9.4)** | 5.5 | **—** | — |
| | | **(79.3)** | 63.8 | **5.9** | 137.4 |
| Share of post-tax profit from associate | 18 | **0.9** | 0.3 | **—** | — |
| (Impairment)/impairment reversal of associate and continuing joint venture interest | 17, 18 | **(1.4)** | 0.1 | **—** | — |
| **(Loss)/profit before tax** | | **(79.8)** | 64.2 | **5.9** | 137.4 |
| Taxation | 14 | **(0.3)** | (0.8) | **(0.1)** | — |
| **(Loss)/profit for the year attributable to continuing operations** | | **(80.1)** | 63.4 | **5.8** | 137.4 |
| Profit from discontinued operation[2] | 3 | **5.3** | 32.9 | **—** | — |
| **(Loss)/profit for the year** | | **(74.8)** | 96.3 | **5.8** | 137.4 |

| | Note | Group Year ended 31 August 2019 £m | Group Re-presented[(1)] Year ended 31 August 2018 £m | Company Year ended 31 August 2019 £m | Company Year ended 31 August 2018 £m |
|---|---|---|---|---|---|
| (Loss)/profit attributable to: | | | | | |
| **Equity holders of the Parent** | | | | | |
| From Continuing operations | | **(82.4)** | 57.4 | **5.8** | 137.4 |
| From Discontinued operation | | **4.8** | 31.5 | **—** | — |
| | | **(77.6)** | 88.9 | **5.8** | 137.4 |
| **Non-controlling interests** | | | | | |
| From Continuing operations | 29 | **2.3** | 6.0 | **—** | — |
| From Discontinued operation | 29 | **0.5** | 1.4 | **—** | — |
| | | **2.8** | 7.4 | **—** | — |
| | | **(74.8)** | 96.3 | **5.8** | 137.4 |
| **Earnings per share** | | | | | |
| Weighted average number of shares (millions) | 35 | **380.1** | 377.3[(3)] | **380.1** | 377.3[(3)] |
| Diluted weighted average number of shares (millions) | 35 | **380.1** | 378.5[(3)] | **380.9** | 378.5[(3)] |
| **Earnings per share from continuing operations** | | | | | |
| Basic earnings per share (pence) | 35 | **(21.7)** | 15.2 | **1.5** | 36.4 |
| Diluted earnings per share (pence) | 35 | **(21.7)** | 15.2 | **1.5** | 36.3 |
| **Total earnings per share** | | | | | |
| Basic earnings per share (pence) | 35 | **(20.4)** | 23.6 | **1.5** | 36.4[(3)] |
| Diluted earnings per share (pence) | 35 | **(20.4)** | 23.5 | **1.5** | 36.3[(3)] |

(1) Refer to Note 2.2 Basis of Preparation regarding the re-presentation of comparatives on reclassification of the Europe Segment as a discontinued operation.

(2) Included in the Profit from discontinued operation is the Group's share of post-tax profits from joint ventures of £0.9 million (31 August 2018: £Nil). Refer to Note 17.

(3) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative weighted average number of shares and related earnings per share have been re-presented. Refer to Note 27.

The accompanying notes form an integral part of these financial statements.

## Financial statements

# Statements of comprehensive income
for the year ended 31 August 2019

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | | Re-presented[1] | | |
| | | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **(Loss)/profit for the year** | | **(74.8)** | 96.3 | **5.8** | 137.4 |
| **Other comprehensive income/(expense)** | | | | | |
| **Items that may be transferred to the income statement** | | | | | |
| Other comprehensive income/(expense) from discontinued operation | | **0.9** | (5.5) | **—** | — |
| **Total other comprehensive income/(expense)** | | **0.9** | (5.5) | **—** | — |
| **Total comprehensive (expense)/income for the year** | | **(73.9)** | 90.8 | **5.8** | 137.4 |
| Total comprehensive (expense)/income attributable to: | | | | | |
| **Equity holders of the Parent** | | **(76.7)** | 83.4 | **5.8** | 137.4 |
| **Non-controlling interests** | 29 | **2.8** | 7.4 | **—** | — |
| | | **(73.9)** | 90.8 | **5.8** | 137.4 |
| Total comprehensive (expense)/income arising from: | | | | | |
| Continuing operations | | **(80.1)** | 63.4 | **5.8** | 137.4 |
| Discontinued operation | | **6.2** | 27.4 | **—** | — |
| | | **(73.9)** | 90.8 | **5.8** | 137.4 |

(1) Refer to Note 2.2 Basis of Preparation regarding the re-presentation of comparatives on reclassification of the Europe Segment as a discontinued operation.

The accompanying notes form an integral part of these financial statements.

# Balance sheets
## as at 31 August 2019

| | Note | Group 31 August 2019 £m | Group 31 August 2018 £m | Company 31 August 2019 £m | Company 31 August 2018 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment property | 15 | **1,150.3** | 1,598.0 | **—** | — |
| Investment in subsidiaries | 16 | **—** | — | **644.6** | 657.1 |
| Investment in joint ventures | 17 | **2.9** | 1.9 | **—** | — |
| Loans to joint ventures | 17 | **5.1** | 5.2 | **—** | — |
| Investment in associate | 18 | **7.6** | 9.1 | **—** | — |
| Other non-current assets | 19 | **0.9** | 1.3 | **—** | — |
| Derivative financial instruments | 24 | **—** | 1.1 | **—** | — |
| Other receivables | 20 | **10.1** | 11.2 | **—** | — |
| **Total non-current assets** | | **1,176.9** | 1,627.8 | **644.6** | 657.1 |
| **Current assets** | | | | | |
| Trade and other receivables | 20 | **22.8** | 7.1 | **4.8** | 4.7 |
| Cash and cash equivalents | 21 | **33.0** | 59.0 | **7.1** | 16.2 |
| | | **55.8** | 66.1 | **11.9** | 20.9 |
| Non-current assets and disposal group held for sale | 22 | **242.3** | — | **—** | — |
| **Total current assets** | | **298.1** | 66.1 | **11.9** | 20.9 |
| **Total assets** | | **1,475.0** | 1,693.9 | **656.5** | 678.0 |
| **Non-current liabilities** | | | | | |
| Borrowings, including finance leases | 23 | **(657.4)** | (784.2) | **—** | — |
| Derivative financial instruments | 24 | **(12.7)** | (2.9) | **—** | — |
| Deferred tax | 25 | **(7.5)** | (9.5) | **—** | — |
| Other payables | 26 | **(0.1)** | (0.2) | **(0.1)** | (0.2) |
| **Total non-current liabilities** | | **(677.7)** | (796.8) | **(0.1)** | (0.2) |
| **Current liabilities** | | | | | |
| Borrowings, including finance leases | 23 | **(29.1)** | (5.4) | **—** | — |
| Trade and other payables | 26 | **(24.0)** | (26.9) | **(28.0)** | (14.5) |
| Derivative financial instruments | 24 | **(0.1)** | — | **—** | — |
| Current tax | | **(1.1)** | (2.0) | **(0.1)** | — |
| **Total current liabilities** | | **(54.3)** | (34.3) | **(28.1)** | (14.5) |
| **Total liabilities** | | **(732.0)** | (831.1) | **(28.2)** | (14.7) |
| **Net assets** | | **743.0** | 862.8 | **628.3** | 663.3 |
| **Equity** | | | | | |
| Share capital | 27 | **152.0** | 152.0 | **152.0** | 152.0 |
| Share premium | 27 | **534.6** | 534.6 | **534.6** | 534.6 |
| Other components of equity | | **(1.0)** | 116.7 | **(58.3)** | (23.3) |
| **Total attributable to equity holders of the Parent** | | **685.6** | 803.3 | **628.3** | 663.3 |
| Non-controlling interests | 29 | **57.4** | 59.5 | **—** | — |
| **Total equity** | | **743.0** | 862.8 | **628.3** | 663.3 |

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 24 October 2019 and were signed on its behalf by:

**Mike Watters**
Chief Executive Officer

**Donald Grant**
Chief Financial Officer

# Statement of changes in equity

## for the year ended 31 August 2019

| Group | Note | Share capital £m | Share premium £m | Retained profit/ (loss) £m | Other reserves £m | Foreign currency translation reserve £m | Total attributable to equity holders of the Parent £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 September 2018** | | 152.0 | 534.6 | 95.5 | 3.3 | 17.9 | 803.3 | 59.5 | 862.8 |
| **(Loss)/profit for the year** | | — | — | (77.6) | — | — | (77.6) | 2.8 | (74.8) |
| **Items that may be transferred to the income statement** | | | | | | | | | |
| Other comprehensive income from discontinued operation – foreign currency translation | | — | — | — | — | 0.9 | 0.9 | — | 0.9 |
| **Total comprehensive (expense)/income for the year** | | — | — | (77.6) | — | 0.9 | (76.7) | 2.8 | (73.9) |
| **Transactions with equity holders of the Parent** | | | | | | | | | |
| Dividends paid | | — | — | (40.9) | — | — | (40.9) | — | (40.9) |
| Release of non-distributable reserve | 28 | — | — | 1.0 | (1.0) | — | — | — | — |
| Release of share-based payment reserve | 28 | — | — | 1.7 | (1.7) | — | — | — | — |
| Additional payment in relation to Restricted Stock Plan | 28 | — | — | (0.3) | — | — | (0.3) | — | (0.3) |
| Fair value of share-based payments | 33 | — | — | — | 0.2 | — | 0.2 | — | 0.2 |
| | | — | — | (38.5) | (2.5) | — | (41.0) | — | (41.0) |
| **Changes in ownership interests in subsidiaries** | | | | | | | | | |
| Dividends paid to non-controlling interests | 29 | — | — | — | — | — | — | (4.9) | (4.9) |
| | | — | — | — | — | — | — | (4.9) | (4.9) |
| **Balance at 31 August 2019** | | 152.0 | 534.6 | (20.6) | 0.8 | 18.8 | 685.6 | 57.4 | 743.0 |

The accompanying notes form an integral part of these financial statements.

# Statement of changes in equity
## for the year ended 31 August 2018

| Group | Note | Share capital £m | Share premium £m | Retained profit £m | Other reserves £m | Foreign currency translation reserve £m | Total attributable to equity holders of the Parent £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 September 2017** | | 146.2 | 511.8 | 54.8 | 4.2 | 23.4 | 740.4 | 21.8 | 762.2 |
| **Profit for the year** | | — | — | **88.9** | — | — | **88.9** | **7.4** | **96.3** |
| **Items that may be transferred to the income statement** | | | | | | | | | |
| Other comprehensive expense from discontinued operation – foreign currency translation | | — | — | — | **(5.5)** | **(5.5)** | — | | **(5.5)** |
| **Total comprehensive income/(expense) for the year** | | — | — | **88.9** | — | **(5.5)** | **83.4** | **7.4** | **90.8** |
| **Transactions with equity holders of the Parent** | | | | | | | | | |
| Issue of shares | 27 | **4.9** | **19.4** | — | — | — | **24.3** | — | **24.3** |
| Scrip dividends | 27 | **2.0** | **7.5** | **(9.0)** | — | — | **0.5** | — | **0.5** |
| Buy-back of shares | 27 | **(1.1)** | **(4.1)** | — | — | — | **(5.2)** | — | **(5.2)** |
| Dividends paid | | — | — | **(41.1)** | — | — | **(41.1)** | — | **(41.1)** |
| Release of share-based payment reserve | 28 | — | — | **1.8** | **(1.9)** | — | **(0.1)** | — | **(0.1)** |
| Fair value of share-based payments | 33 | — | — | — | **1.0** | — | **1.0** | — | **1.0** |
| | | **5.8** | **22.8** | **(48.3)** | **(0.9)** | — | **(20.6)** | — | **(20.6)** |
| **Changes in ownership interests in subsidiaries** | | | | | | | | | |
| Dividends paid to non-controlling interests | 29 | — | — | — | — | — | — | **(3.4)** | **(3.4)** |
| Recognition of non-controlling interest on acquisition of subsidiaries | 29 | — | — | — | — | — | — | **33.8** | **33.8** |
| Net gain on acquisition of non-controlling interests | 29 | — | — | **0.1** | — | — | **0.1** | **(0.1)** | — |
| | | — | — | **0.1** | — | — | **0.1** | **30.3** | **30.4** |
| **Balance at 31 August 2018** | | **152.0** | **534.6** | **95.5** | **3.3** | **17.9** | **803.3** | **59.5** | **862.8** |

The accompanying notes form an integral part of these financial statements.

## Financial statements

# Statement of changes in equity
for the year ended 31 August 2019

| Company | Note | Share capital £m | Share premium £m | Retained loss £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2017** | | 146.2 | 511.8 | (114.7) | 3.2 | 546.5 |
| **Profit and total comprehensive income for the year** | | — | — | 137.4 | — | 137.4 |
| **Transactions with equity holders of the Parent** | | | | | | |
| Issue of shares | 27 | 4.9 | 19.4 | — | — | 24.3 |
| Scrip dividends | 27 | 2.0 | 7.5 | (9.0) | — | 0.5 |
| Buy-back of shares | 27 | (1.1) | (4.1) | — | — | (5.2) |
| Dividends paid | | — | — | (41.1) | — | (41.1) |
| Release of share-based payment reserve | | — | — | 1.8 | (1.9) | (0.1) |
| Fair value of share-based payments | 33 | — | — | — | 1.0 | 1.0 |
| | | 5.8 | 22.8 | (48.3) | (0.9) | (20.6) |
| **Balance at 1 September 2018** | | 152.0 | 534.6 | (25.6) | 2.3 | 663.3 |
| **Profit and total comprehensive income for the year** | | **—** | **—** | **5.8** | **—** | **5.8** |
| **Transactions with equity holders of the Parent** | | | | | | |
| Dividends paid | | **—** | **—** | **(40.9)** | **—** | **(40.9)** |
| Release of share-based payment reserve | | **—** | **—** | **1.7** | **(1.7)** | **—** |
| Additional payment in relation to Restricted Stock Plan | | **—** | **—** | **(0.1)** | **—** | **(0.1)** |
| Fair value of share-based payments | 33 | **—** | **—** | **—** | **0.2** | **0.2** |
| | | **—** | **—** | **(39.3)** | **(1.5)** | **(40.8)** |
| **Balance at 31 August 2019** | | **152.0** | **534.6** | **(59.1)** | **0.8** | **628.3** |

The accompanying notes form an integral part of these financial statements.

# Statements of cash flows
## for the year ended 31 August 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| Continuing operations | Note | **Year ended 31 August 2019 £m** | Re-presented Year ended 31 August 2018 £m[(1)] | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **Cash generated from operations** | 30 | **71.6** | 75.3 | **7.2** | 69.2 |
| Interest received | | **0.2** | — | **0.1** | — |
| Interest paid | | **(22.6)** | (24.5) | **—** | — |
| Tax paid | | **—** | (0.5) | **—** | — |
| **Net cash inflow from continuing operating activities** | | **49.2** | 50.3 | **7.3** | 69.2 |
| **Discontinued operation** | | | | | |
| Net cash inflow from discontinued operating activities | | **7.2** | 7.8 | **—** | — |
| **Net cash inflow from discontinued operating activities** | | **7.2** | 7.8 | **—** | — |
| **Net cash inflow from operating activities** | | **56.4** | 58.1 | **7.3** | 69.2 |
| **Cash flows from investing activities** | | | | | |
| Cash acquired on acquisition of subsidiaries | 10 | **—** | 7.8 | **—** | — |
| Acquisition of subsidiaries | 10 | **(0.4)** | (80.6) | **—** | — |
| Net cash disposed on sale of subsidiaries | 8 | **—** | (0.2) | **—** | — |
| Net proceeds on sale of subsidiaries | 8 | **(0.3)** | 23.8 | **—** | — |
| Net proceeds on sale of investment property | 15 | **0.5** | 16.8 | **—** | — |
| Net proceeds on sale of investment property held for sale | 22 | **—** | 33.0 | **—** | — |
| Purchase and development of investment property | | **(51.4)** | (25.9) | **—** | — |
| Acquisition of property, plant and equipment | 19 | **(0.1)** | (0.6) | **—** | — |
| Distributions from associate | 18 | **1.0** | 0.7 | **—** | — |
| Disposal of other non-current assets held for sale | 32 | **—** | 1.3 | **—** | — |
| Settlement of taxes relating to investment held at fair value | | **(1.1)** | — | **—** | — |
| **Net cash outflow from continuing investing activities** | | **(51.8)** | (23.9) | **—** | — |
| **Discontinued operation** | | | | | |
| Net cash inflow from discontinued investing activities | | **1.3** | 105.2 | **—** | — |
| **Net cash inflow from discontinued investing activities** | | **1.3** | 105.2 | **—** | — |
| **Cash flows from intra-group investing activities** | | | | | |
| Investment in subsidiaries | | **—** | — | **(16.5)** | (94.4) |
| Capital redemption from subsidiaries | 16 | **—** | — | **27.0** | 4.1 |
| Distributions | | **—** | — | **13.2** | 76.9 |
| **Net cash inflow/(outflow) from intra-group investing activities** | | **—** | — | **23.7** | (13.4) |
| **Net cash (outflow)/inflow from investing activities** | | **(50.5)** | 81.3 | **23.7** | (13.4) |
| **Cash flows from financing activities** | | | | | |
| Share issue costs paid | | **—** | (0.1) | **—** | (0.1) |
| Buy-back of shares | 27 | **—** | (5.2) | **—** | (5.2) |
| Proceeds from borrowings | 23 | **102.0** | 10.0 | **—** | — |
| Repayment of borrowings | 23 | **(80.9)** | (83.8) | **—** | — |
| Cash disposed on loss of control of Aviva Portfolio[(2)] | 9 | **(17.5)** | — | **—** | — |
| Other finance expense | | **(4.0)** | (0.2) | **—** | — |
| Dividends paid to equity holders | | **(40.9)** | (41.1) | **(40.9)** | (41.1) |
| Dividends paid to non-controlling interests | | **(3.8)** | (3.4) | **—** | — |
| Acquisitions from non-controlling interests | 29 | **—** | 0.1 | **—** | — |
| Movement in restricted cash and cash equivalents | | **(0.7)** | — | **(0.7)** | — |
| **Net cash outflow from continuing financing activities** | | **(45.8)** | (123.7) | **(41.6)** | (46.4) |
| **Discontinued operation** | | | | | |
| Net cash inflow/(outflow) from discontinued financing activities | | **12.6** | (8.5) | **—** | — |
| Movement in restricted cash and cash equivalents | | **0.7** | — | **—** | — |
| **Net cash inflow/(outflow) from discontinued financing activities** | | **13.3** | (8.5) | **—** | — |
| **Net cash outflow from financing activities** | | **(32.5)** | (132.2) | **(41.6)** | (46.4) |
| **Net (decrease)/increase in unrestricted cash and cash equivalents** | | **(26.6)** | 7.2 | **(10.6)** | 9.4 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **0.6** | (1.0) | **0.8** | (0.8) |
| Unrestricted cash and cash equivalents at 1 September | | **58.3** | 52.1 | **16.2** | 7.6 |
| **Unrestricted cash and cash equivalents at 31 August** | 21 | **32.3** | 58.3 | **6.4** | 16.2 |
| Restricted cash and cash equivalents at 31 August | 21 | **0.7** | 0.7 | **0.7** | — |
| **Cash and cash equivalents at 31 August** | 21 | **33.0** | 59.0 | **7.1** | 16.2 |

(1) Refer to Note 2.2 Basis of Preparation regarding the re-presentation of comparatives on reclassification of the Europe Segment as a discontinued operation.

(2) The £17.5 million cash outflow as a result of loss of control of the Aviva Portfolio is considered to be a cash flow from financing activities at this was the cumulative cash that the lender, Aviva, had restricted since the Group first reported an event of default, in line with the terms of the facility agreement. Refer to Note 9 for further information on loss of control of the Aviva Portfolio.

The accompanying notes form an integral part of these financial statements.

# Notes to the financial statements

for the year ended 31 August 2019

## 1. General information

RDI REIT P.L.C. was incorporated in the Isle of Man on 28 June 2004 (Registered Number: 1111908C) and was re-registered under the Isle of Man Companies Act 2006 on 3 December 2013 (Registered Number: 010534V).

On 4 December 2013, the Company converted to a UK REIT and transferred its tax residence from the Isle of Man to the United Kingdom ("UK").

The Company holds a primary listing on the Main Market of the London Stock Exchange ("LSE") and a secondary listing on the Main Board of the Johannesburg Stock Exchange ("JSE").

## 2. Significant accounting policies

### 2.1 Statement of compliance

The Group financial statements for the year ended 31 August 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company financial statements have been prepared in accordance with IFRS as issued by the IASB and with those parts of the Isle of Man Companies Act 2006 applicable to companies reporting under IFRS. The relevant new standards, amendments and interpretations that have been adopted, as applicable to the Group and the Company, during the year are set out in the following table:

| International Financial Reporting Standards | |
|---|---|
| IFRS 9 | 'Financial Instruments' ("IFRS 9") |
| IFRS 15 | 'Revenue from Contracts with Customers' ("IFRS 15") |
| IAS 40 | 'Investment Property' (amendment) |

IFRS 9 applies to the recognition, classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets and is effective for the Group from 1 September 2018. The changes required to the recognition and classification of financial instruments do not have a quantitative impact on the financial statements and the Group does not apply hedge accounting. The changes required in assessing substantial modification of financial liabilities, namely consideration of the transaction as a whole, will not result in adjustments to the treatment of debt restructurings that have been recognised in the Group's financial statements. The introduction of the expected credit losses model replaces the incurred loss model but does not have a material impact on the net asset position of the Group as it applies primarily to trade receivables and loans to joint ventures. As at 31 August 2019, trade receivables, gross of impairment, accounted for £1.3 million or 0.2 per cent of total net assets of £743.0 million. At 31 August 2019, the Group's recognised joint venture was in a net asset position, had serviced all payment obligations under the loan advanced and the loan was not considered impaired. The introduction of the credit loss model did not result in an impairment of this loan on transition to IFRS 9 as the probability of default is low.

The expanded disclosure requirements and changes to presentation, change the nature and extent of the disclosures made by the Group.

IFRS 15 is the new standard for the recognition of revenue, replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and is effective for the Group from 1 September 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer and sets out a five-step model for revenue recognition. IFRS 15 does not apply to rental income (which is currently measured in accordance with IAS 17, to be replaced by IFRS 16 as discussed below) which is the Group's primary revenue stream but does apply to other sources of income generated by the Group such as: service and management fee income and income from corporate and property disposals. The Group has considered the criteria of IFRS 15, in particular with reference to the income generated from several ancillary services offered to the customers in the Serviced Offices (31 August 2019: £2.9 million) and has determined that the new standard does not have a material quantitative impact on the Group and has resulted in minimal qualitative changes to revenue disclosures.

The Group adopted the amendments to IAS 40 using the prospective application method permitted by the standard. The Group has assessed the impact of the amendment to IAS 40 on the classification of existing property as at 1 September 2018 and has concluded that no reclassifications are required on adoption of the amendment.

Disclosed in the table below are the relevant new standards, amendments and interpretations that have been issued by the IASB but are not yet effective or have not been early adopted.

| International Financial Reporting Standards | |
|---|---|
| Effective annual periods beginning on or after: | |
| **Annual improvements to IFRSs 2015-2017 cycle** | |
| IFRS 3 'Business combinations' (amendment) ("IFRS 3") | 1 January 2019 |
| IFRS 11 'Joint arrangements' (amendment) ("IFRS 11") | 1 January 2019 |
| IAS 12 'Income Taxes' (amendment) ("IAS 12") | 1 January 2019 |
| IAS 23 'Borrowing costs' (amendment) ("IAS 23") | 1 January 2019 |
| **Other amendments** | |
| IFRS 9 'Financial Instruments' (amendment) ("IFRS 9") | 1 January 2019 |
| IFRS 16 'Leases' ("IFRS 16") | 1 January 2019 |
| IAS 19 'Employee benefits' (amendment) ("IAS 19") | 1 January 2019 |
| IAS 28 'Investments in Associates and Joint Ventures' (amendment) ("IAS 28") | 1 January 2019 |
| IFRIC 23 'Uncertainty over Income Tax Treatments' | 1 January 2019 |

The Group has assessed the impact of the new standards and those standards which could be expected to have an impact on the consolidated financial statements are discussed in further detail below.

IFRS 16 is the new leasing standard and will be effective for the Group from 1 September 2019. Accounting for leases whereby the Group is the lessor will not significantly change under the new leasing standard. Changes required to leasing arrangements whereby the Group acts as lessee, however, will result in the recognition of operating leases as a liability on the Group's balance sheet with corresponding right-of-use assets. The Group holds long leasehold interests in certain UK Hotel and Serviced Office properties, acquired during 2018, that have been treated as operating leases, after due consideration of the risks and rewards of ownership. Refer to Note 23 regarding the non-cancellable investment property operating lease commitments at 31 August 2019. The Group estimates that the adoption of IFRS 16 on 1 September 2019 will result in the recognition of lease liabilities of £40.9 million in relation to these interests. Corresponding right-of-use assets will be recognised in Investment Property. As the Group will apply the simplified transition allowed under the standard, comparatives will not be restated and there will be no impact on the Group's opening net asset value. Subsequent to transition, operating lease charges currently recognised as rental expense will be replaced by depreciation charges and finance costs – being the incremental borrowing rate inherent in the lease liabilities. Although there will be increased charges to the income statement initially, the cumulative expense will even out over the term of the lease as the finance costs reduce.

### 2.2 Basis of preparation

The financial statements are presented in Great British Pounds, which is the functional currency of the Company and the presentational currency of the Group, and rounded to the nearest hundred thousand pounds. They are prepared using the historical cost basis except for investment property, certain assets held for sale, derivative financial instruments and financial instruments designated at fair value through profit and loss, all of which are carried at fair value.

#### Re-presentation of prior year comparatives

The Group has determined that the co-ordinated sale of the Europe portfolio, being a segment in line with the criteria of IFRS 8 'Operating Segments' ("IFRS 8"), meets the criteria of a disposal group held for sale and further, constitutes a discontinued operation as a separable cash-generating unit and geographical operation of the Group. To comply with the presentation requirements of IFRS 5, the post-tax profit and other comprehensive income of the Europe segment have been presented separately in the income statement and statement of other comprehensive income, in addition to the cash flows of the segment under the relevant activities in the statement of cash flows. Comparative profit and loss, cash flow statements and related notes have been re-presented. The Europe portfolio assets are presented separately under current assets on the balance sheet, but comparative balance sheet information has not been reclassified.

These presentational changes have no impact on the Group's total earnings, net asset position or cash flows in the current or prior year.

### Share consolidation and subsequent re-presentation

Following Shareholder approval at the Company's Annual General Meeting, the Company completed a consolidation of its shares on a one-for-five basis, with the nominal value per share increasing from 8 pence to 40 pence per share. The Company's issued share capital on the record date for the consolidation, being Friday 8 February 2019, was 1,900,449,536. On Monday 11 February 2019, the first day of trading in the newly consolidated shares, the Company's issued share capital stood at 380,089,923. Where applicable throughout the consolidated financial statements, the comparative 'per share' numbers have been re-presented accordingly.

### Going concern

The Directors are satisfied that both the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and for this reason the financial statements have been prepared on a going concern basis. Please refer to the Financial Review for more detailed disclosure on the going concern assessment.

## 2.3 Key judgements and estimates

The preparation of the financial statements in conformity with IFRS requires the use of judgements and estimates that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the year. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results may differ materially from those estimates.

The principal areas where such judgements and estimates have been made are detailed below:

## Judgements

### Corporate and property acquisitions

When control is obtained over an entity or group of entities, judgement is required in determining whether the transaction constitutes a business combination with reference to the inputs, processes and outputs of the subsidiary or subsidiary group acquired. If it is determined that the transaction is a business combination, the requirements of IFRS 3 'Business Combinations' ("IFRS 3") are applied. There were no corporate acquisitions during 2019. During the year ended 31 August 2018, the corporate acquisitions of the IHL and LSO Portfolios were determined to be business combinations.

In addition, when a property is acquired directly, the Directors have regard to the substance of the transaction and whether related processes and activities have been assumed which would represent a business. When such an acquisition is considered to be the acquisition of a business, the requirements of IFRS 3 apply as above, otherwise the transaction is treated as an acquisition of a property asset in line with IAS 40. During the year ended 31 August 2019, the two properties acquired by the Group were considered to be asset acquisitions (31 August 2018: one asset acquisition).

### Loss of control of subsidiaries

The Group controls an investee when it:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee.

Although control is not based solely on legal ownership, control is ordinarily assumed by the Group over an investee for which the Group holds the majority of the issued share capital and voting rights and where there are no other third-party arrangements in place that alter or constrain the Group's decision-making ability regarding that investee. Conversely, the Group ordinarily assumes a loss of control on completion of the contractual sale of the Group's equity interests in an investee on fair value terms with an independent third party. Where other factors do exist, such as the enforceable rights of a lender under bank debt covenants in the event of default, as is the Aviva position subsequent to the Group's covenant breach, the Group must consider whether the three criteria for control set out above continue to be met. If any one of the criteria is not met, the Group does not or has ceased to control the investee and does not consolidate the results of that investee. Refer for to Note 9 for further information on the derecognition of the Aviva Portfolio.

### Classification of UK Hotels as investment property

The UK Hotels are held for capital appreciation and to earn rental income. Apart from five Travelodge branded hotels, the hotels have been let to wholly owned subsidiaries of RBH Hotel Group Limited (collectively "RBH"), on lease terms which are subject to annual review. At each review, the revised rent is set with reference to the forecast EBITDA of each hotel. RBH runs the hotels' operating business and is therefore exposed to fluctuations in the underlying trading performance of each hotel under management. RBH is responsible for the key decision making of the business operations and the day-to-day upkeep of the properties. The Group is not involved with the operation of the hotel management business and there are limited transactions between RDI and RBH. As a result, the hotels are classified as investment property in accordance with IAS 40.

The Group cumulatively holds a 25.3 per cent shareholding in RBH. Having considered the guidance in IFRS 10 'Consolidated Financial Statements' ("IFRS 10"), the respective rights of each of the shareholders in RBH and the relative size of the Group's shareholding, the Directors have determined that the Group has the ability to exercise significant influence over but does not control RBH. The investment in RBH has therefore been classified as an associate.

### Lease classification

The Group considers the appropriateness of the classification of its leasehold interests in investment property as operating or finance leases on a property-by-property basis, based on the terms and conditions of each lease on inception. The assessment is based on a balanced evaluation of both the specific contractual terms and substance of each arrangement, such as: the lease term constituting a major part of the economic life of the property; the fair value of each asset relative to present value of minimum lease payments; a qualitative review of the transfer of the significant risks and rewards of ownership; and the allocation of the lease payments to the land and building elements of each property. In particular, judgement was required on the classification of the leasehold interests acquired as part of the IHL and LSO Portfolios corporate transactions during the year ended 31 August 2018.

## Estimate

### Investment property valuation

The Group uses valuations determined by independent valuers in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") as the fair value of its investment property. The valuations are based upon assumptions including estimated rental values, future rental income, anticipated maintenance costs, future development costs and appropriate market yields. The valuers make reference to market evidence of transaction prices for similar properties. Where there is a lack of comparable transactional evidence, as is currently the case for UK shopping centres, then the degree of potential variability in valuations may widen. Further details in respect of assumptions and estimation uncertainties are provided in Note 15.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 2. Significant accounting policies continued

### 2.4 Accounting policies

### Basis of consolidation

#### Investment in subsidiaries (Group)

A subsidiary is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases. The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

The Group accounts for business combinations using the acquisition method, under which the consideration transferred is measured at fair value, and acquisition related costs are recognised in the income statement as incurred. Any excess in the purchase price of business combinations over the Group's share of the fair value of the assets, liabilities and contingent liabilities acquired is recognised as goodwill while any discount received is credited immediately to the income statement. If it is determined that an acquisition does not constitute a business combination, the transaction is accounted for as an asset acquisition and the relevant IFRSs are applied in the recognition of a group of assets and liabilities. No goodwill arises on initial recognition but any premium paid or discount received is allocated to the individual identifiable assets and liabilities based on their relative fair values.

The Group recognises non-controlling interests on the basis of their proportionate share in the subsidiary's identifiable net assets. Non-controlling interests are presented separately from the equity of the owners of the Parent on the balance sheet. Profit or loss and total comprehensive income for the year attributable to non-controlling interests are presented separately in the income statement and the statement of comprehensive income.

If the Group loses control of a subsidiary, the Group:

- derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
- derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including amounts of other comprehensive income attributed to non-controlling interests);
- recognises the fair value of any consideration received;
- reclassifies to profit or loss, or transfers directly to retained earnings, amounts recognised in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Parent had directly disposed of the related assets or liabilities;
- recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
- recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IFRS 9, or when appropriate, in accordance with IAS 28. For a change in the Group's interest in a subsidiary that does not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interest to reflect the changes in their relative interests. Any difference between the value of the non-controlling interest acquired or disposed of and the fair value of the consideration is recognised directly in equity and attributed to the equity holders of the Parent.

#### Investment in subsidiaries (Company)

Investments in subsidiaries are carried in the Company's separate financial statements at cost less impairment losses, if any. Impairment losses are determined with reference to the undertakings' fair value. Fair value is derived with reference to the EPRA adjusted net assets of RDI REIT P.L.C. and the contribution of each subsidiary group relative to the cost of the Company's investment. Impairment reversals are recognised on a consistent basis as the original charge and do not exceed cost. On disposal of subsidiaries, the difference between the net disposal proceeds and its carrying amount is recognised in the statement of comprehensive income.

#### Transactions eliminated on consolidation

Intra-group balances, transactions, any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the Group financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Investment in associates and joint ventures

Associates are entities over whose financial and operating policies the Group has the ability to exercise significant influence but not control and which are neither subsidiaries nor joint arrangements. The Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's contractual rights to the assets and obligations for the liabilities. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms and other facts and circumstances specific to each transaction.

Investments in associates and joint ventures are initially recorded at cost and subsequently increased or decreased each year by the Group's share of the post-acquisition net profit or loss and other movements recognised in other comprehensive income or directly in equity. The Group's share of the post-tax results of the associate or joint venture reflects the Group's proportionate interest in the relevant undertaking.

Goodwill arising on the acquisition of an associate or joint venture is included in the carrying amount of the investment. When the Group's share of losses in an associate or joint venture has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate or joint venture.

As goodwill forms part of the carrying amount of the net investment, it is not recognised separately and it is not tested for impairment separately. Instead, the entire amount of the investment in an associate or joint venture is tested for impairment as a single asset where there is objective evidence that the investment may be impaired. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate or joint venture increases.

Capital contributions result from the non-reciprocal transfer of resources to an associate or joint venture without a corresponding increase in the Group's equity interest. Capital contributions are also accounted for as an increase in the Group's net investment and are subject to impairment.

Unrealised gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in those entities.

Where the Group obtains significant influence or joint control over an investment that was previously accounted for as a financial instrument under IFRS 9, the Group's previously held interest is re-measured to fair value through profit or loss. The deemed cost of the associate or joint venture is the fair value of the existing investment plus the fair value of any consideration given to achieve significant influence or joint control.

When the Group ceases to have significant influence or joint control, it is accounted for as a disposal of the entire interest under the equity method, with a resulting gain or loss being recognised in the income statement. Any retained interest in the investment at the date when significant influence or joint control is lost is recognised at fair value on initial recognition of a financial asset or, when appropriate, treated as the deemed cost on initial recognition of an investment in an associate.

Any gain or loss on the dilution of an interest in an equity accounted investee is calculated as the difference between the carrying amounts of the investment in the equity accounted investee, immediately before and after the transaction that resulted in the dilution and is recognised in the income statement.

## Intangible assets

Intangible assets arising on business combinations are carried at cost less impairment. Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over their estimated useful life from the date that they are available for use.

## Currency translation

### Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date that the values are determined.

### Foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the foreign currency translation reserve. Cumulative exchange differences are subsequently released to the income statement upon disposal or partial disposal. On consolidation, the balance sheets of foreign subsidiaries are translated at the closing rate and the income statement and statement of comprehensive income are translated at the transaction date rates or at an average rate for the year where this is a reasonable approximation.

## Revenue recognition

Rental income, including fixed stepped rent, is recognised in the income statement on a straight-line basis over the lease term. Tenant lease incentives, including rent-free periods granted and cash contributions paid, which are an integral part of securing leases, are amortised as a reduction of rental income over the lease term. Surrender premiums that are paid by the Group to tenants to vacate a property are also treated as lease incentives if the surrender results in an enhanced future rental income stream. Licence fee income from customers of the London Serviced Office portfolio is recognised on a basis consistent with rental income from other tenants of the Group, albeit shorter term in nature. Room-hire income of this portfolio is recognised at the fair value of the consideration receivable once the room has been availed of.

Contingent rents are recognised as they arise. Rent reviews are recognised as income or as a reduction thereof from the date it is probable that the revised terms will be agreed. Surrender premiums paid by the tenant to terminate a lease early are recognised immediately in the income statement.

Other income includes service fees, management fees and other general property related income. Service fee income is recognised when the services have been rendered by the Group, the associated costs and recharge margin on those costs can be measured reliably and with reference to the stage of completion of the service. Management fees receivable from joint ventures are recognised in other income during the year in which the services are rendered and specific performance fees are recognised if the performance targets are satisfied over the investment period on disposal of property interests. All sources of other income are only recognised when it is probable that the economic benefits will flow to the Group.

Interest earned on loans receivable and on cash invested is recognised on an accruals basis using the effective interest rate method.

## Service charges

Where the Group invoices budgeted service charges to tenants, amounts received are not recognised as income as the risks in relation to the subsequent provision of actual goods and services are primarily borne by the tenants during the service charge period. Consequently, amounts received are recognised as a liability on the balance sheet and reduced by the actual service charge expenditure incurred. Any non-recoverable service charge expenses suffered by the Group, as a result of void or capped units, are included within rental expense in the income statement.

## Employee benefits and share-based payments

Employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that a legal or constructive obligation to employees can be measured reliably.

Share-based incentives are provided to certain employees and Executive Directors for services rendered. The share-based payments are all equity-settled. The fair value of each award granted is calculated at the grant date, using the Monte Carlo and Black-Scholes valuation methodologies. The fair value is not subsequently re-measured and is recognised in the share-based payment reserve in equity on a straight-line basis over the vesting period as adjusted for the estimate of the awards that will eventually vest at each reporting date. The corresponding compensation cost is recognised as an administrative expense over the vesting period.

At the end of the performance period, a reserves transfer occurs with no further charge reflected in the income statement.

## Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income.

Current tax is based on taxable profit or loss for the year and is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income that are not taxable or expenses that are not tax deductible.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their relative tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement, using tax rates enacted or substantively enacted at the reporting date.

The following temporary differences are not provided for: those arising from goodwill not deductible for tax purposes; those arising from the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and those relating to investments in subsidiaries and joint ventures where the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are provided only to the extent that there are not sufficient tax losses to shield the charge.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 2. Significant accounting policies continued

### 2.4 Accounting policies

#### Investment property

In accordance with IAS 40, Paragraph 14, judgement may be required to determine whether a property qualifies as investment property. The Group has developed criteria so that it can exercise judgement consistently in recognising investment property, namely: property held for long term capital appreciation; property owned (or held under finance leases) and leased out under one or more operating leases; and property that is being developed for future use as investment property. The recognition and classification of property as investment property principally assumes that the Group:

- does not retain significant exposure to the variation in cash flows arising from the underlying operations of tenants; and
- will recover the carrying value through continuing rental income streams and longer term capital appreciation.

Investment properties are initially recognised at cost, including directly attributable transaction costs, and subsequently measured at fair value. The portfolios are valued on a bi-annual basis by external, independent and professionally qualified valuers, having recent experience in the location and category of the property being valued. The fair values are based on market values, being the estimated amount for which the property could be exchanged on a highest and best use basis between a willing buyer and seller in an arm's length transaction.

The valuations are determined by considering comparable and timely market transactions for sales and lettings and having regard for the current leases in place. In the case of lettings, this includes consideration of the aggregate net annual market rents achievable for the property and associated costs. A yield which reflects the risks inherent in the future cash flows is applied to the net annual rents to arrive at the property valuation.

The bi-annual valuations of investment property are based upon estimates and subjective judgements that may vary materially from the actual values and sales prices that may be realised by the Group upon ultimate disposal. The critical assumptions made in determining the valuations have been included in Note 15 to the financial statements.

In determining fair value, the market value of the property as determined by the independent valuers is reduced by the carrying amount of tenant lease incentives and increased by the carrying amount of fixed head leases.

Gains or losses arising from changes in the fair value of investment property are included in the income statement in the year in which they arise.

Subsequent expenditure is capitalised to investment property when the expenditure incurred enhances the future economic benefits associated with the property, such as enhanced future rental income, capital appreciation or both. Contributions to tenant refurbishments under lease arrangements are treated as tenant lease incentives and amortised against rental income over the term of the lease.

As the fair value model is applied, property under construction or redevelopment for future use as investment property continues to be measured at fair value unless the fair value cannot be measured reliably and the property is measured at cost. All finance costs directly associated with the acquisition and construction of a qualifying development property are capitalised during the period of active development until practical completion. The rate applied is the actual rate payable on specific borrowings or the weighted average cost of debt of the Group for development spend that is financed out of general funds.

Acquisition and disposals of investment property are recognised when significant risks and rewards attached to the property have transferred to, or from, the Group. This will ordinarily occur on exchange of contracts unless there are significant conditions pending completion. Such transactions are recognised when these conditions are satisfied. The profit or loss on disposal of investment property is recognised separately in the income statement and is the difference between the net sales proceeds and the opening fair value asset plus any capital expenditure during the period to disposal.

A property ceases to be recognised as investment property and is transferred at its fair value to property held for sale when it meets the criteria of IFRS 5. Under IFRS 5 the asset must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets and its sale must be highly probably. The criteria for a sale being highly probably per IFRS 5 are as follows:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held for sale;
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

Property held by the Group under long term leases is also treated as investment property in line with IAS 40 'Investment Property' ("IAS 40"). The Group's leasehold interests are classified as either finance or operating leases dependent on whether the risks and rewards of ownership of the property have substantially transferred to the Group. Finance leases are recognised as both an asset and a liability and are measured at the lower of fair value and the present value of any future minimum lease payments. The finance lease obligation to the superior leaseholder is recognised within borrowings on the balance sheet. Lease payments are apportioned between the finance charges and the capital reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability over the lease term. Finance charges are charged through profit or loss as they arise. Operating lease payments are charged to the income statement as a rental expense on a straight-line basis over the lease term.

#### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Depreciation is calculated to write off the cost of items less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Property, plant and equipment are depreciated over a period of between two to five years.

#### Financial instruments

##### Recognition, classification and measurement

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument in accordance with IFRS 9. Financial assets are derecognised when the contractual rights to the cash flows from those assets expire or when the assets are transferred to another party without retaining control or substantially all risks and rewards of ownership. Regular way purchases and sales of financial assets are accounted for at trade date. Financial liabilities are derecognised when the obligations specified in the contract expire.

##### Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for those instruments not designated at fair value through profit or loss, any directly attributable transaction costs. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The Group does not hold financial assets that meet the criteria of fair value through other comprehensive income and therefore, assets that do not meet the definition of amortised cost are measured at fair value through profit or loss. All non-derivative financial liabilities are measured at amortised cost as the Group has not opted to measure any liabilities at fair value through profit or loss. Non-derivative financial instruments comprise loans to joint ventures, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables which the Group holds with the objective to collect or settle the contractual cash flows. Loan receivables and payables are subsequently measured at amortised cost, using the effective interest rate method.

### Derivative financial instruments

Derivative financial instruments are held to manage interest rate risk exposure. Derivatives are recognised initially at fair value on the date of the contract; any attributable transaction costs are recognised in the statement of comprehensive income as incurred. Derivatives are subsequently re-measured to fair value at each reporting date, and changes therein are accounted for in the statement of comprehensive income and presented under change in fair value of derivative financial instruments. The Group does not apply hedge accounting in accordance with IFRS 9.

### Impairment of financial assets (Group)

The Group assesses the expected credit losses associated with its financial assets carried at amortised cost on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Financial assets are specifically impaired when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible. For general provisioning, the Group considers impairment of financial assets under the expected credit losses model as required under IFRS 9. For accounts receivable, the Group applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected loss rates are considered with reference to the historic payment profiles of tenants and credit losses incurred over a corresponding period. The resulting loss rates are then adjusted to reflect current and forward-looking information on macroeconomic factors: namely economic, regulatory, technological and environmental factors; external market indicators; and the current tenant base. Separately, the Group applies a twenty-five per cent provision against all balances in excess of 120 days-past-due in line with the Group's stated bad debt policy. Where there is a material difference in the resulting provision requirement relative to total expected credit losses, the Group will adjust in line with the latter.

Impairment losses and reversals are recognised in the income statement.

### Impairment of financial assets (Company)

The Company has trading balances receivable and payable with subsidiaries that are in a continuous state of flux due to the nature of the Company's operations. These balances are repayable on demand and are considered to have low credit risk. At the reporting date, expected credit losses of the Company's intercompany receivable balances are assessed in the first instance relative to the materiality of the balance. If the subsidiary and/or underlying subsidiary group have sufficient available liquid assets in order to repay the debt, the expected credit losses are considered to be immaterial and no impairment is recognised. If the subsidiary or subsidiary group do not have sufficient liquid assets, the manner of and timelines for recovery are assessed in determining the expected credit losses on a case-by-case basis.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with financial institutions and short term call deposits. Cash and cash equivalents are recognised at fair value and have maturities of less than three months. Restricted cash comprises cash deposits that are restricted until the fulfilment of certain conditions.

## Non-current assets and disposal groups held for sale

A non-current asset or a disposal group (comprising assets and liabilities) is classified as held for sale if it is expected that the carrying value will be recovered by the Group principally through sale rather than through continuing use and the sale is highly probable. The asset or disposal group must be available for immediate sale, be actively marketed at a reasonable approximation to fair value and the sale must have the appropriate level of management commitment. The sale may complete beyond a period of one year from classification so long as there is sufficient evidence of a firm commitment from both parties and the circumstances of the delay are beyond the Group's control.

Where there is commitment to a sale plan involving the loss of control of a subsidiary, the loss of joint control of a joint venture or significant influence over a joint venture and the criteria set out above are met, the Group classifies all the assets and liabilities of that subsidiary or the equity accounted investment in the joint venture or associate as held for sale. This classification is appropriate regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Where significant influence over an associate will not be lost, only that portion of the investment for which there is a commitment to sell shall be reclassified as held for sale.

On initial classification as held for sale, non-current assets and disposal groups are ordinarily measured at the lower of the previous carrying amount and fair value less costs to sell, with any adjustments recognised in the income statement and subsequently re-measured at each reporting date. Certain assets such as financial assets within the scope of IFRS 9 and investment property in the scope of IAS 40 continue to be measured in accordance with those standards.

Gains and losses on re-measurement and impairment losses subsequent to classification as held for sale are presented within continuing operations in the income statement, unless they meet the definition of a discontinued operation. Non-current assets held for sale are presented separately under current assets on the balance sheet. Comparatives are not reclassified.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The post-tax results and other comprehensive income of discontinued operations are presented separately in the income statement and the statement of other comprehensive income respectively and detailed analysis of the revenue, expense and pre-tax profits of the discontinued operation are disclosed in the notes to the financial statements. Comparative income statements, statements of comprehensive income, statements of cash flows and related noted are re-presented for comparability and in line with the requirements of IFRS 5.

## Borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Any difference between the transaction price and the deemed fair value of the borrowing is treated as a gain or loss in the income statement when the determination of fair value is based on observable inputs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost. Any differences between cost and the redemption value as a result of transaction costs incurred or fair value adjustments are recognised in the income statement over the contractual term of the borrowings on an effective interest rate basis.

A financial liability is derecognised when it is extinguished. This may happen when:

- full repayment is made to the lender;
- the borrower is legally released from primary responsibility for the financial liability; or
- where there is an exchange of debt instruments with substantially different terms or a substantial modification to the existing terms of a debt instrument.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 2. Significant accounting policies continued

### 2.4 Accounting policies continued

#### Borrowings continued

In the event of a substantial modification of terms, any difference between the carrying amount of the original liability and the consideration paid is recognised in the income statement. The consideration paid includes non-financial assets transferred and the assumption of liabilities, including the new modified financial liability. The modified borrowing is recognised initially at fair value and subsequently carried at amortised cost under the effective interest rate method. Any costs or fees incurred are recognised as part of the gain or loss on extinguishment.

Where existing borrowings are exchanged for new or amended borrowings and the terms are not substantially different, the total contractual cash flows of the modified borrowings are discounted at the effective interest rate of the original loan in line with IFRS 9 and any material difference is recognised immediately as a gain or loss in the income statement. The adjustment to the carrying value of the modified loan is subsequently reversed though the income statement as a finance expense to maturity. Any costs or fees incurred as a result of the modification are adjusted against the carrying value and amortised over the remaining term.

Ongoing finance costs and debt servicing payments are recognised in the income statement on an accruals basis, using the effective interest rate method.

#### Provisions, capital commitments and contingent liabilities

A provision is recognised if, as a result of a past event, the Group or Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected cash flows to present value using an appropriate discount rate that reflects the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Capital commitments are disclosed when the Group or Company has a contractual future obligation to a third party which has not been provided for at the balance sheet date.

#### Share capital

Ordinary share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, net of tax, are shown as a deduction from any recognised share premium.

Where the Company's own equity instruments are purchased as the result of a share buy-back, the consideration paid by the Group, including any directly attributable incremental costs net of tax, is deducted from equity attributable to the owners as treasury shares until the shares are cancelled or reissued.

Where the Company performs a share consolidation, the number of shares is reduced for the current period and re-presented for the prior period comparative.

Dividends

Dividends to shareholders are recognised when they become legally payable. In the case of interim dividends, this is when the dividends are declared by the Board.

#### Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

Where the Company performs a share consolidation the weighted average number of shares is reduced without any consideration for time apportionment so that the effect of the share consolidation on EPS is constant for current and prior period comparatives and subsequent periods. The prior period comparative weighted average number of shares is also reduced for comparability.

In line with the JSE Listing Requirements, the Group also presents Headline earnings per share.

#### Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and in respect of which it may incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker to inform decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available as disclosed in Note 3.

## 3. Segmental reporting

As required by IFRS 8, the information provided to the Board, which is the Chief Operating Decision Maker, has been classified into operating segments. The segments are as follows:

- **UK Commercial:**
  The Group's portfolio of Greater London and regional offices, London serviced offices, roadside service stations and logistics distribution centres;
- **UK Hotels:**
  The Group's hotel portfolio comprising 18 predominantly limited-service branded hotels:
  - five Travelodge branded and externally managed hotels; and
  - thirteen RBH managed hotels, of which ten are Holiday-Inn Express, two Hilton branded and one Crowne Plaza.

  The Group's hotel interests also include the 25.3 per cent investment in RBH (an additional 5.1 per cent, previously classified as held for sale, was disposed on 14 February 2018). RBH is an independent hotel management company engaged in developing and managing a diverse portfolio of hotels in partnership with reputable international hotel brands;
- **UK Retail:**
  The Group's portfolio of shopping centres, retail parks and a high street retail asset;
- **Europe (Discontinued operation):**
  The Group's portfolio in Germany, comprising of shopping centres, discount supermarkets and retail parks. On 29 December 2017, the Group disposed of its interests in the Leopard Portfolio which comprised 66 retail properties, being a mixture of stand-alone supermarkets, food-store anchored retail parks and cash and carry stores.

  On 1 March 2019, this segment met the criteria of IFRS 5 to be classified as a Discontinued operation ("Dis Op"); and is therefore presented as a single line item on the income statement. Detailed analysis of the post-tax profit from the Dis Op is presented in the segmental income statements. Comparative information has been re-presented as required under the accounting standard; and
- **Other:**
  The Group's holding and management companies that carry out the head office and centralised asset management activities of the Group.

Management information, as presented to the Chief Operating Decision Maker, is prepared on a proportionately consolidated basis. Segmental reporting is therefore reported in line with management information, with the Group's share of joint ventures presented line-by-line. Joint venture adjustments are disclosed to reconcile segmental performance and position to the consolidated financial statements.

| Segmental income statement for the year ended 31 August 2019 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | Other £m | **Total £m** | Joint venture elimination £m | **Group total £m** | Europe – Dis Op adj £m | **IFRS total £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Rental income | 37.2 | 23.0 | 31.4 | 14.7 | — | **106.3** | (1.8) | **104.5** | (13.7) | **90.8** |
| Other operating income | 1.8 | — | — | — | 0.9 | **2.7** | — | **2.7** | — | **2.7** |
| **Total revenue** | 39.0 | 23.0 | 31.4 | 14.7 | 0.9 | **109.0** | (1.8) | **107.2** | (13.7) | **93.5** |
| Rental income | 37.2 | 23.0 | 31.4 | 14.7 | — | **106.3** | (1.8) | **104.5** | (13.7) | **90.8** |
| Rental expense | (6.0) | (1.2) | (2.8) | (2.2) | — | **(12.2)** | 0.1 | **(12.1)** | 2.1 | **(10.0)** |
| **Net rental income** | 31.2 | 21.8 | 28.6 | 12.5 | — | **94.1** | (1.7) | **92.4** | (11.6) | **80.8** |
| Other operating income | 1.8 | — | — | — | 0.9 | **2.7** | — | **2.7** | — | **2.7** |
| Administrative costs and other fees | (1.4) | (0.2) | (0.1) | (0.8) | (11.4) | **(13.9)** | — | **(13.9)** | 0.7 | **(13.2)** |
| **Net operating income** | 31.6 | 21.6 | 28.5 | 11.7 | (10.5) | **82.9** | (1.7) | **81.2** | (10.9) | **70.3** |
| Gain/(loss) on revaluation of investment property | 1.4 | (6.8) | (51.5) | (1.2) | — | **(58.1)** | 0.2 | **(57.9)** | 1.3 | **(56.6)** |
| Loss on revaluation of investment property held for sale | — | — | — | (1.7) | — | **(1.7)** | (0.7) | **(2.4)** | 2.4 | **—** |
| Loss on disposal of investment property | (1.7) | — | — | (0.2) | — | **(1.9)** | — | **(1.9)** | 0.2 | **(1.7)** |
| Gain on disposal of investment property held for sale | — | — | — | 0.5 | — | **0.5** | — | **0.5** | (0.5) | **—** |
| Loss on disposal of subsidiaries | — | — | — | (0.1) | — | **(0.1)** | — | **(0.1)** | 0.1 | **—** |
| Loss of control of Aviva Portfolio | — | — | (55.6) | — | — | **(55.6)** | — | **(55.6)** | — | **(55.6)** |
| Net loss on acquisition of subsidiaries | (0.2) | (0.2) | — | — | — | **(0.4)** | — | **(0.4)** | — | **(0.4)** |
| Other expenses | — | — | — | — | (0.2) | **(0.2)** | — | **(0.2)** | — | **(0.2)** |
| Finance income on loans to joint ventures | — | — | — | — | — | **—** | 0.3 | **0.3** | (0.3) | **—** |
| Finance income on loans to external parties | — | — | — | — | 0.2 | **0.2** | — | **0.2** | — | **0.2** |
| Finance expense | (9.8) | (5.4) | (10.8) | (3.5) | — | **(29.5)** | 0.6 | **(28.9)** | 3.3 | **(25.6)** |
| Other finance expense | (0.3) | — | — | — | — | **(0.3)** | — | **(0.3)** | — | **(0.3)** |
| Change in fair value of derivative financial instruments | (5.9) | (0.5) | (3.3) | (1.6) | — | **(11.3)** | 0.3 | **(11.0)** | 1.6 | **(9.4)** |
| Impairment of associate interest | — | (1.4) | — | — | — | **(1.4)** | — | **(1.4)** | — | **(1.4)** |
| Share of post-tax profit from associate | — | 0.9 | — | — | — | **0.9** | — | **0.9** | — | **0.9** |
| **Profit/(loss) before tax per reportable segments** | 15.1 | 8.2 | (92.7) | 3.9 | (10.5) | **(76.0)** | (1.0) | **(77.0)** | (2.8) | **(79.8)** |
| Taxation | (0.1) | — | — | 1.4 | (0.3) | **1.0** | 0.3 | **1.3** | (1.6) | **(0.3)** |
| **Profit/(loss) after tax per reportable segments** | 15.0 | 8.2 | (92.7) | 5.3 | (10.8) | **(75.0)** | (0.7) | **(75.7)** | (4.4) | **(80.1)** |
| **Joint venture adjustments:** | | | | | | | | | | |
| Movement of losses restricted in joint ventures[(1)] | | | | | | **0.2** | (0.2) | **—** | — | **—** |
| Share of post-tax profit from joint ventures | | | | | | **—** | 0.9 | **0.9** | (0.9) | **—** |
| **Discontinued operation** | | | | | | | | | | |
| Profit for the year from discontinued operation | | | | | | **—** | — | **—** | 5.3 | **5.3** |
| **IFRS loss for the year** | | | | | | **(74.8)** | — | **(74.8)** | — | **(74.8)** |

(1) As detailed in Note 17, the Group's joint venture interest in the Esplanade has been reduced to £Nil in the financial statements in line with IAS 28. On a proportionate basis, the Group's share in the net liabilities of the Esplanade are recognised line-by-line. Movements in the losses of the Esplanade that are not recognised on an equity accounted basis during each reporting period are presented to reconcile segmental information to the IFRS statements.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 3. Segmental reporting continued

| Re-presented segmental income statement for the year ended 31 August 2018 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | Other £m | **Total £m** | Joint venture elimination £m | **Group total £m** | Europe – Dis Op adj £m | **IFRS total £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Rental income | 31.3 | 24.5 | 38.4 | 17.8 | — | **112.0** | (1.8) | **110.2** | (16.9) | **93.3** |
| Other operating income | 1.1 | — | — | — | 0.7 | **1.8** | — | **1.8** | — | **1.8** |
| **Total revenue** | 32.4 | 24.5 | 38.4 | 17.8 | 0.7 | 113.8 | (1.8) | 112.0 | (16.9) | 95.1 |
| Rental income | 31.3 | 24.5 | 38.4 | 17.8 | — | **112.0** | (1.8) | **110.2** | (16.9) | **93.3** |
| Rental expense | (4.5) | (1.3) | (2.8) | (2.7) | — | **(11.3)** | 0.2 | **(11.1)** | 2.5 | **(8.6)** |
| **Net rental income** | 26.8 | 23.2 | 35.6 | 15.1 | — | 100.7 | (1.6) | 99.1 | (14.4) | 84.7 |
| Other operating income | 1.1 | — | — | — | 0.7 | **1.8** | — | **1.8** | — | **1.8** |
| Administrative costs and other fees | (1.0) | (0.8) | (0.3) | (0.9) | (11.4) | **(14.4)** | 0.2 | **(14.2)** | 0.8 | **(13.4)** |
| **Net operating income** | 26.9 | 22.4 | 35.3 | 14.2 | (10.7) | 88.1 | (1.4) | 86.7 | (13.6) | 73.1 |
| Gain/(loss) on revaluation of investment property | 24.3 | 6.2 | (26.1) | 6.2 | — | **10.6** | 0.2 | **10.8** | (6.1) | **4.7** |
| Gain on revaluation of investment property held for sale | 0.9 | — | — | — | — | **0.9** | — | **0.9** | — | **0.9** |
| Gain/(loss) on disposal of investment property | 1.6 | — | — | (0.1) | — | **1.5** | — | **1.5** | 0.1 | **1.6** |
| Gain on disposal of investment property held for sale | 1.8 | — | — | — | — | **1.8** | — | **1.8** | — | **1.8** |
| Net gain/(loss) on disposal of subsidiaries | 1.2 | — | (1.9) | 16.1 | — | **15.4** | — | **15.4** | (16.1) | **(0.7)** |
| Net (loss)/gain on acquisition of subsidiaries | (1.1) | 5.5 | — | — | — | **4.4** | — | **4.4** | — | **4.4** |
| Other expenses | — | (0.1) | — | — | (0.3) | **(0.4)** | — | **(0.4)** | — | **(0.4)** |
| Foreign exchange loss | — | — | — | — | (0.8) | **(0.8)** | — | **(0.8)** | — | **(0.8)** |
| Finance income on loans to joint ventures | — | — | — | — | — | **—** | 0.3 | **0.3** | (0.3) | **—** |
| Finance income on loans to external parties | — | — | — | — | 0.3 | **0.3** | — | **0.3** | (0.1) | **0.2** |
| Finance expense | (7.1) | (5.1) | (15.0) | (2.9) | — | **(30.1)** | 0.8 | **(29.3)** | 2.8 | **(26.5)** |
| Other finance expense | (0.1) | — | — | (0.5) | — | **(0.6)** | — | **(0.6)** | 0.6 | **—** |
| Change in fair value of derivative financial instruments | 2.4 | 0.9 | 2.8 | 0.7 | — | **6.8** | (0.7) | **6.1** | (0.6) | **5.5** |
| Loss on sale of joint venture interests | — | — | — | (0.1) | — | **(0.1)** | — | **(0.1)** | 0.1 | **—** |
| Impairment reversal of continuing joint venture interest | 0.1 | — | — | — | — | **0.1** | — | **0.1** | — | **0.1** |
| Share of post-tax profit from associate | — | 0.3 | — | — | — | **0.3** | — | **0.3** | — | **0.3** |
| **Profit/(loss) before tax per reportable segments** | 50.9 | 30.1 | (4.9) | 33.6 | (11.5) | **98.2** | (0.8) | **97.4** | (33.2) | **64.2** |
| Taxation | — | — | — | (1.1) | (0.2) | **(1.3)** | 0.2 | **(1.1)** | 0.3 | **(0.8)** |
| **Profit/(loss) after tax per reportable segments** | 50.9 | 30.1 | (4.9) | 32.5 | (11.7) | **96.9** | (0.6) | **96.3** | (32.9) | **63.4** |
| **Joint venture adjustments:** | | | | | | | | | | |
| Movement of losses restricted in joint venture[1] | | | | | | **(0.6)** | 0.6 | **—** | — | **—** |
| **Discontinued operation** | | | | | | | | | | |
| Profit for the year from discontinued operation | | | | | | **—** | — | **—** | 32.9 | **32.9** |
| **IFRS profit for the year** | | | | | | **96.3** | — | **96.3** | — | **96.3** |

(1) As detailed in Note 17, the Group's joint venture interest in the Esplanade has been reduced to £Nil in the financial statements in line with IAS 28. On a proportionate basis, the Group's share in the net liabilities of the Esplanade are recognised line-by-line. Movements in the losses of the Esplanade that are not recognised on an equity accounted basis during each reporting period are presented to reconcile segmental information to the IFRS statements.

| Segmental balance sheet as at 31 August 2019 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | Total £m | Joint venture elimination £m | IFRS total £m |
|---|---|---|---|---|---|---|---|
| Investment property | 549.1 | 360.5 | 251.7 | — | 1,161.3 | (11.0) | 1,150.3 |
| Investment in associate | — | 7.6 | — | — | 7.6 | — | 7.6 |
| Trade and other receivables | 7.7 | 4.1 | 5.4 | 14.6 | 31.8 | (0.5) | 31.3 |
| Cash and cash equivalents | 12.2 | 4.4 | 5.8 | 2.6 | 25.0 | (0.9) | 24.1 |
| Non-current assets held for sale | 8.8 | — | 2.2 | 246.4 | 257.4 | (15.1) | 242.3 |
| Borrowings, including finance leases | (264.2) | (161.3) | (128.9) | (147.4) | (701.8) | 15.3 | (686.5) |
| Trade and other payables | (10.0) | (2.8) | (5.5) | (1.8) | (20.1) | 0.5 | (19.6) |
| **Segmental net assets** | 303.6 | 212.5 | 130.7 | 114.4 | 761.2 | (11.7) | 749.5 |
| Unallocated assets and liabilities: | | | | | | | |
| Other non-current assets | | | | | 0.9 | — | 0.9 |
| Trade and other receivables | | | | | 1.6 | — | 1.6 |
| Cash and cash equivalents | | | | | 8.9 | — | 8.9 |
| Net derivative financial instruments | | | | | (15.9) | 3.1 | (12.8) |
| Deferred tax | | | | | (8.3) | 0.8 | (7.5) |
| Trade and other payables | | | | | (4.5) | — | (4.5) |
| Current tax liabilities | | | | | (1.1) | — | (1.1) |
| | | | | | 742.8 | (7.8) | 735.0 |
| **Joint venture adjustments:** | | | | | | | |
| Cumulative restricted loss in joint venture[(1)] | | | | | 0.2 | (0.2) | — |
| Investment in joint ventures | | | | | — | 2.9 | 2.9 |
| Recognised loan to joint ventures | | | | | — | 5.1 | 5.1 |
| **IFRS net assets** | | | | | 743.0 | — | 743.0 |

(1) As detailed in Note 17, the Group's interest in the Esplanade has been reduced to £Nil in the financial statements in line with IAS 28. On a proportionate basis, the Group's share in the net liabilities of the Esplanade are recognised line-by-line. The cumulative losses of this joint venture that the Group has not recognised on an equity accounted basis at the reporting date are presented to reconcile segmental information to the IFRS statements.

| Segmental balance sheet as at 31 August 2018 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | Total £m | Joint venture elimination £m | IFRS total £m |
|---|---|---|---|---|---|---|---|
| Investment property | 515.9 | 364.1 | 485.4 | 258.0 | 1,623.4 | (25.4) | 1,598.0 |
| Investment in associate | — | 9.1 | — | — | 9.1 | — | 9.1 |
| Trade and other receivables | 4.0 | 1.7 | 6.7 | 3.9 | 16.3 | (0.5) | 15.8 |
| Cash and cash equivalents | 20.1 | 7.5 | 9.9 | 5.1 | 42.6 | (0.8) | 41.8 |
| Borrowings, including finance leases | (199.8) | (164.9) | (309.1) | (131.4) | (805.2) | 15.6 | (789.6) |
| Trade and other payables | (9.0) | (2.6) | (11.4) | (2.3) | (25.3) | 0.6 | (24.7) |
| **Segmental net assets** | 331.2 | 214.9 | 181.5 | 133.3 | 860.9 | (10.5) | 850.4 |
| Unallocated assets and liabilities: | | | | | | | |
| Other non-current assets | | | | | 1.3 | — | 1.3 |
| Trade and other receivables | | | | | 2.5 | — | 2.5 |
| Cash and cash equivalents | | | | | 17.2 | — | 17.2 |
| Net derivative financial instruments | | | | | (4.6) | 2.8 | (1.8) |
| Deferred tax | | | | | (10.1) | 0.6 | (9.5) |
| Trade and other payables | | | | | (2.4) | — | (2.4) |
| Current tax liabilities | | | | | (2.0) | — | (2.0) |
| | | | | | 862.8 | (7.1) | 855.7 |
| **Joint venture adjustments:** | | | | | | | |
| Investment in joint ventures | | | | | — | 1.9 | 1.9 |
| Loans to joint ventures | | | | | — | 5.2 | 5.2 |
| **IFRS net assets** | | | | | 862.8 | — | 862.8 |

(1) As detailed in Note 17, the Group's interest in the Esplanade is carried at £Nil in the financial statements in line with IAS 28. On a proportionate basis, the Group's share in the net liabilities of the Esplanade are recognised line-by-line. At 31 August 2018, cumulative losses equalled the Group's net investment in the joint venture.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 3. Segmental reporting continued

| Other segmental information as at 31 August 2019 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | IFRS total £m |
|---|---|---|---|---|---|
| Additions to investment property during the year per reportable segment: | | | | | |
| Acquisition of property | 44.4 | — | — | — | **44.4** |
| Capitalised expenditure | 1.8 | 3.2 | 2.1 | 1.1 | **8.2** |
| | 46.2 | 3.2 | 2.1 | 1.1 | **52.6** |

| Other segmental information as at 31 August 2018 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | IFRS total £m |
|---|---|---|---|---|---|
| Additions to investment property during the year per reportable segment: | | | | | |
| Business combinations (Note 10) | 161.7 | 115.4 | — | — | **277.1** |
| Acquisition of property | 20.9 | — | — | — | **20.9** |
| Capitalised expenditure | 1.0 | 3.2 | 4.0 | 5.9 | **14.1** |
| Capitalised finance costs | — | — | — | 0.7 | **0.7** |
| | 183.6 | 118.6 | 4.0 | 6.6 | **312.8** |

## 4. Rental income

| Group – Continuing operations | Year ended 31 August 2019 £m | Re-presented Year ended 31 August 2018 £m |
|---|---|---|
| Gross lease payments from third parties | **70.2** | 71.3 |
| Gross lease payments from related parties (Note 32) | **20.6** | 22.0 |
| **Rental income** | **90.8** | 93.3 |
| The future aggregate minimum rents receivable under non-cancellable operating leases at the balance sheet date are as follows: | | |
| Not later than one year | **76.4** | 91.0 |
| Later than one year not later than five years | **122.9** | 178.3 |
| Later than five years | **111.8** | 214.9 |
| | **311.1** | 484.2 |

## 5. Rental expense

| Group – Continuing operations | Year ended 31 August 2019 £m | Re-presented Year ended 31 August 2018 £m |
|---|---|---|
| Non-recoverable service charge | **0.9** | 2.3 |
| Direct property operating expenses | **4.0** | 2.6 |
| Repairs and maintenance | **0.4** | 0.5 |
| Property services provided by related party (Note 32) | **0.6** | 0.4 |
| Operating lease expense(1) | **1.8** | 1.4 |
| Letting costs | **0.6** | 0.5 |
| Serviced Offices portfolio direct staff and sales costs | **1.7** | 0.9 |
| **Rental expense** | **10.0** | 8.6 |

(1) Refer to Note 23 for the undiscounted future minimum lease obligations under non-cancellable operating leases at reporting date.

## 6. Other operating income

| Continuing operations | Group<br>Year ended 31 August 2019 £m | Group<br>Re-presented Year ended 31 August 2018 £m | Company<br>Year ended 31 August 2019 £m | Company<br>Year ended 31 August 2018 £m |
|---|---|---|---|---|
| Service fee income | **2.9** | 1.8 | **—** | — |
| Service fee expense | **(1.1)** | (0.8) | **—** | — |
| Service fee margin[1] | **1.8** | 1.0 | **—** | — |
| Management fees from joint ventures (Note 32) | **0.1** | 0.1 | **—** | — |
| Insurance rebates | **0.4** | 0.3 | **0.4** | 0.3 |
| Salary recharges | **0.3** | 0.3 | **—** | — |
| Other property related income | **0.1** | 0.1 | **—** | — |
| **Other operating income** | **2.7** | 1.8 | **0.4** | 0.3 |

(1) Service fees relates to recoverable costs incurred in the Serviced Offices portfolio that are recharged to tenants at a margin.

## 7. Administrative costs and other fees

| Continuing operations | Group<br>Year ended 31 August 2019 £m | Group<br>Re-presented Year ended 31 August 2018 £m | Company<br>Year ended 31 August 2019 £m | Company<br>Year ended 31 August 2018 £m |
|---|---|---|---|---|
| Staff costs | **6.4** | 6.2 | **3.0** | 2.6 |
| Non-executive Director fees and insurance | **0.5** | 0.6 | **0.5** | 0.6 |
| Professional fees | **2.4** | 2.5 | **1.2** | 1.3 |
| Corporate costs | **0.7** | 0.8 | **0.6** | 0.7 |
| Head office costs | **1.1** | 1.0 | **0.4** | 0.4 |
| Share-based payments (Note 33) | **0.2** | 1.0 | **0.2** | 1.0 |
| Investment management fees to related party (Note 32) | **0.9** | 0.6 | **—** | — |
| Other general administrative expenses | **1.0** | 0.7 | **0.2** | 0.1 |
| **Administrative costs and other fees** | **13.2** | 13.4 | **6.1** | 6.7 |

# Notes to the financial statements continued

for the year ended 31 August 2019

## 8. Disposal of subsidiaries

There were no income generating corporate disposals during the year-ended 31 August 2019. Additional transaction costs of £0.1 million relating to the Leopard Portfolio disposal were incurred in the current year.

The impact of corporate disposals during the year to 31 August 2018 and the related net cash inflow is presented below:

| | Continuing operations | | | Discontinued operation |
|---|---|---|---|---|
| Group | Lochside View, Edinburgh £m | Paragon Square, Hull £m | Total £m | Leopard Portfolio £m |
| **Carrying value of net assets disposed** | | | | |
| Investment property | (11.2) | (12.9) | (24.1) | (158.4) |
| Trade and other receivables | (0.4) | — | (0.4) | (0.2) |
| Cash and cash equivalents | (0.2) | — | (0.2) | (1.6) |
| Borrowings, including finance leases | — | — | — | 73.1 |
| Trade and other payables | 0.2 | 0.2 | 0.4 | 0.8 |
| **Net assets disposed** | (11.6) | (12.7) | (24.3) | (86.3) |
| Consideration received[1] | 13.0 | 11.0 | 24.0 | 103.6 |
| Transaction costs[1] | (0.2) | (0.2) | (0.4) | (1.2) |
| **Net gain/(loss) on disposal of subsidiaries** | **1.2** | **(1.9)** | **(0.7)** | **16.1** |

(1) Net cash received at 31 August 2018 was £126.2 million as transaction costs on the Lochside disposal had not been paid at the reporting date. As a result of the representation of the Europe Segment, £23.8 million of the net proceeds has been presented as Continuing operations investing cash flows and £102.4 million relating to the Leopard Portfolio disposal has been included within Discontinued operation investing cash flows.

### Continuing operations

Redefine Paragon Square Limited, a wholly owned subsidiary of the Group, owned the House of Fraser department store in Hull. On 15 November 2017, the Group disposed of this subsidiary for £11.0 million. The net assets of the subsidiary were £12.7 million on disposal and the Group recognised a loss of £1.9 million in the income statement, after transaction costs. Net cash received at as at 31 August 2018, after transactions costs paid, was £10.8 million.

Redefine Lochside View Edinburgh Limited, a wholly owned subsidiary of the Group, owned a regional office in Edinburgh. On 31 August 2018, the Group disposed of this subsidiary for £13.0 million subject to a completion adjustment. The net assets of the subsidiary were £11.6 million on disposal and the Group recognised a gain of £1.2 million in the income statement, after transaction costs. Net cash received at 31 August 2018 was £13.0 million as transaction costs had not yet been paid.

### Discontinued operation

The Leopard Portfolio comprised 66 retail properties – a mixture of stand-alone supermarkets, food-store anchored retail parks and cash and carry stores. On 29 December 2017, the Group disposed of all but one of the property-owning subsidiaries of the Leopard Portfolio to an external party for £103.6 million (€116.6 million), after the deduction of transaction costs of £1.2 million (€1.3 million). On the date of sale, the carrying value of investment property within these subsidiaries was £158.4 million (€178.4 million), on which £73.1 million (€82.3 million) of bank debt was secured. The net assets of the target group on the date of sale was £86.3 million (€97.2 million) and the Group recognised a gain on disposal of £16.1 million (€18.1 million). The investment property of the remaining property-owning entity was acquired by the same party by way of a direct asset sale (see Note 15).

## 9. Loss of control of Aviva Portfolio

| Group – Continuing operations | 31 August 2019 £m |
|---|---|
| **Carrying value of net assets** | |
| Investment property | **(181.9)** |
| Trade and other receivables | **(0.2)** |
| Cash and cash equivalents | **(17.5)** |
| Borrowings, including finance leases | **138.0** |
| Trade and other payables | **6.0** |
| **Net assets derecognised** | **(55.6)** |
| | |
| **Loss of control of Aviva Portfolio** | **(55.6)** |

Four of the Group's UK shopping centres namely Grand Arcade (Wigan), Weston Favell (Northampton), Birchwood (Warrington) and Byron Place (Seaham), are financed by a long term fixed rate debt facility with Aviva. The facility is non-recourse to the Company, with a fixed rate of 5.5 per cent per annum and a maturity date in April 2042 and had an outstanding principal balance of £145.1 million at 31 August 2018.

In late October 2018, Aviva notified the Group that the loan to value on the facility was in excess of its 85 per cent covenant following a lender valuation. The Group subsequently paid £9.7 million to cure the breach and in addition to the capital outlay, all net operating cash flows were restricted in the facility to reduce the outstanding balance as per the terms of the agreement.

A further valuation was called by Aviva in April 2019, given the ongoing structural challenges facing the retail sector, slowing sales and retailer failures. This resulted in a loan to value of 89.4 per cent, after adjusting for the cash cure previously applied by the Group and the operating cash retained in the structure.

After due consideration, it was agreed by the Directors that it was not in the best interests of the Company and its shareholders to commit any further capital to reduce the loan to value ratio below the covenant of 85 per cent. Discussions were ongoing as to how best Aviva would enforce its security in the absence of the Group curing the breach. On 23 April 2019, a Standstill Agreement ("Standstill") was signed which allowed for a consensual sales process to be carried out to Aviva's benefit until 11 October 2019 (extended to 31 December 2019), without Aviva taking legal ownership of the subsidiary shares or the underlying properties. Aviva's rights under the facility agreement are still in force however during the Standstill period and the agreement can be terminated at any time.

Notwithstanding that ownership of the Aviva Portfolio has not legally transferred, the Group has determined that the transaction constitutes a loss of control event in line with IFRS 10 'Consolidated Financial Statements' as, from an economic perspective, Aviva has the ability to enforce its rights at any time and make material decisions regarding the portfolio at its absolute discretion. Whilst the Group continues to manage the assets on Aviva's behalf, the Group is no longer exposed to the variable returns from the portfolio's performance nor does the Group have ability to influence that performance without formal consent from Aviva. Sale of the assets and the value at which they are sold will be determined by Aviva and the Group has no involvement in this respect.

The Group has therefore ceased to consolidate the Aviva subsidiaries from the date of the Standstill, by de-recognising the net assets at their carrying amounts, and the resulting difference has been recognised as a loss in the income statement. Loss of control of the Aviva Portfolio has reduced the Group's net asset value by £55.6 million.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 10. (Loss)/gain on acquisition of subsidiaries

There were no business combinations in the year to 31 August 2019. Further transactions costs of £0.4 million were incurred during the year ended 31 August 2019, relating to additional pre-acquisition taxes of both the LSO Portfolio and International Hotel Properties Limited that the Group became liable for on acquisition of control.

The impact of business combinations during the year to 31 August 2018 and the related net cash outflow is presented below:

| Group – Continuing operations | LSO £m | IHL £m | **31 August 2018 £m** |
|---|---|---|---|
| **Fair value of identifiable net assets acquired** | | | |
| Investment property | 161.7 | 115.4 | **277.1** |
| Trade and other receivables | 0.9 | 1.9 | **2.8** |
| Cash and cash equivalents | 5.7 | 2.1 | **7.8** |
| Borrowings | (73.5) | (54.4) | **(127.9)** |
| Derivative financial instruments | 0.4 | (1.0) | **(0.6)** |
| Trade and other payables | (6.2) | (2.2) | **(8.4)** |
| **Net assets acquired** | 89.0 | 61.8 | **150.8** |
| Consideration transferred: | | | |
| – Equity (share-for-share exchange) | — | (19.3) | **(19.3)** |
| – Cash[1] | (71.2) | (7.5) | **(78.7)** |
| | (71.2) | (26.8) | **(98.0)** |
| Investment in associate (Note 18) | — | (13.5) | **(13.5)** |
| Non-controlling interests' proportionate share of the identifiable net assets (Note 29) | (17.8) | (16.0) | **(33.8)** |
| Transaction costs[1] | (1.1) | — | **(1.1)** |
| **(Loss)/gain on acquisition of subsidiaries** | (1.1) | 5.5 | **4.4** |

(1) Net cash paid at 31 August 2018 was £80.6 million including transaction costs and settlement of tax liabilities assumed of £0.8 million.

### LSO

On 12 January 2018, RDI completed the corporate acquisition of 80 per cent of the issued share capital of St Dunstan's HoldCo Limited and LSO Services Limited ("LSO Portfolio"), for cash consideration of £71.2 million. The LSO portfolio consists of the freehold and long-leasehold interests in four established high-quality flexible offices in London. This acquisition significantly enhanced the quality of the overall property portfolio of the Group with strong property fundamentals and reduced leverage. Our strategic partner, OSIT, operates the serviced office business of each property under management contracts, while the Group employs staff directly for the day-to-day operations.

It has been determined that the transaction constitutes a business combination after due consideration of the assets and related processes that have been assumed, notably the management contract with OSIT.

The fair value of the net assets acquired on 12 January 2018 was £89.0 million. OSIT's minority share of the identifiable net assets is £17.8 million. As the consideration was determined with reference to net asset value, the Group did not pay a premium or obtain a discount. Transaction costs of £1.1 million were incurred by the Group which have been expensed in the income statement within the net gain on business combinations. This portfolio has been classified as investment property in line with the Group's accounting policies. Receivables acquired were £0.9 million, all of which were fully collectable. Revenue from LSO since acquisition was £10.8 million comprising rental and net services income. Had the acquisition occurred on 1 September 2017, LSO would have generated £16.2 million assuming a consistent revenue stream throughout the year.

### IHL

International Hotel Properties Limited ("IHL") is a hotel investment company and was previously listed on the Euro MTF market of the LuxSE and on the AltX of the JSE. IHL comprises nine limited service UK hotels and at 31 August 2017 the Group held a 17.2 per cent interest, classified as an investment at fair value through profit or loss. During the 2017 financial year, RDI submitted a proposal to the IHL board to increase its shareholding in IHL by way of a scheme of arrangement. RDI would acquire the shares of all scheme participants, being the minority interests (29.3 per cent) of IHL. IHL shareholder approval was obtained on 15 September 2017, at which point the transaction became subject only to Court approval. The Group was considered to have significant influence over IHL from this date and the investment was reclassified as an investment in associate (Note 18).

On 13 November 2017 and on fulfilment of all conditions precedent to the scheme of arrangement, the Group acquired 16.4 million shares in IHL from scheme participants and 1.9 million shares from Redefine Properties, increasing RDI's interest in IHL from 26.2 to 58.9 per cent. The value attributed to each IHL share was £1, settled in a share-for-share exchange with RDI shares at a value of 40.0 pence. 45.9 million RDI shares were issued in total representing gross consideration of £18.3 million. On 17 November 2017, 8.5 million shares in IHL were purchased at £1 per share. Consideration for these shares was £7.5 million in cash and the issuance of 2.5 million RDI shares at 40.0 pence per share (£1.0 million in total). The transactions increased the Group's interest in IHL to 74.1 per cent. The residual 25.9 per cent non-controlling interest in IHL is held by one party, Southern Sun Africa ("TSogo Sun").

Since 13 November 2017, the Group has directed the operating and financial decisions of IHL and has been exposed to its variable returns. RDI acquired control of IHL on this date, which is also considered the acquisition date for the purposes of IFRS 3. The transaction was accounted for as a business combination, having regard for the integrated set of assets, processes and outputs that were acquired and that are capable of producing a return for the Group.

The fair value of the net assets of IHL acquired on the acquisition date of 15 September 2017 was £61.8 million. The fair value of the cash and equity consideration transferred was £26.8 million, while the carrying value of the Group's associate interest was £13.5 million. TSogo Sun's proportionate share of the identifiable net assets was £16.0 million and, as a result, the Group recognised a net gain on bargain purchase of IHL of £5.5 million. This represented the difference between the share price and swap ratio agreed with shareholders and the net assets based on a third-party valuation of the investment property at the completion date. The gain was recognised in the income statement within the gain on acquisition of subsidiaries. Minimal acquisition costs were incurred by the Group on account of the structuring of the transaction. RDI share issue costs were recognised directly in equity as a reduction of share premium. The hotels acquired were classified as investment property on initial recognition as outlined in Note 15. Receivables acquired were £1.9 million, all of which were settled subsequent to acquisition.

Please note that all RDI share numbers referenced in this note are those prior to the share consolidation (ordinary shares at 8 pence per share).

## 11. Other expenses

| Group – Continuing operations | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
|---|---|---|
| Amortisation of intangible assets (Note 19) | **0.2** | 0.3 |
| Loss on disposal of other non-current assets held for sale | **—** | 0.1 |
| **Other expenses** | **0.2** | 0.4 |

## 12. Finance income and finance expense

| | Group | | Company | |
|---|---|---|---|---|
| Continuing operations | **Year ended 31 August 2019 £m** | Re-presented Year ended 31 August 2018 £m | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **Finance income** | | | | |
| Finance income on loans to external parties | **0.2** | 0.2 | **0.1** | — |
| **Finance income** | **0.2** | 0.2 | **0.1** | — |
| **Finance expense** | | | | |
| Finance expense on secured bank loans | **(23.5)** | (24.1) | **—** | — |
| Amortisation of debt issue costs | **(1.1)** | (1.1) | **—** | — |
| Accretion of fair value adjustments | **(0.4)** | (0.6) | **—** | — |
| Finance lease interest | **(0.6)** | (0.7) | **—** | — |
| **Finance expense** | **(25.6)** | (26.5) | **—** | — |
| **Net finance expense** | **(25.4)** | (26.3) | **0.1** | — |

# Notes to the financial statements continued

for the year ended 31 August 2019

## 13. Other finance expense

| Group – Continuing operations | Year ended 31 August 2019 £m | Re-presented Year ended 31 August 2018 £m |
|---|---|---|
| Other finance expense | 0.3 | — |
| **Other finance expense** | **0.3** | — |

The Group incurred break costs of £0.3 million on refinancing of the existing facility secured against three of the Serviced Office Portfolio assets. Refer to Note 23 for further information.

## 14. Taxation

### Tax recognised in the income statement

| | Group | | Company | |
|---|---|---|---|---|
| Continuing operations | Year ended 31 August 2019 £m | Year ended 31 August 2018 £m | Year ended 31 August 2019 £m | Year ended 31 August 2018 £m |
| **Current income tax** | | | | |
| Income tax in respect of current year | 0.1 | 0.2 | 0.1 | — |
| Adjustments in respect of prior years | 0.2 | 0.6 | — | — |
| **Tax charge for the year recognised in the consolidated income statement** | **0.3** | 0.8 | **0.1** | — |
| Discontinued operation | | | | |
| Current income tax | 0.4 | 0.8 | — | — |
| Deferred income tax | (2.0) | (0.5) | — | — |
| **Tax (credit)/charge for the year included in post-tax profit from discontinued operation** | **(1.6)** | 0.3 | — | — |
| **Total tax (credit)/charge for the year** | **(1.3)** | 1.1 | **0.1** | — |

There was no tax recognised in equity or other comprehensive income during the year (31 August 2018: £Nil).

### Reconciliation

The tax rate for the year is higher than the average standard rate of corporation tax in the UK of 19 per cent (31 August 2018: lower than the average standard rate). The differences are explained below:

| Continuing operations | Group Year ended 31 August 2019 £m | Group Year ended 31 August 2018 £m | Company Year ended 31 August 2019 £m | Company Year ended 31 August 2018 £m |
|---|---|---|---|---|
| **(Loss)/profit before tax** | **(79.8)** | 64.2 | **5.9** | 137.4 |
| (Loss)/profit before tax multiplied by standard rate of corporation tax | **(15.2)** | 12.2 | **1.1** | 26.1 |
| Effect of: | | | | |
| – Loss/(gain) on revaluation of investment property, including held for sale properties | **10.8** | (1.1) | **—** | — |
| – Loss/(gain) on disposal of investment property, including held for sale properties | **0.3** | (0.6) | **—** | — |
| – Loss of control of Aviva Portfolio | **10.6** | — | **—** | — |
| – Gain on acquisition of subsidiaries | **—** | (0.8) | **—** | — |
| – Change in fair value of derivative financial instruments | **1.8** | (1.0) | **—** | — |
| – Income not subject to UK income tax | **(0.3)** | (0.5) | **(1.0)** | 1.0 |
| – REIT exempt property rental profits | **(10.4)** | (8.3) | **—** | — |
| – Losses utilised | **(0.1)** | (0.1) | **—** | — |
| – Unutilised losses carried forward | **2.0** | 0.1 | **2.0** | 0.1 |
| – Expenses not deductible for tax | **0.6** | 0.3 | **0.2** | 0.3 |
| – Adjustments in respect of prior periods | **0.2** | 0.6 | **—** | — |
| | **0.3** | 0.8 | **2.3** | 27.5 |
| **Intra-group transactions** | | | | |
| – Settlement of loans | **—** | — | **—** | 1.0 |
| – Impairment of investment | **—** | — | **0.4** | — |
| – REIT exempt dividends | **—** | — | **(2.6)** | (28.5) |
| **Tax charge for the year recognised in the income statement** | **0.3** | 0.8 | **0.1** | — |

As shown in the reconciliation above, the effective tax rate of the Group for the year ended 31 August 2019 is not meaningful given the current year loss position (31 August 2018 re-presented: 1.3 per cent of profits).

The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduced the main rate of corporation tax to 19 per cent with effect 1 April 2017. There will be a further reduction to 17 per cent from April 2020.

On 4 December 2013, the Group converted to a UK REIT. As a result, the Group does not pay UK Corporation Tax on the profits and gains from qualifying rental business in the UK provided certain conditions are met. Non-qualifying profits and gains of the Group continue to be subject to corporation tax. The Directors intend the Group to continue as a REIT for the foreseeable future. As a result, deferred tax is no longer recognised on temporary differences relating to the UK property rental business which is within the REIT structure.

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for the year ended 31 August 2019

## 15. Investment property

| Group | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe – Dis Op £m | **Total £m** | Freehold £m | Leasehold £m |
|---|---|---|---|---|---|---|---|
| Opening carrying value at 1 September 2018 | 504.6 | 364.1 | 485.4 | 243.9 | **1,598.0** | 1,165.8 | 432.2 |
| Acquisition of property | 44.4 | — | — | — | **44.4** | 44.4 | — |
| Capitalised expenditure | 1.8 | 3.2 | 2.1 | 1.1 | **8.2** | 3.0 | 5.2 |
| Loss of control of Aviva Portfolio, including head leases (Note 9) | — | — | (181.9) | — | **(181.9)** | (115.9) | (66.0) |
| Disposals through the sale of property | (5.6) | — | — | (3.4) | **(9.0)** | (8.1) | (0.9) |
| Transfer to assets held for sale (Note 22) | (8.8) | — | (2.2) | (229.7) | **(240.7)** | (206.8) | (33.9) |
| Gain/(loss) on revaluation of investment property – Continuing operations | 1.7 | (6.8) | (51.5) | — | **(56.6)** | (26.7) | (29.9) |
| Loss on revaluation of investment property – Discontinued operation | — | — | — | (1.3) | **(1.3)** | (0.6) | (0.7) |
| Movement in finance leases | — | — | (0.2) | — | **(0.2)** | — | (0.2) |
| Foreign exchange movement in foreign operations | — | — | — | (10.6) | **(10.6)** | (9.1) | (1.5) |
| **IFRS carrying value at 31 August 2019** | 538.1 | 360.5 | 251.7 | — | **1,150.3** | 846.0 | 304.3 |
| Adjustments: | | | | | | | |
| Minimum payments under head leases | (1.9) | (0.4) | (3.4) | — | **(5.7)** | — | (5.7) |
| Tenant lease incentives (Note 20) | 1.8 | 3.2 | 4.2 | — | **9.2** | 7.3 | 1.9 |
| **Market value of Group investment property at 31 August 2019** | 538.0 | 363.3 | 252.5 | — | **1,153.8** | 853.3 | 300.5 |
| Market value of Group assets classified as held for sale | 8.8 | — | 2.5 | 232.1 | **243.4** | 208.4 | 35.0 |
| **Market value of total Group portfolio at 31 August 2019** | 546.8 | 363.3 | 255.0 | 232.1 | **1,397.2** | 1,061.7 | 335.5 |
| **Joint ventures** | | | | | | | |
| Share of joint venture investment property and property assets held for sale (Note 17) | 11.0 | — | — | 15.1 | **26.1** | 26.1 | — |
| **Market value of total portfolio at 31 August 2019 (on a proportionately consolidated basis)** | 557.8 | 363.3 | 255.0 | 247.2 | **1,423.3** | 1,087.8 | 335.5 |

| Group | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m | **Total £m** | Freehold £m | Leasehold £m |
|---|---|---|---|---|---|---|---|
| Opening carrying value at 1 September 2017 | 344.1 | 239.3 | 507.5 | 404.0 | **1,494.9** | 1,239.7 | 255.2 |
| Business combinations | 161.7 | 115.4 | — | — | **277.1** | 104.9 | 172.2 |
| Acquisition of property | 20.9 | — | — | — | **20.9** | 20.9 | — |
| Capitalised expenditure | 1.0 | 3.2 | 4.0 | 5.9 | **14.1** | 4.0 | 10.1 |
| Capitalised finance costs(1) | — | — | — | 0.7 | **0.7** | — | 0.7 |
| Disposals through sale of subsidiaries | (11.1) | — | — | (158.4) | **(169.5)** | (169.5) | — |
| Disposals through the sale of property | (15.3) | — | — | (6.0) | **(21.3)** | (20.3) | (1.0) |
| Transfer to assets held for sale (Note 22) | (23.1) | — | — | — | **(23.1)** | (23.1) | — |
| Gain on revaluation of investment property prior to reclassification as held for sale (Note 22) | 0.9 | — | — | — | **0.9** | 0.9 | — |
| Transfer from assets held for sale | 0.9 | — | — | 3.6 | **4.5** | 3.6 | 0.9 |
| Gain/(loss) on revaluation of investment property | 24.6 | 6.2 | (26.1) | 6.1 | **10.8** | 16.0 | (5.2) |
| Foreign exchange movement in foreign operations | — | — | — | (12.0) | **(12.0)** | (11.3) | (0.7) |
| **IFRS carrying value at 31 August 2018** | 504.6 | 364.1 | 485.4 | 243.9 | **1,598.0** | 1,165.8 | 432.2 |
| Adjustments: | | | | | | | |
| Minimum payments under head leases (Note 23) | (1.9) | (0.4) | (10.1) | (1.5) | **(13.9)** | — | (13.9) |
| Tenant lease incentives (Note 20) | 1.9 | 1.2 | 5.7 | 2.1 | **10.9** | 6.9 | 4.0 |
| **Market value of Group portfolio at 31 August 2018** | 504.6 | 364.9 | 481.0 | 244.5 | **1,595.0** | 1,172.7 | 422.3 |
| **Joint ventures** | | | | | | | |
| Share of joint venture investment property (Note 17) | 11.3 | — | — | 14.1 | **25.4** | 25.4 | — |
| **Market value of total portfolio at 31 August 2018 (on a proportionately consolidated basis)** | 515.9 | 364.9 | 481.0 | 258.6 | **1,620.4** | 1,198.1 | 422.3 |

(1) Interest was capitalised on the basis of the Group's weighted average cost of debt of 3.4 per cent at 31 August 2018, applied to the cost of a Europe segment property under development during that year. There was no capitalised interest during the year ended 31 August 2019, as the qualifying investment property was now substantially complete.

The tables on the previous page present both segmental and market value investment property information prepared on a proportionately consolidated basis. Properties that have been classified as held for sale in the current year are also included so that the market value of the total portfolio can be determined. This format is not a requirement of IFRS and is for informational purposes as it is used in reports presented to the Group's Chief Operating Decision Maker.

### Recognition

Judgement may be required to determine whether a property qualifies as an investment property. Investment property comprises a number of retail and commercial properties in the UK and Europe that are leased to unconnected third parties.

The UK Hotels portfolio is held for capital appreciation and to earn rental income. Apart from the five Travelodge branded hotels, the hotel portfolio has been let to RBH to separately manage the operating business of each hotel for a fixed rent. The rent is subject to annual review which takes into account the forecast EBITDA. As detailed in the key judgements and estimates in Note 2, aside from the Group's associate interest in RBH and the receipt of rental and dividend income, RDI is not involved in the hotel management business and there are limited transactions between RDI and RBH. As a result, the Directors consider it appropriate to classify the hotel portfolio as investment property in line with IAS 40.

On acquisition of control of the IHL group, the operating businesses of five of the nine hotels acquired was managed internally, such that these hotels were considered owner-occupied prior to acquisition by RDI. With effect from 1 September 2017, RDI restructured the operating business model of these hotels to a property rental business model by disposing of the operating businesses to RBH to manage in the same manner as Group's existing hotel portfolio. The Group therefore considers classification as investment property on initial recognition to be appropriate.

### Valuation

The carrying value of investment property is its market value as determined by appropriately qualified independent valuers and adjusted for minimum payments under head leases and tenant lease incentives. Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, and in limited circumstances in aggregation with other assets, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change to determine an appropriate valuation. Fees paid to valuers are based on arm's-length fixed price contracts.

The fair value of the Group's property for the period ended 31 August 2019 was assessed by independent and appropriately qualified valuers in accordance with the Royal Institute of Chartered Surveyors ("RICS") standards and IFRS 13. The valuations are performed by BNP Paribas Real Estate for the UK Shopping Centres and the Esplanade and by Savills for remainder of the Group's portfolio. The valuations are reviewed internally by senior management and presented to the Audit and Risk Committee. The presentation includes discussion around the assumptions used by the external valuers, as well as a review of the resulting valuations.

### Valuation inputs

The fair value of the property portfolio (excluding RBH managed UK Hotels and London Serviced Offices) has been determined using either a discounted cash flow or a yield capitalisation technique, whereby contracted and market rental values are capitalised at a market rate, having regard for: tenant covenant strength; lease maturity; quality and location of the property; occupancy; non-recoverable costs and head rents. For RBH managed UK Hotels and London Serviced Offices, fair value is determined with reference to a capitalisation rate applied to the EBITDA of the underlying operational business. The resulting valuations are cross-checked against the net initial yield and the fair market values per square foot of comparable recent market transactions.

The valuation techniques are consistent with IFRS 13 and use significant unobservable inputs. Valuation techniques can change at each valuation round depending on prevailing market conditions, market transactions and the property's highest and best use at the reporting date. Where there is a lack of market comparable transactions, the level of estimation and judgement increases on account of less observable inputs and the degree of variability could be expected to widen. This is of particular relevance to the Group's UK Retail sector, and primarily UK Shopping Centres sub-sector, where there is continued weakening of investor sentiment, retail failures and ongoing structural change in consumer behaviour.

The Group considers all its investment property to fall within 'Level 3', as defined by IFRS 13 (refer to Note 31). There has been no transfer of property within the fair value hierarchy during the year. The key unobservable valuation inputs of the Group's total Portfolio, including assets held for sale, are set out in the tables below:

| 31 August 2019 | Market value £m | Lettable area sqm | Average rent per sqm £ | Weighted average lease length yrs | Weighted average net initial yield % | Net initial yield % range | Average market rent per sqm £ |
|---|---|---|---|---|---|---|---|
| UK Commercial | 546.8 | 189,964 | 179.0 | 5.7 | 4.8 | 2.7 – 14.7 | 175.8 |
| UK Hotels | 363.3 | 77,391 | 335.6 | 17.2 | 5.8 | 4.4 – 7.5 | 319.7 |
| UK Retail | 255.0 | 107,588 | 197.2 | 6.0 | 6.5 | 4.7 – 11.1 | 181.4 |
| Europe | 232.1 | 81,688 | 173.7 | 5.0 | 5.0 | 4.5 – 6.7 | 165.9 |
| **Joint ventures** | | | | | | | |
| UK Commercial | 11.0 | 2,752 | 312.9 | 3.6 | 7.3 | 7.3 | 320.0 |
| Europe | 15.1 | 10,702 | 91.5 | 6.4 | 5.5 | 5.5 – 5.6 | 90.8 |
| **Total** | **1,423.3** | **470,085** | | | | | |

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## 15. Investment property continued

### Valuation inputs continued

| 31 August 2018 | Market value £m | Lettable area sqm | Average rent per sqm £ | Weighted average lease length yrs | Weighted average net initial yield % | Net initial yield % range | Average market rent per sqm £ |
|---|---|---|---|---|---|---|---|
| UK Commercial | 504.6 | 167,862 | 175.2 | 5.4 | 5.1 | 3.2 – 13.5 | 182.3 |
| UK Hotels | 364.9 | 77,391 | 336.0 | 18.2 | 5.9 | 4.6 – 7.6 | 336.0 |
| UK Retail | 481.0 | 223,826 | 179.1 | 8.5 | 6.4 | 5.0 – 9.2 | 170.2 |
| Europe | 244.5 | 87,184 | 67.3 | 4.9 | 4.3 | 3.4 – 7.8 | 162.9 |
| **Joint ventures** | | | | | | | |
| UK Commercial | 11.3 | 2,752 | 327.0 | 3.7 | 7.1 | 7.1 | 327.0 |
| Europe | 14.1 | 10,666 | 93.8 | 7.1 | 5.8 | 5.6 – 6.0 | 93.8 |
| **Total** | **1,620.4** | **569,681** | | | | | |

There are interrelationships between the unobservable inputs as they are determined by market conditions; an increase in more than one input could impact on the valuation.

### Valuation sensitivities

The tables below set out the financial impact of positive and negative shifts in the two primary unobservable inputs on the valuation of the Group's controlled property segments:

| 31 August 2019 Group | Market value £m | +5% ERV/ EBITDA (£m)[1] | -5% ERV/ EBITDA (£m)[1] | -25bps Yield/ Capitalisation rate (£m)[1] | +25bps Yield/ Capitalisation rate (£m)[1] | +15% ERV/ EBITDA (£m)[1] | -15% ERV/ EBITDA (£m)[1] | -75bps Yield/ Capitalisation rate (£m)[1] | +75bps Yield/ Capitalisation rate (£m)[1] |
|---|---|---|---|---|---|---|---|---|---|
| UK Commercial | 546.8 | 23.7 | (26.2) | 26.3 | (26.9) | 73.5 | (75.5) | 90.7 | (71.6) |
| UK Hotels | 363.3 | 16.8 | (19.4) | 14.8 | (13.5) | 53.0 | (55.5) | 48.8 | (37.7) |
| UK Retail | 255.0 | 10.1 | (9.4) | 10.3 | (9.4) | 30.4 | (28.6) | 33.4 | (26.4) |
| Europe | 232.1 | 9.4 | (9.3) | 4.5 | (4.4) | 28.1 | (28.0) | 13.8 | (12.9) |
| **Total** | **1,397.2** | **60.0** | **(64.3)** | **55.9** | **(54.2)** | **185.0** | **(187.6)** | **186.7** | **(148.6)** |

| 31 August 2018 Group | Market value £m | +5% ERV/ EBITDA (£m)[1] | -5% ERV/ EBITDA (£m)[1] | -25bps Yield/ Capitalisation rate (£m)[1] | +25bps Yield/ Capitalisation rate (£m)[1] |
|---|---|---|---|---|---|
| UK Commercial | 504.6 | 16.5 | (17.0) | 14.9 | (13.8) |
| UK Hotels | 364.9 | 10.2 | (9.7) | 12.7 | (11.0) |
| UK Retail | 481.0 | 16.9 | (16.6) | 18.8 | (17.6) |
| Europe | 244.5 | 22.5 | (22.9) | 26.4 | (24.1) |
| **Total** | **1,595.0** | **66.1** | **(66.2)** | **72.8** | **(66.5)** |

(1) EBITDA and capitalisation rate inputs are applicable to the UK Hotel portfolio (RBH managed only) and the London Serviced Offices Portfolio given the operational nature of the underlying businesses.

An increase in the current or future rental stream would increase capital value while a higher yield or discount rate would decrease capital value. There are interrelationships between these unobservable inputs however as they are partially determined by market conditions. The valuation movement in any one period depends on the balance between them.

On account of the heightened uncertainty and volatility in market conditions, the Directors have considered it appropriate to increase the range in shifts of the primary unobservable valuation inputs as at 31 August 2019.

For the purposes of viability and going concern, the Directors have considered the impact of a decline in investment property valuations in a downside scenario as follows; UK Shopping Centres 20 per cent; other UK Retail assets five per cent; UK Hotels and Europe two per cent. The significant reduction applied to Shopping Centres reflects the continued weak investor sentiment, ongoing structural changes to the retail landscape and concerns over the going concern of certain retailers due to deteriorating sales. Furthermore, the Directors have considered an additional five per cent reduction in all UK investment property values in a Brexit scenario. The results of this assessment are set out in the Group's Viability Statement on page 23. Based on the market value of the Group's portfolio at 31 August 2019, the decline in valuations would result in a fair value loss to the income statement of £36.7 million in a downside scenario and £94.9 million in a Brexit scenario.

### Acquisitions

The Group acquired an industrial estate in Farnborough, Hampshire (Southwood Business Park) for a total consideration of £26.3 million (excluding costs) in September 2018. In addition, the Group acquired 13.5 acres of land interest in Bicester, Oxfordshire for £7.9 million (excluding costs) in September 2018 and acquired the first of two distribution units constructed on the site, on practical completion for £7.8 million in April 2019. The Group is committed to acquiring the second unit on practical completion for £10.3 million. Completion is set for December 2019.

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### Committed expenditure

The Group was contractually committed to expenditure of £16.4 million for the future acquisition, development and enhancement of investment property and investment property held for sale at 31 August 2019 (31 August 2018: £8.3 million), including the £10.3 million on practical completion of the second Bicester unit referenced above.

### Disposals

The Group made three disposals during the year to 31 August 2019 by way of asset sales. One property was disposed from the Discontinued European portfolio, namely a retail warehouse in Eilenburg, Germany in September 2018. Two properties were disposed from the UK Commercial portfolio, namely Centrallofts, Newcastle (at auction) and Lakeview, Warrington (exchange of contracts) during August 2019. As at 31 August 2019, net proceeds of £3.5 million had been received by the Group after adjusting for additional prior year disposal costs (£0.5 million from Continuing operations).

| 31 August 2019 | Sales proceeds £m | Disposal costs £m | Net sales proceeds £m | Carrying value £m | Loss on disposal £m |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Centrallofts, Newcastle | 0.5 | — | 0.5 | 0.9 | (0.4) |
| Lakeview, Warrington | 3.6 | (0.2) | 3.4 | 4.7 | (1.3) |
| | 4.1 | (0.2) | 3.9 | 5.6 | (1.7) |
| **Discontinued operation** | | | | | |
| Eilenburg | 3.3 | (0.2) | 3.1 | 3.3 | (0.2) |
| **Disposals during the year** | **7.4** | **(0.4)** | **7.0** | **8.9** | **(1.9)** |

The Group disposed of two assets from the UK Commercial portfolio and two assets from the Discontinued European portfolio (part of the Leopard Portfolio disposal) during the prior year by way of assets sales, realising a net gain after disposal costs of £1.5 million. As at 31 August 2018, net proceeds of £22.7 million had been received by the Group after adjusting for additional prior year disposal costs (£16.8 million from Continuing operations).

| 31 August 2018 | Sales proceeds £m | Disposal costs £m | Net sales proceeds £m | Carrying value £m | Gain/ (loss) on disposal £m |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| The Crescent Centre, Bristol | 15.0 | (0.2) | 14.8 | (14.1) | 0.7 |
| Heynesfield House, Sparkhill | 2.1 | — | 2.1 | (1.2) | 0.9 |
| | 17.1 | (0.2) | 16.9 | (15.3) | 1.6 |
| **Discontinued operation** | | | | | |
| Bunde & Uelzen, Germany (Leopard asset disposal) | 5.9 | — | 5.9 | (6.0) | (0.1) |
| **Disposals during the year** | **23.0** | **(0.2)** | **22.8** | **(21.3)** | **1.5** |

### Commercial property price risk

The Board draws attention to the risks associated with commercial property investments. Although over the long term property is considered a low risk asset, investors must be aware that significant short and medium term risk factors are inherent in the asset class. Investments in property are relatively illiquid and usually more difficult to realise than listed equities or bonds and this restricts the Group's ability to realise value in cash in the short term. This is of particular relevance in relation to the UK Shopping centres where there is paucity of transactions in the market.

# Notes to the financial statements continued

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## 16. Investment in subsidiaries

| Company | Note | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|---|
| Opening balance at 1 September | | **657.1** | 539.9 |
| Additions | 32 | **16.5** | 121.3 |
| Impairment | 32 | **(2.0)** | — |
| Redemptions | 32 | **(27.0)** | (4.1) |
| **Carrying value at 31 August** | | **644.6** | 657.1 |

At 31 August 2019, the Company held a number of controlling interests in intermediary holding companies that have indirect interests in investment property throughout in the UK and Germany and one direct interest in a UK property-owning subsidiary. In addition, the Company held the controlling interest in an intermediary holding company that indirectly provides the management function of the Group. An impairment assessment of the Company's investment in subsidiaries is performed annually with reference to the EPRA net assets of each continuing subsidiary group. EPRA NAV is considered to be the best approximation of fair value for a real estate Group. As a result of the assessment of the EPRA net assets of each continuing subsidiary-group (on a legal structure basis), no impairment was considered necessary at 31 August 2019 (31 August 2018: £Nil).

The impairment of £2.0 million recognised during the year ended 31 August 2019, relates to a discontinued intermediary holding company whose sole property-owning subsidiary was put into liquidation in advance of year-end after disposal of its property interest to a third party. This holding company will be put into liquidation once its subsidiary is formally liquidated. As the holding company no longer contributes to the EPRA NAV of the Group and the Company cannot recover the cost of its investment, the carrying value has been written down to £Nil at 31 August 2019.

During the year ended 31 August 2019, the Company was issued £16.5 million of redeemable shares by a subsidiary undertaking in settlement of funding the forward funding of Bicester property interests. Refer to Note 15. In addition, the Company redeemed £27.0 million of redeemable shares held in another subsidiary undertaking as a result of property disposal proceeds received by the Company during the year ended 31 August 2019 and 31 August 2018. Refer to Note 32.

## 17. Investment in and loans to joint ventures

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Investment in joint ventures** | | |
| Opening balance at 1 September | **1.9** | 1.9 |
| Additional investment in joint ventures | **—** | 0.1 |
| Share of post-tax profit from joint ventures | **0.9** | — |
| Foreign currency translation | **0.1** | (0.1) |
| **Closing balance at 31 August** | **2.9** | 1.9 |

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Loans to joint ventures** | | |
| Opening balance at 1 September | **5.2** | 4.3 |
| Increase in loans to joint ventures | **—** | 1.0 |
| Repayment of loans by joint ventures | **(0.1)** | (0.1) |
| Reversal of impairment of loans to joint ventures | **—** | 0.1 |
| Foreign currency translation | **—** | (0.1) |
| **Closing balance at 31 August** | **5.1** | 5.2 |
| **Carrying value of interests in joint ventures at 31 August** | **8.0** | 7.1 |

### Joint venture interests

During the year ended 31 August 2019, the Group's material investments in joint ventures which are presented in the tables of this note included the following interests:

- 52 per cent interest in RI Menora German Holdings S.à.r.l., a joint venture with Menora Mivtachim, which ultimately owns properties in Waldkraiburg, Hückelhoven and Kaiserslautern, Germany. The Group acquired an additional 1.5 per cent interest in the joint venture in November 2017 following the acquisition of a non-controlling interest. Notwithstanding the economic shareholding, the contractual terms provide for joint control and so the Company does not control the entity;
- 49 per cent interest in Wichford VBG Holding S.à.r.l., a joint venture with Menora Mivtachim, which owned Government-let properties in Dresden, Berlin, Stuttgart and Cologne, Germany. The joint venture disposed of its property-owning subsidiaries on 1 January 2017 as detailed below; and
- 50 per cent interest in TwentySix The Esplanade Limited, a joint venture with Rimstone Limited, which owns an office building in St. Helier, Jersey.

The Group's interest in joint venture entities is in the form of:

- an interest in the share capital of the joint venture companies; and
- loans advanced to the joint venture entities.

RI Menora German Holdings S.à.r.l. and Wichford VBG Holding S.à.r.l. both have accounting year ends of 31 December which differ from the Group, so as to align with the year end of the joint venture partner, Menora Mivtachim.

### Interest in joint ventures not recognised

Under the equity method, the Esplanade was carried at £Nil in the Group's financial statements at 1 September 2018 and remains at £Nil at 31 August 2019. This investment is in a net liability position with the cumulative losses exceeding the cost of the Group's investment. The Group has ceased to recognise further losses beyond the original cost of this joint venture and loans advanced have been fully impaired in line with IAS 28. The Group share of cumulative losses amounted to £0.2 million at 31 August 2019 (31 August 2018: £Nil). On a proportionate basis and for segmental reporting purposes, the Group's interest in the Esplanade is recognised line-by-line. Refer to Note 3.

### Wichford VBG Holding S.à.r.l.

On 1 January 2017, Wichford VBG Holding S.à.r.l. exchanged on the sale of its four German office assets. During the year ended 31 August 2018, the Group incurred additional transaction costs of £0.1 million which have been presented as loss on sale of joint venture.

### Fair value disclosures

The fair value of the Group's loans to joint venture at 31 August 2019 was £5.3 million and the Group considers that this financial asset falls within 'Level 3' as defined by IFRS 13 (refer to Note 31).

# Notes to the financial statements continued

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## 17. Investment in and loans to joint ventures continued

### Summarised financial information

The summarised financial information of the Group's joint ventures, in addition to reconciliations to the amounts presented in the financial statements, are set out below:

| | Discontinued operation | | Unrecognised joint venture | | | |
|---|---|---|---|---|---|---|
| **31 August 2019** | Wichford VBG Holding S.à.r.l. £m | RI Menora German Holdings S.à.r.l. £m | Esplanade £m | **Total £m** | Joint venture partners' interest £m | **Proportionate total £m** |
| Percentage ownership interest | 49% | 52% | 50% | | | |
| **Summarised income statement** | | | | | | |
| Rental income | — | 1.9 | 1.7 | **3.6** | (1.8) | **1.8** |
| Rental expense | — | (0.2) | — | **(0.2)** | 0.1 | **(0.1)** |
| **Net rental income** | — | 1.7 | 1.7 | **3.4** | (1.7) | **1.7** |
| Administrative costs and other fees | (0.1) | (0.2) | 0.3 | **—** | — | **—** |
| **Net operating (expense)/income** | (0.1) | 1.5 | 2.0 | **3.4** | (1.7) | **1.7** |
| Gain/(loss) on revaluation of investment property | — | 0.2 | (0.6) | **(0.4)** | 0.2 | **(0.2)** |
| Gain on revaluation of investment property held for sale | — | 1.3 | — | **1.3** | (0.6) | **0.7** |
| Finance expense on loans from joint venture partners | — | (0.6) | — | **(0.6)** | 0.3 | **(0.3)** |
| Finance expense | — | (0.3) | (1.0) | **(1.3)** | 0.7 | **(0.6)** |
| Change in fair value of derivative financial instruments | — | — | (0.6) | **(0.6)** | 0.3 | **(0.3)** |
| **(Loss)/profit before tax** | (0.1) | 2.1 | (0.2) | **1.8** | (0.8) | **1.0** |
| Taxation | — | (0.3) | (0.2) | **(0.5)** | 0.2 | **(0.3)** |
| **(Loss)/profit and total comprehensive (expense)/income** | (0.1) | 1.8 | (0.4) | **1.3** | (0.6) | **0.7** |
| Reconciliation to IFRS: | | | | | | |
| Elimination of non-controlling and joint venture partners' interests | 0.1 | (0.9) | 0.2 | **(0.6)** | 0.6 | **—** |
| Movement in losses restricted in joint ventures | — | — | 0.2 | **0.2** | — | **0.2** |
| **Group share of joint venture results (included in post-tax profit from discontinued operation)** | — | 0.9 | — | **0.9** | — | **0.9** |
| **Summarised balance sheet** | | | | | | |
| Investment property | — | — | 21.9 | **21.9** | (10.9) | **11.0** |
| Trade and other receivables | — | 0.8 | 0.2 | **1.0** | (0.5) | **0.5** |
| Cash and cash equivalents | 0.8 | 0.5 | 0.5 | **1.8** | (0.9) | **0.9** |
| Non-current assets held for sale | — | 29.1 | — | **29.1** | (14.0) | **15.1** |
| **Total assets** | 0.8 | 30.4 | 22.6 | **53.8** | (26.3) | **27.5** |
| External borrowings | — | (13.6) | (16.5) | **(30.1)** | 14.8 | **(15.3)** |
| Loans from joint venture partners | — | (9.3) | (6.6) | **(15.9)** | 7.7 | **(8.2)** |
| Derivative financial instruments | — | — | (6.1) | **(6.1)** | 3.0 | **(3.1)** |
| Deferred tax | — | (1.5) | — | **(1.5)** | 0.7 | **(0.8)** |
| Trade and other payables | — | (0.8) | (0.3) | **(1.1)** | 0.6 | **(0.5)** |
| **Total liabilities** | — | (25.2) | (29.5) | **(54.7)** | 26.8 | **(27.9)** |
| Non-controlling interests | — | (0.4) | — | **(0.4)** | 0.2 | **(0.2)** |
| **Net assets/(liabilities)** | 0.8 | 4.8 | (6.9) | **(1.3)** | 0.7 | **(0.6)** |
| Reconciliation to IFRS: | | | | | | |
| Elimination of joint venture partners' interests | (0.4) | (2.3) | 3.4 | **0.7** | (0.7) | **—** |
| Recognised loan to joint venture[(1)] (Note 32) | — | 5.1 | — | **5.1** | — | **5.1** |
| Impaired loan to joint venture | — | — | 3.3 | **3.3** | — | **3.3** |
| Cumulative losses restricted[(2)] | — | — | 0.2 | **0.2** | — | **0.2** |
| **Carrying value of interests in joint ventures** | 0.4 | 7.6 | — | **8.0** | — | **8.0** |

| 31 August 2018 | Discontinued operation: Wichford VBG Holding S.à.r.l. £m | Discontinued operation: RI Menora German Holdings S.à.r.l. £m | Unrecognised Joint venture: Esplanade £m | **Total £m** | Joint venture partners' interest £m | **Proportionate total £m** |
|---|---|---|---|---|---|---|
| Percentage ownership interest | 49% | 52% | 50% | | | |
| **Summarised income statement** | | | | | | |
| Rental income | — | 1.8 | 1.7 | **3.5** | (1.7) | **1.8** |
| Rental expense | — | (0.3) | — | **(0.3)** | 0.1 | **(0.2)** |
| **Net rental income** | — | 1.5 | 1.7 | **3.2** | (1.6) | **1.6** |
| Administrative costs and other fees[1] | (0.2) | (0.2) | — | **(0.4)** | 0.2 | **(0.2)** |
| **Net operating (expense)/income** | (0.2) | 1.3 | 1.7 | **2.8** | (1.4) | **1.4** |
| Gain/(loss) on revaluation of investment property | — | 0.2 | (0.6) | **(0.4)** | 0.2 | **(0.2)** |
| Finance expense on loans from joint venture partners | — | (0.6) | — | **(0.6)** | 0.3 | **(0.3)** |
| Finance expense | — | (0.3) | (1.2) | **(1.5)** | 0.7 | **(0.8)** |
| Change in fair value of derivative financial instruments | — | — | 1.4 | **1.4** | (0.7) | **0.7** |
| **(Loss)/profit before tax** | (0.2) | 0.6 | 1.3 | **1.7** | (0.9) | **0.8** |
| Taxation | — | (0.4) | — | **(0.4)** | 0.2 | **(0.2)** |
| **(Loss)/profit and total comprehensive (expense)/income** | (0.2) | 0.2 | 1.3 | **1.3** | (0.7) | **0.6** |
| Reconciliation to IFRS: | | | | | | |
| Elimination of non-controlling and joint venture partners' interests | 0.1 | (0.1) | (0.7) | **(0.7)** | 0.7 | **—** |
| Movement in losses restricted in joint ventures | — | — | (0.6) | **(0.6)** | — | **(0.6)** |
| **Group share of joint venture results** | (0.1) | 0.1 | — | **—** | — | **—** |
| **Summarised balance sheet** | | | | | | |
| Investment property | — | 27.2 | 22.5 | **49.7** | (24.3) | **25.4** |
| Trade and other receivables | — | 0.8 | 0.2 | **1.0** | (0.5) | **0.5** |
| Cash and cash equivalents | 0.8 | 0.3 | 0.4 | **1.5** | (0.7) | **0.8** |
| **Total assets** | 0.8 | 28.3 | 23.1 | **52.2** | (25.5) | **26.7** |
| External borrowings | — | (13.7) | (17.0) | **(30.7)** | 15.1 | **(15.6)** |
| Loans from joint venture partners | — | (9.4) | (6.6) | **(16.0)** | 7.8 | **(8.2)** |
| Derivative financial instruments | — | — | (5.5) | **(5.5)** | 2.7 | **(2.8)** |
| Deferred tax | — | (1.2) | — | **(1.2)** | 0.6 | **(0.6)** |
| Trade and other payables | — | (0.7) | (0.6) | **(1.3)** | 0.5 | **(0.8)** |
| **Total liabilities** | — | (25.0) | (29.7) | **(54.7)** | 26.7 | **(28.0)** |
| Non-controlling interests | — | (0.3) | — | **(0.3)** | 0.2 | **(0.1)** |
| **Net assets/(liabilities)** | 0.8 | 3.0 | (6.6) | **(2.8)** | 1.4 | **(1.4)** |
| Reconciliation to IFRS: | | | | | | |
| Elimination of joint venture partners' interests | (0.4) | (1.5) | 3.3 | **1.4** | (1.4) | **—** |
| Loan to joint ventures[1] | — | 5.2 | — | **5.2** | — | **5.2** |
| Cumulative losses restricted[2] | — | — | 3.3 | **3.3** | — | **3.3** |
| **Carrying value of interests in joint ventures** | 0.4 | 6.7 | — | **7.1** | — | **7.1** |

(1) Loans to joint ventures include the opening balance, any advances or repayments and foreign currency movements during the year.

(2) Cumulative losses restricted represent the Group's share of losses in the Esplanade which exceed the cost of the Group's investment. As a result, the carrying value of the investment is £Nil in accordance with the requirements of IAS 28.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 18. Investment in associate

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Associate investment in IHL and RBH** | | |
| Opening balance at 1 September | 9.1 | 9.4 |
| **IHL** | | |
| Transfer from investment at fair value through profit or loss | — | 8.5 |
| Additions | — | 5.0 |
| Reclassification as investment in subsidiary | — | (13.5) |
| **RBH** | | |
| Share of post-tax profit from associate | 0.9 | 0.3 |
| Distributions from associate (Note 32) | (1.0) | (0.6) |
| Impairment of investment in associate | (1.4) | — |
| **Carrying value of net investment in associate** | 7.6 | 9.1 |

### IHL

On 15 September 2017, the Group obtained consent from the shareholders of IHL to acquire 16.4 million shares (29.3 per cent) being all of the non-controlling interest in IHL via a scheme of arrangement. From this date, the Group was considered to have significant influence over IHL and the investment was reclassified from an investment at fair value through profit or loss. On 26 October 2017, the Group acquired an additional 5.0 million shares in IHL for £5.0 million from Redefine Properties and increased its interest to 26.2 per cent. The additional interests acquired allowed RDI to continue to participate in the financial and operating decisions of IHL, but not to direct those decisions, and therefore the cumulative investment of £13.5 million continued to be classified as an associate.

On 13 November 2017, the scheme of arrangement completed, and the Group acquired 16.4 million shares from scheme participants and 1.9 million shares from Redefine Properties, increasing RDI's interest in IHL from 26.2 to 58.9 per cent (increased further to 74.1 per cent). The Group could, from this date, direct the operating and financial decisions of IHL and was exposed to the variable returns of the property group as a result. RDI had acquired control of IHL from this date and this is considered the acquisition date for the purposes of IFRS 3. The fair value of the Group's associate interest in IHL of £13.5 million was, therefore, included in the determination of the net gain on bargain purchase of IHL as a stepped acquisition.

All RDI share numbers referenced are those prior to the share consolidation (ordinary shares at 8 pence per share).

### RBH

The summarised financial information of RBH is set out below.

| | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Summarised income statement** | | |
| Revenue | 77.7 | 78.3 |
| Other income | 3.7 | 1.6 |
| Expenses | (77.1) | (78.1) |
| Profit from operations | 4.3 | 1.8 |
| Taxation | (0.9) | (0.7) |
| **Profit for the year** | 3.4 | 1.1 |
| Elimination of third party interest | (2.5) | (0.8) |
| **Group share of results** | 0.9 | 0.3 |
| Classified as: | | |
| **Share of post-tax profit from associate** | 0.9 | 0.3 |

| | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Summarised balance sheet** | | |
| Non-current assets | **2.9** | 4.1 |
| Intangible asset | **28.1** | 28.1 |
| Trade and other receivables | **6.2** | 9.3 |
| Cash and cash equivalents | **7.0** | 3.9 |
| Total assets | **44.2** | 45.4 |
| Current liabilities | **(14.5)** | (13.6) |
| Total liabilities | **(14.5)** | (13.6) |
| **Net assets** | **29.7** | 31.8 |
| Capital contribution adjustment | **2.9** | 1.1 |
| **Adjusted net assets** | **32.6** | 32.9 |
| Elimination of third party interest | **(24.4)** | (24.6) |
| **Share of net assets attributable to the Group** | **8.2** | 8.3 |
| Impairment of Group share of net assets | **(0.6)** | — |
| Excess net investment in associate | **—** | 0.8 |
| **Carrying value of the Group's net investment in associate** | **7.6** | 9.1 |

The impairment charge of £1.4 million recognised during the year ended 31 August 2019, is comprised of impairment of the Group's share of RBH net assets of £0.6 million and reduction of the excess net investment in RBH of £0.8 million to £nil.

Distributions from the associate for the year ended 31 August 2019 were £1.0 million (31 August 2018: £0.6 million, £0.7 million in total, including the investment in associate held for sale).

Following an internal impairment assessment and on receipt of an independent valuation of RBH, the Directors considered that the recoverable amount of the Group's net investment in RBH was £7.6 million at 31 August 2019. The independent valuation was determined on a capitalisation of earnings basis, cross-checked to market comparables and a recent shareholder transaction. Using a discount rate range of 10.5 - 11.5 per cent, an enterprise value range of £26.3 - £32.5 million was attributed to the investment, with a mid-point valuation of £30.0 million (Group share: £7.6 million). This resulted in an impairment charge of £1.4 million to the income statement during the year ended 31 August 2019.

## 19. Other non-current assets

### Intangible assets

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| Opening balance at 1 September | **0.8** | 1.1 |
| Amortisation | **(0.2)** | (0.3) |
| **Closing balance at 31 August** | **0.6** | 0.8 |

Intangible assets were recognised on the acquisition of Redefine International Management Holdings Limited Group ("RIMH") and represented the fair value of the advisory agreements acquired by the Group. The value attributed to the contracts between RIMH and third parties, including joint ventures of the Group and the non-controlling interests, was £1.9 million. The intangible asset is being amortised on a straight-line basis over the remaining term of the contracts, which have an average life of eight years, and was just over two years at 31 August 2019.

### Property, plant and equipment

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| Opening balance at 1 September | **0.5** | 0.1 |
| Additions | **0.1** | 0.6 |
| Disposals | **(0.1)** | — |
| Depreciation | **(0.2)** | (0.2) |
| **Closing balance at 31 August** | **0.3** | 0.5 |
| **Total other non-current assets at 31 August** | **0.9** | 1.3 |

# Notes to the financial statements continued

for the year ended 31 August 2019

## 20. Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **31 August 2019 £m** | 31 August 2018 £m | **31 August 2019 £m** | 31 August 2018 £m |
| **Non-current** | | | | |
| Tenant lease incentives[1] | **7.4** | 8.1 | **—** | — |
| Tenant lease incentives to related parties[1] (Note 32) | **1.3** | 0.4 | **—** | — |
| Loans to external parties | **—** | 1.6 | **—** | — |
| Letting costs | **1.1** | 1.1 | **—** | — |
| Other receivables | **0.3** | — | **—** | — |
| **Total non-current other receivables** | **10.1** | 11.2 | **—** | — |
| **Current** | | | | |
| Accounts receivable | **1.0** | 1.0 | **—** | — |
| Tenant lease incentives[1] | **1.2** | 1.6 | **—** | — |
| Tenant lease incentives to related parties[1] (Note 32) | **1.9** | 0.8 | **—** | — |
| Other amounts receivable from related parties (Note 32) | **0.1** | 0.3 | **—** | — |
| Amounts receivable from subsidiaries (Note 32) | **—** | — | **4.3** | 3.9 |
| Accrued income in relation to property disposals | **13.8** | — | **—** | — |
| Prepayments and accrued income | **1.6** | 2.5 | **0.5** | 0.4 |
| Other receivables | **3.2** | 0.9 | **—** | 0.4 |
| **Total current trade and other receivables** | **22.8** | 7.1 | **4.8** | 4.7 |
| **Total receivables** | **32.9** | 18.3 | **4.8** | 4.7 |

(1) Total tenant lease incentives of £11.8 million (31 August 2018: £10.9 million) have been deducted from investment property, including property assets held for sale, in determining fair value at the balance sheet date. Refer to Note 15 (£9.2 million) and Note 22 (£2.6 million) respectively.

## 21. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **31 August 2019 £m** | 31 August 2018 £m | **31 August 2019 £m** | 31 August 2018 £m |
| Unrestricted cash and cash equivalents | **32.3** | 58.3 | **6.4** | 16.2 |
| Restricted cash and cash equivalents | **0.7** | 0.7 | **0.7** | — |
| **Cash and cash equivalents** | **33.0** | 59.0 | **7.1** | 16.2 |

At 31 August 2019, cash and cash equivalents to which the Group and Company did not have instant access amounted to £0.7 million (31 August 2018: Group, £0.7 million; Company, £Nil). The restricted cash is held on deposit in Germany under an hereditable building right agreement for the property at Ingolstadt.

The Group's share of total cash and cash equivalents, including its share of joint venture cash, at 31 August 2019 was £33.9 million (31 August 2018: £59.8 million), with a further £20.0 million of undrawn committed facilities available (31 August 2018: £75.0 million).

## 22. Non-current assets and disposal group held for sale

| Group | UK Commercial £m | UK Retail £m | Europe – Dis Op £m[1] | **Total £m** |
|---|---|---|---|---|
| **Investment property** | | | | |
| Opening balance at 1 September 2017 | 9.2 | 12.9 | 3.7 | **25.8** |
| Transfers from investment property (Note 15)[2] | 23.1 | — | — | **23.1** |
| Transfers to investment property (Note 15) | (0.9) | — | (3.6) | **(4.5)** |
| Disposals through the sale of subsidiary | — | (12.9) | — | **(12.9)** |
| Disposals through the sale of property | (31.4) | — | — | **(31.4)** |
| Foreign currency translation | — | — | (0.1) | **(0.1)** |
| Opening balance at 1 September 2018 | — | — | — | **—** |
| Transfers from investment property (Note 15) | 8.8 | 2.2 | 229.7 | **240.7** |
| Capitalised expenditure | — | — | 0.3 | **0.3** |
| Loss on revaluation of investment property | — | — | (2.4) | **(2.4)** |
| Disposals through the sale of property | — | — | (9.8) | **(9.8)** |
| Foreign currency translation | — | — | 13.5 | **13.5** |
| **Closing balance at 31 August 2019** | 8.8 | 2.2 | 231.3 | **242.3** |
| Adjustments: | | | | |
| Tenant lease incentives (Note 20) | — | 0.3 | 2.3 | **2.6** |
| Minimum payments under head leases | — | — | (1.5) | **(1.5)** |
| **Market value of Group assets held for sale at 31 August 2019** | 8.8 | 2.5 | 232.1 | **243.4** |
| Share of joint venture assets held for sale (Note 17) | — | — | 15.1 | **15.1** |
| **Market value of total assets held for sale at 31 August 2019** | 8.8 | 2.5 | 247.2 | **258.5** |

(1) Included within the Europe segment at 31 August 2019 is property under development of £32.3 million (31 August 2018: £32.1 million).

(2) Investment property was revalued before being reclassified as held for sale in line with IFRS 5. This resulted in a gain in the income statement of £0.9 million.

In March 2019, the Board approved a marketing exercise for the prospective sale of the Europe portfolio, a separately identifiable line of business containing the Group's investment properties located in Germany. At 31 August 2019, exclusivity agreements had been entered into or at the final stages with preferred parties and it is management's expectation that the majority of sales will be completed by February 2020. All assets within the Europe portfolio (including the Group's share of joint venture investment property) have been reclassified as a disposal group held for sale since Board approval of the sale, having met the criteria of IFRS 5, in addition to the results and cash flows of the segment being treated as a discontinued operation. At 31 August 2019, the Group had exchanged contracts on one of the properties, namely the Munich Shopping centre, for consideration of €11.4 million and recognised the disposal on exchange of contacts as there are no significant conditions pending completion as set out in the table below. The transaction is due to complete 31 October 2019. Refer to Note 38 for further information on additional properties in the Europe Portfolio that the Group has exchanged contracts on subsequent to year-end.

There are seven mature UK assets that the Group plans to dispose of during the next financial year. At 31 August 2019, two of these assets met the criteria of IFRS 5 as held for sale, namely Park Place, Leeds and Albion Street, Derby. The properties were being actively marketed at 31 August 2019 and have exchanged contracts subsequent to year-end. Refer to Note 38.

No property assets were classified as held for sale at 31 August 2018 as the criteria outlined in IFRS 5 had not been met.

All non-current assets held for sale fall within 'Level 3', as defined by IFRS 13 (refer to Note 31). Accordingly, there has been no transfer within the fair value hierarchy over the year.

### Disposals

The gain on disposal of the Munich property is included in the post-tax profit from Discontinued operation in the income statement.

| **31 August 2019** | Fair value adjustments £m | Net sales proceeds £m | Carrying value £m | Gain on disposal £m |
|---|---|---|---|---|
| Munich | 10.0 | (9.8) | 0.3 | 0.5 |
| **Disposals during the year** | **10.0** | **(9.8)** | **0.3** | **0.5** |

# Notes to the financial statements continued

for the year ended 31 August 2019

## 22. Non-current assets and disposal group held for sale continued

### Disposals continued

The Group disposed of the five held for sale assets during the year ended 31 August 2018, one from the UK Retail portfolio and five from the UK Commercial portfolio. One of the sales, Paragon Square, Hull was structured as a corporate sale. Refer to Note 8 for further details. From the four asset sales, the Group realised a net gain, after disposal costs, of £1.8 million. As at 31 August 2018, net proceeds of £39.6 million had been received by the Group which included the proceeds from a prior year sale (£33.0 million from Continuing operations).

| 31 August 2018 | Sales proceeds £m | Disposal costs £m | Fair value adjustments £m | Net sales proceeds £m | Carrying value £m | (Loss)/gain on disposal £m |
|---|---|---|---|---|---|---|
| Duchess Place, Edgbaston | 1.6 | — | 0.7 | 2.3 | (2.3) | — |
| West Point and Centre Court, Plymouth | 2.7 | (0.1) | — | 2.6 | (2.7) | (0.1) |
| City Point, Leeds | 26.1 | (0.6) | (0.5) | 25.0 | (23.1) | 1.9 |
| Severalls, Colchester | 3.4 | (0.1) | — | 3.3 | (3.3) | — |
| **Disposals during the year** | **33.8** | **(0.8)** | **0.2** | **33.2** | **(31.4)** | **1.8** |

## 23. Borrowings, including finance leases

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Non-current** | | |
| Bank loans | **656.1** | 787.9 |
| Less: unamortised debt issue costs | **(5.2)** | (2.7) |
| Less: fair value adjustments | **(1.0)** | (14.1) |
| | **649.9** | 771.1 |
| Other external loans | **0.7** | — |
| Finance leases | **6.8** | 13.1 |
| **Total non-current borrowings, including finance leases** | **657.4** | 784.2 |
| **Current** | | |
| Bank loans | **29.1** | 4.7 |
| Less: unamortised debt issue costs | **—** | (0.2) |
| Less: fair value adjustments | **(0.4)** | (0.6) |
| | **28.7** | 3.9 |
| Other external loans | **—** | 0.7 |
| Finance leases | **0.4** | 0.8 |
| **Total current borrowings, including finance leases** | **29.1** | 5.4 |
| **Total borrowings, including finance leases** | **686.5** | 789.6 |

### Analysis of movement in net borrowings, including finance leases

The table below presents the movements in net borrowings for the year ended 31 August 2019, split between cash and non-cash movements and as required by IAS 7.

| Group | Non-current £m | Current £m | Cash and cash equivalents £m | Net debt £m |
|---|---|---|---|---|
| Opening balance at 1 September 2018 | 784.2 | 5.4 | (59.0) | 730.6 |
| **Financing activities (cash)** | | | | |
| **Continuing operations** | | | | |
| Borrowings drawn | 102.0 | — | (102.0) | — |
| Borrowings repaid | (77.7) | (3.2) | 80.9 | — |
| Debt issue cost additions | (4.0) | — | 4.0 | — |
| **Discontinued operation** | | | | |
| Borrowings drawn | 16.7 | — | (16.7) | — |
| Borrowings repaid | (1.7) | (1.1) | 2.8 | — |
| Debt issue cost additions | (0.1) | — | 0.1 | — |
| | **35.2** | **(4.3)** | **(30.9)** | **—** |
| **Financing activities (non-cash)** | | | | |
| Carrying value of borrowings released, including finance leases, on loss of control of Aviva Portfolio | (138.0) | — | — | (138.0) |
| Debt issue costs movements | 1.2 | — | — | 1.2 |
| Accretion of fair value adjustments | 0.6 | — | — | 0.6 |
| Finance lease movements | (0.1) | — | — | (0.1) |
| Reclassification between current and non-current | (28.0) | 28.0 | — | — |
| | **(164.3)** | **28.0** | **—** | **(136.3)** |
| Other net cash movements | — | — | 57.6 | 57.6 |
| Foreign currency translation | 2.3 | — | (0.7) | 1.6 |
| **Closing balance as at 31 August 2019** | **657.4** | **29.1** | **(33.0)** | **653.5** |

### Bank loans

| Group | 31 August 2019 Carrying value £m | 31 August 2019 Nominal value £m | 31 August 2019 Fair value £m | 31 August 2018 Carrying value £m | 31 August 2018 Nominal value £m | 31 August 2018 Fair value £m |
|---|---|---|---|---|---|---|
| **Non-current** | | | | | | |
| Bank loans | **656.1** | **656.1** | **656.1** | 787.9 | 787.9 | 787.9 |
| Less: unamortised debt issue costs | **(5.2)** | **—** | **—** | (2.7) | — | — |
| Less: fair value adjustments | **(1.0)** | **—** | **2.0** | (14.1) | — | (10.3) |
| **Total non-current bank loans** | **649.9** | **656.1** | **658.1** | 771.1 | 787.9 | 777.6 |
| **Current** | | | | | | |
| Bank loans | **29.1** | **29.1** | **29.1** | 4.7 | 4.7 | 4.7 |
| Less: unamortised debt issue costs | **—** | **—** | **—** | (0.2) | — | — |
| Less: fair value adjustments | **(0.4)** | **—** | **(0.4)** | (0.6) | — | (0.6) |
| **Total current bank loans** | **28.7** | **29.1** | **28.7** | 3.9 | 4.7 | 4.1 |
| **Total IFRS bank loans** | **678.6** | **685.2** | **686.8** | 775.0 | 792.6 | 781.7 |
| **Joint ventures** | | | | | | |
| Share of joint ventures bank loans (Note 17) | **15.3** | **15.3** | **15.3** | 15.6 | 15.6 | 15.6 |
| **Total bank loans (on a proportionately consolidated basis)** | **693.9** | **700.5** | **702.1** | 790.6 | 808.2 | 797.3 |
| Cash and cash equivalents | **(33.0)** | **(33.0)** | **(33.0)** | (59.0) | (59.0) | (59.0) |
| Share of joint venture cash and cash equivalents | **(0.9)** | **(0.9)** | **(0.9)** | (0.8) | (0.8) | (0.8) |
| **Net debt (on a proportionately consolidated basis)** | **660.0** | **666.6** | **668.2** | 730.8 | 748.4 | 737.5 |

The table above presents bank loans, cash and cash equivalents and net debt information prepared on a proportionately consolidated basis. This format is not a requirement of IFRS and is presented for informational purposes only as it is used in reports presented to the Group's Chief Operating Decision Maker.

At 31 August 2019, the Group's bank loans are secured over investment property of £1,352.1 million (31 August 2018: £1,525.4 million) and are carried at amortised cost. On a proportionately consolidated basis, bank loans are secured over investment property of £1,378.2 million (31 August 2018: £1,550.8 million).

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## 23. Borrowings, including finance leases continued

### Bank loans continued

The Group's principal value of drawn debt (on a proportionately consolidated basis) has decreased during the year to £700.5 million (31 August 2018: £808.2 million) following refinancings, drawdowns and most significantly, the major transactions the Group has completed during the year. This is in line with the Group's strategy to reduce leverage and refinancing risk and to improve the debt maturity profile in the near term. Bank debt transactions include:

- in September 2018, following the Eilenburg disposal from the Premium portfolio, €3.1 million of sales proceeds were repaid against the loan held with Münchener Hypothekenbank eG;
- in October 2018, the Group drew €19.4 million on a new facility, which matures in June 2023, secured over its property at Ingolstadt in Germany following completion of the main development and handover to Primark;
- at 31 August 2018, the total drawn balance on the AUK facility was £228.0 million and the Group drew a further £15.0 million on 21 September 2018, on the revolving credit facility ("RCF");
- in October 2018, the Group voluntarily cancelled £28.0 million of the AUK facility, reducing the total available facility from £303.0 million to £275.0 million, with a drawn balance of £243.0 million and an undrawn balance of £32.0 million on the date of cancellation;
- in late October 2018, following a lender valuation, the Group was notified that the lender's loan to value on the Aviva facility was in excess of its 85 per cent covenant. The loan, which is secured against four of the Group's UK Shopping Centres (namely: Grand Arcade, Wigan; Weston Favell, Northampton; Birchwood, Warrington; and Byron Place, Seaham) had an outstanding principal balance of £144.7 million (at 28 February 2019), a fixed rate of interest of 5.5 per cent and long-dated maturity in April 2042. As permitted under the facility agreement, the Group subsequently paid £9.7 million to cure the loan to value covenant to below 85 per cent. Since October 2018 and at the compliance reporting date in January 2019, the Group remained in an operational cash trap, whereby net operating cash flows were retained within the facility to reduce the principal balance outstanding. In April 2019, a further event of default occurred and the portfolio was subsequently derecognised. See Note 9 for further details;
- in January 2019, the Group reported an event of default on a facility held with Santander secured over three hotels controlled by the Group, (namely: the Holiday Inn Express, Dunstable; the Holiday Inn Express, Southampton; and the Holiday Inn Express, Redditch). The event of default was in respect of both historic interest service cover and historic loan to EBITDA covenants. As permitted under the facility agreement, the Group subsequently prepaid £3.0 million against the facility. No further covenant concerns have arisen;
- in January 2019, the Group completed the early refinancing of the AUK facility, with total facility commitments of £275.0 million, and the Group drew down an additional £7.0 million on refinancing to bring the total drawn amount to £250.0 million and the undrawn facility commitment to £25.0 million. The refinancing was not considered a substantial modification and related debt issue costs are being amortised over the remaining term of the refinanced facility;
- in April 2019, the Group drew a further £5.0 million on the RCF;
- in May 2019, the Group completed the early refinancing of the Serviced Offices facility with Aberdeen Standard Investment, with total commitments of £75.0 million drawn down in two tranches: £25.0 million in May 2019 and £50.0 million in August 2019. The existing Serviced Offices facilities were simultaneously repaid. The refinanced facility matures in July 2026 and was secured at a weighted average fixed rate of 2.6 per cent, which was deemed a reasonable approximation of fair value on initial recognition; and
- in July 2019, following a lender valuation, the Group was notified that the lender's loan to value on the Santander facility was in excess of its 50 per cent covenant. The loan is secured against the Group's UK Shopping Centre at West Orchards, Coventry. As permitted under the facility agreement, the Group subsequently prepaid £3.0 million to cure the loan to value covenant to below 50 per cent.

The maturity of Group bank loans, gross of unamortised debt issue costs and fair value adjustments is as follows:

| | **31 August 2019 £m** | 31 August 2018 £m |
|---|---|---|
| Less than one year | **29.1** | 4.7 |
| Between one year and five years | **572.4** | 585.5 |
| More than five years | **83.7** | 202.4 |
| | **685.2** | 792.6 |

Certain borrowing agreements contain financial and other covenants that, if contravened, could alter the repayment profile.

### Fair value disclosures

The carrying value of floating rate borrowings is considered to be a reasonable approximation of fair value. The fair value of fixed rate borrowings at the reporting date has been calculated by discounting cash flows under the relevant agreements at a market interest rate for similar debt instruments. The market interest rate has been determined having regard to the term, duration and security arrangements of the relevant loan and an estimation of the current rates charged in the market for similar instruments issued to companies of similar sizes. The fair value adjustment relating to the Aviva Portfolio facility was released on loss of control by the Group – the carrying value on loss of control was £13.1 million.

The Group considers that all bank loans, including the Group's share of joint venture bank loans at a total carrying value of £700.5 million, fall within 'Level 3' as defined by IFRS 13 (refer to Note 31).

### Finance leases

Obligations under finance leases at the reporting date are as follows:

| | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| Minimum lease payments under finance lease obligations: | | |
| Not later than one year | **0.4** | 0.8 |
| Later than one year not later than five years | **1.7** | 3.2 |
| Later than five years | **21.8** | 109.6 |
| | **23.9** | 113.6 |
| Less: finance charges allocated to future periods | **(16.7)** | (99.7) |
| **Present value of minimum lease payments** | **7.2** | 13.9 |
| Present value of minimum finance lease obligations: | | |
| Not later than one year | **0.4** | 0.8 |
| Later than one year not later than five years | **1.4** | 2.6 |
| Later than five years | **5.4** | 10.5 |
| **Present value of minimum lease payments** | **7.2** | 13.9 |

Finance lease obligations relate to the Group's leasehold interests in investment property. Finance leases are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default. The discount rates used in calculating the present value of the minimum lease payments range from 1.8 to 6.3 per cent. The recognised liability of £6.6 million relating to the Group's leasehold interest in one of the Aviva Portfolio assets, namely Grand Arcade Wigan was released on loss of control by the Group.

The fair value of the finance lease obligations at 31 August 2019 was £10.8 million and the Group considers that these liabilities fall within 'Level 3' as defined by IFRS 13 (refer to Note 31).

### Operating leases

The undiscounted future minimum lease obligations under non-cancellable operating leases at the balance sheet date are as follows:

| | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Investment property** | | |
| Not later than one year | **1.4** | 1.4 |
| Later than one year not later than five years | **6.5** | 5.5 |
| Later than five years | **519.9** | 505.7 |
| | **527.8** | 512.6 |
| **Head office** | | |
| Not later than one year | **0.3** | 0.3 |
| Later than one year not later than five years | **0.6** | 0.9 |
| | **0.9** | 1.2 |
| **Total minimum operating lease payments** | **528.7** | 513.8 |

The Group acquired operating leasehold interests in investment property through business combinations during the year ended 31 August 2018.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 24. Derivative financial instruments

The Group enters into interest rate swap and interest rate cap agreements to manage the risks arising from the Group's operations and its sources of finance.

Interest rate swaps and caps are employed by the Group to manage the interest rate profile of financial liabilities. In accordance with the terms of the majority of bank debt arrangements, the Group has entered into interest rate swaps to convert the rates from floating to fixed which has eliminated exposure to interest rate fluctuations. Likewise, interest rate caps are used to limit the downside exposure to significant changes to the low interest rates currently prevailing in the market. It is the Group's policy that no economic trading in derivatives is undertaken.

| Group | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Non-current derivative assets** | | |
| Interest rate cap | — | 0.4 |
| Interest rate swaps | — | 0.7 |
| | — | 1.1 |
| **Non-current derivative liabilities** | | |
| Interest rate swaps | (12.7) | (2.9) |
| | (12.7) | (2.9) |
| **Current derivative liabilities** | | |
| Interest rate swaps | (0.1) | — |
| | (0.1) | — |
| **Net derivative financial instruments** | (12.8) | (1.8) |

The Group holds interest rate cap assets at rates of 1.0 to 3.0 per cent, maturing between November 2019 and June 2023. The interest rate swap liabilities have maturities from February 2020 to February 2024 and the rates range from 0.4 to 2.0 per cent.

## 25. Deferred tax

The table below presents the recognised deferred tax liability and movement during the year:

| Group | On investment property £m | On derivative financial instruments £m | On losses carried forward £m | Total £m |
|---|---|---|---|---|
| **Opening balance 1 September 2017** | 10.4 | — | — | 10.4 |
| Expense/(credit) for the year recognised in the income statement | 1.3 | (0.4) | (1.4) | (0.5) |
| Foreign currency translation | (0.4) | — | — | (0.4) |
| **Opening balance 1 September 2018** | 11.3 | (0.4) | (1.4) | 9.5 |
| Credit for the year recognised in the income statement (within profit from discontinued operation) | (1.1) | (0.2) | (0.7) | (2.0) |
| Foreign currency translation | 0.1 | (0.1) | — | — |
| **Closing balance at 31 August 2019** | 10.3 | (0.7) | (2.1) | 7.5 |

The Group and Company had unrecognised tax losses as at 31 August 2019 of £1.9 million (31 August 2018: £nil).

Deferred tax has been recognised on the Europe Segment's investment property and derivative financial instruments as local tax charges/(credits) would arise on disposal of property and settlement of the derivatives, irrespective of the UK REIT status of the Group. Tax losses carried forward from the Europe Segment are recognised as deferred tax assets only to the extent that the losses can be offset against any future tax charge that would arise on disposal of investment property.

## 26. Payables

| | Group | | Company | |
|---|---|---|---|---|
| | **31 August 2019 £m** | Re-presented 31 August 2018 £m | **31 August 2019 £m** | 31 August 2018 £m |
| **Non-current** | | | | |
| Other sundry payables | **0.1** | 0.2 | **0.1** | 0.2 |
| **Total non-current other payables** | **0.1** | 0.2 | **0.1** | 0.2 |
| **Current** | | | | |
| Amounts payable to subsidiaries (Note 32) | **—** | — | **25.5** | 12.8 |
| Amounts payable to related parties (Note 32) | **0.4** | 0.4 | **—** | — |
| Rent received in advance | **4.6** | 5.0 | **—** | — |
| Trade payables | **1.0** | 0.7 | **—** | — |
| Accrued interest | **1.5** | 2.7 | **—** | — |
| VAT payable | **2.7** | 4.7 | **—** | — |
| Accruals | **3.5** | 5.9 | **2.4** | 1.6 |
| Service charge | **5.8** | 4.6 | **—** | — |
| Tenant deposits[1] | **2.9** | 2.9 | **—** | — |
| Other sundry payables | **1.6** | — | **0.1** | 0.1 |
| **Total current trade and other payables** | **24.0** | 26.9 | **28.0** | 14.5 |
| **Total payables** | **24.1** | 27.1 | **28.1** | 14.7 |

(1) At 31 August 2019, £2.9 million of tenant deposits relate to the London Serviced Office portfolio acquired during prior year (31 August 2018: £2.9 million).

## 27. Share capital and share premium

| | Group and Company | |
|---|---|---|
| Authorised | Number of shares | Authorised share capital £m |
| At 31 August 2018 (ordinary shares of 8 pence each) | 3,000,000,000 | 240.0 |
| Share consolidation (one share for every five shares issued) – 11 February 2019 | **(2,400,000,000)** | **—** |
| **At 31 August 2019 (ordinary shares of 40 pence each)** | **600,000,000** | **240.0** |

| Issued, called up and fully paid | Number of shares | Share capital £m | Share premium £m |
|---|---|---|---|
| **At 1 September 2017** | 1,828,060,146 | 146.2 | 511.8 |
| Share issuance – 1 November 2017 | 12,500,000 | 1.0 | 4.0 |
| Share issuance – 13 November 2017 | 41,074,224 | 3.3 | 13.1 |
| Share issuance – 13 November 2017 | 4,783,697 | 0.4 | 1.5 |
| Share issuance – 24 November 2017 | 2,496,630 | 0.2 | 0.8 |
| Scrip dividend – issued December 2017 | 16,218,190 | 1.3 | 4.5 |
| Share buy-back programme – 15 May to 8 June 2018 | (14,054,524) | (1.1) | (4.1) |
| Scrip dividend – issued June 2018 | 9,371,173 | 0.7 | 3.0 |
| **At 1 September 2018** | 1,900,449,536 | 152.0 | 534.6 |
| Share consolidation (one share for every five shares issued) – 11 February 2019 | **(1,520,359,613)** | **—** | **—** |
| **At 31 August 2019** | **380,089,923** | **152.0** | **534.6** |

# Notes to the financial statements continued
for the year ended 31 August 2019

## 27. Share capital and share premium continued

### Share transactions

#### Prior to share consolidation (ordinary shares at 8 pence per share)

On 1 November 2017, the Group issued 12.5 million shares to Redefine Properties at 40.0 pence per share to acquire 5.0 million shares in IHL valued at £1 per share.

On 13 November 2017 and on fulfilment of the scheme of arrangement, the Group issued 41.1 million shares at 40.0 pence per share in consideration for the acquisition of 16.4 million shares in IHL from scheme participants. On the same date, the Group also issued 4.8 million shares to Redefine Properties at 40.0p per share to acquire 1.9 million shares in IHL valued at £1 per share.

On 24 November 2017, the Group issued 2.5 million shares to Redefine Properties at 40.0p per share in settlement of the 1.0 million shares in IHL that had been acquired on 17 November 2017 at £1 per share.

In October 2017, the Company declared a second interim dividend of 1.3 pence per share for the six months ended 31 August 2017 and offered shareholders an election to receive either a cash dividend or a scrip dividend by way of an issue of new RDI shares credited as fully paid up. The Company received election forms from shareholders holding 512.9 million ordinary shares of 8 pence each representing a 27.2 per cent take up by shareholders, in respect of which 16.2 million scrip dividend shares were issued in December 2017.

Following an announcement on 9 May 2018, the Company entered into a share buy-back programme between 15 May 2018 and 8 June 2018. In total, 14.0 million shares were acquired for total consideration of £5.2 million, including transaction costs.

In May 2018, the Company declared an interim dividend of 1.35 pence per share for the six months ended 28 February 2018 and offered shareholders an election to receive either a cash dividend or a scrip dividend by way of an issue of new RDI shares credited as fully paid up. The Company received election forms from shareholders holding 282.1 million ordinary shares of 8 pence each representing a 14.9 per cent take up by shareholders, in respect of which 9.3 million scrip dividend shares were issued in June 2018.

#### Share consolidation (ordinary shares at 40.0 pence per share)

Following approval by the Board on 24 January 2019 the Group consolidated every five Ordinary Shares issued and to be issued on 11 February 2019 into one ordinary share of 40 pence each. The consolidation resulted in 380,089,923 ordinary shares of 40 pence each being in issue.

## 28. Reserves

### Other reserves

#### Share-based payment reserve

The share-based payment reserve at 31 August 2019 of £0.7 million (31 August 2018: £2.3 million) arises from outstanding conditional awards of shares in the Company made to certain employees and the Executive Directors. The awards will vest on the third anniversary of the grant, subject to certain performance conditions being achieved over the vesting period.

During the year ended 31 August 2019, the Group released from the reserve to retained earnings £1.7 million (31 August 2018: £1.9 million) of cumulative IFRS 2 charge on lapsed and vested awards. The Group incurred a further £0.3 million (31 August 2018: £0.1 million) in relation to awards that vested with certain employees and has recognised the charge directly in retained earnings such that the net credit to retained earnings for the period in relation to share-based payments was £1.4 million. Detailed information on the share-based payment plans in place is included on pages 184 to 185.

The IFRS 2 share-based payment charge for the year was £0.2 million (31 August 2018: £1.0 million).

#### Other reserves

Other reserves of £1.0 million (31 August 2018: £1.0 million) arose from the acquisition of subsidiaries. During the year ended 31 August 2019 this reserve was released on liquidation of the related subsidiary.

### Foreign currency translation reserve

The foreign currency translation reserve at 31 August 2019 of £18.8 million (31 August 2018: £17.9 million) represents exchange differences arising from the translation of the Group's net investment in foreign operations, including both subsidiary and joint venture interests.

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## 29. Non-controlling interests

| Group | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|
| Opening balance at 1 September | **59.5** | 21.8 |
| **Comprehensive income for the year:** | | |
| Share of profit for the year – Continuing operations | **2.3** | 6.0 |
| Share of profit for the year – Discontinued operation | **0.5** | 1.4 |
| **Changes in ownership interests in subsidiaries:** | | |
| Recognition of non-controlling interests on acquisition of subsidiaries (Note 10) | **—** | 33.8 |
| Acquisition of non-controlling interests | **—** | (0.1) |
| Dividends paid to non-controlling interests | **(4.9)** | (3.4) |
| **Total non-controlling interests** | **57.4** | 59.5 |

The following table summarises the financial information relating to the Group's material non-controlling interests in LSO, IHL and RHHL, before any intra-group eliminations.

| | 31 August 2019 | | | | | 31 August 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **LSO £m** | **IHL £m** | **RHHL £m** | **Europe – Dis Op £m** | **Total non-controlling interests £m** | LSO £m | IHL £m | RHHL £m | Europe – Dis Op £m | Total non-controlling interests £m |
| **Principal place of business** | **United Kingdom** | **United Kingdom** | **United Kingdom** | | | United Kingdom | United Kingdom | United Kingdom | | |
| **Country of incorporation** | **Isle of Man** | **BVI** | **BVI** | | | Isle of Man | BVI | BVI | | |
| **NCI %** | **20.0%** | **25.9%** | **17.52%** | **Individually immaterial** | | 20.0% | 25.9% | 17.52% | Individually immaterial | |
| **Summarised balance sheet** | | | | | | | | | | |
| Investment property | **163.4** | **116.5** | **226.7** | | | 163.4 | 119.0 | 229.0 | | |
| Trade and other receivables | **0.7** | **1.1** | **2.8** | | | 0.8 | 0.2 | 2.6 | | |
| Cash and cash equivalents | **5.4** | **2.3** | **2.1** | | | 4.0 | 2.7 | 4.7 | | |
| Borrowings, including finance leases | **(73.9)** | **(47.9)** | **(113.4)** | | | (72.8) | (51.7) | (113.3) | | |
| Derivative financial instruments | **—** | **(0.4)** | **—** | | | 0.3 | — | 0.1 | | |
| Trade and other payables | **(5.1)** | **(5.6)** | **(1.5)** | | | (5.1) | (3.1) | — | | |
| **Adjusted net assets** | **90.5** | **66.0** | **116.7** | | | 90.6 | 67.1 | 123.1 | | |
| **NCI share of adjusted net assets** | **18.1** | **17.1** | **20.4** | | | 18.1 | 17.4 | 21.6 | | |
| **Carrying amount of NCI** | **18.1** | **17.1** | **20.4** | **1.8** | **57.4** | 18.1 | 17.4 | 21.6 | 2.4 | 59.5 |
| **Summarised statement of comprehensive income** | | | | | | | | | | |
| Revenue | **17.5** | **8.5** | **13.7** | | | 9.8 | 9.1 | 14.6 | | |
| **Profit/(loss) for the year** | **6.8** | **(0.9)** | **7.1** | | | 6.6 | 7.3 | 15.9 | | |
| **Profit/(loss) attributable to NCI** | **1.4** | **(0.3)** | **1.2** | **0.5** | **2.8** | 1.3 | 1.9 | 2.8 | 1.4 | 7.4 |
| Dividends paid to NCI | **1.4** | **—** | **2.4** | **1.1** | **4.9** | 1.0 | 0.6 | 1.8 | — | 3.4 |
| **Summarised cash flow statement** | | | | | | | | | | |
| Cash inflow from operating activities | **7.3** | **4.1** | **11.5** | | | 10.7 | 5.5 | 4.1 | | |
| Cash (outflow)/inflow from investing activities | **—** | **(2.6)** | **(0.5)** | | | (0.5) | — | 5.6 | | |
| Cash outflow from financing activities | **(5.9)** | **(1.9)** | **(13.6)** | | | (10.4) | (2.8) | (5.7) | | |
| **Net increase/(decrease) in cash and cash equivalents** | **1.4** | **(0.4)** | **(2.6)** | | | (0.2) | 2.7 | 4.0 | | |

# Notes to the financial statements continued

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## 30. Cash generated from operations

| | | Group | | Company | |
|---|---|---|---|---|---|
| Continuing operations | Note | **Year ended 31 August 2019 £m** | Re-presented Year ended 31 August 2018 £m | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **Cash flows from operating activities** | | | | | |
| (Loss)/profit before tax | | **(79.8)** | 64.2 | **5.9** | 137.4 |
| Adjustments for: | | | | | |
| Straight lining of rental income | | **2.2** | — | **—** | — |
| Depreciation | 19 | **0.2** | 0.2 | **—** | — |
| Share-based payments | 28 | **0.2** | 1.0 | **0.2** | 1.0 |
| Employee share award costs recognised directly in equity | 28 | **(0.3)** | — | **(0.1)** | — |
| Loss/(gain) on revaluation of investment property | 15 | **56.6** | (4.7) | **—** | — |
| Gain on revaluation of investment property held for sale | 22 | **—** | (0.9) | **—** | — |
| Loss/(gain) on disposal of investment property | 15 | **1.7** | (1.6) | **—** | — |
| Gain on disposal of investment property held for sale | 22 | **—** | (1.8) | **—** | — |
| Loss on disposal of subsidiaries | 8 | **—** | 0.7 | **—** | — |
| Loss of control of Aviva Portfolio | 9 | **55.6** | — | **—** | — |
| Loss/(gain) on acquisition of subsidiaries | 10 | **0.4** | (4.4) | **—** | — |
| Other expenses | 11 | **0.2** | 0.4 | **—** | — |
| Foreign exchange loss/(gain) | | **—** | 0.8 | **(0.5)** | 0.8 |
| Finance income | 12 | **(0.2)** | (0.2) | **(0.1)** | — |
| Finance expense | 12 | **25.6** | 26.5 | **—** | — |
| Other finance expense | 13 | **0.3** | — | **—** | — |
| Change in fair value of derivative financial instruments | | **9.4** | (5.5) | **—** | — |
| Impairment/(impairment reversal) of associate and continuing joint venture interests | 17, 18 | **1.4** | (0.1) | **—** | — |
| Share of post-tax profit from associate | 18 | **(0.9)** | (0.3) | **—** | — |
| | | **72.6** | 74.3 | **5.4** | 139.2 |
| **Intra-group transactions** | | | | | |
| Settlement of loans | 32 | **—** | — | **—** | 5.2 |
| Impairment of investment | 32 | **—** | — | **2.0** | — |
| Finance expense | 32 | **—** | — | **0.2** | — |
| Distributions | 32 | **—** | — | **(13.2)** | (149.8) |
| | | **72.6** | 74.3 | **(5.6)** | (5.4) |
| Changes in working capital | | **(1.0)** | 1.0 | **0.7** | (0.5) |
| Changes in trading loans to and from subsidiary undertakings | | **—** | — | **12.1** | 75.1 |
| **Cash generated from operations** | | **71.6** | 75.3 | **7.2** | 69.2 |

## 31. Fair value of financial instruments

### Basis for determining fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial instruments that are traded in active markets is based on quoted market prices or dealer price quotations. For all other financial instruments, the Group uses valuation techniques to arrive at a fair value that reflects a price that would have been determined by willing market participants acting at arm's length at the reporting date. For common and simple financial instruments, such as over-the-counter interest rate swaps and caps, the Group uses widely recognised valuation models for determining the fair value. The models use only observable market data and require little management judgement which reduces the uncertainty associated with the determination of fair values. For other financial instruments, the Group determines fair value using net present value or discounted cash flow models and comparisons to similar instruments for which market observable prices exist. Varying degrees of judgement are required in the determination of an appropriate market benchmark. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, foreign currency exchange rates and expected price volatilities and correlations. Availability of observable market prices and inputs vary depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The tables below present information about the Group's financial instruments carried at fair value as of 31 August 2019 and 31 August 2018.

| Group<br>31 August 2019 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total fair value<br>£m |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Derivative financial liabilities (Note 24) | — | (12.8) | — | **(12.8)** |
| | — | (12.8) | — | **(12.8)** |
| 31 August 2018 | | | | |
| **Financial assets** | | | | |
| Derivative financial assets (Note 24) | — | 1.1 | — | **1.1** |
| | — | 1.1 | — | **1.1** |
| **Financial liabilities** | | | | |
| Derivative financial liabilities (Note 24) | — | (2.9) | — | **(2.9)** |
| | — | (2.9) | — | **(2.9)** |

Derivative financial instruments have been categorised as 'Level 2', as although they are priced using directly observable inputs, the instruments are not traded in an active market.

As stated in Note 15 and 22 respectively, the Group considers investment property and non-current assets held for sale to be categorised as 'Level 3'. As stated in Note 23, the Group considers all bank loans to be categorised as 'Level 3'. Finance lease obligations are also classified as 'Level 3', the fair value of which is presented in Note 23. The fair value of loans to joint ventures is presented in Note 17 and this financial asset is classified as 'Level 3'.

The carrying values of trade and other receivables, cash and cash equivalents and trade and other payables are considered to be a reasonable approximation of fair value.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 32. Related party transactions
Related parties of the Group include: associate undertakings; joint ventures; Directors and key management personnel; connected parties; the major shareholder Redefine Properties Limited ("RPL"); as well as entities connected through common directorships.

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m | **Year ended 31 August 2019 £m** | Year ended 31 August 2018 £m |
| **Revenue transactions (Group)** | | | | |
| **Rental income** | | | | |
| RBH | **20.6** | 22.0 | **—** | — |
| **Rental expense** | | | | |
| Office Space Cleaning Company Limited cleaning fees | **(0.6)** | (0.4) | **—** | — |
| **Other income** | | | | |
| Joint venture investment management income | | | | |
| RI Menora German Holdings S.à.r.l. | **0.1** | 0.1 | **—** | — |
| **Administration costs and other fees** | | | | |
| OSIT investment management fees | **(0.9)** | (0.6) | **—** | — |
| **Finance income (Discontinued operation)** | | | | |
| Joint venture loan interest income | | | | |
| RI Menora German Holdings S.à.r.l. | **0.3** | 0.3 | **—** | — |
| Related parties of Menora joint venture | **—** | 0.1 | **—** | — |
| | **0.3** | 0.4 | **—** | — |
| **Total revenue transactions (Group)** | **19.5** | 21.5 | **—** | — |
| **Revenue transactions (Company)** | | | | |
| **Settlement of loans** | | | | |
| RDI REIT Limited | **—** | — | **—** | (0.1) |
| Wichford Edgbaston Holdings Limited | **—** | — | **—** | (5.1) |
| | **—** | — | **—** | (5.2) |
| **Impairment of investment** | | | | |
| Wichford Edgbaston Holdings Limited | **—** | — | **(2.0)** | — |
| **Distributions from subsidiary undertakings** | | | | |
| Redefine AUK Limited | **—** | — | **—** | 74.8 |
| Redefine International Management Holdings Limited | **—** | — | **—** | 7.3 |
| Redefine International Holdings Limited | **—** | — | **—** | 43.5 |
| Leopard Holdings UK Limited | **—** | — | **7.5** | 9.7 |
| RDI Serviced Offices Limited | **—** | — | **5.4** | 1.3 |
| Redefine Cyprus Limited | **—** | — | **(1.0)** | 5.0 |
| Redefine North Street Limited | **—** | — | **0.9** | 1.1 |
| Redefine Waterside Leeds Limited | **—** | — | **0.4** | 0.8 |
| Wichford Delta Limited | **—** | — | **—** | 6.3 |
| | **—** | — | **13.2** | 149.8 |
| **Finance expense** | | | | |
| Redefine Cyprus Limited | **—** | — | **(0.2)** | — |
| **Total revenue transactions (Company)** | **—** | — | **11.0** | 144.6 |

| | Group 31 August 2019 £m | Group 31 August 2018 £m | Company 31 August 2019 £m | Company 31 August 2018 £m |
|---|---|---|---|---|
| **Capital transactions (Group)** | | | | |
| **Investment property** (capitalised expenditure) | | | | |
| Project monitoring fee to RBH – construction works | **0.1** | 0.2 | — | — |
| **Investment in associate** | | | | |
| Transfer price of 4C Investments interests in RBH | — | (1.3) | — | — |
| Dividends received from RBH (including held for sale investment) | **(1.0)** | (0.7) | — | — |
| | **(1.0)** | (2.0) | — | — |
| **Non-controlling interests** | | | | |
| Adjustment to carrying value of the non-controlling interest in RHHL | — | 0.6 | — | — |
| **Total capital transactions (Group)** | **(0.9)** | (1.2) | — | — |
| **Capital transactions (Company)** | | | | |
| **Investment in subsidiary undertakings – settlement of balances outstanding in consideration for shares and redemption of shares** | | | | |
| Additions: | | | | |
| Capitalisation of loan with RDI Serviced Office Limited for shares | — | — | — | 70.2 |
| Capitalisation of loan with Redefine Share Investments Limited for shares | — | — | **16.5** | 51.1 |
| | — | — | **16.5** | 121.3 |
| Redemptions: | | | | |
| Redefine International Holdings Limited | — | — | — | (4.1) |
| Redefine AUK Limited | — | — | **(27.0)** | — |
| | — | — | **(27.0)** | (4.1) |
| **Total capital transactions (Company)** | — | — | **(10.5)** | 117.2 |
| **Related party transactions with equity holders of the Parent** | | | | |
| Redefine Properties Limited – IHL acquisition – share-for-share exchange | — | 7.9 | — | 7.9 |
| Redefine Properties Limited – IHL acquisition – cash | — | 7.5 | — | 7.5 |
| Redefine Properties Limited – cash dividends | **12.0** | 14.8 | **12.0** | 14.8 |
| **Total related party transactions with equity holders of the Parent** | **12.0** | 30.2 | **12.0** | 30.2 |
| **Related party balances (Group)** | | | | |
| **Loans to joint ventures** | | | | |
| RI Menora German Holdings S.à.r.l. | **5.1** | 5.2 | — | — |
| **Trade and other receivables** | | | | |
| RBH – tenant lease incentives | **3.2** | 1.2 | — | — |
| RI Menora German Holdings S.à.r.l. – interest receivable and trading balances | **0.1** | 0.3 | — | — |
| | **3.3** | 1.5 | — | — |
| **Trade and other payables** | | | | |
| RI Menora German Holdings S.à.r.l. | **(0.4)** | (0.4) | — | — |
| **Total related party balances (Group)** | **8.0** | 6.3 | — | — |

# Notes to the financial statements continued

for the year ended 31 August 2019

## 32. Related party transactions continued

| Company | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| **Related party balances** | | |
| **Trade and other receivables** | | |
| Redefine International Holdings Limited | — | 1.5 |
| Redefine Share Investments Limited | 4.3 | 1.8 |
| EKZ SSC Berlin GmbH | — | 0.3 |
| Redefine Cyprus Limited | — | 0.3 |
| | 4.3 | 3.9 |
| **Trade and other payables** | | |
| Leopard Holding UK Limited | (0.1) | (8.9) |
| Everton Shopping Centres S.à.r.l. | (0.6) | (0.6) |
| Redefine International Holdings Limited | (23.7) | — |
| Redefine International Management Holdings Limited | — | (0.1) |
| Redefine Cyprus Limited | (1.1) | (1.3) |
| Redefine North Street Limited | — | (1.9) |
| | (25.5) | (12.8) |
| **Total related party balances** | (21.2) | (8.9) |

### Redefine Properties Limited

On 1 November 2017, the Group issued 12.5 million shares to Redefine Properties at 40.0 pence per share to acquire 5.0 million shares in IHL valued at £1 per share. On 13 November 2017, the Group issued 4.8 million shares to Redefine Properties at 40.0 pence per share to acquire 1.9 million shares in IHL valued at £1 per share. On 24 November 2017, the Group issued 2.5 million shares to Redefine Properties at 40.0 pence per share in settlement of the 1.0 million shares in IHL that had been acquired with effect from 17 November 2017 at £1 per share. On the same date, the Group paid Redefine Properties £7.5 million in settlement of 7.5 million shares in IHL that had transferred at £1 per share with effect from 17 November 2017. All transactions are considered to be at arms-length. All RDI share numbers referenced are those prior to the share consolidation (ordinary shares at 8 pence per share).

### 4C UK Investments Limited

On 7 February 2017, the Company exercised its security against a loan advanced to 4C Investments that had matured. In settlement of the £14.2 million balance outstanding, the following investments were transferred to the Group:

- 4C Investments non-controlling interest in RHHL for a transfer price of £12.1 million;
- 4C Investments shareholding in RBH for a transfer price of £1.3 million; and
- 4C Investments shareholding in IHL for a transfer price of £1.0 million.

As the total transfer price for the shares was £14.4 million, £0.2 million cash was paid back by the Company to 4C Investments. On the same date, the Company entered into a lock-up agreement with 4C Investments whereby the latter had the right to buy back the transferred shares in RHHL and RBH on or before 31 January 2018 at the transfer price. 4C Investments did not exercise the right to reacquire the RHHL shares before 31 January 2018. The right to acquire the RBH shares was formally extended and 4C Investments formally re-acquired the shares on 14 February 2018. As part of the transaction, 4C Investments contractually agreed to reimburse the Group for historic non-resident landlord tax paid on 4C Investments behalf in relation to its non-controlling interest in RHHL. This reimbursement has been treated as an adjustment to the carrying amount of the non-controlling interest.

### OSIT

OSIT indirectly holds the 20 per cent non-controlling interest in the newly acquired LSO portfolio and is contracted as the manager of each property. RDI entered into revised management contracts on acquisition for OSIT to continue as manager for a minimum term of ten years. Management fees are payable on a ratcheted basis with reference to the forecast EBITDA of each property. OSIT has charged £0.9 million of management fees for the year ended 31 August 2019 (31 August 2018: £0.6 million).

Office Space Cleaning Limited is considered a related party as it is a wholly owned subsidiary of OSIT. Fees charged for cleaning services to the LSO Portfolio during the year ended 31 August 2019 amounted to £ 0.6 million (31 August 2018: £0.4 million).

### Directors

Non-executive Directors and Executive Directors represent key management personnel. The remuneration paid to Non-executive Directors for the year ended 31 August 2019 was £0.4 million (31 August 2018: £0.5 million) which represents Directors fees only. The remuneration paid and payable to Executive Directors for the year ended 31 August 2019 was £1.9 million (31 August 2018: £2.8 million), representing salaries, benefits and bonuses. 1.3 million contingent share awards were issued to Executive Directors during the year (31 August 2018: 1.2 million, re-presented for comparability as a result of the share consolidation). The IFRS 2 share-based payment charge associated with the cumulative contingent share awards to the Executive Directors was £0.2 million (31 August 2018: £0.9 million) for the year.

The table below shows Directors' dealings in shares for the period 1 September 2017 to 31 August 2019:

| Name | Date of transaction | Transaction | Number of ordinary shares acquired | Price per ordinary share acquired |
|---|---|---|---|---|
| Marc Wainer | 13 November 2017 | IHL consideration | 631,569 | 200.0p |
| Mike Watters | 13 November 2017 | IHL consideration | 14,158 | 200.0p |
| Donald Grant | 16 January 2018 | Share acquisition | 5,000 | 179.70p |
| Mike Watters | 17 January 2018 | Share acquisition | 13,400 | 179.75p |
| Bernie Nackan (former Director) | 25 June 2018 | Scrip dividend | 133 | 177.0p |
| Adrian Horsburgh | 25 June 2018 | Scrip dividend | 398 | 177.0p |
| Mike Watters | 25 April 2019 | Share acquisition | 16,000 | 128.3p |
| Mike Watters | 26 April 2019 | Share acquisition | 4,185 | 128.9p |
| Marc Wainer | 18 July 2019 | Related party dividend | 27,723 | 111.8p |

The Directors' dealings above have been adjusted for the effects of the share consolidation referred to in Note 27.

### Investment in subsidiaries

The Company's principal subsidiary undertakings and investment therein are listed below. These entities are the intermediary holding companies of property owning entities unless otherwise stated.

| Name of subsidiary | Domicile | % | **31 August 2019 £m** | 31 August 2018 £m |
|---|---|---|---|---|
| Everton Shopping Centre S.à.r.l. | Luxembourg | 100 | **32.7** | 32.7 |
| RDI Serviced Offices Limited | Isle of Man | 100 | **70.2** | 70.2 |
| Redefine AUK Limited | British Virgin Islands | 100 | **269.7** | 296.7 |
| Redefine International Holdings Limited | Jersey | 100 | **159.3** | 159.3 |
| Redefine International Management Holdings Limited(1) | British Virgin Islands | 100 | **32.7** | 32.7 |
| Redefine Share Investments Limited | Isle of Man | 100 | **76.1** | 59.6 |
| Redefine Waterside Leeds Limited(2) | British Virgin Islands | 100 | **3.9** | 3.9 |
| Wichford Edgbaston Holdings Limited(3) | British Virgin Islands | 100 | **—** | 2.0 |
| Leopard Holding UK Limited(3) | England & Wales | 100 | **—** | — |
| | | | **644.6** | 657.1 |

(1) Redefine International Management Holdings Limited is the intermediary holding company of the management companies of the Group.

(2) Redefine Waterside Leeds Limited is a direct property-owning entity.

(3) Wichford Edgbaston Holdings Limited and Leopard Holding UK Limited have disposed of their underlying property interests and will be put into liquidation in due course.

The key risks associated with the Company's subsidiary undertakings are considered to be consistent with the Group's principal risks as disclosed on pages 19 to 23 of the Strategic report and the financial risks presented in Note 34. A full list of the Company's direct and indirect subsidiary, joint venture and associate interests is presented in Appendix A to these financial statements.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 33. Share-based payments

| Share-based payment reserve | Group and Company 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|
| Opening balance at 1 September | **2.3** | 3.2 |
| Share-based payment expense in the year | **0.2** | 1.0 |
| Release of share-based payment reserve | **(1.7)** | (1.9) |
| **Closing balance at 31 August** | **0.8** | 2.3 |

The Company's share-based payments are all equity-settled and comprise the Long Term Performance Share Plan ("PSP") for Executive Directors and the Long Term Restricted Stock Plan ("RSP") for employees. In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the grant date. The expense is recognised on a straight-line basis over the vesting period based on estimates of the number of shares that are expected to vest at each reporting date, with a corresponding credit to the share-based payments reserve. The Company engages external advisers to determine the fair value of each award at the grant date who use the Monte Carlo and Black-Scholes models in their valuations.

During the year ended 31 August 2019, the total IFRS 2 charge recognised in the income statement in relation to the PSP awards was £0.2 million (31 August 2018: £0.9 million). During the year ended 31 August 2019, the total IFRS 2 charge recognised in the income statement in relation to the RSP awards was £Nil (31 August 2018: £0.1 million).

| Conditional share awards (000's) | Long Term Performance Share Plan | | Long Term Restricted Stock Plan | |
|---|---|---|---|---|
| | **31 August 2019** | 31 August 2018 | **31 August 2019** | 31 August 2018 |
| Awards brought forward | **3,135** | 1,978 | **524** | 281 |
| Awarded during the year | **1,429** | 1,157 | **318** | 260 |
| Lapsed during the year | **(995)** | — | **(56)** | — |
| Vested during the year | **—** | — | **(57)** | — |
| Forfeited during the year | **—** | — | **(164)** | (17) |
| **Awards carried forward** | **3,569** | 3,135 | **565** | 524 |
| **Exercisable at 31 August** | **—** | — | **—** | — |

As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, the number of shares and share price have been re-presented for comparability throughout this Note. Refer to Note 27.

Shares outstanding under each scheme are to be issued for nominal consideration provided performance conditions are met at the end of the three-year performance period. As at 31 August 2019, contingent shares outstanding were not considered to be dilutive as result of the loss incurred by the Group for the year (31 August 2018: PSP 0.9 million and RSP 0.3 million).

### Long Term Performance Share Plan

Subsequent to shareholder approval on 23 January 2017, PSP performance conditions for awards issued from 1 September 2016 were revised so as to better align the awards with the Company's medium-term strategic objectives and shareholder interests. The awards are subject to a three-year vesting period from the date of grant and to the following performance conditions:

- 50 per cent of the award will vest dependent on underlying distributable earnings per share. 25 per cent of the award will vest upon attaining earnings per share comparable with the immediately preceding financial year, with 100 per cent vesting achieved for average annual outperformance of CPI during the performance period of 1 per cent;
- 25 per cent of the award will vest dependent on the relative total property return of the Company's UK assets in comparison to IPD UK All Property Index. 25 per cent of the award will vest once performance reaches that of the benchmark with 100 per cent vesting achieved for 2 per cent outperformance; and
- 25 per cent of the award will vest dependent on the Company's Total Shareholder Return ("TSR") equalling, or exceeding, the TSR relative to that of each of the members of the FTSE EPRA / REIT Developed Europe Index (the "Index"). 25 per cent of the award will vest for median performance with 100 per cent vesting achieved for upper quartile performance.

The Remuneration Committee are authorised to make grants of PSP shares with a face value of up to 200 per cent of the salary of Executive Directors.

On 25 January 2017, 1.0 million shares were granted for the performance period from 1 September 2016 to 31 August 2019. The share price on 1 September 2016 was 195.0 pence and the fair value on the grant date was £1.2 million, assuming maximum vesting over the performance period. £1.1 million of the total charge is attributable to the non-market based performance conditions and £0.1 million is attributable to market based performance conditions.

On 18 January 2018, 1.2 million shares were granted for the performance period 1 September 2017 to 31 August 2020. The share price on 1 September 2017 was 181.0 pence and the fair value at the grant date was £1.4 million, assuming maximum vesting over the performance period. £1.3 million of the total charge is attributable to the non-market based performance conditions and £0.1 million is attributable to market based performance conditions.

On 31 October 2018, 1.4 million shares were granted for the performance period 1 September 2018 to 31 August 2021. The share price on 1 September 2018 was 168.5 pence and the fair value at the grant date was £1.6 million, assuming maximum vesting over the performance period. £1.4 million of the total charge is attributable to the non-market based performance conditions and £0.2 million is attributable to market based performance conditions.

### Long Term Restricted Stock Plan

Awards of RSPs to certain employees are subject to a three-year vesting period from the date of grant and to performance measures evenly balanced between corporate performance objectives and personal performance objectives.

- 50 per cent of the award will vest dependent on corporate targets, being the same as those conditions set out above for the PSP under both the revised and existing remuneration policies and with the same relative weighting; and
- 50 per cent of the award will vest dependent on personal objectives, linked to average performance grades achieved by the employee over the three-year vesting period.

On 25 January 2017, 0.2 million shares were granted for the performance period from 1 September 2016 to 31 August 2019. The share price on 1 September 2016 was 195.0 pence and the fair value on the grant date was £0.3 million, assuming maximum vesting over the performance period.

On 18 January 2018, 0.3 million shares were granted for the performance period 1 September 2017 to 31 August 2020. The share price on 1 September 2017 was 181.0 pence and the fair value at the grant date was £0.3 million, assuming maximum vesting over the performance period. All of the charge is attributable to the non-market based performance conditions.

On 31 October 2018, 0.3 million shares were granted for the performance period 1 September 2018 to 31 August 2021. The share price on 1 September 2018 was 168.5 pence and the fair value at the grant date was £0.3 million, assuming maximum vesting over the performance period. All of the charge is attributable to the non-market based performance conditions.

At 31 August 2019, 0.2 million outstanding RSP awards granted had been forfeited.

### Fair value of share-based payments

For the market-based performance conditions, the effect of the performance conditions is incorporated into the grant date fair value of the award. No subsequent adjustment to the charge can be made to reflect the outcome of the performance test. Adjustments can be made for estimated and actual leavers who forfeit their awards during the vesting period. The probability of meeting market based performance conditions is required to be incorporated into the calculation of fair value. The Monte Carlo model has therefore been used to value the element of the Awards with a TSR performance condition. The remaining non-market based performance conditions have been valued using a Black-Scholes model.

It was necessary to make a number of assumptions to calculate the fair value under both models. Reference was made to the Company's LSE listing in developing share price volatility, dividend yield, risk-free rate and index correlation assumptions. The table below sets out the assumptions made:

| Assumptions | **Award year 2019 (%)** | Award year 2018 (%) | Award year 2017 (%) |
|---|---|---|---|
| Volatility | **21.9** | 19.4 | 20.7 |
| Risk-free rate | **0.9** | 0.5 | 0.4 |
| Dividend yield | **8.0** | 7.2 | 8.2 |
| Correlation of the Index companies | **25.0** | 23.5 | 24.2 |

Expected dividend yield is based on one year historical dividend yield at the date of grant. The fair value calculation under the PSP award scheme assumes 39.4 per cent (2018 award year: 27.7 per cent) of the face value will be awarded at the date of grant relative to the Index.

## 34. Financial risk management

The Group's Principal Risk disclosures, including financial risks, are set out on pages 19 to 23. The Group is exposed to the following financial risks through its operations:

- credit risk;
- liquidity risk; and
- market risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following quantitative and qualitative disclosures describe the Group's objectives, policies and processes for measuring and managing these risks, in addition to the Group's management of capital.

The Group's risk management policies require the identification and analysis of the risks faced by the Group, the setting of appropriate risk limits and controls and the monitoring of risks and adherence to limits. Risk management policies and systems are reviewed regularly and adjusted to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors has responsibility for the establishment and oversight of the Group's risk management framework. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and ability to maximise returns. The Group Audit and Risk Committee oversees management's compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework relative to the risks faced by the Group.

There are no significant concentrations of risk and there has been no significant change during the financial year, or since year end, to the types of financial risks faced by the Group or the Group's approach to the management of such risks. The Group's market risk has increased during the year, however, as a result of the heightened uncertainty regarding the terms of the UK's departure from the EU and continued deterioration of the valuation of the Group's UK Retail portfolio. General investor sentiment towards the sector remains weak, influenced by the ongoing themes of structural change, the impact of online retailing, slowing retail sales and weaker consumer confidence.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 34. Financial risk management continued

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets, together with off balance sheet undrawn commitments, represent the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

| Group | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|
| Loans to joint ventures | 5.1 | 5.2 |
| Derivative financial instruments | — | 1.1 |
| Trade and other receivables | 31.9 | 16.7 |
| Cash and cash equivalents | 33.0 | 59.0 |
| **Credit risk on balance sheet** | **70.0** | **82.0** |
| Undrawn commitments | 25.0 | 75.0 |
| **Total credit risk** | **95.0** | **157.0** |

The above table excludes prepayments which are not exposed to credit risk. Comparative numbers have been re-presented to include undrawn commitments to which the Group has credit exposure.

### Cash and cash equivalents, derivative financial instruments and undrawn commitments

Credit risk arises on the Group's undrawn commitments, its holding of assets such as cash and cash equivalents and deposits with banks or financial institutions and its derivative financial instruments. However, the Group limits such exposure by investing in liquid deposits with material counterparties that have a credit rating of A, A2 or above from Standard & Poor's or Moody's, except where specific exemptions are granted by the Board.

| Counterparties | 2019 Credit rating | 2018 Credit rating | Cash and available commitments 31 August 2019 £m | Total 31 August 2019 £m | Re-presented Total 31 August 2018 £m |
|---|---|---|---|---|---|
| Cash and derivative assets: | | | | | |
| HSBC | A2 | Aa3 | 17.5 | 17.5 | 37.9 |
| NatWest | A3 | A1 | 3.8 | 3.8 | 10.4 |
| Barclays | Baa3 | A2 | 5.3 | 5.3 | 4.5 |
| BayernLB | Aa3 | Aa3 | 0.9 | 0.9 | 2.3 |
| Santander | A2 | A2 | 2.8 | 2.8 | 2.4 |
| RBS | Baa2 | Baa2 | — | — | 0.2 |
| Other | | | 2.7 | 2.7 | 2.4 |
| | | | 33.0 | 33.0 | 60.1 |
| Undrawn commitments: | | | | | |
| HSBC | A2 | Aa3 | 8.2 | 8.2 | 18.8 |
| NatWest | A3 | A1 | 8.2 | 8.2 | 18.8 |
| Barclays | Baa3 | A2 | 3.6 | 3.6 | 18.7 |
| Santander | A2 | A2 | — | — | 18.7 |
| | | | 20.0 | 20.0 | 75.0 |
| **Total cash, derivative assets and undrawn commitments** | | | **53.0** | **53.0** | **135.1** |

Comparative numbers have been re-presented to include undrawn commitments to which the Group has credit exposure.

The Group actively monitors its credit exposure to each counterparty and in dealing with high quality, reputable and long-established institutions, management do not expect any counterparty will fail to meet its obligations.

### Trade and other receivables

The Group is exposed to credit risk from lease contracts in relation to its property portfolio. This risk is actively managed by the asset and property managers who continuously monitor and work with tenants, anticipating and wherever possible, identifying and addressing risks prior to default. The credit risk associated with rent receivables and tenant lease incentives is considered to be low, owing to the long term nature and diversity of the Group's tenancy agreements, credit checks performed prior to inception of a material lease, advanced payments made by tenants (or licencees) and deposits or guarantees received. In addition, the Group has set a target to collect 95 per cent of debt within seven days, a target which is regularly achieved. The Group's rent collection rate at the most recent quarter day was 96.3 per cent (31 August 2018: 98.0 per cent). Rent receivables exposed to credit risk were less than 0.2 per cent of net assets at 31 August 2019 (31 August 2018: less than 0.1 per cent).

The Group's bad debt policy is as follows:

If there is objective evidence that the Group may not be able to collect all amounts due according to the original terms of the lease, a specific impairment is made. The Group also makes a general provision of 25 per cent against all receivables 120 days or more past due that have not been specifically impaired.

To comply with the provisions of IFRS 9, the Group assesses on a forward-looking basis the lifetime expected credit losses associated with its trade receivables. To measure the expected credit losses, trade receivables are grouped based on credit risk characteristics, being the sector of the tenant and the days past due. Expected loss rates are based on the historic payment profiles of tenants in each of the Group's sectors, future expectations of likely default events and market expectations and trends in the wider macro-economic environment. Insofar as the resulting provision requirements are materially in line with the provisions calculated under the Group's established bad debt policy, no loss allowance adjustments are made.

Where there is a provision requirement in relation to a specific tenant, the Group will consider whether any lease incentive negotiated with that tenant is subject to impairment.

The assessment of expected credit losses associated with the Group's accounts receivable by segment at 31 August 2019, is detailed below:

| | Not past due £m | Up to 120 days past due £m | Up to 150 days past due £m | Over 150 days past due £m | Total accounts receivable £m |
|---|---|---|---|---|---|
| **Accounts receivable subject to credit loss assessment** | | | | | |
| Loss rate (%) | — | 50.0 | 100.0 | 100.0 | |
| UK Retail – Gross accounts receivable | — | — | — | 0.1 | **0.1** |
| UK Retail – Loss allowance | — | — | — | (0.1) | **(0.1)** |
| UK Retail – Carrying amount of accounts receivable | — | — | — | — | **—** |
| Loss rate (%) | — | — | — | 50.0 | |
| UK Commercial – Gross accounts receivable | 0.2 | — | — | 0.1 | **0.3** |
| UK Commercial – Loss allowance | — | — | — | (0.1) | **(0.1)** |
| UK Commercial – Carrying amount of accounts receivable | 0.2 | — | — | — | **0.2** |
| | | | | | **0.2** |
| **Accounts receivable not subject to credit loss assessment** | | | | | |
| London Serviced Offices | | | | | **0.3** |
| Europe | | | | | **0.1** |
| Other | | | | | **0.4** |
| **Total accounts receivable** | | | | | **1.0** |

As at 31 August 2019, the expected loss rate considered appropriate for the UK Retail sector was 100 per cent of accounts receivable over 120 days past due. The loss rate applied to UK Retail reflects the weak investor sentiment in the sector, slowing retail sales and weaker consumer confidence, in addition to a number of Group tenant failures and CVAs over the past two years. The expected loss rate considered appropriate for the UK Commercial sector was 50 per cent of accounts receivable over 150 days past due. While this sector has shown resilience in uncertain market conditions, the loss rate that has been applied to UK Commercial factors a number of specific tenant failures and the reduced likelihood of recovery of the aged receivable based on historic payment profiles.

Expected credit losses have not be assessed for the London Serviced Offices portfolio, Europe and the Company segments: London Serviced Offices due to the operational nature of the business, tenant licence payments monthly in advance and the deposits to cover any defaults; Europe portfolio tenants pay monthly and the accounts receivable balance has ordinarily been no greater than £0.1 million at the reporting date; the Other sector accounts receivable relates solely to management recharges to the UK Shopping Centres service charge, to which there is no risk of non-recovery.

As at 31 August 2019, there was no material difference between the cumulative bad debt provision balance based on the Group's bad debt policy (£0.2 million) and total expected credit losses as required under IFRS 9 of £0.2 million, as presented in the above table.

Other receivables, including consideration outstanding on disposal of investment property are secured and therefore they are also considered to be of low credit risk.

### Intercompany trading balances – Company

At 31 August 2019, the Company had one material balance with a direct subsidiary (refer to Note 32) of £4.3 million. This balance was ultimately used to fund a capital expenditure project in the IHL structure, in which there is also a non-controlling interest. Immediately after year-end the non-controlling interest contributed their share of funding into the structure, such that the Company's trading balance has been reduced by £1.2 million. Full recovery of the residual balance is expected over a maximum period of 18 months now that the capital project is substantially complete and there is relative certainty over tenant covenant over the repayment period. Cash and cash equivalents of the IHL structure at 31 August 2019 were £2.3 million. Notwithstanding that the recovery period is greater than one year, the impact of discounting is considered to be immaterial, and therefore no expected credit loss has been recognised against this balance at 31 August 2019.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 34. Financial risk management continued

### Credit risk continued

### Loans to joint ventures

The credit risk associated with loans to joint ventures is the risk that the loans advanced may not be recoverable.

As at 31 August 2019, the recognised loan to joint ventures relates to the loan advanced to the Menora joint venture. This joint venture group is in a net asset position and has serviced all of its payment obligations to date under the terms of the loan. The Group is also responsible for the investment management of the joint venture and therefore has oversight of working capital and can manage cash flow requirements. In addition, the joint venture investment properties have been classified as held for sale at year-end as disposal of these assets within one year is highly probable and average sales prices expected to be achieved are ahead of market value. The risk that this loan will not be recovered in full is considered low.

The Group has also advanced a loan of £3.3 million to the Esplanade. Under the equity method, the Esplanade was carried at £Nil in the Group's financial statements at 1 September 2018 and remains at £Nil at 31 August 2019. This investment is in a net liability position with the cumulative losses to date exceeding or equalling the cost of the Group's investment. The Group has ceased to recognise further losses beyond the original cost of this joint venture and loans advanced have been fully impaired in line with IAS 28. At 31 August 2019, cumulative losses exceeded the Group's net investment in the joint venture (31 August 2018: equalled the Group's net investment).

### Liquidity risk

Liquidity risk arises from the Group's working capital and debt servicing obligations. The below gives consideration to the risk that the Group will encounter difficulties in meeting its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that there will always be sufficient resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk is actively managed by the Group's finance department. Twice a month, management receive and review rolling six-month cash flow projections to ensure that there is sufficient headroom in the near term to meet ongoing operational requirements and upcoming capital commitments. In addition, during the year the Board has been presented with and reviewed a three-year liquidity plan to 31 August 2022 for budget approval and viability assessment, which included modelling downside and Brexit specific scenarios. At the balance sheet date, these projections indicated that the Group had sufficient liquid resources to meet its obligations under all reasonably expected circumstances, notwithstanding the £17.5 million cash outflow on loss of control of the Aviva Portfolio due to a covenant breach. See Note 9 for further information on loss of control of the Aviva Portfolio.

The monitoring of liquidity is also assisted by the quarterly review of covenants imposed by financial institutions, such as loan to value and interest cover ratios. Loans are renegotiated in advance of any potential covenant breaches insofar as the factors are within the control of the Group. The Board will ensure during periods of increased market uncertainty that sufficient cash resources are available for potential loan repayments or cash deposits as may be required by financial institutions. The Group's loan facilities and other borrowings are also spread across a range of banks and financial institutions so as to minimise any potential concentration of risk.

The tables below set out the contractual maturities of financial liabilities based on the undiscounted obligations to make interest payments and to repay the principal:

| Group<br>31 August 2019 | Carrying amount £m | Contractual cash flows £m | 6 months or less £m | 6 to 12 months £m | 1 to 2 years £m | 2 to 5 years £m | More than 5 years £m |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Bank and other loans | 686.1 | (821.0) | (27.3) | (25.1) | (135.5) | (548.1) | (85.0) |
| Finance leases | 7.2 | (23.9) | (0.2) | (0.2) | (0.4) | (1.2) | (21.9) |
| Trade and other payables | 25.2 | (25.2) | (25.2) | — | — | — | — |
| Tax liabilities | 1.1 | (1.1) | (1.1) | — | — | — | — |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps | 12.8 | (9.6) | (1.4) | (1.4) | (2.4) | (4.4) | — |
| | **732.4** | **(880.8)** | **(55.2)** | **(26.7)** | **(138.3)** | **(553.7)** | **(106.9)** |

| 31 August 2018 | Carrying amount £m | Contractual cash flows £m | 6 months or less £m | 6 to 12 months £m | 1 to 2 years £m | 2 to 5 years £m | More than 5 years £m |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Bank and other loans | 775.7 | (1,011.7) | (13.9) | (14.0) | (80.1) | (580.2) | (323.5) |
| Finance leases | 13.9 | (113.6) | (0.4) | (0.4) | (0.8) | (2.4) | (109.6) |
| Trade and other payables | 27.1 | (27.1) | (27.1) | — | — | — | — |
| Tax liabilities | 2.0 | (2.0) | (2.0) | — | — | — | — |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps | 2.9 | (6.0) | (0.8) | (0.8) | (1.6) | (2.5) | (0.3) |
| | **821.6** | **(1,160.4)** | **(44.2)** | **(15.2)** | **(82.5)** | **(585.1)** | **(433.4)** |

## Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its investments in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Since the UK referendum on European membership there has been a significant change in the scale and likelihood of volatility in all aspects of market risk, with softening yields, volatility in currency and equity markets and increased inflationary expectations. Refer to the Group's Principal risks and viability disclosures on pages 19 to 23 for further information.

The Group enters into derivative financial instruments in the ordinary course of business and incurs financial liabilities in order to manage market risks. The Board of Directors receives reports on a quarterly basis with regards to currency exposures as well as interest rate spreads and takes the necessary steps to hedge and limit the risk the Group is exposed to. The Group does not apply hedge accounting.

### Currency risk

The Group operates internationally and is exposed to currency risk, primarily with respect to the Euro ("EUR").

Foreign exchange risk arises from the Group's exposure to monetary assets and liabilities and net investments in foreign operations recognised in EUR. The Group's income from income-producing rental properties is denominated in the same currencies as the loans that are financing those properties. The Group's investments in foreign subsidiaries and joint ventures are not hedged as the currency positions are considered to be long term in nature.

Foreign exchange risk also arises on the payment of the Group's dividend to its JSE shareholders in South African Rand ("ZAR") semi-annually. The Group enters into forward rate contracts in advance of settlement of the dividends to mitigate this risk.

The carrying amount of the Group's foreign denominated assets and liabilities were as follows:

| Group | **31 August 2019 £m** | 31 August 2018 £m |
|---|---|---|
| **Assets** | | |
| EUR | **242.8** | 259.7 |
| ZAR | **0.7** | 0.6 |
| **Liabilities** | | |
| EUR | **(158.1)** | (138.8) |

The following exchange rates were applied during the year:

| | Average rate | | Year end rate | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| EUR | **1.130** | 1.133 | **1.102** | 1.115 |
| ZAR | **18.263** | 17.506 | **18.652** | 19.159 |

### Sensitivity analysis

A five per cent strengthening in the GBP exchange rate against the EUR at year end would have decreased equity by £5.8 million (31 August 2018: £5.8 million) and increased losses by £0.2 million (31 August 2018: decreased profit by £1.6 million). A five per cent weakening in the GBP exchange rate against the EUR at year end would have had the equal but opposite effect. This analysis assumes that all other variables remain constant.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates. The Group uses interest rate derivatives to mitigate its exposure to interest rate fluctuations. At the year end, as a result of the use of interest rate swaps and caps, the majority of the Group's borrowings were at fixed interest rates.

| Group (proportionately consolidated) | **Fixed/capped 31 August 2019 £m** | **Floating 31 August 2019 £m** | Fixed/capped 31 August 2018 £m | Floating 31 August 2018 £m |
|---|---|---|---|---|
| Nominal value of Group bank loans | **211.9** | **473.2** | 182.2 | 610.3 |
| Nominal value of joint venture bank loans | **7.1** | **8.3** | 8.5 | 7.2 |
| | **219.0** | **481.5** | 190.7 | 617.5 |
| Derivative impact | **423.4** | **(423.4)** | 614.3 | (614.3) |
| | **642.4** | **58.1** | 805.0 | 3.2 |
| **Interest rate protection (%)** | **91.7** | | 99.6 | |

The table above is presented on a proportionately consolidated basis. The detail included is not a requirement of IFRS and is presented for informational purposes only as it is used in reports presented to the Group's Chief Operating Decision Maker for monitoring interest rate risk.

The Group targets interest rate protection against 75 per cent or more of external debt. The Group's EPRA earnings has limited exposure to interest rate fluctuations. Please see Note 24 for further details on the Group's interest rate swap and cap agreements.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 34. Financial risk management continued

### Capital structure and management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the balance between its net debt and capital. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages the capital structure and takes reasonable steps in light of changes in the economic conditions and the risk characteristics of its underlying business and assets.

The key ratios used to monitor the capital structure of the Group, as presented in the following table, are the loan to value and the interest cover ratios:

| Group (proportionately consolidated) | Note | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|---|
| **Loan to value** | | | |
| Net debt | 23 | **(666.6)** | (748.4) |
| Market value of total property portfolio | 15 | **1,423.3** | 1,620.4 |
| **Loan to value (%)** | | **46.8** | 46.2 |
| **Loan to value pro forma (%)[(1)]** | | **42.0** | 47.3 |
| **Interest cover** | | | |
| Net rental income | 3 | **94.1** | 100.7 |
| Net finance expense[(2)] | 3 | **(28.7)** | (29.0) |
| **Interest cover (times)** | | **3.3** | 3.5 |

(1) Pro forma adjusted for transactions completed post year end.

(2) As per Note 3, 2019 proportionate finance expense of £29.5 million less finance income £0.2 million and excluding debt fair value adjustments of £0.6 million. In the comparative, 2018 proportionate finance expense of £30.1 million less finance income £0.3 million and excluding debt fair value adjustments of £0.8 million.

The tables above are presented on a proportionately consolidated basis. The ratios are not a requirement of IFRS and are presented for informational purposes only as they are used in reports presented to the Group's Chief Operating Decision Maker for monitoring the Group's capital structure.

The Group's medium-term target is that the loan to value ratio is reduced to between 30 – 40 per cent (2018: 45 – 50 per cent) and the interest cover is above three times.

The Board also monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-controlling interests, and the dividends paid to ordinary shareholders. In order to improve its capital structure, the Company may issue new shares, sell assets to reduce debt, refinance existing borrowings, and adjust the amount of any distribution of dividends.

Following approval by the Board on 24 January 2019, the Group consolidated every five Ordinary Shares issued and to be issued on 11 February 2019 into one ordinary share of 40 pence each. The consolidation resulted in 380,089,923 ordinary shares of 40 pence each being in issue.

The level of the Company's borrowings, in terms of its Articles of Association, shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed ten times the aggregate of:

- the amount paid up on the issued share capital of the Company; and
- the total of capital and revenue reserves.

The Company's dividend policy is to distribute the majority of its underlying earnings in the form of dividends to shareholders.

## 35. Earnings per share

Earnings per share is calculated on the weighted average number of shares in issue and the profit attributable to shareholders.

| Group | Note | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|---|
| **(Loss)/profit attributable to equity holders of the Parent:** | | | |
| **Continuing operations** | | **(82.4)** | 57.4 |
| **Discontinued operation** | | **4.8** | 31.5 |
| | | **(77.6)** | 88.9 |
| **Continuing operations adjustments:** | | | |
| Group: | | | |
| Loss/(gain) on revaluation of investment property | 15 | **56.6** | (4.7) |
| Gain on revaluation of investment property held for sale | 22 | **—** | (0.9) |
| Loss/(gain) on disposal of investment property | 15 | **1.7** | (1.6) |
| Gain on disposal of investment property held for sale | 22 | **—** | (1.8) |
| Loss on disposal of subsidiaries | 8 | **—** | 0.7 |
| Loss of control of Aviva Portfolio | 9 | **55.6** | — |
| Loss/(gain) on acquisition of subsidiaries | 10 | **0.4** | (4.4) |
| Other expenses | 11 | **0.2** | 0.4 |
| Other finance expense | 13 | **0.3** | — |
| Change in fair value of derivative financial instruments | | **9.4** | (5.5) |
| Impairment/(impairment reversal) of associate and continuing joint venture interest | 17,18 | **1.4** | (0.1) |
| Current tax | | **0.2** | 0.2 |
| Joint venture: | | | |
| Loss on revaluation of investment property | 17 | **0.3** | 0.3 |
| Change in fair value of derivative financial instruments | 17 | **0.3** | (0.7) |
| Elimination of joint venture unrecognised (losses)/profits[(1)] | | **(0.6)** | 0.4 |
| Non-controlling interests: | | | |
| (Loss)/gain on revaluation of investment property | | **(1.9)** | 1.5 |
| Change in fair value of derivative financial instruments | | **(0.1)** | 0.2 |
| Exceptional finance costs | | **(0.1)** | — |
| Current tax | | **(0.2)** | — |
| | | **123.5** | (16.0) |
| **Discontinued operation adjustments:** | | | |
| Group: | | | |
| Loss/(gain) on revaluation of investment property | 15 | **1.3** | (6.1) |
| Loss on revaluation of investment property held for sale | 22 | **2.4** | — |
| Loss on disposal of investment property | 15 | **0.2** | 0.1 |
| Gain on disposal of investment property held for sale | 22 | **(0.5)** | — |
| Loss/(gain) on disposal of subsidiaries | 8 | **0.1** | (16.1) |
| Other finance costs | | **—** | 0.4 |
| Change in fair value of derivative financial instruments | | **1.6** | (0.6) |
| Loss on sale of joint venture interests | 17 | **—** | 0.1 |
| Deferred tax | 25 | **(2.0)** | (0.5) |
| Current tax | | **0.3** | 0.5 |
| Joint ventures: | | | |
| Gain on revaluation of investment property | 17 | **(0.1)** | (0.1) |
| Gain on revaluation of investment property held for sale | 17 | **(0.7)** | — |
| Deferred tax | | **0.2** | 0.2 |
| Non-controlling interests: | | | |
| Gain/(loss) on revaluation of investment property | | **0.1** | (0.1) |
| Gain on disposal of subsidiaries | | **—** | 1.1 |
| Deferred tax | | **—** | 0.1 |
| | | **2.9** | (21.0) |
| **EPRA earnings** | | **48.8** | 51.9 |

# Notes to the financial statements continued
for the year ended 31 August 2019

## 35. Earnings per share continued

| Group | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|
| **EPRA earnings** | **48.8** | 51.9 |
| **Attributable to:** | | |
| Continuing operations | **41.1** | 41.4 |
| Discontinued operation | **7.7** | 10.5 |
| | **48.8** | 61.9 |
| **Company adjustments:** | | |
| Accretion of fair value adjustments | **0.4** | 0.6 |
| Foreign currency movements | **—** | 0.8 |
| Discontinued operation Company adjustments | **0.2** | 0.2 |
| **Underlying earnings** | **49.4** | 53.5 |
| **Attributable to:** | | |
| Continuing operations | **41.5** | 42.8 |
| Discontinued operation | **7.9** | 10.7 |
| | **49.4** | 53.5 |

| Group | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|
| **(Loss)/profit attributable to equity holders of the Parent attributable to:** | | |
| Continuing operations | **(82.4)** | 57.4 |
| Discontinued operation | **4.8** | 31.5 |
| | **(77.6)** | 88.9 |
| **Number of ordinary shares (millions)** | | |
| IFRS Weighted average | **380.1** | 377.3[3] |
| **Dilutive effect of:** | | |
| Contingently issuable share awards under the Long Term Performance Share Plan | **—** | 0.9[3] |
| Contingently issuable share awards under the Long Term Restricted Stock Plan | **—** | 0.3[3] |
| **IFRS diluted weighted average[2]** | **380.1** | 378.5[3] |
| **Earnings per share (pence)** | | |
| **Continuing operations** | | |
| – Basic | **(21.7)** | 15.2 |
| – Diluted | **(21.7)** | 15.2 |
| **Total Group** | | |
| – Basic | **(20.4)** | 23.6[3] |
| – Diluted | **(20.4)** | 23.5[3] |

(1) The Group has ceased to recognise the Esplanade in the IFRS statements as the cumulative losses of the joint venture exceed the cost of the Group's investment (refer to Note 17). This adjustment eliminates the restricted losses for the year attributable to the Esplanade.

(2) For the year ended 31 August 2019, contingently issuable shares have an anti-dilutive effect on IFRS earnings per share due to the loss of the Group. Therefore, for IFRS purposes the weighted and dilutive weighted average number of shares of the Group were both 380.1 million. For the Company the dilutive impact of contingently issuable shares of IFRS earnings per share was 0.8 million such that the diluted weighted average number of shares was 380.9 million.

(3) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative weighted average number of shares and related earnings per share have been re-presented. Refer to Note 27.

| Group | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|
| **EPRA earnings** | | |
| **Attributable to:** | | |
| Continuing operations | **41.1** | 41.4 |
| Discontinued operation | **7.7** | 10.5 |
| | **48.8** | 51.9 |
| **Underlying earnings** | | |
| **Attributable to:** | | |
| Continuing operations | **41.5** | 42.8 |
| Discontinued operation | **7.9** | 10.7 |
| | **49.4** | 53.5 |
| **Number of ordinary shares (millions)** | | |
| Non-IFRS measures weighted average | **380.1** | 377.3[1] |
| **Dilutive effect of:** | | |
| Contingently issuable share awards under the Long Term Performance Share Plan | **0.6** | 0.9[1] |
| Contingently issuable share awards under the Long Term Restricted Stock Plan | **0.2** | 0.3[1] |
| **Non-IFRS measures diluted weighted average** | **380.9** | 378.5[1] |
| **EPRA earnings per share (pence)** | | |
| **Continuing operations** | | |
| – Basic | **10.8** | 11.0 |
| – Diluted | **10.8** | 10.9 |
| **Total Group** | | |
| – Basic | **12.8** | 13.8[1] |
| – Diluted | **12.8** | 13.7[1] |
| **Underlying earnings per share (pence)** | | |
| **Continuing operations** | **10.9** | 11.3 |
| **Total Group** | **13.0** | 14.2[1] |
| **Dividend per share (pence)** | | |
| First interim dividend per share (pence) | **4.0** | 6.75[1] |
| Second interim dividend per share (pence) | **6.0** | 6.75[1] |
| | **10.0** | 13.5[1] |

(1) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative weighted average number of shares and related earnings per share have been re-presented for comparability. Refer to Note 27.

# Notes to the financial statements continued

for the year ended 31 August 2019

## 35. Earnings per share continued

Headline earnings per share is calculated in accordance with Circular 04/2018 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

| Group | Note | 31 August 2019 £m | Re-presented 31 August 2018 £m |
|---|---|---|---|
| **(Loss)/profit attributable to equity holders of the Parent attributable to:** | | | |
| **Continuing operations** | | **(82.4)** | 57.4 |
| **Discontinued operation** | | **4.8** | 31.5 |
| | | **(77.6)** | 88.9 |
| **Continuing operations adjustments:** | | | |
| Group: | | | |
| Loss/(gain) on revaluation of investment property | 15 | **56.6** | (4.7) |
| Gain on revaluation of investment property held for sale | 22 | **—** | (0.9) |
| Loss/(gain) on disposal of investment property | 15 | **1.7** | (1.6) |
| Gain on disposal of investment property held for sale | 22 | **—** | (1.8) |
| Loss on disposal of subsidiaries | 8 | **—** | 0.7 |
| Loss of control of Aviva Portfolio | 9 | **55.6** | — |
| Gain on acquisition of subsidiaries | 10 | **—** | (5.5) |
| Loss on disposal of other non-current assets held for sale | 11 | **—** | 0.1 |
| Impairment/(impairment reversal) of associate and continuing joint venture interests | 17,18 | **1.4** | (0.1) |
| Joint venture: | | | |
| Loss on revaluation of investment property | 17 | **0.3** | 0.3 |
| Elimination of joint venture unrecognised losses[1] | | **(0.3)** | (0.3) |
| Non-controlling interests: | | | |
| (Loss)/gain on revaluation of investment property | | **(1.9)** | 1.5 |
| | | **113.4** | (12.3) |
| **Discontinued operation adjustments:** | | | |
| Group: | | | |
| Loss/(gain) on revaluation of investment property | 15 | **1.3** | (6.1) |
| Loss on revaluation of investment property held for sale | 22 | **2.4** | — |
| Loss on disposal of investment property | 15 | **0.2** | 0.1 |
| Gain on disposal of investment property held for sale | 22 | **(0.5)** | — |
| Loss/(gain) on disposal of subsidiaries | 8 | **0.1** | (16.1) |
| Loss on sale of joint venture interests | 17 | **—** | 0.1 |
| Deferred tax | 25 | **(1.1)** | 1.3 |
| Joint ventures: | | | |
| Gain on revaluation of investment property | 17 | **(0.1)** | (0.1) |
| Gain on revaluation of investment property held for sale | 17 | **(0.7)** | — |
| Deferred tax | | **0.2** | 0.2 |
| Non-controlling interests: | | | |
| Gain/(loss) on revaluation of investment property | | **0.1** | (0.1) |
| Gain on disposal of subsidiaries | | **—** | 1.1 |
| Deferred tax | | **—** | 0.1 |
| | | **1.9** | (19.5) |
| **Headline earnings attributable to equity holders of the Parent** | | **37.7** | 57.1 |
| **Attributable to:** | | | |
| **Continuing operations** | | **31.0** | 45.1 |
| **Discontinued operation** | | **6.7** | 12.0 |
| | | **37.7** | 57.1 |
| **Number of ordinary shares (millions)** | | | |
| Weighted average | | **380.1** | 377.3[2] |
| Diluted weighted average | | **380.9** | 378.5[2] |
| **Headline earnings per share (pence)** | | | |
| **Continuing operations** | | | |
| – Basic | | **8.2** | 12.0 |
| – Diluted | | **8.1** | 11.9 |
| **Total Group** | | | |
| – Basic | | **9.9** | 15.1[2] |
| – Diluted | | **9.9** | 15.1[2] |

(1) The Group has ceased to recognise the Esplanade in the IFRS statements as the cumulative losses of the joint venture to date have equalled or exceeded the cost of the Group's investment (refer to Note 17). This adjustment eliminates the restricted losses for the year attributable to the Esplanade.

(2) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative weighted average number of shares and related earnings per share have been re-presented. Refer to Note 27.

## 36. Net asset value per share

| Group | Note | 31 August 2019 £m | 31 August 2018 £m |
|---|---|---|---|
| **Net assets attributable to equity holders of the Parent** | | **685.6** | 803.3 |
| **Group adjustments:** | | | |
| Fair value of derivative financial instruments | 24 | **12.8** | 1.8 |
| Deferred tax | 25 | **7.5** | 9.5 |
| **Joint venture adjustments:** | | | |
| Fair value of derivative financial instruments | 17 | **3.1** | 2.8 |
| Elimination of unrecognised derivative financial instruments(1) | | **(3.1)** | (2.8) |
| Deferred tax | 17 | **0.8** | 0.6 |
| **Non-controlling interest adjustments:** | | | |
| Fair value of derivative financial instruments | | **(0.1)** | 0.1 |
| Deferred tax | | **(0.1)** | (0.3) |
| **EPRA NAV** | | **706.5** | 815.0 |
| **Group adjustments:** | | | |
| Fair value of derivative financial instruments | 24 | **(12.8)** | (1.8) |
| Excess of fair value of debt over carrying value | | **(3.0)** | (3.7) |
| Deferred tax | 25 | **(7.5)** | (9.5) |
| **Joint venture adjustments:** | | | |
| Fair value of derivative financial instruments | 17 | **(3.1)** | (2.8) |
| Elimination of unrecognised joint venture derivative financial instruments(1) | | **3.1** | 2.8 |
| Deferred tax | 17 | **(0.8)** | (0.6) |
| **Non-controlling interest adjustments:** | | | |
| Fair value of derivative financial instruments | | **0.1** | (0.1) |
| Deferred tax | | **0.1** | 0.3 |
| **EPRA NNNAV** | | **682.6** | 799.6 |
| **Number of ordinary shares (millions)** | | | |
| – In issue | | **380.1** | 380.1(2) |
| **Dilutive effect of:** | | | |
| Contingently issuable share awards under the Long Term Performance Share Plan | | **0.6** | 0.9(2) |
| Contingently issuable share awards under the Long Term Restricted Stock Plan | | **0.2** | 0.3(2) |
| – Diluted | | **380.9** | 381.3(2) |
| **Net asset value per share (pence):** | | | |
| – Basic | | **180.4** | 211.3(2) |
| – Diluted | | **180.0** | 210.7(2) |
| **EPRA diluted NAV per share (pence)** | | **185.5** | 213.8(2) |
| **EPRA diluted NNNAV per share (pence)** | | **179.2** | 209.7(2) |

(1) The Group has ceased to recognise the Esplanade in the IFRS statements as the cumulative losses of the joint venture to date have equalled or exceeded the cost of the Group's investment (refer to Note 17). This adjustment eliminates the derivative financial instruments attributable to the Esplanade from the proportionate adjustments.

(2) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative number of shares and net asset value per share have been re-presented. Refer to Note 27.

## 37. Contingencies, guarantees and commitments

At 31 August 2019, the Group was contractually committed to expenditure of £16.4 million (31 August 2018: £9.5 million), of which £16.4 million (31 August 2018: £8.3 million) was committed to the future acquisition, development and enhancement of investment property and investment property held for sale.

A former subsidiary of the Group, Redefine Australian Investments Limited, has undergone a review by the Australian Tax Office in respect of its calculation of Capital Gains Tax arising on the disposal of securities formerly held in Cromwell Property Group during 2013, 2014 and 2015. Due to the subjective nature of the claim, it is not possible to reasonably estimate the exposure which could arise. The Directors continue to remain of the view, having sought advice from reputable tax agents and advisers, that the respective filing positions were correct and therefore following the orderly wind down of activities, the Directors placed the company in liquidation in January 2018.

The European Commission has obtained a European Court ruling that certain aspects of the UK's Controlled Foreign Company rules give rise to unlawful State Aid. The UK government has objected to the ruling and is seeking its annulment, however under EU law Her Majesty's Revenue and Customs (HMRC) is required to seek recovery in line with the Commission's decision. A subsidiary of the Company, Ciref Europe Limited, has claimed benefit from exemptions available under Chapter 9 of the Taxation (International and Other Provisions) Act 2010 and is therefore in receipt of an information request from HMRC. The Company believes it is in a strong position to defend such claim, but there can be no certainty that HMRC will not seek recovery while it assesses its own legal position and that of the Company's. If this were to occur, the Company estimates exposure to be in the region of £6 million.

# Notes to the financial statements continued
for the year ended 31 August 2019

## 38. Subsequent events

On 17 September 2019 the Group exchanged on the disposal of Altona Shopping Centre, Hamburg for total consideration of €91.0 million, €2.2 million above market value at 31 August 2019. Completion is anticipated to occur by 31 December 2019.

On 17 September 2019 the Group exchanged on the disposal of Albion Street, Derby for total consideration of £2.5 million, equal to market value at 31 August 2019.

On 27 September 2019 the Group simultaneously exchanged and completed on the disposal of Park Place, Leeds for total consideration of £9.0 million, £0.2 million above market value at 31 August 2019.

On 30 September, the Group exercised its pre-emptive rights to acquire shares in RBH from a minority shareholder. Consideration for the acquisition of the shares was £1.0 million.

On 4 October 2019, the Group exchanged contracts for the disposal of two German retail warehouses at Waldkraiburg and Kaiserslautern for total consideration of €20.4 million (Group share: €10.6 million as held in Menora joint venture). Completion is anticipated to occur by 31 December 2019.

## 39. Dividends

During the year ended 31 August 2019, the second interim dividend of 6.75 pence per share for the year ended 31 August 2018 was distributed, as well as the interim dividend of 4.0 pence per share for the six-month period ended 28 February 2019. Both dividends were settled in cash.

The Board has declared a second interim dividend in respect of the year ended 31 August 2019 of 6.0 pence per share. The record date for the dividend will be Friday 22 November 2019, with payment made on Tuesday 10 December 2019. The payment will be made entirely in cash.

## 40. Approval of financial statements

The financial statements were approved by the Board on 24 October 2019.

# Appendix A

## Related undertakings of the Company

As at 31 August 2019, the Company had an interest (as shown), direct or indirect, in the ordinary share capital of the following subsidiaries, joint ventures and associates. Those undertakings that were in liquidation at the reporting date have not been included in this Appendix.

### Subsidiaries

| Name of subsidiary | Domicile | Principal activity | Segment | Effective ownership % |
|---|---|---|---|---|
| **Redefine International Holdings Limited[1]** | Jersey | Holding | Multiple | 100.0 |
| Redefine Wigan Limited[2] | British Virgin Islands | Holding | UK Retail | 100.0 |
| Grand Arcade Wigan Limited[2] | United Kingdom | Investment property | UK Retail | 100.0 |
| Standishgate Wigan Limited[2] | United Kingdom | Investment property | UK Retail | 100.0 |
| Ciref Coventry Limited | British Virgin Islands | Holding | UK Retail | 100.0 |
| West Orchards Coventry Limited | United Kingdom | Investment property | UK Retail | 100.0 |
| Birchwood Warrington Limited[2] | Jersey | Investment property | UK Retail | 100.0 |
| Seaham Wax Limited[2] | British Virgin Islands | Holding | UK Retail | 100.0 |
| Seaham Limited[2] | United Kingdom | Investment property | UK Retail | 100.0 |
| Byron Place Seaham Limited [2] | United Kingdom | Investment property | UK Retail | 100.0 |
| Weston Favell Limited[2] | British Virgin Islands | Investment property | UK Retail | 100.0 |
| St George's Harrow Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Trito Kwik Fit Limited | British Virgin Islands | Holding | UK Commercial | 100.0 |
| Trito Gibson Limited | British Virgin Islands | Holding | UK Commercial | 100.0 |
| Gibson Property Holdings Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Ciref Kwik-Fit Stafford Limited | United Kingdom | Investment property | UK Commercial | 99.9 |
| Ciref Kwik-Fit Stockport Limited | United Kingdom | Investment property | UK Commercial | 100.0 |
| Ciref Jersey Limited | British Virgin Islands | Holding | UK Commercial | 100.0 |
| Redefine Hotel Holdings Limited | British Virgin Islands | Holding | UK Hotels | 82.5 |
| Redefine Hotels Portfolio 1 Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Portfolio 2 Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Portfolio III Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Portfolio IV Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Portfolio V Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Reading Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Portfolio VI Limited | British Virgin Islands | Holding | UK Hotels | 82.5 |
| BNRI Earls Court Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Redefine Hotels Edinburgh Limited | British Virgin Islands | Investment property | UK Hotels | 82.5 |
| Ciref Europe Limited | Isle of Man | Holding | Europe | 99.0 |
| R.I. Waldkraiburg Limited | Cyprus | Holding | Europe | 99.0 |
| Hückelhoven Management GmbH | Germany | General Partner | Europe | 99.0 |
| RI Menora Kaiserslautern GmbH | Germany | General Partner | Europe | 99.0 |
| Ciref Premium Limited | Ireland | General Partner | Europe | 99.0 |
| CEL Portfolio 1 Limited & Co KG | Germany | Investment property | Europe | 99.0 |
| Chelvey Holdings Limited | Cyprus | Holding | Europe | 99.0 |
| ITB FMZ Reinheim B.V. | Netherlands | Holding | Europe | 99.0 |
| ITB Baumarkt Schwandorf B.V. | Netherlands | Investment property | Europe | 74.2 |
| ITB FMZ Herzogenrath B.V. | Netherlands | Investment property | Europe | 74.2 |
| Ciref Premium Holdings Limited | Cyprus | Holding | Europe | 93.9 |
| Ciref Europe Management Limited | Ireland | Holding | Europe | 93.9 |
| Premium Portfolio Ltd & Co. KG | Germany | Investment property | Europe | 93.9 |
| Premium Portfolio 2 Ltd & Co. KG | Germany | Investment property | Europe | 93.9 |
| Kalihora Holdings Limited | Cyprus | Holding | Europe | 100.0 |

# Appendix A continued

## Related undertakings of the Company continued

### Subsidiaries continued

| Name of subsidiary | Domicile | Principal activity | Segment | Effective ownership % |
|---|---|---|---|---|
| **Redefine International Management Holdings Limited**[(1)] | British Virgin Islands | Holding | Other | 100.0 |
| RDI Management Services Limited | United Kingdom | Services Company | Other | 100.0 |
| RDI German Services GmbH | Germany | Services Company | Other | 100.0 |
| Redefine International Fund Managers Europe Limited | British Virgin Islands | Services Company | Other | 100.0 |
| Redefine International Group Services Limited | Ireland | Services Company | Other | 100.0 |
| RDI Retail Management Limited | United Kingdom | Services Company | Other | 100.0 |
| **RDI Serviced Offices Limited**[(1)] | Isle of Man | Holding | UK Commercial | 100.0 |
| St Dunstan's Holdco Limited | Isle of Man | Holding | UK Commercial | 80.0 |
| LSO Services Limited | Isle of Man | Holding | UK Commercial | 80.0 |
| New Broad Street Limited | Isle of Man | Investment property | UK Commercial | 80.0 |
| NBS OpCo Limited | United Kingdom | Trading | UK Commercial | 80.0 |
| Boundary Row Limited | Isle of Man | Investment property | UK Commercial | 80.0 |
| Boundary Row OpCo Limited | United Kingdom | Trading | UK Commercial | 80.0 |
| Little Britain Limited | Isle of Man | Investment property | UK Commercial | 80.0 |
| Little Britain OpCo Limited | United Kingdom | Trading | UK Commercial | 80.0 |
| St Dunstan's Limited | Isle of Man | Investment property | UK Commercial | 80.0 |
| St Dunstan's Opco Limited | United Kingdom | Trading | UK Commercial | 80.0 |
| **Redefine AUK Limited**[(1)] | British Virgin Islands | Holding | Multiple | 100.0 |
| Redefine AUK Holdings Limited | British Virgin Islands | Holding | Multiple | 100.0 |
| Princes Street Investments Limited | Scotland | Investment property | UK Commercial | 100.0 |
| Redefine Albion Street Derby Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine Arches Watford Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine Banbury Cross Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine Camino Park Crawley Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Charing Cross Road Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine City Point Leeds Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Express Park Bridgwater Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Kingsthorne Kettering Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Lake View Warrington Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Omnibus Reigate Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine North Street Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Redefine Priory Park Merton Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine Queens Drive Kilmarnock Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine Range Edinburgh Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Redefine St David's Bangor Limited | British Virgin Islands | Investment property | UK Retail | 100.0 |
| Newington House Limited | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| Wichford Zeta Limited | Isle of Man | Holding | Multiple | 100.0 |
| Wichford Atherton Wigan Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Dalkeith Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford DSA Dundee Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford DSA Uxbridge Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Gillingham Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Newcastle Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Newington Causeway Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Park Place Leeds Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Temple Back Bristol Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Wichford Weymouth Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| Redefine Enfield Limited | British Virgin Islands | Investment property | UK Hotels | 100.0 |
| RDI Farnborough Limited | Isle of Man | Investment property | UK Commercial | 100.0 |

| Name of subsidiary | Domicile | Principal activity | Segment | Effective ownership % |
|---|---|---|---|---|
| **Redefine Share Investments Limited**[(1)] | Isle of Man | Holding | Multiple | 100.0 |
| International Hotel Properties Limited | British Virgin Islands | Holding | UK Hotels | 74.1 |
| Redefine Dunstable Limited | British Virgin Islands | Holding | UK Hotels | 74.1 |
| Dunstable PropCo Limited | United Kingdom | Investment property | UK Hotels | 74.1 |
| Forest Bidco Limited | British Virgin Islands | Holding | UK Hotels | 74.1 |
| Edinburgh PropCo Ltd | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Splendour BidCo Limited | British Virgin Islands | Holding | UK Hotels | 74.1 |
| Southampton Propco Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Redditch PropCo Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Gatwick Propco Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Redefine Belvedere Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Redefine Leatherhead Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Redefine Perth Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| Redefine Slough Limited | British Virgin Islands | Investment property | UK Hotels | 74.1 |
| IHG FinCo Limited | British Virgin Islands | Financing | UK Hotels | 74.1 |
| RDI Kingston Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| RDI Bicester Limited | Isle of Man | Investment property | UK Commercial | 100.0 |
| **Wichford Edgbaston Holdings Limited**[(1)] | British Virgin Islands | Holding | UK Commercial | 100.0 |
| **Everton Shopping Centre S.à.r.l**[(1)] | Luxembourg | Holding | Europe | 100.0 |
| CMC Shopping Center Altona GmbH | Germany | Investment property | Europe | 94.9 |
| Einkaufszentrum Schloss-Strassen Center, Berlin GmbH | Germany | Investment property | Europe | 94.9 |
| SMK Erste Investitionsgesellschaft GmbH | Germany | Investment property | Europe | 94.9 |
| **Leopard Holding UK Limited**[(1)] | United Kingdom | Holding | Europe | 100.0 |
| Leopard Holding UK S.à.r.l | Luxembourg | Holding | Europe | 100.0 |
| Leopard Holdings South Africa S.à.r.l | Luxembourg | Holding | Europe | 88.0 |
| Leopard Holding Germany 1 S.à.r.l | Luxembourg | Holding | Europe | 94.0 |
| **ITB Management Hückelhoven B.V.**[(1)] | Netherlands | Holding | Europe | 76.0 |
| **Redefine Waterside Leeds Limited**[(1)] | British Virgin Islands | Investment property | UK Commercial | 100.0 |
| **RDI REIT Limited**[(1)] | United Kingdom | Holding | Other | 100.0 |
| **RDI Hotel Group Limited**[(1)] | Isle of Man | Holding | Other | 100.0 |
| **Redefine Finco Limited**[(1)] | British Virgin Islands | Dormant | Other | 100.0 |
| **Redefine Cyprus Limited**[(1)] | Cyprus | Holding | Other | 100.0 |

(1) Entities directly held by the Company.

(2) During the year ended 31 August 2019, the Group derecognised these subsidiaries based on loss of control under IFRS 10, but at the year end the Group still retained legal ownership and the entities are therefore presented in this Appendix.

# Appendix A continued

## Related undertakings of the Company continued

### Joint ventures

| Name of joint venture | Domicile | Principal activity | Segment | Effective ownership % |
|---|---|---|---|---|
| **Wichford VBG Holding S.à.r.l**[1] | Luxembourg | Holding | Europe | 49.0 |
| RI Menora Finco S.A. | Luxembourg | Financing | Europe | 49.0 |
| **RI Menora German Holdings S.à.r.l** | Luxembourg | Holding | Europe | 51.5 |
| RI Menora German Holdings 2 S.à.r.l | Luxembourg | Holding | Europe | 51.5 |
| ITB FMZ Hückelhoven GmbH & Co KG | Germany | Investment property | Europe | 52.9 |
| Kaiserslautern Merkurstrasse GmbH & Co KG | Germany | Investment property | Europe | 51.3 |
| ITB FMZ Waldkraiburg B.V. | Netherlands | Investment property | Europe | 54.3 |
| ST BAU Retail 20 Unternehmergesellschaft | Germany | Holding | Europe | 54.3 |
| **TwentySix The Esplanade Limited** | British Virgin Islands | Holding | UK Commercial | 50.0 |
| 26 Esplanade No1 Limited | Jersey | Investment property | UK Commercial | 50.0 |

### Associate

| Name of associate | Domicile | Principal activity | Segment | Effective ownership % |
|---|---|---|---|---|
| **RBH Hotel Group Limited** | British Virgin Islands | Holding | UK Hotels | 25.3 |
| RBH Hotels UK Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| RBH Hospitality Management Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Hotel Lease (Number 2) Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Hotel Employees Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Hotel Employees (Leicester) Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Hotel Employees (Aberdeen) Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| RBH Hotel Management Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| RBH Earls Court Management Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| IHL Tenant Holdco Limited | United Kingdom | Holding | UK Hotels | 25.3 |
| The Gateway Hotel Dunstable Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Sankara Hotels Gatwick Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Southampton OpCo Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Redditch OpCo Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |
| Edinburgh OpCo Limited | United Kingdom | Hotel Operator | UK Hotels | 25.3 |

# EPRA property analysis

The following tables and disclosures provide additional quantitative and qualitative information of the Group's property portfolio in line with the EPRA Best Practice Recommendations.

The following tables present the key property metrics of the Group's property portfolio and sub-sectors:

## Group

| 31 August 2019 | Market value £m | Annualised gross rental income £m(1) | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs(2) | EPRA occupancy by ERV %(2) | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| UK Commercial | 557.8 | 32.0 | 34.5 | 4.8 | 5.1 | 5.7 | 5.7 | 92.0 | 15.3 |
| UK Hotels | 363.3 | 26.0 | 24.7 | 5.8 | 5.8 | 6.1 | 17.2 | 100.0 | 9.3 |
| UK Retail | 255.0 | 20.7 | 19.5 | 6.5 | 7.1 | 7.1 | 6.0 | 97.8 | 10.3 |
| **Total UK** | **1,176.1** | **78.7** | **78.7** | **5.5** | **5.7** | **6.1** | **6.5** | **94.9** | **12.0** |
| Europe | 247.2 | 15.0 | 14.5 | 5.0 | 5.0 | 5.5 | 5.0 | 99.1 | 94.7 |
| **Total** | **1,423.3** | **93.7** | **93.2** | **5.4** | **5.6** | **6.0** | **6.1** | **95.9** | **25.3** |
| Controlled assets | 1,397.2 | 91.9 | 91.4 | 5.4 | 5.6 | 6.0 | 6.1 | 95.8 | 24.7 |
| Held in JVs (proportionate share) | **26.1** | **1.8** | **1.8** | **6.3** | **6.3** | **6.6** | **5.1** | **99.9** | **53.2** |

(1) Annualised gross rental income for the London Serviced Office portfolio included as EBITDA net of management fees.
(2) Excluding the RBH managed hotels and London Serviced Office portfolios. Relevant operational metrics disclosed separately.

## UK Commercial

| 31 August 2019 | Market value £m | Annualised gross rental income £m(1) | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs(2) | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| Offices – Serviced | 163.4 | 10.9 | 10.7 | 6.0 | 6.0 | 5.7 | n/a | n/a | — |
| Offices – Greater London | 112.7 | 4.8 | 6.1 | 3.6 | 3.7 | 5.0 | 3.2 | 91.0 | 13.9 |
| Offices – Regions | 50.4 | 3.9 | 4.3 | 5.8 | 6.5 | 8.0 | 5.8 | 88.2 | 25.3 |
| **UK Offices** | **326.5** | **19.6** | **21.1** | **5.1** | **5.3** | **5.8** | **4.3** | **89.8** | **8.4** |
| Distribution and Industrial | 231.3 | 12.4 | 13.4 | 4.4 | 4.8 | 5.4 | 6.6 | 93.7 | 26.1 |
| **UK Commercial** | **557.8** | **32.0** | **34.5** | **4.8** | **5.1** | **5.7** | **5.7** | **92.0** | **15.3** |

(1) Annualised gross rental income for the London serviced office portfolio included as EBITDA net of management fees.
(2) Excluding London Serviced Office portfolio. Relevant operational metrics disclosed separately.

## UK Hotels

| 31 August 2019 | Market value £m | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs | EPRA Occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| Greater London | 186.4 | 12.3 | 11.6 | 5.5 | 5.5 | 5.8 | n/a | n/a | — |
| Regional | 127.1 | 11.2 | 10.5 | 6.5 | 6.5 | 6.9 | n/a | n/a | 0.9 |
| **RBH managed portfolio** | **313.5** | **23.5** | **22.1** | **5.9** | **5.9** | **6.3** | **n/a** | **n/a** | **0.4** |
| Travelodge | 49.8 | 2.5 | 2.6 | 4.6 | 4.6 | 4.9 | 17.2 | 100.0 | 95.3 |
| **UK Hotels** | **363.3** | **26.0** | **24.7** | **5.8** | **5.8** | **6.1** | **17.2** | **100.0** | **9.3** |

# Other information (unaudited)

## EPRA property analysis continued

### UK Retail

| 31 August 2019 | Market value £m | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| Shopping centres | 80.8 | 7.7 | 7.4 | 7.4 | 7.5 | 8.3 | 3.8 | 98.8 | 9.9 |
| Retail parks and other retail | 174.2 | 13.0 | 12.1 | 6.1 | 6.9 | 6.5 | 7.3 | 97.2 | 10.5 |
| **UK Retail** | **255.0** | **20.7** | **19.5** | **6.5** | **7.1** | **7.1** | **6.0** | **97.8** | **10.3** |

### Europe

| 31 August 2019 | Market value £m | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up NIY % | Reversionary yield % | WAULT yrs | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|
| German Shopping Centres | 191.0 | 10.9 | 10.3 | 4.6 | 4.7 | 5.0 | 5.2 | 99.4 | 94.4 |
| German Supermarkets and Retail Parks | 56.2 | 4.1 | 4.2 | 6.1 | 6.1 | 6.9 | 4.4 | 98.3 | 95.7 |
| **Europe** | **247.2** | **15.0** | **14.5** | **5.0** | **5.0** | **5.5** | **5.0** | **99.1** | **94.7** |

### EPRA NIY

The below table presents the calculation of the Group's net initial yield which is the annualised rental income (based on cash rents passing at the reporting date) net of estimated non-recoverable property operating costs, as a percentage of the gross market value of the property portfolio. The topped-up yield allows for the expiration of rent-free periods.

| | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m | Group total £m |
|---|---|---|---|---|---|
| Investment property – wholly owned | 546.8 | 363.3 | 255.0 | 232.1 | 1,397.2 |
| Investment property – held in joint ventures | 11.0 | — | — | 15.1 | 26.1 |
| **Market value of total portfolio** | **557.8** | **363.3** | **255.0** | **247.2** | **1,423.3** |
| Allowance for estimated purchasers' costs | 37.9 | 24.7 | 17.3 | 16.9 | 96.8 |
| **Grossed up property portfolio valuation** | **595.7** | **388.0** | **272.3** | **264.1** | **1,520.1** |
| **Triple net rent** | **28.8** | **22.4** | **17.8** | **13.1** | **82.1** |
| Impact of expiration of rent-free periods | 1.6 | — | 1.5 | 0.2 | 3.3 |
| **Topped up triple net rent** | **30.4** | **22.4** | **19.3** | **13.3** | **85.4** |
| **EPRA NIY (%)** | **4.8** | **5.8** | **6.5** | **5.0** | **5.4** |
| **EPRA topped up NIY (%)** | **5.1** | **5.8** | **7.1** | **5.0** | **5.6** |

## EPRA cost ratio

The below table presents the calculation of the Group's cost ratio which is the Group's operating costs (as adjusted for certain items) as a percentage of the Group rental income net of ground rent.

| | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m | Other £m | Group total £m |
|---|---|---|---|---|---|---|
| Rental income | 37.2 | 23.0 | 31.4 | 14.7 | — | 106.3 |
| Operating lease expense | (0.6) | (1.2) | — | — | — | (1.8) |
| **Adjusted for:** | | | | | | |
| Serviced Office rental income and operating lease expense[1] | (15.1) | — | — | — | — | (15.1) |
| **EPRA adjusted rental income** | **21.5** | **21.8** | **31.4** | **14.7** | **—** | **89.4** |
| Rental expense | 6.0 | 1.2 | 2.8 | 2.2 | — | 12.2 |
| Administrative costs and other fees | 1.4 | 0.2 | 0.1 | 0.8 | 11.4 | 13.9 |
| Operating lease expense | (0.6) | (1.2) | — | — | — | (1.8) |
| **Adjusted for:** | | | | | | |
| Serviced Office rental and administrative expenses[1] | (6.8) | — | — | — | — | (6.8) |
| **EPRA adjusted operating expenses** | **—** | **0.2** | **2.9** | **3.0** | **11.4** | **17.5** |
| Direct vacancy costs | — | — | (1.7) | (1.1) | — | (2.8) |
| **EPRA adjusted operating expenses (excluding direct vacancy costs)** | **—** | **0.2** | **1.2** | **1.9** | **11.4** | **14.7** |
| **EPRA cost ratio (inc. direct vacancy costs) (%)** | | | | | | **19.6** |
| **EPRA cost ratio (exc. direct vacancy costs) (%)** | | | | | | **16.4** |

(1) The Serviced Offices portfolio is excluded from the EPRA cost ratio due to the operational nature of that business.

## EPRA vacancy rate

The below table presents the calculation of the rental value of vacant space as a percentage of the rental value of the portfolio as a whole.

| | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m[1] | Group total £m |
|---|---|---|---|---|---|
| ERV of vacant space | 1.9 | — | 0.4 | 0.1 | 2.4 |
| ERV of total portfolio | 34.5 | 24.7 | 19.5 | 14.5 | 93.2 |
| Serviced Offices, RBH and Ingolstadt adjustments | (10.7) | (22.1) | — | (0.2) | (33.0) |
| **Revised ERV** | **23.8** | **2.6** | **19.5** | **14.3** | **60.2** |
| **EPRA vacancy rate (%)[2]** | **8.0** | **—** | **2.2** | **0.9** | **4.1** |
| **EPRA occupancy rate (%)[2]** | **92.0** | **100.0** | **97.8** | **99.1** | **95.9** |

(1) Calculated in local currency.

(2) Presented as the occupancy rate (inverse to vacancy rate) in the Operating review.

# Other information (unaudited)

## EPRA property analysis continued

### EPRA capital expenditure analysis

| 31 August 2019 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m | Group total £m |
|---|---|---|---|---|---|
| Capital expenditure on like-for-like portfolio | 1.8 | 3.2 | 2.1 | 1.1 | 8.2 |
| **Capital expenditure** | **1.8** | **3.2** | **2.1** | **1.1** | **8.2** |

| 31 August 2018 | UK Commercial £m | UK Hotels £m | UK Retail £m | Europe £m | Group total £m |
|---|---|---|---|---|---|
| Capital expenditure on like-for-like portfolio | 1.0 | 3.2 | 4.0 | 5.9 | 14.1 |
| Capitalised finance costs[(1)] | — | — | — | 0.7 | 0.7 |
| **Capital expenditure** | **1.0** | **3.2** | **4.0** | **6.6** | **14.8** |

(1) Interest was capitalised on the basis of the Group's weighted average cost of debt of 3.4 per cent at 31 August 2018, applied to the cost of a Europe segment property under development during that year. There was no capitalised interest during the year ended 31 August 2019, as the qualifying investment property was substantially complete.

Capital expenditure on the like-for-like portfolio includes:

**UK Commercial**

**Offices**

£1.3 million on the refurbishment of a Greater London office in Kingston on regearing of a tenant lease and £0.5 million of planning costs incurred on Charing Cross (31 August 2018: £1.0 million);

**UK Hotels**

£2.9 million on the refurbishment and extension of the Holiday Inn, Edinburgh and £0.3 million on external works to the DoubleTree, Edinburgh (31 August 2018: £3.2 million);

**UK Retail**

**UK Shopping Centres**

£0.4 million capital expenditure on the Aviva Portfolio shopping centres prior to disposal and £0.2 million on general improvement works across the residual portfolio (31 August 2018: £2.9 million);

**UK Retail Parks and Other Retail**

£1.3 million on drive-thru Costa Coffee pods at Arches Retail Park and The Range, Edinburgh and £0.2 million on the refurbishment of a Poundstretcher unit (31 August 2018: £1.1 million); and

**Europe**

£0.6 million on Ingolstadt mixed-use wing development (second phase) and £0.5 million on completion of the first phase of the redevelopment (31 August 2018: £5.9 million).

### Top ten tenants

| Ranking | Tenant (trading name) | Portfolio | Sector | Annualised gross rental income £m | Total gross rental income % |
|---|---|---|---|---|---|
| 1 | RBH | UK Hotels | Limited service | 23.4 | 24.1 |
| 2 | B&Q Plc | UK Retail | Home and DIY | 3.5 | 3.6 |
| 3 | Primark | UK Retail and Europe | Fashion | 3.5 | 3.6 |
| 4 | UK Government bodies | UK Commercial | Government associated | 2.9 | 2.9 |
| 5 | Royal Mail | UK Commercial | Services | 2.5 | 2.6 |
| 6 | Travelodge | UK Hotels | Limited service | 2.4 | 2.5 |
| 7 | OBI | Europe | Home and DIY | 2.3 | 2.4 |
| 8 | EDF Energy PLC | UK Commercial | Utilities | 1.3 | 1.4 |
| 9 | Kwik Fit | UK Commercial | Automotive | 1.1 | 1.1 |
| 10 | Currys | UK Retail | Technology and telecommunication | 1.0 | 1.0 |
| | | | | **43.9** | **45.2** |

## Top 20 assets

| As at 31 August 2019 | Market value £m | Portfolio by market value % | Area m² | Annualised gross rental income £m | ERV £m | EPRA NIY % | EPRA topped up yield % | WAULT yrs | EPRA occupancy by ERV % | Indexed % |
|---|---|---|---|---|---|---|---|---|---|---|
| Hamburg, Bahnhof Altona | 80.6 | 5.7 | 15,042 | 4.4 | 4.2 | 4.6 | 4.6 | 4.3 | 100.0 | 96.4 |
| Berlin, Schloss-Strassen Center | 78.1 | 5.5 | 18,588 | 4.6 | 4.3 | 4.5 | 4.7 | 5.2 | 98.7 | 91.1 |
| Crawley, Camino Park Distribution Centre | 76.0 | 5.3 | 33,171 | 3.8 | 4.2 | 4.6 | 4.6 | 3.5 | 100.0 | 8.0 |
| London, Monument, St Dunstan's | 65.6 | 4.6 | 5,428 | 4.5 | 4.3 | 6.0 | 6.0 | n/a | n/a | — |
| London, Harrow, St George's | 62.8 | 4.4 | 20,332 | 5.0 | 4.5 | 6.4 | 6.5 | 2.6 | 100.0 | 15.5 |
| London, Charing Cross Road | 58.5 | 4.1 | 3,716 | 1.8 | 2.4 | 2.7 | 2.7 | 2.6 | 93.9 | 38.1 |
| Bridgwater, Express Park Distribution Centre | 50.6 | 3.6 | 47,207 | 2.9 | 3.1 | 3.8 | 5.4 | 9.4 | 100.0 | — |
| London, Southwark Holiday Inn Express | 48.2 | 3.4 | 3,936 | 3.1 | 3.2 | 5.6 | 5.6 | n/a | n/a | — |
| London, Watford, The Arches Retail Park | 46.0 | 3.2 | 11,599 | 3.2 | 2.8 | 6.2 | 6.6 | 8.2 | 100.0 | — |
| Banbury, Banbury Cross Retail Park | 44.5 | 3.1 | 16,631 | 3.4 | 3.5 | 6.3 | 6.9 | 5.8 | 91.4 | 4.9 |
| **Top ten assets** | **610.9** | **42.9** | | | | | | | | |
| Edinburgh, DoubleTree by Hilton | 42.4 | 3.0 | 7,250 | 3.2 | 3.0 | 6.4 | 6.4 | n/a | n/a | 3.1 |
| London, Merton, Priory Retail Park | 36.0 | 2.5 | 6,276 | 2.1 | 2.0 | 4.7 | 5.5 | 9.0 | 100.0 | 19.0 |
| London, St Paul's, Little Britain | 33.2 | 2.3 | 3,429 | 1.9 | 1.9 | 5.5 | 5.5 | n/a | n/a | — |
| London, Liverpool Street, New Broad Street | 33.2 | 2.3 | 3,291 | 2.2 | 2.2 | 5.6 | 5.6 | n/a | n/a | — |
| London, Limehouse Holiday Inn Express | 32.5 | 2.3 | 5,747 | 2.1 | 2.0 | 5.4 | 5.4 | n/a | n/a | — |
| London, Earl's Court Holiday Inn Express | 32.4 | 2.3 | 2,781 | 2.2 | 1.9 | 5.8 | 5.8 | n/a | n/a | — |
| Ingolstadt, City Arkaden | 32.3 | 2.3 | 12,316 | 1.9 | 1.9 | 5.1 | 5.1 | 7.2 | 100.0 | 97.5 |
| London, Waterloo, Boundary Row | 31.4 | 2.2 | 3,326 | 2.3 | 2.3 | 6.9 | 6.9 | n/a | n/a | — |
| Farnborough, Southwood Business Park | 29.5 | 2.1 | 14,312 | 2.0 | 2.0 | 6.1 | 6.4 | 3.5 | 100.0 | — |
| Gatwick, Hampton by Hilton | 27.8 | 2.0 | 7,433 | 2.9 | 3.0 | 6.3 | 6.3 | n/a | n/a | — |
| **Top 20 assets** | **941.6** | **66.2** | | | | | | | | |

## Other information (unaudited)

# Other alternative performance measures

The following tables provide the basis of calculation of APMs that are not otherwise reconciled in other sections of this results announcement. Further discussion of these APMs is provided in the financial review.

### Interest cover

| Group (proportionately consolidated, including discontinued operation) | 31 August 2019 £m | 31 August 2019 exc. Aviva £m | 31 August 2018 £m | 31 August 2018 exc. Aviva £m |
|---|---|---|---|---|
| Net rental income | **94.1** | **84.2** | 100.7 | 83.6 |
| Net finance expense | **(28.7)**[(1)] | **(23.4)** | (29.0)[(1)] | (20.4) |
| **Interest cover (times)** | **3.3** | **3.6** | 3.5 | 4.1 |

(1) As per Note 3, 2019 proportionate finance expense of £29.5 million less finance income £0.2 million and excluding debt fair value adjustments of £0.6 million. In the comparative, 2018 proportionate finance expense of £30.1 million less finance income £0.3 million and excluding debt fair value adjustments of £0.8 million.

### Dividend pay-out ratio

| Group (proportionately consolidated, including discontinued operation) | Note | 31 August 2019 Per share | 31 August 2018 Per share |
|---|---|---|---|
| Dividends declared (pence) | 35 | **10.0** | 13.5 |
| Underlying earnings (pence) | 35 | **13.0** | 14.2 |
| **Dividend pay-out ratio (%)** | | **76.9** | 95.1 |

# Five year record

| Summarised Group income statement | 2019 £m | Re-presented 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| Rental income | **90.8** | 93.3 | 97.2 | 86.6 | 68.3 |
| Rental expense | **(10.0)** | (8.6) | (9.0) | (6.2) | (5.3) |
| **Net rental income** | **80.8** | 84.7 | 88.2 | 80.4 | 63.0 |
| Other operating income | **2.7** | 1.8 | 4.7 | 2.5 | 3.9 |
| Administrative costs and other fees | **(13.2)** | (13.4) | (15.3) | (10.9) | (11.1) |
| **Net operating income** | **70.3** | 73.1 | 77.6 | 72.0 | 55.8 |
| Net fair value (losses)/gains on investment property and assets held for sale | **(56.6)** | 5.6 | 6.9 | (42.5) | 29.6 |
| (Loss)/gain on disposal of investment property and property assets held for sale | **(1.7)** | 3.4 | 10.7 | 3.2 | — |
| (Loss)/gain on disposal of subsidiaries | **(55.6)** | (0.7) | — | 12.2 | (0.3) |
| (Loss)/gain on acquisition of subsidiaries | **(0.4)** | 4.4 | — | — | — |
| Gain on extinguishment/acquisition of debt | **—** | — | — | — | 29.8 |
| Net (loss) on disposal of investment | **—** | — | — | — | (17.6) |
| Other items | **(0.2)** | (1.2) | (0.3) | 0.6 | 11.2 |
| **(Loss)/profit from operations** | **(44.2)** | 84.6 | 94.9 | 45.5 | 108.5 |
| Net finance costs | **(25.4)** | (26.3) | (25.0) | (26.4) | (24.0) |
| Other items | **(10.2)** | 5.9 | 3.6 | (10.5) | (0.5) |
| Taxation | **(0.3)** | (0.8) | (3.9) | (1.1) | (6.1) |
| Post-tax profit from discontinued operation[1] | **5.3** | 32.9 | — | — | — |
| **(Loss)/profit for the year** | **(74.8)** | 96.3 | 69.6 | 7.5 | 77.9 |

(1) The Europe segment has been classified as a discontinued operation for the year ended 31 August 2019 and the comparative for the year ended 31 August 2018 has been re-presented. Please note that other comparative years have not been re-presented.

| Summarised Group balance sheet | 2019 £m | 2018 £m | 2017 £m | Re-presented 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investment property | **1,150.3** | 1,598.0 | 1,494.9 | 1,396.4 | 934.4 |
| Other non-current assets | **26.6** | 29.8 | 34.1 | 83.7 | 59.6 |
| Current assets, including investment property held for sale | **298.1** | 66.1 | 95.6 | 58.7 | 232.8 |
| **Total assets** | **1,475.0** | 1,693.9 | 1,624.6 | 1,538.8 | 1,226.8 |
| **Liabilities** | | | | | |
| Non-current liabilities | **(677.7)** | (796.8) | (837.1) | (768.8) | (526.1) |
| Current liabilities | **(54.3)** | (34.3) | (25.3) | (36.6) | (63.9) |
| **Total liabilities** | **(732.0)** | (831.1) | (862.4) | (805.4) | (590.0) |
| **Net assets** | **743.0** | 862.8 | 762.2 | 733.4 | 636.8 |

| Summarised Group statement of cash flows | 2019 £m | 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| Cash flows from operating activities | **56.4** | 58.1 | 49.4 | 39.6 | 35.6 |
| Cash flows from investing activities | **(50.5)** | 81.3 | 56.3 | (369.7) | (25.9) |
| Cash flows from financing activities | **(32.5)** | (132.2) | (83.3) | 270.8 | (6.7) |
| **Net (decrease)/increase in cash and cash equivalents** | **(26.6)** | 7.2 | 22.4 | (59.3) | 3.0 |

| Other key metrics | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Shares in issue (millions) | **380.1** | 377.3[1] | 365.6[1] | 358.9[1] | 294.9[1] |
| EPRA earnings per share (pence) | **12.8** | 13.8[1] | 14.0[1] | 13.5[1] | 23.5[1] |
| Underlying earnings per share (pence) | **13.0** | 14.2[1] | 13.8[1] | 14.0[1] | 16.0[1] |
| EPRA NAV per share (pence) | **185.5** | 213.8[1] | 207.0[1] | 200.0[1] | 205.0[1] |
| Weighted average cost of debt (%) | **2.9** | 3.4 | 3.1 | 3.4 | 3.9 |
| Weighted average debt maturity (years) | **3.7** | 6.7 | 7.3 | 6.9 | 7.8 |
| Loan to value (%) | **46.8[2]** | 46.2[2] | 51.3 | 53.4 | 51.8 |

(1) As a result of the share consolidation approved at the Annual General Meeting on 24 January 2019, previously published comparative number of shares, earnings per share and net asset value per share have been re-presented for comparability.

(2) Pro forma adjusted to 42.0 per cent to reflect transactions between 31 August and the date of the results announcement (31 August 2018: 47.3 per cent).

# Other information (unaudited)

## Glossary

**Annualised gross rental income**
Annualised gross rent generated by the asset at the balance sheet date, which is made up of the contracted rent, including units that are in rent-free periods, and estimates of turnover rent

**AUK**
Aegon UK property portfolio

**Aviva**
Aviva Commercial Finance Limited

**Aviva Portfolio**
Aviva financed UK Shopping Centre portfolio

**Board**
The Board of Directors of RDI REIT P.L.C.

**BVI**
British Virgin Islands

**CPI**
Consumer Price Index

**EBITDA**
Earnings Before Interest, Tax, Depreciation and Amortisation

**EPRA**
European Public Real Estate Association

**EPRA cost ratio**
Administrative and operating costs expressed as a percentage of gross rental income as defined by EPRA

**EPRA earnings**
Earnings from operational activities as defined by EPRA's Best Practice guidelines

**EPRA NAV**
European Public Real Estate Association Net Asset Value

**EPRA NIY**
European Public Real Estate Association Net Initial Yield. The annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market value of the property

**EPRA NNNAV**
European Public Real Estate Association Triple Net Asset Value

**EPRA occupancy**
Occupancy expressed as a percentage of ERV, representing a measure of let space

**EPRA topped-up initial yield**
Net initial yield adjusted for the expiration of rent-free periods or other incentives

**EPS**
Earnings per share

**ERV**
The estimated market rental value of lettable space which could reasonably be expected to be obtained on a new letting or rent review

**EU**
European Union

**EUR or Euro**
Euro, the lawful common currency of participating member states of the European Monetary Union

**GBP, Pound or Sterling**
Great British Pound, the legal currency of the UK

**GRESB**
Global Real Estate Sustainability Benchmark

**IASB**
International Accounting Standards Board

**IFRS**
International Financial Reporting Standards

**IHL**
International Hotel Properties Limited

**Indexed leases**
A lease with rent review provisions which are dependent upon calculations with reference to an index such as the consumer price index or the retail price index

**IPD**
Investment Property Databank

**JSE**
JSE Limited, licensed as an exchange and a public company incorporated under the laws of South Africa and the operator of the Johannesburg Stock Exchange

**Lease incentives**
Any incentives offered to occupiers to enter into a lease. Typically, the incentive will be an initial rent-free period, or a cash contribution to fit out or similar costs

**Like-for-like net income**
Net income generated by assets which were held by the Group throughout both the current and comparable periods for which there has been no significant development which materially impacts upon income and used to illustrate change in comparable income values

**Like-for-like property**
Property which has been held at both the current and comparative balance sheet dates for which there has been no significant development and used to illustrate change in comparable capital values

**Loan to value or LTV**
The ratio of net debt divided by the market value of investment property. Calculated on a proportionate (share of value) basis. See financial review for basis of calculation

**LSE**
The London Stock Exchange plc

**LSO**
London Serviced Office Portfolio

**LuxSE**
The Luxembourg Stock Exchange

**NAV**
Net Asset Value

**NCI**
Non-controlling interest

**Net debt**
Total nominal value of bank borrowings less cash and cash equivalents

**OSIT**
Office Space in Town, the Group's strategic partner and non-controlling shareholder in the LSO portfolio

**RBH**
RBH Hotel Group Limited, formerly RedefineBDL Hotel Group Limited

**RCF**
Revolving Credit Facility

**RDI REIT P.L.C., RDI, the Company or the Group**
RDI REIT P.L.C. and, when taken together with all its subsidiaries and Group undertakings, collectively referred to as the "Group"

**Redefine Properties or RPL**
Redefine Properties Limited, a company listed on the JSE, and the largest shareholder of the Company

**Reversionary yield**
The anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV

**RevPar**
Revenue per available room

**RHHL**
Redefine Hotel Holdings Limited

**RICS**
Royal Institute of Chartered Surveyors

**RIHL**
Redefine International Holdings Limited

**RIMH**
Redefine International Management Holdings Limited

**SAICA**
South African Institute of Chartered Accountants

**TSogo Sun**
Southern Sun Africa

**UK**
United Kingdom

**UK REIT**
A UK Real Estate Investment Trust. A REIT must be a publicly quoted company with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90 per cent of those profits to shareholders. Tax is payable on non-qualifying activities of the residual business

**Underlying earnings**
EPRA earnings adjusted for the impact of non-cash debt accretion charges and FX gains and losses reflected in the income statement

**WAULT**
Weighted average unexpired lease term

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