ACCELERATE
PROPERTY FUND

**ACCELERATE PROPERTY FUND LIMITED**
(Incorporated in the Republic of South Africa)
(Registration No 2005/015057/06)
JSE code: APF ISIN code: ZAE000185815
(REIT status approved)
("Accelerate" or "the company")

# CONSOLIDATED FINANCIAL RESULTS for the six months ended 30 September 2017

Total portfolio GLA of **637 577** m²

Property portfolio value of **R11,8 billion** (30% year-on-year growth)

Net asset value growth of **21,3%** (year-on-year)

# KEY INDICATORS

| Indicator | 30 September 2017 | 31 March 2017 |
|---|---|---|
| Portfolio value | **R11,8 billion** | R11,6 billion |
| GLA | **637 577 m²** | 633 494 m² |
| Number of properties | **70** | 69 |
| Net asset value | **7,4 billion** | 7,4 billion |
| Cost-to-income ratio | **15,3%** | 16,9% |
| Weighted average lease expiry (by revenue) | **5,3 years** | 5,6 years |
| Lease escalations (excluding offshore)* | **7,5%** | 7,8% |
| Vacancies (net of structural vacancies) | **8,4%** | 6,9% |

* *6,8% including offshore (31 March 2017: 6,9%)*

# HIGHLIGHTS FOR THE PERIOD UNDER REVIEW

The South African property market remains challenging reflecting tough trading conditions within a weak economy and uncertain political landscape. Despite these conditions we are encouraged by steady progress made in our key focus areas:

1. Enhancing return on our assets

   The fund follows a nodal strategy whereby it looks to invest in high-performing nodes to maximise growth and efficiencies, and continues to extract value from its local portfolio by developing, expanding and renovating its properties.

   These projects include work on the following properties; the Fourways Mall redevelopment, BMW bulk where a development of 8 400 m² for two motor dealerships has been agreed, Foreshore development (where a mixed-use redevelopment is planned), Eden Meander extension of additional retail of 3 085 m², Fourways View and Citibank upgrading.

   Fourways Mall – The redevelopment remains our focus and is now in its final year with the construction expected to be completed at the end of 2018. This transformative redevelopment will create a super-regional mall which will anchor the fund, the Fourways Node and provide a catalyst for future value creation.

   While having the 'typical' offerings of a super-regional, Fourways Mall will proactively differentiate itself by way of its children's entertainment offering, with, among others, Bounce Fourways (the flagship store in South Africa – 4 700 m²) and Kidzania, a safe, unique and interactive 'city' built entirely for children, which blends learning and reality with entertainment (8 000 m²) will anchor this offering within the Mall.

2. Balance sheet management

   We continue to target a loan-to-value (LTV) ratio of 35% to 40%. Given our recent acquisitions we sit at an elevated LTV ratio. Numerous steps are being undertaken to reduce leverage. These include:

   - ongoing negotiations on a potential BEE (sale) deal with an approximate size of R1,2 billion;
   - recycling of certain assets to the value of approximately R1 billion;
   - sale/joint venture on available bulk; and
   - development and sale of residential units at the Cape Town foreshore.

3. Operations

   Within the current economic environment, a focus on tenant retention and protecting our income stream is imperative. As at 30 September 2017 we have achieved average positive rental reversions of 3,1%, with a tenant retention rate of approximately 90,1%.

   Overall the portfolio continues to perform favourably, cost to income has decreased from 16,9% for full year FY17 to 15,3% year to date (YTD) with some once-off costs being incurred in FY17 in the establishment of our offshore platform. Arrears have remained constant. Lease escalations are healthy and average approximately 7,5%. The portfolio weighted average lease expiry (WALE) is still defensive, being in excess of five years.

   Accelerate has seen significant progress in its core office portfolio, consisting of 76,7% A and P-grade buildings.

   Portside Tower – Vacancies have reduced from 74,1% at 30 June 2016 to 21,0% at 30 September 2017. Recent increased letting activity can be attributed to letting smaller boxes, while still maintaining our target rentals and escalations. Demand for P-grade green buildings continues to be relatively strong in the Cape Town CBD, and we expect to see this improved letting trend continue.

   Citibank – In February 2017, Accelerate acquired the Citibank building in the Sandton CBD. The acquisition represented an opportunity to purchase an A-grade office building, anchored by Citibank, situated in a prime location. The property is directly adjacent to Nelson Mandela Square and is 300 m from the Sandton Gautrain station. At acquisition the property was 22,9% vacant (2 593 m²) with an acquisition yield of 5,50% (excluding any vacancy assumptions). Per the Rode property report, as at March 2017 vacancies in the Sandton area were approximately 13% for A-grade offices. Within seven months of acquisition, vacancies have decreased to 5,9% (732 m²) with a WALE of six years and a yield of 8,3%.

4. Optimising our funding

   The fund continues to diversify its funding base, proactively managing its cost of debt and interest rate risk.

   During August 2017, we successfully accessed the debt capital markets through our domestic medium-term note (DMTN) programme to refinance R264 million of debt capital markets (DCM) debt maturing in September 2017. Given demand and attractive pricing a decision was made to increase the potential take up to R525 million to refinance bank debt maturing in December 2017. Ultimately, favourable bids of R761 million were received. All funds were utilised to refinance maturing debt. R325 million of three-year debt at 189 bps and R200 million five-year debt at 214 bps above three-month Jibar was raised. The weighted average term of debt subsequently increased to 2,5 years. The weighted average cost of debt for the fund remains at 8,4%. We will continue to actively manage the cost and maturity profile of our debt.

   In July 2017, the fund took out an additional R400 million three-year swap as part of our ongoing hedging strategy at a fixed rate of 6,88%. 82% of debt is hedged with a weighted average swap maturity of 2,1 years.

## HIGHLIGHTS FOR THE PERIOD UNDER REVIEW (CONTINUED)

5. Offshore
   During 2016 Accelerate launched its single-tenant long-term net lease platform.

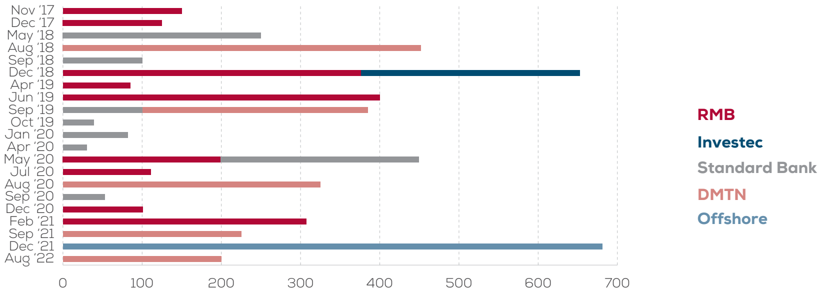
   The fund initiated this strategy with the acquisition of a portfolio of nine well-located retail properties in Austria and Slovakia, tenanted by OBI, the largest DIY retailer in Central and Eastern Europe (CEE). The properties were recently independently valued in June 2017 at €89,2 million resulting in an 8,7% increase post acquisition.

# FINANCIAL POSITION

As at 30 September 2017, Accelerate's investment property portfolio had a value of R11,8 billion (31 March 2017: R11,6 billion), excluding the effects of straight-lining. The uptick in the value of the portfolio is due to an increase in the external valuation of our offshore assets, capex spend on existing assets in our local portfolio and the acquisition of Brooklyn Place in Charles Crescent, which forms part of another long-term strategic plan for Accelerate.

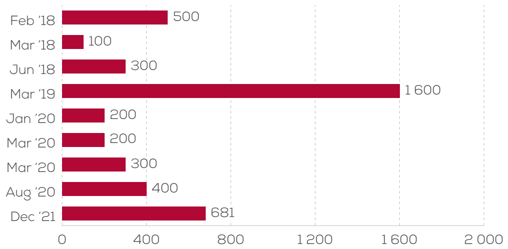
Accelerates total debt increased from R4,9 billion at 31 March 2017 to R5,2 billion at 30 September 2017, predominantly due to the deterioration of the rand:euro exchange rate as well as nominal debt raised locally for capex spend and expansion projects.

Long-term debt expiry profile (R'm)*




* R275 million of this debt has been refinanced post 30 September 2017. The next debt expiring is in May 2018.

Swap maturity profile (R'm)




### Long-term debt allocation – 30 September 2017

| | 30 September 2017 | | 31 March 2017 | |
|---|---|---|---|---|
| **Bank funding – SA portfolio** | **R'm** | **%** | R'm | % |
| Debt capital markets | **1 487** | **28,6** | 1 226 | 25,1 |
| Bank funding | **3 716** | **71,4** | 3 654 | 74,9 |
| Total | **5 203** | **100,0** | 4 880 | 100,0 |
| Weighted average debt term (years) | **2,5** | | 2,3 | |
| Short-term portion of debt* | **1 077,0** | **20,7** | 992,0 | 20,3 |
| Debt hedged | **4 281** | **82,3** | 3 805 | 78,0 |
| Weighted average swap term (years) | **2,1** | | 2,4 | |
| Blended interest rate | | **8,4** | | 8,4 |
| Interest cover ratio (times) | **2,4** | | 2,6 | |
| Loan-to-value | | **42,8** | | 41,9 |

* R275 million of this debt has been refinanced post 30 September 2017. The next debt expiring is in May 2018.

# FINANCIAL PERFORMANCE

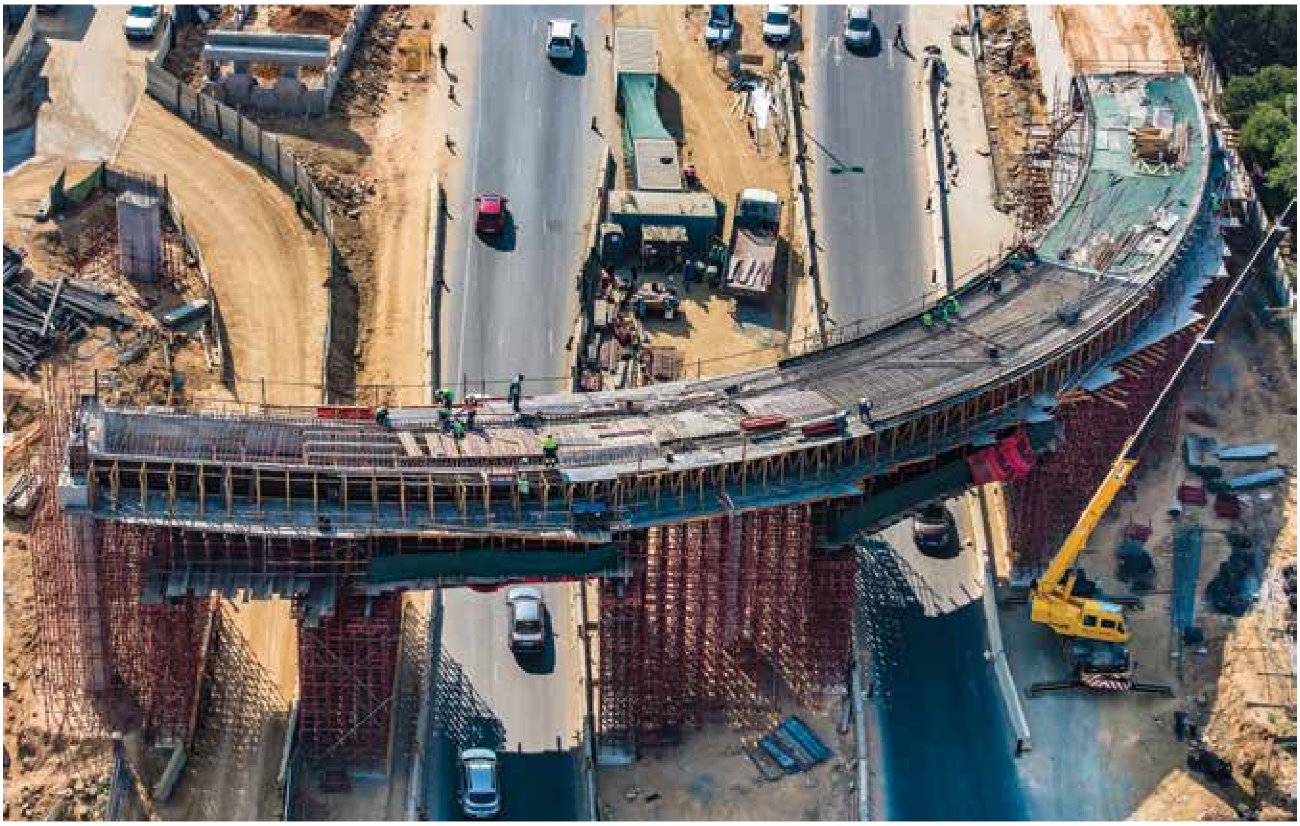
The underlying fundamentals of Accelerate's core South African retail portfolio remain solid during difficult economic times. Strategic spend and investment in our core assets such as Fourways Mall where we are introducing a revolutionary children's education and entertainment concept, Kidzania, positions the fund favourably for the future.

Distribution per share for the period equates to 28,777 cents (2016: 28,766 cents). Refer to the distribution analysis for more detail.

Accelerate's gross rental income figure has increased to R606 million (excluding straight-line rental revenue adjustment) for the period (2016: R498 million). This was driven by acquisitions such as Eden Meander, Citibank, Murray & Roberts and our Offshore OBI portfolio. Accelerate has also remained focused on tenanting and maximising returns from the core portfolio.

The net property expenses of R47,2 million (2016: R27,7 million), in conjunction with R26,6 million in other operating costs (2016: R26,4 million), resulted in Accelerate achieving a 15,3% cost-to-income ratio (2016: 13,96%) for the six-month period.

Distributions per share is used as a performance measure for trading statement purposes.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 September 2017 R'000 | 31 March 2017 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **12 082 353** | 11 900 199 |
| Investment property | 1 | **12 080 925** | 11 860 689 |
| Derivative financial assets | 2 | **–** | 38 134 |
| Property, plant and equipment | | **1 428** | 1 376 |
| **Current assets** | | **564 972** | 483 688 |
| Current tax receivable | | **9 269** | 9 881 |
| Trade and other receivables | 2 | **441 467** | 340 189 |
| Cash and cash equivalents | 2 | **114 236** | 133 618 |
| **Investment property held for sale** | | **100 450** | – |
| Non-current assets held for sale | 1 | **100 450** | – |
| **Total assets** | | **12 747 775** | 12 383 887 |
| **Equity and liabilities** | | | |
| **Equity** | | **7 352 414** | 7 352 992 |
| Ordinary share capital | | **5 092 861** | 5 156 011 |
| Other reserves | | **26 434** | 52 944 |
| Non-controlling interest | | **15 102** | 12 421 |
| Retained income | | **2 218 017** | 2 131 616 |
| **Total equity** | | **7 352 414** | 7 352 992 |
| **Non-current liabilities** | | **4 151 299** | 3 887 257 |
| Borrowings | 2 | **4 124 940** | 3 887 257 |
| Derivative financial liabilities | 2 | **26 359** | – |
| **Current liabilities** | | **1 244 062** | 1 143 638 |
| Trade and other payables | 2 | **167 062** | 151 619 |
| Borrowings | 2 | **1 077 000** | 992 019 |
| **Total equity and liabilities** | | **12 747 775** | 12 383 887 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | For the six months ended 30 September 2017 R'000 | 30 September 2016 R'000 |
|---|---|---|---|
| Revenue, excluding straight-line rental revenue adjustment | | **606 305** | 498 042 |
| Straight-line rental revenue adjustment | | **26 921** | 16 027 |
| **Revenue** | | **633 226** | 514 069 |
| Property expenses | | **(169 024)** | (138 407) |
| **Net property income** | | **464 202** | 375 662 |
| Operating expenses | | **(26 689)** | (26 441) |
| **Operating profit** | | **437 513** | 349 221 |
| Fair value adjustments | 4 | **(54 699)** | (39 145) |
| Unrealised foreign exchange gains | | **81 213** | – |
| Other income | | **648** | 620 |
| Gain on non-current assets held for sale or disposal groups | | **–** | 5 931 |
| Finance income | | **36 345** | 16 870 |
| **Profit before long-term debt interest and taxation** | | **501 020** | 333 497 |
| Finance costs | | **(180 155)** | (139 314) |
| **Profit before taxation** | | **320 865** | 194 183 |
| Taxation | | **(883)** | – |
| **Profit for the period** | | **319 982** | 194 183 |
| **Other comprehensive income that may be reclassified to profit and loss in subsequent periods** | | | |
| Exchange differences on translation of foreign operations | | **4 907** | – |
| **Total comprehensive income** | | **324 889** | 194 183 |
| **Profit attributable to:** | | | |
| Shareholders of the parent | | **318 813** | 194 183 |
| Non-controlling interest | | **1 169** | – |
| Earnings per share | | | |
| Basic earnings per share (cents) | | **33,21** | 23,36 |
| Diluted earnings per share (cents) | | **32,74** | 23,05 |
| Distributable earnings | | | |
| **Profit after taxation attributable to equity holders** | | **318 813** | 194 183 |
| Less: straight-line rental revenue adjustment | | **(26 921)** | (16 027) |
| Less: unrealised foreign exchange gains | | **(81 213)** | |
| Add: fair value adjustments | | **55 358** | 39 145 |
| Add: distribution from reserves | | **–** | 15 298 |
| **Distributable earnings** | | **266 037** | 232 599 |
| **Distribution per share (cents)** | | **28,777** | 28,766 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Foreign currency translation reserve R'000 | Other reserves R'000 | Share capital R'000 | Shares re-purchased R'000 | Retained income R'000 | Total attributable to equity holders of group R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2016** | – | 20 045 | 4 105 211 | – | 1 646 710 | 5 771 966 | – | 5 771 966 |
| **Total comprehensive income attributable to equity holders** | – | – | – | – | 194 183 | 194 183 | – | 194 183 |
| Issue of shares | – | – | 327 944 | – | – | 327 944 | – | 327 944 |
| Distribution paid | – | (13 924) | – | – | (189 295) | (203 219) | – | (203 219) |
| Conditional share plan reserve | – | 2 294 | – | – | – | 2 294 | – | 2 294 |
| Antecedent distribution reserve* | – | 12 390 | – | – | – | 12 390 | – | 12 390 |
| **Total contributions by and distributions to owners of company recognised directly in equity** | – | 760 | 327 944 | – | (189 295) | 139 409 | – | 139 409 |
| **Balance at 30 September 2016** | **–** | **20 805** | **4 433 155** | **–** | **1 651 598** | **6 105 558** | **–** | **6 105 558** |
| **Balance at 1 April 2017** | **(1 439)** | **54 383** | **5 156 011** | **–** | **2 131 616** | **7 340 571** | **12 421** | **7 352 992** |
| Profit for the period | | | | | **318 813** | **318 813** | **1 169** | **319 982** |
| Other comprehensive income | **3 395** | **–** | **–** | **–** | **–** | **3 395** | **1 512** | **4 907** |
| **Total comprehensive income for the period** | **3 395** | **–** | **–** | **–** | **318 813** | **322 208** | **2 681** | **324 889** |
| Issue/(repurchase) of shares | **–** | **–** | **–** | **(63 150)** | **–** | **(63 150)** | **–** | **(63 150)** |
| Distribution paid | **–** | **(36 999)** | **–** | **–** | **(232 412)** | **(269 411)** | **–** | **(269 411)** |
| Conditional share plan reserve | **–** | **7 094** | **–** | **–** | **–** | **7 094** | **–** | **7 094** |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **–** | **(29 905)** | **–** | **(63 150)** | **(232 412)** | **(325 467)** | **–** | **(325 467)** |
| **Balance at 30 September 2017** | **1 956** | **24 478** | **5 156 011** | **(63 150)** | **2 218 017** | **7 337 312** | **15 102** | **7 352 414** |

** This reserve relates to the antecedent distribution portion of the capital raised.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the six months ended | |
|---|---|---|
| | **30 September 2017 R'000** | 30 September 2016 R'000 |
| **Cash flows from operating activities** | | |
| Cash generated from operations | **261 688** | 258 165 |
| Distribution paid | **(232 412)** | (203 219) |
| Finance income | **36 345** | 16 870 |
| Tax paid | **(271)** | (2 471) |
| **Net cash from operating activities** | **65 350** | 69 345 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(206)** | (525) |
| Purchase of investment property/capitalised cost | **(126 886)** | (839 130) |
| Proceeds from disposal of investment property | **–** | 93 000 |
| **Net cash from investing activities** | **(127 092)** | (746 655) |
| **Cash flows from financing activities** | | |
| Proceeds on share issue | **–** | 241 976 |
| New long-term borrowings | **847 664** | 942 000 |
| Settled long-term borrowings | **(525 000)** | (228 245) |
| Repurchase of shares | **(63 150)** | – |
| Finance costs | **(180 155)** | (139 314) |
| Antecedent distribution | **(36 999)** | – |
| Dividend reinvestments | **–** | 98 359 |
| **Net cash from financing activities** | **42 360** | 914 776 |
| Total cash movement for the period | **(19 382)** | 237 466 |
| Cash at the beginning of the period | **133 618** | 71 428 |
| **Total cash at end of the period** | **114 236** | 308 894 |

# DISTRIBUTION ANALYSIS

| | For the six months ended | |
|---|---|---|
| | **30 September 2017 R'000** | 30 September 2016 R'000 |
| **Distributable earnings** | **266 037** | 232 599 |
| **Shares qualifying for distribution** | | |
| Number of shares at period end | **986 372 706** | 859 652 330 |
| Less: Bulk ceded shares to Accelerate[#] | **(51 070 184)** | (51 070 184) |
| Less: Shares repurchased by Accelerate | **(10 828 803)** | – |
| **Shares qualifying for distribution** | **924 473 719** | 808 582 146 |
| **Interim distribution per share (cents)** | **28,77713** | 28,76627 |

[#] *The cession on these shares relates to bulk in the Fourways area acquired by Accelerate at listing. These shares will only be eligible for dividends at the earlier of the development of the bulk or December 2021.*

# EARNINGS PER SHARE

| | For the six months ended | |
|---|---|---|
| | **30 September 2017 R'000** | 30 September 2016 R'000 |
| Basic earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of Accelerate by the weighted average number of ordinary shares outstanding during the period. | | |
| **Reconciliation of basic/diluted earnings to headline earnings** | | |
| Total profit after tax | **318 813** | 194 183 |
| Fair value adjustment on Investment property | **(9 134)** | – |
| Gain on sale of non-current assets held for sale | **–** | (5 931) |
| **Headline profit attributable to shareholders** | **309 679** | 188 252 |
| Basic earnings per share (cents) | **33,21** | 23,36 |
| Diluted earnings per share (cents) | **32,74** | 23,05 |
| Headline earnings per share (cents) | **32,26** | 22,65 |
| Diluted headline earnings per share (cents) | **31,80** | 22,35 |
| Shares in issue at the end of the period | **986 372 706** | 859 652 330 |
| Weighted average number of shares in issue shares in issue | **960 010 924** | 831 127 185 |
| **Dilutionary instruments** | | |
| Shares subject to the deferred acquisition costs | **–** | 4 295 396 |
| Shares subject to the conditional share plan | **13 818 819** | 6 851 733 |
| Weighted average number of dilutionary instruments | **13 818 819** | 11 147 129 |
| **Total diluted weighted average number of shares in issue** | **973 829 743** | 842 274 314 |

# SEGMENTAL ANALYSIS

The individual properties are aggregated into segments with similar economic characteristics, such as nature of the property and the occupier market it serves. Management considers that this is best achieved by aggregating properties into office, industrial, retail and European retail.

Consequently, the company is considered to have four reportable operating segments, as follows:

- Office segment: acquires, develops and leases offices
- Industrial segment: acquires, develops and leases warehouses and factories
- Retail segment: acquires, develops and leases shopping malls, community centres as well as retail centres
- European single-tenant segment: acquires, develops and leases single-tenant space backed by long-term leases

Group administrative costs, profit/loss on disposal of investment property, finance revenue, finance costs, income taxes and segment liabilities are not reported on a segmented basis.

There are no sales between segments.

### Period ended 30 September 2016 (six months)

| R'000 | Office | Industrial | Retail | European retail | Total |
|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | |
| Revenue, excluding straight-line rental revenue adjustment | 132 374 | 32 864 | 332 804 | – | 498 042 |
| Straight-line rental adjustment | 7 891 | 1 873 | 6 263 | – | 16 027 |
| Property expenses | (34 806) | (5 118) | (98 483) | – | (138 407) |
| **Segment operating profit** | 105 459 | 29 619 | 240 584 | – | 375 662 |
| Other operating expenses | | | | | (26 441) |
| Other income | | | | | 6 551 |
| Fair value losses | | | | | (39 145) |
| Finance income | | | | | 16 870 |
| Long-term debt interest | | | | | (139 314) |
| **Profit before tax** | | | | | 194 183 |

### Period ended 30 September 2017 (six months)

| R'000 | **Office** | **Industrial** | **Retail** | **European retail** | **Total** |
|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | |
| Revenue, excluding straight-line rental revenue adjustment | **176 605** | **35 275** | **361 012** | **33 413** | **606 305** |
| Straight-line rental adjustment | **16 432** | **1 017** | **9 472** | **–** | **26 921** |
| Property expenses | **(39 683)** | **(5 482)** | **(115 142)** | **(8 717)** | **(169 024)** |
| **Segment operating profit** | **153 354** | **30 810** | **255 342** | **24 696** | **464 202** |
| Other operating expenses | | | | | **(26 689)** |
| Unrealised foreign currency gains | | | | | **81 213** |
| Other income | | | | | **648** |
| Fair value losses | | | | | **(54 699)** |
| Finance income | | | | | **36 345** |
| Long-term debt interest | | | | | **(180 155)** |
| **Profit before tax** | | | | | **320 865** |

# SEGMENTAL ANALYSIS (CONTINUED)

For the year ended 31 March 2017

| R'000 | Office | Industrial | Retail | European Retail | Total |
|---|---|---|---|---|---|
| **Statement of financial position extracts at 31 March 2017** | | | | | |
| **Assets** | | | | | |
| Investment property balance 1 April 2016 | 1 942 277 | 637 996 | 5 973 229 | – | 8 553 502 |
| Acquisitions | 1 180 000 | – | 365 000 | 1 166 560 | 2 711 560 |
| Capital expenditure | 46 445 | 5 917 | 144 922 | 42 696 | 239 980 |
| Disposals/classified as held for sale | – | – | (185 726) | – | (185 726) |
| Investment property held for sale | | | | | – |
| Straight-line rental revenue adjustment | 21 685 | 3 043 | 12 230 | – | 36 958 |
| Fair value adjustments | 86 143 | 3 585 | 372 233 | 42 454 | 504 415 |
| **Segment assets at 31 March 2017** | 3 276 550 | 650 541 | 6 681 888 | 1 251 710 | 11 860 689 |
| **Other assets not managed on a segmental basis** | | | | | |
| Derivative financial instruments | | | | | 38 134 |
| Equipment | | | | | 1 376 |
| Current assets | | | | | 483 688 |
| **Total assets** | | | | | 12 383 887 |

For the period ended 30 September 2017

| R'000 | **Office** | **Industrial** | **Retail** | **European retail** | **Total** |
|---|---|---|---|---|---|
| **Statement of financial position extracts at 30 September 2017** | | | | | |
| **Assets** | | | | | |
| Investment property balance 1 April 2017 | **3 276 550** | **650 541** | **6 681 888** | **1 251 710** | **11 860 689** |
| Acquisitions | **48 000** | **–** | **–** | **–** | **48 000** |
| Capital expenditure | **7 556** | **367** | **60 816** | **–** | **68 739** |
| Disposals/classified as held for sale | **–** | **–** | **(100 450)** | **–** | **(100 450)** |
| Investment property held for sale | **–** | **–** | **100 450** | **–** | **100 450** |
| Foreign exchange gains | **–** | **–** | **–** | **167 233** | **167 233** |
| Straight-line rental revenue adjustment | **16 432** | **1 017** | **9 472** | **–** | **26 921** |
| Fair value adjustments | **–** | **–** | **–** | **9 793** | **9 793** |
| **Segment assets at 30 September 2017** | **3 348 538** | **651 925** | **6 752 176** | **1 428 736** | **12 181 375** |
| **Other assets not managed on a segmental basis** | | | | | |
| Equipment | | | | | **1 428** |
| Current assets | | | | | **564 972** |
| **Total assets** | | | | | **12 747 775** |

# NOTES TO THE FINANCIAL STATEMENTS

## Corporate information

The condensed financial statements of Accelerate for the period ended 30 September 2017 were authorised for issue in accordance with a resolution of the directors passed on 17 November 2017. Accelerate is a public company incorporated and domiciled in South Africa whose shares are publicly traded on the JSE. The registered office is located at Cedar Square Shopping Centre, corner Cedar Road and Willow Avenue, Fourways, Johannesburg. The principal activities of Accelerate are the acquisition, development and leasing of properties. The functional and presentation currency of Accelerate is South African rand. All figures are rounded off to R'000 except where otherwise stated.

## Basis of preparation

These condensed financial statements for the period ended 30 September 2017 are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), and contain the minimum information required by IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008, as amended, and the JSE Listings Requirements.

The accounting policies applied in the preparation of these condensed financial statements are in terms of IFRS and are consistent with those applied in the previous financial period, except for the new and amended IFRS that became effective during the 30 September 2017 reporting period, none of which had any material impact on Accelerate's financial result.

These condensed financial statements have been prepared under the historical cost convention except for investment properties which are measured at fair value.

The fair value of investment properties is determined by directors with reference to market-related information while other financial liabilities are valued with reference to market-related information and valuation as appropriate. All investment properties are valued by independent external valuers on a three-year rolling cycle.

These condensed financial statements were prepared under the supervision of Mr Dimitri Kyriakides (CA)SA in his capacity as chief financial officer.

## Expected impact of IFRS 9, 15 and 16

**Standards issued but not yet effective**

The following standards all become effective on 1 January 2018. Accelerate intends to adopt these standards when they become effective.

- **IFRS 9 Financial Instruments**
  Accelerate has considered the possible impact the implementation of IFRS 9 will have on the presentation and disclosure of its annual financial statements:
  - Hedge accounting
    Accelerate does not apply hedge accounting, thus the changes in IFRS 9 relating to hedge accounting will not have an impact.
  - Trade receivables
    Accelerate currently evaluates the possible credit loss per tenant on a case by case basis and provides for the possible loss in the annual financial statements. This assessment is re-evaluated on an ongoing basis and the provision adjusted. We are of the opinion that this method of accounting will remain materially the same after the implementation of IFRS 9.
- **IFRS 15 Revenue from Contracts with Customers**
  Accelerate has considered its revenue streams from customers and the possible impact IFRS 15 will have on the presentation and disclosure of the financial statements. It is not expected that the adoption of IFRS 15 will have any impact on the presentation and disclosure of Accelerate's financial statements.
- **IFRS 16 Leases**
  Accelerate is not party to any material lease contracts as a lessee. Due to the nature of Accelerate's business being the rental of office, retail and industrial space to tenants, Accelerate does act as a lessor in lease contracts with tenants. Lessor accounting will remain substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

## 1. Fair value measurement of investment properties

**Levels of fair value measurements**

It is the policy of Accelerate to have every property valued by an external valuer on a three-year rotational basis as required by the JSE Listings Requirements. Accelerate's properties are only revalued once a year at its 31 March year-end. This means that each property Accelerate holds is independently valued at least every three years. The remaining investment properties held at the end of each reporting period are valued by Accelerate's directors.

Each year the directors appoint external valuers who are responsible for the external valuations of property for the annual financial statements. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuations for properties not externally valued are performed internally by the directors. Internal methods are aligned with those used by external valuers.

At each valuation date, the directors analyse the movement in each property's value. For this analysis, the directors verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts (e.g., rent amounts in rental contracts), by comparing market reports (e.g., market rent, cap rates in property market reports) and other relevant documents. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property. The directors compare each property's change in fair value with relevant external sources (such as the investment property database or other relevant benchmarks) to determine whether the change is reasonable.

The directors have presented the valuation results at 31 March 2017 to Accelerate's independent auditors. This includes the major assumptions used in the valuations, with an emphasis on property with fair value changes outside of the relevant thresholds.

**Valuation techniques**

The fair values of investment properties are determined using either a discounted cash flow (DCF) method or income capitalisation method (cap rate).

1. Fair value measurement of investment properties (continued)

**Discounted cash flow method**

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life, including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease periods, reletting, redevelopment or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs, and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, are then discounted.

**Income capitalisation method**

Under the cap rate method, a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. The difference between gross and net rental income includes the same expense categories as those for the DCF method, with the exception that certain expenses are not measured over time, but included on the basis of a time weighted average, such as the average lease costs. Under the cap rate method, over and under-rent situations are separately capitalised/(discounted).

The external valuations at 31 March 2017 were performed by Mills Fitchet (TVL) (Pty) Ltd, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The internal valuations were performed by the directors. The valuation models applied are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13.

The movement in Accelerate's investment property balance from 31 March 2017 to 30 September 2017 is only due to acquisitions and disposals during the period. None of the properties held at 31 March 2017 have been revalued (except for the nine offshore properties) for the period ended 30 September 2017, and new properties acquired were recognised in the books of Accelerate at their purchase price, which the directors deem to be the fair value of the property at the date of acquisition.

The directors have assessed the changes in market conditions and inputs to the valuations performed at 31 March 2017 and have deemed the valuations performed at 31 March 2017 to still be applicable at 30 September 2017.

For the most recent valuations performed, the portfolio had the following vacancy rates, calculated based on vacant area to total GLA along with the following estimates of when actual vacancy will equal the long-term rate:

| Class of property | Fair value as 30 September 2017 (excluding straight-lining reserve) R'000 | Current vacancies | Long-term vacancies | Estimated period of convergence |
|---|---|---|---|---|
| Office | 3 230 105 | 0% – 100% | 5% – 15% | 2,5 years |
| Industrial | 692 621 | 0% | 2% – 5% | n/a |
| Retail | 6 502 070 | 0% – 84,8% | 5% – 10% | 2 years |
| European retail | 1 428 736 | 0% | 0% | n/a |
| Total | 11 853 532 | | | |

The R11 853 532 000 includes the held for sale assets and excludes the straight-lining and unamortised leasing commission.

**Changes in valuation techniques**

There were no changes in valuation techniques during the period.

**Highest and best use**

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

**Valuation techniques and inputs derive level 3 fair values**

The table below presents the following for each class of the investment property:

- The fair value measurements at the end of the reporting period
- A description of the valuation techniques applied
- The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building
- Quantitative information about the significant unobservable inputs used in the fair value measurement

| Class of property | Fair value as at 30 September 2017 (excluding straight-lining reserve) | Valuation technique | Key unobservable inputs | Ranges |
|---|---|---|---|---|
| Office | 3 230 105 | Income capitalisation | • ERV<br>• Rental growth p.a.<br>• Long-term vacancy rate | • R36,00 – R222,00<br>• 7,7%<br>• 5% - 10% |
| Industrial | 692 621 | Income capitalisation | • ERV<br>• Rental growth p.a.<br>• Long-term vacancy rate | • R34,00 – R136,00<br>• 7,7%<br>• 0% |
| Retail | 6 502 070 | Income capitalisation | • ERV<br>• Rental growth p.a.<br>• Long-term vacancy rate | • R43,00 – R212,00<br>• 7,8%<br>• 5% - 10% |
| European retail | 1 428 736 | Income capitalisation | • ERV<br>• Rental growth p.a.<br>• Long-term vacancy rate | • R64,00 – R182,00<br>• 0%<br>• 0% |
| Total | 11 853 532 | | | |

1. Fair value measurement of investment properties (continued)

**Descriptions and definitions**

The table on the previous page includes the following descriptions and definitions relating or valuation techniques and key unobservable inputs made in determining the fair values.

**Estimated rental value (ERV)**

The rent at which space could be let in the market conditions prevailing at the date of valuation.

**Rental growth**

The estimated average increase in rent based on both market estimations and contractual indexations.

**Long-term vacancy rate**

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.

**Sensitivity analysis to significant changes in unobservable inputs within level 3 of the hierarchy**

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the entity's portfolios of investment property are:

- ERV
- Rental growth
- Long-term vacancy rate
- Discount rate/yield.

Significant increases/(decreases) in the ERV (per square metre p.a.) and rental growth per annum in isolation would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long-term vacancy rate and discount rate (and exit or yield) in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption made for the ERV (per square metre p.a.) is accompanied by:

- a similar change in the rent growth p.a. and discount rate (and exit yield); and
- an opposite change in the long-term vacancy rate.

Across the portfolio of properties held, it was determined that if the equivalent yield applied per property increases/(decreases) by 50 basis points, the overall value of the portfolio will decrease by 6,3% if the equivalent yield is increased, and increase by 7,2% if the equivalent yield is decreased.

2. Fair value of financial assets and liabilities

| | Carried at fair value R'000 | Amortised cost# R'000 | Total R'000 |
|---|---|---|---|
| **31 March 2017** | | | |
| **Financial assets** | | | |
| Derivative financial assets* | 38 134 | – | 38 134 |
| Trade and other receivables | – | 340 189 | 340 189 |
| Cash and cash equivalents | – | 133 618 | 133 618 |
| **Total financial assets** | 38 134 | 473 807 | 511 941 |
| **Financial liabilities** | | | |
| Long-term interest-bearing borrowings | – | (3 887 257) | (3 887 257) |
| Trade and other payables | – | (137 324) | (137 324) |
| Current portion of long-term debt | – | (992 019) | (992 019) |
| **Total liabilities** | | (5 016 600) | (5 016 600) |
| **30 September 2017** | | | |
| **Financial assets** | | | |
| Trade and other receivables | – | 441 467 | 441 467 |
| Cash and cash equivalents | – | 114 236 | 114 236 |
| **Total financial assets** | – | 555 703 | 555 703 |
| **Financial liabilities** | | | |
| Derivative financial liabilities* | (26 359) | – | (26 359) |
| Long-term interest-bearing borrowings | – | (4 124 940) | (4 124 940) |
| Trade and other payables | – | (152 998) | (152 998) |
| Current portion of long-term debt | – | (1 077 000) | (1 077 000) |
| **Total liabilities** | (26 359) | (5 354 938) | (5 381 297) |

* *The values of the derivative financial asset shown at fair value are based on inputs other than quoted prices that are observable in the market for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) – level 2. The value of the swaps is determined as the discounted value of the future cash flows to be paid or received from the swap assets. For the valuation, current Jibar was used as an indication of future Jibar.*

\# *The carrying value of financial assets and liabilities carried at amortised cost is considered to approximate the fair value of those financial assets and liabilities. There have been no significant changes in valuation techniques or transfers between fair value hierarchy levels.*

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Related-party transaction and balances

**Relationships**

M Georgiou and A Costa are directors of both Accelerate Property Fund Ltd and Accelerate Property Management Company (Pty) Ltd. Both directors' full remuneration is paid by Accelerate Property Fund. M Georgiou own 100% of Fourways Precinct (Pty) Ltd through The Michael Family Trust and also owns 100% of Accelerate Property Management Company (Pty) Ltd.

| | At 30 September 2017 R'000 | At 31 March 2017 R'000 |
|---|---|---|
| **Related-party balances** | | |
| The Michael Family Trust | 60 607 | 55 602 |
| Fourways Precinct (Pty) Ltd | 27 622 | 11 458 |
| **Vacancy guarantee** | | |
| Fourways Precinct (Pty) Ltd | 16 472 | 15 921 |
| **Development guarantee** | | |
| Fourways Precinct (Pty) Ltd | 69 493 | 39 288 |

| | For the six months ended | |
|---|---|---|
| | 30 September 2017 R'000 | 30 September 2016 R'000 |
| **Related-party transactions** | | |
| **Vacancy guarantee** | | |
| Fourways Precinct (Pty) Ltd | – | 5 259 |
| **Development guarantee** | | |
| Fourways Precinct (Pty) Ltd | 25 721 | 13 970 |
| **Interest charged** | | |
| Interest charged on outstanding amounts: | | |
| Fourways Precinct (Pty) Ltd | 3 165 | – |
| The Michael Family Trust | 1 910 | 6 335 |
| **Accelerate Property Management costs** | | |
| Fourways Precinct (Pty) Ltd | (1 906) | (2 475) |
| Accelerate Property Management Company (Pty) Ltd | (3 744) | (2 387) |
| **Letting commission** | | |
| Fourways Precinct (Pty) Ltd | (3 282) | – |

4. Fair value adjustments

| | For the six-month period ended | |
|---|---|---|
| **Fair value adjustments** | 30 September 2017 R'000 | 30 September 2016 R'000 |
| Fair value gain on investment property | 9 793 | |
| Mark to market movement on swaps | (64 492) | (39 145) |
| | (54 699) | (39 145) |

## 5. Economic hedges

### Interest rate swaps

Accelerate holds interest rate swap contracts with notional amounts of R3 600 000 000 (31 March 2017: R3 200 000 000), whereby it pays a fixed rate of interest and receives a variable rate based on one/three-month Jibar on the notional amount. The swap is used to hedge exposure to the variable interest rate payments on the variable rate secured loans.

The interest rate swaps have been used to match the critical terms of the underlying debt to achieve economic hedging (hedge accounting has not been applied for accounting purposes). Cash flows are expected to occur until August 2020 and will be recognised through profit or loss as and when incurred.

The aggregate fair value of the interest rate swaps at the end of the reporting period is -R8 451 911 (31 March 2017: R17 685 301).

The valuation techniques applied to fair value the derivatives which include the swap models, use present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates. All derivative contracts are fully cash-collateralised, thereby eliminating both counterparty and Accelerate's own non-performance risk. The derivatives are classified in level 2 of the fair value hierarchy.

### Cross-currency swaps

Accelerate also holds a cross-currency swap with a nominal value of €21 000 000 (2016: Rnil) to hedge exchange rate movements in euro-denominated debt. The cross-currency swap matures in January 2020.

The fair value of the cross currency swaps at the end of the reporting period was -R17 906 679 (31 March 2017: R20 448 667).

## 6. Capital commitments

In terms of Accelerate's budgeting process, R111,1 million was allocated to Accelerate's planned capital expenditure. As such, Accelerate views this amount as authorised and not contracted.

## 7. Financial guarantee

During December 2016, an executive buy-in structure was initiated in order to ensure that the executive directors of Accelerate are adequately incentivised and aligned with interests of the company and its shareholders in the long term. Special purpose vehicles (SPVs) funded through bank debt from Rand Merchant Bank (RMB) can acquire shares up to a maximum of R205 million in Accelerate at market-related share prices. The interest on bank debt in the SPVs will be serviced by the distributions received from Accelerate Property Fund. RMB will have cession over these shares and the directors will only have an unconditional right to the shares in the SPVs once the bank debt has been settled. Accelerate guarantees to RMB the performance of each SPV of its obligation. The maximum liability Accelerate may currently have under the guarantees is the equivalent of 65,0% of the total drawn commitment to the extent that losses incurred by RMB are not settled by the sale of the shares RMB has cession over. At 30 September 2017 R202 million of the RMB facility has been drawn down. At 30 September 2017 a liability of R8 437 500 was recognised for this guarantee provided.

## 8. Subsequent events

### Non-adjusting events after 30 September 2017

During October and November 2017 Tyger Manor retail centre was sold for R59 million and Eden Terrace centre for R38,5 million as part of the disposal of non-core properties by Accelerate.

# DIRECTORS' RESPONSIBILITY STATEMENT

The directors of Accelerate assume full responsibility for the preparation of the condensed financial statements.

# FINAL DISTRIBUTION

The board of Accelerate has declared a final cash distribution (number 8) (Cash Distribution) of 28,77713 cents per ordinary share (2016: 28,76627 cents per ordinary share) for the period ended 30 September 2017.

The source of the Cash Distribution comprises predominantly net income from property rentals earned from the company's property investments as well as interest earned on excess cash on deposit. Please refer to the condensed statement of comprehensive income for further details.

A dividend withholding tax of 20% will be applicable on the dividend portion to all shareholders who are not exempt.

The issued share capital at the declaration date is 986 372 706 ordinary shares. The company's income tax reference number is: 9868626145.

## Tax implications for South African resident shareholders

Accelerate was granted REIT status by the JSE with effect from 12 December 2013 in line with the REIT structure as provided for in the Income Tax Act, 58 of 1962, as amended (the Income Tax Act) and section 13 of the JSE Listings Requirements.

The REIT structure is a tax regime that allows a REIT to deduct qualifying distributions paid to investors in determining its taxable income.

The Cash Distribution of 28,77713 cents per ordinary share meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act (a qualifying distribution). Accordingly, qualifying distributions received by local tax resident shareholders must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the Accelerate shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided the following forms to their Central Securities Depository Participant (CSDP) or broker, as the case may be, in respect of uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

- a declaration that the distribution is exempt from dividends tax; and
- a written undertaking to inform the CSDP, broker or transfer secretaries, as the case may be, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the above mentioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

## Tax implications for non-resident shareholders

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends, but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that until 31 December 2013, qualifying distributions received by non-residents were not subject to dividend withholding tax. From 1 January 2014, any qualifying distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net amount due to non-resident shareholders will be 23,02170 cents per ordinary share. A reduced dividend withholding tax rate in terms of the applicable DTA, may only be relied on if the non-resident shareholders have provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- a written undertaking to inform their CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the above mentioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Summary of the salient dates relating to the Cash Distribution are as follows:

| | **2017** |
|---|---|
| Declaration date | Monday, 20 November |
| Last day to trade (LDT) cum dividend | Tuesday, 5 December |
| Shares to trade ex dividend | Wednesday, 6 December |
| Record date | Friday, 8 December |
| Payment date | Monday, 11 December |

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 December 2017 and Friday, 8 December 2017 both days inclusive.

On behalf of the board

| | | |
|---|---|---|
| **Mr TT Mboweni** | **Mr M Georgiou** | **Mr D Kyriakides** |
| *Non-executive chairman* | *Chief executive officer* | *Chief financial officer* |

20 November 2017

# CORPORATE INFORMATION

## Directors

Mr TT Mboweni (non-executive chairman)
Mr A Costa (chief operating officer)
Dr GC Cruywagen (lead independent, non-executive director)
Mr JRP Doidge (independent non-executive director)
Mr TJ Fearnhead (independent non-executive director)
Mr M Georgiou (chief executive officer)
Mr D Kyriakides (financial director)
Ms K Madikizela (independent non-executive director)
Mr JRJ Paterson (executive director)
Prof F Viruly (independent non-executive director)

## Registered office and business address

Cedar Square Shopping Centre, Management Office, 1st Floor, corner Willow Avenue and Cedar Road,
Fourways, Johannesburg, 2055
Tel: 010 001 0790
Web: www.acceleratepf.co.za

## Investor relations

Instinctif Partners: Lizelle du Toit
Tel: 011 447 3030
Email: lizelle.dutoit@instinctif.com

## Company secretary

TMF Corporate Services (South Africa) (Pty) Ltd
Represented by:
Ms Joanne Matisonn
3rd Floor, 200 on Main, corner Main and Bowwood Roads
Claremont, 7708

## Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107, South Africa
Tel: 011 370 5000
Email: proxy@computershare.co.za
Fax: 011 688 2238

## Sponsor

The Standard Bank of South Africa Ltd
(Registration number 1962/000738/06)
30 Baker Street, Rosebank, 2196
PO Box, 61344, Marshalltown, 2107, South Africa

## Auditors

Ernst & Young Incorporated
102 Rivonia Road, Sandton, Johannesburg, 2149
Tel: 011 772 3000

## Internal Auditors

LateganMashego Auditors (Pty) Ltd
(Registration number 2001/107847/07)
Registered address: 11 Boca Walk, Highveld, Centurion, 0157
Email: lindie@lateganmashego.co.za
Tel: 0828987644/0836091159

## Attorneys

Glyn Marais Inc.
(Registration number 1990/000849/21)
2nd Floor, The Place
1 Sandton Drive
Sandton
2196
(PO Box 652361, Benmore, 2010)