equites
PROPERTY FUND

Interim results for the period ended **31 August 2019**

Contents

Interim results for the period ended 31 August 2019

Highlights

DPS

9.3%

NAV per share

6.0%

LTV

27.3%

equites

PROPERTY FUND

Commentary

Unaudited consolidated interim results for the six months ended 31 August 2019

1. The period in brief

The six months to 31 August 2019 was another successful period for Equites. We have established ourselves as a developer of choice to some of the biggest names in logistics, retail and e-commerce. We continued to focus on our development pipeline, delivering modern and efficient logistics facilities to our tenants. We deployed capital well and grew our portfolio by R3.4 billion (33.7%) from August 2018. This means that in the five and a half years since listing, the compounded average growth rate of our property portfolio and our market capitalisation was in excess of 55%. At the same time Equites has consistently delivered sector-leading net asset value and income growth.

The financial results for the first half of the financial year are reflective of the robust health of our portfolio and the value added through developments and acquisitions:

- Distribution per share ("DPS") is 74.43 cents compared to 68.12 cents in the comparative period to 31 August 2018 (increase of 9.3%).
- Our capital structure remains conservative with a loan-to-value ("LTV") of 27.3% (Feb-19: 26.9%). With the introduction of a Domestic Medium-Term Note ("DMTN") programme and low market interest rates in the UK, we have reduced our overall cost of debt to 5.76% compared to 7.99% at 31 August 2018.
- We successfully placed R600 million in the fixed income market at pricing reflective of our strong credit metrics.
- Net asset value ("NAV") per share over the year increased by 6.0% to R17.37 with the compounded annual growth since listing exceeding 10%.

We completed four developments during the period, adding R718 million to our portfolio. We also started four new developments in this period that will add R558 million of capital value to the portfolio. Typically, the fair value of completed developments is 15-18% higher than their cost.

We remain well placed to meet tenants' requirements in SA with our strategic land holdings that will, over time, add a further c.500 000m^2 to our portfolio. We have not started any new speculative developments as the total return on speculative developments has come under pressure in the current economic climate and the feasibilities do not currently exceed our minimum, risk-adjusted hurdle rates when allowing for reasonable vacancy and letting costs. All current developments are tenant driven.

In the UK, we invested R455 million into strategic land holdings during the period. We have a joint venture in the UK with Newlands Property Developments ("Newlands") whose team comes with deep expertise in the promotion of industrial land parcels and the procurement and execution of large logistics developments. This logical next step in the growth of our UK business, means that we will create significantly more value for the group than participating in the open market.

The interest rate outlook in the UK remains muted and logistics properties continue to be a highly desirable asset class. We have seen prime logistics yields in the UK remaining broadly flat in the current period at around 4.5%. The pause in growth is attributable to the uncertainty around Brexit, which we have countenanced by focusing on growing income streams from secure counterparties and creating value internally.

Commentary (continued)

2. Who we are

Equites is a listed Real Estate Investment Trust ("REIT") with a focus on owning and developing modern, well-located logistics properties let to A-grade tenants on long-dated leases. We have established ourselves as a leading owner and developer of high-quality logistics assets in SA and the UK.

We are the only specialist logistics REIT listed on the JSE. This gives shareholders pure exposure to an asset class that is expected to outperform over time. Initially demand for modern logistics facilities came from retailers looking to build competitive capability. This is increasingly augmented by the demand created by e-commerce and large logistics companies. Rising land prices, large capital requirements and the technical capability required are creating barriers to entry in the sector, which is supporting rental growth.

Our operational performance evidences that we own the right assets in the right locations and our vacancy rate has been near zero since listing (currently 0.2%). Our goal is to become a leading globally relevant REIT, to assist our tenants in achieving their growth objectives and to provide long-term, sustainable returns to shareholders through capital and income growth.

Holding land and developing to tenants' requirements is the cornerstone of value creation. Our developments are managed internally, which has allowed us to drive efficiencies. By performing property management internally, we stay close to our tenants.

We target strong capital and income growth whilst minimizing the risks that face the company. Our weighted-average lease expiry ("WALE") (9.5 years) and proportion of A-grade tenants (94%) are both sector-leading. We invest in locations that evidence strong potential for capital and rental growth.

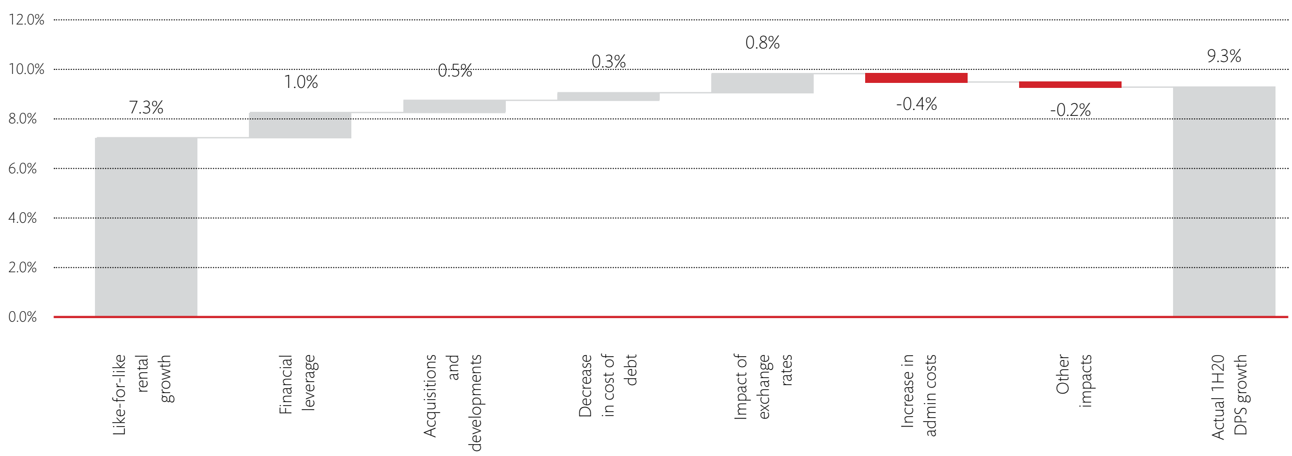
We have placed a strong emphasis on sustainability from the outset, which in the South African context includes transformation. Our level 4 B-BBEE rating under the revised property scorecard was reaffirmed in August 2019 and our certified black ownership increased to 54% (23% black women). Market leading environmentally sustainable practices are well entrenched in our developments and include water management, energy efficiency and a reduction in embedded carbon.

3. Financial performance

Distributable earnings and distribution per share

Distributable earnings grew by 31.1% from the comparable period in the prior year and on a per share basis dividends increased by 9.3%. This growth is largely driven by robust like-for-like rental growth of 7.3%, as financial leverage remains very low.

Distribution per share growth analysis



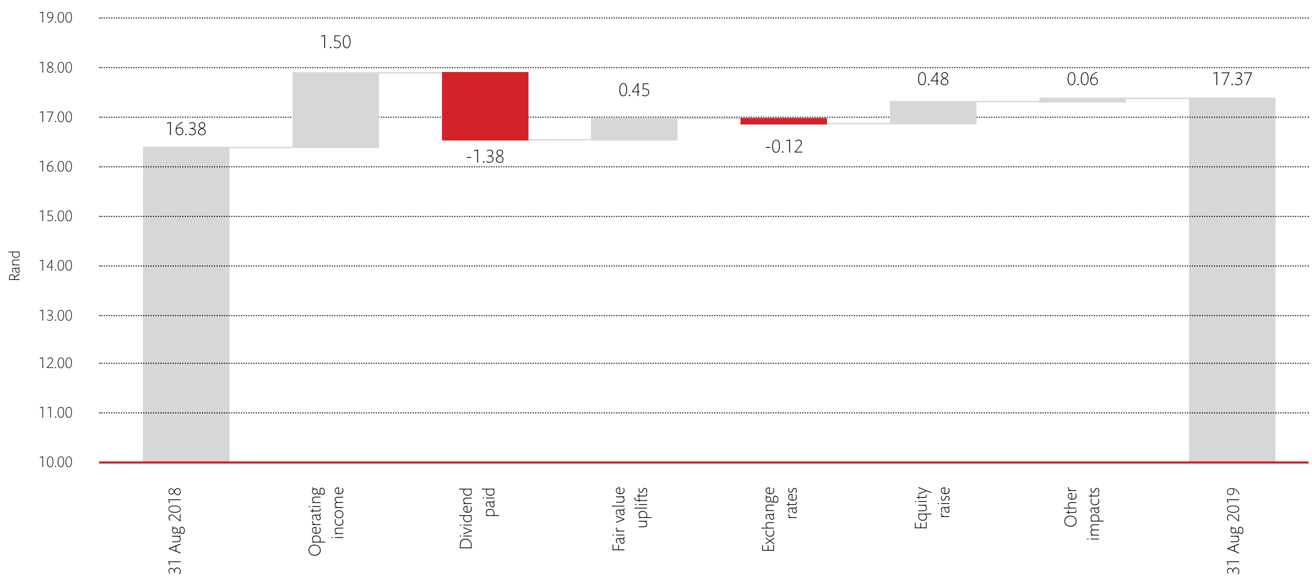
Our growth in DPS is underpinned by the following key factors:

- Like-for-like net rental growth of 7.3% which largely depicts our robust in-force contractual lease escalation rate. No leases expired during the current period.
- Financial leverage contributed only 1.0% as we maintained a low LTV. The capitalisation of finance costs onto developments also reduces the effective financial leverage.
- Acquisitions and developments contributed 0.5% predominantly through the deployment of debt and equity capital at net initial yields that exceeded our marginal weighted cost of capital. We broadly maintained our capital structure during the period, and the impact of equity raises are included in this component.
- The reduction in the cost of debt, both in SA and in the UK, partially as a result of the 25-basis point decrease in the repurchase rate in July 2019 and the increased proportion of UK debt funding as a proportion of the total outstanding debt, but also due to the sharp fall in the GBP LIBOR and JIBAR swap yield curves which has allowed us to lock-in lower debt funding costs and simultaneously increase the duration of our hedge cover.
- The impact of the 5.9% depreciation in the Rand for the comparative six-month period coupled with the impact of our foreign exchange hedging policy.
- An increase in fixed administrative costs commensurate with the increased size of the business.

Net asset value per share

NAV per share increased by 6.0% from 31 August 2018 to 31 August 2019.

Net asset value per share progression



The growth in the NAV per share is attributable to the following key factors:

- Fair value uplifts contributed 2.8% (R0.45) to the overall growth in NAV per share.
- 2.8% appreciation in the spot GBP/ZAR at 31 August 2019 (relative to 31 August 2018) has resulted in a 0.7% (R0.12) decrease in the NAV per share growth.
- Growth in operating income generated during the year (net of the dividend paid over the same period) added 0.7% (R0.12) to the NAV growth per share.
- Raising equity at a premium to our NAV per share contributed 2.9% (R0.48) to the NAV growth on a per share basis.
- The other impacts contributed 0.3% (R0.06) which principally relate to the acquisition of the non-controlling interest held in EA Waterfall Logistics JV Proprietary Limited at a discount to the carrying amount on the date of acquisition.

Commentary (continued)

4. Building our portfolio

We grow our portfolio through targeted acquisitions and developments. For acquisitions, we primarily source acquisitions through our extensive broker and client network, enabling us to often secure assets before they hit the market. We undertake thorough due diligences on all purchases and move quickly and decisively to offer certainty to sellers, making us a favoured counterparty to transact with. We have clear, well defined investment criteria but we are also pragmatic in our approach and may acquire properties not strictly within our investment criteria for assets which may offer other strategic benefits.

Our development teams continue to deliver world-class products to the South African and UK markets, and this remains one of our competitive advantages in this sector. In most cases, we acquire well positioned land which is suitable for development, procure tenants through development leases and manage the construction process through the entire life cycle, from inception to tenancy, allowing us to deliver our exacting standards to our clients. We have delivered a total of 12 assets developed internally, with a capital value of R1.1 billion and view this as an increasingly important source of our portfolio's growth in future years.

All our developments and acquisitions are assessed in light of our weighted average cost of capital, and may be risk adjusted, depending on the nature of the tenant, the length of the lease, base rentals, contracted escalations and other asset specific risks. Our cost of capital allows us to develop at sector-beating yields and we do not extract any development profits during the process, which results in lower comparative starting rentals for tenants and creates value for us over the life of the lease.

4.1. Acquisitions and developments during period

Property	Type	Capital value	Location	Date
Super G	Acquisition	£30.7 million	Glasshoughton – UK	Acquired in August 2019
The Hub	Development	£12 million	Burgess Hill – UK	Completed in April 2019
Peterborough Gateway 2	Development	£13 million	Peterborough – UK	Completed in June 2019
Equites Park – Belville 3	Development	R46 million	Bellville, Western Cape	Completed in June 2019
Equites Park – Meadowview West 3	Development	R120 million	Meadowview, Gauteng	Completed in July 2019
Parc Felindre	Development	£12 million	Swansea – UK	Commenced in January 2019
Equites Park – Meadowview West 19A	Development	R180 million	Meadowview, Gauteng	Commenced in August 2019
Equites Park – Meadowview West 19B	Development	R222 million	Meadowview, Gauteng	Commenced in August 2019
Equites Park – Meadowview West 8 (extension)	Development	R60 million	Meadowview, Gauteng	Commenced in August 2019

4.2. Developing in the UK

In the current period we concluded two acquisitions of land and entered into options over three other land parcels as part of our joint venture with Newlands. The first transaction related to the acquisition of 12 hectares of land in Basingstoke for a consideration £14.2 million. The land, which has been earmarked for prime logistics developments, should have all the requisite approvals in place by the end of 2020 and there are already several interested users.

The second transaction relates to the acquisition of a 6.7 hectare plot in the Peterborough Gateway logistics park for a price of £7.3 million. We completed two other developments (let to DSV and Coloplast) in this successful logistics park during the last year and this is one of the last available plots in the development. All the requisite approvals are in place and the land is already being marketed to potential users. Given Newland's experience in the node, we are confident that this will be the first development to be completed under the joint venture arrangement.

The relationship with Newlands has an initial period of five years during which Equites retains 100% ownership and control over the relevant properties and Newlands earns a profit share for delivering completed income-producing properties.

4.3. Capital commitments

We have capital commitments over the next 12-18 months as outlined below:

R'm	31 August 2019	31 August 2018
SA acquisitions and developments	**1 071**	**1 268**
– Acquisitions of investment property	351	724
– Acquisitions of land and development of investment property	720	544
UK acquisitions and developments	**367**	**459**
Total capital commitments	**1 438**	**1 727**

5. Valuing our portfolio

The fair value of our property portfolio has increased by 33.7% from R10.1 billion at 31 August 2018 to R13.5 billion at 31 August 2019. The majority of this growth is attributable to developments and acquisitions, with the balance coming from fair value accretion. All properties are valued by the board at every reporting period primarily using the discounted cash flow ("DCF") method. Other valuation techniques, such as income capitalisation, are also considered to ensure reasonability of values. The assumptions used in the DCF valuations are derived from external observable evidence, including SAPOA and MSCI published guidelines in SA and the Gerald Eve Prime Logistics reports in the UK. At 31 August 2019, we externally valued seven of our largest properties, one from each of our major logistics nodes. The outcome of the external valuations were used to sense check key internal valuation assumptions of other properties in the same area.

The modern logistics properties we own can be disaggregated into three distinct categories detailed below. A further 9% of the South African properties consists of other (mainly industrial) properties, which are not logistics properties:

Property type	Description
Modern distribution centre	Well located properties with high specification levels including ultra-flat floors, large volumetric capacity, deep yards and advanced fire protection. Site coverage typically averages 50%.
Logistics campus	Properties that include both a modern distribution centre and the tenant's head office (national or international). Given the number of head office staff, these properties also typically have a larger number of parking bays and other value adding elements. The office components are exclusively A- and P-grade, which increases the average value significantly.
Cross docking/ ultra-low coverage	Properties that are designed to meet the needs of a third-party logistics or last-mile fulfilment occupier and necessarily have a site coverage of below 35%. This category includes cross-docking facilities and city distribution units where the value of the yard increases the comparable value on a GLA basis.
Other	All properties that are not used for logistics. This category includes a jet hangar, a bakery and the last remaining commercial property in our portfolio.

Fair value adjustments increased the value of the portfolio by 1.9% in the current period. The properties that were externally valued had a higher adjustment compared to those valued by the board:

	% of portfolio	% fair value uplift on valuation
Externally valued properties	13.7%	2.8%
Internally valued properties	86.3%	1.8%
Total income-producing portfolio	**100.0%**	**1.9%**

Commentary (continued)

The information presented below is a summary of the significant inputs and resultant values assigned to all properties valued using the DCF methodology:

Region	Type of property	% of income-producing portfolio	Average value (R/m²)	Discount rate	Exit cap rate
South Africa	Modern distribution centre	39%	R10 996	13.64%	8.13%
	Logistics campus	34%	R19 294	13.32%	8.06%
	Cross-docking/Ultra-low coverage	18%	R14 366	13.58%	8.21%
	Other	9%	R18 783	13.69%	9.43%
SA total:		**100%**	**R15 165**	**13.52%**	**8.24%**
United Kingdom	Modern distribution centre	49%	R21 696	5.69%	5.27%
	Cross-docking/Ultra-low coverage	51%	R41 751	5.57%	5.07%
UK total:		**100%**	**R33 115**	**5.62%**	**5.11%**

6. Managing our portfolio

Our approach to property management distinguishes us due to our personalised tenant management, the focus on building long-lasting relationships with our tenants and the shared vision with tenants to maximise the efficiency of their business by reducing the operational costs, increasing efficiency of the warehouse and improving overall productivity.

We carefully select our tenants based on their superior quality which we evaluate in terms of the following five fundamental principles: tenant quality, lease longevity, tenant location, tenant operating sector, and the likelihood of retention.

6.1. The quality of our tenants

	Based on rentable area			Based on contractual revenue		
	Aug-19	**Aug-18**	**Feb-19**	**Aug-19**	**Aug-18**	**Feb-19**
A – Large multinationals, nationals, large listed and government	92.0%	90.2%	84.6%	94.3%	92.9%	92.5%
B – Smaller international and national tenants	5.4%	2.1%	3.1%	3.2%	2.2%	2.2%
C – Other local tenants and sole proprietors	2.4%	7.5%	8.4%	2.5%	4.9%	5.3%
Vacant	0.2%	0.2%	3.9%	–	–	–
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

We favour long-dated leases with low-risk tenants, which is reflected in the fact that 94.3% of our revenue is derived from A-grade tenants. This, in conjunction with the long WALE, suggests a high level of income predictability and low risk of default on our rental streams. Through active asset management, we have continued to increase our WALE, which had increased to 9.5 years at 31 August 2019. Combined with strong in-force escalations in SA and guaranteed rental increases in most of the UK leases, this will result in predictable, above market income growth for at least the foreseeable future. Less than 10% of leases (based on revenue) expire in the next three years.

6.2. Lease longevity

Weighted average lease expiry by revenue (years)	Aug-19	Aug -18	Feb-19
South Africa – Industrial	7.7	7.4	7.9
South Africa – Commercial	2.0	2.1	3.0
	7.7	**7.4**	**7.9**
United Kingdom – Industrial	12.9	10.7	11.0
Weighted average lease expiry	**9.5**	**8.3**	**8.8**

Weighted average escalation (%)	Aug-19	Aug-18	Feb-19
South Africa – Industrial	7.7	7.9	7.6
South Africa – Commercial	8.0	8.1	8.4
	7.7	**7.9**	**7.7**

	Based on rentable area			Based on contractual revenue		
Lease expiry	**Aug-19**	**Aug-18**	**Feb-19**	**Aug-19**	**Aug-18**	**Feb-19**
Vacant	0.2%	0.2%	3.9%	–	–	–
Monthly	1.1%	0.0%	0.0%	0.7%	0.0%	0.0%
Expiry within 1 year	3.6%	2.2%	2.1%	2.9%	2.4%	2.6%
Expiry within 2 years	6.2%	3.1%	4.9%	5.2%	4.2%	4.0%
Expiry within 3 years	1.5%	3.3%	8.6%	1.3%	3.7%	7.8%
Expiry within 4 years	10.8%	12.2%	9.2%	8.8%	9.7%	6.1%
Expiry within 5 years	10.5%	13.4%	12.7%	11.5%	21.2%	14.3%
Expiry beyond 5 years	66.1%	65.6%	58.6%	69.6%	58.8%	65.2%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

6.3. Tenant location

	Based on rentable area			Based on contractual revenue		
Geographic profile	**Aug-19**	**Aug-18**	**Feb-19**	**Aug-19**	**Aug-18**	**Feb-19**
Gauteng	48.1%	49.6%	50.6%	51.6%	53.4%	52.9%
Cape Town	23.9%	22.0%	25.4%	21.2%	20.5%	23.5%
KwaZulu-Natal	4.1%	–	4.3%	3.0%	–	1.7%
United Kingdom	23.9%	28.4%	19.7%	24.2%	26.1%	21.9%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Our portfolio is concentrated in areas we deem to be "key logistics nodes" which are typically nodes with excellent road infrastructure, access to sufficient electricity and water supply, labour within close proximity and areas expected to benefit from strong occupier demand in the medium to long term. While the UK portfolio has been steadily increasing, we remain a SA focused fund and continue to focus on growing the SA portfolio through acquisitions and developments. The largest single geographic concentration is Gauteng, with 48.1% of our portfolio currently situated in the region. We view this region as the hub of South African logistics and will continue to focus our growth efforts there.

Commentary (continued)

6.4. Vacancies

Vacancy profile	Aug-19	Aug-18	Feb-19
Industrial	0.2%	0.2%	3.8%
Commercial	0.0%	0.0%	7.1%
	0.2%	**0.2%**	**3.9%**

We have virtually no vacancy in our portfolio at 31 August 2019. The increase in vacancies at 28 February 2019 was as a result of the completion of several speculative developments, which have since been let.

6.5. Customer type

	Based on contractual revenue			Based on rentable area		
Sectoral profile	**Aug-19**	**Feb-19**	**Aug-18**	**Aug-19**	**Feb-19**	**Aug-18**
Industrial	97.5%	97.8%	97.5%	97.5%	97.3%	98.8%
Commercial	2.5%	2.2%	2.5%	2.5%	2.7%	1.2%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The acquisition of the Aveng head office in Jet Park, has meant that the commercial component of the portfolio has increased marginally by revenue. This site will be redeveloped for logistics users after Aveng's current two-year lease expires, after which the portfolio will be almost exclusively industrial.

7. Treasury financial management

7.1. Our view on financial markets

The MPC unanimously decided in July 2019 to cut the repo rate by 25 basis points to stimulate economic growth while noting the limitations of monetary policy in reviving a flagging economy with several structural obstacles impeding economic growth.

In the UK, the 2019 GDP growth forecast is 1.2% as estimated by the Office for Budget Responsibility ("OBR") while their medium-term forecast estimates a slight improvement to 1.6% by 2021. Furthermore, the OBR has estimated that CPI inflation will fall below 2.0% towards the end of 2020 and then retrace back to the 2.0% level into 2020.

The Bank of England has continued to hold the base rate at 0.75% as it awaits the outcome of the Brexit negotiations which should provide necessary guidance on the future of short-term interest rates in the UK.

7.2. Our approach to treasury financial management

We believe that the formation of and our adherence to a robust treasury policy is a cornerstone from which we are able to maximise stakeholder value. We employ guiding principles to evaluate the appropriateness of any financial decision made. Our six key guiding principles as outlined in our policy are outlined below together with the steps taken in the past six months to abide by these principles:

Principle		Application
(i)	Minimise the current cost of capital using an optimal mix of debt and equity	– Reduction in cost of debt in SA and the UK of 16 basis points and 19 basis points since February 2019 respectively – Continued to exploit pricing mismatches in the UK as evidenced in the additional £12.5 million loan drawn at an all-in fixed interest rate of 2.83%
(ii)	Diversify the sources of finance employed to fund operations	– Launched DMTN programme in February 2019 and issued R600m in unsecured notes and commercial paper – Nine financial institutions providing SA and UK bank funding, both on a secured and unsecured basis
(iii)	Phase the maturity of outstanding financial liabilities	– Increased weighted average term debt maturity profile from 3.4 years at August 2018 to 3.6 years at August 2019 – Phased the maturities of the R600m issued in terms of our DMTN programme across three financial years
(iv)	Ensure that strong liquidity is maintained	– Increase in undrawn facilities of R0.2 billion from August 2018 to R1.4 billion at August 2019 – Increase in unencumbered assets as a percentage of the property portfolio to 21.5% in August 2019 from 18.5% in February 2019 – Cash generated from operations has increased 89.5% from August 2018 to August 2019
(v)	Appropriately manage significant financial risks	– Maintained interest rate hedging levels well above 80% throughout the period under review – Increased duration of interest rate hedging instruments to 3.6 years at August 2019 from 3.4 years at August 2018 – Continued to reduce cross currency interest rate swap ("CCIRS") utilisation from 38.0% at August 2018 to 27.4% at August 2019
(vi)	Maintain a robust balance sheet which offers flexibility for future growth opportunities	– Actual LTV levels over the past five years have remained well below the 35% upper limit of the target range – LTV remained largely flat at 27% since February 2019 – Raised R750m in August 2019 through oversubscribed accelerated bookbuild at R20.22 per share

We have upheld these key principles which has culminated in a sound financial profile and disciplined capital allocation. This stout foundation continues to provide us with the necessary flexibility to pursue growth opportunities while ensuring that the existing base portfolio experiences the accretive benefits associated with more diversified and cost-effective funding sources.

Commentary (continued)

7.3. How we manage our capital structure

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for shareholders and reducing the cost of capital. As a REIT, we are required to declare at least 75% of our distributable earnings as a dividend. The board has decided (subject to the availability of cash resources and legislative requirements) to declare 100% of our distributable earnings as a dividend on a biannual basis for the foreseeable future. As a result of our dividend policy, capital expansion is funded through a combination of bank debt and equity funding. We also promote our dividend-reinvestment plan as a tax efficient mechanism to retain a proportion of the distribution for expansion.

We target an LTV of between 25% and 35% over time. LTV is determined based on the ratio of net debt to the fair value of property assets as follows:

	31 August 2019	31 August 2018	28 February 2019
Net debt (excluding derivative financial instruments):	**3 749 135**	**2 286 905**	**3 271 967**
Total assets	13 796 066	10 424 776	12 256 189
Less: assets related to net debt	(72 034)	(58 555)	(91 235)
Fair value of property assets:	**13 724 032**	**10 366 221**	**12 164 954**
LTV ratio:	**27.3%**	**22.1%**	**26.9%**

7.4. Our sources of debt funding

We have established several diversified sources of debt funding both in the UK and in SA and now have debt facilities of R5.2 bilion (Aug-18: R3.6 billion) across term facility agreements, unsecured listed and unlisted notes and commercial paper and working capital facilities. R1.4 billion (Aug-18: R1.2 billion) of these facilities are undrawn at the end of the period and are available to fund acquisitions and developments.

During the period under review, we remained resolute in taking advantage of pricing mismatches between the UK gilt curve and the GBP LIBOR forward curve and drew down the last tranche of £12.5m of a £48m loan facility with Aviva Commercial Finance Limited at an all-in fixed interest rate of 2.83%. A comparable GBP LIBOR 8-year forward rate at the time of drawdown was around 3.10%, 27 basis points higher than the contracted interest rate.

The following table shows the expiry profile of our debt funding facilities:

Expiry date	Facility amount (R'000)	Amount drawn (R'000)	Amount undrawn (R'000)	% of facility drawn
FY20	872 755	472 755	400 000	12.3%
FY21	1 068 540	877 501	191 039	22.8%
FY22	1 437 861	668 373	769 488	17.4%
FY23	432 115	432 115	–	11.3%
FY24 and beyond	1 389 891	1 389 891	–	36.2%
Total	**5 201 162**	**3 840 635**	**1 360 527**	**100.0%**

7.5. Our cost of debt capital

7.5.1. Factors affecting the cost of our debt capital

We place great focus on successfully executing strategies to minimise the cost of our debt capital to ensure that we maximise shareholder return. The factors that have affected the cost of our debt capital over the past six months are:

- Conservative LTV and strong ICR – our LTV remains one of the lowest among SA REITs and we continue to benefit from the conservative financial profile employed in disciplined capital management. Our ICR across the portfolio exceeds 3.5 times, demonstrating the ability to cover our ongoing debt service obligations;
- Credit rating upgrade – our long-term issuer credit rating was upgraded in August 2019 from A(za) to A+(za) which is expected to create further spread tightening with respect to our new issuances; and
- Growth in unencumbered assets – we have continued to reduce the extent of encumbered assets as a proportion of the overall portfolio and now have 21.5% of our portfolio unencumbered. This, combined with the fact that we had no unsecured debt prior to the registration of our programme, has positively influenced the appetite for our Senior Unsecured notes and commercial paper as evidenced in the spreads achieved on the R600m issued to date.

7.5.2. All-in effective cost of debt

Our all-in effective cost of debt has fallen 95 basis points to 5.76% since our last reporting period mainly as a result of the additional GBP debt funding but also due to the 16 basis points and 19 basis points decreases in the cost of debt capital in SA and in the UK respectively.

	31 August 2019	31 August 2018	28 February 2019
All-in ZAR effective fixed cost of debt	8.74%	9.03%	8.90%
All-in GBP effective fixed cost of debt	2.70%	2.86%	2.89%
All-in effective average fixed cost of debt	5.76%	7.99%	6.71%
Marginal ZAR effective cost of debt	8.50%	8.84%	8.76%
Marginal GBP effective cost of debt	2.52%	n/a*	n/a*

*No undrawn facilities at either reporting date.

Commentary (continued)

7.6. Financial risk management

7.6.1. Interest rate risk

We have continued to use a combination of natural hedges and derivative financial instruments to hedge our exposure to interest rate risk. Furthermore, we have also sought to negotiate fixed all-in interest rates where preferential rates are available.

An evaluation of the sufficiency of our hedge cover at 31 August 2019 has been performed as follows:

R'000	31 August 2019	31 August 2018
Interest rate swaps and collars	2 300 701	1 435 291
Cross currency interest rate swap	600 000	600 000
Embedded derivative	245 710	271 822
Fixed interest-bearing borrowings	889 890	390 978
Total hedge cover	**4 036 301**	**2 698 091**
Total interest-bearing borrowings	**3 821 168**	**2 345 460**
Hedge cover of term loan balances	**105.6%**	**115.0%**
Adjusted for:		
Capital commitments (and including development accruals)	1 438 729	2 114 803
Fixed all-in UK funding rate secured over capital commitments	–	(524 483)
Assets currently held-for-sale	–	(265 300)
Transaction to be settled via equity transaction	–	(197 053)
Financial assets held at fair value	(36 304)	(900)
Cash and cash equivalents on hand	(35 730)	(57 655)
Total committed future cash outflows	**5 187 863**	**3 414 872**
Total effective interest rate risk exposure hedged	**77.8%**	**79.0%**

At 31 August 2019, we had hedged 105.6% and 77.8% of the existing term loan balances and total committed future cash outflows respectively. A significant component of our contracted capital commitments pertains to ongoing development funding agreements which have an s-curve cash flow profile. The intention remains to hedge exposure to the remaining interest rate risk relating to these existing capital commitments as these developments progress.

7.6.2. Foreign exchange rate risk

We continued to implement our foreign exchange risk management policy which delineates our strategy towards foreign exchange rate risk.

Hedging net investment in foreign operation

Our treasury policy restricts the utilisation of CCIRSs to 45% of foreign denominated income-producing assets over time. We achieve this by continually monitoring our exposure to foreign exchange rates as a result of the investment into the UK. In the current financial year, we have effectively reduced our hedge cover over our investment into the UK by maintaining largely unchanged nominal values of the cross-currency interest rate swaps despite an increase in foreign denominated assets.

However, we maintain that the employment of CCIRSs continues to provide an effective hedge against the erosion of our net asset value due to foreign currency fluctuations.

The table below shows the carrying amounts of our UK assets which are currently hedged via derivative currency hedging instruments:

£'000	31-Aug-19	28-Feb-19	31-Aug-18	28-Feb-18	28-Feb-17
Carrying amount of UK assets	282 632	213 504	197 244	146 945	49 126
Nominal value of derivative currency hedging instruments	77 447	77 447	74 860	74 860	32 905
CCIRS hedged of foreign denominated assets	**27.4%**	**36.3%**	**38.0%**	**50.9%**	**67.0%**

Hedging distributable earnings and cash flow risk
Where possible, we continue to utilise natural hedges to minimise exposure to fluctuations in foreign exchange rates on our distributable earnings. We assess the likely impact on the funds to be received from our foreign operations of reasonably possible changes in the GBP/ZAR exchange rate using financial modelling and hedge our exposure to this exchange rate.

In line with the base hedging level policy, we have hedged net income to be received over the next 24 months as follows:

Six-month period ended	Effective hedging level	Blended participation floor	Blended participation cap
29 February 2020	80.4%	R19.55/£	R20.32/£
31 August 2020	70.0%	R20.00/£	R20.53/£
28 February 2021	45.0%	R20.24/£	R20.98/£
31 August 2021	30.0%	R20.20/£	R20.20/£

8. Transformation and B-BBEE

In our pursuit to remain a responsible corporate citizen, we fully recognise and acknowledge the importance of adhering to the country's B-BBEE policies in order to promote true transformation within a South African context. We are pleased to report that we have achieved a Level 4 B-BBEE rating for the second year in a row, with a verified black ownership of 54% and note that we will continue to find meaningful ways in which to improve our impact on the economy and society.

In order to achieve our transformational goals, we will focus on maintaining a transformed ownership register, promoting our employment equity principles in all hiring and restructuring decisions and promote our enterprise and supplier development programmes, which have been successful to date. In addition to these initiatives, we will continue to support the Michel Lanfranchi Foundation, which invests in educational initiatives including scholarships, bursaries, mentoring and educational infrastructure projects.

9. Sustainability

With greater awareness of the impact of buildings on the environment and natural resources, users are increasingly demanding high levels of environmental sustainability to minimise their environmental footprint and to reduce overall occupancy costs, particularly from electricity and water usage. We recognise the importance of developing and owning buildings which are sustainable during the build phase and, more importantly, in the long term. Equites' approach to sustainability is summarised in four key elements:

Investment

Prior to commencement, our development team assesses the long-term income generating ability of the building and how to guard against obsolescence, to ensure that the building is built for the long-term. A thorough cost analysis is performed to assess the value of "green" elements and to ensure that the development will create value for us, the users of the building, the community and the environment without placing unwarranted strain on the environment.

Design

Having recently completed our first building built to 4-star green rating standards, our aim is now to incorporate green building design in all our building schemes. Our base specification for all new builds is "EDGE certification ready". These builds incorporate energy saving elements such as energy efficient lighting and control, full LED fitting specifications and occupancy sensors and water saving elements such as efficient water fittings and rainwater harvesting systems.

Commentary (continued)

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

Construction

We carefully assess the waste which will be generated through the building phase and incorporate special disposal techniques, as necessary. As far as possible, resource efficient materials are selected throughout the build phase with a large focus on recycled content in the steel structure and reinforcement of concrete. We take cognisance of any natural water courses which may be affected by construction activity and the impact of construction on neighbouring properties and people and we aim to reduce any interruptions caused through typical construction activity.

Occupation

As the ongoing impact of the building is largely driven by the user, we incorporate all tenant aspirations in the design and construction of the building and utilise effective environmental and building management systems to monitor this impact. Innovations in sustainable building use which have been incorporated include rain harvesting systems to utilise rainwater where possible, the incorporation of LED lights to minimize electricity consumption and promotion of recycling and waste reduction at all of its premises. We have recently engaged in a water usage analysis programme across our portfolio – our intention is to make users aware of their consumption, host educational workshops with tenants to encourage responsible consumption and where necessary, contribute monetarily to any water saving devices within our existing buildings.

10. Prospects

The board had previous guided DPS growth of 8-10% for the full year. Given that there are no leases expiring for the remainder of this financial year and currency and interest rate exposures are largely hedged, the board is now satisfied that the company will likely achieve growth in the upper half of this guidance.

This guidance is based on the assumptions that a stable macro-economic environment will prevail, no major tenant failures will occur, and tenants will be able to absorb the recovery of rising utility costs and municipal rates. The forecast assumes no material adverse movement in the average GBP/ZAR exchange rate for the year ending February 2020. This forecast has not been reviewed or audited by Equites' auditors.

11. Subsequent events

Other than disclosed in this announcement, the group is not aware of any events that have a material impact on the results or disclosures of the group, which have occurred subsequent to the reporting period.

12. Basis of preparation

The condensed consolidated interim results for the six months ended 31 August 2019 are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting standards and are consistent with those applied in the previous annual financial statements except for the adoption of IFRS 16 Leases.

Bram Goossens (CA) SA, in his capacity as Chief Financial Officer, was responsible for the preparation of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements have not been reviewed or audited by our external auditors.

12.1. IFRS 16: Leases

Lessor accounting

The group acts as a lessor over all its leases over its Investment Property. These leases are classified as operating leases at lease inception. The group recognises lease payments received under an operating lease as income on a straight-line basis over the lease term as part of Gross Property Revenue.

Lessee accounting

The group recognises a right-of-use asset and a finance lease liability at the least commencement date. The right-of-use asset is measured at the initial amount of the finance lease liability adjusted for any lease payments made in advance, plus any initial direct costs incurred less any lease incentives received. A right-of-use asset in relation to leased land is recognised as Investment Property and a right-of-use asset in relation to leased office space is recognised as Property, Plant and Equipment.

The right-of-use asset recognised as Property, plant and Equipment is subsequently depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use asset recognised as Investment Property is subsequently measured at fair value.

The finance lease liability is initially measured at the present value of the future lease payments discounted using the group's incremental borrowing rate recognised in Trade and Other Payables. Lease payments included in the measurement of the finance lease liability comprise:

- Fixed payments, including in substance fixed payments; and
- Variable payments dependent on an index or a rate, initially measured using the index or rate as at the lease commencement date.

The finance lease liability is subsequently measured at amortised cost using the effective interest method.

Transition

The impact of the adoption is disclosed in note 9 of the condensed consolidated interim results for the six months ended 31 August 2019.

13. Declaration of an interim cash dividend with the election to reinvest the cash dividend in return for Equites shares

The board has approved, and notice is hereby given of the declaration of a gross interim dividend (dividend number 12) of 74.43284 cents per share.

Subject to final regulatory approvals, shareholders will be entitled, in respect of all or part of their shareholdings, to elect to reinvest the cash dividend in return for Equites shares and a circular containing details of the election to reinvest the cash dividend, accompanied by the requisite SENS announcements will be issued in due course.

The board in its discretion may withdraw the share reinvestment alternative should market conditions warrant such actions and such withdrawal will be communicated to shareholders via SENS.

By order of the Board

Equites Property Fund Limited
7 October 2019

Condensed consolidated statement of financial position

Equites Property Fund Limited and its subsidiaries as at 31 August 2019

R'000	Note	Unaudited 31 August 2019	Unaudited 31 August 2018	Audited 28 February 2019
Assets				
Non-current assets				
Fair value of investment property (excluding straight-lining)	5	13 211 238	9 619 713	11 721 087
Straight-lining lease income accrual	5	288 127	209 559	236 510
Derivative financial assets		31 936	85 224	38 692
Deferred tax asset		104 938	52 068	68 930
Property, plant and equipment		16 211	9 100	10 366
		13 652 450	**9 975 664**	**12 075 585**
Current assets				
Investment property held-for-sale		–	265 300	–
Trade and other receivables		54 257	103 148	110 640
Derivative financial assets		17 325	22 109	13 985
Financial assets held at fair value		36 304	900	2 278
Cash and cash equivalents		35 730	57 655	36 279
		143 616	**449 112**	**163 182**
Total assets		**13 796 066**	**10 424 776**	**12 238 767**
Equity and liabilities				
Equity and reserves				
Stated capital		7 854 027	6 050 250	7 026 680
Retained earnings		1 591 696	1 308 122	1 442 632
Foreign currency translation reserve		(37 551)	17 554	(19 361)
Share-based payment reserve		55 933	61 377	69 842
Total attributable to owners		**9 464 105**	**7 437 303**	**8 519 793**
Non-controlling interest		35 390	124 774	149 919
Total equity and reserves		**9 499 495**	**7 562 077**	**8 669 712**
Liabilities				
Non-current liabilities				
Loans and borrowings	6	3 338 681	2 092 217	3 232 837
Derivative financial liabilities		111 578	6 852	22 355
Other payables		29 342	–	2 240
		3 479 601	**2 099 069**	**3 257 432**
Current liabilities				
Loans and borrowings	6	482 487	253 243	77 687
Trade and other payables		322 286	446 905	200 108
Derivative financial liabilities		11 191	62 868	33 099
Current tax liability		1 006	614	729
		816 970	**763 630**	**311 623**
Total liabilities		**4 296 571**	**2 862 699**	**3 569 055**
Total equity and liabilities		**13 796 066**	**10 424 776**	**12 238 767**

Condensed consolidated statement of comprehensive income

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

R'000	Note	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Property revenue and tenant recoveries	3	440 841	297 447	701 000
Straight-lining of leases adjustment	5	51 617	38 207	65 158
Gross property revenue		**492 458**	**335 654**	**766 158**
Property operating and management expenses		(62 295)	(48 464)	(107 384)
Other net operating gains/(losses)		67 336	(145 481)	(81 959)
Administrative expenses		(26 213)	(17 397)	(42 413)
Fair value adjustments – investment property	5	124 173	117 492	220 212
Operating profit before financing activities		**595 459**	**241 804**	**754 615**
Finance costs	7	(143 782)	(16 486)	(70 731)
Finance income		2 342	7 179	3 223
Net profit before tax		**454 019**	**232 497**	**687 107**
Tax (expense) / income		35 846	12 237	28 854
Profit for the period		**489 865**	**244 734**	**715 960**
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss:				
Translation of foreign operations		(18 190)	329 977	293 062
Total comprehensive income for the period		**471 675**	**574 711**	**1 009 022**
Profit attributable to:				
Owners of the parent		485 848	226 076	669 856
Non-controlling interest		4 017	18 658	46 104
		489 865	**244 734**	**715 960**
Total comprehensive income attributable to:				
Owners of the parent		467 658	556 053	962 918
Non-controlling interest		4 017	18 658	46 104
		471 675	**574 711**	**1 009 022**
Basic earnings per share (cents)		95.4	52.4	149.6
Diluted earnings per share (cents)		95.0	52.3	148.8

Condensed consolidated statement of cash flows

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

R'000	Note	Unaudited 6 months ended 31 August 2019	Restated Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Cash flows from operating activities				
Profit before tax		454 019	232 497	687 106
Adjusted for:				
Finance costs		143 782	16 486	70 731
Finance income		(2 342)	(7 179)	(3 223)
Loss on disposal of investment property		–	664	4 947
Foreign exchange differences		1 976	–	(3 459)
Loss on disposal of property, plant and equipment		–	1 210	1 210
Straight-lining of leases adjustment		(51 617)	(38 207)	(65 158)
Fair value adjustments – investment property	5	(124 173)	(117 492)	(220 212)
Fair value adjustments – foreign exchange derivatives		4 096	210 578	199 402
Depreciation and amortisation		1 957	843	1 702
Equity-settled share-based payment charge		2 622	3 177	7 782
Working capital movements:				
Decrease / (Increase) in trade and other receivables		56 153	(34 306)	(48 611)
(Increase) / Decrease in foreign exchange derivatives[b]		(25 159)	1 453	46 080
Decrease in trade and other payables		(21 104)	(37 433)	(1 083)
Cash generated from operations		**440 210**	**232 291**	**677 214**
Finance costs paid	7	(49 753)	(14 702)	(51 243)
Finance income received		1 318	7 179	1 846
Tax paid		(253)	–	(734)
Dividends paid		(357 086)	(215 722)	(572 665)
Net cash flows generated from operating activities		**34 436**	**9 046**	**54 418**
Cash flows utilised by investing activities				
Acquisition of investment properties		(874 208)	(392 103)	(1 589 514)
Development of investment properties		(374 878)	(697 840)	(1 447 590)
Proceeds from disposal of investment properties		–	28 000	91 771
Purchases of current financial assets[a]		(320 000)	(210 000)	(210 000)
Proceeds on divestment of current financial assets[a]		287 000	210 000	210 000
Purchase and development of property, plant and equipment		(155)	(3 529)	(5 482)
Net cash flows utilised by investing activities		**(1 282 241)**	**(1 065 472)**	**(2 950 815)**
Cash flows from financing activities				
Proceeds from share issue (net of share issue costs)		749 519	791 840	1 497 705
Proceeds from share issue relating to dividend reinvestment programme		74 876	–	125 145
Repurchase of ordinary share capital		–	(114)	(114)
Acquisition of non-controlling interests		(98 245)	–	–
Proceeds from borrowings	6	2 005 445	1 013 225	3 732 162
Repayment of borrowings	6	(1 488 176)	(712 971)	(2 442 146)
Net cash flows raised from financing activities		**1 243 419**	**1 091 980**	**2 912 752**
Net (decrease) / increase in cash and cash equivalents		(4 386)	35 554	16 355
Effect on exchange rate movements in cash and cash equivalents		3 837	4 288	2 111
Cash and cash equivalents at the beginning of the period		36 279	17 813	17 813
Cash and cash equivalents at the end of the period		**35 730**	**57 655**	**36 279**

[a] This primarily consists of investments in and divestments of surplus cash held in money market funds.
[b] This relates to the income accrued and cash realised or settled in relation to foreign exchange derivative instruments.

Condensed consolidated statement of changes in equity

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

R'000	Stated capital	Retained earnings	Foreign currency translation reserve	Share based payment reseve	Total attributable to parent	Non-controlling Interest	Total
Balance at 1 March 2018	5 203 773	1 339 847	(312 423)	67 578	6 298 775	109 411	6 408 186
Profit for the period	–	226 076	–	–	226 076	18 658	244 734
Other comprehensive income	–	–	329 977	–	329 977	–	329 977
Shares issued for cash	799 454	–	–	–	799 454	–	799 454
Shares issued in terms of the dividend re-investment program	45 375	–	–	–	45 375	–	45 375
Shares issued in terms of the conditional share plan	9 378	–	–	(9 378)	–	–	–
Treasury shares acquired	(114)	–	–	–	(114)	–	(115)
Equity-settled share-based payment charge	–	–	–	3 177	3 177	–	3 177
Dividends distributed to shareholders	–	(257 801)	–	–	(257 801)	(3 295)	(261 096)
Share issue costs	(7 615)	–	–	–	(7 615)	–	(7 614)
Balance at 31 August 2018	**6 050 250**	**1 308 122**	**17 554**	**61 377**	**7 437 303**	**124 774**	**7 562 077**
Profit for the period	–	443 780	–	–	443 780	27 446	471 226
Other comprehensive income	–	–	(36 915)	–	(36 915)	–	(36 915)
Shares issued for cash	711 987	–	–	–	711 987	–	711 987
Shares issued in terms of the dividend re-investment program	79 770	–	–	–	79 770	–	79 770
Shares issued in terms of the conditional share plan	(3 860)	–	–	3 860	–	–	–
Equity-settled share based payment for the acquisition of land	194 653	–	–	–	194 653	–	194 653
Treasury shares acquired	–	–	–	–	–	–	–
Equity-settled share-based payment charge	–	–	–	4 605	4 605	–	4 605
Dividends distributed to shareholders	–	(309 269)	–	–	(309 269)	(2 300)	(311 569)
Share issue costs	(6 121)	–	–	–	(6 121)	–	(6 122)
Balance at 28 February 2019	**7 026 680**	**1 442 632**	**(19 361)**	**69 842**	**8 519 793**	**149 919**	**8 669 712**
Profit for the period	–	485 848	–	–	485 848	4 017	489 865
Other comprehensive income	–	–	(18 190)	–	(18 190)	–	(18 190)
Acquisition of subsidiary with non-controlling interests	–	–	–	–	–	1	1
Transaction with non-controlling interests	–	17 195	–	–	17 195	(115 440)	(98 245)
Shares issued for cash	750 000	–	–	–	750 000	–	750 000
Shares issued in terms of the dividend re-investment program	74 876	–	–	–	74 876	–	74 876
Shares issued in terms of the conditional share plan	6 702	–	–	(6 702)	–	–	–
Settlement of share-based payment transaction	–	–	–	(9 829)	(9 829)	–	(9 829)
Equity-settled share-based payment charge	–	–	–	2 622	2 622	–	2 622
Dividends distributed to shareholders	–	(353 979)	–	–	(353 979)	(3 107)	(357 086)
Share issue costs	(4 231)	–	–	–	(4 231)	–	(4 231)
Balance at 31 August 2019	**7 854 027**	**1 591 696**	**(37 551)**	**55 933**	**9 464 105**	**35 390**	**9 499 495**

Selected explanatory notes to the results

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

1. Earnings per share

This note provides the obligatory information in terms of IAS 33 Earnings per share and SAICA Circular 4/2018 for the group and should be read in conjunction with the distributable earnings note, where earnings are reconciled to distributable earnings. Distributable earnings determine the dividend declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
1.1 Basic earnings per share			
Shares in issue			
Number of shares in issue at end of year	544 889 587	454 026 221	503 416 786
Weighted average number of shares in issue	509 523 099	431 277 246	447 727 114
Add: weighted potential dilutive impact of conditional shares	2 056 588	1 091 186	2 305 592
Diluted weighted average number of shares in issue	511 579 687	432 368 432	450 032 706
Basic earnings per share	**cents**	**cents**	**cents**
Basic earnings per share	95.4	52.4	149.6
Diluted earnings per share	95.0	52.3	148.8
1.2 Headline earnings per share			
Reconciliation between basic earnings and headline earnings:	**R'000**	**R'000**	**R'000**
Earnings (profit attributable to owners of the parent)	485 848	226 076	669 856
Adjusted for:			
Fair value adjustments to investment properties	(124 173)	(117 492)	(220 212)
Less: Fair value adjustment to investment properties (NCI)	(202)	13 050	33 825
Loss on sale of non-current assets	–	1 874	6 157
Headline earnings	**361 473**	**123 508**	**489 626**
Headline earnings per share:	**cents**	**cents**	**cents**
Headline earnings per share	70.9	28.6	109.4
Diluted headline earnings per share	70.7	28.6	108.8

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

Accounting policy

The company has established strict guidelines regarding its distribution policy to ensure that the distributable earnings is a fair reflection of sustainable earnings; this comprises property related income net of property related expenditure, interest expense and administrative costs.

The principles encompassed in the calculation below are aligned with the best practice recommendations established by the SA REIT Association published in 2016 and the guidelines further developed in the revised best practice recommendations which are currently available for public comment.

As distributable earnings is a measure of core earnings, the company has adjusted for the following key items in the determination of this metric:
- certain non-cash and accounting adjustments;
- gains or losses on the disposal of assets and the associated tax treatment;
- certain foreign exchange and hedging items; and
- antecedent earnings adjustment.

The specific adjustments are detailed in the statement of distributable earnings presented below. All of these adjustments are derived from the face of the income statement presented and the notes accompanying these financial statements.

R'000	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Profit for the period (attributable to owners of the parent)	485 848	226 076	669 856
Adjusted for:			
Fair value adjustments to investment properties	(124 173)	(117 492)	(220 212)
Less: Fair value adjustment to investment properties (NCI)	(202)	13 050	33 825
Loss on sale of investment property and property, plant and equipment	–	1 874	6 157
Headline earnings	**361 473**	**123 508**	**489 626**
Adjusted for:			
Straight-lining of leases adjustment	(51 617)	(38 207)	(65 158)
Less: Straight-lining of leases adjustment (NCI)	5 882	3 633	7 616
Fair value adjustments to derivative financial assets and liabilities	95 279	210 578	214 479
Less: Fair value adjustments to derivative financial assets and liabilities (NCI)	–	1 495	520
Equity-settled share-based payment reserve	2 622	3 177	7 782
Capital items non-distributable	1 652	1 933	(5 351)
Deferred taxation	(36 378)	(12 697)	(30 186)
Antecedent dividend*	26 665	15 846	77 575
Distributable earnings	**405 577**	**309 266**	**696 903**

* In the determination of distributable earnings, the group elects to make an adjustment for the antecedent dividend arising as result of the issue of shares during the period for which the company did not have full access to the cash flow from such issue. The antecedant dividend has been calculated in line with financial reporting periods.

Number of shares in issue at period-end	544 889 587	454 026 221	503 416 786

2.2 Dividends declared and distribution per share

Total distribution for the year – 2020	Cents per share	R'000
Interim dividend declared on 7 October 2019 (Dividend number 12)	74.43	405 577
Interim distribution for the period ended 31 August 2019	**74.43**	**405 577**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

3. Segment information

Accounting Policy

The group identifies and presents operating segments based on the information that is provided internally to the chief operating decision maker ("CODM") which comprises the executive directors ("exco"). The CODM allocates resources and assesses the performance of the reportable segments of the group.

The group has assessed its operations and determines its segments as follows:
South African Industrial – South African industrial and logistics assets and development sites.
United Kingdom Industrial – completed buildings and development sites in the UK.
Other – all treasury functions, corporate costs and two commercial properties are included in this segment.

Equites generates its revenue from properties in South Africa and the UK. The geographic analysis of revenue is based on the country where the building is situated, and therefore where the rental income is derived. The SA and UK markets differ in terms of market risk, political risk and the processes for the purchase and letting of assets. For this reason, the CODM analyses the assets in these market separately and allocates resources according to this analysis.

The CODM primarily uses a measure of revenue and operating profits to assess the performance of the operating segment. The CODM also receives information regarding revenue and assets on a monthly basis.

Based on the nature of the business and the factors discussed above, the following segments are presented:
- SA industrial assets
- UK industrial assets
- Other

The segment information for the period ended 31 August 2019 is set out below:

	Reportable segments			
R'000	SA Industrial	UK Industrial	Other	Total
Statement of profit or loss and other comprehensive income				
Segment revenue	308 960	106 605	25 275	**440 841**
Fair value adjustments – investment property	99 685	29 829	(5 341)	**124 173**
Operating profit before financing activities	497 990	110 788	(13 319)	**595 459**
Finance income	2 288	54	–	**2 342**
Finance costs	(128 825)	(14 957)	–	**(143 782)**
Tax (expense) / income	–	35 846	–	**35 846**
Statement of financial position				
Investment property	8 206 870	5 132 799	159 696	**13 499 365**
Loans and borrowings	2 407 548	1 413 620	–	**3 821 168**
Total assets	8 377 031	5 239 713	179 322	**13 796 066**
Total liabilities	2 628 952	1 667 619	–	**4 296 571**

The segment information for the period ended 31 August 2018 is set out below:

R'000	SA Industrial	UK Industrial	Other	Total
	Reportable segments			
Statement of profit or loss and other comprehensive income				
Segment revenue	236 553	54 532	6 361	**297 447**
Fair value adjustments – investment property	34 806	83 995	(1 309)	**117 492**
Operating profit before financing activities	178 680	60 576	2 549	**241 804**
Finance income	7 178	–	–	**7 178**
Finance costs	(11 767)	(4 718)	–	**(16 486)**
Tax (expense) / income	–	12 237	–	**12 237**
Statement of financial position				
Investment property	6 159 660	3 619 612	50 000	**9 829 272**
Non-current assets held for sale	205 300	–	60 000	**265 300**
Loans and borrowings	1 388 377	957 083	–	**2 345 460**
Total assets	6 552 918	3 761 858	110 000	**10 424 776**
Total liabilities	1 553 629	1 309 070	–	**2 862 699**

The segment information for the year ended 28 February 2019 is set out below:

R'000	SA Industrial	UK Industrial	Other	Total
	Reportable segments			
Statement of profit or loss and other comprehensive income				
Segment revenue	532 142	153 232	15 626	**701 000**
Fair value adjustments – investment property	193 992	25 469	751	**220 212**
Operating profit before financing activities	559 042	189 099	6 473	**754 614**
Finance income	3 209	14	–	**3 223**
Finance costs	(52 454)	(18 277)	–	**(70 731)**
Tax (expense) / income	–	28 854	–	**28 854**
Statement of financial position				
Investment property	7 877 204	3 915 865	164 527	**11 957 597**
Loans and borrowings	2 093 005	1 217 518	–	**3 310 523**
Total assets	8 075 299	3 987 185	176 283	**12 238 767**
Total liabilities	2 262 521	1 260 549	45 985	**3 569 055**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

4. Fair value measurement

IFRS 13 requires that an entity discloses for each class of financial instruments and investment property measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

All assets and liabilities measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement as follows:

Level 1 – measurements in whole or in part are done by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Level 2 – measurements are done by reference to inputs other than quoted prices that are included in level 1.
These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).
Level 3 – measurements are done by reference to inputs that are not based on observable market data .

	31 August 2019			
Figures in R'000s	Fair value	Level 1	Level 2	Level 3
Assets				
Non-financial assets at fair value – investment properties	13 499 366	–	–	13 499 366
Financial assets held at fair value	36 304	–	36 304	–
Derivative financial assets	49 262	–	49 262	–
	13 584 931	–	85 566	13 499 366
Liabilities				
Derivative financial liabilities	122 769	–	122 769	–
	122 769	–	122 769	–

	31 August 2018			
Figures in R'000s	Fair value	Level 1	Level 2	Level 3
Assets				
Non-financial assets at fair value – investment properties	10 094 572	–	–	10 094 572
Financial assets held at fair value	900	–	900	–
Derivative financial assets	107 333	–	107 333	–
	10 202 805	–	108 233	10 094 572
Liabilities				
Derivative financial liabilities	69 720		69 720	
	69 720	–	69 720	–

	28 February 2019			
Figures in R'000s	Fair value	Level 1	Level 2	Level 3
Assets				
Non-financial assets at fair value – investment properties	11 957 597	–	–	11 957 597
Financial assets held at fair value	2 278	–	2 278	–
Derivative financial assets	52 677	–	52 677	–
	12 012 553	–	54 956	11 957 597
Liabilities				
Derivative financial liabilities	55 454	–	55 454	–
	55 454	–	55 454	–

Details of valuation techniques

Investment property

The fair value of investment properties is updated at each reporting period either by way of external valuations or directors' valuations. At 31 August 2019, the group externally valued seven of its largest properties, one from each of the major logistics nodes. Furthermore, the directors valued all other properties using the discounted cash flow ("DCF") method and tested the reasonability of those values through an analysis of the implied income capitalisation rate. The assumptions used in the DCF valuations are derived from external observable evidence, including SAPOA and MSCI published guidelines in SA and the Gerald Eve Prime Logistics reports in the UK.

Derivative financial assets and liabilities

Interest rate and cross-currency interest rate swaps

The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the group and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

Two key inputs to the valuation of investment property are the exit capitalisation rate and the discount rate. The table below illustrates the sensitivity of the fair value to changes in assumptions:

Sensitivity analysis to capitalisation rates

R'000	**Unaudited**
Increase in fair value if discount rates are decrease by 20 basis points	95 679
Decrease in fair value if discount rates are increased by 20 basis points	(94 675)
Increase in fair value if exit capitalisation rates are decrease by 10 basis points	135 204
Decrease in fair value if exit capitalisation rates are increased by 10 basis points	(131 236)

There were no transfers between Level 1, 2 or 3 during the year.

Commentary (continued)

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

5. Investment property

R'000	Unaudited 31 August 2019	Unaudited 31 August 2018	Audited 28 February 2019
Investment property (excluding straight-lining)	11 464 977	8 223 188	10 028 625
Investment property under development and available land	1 723 929	1 396 525	1 692 462
Investment property held for sale	–	265 300	–
Right of use asset	22 332	–	–
Fair value of investment property (excluding straight-lining)	**13 211 238**	**9 885 013**	**11 721 087**
Straight-lining lease income accrual	288 127	209 559	236 510
Fair value of investment property (including straight-lining)	**13 499 365**	**10 094 572**	**11 957 597**

Reconciliation of investment property

		South Africa		United Kingdom	
R'000	Note	Industrial	Other	Industrial	Total
Balance as at 28 February 2018		5 441 551	117 019	2 341 128	7 899 697
Acquisitions		430 609	–	92 126	522 736
Improvements and extensions		7 561	97	594	8 252
Construction and development costs		233 456	–	705 755	939 212
Transfers		(205 300)	(60 000)	–	(265 300)
Letting commission capitalised		1 611	–	4 172	5 783
Fair value adjustment		44 640	(11 143)	83 995	117 492
Foreign exchange movements		–	–	391 841	391 841
Balance as at 31 August 2018		**5 954 129**	**45 973**	**3 619 612**	**9 619 713**
Acquisitions		1 149 432	112 000	–	1 261 432
Improvements and extensions		27 413	423	1 536	29 372
Construction and development costs		156 425	–	371 520	527 944
Transfers		205 300		–	205 300
Letting commission capitalised		1 838	–	–	1 838
Letting commission amortised		(238)	–	–	(238)
Fair value adjustment		149 352	11 894	(58 526)	102 720
Disposals		–	(8 717)	–	(8 717)
Foreign exchange movements		–	–	(18 276)	(18 276)
Balance as at 28 February 2019		**7 643 650**	**161 573**	**3 915 865**	**11 721 088**
Change in accounting policy	9	23 624	–	–	23 624
Restated balance as at 1 March 2019		**7 667 274**	**161 573**	**3 915 865**	**11 744 712**
Acquisitions		–	–	1 051 730	1 051 730
Improvements and extensions		17 679	23	1 850	19 552
Construction and development costs		134 863	–	162 154	297 017
Letting commission capitalised		3 500	–	3 305	6 805
Letting commission amortised		(817)	–	(312)	(1 129)
Fair value adjustment		99 107	(4 763)	29 829	124 173
Foreign exchange movements		–	–	(31 622)	(31 622)
Balance as at 31 August 2019		**7 921 606**	**156 833**	**5 132 799**	**13 211 238**

6. Loans and borrowings

Reconciliation of movement in loans and borrowings

R'000	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Opening balance	3 310 524	1 942 669	1 942 669
Non-current borrowings	3 232 837	1 887 730	1 887 730
Current borrowings	77 687	54 939	54 939
Proceeds from borrowings	2 005 445	1 013 226	3 732 162
Repayment of borrowings	(1 488 176)	(712 971)	(2 442 146)
Interest amortisation	1 933	246	638
Increase in interest accrual	–	1 538	12 304
Interest accrual reclassified to other payables	–	–	(18 089)
Foreign exchange movement	(8 558)	100 752	82 985
Closing balance	**3 821 168**	**2 345 460**	**3 310 524**
Non-current borrowings	3 338 681	2 092 217	3 232 837
Current borrowings	482 487	253 243	77 687

7. Finance costs

R'000	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Interest expense on borrowings	114 603	62 520	165 443
Finance costs relating to interest rate derivatives	4 302	6 723	6 611
Fair value movement on interest rate derivatives	91 183	–	15 077
Interest on utility accounts and other	111	1	129
Borrowing costs capitalised to investment property[a]	(66 417)	(52 758)	(116 529)
Finance costs	**143 782**	**16 486**	**70 731**

[a] The capitalisation rate applied during the period was 8.9% in relation to general borrowings and 2.9% in relation to specific borrowings.

Reconciliation of finance costs expense to finance costs paid

Interest accrued opening balance	19 853	10 497	10 497
Finance costs	143 782	16 486	70 731
Derivative settlement	–	–	5 583
Fair value movement on interest rate derivatives	(91 183)	–	(15 077)
Interest amortisation	(1 933)	(246)	(638)
Interest accrued closing balance	(20 766)	(12 035)	(19 853)
Finance costs paid during the year	**49 753**	**14 702**	**51 243**

Commentary (continued)

Equites Property Fund Limited and its subsidiaries for the period ended 31 August 2019

8. Related parties

Related party relationships exist between the company, its subsidiaries, directors as well as their close family members, and key management of the company.

In the ordinary course of business, the company entered into the following transactions with related parties:

R'000	Unaudited 6 months ended 31 August 2019	Unaudited 6 months ended 31 August 2018	Audited 12 months ended 28 February 2019
Fees paid to BTKM (Pty) Ltd (in which Nazeem Khan is a Director)	185	625	60
Fees paid to Automotion – Sweet Sensation 46 (Pty) Ltd (in which Kevin Dreyer is a Director)	18	–	–

9. Change in accounting policies

9.1 Cash flow disclosure

During the prior year, the group reassessed how it deploys cash to fund its development activity. As part of this assessment, it was identified that interest capitalised to projects was shown in operating activities in the statement of cash flows while the other development costs were included within investing activities. The group therefore has restated the statement of cash flows to include interest capitalised to projects as an investing activities together with the other development costs. The group believes that this change in accounting policy results in financial statements which provide more relevant information about the effect of these transactions on its statement of cash flows.

The impact on the presentation of the statement of cash flows is as follows:

R'000	31 August 2018 As reported	Movement	31 August 2018 Restated
Cash flows from operating activities			
Finance costs paid	(67 460)	52 758	(14 702)
Net cash flows generated (utilised) from operating activities	**(43 712)**	**52 758**	**9 046**
Cash flows from investing activities			
Development of investment properties	(645 082)	(52 758)	(697 840)
Net cash flows utilised by investing activities	**(1 012 714)**	**(52 758)**	**(1 065 472)**

9.2 Adoption of IFRS 16

The group has adopted IFRS 16 from 1 March 2019, but has not restated comparatives for the 2019 financial year, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balances as at 1 March 2019.

On adoption of IFRS 16, the group recognises lease liabilities in relation to the leases which had been previously classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 March 2019. The incremental borrowing rate applied to the lease liabilities on 1 March 2019 was 8.8%.

The group has used the following practical expedients permitted by the standard:
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Lessor accounting

The group did not need to make any adjustment to the accounting for assets held under operating leases as a result of the adoption of IFRS 16.