URBAN RENEWAL

Octodec

INVESTMENTS LIMITED

REVIEWED CONDENSED CONSOLIDATED
PROVISIONAL RESULTS OF THE GROUP
FOR THE YEAR ENDED 31 AUGUST 2015

HIGHLIGHTS

DISTRIBUTIONS UP BY

7,7% TO **189,2 cents**

PER SHARE

CORE PORTFOLIO GROWTH IN RENTAL INCOME OF **6,7%**

MERGER WITH PREMIUM PROPERTIES LIMITED SUCCESSFULLY IMPLEMENTED

INCREASE OF **12,5%**

IN NET ASSET VALUE TO **R27,69** PER SHARE

DIRECTORS' COMMENTARY

Introduction

Octodec Investments Limited (Octodec or the group) is listed on the JSE Limited (JSE) as a Real Estate Investment Trust (REIT), with a portfolio of 330 properties in Gauteng valued at R11,4 billion as well as three equity-accounted investments, with its 50% interest in these investments valued at R161,3 million.

Octodec invests in the residential, retail, shopping centre, industrial and office property sectors and all of its properties are situated in Gauteng. The asset, property management and company secretarial functions of Octodec are contracted to City Property Administration Proprietary Limited, one of South Africa's leading property asset management companies.

The rental received from the property portfolio, including the distributable income from equity-accounted investments, less operating costs, interest on debt and normal taxation, is distributed to shareholders bi-annually. Octodec does not distribute capital profits.

Review of results

During the year under review, Octodec delivered good results despite the tough business environment and muted economic growth. The property portfolio continued to deliver growth in earnings, with an increase in rental income following a number of successful upgrades of properties and a proactive approach to letting. The total distribution per share for the year of 189,2 cents (2014: 175,7 cents) represents an increase of 7,7% on that paid in the comparative year. The dividend exceeds the dividend of 187,4 cents per share, which was forecasted in the merger circular dated 1 July 2014.

In the determination of distributable earnings Octodec may elect to make an adjustment for the antecedent dividend arising as a result of the issue of shares during the period for which the entity did not have full access to the cash flow from such issue. In order to limit the total dividend payment to only distributable earnings for the year, Octodec has, however, elected not to add back the antecedent dividend when determining its distributable earnings. Had Octodec elected to add back the antecedent dividend, the distributable earnings would have increased by R11,8 million.

The increase in revenue was mainly due to the merger with Premium Properties Limited (Premium), contractual escalations, improved letting and an increase in the recovery of utility and assessment rate charges. The residential portfolio continued to perform ahead of expectation. The core growth in residential rental income was 6,0%, with core vacancies at below 3,5% of gross lettable area (GLA). The year saw a slight improvement in the industrial rental market and a decrease in vacancies. One of the primary objectives continued to be the improvement of existing properties in order to attract new tenants. The ratio of net property expenses (property expenses less recoveries) to rental income for the group was maintained at 31,0%. Bad debt write-offs and provisions during the year were at 0,5% (2014: 1,0%) of total tenant income. Arrears and doubtful debt provisions remain at acceptable levels as a result of tight credit risk management, and no significant deterioration is anticipated.

Merger with Premium Properties Limited

The merger between Octodec and Premium was implemented on 1 September 2014 by way of a Scheme of Arrangement in terms of section 114(1)(d) of the Companies Act of South Africa (the Scheme). In terms of the Scheme, Octodec acquired all the issued Premium linked units that it did not already own. Premium unitholders received 88,5 Octodec shares for every 100 Premium linked units held. Premium became a wholly owned subsidiary of Octodec and was delisted from the JSE on 22 September 2014.

Octodec's associate company IPS Investments Proprietary Limited (IPS), which was previously 50% held and accounted for using the equity method, is now 100% held as a result of the merger and was consolidated from 1 September 2014.

The merger created the most significant residential property portfolio of any REIT listed on the JSE. The enlarged group enabled Octodec to undertake larger developments such as Centre Forum. Further, the merger resulted in more efficient use of management time through the reduction of the administrative burden of operating two separately listed entities.

For further details please refer to the circular dated 1 July 2014, relating to the Scheme, as well as the August 2014 Integrated Report, both of which are available on the Octodec website.

Business combination

A gain of R319,6 million was recognised on the acquisition of Premium as follows:

	R'000
Consideration	–
Equity instruments (119 055 519 ordinary shares of Octodec)	**2 619 221**
Total consideration transferred	**2 619 221**
Fair value of equity interest held before the business combination	**405 698**
	3 024 919
Acquisition-related costs (these costs were set off against stated capital in the year of the acquisition due to these costs being directly attributable to the issue of Octodec's own equity instruments).	**17 686**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Investment properties	**4 860 151**
Other non-current assets	**739 014**
Trade and other receivables	**31 754**
Cash	**121 648**
Financial liabilities	**(2 408 001)**
Total identifiable net assets	**3 344 566**
Gain on bargain purchase	**(319 647)**
Acquisition date fair value of consideration paid	**3 024 919**

PROPERTY PORTFOLIO

Developments

There were four major projects under construction during the year. The total cost of these projects is approximately R681,2 million, of which an amount of R288,3 million had already been spent by 31 August 2015.

Details of these projects are:

- The redevelopment of Frank's Place, previously Bosman Place, which is situated in the Johannesburg CBD, was completed in May 2015. The redeveloped property consists of a retail component and residential units. The offices were converted into 225 residential units at a cost of R130,1 million. The fully let initial annual yield is expected to be 8,1%.
- The second phase of the redevelopment of the mixed-use property, Silver Place, situated in Silverton, Tshwane, consists of the redevelopment of the retail component. The total cost of the retail project is R57,3 million. The project was completed in July 2015 at an expected fully let annual yield of 8,3%, commencing in February 2017.

- The development of a mixed-use property, 1 on Mutual, situated adjacent to Church Square in the Tshwane CBD. This project consists of 142 residential units, ground floor retail premises and parking. The total cost of the project is R146,4 million and it is expected to be completed in April 2016 at a fully let initial annual yield of 7,6%.
- Octodec commenced with the redevelopment of Centre Forum which is situated adjacent to the new Tshwane House municipal development in the Tshwane CBD. This residential development will consist of 400 units as well as ground floor retail and parking. The total cost of this project is R347,4 million and is expected to be completed in March 2017 at a fully let initial annual yield of 8,1%.

These projects will not only enhance the value of the portfolio, but will also contribute to the upliftment of the Tshwane and Johannesburg CBDs.

Acquisitions and disposals

Octodec acquired seven properties during the year for a total consideration of R109,4 million. The most significant of these is Reinsurance House, situated in the Johannesburg CBD, and a 50% undivided share in a property situated in Sunninghill, Johannesburg, on which a residential development, called The Manhattan, will be constructed. The purchase consideration for Reinsurance House amounted to R33,5 million. This property was transferred to Octodec in March 2015. This office block will be converted into residential units at a cost of approximately R100 million. The fully let initial annual yield is expected to be 8,5%. The 50% undivided share in the Sunninghill property was acquired for an amount of R10,2 million and the estimated cost to the group of this residential development is R78 million. Octodec disposed of three non-core properties during the year for a total consideration of R15,9 million.

Vacancies

Vacancies in the Octodec portfolio at 31 August 2015, including properties held for redevelopment, amounted to 14,8% (2014: 16,7%) of gross lettable area. The core vacancies, which exclude gross lettable area relating to properties held for development and those which are currently being redeveloped, amount to 8,8% (2014: 11,5%). In order to provide a more meaningful comparison of vacancies, the analysis set out below includes the vacancies of Premium and its subsidiaries' properties acquired in the merger as at 1 September 2014.

	Total lettable area m^2	Total vacancies %	Properties held for redevelopment %	Core vacancies %
31 August 2015				
Offices	**475 078**	**30,9**	**(18,4)**	**12,5**
Retail – Shops	**467 628**	**12,4**	**(1,7)**	**10,7**
Retail – Shopping centres	**91 502**	**0,7**	**–**	**0,7**
Industrial	**315 192**	**9,3**	**(0,6)**	**8,7**
Residential	**367 198**	**5,3**	**(1,8)**	**3,5**
Total	**1 716 598**	**14,8**	**(6,0)**	**8,8**
1 September 2014				
Offices	479 225	29,4	(9,0)	20,4
Retail – Shops	459 606	14,2	(5,3)	8,9
Retail – Shopping centres	89 543	1,6	–	1,6
Industrial	290 481	13,7	(1,5)	12,2
Residential	344 663	9,0	(4,3)	4,7
Total	1 663 518	16,7	(5,2)	11,5

Most properties in the Octodec portfolio remained fully let. As expected, a number of properties under development, or those which were recently upgraded, had vacancies.

In recent years, certain properties, such as Frank's Place, were acquired with high vacancy levels. These properties offer significant redevelopment opportunities which value will be realised over time. As the opportunities arise, the value of these vacancies is being realised. Octodec was successful in letting a number of properties that had been vacant for a considerable period. The residential vacancies consist, as anticipated, of vacant units mainly at Frank's Place, which was recently developed.

Borrowings and working capital

Octodec successfully raised R390 million of new equity through an accelerated bookbuild that was significantly oversubscribed. Due to strong investor demand, the amount raised was increased from the initial published amount of R300 million to R390 million through placing 15 918 367 shares at a price of R24,50 per share on 22 July 2015.

The capital raised will be used to partially fund the group's acquisitions and development pipeline.

The group's loan to value ratio (LTV), measured by dividing the value of interest-bearing borrowings (net of cash) by the fair value of its investment portfolio at 31 August 2015, was 37,3% (31 August 2014: 33,7%).

The exposure to interest rate risks in respect of 94,2% (31 August 2014: 66,1%) of outstanding borrowings at 31 August 2015 is managed through derivative financial instruments maturing at various dates in 2017, 2018 and 2019. Interest rate swap contracts were concluded in respect of an additional amount of R1,25 billion during the year for a four-year term. Octodec took advantage of a temporary decrease in forward interest rates. The all-in average weighted interest rate of all borrowings is 8,9% per annum. Details of borrowings are set out in the table below:

	Amount R'million	Weighted average interest rate per annum %
Fixed rate borrowings	577,8	10,59
Variable rate borrowings	3 803,0	7,73
Total borrowings	4 380,8	8,10
Cost of swaps	–	0,80
Total borrowings	4 380,8	8,90

Interest rate swap expiry	Amount R'million	Weighted average margin over/(below) variable rate per annum %
February 2017	650	1,46
May 2017	50	2,12
June 2017	100	2,00
July 2017	100	1,59
August 2017	350	1,50
September 2017	100	1,31
January 2018	150	1,43
April 2018	200	(0,62)
May 2018	50	2,13
July 2018	400	1,34
August 2018	150	1,20
November 2018	500	0,70
January 2019	750	0,23
	3 550	0,99

Octodec participates in the debt capital market (DCM) through its subsidiary, Premium, which increased the size of its bond programme from R1 billion to R3 billion in March 2015. This will allow the group to increase its issuance capacity in the DCM. As at the date of this report the total issuance was at R669 million, or 15,3% of the group's borrowings. Global Credit Rating's long and short national scale ratings of Premium were maintained at A- (ZA) and A1- (ZA) respectively.

Octodec had unutilised banking facilities amounting to R420 million at 31 August 2015. Subsequent to year-end additional banking facilities have been put in place, amounting to R650 million.

Revaluation of property portfolio

It is the group's policy to perform directors' valuations of all the properties at the interim stage and at year-end. The valuations are based on the income capitalisation method, which is consistent with the basis used in prior years. The internal valuation of the portfolio of R11,4 billion represents an increase in the valuation amounting to R486,1 million or 4,5% for the twelve-month period ended 31 August 2015.

The increase in the valuation contributed to the 12,5% increase in the net asset value (NAV) to R27,69 per share.

Changes to the directorate

Messrs Michael Holmes, David Rose and Ian Stern were appointed to the Octodec board as independent non-executive directors, and formed an independent sub-committee, which was established for the sole purpose of considering the acquisition by Octodec of the entire linked unit capital of Premium it did not already own (the Transaction). Their appointment to the Octodec board was for the period 13 May 2014 until the effective date of the Transaction. The Transaction was approved by the Competition Tribunal on 3 September 2014. All the conditions precedent relating to the Transaction were then fulfilled. Messrs Holmes, Rose and Stern's appointments accordingly came to an end with effect from 3 September 2014.

Prospects

A number of redevelopments of certain existing properties are underway, which should enhance the quality of the property portfolio and result in sustainable growing dividends in the future. Growth in the local economy is expected to remain subdued in the short to medium term. Barring unforeseen events, current indications are that the dividend per share for the twelve-month period ending 31 August 2016 should increase by between 6% and 8% compared to the prior comparative year.

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

DECLARATION OF DIVIDEND 51 (THE DISTRIBUTION)

Notice is hereby given that dividend number 51 of 92,4 cents (2014: 87,1 cents) per share (out of income reserves) has been declared for the period 1 March 2015 to 31 August 2015, payable to shareholders recorded in the register on Friday, 27 November 2015.

Salient dates relating to the dividend

Last date to trade (LDT) cum dividend	Friday, 20 November 2015
Commence trading ex dividend	Monday, 23 November 2015
Record date	Friday, 27 November 2015
Payment date	Monday, 30 November 2015

No dematerialisation or rematerialisation of share certificates may take place between Monday, 23 November 2015 and Friday, 27 November 2015, both days inclusive.

As Octodec has REIT status, shareholders are advised that the distribution meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No 58 of 1962 (Income Tax Act). The distribution to Octodec shareholders will be deemed to be taxable dividends, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

Tax implications for South African tax residents

Distributions received by or accrued to South African tax residents must be included in the gross income of such shareholders and are not exempt from income tax in terms of the exclusion to the general dividend exemption contained in section 10(1)(k)(i)(aa) of the Income Tax Act, because they are dividends distributed by a REIT. These distributions are, however, exempt from dividend withholding tax (dividend tax) in the hands of South African tax resident shareholders, provided that the South African tax resident shareholders have submitted the following forms to the Central Securities Depository Participant (CSDP) or broker, as the case may be, in respect of uncertificated shares, or the transfer secretaries, in respect of certificated shares:

- a declaration that the distribution is exempt from dividend tax;
- 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 cease to be the beneficial owner; and
- both in the form prescribed by the Commissioner for the South African Revenue Service (SARS).

Octodec shareholders are advised to contact their CSDP or broker, as the case may be, to arrange for the abovementioned documents to be submitted prior to the payment of the distribution.

Tax implications for non-resident shareholders

Distributions received by non-resident shareholders will not be taxable as income and, instead, will be treated as ordinary dividends, which are exempt from income tax in terms of the general dividend exemption section 10(1)(k)(i) of the Income Tax Act. It should be noted that, up to 31 December 2013, distributions received by non-residents from a REIT were not subject to dividend tax. With effect from 1 January 2014, any distribution received by a non-resident from a REIT will be subject to dividend tax at 15%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation agreements (DTA) between South Africa and the country of residence of the non-resident shareholder. Assuming dividend tax will be withheld at a rate of 15%, the net amount due to non-resident shareholders is 78,54 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has submitted the following forms to his/her CSDP or broker, as the case may be, in respect of uncertificated shares, or the transfer secretaries, in respect of certificated shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of the DTA; and
- a written undertaking to inform the CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;
- both in the form prescribed by the Commissioner of SARS.

If applicable, non-resident shareholders are advised to contact the CSDP, broker or the transfer secretaries, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Shareholders are encouraged to consult with their professional advisors should they be in any doubt as to the appropriate action to take.

The number of shares in issue at the date of this declaration is 252 321 784 and Octodec's tax reference number is 9925/033/71/5.

By order of the board

S WAPNICK
Chairman

JP WAPNICK
Managing director

3 November 2015

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Reviewed 31 August 2015	Audited 31 August 2014
ASSETS		
Non-current assets	**11 644 922**	4 588 352
Investment properties	**11 265 331**	3 428 348
Plant and equipment	**8 646**	3 677
Operating lease assets	**114 773**	43 159
Lease costs capitalised	**60 407**	33 181
Derivative financial instruments	**34 451**	–
Listed investment	**–**	405 698
Investment in joint ventures/associate	**161 314**	674 289
Current assets	**158 091**	67 378
Total assets	**11 803 013**	4 655 730
EQUITY AND LIABILITIES		
Share capital and reserves	**6 987 679**	2 889 449
Stated capital	**3 907 819**	918 478
Non-distributable reserves	**2 799 231**	1 928 522
Distributable reserves	**280 629**	42 449
Non-current liabilities	**3 012 937**	1 284 832
Interest-bearing borrowings	**2 917 174**	1 263 932
Derivative financial instruments	**22 778**	13 797
Deferred taxation	**72 985**	7 103
Current liabilities	**1 802 397**	481 449
Interest-bearing borrowings	**1 463 699**	287 831
Non-interest-bearing borrowings	**335 216**	91 408
Dividends payable	**3 482**	102 210
Total equity and liabilities	**11 803 013**	4 655 730
Shares in issue ('000)	**252 322**	117 348
Net asset value per share (cents)	**2 769**	2 462
Loan to investment value ratio (%)	**37,3%**	33,7%

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	% Change	**Reviewed Year to 31 August 2015**	Audited Year to 31 August 2014
Revenue		**1 639 089**	537 792
earned on contractual basis		**1 634 159**	540 359
straight-line lease adjustment		**4 930**	(2 567)
Operating costs		**(742 212)**	(261 498)
Net rental income from properties		**896 877**	276 294
Administrative costs		**(72 915)**	(28 868)
Operating profit		**823 962**	247 426
Amortisation of deemed debenture premium		**–**	25 006
Fair value adjustments of investment properties		**486 054**	125 101
Fair value adjustments of interest rate derivatives		**49 255**	(15 790)
(Loss)/profit on sale of investment property		**(61)**	44
Gain on bargain purchase		**319 647**	–
Investment income		**38 528**	225 594
interest received		**5 953**	1 973
listed investment – Premium		**–**	37 028
joint ventures/associate		**32 575**	186 593
Finance costs		**(376 491)**	(125 665)
interest on borrowings		**(396 050)**	(127 553)
interest capitalised		**19 559**	1 888
Profit before debenture interest		**1 340 894**	481 716
Debenture interest		**–**	(103 454)
Profit before taxation		**1 340 894**	378 262
Taxation		**(3 166)**	7 926
Deferred taxation		**(3 181)**	7 834
Normal taxation		**15**	92
Profit for the year		**1 337 728**	386 188
Other comprehensive income for the year – Items that will not be reclassified to profit and loss		**–**	39 879
Total comprehensive income for the year attributable to equity holders		**1 337 728**	426 067
Weighted shares in issue ('000)		**238 148**	114 798
Shares in issue ('000)		**252 322**	117 348
Basic earnings per share (cents)	67,0%	**561,7**	336,4
Fully diluted earnings per share (cents)	61,1%	**530,2**	329,1
Distribution per share/linked unit (cents)			
Interim		**96,80**	88,60
Final		**92,40**	87,10
Total	7,7%	**189,20**	175,70

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Stated capital	Non-distributable reserves	Retained earnings	Total
Balance at 31 August 2013	123 699	1 635 501	37 557	1 796 757
Total comprehensive income for the year	–	–	426 067	426 067
Issue of new linked units	863	–	–	863
Reallocation of deemed debenture premium	25 006	–	(25 006)	–
Reallocation of debenture premium to stated capital	768 910	–	–	768 910
Dividends paid	–	–	(103 148)	(103 148)
Adjustment to valuation of listed investment	–	39 879	(39 879)	–
Profit on sale of investment properties	–	44	(44)	–
Transfer to non-distributable reserves				
Fair value adjustments				
Investment properties	–	125 101	(125 101)	–
Associate	–	143 787	(143 787)	–
Interest rate derivatives	–	(15 790)	15 790	–
Balance at 31 August 2014	**918 478**	**1 928 522**	**42 449**	**2 889 449**
Total comprehensive income for the year	**–**	**–**	**1 337 728**	**1 337 728**
Issue of new shares	**2 989 341**	**–**	**–**	**2 989 341**
Dividends paid	**–**	**–**	**(228 839)**	**(228 839)**
Loss on sale of investment properties	**–**	**(61)**	**61**	**–**
Transfer to non-distributable reserves				
Gain on bargain purchase	**–**	**319 647**	**(319 647)**	**–**
Fair value adjustments				
Investment properties	**–**	**486 054**	**(486 054)**	**–**
Joint ventures	**–**	**19 082**	**(19 082)**	**–**
Interest rate derivatives	**–**	**45 987**	**(45 987)**	**–**
Balance at 31 August 2015	**3 907 819**	**2 799 231**	**280 629**	**6 987 678**

DISTRIBUTABLE EARNINGS

The following additional information is provided and is aimed at disclosing to the users the basis on which the distributions are calculated.

R'000	**Reviewed Year to 31 August 2015**	Audited Year to 31 August 2014
Revenue		
earned on contractual basis	**1 634 159**	540 359
Operating costs	**(742 212)**	(261 498)
Net rental income from properties	**891 947**	278 861
Administrative costs	**(72 915)**	(28 869)
Operating profit	**819 032**	249 992
Investment income		
Interest received	**5 953**	1 973
Listed investment	**–**	37 028
Joint ventures/associate	**13 493**	42 806
Distributable profit before finance costs	**838 478**	331 799
Finance costs	**(376 491)**	(125 665)
Distributable income before taxation	**461 987**	206 134
Taxation	**15**	92
Shareholder distributable earnings	**462 002**	206 226

RECONCILIATION – EARNINGS TO DISTRIBUTABLE EARNINGS

R'000	**Reviewed Year to 31 August 2015**	Audited Year to 31 August 2014
Total comprehensive income attributable to equity holders	**1 337 728**	426 067
Amortisation of deemed debenture premium	**–**	(25 006)
Loss/(profit) on sale of investment properties	**61**	(44)
Gain on bargain purchase	**(319 647)**	–
Fair value adjustments		
Joint ventures/associate	**(19 082)**	(143 787)
Listed investment	**–**	(39 879)
Investment properties	**(486 054)**	(125 101)
Headline earnings before debenture interest	**513 006**	92 250
Debenture interest	**–**	103 454
Headline earnings attributable to shareholders	**513 006**	195 704
Straight-line lease adjustment	**(4 930)**	2 567
Fair value adjustments of interest rate derivatives, net of deferred tax	**(45 987)**	15 790
Deferred taxation adjustments	**(87)**	(7 835)
Distributable earnings attributable to shareholders	**462 002**	206 226
Headline earnings per share (cents)	**215,4**	170,5

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Reviewed Year to 31 August 2015	Audited Year to 31 August 2014
CASH FLOW FROM OPERATING ACTIVITIES		
Net rental income from properties	**819 032**	249 993
Adjustment for:		
depreciation and amortisation	**24 954**	6 009
working capital change	**37 514**	715
Cash generated from operations	**881 500**	256 717
Investment income	**5 953**	99 125
Finance costs	**(376 491)**	(125 665)
Taxation (received)/paid	**(34)**	110
Distribution to shareholders/linked unitholders paid	**(454 710)**	(189 359)
Net cash inflow from operating activities	**56 218**	40 928
CASH FLOW FROM INVESTING ACTIVITIES		
Investing activities	**(481 149)**	(337 761)
Net cash inflow from business combination	**135 904**	–
Proceeds from disposal of investment properties	**16 046**	2 194
Net cash outflow used in investing activities	**(329 199)**	(335 567)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of new shares/linked units	**387 806**	174 528
(Decrease)/increase in interest-bearing borrowings	**(64 424)**	137 742
Net cash generated from financing activities	**323 382**	312 270
NET INCREASE IN CASH AND CASH EQUIVALENTS	**50 401**	17 631
Cash and cash equivalents at beginning of year	**4 868**	(12 763)
Cash and cash equivalents at end of year	**55 269**	4 868

SEGMENTAL INFORMATION

The group earns revenue in the form of property rentals. On a primary basis the group is organised into five major operating segments:

Rental income by sector	Year to 31 August 2015 R'000	%	Year to 31 August 2014 R'000	%
Offices	**300 424**	**23,5**	72 943	18,5
Retail	**361 465**	**28,2**	95 360	24,1
Shopping centres	**129 063**	**10,0**	123 607	31,3
Industrial	**108 445**	**8,5**	73 470	18,6
Residential	**381 189**	**29,8**	29 678	7,5
Total rental income	**1 280 586**	**100,0**	395 058	100,0
Recoveries	**358 503**		142 734	
Revenue	**1 639 089**		537 792	

Further segment results cannot be allocated on a reasonable basis due to the "mixed-use" of certain of the properties. It is Octodec's philosophy to invest predominantly in properties situated in the Gauteng area, therefore the company has not reported on a geographical basis.

NOTES TO THE FINANCIAL STATEMENTS

Basis of preparation

The condensed consolidated provisional financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the conceptual framework, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and financial pronouncement as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the reviewed condensed consolidated provisional financial statements are consistent with those applied in the previous consolidated annual financial statements.

These results have been prepared under the historical cost convention, except for investment properties, which are measured at fair value, and certain financial instruments, which are measured at either fair value or amortised cost.

Fair value measurement

The fair value of investment properties is arrived at on the basis of a valuation technique using the net income capitalisation method, carried out at 31 August 2015 by taking into account prevailing market rentals, occupation levels and capitalisation rates. The other key input used in the valuation calculation is the long-term net operating income margin, of which the expense ratio is the significant unobservable input. There have been no changes in judgements or estimates of amounts or valuation techniques as reported in previous reporting periods. The directors value the entire property portfolio on a bi-annual basis. The effect of the fair value measurement on investment properties resulted in an increase in profit of R486 million in the statement of profit and loss and other comprehensive income. Independent valuations are obtained on a rotational basis to determine the reasonableness of the directors' valuations, ensuring that every property is valued every three years. This is a JSE Listings Requirement.

The valuers' valuation of 47,8% of investment properties by value at 31 August 2015 was 0,56% higher than the directors'.

Financial instruments measured at fair value include derivatives. The fair values of the interest rate swaps are determined on a mark-to-market valuation calculated by the various financial institutions with whom the swaps are held, and then discounting the estimated future cash flows based on the terms and maturity of each contract and using the market interest rate indicated on the SA swap curve.

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Input for the asset or liability that is not based on observable market data (unobservable input)

Investment properties and derivative financial instruments have been categorised as a Level 3 and Level 2 respectively and there have been no significant transfers made between Levels 1, 2 or 3 during the year under review. There have been no material changes in judgements or estimates of amounts or valuation techniques as reported in previous reporting periods.

Fair value measurements using significant unobservable inputs (Level 3)

R'000	Investment properties
Opening balance	**3 428 348**
Total gains or losses for the year	
Included in profit and loss	**486 054**
Transfers into/out of Level 3	**–**
Acquisitions, disposals and other movements:	
Business combination	**6 890 145**
Acquisitions and subsequent expenditure	**476 891**
Disposals	**(16 107)**
Closing balance	**11 265 331**
Included in profit and loss for the year:	
Fair value adjustment of investment properties	**486 054**

Relationship of unobservable inputs to fair value

The significant unobservable inputs used in the fair value measurement of the group's investment properties are the capitalisation rates and the expense to income ratios. Significant increases/(decreases) in any of these inputs in isolation would result in a significantly lower/(higher) fair value measurement.

An increase of 1% in the capitalisation rate, while all other variables remain constant, would result in a decrease in the carrying amount of investment property by R1 098 billion. A decrease of 1% in the capitalisation rate, while all other variables remain constant, would result in an increase in the carrying amount of investment property of R1 364 billion.

An increase of 1% in the weighted average expense ratio used to calculate the long-term net operating income margin, while all other variables remain constant, would result in a decrease in the carrying amount of investment property by R149,8 million. A decrease of 1% in the weighted average expense ratio used to calculate the long-term net operating income margin, while all other variables remain constant, would result in an increase in the carrying amount of investment property by R149,8 million.

These condensed consolidated provisional financial statements were prepared under the supervision of Mr AK Stein CA(SA), in his capacity as group financial director.

Events after the reporting date

There have been no subsequent events that require reporting.

Commitments

The Octodec group has capital commitments in an amount of R805,3 million, relating to various redevelopments and acquisitions of properties.

Related party

Total payments made to City Property Administration Proprietary Limited amount to R192 million. This included fees for collections, asset management, leasing, property management, acquisitions and disposals as well as upgrades and developments.

Independent auditor's report

The auditors, Deloitte & Touche, have issued their unmodified review report on the reviewed condensed consolidated financial statements for the year ended 31 August 2015. The review was concluded in accordance with ISRE 2410 Review of Interim Financial Information performed by the independent auditor of the entity. A copy of their unmodified review report is available for inspection at Octodec's registered office.

The auditor's report does not necessarily reflect all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the report together with the accompanying financial information from the issuer's registered office.

OCTODEC INVESTMENTS LIMITED

(Octodec)
(Incorporated in the Republic of South Africa)
(Registration number 1956/002868/06),
Share code: OCT ISIN: ZAE000192258 REIT status approved

Directors
S Wapnick† (Chairman), JP Wapnick* (Managing director), AK Stein* (Financial director), MZ Pollack†, DP Cohen^, PJ Strydom•, GH Kemp•
* *Executive director* • *Independent non-executive director*
† *Non-executive director* ^ *Lead independent non-executive director*

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Nedbank Corporate and Investment Banking

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SAREIT ASSOCIATION

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