Octodec

creating value
beyond financial return

reviewed provisional annual results 2017

unlocking value beyond financial return

Octodec Investments Limited (Octodec or the group or the company) is listed on the JSE Limited (JSE) as a real estate investment trust (REIT) with a portfolio of 315 properties valued at R12.8 billion, which includes a 50% interest in four joint ventures. The group invests in the retail, residential, shopping centre, industrial and office property sectors and all of the properties are situated in Gauteng.

Octodec is well-positioned to continue taking advantage of opportunities in the Tshwane and Johannesburg CBDs. The group's primary objective remains to improve the existing properties in strategic investment nodes with the objective of attracting new tenants and improving rental income.

Octodec has contracted City Property Administration Proprietary Limited (City Property), one of South Africa's leading property and asset management companies, to perform its asset and property management and company secretarial functions.

0.8%
distribution growth to 203.1 cents per share for the twelve month period (2016: 201.5 cents)

0.7%
increase in net asset value (NAV) per share to R29.33

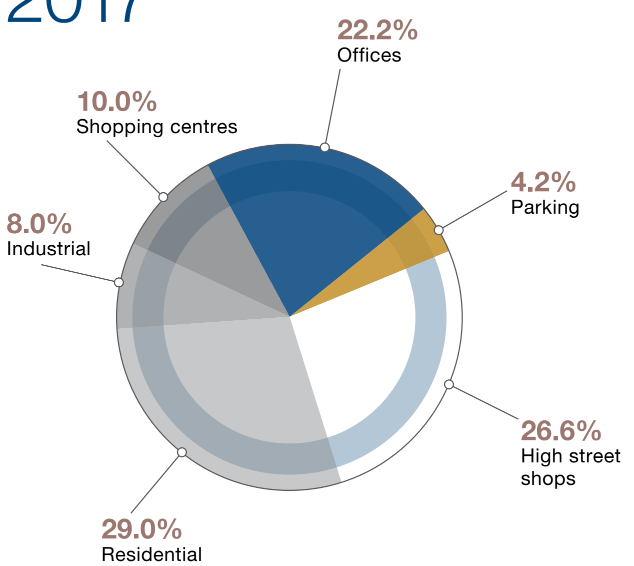
5.3%
like-for-like growth in rental income for the twelve-month period

- One on Mutual and The Manhattan, completed
- 82.1% of exposure to interest rate risk is hedged
- Loan to investment value (LTV) at 37.1%
- All-in annual weighted average cost of borrowings at 9.2%

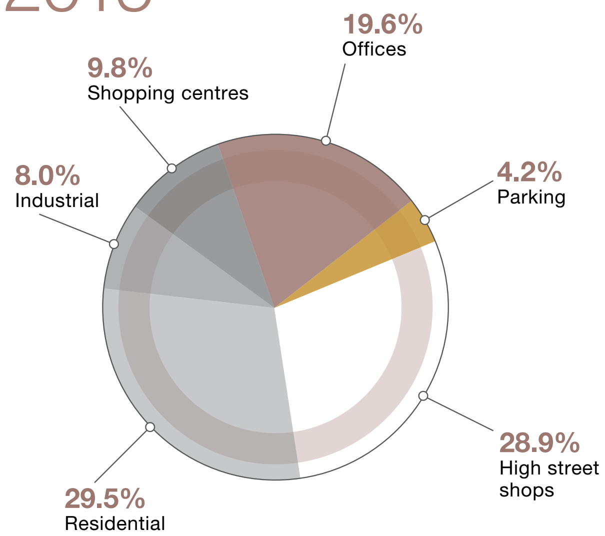
measuring performance

Property sectors: Rental income % of the portfolio

2017

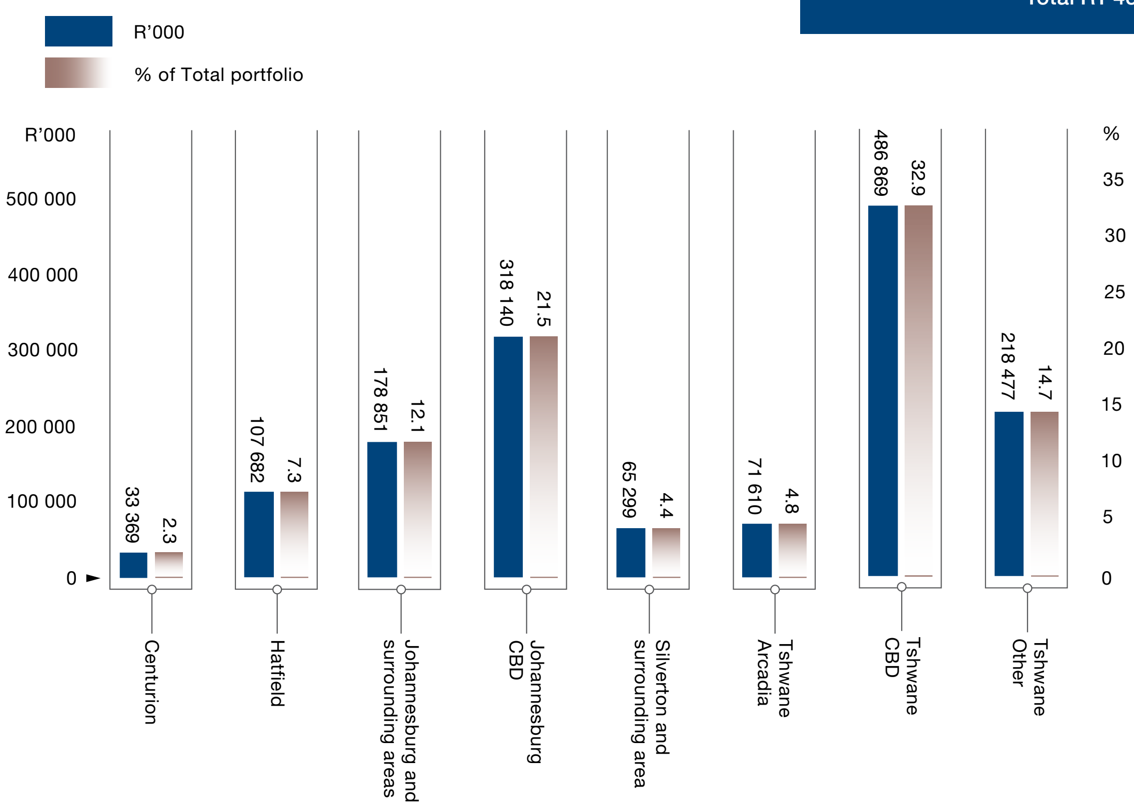


2016



Geographical analysis of the rental income

Total 2017 rental income **R1 480 297 million**
Less joint ventures of R49 847 million
Total R1 430 450 million



2016
The Kerk Street building
after redevelopment

1936
The Anstey's Building
on Kerk Street after it
was modernised in 1936

2011
The interior of the
building before
redevelopment

2016
Interior of the
redeveloped
Kerk Street building

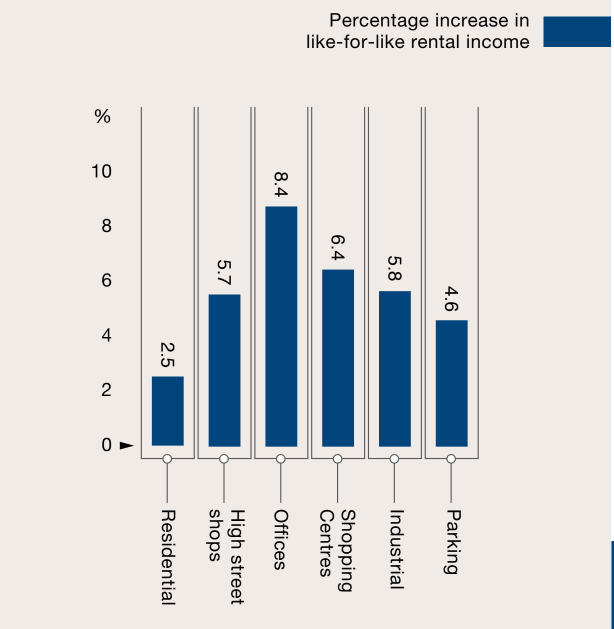
contents

review of results

Partly as a result of the sluggish performance of the local economy, Octodec delivered 0.8% growth in dividend per share for the year ended 31 August 2017. The final dividend was negatively impacted by the loss of income during the let-up phase of The Manhattan and One on Mutual, as well as a slowdown in rental growth, more specifically, rental income growth relating to the residential sector in the last six months. Increases in finance and repairs and maintenance costs, and in net utility and assessment rate expenses in the second half of the financial year were higher than anticipated and negatively impacted the dividend growth.

	% Change	2017 R'000	2016 R'000
Salient features			
Revenue - earned on contractual basis	3.4%	**1 831 346**	1 770 438
Net property income – earned on contractual basis		**914 802**	881 337
Investment property including Joint Ventures		**12 776 378**	12 302 213
Shareholders' funds		**7 828 229**	7 413 800
Interest bearing borrowings		**4 826 334**	4 779 027
Shares in issue ('000)		**266 864**	254 551
Net asset value ("NAV") per share (cents)	0.7%	**2 933**	2 913
Loan to investment value ("LTV") ratio (%)		**37.1%**	38.3%
Distribution to shareholders		**536 432**	510 750
Distribution per share (cents)			
Interim		**104.8**	98.4
Final		**98.3**	103.1
Total	**0.8%**	**203.1**	201.5

Percentage increase in like-for-like rental income for the year ended 31 August 2017



The core portfolio, represented by those properties held for the previous comparable period with no major development activity, reflected like-for-like rental income growth of 5.3%. The rental achieved from offices and retail shopping centres showed the strongest growth, at 8.4% and 6.4% respectively. The office sector growth is mainly attributable to a lease concluded in 2016 for the Centre Walk property in respect of 9 365m². The residential portfolio showed lower growth in like-for-like rental income of 2.5%. This lower growth is mainly attributable to increased vacancies and a lower escalation of rental rates in Hatfield and the Tshwane CBD, which previously were strong student nodes. A number of new competitors have entered the Hatfield market, resulting in an increased supply of residential properties available for rental.

The ratio of net property expenses (property expenses net of recoveries and excluding administration costs) to rental income (excluding amounts attributable to straight-line rental income accrual) for the group increased to 30.9% (31 August 2016: 29.6%). Bad debt write-offs and provisions during the year increased slightly to 0.9% of total tenant income (31 August 2016: 0.8%).

5.3% average growth in rental income

Despite the sustained economic pressure, arrears and doubtful debt provisions remain at acceptable levels as a result of tight credit risk management. No significant deterioration is anticipated in the near future.

Finance costs for the period amounted to R408.7 million, an increase of 3.5% compared to the prior year. The all-in weighted cost of borrowings increased marginally to 9.2% per annum (31 August 2016: 9.0%). This is mainly due to increased borrowings to fund developments and projects, as well as the cost of additional interest rate hedging contracts entered into during the period.

Dividend to shareholders

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

The directors declared a total dividend of 203.1 cents per share for the twelve-month period compared to 201.5 cents declared in the prior comparative period, an increase of 0.8%. The dividend for the year was made up of an interim dividend of 104.8 cents and a final dividend of 98.3 cents per share.

1905
Pretoria,
Church Square

2016
Tshwane
Church Square

review of results
- continued

The group had four major projects under construction during the period under review, three of which have been completed. One on Mutual, Sharon's Place and Midtown are close to Tshwane's new council head office, Tshwane House. Tshwane House is expected to have a positive impact on these three developments, as well as on continued growth within the node.

Developments

Salient details of these developments:

- One on Mutual, a mixed-use property adjacent to Church Square in the Tshwane central business district (CBD), consists of 142 residential units, ground floor retail premises and parking. The total cost of the project, excluding land costs, is R155.0 million, with an expected fully let annual yield of 7.1% in due course. The project was completed in February 2017 and by year-end was close to being fully let.

- The Manhattan, a 180-unit residential development in Sunninghill, Johannesburg, was completed in December 2016. The total development cost of this 50%-held joint operation amounts to R80.9 million. Once fully let the initial annual yield, inclusive of land costs, is expected to be 9.0%. The letting of the property has been slow, with occupancy levels as at 31 August 2017 at 45%. Marketing efforts to let this development are in full swing.

- Sharon's Place, a large, well-located residential development consisting of 400 residential units, 5 660 m² of ground floor retail, anchored by Shoprite and Clicks, and 289 parking bays, is adjacent to the new Tshwane House municipal development in the Tshwane CBD. The total cost of the project, excluding land costs, is R356.0 million. The initial annual yield, excluding land costs, is expected to be 7.3%, when fully let. The retail portion of the property was completed in July 2017 and is well let. The residential portion of the property is expected to be completed in early 2018.

- The renovation of Midtown, an office upgrade, is also adjacent to the new Tshwane House municipal development in Tshwane CBD. The property consists of 7 133 m² of offices, 944 m² of retail and 90 parking bays. The total cost of this project is R56.5 million at a fully let annual yield, inclusive of land costs, of 9.5%. The first phase of the renovation is complete at a cost of R17.3 million. Work on the second phase will commence when a suitable office tenant is secured.

Wits Technikon, an office block situated in the Johannesburg CBD, was recently upgraded at a total cost of R16.1 million. The upgrade of 10 383 m² of the property provided additional space required by a school. Occupation took place in March 2017 at a monthly rental of R266 220. The initial yield on the upgrade cost is 15.0%.

The group has several smaller projects under way, in line with Octodec's strategy to upgrade, maintain and extract value from its property portfolio. These projects will not only enhance the value of the portfolio, but will also contribute to the uplifting of the Tshwane and Johannesburg CBDs in which Octodec is predominantly invested.

Octodec is in the planning phase of a residential development, Reinsurance House which is situated in a prime location in the Johannesburg CBD. This development will only commence when a suitable yield of at least 8.5% is achievable. The total development cost is expected to be approximately R90 million.

New and redeveloped properties grow the rental income stream. However, the phased take-up of units tends to have a negative impact on results in the short term. Depending on the number of units, it takes between six and twelve months for residential developments to achieve full occupancy levels.
As a result, the distribution growth is expected to be negatively impacted in the 2018 financial year during the let-up of Sharon's Place and The Manhattan.

Disposals

In line with the decision to dispose of non-core or non-performing properties, the group disposed of a further sixteen properties during the period under review, nine of which have been transferred for a total consideration of R77.8 million. Transfer of the remaining seven properties for a total consideration of R58.3 million is expected to take place in the 2018 financial year.

Properties disposed of and transferred before 31 August 2017

PROPERTY	LOCATION	Total consideration R'million	Profit / (loss) on disposal R'million	Transfer date	Exit yield %
Frederika Street	Gezina, Tshwane	7.8	0.1	3 Feb 2017	8.0
Karkap	Gezina, Tshwane	5.5	0.4	3 Feb 2017	10.7
Munt Street	Waltloo, Tshwane	10.9	2.1	28 Feb 2017	7.8
Raschers	Johannesburg CBD	6.1	0.2	26 Nov 2016	2.7
Paulefko	Tshwane CBD	4.4	0.9	17 Oct 2016	9.7
Blagil	Hatfield, Tshwane	2.1	(0.1)	26 Nov 2016	9.9
High Court Building and Somerset House	Johannesburg CBD	14.5	(0.1)	26 Nov 2016	0.0
Fine Art House and Fine Art Court	Johannesburg CBD	17.5	0.3	May 2017	3.5
Valhof	Valhalla, Tshwane	9.0	(0.1)	June 2017	10.5
Total		77.8	3.7		

Transfers expected to take place after 31 August 2017

PROPERTY	LOCATION	Total consideration R'million	Profit / (loss) on disposal R'million	Expected transfer date	Exit yield %
Pretwade	Wadeville, Johannesburg	10.5	0.2	Nov 2017	11.0
Iskemp	Isando, Johannesburg	18.0	2.7	Oct 2017	1.8
119 and 121 Albertina Sisulu Street	Johannesburg CBD	5.3	(0.2)	Oct 2017	0.7
Swemvoor	Gezina, Tshwane	9.1	0.4	Dec 2017	12.0
Sharp Centre	Tshwane CBD	5.7	0.6	Oct 2017	6.1
Viskin	Tshwane CBD	3.0	1.0	Dec 2017	11.0
Tronap	Tshwane North	6.7	0.0	Oct 2017	11.0
Total		58.3	4.7		

review of results
- continued

Vacancies

Vacancies in the Octodec portfolio at 31 August 2017, including properties held for redevelopment, amounted to 17.7% (31 August 2016: 15.6%) of gross lettable area. The core vacancies, which exclude the gross lettable area relating to properties held for development and those currently being redeveloped, amounted to 10.7% (31 August 2016: 9.8%).

Vacancies by sector as at 31 August 2017

	Gross lettable area (GLA) m²	Total vacancies %	Properties held for redevelopment or recently developed %	Core vacancies %
Offices	487 510	33.8	(18.2)	15.6
High street shops	420 443	10.3	(1.5)	8.8
Retail – shopping centres	91 867	4.6	–	4.6
Industrial	270 521	12.3	–	12.3
Residential	394 721	12.3	(5.1)	7.2
Total	**1 665 062**	**17.7**	**(7.0)**	**10.7**
31 August 2016				
Offices	489 750	34.7	(19.4)	15.3
High street shops	432 456	9.1	–	9.1
Retail – shopping centres	91 179	5.4	–	5.4
Industrial	288 908	10.8	–	10.8
Residential	366 827	4.0	(0.4)	3.6
Total	**1 669 120**	**15.6**	**(5.8)**	**9.8**

The total vacancies for the high street shops and residential sectors include 3 928 m² and 20 195 m² respectively, of vacant space relating to the Sharon's Place, One on Mutual and The Manhattan developments.

As expected, a number of properties held for development, or those which are currently under development, have vacancies. In recent years, certain office properties such as Fedsure House, Reinsurance House, Van Riebeeck Medical Building and Midtown were acquired with high vacancy levels. These office properties, with 88 724 m² of mothballed space, offer significant residential conversion, office redevelopment or disposal opportunities, the value of which will be realised over time.

Lease expiry profile

Octodec's portfolio features a mix of short to long-term leases. The majority of the leases provide for a monthly agreement at expiry of the lease. When this occurs an effort is made to conclude longer-term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises.

Lease expiry profile as at 31 August 2017

	Gross lettable area (GLA) m²	%	Monthly contractual rent R	%
Residential (12 months and less)	346 027	20.8	34 946	29.4
Monthly commercial	234 506	14.1	15 544	13.1
to 31 August 2018	317 555	19.1	25 461	21.4
to 31 August 2019	170 060	10.2	14 321	12.1
to 31 August 2020	148 485	8.9	13 149	11.1
to 31 August 2021	81 118	4.9	7 948	6.7
Thereafter	73 179	4.4	7 371	6.2
Vacancies	294 132	17.6		0.0
Total	**1 665 062**	**100.0**	**118 740**	**100.0**

borrowings and working capital

Borrowings and working capital as at 31 August 2017

	Amount R'million	Weighted average interest rate per annum %
Bank loans	3 710.3	9.1
Domestic medium term note programme (DMTN)	1 116.0	8.5
Total borrowings	4 826.3	9.0
Cost of swaps	–	0.2
Total borrowings	**4 826.3**	**9.2**

The group's loan to value ratio (LTV) (value of interest bearing borrowings, net of cash divided by the fair value of its investment portfolio) as at 31 August 2017 is 37.1% (31 August 2016: 38.3%). This decrease is mainly attributable to the revaluation of the property portfolio, a reduction in borrowings due to the proceeds from properties disposed of during the period, as well as the capital raised from the dividend reinvestment programme.

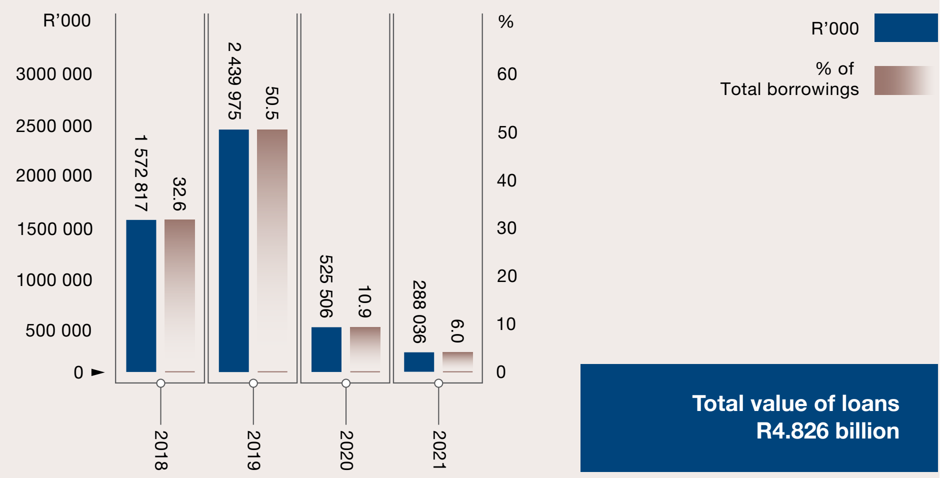
Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts in respect of 82.1% (31 August 2016: 82.9%) of its borrowings. The hedges in place are for a weighted average period of 1.6 years. The all-in average weighted interest rate of all borrowings is 9.2% per annum (31 August 2016: 9.0%).

Octodec participates in a DMTN programme through its subsidiary, Premium Properties Limited. As at the date of this report the total issuance was at R1 116.0 million, or 23.1% of the group's borrowings.

Global Credit Rating's long and short-term national scale ratings of Premium Properties Limited were maintained at A (ZA) and A1 (ZA), respectively.

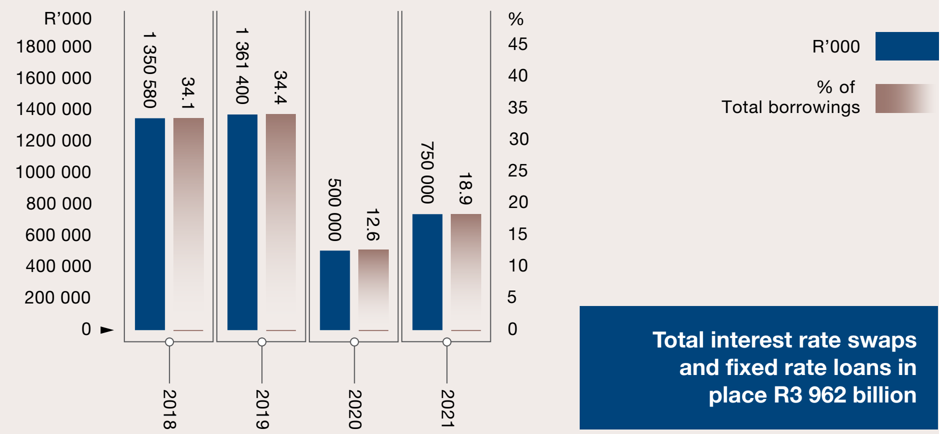
Octodec had unutilised available banking facilities amounting to R625.9 million at 31 August 2017.

Loan expiry profile (per financial year)



Total value of loans R4.826 billion

Expiry profile of fixed rate loans and interest rate swap contracts (per financial year)



Total interest rate swaps and fixed rate loans in place R3 962 billion

changes in fair value

It is the group's policy to perform internal valuations of all the properties at the interim period and at year-end. The valuations are based on the income capitalisation method, which is consistent with the basis used in prior years. The property portfolio was internally valued at R12.6 billion, after a net increase in valuation of R235.1 million or 1.9% for the twelve-month period ended 31 August 2017.

The mark-to-market value of interest rate swaps contracts, which protect the group against adverse interest rate movements, resulted in a fair value loss of R77.0 million.

The increase in the valuation of investment properties contributed to the 0.7% increase in the net asset value (NAV) to R29.33 per share.

prospects

The continuing weakness in the economy and the resultant slowdown in consumer confidence has negatively impacted Octodec.

Notwithstanding the economic challenges, the experienced management team combined with the diversified portfolio with its large number of tenants, sound operating fundamentals and prudent capital management will contribute towards Octodec's resilience in these difficult times.

Octodec has already responded to the increased competition and changing trends in the residential sector by adjusting the tenant offering without compromising on recoverability of rentals and other standards. This, combined with prudent cost management, will support the overall performance during these trying times.

The disposal of non-core or non-performing properties also remains a major focus area.

The worsening economic climate, together with the effect of the phased take-up of rental space in the greenfield developments, which is normal when introducing newly built rental units to the residential market, will most likely result in no growth in distributions per share for the 2018 financial year.

This guidance is based on the following:

- forecasted investment property income is calculated using contractual rentals and assumed market-related renewals
- allowance for vacancies has been established using assumptions and historical experience
- no major corporate and tenant failures are assumed
- no further deterioration in the economic and social environments
- the phased take-up of rental space in greenfield developments is based on historical experience adjusted for the current economic environment.

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

declaration of dividend

The board of directors of Octodec declared a final cash dividend of 98.3 cents per share, for the six months ended 31 August 2017, out of the company's distributable income.

The salient dates and times for the cash dividend are as set out below:

SALIENT DATES AND TIMES	**2017**
Last day to trade cum dividend	Tuesday, 21 November
Shares trade ex-dividend	Wednesday, 22 November
Record date to receive cash dividend	Friday, 24 November
Electronic transfer into personal bank account of certificated shareholders[2]	Monday, 27 November
Accounts credited by CSDP or broker to dematerialised shareholders with the cash dividend payment	Monday, 27 November

Notes:

1. *Shares may not be dematerialised or rematerialised between Wednesday, 22 November 2017 and Friday, 24 November 2017, both days inclusive. The above dates and times are subject to change. Any changes will be released on SENS.*
2. *Where the transfer secretaries do not have the banking details of any certificated shareholders, the cash dividend of 98.3 cents will be held in trust by the transfer secretaries pending receipt of the relevant certificated shareholder's banking details where after the cash dividend will be paid via electronic transfer into the personal bank accounts of certificated shareholders.*

2017
The renovated Wits Technikon building in Johannesburg

2013
Old detail on Wits Technikon

declaration of dividend
- continued

Tax implications for non-resident shareholders

Dividends received by non-resident shareholders from a REIT will not be taxable as income and will be exempt from income tax in terms of the exemption in section 10(1)(k)(i) of the Income Tax Act. With effect from 22 February 2017, any dividend received by a non-resident from a REIT is subject to dividend tax at 20%, 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 shareholders. Assuming dividend tax will be withheld at a current rate of 20% the net dividend amount due to non-resident shareholders is 78.64 cents per share. A reduced dividend tax 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
- 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 for the South African Revenue Services (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 above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Tax implications for South African resident shareholders

Dividends received by or accrued to South African tax residents must be included in the gross income of such shareholders. They 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 dividends are, however, exempt from dividend withholding tax (dividend tax) in the hands of South African resident shareholders, provided that the South African resident shareholders have made submissions to the CSDP or broker, as the case may be, in respect of uncertificated shares, or the transfer secretaries in respect of certificated shares, a DTD (EX) (Dividend Tax: declaration and undertaking to be made by the beneficial owner of a share) form to prove their status as a South African resident and indicating the exemption upon which they are relying.

If resident shareholders have not submitted the above-mentioned documentation to confirm their status as a South African resident they are advised to contact their CSDP or broker, as the case may be, to arrange for the documents to be submitted prior to payment of the cash dividend.

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 266 864 319 and Octodec's tax reference number is 9925/033/71/5.

By order of the board

S Wapnick
Chairman

JP Wapnick
Managing director

30 October 2017

notes to the condensed consolidated financial statements

Basis of preparation

The reviewed condensed consolidated provisional financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The provisional report has been prepared in accordance with the conceptual framework, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), at a minimum IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and financial pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of the reviewed condensed consolidated provisional financial statements are consistent with those applied in the previous consolidated 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.

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

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, by taking into account prevailing market rentals, occupation levels and capitalisation rates. It was carried out on 31 August 2017. The other key input used in the valuation calculation is the expected long-term net operating income margin, of which the expense ratio and long range vacancy factor 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 bi-annually. The effect of the fair value measurement on investment properties resulted in an increase in profit of R235.1 million in the statement of profit and loss and other comprehensive income. Independent valuations are obtained annually on a rotational basis to determine the reasonableness of the directors' valuations, ensuring that every property is valued every three years. In terms of the JSE Listings Requirements, all the properties are valued at least once over a rolling three-year period by external independent valuation experts. Van Zyl Valuers CC (Gert van Zyl) and Amanda de Wet Consultants and Investors CC (Amanda de Wet) performed the valuations in the current year. They are both registered valuers in terms of section 19 of the Property Valuers Profession Act, 47 of 2000, and have extensive experience in commercial property valuations.

The portfolio of properties representing 28.3% of the total portfolio was valued at 1.9% less (2016: 0.7% more) than the directors' valuation. The directors are confident, taking all factors into account, that their valuations represent fair market value.

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, by 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.

R235.1m Fair value change in investment property

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 is 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:

- **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 Level 3 and Level 2, respectively, and there have been no significant transfers made between Levels 1, 2 and 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.

notes to the condensed consolidated financial statements - continued

Fair value measurements using significant unobservable inputs

	Reviewed investment property, plant and equipment R'000
Balance as at 31 August 2016	**12 129 631**
Total fair value changes for the period included in profit and loss	**235 106**
Depreciation and amortisation	**(20 536)**
Acquisitions, disposals and other movements:	
Acquisitions and subsequent expenditure	**328 497**
Disposals	**(73 800)**
Balance as at 31 August 2017	**12 598 898**
Included in profit and loss for the period: Changes in fair value of investment property	**235 106**

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, the expense to income ratios as well as the long range vacancy factor. 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 of R1.2 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 R1.5 billion.

An increase (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/(decrease) in the carrying amount of investment property of R167.4 million.

The third key input used in the valuation calculation is the long range vacancy factor. The expected long range vacancy factor takes into account historic and future expected vacancy trends. The long range vacancy factor indicates the expected vacancy to be applied over the long term that best approximates the actual experience. The range of long range vacancy factors used was from 0.0% to 30.0%.

Events after the reporting date

There have been no subsequent events that require reporting.

Commitments

The group has approved capital commitments of an amount of R220.2 million, relating to various redevelopments and upgrades of properties. These would be funded out of existing unused banking facilities.

Related party transactions

Total payments made to City Property Administration Proprietary Limited amount to R188.0 million. This included fees for collections, leasing, property management, asset management, acquisitions and disposals as well as upgrades and developments.

Independent auditor's review report

Deloitte & Touche have issued their unmodified review report on the reviewed condensed consolidated financial statements for the year ended 31 August 2017. 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 review report does not necessarily report on 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 that report together with the accompanying financial information from Octodec's registered office.

financial statements

Condensed consolidated statement of financial position

R'000	Reviewed 31 August 2017	Audited 31 August 2016
Assets		
Non-current assets	**12 568 875**	12 219 234
Investment property	**12 153 834**	11 776 839
Plant and equipment	**5 300**	6 810
Straight-line rental income accrual	**110 864**	115 849
Tenant installation and lease costs	**44 550**	57 133
Other financial assets	**75 000**	51 849
Derivative financial instruments	**1 847**	38 172
Investment in joint ventures	**177 480**	172 582
Current assets	**560 397**	373 661
Trade and other receivables	**143 342**	131 552
Derivative financial instruments	**1 736**	-
Other financial assets	**213**	-
Bank and cash	**130 756**	69 109
	276 047	200 661
Non-current assets held for sale	**284 350**	173 000
	13 129 272	12 592 895
Equity and liabilities		
Equity	**7 828 229**	7 413 800
Stated capital	**4 221 477**	3 958 207
Non-distributable reserve	**3 269 053**	3 112 885
Retained earnings	**337 699**	342 708
Non-current liabilities	**3 381 370**	4 106 208
Interest-bearing borrowings	**3 253 517**	4 023 911
Derivative financial instruments	**47 421**	9 308
Deferred taxation	**80 432**	72 989
Current liabilities	**1 919 673**	1 072 887
Interest-bearing borrowings	**1 572 817**	755 116
Non-interest-bearing borrowings	**342 548**	317 771
Derivative financial instruments	**4 308**	-
	13 129 272	12 592 895

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Condensed consolidated statement of comprehensive income

R'000	% Change	Reviewed Year to 31 August 2017	Audited Year to 31 August 2016
Revenue		**1 831 346**	1 770 438
earned on contractual basis	5.4	**1 836 251**	1 742 871
once-off reinstatement contribution from tenant		**-**	25 000
straight-line rental income accrual		**(4 905)**	2 567
Property operating costs	6.7	**(843 636)**	(790 529)
Net rental income from properties	**0.8**	**987 710**	979 909
Administrative costs	9.6	**(77 813)**	(71 005)
Operating profit	**0.1**	**909 897**	908 904
Fair value changes		**158 096**	303 105
investment property		**235 106**	285 914
interest rate derivatives		**(77 010)**	17 191
Profit on sale of investment property		**2 943**	8 490
Reversal of impairment of loans		**-**	378
Interest income		**18 094**	10 138
Finance costs	3.5	**(408 702)**	(394 751)
interest on borrowings		**(439 201)**	(416 659)
interest capitalised		**30 499**	21 908
Share of income from joint ventures		**14 810**	20 898
share of after tax profit		**1 582**	3 009
reserves		**2 572**	6 872
interest & management fees		**10 656**	11 017
Profit before taxation	**(18.9)**	**695 138**	857 162
Taxation charge - deferred		**(7 443)**	-
Profit for the year	**(19.8)**	**687 695**	857 162
Other comprehensive income for the year - Items that will not be reclassified to profit and loss		-	-
Total comprehensive income for the year attributable to equity holders	**(19.8)**	**687 695**	857 162

Weighted shares in issue ('000)		**261 207**	252 888
Shares in issue ('000)		**266 864**	254 551
Basic and diluted earnings per share (cents)	**(22.3)**	**263.3**	338.9

Condensed consolidated statement of changes in equity

R'000	Stated capital	Non distribut-able reserve	Retained earnings	Total
Balance at 31 August 2015 (audited)	**3 907 819**	**2 799 231**	**280 629**	**6 987 679**
Total comprehensive income for the year	-	-	857 162	857 162
Issue of new shares	50 388	-	-	50 388
Dividends paid	-	-	(481 429)	(481 429)
Transfer to non-distributable reserve	-	8 490	(8 490)	-
profit on sale of investment property				
fair value changes				
investment property	-	285 914	(285 914)	-
investment property - joint ventures	-	6 872	(6 872)	-
interest rate derivatives (net of deferred tax)		12 378	(12 378)	-
Balance at 31 August 2016 (audited)	**3 958 207**	**3 112 885**	**342 708**	**7 413 800**
Total comprehensive income for the year	-	-	687 695	687 695
Issue of new shares	263 270	-	-	263 270
Dividends paid	-	-	(536 536)	(536 536)
Transfer to non-distributable reserve				
profit on sale of investment property	-	2 943	(2 943)	-
deferred tax		(7 443)	7 443	
fair value changes				
investment property	-	235 106	(235 106)	-
investment property - joint ventures	-	2 572	(2 572)	-
interest rate derivatives	-	(77 010)	77 010	-
Balance at 31 August 2017 (reviewed)	**4 221 477**	**3 269 053**	**337 699**	**7 828 229**

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Condensed consolidated statement of cash flows

R'000	Reviewed Year to 31 August 2017	Audited Year to 31 August 2016
Cash flow from operating activities		
Net rental income from properties	**909 897**	908 904
Adjustment for:		
straight-line rental income accrual	**4 905**	(2 567)
depreciation and amortisation	**20 536**	20 524
working capital changes	**12 987**	(48 248)
Cash generated from operations	**948 325**	878 613
Interest income	**18 094**	10 138
Finance costs	**(439 201)**	(416 659)
Distribution to equity holders paid	**(536 536)**	(482 838)
Net cash outflow used in operating activities	**(9 318)**	(10 746)
Cash flow from investing activities		
Investing activities	**(316 812)**	(479 406)
Proceeds from disposal of investment property	**77 200**	55 450
Net cash outflow used in investing activities	**(239 612)**	(423 956)
Cash flow from financing activities		
Issue of new shares	**263 270**	50 388
Proceeds from interest bearing borrowings	**3 488 910**	2 713 883
Repayment of interest bearing borrowings	**(3 441 603)**	(2 315 729)
Net cash generated from financing activities	**310 577**	448 542
Net increase in bank and cash balance	**61 647**	13 840
Bank and cash balance at the beginning of year	**69 109**	55 269
Bank and cash balances at end of year	**130 756**	69 109

Reconciliation – earnings to headline earnings

R'000	Reviewed Year to 31 August 2017	Audited Year to 31 August 2016
Total comprehensive income attributable to equity holders	**687 695**	857 162
Profit on sale of investment properties	**(2 943)**	(8 490)
Reversal of impairment of loans	**-**	(378)
Fair value changes		
investment property	**(235 106)**	(285 914)
investment property - joint ventures	**(2 572)**	(6 872)
Headline earnings attributable to equity holders	**447 074**	555 508
Headline and diluted headline earnings per share (cents)	**171.2**	219.7

Condensed segmental information

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

Rental income by sector	Reviewed Year to 31 August 2017 R'000	%	Audited Year to 31 August 2016 R'000	%
Offices	**317 388**	**22.2**	269 100	19.6
High street shops	**379 847**	**26.6**	398 439	28.9
Shopping centres	**143 201**	**10.0**	134 786	9.8
Industrial	**114 799**	**8.0**	110 253	8.0
Parking	**60 704**	**4.2**	57 775	4.2
Residential	**414 511**	**29.0**	406 661	29.5
Total rental income	**1 430 450**	**100.0**	1 377 014	100.0
Recoveries and straight-line rental income	**400 896**		393 424	
Revenue	**1 831 346**		1 770 438	

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

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Reconciliation – earnings to distributable earnings

R'000	%	**Reviewed Year to 31 August 2017**	Audited Year to 31 August 2016
Total comprehensive income attributable to equity holders		**687 695**	857 162
Profit on sale of investment properties		**(2 943)**	(8 490)
Reversal of impairment of loans		**-**	(378)
Fair value changes			
investment property		**(235 106)**	(285 914)
investment property - joint ventures		**(2 572)**	(6 872)
Headline earnings attributable to equity holders		**447 074**	555 508
Straight-line rental income accrual		**4 905**	(2 567)
Fair value changes of interest rate derivatives		**77 010**	(17 191)
Deferred tax		**7 443**	-
Once-off reinstatement contribution from tenant		**-**	(25 000)
Distributable earnings attributable to equity holders		**536 432**	510 750
Represented by:			
Revenue			
earned on contractual basis	5.4	**1 836 251**	1 742 871
Property operating costs	6.7	**(843 636)**	(790 529)
Net rental income from properties	**4.2**	**992 615**	952 342
Administrative costs	9.6	**(77 813)**	(71 005)
Operating profit	**3.8**	**914 802**	881 337
Interest income		**18 094**	10 138
Share of income from joint ventures		**12 238**	14 026
Distributable profit before finance costs		**945 134**	905 501
Finance costs	3.5	**(408 702)**	(394 751)
Equity holders distributable earnings	**5.0**	**536 432**	510 750

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

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AK Stein (Financial director)[2], DP Cohen[3], GH Kemp[4], AA Koranteng[5],
MZ Pollack[1], PJ Strydom[4]
[1] Non-executive director [2] Executive director
[3] Lead independent director [4] Independent non-executive director
[5] Akua Aboagyewaa Koranteng was appointed as a non-executive director on 1 September 2017

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