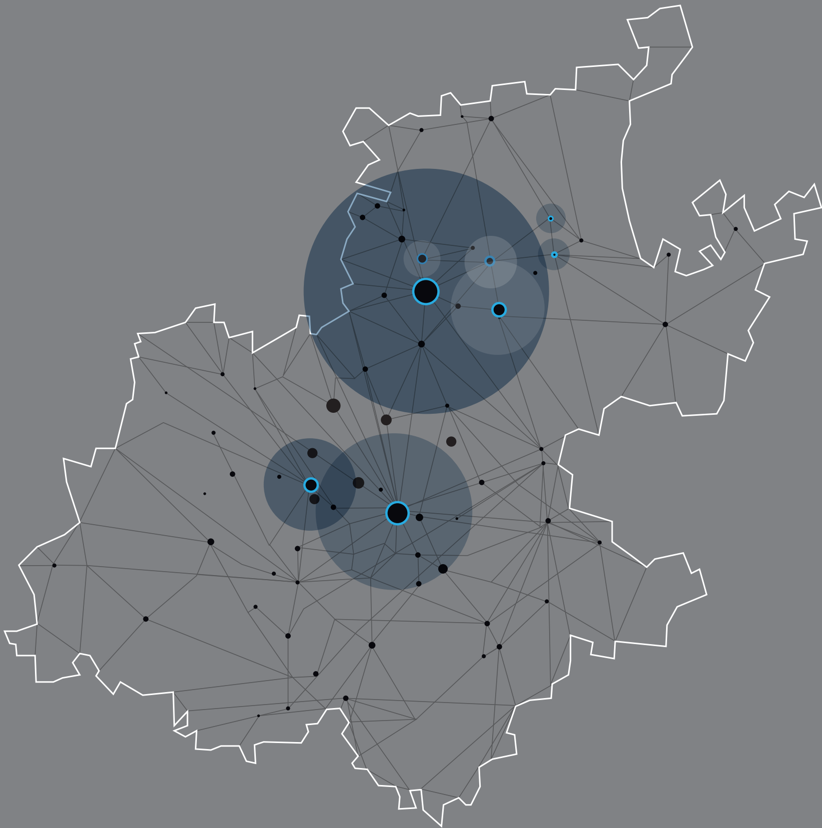


Octodec
INVESTMENTS LIMITED

# Reviewed provisional annual results

# 2018

creating value
beyond financial return

# creating 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 306 properties valued at R12.9 billion, which includes a 50% interest in three joint ventures. The group is a long-term investor in a Gauteng-focused property portfolio, with most of its properties situated in the Tshwane and Johannesburg CBDs.**

Octodec's portfolio, 67% of which is in Tshwane and 33% in Johannesburg, is well-positioned to continue taking advantage of opportunities in the Tshwane and Johannesburg CBDs.

The group's primary objective is to improve our 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), to perform asset and property management functions on the company's behalf.

306 properties valued at R12.9bn

## Measuring our performance

| | |
|---|---|
| **203.4** | cents per share distributed for the year (FY2017: 203.1 cents) |
| **R29.39** | net asset value per share (FY2017: R29.33) |
| **2.6** % | like-for-like growth in rental income for the year (FY2017: 5.3%) |
| **74.5** % | of exposure to interest rate risk is hedged (FY2017: 82.1%) |
| **37.4** % | loan to fair value of portfolio (FY2017: 37.1%) |
| **9.0** % | all-in annual weighted average cost of borrowings (FY2017: 9.2%) |
| **100.0** % | Sharon's Place, a development costing R357 million was completed during the reporting period and is fully let |

# Operating sectors

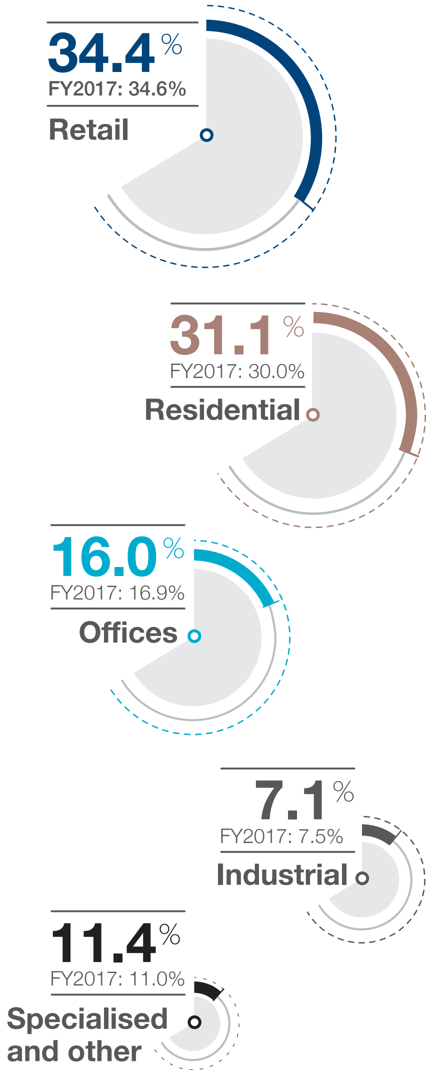
In order to comply with the JSE Listings Requirements, the group's properties were aggregated into segments with similar economic characteristics such as the occupier's market it serves and the nature of the property. This is best achieved by the inclusion of the following sectors:

- Retail, which includes shopping centres and retail shops
- Industrial
- Offices
- Residential
- Specialised and other, which includes:
  - Hotels
  - Places of worship
  - Education facilities
  - Auto dealerships
  - Healthcare
  - Parking facilities

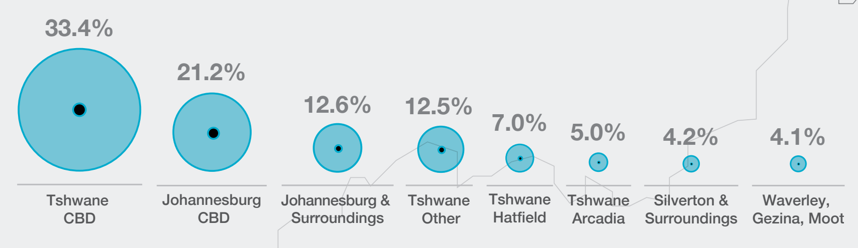
The relevant comparatives for the various operating sectors have been restated to reflect these changes.

**The information on rental income and property portfolio up to page 13, includes 100% of the joint ventures and not only the group's share.*

## Rental income % by sector




## Geographical analysis of the rental income



# contents

# review of results

**During the year under review, South Africa's challenging economic conditions and political uncertainty weighed heavily on consumer confidence and local economic growth. With this in mind, our strategy was to continue to focus on the core property fundamentals and position the business to provide our stakeholders with sustainable value creation.**
**We increased our focus on the disposal of non-core and underperforming properties and investing the proceeds in the most attractive investment opportunities within our existing core portfolio.**

Octodec's board of directors declared a dividend of 203.4 cents per share for the year ended 31 August 2018, which is in line with our guidance. This amounts to a first and second half dividend of 101.7 cents for each period. The group's net profit available for distribution was R541.4 million, representing an increase of 0.9%. The dividend was impacted by pressure on rental income growth as a result of the sluggish performance of the local economy, and the anticipated reduction in distributable income during the let-up phase of Sharon's Place.

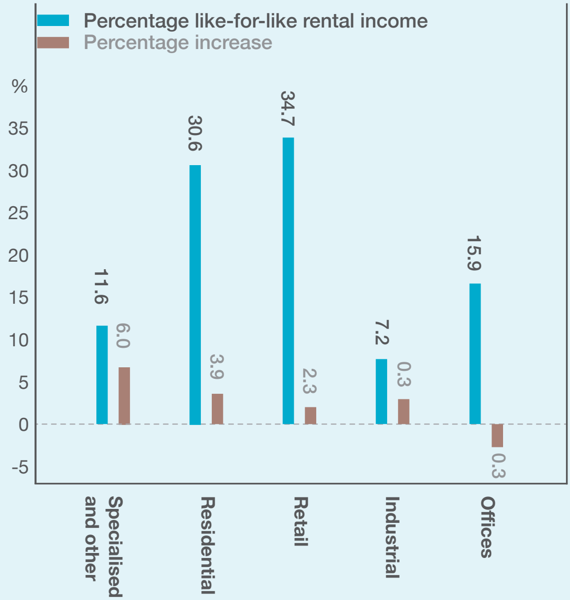
Total revenue earned on a contractual basis increased by 3.1% (FY2017: 5.3%) and property operating expenses increased by 2.5% (FY2017: 6.7%) compared to the prior year. The gross operating cost ratio to contractual revenue reduced slightly to 45.7% (FY2017: 45.9%). Operating costs, net of assessment rates, utility recoveries and other recoveries, were at 30.0% (FY2017: 30.9%) of contractual rental income. This was due to an increased focus on cost reductions and improved efficiencies.



## Salient features

| | % Change | **Reviewed 12 months 31 August 2018 R'000** | Audited 12 months 31 August 2017 R'000 |
|---|---|---|---|
| Revenue – earned on a contractual basis | 3.1 | **1 893 806** | 1 836 251 |
| Net property income – earned on a contractual basis | 3.4 | **946 020** | 914 802 |
| Investment property including joint ventures | 0.7 | **12 872 103** | 12 776 378 |
| Shareholders' funds | | **7 824 398** | 7 828 229 |
| Interest bearing borrowings | | **4 846 533** | 4 826 334 |
| Shares in issue ('000) | | **266 198** | 266 864 |
| Net asset value (NAV) per share (cents) | 0.2 | **2 939** | 2 933 |
| Loan to investment value (LTV) ratio (%) | 0.8 | **37.4%** | 37.1% |
| **Dividend to shareholders** | 0.9 | **541 444** | 536 432 |
| **Dividend per share (cents)** | | | |
| Interim | | **101.7** | 104.8 |
| Final | | **101.7** | 98.3 |
| **Total dividend per share** | **0.1** | **203.4** | **203.1** |

Like-for-like rental income per sector and percentage increase in like-for-like rental income for the year ended 31 August 2018






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 2.6% (2017: 5.3%). Although comprising a smaller portion of our total portfolio, healthcare facilities, auto dealerships and parking reflected the strongest growth of 11.8%, 6.8% and 5.7%, respectively. The residential portfolio showed growth in like-for-like rental income of 3.9%. This is excluding our new developments, Sharon's Place and One on Mutual. This lower growth is mainly attributable to increased average vacancies and the lower rental rate escalations achieved during the year under review. A number of new competitors entered the Hatfield (Tshwane) and Johannesburg CBD market, resulting in an increased supply of residential accommodation. Our marketing efforts, together with a newly introduced tenant retention strategy and an enhanced tenant offering to address this increased competition, are reflected in the results. This is reflected in the reduction in residential vacancies we achieved in the latter half of the financial year.

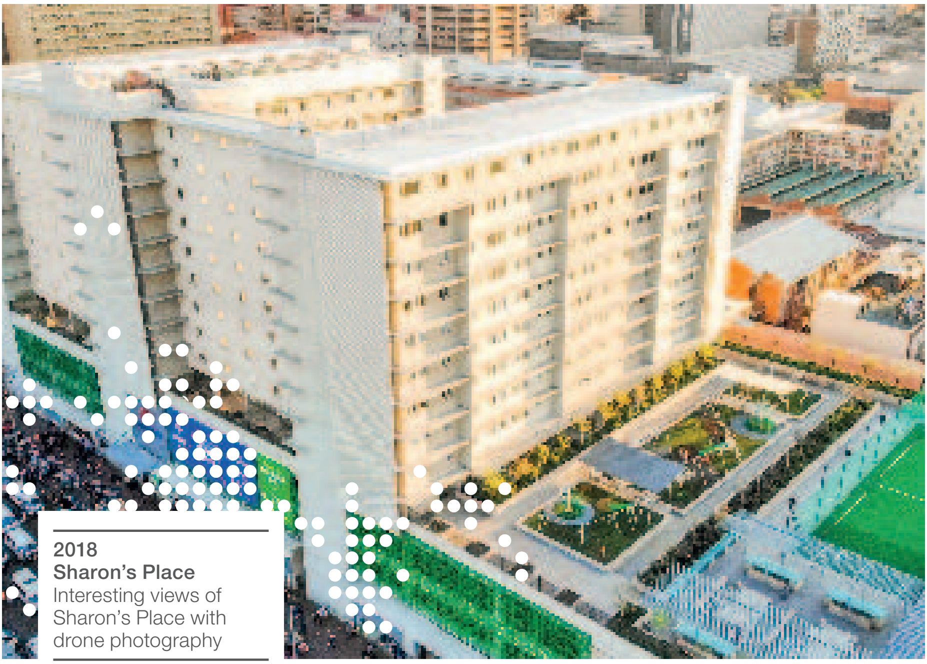
# review of results continued

## Cost to income ratios

The cost to income ratios are as follows:

| | Reviewed 31 August 2018 % | Audited 31 August 2017 % |
|---|---|---|
| **Property costs** | | |
| Gross basis | **45.7** | 45.9 |
| Net basis | **30.0** | 30.9 |
| **Property and administration costs** | | |
| Gross basis | **50.0** | 50.2 |
| Net basis | **35.6** | 36.0 |





2018
**Sharon's Place**
Interesting views of Sharon's Place with drone photography

Property costs, both on a gross and net basis, have decreased slightly compared to the prior year.

Bad debt write-offs and provisions during the year increased to 1.2% of total tenant income (FY2017: 0.9%). Despite sustained economic pressure, the group's arrears and doubtful debt provisions remain at acceptable levels. This can be attributed to tight credit risk management and we do not anticipate any significant deterioration in this regard in the near future.

The group's administrative costs increased by R5.1 million compared to the same period in FY2017, mainly due to a provision for a value added tax (VAT) liability relating to prior periods of R5.3 million.

Finance costs for the year amounted to R438.9 million, an increase of 7.4% year-on-year. This is in line with an increase in investment activity resulting in increased debt levels, as well as a reduction in borrowing costs capitalised in respect of the completion of Sharon's Place. The all-in weighted average cost of borrowings per annum reduced slightly to 9.0% per annum (FY2017: 9.2%) as a result of the expiry during the year of interest hedges at unfavourable rates.



2018
One on Mutual

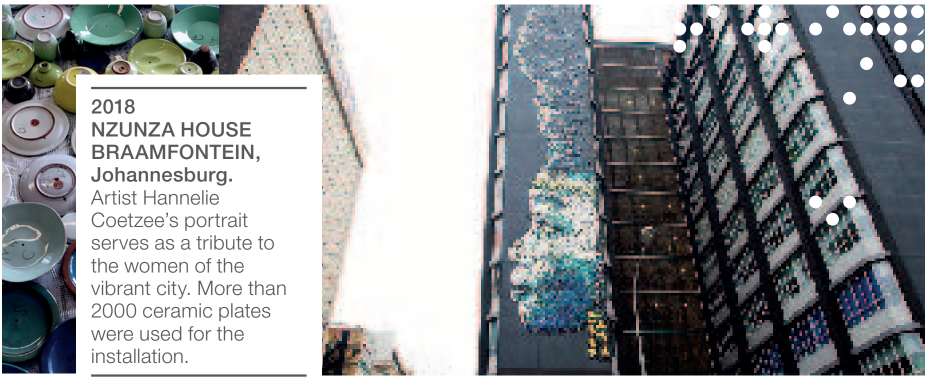
# investing for the future

## Developments

**Sharon's Place, a large, well-located residential development consisting of 399 residential units; 5 647m² of ground floor retail space, 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, was R357.4 million. The retail portion of the property was completed in July 2017. The residential section consists of three blocks. Block B was completed in February 2018, while Blocks A and C were completed in phases by June 2018. There has been strong demand for the residential units, with all units being let shortly after their completion.**

In line with Octodec's strategy to upgrade, maintain and extract value from its property portfolio the group completed several smaller projects. These included the upgrade of Nzunza House (formerly known as North City), an office block in Braamfontein, Johannesburg, and The Tannery, a multi-tenanted industrial complex in Silverton, Tshwane, for an amount of R34.8 million and R13.6 million, respectively. These projects will not only improve occupancy levels and enhance the value of the portfolio, but will also contribute to the upliftment of the areas in which Octodec is predominantly invested.





**2018**
**NZUNZA HOUSE BRAAMFONTEIN, Johannesburg.**
Artist Hannelie Coetzee's portrait serves as a tribute to the women of the vibrant city. More than 2000 ceramic plates were used for the installation.

## Investments

**Octodec acquired the remaining 50% of Gerlan Properties Proprietary Limited (Gerlan), effective 1 July 2018, for a consideration of R33 million at an initial yield of 9.25%. The property in Gerlan comprises a Toyota dealership, situated in Gezina, Tshwane.**

# Disposals

**In line with our decision to dispose of non-core or underperforming properties, a further twenty properties were sold during the year, ten of which had been transferred for a total consideration of R61.6 million by year end. A further two properties were transferred after the year end for a total consideration of R69.8 million. Transfer of the remaining eight properties for a total consideration of R92.1 million is expected to take place within the first half of the 2019 financial year. The properties were sold at an average combined exit yield of 7.9% and a combined premium of 1.9% to book value.**

### Properties disposed of and transferred before 31 August 2018

| Property | Location | Total consideration R'million | Profit/(loss) on disposal R'million | Transfer date | Exit yield % |
|---|---|---|---|---|---|
| Sharp Centre | Tshwane CBD | 5.5 | – | 25 October 2017 | 10.0 |
| Grariv | Tshwane – Other | 0.7 | 0.1 | 18 December 2017 | 5.2 |
| 119 and 121 Albertina Sisulu Street | Johannesburg CBD | 5.5 | 0.2 | 18 December 2017 | 0.1 |
| Pretwade | Wadeville, Johannesburg | 10.2 | – | 1 February 2018 | 12.8 |
| Iskemp | Isando, Johannesburg | 17.5 | 1.1 | 16 February 2018 | (0.6) |
| Pretboy | Tshwane – Other | 3.1 | (0.4) | 18 February 2018 | 11.3 |
| Tronap | Tshwane – Other | 6.5 | (0.1) | 9 May 2018 | 9.8 |
| Andpot | Tshwane – Other | 7.5 | (0.9) | 24 July 2018 | 7.8 |
| Monaco (various units) | Tshwane – Arcadia | 5.1 | (0.9) | July and August 2018 | 12.8 |
| **Total** | | **61.6** | **(0.9)** | | **6.8** |

# Disposals continued

## Transfers expected to take place after 31 August 2018

| Property | Location | Total consideration R'million | Profit/(loss) on disposal R'million | Expected transfer date | Exit yield % |
|---|---|---|---|---|---|
| Ken's Court | Tshwane CBD | 44.6 | 1.6 | September 2018 | 3.3 |
| Medical Towers | Johannesburg CBD | 25.2 | 0.8 | September 2018 | 3.3 |
| Notrevlis | Tshwane – Other | 11.2 | 0.5 | November 2018 | 10.1 |
| Supmall | Tshwane – Other | 11.2 | 0.1 | November 2018 | 10.7 |
| Swemvoor | Waverley, Gezina, Moot | 8.6 | – | November 2018 | 11.2 |
| Troymona | Tshwane – Other | 1.2 | (0.8) | November 2018 | 0.1 |
| Viskin | Tshwane CBD | 2.9 | 0.8 | November 2018 | 10.2 |
| Armadale | Johannesburg CBD | 53.6 | 1.6 | January 2019 | 13.9 |
| Goleda (3) | Tshwane – Other | 1.9 | 0.3 | January 2019 | 13.8 |
| Midchurch | Tshwane CBD | 1.5 | 0.2 | January 2019 | – |
| **Total** | | **161.9** | **5.1** | | **8.4** |

# Vacancies

**Vacancies in the Octodec portfolio at 31 August 2018, including properties held for redevelopment, amounted to 18.6% (FY2017: 19.0%) of the gross lettable area. The group's core vacancies, which exclude the gross lettable area relating to properties held for development, those currently being redeveloped and those recently redeveloped or sold, amounted to 11.6% (FY2017: 10.7%).**

### Vacancies by sector as at 31 August 2018

| | Gross lettable area (GLA) m² | Total vacancies % | Properties held for redevelopment or recently developed or sold % | Core vacancies % |
|---|---|---|---|---|
| **31 August 2018** | | | | |
| Offices | 413 581 | 45.1 | (26.4) | 18.7 |
| Retail | 444 642 | 11.5 | (0.1) | 11.4 |
| Industrial | 253 396 | 15.0 | (1.0) | 14.0 |
| Residential | 393 643 | 6.4 | (0.6) | 5.8 |
| Specialised and other* | 139 171 | 3.7 | (0.3) | 3.4 |
| **Total** | **1 644 433** | **18.6** | **(7.0)** | **11.6** |
| **31 August 2017** | | | | |
| Offices | 418 428 | 43.6 | (26.5) | 17.1 |
| Retail | 436 979 | 10.8 | (1.5) | 9.3 |
| Industrial | 264 129 | 12.6 | – | 12.6 |
| Residential | 394 721 | 12.3 | (5.1) | 7.2 |
| Specialised and other* | 150 805 | 3.2 | – | 3.2 |
| **Total** | **1 665 062** | **19.0** | **(8.3)** | **10.7** |

* *"Specialised and other" includes parking, educational facilities, hotels, auto dealerships, healthcare facilities and places of worship. These sectors were previously reflected under offices, retail, industrial and parking, but are dedicated facilities and, in accordance with JSE Listings Requirements, are now reflected under specialised and other. The 2017 GLA amounts and percentages have been restated.*

## Vacancies continued

We responded to increased competition and changing trends in the residential sector by adjusting our tenant offering without compromising on rental recoverability or other standards. Our response has already contributed to improved occupation levels in the residential sector with vacancies decreasing from 7.2% in FY2017 to 5.8% at 31 August 2018.

Office vacancies increased during the year mainly due to two large government tenants vacating two premises consisting of a total of 7 139m². 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 and Medical Towers located in the Johannesburg CBD and Van Riebeeck Medical Building and Midtown located in Pretoria CBD, were acquired with high vacancy levels. These office properties, with 109 024m² of mothballed space, offer significant opportunities for possible conversions to residential units or office redevelopment or disposals, the value of which will be realised over time. Medical Towers was sold and transferred in September 2018 for a total consideration of R25.2 million net of commission.



## Lease expiry profile

**Octodec's portfolio features a mix of short to long-term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises. 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.**

### Lease expiry profile by GLA

| | 2019 % | 2020 % | 2021 % | 2022 % | 2023+ % | Vacant % |
|---|---|---|---|---|---|---|
| Offices | 35 | 14 | 3 | 1 | 3 | 44 |
| Residential | 93 | 1 | – | – | – | 6 |
| Retail | 34 | 20 | 13 | 9 | 11 | 13 |
| Industrial | 44 | 17 | 14 | 2 | 7 | 16 |
| Specialised and other | 37 | 17 | 29 | 2 | 12 | 3 |
| **Total** | **50** | **13** | **9** | **3** | **6** | **19** |

2018
**Tshwane**
CentreWalk in the CBD



## Lease expiry profile by rental income

| | 2019 % | 2020 % | 2021 % | 2022 % | 2023+ % |
|---|---|---|---|---|---|
| Offices | 63 | 26 | 5 | 2 | 4 |
| Residential | 99 | – | 1 | – | – |
| Retail | 35 | 23 | 16 | 13 | 13 |
| Industrial | 54 | 20 | 16 | 2 | 8 |
| Specialised and other | 42 | 17 | 29 | 2 | 10 |
| **Total** | **62** | **15** | **11** | **5** | **7** |

# borrowings

## Borrowings as at 31 August 2018

| | Amount R'million | Weighted average interest rate per annum % |
|---|---|---|
| Bank loans | 3 547.8 | 8.8 |
| Domestic medium-term note programme (DMTN) | | |
| unsecured | 929.1 | 8.4 |
| secured | 369.7 | 8.9 |
| Total borrowings | 4 846.6 | 8.7 |
| Cost of swaps | – | 0.3 |
| **Total borrowings** | **4 846.6** | **9.0** |



The group's LTV ratio (value of interest-bearing borrowings net of cash divided by the fair value of its investment portfolio) as at 31 August 2018 is 37.4% (FY2017: 37.1%).

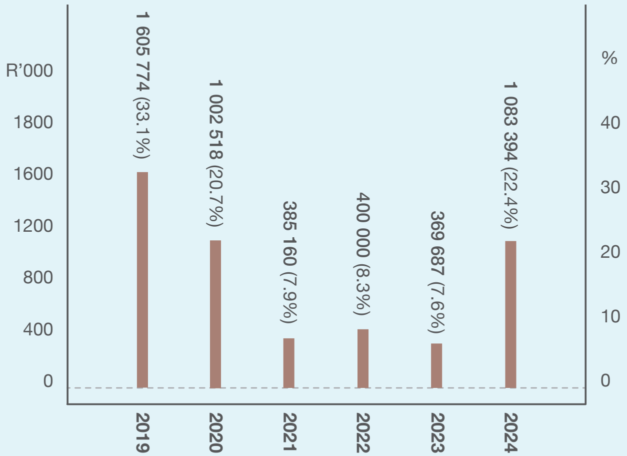
The weighted average term to expiry of the loans is 2.5 years, which is in line with our strategy. Subsequent to the financial year end, DMTN Notes in the amount of R226 million expiring in September 2018 were partly refinanced by DMTN Notes amounting to R30 million and R130 million, for a period of twelve and eighteen months respectively. The process to extend or refinance the remaining short term borrowings has already started with the respective banks.

Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts in respect of 74.5% (FY2017: 82.1%) of its borrowings.

The hedges in place are for a weighted average period of 1.4 years. Steps have been taken to extend our swap expiry profile over the next twelve months, to align with our strategy of hedging 70% to 80% of our borrowings.

The all-in average weighted interest rate of all borrowings is 9.0% per annum (FY2017: 9.2%).

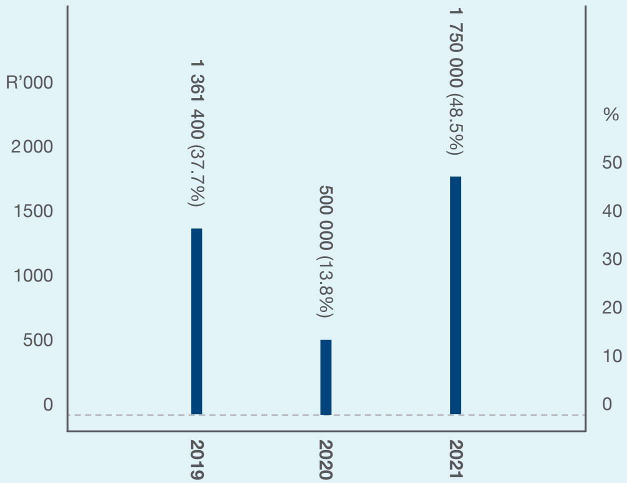
### Loan expiry profile per financial year (R'000 and %)




Total value of loans

R4.846 billion

### Expiry profile of fixed rate loans and interest rate swap contracts per financial year (R'000 and %)




Total interest rate swaps and fixed rate loans

R3.611 billion

Octodec participates in a listed DMTN programme through its subsidiary, Premium Properties Limited, that is guaranteed by Octodec. As at 31 August 2018 the total issuance was at R1 298.8 million (2017: R1 116.0 million) or 26.8% (2017: 23.1%) of the group's borrowings.

Global Credit Rating's long and short-term national scale ratings of Premium Properties Limited are A-(ZA) and A1-(ZA), respectively. Octodec had unutilised available banking facilities amounting to R669.0 million at 31 August 2018.

# changes in fair value

**It is the group's policy to perform internal valuations of all its properties at the interim period and at year-end. These valuations are based on the income capitalisation method, which is consistent with the basis used in prior years. The property portfolio, excluding the share in joint ventures, was internally valued at R12.7 billion (2017: R12.6 billion) after a net decrease in valuation of R39.1 million (2017: R235.1 million increase) for the year ended 31 August 2018.**

The mark-to-market value of interest rate swaps contracts, which protect the group against adverse interest rate movements, resulted in a fair value gain of R39.7 million (2017: R77.0 million loss) for the year.



# renewal of asset and property management agreement with City Property

**Octodec's shareholders approved the Asset and Property Management Agreement between Octodec and City Property, which became effective from 1 July 2018 for a period of five years.**

The fee structure contained in the new Asset and Property Management Agreement is not expected to have a material impact on Octodec's future results.

# prospects

**While the change in South Africa's political leadership brought about a renewed sense of optimism across the country, the economy continues to be constrained by increasing unemployment and higher costs of living, which do not bode well for economic growth. We therefore anticipate another challenging year in 2019, which will impact on our ability to deliver growing distributions.**

Despite these challenges, Octodec is positioned to continue unlocking value and providing shareholders with a sustainable distribution. Our experienced management team, diversified portfolio, large number of tenants, sound operating fundamentals and prudent capital management, provide Octodec with the resilience and flexibility necessary to continue creating value during challenging times.

The disposal of non-core or underperforming properties will remain a key focus area for the foreseeable future. Octodec's objective for the 2019 financial year is to consolidate its portfolio and continue positioning the portfolio for long-term sustainable growth. For this reason Octodec has not committed to commence construction on any major new developments, instead we will continue to focus on improving our existing portfolio and retaining tenants.

The forecast dividend for the year ending 31 August 2019 is expected to be similar to the dividend for the year ended 31 August 2018 and therefore no growth in dividend per share is anticipated for the 2019 financial year.

This guidance is based on:

- the forecast investment property income calculated using contractual rentals and assumed market-related renewals
- an allowance for vacancies using assumptions and historical experience
- no major corporate and tenant failures occurring
- no further deterioration in the socioeconomic environment.

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

# declaration of cash dividend

**The board of Octodec declared a cash dividend of 101.7 cents per share, for the six months ended 31 August 2018, out of the company's distributable income.**

## Salient dates and times

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

| | 2018 |
|---|---|
| Last day to trade cum dividend | Tuesday, 6 November |
| Shares trade ex dividend | Wednesday, 7 November |
| Record date to receive cash dividend | Friday, 9 November |
| Electronic transfer into personal bank account of certificated shareholders[2] | Monday, 12 November |
| Accounts credited by CSDP or broker to dematerialised shareholders with the cash dividend payment | Monday, 12 November |

*Notes:*

1. *Shares may not be dematerialised or rematerialised between Wednesday, 7 November 2018 and Friday, 9 November 2018, both days inclusive.*
2. *Where the transfer secretaries do not have the banking details of any certificated shareholders, the cash dividend will be held by the company pending receipt of the relevant certificated shareholder's banking details, whereafter the cash dividend will be paid via electronic transfer into the personal bank accounts of certificated shareholders.*

# 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. 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 81.36 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 company, 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 company in respect of certificated shares, a DTD (EX) (dividend tax declaration that the dividend is exempt from dividends tax and a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Services (SARS)).

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 266 197 535 and Octodec's tax reference number is 9925/033/71/5.

By order of the board

**S Wapnick**
*Chairman*

**JP Wapnick**
*Managing director*

22 October 2018

# notes to the condensed consolidated financial statements

## Basis of preparation

The reviewed condensed consolidated provisional financial statements are prepared in accordance with the JSE 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 South African Institute of Chartered Accountants (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 condensed consolidated provisional financial statements are in accordance with IFRS and are consistent with those applied in the preparation of 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 carried out on 31 August 2018, by taking into account prevailing market rentals, occupation levels and capitalisation rates. 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. The directors value the entire property portfolio biannually. The effect of the fair value measurement on investment properties resulted in a decrease in profit of R39.1 million (2017: R235.1 million increase) in the statement of profit and loss and other comprehensive income.

In compliance with the JSE Listings Requirements, all the properties are valued at least once over a rolling three-year period by external independent valuation experts. In the current year, 23% (2017: 28%) of our portfolio with a value of R6.1 billion (2017: R3.6 billion) was valued by external independent valuation experts.

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.

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 transfers made between Levels 1, 2 and 3 during the year. There have been no material changes in judgements or estimates of amounts or valuation techniques as reported in previous reporting periods.

# Fair value measurement continued

*Fair value hierarchy*

**Fair value measurements using significant unobservable inputs**

| | Reviewed investment property,plant and equipment 2018 R'000 | Audited investment property, plant and equipment 2017 R'000 |
|---|---|---|
| **Balance as at 31 August 2017** | **12 598 898** | 12 129 631 |
| Total fair value changes for the year included in profit and loss | **(39 084)** | 235 106 |
| Straight-line rental income accrual | **1 482** | (4 905) |
| Depreciation and amortisation | **(17 558)** | (20 536) |
| Acquisitions, disposals and other movements: | | |
| Developments and subsequent expenditure | **185 232** | 333 402 |
| Acquired through business combination | **76 000** | – |
| Disposals | **(61 608)** | (73 800) |
| **Balance as at 31 August 2018** | **12 743 362** | 12 598 898 |
| Included in profit and loss for the year: | | |
| Changes in fair value of investment property | **(39 084)** | 235 106 |

## *Fair value information*

The fair value of the group's investment property as at 31 August 2018 was arrived at on the basis of a valuation technique using the net income capitalisation method, by taking into account prevalling market rentals, occupation levels and capitalisation rates.

The first key input used in the valuation calculation is the capitalisation rate. The range of annual capitalisation rates applied to the property portfolio is between 8.0% (2017: 8.0%) and 13.0% (2017: 13.0%) with a weighted annual average of 9.3% (2017: 9.2%).

The second 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.

Expense ratios used ranged from 5.7% to 49.1% (2017: 4.5% to 49.2%) with a weighted average of 25.1% (2017: 24.5%).

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 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 long-range vacancy factor used ranged from 0.0% to 30.0% (2017: 0.0% to 30.0%) with a weighted average of 5.6% (2017: 5.8%).



## *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 and 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 (2017: 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 (2017: 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 R168.8 million (2017: R167.4 million).

# Stated capital, basic and diluted earnings per share

During the year, the company repurchased 666 784 shares in the open market for a total consideration of R11.3 million or R17.01 per share. The shares were delisted from the JSE on 23 February 2018.

| | **31 August 2018** | 31 August 2017 |
|---|---|---|
| Shares in issue ('000) | **266 198** | 266 864 |
| Weighted shares in issue ('000) | **266 389** | 261 207 |
| **Basic and diluted earnings per share (cents)** | **202.9** | 263.3 |

# Events after the reporting date

There have been no material subsequent events that require reporting.



# Commitments

The group has approved capital commitments in the amount of R25.6 million (2017: R220.2 million), relating to various redevelopments, upgrades of properties and committed tenant installations. These will be funded out of existing unused banking facilities.

# Related party transactions

Octodec and City Property are related parties in that Jeffrey Wapnick and Sharon Wapnick are directors of Octodec and City Property and the Wapnick family is a shareholder of both companies.

Total payments made to City Property amount to R197.1 million (2017: R188.0 million). This included fees for collections, leasing, property and asset management, commission on acquisitions and disposals, as well as upgrades and developments. Octodec received R10.3 million (2017: R10.0 million) from City Property for rent and operating costs recovered.

At 31 August 2018, an amount of R4.6 million (2017: R605.0 thousand) was owing by Octodec to City Property and an amount of R1.2 million (2017: R NIL) was owing by City Property to the group.

# Business combination

With effect from 1 July 2018, IPS Investments Proprietary Limited (IPS), a subsidiary of the company, acquired the remaining 50% of Gerlan Properties Proprietary Limited (Gerlan), for a consideration of R33 million, settled in cash, increasing its shareholding to 100%. This resulted in IPS acquiring control of Gerlan and Gerlan changed from an associate to a subsidiary.

### Fair value of assets acquired and liabilities recognised at the date of acquisition.

| | R'000 |
|---|---|
| **Non-current assets** | |
| Investment property | **76 000** |
| **Current assets** | |
| Bank and cash balances | **142** |
| **Non-current liabilities** | |
| Deferred tax | **(13 136)** |
| **Current liabilities** | |
| Non-interest bearing borrowings | **(990)** |
| **Total identifiable net assets** | **62 016** |
| Fair value of equity interest held before the business combination | **(31 008)** |
| Goodwill on acquisition | **1 992** |
| Acquisition date fair value consideration paid in cash | **33 000** |

### Net cash inflow on acquisition

| | R'000 |
|---|---|
| Bank and cash acquired | 142 |

Octodec acquired the remaining shares in Gerlan as it provided Octodec shareholders with an attractive return.

Goodwill arose on the acquisition of Gerlan because the cost of the combination included a control premium. Since investment property is already stated at fair value, the goodwill was impaired and included in profit and loss in the 2018 financial year. The goodwill arising on the Gerlan acquisition is not deductible for tax purposes.

## *Impact of acquisition on the results of the group*

Included in revenue and profit for the year is R1 259 372 and R1 230 625 respectively, in respect of Gerlan. Had this business combination been effected on 1 September 2017, revenue of the group would have been R5 707 965 and profit before tax would have been R3 264 010, net of fair value adjustment to investment property of Gerlan.

# Changes to the board

During the year under review, Ms Akua Koranteng resigned from the board with effect from 10 May 2018.

# 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 2018. 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

| | Reviewed 31 August 2018 R'000 | Audited 31 August 2017 R'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | **12 590 121** | 12 568 875 |
| Investment property | **12 228 808** | 12 153 834 |
| Plant and equipment | **3 463** | 5 300 |
| Straight-line rental income accrual | **111 282** | 110 864 |
| Tenant installation and lease costs | **35 210** | 44 550 |
| Other financial assets | **75 000** | 75 000 |
| Derivative financial instruments | **7 618** | 1 847 |
| Investment in joint ventures | **128 740** | 177 480 |
| **Current assets** | **199 099** | 276 047 |
| Trade and other receivables | **130 498** | 143 342 |
| Derivative financial instruments | **1 986** | 1 736 |
| Other financial assets | **3 028** | 213 |
| Taxation receivable | **675** | – |
| Bank and cash | **62 912** | 130 756 |
| Non-current assets held for sale | **364 600** | 284 350 |
| **TOTAL ASSETS** | **13 153 820** | 13 129 272 |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | **7 824 398** | 7 828 229 |
| Stated capital | **4 210 134** | 4 221 477 |
| Non-distributable reserve | **3 262 710** | 3 269 053 |
| Retained earnings | **351 554** | 337 699 |
| **Non-current liabilities** | **3 345 332** | 3 381 370 |
| Interest-bearing borrowings | **3 240 759** | 3 253 517 |
| Derivative financial instruments | **17 977** | 47 421 |
| Deferred taxation | **86 596** | 80 432 |
| **Current liabilities** | **1 984 090** | 1 919 673 |
| Interest-bearing borrowings | **1 605 774** | 1 572 817 |
| Non-interest bearing borrowings | **378 217** | 342 548 |
| Derivative financial instruments | **99** | 4 308 |
| **TOTAL EQUITY AND LIABILITIES** | **13 153 820** | 13 129 272 |

# Condensed consolidated statement of comprehensive income

| | % Change | **Reviewed Year to 31 August 2018 R'000** | Audited Year to 31 August 2017 R'000 |
|---|---|---|---|
| **Revenue** | 3.5 | **1 895 288** | 1 831 346 |
| earned on a contractual basis | 3.1 | **1 893 806** | 1 836 251 |
| straight-line rental income accrual | | **1 482** | (4 905) |
| Property operating costs | 2.5 | **(864 911)** | (843 636) |
| **Net rental income from properties** | 4.3 | **1 030 377** | 987 710 |
| Administrative costs | 6.5 | **(82 875)** | (77 813) |
| **Operating profit** | 4.1 | **947 502** | 909 897 |
| Fair value changes | | **589** | 158 096 |
| investment property | | **(39 084)** | 235 106 |
| interest rate derivatives | | **39 673** | (77 010) |
| (Loss)/profit on sale of investment property | | **(916)** | 2 943 |
| Loss on derecognition of investment in joint venture | | **(2 770)** | – |
| Impairment of goodwill | | **(1 992)** | – |
| Interest income | | **18 584** | 18 094 |
| Finance costs | 7.4 | **(438 881)** | (408 702) |
| interest on borrowings | | **(451 967)** | (439 201) |
| interest capitalised | | **13 086** | 30 499 |
| Share of income from joint ventures | | **9 954** | 14 810 |
| share of after-tax profit | | **9 291** | 1 582 |
| reserves | | **(9 747)** | 2 572 |
| interest and management fees | | **10 410** | 10 656 |
| **Profit before taxation** | (23.5) | **532 070** | 695 138 |
| Taxation | | **8 493** | (7 443) |
| current | | **1 522** | – |
| deferred | | **6 971** | (7 443) |
| **Profit for the year** | (21.4) | **540 563** | 687 695 |
| 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** | (21.4) | **540 563** | 687 695 |
| **Basic and diluted earnings per share (cents)** | (22.9) | **202.9** | 263.3 |

# Condensed consolidated statement of changes in equity

| | Stated capital R'000 | Non-distributable reserve R'000 | Retained earnings R'000 | Total R'000 |
|---|---|---|---|---|
| **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 (audited)** | 4 221 477 | 3 269 053 | 337 699 | 7 828 229 |
| Total comprehensive income for the year | – | – | 540 563 | 540 563 |
| Issue of new shares | – | – | – | – |
| Shares repurchased | (11 343) | – | – | (11 343) |
| Dividends paid | – | – | (533 051) | (533 051) |
| Transfer to non-distributable reserve | | | | |
| (loss)/profit on sale of investment property | – | (916) | 916 | – |
| loss on derecognition of investment in joint venture | – | (2 770) | 2 770 | – |
| impairment of goodwill | – | (1 992) | 1 992 | – |
| current and deferred tax | – | 8 493 | (8 493) | – |
| fair value changes | | | | – |
| investment property | – | (39 084) | 39 084 | – |
| investment property – joint ventures | – | (9 747) | 9 747 | – |
| interest rate derivatives | – | 39 673 | (39 673) | – |
| **Balance at 31 August 2018 (reviewed)** | **4 210 134** | **3 262 710** | **351 554** | **7 824 398** |

# Condensed consolidated statement of cash flows

| | Reviewed Year to 31 August 2018 R'000 | Audited Year to 31 August 2017 R'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net rental income from properties | **947 502** | 909 897 |
| Adjusted for: | | |
| straight-line rental income accrual | **(1 482)** | 4 905 |
| depreciation and amortisation | **17 558** | 20 536 |
| working capital changes | **42 629** | 12 987 |
| **Cash generated from operations** | **1 006 207** | 948 325 |
| Interest income | **18 584** | 18 094 |
| Finance costs | **(446 227)** | (439 201) |
| Dividends paid | **(533 051)** | (536 536) |
| **Net cash inflow/(outflow) from operating activities** | **45 513** | (9 318) |
| **Cash flow from investing activities** | | |
| Acquisition of investment property | **(173 062)** | (303 361) |
| Increase in other financial assets | **(2 817)** | (23 364) |
| Income from joint ventures | **24 916** | 9 913 |
| Purchase of subsidiary | **(32 858)** | – |
| Proceeds from disposal of investment property | **61 608** | 77 200 |
| **Net cash outflow used in investing activities** | **(122 213)** | (239 612) |
| **Cash flow from financing activities** | | |
| Issue of new shares | **–** | 263 270 |
| Shares repurchased | **(11 343)** | – |
| Proceeds from long-term borrowings | **1 543 313** | 1 916 093 |
| Proceeds from short-term borrowings | **1 605 774** | 1 572 817 |
| Repayment of long-term borrowings | **(1 556 071)** | (2 686 487) |
| Repayment of short-term borrowings | **(1 572 817)** | (755 116) |
| **Net cash generated from financing activities** | **8 856** | 310 577 |
| **Net (decrease)/increase in bank and cash balance** | **(67 844)** | 61 647 |
| Bank and cash balance at beginning of year | **130 756** | 69 109 |
| **Bank and cash balance at end of year** | **62 912** | 130 756 |

# Reconciliation of comprehensive income to headline earnings

| | **Reviewed Year to 31 August 2018 R'000** | Audited Year to 31 August 2017 R'000 |
|---|---|---|
| Total comprehensive income attributable to equity holders | **540 563** | 687 695 |
| **Headline earnings adjustments** | | |
| Loss/(profit) on sale of investment properties | **916** | (2 943) |
| Impairment of goodwill | **1 992** | – |
| Loss on derecognition of investment in joint venture | **2 770** | – |
| Fair value changes | | |
| investment property | **39 084** | (235 106) |
| investment property – joint ventures | **9 747** | (2 572) |
| **Headline earnings attributable to equity holders** | **595 072** | 447 074 |
| **Headline and diluted headline earnings per share (cents)** | **223.4** | 171.2 |

# Condensed consolidated 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** | **Reviewed Year to 31 August 2018 R'000** | **%** | Reviewed Restated Year to 31 August 2017 R'000 | % | Re-classification of sectors* | Audited Year to 31 August 2017 R'000 |
|---|---|---|---|---|---|---|
| Offices | **244 470** | **16.6** | 249 908 | **17.5** | **(67 480)** | **317 388** |
| Retail | **502 923** | **34.2** | 497 766 | **34.8** | **(25 282)** | **523 048** |
| Industrial | **109 254** | **7.4** | 111 900 | **7.8** | **(2 899)** | **114 799** |
| Parking | **–** | | – | **0.0** | **(60 704)** | **60 704** |
| Residential | **446 730** | **30.4** | 415 129 | **29.0** | **618** | **414 511** |
| Specialised and other | **167 072** | **11.4** | 155 747 | **10.9** | **155 747** | **–** |
| Total rental income | **1 470 449** | **100.0** | **1 430 450** | **100.0** | **–** | **1 430 450** |
| Recoveries and other income | **424 839** | | 400 896 | | **–** | **400 896** |
| **Revenue** | **1 895 288** | | 1 831 346 | | **–** | **1 831 346** |

*In order to comply with the JSE Listings Requirements, the group changed its reporting sectors to reflect the occupier of the property instead of the nature of the property. The comparative amounts were restated to reflect the changes in the sectors.

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.

# Reconciliation of earnings to distributable earnings

The following additional information is provided and is aimed at disclosing to the users the basis on which the distribution is calculated:

| | % | Reviewed Year to 31 August 2018 R'000 | Audited Year to 31 August 2017 R'000 |
|---|---|---|---|
| Total comprehensive income attributable to equity holders | | **540 563** | 687 695 |
| Loss/(profit) on sale of investment properties | | **916** | (2 943) |
| Loss on derecognition of investment in joint venture | | **2 770** | – |
| Impairment of goodwill | | **1 992** | – |
| Fair value changes | | | |
| investment property | | **39 084** | (235 106) |
| investment property – joint ventures | | **9 747** | (2 572) |
| Fair value changes of interest rate derivatives | | **(39 673)** | 77 010 |
| Straight-line rental income accrual | | **(1 482)** | 4 905 |
| Taxation - Current and deferred | | **(8 493)** | 7 443 |
| | | **545 424** | 536 432 |
| Share of after tax profit of joint venture - not distributable | | **(3 980)** | – |
| **Distributable earnings attributable to equity holders** | | **541 444** | 536 432 |
| Represented by: | | | |
| Revenue | | | |
| earned on a contractual basis | 3.1 | **1 893 806** | 1 836 251 |
| Property operating costs | 2.5 | **(864 911)** | (843 636) |
| **Net rental income from properties** | 3.7 | **1 028 895** | 992 615 |
| Administrative costs | 6.5 | **(82 875)** | (77 813) |
| **Operating profit** | 3.4 | **946 020** | 914 802 |
| Interest income | | **18 584** | 18 094 |
| Share of income from joint ventures | | **15 721** | 12 238 |
| **Distributable profit before finance costs** | | **980 325** | 945 134 |
| Finance costs | 7.4 | **(438 881)** | (408 702) |
| **Distributable income before taxation** | 0.9 | **541 444** | 536 432 |
| Taxation - Current and deferred | | **–** | – |
| **Equity holders distributable earnings** | 0.9 | **541 444** | 536 432 |

**Octodec Investments Limited**
Incorporated in the Republic of South Africa
Registration number: 1956/002868/06
ISIN: ZAE000192258 (Approved as a REIT by the JSE)
Share code: OCT

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AK Stein (Financial director)[2], DP Cohen[3], GH Kemp[4],
MZ Pollack[1], PJ Strydom[4]
[1] Non-executive director
[2] Executive director
[3] Lead independent director
[4] Independent non-executive director

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