EMIRA.CO.ZA

FOR THE YEAR
ENDED 30 JUNE 2017,
DIVIDEND DECLARATION
AND APPOINTMENT OF
NON-EXECUTIVE DIRECTOR

2017

FINAL DIVIDEND 74,25c

NET ASSET 1.73.F.G.

E I

PROPERTIES SOLD (1,1% Premium to Book Value) R519,7m



VALUE BY SECTOR 2017 (%)

- Office A- and P-grade
- Office B-grade
- Retail
- Industrial

# COMMENTARY

PROPERTY FUND

The Emira Board of Directors announces that a final dividend of 74,25 cents per share has been declared for the six months to 30 June 2017. This brings the full year dividend per share to 143,18 cents, a year-on-year decrease of 2,0% which is in line with the guidance provided after the six month period to 31 December 2016.

### Distributable earnings

Despite tough trading conditions, the Fund's retail and industrial portfolios continued to perform well, with vacancies stable and well below national averages. The Fund has been largely unaffected by the departure of international brands and held no exposure to Stuttafords. Continued weak local economic conditions impacted the Fund's performance in the office sector during the period. The over-supply of office space has forced the market and Emira to become competitive and innovative when trying to attract or retain tenants through reduced rentals and increased tenant incentives. Further increases in municipal expenses have placed an added burden on the income statements of businesses in South Africa, which resulted in the shrinking of net rentals payable to landlords.

Revenue rose marginally year-on-year by 0,8% (excluding straight-lining adjustments in respect of future rental escalations). Contractual escalations on the core portfolio were offset by vacancies, rent reversions and the effect of disposing of 11 properties during the year. Despite the challenging economic conditions, Emira has made progress with the letting of vacant space, the benefit of which should be seen in the 2018 financial year.

Dividend income of R20,3m was received during the period, arising from the shares bought back in the first quarter of the financial year, which were initially held as treasury shares and subsequently cancelled in March 2017.

Property expenses increased by 8,9% with the gross cost-to-income ratio up to 37,2% (June 2016: 35,3%). This was mainly due to income growing at a lower rate during the period when compared to expenses. Administration expenses, which include staff costs and property management fees, increased by 5.3% to R93.1m (June 2016: R88.5m).

Income from the Fund's listed investment in GOZ increased by 0,8%. An increase in the number of units held and in the underlying AUD distribution per unit received was largely offset by the effect of a stronger rand against the AUD.

Antecedent interest of R19,4m included in the distribution statement represents the cum dividend element of the 26 133 364 new Emira shares issued on 30 June 2017 in terms of Emira's black economic empowerment ("BEE") transaction, which is discussed further below.

In accordance with the SA REIT Association's best practice recommendations, transaction advisory fees of R14,3m have been excluded from the calculation of distributable earnings. These costs are once-off in nature and relate to the unsolicited approach by Arrowhead as well as the Enyuka and the BEE transactions.

Net finance costs increased marginally. Debt levels for the period were on average higher as a result of the funding of new developments, refurbishments and the share buybacks, partially offset by disposal proceeds. The increased interest was largely reduced by lower funding rates achieved on cross-currency interest-rate swaps, the majority of which were taken out in May 2016.

The net asset value ("NAV") has remained unchanged at 1735 cents per share. The increase in the value of the property portfolio was offset by a decrease in the value of the investment in GOZ. The 13 066 682 vendor loan funded shares issued during the year for the BEE transaction are not deemed to be issued for accounting purposes hence the NAV per share assumes there are 509 600 565 Emira shares in issue.

## DISTRIBUTION STATEMENT

DISTRIBUTION STATEMENT			
R'000	Year ended 30 Jun 2017	Year ended 30 Jun 2016	% change
Operating lease rental income and tenant recoveries excluding			
straight-lining of leases	1794 908	1 780 516	0,8
Property expenses	(667 610)	(613 027)	8,9
Net property income	1127 298	1167 489	(3,4)
Dividends received on treasury shares	20 280	-	100,0
Income from listed property investment	58 516	58 045	0,8
Administration expenses	(93 128)	(88 472)	5,3
Antecedent interest	19 404	-	100,0
Enyuka adjustment	1860	-	100,0
Depreciation	(310)	(233)	33,0
Taxation	(383)	-	100,0
Net finance costs	(393 541)	(390 915)	0,7
Finance income	11 278	10 474	7,7
Finance costs	(404 819)	(401 389)	0,9
Interest paid and amortised borrowing costs	(438 089)	(411 767)	6,4
Interest capitalised to the cost of developments	33 270	10 378	220,6
	<u> </u>		
Dividend payable to shareholders	739 996	745 914	(0,8)
Number of shares in issue	522 667 247	510 550 084	2,4
Dividend per share (cents)	143,18	146,10	(2,0)

### Vacancies

Although vacancies have marginally increased from 5,3% at 30 June 2016 to 5,7% at 30 June 2017, it is still notably lower than the vacancies reported at 31 December 2016 of 7,0%. Urban retail and rural retail sector vacancies have remained stable at 3,1% and 3,6% respectively. These compare favourably to national retail averages of 3,6%. Industrial sector vacancies have reduced to 1,7% (June 2016: 2,4%) and these are well below the national average of 5,8%. As anticipated, Emira's office sector vacancies have increased to 12,5% (June 2016: 10,5%) and are above SAPOA national levels of 11,8%. The office vacancies are concentrated primarily at Corobay Corner (Worley Parsons vacated), 1 Kikuyu (Eskom vacated) and lustitia (Society of Advocates vacated). Emira continues to pro-actively manage its vacancies through a combination of tenant retention and letting strategies and, in some instances, the sale of properties.

	Number of buildings Jun 2016	GLA Jun 2016 (m²)	Vacancy Jun 2016 (m²)	%	Number of buildings Jun 2017	GLA Jun 2017 (m²)	Vacancy Jun 2017 (m²)	%
Office	61	404 081	42 225	10,5	52	356 406	44 614	12,5
Retail	38	415 242	11 581	2,8	38	414 222	13 411	3,2
Industrial	45	366 666	8 910	2,4	44	360 949	6 168	1,7
Total	144	1185 989	62 716	5,3	134	1 131 577	64 193	5,7

### Major leases concluded and tenant renewals

The largest new leases concluded, by lease value, for the 12 months ended 30 June 2017 were WSP|Parsons Brinckerhoff (5 828m² for a total value of R99,7m) and KFC (3 150m² for a total value of R98,2m), both at Knightsbridge in Bryanston, and GIBB at Podium in Pretoria (1 380m² for a total value of R15,2m).

A total of 77% by GLA (72% by revenue) of expiring tenants were renewed and retained during the 12 months to 30 June 2017. The largest renewals were Intercare at Parklands Health Centre in Cape Town (1 488 $m^2$  for a total value of R21,5m), Auction Operation at Epping Warehouse in Cape Town (13 662 $m^2$  for a total value of R17,6m) and Pick n Pay at Dundee Boulevard in Dundee (2 039 $m^2$  for a total value of R15,4m).

### Disposals

In accordance with the Fund's strategy to rebalance the portfolio, certain properties that are deemed non-core, are underperforming or pose excessive risk, have been earmarked for disposal. Eleven properties, totalling R519,7m, were sold and transferred out of Emira during the 12 months to 30 June 2017. These 11 properties were sold at a combined forward yield of 10,3% and a combined 1,1% premium to book value. The ability of the Fund to transact at prices which are on average higher than its book value, bears testimony to the fact that Emira's properties are fairly valued.

## PROPERTIES TRANSFERRED OUT OF EMIRA DURING THE 12 MONTHS TO 30 JUNE 2017

Property	Sector	Location	GLA (m²)	Book value (Rm)	Sale price (Rm)	Exit yield (%)	Effective date
Southern Life Plaza	Office	Bloemfontein	10 697	79,5	98,2	12,0	Oct 2016
Cochrane Avenue	Industrial	Cape Town	5 870	23,2	32,0	7,2	Nov 2016
Sturdee House	Office	Johannesburg	1620	29,8	31,5	10,9	Mar 2017
Midrand Motor City	Retail	Pretoria	7 646	27,7	32,0	15,0	Apr 2017
Brooklyn Gardens	Office	Pretoria	3 200	87,5	78,8	13,2	Apr 2017
Brooklyn Forum	Office	Pretoria	7 382	97,7	87,9	11,8	Apr 2017
Waterkloof House	Office	Pretoria	4 000	72,8	65,5	2,3	Apr 2017
16 Jan Smuts	Office	Johannesburg	2 328	21,7	22,0	5,9	May 2017
The Avenues North	Office	Johannesburg	3 511	21,3	20,0	12,1	Jun 2017
500 Smuts	Office	Johannesburg	5 201	36,6	37,0	7,5	Jun 2017
Tokai	Retail	Johannesburg	2 603	16,2	14,8	17,7	Jun 2017

Further disposals to the value of R185,0m have become unconditional and are expected to be transferred within the next six months.

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To ensure that the portfolio is more optimally balanced going forward, Emira will continue with its strategy to reduce its office exposure. As at 30 June 2017, the Fund had committed to selling 16 properties valued at R1,1bn (R967,7m office properties), which have been classified as held for sale.

### Developments and refurbishments

Emira continues to invest strategically and recycle capital to strengthen its assets with tactical upgrades that unlock value. The quality and attractiveness of its assets is a key element to retaining existing tenants and attracting new tenants.

Projects to modernise, extend and redevelop 17 buildings are currently underway totalling approximately R1,0bn, of which R375,8m is currently outstanding at 30 June 2017. The most significant of these projects is the redevelopment of Knightsbridge Manor Office Park in Bryanston into the P-graded Knightsbridge.

The 31584m² green-rated Knightsbridge redevelopment is being undertaken in phases. The first phase of 12 324m² is on track to be completed by September 2017 at a total cost of R339m with 68,4% pre-let, primarily to WSP|Parsons Brinckerhoff. The second phase, which measures 3564m² commenced in February 2017 at a cost of R108m, and upon completion in June 2018 will house the South African head offices of KFC and Pizza Hut. The development of future phases will only commence once a suitable level of pre-letting is achieved at acceptable returns.

#### Dobt

Emira has diversified sources of funding and banking facilities in place with all the major South African banks. In addition, Emira continues to successfully access funding via the debt capital markets at competitive rates.

Total debt as at 30 June 2017 was R5,4bn with a weighted average duration to expiry of 1,4 years. Active steps have already been undertaken to extend debt facilities which are expiring over the next 12 months. The debt expiry profile has been managed to ensure that the amount of debt expiring in any one period is manageable. At 30 June 2017, the Fund had undrawn, backup facilities of R838,6m which further reduces debt refinance risk and, when drawn, will extend the debt expiry profile.

Funding activities during the first six months of the financial year under review included:

Date		Amount (Rm)	All-in-rate (%)
22 Aug 16	Repayment of 12-month commercial paper	158	8,45
22 Aug 16	Repayment of 6-month commercial paper	42	8,17
22 Aug 16	Repayment of 6-month commercial paper	30	8,27
22 Aug 16	Issue of 6-month commercial paper	184	8,17
22 Aug 16	Issue of 12-month commercial paper	48	8,56
12 Sep 16	Repayment of 2-year domestic medium term notes	270	8,60
12 Sep 16	Issue of 3-year domestic medium term notes	240	9,16
30 Sep 16	Issue of 18-month domestic medium term notes	60	8,66
4 Nov 16	Repayment of 12-month commercial paper	170	8,43
4 Nov 16	Repayment of 6-month commercial paper	70	8,17
4 Nov 16	Issue of 6-month commercial paper	70	8,11
4 Nov 16	Issue of 12-month commercial paper	160	8,51
6 Nov 16	Repayment of 2-year domestic medium term notes	100	8,65
7 Nov 16	Issue of 3-year domestic medium term notes	100	9,14

Funding activities during the second six months of the financial year under review included:

Date		Amount (Rm)	All-in-rate (%)
22 Feb 17	Repayment of 12-month commercial paper	179	8,56
22 Feb 17	Issue of 12-month commercial paper	182	8,51
6 Mar 17	Repayment of 6-month commercial paper	184	8,17
6 Mar 17	Issue of 6-month commercial paper	184	8,36
13 Mar 17	Partial drawdown on 2-year Nedbank term facility	100	8,92
4 May 17	Repayment of 6-month commercial paper	70	8,11
4 May 17	Issue of 6-month commercial paper	70	8,09
11 May 17	Extension of 12-month Investec facility	200	8,40
22 May 17	Partial drawdown on 4-year Standard Bank term facility	60	8,83
12 Jun 17	Issue of 3-year domestic medium term notes	200	9,29
30 Jun 17	Partial repayment of 4-year unsecured Nedbank facility	314	8,99
30 Jun 17	Drawdown on new Sanlam 2-year facility	200	9,19

As at 30 June 2017, Emira had a moderate level of gearing with interest-bearing debt, net of cash, to total income producing assets of 36,6%. The Fund has fixed 97,4% of its debt for periods of between 0,1 and 7,4 years, with a weighted average duration of 2,9 years.

Weighted average rate %	Weighted average term	Amount (Rm)	% of debt
8,2	2,9 years	5 243,0	97,4
8,9		140,4	2,6
8,2		5 383,4	100,0
		(4,2)	
		5 379,2	
	average rate % 8,2 8,9	average rate % average term  8,2 2,9 years  8,9	average rate %         average term         (Rm)           8,2         2,9 years         5 243,0           8,9         140,4           8,2         5 383,4           (4,2)

As at 30 June 2017, Emira had effective Australian dollar ("AUD") denominated debt of AUD87,5m through its cross-currency interest-rate swaps. The cross-currency interest-rate swaps relate to the Fund's investment in Growthpoint Australia Limited.

### Growthpoint Australia Limited ("GOZ")

On 21 October 2016, Emira acquired a further 1332 753 shares in GOZ at a price of AUD3,15 per share. As at 30 June 2017, GOZ's unit price was AUD3,14. Emira's investment of 28 558 566 units, comprising 4,5% of the total units in issue, is valued at R901,4m compared to the initial cost price of R416,8m, a 116,3% increase in this investment.

### Valuation

## TOTAL PORTFOLIO MOVEMENT

Sector	Jun 2016 (R'000)	R/m²	Jun 2017 (R'000)	R/m²	Difference (%)	Difference (R'000)
Office	5 713 237	14 139	5 591 639	15 689	(2,1)	(121 598)
Retail	5 370 812	12 934	5 761 500	13 909	7,3	390 688
Industrial	1880830	5 130	1902 450	5 271	1,1	21 620
	12 964 879		13 255 589		2,2	290 710

### Envuka Property Fund ("Envuka")

On 2 September 2016, Emira entered into an agreement with One Property Holdings ("One Prop") to form Enyuka. Emira has contributed its 15-asset rural retail portfolio to the new venture. The transaction became effective on 16 January 2017 when the final suspensive condition was met. Emira has provided a shareholder loan of R575m to Enyuka which is equal to the value of the 15 properties it contributed. For the year ended 30 June 2017, Emira has charged interest at a rate equal to the yield generated by the 15 properties. Emira's loan runs for a period of five years and interest escalates annually by 6%.

For accounting purposes, Emira is deemed to control Enyuka through performance conditions it has in place with One Prop and 100% of Enyuka is consolidated by Emira until these are achieved. One Prop's 50,1% interest in Enyuka is deemed to be an in substance equity-settled option and has been accounted for in terms of IFRS 2: Share based payments. The option has a zero value at 30 June 2017 and accordingly no IFRS 2 charge has been recognised for the year.

For purposes of calculating Emira's distributable earnings, an adjustment has been made to reflect the legal and economic position, being 100% of the interest on the vendor loan plus 49,9% of Envuka's net distributable loss.

During the period, Enyuka acquired two new properties: Jock of the Bushveld Shopping Centre in Barberton (R62,5m) and Hluhluwe Boxer in Hhuhluwe (R22,6m). A further three acquisitions were unconditional at 30 June 2017 and are expected to be transferred by September 2017.

### BEE transaction

In furtherance of Emira's BEE strategy, shareholders approved the issue of 26 133 364 new Emira shares for a total consideration of R364.2m. The shares were issued in equal proportions on 30 June 2017 to Letsema Holdings Proprietary Limited ("Letsema") and Tamela Holdings Proprietary Limited ("Tamela") (collectively the "BEE Parties"). The BEE Parties are required to hold the shares for a minimum period of five years.

The investment was funded by the BEE Parties as follows

- R182,1m (50%) was funded by a vendor loan provided by Emira. The vendor loan runs for a period of five years and bears interest equal to the dividend payable on the vendor loan portion of the underlying shares;
- > R145,6m (40%) was funded by external third-party debt provided to the BEE Parties; and
- > R36,4m (10%) was funded by cash.

Emira's exposure is limited to the vendor loan amount (R182,1m). Emira has not provided any further funding or liquidity to the BEE Parties and there is no intention to do so.

From an accounting perspective, the economic substance of the vendor loan funded portion of the issuance is deemed to be the granting of a call option on Emira shares. This deemed call option has been accounted for as an equity-settled share-based payment arrangement in terms of IFRS 2: Share based payments, and an IFRS 2 charge of R14,8m has been recognised for the year ended 30 June 2017. Accordingly, the shares issued in terms of the vendor funded specific issue have not been treated as issued for accounting purposes together with the corresponding vendor loan and interest thereon.

### Worley Parsons update

The arbitration hearing between Emira and Worley Parsons, regarding their lease obligations at Corobay Corner, is still ongoing. Worley Parsons submitted an amendment to their claim following the arbitrator's judgment on 3 February 2017 that the lease existed, had been unlawfully repudiated by Worley Parsons and that Emira is entitled to damages. The amendment to Worley Parsons' claim will be heard by the arbitrator at the same time as the quantum hearing. The date of the quantum hearing has yet to be agreed to by the parties. Emira's view of its position in the arbitration remains unchanged.

For the 12-month period to 30 June 2017, no income has been accrued in respect of rentals due by Worley Parsons.

### Share buybacks

During the first quarter of the year, the Fund completed a buy-back programme where 14 016 201 shares were purchased at an average price of 1 427 cents per share. The shares were initially held as treasury shares and subsequently cancelled in March 2017. Dividends of R20,3m were received during the year on the treasury shares.

### Change in directorate

Derek Thomas was appointed to the Board as a non-executive director effective 15 August 2017. Derek is the CEO and co-founder of Letsema which participated in Emira's BEE transaction that was concluded in June 2017. Derek brings a wealth of experience in investment management, financial structuring and business strategy to the Board.

As announced on 15 February 2017, Ben van der Ross, who served as Emira's Chairman since 2003, retired from the Board with effect from 14 February 2017. Gerhard van Zyl was appointed Chairman with effect from 15 February 2017. Thys Neser, an independent non-executive director,

#### Change in the Company Secretary

Mr Meredith Leyds resigned as Company Secretary, effective 28 April 2017 and Acorim Proprietary Limited was appointed as Company Secretary of the Company, effective 28 April 2017.

#### **Prospects**

Domestic growth prospects have deteriorated further with South Africa recording two successive quarters of negative GDP growth. With the current political uncertainty and lack of clear policy, the operating environment is expected to remain subdued. The continued pressure on tenants together with the over-supply of commercial office space, will likely continue to have a negative impact on rental growth.

 $While the \ environment is \ challenging, Emira\ is \ committed\ to\ delivering\ shareholder\ value\ as\ well\ and\ shareholder\ value\ as\ well\ shareholder\ value\ shareholder\ shar$ as income and capital growth. The Fund has clearly defined its strategy to responsibly rebalance the portfolio and it is making good progress in this regard to ensure it is better equipped for future growth. Furthermore, the Fund has decided to strategically increase its offshore exposure and further announcements in this regard will be made in the near future.

The filling of vacancies in the portfolio and retaining tenants remains a top priority. With an increased focus on new letting, tenant retention and the effective utilisation of proceeds from the disposal of non-core assets together with a more stable local economic outlook, the growth in distributable income per share for 2018 is anticipated to be positive. This forecast has not been reviewed and reported on by Emira's external auditors.

#### Dividend distribution declaration

The Board has approved and notice is hereby given that a gross final dividend of 74.25 cents per share has been declared (2016: 75,76 cents), payable to the registered shareholders of Emira Property Fund Limited on 11 September 2017. The issued share capital at the declaration date is 522 667 247 listed ordinary shares. The source of the dividend comprises net income from property rentals, income earned from the Company's listed property investment and interest earned on cash on deposit Please refer to the condensed consolidated statement of comprehensive income for further details

#### Tax implications

In accordance with Emira's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). Accordingly, qualifying distributions received by local tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be,  $in \, respect \, of \, uncertificated \, shares, \, or \, the \, transfer \, secretaries, \, in \, respect \, of \, certificated \, shares; \, determine the expect of certificated \, shares; \, dete$ 

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

Qualifying dividends received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that until 31 December 2013 qualifying distributions received by non-residents were not subject to dividend withholding tax. From 1 January 2014, any qualifying distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 15%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate o 20%, the net amount due to non-resident shareholders will be 59,40 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA, may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated shares, or the transfer secretaries, in respect of certificated shares:

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

Local tax resident shareholders as well as non-resident shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

Last day to trade cum dividend Tuesday, 5 September 2017 Shares trade ex dividend Wednesday, 6 September 2017 Record date Friday, 8 September 2017 Payment date Monday, 11 September 2017

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

**Geoff Jennett** 

By order of the Emira Property Fund Limited Board

#### **Acorim Proprietary Limited** Company Secretar

Gerhard van Zyl

Total equity and liabilities

Net asset value per share (cents)

Chief Executive Officer

Bryanston 15 August 2017

### Basis of preparation and accounting policies

These condensed consolidated preliminary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee. Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies used in the preparation of these financial statements are consistent with those used in the audited annual financial statements for the year ended 30 June 2016.

This report was compiled under the supervision of Greg Booyens CA (SA), the Chief Financial Officer of Emira.

These condensed consolidated preliminary financial statements for the year ended 30 June 2017 have been reviewed by PricewaterhouseCoopers Inc., who have expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at Emira's registered office together with the financial statements identified in the auditor's report. The distribution

# CONDENCED CONCOLIDATED CTATEMENT OF FINANCIAL DOCITION AT 20 HIN 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION A	NT 30 JUN 2017	
	Reviewed	Audited
R'000	30 Jun 2017	30 Jun 2016
Assets		
Non-current assets	13 157 379	13 085 752
Investment properties	11 823 645	11 752 399
Fixtures and fittings	84 058	67 302
Allowance for future rental escalations	219 745	292 077
Unamortised upfront lease costs	35 981	18 101
Fair value of investment properties	12 163 429	12 129 879
Listed property investment	901 390	940 364
Loans receivable	56 796	-
Derivative financial instruments	35 764	15 509
Current assets	483 358	373 709
Accounts receivable and prepayments	244 313	262 135
Loans receivable	43 256	39 177
Derivative financial instruments	27 130	16 848
Cash and cash equivalents	168 659	55 549
Investment properties held for sale	1 092 160	835 000
Total assets	14 732 897	14 294 461
Equity and liabilities		
Share capital and reserves	8 839 852	8 857 648
Non-current liabilities	3 581 109	3 969 252
Interest-bearing debt	3 534 028	3 944 172
Derivative financial instruments	47 081	25 080
Current liabilities	2 311 936	1 467 561
Short-term portion of interest-bearing debt	1 845 172	1034 000
Accounts payable	430 436	396 250
Derivative financial instruments	36 233	37 311
Taxation	95	_

14 732 897

1734,7

14 294 461

1734.9

CONDENSED CONSOLIDATED	STATEMENT OF	CHANGES IN EQUITY
		Revaluation

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		Revaluation		Non-	
		and other	Retained	controlling	
R'000	Shares	reserves	earnings	interest	Total
Balance at 30 June 2015	3 795 509	4 808 755	341 013	(5 262)	8 940 015
REIT restructure costs	(7 881)	-	-	-	(7 881)
Acquisition of non-controlling interest in STREM	-	-	(5 262)	5 262	-
Total comprehensive income for the year	-	-	640 080	-	640 080
Transfer to fair value reserve	-	(95 503)	95 503	-	-
Dividend paid – September 2015	-	-	(355 445)	-	(355 445)
Dividend paid – March 2016	-	-	(359 121)	-	(359 121)
Balance at 30 June 2016	3 787 628	4 713 252	356 768	-	8 857 648
REIT restructure costs	(654)	-	-	-	(654)
Shares issued	182 113	-	-	-	182 113
Shares repurchased	(202 955)	-	-	-	(202 955)
IFRS2 option – BEE transaction	-	14 771	-	-	14 771
Share transfer tax on share buy-back	-	(1 469)	-	-	(1 469)
Total comprehensive income for the year	-	-	708 833	-	708 833
Transfer to fair value reserve	-	49 481	(52 827)	-	(3 346)
Dividend paid – September 2016	-	-	(376 174)	-	(376 174)
Dividend declared – March 2017	-	-	(342 261)	-	(342 261)
Balance at 30 June 2017	3 766 132	4 776 035	297 685	-	8 839 852

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Reviewed year ended 30 Jun 2017	Audited year ended 30 Jun 2016
Revenue	1721360	1796 951
Operating lease rental income and tenant recoveries	1794 908	1780 516
Allowance for future rental escalations	(73 548)	16 435
Income from listed property investment	58 516	58 045
Property expenses	(677 049)	(637 805)
Administration expenses	(92 410)	(84 612)
Transaction and advisory fees	(14 303)	_
IFRS2 charge – BEE transaction	(14 771)	_
Depreciation	(11 054)	(14 840)
Operating profit	970 289	1117739
Net fair value adjustments	124 428	(83 347)
Net fair value gain/(loss) on investment properties	208 177	(201 028)
Change in fair value as a result of straight-lining lease rentals	73 548	(16 435)
Change in fair value as a result of amortising upfront lease costs	9 440	24 778
Change in fair value as a result of property (depreciation)/appreciation in value	125 189	(209 371)
Revaluation of share appreciation rights scheme derivative financial instruments	6	(25 753)
Unrealised (loss)/gain on fair valuation of listed property investment	(83 755)	143 434
Profit before finance costs	1 094 717	1034392
Net finance costs	(382 155)	(394 306)
Finance income	11 278	10 896
Finance costs	(393 433)	(405 202)
Interest paid	(404 819)	(401 389)
Unrealised surplus/(deficit) on interest-rate swaps	11 386	(3 813)
Profit before income tax charge	712 562	640 086
Income tax charge	(383)	(6)
SA normal taxation	(383)	(6)
Profit for the year	712 179	640 080
Attributable to Emira shareholders	712 179	640 080

### RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS AND DISTRIBUTION

Total comprehensive income

R'000	Reviewed year ended 30 Jun 2017	Audited year ended 30 Jun 2016
Profit for the year	712 179	640 080
Adjusted for:		
Net fair value (gain)/loss on revaluation of investment properties	(208 177)	201 028
Headline earnings	504 002	841108
Adjusted for:		
Allowance for future rental escalations	73 548	(16 435)
Amortised upfront lease costs	9 440	24 778
Unrealised surplus on revaluation of interest-rate swaps	(11 386)	3 813
Revaluation of share appreciation rights scheme derivative financial instrument	(6)	25 753
Unrealised gain on listed property investment	83 755	(143 434)
Credit in respect of leave pay provision and share appreciation rights scheme	(718)	(4 238)
Dividend received on treasury shares	20 280	-
Depreciation	10 743	14 563
Transaction and advisory fees	14 303	-
IFRS2 charge – BEE transaction	14 771	-
Enyuka adjustment	1860	-
Antecedent interest	19 404	-
SA normal taxation	-	6
Distribution payable to shareholders	739 996	745 914
Dividend per share		
Interim (cents)	68,93	70,34
Final (cents)	74,25	75,76
Total (cents)	143,18	146,10
Number of shares in issue at the end of the year	522 667 247	510 550 084
Weighted average number of shares in issue	498 521 707	510 550 084
Earnings per share (cents)	142,90	125,37
The calculation of earnings per share is based on net profit for the year of R712,2 r (2016: R640,1 million), divided by the weighted average number of shares in issue of year of 498 521707 (2016: 510 550 084).		
Headline earnings per share (cents)	101,10	181,82
The calculation of headline earnings per share is based on net profit for the year, for headline items, of R504,0 million (2016: R841,1 million), divided by the weighted number of shares in issue during the year of 498 521 707 (2016: 510 550 084).		
Diluted headline earnings per share (cents)	101,10	181,82

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Cash and cash equivalents at the end of the year

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS		
R'000	Reviewed year ended 30 Jun 2017	Audited year ended 30 Jun 2016
Cash generated from operations	1 092 157	1 097 191
Finance income	11 278	10 896
Interest paid	(438 089)	(411 767)
Taxation paid	(383)	(1783)
Dividends received on treasury shares	20 280	-
Dividends paid to shareholders	(718 435)	(714 566)
Cash flows from operating activities	(53 472)	(20 029)
Acquisition of, and additions to, investment properties	(601 457)	(695 282)
Acquisition of, and additions to, fixtures and fittings	(28 903)	(26 781)
Proceeds on sale of investment properties and fixtures and fittings	463 660	284 500
Acquisition of investment in listed property fund	(44 781)	-
Cash flows from investing activities	(211 481)	(437 563)
REIT restructure costs	(654)	(7 881)
Shares re-purchased	(200 207)	-
Net proceeds of issue of shares – BEE transaction	179 365	-
Share transfer tax on share buy-back	(1 469)	-
Interest-bearing debt raised	2 989 510	2 620 327
Interest-bearing debt repaid	(2 588 482)	(2 152 516)
Cash flows from financing activities	378 063	459 930
Net increase in cash and cash equivalents	113 110	2 338
Cash and cash equivalents at the beginning of the year	55 549	53 211

SEGMENTAL INFORMATION					
				Administrative	
R'000	Office	Retail	Industrial	and corporate	Total
Sectoral segments					
Revenue	641 344	798 739	281 277	-	1721360
Revenue	713 241	798 613	283 054	-	1794 908
Allowance for future rental escalations	(71 897)	126	(1777)	_	(73 548)
Segmental information					
Operating profit	391 951	435 611	164 719	(19 619)*	972 662
Investment properties	5 591 639	5 761 500	1902 450	_	13 255 589
Geographical segments					
Revenue					
- Gauteng	507 204	547 376	188 954	-	1 243 534
- Western and Eastern Cape	128 804	85 368	51 452	-	265 624
– KwaZulu-Natal	61 116	128 578	42 648	-	232 342
- Free State	16 117	37 291	-	_	53 408
	713 241	798 613	283 054	-	1794 908
Investment properties					
- Gauteng	4 126 738	4 068 784	1293 900	-	9 489 422
- Western and Eastern Cape	1006 901	578 666	365 450	-	1 951 017
– KwaZulu-Natal	399 400	778 900	243 100	-	1 421 400
- Free State	58 600	335 150	_	-	393 750

Includes income from listed property investment of R58,5 million less the R14,7 million IFRS2 charge in respect of the BEE transaction, transaction and advisory fees of R14,3 million and general Fund expenses of R49,1 million.

5 591 639 5 761 500 1 902 450

13 255 589

### **MEASUREMENTS OF FAIR VALUE**

#### 1. Financial instruments

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follow

R'000	Level 1 Jun 2017	Level 2 Jun 2017	Level 3 Jun 2017	Total Jun 2017	Level 1 Jun 2016	Level 2 Jun 2016	Level 3 Jun 2016	Total Jun 2016
GROUP								
Assets								
Investments	901 390	-	-	901 390	940 364	-	-	940 364
Derivative financial instruments	_	61 882	1 012	62 894	-	28 049	4 308	32 357
Total	901 390	61 882	1 012	964 284	940 364	28 049	4 308	972 721
Liabilities								
Derivative financial instruments	_	83 314	_	83 314	-	62 391	_	62 391
Total	-	83 314	-	83 314	-	62 391	-	62 391
Net fair value	901 390	(21 432)	1 012	880 970	940 364	(34 342)	4 3 0 8	910 330

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### Investments

640 080

712 179

This comprises shares held in a listed property company at fair value which is determined by reference to quoted closing prices at the reporting date.

### Derivative financial instruments

The fair values of the interest-rate swap contracts are determined using discounted cash flow projections based on estimates of future cash flows, supported by the terms of the relevant swap agreements and external evidence such as the ZAR O-coupon perfect-fit swap curve.

The fair values of the cross-currency interest-rate swap contracts are valued by discounting the future cash flows using the basis swap curve of the respective currencies at the dates when the cash flows will take place.

The AUD forward exchange contracts are valued by discounting the forward rates applied at the period end to the open hedged positions.

The call option contracts relating to the employee share scheme are valued using a Black Scholes option pricing model. The expected volatility of the unit price of the call options was 18,0% and the risk-free discount rate used ranged between 7,1% and 7,2%. Management considers the key input in the valuation to be the spot price. A 10% increase in the spot price results in an increase to the call options of R1,4m (2016: R1,8m). A 10% decrease in the spot price results in a decrease to the call options of RO,7m (2016: R1,4m). The call option contracts have been classified as Level 3. During the period R1,8m of the option premiums relating to these contracts were amortised and a fair value loss of R1,5m was recognised at 30 June 2017.

The forward contracts relating to the employee share scheme are valued using a financial model. Management considers the key input in the valuation to be the spot price. A 10% increase in the spot price results in an increase to the forward contracts of R11,7m (2016: R5,5m). A 10% decrease in the spot price results in a decrease to the forward contracts of R11,7m (2016: R5,5m)

### 2. Non-financial assets

Investment properties held for sale

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value at 30 June 2017:

R'000	2017 Level 3	2016 Level 3
Assets		
Investment properties	12 163 429	12 129 879

1092160

835 000

### Fair value measurement of investment properties

The fair value of commercial buildings is estimated using an income approach which discounts the estimated rental income stream, net of projected operating costs, as well as an exit value, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in place leases and expectations of rentals from future leases over the remaining economic life of the buildings

The most significant inputs, all of which are unobservable, are the estimated rental value, assumptions regarding vacancy levels, the discount rate and the reversionary capitalisation rate. The estimated fair value increases if the estimated rentals increase, vacancy levels decline or if discount rates (market yields) and reversionary capitalisation rates decline. The overall valuations are sensitive to all four assumptions. Management considers the range of reasonable possible alternative assumptions to be greatest for reversionary capitalisation rates, vacancy levels and that there is also an interrelationship between these inputs. The inputs used in the valuations at 30 June 2017 were the following:

- > The range of the reversionary capitalisation rates applied to the portfolio are between 7,25% and 18,0% with the weighted average being 10,18% (2016: 10,43%). > The discount rates applied range between 12,50% and 17,50% with the weighted average being
- 15,09% (2016: 15,28%). > A portfolio sensitivity analysis concluded that changes in discount rates and revisionary/exit
- capitalisation rates attributable to changes in market conditions can have significant impact on property valuations. A 25 basis points increase in the discount rate will decrease the value of investment property by R195.4m (1.47%) and a 25 basis points decrease will increase the value of investment property by R202,4m (1,53%). A 25 basis points decrease in the reversionary capitalisation rate will increase the value of investment property by R203,5m (1,54%) and a 25 basis points increase will decrease the value of investment property by R192,6m (1,45%). Fair values are estimated twice a year by Emira's internal registered valuer, whereafter they are

reviewed by the executive directors and approved by the Board of Directors. One third of the portfolio is valued externally each year on a rolling basis. Fair value measurement of investment properties held for sale

#### The fair value of investment properties held for sale is based on the income approach as described above.

V Mahlangu\*, NE Makiwane\*, W McCurrie\*, V Nkonyeni\*, D Thomas\*\*, U van Biljon (COO) \*Independent Non-executive Director \*\* Non-executive Director Registered address: Optimum House, Epsom Downs Office Park, 13 Sloane Street, Bryanston, 2191 Sponsor: Rand Merchant Bank (a division of FirstRand Bank Limited) Transfer Secretaries: Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Directors: G van Zvl (Chairman)\*, GM Jennett (CEO), MS Aitken\*, GS Boovens (CFO), BH Kent\*,

EMIRA PROPERTY FUND Limited (Incorporated in the Republic of South Africa) Registration number: 2014/130842/06 Share code: EMI ISIN: ZAE000203063 ("Emira" or "the Fund" or "the Company") Tax number: 9995/739/15/9 (Approved as a REIT by the JSE)

168 659

55 549