ACCELERATE
PROPERTY FUND

ACCELERATE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration No 2005/015057/06)
JSE code: APF ISIN code: ZAE000185815
(REIT status approved)
("Accelerate" or "the company")

2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL *Results*

for the six months ended 30 September 2018

HIGHLIGHTS

PROPERTY PORTFOLIO VALUE OF	TOTAL PORTFOLIO GLA OF	NET ASSET VALUE GROWTH OF	TENANT RETENTION
R12,6 billion	**621 120 m²**	**8,2%** (YEAR ON YEAR)	**92,1%**

KEY INDICATORS

Indicator	30 September 2018	31 March 2018
Portfolio value	**R12,6 billion**	R12,3 billion
GLA	**621 120 m²**	623 988 m²
Number of properties	**66**	67
Net asset value	**R8,0 billion**	R7,8 billion
Cost-to-income ratio	**15,8%**	14,8%
Weighted average lease expiry	**5,4 years**	5,5 years
Lease escalations (excluding offshore)*	**7,3%**	7,7%
Vacancies	**7,8%**	10,04%
Listed/large national tenants (by revenue)	**64,6%**	65,7%

* *6,9% including offshore.*

OUR FOCUS AREAS

The company continues to focus on the following three main priorities for the 2019 financial year:

1. Completion of the Fourways Mall super-regional development

- Opening date is 25 April 2019.
- Approximately 450 stores.
- The centre's gross lettable area (GLA) will be approximately 178 000 m² (excluding Leroy Merlin's flagship store which is separately developed and owned). Leroy Merlin stores are DIY hypermarkets established near urban areas. There are four main departments (DIY, building, décor and gardening) offering a range of products tailored to customers' needs. The Leroy Merlin store will be linked to the mall via a bridge connection over Fourways Boulevard.
- Estimated GLA on completion, including Leroy Merlin and bridge link, will be more than 200 000 m².

As the mall nears completion, tenant demand in the node has increased. Examples include:

- Fourways View: Pet World, the largest pet store in northern Johannesburg (655 m²) (http://petworld.co.za/); and Westpack (https://www.westpacklifestyle.co.za/) (2 450 m²).
- Cedar Square: Woolworths (3 000 m² of GLA) in July 2017; Smoke Daddy's (414 m²); Laurentina (354 m²); Tiger's Milk (728 m²); and Sofaworx (637 m²).

2. Extracting maximum value from the portfolio

In these trying economic times the fund continues to focus on cost management and identifying and maximising alternative but sustainable revenue streams, such as:

- non-GLA revenue;
- renewable energy revenue;
- advertising revenue; and
- development returns.

3. Reducing gearing levels and other balance sheet optimisation

Accelerate's strategy has always been to add quality defensive properties to its portfolio, as opposed to high-yielding, inferior properties. Since listing (December 2013), this strategy has resulted in several exceptional properties being acquired: CitiBank's A-grade office in Sandton; KPMG's A-grade head office in Gauteng; Eden Meander retail convenience centre in George; Portside (approximately 50%) P-grade office in Cape Town Foreshore; and an offshore retail portfolio backed by a leading DIY retailer OBI, predominantly in Austria.

These properties, together with the existing portfolio, including Fourways Mall, Cedar Square and our A-grade Foreshore office properties, anchor the fund into the future. The acquisitions contributed to the fund's loan-to-value (LTV) growing above the targeted 35% level.

Given this, and the upcoming equalisation, the fund has embarked on projects to reduce gearing levels while protecting the overall defensive nature of the portfolio.

Accelerate concluded a joint venture agreement with a development partner to develop residential units on The Buzz bulk in Fourways adjacent to The Buzz and Waterford shopping centres on Witkoppen Drive. Approximately 500 units are anticipated to be built. Accelerate will receive phased revenues for the sale of the land and share in development profits. Total profits from this project are expected to be in excess of R100 million. We expect to break ground in 2019.

Post-30 September 2018, Accelerate signed two portfolio sales to BEE purchasers for a total of R510 million. There is only one suspensive condition outstanding on both sales. The portfolio comprises non-core properties.

A further portfolio sale of approximately R300 million is under negotiation and additional ad-hoc sales of R200 million of non-core properties are in various stages of finalisation.

In addition, two sales of R450 million and R250 million are being negotiated/completed, please see the roadshow document on the company's website for potential LTV reduction.

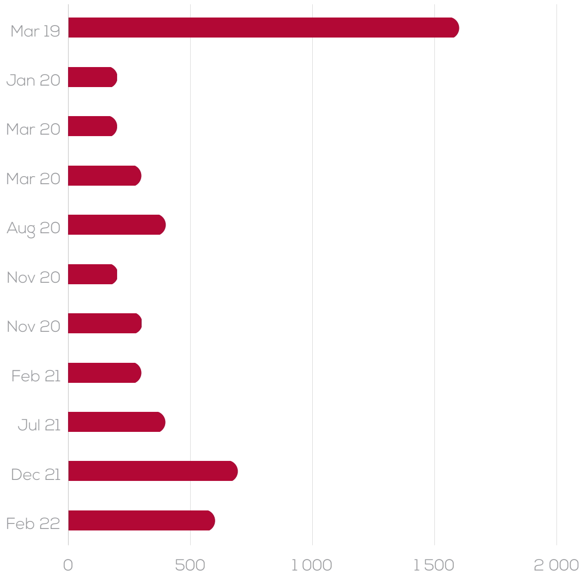
The intention is to utilise proceeds of sales towards debt reduction and share buy backs.

FINANCIAL POSITION

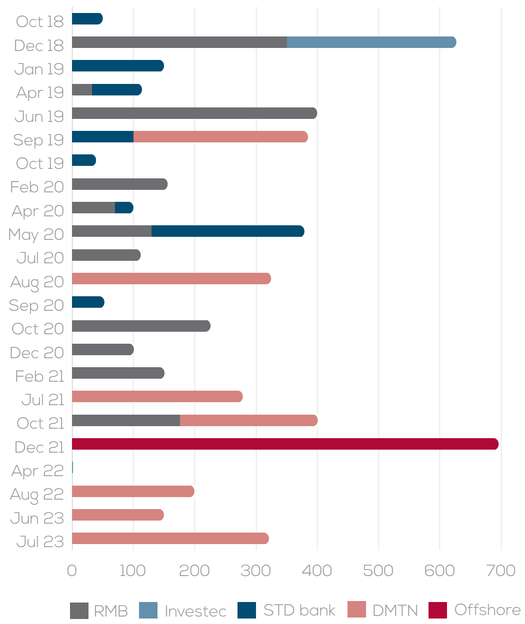
As at 30 September 2018, Accelerate's investment property portfolio had a value of R12,6 billion (31 March 2018: R12,3 billion), excluding the effects of straight-lining. The increase in the value of the portfolio is due to an increase in the external valuation of the funds offshore assets, as well as capex spend on existing assets in our local portfolio.

The slight increase in Accelerate's debt from 31 March 2018 is predominantly due to the deterioration of the rand:euro exchange rate, as well as nominal debt raised locally for, inter alia, capex spend and development projects.

Swap expiry profile (Rm)



Long-term debt allocation (Rm)



Long-term debt allocation – 30 September 2018

Bank funding – South African portfolio	30 September 2018 Rm	%	31 March 2018 Rm	%
Debt capital markets	**1 785**	**32,9**	1 487	28,9
Bank funding	**3 631**	**67,1**	3 663	71,1
Total	**5 416**	**100,0**	5 150	100,0
Weighted average debt term (years)**	**2,1**		2,1	
Short-term portion of debt*	**1 726**	**31,9**	1 492	28,9
Debt hedged***		**96,0**		97,4
Weighted average swap term (years)	**1,9**		2,1	
Blended interest rate (9,2% excluding offshore)		**8,3**		8,4
Interest cover ratio (x)	**2,3**		2,4	
LTV		**41,9**		40,7

* *R300 million of debt has been refinanced post-30 September 2018. Negotiations are well under way for the refinance of the December 2018 debt.*
** *Post-30 September 2018 the weighted average debt term improved to 2,3 years.*
*** *The current hedging level is intended to mitigate the R1,6 billion swap expiring on 31 March 2019. The company continues to manage this risk and is comfortable given current conditions.*

FINANCIAL PERFORMANCE

Despite a renewal of positive sentiment in early 2018, the South African economy is now in recession, and under continuous pressure given amongst other factors the recent deterioration of the rand and significant increases in the fuel price.

The property sector, in particular the retail sector, is struggling due to tough market conditions, lack of consumer spending and increased costs of providing goods and services. We have seen little to no improvement in property fundamentals.

Given this economic backdrop, our focus on tenant retention, reduction of vacancies, cost control, and protecting our income stream is imperative.

With concerted effort portfolio vacancies have improved. However, this is on the back of reduced rentals and greater than anticipated tenant assistance. The fund saw negative rental reversions of 4% (31 March 2018: 6,2% positive) on renewals. This trend is expected to continue in the short term given the current operating environment.

Strategic spend and investment in our core portfolio, increased finance costs, unreasonable increases in rates, and the smoothing of a large in the money swap expiring in March 2019, coupled with the current economic conditions has resulted in negative distribution growth for the period under review.

The net cost-to-income ratio rose slightly to 15,8% as expected (31 March 2018: 14,8%). Arrears remain relatively stable, and our portfolio weighted average lease expiry remains defensive, in excess of five years.

Our distribution per share is consistent with guidance provided prior to the company entering the closed period and is 27,26021 cents (2017: 28,77713 cents).

With various positive steps under way to reduce gearing and undertake share buy backs, filling of vacancies, together with significant earnings-enhancing initiatives such as The Buzz residential development, coupled with the ultimate 50% ownership of what will arguably be the leading super-regional shopping centre in southern Africa, the fund is well positioned for the medium to long term.

Distributions per share is used as a performance measure for trading statement purposes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	30 September 2018 R'000	31 March 2018 R'000
ASSETS			
Non-current assets		**12 894 712**	12 533 952
Investment property		**12 877 752**	12 515 562
Derivatives	2	**15 885**	17 371
Property, plant and equipment		**1 075**	1 019
Current assets		**701 444**	649 579
Current tax receivable		**5 534**	5 534
Derivatives		**2 603**	1 887
Trade and other receivables	2	**631 542**	565 237
Cash and cash equivalents	2	**61 765**	76 921
Investment property held for sale		**56 474**	27 000
Non-current assets held for sale		**56 474**	27 000
Total assets		**13 652 630**	13 210 531
EQUITY AND LIABILITIES			
Equity		**7 974 113**	7 861 866
Ordinary share capital		**5 112 984**	5 103 067
Other reserves		**67 995**	25 923
Non-controlling interest		**16 342**	14 519
Retained income		**2 776 792**	2 718 357
Total equity		**7 974 113**	7 861 866
Non-current liabilities		**3 721 156**	3 682 224
Borrowings	2	**3 689 263**	3 654 607
Derivatives		**31 893**	27 617
Current liabilities		**1 957 361**	1 666 441
Trade and other payables	2	**231 361**	173 526
Derivatives		**–**	385
Borrowings	2	**1 726 000**	1 492 530
Total equity and liabilities		**13 652 630**	13 210 531

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note(s)	For the six months ended 30 September 2018 R'000	For the six months ended 30 September 2017 R'000
Revenue, excluding straight-line rental revenue adjustment		602 972	606 305
Straight-line rental revenue adjustment		33 065	26 921
Revenue		636 037	633 226
Property expenses		(188 716)	(169 024)
Net property income		447 321	464 202
Operating expenses		(24 304)	(26 689)
Operating profit		423 017	437 513
Fair value adjustments	4	30 140	(54 699)
Unrealised gains		20 915	81 213
Other income		1 048	648
Finance income		31 777	36 345
Profit before long-term debt interest and taxation		506 897	501 020
Finance costs		(178 028)	(180 155)
Profit before taxation		328 869	320 865
Taxation		–	(883)
Profit for the period		328 869	319 982
Other comprehensive income that may be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign operations		45 248	4 907
Total comprehensive income		374 117	324 889
Profit attributable to:			
Shareholders of the parent		326 899	318 813
Non-controlling interest		1 970	1 169
EARNINGS PER SHARE			
Basic earnings per share (cents)		33,02	33,21
Diluted earnings per share (cents)		32,41	32,74
DISTRIBUTABLE EARNINGS			
Profit after taxation attributable to equity holders		326 899	318 813
Less: straight-line rental revenue adjustment		(33 065)	(26 921)
Less: unrealised gains		(20 915)	(81 213)
(Less)/add: fair value adjustments		(28 829)	55 358
Add: Lease amortisation		10 262	–
Distributable earnings		254 352	266 037
Distribution per share (cents)		27,260	28,777

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Foreign currency translation reserve R'000	Other reserves R'000	Share capital R'000	Retained income R'000	Total attributable to equity holders of group R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 April 2017	(1 439)	54 383	5 156 011	2 131 616	7 340 571	12 421	7 352 992
Profit for the period				318 813	318 813	1 169	319 982
Other comprehensive income	3 395	–	–	–	3 395	1 512	4 907
Total comprehensive income for the period	3 395	–	–	318 813	322 208	2 681	324 889
Issue/(repurchase) of shares	–	–	(63 150)	–	(63 150)	–	(63 150)
Distribution paid	–	(36 999)	–	(232 412)	(269 411)	–	(269 411)
Conditional share plan reserve	–	7 094	–	–	7 094	–	7 094
Total contributions by and distributions to owners of company recognised directly in equity	–	(29 905)	(63 150)	(232 412)	(325 467)	–	(325 467)
Balance at 30 September 2017	1 956	24 478	5 092 861	2 218 017	7 337 312	15 102	7 352 414
Balance at 1 April 2018	**4 520**	**21 403**	**5 103 067**	**2 718 357**	**7 847 347**	**14 519**	**7 861 866**
Profit for the period	**–**	**–**	**–**	**326 899**	**326 899**	**1 970**	**328 869**
Other comprehensive income	**45 395**	**–**	**–**	**–**	**45 395**	**(147)**	**45 248**
Total comprehensive income attributable to equity holders	**45 395**	**–**	**–**	**326 899**	**372 294**	**1 823**	**374 117**
Issue of shares	**–**	**(9 917)**	**9 917**	**–**	**–**	**–**	**–**
Distribution paid	**–**	**–**	**–**	**(268 464)**	**(268 464)**	**–**	**(268 464)**
Conditional share plan reserve	**–**	**6 594**	**–**	**–**	**6 594**	**–**	**6 594**
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(3 323)**	**9 917**	**(268 464)**	**(261 870)**	**–**	**(261 870)**
Balance at 30 September 2018	**49 915**	**18 080**	**5 112 984**	**2 776 792**	**7 957 771**	**16 342**	**7 974 113**

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 September 2018 R'000	For the six months ended 30 September 2017 R'000
Cash flows from operating activities		
Cash generated from operations	**294 288**	261 688
Distribution paid	**(268 464)**	(232 412)
Finance income	**31 777**	36 345
Tax paid	**–**	(271)
Net cash from operating activities	**57 601**	65 350
Cash flows from investing activities		
Sale/(purchase) of property, plant and equipment	**46**	(206)
Purchase of investment property/capitalised cost	**(179 857)**	(126 886)
Proceeds from disposal of investment property	**27 000**	–
Net cash from investing activities	**(152 811)**	(127 092)
Cash flows from financing activities		
New long-term borrowings	**800 436**	847 664
Settled long-term borrowings	**(545 499)**	(525 000)
Repurchase of shares	**–**	(63 150)
Finance costs	**(178 028)**	(180 155)
Antecedent distribution	**–**	(36 999)
Net cash from financing activities	**76 909**	42 360
Total cash movement for the period	**(18 301)**	(19 382)
Effects of exchange rate movements on offshore cash balances	**3 145**	–
Cash at the beginning of the period	**76 921**	133 618
Total cash at the end of the period	**61 765**	114 236

DISTRIBUTION ANALYSIS

	For the six months ended 30 September 2018 R'000	For the six months ended 30 September 2017 R'000
Distributable earnings	**254 352**	266 037
Shares qualifying for distribution		
Number of shares at period-end	**993 689 874**	986 372 706
Less: Bulk ceded shares to Accelerate[#]	**(51 070 184)**	(51 070 184)
Less: Shares repurchased	**(9 567 404)**	(10 828 803)
Shares qualifying for distribution	**933 052 286**	924 473 719
Interim distribution per share (cents)	**27,26021**	28,77713

[#] *The cession on these shares relates to bulk in the Fourways area acquired by Accelerate at listing. These shares will only be eligible for dividends at the earlier of the development of the bulk or December 2021.*

EARNINGS PER SHARE

	For the six months ended 30 September 2018 R'000	For the six months ended 30 September 2017 R'000
Basic earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of Accelerate by the weighted average number of ordinary shares outstanding during the period.		
Reconciliation of basic/diluted earnings to headline earnings		
Total profit after tax	**326 899**	318 813
Fair value adjustment on investment property	**(33 491)**	(9 134)
Headline profit attributable to shareholders	**293 408**	309 679
Basic earnings per share (cents)	**33,02**	33,21
Diluted earnings per share (cents)	**32,41**	32,74
Headline earnings per share (cents)	**29,64**	32,26
Diluted headline earnings per share (cents)	**29,09**	31,80
Shares in issue at the end of the period	**993 689 874**	986 372 706
Weighted average number of shares in issue	**990 013 765**	960 010 924
Dilutionary instruments		
Shares subject to the conditional share plan	**18 753 047**	13 818 819
Weighted average number of dilutionary instruments	**18 753 047**	13 818 819
Total diluted weighted average number of shares in issue	**1 008 766 812**	973 829 743

SEGMENTAL ANALYSIS

The individual properties are aggregated into segments with similar economic characteristics such as nature of the property and the occupier market it serves. The company considers that this is best achieved by aggregating properties into office, industrial, retail and European retail.

Consequently, the company is considered to have four reportable operating segments, as follows:
- Office segment: acquires, develops and leases offices;
- Industrial segment: acquires, develops and leases warehouses and factories;
- Retail segment: acquires, develops and leases shopping malls, community centres as well as retail centres.
- European single-tenant segment: acquires, develops and leases single-tenant space backed by long-term leases.

Group administrative costs, profit/loss on disposal of investment property, finance revenue, finance costs, income taxes and segment liabilities are not reported on a segmented basis.

There are no sales between segments.

Period ended 30 September 2017 (six months)

	Office R'000	Industrial R'000	Retail R'000	European retail R'000	Total R'000
Statement of comprehensive income					
Revenue, excluding straight-line rental revenue adjustment	176 605	35 275	361 012	33 413	606 305
Straight-line rental adjustment	16 432	1 017	9 472	–	26 921
Property expenses	(39 683)	(5 482)	(115 142)	(8 717)	(169 024)
Segment operating profit	153 354	30 810	255 342	24 696	464 202
Other operating expenses					(26 689)
Unrealised gains					81 213
Other income					648
Fair value losses					(54 699)
Finance income					36 345
Long-term debt interest					(180 155)
Profit before tax					320 865

Period ended 30 September 2018 (six months)

	Office R'000	Industrial R'000	Retail R'000	European retail R'000	Total R'000
Statement of comprehensive income					
Revenue, excluding straight-line rental revenue adjustment	**167 865**	**30 320**	**352 962**	**51 825**	**602 972**
Straight-line rental adjustment	**18 779**	**885**	**13 401**	**–**	**33 065**
Property expenses	**(37 020)**	**(6 384)**	**(121 618)**	**(23 694)**	**(188 716)**
Segment operating profit	**149 624**	**24 821**	**244 745**	**28 131**	**447 321**
Fair value adjustments on investment property	**(1 621)**	**–**	**–**	**36 423**	**34 802**
Segment profit	**158 003**	**24 821**	**234 745**	**64 554**	**482 123**
Other operating expenses					**(24 304)**
Other income					**1 048**
Fair value loss on financial instruments					**(4 662)**
Unrealised gains					**20 915**
Finance income					**31 777**
Long-term debt interest					**(178 028)**
Profit before tax					**328 869**

SEGMENTAL ANALYSIS (continued)

For the year ended 31 March 2018

	Office R'000	Industrial R'000	Retail R'000	European retail R'000	Total R'000
Statement of financial position extracts at 31 March 2018					
Assets					
Investment property balance 1 April 2017	3 276 550	650 541	6 681 888	1 251 710	11 860 689
Acquisitions	48 000	–	–	–	48 000
Capitalised costs	12 314	1 775	205 755	–	219 844
Disposals	(81 945)	–	(194 462)	–	(276 407)
Investment property held for sale	–	–	27 000	–	27 000
Straight-line rental revenue adjustment	31 095	991	13 733	–	45 819
Foreign exchange gains	–	–	–	27 756	27 756
Fair value adjustments	158 497	(116 567)	529 387	18 544	589 861
Segment assets at 31 March 2018	3 444 511	536 740	7 263 301	1 298 010	12 542 562
Other assets not managed on a segmental basis					
Derivatives					17 371
Equipment					1 019
Current assets					649 579
Total assets					13 210 531

For the period ended 30 September 2018

	Office R'000	Industrial R'000	Retail R'000	European retail R'000	Total R'000
Statement of financial position extracts at 30 September 2018					
Assets					
Investment property balance 1 April 2018	**3 444 511**	**536 740**	**7 263 301**	**1 298 010**	**12 542 562**
Capital expenditure	**50 905**	**2 534**	**126 148**	**–**	**179 587**
Disposals/classified as held for sale	**(27 000)**	**–**	**(56 474)**	**–**	**(83 474)**
Investment property held for sale	**–**	**–**	**56 474**	**–**	**56 474**
Foreign exchange gains	**–**	**–**	**–**	**171 210**	**171 210**
Straight-line rental revenue adjustment	**18 779**	**885**	**13 401**	**–**	**33 065**
Fair value adjustments	**(1 621)**	**–**	**–**	**36 423**	**34 802**
Segment assets at 30 September 2018	**3 485 574**	**540 159**	**7 402 850**	**1 505 643**	**12 934 226**
Other assets not managed on a segmental basis					
Derivatives					**15 885**
Equipment					**1 075**
Current assets					**701 444**
Total assets					**13 652 630**

NOTES TO THE FINANCIAL STATEMENTS

Corporate information

The condensed consolidated interim financial statements of Accelerate for the period ended 30 September 2018 were authorised for issue in accordance with a resolution of the directors passed on 26 November 2018. Accelerate is a public company incorporated and domiciled in South Africa whose shares are publicly traded on the JSE. The registered office is located at Cedar Square shopping centre, corner Cedar Road and Willow Avenue, Fourways, Johannesburg. The principal activities of Accelerate are the acquisition, development and leasing of properties. The functional and presentation currency of Accelerate is South African rand. All figures are rounded off to R'000 except where otherwise stated.

Basis of preparation

These condensed consolidated interim financial statements for the period ended 30 September 2018 are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), contain the minimum information required by IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa, 71 of 2008.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the previous financial period, except for the new and amended IFRS that became effective during the 30 September 2018 reporting period, none of which had any material impact on Accelerate's financial results.

These condensed consolidated interim financial statements have been prepared under the historical cost convention, except for investment properties and derivatives which are measured at fair value.

The fair value of investment properties is determined by directors with reference to market-related information, while other financial liabilities are valued with reference to market-related information and valuations as appropriate. All investment properties are valued by independent external valuers on a three-year rolling cycle.

These condensed consolidated interim financial statements were prepared under the supervision of Mr Dimitri Kyriakides (CA)SA in his capacity as chief financial officer.

Expected impact of IFRS 9, 15 and 16

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial period, except for the new standards, amendments and interpretations that became effective during the 30 September 2018 reporting period. However, they are not expected to have a significant impact on the annual financial statements of Accelerate.

The following accounting standards have been adopted by Accelerate, their impact is discussed below.

IFRS 9 Financial Instruments

The impact of the implementation of IFRS 9 in the current financial period is as follows:

- **Trade receivables**

  Accelerate previously evaluated the possible credit loss per tenant on a case-by-case basis and provided for the possible loss in the annual financial statements. This assessment is re-evaluated on an ongoing basis and the provision adjusted. This method of accounting has remained materially the same after the implementation of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

- The adoption of IFRS 15 did not have any impact on the presentation and disclosure of Accelerate's financial statements.

IFRS 16 Leases

- Accelerate is not party to any material lease contracts as a lessee. Due to the nature of Accelerate's business, being the rental of office, retail and industrial space to tenants, Accelerate does act as a lessor in lease contracts with tenants. Lessor accounting has remained substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17, and distinguish between two types of leases: operating and finance leases.

1. **Fair value of financial investment properties**

Levels of fair value measurements

It is the policy of Accelerate to have every property valued by an external valuer on a three-year rotational basis as required by the JSE Listings Requirements. This means that each property Accelerate holds is independently valued at least every three years. The remaining investment properties held at the end of each reporting period are valued by Accelerate's directors.

Each year the directors appoint external valuers who are responsible for the external valuations of property for the annual financial statements. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuations for properties not externally valued are performed internally by the directors. Internal methods are aligned with those used by external valuers.

At each valuation date, the directors analyse the movement in each property's value. For this analysis, the directors verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts (e.g., rent amounts in rental contracts), by comparing market reports (e.g., market rent, cap rates in property market reports) and other relevant documents. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property. The directors compare each property's change in fair value with relevant external sources (such as the investment property database or other relevant benchmarks) to determine whether the change is reasonable.

The directors have presented the valuation results at 31 March 2018 to Accelerate's independent auditors. This includes the major assumptions used in the valuations, with an emphasis on property with fair value changes outside of the relevant thresholds.

Valuation techniques

The fair values of investment properties are determined using either a discounted cash flow (DCF) method or income capitalisation method (cap rate).

Discounted cash flow method

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life, including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease periods, re-letting, redevelopment or refurbishment. The appropriate duration is typically driven by the market behaviour that is characteristic of the class of real property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs, and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Income capitalisation method

Under the cap rate method, a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. The difference between gross and net rental income includes the same expense categories as those for the DCF method, with the exception that certain expenses are not measured over time but included on the basis of a time-weighted average, such as the average lease costs. Under the cap rate method, over and under-rent situations are separately capitalised/(discounted).

The external valuations at 31 March 2018 were performed by Mills Fitchet (TVL) (Pty) Ltd and David Hoffman Valuations CC, credited independent valuers with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The internal valuations were performed by the directors. The valuation models applied are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13.

The movement in Accelerate's investment property balance from 31 March 2018 to 30 September 2018 is predominantly due to acquisitions and disposals during the period. New properties acquired were recognised in the books of Accelerate at their purchase price, which the directors deem to be the fair value of the property at the date of acquisition.

The directors have assessed the changes in market conditions and inputs to the valuations performed at 31 March 2018 and have deemed the valuations performed at 31 March 2018 to still be applicable at 30 September 2018.

For the most recent valuations performed, the portfolio had the following vacancy rates, calculated based on vacant area to total GLA along with the following estimates of when actual vacancy will equal the long-term rate:

Class of property	Fair value at 30 September 2018 R'000	Current vacancies	Long-term vacancies	Estimated period of convergence
Office	**3 485 574**	0% – 100%	5% – 10%	2 years
Industrial	**540 159**	0%	0%	n/a
Retail	**7 402 850**	0% – 64.2%	5% – 10%	3 years
European retail	**1 505 643**	0%	0%	n/a
Total	**12 934 226**			

Changes in valuation techniques

There were no changes in valuation techniques during the period.

Highest and best use

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

Valuation techniques and inputs derive level 3 fair values

The table below presents the following for each class of the investment property:

- The fair value measurements at the end of the reporting period
- A description of the valuation techniques applied
- The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building
- Quantitative information about the significant unobservable inputs used in the fair value measurement

Class of property	Fair value at 30 September 2018 R'000	Valuation technique	Key unobservable inputs	Ranges
Office	**3 485 574**	Income capitalisation/ DCF method	• ERV • Rental growth p.a. • Long-term vacancy rate	• R46,00 – R249,00/m² • 7,7% • 5% – 10%
Industrial	**540 159**	Income capitalisation/ DCF method	• ERV • Rental growth p.a. • Long-term vacancy rate	• R34,00 – R147,00/m² • 7.8% • 0%
Retail	**7 402 850**	Income capitalisation/ DCF method	• ERV • Rental growth p.a. • Long-term vacancy rate	• R45,00 – R238,00/m² • 7.7% • 5% - 10%
European retail	**1 505 643**	Income capitalisation/ DCF method	• ERV • Rental growth p.a. • Long-term vacancy rate	• R69,00 – R207,00/m² • 0% • 0%
	12 934 226			

Descriptions and definitions

The above table includes the following descriptions and definitions relating or valuation techniques and key unobservable inputs made in determining the fair values.

Estimated rental value (ERV)

The net rent at which space could be let in the market conditions prevailing at the date of valuation.

Rental growth

The estimated average increase in rent based on both market estimations and contractual indexations.

Long-term vacancy rate

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.

Sensitivity analysis for significant changes in unobservable inputs within level 3 of the hierarchy.

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the fund's portfolios of investment property are:

- ERV
- Rental growth
- Long-term vacancy rate
- Discount rate/yield

Significant increases/(decreases) in the ERV (per m^2 p.a.) and rental growth p.a. in isolation would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long-term vacancy rate and discount rate (and exit or yield) in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption made for the ERV (per m^2 p.a.) is accompanied by:

- a similar change in the rental growth p.a. and discount rate (and exit yield); and
- an opposite change in the long-term vacancy rate.

Across the portfolio of properties held, it was determined that if the equivalent yield applied per property increases/(decreases) by 50 basis points, the overall value of the portfolio will decrease by 5,9% if the equivalent yield is increased, and increase by 6,9% if the equivalent yield is decreased.

2. Fair value of financial assets and liabilities

31 March 2018

	Carried at fair value R'000	Amortised cost# R'000	Total R'000
Financial assets			
Trade and other receivables	–	565 235	565 235
Derivatives*	19 258	–	19 258
Cash and cash equivalents	–	76 921	76 921
Total financial assets	19 258	642 156	661 414
Financial liabilities			
Derivatives*	(28 002)	–	(28 002)
Long-term interest-bearing borrowings	–	(3 654 607)	(3 654 607)
Trade and other payables	–	(165 401)	(165 401)
Current portion of long-term debt	–	(1 492 530)	(1 492 530)
Total financial liabilities	(28 002)	(5 312 538)	(5 340 540)

30 September 2018

	Carried at fair value R'000	Amortised cost# R'000	Total R'000
Financial assets			
Trade and other receivables	**–**	**631 542**	**631 542**
Derivatives*	**18 488**	**–**	**18 488**
Cash and cash equivalents	**–**	**61 765**	**61 765**
Total financial assets	**18 488**	**693 307**	**711 795**
Financial liabilities			
Derivatives*	**(31 893)**	**–**	**(31 893)**
Long-term interest-bearing borrowings	**–**	**(3 689 263)**	**(3 689 263)**
Trade and other payables	**–**	**(223 985)**	**(223 985)**
Current portion of long-term debt	**–**	**(1 726 000)**	**(1 726 000)**
Total liabilities	**(31 893)**	**(5 639 248)**	**(5 671 141)**

* *The values of the derivative financial assets shown at fair value are based on inputs other than quoted prices that are observable in the market for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) – level 2. The value of the swaps is determined as the discounted value of the future cash flows to be paid or received from the swap assets. For the valuation, current Jibar was used as an indication of future Jibar.*

The carrying value of financial assets and liabilities carried at amortised cost is considered to approximate the fair value of those financial assets and liabilities. There have been no significant changes in valuation techniques or transfers between fair value hierarchy levels.

3. Related-party transaction

Relationships

M Georgiou and A Costa are directors of both Accelerate Property Fund Ltd and Accelerate Property Management Company (Pty) Ltd. Both directors' full remuneration is paid by Accelerate Property Fund Ltd. M Georgiou owns 100% of Fourways Precinct (Pty) Ltd through The Michael Family Trust and also owns 100% of Accelerate Property Management Company (Pty) Ltd.

Related-party transactions and balances	At 30 September 2018 R'000	At 31 March 2018 R'000
RELATED-PARTY BALANCES		
Loan accounts		
The Michael Family Trust	**63 462**	62 142
Fourways Precinct (Pty) Ltd	**53 088**	39 646
Vacancy guarantee		
Fourways Precinct (Pty) Ltd	**17 627**	17 038
Development guarantee		
Fourways Precinct (Pty) Ltd	**159 072**	105 629

Related-party transactions	For the six months ended 30 September 2018 R'000	For the six months ended 30 September 2017 R'000
RELATED-PARTY TRANSACTIONS		
Development guarantee		
Fourways Precinct (Pty) Ltd	**49 801**	25 721
Interest charged		
Interest charged on outstanding amounts:		
Fourways Precinct (Pty) Ltd	**6 581**	3 165
The Michael Family trust	**2 268**	1 910
Property management costs		
Fourways Precinct (Pty) Ltd	**(2 174)**	(1 906)
Accelerate Property Management Company (Pty) Ltd	**(3 543)**	(3 744)
Letting commission		
Fourways Precinct (Pty) Ltd	**(5 211)**	(3 282)

4. Fair value adjustments

Fair value adjustments	For the six-month period ended 30 September 2018 R'000	For the six-month period ended 30 September 2017 R'000
Fair value gain on investment property	**34 802**	9 793
Mark to market movement on swaps	**(4 662)**	(64 492)
	30 140	(54 699)

5. Economic hedges

Interest rate swaps

Accelerate holds interest rate swap contracts with notional amounts of R4 500 000 000 (31 March 2018: R4 400 000 000), whereby it pays a fixed rate of interest and receives a variable rate based on one/three-month Jibar on the notional amount. The swap is used to hedge exposure to the variable interest rate payments on the variable rate secured loans.

The interest rate swaps have been used to match the critical terms of the underlying debt to achieve economic hedging (hedge accounting has not been applied for accounting purposes). Cash flows are expected to occur until July 2022 and will be recognised through profit or loss as and when incurred.

The aggregate fair value of the interest rate swaps at the end of the reporting period is R14 795 687 (31 March 2018: R26 114 516).

The valuation techniques applied to determine the fair value of the derivatives, which include the swap models, use present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates. All derivative contracts are fully cash-collateralised, thereby eliminating both counterparty and Accelerate's own non-performance risk. The derivatives are classified in level 2 of the fair value hierarchy.

Cross-currency swaps

Accelerate also holds a cross-currency swap with a nominal value of €21 000 000 (2017: €21 000 000) to hedge exchange rate movements in euro-denominated debt. The cross-currency swap matures in January 2020.

The fair value of the cross-currency swaps at the end of the reporting period was negative R28 201 231 (31 March 2018: R17 371 005).

6. Capital commitments

In terms of Accelerate's budgeting process, R155 million was allocated to Accelerate's planned capital expenditure. As such, Accelerate views this amount as authorised and not contracted.

7. Financial guarantee

During December 2016 an executive buy-in structure was initiated in order to ensure that the executive directors of Accelerate are adequately incentivised and aligned with interests of the company and its shareholders in the long term. SPVs funded through bank debt from RMB can acquire shares up to a maximum of R205 million in Accelerate at market-related share prices. The interest on bank debt in the SPVs will be serviced by the distributions received from APF. RMB will have cession over these shares and the directors will only have an unconditional right to the shares in the SPVs once the bank debt has been settled. Accelerate guarantees to RMB the performance of each SPV of its obligation. The maximum liability Accelerate may currently have under the guarantees is the equivalent of 63,5% of the total drawn commitment to the extent that losses incurred by RMB are not settled by the sale of the shares RMB has cession over. At 30 September 2018 R189,5 million of the RMB facility was drawn down. At 30 September 2018 a liability of R70,5 million was recognised for this guarantee.

8. SUBSEQUENT EVENTS

Non-adjusting events after 30 September 2018

Eshowe Mall in KwaZulu-Natal was sold on 9 November 2018 for R60 million.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors of Accelerate assume full responsibility for the preparation of the condensed consolidated interim financial statements.

INTERIM DISTRIBUTION

The board of Accelerate has declared a final cash distribution (number 10) (cash distribution) of 27,26021 cents per ordinary share (2017: 28,77713 cents per ordinary share) for the period ended 30 September 2018.

The source of the distribution comprises predominantly net income from property rentals earned from the company's property investments as well as interest earned on excess cash on deposit. Please refer to the condensed statement of comprehensive income for further details.

A dividend withholding tax of 20% will be applicable on the dividend portion to all shareholders who are not exempt.

The issued share capital at the declaration date is 993 689 874 ordinary shares. The company's income tax reference number is: 9868626145.

Tax implications for South African resident shareholders

Accelerate was granted REIT status by the JSE with effect from 12 December 2013 in line with the REIT structure as provided for in the Income Tax Act, 58 of 1962, as amended (the Income Tax Act) and section 13 of the JSE Listings Requirements.

The REIT structure is a tax regime that allows a REIT to deduct qualifying distributions paid to investors in determining its taxable income.

The cash distribution of 27,26021 cents per ordinary share meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act (a qualifying distribution). Accordingly, qualifying distributions received by local tax resident shareholders 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 Accelerate 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 CSDP or broker, as the case may be, in respect of uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

- a declaration that the distribution is exempt from dividends tax; and
- a written undertaking to inform the CSDP, broker or transfer secretaries, as the case may be, should the circumstances affecting the exemption change or the beneficial owner ceases 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 above mentioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Tax implications for non-resident shareholders

Qualifying distributions 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 20%, 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 of 20%, the net amount due to non-resident shareholders will be 21,80817 cents per ordinary share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied upon if the non-resident shareholders have provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- 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 ceases 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 above mentioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

INTERIM DISTRIBUTION (continued)

Summary of the salient dates relating to the cash distribution are as follows:
(to be updated when finalised)

	2018
Declaration date	Monday, 26 November
Last day to trade (LDT) cum dividend	Tuesday, 11 December
Shares to trade ex-dividend	Wednesday, 12 December
Record date	Friday, 14 December
Payment date	Tuesday, 18 December

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 December 2018 and Friday, 14 December 2018, both days inclusive.

On behalf of the board

Mr G Cruywagen
Non-executive chairman

Mr M Georgiou
Chief executive officer

Mr D Kyriakides
Chief financial officer

26 November 2018

CORPORATE INFORMATION

Directors*

Mr A Costa (chief operating officer)
Dr GC Cruywagen (lead independent, non-executive chairman)
Mr JRP Doidge (independent non-executive director)
Mr TJ Fearnhead (independent non-executive director)
Mr MN Georgiou (chief executive officer)
Mr D Kyriakides (chief financial officer)
Ms K Madikizela (independent non-executive director)
Mr JRJ Paterson (executive director)
Associate Prof FM Viruly (independent non-executive director)

Registered office and business address

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Company secretary

Joanne Matisonn
Company secretary
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Cedar Square shopping centre
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* *Mr TT Mboweni resigned as non-executive chairman during the period due to his appointment as Minister of Finance.*

Transfer secretaries

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Email: proxy@computershare.co.za
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Sponsor

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Auditors

Ernst & Young Incorporated
102 Rivonia Road, Sandton, Johannesburg, 2149
Tel: 011 772 3000

Internal auditors

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