equites
PROPERTY FUND

Integrated Report **2019**

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Equites is the only specialised logistics REIT listed on the JSE. It has executed its vision of becoming a globally relevant REIT and it currently has a footprint in SA and the UK.

About this report

Report scope and boundary
The board of Equites are pleased to present the fifth Integrated Report for the year ended 28 February 2019. The report has been compiled in accordance with IFRS, the requirements of the Companies Act, the JSE Listings Requirements, and the King IV. This report covers financial and non-financial performance of the group and provides an overview of the group's performance, strategy, risks and governance. The report focuses on both the group's operations in SA and in the UK.

Materiality
Equites identifies the concept of materiality to represent any item that could substantively affect the group's ability to create value and influence the decisions of stakeholders. All items identified as being material by the board have been disclosed in this report.

Report approval and independent assurance
The board has approved this Integrated Report and believes that it has been prepared in accordance with best practice and addresses all material aspects of the group. Independent assurance has been provided over all financial and certain non-financial information presented in this report. PricewaterhouseCoopers Inc., as the group's external auditors, has issued an unqualified audit opinion on the consolidated financial statements.

About Equites

Key metrics

+37.2%
in distributable earnings

+10.2%
net asset value per share

+11.8%
distribution per share

Over the past five years, the group has curated a high-quality logistics portfolio across SA and the UK, with a focus on assets that are modern, well-located, and tenanted by A-grade users on long-dated leases. The group benefits from being a market leader in this class of specialisation, where the company is still the only listed property company on the JSE to provide shareholders with pure exposure to prime logistics assets. The group initially operated solely in SA until June 2016 when it entered the UK market to counteract the inherent emerging market risk and simultaneously provide access to one of the most advanced logistics markets in the world.

The group assets are situated in proven logistics nodes near large population centres and major transport links that have predictable patterns of strong rental growth. The group focuses on premium "big-box" distribution centres, let to investment grade tenants on long-dated "triple net" leases, built to institutional specifications.

The growth strategy in SA has focused on single asset acquisitions, high-quality portfolio acquisitions, the acquisition of strategic land holdings in order to capture increasing occupier demand in key logistics nodes and the development of prime logistics facilities on controlled land parcels. This in-house development expertise and the ability to unlock key nodes have been instrumental to the group's success and will continue to play a role in the group's ongoing profitability and long-term value creation.

The group has grown its investment into the UK where high levels of demand for the asset class point to continued, robust performance of the sector. Despite concerns around Brexit, strong market fundamentals supported by e-commerce suggest continued optimism and further yield compression, making this market increasingly desirable. Given the significant demand, opportunities to acquire completed properties that meet the group's requirements have been limited and consequently the last four transactions concluded in that market have been development funding arrangements.

The company controls 101.4 hectares of prime industrial land in Gauteng and Cape Town which is being actively marketed.

During the current year, the group made the following changes to its investment property portfolio:

- Acquired one distribution centre in KwaZulu-Natal and two in Gauteng;
- Completed six developments in SA and two in the UK;
- Commenced two developments and concluded two further development deals in SA;
- Concluded three development funding agreements and commenced construction on these deals;
- Acquired 66 hectares of strategic vacant land; and
- Completed the disposal of 2 non-core properties.

Our business

Historic timeline

Equites has been relentless in its pursuit to cultivate a portfolio of prime logistics assets within key logistics nodes across two jurisdictions.

2014

June 2014
Equites listed on the JSE with a R1bn portfolio all located in the Western Cape

2015

February 2015
Portfolio value of R1.5bn

July 2015
Acquired our first portfolio of assets in Meadowview, Gauteng

November 2015
Capital raise

2016

February 2016
Portfolio value of R4bn

April 2016
Completed construction of the first development deal for The Foschini Group in Equites Park – Lord's View, Gauteng

June 2016
Acquired first UK logistics property let to Tesco in Hinckley

2017

March 2017
Inclusion in ALSI

February 2017
Portfolio value of R6bn

February 2017
Commenced marketing and selling of our commercial portfolio

November 2016
Capital raise

July 2016
Acquired 8 properties in Waterfall, Gauteng through a joint venture with Attacq

June 2017
Inclusion in SAPY20

June 2017
Capital raise

December 2017
Concluded first UK Development Funding Agreement for a DHL logistics facility in Reading

2018

February 2018
Portfolio value of R8bn

May 2018
Issued our first cash dividend with an election to reinvest the cash dividend in return for Equites shares

June 2018
Capital raise

August 2018
Construction completed on our first UK development funded logistics facility let to DSV

September 2018
Acquired first property in KwaZulu-Natal let to Pick n Pay

February 2019
Portfolio value of R12bn

February 2019
Equites received approval from the JSE for a R2bn domestic-medium term note programme

February 2019
Capital raise

2019

December 2018
First park owned by Equites to be fully developed and let in Atlantic Hills, Western Cape

October 2018
Obtained a level 4 B-BBEE rating with 53% verified black ownership

SA Portfolio[1]

Gauteng key nodes

The group's strategy in SA is focused on acquiring large, single assets or portfolios which meet strict investment criteria and developing world class distribution centres for blue chip tenants. The group acknowledges that the Durban-Gauteng freight corridor is a backbone of the South African freight transport network and believes that holding key tracts of land in these locations is essential to secure RFPs and to deliver on its development strategy.

1 Meadowview

2 Longmeadow

3 Meadowview

4 Pinetown

5 Lord's View

6 Atlantic Hills

7 Meadowview

8 Midrand

9 Midrand

10 Parow

7.7%
Weighted average SA lease escalation

7.9
WALE of SA portfolio
(in years to expiry)

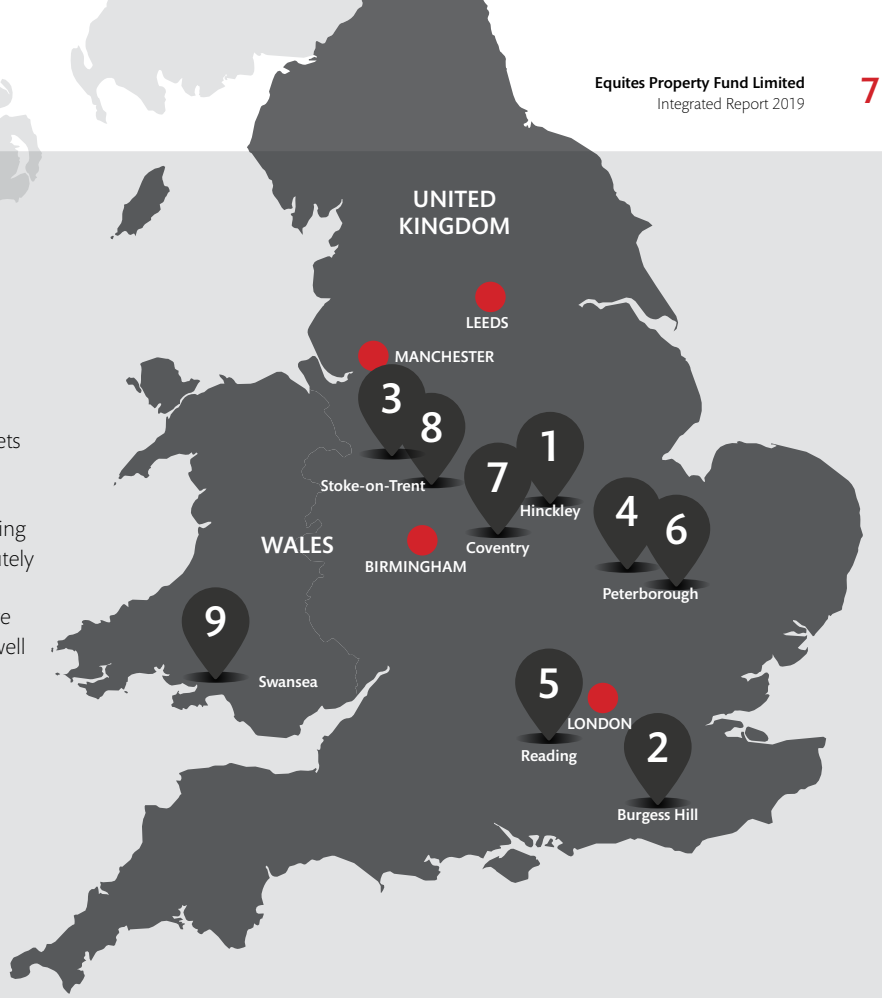
R8.0bn
SA portfolio value

[1] Tenants listed above are a subset of the group's portfolio.

UK Portfolio

Supply chain productivity

The group's strategy in the UK is to focus on the development and acquisition of big-box logistics assets and last-mile fulfilment centres close to major conurbations. Research indicates that online-only retailers require three times the amount of warehousing space compared to traditional retailers. Equites is acutely aware of the impact of e-commerce on the retail landscape and acknowledges the impact this will have on the demand for logistics warehouses, which it is well positioned to meet.



1 **Hinckley** — TESCO

2 **Burgess Hill** — dpd

3 **Stoke-on-Trent** — DSV

4 **Peterborough** — Coloplast

5 **Reading** — DHL

6 **Peterborough** — DSV

7 **Coventry** — KUEHNE+NAGEL

8 **Stoke-on-Trent** — amazon

9 **Swansea** — dpd

5.4%
Average UK acquisition yield

11.0
WALE of UK portfolio
(in years to expiry)

£210m
UK portfolio value

Chairman's report

Leon Campher
Chairman

At the time of listing on the JSE in June 2014, Equites set out with the vision of delivering sustainable shareholder value through a logistics-focused property portfolio. I am pleased to confirm that the company continues to be successful in achieving this vision, which is evidenced by an excellent fifth set of financial results. Given the latest set of results, Equites has exceeded its financial targets every single year since listing.

Delivering shareholder value

Equites managed to grow DPS by 11.8% compared to the previous financial period. The quality of the group's property portfolio and impeccable tenant base give me confidence that the company should continue to deliver strong distribution growth, without sacrificing long-term shareholder value. The group has increased the value of its portfolio of quality assets by 48% to R12 billion during the same period. Importantly, this growth in distribution and increased portfolio value have been achieved in combination with an increase in NAV per share of 10.2% from R15.36 at 28 February 2018 to R16.92 at 28 February 2019. The demand for our equity has also remained strong, with the company successfully raising R1.5 billion through two over-subscribed accelerated bookbuilds. These excellent results were achieved through a single-minded focus by the board and management on the continuous improvement of our property fundamentals, which are what ultimately creates the base for the continuous outperformance.

Our economic environment

Our strategy in combatting the sluggish economy has focused on maintaining a strong balance sheet, an increasing diversification into the UK and an exclusive focus on the acquisition and development of logistics assets, let to strong tenants in proven logistics nodes.

President Cyril Ramaphosa has implemented numerous positive changes during the first year of his presidency; we are hopeful that after the election these changes will start translating into improved economic conditions in the medium term. The greater political stability that should follow will also provide the space for our President to continue the process of addressing the ills of our ailing state-owned enterprises, which continue to pose a risk to an otherwise stable sovereign outlook.

By continuing to grow our business, creating employment and delivering sound shareholder returns, Equites will be playing its part in South Africa's economic turn-around.

Governance

In my letter last year, I informed stakeholders that Equites conducted an independent review of its governance structures and processes to identify and strengthen any weaknesses that may have existed. I also highlighted the difficulty of the task facing non-executive directors, who are at a disadvantage compared to the executives who are in the full-time employ of the company. During the period under review, we implemented several initiatives to strengthen our governance structures, the most important of which were:

- Our UK properties now constitute nearly a third of our total portfolio by value. It is therefore essential that our board has a thorough understanding of the UK logistics market. To address this aspect, our June board meeting was held in London, the board also visited five of our UK properties and received presentations from some of the leading experts on the UK logistics market. This initiative formed part of our continuous development and training program for all directors.

Chairman's report (continued)

- There has been a greater emphasis on the governance of risk. While it is true that, in general, companies do take some risks to generate returns, the board has placed an increased focus on the identification, evaluation and management of risks during its decision-making processes in respect of the acquisition and disposal of assets. This is particularly important for a company like Equites, which acquired and developed assets of more than R3.8 billion during the past year. As a result of the strict investment criteria, the group chose not to proceed with several potential transactions during the year.
- A recent study reported that directors on high-impact boards were identified as spending three times more time working on strategy than directors on medium to low impact boards. I concur with this sentiment and the Equites board has facilitated a separate "away-day" focusing on strategy every year since listing.

In closing

Over the past five years Equites has delivered a total return to its initial shareholders of 152% and has achieved double-digit distribution growth in every financial year since February 2015. This consistent outperformance has been achieved through a focused strategy, astute deal making, exceptional treasury management and accomplished management skills. It has also provided the group with an impeccable base property portfolio from which to continue this performance. The outlook for the company therefore remains positive.

I wish to thank our board of directors and our management team for their important contribution over this past year. Equites has established itself as a top performer in the South African listed property space. We would like to continue this path of success and the board remains committed to growing the company to its full potential and delivering value to shareholders.

Leon Campher
Chairman

Total return

Highlights

- Equites has established itself as a market leader in the logistics property space. In its five years of operations, Equites has executed its vision of becoming a globally relevant REIT with a footprint in SA and the UK.

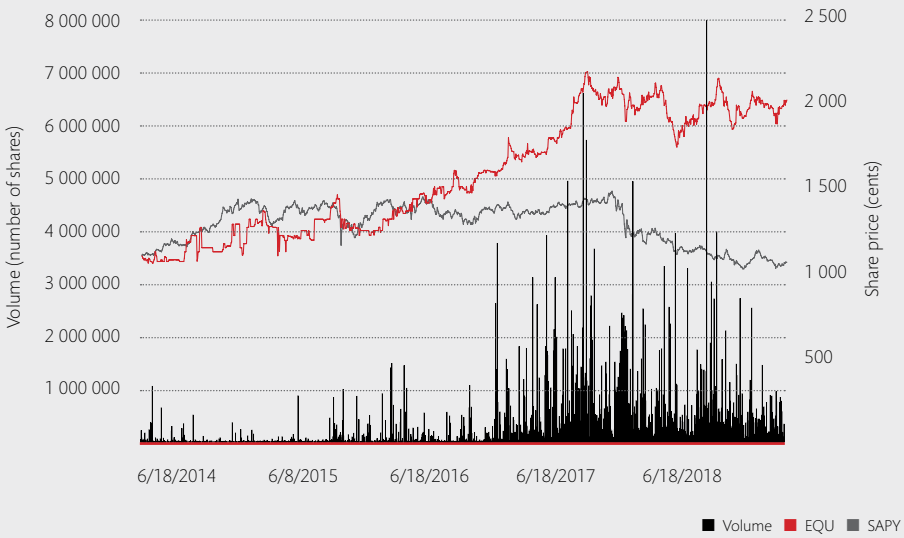
- The value of the fund has grown significantly from R1bn on listing to R12bn at 28 February 2019. Equites has built a portfolio of 58 properties between SA and the UK, with nine further developments underway at year end.

- As a result of strong rental growth in the portfolio, accretive acquisitions and developments, a focus on reducing the cost of debt and equity and effective cost containment, the group has delivered double digit distribution growth since February 2015.

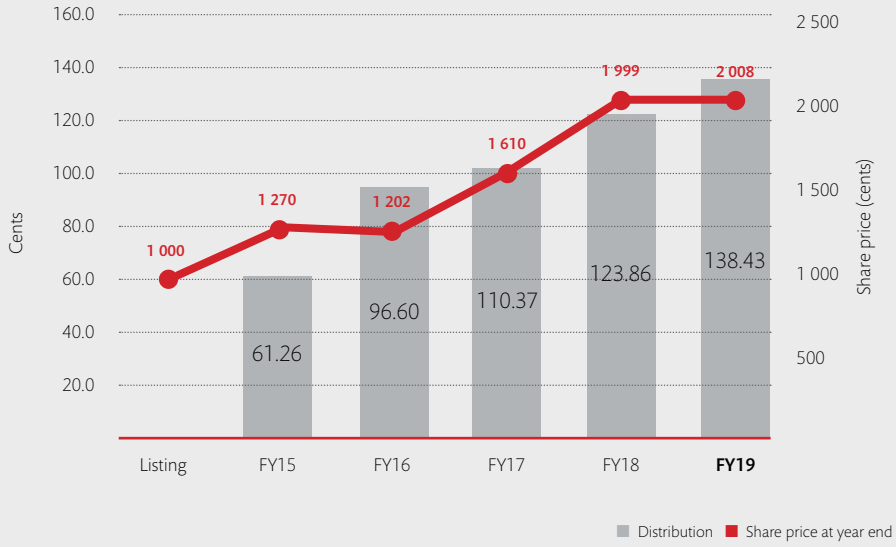
- The growth in distributable earnings has been coupled with strong NAV growth and a corresponding growth in the share price. The strong distribution and capital growth has resulted in a total shareholder return of 152% over the past five years.

- The share price growth has been coupled with healthy trading volumes, largely as a result of the inclusion in major property indices.

Equites share performance



Share price and dividends



Five year financial review

Equites Property Fund Limited and its subsidiaries

	February 2019 R'000	February 2018 R'000	February 2017 R'000	February 2016 R'000	February 2015 R'000
Statement of financial position					
Assets					
Investment property	11 957 597	8 099 049	6 225 775	4 111 159	1 431 877
Other non-current assets	117 988	172 899	143 818	1 786	1 847
Current assets	163 182	212 447	149 172	113 422	12 641
Total assets	**12 238 767**	**8 484 395**	**6 518 765**	**4 226 367**	**1 446 365**
Equity and liabilities					
Capital and reserves	8 519 793	6 298 774	4 947 355	3 620 839	1 301 015
Non-controlling interest	149 919	109 410	93 535	–	–
Total equity	**8 669 712**	**6 408 184**	**5 040 890**	**3 620 839**	**1 301 015**
Non-current liabilities	3 257 432	1 906 272	1 097 305	433 645	127 372
Current liabilities	311 623	169 939	380 570	171 883	17 978
Total equity and liabilities	**12 238 767**	**8 484 395**	**6 518 765**	**4 226 367**	**1 446 365**
Statement of comprehensive income					
Profit and loss					
Gross property revenue	766 158	573 698	502 431	335 679	130 592
Other net gains / (losses)	(81 959)	208 343	175 442	1 248	158
Property and administrative costs	(149 797)	(121 012)	(105 134)	(59 428)	(48 613)
Fair value adjustments – investment property	220 212	239 546	309 138	138 529	115 097
Operating profit before financing activities	**754 614**	**900 575**	**881 877**	**416 028**	**197 234**
Finance costs	(70 731)	(68 765)	(79 106)	(40 074)	(15 628)
Finance income	3 223	24 990	3 292	3 667	2 425
Net profit before tax	**687 106**	**856 800**	**806 063**	**379 621**	**184 031**
Tax expense	28 854	34 313	–	–	–
Net profit for the year	**715 960**	**891 113**	**806 063**	**379 621**	**184 031**
Other comprehensive income					
Translation of foreign operations	293 062	(139 049)	(173 374)	–	–
Total comprehensive income	**1 009 022**	**752 064**	**632 689**	**379 621**	**184 031**
Total comprehensive income attributable to:					
Owners of the parent	962 918	731 139	611 372	379 621	184 031
Non-controlling interest	46 104	20 925	21 317	–	–
Other information					
Distribution per share (cents)	138.43	123.86	110.37	96.60	61.26
Headline earnings per share (cents)	109.36	164.67	165.26	147.35	76.08
Net asset value per share (Rands)	16.92	15.36	14.12	12.94	11.37
Closing share price (Rands)	20.08	19.99	16.10	12.02	12.70
Market capitalisation (R'000)	10 108 609	8 195 365	5 642 487	3 363 948	1 453 012
Loan-to-value (%)	26.9	23.5	21.2	12.5	8.8
Non-financial information					
Number of properties	58	50	52	38	20
Total gross lettable area (m^2)	731 745	444 175	407 688	286 258	137 663
Weighted average lease expiry (years)	8.8	7.9	7.1	5.3	4.5
Vacancy (%)	3.9	2.0	0.1	0.6	0.8

Strategy

Chief executive officer's report

Equites has delivered another superb set of financial and operating results for the year ended 28 February 2019. We have completed a record number of acquisitions and developments, maintained a strict focus on property fundamentals and increased our efforts in optimising the cost of capital through efficient management of the cost of debt and the cost of equity. The current set of results reflects the culmination of our relentless efforts on these elements for the past five years.

Andrea Taverna-Turisan
Chief Executive Officer

The main highlights of the year under review include:

Acquired three completed prime logistics properties with a capital value of R1.1bn

Completed seven developments with a capital value of R1.6bn

Seven ongoing developments with a capital value of R1.2bn

Awarded first-time issuer national scale ratings of $A_{(za)}$ and $A1_{(za)}$ for the long and short term respectively with a stable outlook

Successfully issued R300mn commercial paper under new R2bn DMTN programme

Raised R1.5bn in equity capital through two over-subscribed accelerated bookbuilds

Achieved B-BBEE contributor level 4 with certified black ownership of 53%

Concluded strategic joint venture with UK-based development company, Newlands

Since inception, we have stayed true to our strategy while implementing improvements to our business model, which has put the company in an excellent position – well poised to capitalise on future opportunities.

Through disciplined balance sheet management, and a relentless focus on optimising the capital structure, the balance sheet has strengthened significantly in the year under review. Our LTV is a conservative 26.9% at year-end, well within our target range of 25% – 35% while our all-in cost of funding reduced from 7.99% to 6.71% over the period. We have undrawn facilities of R0.9 billion and unencumbered assets comprising 18.5% of the total portfolio, which have positioned the balance sheet for continued growth with ample head room for acquisitions and the strong development pipeline, at a highly favourable cost of capital.

Changing environment

Broad retail trends including changing consumer behaviour, increased focus on cost efficiencies, technological innovation and the growth in e-commerce are all having a disruptive effect on real estate. While historically, industrial property was somewhat overlooked by investors in favour of retail and office real estate, the emergence of modern logistics assets that are essential for e-commerce and efficient supply chains are quickly changing this trend with many investors now looking to re-weight their portfolios in favour of these.

Retailing has undergone a significant transformation over the past decade and continues to evolve rapidly. Based on findings published by Prologis Research in September 2018, traditional brick-and-mortar retailers have historically spent approximately 15-20 times more on their retail real estate footprint compared with their logistics real estate. Changes in retail trends are forcing a rapid change in this behaviour. Retailers are beginning to adapt to increasing consumer demand for convenience and faster delivery and have started embracing their supply chain as a competitive asset rather than a cost centre. This ultimately translates into retailers reducing investment in retail sites and redirecting this to logistics real estate, to support both e-fulfilment and to shorten lead times.

Warehouses and distribution centres are increasingly important components of the supply chain as they perform valuable functions that support a company's primary end. Storing goods, processing products, breaking down vehicle loads, fine-picking and assembling shipments are all vital activities commonly performed in these facilities. When these distribution centres are located optimally (relative to the existing network and to the consumer) and built to exacting standards, the resultant cost savings to the occupier can be significant.

Companies which have successfully leveraged their supply chains as a strategic capability have seen notable tangible benefits. A fast, reliable network serves as a competitive advantage as products reach consumers quicker and at a fraction of the cost. Consequently, there has been a growing trend for distribution centres to be located close to major markets in order to reduce inbound and outbound travel times and costs.

Based on Prologis Research published in April 2018, logistics real estate is a relatively small cost among major cost categories of supply chains, accounting for less than 5% of the total supply chain costs. With rent comprising a small portion of the total supply chain costs, optimising the selection of the logistics asset can create value far beyond its cost. Furthermore, real estate choices are becoming a lever to help control other costs. For example, a distribution centre located close to a good source of well-priced labour could help to reduce labour costs, while a distribution centre located close to key highways could help reduce transportation costs.

To meet the increasing expectations of consumers, retailers are demanding higher specifications for distribution centres. The value created by these logistics facilities is driving the re-pricing of logistics space, both in SA and globally. Tenants are becoming increasingly willing to pay higher rentals because of the proximity to other key networks or because the product creates more value in the supply chain, which ultimately results in both cost savings and efficiencies.
The disruptive impact of e-commerce is creating profound structural tailwinds which makes this market increasingly desirable.

In SA, prolonged tough business conditions have necessitated innovation from South African retailers, with a focus on supply chains and e-commerce in order to maintain margins. Online sales in SA are forecast to reach R62 billion by 2020, a 36% increase from 2018. Interestingly enough, these powerful structural drivers are proving to make a bigger impact on tenant demand than the lack of significant growth in the SA economy. In the UK, the growth in online sales has been far more rapid and is now approaching 20% of total retail sales. It is accepted that well-located, efficient distribution centres will be essential in maintaining and growing market share in this segment.

Through its strength of focus, building up capacity for developments, developing strong networks in the major regions and minimising its cost of capital, Equites is ideally placed to take advantage of pent-up demand from occupiers in both SA and the UK.

Globally, logistics assets finished 2018 with record levels of demand, vacancies at historic lows, significant yield compression and strong rental growth in the sector. All these fundamentals point to a changing structural landscape with e-commerce and supply chain changes redirecting demand for retail space towards prime logistics space. Equites is strongly positioned to benefit from these positive trends.

Chief executive officer's report (continued)

Our value proposition

Equites remains the only property fund listed on the JSE that offers shareholders pure exposure to modern logistics assets, combined with a proven in-house development expertise. The group exclusively focuses on high quality logistics assets, let to A-Grade tenants on long-dated leases and in key logistics nodes.

Our property fundamentals have improved markedly, with our WALE increasing to 8.8 years and the vacancy rate falling to 0.9%, following the successful letting of two properties shortly after year-end. I am often asked about rental growth in the sector. My standard response is that our modern A-grade logistics are delivering healthy rental growth because of the quality and location of these facilities. Eight leases came up for renewal during the year under review of which six were renewed with the existing tenants and two were let to new tenants. On aggregate, the rentals on the leases with existing tenants were renewed at 10.1% above the exit rentals. Including the two leases that were let to new tenants, the aggregate positive reversion was 7%. Some 92.5% of the group's revenue is now received from A-grade tenants, reducing default risk.

Our SA portfolio

Our South African portfolio now consist of 48 warehouse facilities, 25 of which were built by the company or one of the founding shareholders. These facilities still meet our exacting standards and will continue to be relevant to tenants requiring logistics space in the future.

We have learnt over the past few years that our growth in SA will not be dependent on regular sizeable acquisitions of existing facilities. The reasons for this is that, firstly, the SA logistics market is still relatively new and many of the existing facilities do not meet the exacting standards demanded by international operators and, secondly, price expectations of potential sellers are unrealistic, possibly as a result of unrealistic carrying values.

We do believe that a controlled programme of speculative buildings has a place in our growth strategy. It will, however, always be tactical and will remain a small percentage of the total portfolio value. A speculative building has the insurmountable disadvantage of not having been planned with the input of the eventual tenant.

In contrast, we see the development of high-quality logistics assets, pre-let to A-Grade tenants on long-dated leases and in key logistics nodes as the main driver of our growth strategy in SA. There are multiple benefits from this approach, viz:

- substantially reduces risk as we plan these new facilities with the input of the tenants, which enables us to develop facilities that meet all their standards, requirements and demands
- tenants make substantial financial investments in racking and technology in these brand-new facilities and are therefore willing to commit to longer lease terms
- reduces transaction and other costs as compared to the high costs associated with acquisitions
- we control the quality of the eventual products and can implement initiatives that ensure that these facilities remain relevant in the future

- we have the in-house development expertise to implement these pre-let developments on a yield accretive basis

In line with this focus on pre-let developments, coupled with significant interests from existing and potential new tenants, Equites has acquired a further 66 hectares of land in key logistics nodes, bringing its total holding to 101.4 hectares of land available at various stages of zoning and infrastructure development. Most of this vacant land is in Gauteng where we see the greatest demand for new facilities. We are currently pursuing several opportunities for distribution centres on these parcels of land, which will continue to contribute to a healthy development pipeline.

UK portfolio

We entered the UK market in June 2016 and our first transactions were all acquisitions of completed developments with existing tenants. Pricing was attractive and we used leading investment agents as well as our knowledge of the market to acquire these facilities.

During the second half of 2017 the UK industrial investment market changed, acquisition yields hardened, and we saw less value in acquiring completed developments. Consequently, we started a process of identifying established UK developers we could partner through pre-let forward funding arrangements. This entailed acquiring a piece of land upfront and then funding the development of a logistics warehouse pre-let to a financially sound tenant. We had early mover advantage as not all players in this market understood that if you partner with a developer of substance who has pre-let the planned facility to an A-grade tenant the development risk can be mitigated sufficiently through the inclusion of step-in rights and other protective measures in the contractual agreements.

In this process, we placed great emphasis on only funding the development of institutional grade facilities for investment grade tenants by reputable developers with proven track records. Over the past two years we have almost exclusively focused on these types of transactions and concluded five pre-let forward funding agreements. We are very proud of these transactions that have tenants of the highest quality such as DSV, Coloplast, DHL and DPD as tenants.

The UK market has, however, now evolved even further. Several of the largest investors in this market have now either formed joint ventures with leading local developers (CBREGI joined forces with Prologis), or acquired development platforms by buying development companies that own vast tracts of land and have significant development expertise (GLP acquiring Gazeley, Segro buying out Roxhill and Tritax taking over DB Symmetry).

These transactions will further reduce stock as the purpose of these tie-ups is to develop warehouses for the investment partner. This will inevitably lead to increased competition and even lower yields. We have decided that we will not join this race for the available opportunities.

In the three years that we have been active in the UK market, we have concluded nine transactions which, on completion of the DPD facility in Swansea, will be worth approximately R 4 billion. We therefore have an excellent base portfolio from which to grow.

Building relationships

After extensive research and several strategic discussions with our board, we decided that we needed to partner with a proven UK developer that, firstly, has access to land suitable for logistics development, secondly, expertise in obtaining the requisite development zoning rights on vacant land and thirdly, a proven track record in the development of world-class logistics facilities. This process culminated in the conclusion of a joint venture with UK-based development company, Newlands Property Developments LLP. Its senior executive team, comprising Graham Pardoe, Simon Williams and Ashley Hollinshead recently left the employment of UK logistics developer Roxhill Developments Limited. Graham was the MD at Roxhill (and before that the MD at Goodman UK), Ashley the financial director and Simon the development director.

Chief executive officer's report (continued)

During their tenure at Roxhill, the Newlands executive team was an integral part of its success, turning it into one of the most successful UK specialist development platforms. At its peak Roxhill was developing in excess of 4 million sq. ft (371 612m^2) of logistics space per annum for a strong customer base and successfully unlocked a number of flagship UK logistics sites and developed over 10 million sq. ft (929 030m^2) of commercial warehousing.

This partnership will provide Equites with access to sought-after land parcels earmarked for logistics warehouses and tenanted development opportunities in key logistics nodes in targeted areas of the UK.

Newlands will act as development manager within the joint venture, providing Equites exclusive access to Newlands-generated development opportunities. These opportunities require a minimal capital outlay from Equites until the land is ready for development.

Equites has built a strong relationship with the Newlands team, as they delivered our DSV Peterborough development and are currently also in the final stages of completing our Coloplast development. These important projects have given us the opportunity to work closely with them and get to know them well. They have a thorough understanding of the intricacies of the UK logistics market, incredible industry connectivity and a proven ability to source off-market development opportunities. Despite there having been an impressive list of suitable partners, we are very proud that Newlands has chosen to partner with Equites.

This joint venture will be the key for Equites to achieve the scale we are looking for in the sought-after UK logistics market. All the research confirms that, given the increasing demand from retailers and logistics operators and the shortage of quality supply, the UK logistics market has excellent long-term prospects. Importantly, the connectivity and local expertise of Newlands in unlocking prime UK land should enable Equites to add quality logistics facilities to its portfolio at initial yields that are around 100 – 150 basis points higher than that which we can currently buy on the open market.

Prospects

Equites has made significant progress in implementing its vision to be a globally relevant REIT, focused exclusively on high-quality logistics assets. The group has established itself as a developer of choice in SA for logistics facilities that meet the exacting requirements of large users with sophisticated supply chains. It has also successfully established itself as a recognised player in the sector in the UK.

Equites' track-record of double-digit distribution growth, as well as strong NAV growth continues to be acknowledged by investors, again awarding it the position of top performing REIT over the past three years, with an annualised total return of 26.8% per year.

In looking at the next financial year, the group expects to achieve distribution growth of at least 8% – 10%, taking cognisance of currency fluctuations and other commercial risks. This guidance is based on the assumptions that a stable macro-economic environment will prevail, no major corporate failures will occur, the Rand/Pound exchange rate remains materially unchanged and tenants will be able to absorb the recovery of rising utility costs and municipal rates. This forecast has not been audited or reviewed by Equites' auditors.

Transformation

As a responsible corporate citizen, Equites understands its obligation to embrace the philosophies and principles of transformation and B-BBEE as articulated in our constitution. We have, from inception, implemented a variety of initiatives that have culminated in a largely transformed workforce, a fully implemented learnership programme, a successful enterprise and supplier and development programme and significant investments into under-resourced areas. In addition, Equites has a certified black ownership of 53%, all of which have contributed to a level 4 contributor rating under the amended property sector code as at 28 February 2019.

Our people

All the phenomenal successes of Equites over the past five years are the result of the work of an exceptional team of people. We have an entrepreneurial culture and have tried to remain nimble and responsive. We conduct regular independent employee surveys and the high levels of employee engagement and satisfaction have been encouraging. We have also been fortunate that we have had almost non-existent staff turn-over.

To my two fellow executives, Riaan and Bram: thank you very much for your support and invaluable contributions during this journey. I would also like to thank every one of our employees for all their efforts.

Acknowledgements

I want to take this opportunity to express my gratitude to the chairman and the board for their support, guidance and advice during this period.

Finally, a big thank you once again to all our business partners for their support.

Andrea Taverna-Turisan
Chief Executive Officer

How we create value

Value creation process

Business activities

Outcomes

Financial capital

- Market capitalisation was up 23.2% to R10.1bn
- DPS growth for the year was 11.8%
- Undrawn borrowing facilities remained substantial at R0.9bn
- The marginal ZAR cost of debt is 8.9% p.a. which is 13 bps lower than 2018

Manufactured capital

- Portfolio value increased to R12.0bn, up 47.6%
- Developed R1.5bn of property in SA and the UK in the past 12 months
- 0.9% vacancy rate across the group's portfolio
- WALE across our portfolio increased to 8.8 years

Human capital

- Continued development through training and education
- Employed a further 6 skilled people to our organisation
- Low staff turnover across all functions
- Continued to encourage gender diversity with 58% female employees
- 63% of employees are previously disadvantaged employees

Social and relationship capital

- Marked increase in brand recognition during the year
- Sustained investor confidence
- Well regarded in industry as being leaders in logistics

Intellectual capital

- Improved information technology solutions
- Easier access to information
- Strong corporate governance principles

Natural capital

- Acquired a further R468m of strategic land parcels
- Increased rain harvesting and drilled boreholes drilled to manage water consumption
- In the process of obtaining our first 4 star "as-built" green rated building
- Smart meter reading devices being rolled out

Financial capital

Highlights

Achieved growth in distribution per share of 11.8%

10.2% growth in net asset value per share

Loan-to-value at 28 February 2019 of 26.9%

94.5% of interest rates hedged for 4 years

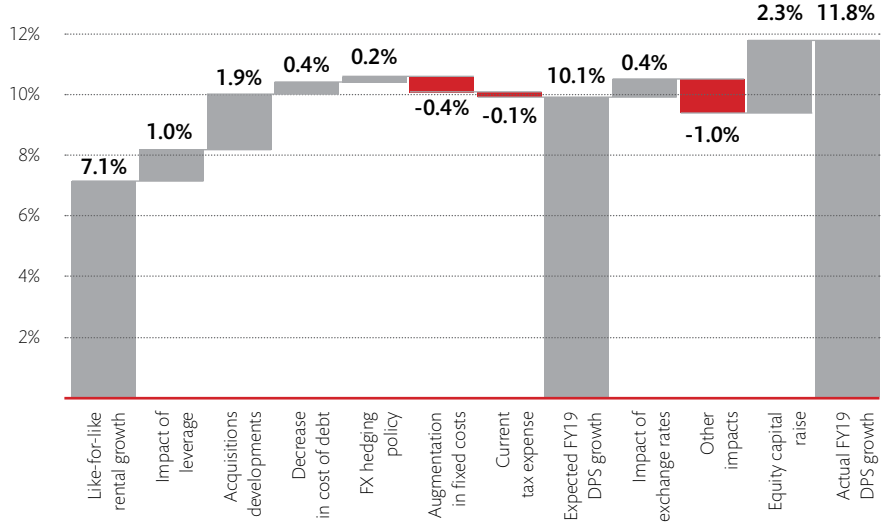
Successfully issued R300 million 12-month, unlisted, senior unsecured commercial paper at a 3m JIBAR + 115 bps

All-in cost of debt fell from 8.0% to 6.7% at 28 February 2019

We have continued to employ conservative financial risk management policies by diversifying our sources of funding (including the introduction of a DMTN programme), maintaining strong liquidity and phasing the maturity of our debt profile. We have further enhanced capital efficiency through our growth strategy by achieving an optimal cost of capital made possible by preserving our loan-to-value within the target range and by reducing the cost of debt.

Distribution per share

DPS growth evidences the buoyancy of the underlying earnings of the group and the effect of strong rental growth driving net rental income.



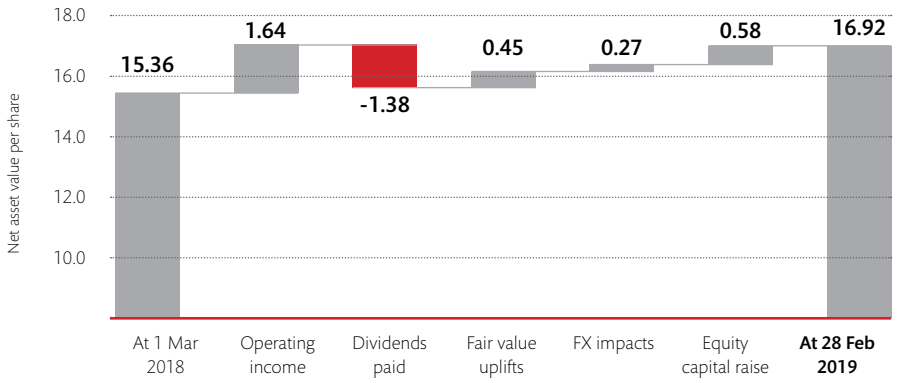
We have achieved DPS growth of 11.8% for FY19 which was underpinned by:

- Strong like-for-like rental growth (including the impact of leverage), contributing 8.1% to overall DPS growth. The like-for-like rental growth now reflects the additional contribution of the group's UK properties acquired in the 2017 financial year which is a large contributor to the year-on-year decrease;
- Acquisitions and developments in SA and the UK, contributing 1.9% to overall DPS growth as a result of the positive differential between the net initial yields and the marginal weighted average cost of capital;
- A reduction in the all-in cost of debt led to a 0.4% increase in DPS growth partially as a result of the increased contribution of GBP debt funding and due to the decrease in the SA cost of debt achieved through negotiating new loan facilities at preferential rates;
- The introduction of our progressive UK distributable earnings hedging policy in September 2018 had the impact of adding 0.2% to overall DPS growth; and
- Increased fixed costs over the period pertaining partially to a nominal increase in the fixed cost base, the impact of an increase in headcount across the group, additional travel expenditure and increased B-BBEE-related costs.

We raised R800 million of equity capital in June 2018 and the differential between the marginal cost of debt and the effective yield of the equity price achieved added 2.3% to the DPS growth.

Net asset value per share

In conjunction with distribution growth, we understands the importance of NAV per share growth in long-term shareholder value creation.



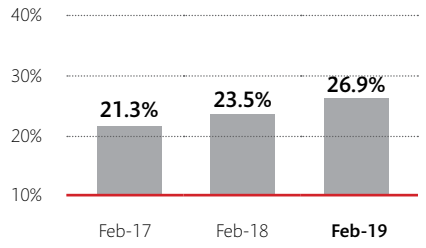
NAV per share grew by a pleasing 10.2% during the year under review with the following main contributors:

- The fair value uplift on the group's investment properties contributed 3.0% to overall NAV per share growth;
- The impact of the depreciation in the Rand from R16.33/£ at FY18 to R18.68/£ at FY19 coupled with a reduction in the group's utilisation of cross-currency interest rate swaps resulted in a contribution of 1.7% to the NAV growth per share during the year;
- The growth in operating income generated during the year (net of the dividend paid over the coterminous period) added 1.8% to the NAV growth per share; and
- Raising equity capital at a premium to the group's NAV per share contributed 3.7% to the NAV growth on a per share basis.

Loan-to-value

Paramount to our financial stability is its LTV. A conservative LTV provides the group with the necessary flexibility required to facilitate a strong development pipeline and to take advantage of future growth opportunities.

Loan-to-value (calculated from IFRS balance sheet)



The LTV at 28 February 2019 was 26.9% which is well within our group's target range of 25% to 35% despite having spent over R3 billion on acquisitions and developments over the past 12 months.

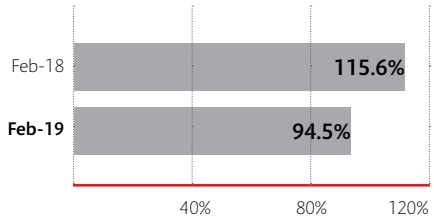
We had available undrawn facilities of R0.9 billion at 28 February 2019, over 2 times the contracted capital commitments at 28 February 2019. Furthermore, R2.2 billion of the group's properties were unencumbered at 28 February 2019, representing 18.5% of the total portfolio.

The depth of our existing liquidity reserves, evidenced partially by our available undrawn facilities but also as a result of the level of unencumbered assets at 28 February 2019, places us in prime position for further growth into the 2020 financial year.

Interest rate hedging

The overall all-in cost of debt has fallen substantially over the past 12 months from 8.0% at 28 February 2018 to 6.7% at 28 February 2019 mainly as a result of the additional contribution of GBP in-country debt funding to the overall debt pool. However, the group has also seen a 13-basis point reduction in the SA cost of debt mainly due to the conclusion of new loan facility agreements at more preferential rates than the existing sources of SA debt funding. This is particularly noteworthy because the decrease in the SA cost of debt occurred despite the duration of outstanding SA debt funding increasing, an achievement that bodes well for our future refinancing negotiations.

Interest rate hedging



The duration of our total debt facilities has increased to 3.6 years at 28 February 2019 from 2.8 years at 28 February 2018 and 94.5% of term loan balances were hedged at year-end.

Manufactured capital

Highlights

47.6% growth in portfolio value to R12bn

Total GLA of portfolio increased by 45.0% from 444 175m² to 643 965m² with a further 105 235m² under development at year-end

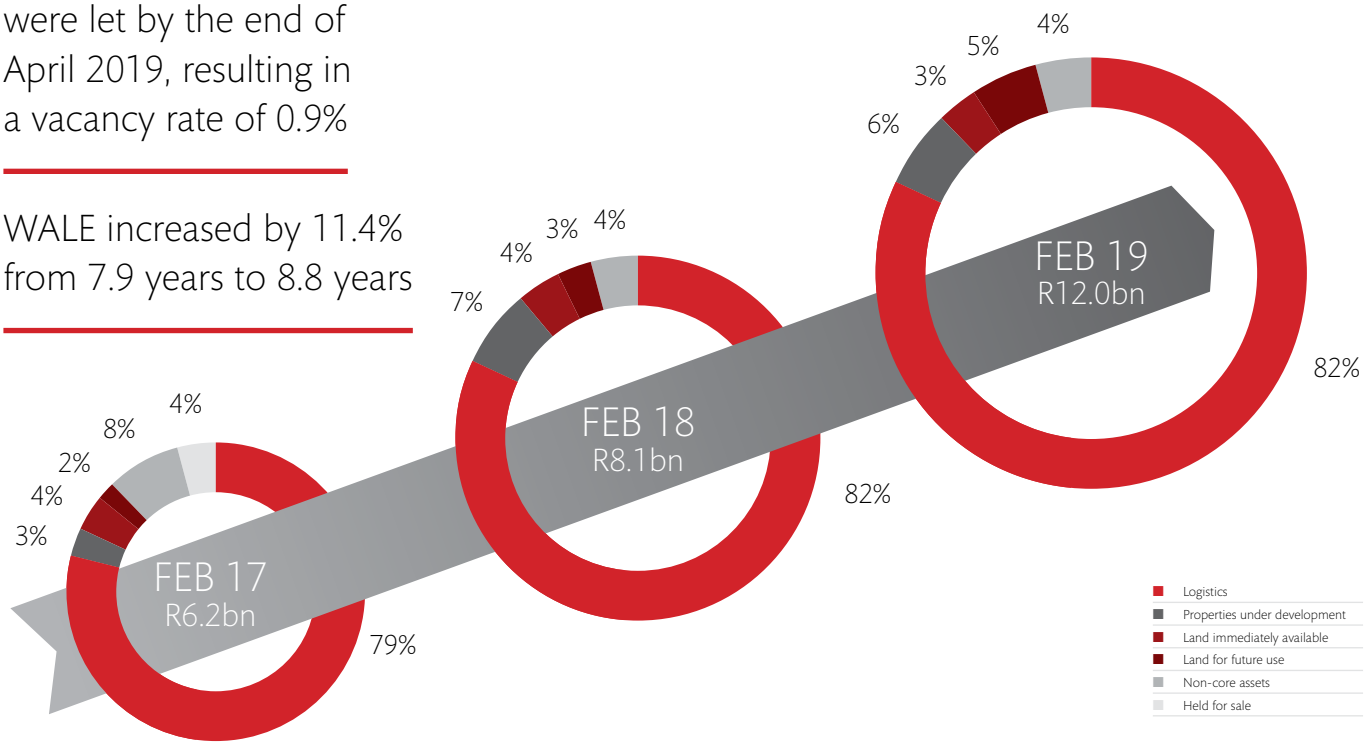
Vacancies increased from 2.0% of GLA at FY18 to 3.9% as a result of speculative developments completed, all of which were let by the end of April 2019, resulting in a vacancy rate of 0.9%

WALE increased by 11.4% from 7.9 years to 8.8 years

Equites' has curated a high-quality logistics portfolio across SA and the UK, with a focus on assets that are modern, well-located, and tenanted by A-grade users on long-dated leases. The group benefits from being a market leader in this class of specialisation, where the company is still the only listed property company on the JSE to provide shareholders with pure exposure to prime logistics.

Portfolio movements

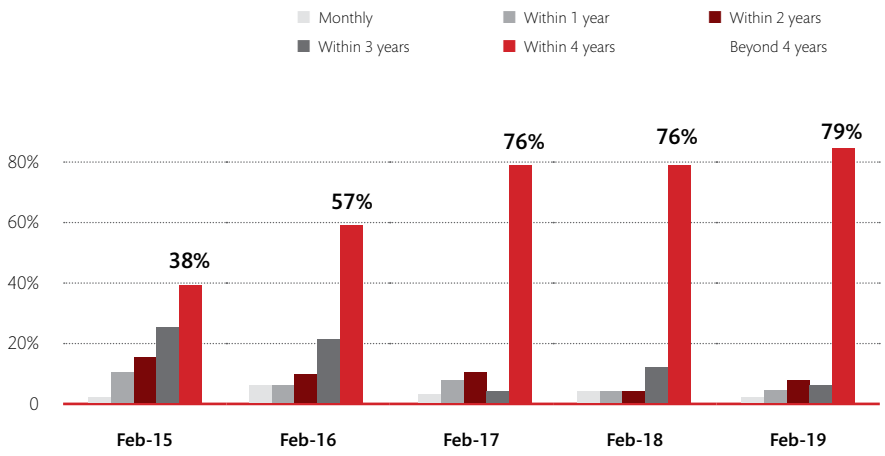
Equites has grown its portfolio by 47.6% over the past year due to acquisitions in SA, developments concluded both in the UK and in SA and through strategic land holdings mainly in Gauteng.



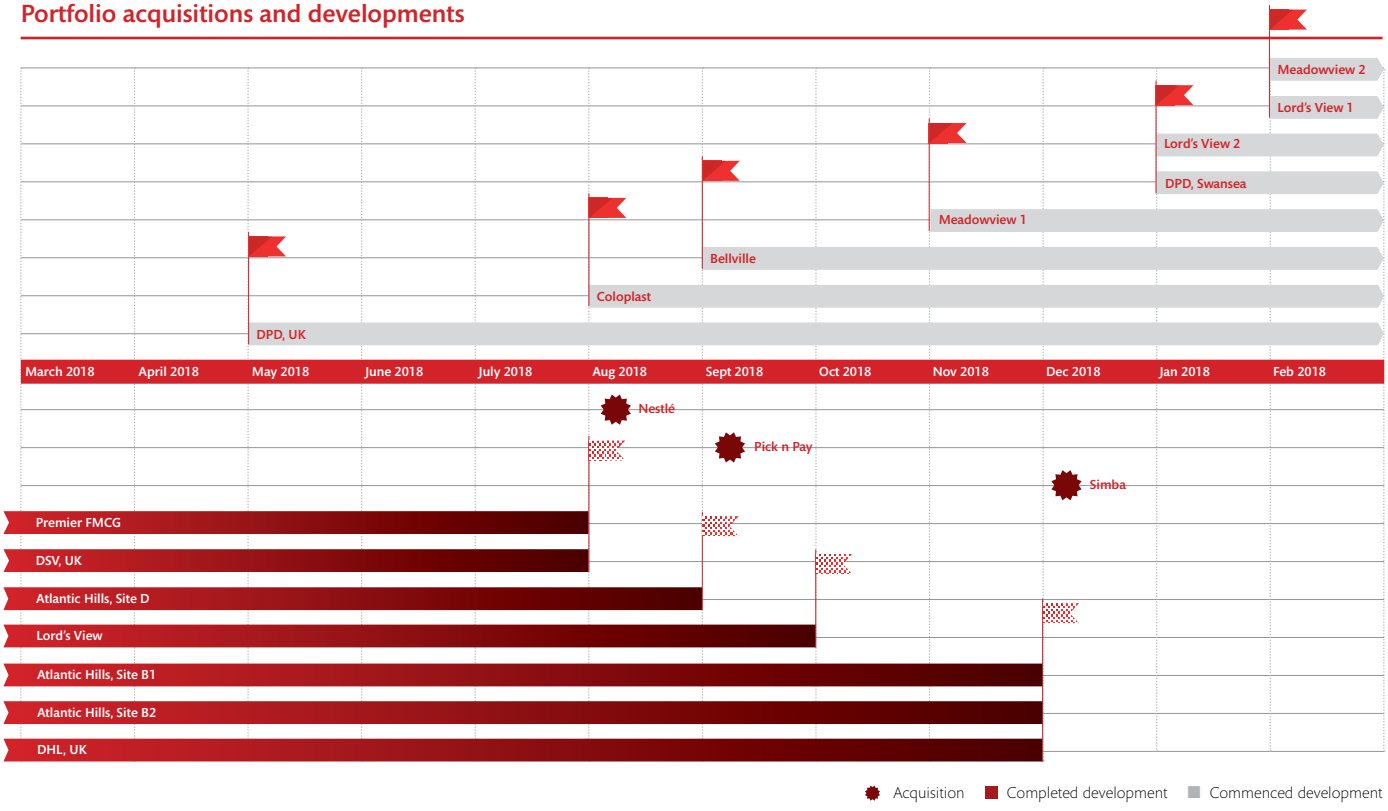
Property fundamentals

Equites' property fundamentals have markedly improved over the year, with the WALE increasing to 8.8 years and the vacancy rate falling to 0.9% following the successful letting of two properties shortly after year-end. 92.5% of the group's revenue is now received from A-grade tenants reducing default risk.

The group continues to improve the quality of its portfolio by attracting A-grade tenants on long-dated leases. Equites has further extended the lease expiry profile at 28 February 2019 with 79% of all leases expiring beyond 4 years. This is testament to the group's incessant focus on enhancing its ability to create income certainty and provide a defensive portfolio in the face of a turbulent economic environment.



Portfolio acquisitions and developments



Human capital

Human capital refers to the knowledge, skills, training and experiences held by individuals within our organisation. Our human capital is undoubtedly one of the key drivers of the group's exceptional performance. We continuously engage with our people to improve employee motivation, reduce staff turnover and create an environment that is conducive to our people maximising their potential.

Highlights

Improved racial and gender diversity within our workforce

Hired 6 additional staff members

Low staff turnover

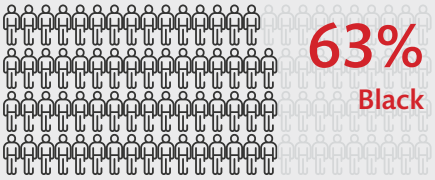
We are committed to hiring competent staff and retaining these talents with an inclusive work ethic and continuous training and development. Our ability to create this environment is evidenced by our growing work force combined with low staff turnover. Equites prides itself on being able to promote from within – from our existing employee base, two of our new hires were employed to fill roles which had become vacant as a result of internal promotions.

Employment equity remains a key priority in the recruitment process and all new hires in the current year are in line with the group's employment equity targets. We are proud of our diversity and inclusivity – this is evidenced by the growth in female staff members as well as black staff members compared to the prior year.

Education is a key driver to maximising our people's potential and to encourage individual growth. The group has implemented an in-house training programme during the year to enhance employees' knowledge of the industry, understand key trends in the sector, teach basic accounting and legal skills to non-specialists, and to enhance the use of software to provide more efficient business solutions. The training sessions are facilitated by individuals within the group and are based on topics driven by the collective workforce. In addition, the group encourages its staff to further their education and provides funding and support services to employees who wish to further their tertiary education.

2018 | **2019**

Employee composition



Staff turnover

2 leaving
5 hired

2 leaving
6 hired

Social and relationship capital

Social and relationship capital refers to our relationship with all stakeholders. This includes human capital, our tenants, financial institutions, investors, suppliers and broker networks. Our engagement with stakeholders is paramount to achieving success.

Tenants

Our tenants continue to prefer the high-quality A-grade logistics facilities that we develop in key logistics nodes in SA and the UK. Our ability to work productively with our tenants to provide the logistics facilities that they require forms the linchpin of our long-term success. We strive to make our facilities the destination of choice for our tenants. We regularly interact with tenants to ensure that their logistic needs are being met and any queries are timeously resolved.

Financial institutions

Banks and other financial institutions are regularly engaged to provide timely access to financial capital at competitive rates which enhances the long-term value that we are able to generate for all our stakeholders. Our open lines of communication and our deep-rooted trustworthiness enables us to successfully exceed other's expectations. We are able to leverage our relationship to structure deals in the best interest of our investors.

Investors

Investors provide us with the ability to create value and deliver strong income growth from a portfolio of high-quality logistics assets through the investment of financial capital. We continuously engage with both existing and potential investors to understand their needs and concerns as we strive to enhance our relationship. We regularly engage with investors through investor presentations, road shows and direct contact with key investors.

Suppliers

Suppliers play a pivotal role in enabling us to deliver an unrivalled portfolio of truly distinctive A-grade logistics facilities to our tenants, as well as to ensure the ongoing effective management of these properties. We are able to enhance occupier demand for our facilities largely as a result of the high standards that our suppliers adhere to both in the day-to-day operations and in the construction of major developments. Our dedicated operations managers and our development team regularly engage with suppliers to ensure an ongoing mutually beneficial relationship.

Broker network

Our professional broker network acts as an intermediary between us and our tenants. Our relationship with our professional broker network is therefore critical to us ensuring that we are able to secure investment grade tenants on long dated, fully repairing and insuring leases which is the cornerstone of our logistics portfolio. Our dedicated business development team is responsible for creating and enhancing our broker network.

Tenant profile by revenue

Highlights

Concluded strategic joint venture with UK-based development company

Sustained investor confidence

Marked increase in brand recognition

Well regarded in industry as being leaders in logistics

Intellectual capital

Highlights

Strong corporate governance principles

Improved information technology solutions

Easier access to information

Intellectual capital is defined as the organisation-wide knowledge such as policies and procedures, organisational culture and information technology. Equites strives to continuously enhance its policies and procedures to provide an all-inclusive, fair and transparent work environment. We invest in information systems which assist in streamlining our processes, provide an efficient work environment and facilitates the seamless sharing of information.

Policies and procedures

Equites' policies and procedures have been implemented to ensure a safe and fair environment for all stakeholders. These are aligned with our governance framework which is essential for achieving our long-term strategic goals. We facilitate regular interactions with our staff to maximise the effectiveness of these policies and procedures and to determine ways in which these can be continuously improved upon.

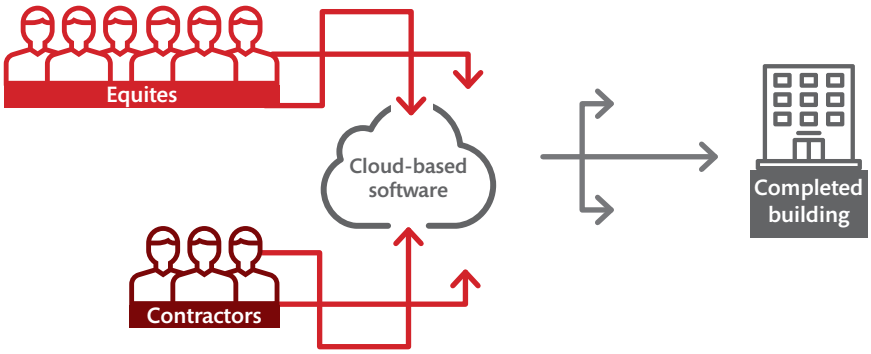
Organisational culture

Our culture is constantly evolving in order to create an inclusive environment in which employees feel heard, appreciated and encouraged to perform at their optimal levels. The board sets the tone at the top and a unified message is conveyed to all employees and stakeholders throughout the organisation. Employees are regularly surveyed on their understanding of the culture and workshops are held to brainstorm methods and means of improving this culture with a view of continuous improvements.

Technology

The majority of information technology solutions employed by the group are cloud-based. This enables staff to access information from any location and from any device, allowing them to be closer to information and increasing efficiency while reducing reliance on physical infrastructure. During the year, Equites implemented software where contractors can interact directly with our development team, from the initial design phase of a development all the way through to completion. Since implementation, we have seen some of the following benefits:

- Continuous interactions with contractors
- Reduced lead times
- Improved version control
- Access control monitoring
- Automated approval frameworks
- Increased efficiency



Natural capital

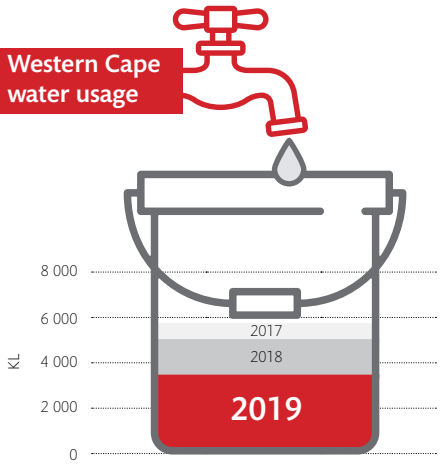
Equites views our natural capital as all renewable and non-renewable naturally occurring resources on our planet. As custodians of our planet, we continually assess the impact the environment plays when making decisions and how these elements can be used effectively, in each stage of our developments and/or property management operations. In these impact assessments, we consider the preservation of these resources and aim to minimise wastage wherever possible.

Highlights

In the process of obtaining first 4 star "as-built" green rated building

Commenced roll out of solar PV systems in the portfolio

Western Cape water usage



Land

As a key component of our business relates to property development, land is essential to the growth of our portfolio. Equites strives to acquire land in key logistics nodes with well-developed infrastructure and access to services, but also pays significant attention to the environmental impact of development to ensure that any activities will have a minimal impact on the surrounding plant and wildlife.

Instead of importing materials to fill a site or exporting excess material to dump sites, we pride ourselves on re-using materials dug up during the groundworks phase of a development and repurposing that land within the development or to other development sites within the group. Materials would include sand to fill a site, topsoil which is re-used for planting purposes, vegetation which is replanted and rocks that can be used as part of landscaping features.

We aim to use resource efficient materials in its development with a large focus on recycled content in the steel structures and reinforcement of concentre. Where sites are demolished, Equites aims to recycle materials by crushing it and incorporating it into the new development.

On an on-going basis, we plant trees and shrubbery and maintain the landscapes at all our industrial parks. Landscapes are designed to minimise irrigation needs to ensure water conservation. We also contribute towards the upkeep and maintenance of natural habitats surrounding our parks.

Water

With the recent water crisis which plagued the Western Cape, Equites has emphasised the importance of water saving methods and ensuring that properties have access to alternative water sources, in the event that the municipality should cut supply.

Most of our industrial parks in South Africa are equipped with boreholes which provides additional non-potable water to the surrounding properties. The majority of our properties make use of rain harvesting to increase their water capacity and newer developments include a water reserve tank which ensures that the property still has access to water when supply is cut. In one or two instances, the properties have well points installed. Equites is currently increasing its water reserves capacity at select properties and depending on clients' needs.

These efforts have seen a steady decrease in the usage of municipal water by tenants. In the Western Cape alone, water usage has dropped by 30% compared to the prior year.

Storm water systems at newer developments are designed to eliminate excess grease, oil, sediment and litter before draining to onsite retention ponds to alleviate stress on the system.

Energy (Sun, Coal and Diesel)

The recently completed Premier FMCG facility in Equites Park – Lord's View, Gauteng is the first development in the group to have installed a solar energy generation system, consisting of over 2 000 PV panels. This system will provide energy to the building as well as current and future neighbouring buildings in the park. Equites plans to incorporate solar systems in future developments of the same nature.

All new developments are being built with energy efficient lighting and full LED fittings. On existing buildings, Equites recommends that clients replace old fixtures with LED's to reduce electricity consumption.

Currently, the majority of properties have diesel reliant back-up generators installed to minimise the impact of load-shedding and to ensure business continuity in the case of power outages. Equites has employed the service of a third-party to maintain these generators and ensure a regular supply of diesel.

Monitoring

Equites is in the process of rolling out smart meter reading devices to its properties which will be continually monitored by outsourced meter reading companies. Any abnormal usage will be picked up early on and any leaks and/or disruptions can be addressed timeously to avoid unnecessary wastage.

Refer to the Sustainability Report for further information on how natural capital is employed within the organisation.


R21
R22
R23
R24
R25
R26

Financial review

Chief financial officer's Q&A

Paramount to the group's financial stability is its loan to value. A conservative LTV provides the group with the necessary flexibility required to facilitate a strong development pipeline and to take advantage of future growth opportunities.

Bram Goossens
Chief Financial Officer

What was the impact of the introduction of the progressive foreign exchange rate hedging policy and how do you expect this to evolve?

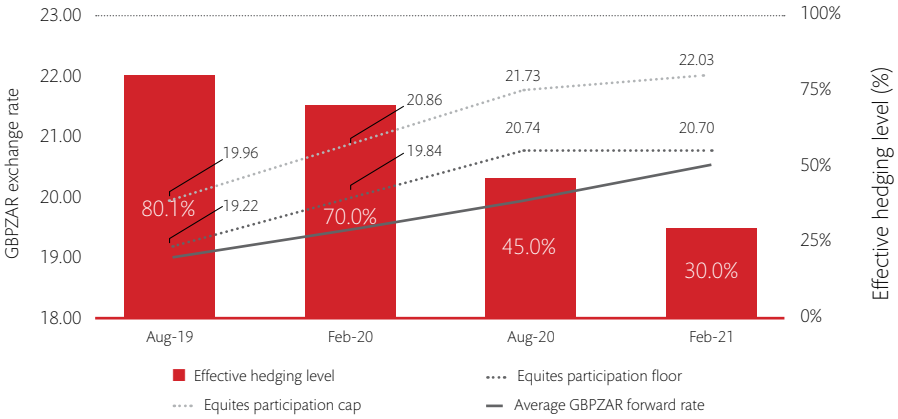
Wherever possible, the group continues to utilise natural hedges to minimise its exposure of fluctuations in foreign exchange rates on its distributable earnings. In relation to the residual foreign exchange rate risk, the group established a progressive GBP distributable earnings hedging policy effective from 1 September 2018 intended to balance competing objectives – the first objective is to reduce volatility in the group's Rand distributable earnings caused by capricious swings in the GBPZAR exchange rate by creating greater short-term certainty while the second is to ensure that the group remains a Rand-hedge investment (with respect to both income and capital) over the medium to long term.

The group's hedging policy therefore introduces a base hedging level for GBP distributable earnings to be generated by the UK business over the next 24 months. In terms of the base hedging level, at least 75% of the 12-month forward GBP distributable earnings is hedged, a level which can be increased during periods where the Rand is technically oversold.

Over the second half of the 2019 financial year, the average GBPZAR exchange rate was R18.36/£ while the group was able to achieve an average GBPZAR exchange rate of R18.61/£ as a result of the policy, adding 0.2% to DPS growth.

For the current financial year, the group has locked-in a blended participation floor on 75% of the GBP distributable earnings at R19.94/£, significantly above the current average forward rate. It is therefore estimated that the policy will add between 0.5% – 1.5% to DPS growth for the current financial year.

GBPZAR distributable earnings hedging strategy



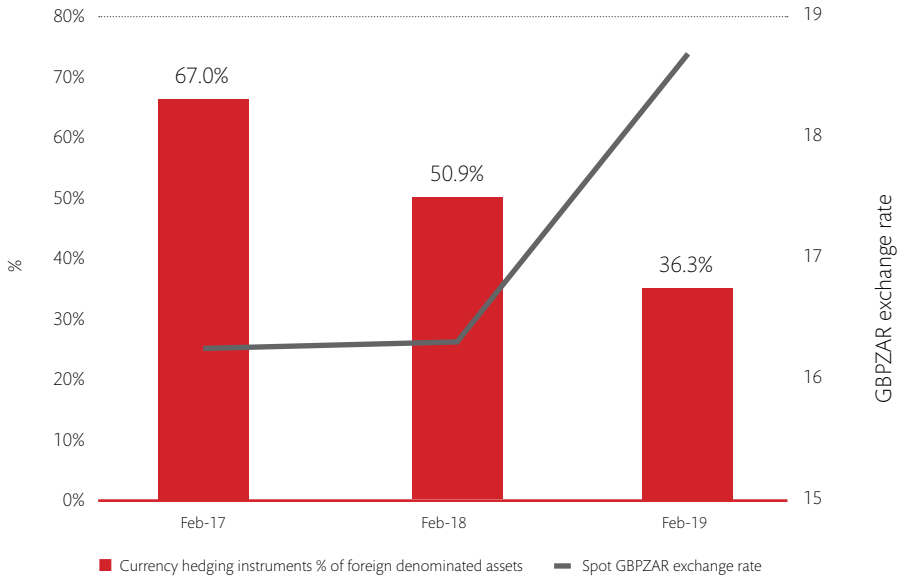
What was the rationale for reducing the utilisation of CCIRSs in the current financial year and is the utilisation expected to remain at this level in future?

When the group entered the UK in June 2016, it funded its first acquisition using synthetic GBP debt achieved through the employment of a CCIRS. This was executed because of the relative strength of the group's bargaining power in SA and because of the extent to which the Rand was oversold at the time. As a result of the growth in in-country GBP debt funding, the group has been able to unwind the utilisation of CCIRSs.

During the current financial year, the group funded most of the development activity in the UK via in-country debt which immunised it from exchange rate movements. UK development costs which were paid for using capital from SA were incurred at a weighted average spot GBPZAR exchange rate of R17.79/£, 5.0% below the spot GBPZAR exchange rate on 28 February 2019.

The group's treasury policy now restricts the utilisation of CCIRSs to 45% of foreign denominated assets over time. The group achieves this by continually monitoring its exposure to foreign exchange rates as a result of its investment into the UK. The board is comfortable with this level of CCIRS utilisation in future.

CCIRS utilisation



£'000	Feb 2017	Feb 2018	Feb 2019
Foreign denominated assets	49 126	146 945	213 504
Foreign denominated liabilities	(14 559)	(33 031)	(67 467)
Foreign denominated net assets	**34 567**	**113 914**	**146 037**
Nominal value of currency hedging instruments	32 905	74 860	77 447
Effective hedge of net investment in foreign operation	**95.2%**	**65.7%**	**53.0%**
CCIRS utilisation – foreign denominated assets	**67.0%**	**50.9%**	**36.3%**

How do you determine hurdle rates for investment decisions that the group makes? What do you estimate is the group's current cost of equity?

The group has an established framework to assess hurdle rates for investment decisions it makes both in SA and the UK.

The basic premise behind determining an appropriate hurdle rate is to assess the WACC for the particular currency of the jurisdiction in which that decision is being made which is coterminous with the group's investment horizon and then to apply an appropriate premium based on risk factors inherent in that decision.

The cost of equity is an ingredient in the determination of the group's WACC and it itself is not used as a hurdle rate when appraising an investment. When appraising an investment, the hurdle rate (calculated as the group's WACC for a particular currency plus an appropriate risk premium) is compared to the modified internal rate of return expected to be generated from the investment.

The SA cost of equity is determined using two models – a capital asset pricing model and a dividend discount model. Based on the assumptions used in applying these models, the group estimates its SA cost of equity to be between 13.5% – 14.5%. When appraising a UK investment decision, an adjustment is made to take into account the country risk and inflation risk discounts of the UK relative to SA. These discounts currently reduce the SA cost of equity by around 6.2 percentage points to derive a UK cost of equity. Therefore, the group implies a cost of equity of between 7.3% – 8.3% when appraising a UK investment decision.

Chief financial officer's Q&A (continued)

What is the extent of interest capitalised during the current financial year and how has this impacted DPS growth? Please also explain the interplay between interest capitalised in the UK and the utilisation of CCIRSs?

In line with IFRS, the group capitalises borrowing costs that are directly attributable to the acquisition and construction of assets that necessarily take a substantial period of time to get ready for their intended use (typically referred to as "qualifying assets"). During the current financial year, the group increased the expenditure incurred on qualifying assets from R0.3 billion to R1.5 billion. Therefore, interest capitalisation necessarily increased to R117 million to comply with the requirements of IFRS.

The capitalisation of interest did not impact DPS growth because gross finance costs increased by the same amount as the interest capitalised, resulting in no net difference on DPS and therefore having no impact on DPS growth.

With regards to the group's UK developments; the group mainly employed in-country, specific GBP borrowings to fund its development pipeline and therefore capitalised GBP interest to these developments in accordance with IFRS. No developments undertaken in the current financial year were funded through CCIRSs (evidenced by the fact that the nominal value of CCIRSs remained largely unchanged) and the group therefore had no synthetic GBP debt relating to its UK developments.

How does the group unlock value from strategic land holdings?

Historically, the group has seen considerable value creation from strategic land acquisitions. A typical case study would be the 7.5 hectares of land acquired in Atlantic Hills, Cape Town in 2015. The group paid a total purchase price of R96 million and developed the park over the course of a 3-year period. Upon completion of the final development, the park, which spanned five completed properties across 38 601m² of GLA was worth R395 million, 20.1% higher than the total development cost.

Acquisition	Nov 2015
Fair value	R96 million
Acquisition cost	R96 million

- 7.5 hectares of developable land
- Location along the N7 makes this site desirable for logistics users
- The group had a vision to grow this into a prime logistics park

Today	Feb 2019
Fair value	R395 million
Acquisition cost	R329 million

- Fair value uplift on cost of 20.1%
- Five completed properties with all land fully developed
- GLA of 38 601m^2 across the five properties
- WALE of 9.3 year across the park

Governance

Report from the company secretary

"The role the Company Secretary plays in managing legal entity governance has changed dramatically in recent years and perhaps a more befitting title for the role is now Governance Director or Leader. In today's regulatory environment, the Company Secretary plays a more strategic enabling role, making sure directors are protected and proactively ensuring legal and regulatory governance compliance, throughout a group."

PwC | Subsidiary governance report

Riaan Gous
Chief Operating Officer, Company Secretary

Equites regards effective corporate governance as essential for its long-term business sustainability and adds to the protection and enhancement of the interests of stakeholders. Internationally, and in response to the 2008 global financial crises and a litany of subsequent spectacular corporate failures, regulators have been given greater power by governments to oversee, monitor and enforce activities within key sectors. One of the important consequences of higher levels of regulation and enforcement is the significant increases in the penalties charged to offenders. The Financial Times reported that just during the period from 2010 to 2015, the sixteen largest global lenders had expended over £205 billion in litigation, fines, settlements and provisions.

Stakeholders continue to place pressure on regulators to hold boards vicariously liable for corruption, fraud, bribery and other forms of illegality or negligence. In response to these events, Equites conducted an independent review of its governance structures and processes to identify and strengthen any weaknesses that may exist. As a result, there has been an increased focus on the role of the company secretary in ensuring that the group complies with its governance obligations.

With an increased focus on governance and the introduction of King IV, company secretaries have emerged as governance custodians within modern businesses. This role is governed by the responsibilities set out in the Companies Act and the principles embodied in King IV.

Companies Act and King IV

The duties embodied in the Companies Act include, but are not limited to:

- providing the directors with guidance as to their duties, responsibilities and powers
- ensuring that directors are aware of changes in legislation and governing laws
- ensuring that all board meetings are designed to address the requirements of each committee
- maintaining adequate records and minutes of all meetings and
- certifying in the company's annual financial statements that the company has filed all statutory returns and notices

These duties, amongst others, provide the framework for the company secretary to ensure the smooth running of the board's functions. The company secretary is also tasked with ensuring that directors are adequately informed and protected in the heightened regulatory environment in which we operate.

King IV makes it incumbent on the board to ensure that the company secretary is empowered to fulfil the necessary corporate governance services and that the position carries the necessary authority (King IV, Principle 10, recommended principle 93).

Our approach to governance

As the custodian of governance in the organisation, it is evident that over the past year there has been a significant increase in the focus on governance. Our chairman, Leon Campher, has detailed various initiatives which the board has undertaken in order to improve the corporate governance and the social, ethics and transformation committee have adopted an improved ethical framework which is detailed in their report. In our corporate governance report we also detail our governance structures and the mechanisms which the board employs to effectively enhance corporate governance in the organisation.

Outlook

Given the current legislative and operating environment, it is evident that company secretaries can no longer afford to take a passive stance in the companies and on the boards they serve. They are expected to behave as pro-active and professional gatekeepers to the board and other stakeholders on all governance related matters and to discharge, among others, those statutory duties set out in the Companies Act. Equites believes that an effective corporate governance framework is essential for the long-term sustainability of the business and is proud of the steps it has taken in the current year and of its vision for the future.

Riaan Gous
Company Secretary

Social, Ethics and Transformation report

The Companies Act requires that the boards of all listed public companies, state owned enterprises and companies with significant public interest should have a social and ethics sub-committee. This emphasises that companies have a significant social impact on the societies in which they operate and therefore must be responsible corporate citizens.

Since inception, Equites has subscribed to the highest standards of corporate citizenship, social responsibility, sustainability, and ethics. The group's values inform the way it operates across multiple jurisdictions, in all areas of the business. In SA specifically, the economic landscape has necessitated an increased focus on transformation to address the inequality gap and the group maintains that it is its role as a corporation to address these transformational needs.

The Social, Ethics and Transformation committee remains the custodian for determining the social, ethics and transformational goals, for determining the importance of achieving these goals, and for devising an appropriate strategy to ensure that the group meets their targets. 80% of the committee comprise non-executive directors who collectively possess a vast amount of knowledge and experience in this area.

King IV guidelines on social and ethics committee

The Institute of Directors in Southern Africa NPC released the King IV for South Africa on 1 November 2016. Disclosure on the application of King IV was effective in respect of financial years starting on or after 1 April 2017 and Equites adopted this for the first time in FY18.

King IV expands on the role of the social and ethics committee as provided for in the Companies Act, and ascribes the role of oversight of and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships to this committee (King IV, principle 8, recommended practice 68).

King IV further recommends a higher standard for the composition of this committee than is required in the Companies Act. King IV recommends that a majority of the committee members should be non-executive members of the board so as to ensure that independent judgement is brought to bear (King IV, principle 8, recommended practice 70).

In line with the background established by King IV, a key focus of the SET Committee is to assist the board in setting the tone for an ethical organisational culture and overseeing the group's commitment to social and economic upliftment, fair and equitable labour practices, environmental responsibility, and good corporate citizenship.

Specific duties

The functions of the SET committee shall be to assist the board and to make certain recommendations to the board, including:

- Monitoring the group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, in particular:
  - The 10 principles set out in the United Nations Global Compact Principles
  - The Organisation of Economic Co-operation and Development recommendations regarding corruption
  - The Broad-Based Black Economic Empowerment Act No. 53 of 2003
  - The Employment Equity Act
- Promoting good corporate citizenship through policies and procedures, including the group's:
  - Promotion of equality and the prevention of discrimination
  - Eradication of corruption
  - Record of sponsorship, donations and charitable giving
  - Environmental, health and public safety impacts
  - Managing tenant relationships
  - Compliance with consumer protection laws
  - Labour and employment policies
  - Employment relationships, and its contribution towards the educational development of its employees

Key outcomes

The Broad-Based Black Economic Empowerment Act

The group has identified transformation as a critical success factor in the landscape which we currently operate. The new amended property sector scorecard initially presented a challenge to the group and the sector; however, Equites decided that these challenges were far from insurmountable and devoted a large amount of time and resources to increase its score in the most meaningful manner. In the prior year, the group achieved a Level seven rating, however, it is pleased to announce that in the current year, this improved to Level four, with 53% verified black ownership. This is discussed in further detail in the transformation section of this report.

Employment equity act

The group considers its workforce, which consists of a total of 24 employees as at 28 February 2019 to be its most important asset. A diverse workforce is a key element of the group being able to approach its strategic goals in a holistic and collaborative manner, with a variety of different approaches formed by our diverse backgrounds.

The group is pleased to report that at 28 February 2019, 14 of these employees are black females; the most under represented demographic in this sector. While our workforce is small compared to other players in the industry, the group continues to table ongoing measures to improve the diversity amongst its workforce in terms of race and gender and continues to promote transformation in its employment practices.

Social, Ethics and Transformation report (continued)

UN Global Compact Principles and the OECD recommendations regarding corruption

The group supports and respects the principles as set out in the UN Global Compact Code, OECD's recommendation on the prevention of corruption and the International Labour Organisation's directive on decent work and working conditions.

The group continuously monitors its actions as a corporate citizen and is pleased that it is acting in line with the best practices as set out in these guidelines.

1 **Respect** and support internationally recognised human rights in your area of influence

2 **Ensures** that your company does not participate in any way in the violation of human rights

3 **Support** freedom of association and recognise to open collective bargaining

4 **Eliminate** all forms of forced or compulsory labour

5 **Erradicate** all forms of child labour in your productive chain

6 **Stimulate** all practices that eliminate any form of discrimination at the workplace

7 **Assume** a responsible preventive and proactive posture toward environmental challenges

8 **Develop** initiatives and practices to promote and divulge socio-environmental responsibility

9 **Promote** the development and dissemination of environmentally responsible technologies

10 **Fight** corruption in all of its forms, including extorsion and bribery.

Initiatives

Transformation

SA has some of the highest levels of inequality, unemployment and poverty in the world. Given the need to promote greater economic inclusion in the country, the South African government has highlighted its commitment to implement B-BBEE. Equites aligns all its B-BBEE reporting to the Property Sector Transformation Charter. This year the group achieved a level four rating on the amended Property Sector scorecard, with verified black ownership of 53%.

In the current year, Equites scored particularly well in the following areas; ownership, skills development, enterprise and supplier development and economic development. These elements reflect the group's focus on the elements of the scorecard which reflect true empowerment to previously disadvantaged groups and will continue to be priority elements for the group while building on the remaining elements in the upcoming financial year.

Ownership

The group has verified black ownership of 53% as at the last verification date (2018). This represents a significant increase from the prior year of 12.27%. The largest contributors to this transformed ownership register are the Brimstone empowerment deal in 2015 as well as the increased investment from the Public Investment Corporation, who represents predominantly black shareholders. The group continues to engage with its large empowerment investors and is in the process of investigating additional black partners to ensure sustained transformation

Skills development

The group believes that education is the key to changing the economic landscape in a sustainable manner and for this reason, chooses to focus the majority of its corporate social spend on educational initiatives. For the year under review, the group awarded two new full-cost bursaries to students enrolled in tertiary studies at the University of Cape Town and embarked on the third year of the Equites Learnership Programme, which has registered an additional nine students for the year. This brings the total number of learners who have passed through the learnership programme to 27 over the three years since inception. The first two tranches of learners who graduated from the program in the previous two years have either been moved to further phases of the learnership program to build on their skills or placed in meaningful roles of employment.

The group also believes that skills development should be encouraged in-house and has awarded full cost bursaries to a number of its full-time employees who are engaged in part-time tertiary studies. The group continues to support these staff members and look forward to utilising their full skill set at Equites once they have graduated from their respective courses.

Enterprise and supplier development

One of the group's greatest achievements to date is the development of its enterprise development partner Damon At Sons Construction (Pty) Ltd, a locally-based, black-family owned construction firm.

Through its ongoing financial support and mentorship to DAS, Equites has helped the business and its staff base to grow exponentially. The company currently employs over twenty permanent staff and at least sixty casual labourers, all of them being previously disadvantaged South Africans. To date, DAS has developed three large warehouses for Equites, and has worked on several smaller refurbishments across the Equites portfolio. During the current year, DAS completed its first external project well under budget and within the designated time-frame and looks poised to continue with such external projects in the future.

In addition to the establishment of the construction company, during the year under review, Equites assisted in the establishment of a smaller maintenance-focussed enterprise development partner. This company was established to tender for smaller jobs, both within Equites and with external parties. Equites aims to provide the same incubation to the maintenance company and would like to see it flourish in the same way which DAS has.

Our people

The group's efforts in delivering on its overall business strategy, together with navigating the challenging business environment in which it operates, place increased attention on its people policies and initiatives as it is essential to nurture and retain key talent.

Equites' employment policies are consistent with SA labour law, the UN Universal Declaration of Human Rights and the International Labour Organisation's core conventions. Equites is fully committed to preventing unfair discrimination through the full, fair and objective application of its disciplinary policy, ensuring equal treatment of all employees.

The group's people strategy is focused on ensuring that the group has created an environment in which staff are involved, engaged and are valued as active contributors of value creation. The group engages in detailed staff engagement surveys to ascertain whether employees are satisfied with overall working conditions and attempts to resolve any material concerns swiftly and effectively. The group rewards all staff members with fair and responsible base pay, and all staff members form part of its conditional share plan, aligning the interests of the staff and the business.

Social development

Equites believes that education is the cornerstone to true transformation. Through the Michel Lanfranchi Foundation, Equites continues to run its bursary programme, which has had three recipients to date. The bursary program consists of financial aid but more importantly, a robust mentoring component throughout the duration of their degree to prepare them for a career in their chosen field of study.

During the year under review, the group commenced a partnership with LEAP Science and Maths Schools for the construction of a new school just outside Equites Park – Meadowview. Equites understands the importance of developing the science and maths skills of high-school learners as well as developing learners to be self-aware, resilient individuals who are well placed to enter tertiary studies, and these are the precise values to which LEAP ascribes. The LEAP 3 project at Meadowview aims to provide learners from the neighbouring Alexandria Township with a safe and stable environment in which to hone these very skills and Equites is proud to be associated with this venture. The total capital value of the project at Meadowview is R9 million, of which Equites (through the MLF) has pledged R2 million to the first phase.

Ethics

The reputation of the business and value of the Equites brand is built on the group's standing commitment to be a responsible, transparent and ethical business, and to maintain the trust of all of our stakeholders. The King IV principles set out the ethical commitments and performance requirements that lay the foundation for a socially responsible and truly profitable business.

The overarching ethical guidelines and policies are embodied in our newly drafted and adopted code of conduct, which applies uniformly to all employees and directors. The group has a zero-tolerance approach to unethical behaviour and remains committed to ensuring that the group and its employees uphold the group's reputation as a responsible and caring corporate citizen.

All ethical policies and adherence thereto are overseen by the committee, whose main role in this regard is to ensure implementation and compliance with the group's ethos of remaining true to its values. The committee endeavours to promote a culture of openness and transparency throughout the group and, as such, employees and other stakeholders are encouraged to report unethical conduct and other transgressions which they may become aware of.

Through its endeavours to promote a culture of openness and transparency throughout the group, employees and other stakeholders are encouraged to report unethical conduct and other transgressions that they may become aware of to an anonymous, independently monitored whistle-blower hotline. All incidents logged with the hotline will be reported directly to the Chairperson of the Audit and Risk Committee who will be responsible for investigating any claims and resolving it swiftly and effectively. For the period under review, there have been no reports logged with this hotline.

Our team

Our people are our largest asset. Our team includes a well-rounded group of individuals with a variety of skills and who each bring elements of their unique backgrounds to the table. We look forward to growing this team in line with the business and will continue to leverage on our combined skills to solve operational, financial and strategic matters in a holistic and innovative manner.


Jaun Knoesen


Laila Razack


Lorencia Ranala


Andrea Taverna-Turisan

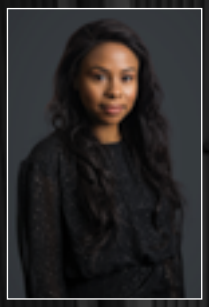

Ziyanda Mkhwane


Hilda Janse van Rensburg


Monique Karating


Mmatebogo Magopane


Riaan Gous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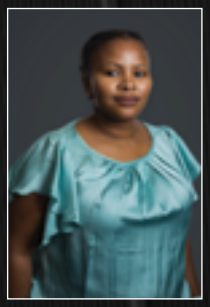
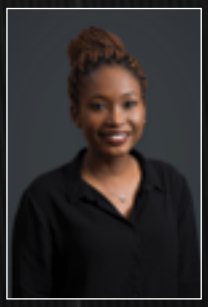
Lloyd Zacharias


Andiswa Mahlaba


Belinda Ortman-Lebana


Bram Goossens


Mpilo Ntuli

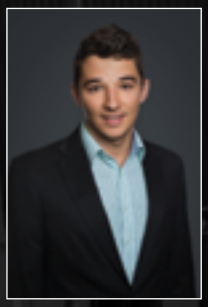

Gustav Fichardt

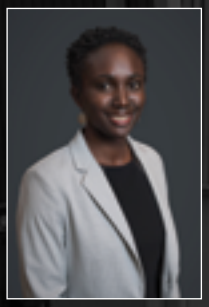

Melanie Brown


Nasreen Mukuddem


Biren Moodly


Olivia Velem


Chris Guattari-Stafford


Akua Koranteng


Wouter Hanekom


Tembisa Bangani

Sustainability report

Sustainability is a core component of the group's performance and how we create value for stakeholders. We have evolved our approach to sustainability and corporate social responsibility to ensure that the company creates shared value for shareholders and communities. We recognise that, while our shareholders are of paramount importance, our purpose is not only about driving profits.

We have built a culture on our belief that as an organisation we can and must have a positive impact on the success and well-being of communities surrounding our buildings, our macro-economic stability and on the environment as a whole.

Our reporting process has been guided by the King IV: Report on Corporate Governance for South Africa 2016, the JSE Listings Requirements, the Global Reporting Initiative standards and the requirements of the Companies Act as it relates to the role and responsibilities of the social and ethics committee.

People

Growth in employees complement from prior year

30%

Number of employees engaged in recognised training initiatives

20%

Number of new learnerships granted

9

Community

Donations to educational-driven initiatives

R2m

Focus on transformation and empowerment

Level 4 BEE

Environment

Four star as-built green rating

Our sustainability is focused on five key areas:

- Building a high-quality portfolio which serves its tenants and provides stable, growing returns to its shareholders
- Empowering motivated, passionate people and developing a strong, capable and diverse workforce
- Supporting local communities in which we have a footprint
- Responsibly sourcing products and services to build the best quality buildings
- Incorporating environmental consciousness into all business activities

This report focuses primarily on the people, the community and the environment, as the financial element is dealt with extensively throughout the remainder of the report.

Community

Our contribution to society and communities comes in many forms. It includes developing high-quality buildings and providing much needed infrastructure to the areas in which we operate, creating jobs through administrative and development functions and supporting communities through our social investment programmes.

We firmly believe that business must be rooted in community and must be aligned with its larger interests. By developing high-quality park environments, we stimulate local communities and provide employment to many community members. We focus our corporate social spend on these communities where we drive educational and entrepreneurial initiatives.

During the year under review, the group partnered with the LEAP Science and Maths Schools to redevelop a high school just outside Equites Park, Meadowview. The school was previously operating out of prefab classrooms and the joint project aims to develop a solid-structure to facilitate a more stable environment for learners. LEAP was founded to promote the positive transformation of communities through meaningful education, a cause which is close to the heart of Equites.

On an educational front, Equites in partnership with The Michel Lanfranchi Foundation continue to offer full-cost bursaries to second

Sustainability report (continued)

year students enrolled in property studies at the University of Cape Town. The aim of these bursaries is to provide students with financial aid while simultaneously providing mentoring and real-world business experience. This is the second year of the bursary programme and the group is pleased to continue mentoring and developing learners enrolled in tertiary studies.

Equites has entered its third year of running the "Equites Learnership" programme which is focused on equipping previously disadvantaged learners with valuable skills to enable them to be absorbed into the workforce. Nine learners have been enrolled in the programme in the current year and the group hopes to continue running the programme on an annual basis to empower previously disadvantaged learners to gain meaningful skills and to seek meaningful positions of employment.

Equites continues to partner with its enterprise development partner, Damon At Sons Construction (Pty) Ltd to grow a small construction company into a large-scale business which provides employment to more than sixty employees, all from previously disadvantaged backgrounds. Equites provides a development pipeline, financial support and mentorship to the company and hopes to develop not only the business but also the individuals involved in key operations into skilled construction industry workers. The enterprise development partner has been developed to a position where it has completed two large-scale developments for Equites and completed its first independent project during the year under review.

The group has forged a new enterprise development relationship with a small-scale Western Cape based maintenance business. Equites provided them with initial funding, access to Equites' administrative team and a guaranteed pipeline of maintenance projects in the Western Cape. It is the company's intention to incorporate an incubator programme to assist in the growth and development of small construction and maintenance companies and will continue to drive this programme in the upcoming financial year.

People

Employees are important stakeholders in Equites' business and are the key to its efforts to generate sustainable value. Equites is committed to increasing employee engagement by leveraging the diversity and ambitions of its people and maximising their talents. The group understands that a large part of its success is due to the quality of its people. This includes a well-rounded group of individuals who bring elements of their diverse backgrounds to the fore, engage in meaningful discussion and solve strategic issues in a holistic and innovative manner.

Over the past year, Equites has added six staff members to the team, four of whom are African females. This recruitment is in line with our targeted approach to gender and racial diversification and the focus on employment equity as part of our responsibility as a South African company. The addition of six new employees takes the current staff compliment at Equites to 24 people, of which 58% are female and 63% are from previously disadvantaged backgrounds.

Equites' vision of diversity and inclusion seeks to build an organisational culture that respects diversity and helps create value for customers. Equites pursues a broad range of activities with a focus on diversity and inclusion, personal and professional development and continuous engagement between all levels of employment.

As detailed in the remuneration report, the company follows a compensation mix of fixed pay, benefits, performance-linked variable pay and a conditional share scheme. Individual pay is determined by group performance as well as individual performance, measured through the annual appraisal process. The performance evaluation criteria for directors, remuneration policy and details of the remuneration paid out to members of the board are disclosed on pages 59 to 68 of the integrated report.

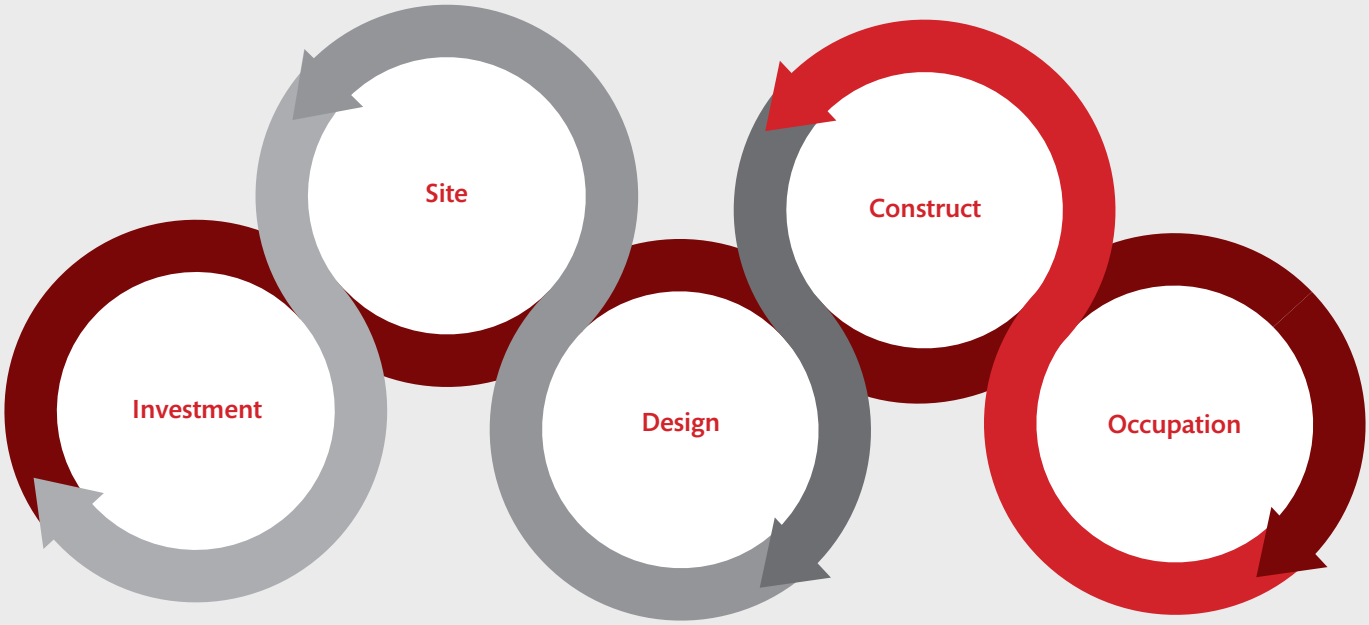
The group engages in an annual performance appraisal system which allows its people to identify areas of strengths, weaknesses and potential improvements across various areas of the business and those specific to the employee. Every member of the team has specific key performance areas which are managed and reviewed continuously; this process has ensured that the employees are not only monitored by management, but perform critical self-evaluation, which has been proven to be highly effective. With a focus on diversity and development, the group will continue to maximise the talents of each employee and to foster innovation to serve our common long-term goals.

The group encourages a high-performance culture, combined with high ethical standards which all employees are expected to adhere to. Self-monitoring and holding each other accountable is a cornerstone to this philosophy. The group has implemented the necessary mechanisms to facilitate direct engagement, but should this be deemed insufficient, a whistle-blower hotline has been implemented for employees to directly report concerns about unethical behaviour to the chairperson of the audit committee without fear of reprisal or victimisation.

Environment

Environmental stewardship is not just the right thing to do but is an essential component of creating longer term shareholder value. Equites has built environmental sustainability into our daily operations, both in developments and property operations.

Sustainability is incorporated into each of the following phases during a development:



Investment

Prior to commencing a development, Equites assesses the long-term income generating ability of the building and how to guard against obsolescence. The team performs a thorough cost analysis to assess the value of "green" elements and ensure that the development will create value for the company, the users of the building, the community and the environment.

Site

Equites considers the development in relation to other developments, accessibility to people and the community, whether the development will lead to loss of green fields land and whether other amenities may be gained or lost from the development. It is our aim at all times to maximise the positive impact to communities and the environment at large and to minimise any possible harmful effects of development.

Design

Having recently completed its first building built to 4-star green rating standards, the group's aim will always be to incorporate green building design in its schemes, to maximise the use of any natural resources and to fully assess the impact on ecological resources.

Construction

Equites carefully assesses the waste which will be generated through the building phase and incorporate special disposal techniques as necessary. The group takes cognisance of any natural water courses which may be affected by construction activity and the impact of construction on neighbouring properties and people.

Occupation

Through engagement with tenants, Equites incorporates all tenant aspirations in the design and construction and incorporate effective environmental and building management systems to monitor the ongoing impact of our buildings. Innovations in sustainable building use which have been incorporated include rain harvesting systems to utilise rain water where possible, the incorporation of LED lights to minimise electricity consumption and promotion of recycling and waste reduction at all of its premises.

Sustainability report (continued)

Equites Park – Lord's View

Equites Park – Lord's View is a state-of-the-art sustainable warehouse park facility that consists of warehouse space, yards, and office facilities. The first completed project in this park, the Premier FMCG building aims to provide a healthier environment for employees through increased ventilation rates and non-volatile organic compound finishing materials.

Introduction

The project is pursuing an as-built 4-Star Custom Industrial certification through the Green Building Council of South Africa. Currently according to the GBCSA the project is set to be the fourth green rated project of its kind in South Africa.

Sustainability has been at the core of the design process to ensure a more environmentally conscious product that will operate with a reduced impact on the environment as well as serve as a healthier environment for its tenants. Beyond design initiatives, sustainable construction practices which reduce the environmental impact have been mandatory.

Energy

A large solar energy generation system consisting of over 2000 PV panels capitalises on the projects large roof surface area generating energy for both itself and future neighbouring facilities. The estimated annual energy generation is 1 385 245kWh per year. One quarter of this energy will be assigned to the building in question – anticipated to be enough to make the buildings consumption net-zero.

Energy efficiency lighting and control with a full LED fitting specification and occupancy sensors throughout the project will reduce the facilities operational costs.

An automated energy sub-metering system will record the buildings consumptions on an online platform allowing the operator to address high consuming areas and evaluate data trends.

Finally, the building has been simulated in an energy model where the building's facade and glazing specification have been optimised to reduce the heat load from direct sunlight.

Water

Water efficient fittings have been specified for all showers, basins and urinals throughout the building to ensure reduced water consumption. Rain water is captured from the roof surface and supplied to the vehicle wash bay.

The sites storm water system has been designed to drain water through a series of sediment traps to eliminate grease, oil, sediment and litter before draining to the onsite retention pond. This will alleviate stress on the storm water system.

Indoor Environmental Quality

Improved indoor environmental quality has been a focus through low Volatile Organic Compound finishes, increased fresh air rates and daylight glare control, all of which will have a long-lasting positive impact on building tenant health and productivity.

Materials and Project Site

Resource efficient materials have been selected throughout the project with a large focus on recycled content in the steel structure and reinforcement of concrete. The roof sheeting products selected have a high Solar Reflectance Index which reduces the warehouses heat load in summer months creating an improved comfort as well as reducing the requirement for air conditioning.

The project site includes bicycle racks for staff with shower and changing facilities, outdoor shaded seating for staff breaks and a landscaping design which reduces irrigation requirements.

Given the extent of the initiatives in this park and this building, Premier is undoubtedly the market-leading sustainable development for the industrial warehousing sector.

Board of directors

Back row: André Jacques Gouws, Riaan Gous, Giancarlo Lanfranchi, Andrea Taverna-Turisan, Bram Goossens, Kevin Dreyer
Front row (Independent non-executive directors): Nazeem Khan, Gugu Mtetwa, Philip Leon Campher, Ruth Benjamin-Swales, Mustaq Brey

Independent non-executive directors

Philip Leon Campher
Chairman
Qualification: BEcon

Leon is the CEO of ASISA. He also serves on the boards of Sun International Limited and Brimstone Investment Corporation Limited. With his vast experience in business and investment management, he is able to direct the board effectively and provide sound guidance to the executive team.

Nazeem Khan
Qualification: BSc (QS), MAQS, PrQS, A.AArb

Nazeem is a director of the national firm Bham Tayob Khan Matunda (BTKM) quantity surveyors. He also serves on the board and is the chairman of the Brimstone audit committee. His experience provides valuable insights into the group's operations, particularly with respect to property acquisitions and developments.

Ruth Benjamin-Swales
Qualification: CA (SA)

Ruth is a senior policy advisor at ASISA, CEO of the ASISA Foundation and trustee of the ASISA Enterprise and Supplier Development entities. She has served on numerous councils and boards including SAICA and IRBA. With her financial and compliance background, she sets the ethical tone for the group and spearheads the functions of the audit committee.

Mustaq Brey
Qualification: BCompt (Hons), CA(SA)

Mustaq is the CEO of Brimstone Investment Corporation Limited. He also serves as the chairperson of Oceana Group Limited, Life Healthcare Limited and International Frontier Technologies SOC Limited. He is also a director of AON Re SA Proprietary Limited and Lion of Africa Insurance Company Ltd. He also serves on the boards and committees of various non-profit organisations. With his vast business experience, he brings unique insights and provides sound guidance to the board.

Gugu Mtetwa
Qualification: BCom, PGDA, CA(SA)

Gugu is a non-executive director on several boards including Development Bank of Southern Africa, Santam, Sasfin Holdings and Italtile. With her vast experience in complex IFRS and other compliance matters, she provides a great depth of insight into how these impacts the group.

Non-executive directors

Giancarlo Lanfranchi
Qualification: DipArch

Giancarlo is CEO and founder of Swish Property Group with over 25 years of construction and property experience. He also holds directorships in My Domain Student Residence and Mulilo Renewable Energy and Partners. His experience provides valuable insights into the group's operations, particularly with respect to property acquisitions and developments.

Kevin Dreyer

Kevin runs the development arm of the Cape Town International Airport based consortium and has substantial experience in the Western Cape industrial property sector. He also owns Automotion Airport Parking Proprietary Limited. His experience in this sector provides valuable insights into the group's operations, particularly with respect to property acquisitions and disposals.

André Jacques Gouws
Qualification: B.Com, B.Compt (Hons), CA(SA)

Andre is the managing director of Intaprop Investments Proprietary Limited, a property development company. With his financial background and insights into the property sector, he provides valuable insights to the board.

Executive directors

Andrea Taverna-Turisan
Chief Executive Officer
Qualification: BSc (Honours) (Mathematics and Management)

Andrea established his own property development company in 2006 and built up a substantial portfolio of modern logistics assets for his own account over the following 8 years. This became an important component of the Equites portfolio on listing. This development expertise and his previous experience in the UK, are key success factors for Equites.

Riaan Gous
Chief Operating Officer
Qualification: BA (Law) LLB

Riaan was previously a director with of one of the predecessor firms of Cliffe Dekker Hofmeyr Inc. where he gained extensive exposure to real estate transactions. He then spent some 10 years as an executive director of the Arabella Group and was actively involved in the development of their property portfolio. His legal knowledge in the property sector has proven invaluable in the listing process and the many significant transaction Equites has concluded to date.

Bram Goossens
Chief Financial Officer
Qualification: BCom (Hons), PGDA, CA (SA)

Before joining Equites shortly after listing in 2014, Bram was a partner with PwC in Cape Town. He serviced some of PwC's key clients in the retail, industrial and property sectors in the Western Cape and brings with him a strong knowledge of IFRS, JSE Listings Requirements and the regulatory framework within which Equites operates.

Corporate governance report

Equites believes that effective corporate governance and disclosure serve the long-term interests of the company, shareholders and other stakeholders. Additionally, effective corporate governance is deemed essential for the group to achieve its long-term strategic goals. The implementation of the governance framework ensures that shareholders can hold directors accountable as their representatives, and in turn, directors can hold management accountable, with each of these constituents contributing to balancing the interests of the company's varied stakeholders.

As part of its commitment to effective corporate governance, Equites fully adopted King IV in 2018 and further built on these principles in the current financial year. Following a tumultuous period of governance failures in the South African and global market, the group re-evaluated its approach to corporate governance with a renewed focus on accountability at all levels. This report sets out the themes which have been considered, the role of ethics in the business, corporate governance policies and the components of our governance structure.

Main themes in corporate governance

Accountability

Ethical guidelines are established by the board and are applicable to all management, executives, employees, and any outsourced operations. The rules are consistent across all jurisdictions and all categories of employees, without exception. While the tone is clearly set by the board, it is ultimately the individual's responsibility to take accountability for their own behaviour and how this contributes to the overall ethical behaviour of the company.

Fairness

Equites strives to treat all shareholders, debtholders, employees, tenants, suppliers and other stakeholders fairly. The group recognises that a successful business can only operate with the input of key stakeholders and aims to reward these stakeholders in line with their contributions to the group. The group regularly engages with key stakeholders, provides all stakeholders with fair access to information and seriously investigates any perceived abuse of power or allegations of unfair business practices.

Transparency

As a public company, Equites recognises its responsibility as the custodian of shareholder funds. This responsibility necessitates operational and financial transparency to assure investors of the financial health of the group's operations. The group's investor relations arm regularly engages with key shareholders and announces all material transactions to the market as necessary. Financial reports, prepared in line with IFRS, are clear and concise as required by board policies. The group ensures that key management is available to address any concerns which may be raised and that they engage with stakeholders on an ongoing basis.

Ethics

The group subscribes to high ethical standards of business practise. This is led by the board who leads with integrity, competence, responsibility and accountability, in line with principle 1 of King IV. A set of values and well-documented policies is discussed and approved by the board annually. These policies require all employees to adhere to ethical business practises in their relationships with each other, suppliers, investors and all other stakeholders. Management conducts ongoing think-tanks relating to ethical conduct in the workplace and encourages all employees to engage openly and challenge any perceived unethical behaviour which may be observed.

The board is responsible for ensuring that the group's ethics policies are appropriate and that they are enforced; this responsibility is discharged through the social and ethics committee. This committee monitors the overall ethical culture of the business and ensures that the board and wider organisation are equipped to deliver on the goal of creating an ethical workplace.

The remuneration and nomination committees are responsible for enforcing ethical standards in recruitment processes, performance evaluation and remuneration of employees and to ensure fair and responsible pay at all levels.

The group has a "no-tolerance" policy towards fraud in the organisation or with any of the counterparties the group chooses to engage with. Employees are briefed on what constitutes fraud and are educated in the process to manage fraud. The group has implemented a toll-free whistle-blower hotline where any instances of fraud or other breaches of ethical behaviour may be reported. Any incidents reported are directed to the chair of the audit committee and all incidents are investigated appropriately.

Corporate governance policies

The board forms the foundation of our corporate governance system and is accountable and responsible for the performance of the group. The following principles have been approved by the board, and together with the charters of the board committees, provide the framework for the governance of the group.

Board membership criteria and composition

The board seeks members who combine a broad spectrum of business expertise, industry knowledge and financial expertise with a reputation for integrity and objectivity. All directors on the board have experience in positions with a high degree of responsibility, are leaders in the companies or institutions with which they are affiliated and were selected based on the contributions they are able to make to the board.

The nomination committee is responsible for recommending candidates to the board, in line with these policies and its charter. This committee monitors the rotation of board members in line with statutory requirements and ensures that the size of the board is

optimised in order to facilitate efficiency and interaction between members. The overriding concern of the nomination committee is to ensure that as a collective, the board is knowledgeable, skilled, experienced, diverse and independent enough to fully discharge its governance role and responsibility as reflected in principle 7 of King IV.

The board should have a majority of non-executive directors, and the majority of these should meet the criteria for independence required by the Companies Act and King IV. The board may consider a director to be independent only if the board has affirmatively determined that the director has no material relationship with the group, either directly or indirectly.

While previous versions of the King Report addressed the classification of non-executive directors as 'independent', King IV contextualises the importance of independence and notes that all members of the governing body, whether they are executive, non-executive or independent non-executive have a duty to act with independence of mind in the best interest of the company (King IV, principle 1, recommended practice 1). Independence is regularly assessed by the board, with an evaluation of the board and its committees being performed on an annual basis by the nomination committee.

Board operations

The board is ultimately responsible for establishing the vision, mission and values of the company. The board also determines company goals, sets company policies and monitors actual performance against the company targets.

King IV provides for the board to delegate the implementation and execution of approved strategy, through policy and plans, to management via the CEO (King IV, Principle 10, recommended practice 84). The board delegates authority to management, most notably, the three executive directors, to implement operational activities in line with long term strategic goals. The board establishes monitoring criteria against which to assess the performance of management which are tabled at every board meeting. This includes various financial and operating metrics, in addition to successfully implementing growth and acquisition targets.

The board is expected to meet at least once a quarter. Directors are expected to attend the board meetings and meetings of committees on which they serve, and to meet as frequently as may be necessary to properly discharge their statutory and other responsibilities.

Board committees

The board maintains an audit and risk committee, a remuneration committee, a nominations committee, an investment committee & social and ethics committee. These committees were formed to assist the board to discharge its functions. King IV recommends practices which promote effective collaboration among committees with minimal overlap and fragmentation of duties. The individual committees are discussed in detail below.

Assessing executive directors

The nomination committee conducts regular performance reviews of the executive directors. Based upon evaluations and input received from all non-executive directors, the chair of the nominations committee reports to board on the overall effectiveness of the executive directors.

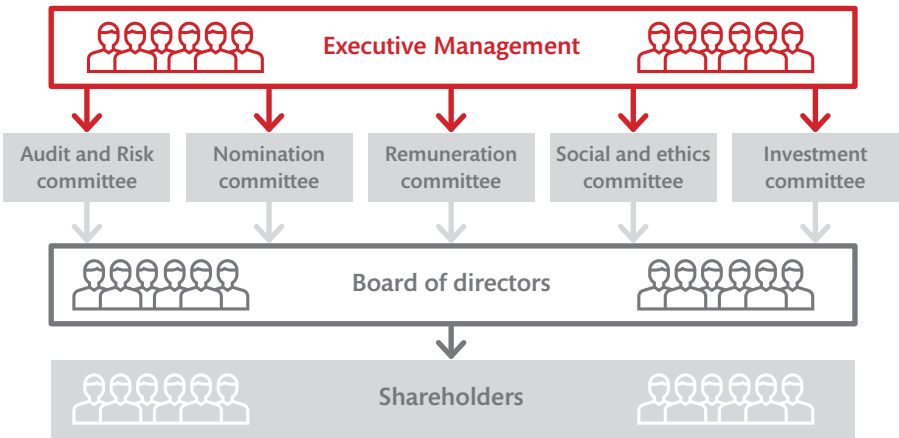
The board suggests strategic development opportunities for the executive directors. These development opportunities assist the executive directors in achieving their goals and ensuring that the organisation is focused on long term value creation.

The nomination committee shall, periodically review succession planning for the board, executive directors and all other key management. Succession planning shall include policies and principles for selection of board members and executive directors, and ongoing planning for circumstances which may require the selection of a new board members and/or executive directors.

Governance structure

The board retains effective control of the business through a clear governance structure and has established committees to assist it in various elements of the operations. The board recognises that management is an integral part of the risk management and governance structure and to this end, the board relies on regular management reports and updates. The board recognises that delegating authority does not reduce their statutory and common-law fiduciary duties.

While maintaining a focus on corporate governance, the board reviews the group's strategy annually with the aim of ensuring that the strategy is aligned to the core values of the group, risks identified and long-term stakeholder interests.



Corporate governance report (continued)

Composition

Equites believes that the group's governance framework and policies support the overall long-term growth and success of the group. The board composition, governance framework, and the roles and responsibilities of the committees are not solely focused on compliance with laws and regulations but also play a vital role in driving outcomes that support the group's continued growth.

The Chairman and the CEO exercise important roles in the corporate governance structure of a company. It is best corporate governance practice that the roles of Chairman and CEO are performed by different people, and that the chairman is an independent non-executive director.

The role of the Chairman is to provide leadership to the board, to take responsibility for the board's composition and development and to lead the board in forming its strategic vision and setting long-term goals for the future. The Chairman should also set clear expectations concerning the company's culture, values and behaviours and should set the style and tone of board discussions.

The CEO has the responsibility of ensuring that the operations of the company and its performance is in accordance with the strategic goals that the board has determined. The CEO should promote the company's cultures, values and behaviours through his own example and by influencing the day-to-day working environment of the organisation.

Independence

Balance of power

3	3	5
Executive directors	Non-executive directors	Independent non-executive directors

The board consists of 11 directors, of which 8 are non-executive. Of the non-executives, 5 directors are independent. The Chairman is an independent non-executive and the responsibilities of the Chairman and CEO are clearly defined and separate. A majority of independent non-executive directors encourages independent thinking amongst all board members and enables all directors to exercise objective judgement.

To allow a fair nominations process and to allow the board to rotate should the need arise, one third of the non-executive directors must resign and stand for re-election at each annual general meeting. All board appointments are motivated by the nomination committee in terms of their formal terms of reference and policy on appointments. All appointments are subject to approval by the board as a whole.

Gender and racial diversity

Transformation

2	2	7
Black female	Black male	White male

The non-executives have been selected to reflect diversity in terms of race, gender, areas of experience and tenure. The board currently comprises two females, but the nominations committee has made a conscious decision to improve gender diversity. The board comprise 4 black directors and 7 white directors. As part of future board rotations and succession planning, there will be a focus on racial diversity in an attempt to achieve a more empowered board.

Effective board self-evaluation process

The board recently underwent a rigorous self-evaluation process which was assessed and interpreted by an external evaluation company, CGF Research Institute. The objective of the independent external evaluation is to improve the board's collective and individual performance and that of its committees, and thereby improve the overall efficacy and sustainability of Equites.

The survey indicated that the majority of the board is confident that the governance of the board and its sub-structures are adequate and functioning correctly. Moreover, the respondents believed that the board was performing according to its agreed standards and expectations. Areas highlighted for improvement involved the continuous development of board members in respect of their knowledge of the business, industry, trends and market. This has been highlighted and is in the process of being addressed accordingly.

The board was asked to the list the top three characteristics which in their opinion are required of a high performing board. In summary, it was agreed that these included knowledge, skills and experience; integrity and ethics and strategic vision. We believe that the board currently display a high level of all these characteristics and as a result, contribute to the overall success of the business.

Board committees – composition and duties

The board acknowledges that overall responsibility for managing the group rests with the board as a whole. To assist it in fulfilling its responsibilities, the board has appointed a number of sub-committees.

Audit and risk committee

The audit committee fulfils a critical role in the overall governance framework by overseeing integrated reporting and ensuring the financial integrity of the annual financial statements. In addition to overseeing all financial reporting, the committee is responsible for monitoring risks at quarterly committees and reporting to the board on key risks the strategic responses to these. All members of the audit and risk committee are independent non-executive directors. The committee is chaired by Ruth Benjamin-Swales and ensures that all statutory duties are upheld in line with the Companies Act, while overseeing the processes which ensure the integrity of the group's financial and integrated reporting. For the year under review, inter-alia, the committee reviewed the external auditor's effectiveness, independence and objectivity; reviewed and approved the audit fee and non-audit services; reviewed and approved the external audit plan; reviewed the interim results and year-end financial statements and made recommendations to the board for their approval. The committee also reviewed the enterprise risk management framework, monitored fraud risk management and compliance with the risk management policy.

Members: Ruth Benjamin-Swales, Leon Campher, Nazeem Khan, Mustaq Brey, Gugu Mtetwa.

Investment committee

The investment committee is essential to the growth and continued success of the group as it reviews material transactions identified by the executive on an ongoing basis and make recommendations to the board in this regard. This committee is chaired by Leon Campher and consists of directors with vast experience in both property and finance. For the year under review, the committee was called to evaluate asset acquisitions in South Africa and the UK. The committee analysed the commercial, financial and operational impacts of the acquisition and deemed the acquisition to be viable and this was subsequently recommended to the board.

Members: Leon Campher, Nazeem Khan, Giancarlo Lanfranchi, Andre Gouws, Kevin Dreyer

Remuneration committee

The role of the remuneration committee is to ensure that executive and employee remuneration promotes fair, responsible and ethical employment practices while being mindful of all stakeholders. The remuneration committee is chaired by Nazeem Khan, an independent non-executive director, and ensures that the group adopts a remuneration policy that is fair and transparent and attracts and retains executive talent that contributes to the achievement of the group's objectives. The remuneration focused its efforts on executive retention practices, ensuring that executive pay was benchmarked appropriately and engaged with shareholders to inform its remuneration policies.

Members: Leon Campher, Nazeem Khan, Ruth Benjamin-Swales

Nomination committee

The role of the nomination committee is to assist the board with the nomination, election and appointment of directors. The committee is chaired by Leon Campher and this committee ensures that the board is selected to ensure optimal diversity, experience, knowledge and skill in the composition of the board. For the year under review, the committee reviewed and evaluated the size, structure and composition of the board and considered how the board needs to evolve to meet business needs going forward. The committee also focused on refining selection processes, reviewed the racial and gender diversity policy and considered succession planning and management development in order to meet the evolving needs of the business.

Members: Leon Campher, Nazeem Khan, Ruth Benjamin-Swales, Gugu Mtetwa

Social and ethics committee

The social and ethics committee is a statutory committee that performs a monitoring role with regards to the overall direction and control of social responsibility. King IV expands on the role of the social and ethics committee by ascribing the role of oversight of and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships to this committee (King IV, Principle 8, recommended practice 68). This committee is chaired by Giancarlo Lanfranchi and focuses on promoting organisational ethics and enhancing the positive footprint which Equites can make in society. The committee focused most of its resources on transformation in the year under review; ensuring that the group was compliant with the Broad Based Black Economic Empowerment Act of 2003 and the Employment Equity Act. The committee also focused on the promotion of sustainable business practices and considered sponsorship, donations and charitable giving with the aim of community upliftment. Refer to the social and ethics report for more detail.

Members: Giancarlo Lanfranchi, Leon Campher, Riaan Gous, Gugu Mtetwa

Corporate governance report (continued)

Involved and committed board

	Leon Campher	Nazeem Khan	Ruth Benjamin-Swales	Mustaq Brey	Gugu Mtetwa	Giancarlo Lanfranchi	Kevin Dreyer	André Gouws	Andrea Taverna-Turisan	Bram Goossens	Riaan Gous
Audit and risk committee											
07 May 2018	●	●	●	●	●	◆	◆	◆	◆	◆	◆
08 October 2018	●	●	●	●	○	◆	◆	◆	◆	◆	◆
Investment committee											
22 August 2018	●	●	◆	◆	◆	●	●	●	◆	◆	◆
Remuneration committee											
07 May 2018	●	●	●	◆	◆	◆	◆	◆	◆	◆	◆
08 October 2018	●	●	●	◆	◆	◆	◆	◆	◆	◆	◆
28 January 2019	●	●	●	◆	◆	◆	◆	◆	◆	◆	◆
Nomination committee											
07 May 2018	●	●	●	◆	●	◆	◆	◆	◆	◆	◆
08 October 2018	●	●	●	◆	○	◆	◆	◆	◆	◆	◆
Social and ethics committee											
08 October 2018	●	◆	◆	◆	○	●	◆	◆	◆	◆	●
28 January 2019	●	◆	◆	◆	●	●	◆	◆	◆	◆	●

● Attended
○ Absent with apologies
◆ Not a member of this committee

Conflict of interest and directors' personal interests

Directors are required to declare their personal financial interests and those of related persons in contracts with the group. A register in this regard is maintained and reviewed regularly.

In line with the requirements of the Companies Act and corporate governance guidelines, directors are asked to recuse themselves from any discussions and decisions where they have a material financial interest.

Company Secretary

Riaan Gous was appointed as the company secretary on 1 December 2014. The board is satisfied with his experience and qualifications to act in this capacity. Following a review undertaken by the board on the duties required of the company secretary during the year under review, the board concluded that the nature of the advice provided by the company secretary and the way the company secretary executed his duties during the year, indicated that he is fit to continue in the role. He is also an executive director of the company and several of the subsidiaries in the group. The board is satisfied that despite this, his relationship with the board is at arm's-length and he maintain good corporate governance on behalf of the company at all time.

Risk management report

We believe that our approach to identifying and appropriately managing risks ensures that we continue to generate sustainable value for our stakeholders.

Risk register

Equites recognises that effective risk management is critical to the achievement of strategic objectives and the long-term growth of the business. The approach is all-inclusive and involves the following steps: identification of risk; assessment of the likelihood and impact on the group; formulating mitigating responses to the risk and reviewing and revising identified risks on an ongoing basis. The effective application of the risk management process ensures that management understands the risks to which it is exposed and deals with them in an informed, proactive manner.

Risk management framework

Each business area is responsible for identifying and managing risks in their area of responsibility. Executive management is tasked with implementing mitigating actions as soon as they are aware of the identified risk.

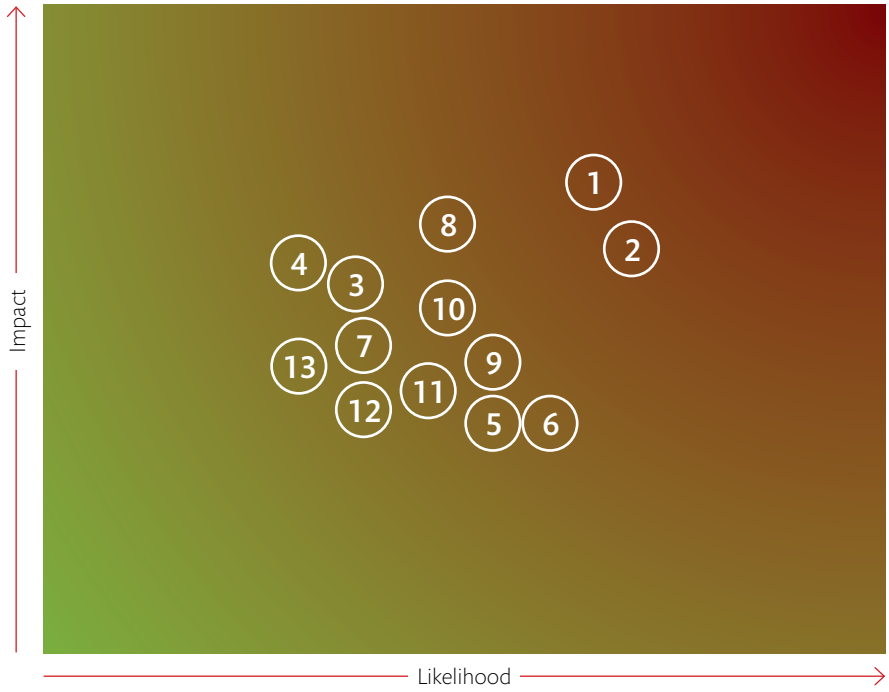
Executive management meet on a weekly basis to workshop strategic issues facing the business and risk management is dealt with on an ongoing basis in these meetings.

Although the board is responsible for ensuring that the risks facing the business are effectively managed, it has delegated oversight of risk to the Audit and Risk committee. The A&R committee reviews significant risks and any mitigating factors at each meeting and reports back to the board based on their findings. Based on reports from executive management and feedback from the A&R committee, the board confirms that the group's risk management, mitigating activities and monitoring processes are an effective risk response.

Risk assessment matrix

Each risk is identified based on a sound understanding of the business and is assessed based on its likelihood and impact. The risk is assessed after consideration of the status of the risk as well as any mitigating factors which have been employed. Outlined below is the group's risk heatmap followed by its risk assessment matrix which considers the principal risks that it is exposed to.

Risk heatmap



1. Macroeconomic outlook
2. Political and regulatory outlook
3. Availability and cost of finance
4. Tenant default and occupier demand
5. Foreign exchange rate fluctuations
6. Increase in utility costs and militant labour disruptions
7. Capital structure and finance strategy
8. Investment strategy
9. Property development
10. Strategic land acquisitions
11. Transformation strategy and objectives
12. Retention of key staff and adequate human resourcing
13. Compliance with laws and regulations

Risk factor and likelihood	Impact of the risk	How we assess and manage the risk	Change in the year
Macro-economic outlook **Likelihood: high**	The current macro-economic climate including forecasted GDP growth and the expectations of movements in future interest rates creates risks and opportunities for the group and its stakeholders.	The board assesses key macroeconomic indicators including forecasted GDP growth, unemployment rates, interest rates and levels of market volatility as part of its ongoing assessment of the financial stability of both the SA and UK economies. While external risks are inherently difficult to manage, enhancing the group's resilience to economic downturns enables us to mitigate any significant adverse impacts thereof. We therefore aim to secure long-dated leases with blue-chip tenants. The group's WALE increased to 8.8 years in the current year with over 90% of the portfolio let to blue-chip tenants.	↑ The UK GDP growth is projected to be 1.2% in 2019, down from 1.4% in 2018 with projected UK CPI in 2019 around 2.0%. The SA GDP growth for 2019 is projected to be a tepid 1.2% while SA CPI inflation is expected to remain volatile within the 4.5% – 5.5% range due to the influence of the rand oil price. Unemployment rates around 27.1% in SA also presents a risk to the future performance of the group. The group is confident that our robust business model differentiates us as an investment which can endure the impacts of economic downturns.
Political and regulatory outlook **Likelihood: high**	Political instability and uncertainty both in South Africa and in the United Kingdom may result in the inability to access to capital as required through debt and equity markets due to diminished investor confidence. The current uncertainty surrounding the ongoing Brexit negotiations continues to pose a risk to the group.	The group maintains a conservative LTV target of 25-35% and maintains adequate banking facilities. The group has diversified its sources of funding by registering a DMTN programme and issuing its first R300m commercial paper and by extending the number of financial institutions that funds the group's operations. The group monitors the capital markets closely and gauges appetite for equity through engagement with key market players including corporate sponsors, asset managers and other investors.	↑ Brexit remains an incessant impediment to business confidence and economic growth in the UK and the protracted extension to 31 October 2019 further exacerbates the issue. In addition, the imminent SA national elections create some degree of political uncertainty which has caused a decrease in business confidence. Nevertheless, the group remains confident that its business model remains resilient in the face of a challenging political landscape.
Availability and cost of finance **Likelihood: low**	Reduced availability of finance may adversely affect our ability to effectively maintain a low cost of funding and to reduce the refinancing risk when existing debt facilities near expiry.	The group maintains a hedging policy of hedging at least 80% of its interest rate exposure. Currently, the group has hedged interest rate risk relating to 92.9% of term balances. The group has also extending the duration of its outstanding debt to 3.6 years at 28 February 2019, up from 2.8 years at 28 February 2018.	↓ The group's all-in effective average cost of funding has fallen 128 bps from last year which is a product both of a decrease in SA interest rates but also an increase in the utilisation of UK debt facilities at a lower all-in cost.
Tenant default and occupier demand **Likelihood: low**	The group's rental growth, sustainable income stream and capital appreciation may be adversely impacted by weaker occupier demand and tenant defaults.	The group focuses on blue chip tenants, with over 90% of the portfolio let to A-Grade tenants. As the majority of the group's tenants are large listed, national or international tenants, these tenants are expected to be more resilient in a trying economic climate. Equites has also set an internal threshold that any single tenant which comprises more than 10% of total revenue needs to be an investment grade tenant in order to minimise default risk. Management engages with clients regularly to assess their financial status and to engage on the likelihood of them renewing/remaining at Equites' facilities.	↔ The group has seen occupier demand increase in prime logistics nodes while other areas have remained relatively flat over the year. Tenant default remains virtually zero across the portfolio.

Risk management report (continued)

Risk factor and likelihood	Impact of the risk	How we assess and manage the risk	Change in the year
Foreign exchange rate fluctuations **Likelihood: moderate**	As the UK business grows, Equites International is becoming a larger component of the business. Volatility in exchange rates impact the translation of foreign operations which have a direct impact on the NAV and distribution growth of the group.	The group continually monitors exchange rate exposures in real time and actively hedges against foreign currency exposures. Cross currency interest rate swaps to the value of £77 million have been entered into to hedge the capital exposure. Furthermore, the group has introduced a progressive GBP distributable earnings hedging policy to manage the impact of exchange rate movements on its distribution growth.	↔ The group continues to utilise natural hedges to minimise its exposure to fluctuations in foreign exchange rates on its distributable earnings and capital invested. The group has implemented a progressive hedging policy for GBP distributable earnings expected to be earned from its UK operations in the next 24 months.
Increase in utility costs and militant labour disruptions **Likelihood: high**	The rapid increase in municipal rates and electricity tariffs result in additional pressure on tenants for recovered utilities. Furthermore, there have been instances where militant labour has disrupted construction activity at a few of the development sites over the past year.	The group employs renewable energy sources in its new developments and uses energy saving technology to reduce the electricity cost burden to tenants. The group has had minor disruptions to some of our developments as a result of the labour disruptions, but it has been able to resolve these without any material cost by engaging with the respective communities.	↑ As far as possible, the group utilises solar energy to subsidise electricity costs in new developments. With regards to labour disruptions, the group has contracted with a community liaison company that is actively managing any potential disruptions.
Capital structure and finance strategy **Likelihood: low**	Failure to appropriately assess the liquidity requirements of the group may result in the inability to pay obligations as they fall due. An increase in the use of leverage, which augments capital returns of the group, may increase the cost of debt and increase the risk that the group might breach financial covenants.	The company currently has a healthy balance sheet, underpinned by properties with strong fundamentals which translate into sustainable cash flows. The LTV of the fund is a low 26.9% with circa R0.9 billion undrawn funds at year end. There has been no breach in financial covenants to date, and there is no evidence to suggest that there would be any in the upcoming financial year.	↔ The group's LTV has increased slightly from 23.5% to 26.9% while the undrawn borrowing facilities has remained substantial at R0.9bn. The group's cash flow forecast suggests that it will comfortably be able to meet existing obligations as they fall due, a view that remains unchanged from last year.
Investment strategy **Likelihood: moderate**	The group's ability to meet its objectives depends partially on the execution of its investment strategy. Failure to execute the group's investment strategy effectively could adversely impact the financial performance of the group.	The board has constituted an investment committee which is tasked with the specific objective of ensuring that the investment strategy is executed effectively. Individual investment decisions are subject to a thorough due diligence by our Investment Committee which considers the appropriate risk adjusted hurdle rates to be factored into the investment decision.	↔ Whilst the macroeconomic and political landscape remains uncertain, we have an enduring strategy which is based on long-dated leases with A-grade tenants in our high quality logistics facilities in key logistics nodes which we continue to focus on.
Property development **Likelihood: moderate**	The inherent risk associated with property development is higher than that of income-producing properties that the group owns and acquires. The group's ability to create value therefore depends on the successful development of its properties.	The group undertakes a detailed feasibility and budgeting process incorporating observable data and stressing key assumptions when considering whether to develop on its zoned land and when entering into forward-funding agreements. The group mitigates the risk by ensuring that developments occur on a pre-let basis to an A-grade tenant. Furthermore, the group takes a cautious view on the extent of its speculative development activity and limits it to 5% of the portfolio.	↑ The group has targeted GLA of over 100 000m2 under development at year end, with over 80% of the development activitiy on a pre-let basis with A-grade tenants both in SA and the UK. Speculative development activity at year end deliberately remains well below the 5% limit.

Risk factor and likelihood	Impact of the risk	How we assess and manage the risk	Change in the year
Strategic land acquisitions **Likelihood: moderate**	The acquisition of strategic land holdings increases the risk that the group is not able to drive capital appreciation by unlocking value through the development of these land parcels.	The group performs a detailed assessment of the key logistics nodes within the major metropolitan areas in which it operates to understand likely areas of increasing occupier demand. The group includes an assessment of each potential land parcel's key characteristics including the location, price, intended use, environmental and other relevant factors when performing each appraisal. The group also mitigates the risk by limiting the amount of land it holds at any point in time.	↑ Towards the end of the current financial year, the group increased the land positions it holds specifically through acquisitions in Witfontein along the R21 corridor between OR Tambo and Pretoria and at Jet Park. There have already been a number of proposals drafted and advanced discussions had to develop these land holdings.
Transformation strategy and objectives **Likelihood: moderate**	Inability to achieve transformation targets may directly impact our ability to attract and retain tenants who require a landlord with a specific rating or ownership level. Furthermore, it may impact our ability to compete on development bids with specific B-BBEE criteria.	The board and the social and ethics committee actively monitors transformation in the entity and focuses on initiatives which improve transformation in a meaningful manner. The group has been instrumental in setting up the Michel Lanfranchi Foundation which will be the vehicle which houses the corporate social initiatives of the entity. This will aim to positively impact the skills development and social development elements of our scorecard. Management focuses on employment equity in all hiring activities with a preference given to previously disadvantaged candidates.	↔ The heightened focus on broad-based B-BBEE recognition levels and the proposed amendments to the B-BBEE Codes may impact the group's ability to attract and retain tenants. However, the group remains committed to ensuring that the transformation strategy is executed and our objectives are achieved.
Retention of key staff and adequate human resourcing **Likelihood: low**	Loss of key staff or being under resourced will impact the ability to achieve the group's objectives effectively.	Executive management constantly assesses the capacity of available staff and closely monitors staffing requirements as the business grows. All staff members are awarded short term incentive bonuses and belong to the long-term share incentive bonus scheme which aligns the interests of staff members with the performance of the company and assists with the retention of key staff.	↓ During the year, the group has employed additional staff members in various facets of the business to ensure that the rapid growth is supported by a highly skilled and capable team. Furthermore, the group introduced an executive retention scheme during the current year to motivate our key staff and ensure that they are adequately rewarded.
Compliance with laws and regulations **Likelihood: low**	Failure to comply with key laws and regulations of the jurisdictions which the entity operates in may result in fines and penalties, reputational harm or potential loss of REIT status.	The group employs management and staff who are qualified and experienced to deal with the relevant compliance factors. Where additional complexities are encountered, management engage a broad range of specialists to ensure that all relevant avenues are covered. The largest risk factor is jeopardising the REIT status of the business; to manage this, management constantly monitors elements of revenue which may be deemed as non-property income and may place the REIT status in jeopardy.	↔ The group remains committed to upholding the highest levels of integrity and ethical culture. There continue to be no reported instances on non-compliance with laws and regulations.

Remuneration report

The group has adopted the remuneration principles envisioned in King IV which recommends that remuneration be used as a tool to ensure the business creates shareholder value in a sustainable manner, within the company's operating context. King IV recommends detailed and specific disclosure on the policy and its implementation. In line with these requirements, this report is split into different components: the first is the background statement which provides context to the company's remuneration policy and performance; the second is an overview of the forward-looking remuneration policy and the third section details its implementation.

Background statement

Remuneration throughout the organisation has been designed to aid the recruitment and retention of vital skills in line with the rapid growth within the group and its vision for continued success. Highly skilled and motivated people are considered key to the achievement of the group's long-term strategic objectives. It is also an integral part of maximising stakeholder value and ensures that management and shareholder values are aligned through providing the group's human capital with meaningful equity participation.

To ensure that the group's total remuneration packages and pay mix are appropriate within the market in which it operates the group has a policy to perform external benchmarking every 3 years. The remuneration committee applies reasonable inflationary adjustments to all categories of pay in the years following the external benchmarking exercise. A benchmarking exercise was last performed two years ago and the remuneration committee approved a basic increase of 5% (2018: 6%) in the current year.

The remuneration committee believes that the remuneration policy has continued to work effectively, as evidenced by a clear link between the performance of the company and the reward outcomes generated. Following engagement with certain shareholders, the remuneration committee has made selected changes to the policy in the current year which is discussed in more detail below.

The remuneration committee is aware of the ongoing debate on executive remuneration and corporate governance. This debate has led to an increase in the focus on long-term alignment with shareholders and the importance of taking account of executive compensation within a broader context, particularly in relation to employees' remuneration and the operating context of the business.

Shareholders will be requested to cast a non-binding vote on the remuneration policy and the 2019 implementation report at the annual general meeting to be held on 26 July 2019. If shareholders do not approve the remuneration policy or the implementation report by more than 75%, the board will institute a formal engagement process with interested shareholders to understand their respective concerns. As far as possible, the remuneration committee will engage with dissenting shareholders on a one-to-one basis after receiving written submissions of their concerns. In the following year's remuneration report, Equites will provide details on the outcomes of the various engagements as well as steps taken to address reasonable concerns and objections. The board also encourages shareholders to engage with the company secretary ahead of the AGM by directing comments and/or queries to in writing to Riaan Gous at riaan@equites.co.za.

Feedback from 2018 AGM

At the AGM held on 27 July 2018, shareholders gave a positive non-binding advisory vote of 79.29% endorsing the 2018 remuneration implementation report. The non-binding advisory vote on the remuneration policy, however, only received support of 70.81%. As this was below the threshold of 75%, the board instituted a formal engagement process with shareholders, the results of which were:

- Two shareholders , holding approximately 10.5% of shares in issue, who voted against the remuneration policy at the AGM, engaged directly with the company.
- The primary concern raised by these shareholders was that 40% of awards issued under the long-term incentive scheme were subject only to service conditions.
- A secondary concern related to the use of budgets as a performance hurdle in determining awards to employees and/or directors in terms of the short-term incentive scheme.
- With regards to shareholders that may have acted on the recommendation of Institutional Shareholder Services to vote against the company's remuneration policy, Equites obtained a copy of the report issued by ISS setting out the concerns and tabled the concerns raised in this report for discussion at subsequent remuneration committee meetings.

Remuneration report (continued)

After careful consideration of the concerns of the ISS and shareholders, the remuneration policy was amended as follows:

Concern	Outcome
Although 60% of shares awarded under the long-term incentive scheme were subject to both performance conditions and service conditions, 40% of the shares awarded under the long-term incentive scheme ("LTI") were subject only to a service condition.	The grant for 2019 was amended so that 100% of share awards are now subject to performance conditions. The executive directors also agreed to have the unvested awards for 2016, 2017 and 2018 retrospectively amended so as to introduce performance conditions in addition to the existing service condition.
After the performance period, participants in the LTI are issued a 3-for-1 matching share, which is subject to a service condition only.	The matching shares can never exceed 25% of total vested shares and are based on the performance-adjusted award. In the light of the fact that all base awards are now subject to performance conditions, the remuneration committee was satisfied that no further amendment was required.
The STI and LTI schemes used performance targets that were linked to internal budgets.	Performance targets were revised and are now linked to the South African REIT constituents of the SAPY (J253). The executive directors also agreed to have the unvested awards for 2016, 2017 and 2018 retrospectively amended to align all the performance targets.
No share usage limits were disclosed for the LTI.	This was a disclosure omission – the scheme rules limit the allocation of actual shares to 10 million, representing 2% of the current shares in issue respectively.
Personal performance targets for the STI should include more measurable metrics and the remuneration report should disclose detail of actual measured metrics against targets.	This current report provides more detail on the measured results and remuneration committee has implemented more detailed performance targets for the financial year to February 2020.

Remuneration consultants

The remuneration committee used the services of independent remuneration specialists from PwC during the year to assist with the review of the remuneration policy, review of the remuneration report and other ad hoc remuneration related matters. The remuneration committee is satisfied that PwC were independent and objective.

Future areas of focus

As detailed above, the remuneration committee made a number of changes to the policy after engagement with shareholders in the prior year. The committee believes that this has significantly improved the alignment of the group's remuneration policy with good corporate governance principles. In future, the committee intends to place emphasis on the principle of fair and responsible pay.

Remuneration policy

Remuneration committee

In line with best practice, the group's remuneration committee is appointed by the board of directors and has delegated authority, in accordance with its terms of reference, to review and make decisions regarding the group's remuneration policies and implementation thereof. The committee consists of three independent non-executive directors, namely, Nazeem Khan (chair), Ruth Benjamin-Swales and Leon Campher.

The remuneration committee fulfilled the following main duties during the reporting period:

- Review of the group's remuneration policy
- Approval of overall pay mix for executive directors
- Approval of the group's LTI including the related performance and service vesting conditions as well as annual awards
- Assessment of LTI outcomes and approval of actual shares issued to the directors
- Approval of STI for executive directors including assessment of annual outcomes and approval of bonus pay-outs
- Recommendation to the board of non-executive directors' emoluments and increases for the following year for approval by shareholders
- Approval of executive directors guaranteed pay and increases

In addition, as set out in the background statement, the remuneration committee also spent time during the year discussing and implementing the changes to the remuneration policy.

Organisation-wide remuneration policy overview

For the purposes of the remuneration policy, employees have been categorised into three categories; executive directors, management and other employees. The group's pay mix provides for short-term reward, while incorporating long term incentives. A three-tier remuneration structure for all employees provides a balance between:

Total guaranteed pay	The total guaranteed pay ("TGP") is the salary for performing the contractual role agreed upon and includes benefits accruing to employees.
Annual performance-related incentives	The STI bonus is awarded to employees based on the group's financial performance as well as individual performance metrics.
Long-term incentives	The LTI is designed to attract, retain and reward executives through the award of conditional shares. This serves to align the interests of employees with those of shareholders.

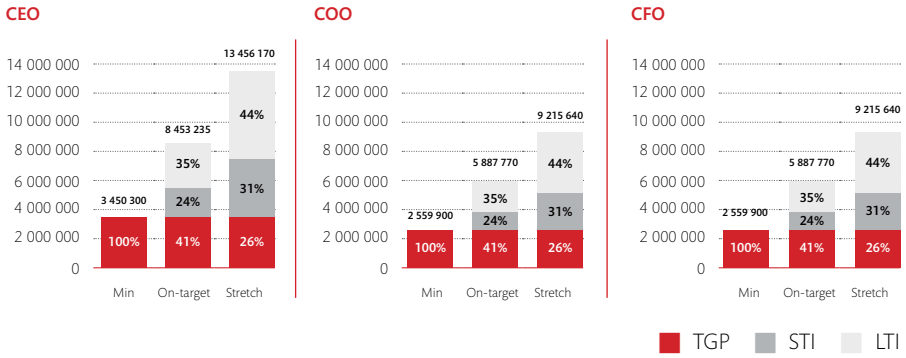
In addition to the TGP, all permanent employees receive a component of variable remuneration, dependent on their level and role within the group. Equites is committed to remunerating fairly and responsibly across the company. Any possible remuneration disparities related to race, gender, etc. will be identified and any confirmed remuneration disparities will be investigated and addressed as soon as is practical. Unjustifiable differences in pay and conditions of employment between employees at the same level will be addressed in accordance with the "equal pay for work of equal value" philosophy.

In line with the group's efforts to narrow the wage gap, increases awarded to executive directors were capped at the guaranteed increase of 5%, while employees other than executive directors were granted average increases of 7%.

Equites will continue to benchmark TGP and total remuneration for these levels of employees to the industry median.

Executive remuneration

The executives' remuneration was balanced between TGP, STI and LTI. To encourage retention and align executive's interests with other shareholders, variable pay is weighted more heavily with respect to LTI with an on-target LTI forming 35% of the remuneration mix as set out below:



On-target variable pay, made up of the STI and LTI comprises more than half of total remuneration. At stretch, the variable pay comprises 77% of the total remuneration for the CEO and 72% of total remuneration for the COO and CFO. Amounts received under the executive outperformance scheme have not been included here, as awards under this scheme are not considered to form part of annual remuneration.

Total guaranteed pay

TGP comprises cash salary and benefits and is determined by the scope of the role, performance and experience. Employee remuneration levels are reviewed annually and assessed against business performance, the scope and nature of the role, relevant companies in the property sector and macroeconomic indicators such as inflation, cost-of-living changes and the labour market, to ensure they are fair and reasonable.

Short term incentive

The group has adopted a multiplier-based STI plan which incorporates both financial and individual modifiers. The performance-related incentive target for each executive is agreed with the individual annually and is based on targets that are verifiable and aligned to the operation of the business and its strategy. STIs are payable annually after being approved by the remuneration committee and release of the audited financial statements. Any annual performance-related incentive pay-outs received under the plan are paid in cash. The committee may apply judgement to make appropriate adjustments to an individual's annual performance-related incentive.

The following formula is applied to incorporate the multiplier model:

STI	=	On-Target Incentive %	X	Financial Modifier	X	Individual Modifier
CEO		60% of TGP		0% – 200%		0% – 150%
COO		50% of TGP		0% – 200%		0% – 150%
CFO		50% of TGP		0% – 200%		0% – 150%

Remuneration report (continued)

Financial modifier

The multiplicative approach results in zero bonuses if the Financial Modifier is 0%. Growth in distribution per share measured against a peer group benchmark was used as the financial performance modifier for the current and upcoming financial year with the following performance levels:

	Threshold	Target	Stretch
DPS growth goal	SAPY Bench-mark*	SAPY Bench-mark* +10%	SAPY Bench-mark* +20%
Financial modifier achieved	0%	100%	200%

* This benchmark has been set as South African REITs that are constituents of the SAPY, weighted by market capitalisation.

Linear apportionment is used between the specific levels tabulated above.

Personal modifier

The remuneration committee agreed personal objectives with each executive director at the beginning of the financial year. Personal objectives are assessed at the end of the year and result in a multiplier from 0-150%. The maximum STI payable to an individual director is, however, limited to the stretch financial modifier percentage, i.e. the bonus payable can never exceed 120% and 100% of TGP for the CEO and other executives respectively.

A summary of the personal performance objectives and associated weightings agreed by the remuneration committee for the upcoming financial year are set out below:

	Maximum % modifier		
KPI	CEO	COO	CFO
1. Business growth – Grow income generating asset base – Grow gross revenue	30%	30%	30%
2. Operational metrics – Property expense ratio – Operating expense ratio – Vacancy ratio – Arrears management	30%	30%	30%
3. Leadership cohesion, staff management and company culture – Ensuring fully committed and motivated team – Maintain minimal staff turnover – Living the agreed Equites values	30%	30%	30%
4. Additional operational metrics – Focus on letting vacant space – Tenant retention ratio		10%	
5. Financial management – Maintain LTV within target range – Manage debt expiry profile – Implement currency hedging strategy – Maintain existing credit rating			30%
6. Stakeholder management – Effective and efficient functioning of the board – Managing major shareholder interactions – Media engagement	30%		
7. Engagement with debt holders – Ongoing negotiations with third party lenders – Diversify sources of funding and minimising funding costs			20%
8. Implementation of acquisitions – Leading due diligence on all material transactions – Overseeing and implementing all acquisitions seamlessly		30%	
9. Innovation – Cementing Equites position of excellence in logistics market – Involvement with education and brand awareness	20%		
10. Transformation – Promoting employment equity practices – Focus on ownership transformation – Maintain industry leading B-BBEE score	10%	10%	10%
11. Company secretarial – Ensure compliance with laws and regulations		10%	
	150%	**150%**	**150%**

Long-term incentive

LTI awards are granted annually in the form of conditional shares in Equites ("performance shares"). The remuneration committee believes that using this type of award aligns the interests of the executive and shareholders and allows the executive the opportunity to share in the success of Equites over the long-term. The total quantum of shares awarded for the year was set as 85% of TGP for the CEO and 80% of TGP for the COO and CFO based on the 30-day VWAP on the date of the award.

All awards are subject to performance conditions and require the participant to be employed by the group until the 31st May following the end of the 3-year performance period. The performance conditions are weighted equally between the growth in distribution per share for each of the 3 financial years and net asset value per share growth over the three-year performance period. The growth in distribution per share is measured against a peer group benchmark.

The performance conditions for all awards from 2016 onwards were modified and are now as follows:

Performance condition	Threshold	Target	Stretch	Weighting
Growth in DPS for FY+1	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	25%
Growth in DPS for FY+2	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	25%
Growth in DPS for FY+3	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	25%
Growth in NAV per share from FY to FY+3 (CAGR)	2%	4%	8%	25%

* This benchmark has been set as South African REITs that are constituents of the SAPY, weighted by market capitalisation.

After the initial 3-year performance period, the number of shares awarded to the participant is adjusted in line with the performance conditions, as assessed and approved by the remuneration committee. The remuneration committee also obtained independent verification of all computations in the STI and LTI awards actually awarded in the current year.

If the participant remains employed by the company after this initial performance period, the award is increased on a 3-for-1 basis (i.e. by 33.3%, which increases the allocation by 25%) ("matching shares"). The only further vesting condition for the matching shares is for the participant to remain in the company's employment for a further 24 months. Where a participant remains employed by the company, vesting occurs at the end of this additional 24-month period. Where a participant's employment is terminated after the initial performance period, but before the end of the additional 24-month period, vesting of the performance shares is accelerated to the termination date and the participant forfeits the matching shares.

Share usage limit

The scheme rules limit the allocation of shares in terms of the long-term incentive scheme to 10 million shares in aggregate, representing 2% of the current shares in issue respectively. The current usage level is set out in the implementation report.

Introduction of executive outperformance scheme

The board recognises that Equites has consistently performed favourably compared to its peers, having increased its market capitalisation since listing from R1 billion to approximately R10 billion in under five years, whilst delivering above average distribution per share growth. The board agreed that it was important to identify key members of the executive and staff to be incentivised to sustain this outperformance. The board considers the loss of such key members of the executive and staff as a major risk which could have a detrimental impact on the future performance of the company. On the recommendation of the remuneration committee and following various internal discussions and consultation with external remuneration specialists, the board introduced an EOS effective for 5 years from 31 August 2018.

The board also carefully considered the aspirations of Equites and its strategic goals over the next five years until 31 August 2023 (the period of vesting). Consequently, the performance conditions applicable to the EOS are linked to scale (as measured by market capitalisation) and returns (as measured by DPS growth) and are on an "all-or-nothing" basis to reward specific outperformance.

The EOS is not intended to be awarded on a regular basis and following this first award, no further awards are contemplated under the EOS to existing participants under the scheme. The scheme is cash settled and linked to a notional number of shares on granting. Participants are entitled to dividend equivalents payable as and when dividends are declared to shareholders.

Details of the awards granted and associated performance conditions and targets are set out in the implementation report.

Remuneration report (continued)

Executive service contracts and termination arrangements

Executive directors have permanent employment contracts with six-month notice periods. On termination, directors are entitled to their TGP for the period of service and any accrued leave balances owing to them.

STI amounts are only payable to employees who are employed at the end of May following the end of the financial year to which the STI relates. As such, employees will receive no STI payments upon termination of employment.

Termination does not trigger any accelerated vesting conditions relating to the LTI or balloon payments. Employees who resign or are dismissed will forfeit all unvested awards. Employees who leave for injury, ill-health, disability, retrenchment or any other reason determined by the remuneration committee will receive a pro-rata vesting of any unvested awards based on performance achieved and length of service.

Non-executive remuneration

Non-executive directors do not have employment contracts and do not receive any benefits associated with permanent employment. Their fees as directors are determined as a base fee and attendance fee based on their board and committee obligations. In line with best practice recommendations, the chairman receives a fixed annual fee that is inclusive of all board and committee attendances as well as all other tasks performed on behalf of the group. Equites pays for all travelling and accommodation expenses in respect of board meetings.

Using the services of an external consultant two years ago, non-executive directors' fees were benchmarked against Equites' peers as well as average board compensation on the JSE. A basic increase of 5% (2018: 6%) is proposed for the current year. The fees paid to non-executive directors during the current year were authorised by the shareholders at the prior year AGM. Fees to be put to shareholders at the forthcoming AGM can be found in the implementation section.

Implementation

The remuneration committee confirms that the company has complied with all aspects of the remuneration policy for the year under review.

Single figure of remuneration

	Short term remuneration			Long term remuneration		
	Guaranteed pay		Variable	Variable		
	Salary R'000	Benefits R'000	Performance bonus R'000	Value of equity settled share based payment R'000	Dividend equivalent on EOS R'000	Total remuneration R'000
2019						
Executive directors						
Andrea Taverna-Turisan	3 286	1 264	3 943	7 742	579	16 814
Gerhard Riaan Gous	2 438	35	2 438	5 783	429	11 123
Bram Goossens	2 438	25	2 438	5 783	429	11 113
	8 162	**1 324**	**8 819**	**19 308**	**1 437**	**39 050**
2018						
Executive directors						
Andrea Taverna-Turisan	3 100	31	3 720	4 749	–	11 600
Gerhard Riaan Gous	2 300	24	2 300	2 979	–	7 603
Bram Goossens	2 300	8	2 300	2 478	–	7 086
	7 700	**63**	**8 320**	**10 206**	**–**	**26 289**

Short-term incentive

The table below illustrates the STI financial modifier targets and outcomes:

	Performance target	Financial modifier achievable	Aggregate STI available (R)	Actual performance in FY2019	Financial modifier achievable
Threshold	SAPY Benchmark	0%	Nil	Benchmark +114%	200%
On-target	SAPY Benchmark +10%	100%	4 409 600		
Stretch	SAPY Benchmark +20%	200%	8 819 200		

The financial modifier is 0% on achieving the threshold performance and 100% on achieving the on-target performance, with linear apportionment if the actual result falls between these points. In the financial year to February 2019, the company's distribution growth exceeded that of the benchmark by 114% and therefore the financial modifier achieved was 200% resulting in an aggregate bonus of R8 819 200 being available to executive directors before applying the personal modifier.

The outcome of the remuneration committee's evaluation of the 2018 personal performance conditions was as follows:

Personal performance condition	Maximum %	Result: Andrea Taverna-Turisan	Result: Gerhard Riaan Gous	Result: Bram Goossens
Implementing Equites' international expansion strategy within set parameters	37.5%	35%	35%	35%
Building human resource capacity of the business, with specific focus on the Johannesburg office and international business	37.5%	20%	20%	20%
Improve stakeholder management and specifically investor relations	37.5%	25%	25%	25%
Establish a positive working environment where members of staff feel positively engaged with their employer as measured by an independent review	37.5%	20%	20%	20%
Aggregate result	**150%**	**100%**	**100%**	**100%**

Short-term incentives relating to the 2019 financial year, which will be paid in 2020, are as follows:

Name	On-taret incentive %	Financial modifier achieved	Personal modifier achieved	Resulting award level as % of TGP	Total STI included in single figure table (R'000)
Andrea Taverna-Turisan	60%	200%	100%	120%	3 943
Gerhard Riaan Gous	50%	200%	100%	100%	2 438
Bram Goossens	50%	200%	100%	100%	2 438

Long term incentive

The performance conditions attached to the 2016 awards for which the performance period ended on 28 February 2019 are set out below:

Performance condition	Weighting	Threshold (30% vesting)	Target (100% vesting)	Stretch (200% vesting)	Actual performance	Actual vesting (% of performance shares)
Growth in DPS for FY+1	25%	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	SAPY Benchmark* +35%	50.0%
Growth in DPS for FY+2	25%	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	SAPY Benchmark* +36%	50.0%
Growth in DPS for FY+3	25%	SAPY Benchmark*	SAPY Benchmark* +10%	SAPY Benchmark* +20%	SAPY Benchmark* +114%	50.0%
Growth in NAV per share from FY to FY+3 (CAGR)	25%	2%	4%	8%	9%	50.0%
Total LTI vesting						**200.0%**

* This benchmark has been set as South African REITs that are constituents of the SAPY, weighted by market capitalisation.

All shares applicable to the 2016 award together with the matching shares will be issued in June 2019. These remain restricted until 31 May 2021.

Remuneration report (continued)

The amount included in the single figure remuneration table above is set out below:

Director	Award	Number of shares under award	Percentage performance factor	Performance adjusted number of shares	Share price	Value of shares included in single figure table
Andrea Taverna-Turisan	2016 award	144 580	200.0%	289 160	20.08	
	2016 award – matching share			96 387	20.08	
	Total			**385 547**		**7 741 784**
Gerhard Riaan Gous	2016 award	108 003	200.0%	216 006	20.08	
	2016 award – matching share			72 002	20.08	
	Total			**288 008**		**5 783 201**
Bram Goossens	2016 award	108 003	200.0%	216 006	20.08	
	2016 award – matching share			72 002	20.08	
	Total			**288 008**		**5 783 201**

Executive outperformance scheme

The EOS was implemented as a cash-settled conditional share plan, whereby the executives were granted notional shares in the company on 31 August 2018. As this scheme aims to reward specific outperformance, they vest on an "all-or-nothing" basis on 31 August 2023 based on achieving the following stretching performance conditions:

Strategic objective	Measure	Stretch target
Growth in market capitalisation to achieve scale	Equites market capitalisation measured using a 30-day VWAP up to and including 31 August 2023	Market capitalisation of R14 billion (represents a 54% growth on the market capitalisation at grant of R9.081 billion)
Sustainable above market growth in distributable earnings	Distribution per share growth over the 5-year vesting period as measured on a CAGR basis	DPS growth exceeds the SAPY benchmark* by 10% on a CAGR basis over the 5-year vesting period

* The SAPY benchmark was set as all South African REITs that are constituents of the SAPY index on the JSE.

The settlement of the awards is also subject to the company meeting the solvency and liquidity test as set out in section 4 of the Companies Act 71 of 2008 immediately prior to settling the awards.

Participants are entitled to dividend equivalents as cash amounts, equal in value to the dividends that they would have earned if they were a shareholder holding shares equal in number to the number of notional shares comprising the award from the award date to the vesting date, and payable as and when dividends are declared to shareholders.

The notional shares awarded were equal to 5 times the executive's TGP at the award date. The remuneration committee determined the award level by considering the performance period of 5 years and the stretching requirement of achieving both the performance conditions. The 30-day VWAP of the company's shares at 31 August 2018 was used. The number of awards granted and the dividend equivalent received in the year is as follows:

Name	TGP R'000	Allocation (5x) R'000	30-day VWAP	Notional number of shares	Dividend equivalent R'000
Andrea Taverna-Turisan	3 286	16 430	R19.34	849 612	579
Gerhard Riaan Gous	2 438	12 190	R19.34	630 357	429
Bram Goossens	2 438	12 190	R19.34	630 357	429

The dividend equivalent paid in the current year is included in the single figure of remuneration table above.

Table of unvested awards

The table below summarises the unvested shares awarded to directors:

Date of award	Vesting date	Number of instruments awarded: On target grant	Maximum additional performance	Maximum matching share	Total maximum shares	Issue price	Number of instruments lapsed	Closing number of unvested instruments	Indicative value	Dividends paid during the year R
Andrea Taverna-Turisan										
2014/10/29	2019/05/31	110 404	66 242	58 882	235 529	10.65	8 057	227 472	3 529 377	297 988
2015/07/15	2020/05/31	139 480	83 688	74 389	297 557	11.92	–	297 557	4 575 184	389 800
2016/02/29	2021/05/31	144 579	144 579	96 387	385 545	12.38	–	385 545	5 649 598	
2017/02/20	2022/05/31	164 997	164 997	109 998	439 992	15.97	–	439 992	4 533 821	
2018/02/19	2023/05/31	137 253	137 253	91 502	366 008	20.35	–	366 008	3 152 525	
2019/02/20	2024/05/31	144 187	144 187	96 124	384 498	20.34	–	384 498	2 476 244	
Riaan Gous										
2014/10/29	2019/05/31	66 911	40 146	35 686	142 743	10.65	5 267	137 475	2 138 984	180 093
2015/07/15	2020/05/31	104 027	62 416	55 481	221 924	11.92	–	221 924	3 412 263	290 720
2016/02/29	2021/05/31	108 003	108 003	72 002	288 007	12.38	–	288 007	4 220 312	
2017/02/20	2022/05/31	115 216	115 216	76 811	307 243	15.97	–	307 243	3 165 932	
2018/02/19	2023/05/31	95 843	95 843	63 895	255 581	20.35	–	255 581	2 201 384	
2019/02/20	2024/05/31	100 684	100 684	67 123	268 492	20.34	–	268 492	1 729 142	
Bram Goossens										
2014/10/29	2019/05/31	51 756	31 054	27 603	110 413	10.65	4 074	106 338	1 654 520	139 303
2015/07/15	2020/05/31	104 027	62 416	55 481	221 924	11.92	–	221 924	3 412 263	290 720
2016/02/29	2021/05/31	108 003	108 003	72 002	288 007	12.38	–	288 007	4 220 312	
2017/02/20	2022/05/31	115 216	115 216	76 811	307 243	15.97	–	307 243	3 165 932	
2018/02/19	2023/05/31	95 843	95 843	63 895	255 581	20.35	–	255 581	2 201 384	
2019/02/20	2024/05/31	100 684	100 684	67 123	268 492	20.34	–	268 492	1 729 142	

In determining an indicative value the company followed the guidance set out in: "A guide to the application of King IV: Governance of remuneration". The following assumptions have been taken in to account:

1. The share price at year end was based on a spot price of R20.08.
2. Expected volatility has been based on an evaluation of the historical volatility of Equites' share price since listing.
3. The expected forfeiture rate has been based on historical experience and general employee behaviour.

Remuneration report (continued)

Share usage limit

The current share usage level is set out below.

	Number of shares available	Percentage of shares available as percentage of current shares in issue	Number of shares utilised as at year end.	Percentage of shares available as percentage of current shares in issue
Aggregate limit	10 000 000	2%	4 649 562	0.92%

Non-executive fees

The table below indicates the fees for the upcoming year, to be approved by the shareholders at the AGM to be held on 26 July 2019, being an aggregate 5% increase on the fees approved at the previous AGM:

	For approval at AGM		Approved at 2018 AGM	
Role	**Base fee**	**Attendance fee per meeting**	**Base fee**	**Attendance fee per meeting**
Chairperson of the board	R556 500	–	R530 000	-
Board member	R89 040	R22 260	R84 800	R21 200
Chairperson of the audit and risk committee	–	R44 520	–	R42 400
Member of the audit and risk committee	–	R27 825	–	R26 500
Chairperson of other sub-committees	–	R27 825	–	R26 500
Member of other sub-committees	–	R16 695	–	R15 900

The actual fees paid to non-executive directors during the current financial year are set out below:

Total fees recovered	**2019**	**2018**
Non-executive directors		
Leon Campher	518	500
Nazeem Khan	342	274
Ruth Eleanor Benjamin-Swales	305	238
Giancarlo Lanfranchi	214	235
Kevin Dreyer	181	174
André Gouws	160	159
Mustaq Brey	217	180
Gugu Mtetwa	180	225
	2 117	**1 985**

Outlook

The committee will continue to focus on achieving fair and responsible remuneration in the context of the operating business, while keeping executives and management incentivised. This journey is by no means an overnight endeavour and will remain a priority focus of the remuneration committee, considering the interests of all stakeholders involved.

Annual financial statements

Contents

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

The annual financial statements For the year ended 28 February 2019 have been audited by PricewaterhouseCoopers Inc., in compliance with the applicable requirements of the Companies Act, 2008. The audited annual financial statements were prepared by Mr B Goossens, CA(SA).

Directors' responsibility for the annual financial statements and declaration by the company secretary

The company's directors are responsible for the preparation and fair presentation of the consolidated annual financial statements, comprising the statements of financial position at 28 February 2019, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements and the requirements of the South African Companies Act.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The consolidated annual financial statements of Equites Property Fund Limited were approved by the board of directors on 6 May 2019 and are signed on its behalf by:

Leon Campher
Chairman

Andrea Taverna-Turisan
Chief Executive Officer

Declaration by company secretary

In terms of section 88(2)(e) and in my capacity as company secretary, I hereby confirm, in terms of the Companies Act that, for the year ended 28 February 2019, the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Riaan Gous
Company Secretary

Audit and Risk Committee report

The Audit and Risk Committee ("the committee") takes pleasure in presenting its report for the financial year ended 28 February 2019.

Terms of reference

The committee has adopted written terms of reference which governs the committee's roles and responsibilities. These terms of reference include the statutory requirements of the Companies Act, the King IV Report on Corporate Governance for South Africa as well as certain responsibilities delegated by the board.

The terms of reference require an annual evaluation of the performance of the committee and its members, as well as confirmation of the members' independence in terms of King IV and the Companies Act. The outcome of this evaluation and confirmation was satisfactory.

The committee is mainly responsible for ongoing oversight and review of the following areas:

- Effectiveness of the internal financial controls and compliance with laws and regulations
- Annual financial statements and any other financial information presented to shareholders and ensuring compliance with International Financial Reporting Standards
- Integrated reporting and considering factors and risks that could impact on the integrity of the integrated report
- Appointment and independence of the external auditor and external audit reports
- Non-audit services
- Risk management framework and reports
- Going concern assessment

The committee confirms that it has fulfilled all its statutory obligations, as well as its responsibilities under its terms of reference for the period under review.

External auditors

The committee is satisfied that the external auditor, PricewaterhouseCoopers Inc., is independent of the group and can conduct their audit functions without any influence from the group. The committee further noted Anton Wentzel as the designated auditor and confirmed that both he and Pricewaterhouse-Coopers Inc. are accredited with the JSE Limited as required and that their appointment is in accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements. The committee approved the auditor's terms, audit plan and proposed fee for the external audit for the year ended 28 February 2019.

The committee adopted a formal framework for the pre-approval of allowable non-audit services above certain pre-determined thresholds.

The committee recommends for approval by the shareholders the reappointment of Price-waterhouseCoopers Inc. as external auditor.

Significant matters

The significant reporting matters the committee considered during the year are the valuation of investment property and the REIT status.

Valuation of investment property

The major risk relating to investment property is the valuation of the investment property. Valuation of investment property has been highlighted as an area of critical judgements and estimates in note 5 of the annual financial statements. Each property is externally valued once every three years. Where an external valuation is not obtained, the directors determine the fair value of each property, using the income capitalisation method, discounted cash flow method or top slice method of valuation.

Through discussion with the executive directors, the committee is satisfied with the valuation methodology and the critical inputs. A number of non-executive board members have extensive experience in the property industry and the board as a whole reviews and approves internal valuations. The committee also monitors differences between internal and independent external valuations and is satisfied overall the fair value of investment properties is not materially misstated.

REIT status

As income contains elements which may be deemed to be non-property related income, this is open for interpretation, there is a risk that the company does not meet the requirements to be classified as a REIT as stipulated in section 25BB of the Income Tax Act. Management performs an assessment, on an ongoing basis, to ensure that the company's "rental income" is above the 75% threshold as set out in section 25BB. Management has also engaged with industry experts to obtain guidance on this matter and is confident that its view is in line with industry standards.

Through discussion with management and inspection of the financial records, the committee is satisfied that the company meets the criteria to be classified as a REIT.

Internal audit

The committee continues to assess the requirement for an internal audit function as the company grows. At this point in time, the committee it satisfied that the size and complexity of the Group does not warrant an internal audit function.

Proactive monitoring

The committee confirms that it has considered the findings contained in the JSE's 2018 Proactive Monitoring report when preparing the annual financial statements for the year ended 28 February 2019.

Financial director

In terms of the JSE Listings Requirements (paragraph 3.84(g)(i)), the committee has considered the expertise and experience of the financial director, Bram Goossens, and are satisfied that these are appropriate for his role.

Internal financial controls

The committee continually monitors the efficiency of internal financial controls. The committee confirms that no material breakdown of internal financial controls was identified during the current financial year.

In accordance with paragraph 3.84(g)(ii) of the JSE Listings Requirements, the committee further confirms that the Group has established appropriate financial reporting procedures and that those procedures are operating.

The committee further confirms that it has monitored compliance with the company's risk management policy and that no derivative transactions that are not in the normal course of business were entered into.

Approval of annual financial statements

The committee confirms that it formally recommended the adoption of the consolidated annual financial statements to the board of directors.

Ruth Benjamin-Swales
Chairperson of the audit and risk committee

Cape Town
6 May 2019

Director's report

For the year ended 28 February 2019

Nature of business

Equites listed as a REIT on the JSE on 18 June 2014 and its main business is the investment in and development of modern logistic facilities.

The company carries on its business directly and through a number of subsidiaries. During the current year, the group made the following changes to its investment property portfolio:

- Acquired one distribution centre in KwaZulu-Natal and two in Gauteng;
- Completed five developments in South Africa and two in United Kingdom;
- Commenced two developments and completed two development deals in South Africa and commenced two developments and completed one development deal in the United Kingdom;
- Acquired 66 hectares of strategic vacant land; and
- Completed the disposal of 2 non-core properties.

All income producing properties are currently situated in Cape Town, Gauteng, KwaZulu-Natal and the United Kingdom.

Subsidiaries

Refer to Appendix 3 for a group organogram. All subsidiaries are property investment companies.

In the prior year, the group assisted in incorporating the Michel Lanfranchi Foundation NPC which will house all the corporate social responsibility projects and initiatives of the group. The group was instrumental in the formation of the Foundation, however, following formation, the Foundation has an independent board and operates independently of the group. In line with an IFRS 10 Consolidated Financial Statement assessment, the Foundation and its subsidiary have been consolidated as structured entities.

Financial results

The detailed financial results are fully set out in the annual financial statements.

Borrowings

Equites has unlimited borrowing powers in terms of the MOI, but the group has maintained its debt levels below 60% of its gross asset value due to JSE requirements for REITs. The group is also subject to certain financial covenants with the strictest being a 50% loan-to-value covenant on its bank borrowings. The group's overall borrowings were R3 311 million (2018: R1 943 million) at the reporting date as detailed in note 6 to the annual financial statements.

Stated capital

The authorised share capital of the company remained unchanged at 2 000 000 000 (two billion) ordinary shares of no par value.

The issued share capital at year end is 503 416 786 (2018: 409 973 331) ordinary shares of no par value. All movements in issued shares are detailed in note 10 to the annual financial statements.

Distribution to shareholders

The total distribution for the year ended 28 February 2019 of 138.43 (2018:123.86) cents per share is 11.8% higher than for the comparative period and in line with distribution growth guidance previously provided. This is made up of the interim dividend declared on 8 October 2018 (dividend number 10) of 68.12 cents per share and the final dividend declared on 6 May 2019 (dividend number 11) of 70.31 cents per share.

Dividend declared

Dividend number 10 for 70.31468 cents per share was declared on 6 May 2019: Shareholders will be entitled, in respect of all or part of their shareholdings, to elect to reinvest the cash dividend in return for Equites shares (the dividend reinvestment alternative). The entitlement for shareholders to receive the share reinvestment alternative is subject to the board agreeing on the pricing and terms of the share reinvestment alternative. The board in its discretion may withdraw the share reinvestment alternative should market conditions warrant such actions and such withdrawal will be communicated to shareholders prior to the finalisation announcement to be published by 11:00 on Tuesday, 21 May 2019.

A circular providing further information in respect of the cash dividend and share reinvestment alternative will be posted to shareholders on Friday, 10 May 2018.

The following salient dates apply:

	2019
Equites results including declaration of a year-end distribution published on SENS	Thursday, 9 May
Circular and form of election posted to shareholders	Friday, 10 May
Finalisation information including the share ratio and reinvestment price per share published on SENS by 11:00 (SA time)	Tuesday, 21 May
Last day to trade in order to participate in the election to receive shares in terms of the dividend reinvestment alternative or to receive a cash dividend	Tuesday, 28 May
Shares trade ex-dividend	Wednesday, 29 May
Listing of maximum possible number of shares under the dividend reinvestment alternative	Friday, 31 May
Last day to elect to receive shares in terms of the dividend reinvestment alternative or to receive a cash dividend (no late forms of election will be accepted) at 12:00 (SA time)	Friday, 31 May
Record date for the election to receive shares in terms of the dividend reinvestment alternative or to receive a cash dividend ("record date")	Friday, 31 May
Announcement of results of cash dividend and dividend reinvestment alternative released on SENS	Monday, 3 June
Payment of cash dividends to certificated shareholders by electronic funds transfer	Monday, 3 June
Dematerialised shareholders' CSDP or broker accounts credited with the cash dividend payment (if applicable)	Monday, 3 June
Share certificates posted to certificated shareholders on or about	Wednesday, 5 June
Dematerialised shareholders' CSDP or broker accounts credited with the new shares (if applicable)	Wednesday, 5 June
Adjustment to shares listed on or about	Friday, 7 June

Notes:

1. Shareholders electing the dividend reinvestment alternative are alerted to the fact that the new shares will be listed on LDT + 3 and that these new shares can only be traded on LDT + 3, due to the fact that settlement of the shares will be three days after the record date, which differs from the conventional one day after record date settlement process.
2. Shares may not be dematerialised or rematerialised between Wednesday, 29 May 2019 and Friday, 31 May 2019, both days inclusive.
3. The above dates and times are subject to change. Any changes will be released on SENS.

The board confirms the use of distribution per listed securities as the relevant measure of financial results for the purposes of trading statements.

Going concern

The annual financial statements of the group were prepared on a going concern basis. The board is satisfied that the group has adequate resources to continue trading for the foreseeable future based on a formal review of the results, forecasts and assessing available resources.

Directors

The directors of the company are detailed in the Corporate Governance Report in this Integrated Report. There were no board appointments or resignations during the current year.

In terms of the MOI, a third of the non-executive directors will retire at the next annual general meeting and are eligible for re-election.

Company secretary

Gerhard Riaan Gous continued to act as company secretary during the year under review.

Director's report (continued)

For the year ended 28 February 2019

Directors' interest in ordinary shares

Directors' interest as at 28 February 2019

	Beneficially held				
Directors	**Directly**	**Indirectly**	**Associates**	**Total**	**%**
André Gouws	2 062	7 020 512	–	7 022 574	1.4%
Andrea Taverna-Turisan	525 029	14 184 000	–	14 709 029	2.9%
Bram Goossens	328 560	1 504 000	–	1 832 560	0.4%
Giancarlo Lanfranchi	–	19 809 481	–	19 809 481	3.9%
Gugu Mtetwa	5 663	–	–	5 663	0.0%
Kevin Dreyer	–	5 100 826	–	5 100 826	1.0%
Leon Campher	–	–	–	–	–
Mustaq Brey	–	910 628	10 000	920 628	0.2%
Nazeem Khan	106 656	–	–	106 656	0.0%
Riaan Gous	576 064	1 924 000	300 000	2 800 064	0.6%
Ruth Benjamin-Swales	31 996	–	83 500	115 496	0.0%
Total	**1 576 030**	**50 453 447**	**393 500**	**52 422 977**	**10.4%**

Directors' interest as at 28 February 2018

	Beneficially held				
Directors	**Directly**	**Indirectly**	**Associates**	**Total**	**%**
André Gouws	2 000	7 020 512	–	7 022 512	1.7%
Andrea Taverna-Turisan	227 472	14 934 000	–	15 161 472	3.7%
Bram Goossens	106 636	1 504 000	–	1 610 636	0.4%
Giancarlo Lanfranchi	–	19 809 481	–	19 809 481	4.8%
Gugu Mtetwa	5 311	–	–	5 311	0.0%
Kevin Dreyer	–	5 100 826	–	5 100 826	1.2%
Leon Campher	–	–	–	–	–
Mustaq Brey	–	910 628	10 000	920 628	0.2%
Nazeem Khan	100 000	–	–	100 000	0.0%
Riaan Gous	654 140	1 924 000	–	2 578 140	0.6%
Ruth Benjamin-Swales	30 000	–	83 500	113 500	0.0%
Total	**1 125 559**	**51 203 447**	**93 500**	**52 422 506**	**12.6%**

The conditional shares awarded, but not yet issued, to the executive directors during the year, as set out in note 11 to the annual financial statements, have not been included in the table above.

There have been no changes to the directors' interest in the company's shares between the end of the financial year on 28 February 2019 and the approval of the financial statements.

Auditors

PricewaterhouseCoopers Inc. continued as external auditors in accordance with Section 90 (1) of the Companies Act. A resolution for their reappointment will be proposed at the upcoming annual general meeting.

Litigation

The directors are not aware of any legal or arbitration proceedings, that have commenced, are pending or have been threatened, that have or may have a material impact on the results of the group.

Subsequent events

Refer to note 25 of the annual financial statements for a list of material events which have occurred between the end of the reporting date and the date of this report.

Holding company

Equites has no holding company and the main shareholders are detailed in Appendix 2 to the annual financial statements.

Independent auditor's report

To the Shareholders of Equites Property Fund Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equites Property Fund Limited and its subsidiaries (the Group) as at 28 February 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Equites Property Fund Limited's consolidated financial statements set out on pages 80 to 126 comprise:

- the consolidated statement of financial position as at 28 February 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

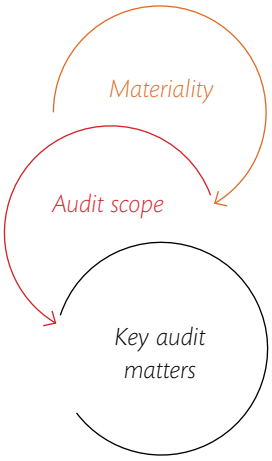
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

Our audit approach

Overview



Overall group materiality

- R86,700,000, which represents 1% of net assets.

Group audit scope

- The group consists of a number of property owning companies in both South Africa and the United Kingdom (UK). We performed full scope audits at three of the South African companies. We performed audits of material investment property related balances over UK and South African property owning companies on a sample basis. In addition we performed analytical procedures over the remaining property owning companies.

Key Audit Matters

- Valuation of investment properties; and
- Group's compliance with the Real Estate Investment Trust (REIT) guidance.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Independent auditor's report (continued)

To the Shareholders of Equites Property Fund Limited

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R86,700,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, the net asset value and the dividend yield, which is the dividend or distribution divided by the market capitalisation, are the key benchmarks considered by users of the financial statements. We chose 1% which is consistent with quantitative materiality thresholds used for funds in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of over 20 property owning companies, which includes industrial properties and office properties in South Africa and the UK. The majority of the property portfolio consists of single tenant industrial or logistical properties. The consolidated financial statements are a consolidation of all the companies in the group.

Based on the financial significance and audit risk, we performed full scope audits at three of the South African companies, Equites Property Fund Limited, EA Waterfall Logistics JV Proprietary Limited and Chamber Lane Properties 3 Proprietary Limited. We performed audits of material investment property related balances over the UK and South African property owning companies on a sample basis. In addition, we performed analytical procedures over the remaining companies in the group.

This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us sufficient appropriate audit evidence regarding the financial information of the group. All of the work was performed by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties The Group's investment property portfolio is split between South Africa and the UK, with a total valuation including the straight-lining lease adjustment in the consolidated statement of financial position of R11,958 million. The fair value gain recorded for the year amounts to R220 million . The investment properties are stated at their fair values based on directors' valuations and external valuations as deemed appropriate. The fair values of investment properties at year end were determined either using income capitalisation, discounted cash flow or the top-slice method of valuation.	We obtained an understanding of the approach followed by management for the valuation of the Group's investment property portfolio. We inspected the valuation reports for all the properties valued externally in the current year and confirmed that the valuation approach for each was in accordance with IFRS and suitable for use in determining the carrying value for the purpose of the financial statements. We evaluated the valuers' qualifications and expertise and determined whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered fee arrangements between the valuers and the Group and other engagements which might exist between the Group and the valuers. We found no evidence to suggest that the objectivity of the valuers in their performance of the valuations was compromised.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties (continued) The valuation of the Group's investment property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. In determining a property's valuation the directors and the valuers take into account property-specific information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. Investment property under development and vacant land are measured at fair value at year end. The group capitalises borrowing costs on new developments that are deemed to be qualifying assets based on management's judgement in line with IFRS requirements. We consider the valuation of investment properties a matter of most significance to the current year audit because of the significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual yields, when aggregated, could result in a material change in the valuation. Refer to note 5 of the financials for details on the valuation of investment properties and note 26.1 for property analysis schedule.	We tested the data inputs in the directors valuations as well as the valuations prepared by the valuers. We focussed on the data inputs underpinning the investment property valuation for a selection of investment properties, including rental income, tenancy schedules, expenditure details and square meter details, against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof. Our audit procedures focused on testing the estimated lease income and payments through comparison to lease agreements. For properties under development, we focussed on the reasonableness of inputs used in the income capitalisation method, and costs still to be incurred. Where the fair value of developments is not reliably measured, we agreed a sample of costs to supporting information such as construction contracts and invoices. In respect of vacant land, we assessed the reasonableness of the fair value in relation to recent sales prices of similar properties where determinable. In addition we with our internal valuation experts attended meetings with the South African valuers, at which the valuations and the key assumptions therein were discussed. We also utilised our internal valuation experts in the UK to assess the reasonability of the assumptions in the UK valuation performed by management's expert. Our work focused on the largest properties in the portfolio and those properties where the assumptions used and/or year-on-year capital value movement suggested a possible outlier versus market data for the relevant sector. We compared the investment yields used by the directors or valuers with an estimated range of expected yields, determined via reference to published benchmarks. Finally, we evaluated year-on-year movements in capital value with reference to published benchmarks. We recalculated and assessed, on a sample basis, the appropriateness of the borrowing costs capitalised and also assessed management judgment in assessing when an asset becomes a qualifying asset, without material exception. We further reviewed the appropriateness of the disclosures in the financial statements concerning the key assumptions to which the valuations are most sensitive, and the inter-relationship between the assumptions and the valuation amounts. Based on the procedure performed we obtained evidence that the assumptions used in the valuations were supportable in light of available and comparable market evidence.

Independent auditor's report (continued)

To the Shareholders of Equites Property Fund Limited

Key audit matter	How our audit addressed the key audit matter
Group's compliance with the Real Estate Investment Trust (REIT) guidance The Group's status as a REIT underpins its business model and shareholder returns. In order to be registered as a REIT management need to comply with the REIT guidance which in some instances is open for management's own interpretation. This includes, inter alia, the calculation of distributable earnings and distribution per share. For this reason, we consider it to be a matter of most significance to the current year audit. The director's manage this risk through careful consideration of the REIT rules and any changes in the rules, while also seeking legal and tax expert advice where deemed necessary. Refer to note 20 in the financial statements for information on the group's REIT status and details on the tax provision.	We re-performed the Group's annual REIT compliance tests. We used our tax specialists to assess the requirement in relation to the nature of the group's income being from property ownership. We also evaluated the judgmental interpretations in relation to tax position and potential exposures as at 28 February 2019, challenging the Group's assumptions and judgements through our knowledge of tax circumstances. Based on our work performed, we agreed with management's assessment of compliance with the REIT guidance and that no tax provision was required for the current year.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Financial Statements of Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019, which includes the Declaration by the company secretary, Audit and risk committee report and Directors' report as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the Integrated Report 2019, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Equites Property Fund Limited for 3 years.

PricewaterhouseCoopers Inc.
Director: Anton Wentzel
Registered Auditor

Cape Town
6 May 2019

Statement of financial position

Equites Property Fund Limited and its subsidiaries at 28 February 2019

R'000	Notes	Group 28 February 2019	Group 28 February 2018
Assets			
Non-current assets			
Fair value of investment property (excluding straight-lining)	5	11 721 087	7 899 697
Straight-lining lease income accrual	5	236 510	171 352
Derivative financial assets	6	38 692	132 732
Deferred tax asset	12	68 930	32 639
Property, plant and equipment	14	10 366	7 529
		12 075 585	**8 243 949**
Current assets			
Investment property held-for-sale	5	–	28 000
Trade and other receivables	9	110 640	58 202
Derivative financial assets	6	13 985	135 532
Financial assets held at fair value		2 278	900
Cash and cash equivalents	7	36 279	17 813
		163 182	**240 447**
Total assets		**12 238 767**	**8 484 396**
Equity and liabilities			
Equity and reserves			
Stated capital	10	7 026 680	5 203 773
Accumulated profit		1 442 632	1 339 846
Foreign currency translation reserve		(19 361)	(312 423)
Share-based payment reserve	11	69 842	67 578
Total attributable to owners		**8 519 793**	**6 298 774**
Non-controlling interest	8	149 919	109 410
Total equity and reserves		**8 669 712**	**6 408 184**
Liabilities			
Non-current liabilities			
Derivative financial liabilities	6	22 355	18 542
Loans and borrowings	6	3 232 837	1 887 730
Other payables		2 240	–
		3 257 432	**1 906 272**
Current liabilities			
Loans and borrowings	6	77 687	54 939
Derivative financial liabilities	6	33 099	613
Current tax liability		729	92
Trade and other payables	13	200 108	114 296
		311 623	**169 940**
Total liabilities		**3 569 055**	**2 076 212**
Total equity and liabilities		**12 238 767**	**8 484 396**

Statement of comprehensive income

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Notes	Group 28 February 2019	Group 28 February 2018
Property revenue and tenant recoveries	15	701 000	540 150
Straight-lining of leases adjustment	5	65 158	33 548
Gross property revenue		**766 158**	**573 698**
Property operating and management expenses	17	(107 384)	(87 957)
Other net gains / (losses)	16	(81 959)	208 343
Administrative expenses	17	(42 413)	(33 055)
Fair value adjustments – investment property	5	220 212	239 546
Operating profit before financing activities		**754 614**	**900 575**
Finance costs	18	(70 731)	(68 765)
Finance income	19	3 223	24 990
Net profit before tax		**687 106**	**856 800**
Tax expense	20	28 854	34 313
Profit for the period		**715 960**	**891 113**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Translation of foreign operations		293 062	(139 049)
Total comprehensive income for the year		**1 009 022**	**752 064**
Profit attributable to:			
Owners of the parent		669 856	870 188
Non-controlling interest	8	46 104	20 925
		715 960	**891 113**
Total comprehensive income attributable to:			
Owners of the parent		962 918	731 139
Non-controlling interest	8	46 104	20 925
		1 009 022	**752 064**
Basic earnings per share (cents)	2	149.6	226.1
Diluted earnings per share (cents)	2	148.8	225.4

Statement of cash flows

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Notes	Group 28 February 2019	Group Restated 28 February 2018
Cash flows from operating activities			
Profit before tax		687 106	856 800
Adjusted for:			
Finance costs		70 731	68 765
Finance income		(3 223)	(24 990)
Loss / (Profit) on disposal of investment property		4 947	(2 498)
Foreign exchange differences		(3 459)	–
Loss on scrapping of property, plant and equipment		1 210	16
Straight-lining of leases adjustment		(65 158)	(33 548)
Fair value adjustments – investment property		(220 212)	(239 546)
Fair value adjustments – foreign exchange derivatives		199 402	(106 184)
Depreciation and amortisation		1 702	941
Equity-settled share-based payment charge		7 782	6 514
Working capital movements:			
(Increase) / Decrease in trade and other receivables		(48 611)	42 977
Decrease/ (Increase) in foreign exchange derivatives[c]		46 080	(23 130)
(Decrease) / Increase in trade and other payables		(1 083)	3 107
Cash generated from operations		**677 214**	**549 224**
Finance costs paid	18	(51 243)	(62 899)
Finance income received		1 846	24 990
Tax paid		(734)	–
Dividends paid	21	(572 665)	(454 491)
Net cash flows generated from operating activities		**54 418**	**56 824**
Cash flows from investing activities			
Acquisition of investment properties	21	(1 589 514)	(1 477 496)
Development of investment properties	6	(1 447 590)	(410 037)
Proceeds from disposal of investment properties[b]	6	91 771	254 166
Purchases of current financial assets[a]		(210 000)	(1 260 000)
Proceeds on divestment of current financial assets[a]		210 000	1 262 453
Proceeds on disposal of property, plant and equipment		–	215
Purchase and development of property, plant and equipment		(5 482)	(257)
Net cash flows utilised by investing activities		**(2 950 815)**	**(1 630 956)**
Cash flows from financing activities			
Proceeds from share issue (net of costs)	10	1 497 705	1 006 911
Proceeds from share issue relating to dividend reinvestment programme		125 145	–
Repurchase of share capital		(114)	–
Proceeds from bank loans	6	3 732 162	1 016 876
Repayment of bank loans	6	(2 442 146)	(443 180)
Net cash flows raised from financing activities		**2 912 752**	**1 580 607**
Net increase in cash and cash equivalents		16 355	6 475
Effect of exchange rate movements on cash and cash equivalents		2 111	296
Cash and cash equivalents at the beginning of the year		17 813	11 042
Cash and cash equivalents at the end of the year		**36 279**	**17 813**

[a] This primarily consists of investments in and divestments of surplus cash held in money market funds.
[b] The proceeds from disposal in the curent year relate to the disposal of two non-core assets.
[c] This relates to the income accrued and cash realised in relation to foreign exchange derivative instruments.

Statement of changes in equity

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Note	Stated capital	Accumulated profit	Foreign currency translation reserve	Share-based payment reserve	Total attributable to parent	Non-controlling interest	Total
Balance at 1 March 2017		4 193 749	919 099	(173 374)	7 881	4 947 355	93 535	5 040 890
Profit for the year		–	870 188	–	–	870 188	20 925	891 113
Other comprehensive income		–	–	(139 049)	–	(139 049)	–	(139 049)
Shares issued for cash	10	1 015 157	–	–	–	1 015 157	–	1 015 157
Shares issued in terms of Conditional share plan	11	3 113	–	–	(3 113)	–	–	–
Equity-settled share based payment for the acquisition of land	11	–	–	–	56 296	56 296	–	56 296
Equity-settled share-based payment charge	11	–	–	–	6 514	6 514	–	6 514
Dividends distributed to shareholders	21	–	(449 441)	–	–	(449 441)	(5 050)	(454 491)
Share issue costs	10	(8 246)	–	–	–	(8 246)	–	(8 246)
Balance at 28 February 2018		**5 203 773**	**1 339 846**	**(312 423)**	**67 578**	**6 298 774**	**109 410**	**6 408 184**
Balance at 1 March 2018		5 203 773	1 339 846	(312 423)	67 578	6 298 774	109 410	6 408 184
Profit for the year		–	669 856	–	–	669 856	46 104	715 960
Other comprehensive income		–	–	293 062	–	293 062	–	293 062
Shares issued for cash	10	1 511 441	–	–	–	1 511 441	–	1 511 441
Shares issued in terms of conditional share plan	11	5 518	–	–	(5 518)	–	–	–
Equity-settled share based payment for the acquisition of land	10	194 653	–	–	–	194 653	–	194 653
Equity-settled share-based payment charge	11	–	–	–	7 782	7 782	–	7 782
Dividends distributed to shareholders	21	–	(567 070)	–	–	(567 070)	(5 595)	(572 665)
Share issue in terms of dividend reinvestment programme		125 145	–	–	–	125 145	–	125 145
Treasury shares acquired	10	(114)	–	–	–	(114)	–	(114)
Share issue costs	10	(13 736)	–	–	–	(13 736)	–	(13 736)
Balance at 28 February 2019		**7 026 680**	**1 442 632**	**(19 361)**	**69 842**	**8 519 793**	**149 919**	**8 669 712**

Notes to the annual financial statements

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

1 Preparation of financial statements

The principal accounting policies applied in the preparation of the consolidated financial statements are set out in the notes to the annual financial statements and are consistent with those applied in the previous year, unless otherwise stated. The group's consolidated financial statements were authorised for issue by the board of directors on 6 May 2019.

1.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IFRIC Interpretations, the SAICA Financial Reporting Guidelines, the JSE Listings Requirements and the requirements of the South African Companies Act (Act 71 of 2008) as amended.

1.2 Functional Currency

All items in the financial statements of the group are measured using the currency of the primary economic environment in which the group operates (the functional currency). The group's consolidated financial statements are presented in South African Rand, which is the group's presentation currency.

Foreign currency transactions are recognised on initial recognition at the spot exchange rate. Gains and losses resulting from the settlement of such transactions, and from the recognition of monetary assets and liabilities denominated in foreign currencies at closing rates, are recognised in profit or loss.

The results and the financial position of all subsidiaries that have a functional currency that is different from the presentation currency of the group are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenditure for each statement of comprehensive income presented are translated at the average exchange rates for the period; and
- All resulting translation differences are recognised in other comprehensive income and presented as a separate component of equity in the foreign currency translation reserve

On consolidation, exchange rate differences arising from the translation of the net investment in foreign operations are also taken to the FCTR. The group's net investment in a foreign operation is equal to the equity investment plus all monetary items that are receivable from or payable to the foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future.

1.3 Consolidation

Subsidiaries

Subsidiaries are entities (including structured entities) over which the group has control. Control exists when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of that entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method is used to account for business combinations. The consideration transferred is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred. The excess of the consideration transferred over the fair value of the group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the consideration transferred is less than the group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

For acquisition of subsidiaries not meeting the definition of a business, the group allocates the cost between the individual identifiable assets and liabilities in the group on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Treatment of intra-group transactions

All intra-group transactions, balances and unrealised gains and losses on transactions between entities of the group have been eliminated. When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

1.3.1 Separate annual financial statements

The holding company has prepared annual financial statements in a separate set of financial statements. The separate set presented together with the consolidated set form the annual financial statements of Equites Property Fund Limited. Both of these sets are available at the Company's registered office.

1.4 Standards, amendments and interpretations effective for the first time at 28 February 2019

The standards, amendments and interpretations effective for the first time in the current financial year have been summarised below. The impact of the adoption of these standards and amendments has been considered below.

International Financial Reporting Standards and amendments effective for the first time for 28 February year-end

	Effective date (periods beginning on or after)
Amendment to IFRS 2 – Share-based payments: Clarifying how to account for certain types of share-based payment transactions.	1 January 2018
IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – Revenue from contracts with customers	1 January 2018
Amendment to IFRS 15 – Revenue from contracts with customers	1 January 2018
Amendment to IAS 40 – Investment Property: Transfer of investment property	1 January 2018
IFRIC 22 – Foreign currency translation and advance consideration	1 January 2018
Annual improvements 2014 – 2016	1 January 2018

1.4.1 IFRS 9, Financial Instruments

An impact assessment was performed in 2017 to understand and evaluate the potential impact of the adoption of IFRS 9, Financial Instruments on the group financial statements. IFRS 9 replaces the provisions of IAS 39 that relate, inter alia, to the recognition, classification and measurement of financial assets and financial liabilities. The main areas for consideration in relation to recognition and measurement of financial instruments for the group were in relation to the classification of financial assets and the measurement of expected credit losses with regards to financial assets. The group does not apply hedge accounting and therefore the change to hedge accounting under IFRS 9 had no impact on the group's financial statements.

Classification and measurement of financial instruments

On the date of initial application, 1 March 2018, the measurement categories of the financial instruments of the group were as follows:

Financial instrument	Classification under IAS 39	Classification under IFRS 9
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss
Trade and other receivables (note 9)	Amortised cost	Amortised cost
Financial assets held at fair value	Fair value through profit or loss	Fair value through profit or loss
Cash and cash equivalents	Amortised cost	Amortised cost
Loans and borrowings	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

As shown above, there were no classification differences on adoption of IFRS 9.

Impairment of financial assets

Financial assets held by the group classified at fair value through profit or loss are not within the scope of the impairment requirements of IFRS 9. Accordingly, only trade and other receivables and cash and cash equivalents are subject to IFRS 9's new expected credit loss model. In relation to the impairment of financial assets, IFRS 9 requires the group to recognise the expected credit losses and changes in those expected credit losses at each reporting date. The expected credit losses are recognised as a loss allowance based on one of three approaches. An assessment was performed on each applicable financial asset held by the group as follows:

Items at 1 March 2018 that are subject to the impairment provisions of IFRS 9	Note	Credit risk attributes at 1 March 2018
Trade and other receivables	9	The group applies the simplified approach and recognised lifetime expected credit losses for these assets.
Cash and bank balances	7	South African bank balances are deemed to have a moderate credit risk and the UK bank balances are deemed to have a low credit risk at each reporting date as they are held with reputable banking institutions.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

1 Preparation of financial statements (continued)

1.4 Standards, amendments and interpretations effective for the first time at 28 February 2019 (continued)

1.4.1 IFRS 9, Financial Instruments (continued)

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial. As permitted by IFRS 9, the group has elected to apply the simplified approach for trade receivables, contract assets and lease receivables and measure the loss allowance at an amount equal to the lifetime expected credit losses for these financial assets.

In this regard, the group performed an assessment of the expected loss rate in terms of a provision matrix of the ageing of the group's trade receivables. This assessment was performed by ascertaining the historical credit loss experience from observed default rates and then adjusting these rates using forward-looking information in order to establish the expected loss rates. The results of this assessment are outlined in note 9.

The recognition of an expected credit loss allowance at 1 March 2018 resulted in an immaterial increase in the impairment provision for trade receivables.

1.4.2 IFRS 15 impact

The impact of the implementation of IFRS 15 in the current year is discussed below:

Areas impacted	Impact for the year ended 28 February 2019
Scope	Property revenue: rental income is earned based on the contractual lease terms and therefore falls within the scope of IAS 17. Tenant recoveries: it can be argued that tenant recoveries fall under IAS 17 as provision for these recoveries are made in lease agreements. However, the frequency of these recoveries as well as the value of the recoveries are not detailed in the lease agreements as they are based on actual expenses incurred by the landlord. Therefore, tenant recoveries fall within the scope of IFRS 15. Property management fee: Property management fees are levied in order to cover the costs of managing the property operationally, drafting contractual agreements, managing municipal accounts and all other elements of the property as defined in the lease agreement. The contract is the lease agreement entered into between the landlord and the tenant which would detail the property management fees; the performance obligation is the ongoing obligation to provide property management services as detailed in the lease agreement; the transaction price is governed by the lease and specifies that the landlord may charge the tenant a percentage of net rental monthly in advance; the revenue is allocated to the specific provision of services; and the revenue is recognised monthly in line with the agreement. Based on the assessment performed, property management fees fall within the scope of IFRS 15.
Principal versus agent	A principal is an entity which obtains control over the goods or services prior to being transferred to the tenant. Control can be in the form of: i) the entity being primarily responsible for fulling the promise to provide the good or service. ii) the entity having inventory risk before the good or service has been transferred to the tenant. iii) the entity having discretion in establishing the prices for the good or service. Equites negotiates the terms of the service, manages the relationship with the suppliers, is liable for payment (even if the property is vacant or the expense is not recovered from the tenant), and maintains primary responsibility for providing the service. Therefore, the group accounts for tenant recoveries and property management fees on a gross basis under IFRS 15.

1.5 Standards, amendments and interpretations issued but not yet effective at 28 February 2019

The table below summarises the standards, amendments and interpretations that have been published, but that are not yet effective in the current financial year and are relevant to the group. None of these standards, amendments and interpretations are expected to have a material impact on the results of the group. The impact of the adoption of IFRS 16 has been separately discussed in note 1.5.1.

International Financial Reporting Standards, interpretations and amendments issued but not effective for 28 February 2019 year-end

	Effective date: (periods beginning on or after)
Amendment to IFRS 9 – Financial instruments: prepayment features with negative compensation and modification of financial liabilities	1 January 2019
IFRS 16 – Leases	1 January 2019
Annual improvements 2015 – 2017	1 January 2019
Amendment to IAS 1 – Presentation of financial statements; and Ias 8 – Accounting policies, changes in accounting estimated and errors: definition of material	1 January 2020
Amendment to IFRS 3 – Definition of a business	1 January 2020

1.5.1 IFRS 16 impact

The group assessed the impact of IFRS 16 as follows:

Area considered	**Impact for the year ending 29 February 2020**
Accounting for lessors	The standard represents no significant changes for lessors. As the group is predominantly a lessor, there are no changes anticipated in the accounting for the majority of our leases.
Accounting for lessees	The standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is of low or insignifant value. The group is a lessee in respect of land it rents for all properties located in Waterfall and for a portion of land leased in Epping. It is also a lessee in relation to its Cape Town head office premises. The result of these leases are likely to have an immaterial impact on the results of the group. The impact of accounting for these lease agreements in terms of IFRS 16 will be as follows: i) An increase in financial liabilities, as a lease liability relating to these existing operating leases are recognised; ii) An increase in assets, as a "right-of-use" asset will be recognised under investment property in relation to the land leases and property, plant and equipment in relation to the Cape Town head office; and iii) Operating lease expenditure will no longer be recognised on a straight-lined basis and will be reclassified and split between depreciation and finance costs.

1.6 Use of Judgments and estimates

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying the group's accounting policies and make estimates and assumptions concerning the future. The most significant judgments, estimates and assumptions that may have a material impact on the financial statements are as follows:

- Valuation of investment property (note 5)
- Acquisition of property subsidiaries (note 5)
- Consolidation of structured entities (note 8)

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

2 Earnings per share

This note provides the obligatory information in terms of IAS 33 Earnings per share and SAICA Circular 4/2018 for the group and should be read in conjunction with Appendix 1, where earnings are reconciled to distributable earnings. Distributable earnings determine the dividend declared to shareholders, which is a meaningful metric for a shareholder in a REIT.

Accounting Policy

Earnings and headline earnings per share are calculated by dividing the net profit attributable to owners of the parent and headline earnings, respectively, by the weighted average number of ordinary shares in issue during the year.

Diluted earnings and diluted headline earnings per share is determined by adjusting for the impact on earnings and the weighted average number ordinary shares of all known dilutive potential ordinary shares.

Headline earnings per share are calculated in terms of the requirements set out in Circular 4/2018 issued by SAICA.

2.1 Basic earnings per share

Shares in issue	2019 Number of shares	2018 Number of shares
Number of shares in issue at end of year	503 416 786	409 973 331
Weighted average number of shares in issue	447 727 114	384 863 958
Add: weighted potential dilutive impact of conditional shares (note 11)	2 305 592	1 267 726
Diluted weighted average number of shares in issue	450 032 706	386 131 684
Basic earnings per share	**Cents**	**Cents**
Basic earnings per share	149.6	226.1
Diluted earnings per share	148.8	225.4

2.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings	R'000	R'000
Earnings (profit attributable to owners of the parent)	669 856	870 188
Adjusted for:		
Fair value adjustments to investment properties	(220 212)	(239 546)
Less: Fair value adjustment to investment properties (non-controlling interest)	33 825	5 578
Profit or loss on sale of non-current assets	6 157	(2 482)
Headline earnings	**489 626**	**633 738**
Headline earnings per share	**Cents**	**Cents**
Headline earnings per share	109.4	164.7
Diluted headline earnings per share	108.8	164.1

3 Segment information

Accounting Policy

The group identifies and presents operating segments based on the information that is provided internally to the chief operating decision maker which comprises the executive directors ("exco"). The CODM allocates resources and assesses the performance of the operating segments of the group.

The group has assessed its operations and determines its segments as follows:
South African Industrial: this part of the business incorporates all the South African industrial and logistics assets.
United Kingdom Industrial: this part of the business incorporates all completed buildings and development sites in the UK.
Other: all treasury functions, corporate costs and two commercial properties are included in this segment.

Equites generates its revenue from properties in South Africa and the UK. The geographic analysis of revenue is based on the country where the building is situated, and therefore where the rental income is derived. The SA and UK markets differ in terms of market risk, political risk and the processes for the purchase and letting of assets. For this reason, the CODM analyses the assets in these market separately and allocates resources according to this analysis.

The CODM primarily uses a measure of revenue and operating profits to assess the performance of the operating segment. The CODM also receives information regarding revenue and assets on a monthly basis.

Based on the nature of the business and the factors discussed above, the following segments are presented:
- SA industrial assets
- UK industrial assets
- Other

The segment information for the group for the year ended 28 February 2019 is set out below:

	Reportable segments			
R'000	**SA Industrial**	**UK Industrial**	**Other**	**Total**
Statement of profit or loss and other comprehensive income				
Property revenue	532 142	153 232	15 626	**701 000**
Fair value adjustments – investment property	193 992	25 469	751	**220 212**
Operating profit before financing activities	559 042	189 099	6 473	**754 614**
Finance income	3 209	14	–	**3 223**
Finance costs	(52 454)	(18 277)	–	**(70 731)**
Statement of financial position				
Investment property	7 877 204	3 915 866	164 527	**11 957 597**
Interest bearing borrowings	2 093 005	1 217 518	–	**3 310 523**
Total assets	8 075 299	3 987 185	176 283	**12 238 767**
Total liabilities	2 262 521	1 260 549	45 985	**3 569 055**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

3 Segment information (continued)

The segment information for the group for the year ended 28 February 2018 is set out below:

	Reportable segments			
R'000	SA Industrial	UK Industrial	Other	Total
Statement of profit or loss and other comprehensive income				
Property revenue	447 958	75 646	16 546	**540 150**
Fair value adjustments – investment property	22 181	234 372	(17 007)	**239 546**
Operating profit before financing activities	605 206	318 307	(22 938)	**900 575**
Finance income	24 796	194	–	**24 990**
Finance costs	(55 974)	(12 791)	–	**(68 765)**
Statement of financial position				
Investment property	5 612 033	2 338 016	121 000	**8 071 049**
Interest bearing borrowings	1 446 058	496 611	–	**1 942 669**
Total assets	5 962 586	2 400 810	121 000	**8 484 396**
Total liabilities	1 536 548	539 664	–	**2 076 212**

4 Financial risk management

Financial risks arise as a result of the group's operations. These risks primarily comprise of:

- market risk (interest rate risk, currency risk) (note 6);
- credit risk (note 6);
- liquidity risk (note 6); and
- capital management (note 6).

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has delegated this responsibility to the audit and risk committee, which considers the adequacy of the group's risk management framework and monitors management's implemention of risk management policies and procedures.

The group's risk management policies are established to ensure improved risk management and control, to determine appropriate risk limits have been set for financial risks and that funds are allocated efficiently to maximise returns.

	Group	
R'000	28 Feb 2019	28 Feb 2018
5 Investment property		
Investment property (excluding straight-lining) (note 5.1)	10 028 625	6 847 987
Investment property under development (note 5.1)	738 300	534 113
Freehold land available for development (note 5.1)	954 162	517 597
Investment property held for sale (note 5.2)	–	28 000
Straight-lining lease income accrual (note 5.3)	236 510	171 352
	11 957 597	8 099 049

Accounting Policy

Investment Property

Investment property is made up of the following:

- properties held for rental income and capital appreciation (not occupied by the group);
- properties under development for the purpose of earning rental income and capital appreciation; and
- vacant land held for the purpose of developing properties to earn rental income and capital appreciation.

Investment property is initially measured at cost, including all related transaction costs. Subsequently, investment property is carried at fair value and all movements in fair value are recognised in profit or loss.

The directors determine the fair value of investment property at each reporting period. External valuations are obtained as deemed appropriate with each property being externally valued by a registered valuer at least once every three years. Adjustments to the fair value of investment properties are computed net of the impact of accounting for lease income on a straight-line basis over the term of lease. The directors confirm that there has been no material changes to the information and assumptions applied by the registered valuer.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other costs, including repairs and maintenance, are expensed as incurred.

Lease commissions are capitalised to the cost of the investment property and are amortised over the lease term.

Investment properties are derecognised either when they have been disposed of or where an individual property is permanently destroyed or its value permanently reduced as no future economic benefit is expected from it. A gain or loss arising on disposal of investment property is recognised in profit or loss. The gain or loss is measured as the difference between the proceeds and carrying amount.

Future costs or capital commitments are not included in the fair value of investment property.

Investment property under development and vacant land

Investment property under development and vacant land are measured at fair value at each reporting period.

Investment property held for sale

The following conditions must be met for an asset to be classified as held for sale:

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- Actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn

Once the above conditions have been met, investment property is then classified as held for sale. A property can be available for immediate sale even though it still has a tenant occupying it. The lease will then be transferred to the new owner. Sales are initiated either directly with Equites or through a broker.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

5 Investment property (continued)

Accounting Policy (continued)

Borrowing and overhead costs capitalised

Borrowing costs comprise interest on borrowings, amortisation of capitalised loan arrangement fees and interest on other accounts.

Borrowing costs that are directly attributable to the acquisition and construction of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Specific borrowings: actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment income from surplus funds derived from those borrowings; and
- General borrowings: weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset.

Borrowing costs capitalised cannot exceed borrowing costs incurred.

A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. An asset that normally takes more than a year to be ready for use will usually be a qualifying asset. Once management chooses the criteria and types of assets, it applies this consistently to those types of asset. The group classifies the following as qualifying assets:

- Buildings under development;
- Buildings under major refurbishment; and
- Land acquired for the purpose of development.

The group commences the capitalisation of borrowing costs once finance costs are incurred, activities are undertaken that are necessary to prepare the asset for its intended use, and:

- Once costs have been incurred on properties under development, and
- Once land has been acquired and is in the process of being developed, i.e. when town planning, zoning, earthworks, etc.

The group ceases capitalising borrowing costs on each qualifying asset on the date on which practical completion is issued. On this date, substantially all the activities necessary to prepare the qualifying asset for its intended use are considered to be complete.

Leases

The group is a lessee in relation to certain lease agreements. These leases are classified as operating leases as risks and rewards associated with ownership are not transferred to the group.

Operating lease rentals with fixed escalations are recognised on a straight-line basis over the lease term. The difference between the contractual cash flows and the straight-line revenue is recognised as an operating lease asset / liability.

Critical estimates and judgements – valuation of investment property

The board has used the best available evidence to determine the fair value of investment properties. This includes current market prices for properties with similar characteristics, leases and cash flow projections. As available information is not directly comparable, the amounts are determined within a reasonable range of fair value.

Measurement of fair values

Valuation technique

Income capitalisation method

The forward rental is based on the contractual rental income as per the lease agreement with a tenant. Where there is no tenant, or a lease is expected to expire within a 12-month period, a market related rental is assumed on the property. The capitalisation rate is based on a market related capitalisation rate published in the SAPOA guidance, adjusted for risk factors such as the quality of the building, the location of the building, length of lease, lease covenant and any other idiosyncratic property risks.

Discounted cash flow method

The fair value of each property is determined by calculating its net present value by discounting forecasted future net cash flows and a residual value at the end of the cash flow projection period by the discount rate of each property. The residual value is calculated using an appropriate exit capitalisation rate. The discount rate applied used to determine the fair value of each property is assessed with reference to observable inputs (e.g. SAPOA research reports). The capitalisation rate is dependent on a number of factors, including location, asset class, market conditions, lease covenants and the risks inherent in the property.

Top-slice method

Certain properties are valued using the top-slice method, which is a combination of the aforementioned two valuation techniques. Fair value is calculated by firstly capitalising market-related net rentals by an appropriate capitalisation rate. Thereafter, a top-slice value is determined by discounting the incremental net rentals that are above-market or below-market back using an appropriate discount rate.

Significant unobservable inputs

- Expected market rentals
- Average valuation yield of 8.3% (2018: 8.3%) in SA and 4.8% (2018: 5.0%) in the UK
- Discount rates applied in discounted cash flow and top-slice methods.

Inter-relationship between unobservable inputs and fair value measurement

The overall valuations are sensitive to all three assumptions listed above. The impact of vacancy is deemed to be immaterial on the valuations as the majority of the group's leases are long dated, with no view of material vacancies in the portfolio in the near future. Management deems that the range of possible alternative assumptions is greatest for the valuation yields. The impact of changing valuation yields on the asset values is detailed in note 5.4.

Critical estimates and judgements – Acquisition of property subsidiaries

Where the group obtains control of entities that own investment properties, or when the group acquires properties or a group of properties collectively, an evaluation is performed as to whether such acquisitions should be accounted for as business combinations or acquisitions in terms of IAS 40 Investment Property. An acquisition is not considered to be a business combination if at the date of the acquisition of the entity the integrated activities deemed necessary to generate a business are not present.

An acquisition is not considered to be a business combination if at the date of the acquisition of the entity the integrated activities deemed necessary to generate a business are not present. A business is defined to be an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. The group assesses whether the assets are sold with or without the staff, service agreements, administrative services and intellectual property required to conduct a business; where these requirements are not met, the group accounts for the acquisition under IAS 40, Investment Property.

There were no property subsidiary acquisitions in the current or prior year.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

5 Investment property (continued)

5.1 Reconciliation of investment property

	South Africa						United Kingdom			
R'000	Logistics	Industrial	Commercial	Properties under development	Land immediately available#	Land for future development#	Logistics	Properties under development	Land acquired as part of a forward funding agreement	Total
Balance as at 28 February 2017	**4 074 371**	**294 623**	**127 988**	**187 531**	**287 360**	**89 520**	**790 960**	**1 237**	**–**	**5 853 590**
Acquisitions	–	–	–	–	–	181 596	1 128 970	–	293 367	**1 603 933**
Improvements and extensions	83 765	–	–	–	–	–	13 761	–	–	**97 526**
Construction and development costs	–	–	–	216 432	26 274	19 422	–	28 396	–	**290 524**
Transfers*	229 779	–	–	(170 463)	(52 677)	(33 898)	1 237	292 130	(293 367)	**(27 259)**
Fair value adjustment	51 272	(26 071)	(10 969)	–	–	–	225 314	–	–	**239 546**
Disposals	–	(17 286)	–	–	–	–	–	–	–	**(17 286)**
Foreign exchange movements	–	–	–	–	–	–	(119 727)	(21 150)	–	**(140 877)**
Balance as at 28 February 2018	**4 439 187**	**251 266**	**117 019**	**233 500**	**260 957**	**256 641**	**2 040 515**	**300 613**	**–**	**7 899 697**
Acquisitions	1 112 388	–	112 000	–	347 653	120 000	–	–	92 126	**1 784 167**
Improvements and extensions	29 194	5 780	520	–	–	–	2 130	–	–	**37 624**
Construction and development costs	1 154	–	–	295 675	64 813	28 239	–	1 077 275	–	**1 467 156**
Transfers*	411 787	–	–	(206 571)	(111 321)	(93 895)	1 165 464	(1 073 338)	(92 126)	**–**
Letting commission capitalised	3 449	–	–	–	–	–	2 516	1 656	–	**7 621**
Letting commission amortised	(238)	–	–	–	–	–	–	–	–	**(238)**
Fair value adjustment	109 988	3 739	751	(811)	26 024	55 052	(3 001)	28 470	–	**220 212**
Disposals	–	–	(68 717)	–	–	–	–	–	–	**(68 717)**
Foreign exchange movements	–	–	–	–	–	–	291 734	81 831	–	**373 565**
Balance as at 28 February 2019	**6 106 909**	**260 785**	**161 573**	**321 793**	**588 126**	**366 036**	**3 499 358**	**416 507**	**–**	**11 721 087**

* Transfers relates to the following:
i) Land which have been zoned and service and available for a development to commence;
ii) Land where a development has commenced;
iii) Investment properties under development which have been completed; and
iv) Properties that have been recognised as held for sale.

\# Land immediately available for development are land parcels that have the necessary zoning rights and have been prepared for developments. Land for future developments relate to land parcels which are in the process of obtaining the necessary zoning rights to be available for development.
^ Commercial relates to office buildings owned.

R'000	Group 28 Feb 2019	Group 28 Feb 2018
5.2 Investment property held for sale		
Opening balance	28 000	234 381
Transferred from investment property	–	28 000
Disposed during the year	(28 000)	(234 381)
Fair value of investment properties held for sale	**–**	**28 000**
5.3 Straight-lining lease income accrual		
Contractual lease receivables are as follows:		
Within one year	544 073	392 764
Between one and five years	2 000 603	1 561 561
Beyond five years	1 219 515	694 877
	3 764 191	**2 649 202**
Less: lease revenue on straight-line basis	(3 527 681)	(2 477 850)
Straight-lining lease income accrual	**236 510**	**171 352**

The group uses a range of registered independent valuers on an rotational basis, namely:
- Mills Fitchet Magnus Penny
- Knight Frank (Pty) Ltd
- Jones Lang LaSalle Ltd

The external valuations at the end of the period were performed by Knight Frank in South Africa and JLL in the UK.

Investment properties to the value of R9.7 billion (2018: R6.8 billion) are encumbered as security against the group's loan facilities (note 6).

Capitalisation rates varied between 7.0% and 13.1% (2018: 7.3% and 11.4%) for South African properties and between 4.3% and 5.3% (2018: 4.5% and 6.0%) for UK properties.

The majority of our leases are fully repairing and insuring with the average lease expiring after 8.8 years (2018: 7.9 years). South African leases contain contractual escalations over the lease where UK leases contain rent reviews after 5 years.

5.4 Fair value measurement

All assets and liabilities measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement as follows:
Level 1 – measurements in whole or in part are performed by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – measurements are performed by reference to inputs other than quoted prices that are included in level 1.
These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).

Level 3 – measurements are performed by reference to inputs that are not based on observable market data .

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Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Group 28 Feb 2019	Group 28 Feb 2018
5 Investment property (continued)		
5.4 Fair value measurement (continued)		
Assets at fair value		
Level 1		
None	–	–
Level 2		
Financial assets at fair value (note 6)	2 278	900
Derivative financial assets (note 6)	52 677	268 264
Derivative financial liabilities (note 6)	(55 454)	(19 155)
Level 3		
Non-financial assets at fair value – investment properties	11 957 597	5 492 795
Refer to the segment report in note 3 for a breakdown per asset class, distinguished by market risk.		
There were no transfers between level 1, 2 or 3 during the year.		
The table below illustrates the sensitivity to key inputs in determining the valuation of investment property:		
Sensitivity analysis to capitalisation rates		
Increase in fair value if capitalisation rates are decrease by 0.1%	73 542	73 475
Decrease in fair value if capitalisation rates are increased by 0.1%	(71 682)	(71 105)
Sensitivity analysis to market rentals		
Increase in fair value if market rentals are increased by 5%	61 450	4 174
Decrease in fair value if market rentals are decreased by 5%	(61 450)	(4 174)
Sensitivity analysis to discount rates		
Increase in fair value if discount rates are decrease by 0.1%	11 830	–
Decrease in fair value if discount rates are increased by 0.1%	(11 511)	–
6 Net debt		
6.1 Analysis of net debt		
Secured bank borrowings		
Non-current		
Nedbank	1 198 084	1 172 785
Aviva Commercial Finance	653 427	–
Standard Bank of South Africa	220 193	75 570
Royal Bank of Scotland	198 780	191 973
ABSA Bank	172 992	–
HSBC Bank	331 204	288 300
Rand Merchant Bank	121 102	121 102
Sanlam	38 000	38 000
	2 933 782	1 887 730
Current		
Standard Bank of South Africa	–	38 601
Royal Bank of Scotland	18 684	16 338
	18 684	54 939
Unsecured bank borrowings		
Current		
Investec Bank	59 003	–
	59 003	–

R'000	Group 28 Feb 2019	Group 28 Feb 2018
Unsecured bonds and commercial paper		
Non-current		
EQT01U – commercial paper	299 055	–
	299 055	–
Gross debt	**3 310 524**	**1 942 669**
Interest rate and currency derivative assets	(52 677)	(268 264)
Interest rate and currency derivative liabilities	55 454	19 155
Cash and cash equivalents	(36 279)	(17 813)
Financial assets held at fair value through profit or loss	(2 278)	(900)
Net debt	**3 274 744**	**1 674 847**

Accounting Policy

Financial Liabilities

Borrowings are initially recognised at fair value (net of any transaction costs) and subsequently at amortised cost. Borrowings are generally long-term in nature and are classified as non-current liabilities, except to the extent that amounts are contractually unavoidable in the 12 months from the reporting date.

Borrowings and trade and other payables are classified as financial liabilities and are measured at amortised cost using the effective interest rate method.

Financial Assets

Financial assets at fair value through profit or loss are investments which were acquired principally for the purpose of selling in the short-term. These financial assets therefore are not classified either at amortised cost or fair value through other comprehensive income. These assets are described as financial assets at fair value in statement of financial position. Such assets are classified as current or non-current based on their expected maturity.

Derivative financial instruments

The group's derivative financial instruments comprise of interest rate and foreign exchange rate instruments and are either assets or liabilities and are classified as current or non-current based on the termination date of the instrument. Purchases and settlements of derivative financial instruments are initially recognised on the trade date at fair value and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of derivative financial instruments are included as fair value adjustments in profit and loss together with the related interest and/or other income. Realised gains and losses in respect of interest rate derivatives are presented in finance costs. Income accrued on currency derivative instruments are presented within other net gains or losses.

The group does not apply hedge accounting and does not enter into derivative contracts for trading or speculative purposes.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Group 28 Feb 2019	Group 28 Feb 2018
6 Net debt (continued)		
6.2 Reconciliation of movement in group borrowings for the year ended 28 February 2019		
Opening balance	1 942 669	1 372 080
Non-current borrowings	1 887 730	1 086 097
Current borrowings	54 939	285 983
Proceeds from borrowings	3 732 162	1 016 876
Repayment of borrowings	(2 442 146)	(443 180)
Interest amortisation	638	416
Interest accrual	12 304	2 146
Interest accrual reclassified to other payables	(18 089)	–
Foreign exchange on borrowings	82 985	(5 669)
Closing balance	3 310 524	1 942 669
Non-current borrowings	3 232 837	1 887 730
Current borrowings	77 687	54 939

Prime linked, ZAR denominated loans, bear interest at an average rate of prime less 1.60% (2018: 1.49%) while JIBAR linked, ZAR denominated loans, bear interest at an average rate of JIBAR plus 1.81% (2018: 2.20%). LIBOR linked, GBP denominated loans, bear interest at an average rate of LIBOR plus 2.08% (2018: 2.08%). Fixed, GBP denominated loans bear fixed interest at 175 basis points above the 8 year UK gilt curve which was locked in at a weighted average rate of 2.97%.

Interest is calculated daily and is payable monthly. The outstanding capital is repayable on the maturity dates shown in the maturity analysis below.

The group currently receives prime less 4.20% (2018: prime less 4.20%) on short-term cash balances.

The group's loan agreements are subject to certain financial covenants, specifically with regards to maximum LTV and minimum interest cover ratios. The group is well within the strictest of these covenants which is 50% LTV and 2.00 times interest cover.

The group has the HSBC Bank and Royal Bank of Scotland GBP LIBOR-linked loans, for the IBOR reform, GBP LIBOR is to be replaced by another reference rate by the end of 2021. The group is assessing the impact of this change on its LIBOR-linked contracts for future financial periods.

6.3 Derivative financial assets and liabilities		
Interest rate derivative instruments	(21 241)	(14 838)
Foreign exchange rate derivative instruments	18 464	263 947
	(2 777)	249 109
Derivative financial assets	52 677	268 264
Derivative financial liabilities	(55 454)	(19 155)

These amounts represent the mark-to-market of the open derivative financial instruments at each reporting date.

6.4 Financial risk management

The group holds financial instruments mainly to finance its operations, to finance corporate transactions such as dividends, for the temporary investment of short-term funds, and to manage currency and interest rate risks. In addition, various financial instruments, for example trade receivables and payables arise directly from operations and create financial risks which are an inevitable concomitant of the group's operations. The use of debt and equity finance creates financial risks which are required to be managed to minimise the cost of capital and thereby maximise stakeholder returns. The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), liquidity risk and credit risk.

Market risk

Market risk is the possibility that the group will experience losses due to factors that affect the overall performance of the financial markets in which it is involved. Market risk, also called systematic risk, cannot be eliminated through diversification, though it can be hedged against. From the group's perspective, the main market risks at present pertain to interest rates (both in South Africa and the United Kingdom) and foreign exchange (principally the GBP/ZAR exchange rate). In relation to interest rate risk, where an unhedged interest rate increases, ceteris paribus, the cost of funding increases, which in turn reduces the group's overall financial performance. Similarly, where a foreign currency depreciates, and the group has a net investment in that foreign currency, to the extent that it relates to an unhedged exposure, this would, ceteris paribus, result in a financial loss to the group. The group's response to market risks that it is exposed to is elucidated below.

Interest rate risk

The group is exposed to interest rate risk on interest-bearing borrowings, cash and cash equivalents and other short-term interest-bearing investments.

An increase in the interest rate will, ceteris paribus, increase the interest cost associated with the utilisation of variable rate interest-bearing borrowings. To minimise this potential impact, the group has both natural and derivative hedging arrangements.

The group uses interest rate swaps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market interest rates. Furthermore, the group uses natural hedges which are embedded within lease agreements, to offset any adverse effects of an increase in interest rates with an increase in contractual rental income.

The interest rate swaps held by the group are structured to achieve the specific objective of mitigating interest rate risk. These derivative hedging instruments are structured to pay a fixed interest rate which is locked in for a defined period and to receive a floating interest rate which is linked to a market interest rate. Therefore, if the market interest rate increases during a period under which the group has outstanding interest rate swaps, both the interest cost on floating interest rate debt and the interest received under the swap will increase which creates an offsetting effect.

The group has a policy to hedge at least 80% and 70% of its exposure to floating interest rates on term loan balances and on committed future financing balances respectively on an ongoing basis. Furthermore, given the group's current strategic growth plan, exposure to future interest rate risk is also considered where a capital commitment has been made. Therefore, an assessment is regularly performed on both metrics as shown below. The group's hedge cover has been determined initially with regards to term loan balances. However, the impact of contracted capital commitments has been assessed against the current total hedge cover in line with the group's policy.

R'000					Group	
					28 Feb 2019	28 Feb 2018
Hedging of interest rate risk						
Interest rate derivative instruments						
The group has the following instruments to hedge interest rate risks it is exposed to in relation to floating rate debt borrowings:						
	28 February 2019		28 February 2018			
Nominal amount (R'000)	**Weighted average maturity**	**Weighted effective interest rate**	**Weighted average maturity**	**Weighted effective interest rate**		
JIBAR-linked interest rate swaps	Jan-22	7.66%	Jan-22	7.66%	860 000	860 000
JIBAR-linked zero-cost interest rate collar	Feb-24	7.15% (floor) – 8.15% (cap)	n/a	n/a	200 000	–
LIBOR-linked interest rate swaps[a]	Mar-22	1.00%	Mar-22	1.00%	554 124	501 022
					1 614 124	1 361 022

[a] Furthermore, the group concluded two forward-starting interest rate swaps to mitigate GBP LIBOR interest rate risk in line with the maturity profile of the underlying lease agreements concluded in the UK. These swaps have a notional amount of £77m, a weighted average maturity of February 2025 and a weighted average fixed rate of 1.49%.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Group 28 Feb 2019	Group 28 Feb 2018
6 Net debt (continued)		
6.4 Financial risk management (continued)		
Interest rate swaps embedded in lease agreements		
The group has embedded interest rate hedges into some of its lease agreements as follows:		
Effective equivalent hedged value	260 567	285 082
Average maturity: 31 August 2022		
Effective interest rate: 9.00%		
Total nominal value of interest rate hedges	**1 874 691**	**1 646 104**
The group regularly assesses the adequacy of its interest rate cover by analysing the effective interest hedging cover on total committed future financing cash outflows as follows:		
Total nominal value of interest rate hedges	1 874 691	1 646 104
Fixed-for-floating currency derivative instrument	600 000	600 000
Fixed interest-bearing borrowings	653 427	
Total hedge cover	**3 128 118**	**2 246 104**
Total interest-bearing borrowings	**3 310 524**	**1 942 669**
Effective hedging cover on loan balances	**94.5%**	**115.6%**
Impact of contracted capital commitments		
Contracted capital commitments (note 22)	378 640	922 824
Total committed future cash outflows	**3 689 164**	**2 865 493**
Effective interest hedging cover on total committed future floating financing cash outflows	**84.8%**	**78.4%**

The majority of the group's contracted capital commitments pertains to ongoing development funding agreements which have a s-curve cash flow profile. The group's intention is to hedge exposure to the remaining interest rate risk relating to these existing capital commitments as the developments progress and/or the acquisition is effective.

The table below reflects the currency and interest rate profile of our loans and borrowings after the impact of interest rate hedging.

	2019			2018		
At 28 February	**Fixed rate interest (R'000)**	**Floating rate interest (R'000)**	**Total (R'000)**	**Fixed rate interest (R'000)**	**Floating rate interest (R'000)**	**Total (R'000)**
South African Rand	1 926 022	182 406	2 108 428	1 446 058	–	1 446 058
Pound Sterling	1 202 096	–	1 202 096	496 611	–	496 611
Total	3 128 118	182 406	3 310 524	1 942 669	–	1 942 669
Ratio of fixed to floating	94.5%	5.5%	100.0%	100%	0%	100%
All-in ZAR effective fixed interest rate	8.90%			9.03%		
All-in GBP effective fixed interest rate	2.89%			2.86%		
All-in effective average fixed interest rate	6.71%			7.99%		
Marginal ZAR effective interest rate	8.76%			8.84%		
Marginal GBP effective interest rate	2.83%			n/a*		

* There were no undrawn facilities at the previous reporting date.

Interest rate yield curve

The all-in cost of debt of the group's secured and unsecured borrowings has been outlined below:

Year	28 February 2019	
	ZAR all-in effective rate %	GBP all-in effective rate %
FY20	8.35%	n/a*
FY21	8.88%	n/a*
FY22	9.05%	2.76%
FY23	9.10%	3.10%
FY24 and beyond	9.15%	2.96%

* The group has not concluded any agreements in the UK that expire before FY22.

Sensitivity analysis to interest rates

The group has calculated the sensitivity of changes in interest rates on net profit for the year assuming a reasonably likely scenario where the swap yield curve is vertically translated 50 basis points in either direction at each maturity based on current levels. As the main component of the movement in net profit for the year would arise from an accounting mismatch whereby interest rate and cross currency swaps are fair valued and the related financial liabilities are not, the group has also outlined the impact of changes in interest rates on distributable earnings which it considers to be more appropriate. The sensitivity analysis includes the impact of interest rate hedging and it assumes that other macroeconomic factors remain unchanged.

R'000	2019		2018	
	50 bps higher during the year	50 bps lower during the year	50 bps higher during the year	50 bps lower during the year
Distributable earnings	(1 178)	1 178	1 472	(1 472)
Net profit	61 428	(63 609)	46 727	(48 321)

Currency risk

Most of the group's external revenue and costs arise within SA and are denominated in South African Rand. Where the group's foreign operations trade and are funded in their functional currency, this limits their exposure to foreign exchange volatility. Therefore, the group's policy is, wherever possible, that funding should be secured in a currency to match the currency of the underlying rental cashflows to minimise foreign exchange volatility through natural hedges. Where this is not possible at competitive rates, the group enters into cross currency interest rate swaps and other derivative instruments to hedge foreign currency, capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The group currently partially finances the UK expansion through a combination of SA debt and equity and therefore has foreign exchange exposure on its capital investment in the UK. The group has continued to expand into the UK during the year under review. As such, the group is exposed to currency risk, predominantly that relating to the South African Rand and the Pound Sterling.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

6 Net debt (continued)

6.4 Financial risk management (continued)

Foreign exchange rate derivative instruments

The group has open foreign exchange rate derivative instruments at year-end as follows:

Description	Purpose of instrument	Nature of the risk	Economic hedge effectiveness considerations	Weighted average maturity date	Weighted average fixed exchange rate	Nominal Amount (£'000)	Nominal Amount (£'000)
GBP/ZAR cross currency interest rate swaps	Hedge net investment in group's UK operations	Foreign exchange currency risk – capital invested	The translated ZAR value of the net investment into the UK will diminish as the GBP/ZAR exchange rate falls. This will be offset (to the extent hedged) by an increase in the ZAR value of the GBP/ZAR cross currency interest rate swap	May 2020	R18.00/£	77 447	74 860
GBP/ZAR average rate zero-cost collars	Hedge GBP-denominated distributable income translated into ZAR	Foreign exchange currency risk – income generated	The GBP distributable earnings generated from the group's investment into the UK will be translated into a lower ZAR equivalent where the ZAR appreciates relative to the GBP. The income generated on open average rate zero-cost collars and forward exchange contracts on expiry will offset (to the extent hedged) the impact of a lower ZAR equivalent of the GBP distributable earnings	January 2020	R19.09/£ – R20.66/£	5 400	–
GBP/ZAR average rate forward exchange contracts				March 2020	R20.77/£	3 750	–

Hedging of capital investment

The table below shows the carrying amounts of the group's foreign currency denominated assets and liabilities and the percentage of foreign denominated net assets which are currently hedged:

	Group	
£'000	28 Feb 2019	28 Feb 2018
Foreign denominated assets	213 504	146 945
Foreign denominated liabilities	(67 467)	(33 031)
Foreign denominated net assets	**146 037**	**99 672**
Nominal value of currency hedging instruments	77 447	74 860
Effective currency hedge cover - % of foreign-denominated net assets	**53.0%**	**75.1%**
Effective currency hedge cover - % of foreign-denominated assets	**36.3%**	**50.9%**

The group's treasury policy restricts the utilisation of cross currency interest rate swaps to 45% of foreign denominated assets over time. The group achieves this by continually monitoring its exposure to foreign exchange rates as a result of its investment into the UK. In the current financial year, it has effectively reduced its hedge cover over its net investment into the UK by maintaining largely unchanged nominal values of the cross currency interest rate swaps despite an increase in the foreign denominated net assets. This was executed as a strategy in light of the diminishing excess USD liquidity, tepid global growth forecasts and the consequential adverse impact on high-yielding carry trades. The group has also considered the contagion risk associated with emerging market foreign currency weakness in this decision. However, it maintains that the employment of cross currency interest rate swaps continue to provide an effective hedge against the erosion of the net asset value of the group due to foreign currency fluctuations.

To manage the GBP LIBOR interest rate risk that arises as a result of the mismatch between the duration of the group's investment into the UK and the duration of the cross currency interest rate swaps, it entered into two forward-starting GBP LIBOR interest rate swaps with a weighted average maturity in February 2025 to hedge its exposure to fluctuations in GBP LIBOR until that date. The group considers this risk management technique to be an effective tool in minimising the cost of capital in that jurisdiction.

Hedging of cashflow

Equites' cashflow from its operations in the UK are exposed to movements in the GBP/ZAR exchange rate. To manage the impact of currency volatility, the group has adopted a policy of hedging at least 80% of its 12 month projected forward net cashflow and 40% of its 12-24 month projected forward net cashflow derived in foreign currency. The UK expansion plan has necessitated that all surplus net operating rental cashflows are reinvested into future developments. The future developments are therefore expected to utilise all surplus free cashflow generated in the UK over the next 24 months.

Hedging of distributable earnings

As explained above, where possible, the group continues to utilise natural hedges to minimise its exposure of fluctuations in foreign exchange rates on its distributable earnings. To this end, the group settles Pound-based interest on the open cross currency interest rate swaps which partially hedges its foreign exchange rate exposure. In relation to the residual exchange rate risk, the group assesses the likely impact on the funds to be received from its foreign operations of reasonably possible changes in the GBP/ZAR exchange rate using financial modelling and hedges its exposure to this exchange rate. The group has implemented a base hedging level for funds expected to be earned from its UK operations in the next 24 months in line with the following policy:

Period	Base hedging level	Enhanced hedging level	Exceptional hedging level
Months 1 – 6	80.0%	85.0%	90.0%
Months 7 – 12	70.0%	80.0%	85.0%
Months 13 – 18	45.0%	60.0%	70.0%
Months 19 – 24	30.0%	47.5%	60.0%

The average 12-month minimum hedging level is therefore 75% while this level tapers off with later maturities to provide the group with further upside in relation to the GBP/ZAR exchange rate. In line with the base hedging level policy, the group has hedged the net GBP income to be earned over the next 24 months as follows:

Six-month period ended*	Effective hedging level	Blended participation floor	Blended participation cap
31 August 2019	80.1%	R19.22/£	R19.96/£
29 February 2020	70.0%	R19.84/£	R20.86/£
31 August 2020	45.0%	R20.74/£	R21.73/£
28 February 2021	30.0%	R20.70/£	R22.03/£

* including the impact of subsequent events

As time elapses, each maturity will move closer towards the initial period and therefore the group's minimum level of hedging will increase in line with the above policy.

Sensitivity analysis to exchange rates

The impact on net profit is principally due to the impact of the change in the exchange rate on the mark-to-market of the group's financial derivative contracts. Therefore, an analysis of the sensitivity of changes in exchange rates has been performed in relation to net profit, total equity and distributable earnings.

The likely scenario applied in this sensitivity analysis reflects two standard deviations above and below the GBP/ZAR 20-day simple moving average exchange rate analysed over the past 12 months. This therefore captures 95% of all price points over that period. The sensitivity analysis includes the impact of currency hedging and assumes that other macroeconomic factors remain unchanged.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

6 Net debt (continued)

6.4 Financial risk management (continued)

Sensitivity analysis to exchange rates (continued)

R'000	2019 4% ZAR depreciation against the GBP	2019 14% ZAR appreciation against the GBP	2018 17% ZAR depreciation against the GBP	2018 5% ZAR appreciation against the GBP
Distributable earnings	1 107	(3 868)	6 970	(2 068)
Net profit	(53 798)	201 594	(160 326)	47 578
Total equity	51 370	(188 405)	161 157	(47 824)

Fair value measurement

The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the group and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

Liquidity risk

Liquidity risk is defined as the risk that the group would not be able to settle or meet its obligations on time or at a reasonable price. The group monitors its net liquidity position on a continuous basis on the basis of expected cash flows. The group seeks to minimise its exposure to liquidity risk by reducing its exposure to interest rate risk through its hedging strategy. The group also reduces refinancing risk through regularly reviewing the maturity profile of its financial liabilities and utilising facilities with differing maturities to reduce maturity concentration.

The table below analyses the group's financial liabilities based on their contractual maturities. The amounts shown represent the contractual undiscounted amounts.

R'000	Group 28 Feb 2019	Group 28 Feb 2018
Financial liabilities		
Repayable within one year and on demand		
Borrowings	77 686	54 939
Interest repayments	223 075	141 015
Derivatives repayments	39 351	6 110
Trade and other payables	179 891	81 400
	520 004	**283 464**
Between two and five years		
Borrowings	3 251 400	1 887 730
Interest repayments	426 736	218 614
Derivatives repayments	16 609	15 168
	3 694 745	**2 121 512**

The maturity profile of the group's total and undrawn borrowing facilities are shown below:

R'000	2019 Total borrowing facilities	2019 Undrawn borrowing facilities	2018 Total borrowing facilities	2018 Undrawn borrowing facilities
Maturity				
Within one year	418 684	340 997	216 338	161 399
Between one and three years	2 507 954	554 536	1 402 676	546 881
Beyond three years	1 297 982	–	1 368 977	337 042
Total	**4 224 620**	**895 533**	**2 987 991**	**1 045 322**

Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and reducing the cost of capital.

As a Real Estate Investment Trust ("REIT"), the group is required to declare at least 75% of its distributable profit as a dividend. The board has decided (subject to the availability of cash resource and legislative requirements) to declare 100% of the distributable profit of the group as a dividend on a biannual basis for the foreseeable future.

As a result of the group's dividend policy, capital expansion is funded through a combination of bank debt and equity funding. The group targets a LTV of between 25% and 35% over time. LTV is determined based on the ratio of net debt to the fair value of property assets as follows:

	Group	
	28 Feb 2019	**28 Feb 2018**
LTV ratio		
Net debt (excluding derivatives financial instruments)	**3 271 967**	**1 923 956**
Total assets	12 256 189	8 484 396
Less: assets related to net debt	(91 235)	(286 977)
Fair value of property assets	**12 164 954**	**8 197 419**
LTV ratio	**26.9%**	**23.5%**

Credit risk

Credit risk is the risk of default on a financial obligation that may arise from a borrower failing to make payments when due. The group is exposed to operational credit risk where trade receivable balances fall due and payable in accordance with the applicable lease agreement. Credit risk also arises from the group's cash balances and derivative financial instruments (where these are in an asset position) held with financial institutions.

Trade and other receivables

The group has credit vetting procedures in place before entering into leases with new tenants. The group's tenants are predominantly blue-chip companies and there were no significant concentrations of credit risk at year end.

The group's exposure to credit risk arising from trade and other receivables is set out in note 10.

Financial asset held at fair value

At the end of the current financial year, the group is exposed to credit risk of R2.3 million (2018: R0.9 million) relating to its investment in a Nedbank Limited unit trust. The investment is reflected at its estimated recoverable value.

Derivative financial instruments

The group is exposed to credit risk in relation to its currency derivative instruments which were entered into to hedge foreign exchange rate risk and interest rate risk. The counterparty to these derivative financial instruments are included in note 8.2.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

7 Cash and cash equivalents

Accounting Policy
Cash comprises cash on hand and positive bank balances. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and not subject to a significant risk of a change in value.

R'000	Group 28 Feb 2019	Group 28 Feb 2018
7.1 Composition of cash and cash equivalents		
Current accounts	20 144	7 753
Cash on call	16 099	10 024
Petty cash	36	36
	36 279	**17 813**

7.2 Credit exposure of cash and cash equivalents

Credit risk in cash and cash equivalents and derivative financial assets
All cash and cash equivalents and derivative financial assets are invested with reputable financial institutions. Cash balances are only retained for working capital requirements.

Credit ratings of counterparties:

	Moody's short-term	Moody's long-term	S&P short-term	S&P long-term
Nedbank Limited	P-3	Baa3	B	BB+
ABSA Bank Limited	P-3	Baa3	NR	NR
Royal Bank of Scotland International Limited	NR	NR	A-2	BBB
Royal Bank of Scotland	P-2	A3	A-2	BBB+
HSBC Bank	P-1	Aa3	A-1+	AA-

Amounts in current accounts and on call are invested with reputable institutions as follows:		
Nedbank Limited	21 712	13 086
ABSA Bank Limited	–	240
Royal Bank of Scotland International Limited	7 875	4 339
Royal Bank of Scotland	765	50
HSBC Bank	5 891	62
	36 243	**17 777**

Cash and cash equivalents comprise amounts which are immediately available and the carrying amounts are equivalent to the fair values.

8 Non-controlling interests

Critical estimates and judgements – Consolidation of structured entity

During the prior year, the group assisted in the incorporation of the Michel Lanfranchi Foundation NPC which houses all the corporate social responsibility projects and initiatives of the group. The main objective of the Foundation is to contribute to educational infrastructure at primary, secondary and tertiary education level, as well as to facilitate bursaries and scholarships to deserving individuals. Equites was instrumental in the formation of the Foundation, however, following formation, the Foundation will have an independent board and operate independently of Equites. Refer to the social and ethics committee report for further details on the Foundation.

The group has applied judgement in determining the treatment of the relationship with the Foundation. An IFRS 10 assessment has been performed to determine if the group controls the MLF and its subsidiaries. While the group does not have influence over the board's decision making or operations of MLF, the assessment concluded that the group should consolidate MLF and its subsidiaries.

Pursuant to the original intention in incorporating the MLF, the group donates funds to the Foundation to achieve its end. There are no contractual arrangements between MLF and Equites which require Equites to donate funds to the Foundation in its discretion. The group currently has no contractual obligation to support the MLF but remains committed to ensuring that the objectives of the Foundation are met.

	Group	
R'000	**28 Feb 2019**	**28 Feb 2018**
The non-controlling interest represents the following:		
– 20% of the net asset value of EA Waterfall Logistics JV Pty (Ltd); and		
– 100% of the net asset value of The Michel Lanfranchi Foundation NPC and Ilanga Lakusasa (Pty) Ltd		
Non-controlling interest reconciliation		
Opening balance	109 410	93 535
Share of profit for the year (note 8.1)	46 104	20 925
Dividend declared	(5 595)	(5 050)
Closing balance	**149 919**	**109 410**

8.1 Share of profit for the year includes the following:

Fair value adjustment – investment property	33 825	5 578
Fair value adjustment – derivative financial assets and liabilities	520	(3 215)
Straight-lining of leases adjustment	7 616	12 522
Capital items non-distributable	–	2 345

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

8 Non-controlling interests (continued)

8.2 Summarised statement of financial position

	Group	
	28 Feb 2019	28 Feb 2018
	100%	100%
Non-current assets	1 132 284	1 030 248
Current assets	20 613	11 973
Total assets	**1 152 897**	**1 042 221**
Non-current liabilities	522 856	524 854
Current liabilities	16 737	8 512
Total liabilities	**539 593**	**533 366**
Net assets	613 304	508 855
Accumulated non-controlling interest	**149 919**	**109 410**
Summarised statement of profit and loss		
Gross property revenue	124 969	89 517
Profit for the year	**143 229**	**66 426**
Profit allocated to non-controlling interest	**46 104**	**20 925**
Dividend paid to non-controlling interest	**5 595**	**5 050**

9 Trade and other receivables

Accounting Policy

Trade and other receivables

Trade and other receivables are recognised at trade date at fair value and subsequently at amortised cost. Trade receivables are amounts due from tenants for contractual lease charges and recoveries and are classified as current assets unless recovery is expected more than 12 months from the reporting date.

Impairment of financial assets at amortised cost

The group recognises a loss allowance for expected credit losses on trade and other receivabless which are financial assets. The amount of expected credit losses is updated at each reporting date. The group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses, which represents the expected credit losses that will result from all possible default events over the expected life of the financial asset.

The group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date. The loss allowance is calculated on a collective basis for all trade and other receivables in totality. Details of the provision matrix are presented below.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in the credit loss allowance.

R'000	Group 28 Feb 2019	Group 28 Feb 2018
Trade receivables (tenants)	6 981	256
Municipal deposits	9 289	6 685
Supplier development loan (note 9.4)	17 260	11 845
VAT receivable	52 025	4 383
Prepaid expenses	2 860	3 871
Sundry debtors	11 320	23 616
Accrued income and other receivables	10 905	7 546
	110 640	**58 202**

Classification of trade and other receivables

The group's trade and other receivables have been classified as follows:

Financial instruments at amortised cost	55 755	49 948
Non-financial instruments	54 885	8 253
	110 640	**58 202**

The fair value of trade and other receivables approximates the carrying amounts.

9.1 Credit quality of trade receivables

The credit quality of trade receivables is evaluated with reference to available financial information and history with the group and can be categorised into the following groups:

A – Large multinational companies, large listed companies and government organisations	5 590	26
B – Smaller multinational and national tenants	15	–
C – Other local tenants and sole proprietors	1 376	230
	6 981	256

The maximum exposure to credit risk for trade and other receivables are the carrying values.

9.2 Ageing of trade receivables

The ageing of trade receivables as at year end was follows:

Current	5 942	79
1 – 30 days past due	356	1
31 – 60 days past due	88	5
61 – 90 days past due	590	–
91 days past due or more	5	171
Total	**6 981**	**256**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

9 Trade and other receivables (continued)

9.3 Expected credit loss allowance

The group's historical credit loss experience does not show significantly different loss patterns within the group's operating segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

28 February 2019	Expected credit loss rate	Loss allowance (R'000)
Current	0.07%	22
1 – 30 days past due	7.83%	28
31 – 60 days past due	8.15%	7
61 – 90 days past due	19.56%	115
91 days past due or more	20.10%	1
Total		173

R'000	Group 28 Feb 2019	Group 28 Feb 2018
Reconciliation of loss allowance		
The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade and other receivables:		
Opening balance at 1 March 2018	–	
Increase in allowance recognised in profit or loss	171	
Foreign exchange	2	
Closing balance at 28 February 2019	173	

Trade receivables to the extent of R170k (2018: R0) have been written off during the year.

9.4 Supplier development loan

Damon At Sons Construction (Pty) Ltd	17 260	11 845

These amounts were advanced to one of our suppliers as part of our supplier development programme and are unsecured, do not bear interest and have no fixed terms of repayment.

10 Stated capital

Accounting Policy
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

R'000	Group 28 Feb 2019	Group 28 Feb 2018
10.1 Authorised shares		
2 000 000 000 (two billion) ordinary shares, of the same class and no par value.		
10.2 Issued shares		
503 416 786 (2018: 409 973 331) ordinary shares, of the same class and no par value.	7 026 680	5 203 773

The unissued shares are under the control of the directors (subject to limitations set by shareholders' resolutions) until the next annual general meeting.

10.3 Reconciliation of issued shares – value		
Opening balance	5 203 773	4 193 749
Shares issued in respect of conditional share plan	5 518	3 113
Shares issued for cash in accelerated book build*	1 511 441	1 015 157
Shares issued for acquisition of land	194 653	–
Shares issued in terms of dividend reinvestment programme	125 145	–
Treasury shares acquired	(114)	–
Share issue costs	(13 736)	(8 246)
Closing balance	**7 026 680**	**5 203 773**

10.4 Reconciliation of issued shares – number	**Number of shares**	**Number of shares**
Opening balance	409 973 331	350 465 100
Shares issued in respect of conditional share plan	786 818	487 501
Shares issued for cash in accelerated book build	76 950 771	59 020 730
Shares issued for acquisition of land	9 449 184	–
Shares issued in terms of dividend reinvestment programme	6 256 682	–
Closing balance	**503 416 786**	**409 973 331**

* 40 997 333 shares issued at R19.50 per share on 4 June 2018 under the general authority to issue shares for cash. 35 953 438 shares issued at R19.80 per share on 15 February 2019 under the general authority to issue shares for cash. (2018: General issue of shares at a price of R17.20 per share.)

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

R'000	Group 28 Feb 2019	Group 28 Feb 2018
11 Share-based payment reserve		
Conditional share plan (note 11.1)	13 546	11 282
Acquisition of land (note 11.2)	56 296	56 296
	69 842	**67 578**

Accounting policy

For equity-settled share-based payment transactions, the group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the group cannot estimate reliably the fair value of the goods or services received, the group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

The group operates a conditional share plan, which is classified as an equity-settled share-based payment plan, under which is receives services from employees as consideration for equity instruments of the group. The beneficiaries under the scheme are executive directors and management. The fair value of the employee services received in exchange for the grant of shares is recognised as an expense on a straight-line basis over the vesting period, with a corresponding adjustment to the share-based payment reserve.

The total amount expensed to profit or loss is determined by reference to the fair value rights to equity instruments granted, including any market performance conditions and excluding the impact of any non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions regarding the number of shares granted that are expected to vest. At the end of each reporting period, the group revises its estimates of the number of shares granted that are expected to vest and recognises the impact of any changes in profit or loss with a corresponding adjustment to equity.

The effect of all conditional shares granted is taken into account when calculating diluted earnings and diluted headline earnings per share.

11.1 Conditional share plan

In terms of its conditional share plan, the group has granted conditional shares to executive directors and staff. The full details of the scheme are included in the remuneration report.

The CSP awards have been recognised as equity-settled share-based payments as a separate category within equity. The fair value of the conditional share plan charge has been measured using an actuarial model. The following assumptions were incorporated in the valuation:

Assumptions	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Closing number of unvested instruments – Directors	471 286	741 405	961 560	1 054 477	877 169	921 481
Closing number of unvested instruments – Other	16 274	37 394	66 648	78 116	136 929	157 381
Grant date	15 July 2014	15 July 2015	29 February 2016	20 February 2017	21 February 2018	21 February 2019
Vesting date	31 May 2019	31 May 2020	31 May 2021	31 May 2022	31 May 2023	31 May 2024
Issue price (30 day VWAP)	R10.65	R11.92	R12.38	R15.97	R20.35	R20.34
Forfeiture rate	0.0%	2.5%	5.0%	5.0%	5.0%	5.0%
Dividend yield	8.2%	8.2%	8.0%	7.5%	7.0%	7.5%
Performance condition factor	155.0%	161.2%	137.3%	117.3%	120.0%	100.0%

R'000	Group 28 Feb 2019	Group 28 Feb 2018

Expected volatility has been based on an evaluation of the historical volatility of the group's share price since listing. The expected forfeiture rate has been based on historical experience and general employee behaviour. On an annual basis, assumptions are adjusted with the availability of objective evidence. Where these result in changes in the non-market conditions of the scheme, the cummulative impact is charged to profit and loss in the year the adjustment is made.

After 3 years from grant date the participant may elect to defer the vesting of the applicable tranche of shares by a further 24 months. This election will result in the award being increased on a 3-for-1 basis (i.e. by 33.3%). The only further vesting condition will be for the participant to remain in the group's employment for these 24 months. Should the employee leave within the 24 month period, the shares vest immediately, however, the employee forfeits the matching shares.

Opening balance	11 282	7 881
Expense recognised in profit or loss	7 782	6 514
Shares issued during current year*	(5 518)	(3 113)
Closing balance	**13 546**	**11 282**

* These issued shares are subject to a 2 year restriction as detailed above. Refer to remuneration report in the Integrated Report for further detail.

11.2 Acquisition of land

During the prior financial year, land was acquired from the Lord Trust, for a purchase consideration which was settled partly in cash and partly in a fixed value of the group's shares to be issued at a future date. The fair value of the land was determined based on open market value at the date of the transaction.

Vesting will occur on the earlier of 1 August 2020 or the commencement date of a lease between the group and a third party lessee.

12 Deferred tax asset

Capital allowances	59 475	30 410
Tax losses	9 455	2 229
	68 930	**32 639**

Reconciliation of deferred tax asset

Opening balance	32 639	–
Capital allowances recognised	24 125	32 066
Capital allowances utilised	(535)	–
Tax losses recognised	7 595	2 343
Tax losses utilised	(998)	–
Foreign exchange movement	6 106	(1 770)
Closing balance	**68 930**	**32 639**
Assessed losses for which no deferred tax asset is recognised	**140 157**	**136 344**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

12 Deferred tax asset (continued)

The group is a REIT as defined by section 25BB of the Income Tax Act which allows a deduction of the qualifying distribution to shareholders, limited to taxable income. To the extent that no tax will become payable in future as a result of section 25BB, no deferred tax was recognised on assessed losses and items such as IFRS accounting adjustments.

Deferred tax is not recognised on the fair value adjustment of investment properties as capital gains tax is not applicable in terms of section 25BB. In addition, section 25BB does not allow for allowances relating to immovable property. Allowances granted in prior years, before becoming a REIT must be recouped in the year the immovable property is sold. A deferred tax liability will be recognised on the recoupment to the extent it will result in a tax liability after the qualifying distribution deduction.

Deferred tax asset has been recognised on tax losses to the extent that there are future taxable profits against which it can be offset. Recognised tax losses relate to tax obligations to Her Majesty's Revenue and Customs under the non resident landlord scheme. Deferred tax is recognised on capital allowances to be granted in future years.

13 Trade and other payables

Accounting Policy

Trade and other payables

Trade and other payables are classified as financial liabilities. These are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after year end.

	Group	
R'000	**28 Feb 2019**	**28 Feb 2018**
Tenant deposits	20 437	13 885
Trade payables and accruals	154 391	62 574
Rent received in advance	23 266	29 368
Deferred purchase consideration	–	729
Dividend withholdings tax	111	446
Other payables	1 903	7 294
	200 108	**114 296**

The fair value of trade and other payables approximates the carrying value.

14 Property, plant and equipment

Accounting Policy

Property, plant and equipment are tangible assets held by the group for administrative and operational purposes and are expected to be used during more than one period. All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. The historical cost includes all expenditure that is directly attributable to the acquisition of the buildings, machinery, equipment and vehicles and is depreciated on a straight-line basis, from the date it is available for use, at rates appropriate to the various classes of assets involved, taking into account the estimated useful life and residual values of the individual items, as follows:

– Computer equipment	3 years
– Furniture and fittings	6 years
– Motor vehicles	5 years
– Buildings	20 years
– Land	n/a

The group determines the estimated useful lives, residual values and the related depreciation charges at acquisition and these are reviewed at each statement of financial position date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other costs, including repairs and maintenance, are expensed as incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal or scrapping of property, plant and equipment, being the difference between the net proceeds on disposal or scrapping and the carrying amount, are recognised in profit or loss.

Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed for indicators of impairment at each reporting date. Where such indicators exist, the assets recoverable amount is estimated.

Where the carrying value of an asset exceeds its estimated recoverable amount, the carrying value is impaired and the asset is written down to its recoverable amount. The recoverable amount is calculated as the higher of the asset's fair value less cost to sell and the value in use. These calculations are prepared based on management's assumptions and estimates such as forecasted cash flows, management budgets and financial outlook. For the purpose of impairment testing the assets are allocated to cash-generating units. Cash-generating units are the lowest levels for which separately identifiable cash flows can be determined.

The group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset has decreased or no longer exists and recognises a reversal of an impairment loss. Impairment losses are only reversed to the extent that they do not increase an asset's carrying value above the carrying value it would have been if no impairment loss had been recognised.

Impairment losses and reversal are recognised in profit or loss.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

14 Property, plant and equipment (continued)

Group

R'000	Furniture and fittings	Computer equipment	Motor vehicles	Buildings	Buildings under development	Land	Total
At 28 February 2017							
Cost	3 325	227	310	–	4 560	1 652	**10 074**
Accumulated depreciation	(736)	(135)	(17)	–	–	–	**(888)**
Carrying value	**2 589**	**92**	**293**	**–**	**4 560**	**1 652**	**9 186**
For the year ended 28 February 2018							
Opening carrying value	2 589	92	293	–	4 560	1 652	**9 186**
Additions	33	224	–	–	–	–	**257**
Disposals	–	–	(232)	–	–	–	**(232)**
Transfer to investment property	–	–	–	–	(640)	(101)	**(741)**
Transfer from buildings under development to buildings	–	–	–	3 920	(3 920)	–	**–**
Depreciation charge for the year	(554)	(131)	(61)	(195)	–	–	**(941)**
Closing carrying value	**2 068**	**185**	**–**	**3 725**	**0**	**1 551**	**7 529**
At 28 February 2018							
Cost	3 358	451	78	3 920	–	1 551	**9 358**
Accumulated depreciation	(1 290)	(266)	(78)	(195)	–	–	**(1 829)**
Carrying value	**2 068**	**185**	**–**	**3 725**	**–**	**1 551**	**7 529**
For the year ended 28 February 2019							
Opening carrying value	2 068	185	–	3 725	–	1 551	**7 529**
Additions	5 193	289	–	–	–	–	**5 482**
Disposals	(1 182)	–	–	–	–	–	**(1 182)**
Depreciation charge for the year	(1 089)	(180)		(196)	–	–	**(1 465)**
Closing carrying value	**4 991**	**294**	**–**	**3 529**	**–**	**1 551**	**10 364**
At 28 February 2019							
Cost	6 097	594	–	3 920	–	1 551	**12 162**
Accumulated depreciation	(1 107)	(300)	–	(391)	–	–	**(1 798)**
Carrying value	**4 991**	**294**	**–**	**3 529**	**–**	**1 551**	**10 364**

15 Revenue

Accounting Policy

Revenue comprises the following:

- Contractual rental income
- Tenant recoveries
- Property management fees

Contractual rental income from operating leases are recognised on a straight-line bases over the term of the lease taking into account fixed escalations. Lease incentives are recognised, on a straight-line basis, as a reduction of rental income over the lease period.

Tenant recoveries are as a result of the group recovering costs of providing the tenant with services as determined by the lease agreement. the group negotiates the terms of the service, manages the relationship with the suppliers and is liable for payment (even if the property is vacant or the expense is not recovered from the tenant), and therefore maintains primary responsibility for providing the service. The group acts as a principal on its own account when recovering operating costs from tenants.

Property management fees are levied in order to cover the costs of managing the property operationally, drafting contractual agreements, managing municipal accounts and all other elements of the property as defined in the agreement.

Rental income received in advance is recognised as a current liability as part of trade and other payables in the statement of financial position.

	Group	
	28 Feb 2019	**28 Feb 2018**
Property revenue (note 15.1)	701 000	540 150
Straight-line lease rental adjustment	65 158	33 548
	766 158	**573 698**

15.1 Property revenue

Property revenue (note 26)	606 238	466 555
Tenant recoveries	93 864	72 546
Property management fee	898	1 049
	701 000	**540 150**
Recoverable expenses	96 516	79 030
Non-recoverable expenses	10 868	8 927
	107 384	**87 957**

16 Other net gains/(losses)

Income from foreign exchange derivative instruments	110 584	83 385
Fair value adjustment on foreign exchange derivative instruments	(199 402)	106 184
Insurance recoveries	419	441
Profit / (Loss) on sale of investment property	(4 947)	2 498
Loss on scrapping of property, plant and equipment	(1 210)	–
Foreign exchange gain	3 459	–
Sundry income	2 322	1 167
Sundry income – capital in nature (non-distributable)	6 816	14 668
	(81 959)	**208 343**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

	Group	
	28 Feb 2019	28 Feb 2018
17 Expenses by nature		
Composition of property management and administrative expenses		
Employee benefits (note 17.1)	30 539	24 984
Operating and administrative expenses (note 17.2)	119 258	96 028
Total property management and administrative expenses	**149 797**	**121 012**

17.1 Employee benefits

Accounting Policy

Short-term employee benefits

Wages, salaries, paid annual leave and other costs of short-term employee benefits are recognised as employee benefit expense in profit or loss in the period in which the services are rendered.

Short-term bonuses

The group recognises an expense in profit or loss and accrues for short-term bonuses in the statement of financial position where such payments can be contractually determined or where past practice has created a constructive obligation.

	Group	
	28 Feb 2019	28 Feb 2018
Salaries and wages	15 917	13 660
Executive directors' emoluments (note 17.4)	18 305	16 083
Non-executive directors' emoluments (note 17.3)	2 116	1 985
Equity-settled share-based payment expense (note 11.1)	7 782	6 514
Capitalised to investment property	(13 581)	(13 258)
	30 539	**24 984**

17.2 Operating and administrative expenses

Property taxes and utility expenses	88 091	66 007
Property operational costs	19 293	21 950
Auditors remuneration	1 591	947
Professional, secretarial and other administrative expenses	6 200	2 449
Rental expense	2 019	2 022
Depreciation of property, plant and equipment (non-distributable)	1 465	941
Debt raising fees	–	1 090
Other operating expenses	599	622
	119 258	96 028

17.3 Non-executive directors' emoluments

The following fees were paid to non-executive directors for their services as directors:

Director (R'000)	Fees – 2019	Fees – 2018
Leon Campher	518	500
Nazeem Khan	342	274
Ruth Eleanor Benjamin-Swales	305	238
Giancarlo Lanfranchi	214	235
Kevin Dreyer	181	174
André Gouws	160	159
Mustaq Brey	217	180
Gugu Mtetwa	180	225
	2 116	**1 985**

17.4 Executive directors' emoluments

Remuneration paid to executive directors for 2019 comprised:

Director (R'000)	Salary	Benefits	Performance bonus	Total	Dividend equivalent on EOS	Value of equity settled share based payment incentives granted	Total
Andrea Taverna-Turisan	3 286	1 264	3 943	8 493	579	4 707	13 779
Gerhard Riaan Gous	2 438	35	2 438	4 911	429	3 516	8 856
Bram Goossens	2 438	25	2 438	4 901	429	3 516	8 846
	8 162	**1 324**	**8 819**	**18 305**	**1 437**	**11 739**	**31 481**

Remuneration paid to executive directors for 2018 comprised:

Director (R'000)	Salary	Benefits	Performance bonus	Total	Value of equity settled share based payment incentives granted	Total
Andrea Taverna-Turisan	3 100	31	3 720	6 851	4 749	11 600
Gerhard Riaan Gous	2 300	24	2 300	4 624	2 979	7 603
Bram Goossens	2 300	8	2 300	4 608	2 478	7 086
	7 700	**63**	**8 320**	**16 083**	**10 206**	**26 289**

The three executive directors listed above are considered to be key management personnel.

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

	Group	
	28 Feb 2019	28 Feb 2018
18 Finance costs		
Interest expense on borrowings	165 443	114 651
Finance costs relating to interest rate derivatives	6 611	6 285
Fair value movement on interest rate derivatives	15 077	12 455
Interest on utility accounts and other	129	154
Borrowing costs capitalised to investment property[a]	(116 529)	(64 780)
	70 731	**68 765**

[a] The capitalisation rate applied during the year was 9.0% (2018: 9.1%) in relation to general borrowings and 3.0% (2018: n/a) in relation to specific borrowings.

Reconciliation of finance costs expense to finance costs paid		
Interest accrued opening balance	10 497	7 935
Finance costs	70 731	68 765
Derivative settlement	5 583	9 151
Fair value movement on interest rate derivatives	(15 077)	(12 455)
Interest amortisation	(638)	–
Interest accrued closing balance	(19 853)	(10 497)
Finance costs paid during the year	**51 243**	**62 899**

19 Finance income

Accounting Policy
Finance income comprises interest earned on positive bank balances, short-term investments and on overdue accounts. Interest is recognised in profit or loss using the effective interest rate method.

	Group	
	28 Feb 2019	28 Feb 2018
Interest received from tenants	245	102
Interest received on financial assets at fair value	1 377	24 108
Interest received on call and current account balances	1 601	780
	3 223	**24 990**

20 Current and deferred income tax expense

Accounting Policy
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position. Deferred income tax is recognised, using the liability method, for calculated income tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

South African tax laws

The income tax expense for the period comprises current and deferred income tax and is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it will also be recognised in other comprehensive income or directly in equity as applicable. The group is a REIT and all subsidiaries in the group are "controlled companies" (as defined in the Income Tax Act). The group applies judgement in determining what income sources constitute "rental income" as defined by section 25BB of the Income Tax Act. After deducting "qualifying distributions" from taxable income, no income tax is payable in the current year.

United Kingdom tax laws

Income tax expense for the period with HMRC office under the NRLS is calculated as 20% of taxable income.

	Group	
	28 Feb 2019	**28 Feb 2018**
Tax expense		
Current tax	1 332	96
Deferred tax	(30 186)	(34 409)
	(28 854)	(34 313)
Reconciliation between applicable tax rate and effective tax rate		
Profit before tax	703 678	856 800
Income tax at 28%	197 030	239 904
Accounting adjustments – Fair value	(6 483)	(93 317)
Accounting adjustments – IFRS	(13 496)	(10 186)
Non-deductable expenses	29	12
UK Capital allowances	(33 025)	(44 893)
Foreign tax differential	11 541	13 802
Qualifying REIT distribution	(184 688)	(136 279)
Tax expense	(28 854)	(34 237)
Effective tax rate	-4.2%	-4.0%

21 Notes to the cash flow statement

21.1 Dividend paid

Final dividend prior year paid	257 801	196 015
Interim dividends declared and paid	293 423	219 782
Antecedent dividends paid	15 846	30 220
Ring-fenced dividend payable to Intaprop Investments (Pty) Ltd	–	3 424
Amount paid to non-controlling interest	5 595	5 050
	572 665	**454 491**

21.2 Cash paid in respect of investment property acquired

Investment property acquired	1 784 167	1 603 934
Equity-settled share based payment for the acquisition of land (note 11)	–	(56 296)
Deposit paid in prior year	–	(29 351)
Shares issued in acquisition	(194 653)	–
Deferred revenue recognised in property acquisitions	–	(40 791)
	1 589 514	**1 477 496**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

	Group	
	28 Feb 2019	28 Feb 2018
22 Capital commitments		
Authorised and contracted for construction of new industrial properties	378 640	922 824
Authorised but not contracted	313 662	861 868
	692 302	**1 784 692**

23 Related parties

Related party relationships exist between the company, its subsidiaries, directors, and key management of the group. Refer to Appendix 3 for a list of all subsidiaries and structured entities consolidated

Remuneration paid to directors is set out in note 17.

Details of the conditional share plan in which the directors participate are provided in note 17.

Details of directors' interest in the ordinary shares of the group are provided in the directors report.

In the ordinary course of business, the group entered into the following other transactions with related parties:

Dividend paid to related party shareholders	138 216	115 702
Fees paid to BTKM (Pty) Ltd (in which Nazeem Khan is a director)	525	60

24 Restatement note

During the year, the group reassessed how it deploys cash to fund its development activity. As part of this assessment, it was identified that interest capitalised to projects was shown in operating activities in the statement of cash flows while the other development costs were included within investing activities. The group therefore has restated the statement of cash flows to include interest capitalised to projects as an investing activities together with the other development costs. The group believes that this change in accounting policy results in financial statements which provide more relevant information about the effect of these transactions on its statement of cash flows.

The impact on the presentation of the statement of cash flows is as follows:

R'000	28 February 2018 As reported	Movement	28 February 2018 Restated
Cash flows from operating activities			
Finance costs paid	(127 679)	64 780	(62 899)
Net cash flows generated (utilised) from operating activities	**(7 956)**	**64 780**	**56 824**
Cash flows from investing activities			
Development of investment properties	(345 257)	(64 780)	(410 037)
Net cash flows utilised by investing activities	**(1 566 176)**	**(64 780)**	**(1 630 956)**

A third balance sheet has not been presented as the impact on the opening balance sheet is immaterial.

25 Subsequent events

Aviva Loan

The group drew down £12.5 million in April 2019 as the third and final tranche of the £48 million loan facility agreement concluded with Aviva Commercial Finance Ltd at a fixed all-in interest rate of 2.83%.

Completion of DPD Burgess Hill, United Kingdom

During the period under review, Equites concluded a development funding and land acquisition agreement to purchase the property and to fund the development of a new 4 025m² warehouse for a maximum commitment of £12 million. The property is situated in Burgess Hill, West Sussex. Construction of the asset commenced in August 2018 and the asset was completed in April 2019, when the new 25-year lease commenced with DPDGroup UK Ltd.

26 Property analysis

26.1 Property schedule

Property name	Location	Sector	Gross lettable area (m^2)	Average rental per m^2 (rand)	Value (R'000)	Date of last external valuation
Industrial properties – logistics						
Equites Park – Meadowview West 8	Linbro Park, Gauteng	Logistics	39 782	Note 1	937 983	28 February 2018
Scimitar Way	Coventry, United Kingdom	Logistics	19 880	Note 1	824 168	31 October 2017
Dodwells Road	Hinckley, United Kingdom	Logistics	27 725	Note 1	708 120	28 February 2019
Peterborough Gateway 1	Peterborough, United Kingdom	Logistics	28 124	Note 1	588 543	n/a
Island Road West	Reading, United Kingdom	Logistics	11 027	Note 1	576 921	n/a
Germiston 1	Germiston, Gauteng	Logistics	40 428	Note 1	473 471	11 December 2018
DC3 Sideway	Stoke-on-Trent, United Kingdom	Logistics	19 510	Note 1	430 078	29 June 2017
Longmeadow	Longmeadow, Gauteng	Logistics	37 834	Note 1	377 051	17 August 2018
Big Stan	Stoke-on-Trent, United Kingdom	Logistics	20 410	Note 1	371 529	28 February 2019
Equites Park – Meadowview East 18	Linbro Park, Gauteng	Logistics	28 527	Note 1	342 749	n/a
New Germany	New Germany, KwaZulu-Natal	Logistics	28 383	Note 1	280 636	8 September 2018
Equites Park – Meadowview East 11	Linbro Park, Gauteng	Logistics	14 159	Note 1	239 158	28 February 2018
Equites Park – Lords view 1	Lords View, Gauteng	Logistics	21 865	Note 1	213 100	28 February 2019
Equites Park – Atlantic Hills 1	Atlantic Hills, Cape Town	Logistics	17 607	Note 1	201 207	28 February 2018
Equites Park – Lords view 4	Lords View, Gauteng	Logistics	15 216	Note 1	199 971	n/a
Waterfall 8A	Waterfall, Gauteng	Logistics	12 638	Note 1	199 048	28 February 2017
Waterfall 9B	Waterfall, Gauteng	Logistics	6 650	Note 1	190 801	28 February 2017
Philippi	Philippi, Cape Town	Logistics	15 798	Note 1	184 800	28 February 2019
Airport Industria 1	Airport Industria, Cape Town	Logistics	16 778	Note 1	149 077	29 February 2016
Waterfall 8B	Waterfall, Gauteng	Logistics	8 120	Note 1	142 127	30 June 2016
Waterfall 9D	Waterfall, Gauteng	Logistics	8 087	Note 1	140 918	28 February 2017
Germiston 2	Germiston, Gauteng	Logistics	13 802	Note 1	131 821	28 February 2019
Waterfall 22B#	Waterfall, Gauteng	Logistics	10 522	Note 1	123 939	28 February 2017
Parow Industria 1	Parow, Cape Town	Logistics	10 308	Note 1	119 807	29 February 2016
Airport Industria 2	Airport Industria, Cape Town	Logistics	10 156	Note 1	118 000	28 February 2019
Equites Park – Belville 2	Bellville, Cape Town	Logistics	9 915	Note 1	106 350	28 February 2019
Waterfall 22C	Waterfall, Gauteng	Logistics	5 027	Note 1	105 770	28 February 2017
Equites Park – Lords view 2	Lords View, Gauteng	Logistics	11 382	Note 1	88 697	n/a
Epping Industria	Epping, Cape Town	Logistics	8 177	Note 1	84 200	28 February 2019
Equites Park – Meadowview West 7	Linbro Park, Gauteng	Logistics	7 852	Note 1	80 759	28 February 2018
Parow Industria 2	Parow, Cape Town	Logistics	7 470	Note 1	76 900	28 February 2019
Waterfall 9C	Waterfall, Gauteng	Logistics	3 219	Note 1	75 857	28 February 2017
Waterfall 9A	Waterfall, Gauteng	Logistics	3 963	Note 1	74 512	28 February 2017
Equites Park – Saxdown 1	Saxdown, Cape Town	Logistics	4 066	Note 1	73 295	28 February 2018
Equites Park – Meadowview West 6	Meadowview, Gauteng	Logistics	6 205	Note 1	69 067	28 February 2018
Equites Park – Meadowview West 4	Meadowview, Gauteng	Logistics	4 949	Note 1	65 968	28 February 2018
Milnerton 1	Milnerton, Cape Town	Logistics	2 888	Note 1	60 900	28 February 2019
Airport Industria 3	Airport Industria, Cape Town	Logistics	4 855	Note 1	56 000	28 February 2019
Equites Park – Atlantic Hills 5	Atlantic Hills, Cape Town	Logistics	5 844	Note 1	54 249	n/a
Equites Park – Atlantic Hills 2	Atlantic Hills, Cape Town	Logistics	4 874	Note 1	51 087	n/a
Waterfall 22A	Waterfall, Gauteng	Logistics	4 666	Note 1	50 065	28 February 2017
Milnerton 2	Milnerton, Cape Town	Logistics	5 150	Note 1	48 488	28 February 2018
Equites Park – Atlantic Hills 4	Atlantic Hills, Cape Town	Logistics	3 200	Note 1	45 956	28 February 2018
Equites Park – Atlantic Hills 3	Atlantic Hills, Cape Town	Logistics	4 349	Note 1	42 486	n/a
Airport Industria 4	Airport Industria, Cape Town	Logistics	3 936	Note 1	41 100	28 February 2019
Milnerton 3	Milnerton, Cape Town	Logistics	4 900	Note 1	39 690	28 February 2018
Equites Park – Saxdown 2	Saxdown, Cape Town	Logistics	1 828	Note 1	35 805	28 February 2018
Airport Industria 5	Airport Industria, Cape Town	Logistics	2 919	Note 1	35 094	28 February 2019
Equites Park – Meadowview East 16	Linbro Park, Gauteng	Logistics	1 117	Note 1	33 250	28 February 2018
Equites Park – Meadowview West 2	Linbro Park, Gauteng	Logistics	3 072	Note 1	30 175	n/a
Airport Industria 6	Airport Industria, Cape Town	Logistics	3 004	Note 1	28 630	29 February 2016
Total industrial properties – logistics			**612 163**	**90.1**	**9 819 373**	

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

26 Property analysis (continued)

26.1 Property schedule (continued)

Property name	Location	Sector	Gross lettable area (m^2)	Average rental per m^2 (rand)	Value (R'000)	Date of last external valuation
Industrial properties – not logistics						
Equites Park – Belville 1	Bellville, Cape Town	Industrial	5 239	Note 1	160 650	28 February 2019
Airport Industria 7	Airport Industria, Cape Town	Industrial	5 549	Note 1	87 431	29 February 2016
Milnerton 4	Milnerton, Cape Town	Industrial	3 300	Note 1	29 497	29 February 2016
Equites Park – Meadowview East Cell Tower 12	Linbro Park, Meadowview	Industrial	98	Note 1	1 177	n/a
Equites Park – Meadowview East Cell Tower 11	Linbro Park, Meadowview	Industrial	81	Note 1	1 006	n/a
Airport Industria Cell Tower	Airport Industria, Cape Town	Industrial	80	Note 1	849	n/a
Equites Park – Lords View Cell Tower	Lords View, Gauteng	Industrial	–	Note 1	625	n/a
Total industrial properties – not logistics			**14 347**	**142.3**	**281 235**	
Total industrial properties			**626 510**	**91.2**	**10 100 608**	
Commercial properties						
Jet Park	Jet Park, Gauteng	Commercial	14 255	Note 1	114 527	13 September 2017
Equity Park	Brooklyn, Gauteng	Commercial	3 200	169.7	50 000	28 February 2018
Total commercial properties			**17 455**	**101.3**	**164 527**	
Total income earning properties			**643 965**	**90.7**	**10 265 137**	
Properties under development						
The Hub	Burgess Hill, United Kingdom	Logistics	4 025		215 401	
Peterborough Gateway 2	Peterborough, United Kingdom	Logistics	12 609		171 975	
Equites Park - Meadowview West 3	Linbro Park, Gauteng	Logistics	9 313		94 097	
Equites Park - Meadowview West 19A	Linbro Park, Gauteng	Logistics	25 000		54 940	
Equites - Park - Lords View 5	Lords View, Gauteng	Logistics	23 280		58 181	
Equites - Park - Lords View 3	Lords View, Gauteng	Logistics	12 000		52 198	
Equites Park - Belville 3	Bellville, Cape Town	Logistics	6 055		34 451	
Parc Felindre	Swansea, United Kingdom	Logistics	5 453		25 150	
Equites Park - Meadowview East 12	Linbro Park, Gauteng	Logistics	7 500		27 925	
Other developments					3 982	
Total properties under development			**105 235**		**738 300**	

Property name	Location	Sector	Gross lettable area (m²)	Average rental per m² (rand)	Value (R'000)	Date of last external valuation
Land available for development						
Land Gauteng	Jet Park, Linbro Park, Lords View, Waterfall, Witfontein	Logistics	292 098*		453 698	
Land Cape Town	Parow, Philippi, Saxdown	Logistics	97 590*		134 427	
Total land available for development			**389 688**		**588 125**	
Land for future development						
Land Gauteng	Linbro Park, Lords View, Witfontein	Vacant land	624 327*		366 036	
Total land for future developments			**624 327**		**366 036**	
Total freehold land available for development			**1 014 015**		**954 162**	

* Gross extent of land

50% ownership

Note 1: The rental per m² for single-tenanted buildings has not been disclosed.

26.2 Tenant profile

	Revenue (R'000)	Revenue (%)	Gross lettable area (m²)	Gross lettable area %	Number of tenants	Number of tenants %
A – Large nationals, large listeds and government	647 800	92.5%	544 803	84.6%	51	67.1%
B – Smaller international and national tenants	15 763	2.2%	20 135	3.1%	8	10.4%
C – Other local tenants and sole proprietors	37 437	5.3%	54 078	8.4%	17	22.5%
Vacant	n/a	n/a	24 949	3.9%	n/a	n/a
	701 000	**100.0%**	**643 965**	**100.0%**	**76**	**100.0%**

26.3 Sectoral profile (including vacancy profile)

	Revenue (R'000)	Revenue (%)	Gross lettable area (m²)	Gross lettable area %	Vacant area (m²)	Vacancy %
Industrial	685 374	97.8%	626 510	97.3%	23 707	3.8%
Commercial	15 626	2.2%	17 455	2.7%	1 242	7.1%
	701 000	**100.0%**	**643 965**	**100.0%**	**24 949**	**3.9%**

Notes (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

26 Property analysis (continued)

26.4 Geographical profile

	Revenue (R'000)	Revenue (%)	Gross lettable area (m^2)	Gross lettable area %
Gauteng	370 967	52.9%	325 623	50.6%
Cape Town	165 000	23.5%	163 283	25.4%
KwaZulu-Natal	11 801	1.7%	28 383	4.3%
United Kingdom	153 232	21.9%	126 676	19.7%
	701 000	**100.0%**	**643 965**	**100.0%**

26.5 Lease expiry profile

Lease expiry profile based on gross lettable area	Industrial	Commercial	Total
Vacant	3.8%	7.1%	3.9%
Expiry in the year to 29 February 2020	2.1%	0.0%	2.1%
Expiry in the year to 28 February 2021	2.6%	82.2%	4.9%
Expiry in the year to 28 February 2022	8.9%	0.0%	8.6%
Expiry in the year to 28 February 2023	9.5%	0.0%	9.2%
Expiry in the year to 29 February 2024	12.9%	6.4%	12.7%
Thereafter	60.2%	4.3%	58.6%
	100.0%	**100.0%**	**100.0%**

Lease expiry profile based on revenue	Industrial	Commercial	Total
Expiry in the year to 29 February 2020	2.6%	0.0%	2.6%
Expiry in the year to 28 February 2021	3.5%	49.0%	4.0%
Expiry in the year to 28 February 2022	7.9%	0.0%	7.8%
Expiry in the year to 28 February 2023	6.2%	0.0%	6.1%
Expiry in the year to 29 February 2024	14.1%	26.6%	14.3%
Thereafter	65.7%	24.4%	65.2%
	100.0%	**100.0%**	**100.0%**

26.6 Weighted average escalations, lease expiry and yield

Sector	Yield (%)	Lease expiry (years)	Escalation (%) by gross lettable area
South Africa – Industrial	8.2%	7.9	7.6%
South Africa – Commercial	12.0%	3.0	8.4%
	8.3%	**7.9**	**7.7%**
United Kingdom – Industrial*	4.8%	11.0	n/a
Average annualised portfolio	**7.1%**	**8.8**	

* The leases for properties in the United Kingdom are structured with five year annual rent reviews and not fixed annual escalations.

Appendix 1

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

Reconciliation between earnings and distributable earnings

Distributable earnings policy

The company has established strict guidelines regarding its distribution policy to ensure that the distributable earnings is a fair reflection of sustainable earnings; this comprises property related income net of property related expenditure, interest expense and administrative costs.

The principles encompassed in the calculation below are aligned with the best practice recommendations established by the SA REIT Association published in 2016 and the guidelines further developed in the revised best practice recommendations which are currently available for public comment.

As distributable earnings is a measure of core earnings, the company has adjusted for the following key items in the determination of this metric:

- certain non-cash and accounting adjustments;
- gains or losses on the disposal of assets and the associated tax treatment;
- certain foreign exchange and hedging items;
- antecedent earnings adjustment.

The specific adjustments are detailed in the statement of distributable earnings presented below. All of these adjustments are derived from the face of the income statement presented and the notes accompanying these financial statements.

Distributable earnings

R'000	28 February 2019	28 February 2018
Profit or loss for the period (attributable to owners of the parent)	669 856	870 188
Adjusted for:		
Fair value adjustments to investment properties	(220 212)	(239 546)
Less: Fair value adjustment to investment properties (NCI)[+]	33 825	5 578
Profit or loss on sale of non-current assets	6 157	(2 482)
Headline earnings	**489 626**	**633 738**
Adjusted for:		
Straight-lining of leases adjustment	(65 158)	(33 548)
Less: Straight-lining of leases adjustment (NCI)[+]	7 616	12 522
Fair value adjustments to derivative financial assets and liabilities	214 479	(93 729)
Less: Fair value adjustments to derivative financial assets and liabilities (NCI)[+]	520	(3 215)
Equity-settled share-based payment reserve	7 782	6 514
Capital items non-distributable	(5 351)	(12 636)
Less: Capital items non-distributable (NCI)[+]	–	2 345
Deferred taxation	(30 186)	(34 409)
Antecedent dividend*	77 575	30 220
Distributable earnings	**696 903**	**507 802**

[+] Non-controlling interest

* **Antecedent dividend**

In the determination of distributable earnings, an adjustment is made where equity capital is raised during the financial year to avoid diluting the returns of existing shareholders prior to the share issue. During the reporting period, the group issued the majority of the shares pursuant to the accelerated bookbuild on 04 June 2018 and the second accelerated bookbuild on 15 February 2019 which gave rise to antecedent earnings included above.

Appendix 1 (continued)

Equites Property Fund Limited and its subsidiaries for the year ended 28 February 2019

The following inputs impacted the antecedent earnings adjustment:	28 February 2019 Number of shares	28 February 2018 Number of shares
Opening balance – shares in issue	409 973 331	350 465 100
Increase in shares in issue as a result of accelerated bookbuild	76 950 771	59 020 730
Dividend reinvestment programme	6 256 682	–
Shares issued in terms of conditional share plan	786 818	487 501
Share issue in respect of property acquisition	9 449 184	–
Closing balance – shares in issue	503 416 786	409 973 331

Dividends declared and distribution per share

Total distribution for the year – 2019	Cents per share	R'000
Interim dividend declared on 8 October 2018 (Dividend number 10)	68.12	309 266
Final dividend declared on 6 May 2019 (Dividend number 11)	70.31	387 637
Total distribution for the year ended 28 February 2019	**138.43**	**696 903**

Total distribution for the year – 2018	Cents per share	R'000
Interim dividend declared on 11 October 2017 (Dividend number 8)	60.98	250 002
Final dividend declared on 7 May 2018 (Dividend number 9)	62.88	257 800
Total distribution for the year ended 28 February 2018	**123.86**	**507 802**

Appendix 2

Equites Property Fund Limited and its subsidiaries at 28 February 2019

Shareholder analysis

Shareholder spread	Number of Shareholdings	% of total shareholdings	Shares held	% held
1 – 1 000 Shares	1 593	32.0%	630 860	0.1%
1 001 – 10 000 Shares	2 317	46.5%	8 177 176	1.6%
10 001 – 100 000 Shares	702	14.1%	22 851 828	4.6%
100 001 – 1 000 000 Shares	276	5.5%	95 128 026	18.9%
1 000 001 Shares and over	96	1.9%	376 628 896	74.8%
	4 984	**100.0%**	**503 416 786**	**100.0%**

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Shares held	% held
Assurance Companies	118	2.4%	12 356 634	2.5%
Close Corporations	61	1.2%	574 278	0.1%
Collective Investment Schemes	274	5.5%	152 854 223	30.4%
Control Accounts	1	0.0%	2	0.0%
Custodians	39	0.8%	23 986 044	4.8%
Foundations & Charitable Funds	83	1.7%	3 779 385	0.8%
Hedge Funds	7	0.1%	3 335 677	0.7%
Insurance Companies	9	0.2%	328 062	0.1%
Investment Partnerships	17	0.3%	194 203	0.0%
Managed Funds	20	0.4%	1 024 061	0.2%
Medical Aid Funds	13	0.3%	1 749 915	0.3%
Organs of State	6	0.1%	64 246 431	12.8%
Private Companies	225	4.5%	116 157 873	23.1%
Public Companies	3	0.1%	3 895 763	0.8%
Public Entities	2	0.0%	92 018	0.0%
Retail Shareholders	3 089	62.0%	20 577 742	4.1%
Retirement Benefit Funds	187	3.8%	61 593 388	12.1%
Scrip Lending	8	0.2%	3 422 923	0.7%
Stockbrokers & Nominees	13	0.3%	2 792 504	0.6%
Trusts	809	16.1%	30 455 660	5.0%
Total	**4 984**	**100.0%**	**503 416 786**	**100.0%**

Shareholder Type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-Public Shareholders	35	0.7%	103 528 884	20.6%
Directors and associates of the company (indirect holdings)	27	0.6%	50 846 947	10.1%
Directors and associates of the company (direct holdings)	7	0.1%	1 576 030	0.3%
Beneficial Holders > 10%	1	0.0%	51 105 907	10.2%
Public Shareholders	**4 949**	**99.3%**	**399 887 902**	**79.4%**
Total	**4 984**	**100.0%**	**503 416 786**	**100.0%**

Appendix 2 (continued)

Equites Property Fund Limited and its subsidiaries at 28 February 2019

Fund Managers With A Holding Greater Than 5% of The Issued Shares	Number of shares	% of issued capital
Public Investment Corporation	57 241 815	11.4%
Absa Asset Management	31 272 623	6.2%
Total	**88 514 438**	**17.6%**

Beneficial Shareholders With A Holding Greater Than 3% Of The Issued Shares	Number of shares	% of issued capital
Government Employees Pension Fund	58 110 523	11.5%
Newshelf 1331 (Pty) Ltd	34 896 552	6.9%
Total	**93 007 075**	**18.4%**

Beneficial holding by region	Total shareholding	% held
South Africa	463 605 206	92.1%
United Kingdom	14 329 090	2.8%
Mauritius	10 285 390	2.0%
United States	9 728 250	1.9%
Italy	2 716 627	0.5%
Namibia	884 306	0.2%
Balance (other countries not listed above)	1 867 917	0.3%
	503 416 786	**100.0%**

Total number of shareholders	**4 984**
Total number of shares in issue	**503 416 786**

Share price performance	
Opening Price 1 March 2017	R16.20
Closing Price 28 February 2018	R19.99
Closing High for period	R22.05
Closing low for period	R16.05
Opening Price 1 March 2018	R19.97
Closing Price 28 February 2019	R20.08
Closing High for period	R21.65
Closing low for period	R17.42
Number of shares in issue	503 416 786
Volume traded during period	174 369 386
Ratio of volume traded to shares issued (%)	34.6%
Rand value traded during the period	R3 459 787 218
Market capitalisation at 28 February 2019	R10 108 609 063

Appendix 3

Equites Property Fund Limited and its subsidiaries at 28 February 2019

Equites Property Fund Limited

South African Incorporated Subsidiaries

Isle of Man Incorporated Subsidiaries

Structured Entities Consolidated

The group consolidates the following wholly-owned property investment companies:

- Applemint Properties 93 (Pty) Ltd
- Chamber Lane Properties 3 (Pty) Ltd (100% subsidiary of Equites Investments 1 (Pty) Ltd)
- Dormell Properties 711 (Pty) Ltd
- EA Waterfall Logistics JV (Pty) Ltd (80%)
- Equites Investments 1 (Pty) Ltd
- Equites Atlantic Hills (Pty) Ltd
- Galt Property One (Pty) Ltd
- Galt Property Two (Pty) Ltd
- Kovacs Investments 715 (Pty) Ltd
- Nascispan (Pty) Ltd
- Prop for list (Pty) Ltd
- Swish Property Seven (Pty) Ltd

- Equites International Ltd
- Equites UK SPV 1 Ltd
- Equites UK SPV 2 Ltd
- Equites UK SPV 3 Ltd
- Equites UK SPV 4 Ltd
- Equites UK SPV 5 Ltd
- Equites UK SPV 6 Ltd
- Equites UK SPV 7 Ltd
- Equites UK SPV 8 Ltd
- Equites UK SPV 9 Ltd
- Equites UK SPV 10 Ltd
- Equites UK SPV 11 Ltd
- Equites UK SPV 12 Ltd

In the prior year, the group assisted in incorporating the Michel Lanfranchi Foundation NPC which will house all the corporate social responsibility projects and initiatives of the group. The Foundation owns 100% of the shares in Ilanga Lakusasa (Pty) Ltd which is a property investment company.

Glossary

A&R committee	Audit and Risk committee
ASISA	Association for Savings and Investment South Africa
Attacq	Attacq Limited
B-BBEE	Broad-Based Black Economic Empowerment
B-BBEE Act	Broad-Based Black Economic Empowerment Act No. 53 of 2003
Black	as defined in the B-BBEE Act
bn	billion
board	Equites Property Fund Limited's board of directors
bps	Basis points
CA(SA)	Chartered Accountant South Africa
CAGR	Compound annual growth rate
CCIRSs	cross-currency interest rate swaps
CEO	Chief executive officer
CFO	Chief financial officer
Chair	Chaiman
Chairman	Chairman of the Equites Property Fund Limited's board of directors
CODM	Chief operating decision maker
company	Equites Property Fund Limited
Companies Act	Companies Act of South Africa, 2008
COO	Chief operating officer
CSP	Conditional share plan
DAS	Damon At Sons Construction Proprietary Limited
dividend reinvestment alternative	election to reinvest cash dividend in return for Equites shares
DMTN	Domestic medium term note programme
DPS	Distribution per share
EOS	executive outperformance scheme
EPS	Earnings per share
Equites	Equites Property Fund Limited
Executives	Executive directors
FCTR	Foreign currency translation reserve
fund	Equites Property Fund Limited
Foundation	The Michel Lanfranchi Foundation NPC
GBCSA	Green Building Council of South Africa
GBP	Great British Pound
GLA	Gross lettable area
GRI	Global Reporting Initiative
group	Equites Property Fund Limited and its subsidiaries
HEPS	Headline earnings per share
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
IRBA	Independent Regulatory Board of Auditors
IRBA Code	Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors
ISAs	International Standards on Auditing
ISS	Institutional Shareholder Services
JLL	Jones Lang LaSalle Limited
JSE	Johannesburg Stock Exchange
King IV	King IV Report on Corporate Governance for South Africa
Knight Frank	Knight Frank Proprietary Limited
LDT	Last date to trade
LEAP	LEAP Science and Maths Schools
Lifetime ECL	Lifetime expected credit losses
LTI	Long term incentives
LTV	Loan-to-value
MD	managing director
MLF	The Michel Lanfranchi Foundation NPC
MOI	Memorandum of Incorporation
NAV	Net asset value
NCI	Non-controlling interest
Newlands	Newlands Property Developments LLP
NRLS	Non-Resident Landlord Scheme
OECD	Organisation for Economic Co-operation and Development
Pound	Great British Pound
PwC	PricewaterhouseCoopers Inc.
Rand	South African Rand
REIT	Real Estate Investment Trust
Roxhill	Roxhill Developments
RFP	Request for proposal
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SAPI	South Africa Listed Property Index
SET committee	Social, Ethics and Transformation committee
sq. ft	square feet
STI	Short-term cash incentives
TGP	Total guaranteed pay
UK	United Kingdom
VWAP	volume weighted average price
WACC	weighted average cost of capital
WALE	weighted average lease expiry
ZAR	South African Rand

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