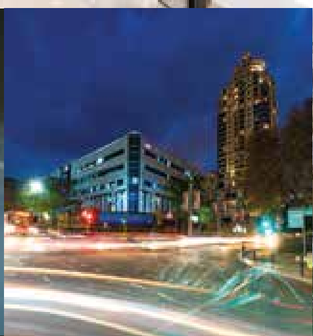
ACCELERATE
PROPERTY FUND

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



2019

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL Results

For the period ended 30 September 2019

FOURWAYS SUPER-REGIONAL MEGA MALL **completed and opened on 22 August 2019**	PROPERTY PORTFOLIO VALUE OF **R 12,2 billion**	TOTAL PORTFOLIO GLA OF **547 508 m²**	TENANT RETENTION **96,7%**

KEY INDICATORS

Indicator	30 September 2019	31 March 2019
Portfolio value	**R12,2 billion**	R12,7 billion
GLA	**547 508 m²**	601 506 m²
Number of properties	**56**	62
Net asset value	**R7,8 billion**	R8,0 billion
Cost to income ratio*	**22,2%**	15,9%
Weighted average lease expiry	**5,2 years**	5,3 years
Lease escalations (excluding offshore)**	**7,3%**	7,4%
Vacancies***	**8,54%**	9,00%
Listed/large national tenants (by revenue)	**65,1%**	65,7%

* *The cost to income ratio has increased due to increased spend associated with the launch and completion of Fourways Mall. The ratio is expected to normalise to between 18% and 20%.*

** *6,6% including offshore (6,6% – 31 March 2019).*

*** *Excludes properties held for redevelopment.*

FOURWAYS MALL EQUALISATION CONCLUDED POST 30 SEPTEMBER 2019

The acquisition has now been finalised (post 30 September 2019) and consideration paid at the date of transfer of ownership on 29 November 2019. Accelerate now owns a 50% undivided share of the combined letting enterprise.

Purchase price

In accordance with the terms of the option exercise agreement, Accelerate's undivided share of the combined letting enterprise has been calculated, post-completion of the development letting enterprise, to be 37,9% based on the guaranteed income (as escalated) for the existing letting enterprise of R228,6 million and an estimated 12-month forward net income of the combined letting enterprises of R602,5 million (the **estimated forward net income**). The estimated forward net income is subject to certain adjustments (the **acquisition consideration adjustments**) to be determined in the period up to and including 31 August 2020 (the **adjustment period**).

As provided for in the option exercise agreement, Accelerate has exercised its option to acquire, from Azrapart, 12,1% of the combined letting enterprise (the **Accelerate additional undivided share**) for R907,8 million (the **acquisition consideration**), subject to the acquisition consideration adjustments. The acquisition consideration was calculated using a capitalisation rate of 8%.

The acquisition is funded as follows:

1. A debt funded cash payment of R700 million
2. The balance of the acquisition consideration, R207,8 million, has been set off against the related party developer loan accounts
3. In the instance of further purchase consideration payable to Azrapart under the acquisition consideration adjustments, after the balance of vendor loan accounts has been settled in full, the remaining portion of the acquisition consideration will stand as a loan due by Accelerate to Azrapart and will be reflected as such in the financial records of Accelerate.

Accelerate's loan to value ratio (LTV) has increased to approximately 42% post this acquisition. Please refer to the balance sheet optimisation section below as to how this LTV will be reduced through disposal of non-core assets.

A portion of Accelerate's debt funding requirements (R125 million) was facilitated through bridge loan facilities, which is expected to be settled with the net proceeds from the disposal of certain non-core properties.

Accelerate's LTV for security SPV 1 (housing Accelerate's 50% undivided share of the combined letting enterprise) is expected to reduce to 39%, and the company's overall LTV is expected to reduce to 41,5%, once the bridge loan facility has been fully settled.

FURTHER FUTURE EXPANSION IN FOURWAYS

Leroy Merlin

- French home improvement mega retailer South African head office
- +/- 20 000 m² of GLA
- Completion estimated Q1 2021

Office, hospitality and other retail offerings planned for the greater Fourways node

- The Buzz bulk redevelopment
- Joint venture with leading property developer
- +/- 500 residential units to be built
- Phased over five years
- Phase 1 to commence 2020/2021 - 126 units
- The development will be complementary to The Buzz and Waterford shopping centres
- The Buzz and Waterford shopping centres also currently undergoing a facelift/revamp

Cedar Square

- We have repositioned the lifestyle and family centre: ongoing changes in tenancy at the centre with significant tenant installation (TI) spent to bring new exciting tenants
- Fund still exploring possibility of additional motor dealership on available bulk
- Possible hospitality offering on bulk behind the centre

PORTFOLIO OPTIMISATION

Accelerate continues to progress with its portfolio optimisation strategy, a strategy that will hamper distribution growth in the short term, as the process involves disposing of smaller, high-yielding and non-core properties. However, it allows the Fund to ensure a better long-term future, with core properties that fit into our nodal strategy. This strategy was adopted to:

- Underpin a portfolio of quality assets, including:
  - 50% Fourways Mall (super-regional retail)
  - Cedar Square (regional retail)
  - Eden Meander (regional retail)
  - Significant other convenience retail presence in the Fourways node
  - A portfolio consisting of nine big-box, single-tenant and long-term lease properties in Austria and Slovakia (big-box retail)
  - KPMG's South African head office (A-grade office)
  - Citibank's South African head office (A-grade office)
  - Portside (P-grade office)
  - Oceana House (A-grade office)
  - Charles Crescent (development opportunity)
  - Foreshore office (development opportunity)
- Position the balance sheet to withstand the tough trading environment
- Allowance for defensive capital expenditure
- Reduce gearing levels to a targeted level of 35%

Since 31 March 2019, properties to the value of approximately R500 million have been sold and further sales of approximately R599 million are well advanced. Please see below the deal pipeline and effect on LTV:

Property transaction pipeline	Status	Sales/(purchase) price	LTV
Fourways Mall equalisation	Completed	(R907 800 000)	42,1%
Kyalami Downs	Advanced	R99 500 000	41,7%
Edcon Warehouse	Advanced	R94 000 000	41,2%
Transaction 1	Advanced	R115 000 000	40,9%
Foreshore properties (sale and option to repurchase)	Advanced	R265 000 000	39,7%
Transaction 2	Advanced	+/- R25 000 000	39,6%
Portfolio 1	Initiation	+/- R900 000 000	36,3%
Portfolio 2	Initiation	+/- R460 000 000	33,8%

FINANCIAL PERFORMANCE

In tough economic times, ensuring a sustainable future is of paramount importance in this industry. It is with this ethos that Accelerate manages its tenant relationships as efficiently as possible in view of retaining tenants and thereby protecting revenue streams for the future.

Accelerate maintained a tenant retention ratio of 96,7% for the period ended 30 September 2019. Accelerate has had to proactively manage client relationships with rental reductions, rent-free periods, TI allowances, etc. This trend continues to put pressure on income; however, it positions the Fund well for the future.

The South African economic environment remains challenging. Unfavourable economic conditions continue to weigh heavily on property fundamentals and, in our view, the property sector will remain under pressure.

The Fund has managed to reduce vacancies to 8,54% (31 March 2019: 9,00%).

Despite a number of ongoing initiatives to reduce costs and fill vacant space, the Fund has experienced considerable income pressure on a number of fronts including:

- Higher than expected rental reversions on renewal of leases as well as additional assistance provided to tenants necessitated by the current trading environment
- The cost to income ratio has temporarily increased to 22,2% (31 March 2019: 15,9%) off the back of tenant costs incurred in the existing Fourways Mall
- Additional spend on assets such as Cedar Square, The Buzz and Waterford centres in Fourways in order to improve asset quality and to attract exciting new tenants
- Cost of exiting an expiring cross-currency swap and entering into a new three-year swap at favourable market rates
- Increased rates and utility costs
- Delays in the commencement of the Foreshore retail and office development;
- Higher than expected funding cost for the funding of the Fourways equalisation
- Managing risk and ensuring long-term sustainability

As a result, revenue for the period is R564 million, down from R603 million in 2018.

INTERIM DISTRIBUTION

The capital requirements relating to the equalisation of the Fourways Mall, the biggest mall in South Africa, in the current economic climate have necessitated that different cost-effective ways of financing this acquisition be considered.

It is not feasible for the Fund to finance this equalisation price with equity which is currently trading at a substantial discount to net asset value, as this cost is prohibitive, and not to the best interests of the company or shareholders.

The equalisation price of R908 million was partially debt funded for R700 million, the balance was paid against the vendor loan account. There is an adjustment mechanism, whereby the purchase price may increase by approximately R230 million, in which case the balance of the purchase price may be set-off against the remaining vendor loan balance, so no further debt will be incurred by APF. This adjustment mechanism will be calculated during the period ending 31 August 2020, with a substantial portion of this being payable immediately as and when certain criteria have been met.

In order to assist us in reducing the debt funded portion of the equalisation purchase price, we have embarked on a strategy of selling our non-core properties, as previously disclosed.

Taking into account the progress of the non-core asset disposal strategy and the additional payment commitments that could immediately arise on the equalisation purchase price, the board has decided to declare an interim distribution (number 12) (cash distribution) of 16,12934 cents per ordinary share for the period ended 30 September 2019 (2018: 27,26021 cents per share).

The distribution per share for the full year ending 31 March 2020 (excluding any capital retention) is still expected to be between 10% and 15% lower than prior year in line with guidance provided by Accelerate in the trading statement issued to the market on 30 September 2019.

FINANCIAL POSITION

As at 30 September 2019, Accelerate's investment property portfolio had a value of R12,2 billion.

Assets sold post 31 March 2019 include:

- Wanooka Place
- Mr Price
- The Pines
- Glen Gables
- East Lynne
- Flora Park

These assets were sold in order to create funding capacity for the Fourways equalisation.

The Fund maintains a diversified funding base being funded 35,1% through the debt capital markets and 64,9% through bank debt.

Accelerate successfully accessed the debt capital markets in September 2019 through a domestic medium-term note (DMTN) programme raising a total of R285 million to refinance expiring debt capital markets (DCM) debt.

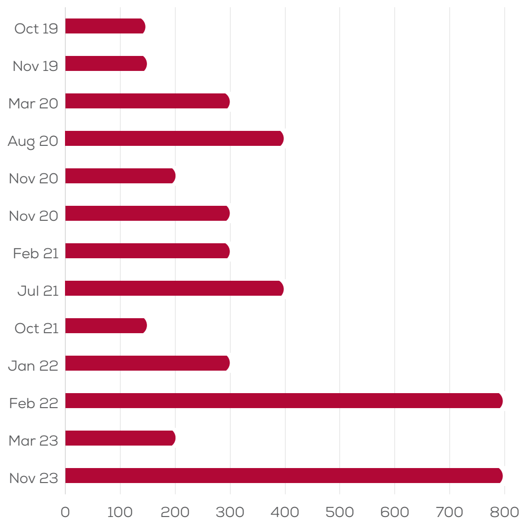
The Fund is 87,4% hedged with a weighted average swap expiry profile of 2,1 years (2,5 years at 31 March 2019). The weighted average debt maturity profile has remained constant at 2,5 years with the short-term portion of long-term debt remaining at R1,1 billion.

The Fund continues to monitor interest rates and the swap curve to ensure swaps are executed at optimal rates when the opportunity presents itself.

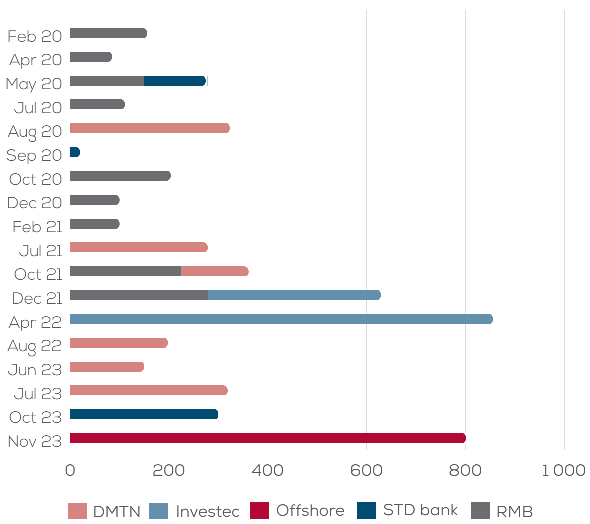
Long-term debt allocation

	30 September 2019		31 March 2019	
Debt funding	Rm	%	Rm	%
Debt capital markets	**1 785**	**35,1**	1 785	33,2
Bank funding	**3 305**	**64,9**	3 590	66,8
Total	**5 090**	**100**	5 375	100,0
Weighted average debt term (years)	**2,5**		2,5	
Short-term portion of debt	**1 096**	**21,5**	1 111	20,7
Debt hedged		**87,4**		82,8
Weighted average swap term (years)	**2,1**		2,5	
Blended interest rate		**8,4**		8,4
Interest cover ratio (x)	**2,4**		2,3	
LTV (including vendor loan receivable)		**38,3**		39,0

SWAP expiry profile (Rm)



Debt expiry profile (Rm)



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	30 September 2019 R'000 (Unaudited)	31 March 2019 R'000 (Audited)
ASSETS			
Non-current assets		12 252 600	12 205 878
Investment property	1	12 252 017	12 203 592
Fair value of investment properties, including right-of-use lease asset		11 993 617	11 951 446
Straight-line rental income accrual		258 400	252 146
Derivatives	2	–	1 598
Property, plant and equipment		583	688
Current assets		735 887	679 224
Current tax receivable		5 933	5 534
Trade and other receivables	2	701 983	589 559
Cash and cash equivalents	2	27 971	84 131
Investment property held for sale		453 736	789 707
Non-current assets held for sale	1	453 736	789 707
Total assets		13 442 223	13 674 809
EQUITY AND LIABILITIES			
Equity		7 782 772	7 965 297
Ordinary share capital		5 127 105	5 115 671
Other reserves		86 221	77 887
Non-controlling interest		19 049	19 032
Retained income		2 550 397	2 752 707
Total equity		7 782 772	7 965 297
Non-current liabilities		4 216 723	4 278 103
Borrowings	2	3 992 932	4 259 323
Lease liability		162 210	–
Derivatives		61 581	18 780
Current liabilities		1 442 728	1 431 409
Trade and other payables	2	330 938	297 231
Derivatives		9 871	23 128
Lease liability		5 727	–
Borrowings	2	1 096 192	1 111 050
Total equity and liabilities		13 442 223	13 674 809

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note(s)	For the six months ended 30 September 2019 R'000 (Unaudited)	For the six months ended 30 September 2018 R'000 (Audited)
Revenue, excluding straight-line rental revenue adjustment		**564 423**	602 972
Straight-line rental revenue adjustment		**(9 390)**	33 065
Revenue		**555 033**	636 037
Property expenses		**(189 656)**	(188 716)
Net property income		**365 377**	447 321
Operating expenses		**(26 006)**	(24 304)
Operating profit		**339 371**	423 017
Fair value adjustments	4	**(86 942)**	30 140
Unrealised (losses)/gains	5	**(66 483)**	20 915
Other income		**815**	1 048
Expected credit loss provision**		**(21 919)**	–
Finance income calculated using the effective interest method		**21 884**	31 777
Profit before long-term debt interest and taxation		**186 726**	506 897
Finance costs		**(164 642)**	(178 028)
Profit before taxation		**22 084**	328 869
Taxation		**–**	–
Profit for the period		**22 084**	328 869
Other comprehensive income that may be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign operations		**8 259**	45 248
Total comprehensive income		**30 343**	374 117
Profit attributable to:			
Shareholders of the parent		**20 733**	326 899
Non-controlling interest		**1 351**	1 970
EARNINGS PER SHARE*			
Basic earnings per share (cents)		**2,08**	33,02
Diluted earnings per share (cents)		**2,03**	32,41
DISTRIBUTABLE EARNINGS			
Profit after taxation attributable to equity holders		**20 733**	326 899
Add/(less): Straight-line rental revenue adjustment		**9 390**	(33 065)
Add/(less): Unrealised losses/gains		**66 483**	(20 915)
Add/(less): Fair value adjustments		**87 619**	(28 829)
Add: Lease commission amortisation		**7 050**	10 262
Distributable earnings		**191 275**	254 352

* *Please refer to the earnings per share note for an explanation of this movement.*

** *Approximately 60% of this amount will be recovered from the developer under the development guarantee. For the period ended 30 September 2018, this expense was included under property expenses, and not shown separately.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Foreign currency translation reserve R'000	Other reserves R'000	Share capital R'000	Retained income R'000	Total attributable to equity holders of group R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 April 2018	4 520	21 403	5 103 067	2 718 357	7 847 347	14 519	7 861 866
Profit for the period	–	–	–	326 899	326 899	1 970	328 869
Other comprehensive income	45 395	–	–	–	45 395	(147)	45 248
Total comprehensive income attributable to equity holders	45 395	–	–	326 899	372 294	1 823	374 117
Issue of shares in terms of the share incentive scheme	–	(9 917)	9 917	–	–	–	–
Distribution paid	–	–	–	(268 464)	(268 464)	–	(268 464)
Conditional share plan reserve	–	6 594	–	–	6 594	–	6 594
Total contributions by and distributions to owners of company recognised directly in equity	–	(3 323)	9 917	(268 464)	(261 870)	–	(261 870)
Balance at 30 September 2018	49 915	18 080	5 112 984	2 776 792	7 957 771	16 342	7 974 113

	Foreign currency translation reserve R'000	Other reserves R'000	Share capital R'000	Retained income R'000	Total attributable to equity holders of group R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 April 2019	**54 515**	**23 372**	**5 115 671**	**2 752 707**	**7 946 265**	**19 032**	**7 965 297**
Profit for the period	**–**	**–**	**–**	**20 733**	**20 733**	**1 351**	**22 084**
Other comprehensive income	**9 593**	**–**	**–**	**–**	**9 593**	**(1 334)**	**8 259**
Total comprehensive income attributable to equity holders	**9 593**	**–**	**–**	**20 733**	**30 326**	**17**	**30 343**
Issue of shares in terms of the share incentive scheme	**–**	**(11 434)**	**11 434**	**–**	**–**	**–**	**–**
Distribution paid	**–**	**–**	**–**	**(223 043)**	**(223 043)**	**–**	**(223 043)**
Conditional share plan reserve	**–**	**10 175**	**–**	**–**	**10 175**	**–**	**10 175**
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(1 259)**	**11 434**	**(223 043)**	**(212 868)**	**–**	**(212 868)**
Balance at 30 September 2019	**64 108**	**22 113**	**5 127 105**	**2 550 397**	**7 763 723**	**19 049**	**7 782 772**

STATEMENT OF CASH FLOWS

	For the six months ended 30 September 2019 R'000	For the six months ended 30 September 2018 R'000
Cash flows from operating activities		
Cash generated from operations	**201 982**	294 288
Distribution paid	**(223 043)**	(268 464)
Finance income	**21 884**	31 777
Net cash from operating activities	**823**	57 601
Cash flows from investing activities		
Sale of property, plant and equipment	**–**	46
Capitalised cost/purchase of investment property	**(87 529)**	(179 857)
Proceeds from disposal of investment property	**476 070**	27 000
Net cash from investing activities	**388 541**	(152 811)
Cash flows from financing activities		
New long-term borrowings	**353 698**	800 436
Settled long-term borrowings	**(634 947)**	(545 499)
Finance costs	**(164 642)**	(178 028)
Net cash from financing activities	**(445 891)**	76 909
Total cash movement for the period	**(56 527)**	(18 301)
Effects of exchange rate movements on offshore cash balances	**367**	3 145
Cash at the beginning of the period	**84 131**	76 921
Total cash at the end of the period	**27 971**	61 765

DISTRIBUTION ANALYSIS

	For the six months ended 30 September 2019 R'000	For the six months ended 30 September 2018 R'000
Distributable earnings	**191 275**	254 352
Less: 5% capital retention policy	**(10 000)**	–
Less: Additional capital retention	**(30 000)**	–
Intertim distribution	**151 275**	254 352
Shares qualifying for distribution		
Number of shares at period end	**998 524 580**	993 689 874
Less: Bulk ceded shares to Accelerate#	**(51 070 184)**	(51 070 184)
Less: Shares repurchased	**(9 567 404)**	(9 567 404)
Shares qualifying for distribution	**937 886 992**	933 052 286
Interim distribution per share (cents)	**16,12934**	27,26021

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

EARNINGS PER SHARE

	For the six months ended 30 September 2019 R'000	For the six months ended 30 September 2018 R'000
Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of Accelerate by the weighted average number of ordinary shares outstanding during the period.		
Reconciliation of basic/diluted earnings to headline earnings		
Total profit after tax	**20 733**	326 899
Fair value adjustment on investment property	**42 459**	(33 491)
Headline profit attributable to shareholders	**63 192**	293 408
Basic earnings per share (cents)	**2,08**	33,02
Diluted earnings per share (cents)	**2,03**	32,41
Headline earnings per share (cents)	**6,35**	29,64
Diluted headline earnings per share (cents)	**6,18**	29,09
Shares in issue at the end of the period	**998 524 580**	993 689 874
Weighted average number of shares in issue	**995 430 129**	990 013 765
Dilutionary instruments		
Shares subject to the conditional share plan	**27 029 145**	18 753 047
Weighted average number of dilutionary instruments	**27 029 145**	18 753 047
Total diluted weighted average number of shares in issue	**1 022 459 274**	1 008 766 812

The significant movement in the earnings per share and headline earnings per share figures from the prior period is due to unrealised losses incurred during the period ended 30 September 2019 such as downward fair value adjustments on investment property and SWAPS as well as other provisions. These unrealised losses do not affect the distribution per share.

SEGMENTAL ANALYSIS

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

Consequently, the company is considered to have four reportable operating segments, as follows:

- Office segment: acquires, sells, develops and leases offices
- Industrial segment: acquires, sells, develops and leases warehouses and factories
- Retail segment: acquires, sells, develops and leases shopping malls, community centres as well as retail centres
- European single-tenant segment: acquires, sells, develops and leases single-tenant space backed by long-term leases

Group administrative costs, profit/loss on disposal of investment property, finance revenue, finance costs and segment liabilities are reported on a total basis as it is considered that the segmental split would add no value to reporting.

There are no sales between segments.

Period ended 30 September 2018 (six months)

	Office R'000	Industrial R'000	Retail R'000	European single-tenant R'000	Total R'000
Statement of comprehensive income					
Revenue, excluding straight-line rental revenue adjustment	167 865	30 320	352 962	51 825	602 972
Straight-line rental adjustment	18 779	885	13 401	–	33 065
Property expenses	(37 020)	(6 384)	(121 618)	(23 694)	(188 716)
Segment operating profit	149 624	24 821	244 745	28 131	447 321
Fair value adjustments on investment property	(1 621)	–	–	36 423	34 802
Segment profit	148 003	24 821	244 745	64 554	482 123
Other operating expenses					(24 304)
Other income					1 048
Fair value loss on financial instruments					(4 662)
Unrealised gains					20 915
Finance income					31 777
Long-term debt interest					(178 028)
Profit before tax					328 869

Period ended 30 September 2019 (six months)

	Office R'000	Industrial R'000	Retail R'000	European single-tenant R'000	Total R'000
Statement of comprehensive income					
Revenue, excluding straight-line rental revenue adjustment	**120 889**	**33 708**	**356 962**	**52 864**	**564 423**
Straight-line rental adjustment	**(16 651)**	**1 220**	**6 041**	**–**	**(9 390)**
Property expenses	**(34 392)**	**(9 405)**	**(149 548)**	**(18 230)**	**(211 575)**
Segment operating profit	**69 846**	**25 523**	**213 455**	**34 634**	**343 458**
Fair value adjustments on investment property	**–**	**–**	**(60 556)**	**18 773**	**(41 783)**
Segment profit	**69 846**	**25 523**	**152 899**	**53 407**	**301 675**
Other operating expenses					**(26 006)**
Unrealised losses					**(66 483)**
Other income					**815**
Fair value loss on financial instruments					**(45 159)**
Finance income					**21 884**
Long-term debt interest					**(164 642)**
Profit before tax					**22 084**

	Office R'000	Industrial R'000	Retail R'000	European single-tenant R'000	Total R'000
Statement of financial position extracts at 31 March 2019					
Assets					
Investment property balance 1 April 2018	3 444 511	536 740	7 263 301	1 298 010	12 542 562
Acquisitions	–	–	74 995	–	74 995
Capitalised costs	62 180	727	238 126	4 561	305 594
Disposals/classified as held for sale	(701 486)	–	(331 948)	–	(1 033 434)
Investment property held for sale	628 307	–	161 400		789 707
Straight-line rental revenue adjustment	29 867	1 797	12 138	–	43 802
Foreign exchange gains/(losses)	–	–	–	165 101	165 101
Fair value adjustments	(62 172)	47 001	87 893	32 250	104 972
Segment assets at 31 March 2019	3 401 207	586 265	7 505 905	1 499 922	12 993 299
Other assets not managed on a segmental basis					
Derivative financial instruments					1 598
Property, plant and equipment					688
Current assets					679 224
Total assets					13 674 809

	Office R'000	Industrial R'000	Retail R'000	European single-tenant R'000	Total R'000
Statement of financial position extracts at 30 September 2019					
Assets					
Investment property balance 1 April 2019	3 401 207	586 265	7 505 905	1 499 922	12 993 299
Capitalised costs	17 938	3 351	66 240	–	87 529
Disposals/classified as held for sale	(628 307)	(91 651)	(246 622)	–	(966 580)
Investment property held for sale	265 307	91 651	96 778	–	453 736
Straight-line rental revenue adjustment	(16 651)	1 220	6 041	–	(9 390)
Foreign exchange gains/(losses)	–	–	–	21 005	21 005
Right-of-use lease asset	–	–	–	167 937	167 937
Fair value adjustments	–	–	(60 556)	18 773	(41 783)
Segment assets at 30 September 2019	3 039 494	590 836	7 367 786	1 707 637	12 705 753
Other assets not managed on a segmental basis					
Derivative financial instruments					–
Property, plant and equipment					583
Current assets					735 887
Total assets					13 442 223

NOTES TO THE FINANCIAL STATEMENTS

Corporate information

The interim condensed financial statements of Accelerate for the period ended 30 September 2019 were authorised for issue in accordance with a resolution of the board of directors passed on 29 November 2019. Accelerate is a public company incorporated and domiciled in South Africa and its shares are publicly traded on the JSE Limited (JSE). The registered office is located at Cedar Square Shopping Centre, corner Cedar Road and Willow Avenue. The principal activities of Accelerate are acquisition, development and leasing of properties. The functional and presentation currency of Accelerate is South African rand. All figures are rounded off to R'000 except where otherwise stated.

Basis of preparation

These condensed financial statements for the period ended 30 September 2019 are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), contains the minimum information required by IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008, as amended, and the JSE Listings Requirements.

The accounting policies applied in the preparation of these condensed financial statements are in terms of IFRS and are consistent with those applied in the annual financial statements, including the new and amended IFRS that became effective during the 30 September 2019 reporting period. None of these had a material impact on Accelerate's financial results except for IFRS 9.

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

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

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

Change in accounting policy

New standard adopted

IFRS 16 Leases

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. There is no impact on recognition of leases in situations where Accelerate is the lessor. The new standard has had an effect on the accounting policies applied in situations where the group is the lessee.

Under IFRS 16, all lease contracts, including those currently classified as operating leases, are recognised as a right-of-use asset and as a lease liability in the statement of financial position.

For leases previously classified as operating leases, the group now recognises a lease liability, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The group also recognises the respective right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

The implementation of IFRS 16 has resulted in the recognition of a right-of-use asset of R168 million and a corresponding lease liability of R168 million relating to land leases in Europe for certain of the group's European retail properties.

1. Fair value measurement of investment properties

Levels of fair value measurements

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

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

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

The directors have presented the valuation results at 31 March 2019 to Accelerate's independent auditors. This includes the major assumptions used in the valuations, with an emphasis on property with fair value changes outside of the relevant thresholds.

Valuation techniques

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

DCF method

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

Income capitalisation method

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

The external valuations at 31 March 2019 were performed by Mills Fitchet (TVL) (Pty) Ltd, credited independent valuers with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The internal valuations were performed by the directors. The valuation models applied are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13.

The movement in Accelerate's investment property balance from 31 March 2019 to 30 September 2019 is predominantly due to acquisitions and disposals during the period. New properties acquired were recognised in the books of Accelerate at their purchase price which the directors deem to be the fair value of the property at the date of acquisition.

The directors have assessed the changes in market conditions and inputs to the valuations performed at 31 March 2019 and have deemed the valuations performed at 31 March 2019 to still be applicable at 30 September 2019.

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

Class of property	Fair value as at 30 September 2019	Current vacancies	Long-term vacancies	Estimated period of convergence
Office	3 039 494	0% – 100%	3,5% – 12%	2 years
Industrial	590 836	0% – 15,7%	0%	1 year
Retail	7 367 786	0% – 64,2%	3% – 10%	3 years
European retail	1 707 637	0%	0%	n/a
Total*	12 705 753			

* *The R12 705 753 000 consists of investment properties held at fair value of R11 825 680 000, investment properties held for sale of R453 736 000, right-of-use lease assets of R167 937 000 and straight-line rental revenue adjustment accrual of R258 400 000.*

Changes in valuation techniques

There were no changes in valuation techniques during the period.

Highest and best use

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

Valuation techniques and inputs derive level 3 fair values

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

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

Class of property	Fair value as at 30 September 2019 R'000	Valuation technique	Key unobservable inputs	Ranges
Office	3 039 494	Income capitalisation/ DCF method	– ERV – Rental growth pa – Long-term vacancy rate	– R33,00 - R259,00/m² – 7,6% – 3,5% - 12%
Industrial	590 836	Income capitalisation/ DCF method	– ERV – Rental growth pa – Long-term vacancy rate	– R35,00 - R119,00/m² – 7,3% – 0%
Retail	7 367 786	Income capitalisation/ DCF method	– ERV – Rental growth pa – Long-term vacancy rate	– R41,00 - R278,00/m² – 7,3% – 3% - 10%
European retail	1 707 637	Income capitalisation/ DCF method	– ERV – Rental growth pa – Long-term vacancy rate	– R64,00 – R193,00/m² – 0% – 0%
Total	12 705 753			

Descriptions and definitions

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

Estimated rental value (ERV)

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

Rental growth

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

Long-term vacancy rate

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

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

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

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

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

- A similar change in the rent growth per annum and discount rate (and exit yield)
- An opposite change in the long-term vacancy rate

Across the portfolio of properties held, it was determined that if the equivalent yield applied per property increases/(decreases) by 50 basis points, the overall value of the portfolio will decrease by 5,7% if the equivalent yield is increased and increase by 6,6% if the equivalent yield is decreased.

2. Fair value of financial assets and liabilities

31 March 2019

	Carried at fair value R'000	Amortised cost# R'000	Total R'000
Financial assets			
Derivatives*	1 598	–	1 598
Trade and other receivables	–	564 823	564 823
Cash and cash equivalents	–	84 131	84 131
Total financial assets	**1 598**	**648 954**	**650 552**
Financial liabilities			
Derivatives*	(41 908)	–	(41 908)
Long-term interest-bearing borrowings	–	(4 259 323)	(4 259 323)
Trade and other payables	–	(282 768)	(282 768)
Current portion of long-term debt	–	(1 111 050)	(1 111 050)
Total financial liabilities	**(41 908)**	**(5 653 141)**	**(5 695 049)**

30 September 2019

	Carried at fair value R'000	Amortised cost# R'000	Total R'000
Financial assets			
Derivatives*	–	–	–
Trade and other receivables	–	687 500	687 500
Cash and cash equivalents	–	27 971	27 971
Total financial assets	–	715 471	715 471
Financial liabilities			
Derivatives*	(71 452)	–	(71 452)
Long-term interest-bearing borrowings	–	(3 992 932)	(3 992 932)
Lease liability	–	(167 937)	(167 937)
Trade and other payables		(334 152)	(334 152)
Current portion of long-term debt	–	(1 096 192)	(1 096 192)
Total financial liabilities	(71 452)	(5 591 213)	(5 662 665)

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

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

3. Related party transaction

Relationships

Mr M Georgiou and Mr A Costa are directors of both Accelerate Property Fund Ltd and Accelerate Property Management Company (Pty) Ltd (which acts as property manager for the group). Both directors' total remuneration is paid by Accelerate Property Fund. Mr M Georgiou own 100% of Fourways Precinct (Pty) Ltd through The Michael Family Trust and also owns 100% of Accelerate Property Management Company (Pty) Ltd.

Related party transactions and balances

	At 30 September 2019 R'000	At 31 March 2019 R'000
Related party balances		
Loan accounts		
The Michael Family Trust	72 098	68 180
Fourways Precinct (Pty) Ltd	10 383	–
Vacancy guarantee		
Fourways Precinct (Pty) Ltd	9 778	9 339
Development guarantee		
Fourways Precinct (Pty) Ltd	346 747	248 364

Related party transactions

	For the six months ended 30 September 2019 R'000	Six months ended 30 September 2018 R'000
Development guarantee		
Fourways Precinct (Pty) Ltd	76 474	49 801
Interest charged		
Interest charged on outstanding amounts:		
Fourways Precinct (Pty) Ltd	12 380	6 581
The Michael Family Trust	3 254	2 268
Property management costs		
Fourways Precinct (Pty) Ltd	(1 202)	(2 174)
Accelerate Property Management Company (Pty) Ltd	(3 801)	(3 543)
Letting commission		
Fourways Precinct (Pty) Ltd	(7 049)	(5 211)

4. Fair value adjustments

Fair value adjustments	For the six-month period ended 30 September 2019 R'000	For the six-month period ended 30 September 2018 R'000
Investment property (Fair value model)	(41 783)	34 802
Mark to market movement on swaps	(45 159)	(4 662)
	(86 942)	30 140

5. Unrealised (losses)/gains

Unrealised (losses)/gains	For the six months ended 30 September 2019 R'000	For the six months ended 30 September 2018 R'000
Foreign exchange gain	2 503	45 915
Movement in financial guarantee	(68 986)	(25 000)
	(66 483)	20 915

6. Economic hedges

Interest rate swaps

Accelerate holds interest rate swap contracts with notional amounts of R3 950 000 000 (31 March 2019: R3 650 000 000), whereby it pays a fixed rate of interest and receives a variable rate based on one/three-month JIBAR on the notional amount. The swap is used to hedge exposure to the variable interest rate payments on the variable rate secured loans.

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

The aggregate fair value of the interest rate swaps at the end of the reporting period is -R45 620 044 (31 March 2019: -R17 922 863).

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

Cross-currency swaps

Accelerate also holds a cross-currency swap with a nominal value of €21 000 000 (31 March 2019: €21 000 000) to hedge exchange rate movements in euro denominated debt. The cross-currency swap matures in July 2022.

The fair value of the cross-currency swap liabilities at the end of the reporting period was -R25 832 129 (31 March 2019: -R22 388 082).

7. Capital commitments

In terms of Accelerate's budgeting process, R140 million (2018: R155 million) was allocated to Accelerate's planned capital expenditure. As such, Accelerate views this amount as authorised and not contracted.

In terms of the Fourways Mall equalisation, Accelerate has a capital commitment of R907,8 million, as well as an additional amount to be determined in terms of the adjustment mechanism between the parties for the purchase of its equalising stake in the completed Fourways Mall. Accelerate will own 50% of the super-regional mall post this equalisation. This amount has been authorised and contracted.

These amounts will be settled through debt/offset of loan accounts receivable.

8. Financial guarantee

During December 2016 an executive buy-in structure was initiated in order to ensure that the executive directors of Accelerate are adequately incentivised and aligned with the interests of the company and its shareholders in the long term. Special purpose vehicles (SPVs) funded through bank debt from RMB can acquire shares up to a maximum of R205 million in Accelerate at market-related share prices. The interest on bank debt in the SPVs will be serviced by the distributions received from APF. RMB will have cession over these shares and the directors will only have an unconditional right to the shares in the SPVs once the bank debt has been settled. Accelerate guarantees to RMB the performance of each SPV of its obligation. The maximum liability Accelerate may have under the guarantees is limited to a maximum of R219 000 000 to the extent that losses incurred by RMB are not settled by the sale of the shares RMB has cession over. At 30 September 2019 a liability of R167 million (31 March 2019: R98,4 million) was recognised for this guarantee provided.

9. Contingent liabilities

9.1 Azrapart (the developer of Fourways Mall) contends that it has a claim against Accelerate arising from capital expenditure spent by Azrapart on the existing letting enterprise (the Azrapart claim). The board has been advised by Azrapart that it has not decided whether to pursue its claim nor to what extent. However, Azrapart has advised the Accelerate board that should it pursue the Azrapart claim, it will not exceed R300 million.

Accelerate will evaluate the validity and quantum of the Azrapart claim.

9.2 The company has been advised by a former executive director that the former executive director intends to institute legal action against the company in the amount of approximately R60 million for constructive dismissal. Management and its external legal advisors are confident of the group's position in this matter and do not consider an economic outflow of the claimed amount to be probable when the matter is evaluated in the court of law.

Directors' responsibility statement

The board assumes full responsibility for the preparation of the unaudited condensed financial statements. These financial statements have not been reviewed or audited by the company's auditors.

Interim distribution

The board has declared an interim cash distribution (number 12) (cash distribution) of 16,12934 cents per ordinary share for the period ended 30 September 2019 (2018: 27,26021).

Shareholders who have dematerialised their shares are required to notify their duly appointed Central Securities Depository Participant (CSDP) or broker of their election in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker.

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

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

The issued share capital at the declaration date is 998 524 580 (2018: 993 689 874) ordinary shares. The company's income tax reference number is 9868626145.

Tax implications for South African resident shareholders

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

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

The cash distribution of 16,12934 (2018: 27,26021) cents per ordinary share meets the requirements of a 'qualifying distribution' for the purposes of section 25BB of the Income Tax Act (a qualifying distribution). Accordingly, qualifying distributions received by local tax resident shareholders must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the Accelerate shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

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

Tax implications for non-resident shareholders

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends, but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that, until 31 December 2013, qualifying distributions received by non-residents were not subject to dividend withholding tax. From 1 January 2014, any qualifying distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net amount due to non-resident shareholders will be 12,90347 (2018: 21,80817) cents per ordinary share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholders have provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated ordinary shares, or the transfer secretaries, in respect of certificated ordinary shares:

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

Summary of the salient dates relating to the cash distribution is as follows:

Declaration date	Wednesday, 4 December 2019
Last day to trade (LDT) cum dividend	Tuesday, 28 January 2020
Shares to trade ex-dividend	Wednesday, 29 January 2020
Record date	Friday, 31 January 2020
Payment date	Monday, 3 February 2020

Notes

1. Share certificates may not be dematerialised or rematerialised between Wednesday, 29 January 2020 and Friday, 31 January 2020, both days inclusive.

2. The above dates and times are subject to change. Any changes will be released on SENS and published in the press.

The cash dividend may have tax implications for resident and non-resident shareholders. Shareholders are therefore encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

On behalf of the board

Mr T Fearnhead
Non-executive chairman

Mr MN Georgiou
Chief executive officer

Mr D Kyriakides
Chief financial officer

4 December 2019

CORPORATE INFORMATION

Directors

Mr TJ Fearnhead (independent non-executive chairman)

Mr A Costa (chief operating officer)

Dr GC Cruywagen (lead independent non-executive director)

Mr M Georgiou (chief executive officer)

Mr D Kyriakides (chief financial officer)

Ms K Madikizela (independent non-executive director)

Mr JRJ Paterson (executive director – resigned 23 August 2019)

Prof F Viruly (independent non-executive director)

Mr John Doidge (independent non-executive director – retired 31 March 2019)

Mr G Cavaleros (independent non-executive director – appointed 1 May 2019)

Mr AM Mawela (independent non-executive director – appointed 1 May 2019)

Mr DJ Wandrag (independent non-executive director – appointed 1 May 2019)

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