Unaudited condensed consolidated interim results for the six months ended 31 August 2019

DELTA
PROPERTY FUND LIMITED

Company profile

Delta is a JSE listed Real Estate Investment Trust ("REIT") with a property portfolio of R11.3 billion and a net asset value of R6.6 billion as at 31 August 2019.

Delta is the dominant sovereign listed property fund in South Africa, is black managed and is one of the most empowered funds in the sector.

The primary focus of the Fund is long-term investment in quality, rental income-generating properties situated in strategic nodes that are attractive to sovereign entities and other tenants requiring empowered landlords.

Performance

Interim distribution of
12.2 cents
per share

Loan to value decreased to
44.3%

All in cost of debt reduced to
10%

Renewed and concluded
156 846m²
of leases

WALE increased to
1.7 years

Weighted average rental increased to
R123.5m²

(Registration number 2002/005129/06)
(Incorporated in the Republic of South Africa)
Share code: DLT ISIN: ZAE000194049
("Delta" or "the Fund" or "the Group") (REIT status approved)

Directors: JB Magwaza^ (Chairman), SH Nomvete* (CEO), S Maharaj* (CFO), ON Tshabalala* (COO), N Khan~, DN Motau^, ID Macleod^, MJN Njeke ^#, NN Afolayan^, MCR Rampheri^, M de Lange^
*Executive; ^Independent non-executive; ~Non-executive; #Lead independent director
Registered office: Silver Stream Office Park, 10 Muswell Road South, Bryanston (Postnet Suite 210, Private Bag X21, Bryanston, 2021) **Transfer secretaries:** Computershare Investor Services Proprietary Limited **Sponsor:** Nedbank Corporate and Investment Banking

Commentary

Financial results

Delta achieved distribution per share of 30.48 cents as at 31 August 2019. The Board, however, has decided to declare an interim distribution of 12.2 cents per share. This decision was taken after careful consideration of the investment required for capital commitments aligned to lease renewals, working capital of the business and the forecast liquidity position.

Contractual rental income decreased by 3.5% and was largely affected by increased vacancies in the portfolio, disposal of assets held-for-sale and reversion on leases renewed. Property operating expenses, excluding the impact of provisions, increased by 11% due to higher municipal and repairs and maintenance costs.

Administrative expenses for the period decreased by 23.0% mainly due to lower asset management fees. Dividend income of R17.4 million was received from our investment in Grit. Foreign exchange movement relating to the Bank of China dollar-denominated loan decreased by 62.3% due to lower fluctuation in the foreign exchange rate during the period.

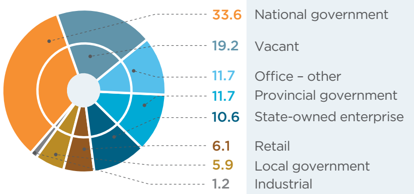
Finance costs increased by 19.3% and were affected by the higher interest rates and fees incurred on debt facilities extended during the period. Interest income decreased by 11.3% and was negatively impacted by the partial repayment of a vendor loan.

Property portfolio

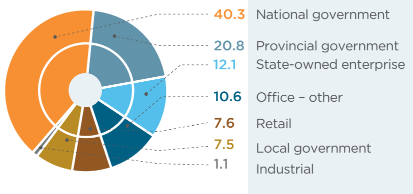
Delta's property portfolio of R11.3 billion consists of 103 properties with a total GLA of 932 605m^2, which includes assets held-for-sale comprising 19 properties with a total GLA of 131 449m^2 and a combined value of R1.4 billion.

The segmental and geographic breakdown of the portfolio (per tenant) at the reporting date was as follows:

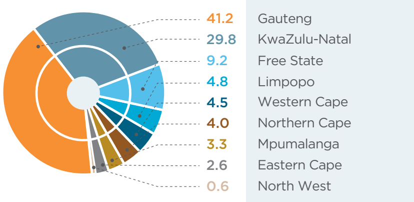
Detailed tenant breakdown by GLA (%)



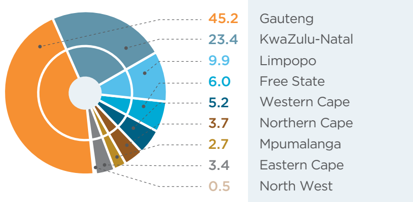
Detailed tenant breakdown by revenue (%)



Geographic profile by GLA (%)



Geographic profile by rental (%)



Acquisition and disposals

Delta did not conclude any acquisitions during the current year.

The disposal of 12 New Street and Top Trailers Site 1 was completed during the period for a total consideration of R60.7 million, with proceeds utilised to settle debt and facility raising fees. Broadcast House and Protea Coin Cape Town, with a total GLA of 10 634m^2 and a fair value of R43 million, are expected to transfer by November 2019. An unsolicited interest was also received on The Marine in Durban from a blue-chip institute, with a detailed due diligence by the purchaser currently underway.

Major capital projects

Capital investment remains a high priority to ensure quality assets that meet the tenants' requirements. The following projects are in progress:

- ***Beacon Hill (King Williams Town)*** – investment of R40 million due to the conclusion of a five-year lease.
- ***Poyntons Fire Project*** – fire compliance project of R32.5 million expected to be to be completed by December 2019, with an additional R18.3 million to be spent on general capital expenditure.

With the conclusion of the bulk lease renewals, further capital projects will be initiated in respect of tenant installations and general building upgrades. These projects are expected to be funded from a combination of working capital, proceeds on disposals and debt facilities.

Letting and vacancies

The lease expiry profile by GLA of the portfolio at 31 August 2019 was as follows:

Segment lease expiry	Month-to-month	29 February 2020	28 February 2021	28 February 2022	28 February 2023	29 February 2024	Beyond 29 February 2024
Office sovereign	39.5	6.1	19.7	8.4	9.0	3.4	14.1
Office other	16.2	11.3	35.5	17.0	6.4	0.4	13.3
Retail	10.8	12.3	13.2	21.2	12.7	3.9	26.0
Industrial	0.0	96.7	3.3	0.0	0.0	0.0	0.0

Delta renewed 40 leases with The National Department of Public Works ("DPW") to date totalling 95 523m^2, with two-thirds concluded for five years and the balance for three years. Of the remaining 18 leases to be renewed with DPW, four of these leases are in three buildings that constitute 96 502m^2. Negotiations around these four leases have been escalated to senior management and ministerial level. A further 61 323m^2 of GLA was renewed with other tenants, primarily the South African Revenue Services in Cape Town, Randburg and eThekwini Municipality in Durban.

Vacancies has increased during the period to 15.4% of the core portfolio and 3.9% of assets held-for-sale, primarily due to the loss of tenants at Unisa House, Capital Towers and within the provincial Bloemfontein node. Vacancies in our dominant nodes of Pretoria CBD and Durban CBD are 10% (SAPOA 9%) and 19% (SAPOA 14%) respectively.

The weighted average rental is R123.5/m^2 across the portfolio. During the year under review, 156 846m^2 was renewed at an average rental of R95/m^2, and 6 465m^2 were concluded at average rentals of R104.7/m^2.

Funding

Despite the challenging operating environment during the period, we successfully managed to extend R2.8 billion of expiring debt facilities. These facilities were further extended post the interim reporting period to year-end, with the intention for a permanent refinance once the DPW lease renewals are concluded.

The weighted average all-in-cost of funding reduced to 10.0% (2019: 10.2%) with the interest cover ratio ("ICR") of 1.9 (2019: 2.1). The average debt facility expiry period and average fixed debt ratio decreased to 0.6 years (2019: 0.8 years) and 44.1% (2019: 59.8%) respectively, impacted by the passage of time and short-term refinance of facilities. We intend to term out the debt expiry profile and fix at least 75% of our debt once facilities are refinanced.

Loan to value ("LTV") decreased to 44.3% (2019: 45.1%), benefiting from cash generated by operations and repayment of debt facilities. The conclusion of disposals together with capital expenditure on the portfolio is envisaged to reduce the LTV in the short to medium term, with our long-term strategy still targeting 40% and below.

Provision of financial assistance

Delta shareholders are referred to Special Resolution Number 4 relating to the provision of direct or indirect financial assistance in terms of section 45 of the Companies Act, No 71 of 2008 ("the Companies Act") to related or inter-related companies, which was approved at the Annual General Meeting of Delta on 21 September 2017.

Further to the above, Delta shareholders are notified in terms of section 45(5)(a) of the Companies Act, that the Board of directors of the Company ("the Board") passed a resolution on 31 May 2019 ("the Board resolution") granting financial assistance to the following related companies:

- **Somnipoint Proprietary Limited** – R24 million in respect of a loan to a company with common directors.
- **Delta Property Asset Management Proprietary Limited** – R28.4million in the ordinary course of business.
- **Hestitrix Proprietary Limited** – R245.5 million in the ordinary course of business.
- **K2014000273 Proprietary Limited** – R164.4 million in the ordinary course of business.
- **277 Vermeulen Street Properties Proprietary Limited** – R35.8million in the ordinary course of business.
- **Hendisa Investments Proprietary Limited** – R33 614 in the ordinary course of business.

The financial assistance provided, as detailed above, is greater than one-tenth of 1% of Delta's net worth as at the date of the Board resolution. The Board further confirms that immediately after providing the financial assistance, the Company continues to satisfy the solvency and liquidity test as contemplated in section 4 of the Companies Act and that the terms and conditions of the financial assistance are fair and reasonable to the Company.

Changes to directorate during the period

Marelise de Lange was appointed as an independent non-executive director to the Delta Board in April 2019. Marelise is also a member of the Audit, Risk and Compliance Committee and the Investment Committee of Delta.

Prospects

While South Africa avoided a recession in the second quarter of the calendar year, the national economic outlook remains grim. Investment levels remain subdued and businesses are struggling with weak levels of private sector activity, and a lacklustre outlook on future business conditions.

The appointment of The Department of Public Works Minister, Patricia De Lille, has brought much needed impetus and improved confidence in our sector. We envisage positive outcomes with regards to the renewal of leases, which will provide further stability to our fund.

Notwithstanding possible corporate action, Delta remains focused on concluding its bulk lease renewals and the longer-term refinancing of its debt at market-related rates which are contingent on a longer weighted average lease profile.

Capital commitments, reduction of vacancies and refinancing of extended debt facilities also remain priority areas, with the recycling of capital in the current tough economic environment also being a focus area. Proceeds from disposals will be used for working capital requirements, support capital expenditure and lower debt.

The rebasing of leases concluded, increased vacancies in the portfolio and extension of debt facilities has negatively impacted earnings for the period. The Board anticipates distributable earnings to decrease by between 12% and 15% for the 2020 financial year, barring any unforeseen circumstances. This information has not been reviewed or reported on by Delta's auditors.

Declaration of interim dividend ("the cash dividend") with the election to re-invest the dividend

Shareholders are advised that dividend number 14 of 12.19300 cents per share for the six months ended 31 August 2019 has been declared. The source of the cash dividend is from distributable income.

Salient dates of the cash dividend:

	2019
Declaration date of cash dividend	Monday, 4 November
Last day to trade in order to be eligible for the cash dividend	Tuesday, 17 December
Delta shares commence trading *ex* cash dividend	Wednesday, 18 December
Record date of cash dividend	Friday, 20 December
Cheques posted to certificated shareholders and accounts credited by CSDP or broker to dematerialised shareholders on	Monday, 23 December

Notes

1. Delta shares may not be dematerialised or rematerialised between commencement of trade on Wednesday, 18 December 2019 and the close of trade on Friday, 20 December 2019, both dates included.

Tax implications

In accordance with Delta's REIT status, shareholders are advised that the cash dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No 58 of 1962 ("Income Tax Act"). An announcement informing shareholders of the tax treatment of the distributions will be released separately on SENS.

Basis of preparation and accounting policies

The unaudited condensed consolidated interim results have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim results are in terms of IFRS and are consistent with those applied in the previous annual financial statements.

The condensed consolidated interim results have been prepared under the supervision of the Chief Financial Officer, Mr Shaneel Maharaj CA(SA)/HDipTax, and have neither been reviewed nor audited by the independent external auditors BDO South Africa Incorporated. Delta has complied with IFRS and JSE Listings Requirements by disclosing earnings and headline earnings per share, with distribution per share being disclosed voluntarily.

By order of the Board

JB Magwaza (Chairman)

SH Nomvete (Chief Executive Officer)

4 November 2019

Consolidated statement of financial position

for the period ended 31 August 2019

R'000	**Unaudited for the half-year ended 31 August 2019**	Unaudited for the half-year ended 31 August 2018	Audited for the year ended 28 February 2019
Assets			
Non-current assets			
Investment property	**9 913 379**	10 561 140	9 913 811
Fair value of investment property	**9 762 271**	10 383 457	9 755 209
Straight-line rental income accrual	**151 108**	177 683	158 602
Property, plant and equipment	**1 434**	2 069	1 714
Investment in a listed security	**417 669**	453 468	461 822
Total non-current assets	**10 332 482**	11 016 677	10 377 347
Current assets			
Loans due from related parties	**54 958**	46 995	43 511
Loan receivable	**15 789**	45 835	20 906
Current tax receivable	**526**	526	
Trade and other receivables	**370 729**	409 068	357 973
Cash and cash equivalents	**36 516**	22 648	25 339
Total current assets	**478 517**	525 072	447 729
Non-current assets held for sale	**1 391 878**	974 727	1 436 520
Fair value of investment property	**1 378 657**	959 558	1 421 710
Straight-line rental income accrual	**13 222**	15 169	14 810
Total assets	**12 202 878**	12 516 476	12 261 596
Equity and liabilities			
Total equity attributable to equity holders			
Share capital	**4 868 461**	4 866 080	4 868 461
Reserves	**-**	139 425	–
Retained income	**1 766 991**	2 079 279	1 772 984
	6 635 452	7 084 784	6 641 446
Total equity	**6 635 452**	7 084 784	6 641 446
Liabilities			
Non-current liabilities			
Derivative financial instruments	**56 154**	4 527	22 478
Interest-bearing borrowings	**1 559 906**	2 981 210	1 448 218
Total non-current liabilities	**1 616 060**	2 985 737	1 470 696
Current liabilities			
Interest-bearing borrowings	**3 650 326**	2 140 744	3 810 253
Trade and other payables	**232 597**	166 237	172 003
Derivative financial instruments	**2 226**	42 410	28 625
Current tax payable	**13 347**	–	12 821
Bank overdraft	**52 870**	96 564	125 753
Total current liabilities	**3 951 366**	2 445 955	4 149 455
Total liabilities	**5 567 426**	5 431 692	5 620 152
Total equity and liabilities	**12 202 878**	12 516 476	12 261 596

Consolidated statement of comprehensive income

for the period ended 31 August 2019

R'000	**Unaudited for the half-year ended 31 August 2019**	Unaudited for the half-year ended 31 August 2018	Audited for the year ended 28 February 2019
Revenue			
Rental income	**766 544**	794 506	1 581 669
Straight-line rental income accrual	**(7 514)**	(14 863)	(34 304)
	759 031	779 643	1 547 365
Property operating expenses	**(251 770)**	(254 083)	(509 579)
Net property rental and related income	**507 261**	525 560	1 037 786
Other income	**607**	1 103	6 356
Foreign currency translation reserve recognised on derecognition of associate	**-**	–	4 805
Dividend income	**17 418**	–	21 769
Loss on foreign exchange differences	**(13 405)**	(35 589)	(28 103)
Administration expenses	**(35 943)**	(46 672)	(79 727)
Net operating profit	**475 937**	444 402	962 886
Fair value adjustments	**(82 478)**	72 370	(168 152)
Profit from operations	**393 459**	516 772	794 734
Finance costs	**(296 522)**	(248 604)	(537 281)
Interest income	**11 268**	12 698	26 032
Profit before tax	**108 205**	280 866	283 485
Taxation	**-**	–	(27 692)
Profit for the period	**108 205**	280 866	255 793
Other comprehensive income:			
Share of foreign currency translation reserve of associate transferred to profit or loss	**-**	(4 805)	–
Total comprehensive income for the period	**108 205**	276 061	255 793
Profit for the period attributable to:			
Owners of the parent	**108 205**	280 866	
	108 205	280 866	255 793
Total comprehensive income attributable to:			
Owners of the parent	**108 205**	276 061	255 793
	108 205	276 061	255 793
Basic and diluted earnings per share (cents)	**15.15**	39.51	39.80

Consolidated statement of changes in equity

for the period ended 31 August 2019

R'000	Share capital	Foreign currency translation reserve	Deferred conside-ration reserve	Total reserves	Retained income	Total share-holders interest	Total equity
Balance at 1 March 2018	4 854 032	4 805	139 425	144 230	2 160 330	7 158 592	7 158 592
Total comprehensive income for the year	-	-	-	-	255 793	255 793	255 793
Profit for the year	-	-	-	-	255 793	255 793	255 793
Deferred consideration settled in cash	-	-	(139 425)	(139 425)	-	(139 425)	(139 425)
FCTR recognised in profit or loss	-	(4 805)	-	(4 805)	-	(4 805)	(4 805)
Distribution re-invested	14 590	-	-	-	-	14 590	14 590
Share issue expenses	(161)	-	-	-	-	(161)	(161)
Dividends paid	-	-	-	-	(643 139)	(643 139)	(643 139)
Balance at 28 February 2019	**4 868 461**	**-**	**-**	**-**	**1 772 984**	**6 641 445**	**6 641 445**
Profit for the period	**-**	**-**	**-**	**-**	**108 205**	**108 205**	**108 205**
Dividends paid	**-**	**-**	**-**	**-**	**(114 198)**	**(114 198)**	**(114 198)**
Balance at 31 August 2019	**4 868 461**	**-**	**-**	**-**	**1 766 991**	**6 635 452**	**6 635 452**

Consolidated statement of cash flows

for the period ended 31 August 2019

R'000	**Unaudited for the half-year ended 31 August 2019**	Unaudited for the half-year ended 31 August 2018	Audited for the year ended 28 February 2019
Cash generated from operations	**529 939**	377 960	905 500
Finance costs	**(294 229)**	(246 971)	(486 027)
Interest received	**8 437**	4 992	24 544
Taxation paid	**-**	–	(14 345)
Dividend received	**17 418**	17 080	38 849
Net cash from operating activities	**261 564**	153 061	468 521
Acquisition of property, plant and equipment	**(90)**	(68)	(164)
Capital expenditure on investment property and assets held-for-sale	**(7 441)**	(40 197)	(114 975)
Proceeds on disposal of property, plant and equipment	**-**	12	–
Proceeds on disposal of assets held-for-sale	**45 000**	–	15 750
Gross movement in loans with related parties	**(8 498)**	25 049	17 216
Decrease in loan receivable	**5 000**	5 534	33 034
Net cash from investing activities	**33 971**	(9 670)	(49 139)
Distribution re-invested	**-**	12 048	14 429
Dividends paid	**(114 198)**	(361 917)	(643 139)
Deferred consideration settled in cash	**-**	–	(140 000)
Repayment of derivative financial instrument	**(23 607)**	–	–
Increase in interest-bearing borrowings	**22 666**	180 000	424 967
Repayment of interest-bearing borrowings	**(96 336)**	(50 500)	(179 115)
Net cash from financing activities	**(211 475)**	(220 369)	(522 858)
Net movement in cash and cash equivalents	**84 060**	(76 978)	(103 476)
(Overdraft)/cash at the beginning of the period	**(100 414)**	3 062	3 062
Total overdraft at the end of the period	**(16 354)**	(73 916)	(100 414)

Reconciliation of earnings, headline earnings and distributable earnings

for the period ended 31 August 2019

R'000	**Unaudited for the half-year ended 31 August 2019**	Unaudited for the half-year ended 31 August 2018	Audited for the year ended 28 February 2019
Earnings, headline earnings and distributable earnings			
Profit for the period	**108 205**	280 866	283 485
Investment property	**1 193**	–	237 599
Fair value adjustment to investment property	**1 193**	–	237 599
Headline earnings	**109 398**	280 866	521 084
Derivative financial instruments (net of deferred taxation)	**37 132**	(72 370)	10 507
Fair value adjustment to derivative financial instrument	**37 132**	(72 370)	10 507
Investment in listed security (net of deferred taxation)	**44 154**	–	(79 954)
Fair value adjustment to investment in listed security	**44 154**	–	(79 954)
Straight-line rental income accrual (net of deferred taxation)	**7 514**	14 863	34 304
Straight-line rental income accrual	**7 514**	14 863	34 304
Foreign currency translation reserve recognised on derecognition of associate			(4 805)
Dividend income from GRIT	**23 538**	21 747	17 418
Dividend income from GRIT pertaining to prior year – February 2019	**(17 418)**	–	–
Loss/(gain) on foreign exchange differences	**13 405**	35 640	28 103
Antecedent distribution	**-**	476	569
Distributable earnings attributable to owners of the parent	**217 722**	281 222	527 226
Less: distribution declared	**217 722**	281 222	395 419
Interim	**87 089**	281 222	281 222
Final (declared after 28 February 2019)	**-**	–	114 197
Distributable earnings retained	**130 633**	–	131 807
Shares in issue at the beginning of the year	**714 229 718**	711 844 486	711 844 486
Distribution re-investment	**-**	1 948 980	2 385 232
Number of shares in issue	**714 229 718**	713 793 466	714 229 718
Weighted average number of shares in issue at the beginning of the year	**714 229 718**	711 844 486	710 927 785
Distribution re-investment	**-**	309 701	1 366 459
Weighted average number of shares in issue	**714 229 718**	712 154 187	712 294 244
Actual number of shares in issue			
Number of shares in issue at interim	**714 229 718**	713 793 466	713 793 466
Number of shares in issue at year-end	**-**	–	714 229 718
Basic and diluted earnings and headline earnings per share (cents)			
Basic and diluted earnings per share	**15.15**	39.51	39.80
Basic and diluted headline earnings per share	**15.32**	39.51	73.16
Distribution per share (cents)			
Interim	**12.19**	39.40	39.40
Final	**-**	–	15.99
Distribution per share declared for the full year	**12.19**	39.40	55.39

The Group has no dilutionary instruments in issue.

Condensed consolidated segmental analysis

for the period ended 31 August 2019

R'000	Retail	Office government	Office other	Industrial	Administration and corporate costs	Total
Unaudited for the half year ended 31 August 2019						
Revenue	**20 345**	**553 230**	**175 550**	**9 906**	**-**	**759 031**
Net property rental and related income	**11 316**	**392 907**	**95 007**	**8 031**	**-**	**507 261**
Total assets	**355 884**	**8 427 290**	**2 700 979**	**155 767**	**562 958**	**12 202 878**
Total liabilities	**160 053**	**3 714 762**	**1 497 999**	**31 303**	**163 309**	**5 567 426**
Unaudited for the half year ended 31 August 2018						
Revenue	19 738	560 328	183 672	15 905	-	779 643
Net property rental and related income	12 311	393 641	107 818	11 790	-	525 560
Total assets	338 282	8 444 722	2 913 492	191 669	628 311	12 516 476
Total liabilities	173 620	4 336 337	1 842 247	94 192	(1 014 703)	5 431 692
Audited for the year ended 28 February 2019						
Revenue	40 788	1 124 826	353 994	27 757	-	1 547 365
Net property rental and related income	25 218	814 538	178 707	19 323	-	1 037 786
Total assets	349 121	8 298 803	2 815 109	201 735	596 827	12 261 595
Total liabilities	164 566	3 985 492	1 705 114	85 247	(320 268)	5 620 151

The segmental report has been populated based on a per building classification which is in accordance with the majority tenant.

Bastion