



REVIEWED

provisional condensed consolidated results

for the year ended 29 February 2016

HIGHLIGHTS

- Achieved forecast 8% increase in full year distribution to 90.79 cents per share
- Successfully concluded the R1.26 billion Redefine portfolio acquisition
- Improvement of loan to value to ca.42% from 47.2% at year end
- 83% of debt hedged
- Industry leading Level 2 B-BBEE rated listed property company
- Successful renewal of 80% of 2015 expiring leases

Delta Property Fund Limited (Incorporated in the Republic of South Africa) (Registration number 2002/005129/06) Share code: DLT ISIN: ZAE000172052 ("Delta" or "the Fund" or "the Group") (REIT status approved)

Consolidated statement of comprehensive income

	Group	
	2016 R'000	2015 R'000
Revenue		
Contractual rental income	1 220 632	940 623
Straight-line rental income accrual	26 950	68 584
	1 247 582	1 009 207
Property operating expenses	(322 051)	(244 323)
Net property rental and related income	925 531	764 884
Other income	7 266	13 590
Profit on disposal of listed investments	-	20 425
Loss on foreign exchange differences	(57 834)	(12 366)
Gain from bargain purchase	-	127
Administration expenses	(82 744)	(51 008)
Net operating profit	792 219	735 652
Fair value adjustments	259 124	458 985
Profit from operations	1 051 343	1 194 637
Finance costs	(412 713)	(316 380)
Interest income	26 593	3 965
Amortisation of debenture premium	-	264 893
Share of profit in associate	33 537	(41 200)
Cancellation fee	(11 542)	(15 582)
Impairment of development right	-	-
Share of loss in joint venture	(2)	-
Profit before debenture interest and taxation	687 216	1 090 323
Debenture interest	-	(177 044)
Profit before taxation	687 216	913 279
Taxation	-	(2 211)
Profit for the year from continuing operations	687 216	911 068
Loss from discontinued operations	(38 089)	(45 070)
Profit for the year	649 127	865 998
Other comprehensive income:		
Items that may be reclassified subsequently to profit and loss		
Exchange gain on translation of foreign subsidiary	83 649	63 813
Reclassification of foreign currency translation reserve on loss of control of subsidiary	(43 843)	-
Share of foreign currency translation reserve of associate	(43 796)	-
Taxation related to components of other comprehensive income	-	-
Total comprehensive income for the year	645 137	929 811
Profit for the year attributable to:		
Owners of the parent:		
Profit for the year from continuing operations	687 216	911 068
Loss for the year from discontinued operations	(36 011)	(25 648)
	651 205	885 420
Non-controlling interest:		
Loss for the year from discontinued operations	(2 078)	(19 422)
	649 127	865 998
Total comprehensive income	607 409	912 605
Owners of the parent	37 728	17 206
Non-controlling interest	645 137	929 811
Reconciliation of earnings from continuing operations:		
Profit for the year from continuing operations	687 216	911 068
Debenture interest	-	177 044
Earnings from continuing operations	687 216	1 088 112
Loss for the year from discontinued operations	(36 011)	(25 648)
Profit for the year attributable to owners of the parent	651 205	1 062 464
Reconciliation of headline earnings from continuing operations:		
Profit for the year from continuing operations	687 216	1 088 112
Change in fair value of investment property	(373 286)	(485 224)
Change in fair value of investment property of associate	(304 200)	(485 224)
Gain from bargain purchase	(69 086)	-
Impairment of development right net of tax	-	(127)
Impairment of development right	-	15 582
Tax effect	-	-
Headline earnings from continuing operations	313 930	618 343
Reconciliation of headline earnings from continuing and discontinued operations:		
Profit for the year from continuing and discontinued operations	651 205	1 062 464
Change in fair value of investment property	(373 286)	(542 838)
Change in fair value of investment property of associate	(304 200)	(570 208)
Gain from bargain purchase	(69 086)	-
Deferred taxation	-	27 370
Impairment of development right net of tax	-	(127)
Impairment of development right	-	15 582
Tax effect	-	-
Headline earnings from continuing and discontinued operations	277 919	562 500
Reconciliation of distributable earnings attributable to owners of the parent:		
Headline earnings from continuing operations	313 930	613 980
Fair value loss on derivative financial instruments	45 077	20 990
Straight-line rental income accrual	(26 950)	(68 584)
Antecedent interest	9 010	3 425
Cancellation fee	11 542	41 200
Deferred taxation - other adjustments	-	8 955
Fair value loss on investments	-	5 249
Dividend income	36 779	18 247
Share of profit in associate	(33 537)	-
Share of loss in joint venture	2	-
Unrealised loss on foreign exchange difference	57 794	12 366
Amortisation of debenture premium	-	(264 893)
Profit on disposal of listed investments	-	(20 425)
Accrued distribution from listed investments	-	11 905
Amortisation of debt structuring fee	6 141	-
Change in fair value of investment property of associate	69 086	-
Distributable earnings attributable to owners of the parent	488 874	382 425
Less: distribution declared	(487 862)	(382 425)
- Interim	232 608	180 469
- Year-end (declared after 29 February 2016)	255 354	201 956
Retained distribution	912	-
Weighted average number of shares in issue		
- Year-end	535 182 853	458 409 836
Actual number of shares in issue		
- Interim	542 316 733	451 042 442
- Year-end	533 097 436	458 409 836
Basic and diluted earnings per share (cents)		
Basic and diluted earnings per share from continuing operations	128.41	242.74
Basic and diluted earnings per share from discontinued operations	(6.73)	(5.72)
	121.68	237.02
Basic and diluted headline earnings per share (cents)		
Basic and diluted headline earnings per share from continuing operations	58.66	137.94
Basic and diluted headline earnings per share from discontinued operations	(6.73)	(12.46)
	51.93	125.48
Distribution per share (cents)		
- Interim	42.89	40.01
- Year-end (declared after 29 February 2016)	47.90	44.06
	90.79	84.07

Consolidated statement of changes in equity

	Share capital	Foreign currency translation reserve	Deferred consideration	Total reserves	Retained income	Total shareholders' interest	Non-controlling interest	Total equity
R'000								
Balance at 1 March 2014	317 544	-	-	-	924 311	1 241 855	-	1 241 855
Total comprehensive income for the year	-	27 185	-	27 185	885 420	912 605	17 206	929 811
Profit for the year	-	-	-	-	885 420	885 420	(19 422)	865 998
Other comprehensive income	-	27 185	-	27 185	-	27 185	36 628	63 813
Issue of linked units as consideration for investment property	161 965	-	-	-	-	161 965	-	161 965
Capital issue expenses	(14 139)	-	-	-	-	(14 139)	-	(14 139)
Cum distribution number 03*	(5 836)	-	-	-	-	(5 836)	-	(5 836)
Cum distribution number 04 and 05*	(3 425)	-	-	-	-	(3 425)	-	(3 425)
REIT conversion	2 321 954	-	-	-	-	2 321 954	-	2 321 954
Non-controlling interest on acquisition of disposal group	-	-	-	-	-	-	457 747	457 747
Transfer between equity holders	-	-	-	-	6 001	6 001	(6 001)	-
Dividends paid	-	-	-	-	-	-	(15 762)	(15 762)
Balance at 1 March 2015	2 778 064	27 185	-	27 185	1 815 732	4 620 981	453 190	5 074 171
Total comprehensive income for the year	-	(43 796)	-	(43 796)	607 409	607 409	37 728	645 137
Profit for the year	-	-	-	-	651 205	651 205	(2 078)	649 127
Other comprehensive income	-	(43 796)	-	(43 796)	-	(43 796)	39 806	(3 990)
Loss of control of subsidiary	-	(27 185)	-	(27 185)	-	(27 185)	(490 918)	(518 103)
Issue of shares issued as consideration for investment property	76 950	-	-	-	-	76 950	-	76 950
Issue of shares issued as consideration for cash	658 169	-	-	-	-	658 169	-	658 169
Issue of shares dividend reinvestment programme	45 207	-	-	-	-	45 207	-	45 207
Capital issue expenses	(15 514)	-	-	-	-	(15 514)	-	(15 514)
Share capital not eliminated in prior period	5 971	-	-	-	(5 971)	-	-	-
Share buy-back	(98 254)	-	-	-	-	(98 254)	-	(98 254)
Deferred consideration*	-	-	259 720	259 720	-	259 720	-	259 720
Dividends paid*	-	-	-	-	(470 854)	(470 854)	-	(470 854)
Balance at 29 February 2016	3 450 593	(43 796)	259 720	215 924	1 990 112	5 656 629	-	5 656 629

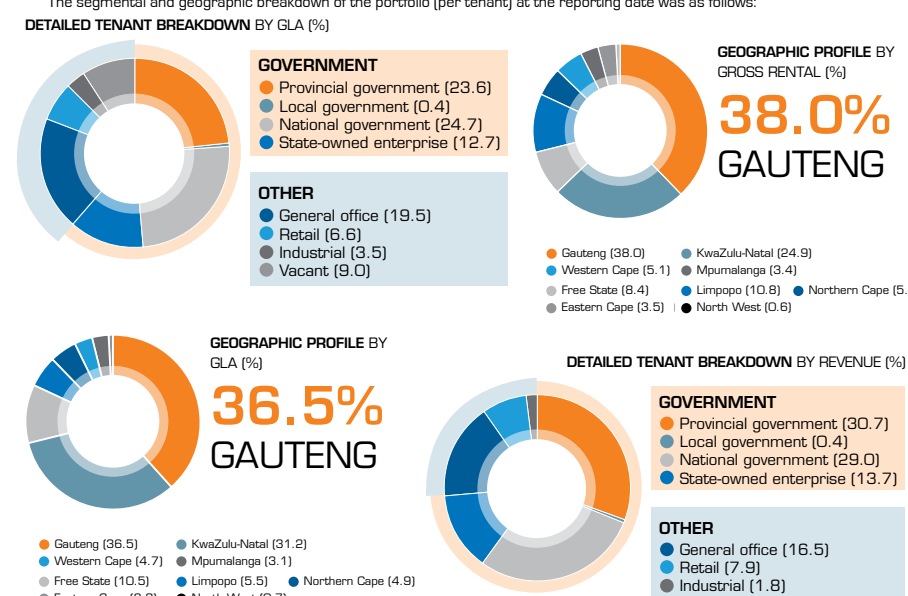
* Details of distributions 01 - 07 as announced on SENS
* Acquisition of properties to be settled by the issue of 28 857 764 shares at a fixed price of R9 per share

Consolidated statement of cash flows

	Group	
	2016 R'000	2015 R'000
Cash generated from operations	827 846	483 116
Interest received	10 227	3 965
Dividends received	36 837	-
Finance costs	(374 448)	(315 593)
Taxation paid	(470 854)	(4 914)
Dividends paid	(4 449)	(1 027)
Net cash from operating activities	29 607	166 574
Purchase of property, plant and equipment	(4 449)	-
Acquisition of investment properties	(801,448)	(572 108)
Capital expenditure on investment properties	(304 073)	(148 134)
Proceeds on disposal of investment properties	104 859	-
Loans advanced to related parties	(77 115)	-
Proceeds on disposal of listed securities	-	348 809
Acquisition of shares in associate	(9 123)	-
Acquisition of shares in joint venture	(2)	-
Net cash outflow on acquisition of subsidiary	-	(8 720)
Net cash from investing activities	(1 091 352)	(381 180)
Proceeds from issue of shares	703 376	-
Share buy-back	(98 254)	-
Capital issue expenses	(15 514)	(8 168)
Proceeds from interest-bearing borrowings	1,376,946	1,310,036
Repayment of interest-bearing borrowings	(859 765)	-
Repayment of other financial liabilities	-	(266 656)
Changes in shareholding of subsidiary	-	(492 335)
Debenture interest paid	-	(349 622)
Net cash from financing activities	1 106 789	193,255
Net movement in cash and cash equivalents	45 044	(21 351)
Cash at the beginning of the year	60 709	82 060
Total cash at the end of the year	105 753	60 709

COMMENTARY:

- Introduction**
Delta is a black managed JSE listed Real Estate Investment Trust ("REIT") focused on long-term sovereign underpinned properties. The Fund is a Level 2 B-BBEE contributor and will continue to be the dominant sovereign listed property fund in South Africa. Delta has the management knowledge and experience to manage the sovereign underpin and has become the leading management team in relation to government-tenanted assets.
- Financial performance**
Global economies have experienced a steady deterioration in trading conditions during the period, with the local economy being significantly impacted by rising inflation, political uncertainty and rising interest rates coupled with the strengthening of the US dollar against the Rand. Delta, however, managed to remain resilient and steadfast among the economic challenges encountered due to its sovereign underpin and has delivered an excellent set of results.
Delta has declared a full year distribution of 90.79 cents per share for the financial period ending 29 February 2016, representing an increase of 8% over the prior year.
Contractual rental income increased 29.8%, benefiting 7.8% from weighted average rate escalations and 13.5% from new acquisitions. Net cost-to-income ratio was impacted by new acquisitions, increasing from 10.2% to 12.2%, and is expected to normalise during the new financial year once Delta takes over the management of these assets and undertakes the redevelopment work on the Free State portfolio.
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Fair value adjustments to investment properties decreased during the current year, reflecting the change in market conditions together with the increased vacancy of the portfolio. The depreciation of the Rand against the US dollar negatively impacted the fair value of cross-currency swaps and Dollar-denominated loan resulting in an unrealised foreign exchange loss of R57.8 million. Administration expenses increased primarily due to a R10.1 million reversal of a prior year accrual and increase in asset management fees due to acquisitions.
Finance costs increased 30.5% during the period, driven by a combination of acquisitions and increased cost of borrowings. The interest cover ratio, excluding occupational interest on the Free State portfolio, improved to 2.38 from 2.17 in the prior year.
- Property portfolio**
Delta's property portfolio of R10.1 billion, consists of 100 properties with a total GLA of 813 505m². Assets held-for-sale comprise 17 properties with a total GLA of 134 754m² 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:



- Acquisitions and major capital projects**
During the year Delta acquired 20 properties with a total GLA of 119 864m² for R1.1 billion, at an aggregate yield of 10.72%. Of these 14 properties related to the Free State portfolio with a combined GLA of 77 829m². The acquisitions were funded by a combination of debt and equity.
Delta entered into an agreement with Redefine for the acquisition of their government property portfolio consisting of 15 properties and a total GLA of 191 669m² for R1.25 billion at a property yield of 13.27%. Conditions precedent for the majority of the properties within the transaction were approved during March 2016 and accordingly 155 230 511 shares amounting to R1.20 billion were issued to Redefine during April 2016. The outstanding shares of 6 812 568 holding R0.05 billion will be issued when the conditions precedent to the final property is met.
Delta together with other landlords embarked on a significant inner-city redevelopment initiative within the Durban central business districts (CBD). Delta is one of the largest landlords in the CBD and its significant investment is based on the support of government for the node and the large working harbour which secures many other tenants. The major projects undertaken comprise:
CMH House, Durban
CMH House is Delta's first major inner-city redevelopment project undertaken in Durban CBD.
This project was completed during November 2015 at an estimated cost of R156 million with a 15-year lease signed, creating a new A grade motor dealership show room and 450 parking bays. The additional parking bays will be predominantly let to the Liberty building tenants which has created significant value to the Liberty building due to the shortage of parking in the CBD.
88 Field Street, Durban
This project is currently in progress with an estimated R85 million spent to date and is expected to re-establish itself as a landmark building in the Durban CBD upon completion.

- Disposals**
Management has earmarked 17 non-core properties, with a total GLA of 134 754m² and valued at R1.4 billion, for disposal. The proceeds from disposals will either be deployed to higher yielding assets or to reduce gearing. Sale agreements for five properties have been concluded totalling R551.3 million has been concluded at year-end and management are confident the remaining assets will be sold during the 2017 financial period.
 - Letting and vacancies**
The lease expiry profile of the portfolio per segment based on GLA at 29 February 2016 was as follows:
- | Segment | 2016 vacancies | 2017 | 2018 | 2019 | 2020 | 2021 | Beyond 2021 |
|--------------------|----------------|-------|-------|-------|-------|-------|-------------|
| Office - sovereign | 5.9% | 40.5% | 18.9% | 9.4% | 6.2% | 12.7% | 6.4% |
| Office - other | 13.7% | 27.9% | 23.3% | 18.7% | 9.1% | 2.4% | 4.9% |
| Retail | 5.4% | 13.7% | 5.5% | 5.5% | 25.8% | 1.4% | 41.9% |
| Industrial | 29.5% | 3.1% | 29.0% | 0.0% | 0.0% | 39.4% | 0.0% |
- Leases in respect of 62 515m² were renewed during the period, representing 79.8% of leases expiring by February 2016 or are continuing on a month-to-month basis. The weighted average escalation rate during the year was 7.84% and the weighted average rental per m² was R102.89.
Vacancies increased to 5.98% of gross lettable area compared with 7.1% in 2015. Properties earmarked for disposal are expected to reduce vacancies.
Management continues to engage with government on longer term lease renewals and is confident that its strategy as a specialist sovereign fund will result in the renewal of expiring leases.