

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2016

Highlights

- Increased half-year distribution by 7.1% to 45.93 cents per share
- Reduced gearing to 41.0% from 47.2% at year-end
- Property operating margin maintained at 72.7%
- Successfully refinanced and settled R832m in debt
- Vacancy of 9.2% below the SAPOA national average of 10.5%

Consolidated Statement of Comprehensive Income

	Unaudited for the half year ended 31 Aug 16 R'000	Unaudited for the half year ended 31 Aug 15 R'000	Audited for the year ended 29 Feb 16 R'000
Revenue			
Contractual rental income	757 233	578 502	1 220 632
Straight-line rental income accrual	59	8 658	26 950
	757 292	587 160	1 247 582
Property operating expenses	(206 707)	(158 018)	(322 051)
Net property rental and related income	550 585	429 142	925 531
Other income	15	6 080	7 266
Administrative expenses	(41 330)	(36 366)	(82 744)
Profit/(loss) on foreign exchange differences	18 423	51 175	(57 834)
Net operating profit	527 693	450 031	792 219
(Loss)/gain from fair value adjustments	(1 054)	(16 513)	259 124
Profit from operations	526 639	433 518	1 051 343
Net finance costs	(215 055)	(184 047)	(386 120)
Finance costs	(228 638)	(194 701)	(412 713)
Interest income	13 583	10 654	26 593
Cancellation fee	-	(11 542)	(11 542)
Share of (loss)/profit in associate	(23 690)	118	33 537
Share of loss in joint venture	-	-	(2)
Loss on disposal of subsidiary	-	(104 749)	-
Profit before taxation	287 894	133 298	687 216
Taxation	-	-	-
Profit from continuing operations	287 894	133 298	687 216
Loss from discontinued operations	-	(4 368)	(38 089)
Profit for the period	287 894	128 930	649 127
Other comprehensive income			
Items that may subsequently be classified to profit or loss			
Exchange gain on translation of foreign entities	-	83 111	83 649
Reclassification of foreign currency translation reserve	-	-	(43 843)
Share of foreign currency translation gain/(loss) of associate	44 326	-	(43 796)
Total comprehensive profit for the period	332 220	212 041	645 137
Profit for the period attributable to:			
Owners of the parent:			
Profit for the period from continuing operations	287 894	133 298	687 216
Loss for the period from discontinued operations	-	(2 290)	(36 011)
	287 894	131 008	651 205
Non-controlling interest:			
Loss for the year from discontinued operations	-	(2 078)	(2 078)
	287 894	128 930	649 127
Total comprehensive income attributable to:			
Equity shareholders of Delta Property Fund Limited	332 220	174 313	607 409

Non-controlling interests	-	37 728	37 728
	332 220	212 041	645 137

Reconciliation of earnings, headline earnings and distributable earnings

	Unaudited for the half year ended 31 Aug 16 R'000	Unaudited for the half year ended 31 Aug 15 R'000	Audited for the year ended 29 Feb 16 R'000
Profit for the period from continuing operations attributable to equity shareholders	287 894	133 298	687 216
Earnings	287 894	133 298	687 216
Loss for the period from discontinued operations attributable to equity shareholders	-	(2 290)	(36 011)
Profit for the period attributable to equity shareholders	287 894	131 008	651 205
Headline earnings - continuing operations			
Attributable earnings from continuing operations	287 894	133 298	687 216
Change in fair value of investment property	78 793	4 858	(373 286)
Fair value loss/(gain) of investment property	8 250	4 858	(304 200)
Fair value loss/(gain) of investment property of associate	70 543	-	(69 086)
Loss on change in control of subsidiary	-	104 749	-
Realisation of foreign currency translation reserve on loss of control of subsidiary	-	(71 028)	-
Headline earnings - continuing operations	366 687	171 877	313 930
Headline earnings - continuing and discontinued operations			
Attributable earnings from continuing and discontinued operations	287 894	131 008	651 205
Change in fair value of investment property	78 793	4 858	(373 286)
Fair value loss/(gain) of investment property	8 250	4 858	(304 200)
Fair value loss/(gain) of investment property of associate	70 543	-	(69 086)
Loss on change in control of subsidiary	-	104 749	-
Realisation of foreign currency translation reserve on loss of control of subsidiary	-	(71 028)	-
Non-controlling interest	-	2 078	-
Headline earnings from continuing and discontinued operations	366 687	171 665	277 919
Headline earnings - continuing operations	366 687	171 877	313 930
Fair value (gain)/loss of financial instruments	(7 196)	11 655	45 076
Straight line rental income accrual	(59)	(8 658)	(26 950)
Antecedent dividend	-	9 010	9 010
Cancellation fee	-	11 542	11 542
Dividend income	18 851	14 057	36 779
Share of loss/(profit) in associate	23 690	(118)	(33 537)
Share of loss in joint venture	-	-	2
Unrealised foreign exchange (gain)/loss	(18 311)	19 922	57 795
Amortisation of debt structuring fee	-	3 321	6 141
Fair value (loss)/gain of investment property of associate	(70 543)	-	69 086
Retained prior distributable income distributed	-	-	-
Distributable earnings attributable to equity shareholders	313 119	232 608	488 874
Less: distribution declared	313 119	232 608	487 962
Interim	313 119	232 608	232 608
Final	-	-	255 354
Retained distribution	-	-	912
Actual number of shares in issue (R'000)	710 632	542 317	533 097
Weighted average number of shares in issue (R'000)	663 042	525 007	535 183
Shares in issue entitled to distribution (R'000)	681 723	542 317	533 097
Basic and diluted earnings per share (cents)			
Basic and diluted earnings per share from continuing operations	43,42	25,39	128,41
Basic and diluted earnings per share from discontinued			

operations	-	(0,44)	(6,73)
	43,42	24,95	121,68
Basic and diluted headline earnings per share (cents)			
Basic and diluted headline earnings per share from continuing operations	55,30	32,74	58,66
Basic and diluted headline earnings per share from discontinued operations	-	(0,04)	(6,73)
	55,30	32,70	51,93
Distribution per share (cents)			
Distribution per share - interim	45,93	42,89	42,89
Distribution per share - year end	-	-	47,90
Distribution per share - full year	45,93	42,89	90,79

Consolidated Statement of Financial Position

	Unaudited for the half year ended 31 Aug 16 R'000	Unaudited for the half year ended 31 Aug 15 R'000	Audited for the year ended 29 Feb 16 R'000
Assets			
Non-current assets			
Investment property	10 155 844	8 816 434	8 684 700
Fair value of property portfolio	9 969 666	8 633 026	8 500 183
Straight-line rental income accrual	186 178	183 408	184 517
Property, plant and equipment	3 790	4 523	4 331
Investment in associate	403 954	406 825	383 327
Derivative financial instruments	4 213	-	13 401
Total non-current assets	10 567 801	9 227 782	9 085 759
Current assets			
Loans receivable	131 432	-	77 115
Current tax receivable	1 153	1 153	1 153
Trade and other receivables	238 502	241 535	252 938
Derivative financial instruments	732		545
Cash and cash equivalents	134 461	213 951	187 362
Total current assets	506 280	456 639	519 113
Non-current assets held for sale	1 201 946	265 630	1 410 481
Total assets	12 276 027	9 950 051	11 015 353
Equity and liabilities			
Total equity attributable to equity holders			
Share capital	4 845 248	3 523 065	3 450 593
Reserves	139 955	(538)	215 924
Retained income	2 022 607	1 708 476	1 990 112
Total equity	7 007 810	5 231 003	5 656 629
Liabilities			
Non-current liabilities			
Interest-bearing borrowings	3 994 346	3 750 469	3 560 275
Share-based payment liability	559	-	559
Derivative financial instruments	44 463	32 646	49 981
Total non-current liabilities	4 039 368	3 783 115	3 610 815
Current liabilities			
Interest-bearing borrowings	1 009 772	819 794	1 534 035
Trade and other payables	167 617	116 139	102 233
Derivative financial instruments	19 353		30 032
Bank overdraft	32 107	-	81 609
Total current liabilities	1 228 849	935 933	1 747 909
Total liabilities	5 268 217	4 719 048	5 358 724
Total equity and liabilities	12 276 027	9 950 051	11 015 353

Consolidated statement of Changes in Equity

Share capital	Foreign currency translation reserve	Deferred consideration reserve	Retained income	Total equity
R'000	R'000	R'000	R'000	R'000

Balance at 31 August 2015	3 523 065	(538)	-	1 708 476	5 231 003
Profit for the year	-	-	-	520 197	520 197
Other comprehensive income	-	(43 258)	-	-	(43 258)
Total comprehensive income for the year	-	(43 258)	-	520 197	476 939
Issue of shares	2 849	-	-	(5 971)	(3 122)
Share buy-back	(75 321)	-	-	-	(75 321)
Deferred consideration	-	-	259 720	-	259 720
Dividends paid	-	-	-	(232 590)	(232 590)
Balance at 29 February 2016	3 450 593	(43 796)	259 720	1 990 112	5 656 629
Profit for the period	-	-	-	287 894	287 894
Other comprehensive income	-	44 326	-	-	44 326
Total comprehensive income for the year	-	44 326	-	287 894	332 220
Issue of shares	1 394 655	-	-	-	1 394 655
Deferred consideration	-	-	(120 295)	-	(120 295)
Dividends paid	-	-	-	(255 399)	(255 399)
Balance at 31 August 2016	4 845 248	530	139 425	2 022 607	7 007 810

Consolidated Statement of Cash flows

	Unaudited for the half year ended 31 Aug 16 R'000	Unaudited for the half year ended 31 Aug 15 R'000	Audited for the year ended 29 Feb 16 R'000
Cash generated in operations	505 336	415 603	827 846
Finance costs	(224 524)	(194 701)	(374 449)
Interest received	5 144	10 654	10 227
Dividends received	-	14 057	36 837
Dividends paid	(255 399)	(238 264)	(470 854)
Net cash from operating activities	30 557	7 349	29 607
Acquisition of investment property	(4 126)	(531 931)	(801 449)
Capital expenditure on investment property	(111 221)	(147 573)	(304 073)
Proceeds on disposal of investment property	206 000	21 643	104 859
Loans received/(advanced)	7 573	-	(77 115)
Acquisition of property, plant and equipment	(96)	(2 945)	(4 449)
Acquisition of shares in associate	-	-	(9 123)
Acquisition of shares in joint venture	-	-	(2)
Net cash from investing activities	98 130	(660 806)	(1 091 352)
Proceeds from issue of shares	-	780 326	703 376
Share buy back	-	(22 933)	(98 254)
Capital issue expenses	(604)	(12 392)	(15 514)
Proceeds from interest-bearing borrowings	200 000	61 698	1 376 946
Repayment of interest-bearing borrowings	(331 482)	-	(859 765)
Net cash from financing activities	(132 086)	806 699	1 106 789
Net movement in cash and cash equivalents	(3 399)	153 242	45 044
Cash at the beginning of the period	105 753	60 709	60 709
Total cash at the end of the period	102 354	213 951	105 753

Condensed consolidated segmental analysis

	Unaudited for the half year ended 31 Aug 16 R'000	Unaudited for the half year ended 31 Aug 15 R'000	Audited for the year ended 29 Feb 16 R'000
Net property rental and related income			
Office - Sovereign	440 273	262 159	721 372
Office - Non-sovereign	75 398	155 371	130 352
Retail	27 616	8 788	66 866
Industrial	7 298	2 824	6 941
	550 585	429 142	925 531
Investment property (including non-current assets held for sale)			
Office - Sovereign	9 141 335	5 411 265	7 733 442
Office - Non-sovereign	1 603 125	3 002 075	1 551 849

Retail	435 383	529 551	632 590
Industrial	177 947	139 173	177 300
	11 357 790	9 082 064	10 095 181

Commentary

Company profile

Delta is a JSE listed Real Estate Investment Trust ("REIT") with a property portfolio of R11.4 billion and a market capitalisation of R4.6 billion as at 31 August 2016. The Fund is black managed with a Level 2 B-BBEE contributor status which is the highest in the sector. Delta continues to be the dominant sovereign listed property fund in South Africa. The primary focus of the Fund is long-term investment in quality, rental income generating properties situated in strategic nodes attractive to sovereign entities and other tenants requiring empowered landlords.

Financial results

The Board has declared an interim distribution of 45.93 cents per share which represents a 7.1% increase to the comparable period in the prior year.

Contractual rental income increased 30.9% from the prior period, benefiting substantially from acquisitions concluded during the period. Property operating expenses increased 30.8% in line with the growth in the portfolio, with net cost to income ratio reducing from 11.4% to 10.2% due to higher cost recoveries on recent acquisitions. Like-for-like net property income increased by 5.2%.

Administrative expenses for the period increased 13.7%, primarily due to the larger portfolio which resulted in increased asset management fees and related costs. The foreign exchange gain of R18.4 million is attributable to the Bank of China loan which provides Delta with significantly lower interest rates than is accessible in local debt markets. Fair value adjustment of R1.1 million represents the net movement of swap contracts and assets disposed. Delta's property portfolio will be revalued at financial year end.

Net finance costs increased 16.9% and was largely driven by acquisitions during the period combined with total interest rate hikes of 100 basis points.

The share of loss in associate is attributable to fair value adjustments by Mara Delta on its property portfolio. Delta continues to benefit from its 23.9% shareholding in Mara Delta, having received a US dollar denominated distribution which translated into R18.8 million.

Property portfolio

As at 31 August 2016 Delta's assets including non-current assets held for sale were valued at R11.4 billion, consisting of 115 properties with a combined GLA of 1 003 028 m².

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

Tenant profile by GLA

	% GLA
National Government	40.4%
Provincial Government	14.7%
Local Government	4.2%
State-Owned Enterprise	11.8%
Retail	6.8%
Industrial	3.1%
Office - other	19.0%
	100.0%

Tenant profile by rental

	% Rental
National Government	39.9%
Provincial Government	20.1%
Local Government	4.5%
State-Owned Enterprise	11.7%
Retail	6.9%
Industrial	1.5%
Office - other	15.4%
	100.0%

Geographical profile by GLA

	% GLA
Gauteng	43.3%
KwaZulu-Natal	29.2%
Free State	8.5%
Limpopo	4.5%
Western Cape	4.2%
Northern Cape	4.0%
Mpumalanga	3.3%
Eastern Cape	2.4%
North West	0.6%
	100.0%

Geographical profile by rental

	% Rental
Gauteng	43.8%
KwaZulu-Natal	23.9%
Limpopo	9.0%
Free State	7.2%
Western Cape	4.9%
Northern Cape	4.4%
Mpumalanga	3.5%
Eastern Cape	2.8%
North West	0.5%
	100.0%

Acquisitions

Delta did not embark on any new acquisitions during the current period but continues to focus on strengthening the underlying portfolio's property fundamentals by renewing leases, managing gearing and filling vacancies. Acquisitions concluded in the previous financial year totalling 17 properties, valued at R1.3 billion with a total GLA of 199 355 m(2), transferred during the current period.

Major capital projects

Delta continues to invest substantial capital in its property portfolio to ensure it maintains a higher quality and grade of assets that meets the requirements of its tenants. The following major capital projects are currently in progress:

- 88 Field Street (Durban) - total estimated capital spend of R89 million which is expected to be completed by financial year end.
- Embassy Building (Durban) - undertaken at an estimated cost of R28 million and is strategic to securing future leases.
- Beacon Hill (King Williams Town) - approved at an estimated cost of R40 million due to a newly secured five-year lease.
- Commission House (Pretoria) - currently in progress at an estimated cost of R28 million and is intended to upgrade the asset which is well positioned near the Union Buildings.

Disposals

At the prior financial year end 17 non-core properties, with a total GLA of 134 754 m2 and amounting to R1.4 billion, were classified as non-current assets held for sale. Of these assets the disposal and transfer of Tembisa Megamart for R206.0 million was concluded at half year, with sale agreements currently being concluded for a further 10 properties. Management's intention is to utilise the net disposal proceeds to either reduce gearing or invest in higher yielding strategically located assets.

Letting and vacancies

The lease expiry profile of the portfolio per segment based on GLA at 31 August 2016 was as follows:

Segment	Vacant Aug 16	Feb 2017	Feb 2018	Feb 2019	Feb 2020	Feb 2021	Beyond
							28 Feb 2021
Office Sovereign	7.3%	32.9%	24.1%	9.0%	7.3%	12.6%	6.8%
Office other	12.6%	19.6%	23.2%	24.2%	11.8%	2.7%	5.9%
Retail	3.4%	9.0%	4.0%	11.4%	14.4%	1.6%	56.2%

Industrial 28.8% 0.0% 28.3% 0.0% 0.0% 42.9% 0.0%

Vacancies were largely unchanged at to 9.2% of gross lettable area (2016: 9.0%) and is expected to reduce to 8.0% once disposals of non-current assets held for sale are completed. The weighted average escalation in force at half-year was 7.1% with a weighted average rental per m(2) of R102.69.

Leases totalling 59 815 m(2) were renewed during the period, with a further 10 860 m(2) of new leases being concluded. DPW is working on a revised Leasing Procurement Policy which will entail registration of all landlords on a centralised database. The intention is to drive transformation and bring back long-term leases, with policy implementation expected in April 2017.

Funding

Delta's loan to value ratio at 31 August 2016 improved significantly to 41.0% (2016: 47.2%), benefiting from acquisitions funded with equity and the settlement of debt on disposals. This ratio is expected to further improve to ca. 40.5% upon the migration of our shareholding in Mara Delta from the Johannesburg Stock Exchange to the Stock exchange of Mauritius.

The weighted average all-in cost of funding is 9.0% (2016: 8.8%), with 84.1% (2016: 83.5%) of borrowings being fixed through a combination of swap contracts and fixed rate loans for an average period of 2.1 years (2016: 2.1 years). The average debt facility expiry period is 2.1 years (2016: 2.3 years) with the interest cover ratio at 2.4 (2016: 2.4).

Global Credit Rating re-affirmed Delta's National Credit Rating as stable on long term and short term at BBB+(za) and A2(za) respectively as at 31 July 2016. They further re-affirmed the A+(za) rating on our Senior Secured Notes - DLTB02 at 31 August 2016.

Management remains strongly focused on initiatives to further improve gearing, obtain competitive funding rates and improve the debt expiry profile.

Changes to directorate during the period

Jorge da Costa stepped down as Chairman of the Investment Committee, member of the Remuneration and Nomination Committee and as an independent non-executive director of the Board with effect from 20 July 2016. We thank Jorge for his contribution to Delta and wish him well in his future endeavours.

Events subsequent to the reporting period

The directors are not aware of any matters or circumstances arising subsequent to 31 August 2016 that require any additional disclosure or adjustment to these financial statements.

Prospects

The domestic property market is expected to remain challenging amidst a weak economy compounded by inflationary pressures and a volatile interest rate outlook. Management and the Board, however, remain positive that the defensive nature of Delta's portfolio will continue to provide value for investors in the form of stable distribution growth.

The primary effort in the business remains focused on lease renewals, renewing debt facilities and further lowering gearing to below 40.0%. The recent roadshows and communication by DPW pertaining to re-emergence of long-term leases provides significant opportunity for value-enhancement to Delta's positioning and ability to implement thereon.

Management remains confident of achieving a full-year distribution growth of between 7.0% and 7.5% for the full 2017 financial year. This forecast is based on the assumption that the current trading environment prevails with no major setbacks in current operating conditions. The Group's independent auditors have not reviewed or reported on the forecast.

Declaration of interim dividend ("the cash dividend")

Shareholders are advised that dividend No. 8 of 45.93057 cents per share for the six months ended 31 August 2016 has been declared. The source of the cash dividend is from distributable income. The abbreviated timetable is as follows:

Last day to trade cum-dividend	Tuesday, 15 November 2016
Shares to trade ex-dividend	Wednesday, 16 November 2016
Record date	Friday, 18 November 2016
Payment date	Monday, 21 November 2016

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 16 November 2016 and Friday, 18 November 2016, both days included.

In accordance with Delta's status as a REIT with effect from 8 December 2014, shareholders are advised that the 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 not been reviewed or audited by the independent external auditors BDO South Africa Incorporated.

By order of the Board:

JB Magwaza (Chairman)

SH Nomvete (Chief Executive Officer)

26 October 2016

Directors: JB Magwaza[^] (Chairman), SH Nomvete* (CEO), ON Tshabalala* (COO),
S Maharaj* (CFO), N Khan[#], DN Motau[^], ID Macleod[^], M de Lange[^], NN Afolayan[^],
BA Corbett[~], AJ König[~]

*Executive; [^]Independent Non-executive; [~] Non-executive; [#]Lead Independent Director

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Transfer secretaries: Computershare Investor Services Proprietary Limited

Sponsor: Nedbank Corporate and Investment Banking

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