13. EARNINGS PER SHARE

The directors are of the view that the disclosure of earnings per share, while obligatory in terms of IAS 33 *Earnings per share*, and the JSE Listings Requirements, is not meaningful to investors as the basic profit includes fair value adjustments, as well as other non-distributable items. In terms of Circular 2/2013, issued by SAICA, the fair value adjustment on investment property is added back in the calculation of headline earnings per share. The circular does not make provision for the fair value adjustment on non-current financial liabilities, accounting adjustments required to account for lease income on a straight-line basis, as well as certain non-cash accounting adjustments that do not affect distributable earnings, to be added back. The calculation of distributable earnings and dividend per share (note 12) is more meaningful.

	2015 Number of shares	2014 Number of shares
Total shares in issue at end of the year (including treasury shares)	**2 711 056 264**	2 284 908 257
Total shares in issue at end of the year (excluding treasury shares)	**2 680 424 437**	2 252 501 622
Weighted average number of shares in issue (WANS)	**2 359 724 314**	1 996 917 123
Diluted weighted average number of shares in issue (DWANS)	**2 376 322 805**	2 010 214 510
	cents	cents
Dividends per share	**173.40**	161.30
Basic earnings per share	**294.74**	279.38
Diluted earnings per share	**292.68**	277.53
Headline earnings per share	**149.42**	154.24
Diluted headline earnings per share	**148.38**	153.22

	2015 Rm	2014 Rm
Basic profit is reconciled to headline earnings as follows:		
Profit after taxation – attributable to equity holders	**6 955**	5 579
Impairment of goodwill/(bargain purchase)	**1 558**	(28)
Realised profit on sale of listed investment	**(1 097)**	–
Add back: net fair value adjustment – investment property	**(3 890)**	(2 471)
– Fair value adjustment	**(2 817)**	(2 272)
– Fair value adjustment (V&A Waterfront and other equity-accounted investments)	**(486)**	(98)
– NCI portion of fair value adjustment	**(587)**	(101)
Headline earnings attributable to shareholders	**3 526**	3 080

The dilution is as a result of the financial impact of 22 952 790 (FY14: 13 297 387) share options allocated to employees in terms of the share schemes, that have not yet vested.

14. PROPERTY ASSETS

(refer to property portfolio section on page 80)

14.1 Fair value of investment property for accounting purposes

	2015 Rm	2014 Rm
Opening fair value of property assets	**69 648**	53 686
Additions at cost – acquisitions	**753**	3 942
– acquisitions – Acucap and Sycom portfolio	**18 586**	–
– acquisitions – Tiber portfolio	**660**	5 379
– acquisitions – Abseq portfolio	**–**	1 343
– development expenditure	**1 478**	869
– capital expenditure	**712**	590
Disposals at fair value	**(701)**	(171)
Transferred to investment property reclassified as held for sale (note 14.3)	**(539)**	(265)
Reclassified – previously held for sale (note 14.3)	**109**	69
Foreign exchange (loss)/gain	**(1 205)**	1 640
Gross fair value adjustment on investment property	**3 534**	2 566
Property valuation	**93 035**	69 648
Less: straight-line lease income adjustment (note 14.2)	**(2 118)**	(2 021)
Fair value of investment property for accounting purposes	**90 917**	67 627
Straight-line lease income adjustment	**2 118**	2 021
Closing fair value of property assets	**93 035**	69 648
– cost	**73 327**	53 388
– cumulative fair value surplus	**19 708**	16 260

14. PROPERTY ASSETS continued

14.1 Fair value of investment property for accounting purposes continued

Securities

Mortgage bonds have been registered over South African investment property, including investment property reclassified as held for sale, with a fair value of R43 253 million (FY14: R26 382 million) as security for non-current interest-bearing liabilities at a nominal value amounting to R20 703 million (FY14: R11 457 million).

First mortgage bonds have been registered over Australian investment property, including investment property reclassified as held for sale, with a fair value of AUD2 283 million or R21 442 million (FY14: AUD2 037 million or R20 297 million). Additional security was also provided in the form of other current assets to a value of AUD124 million or R1 170 million (FY14: AUD92 million or R913 million).

Valuation of investment properties

In terms of the Group's accounting policy, at least 75% of fair value of investment properties should be determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The balance of the South African portfolio was valued by Growthpoint's qualified internal valuers.

The South African properties were valued at 30 June 2015 using the discounted cash flow of future income streams method by the following valuers who are all registered valuers in terms of section 19 of the Property Valuers Professional Act, No 47 of 2000:

Mills Fitchet PWV	PG Mitchell	N Dip (Prop Val), MIV (SA), CIEA, Professional valuer
Mills Fitchet KZN	T Bate	MSc, BSc Land Econ (UK), MRICS, MIV (SA), Professional valuer
ERIS	C Everatt	BSc (Hons) Estate management, MRICS, MIV (SA), Professional valuer
Glenross	AG Rostovsky	MIV (SA), MRICS, Professional valuer, Appraiser
Old Mutual Properties	T King	BSc DipSurv, MRICS Valuer (SA), Professional valuer
Jones Lang LaSalle	R Long	BSc, MBA, MRICS, Professional valuer
Broll	S Wolffs	N Dip (Prop Val), Professional associate valuer
Rode and Associates	K Scott	BCom (Hons), MRICS, Professional valuer
PropVal Assist	C van Rooyen	N Dip (Prop Val), MRICS, MIV (SA), Professional valuer
Spectrum	PL O'Connell	N Dip (Prop Val), Professional valuer
LDM	FV Amaed	Professional associate valuer
Mills Fitchet Magnus Penny (Cape)	MRB Gibbons	N Dip (Prop Val), MRICS, MIV (SA), Professional valuer
Quadrant Properties	P Parfitt	N Dip (Prop Val), MIV (SA), Professional valuer

The Australian properties were valued at 30 June 2015 using the discounted cash flow of future income streams method by Savills, Jones Lang LaSalle, Urbis, Knight Frank, CBRE and LandMark White who are all members of the Australian Property Institute and Certified Practising Valuers.

	2015 %	2014 %
At the reporting date, the key assumptions and unobservable inputs used by the Group in determining fair value were in the following ranges for the Group's portfolio of properties:		
Retail sector		
Discount rate	**12.5 – 15.5**	12.3 – 15.8
Exit capitalisation rate	**6.8 – 10.3**	6.8 – 10.3
Capitalisation rate	**6.8 – 10.0**	6.8 – 10.0
Office sector		
Discount rate	**12.8 – 16.0**	13.3 – 16.5
Exit capitalisation rate	**7.5 – 10.0**	7.8 – 12.5
Capitalisation rate	**7.5 – 10.0**	7.8 – 11.5
Industrial sector		
Discount rate	**13.8 – 17.3**	13.0 – 17.5
Exit capitalisation rate	**8.0 – 12.0**	8.3 – 13.0
Capitalisation rate	**8.0 – 12.0**	8.0 – 12.5
GOZ Office		
Discount rate	**8.0 – 10.3**	8.5 – 10.5
Terminal yield	**7.3 – 11.8**	7.5 – 10.5
Capitalisation rate	**6.8 – 12.0**	7.0 – 12.0
GOZ Industrial		
Discount rate	**8.0 – 10.0**	9.0 – 10.3
Terminal yield	**6.8 – 11.5**	7.5 – 10.3
Capitalisation rate	**6.5 – 9.8**	7.3 – 9.8

14. PROPERTY ASSETS continued

14.1 Fair value of investment property for accounting purposes continued

South African portfolio

Commentary on discount rates

The discount rate applied was derived using an appropriate capitalisation rate and adding a growth rate based on market-related rentals, testing this for reasonableness by comparing the resultant Rand rate per m² against comparative sales of similar properties in similar locations.

Commentary on capitalisation rates

Investor interest in properties across all sectors remains robust with competition having increased for the small amount of prime stock that does come onto the market. As a result of this, yields have firmed in general, especially in the prime market. Average capitalisation rates and discount rates have compressed over the year to take this trend into account.

Commentary on expected vacancy periods and rental growth rates

Historic trends with regard to vacancy periods experienced on the re-letting of vacant space, coupled with the emphasis on tenant retention, indicate that the expected vacancy period applied in the 2015 valuation best approximates the actual experience. With inherent in-force rental increases at above 7.7% per annum (FY14: 8%) and expense growth stabilised, the expected rental growth rate for the 2015 valuations is considered reasonable.

Commentary on Acucap and Sycom portfolio

Mills Fitchet Magnus Penny (Cape) and Quadrant Properties valued the Acucap and Sycom properties at 31 March 2015 using methods that were consistent with Growthpoint's valuation method. The relevant people and qualifications are included in the listing above. Values established at 31 March 2015 were used as the values of the properties at 30 June 2015.

GOZ portfolio

Commentary on discount rates

Date of valuation	**30 June 2015 %**	30 June 2014 %
Weighted average 10-year discount rate used to value the GOZ's properties	**8.50**	9.15
10-year bond rate	**3.00**	3.54
Implied property risk premium	**5.50**	5.61

As the above table shows, over the 12 months to 30 June 2015 discount rates utilised in the valuation of the GOZ property portfolio have tightened (lowered) although the spread has remained mostly static. At the reporting date, the weighted average discount rate utilised in valuing the GOZ portfolio of property has decreased by approximately 65 basis points. Over this same period the implied property risk premium has reduced by approximately 11 basis points. The implied property risk premium is the difference between the weighted average discount rate and the 10-year Australian Government bond rate. The decrease in the implied property risk premium is driven by the tightening of the GOZ weighted average discount rate, which outweighed the reduction in the bond rate of 54 basis points from June 2014 following a recovery from the low levels in March 2015.

Commentary on capitalisation rates

Industrial

There continues to be strong interest in the industrial property sector, as transactions indicate domestic and foreign institutional investors compete for limited prime quality stock and secondary quality stock. This has led to further firming of yields over the past 12 months of 50 to 100 basis points for both ends of the prime yield range and the higher quality end of secondary yields. These transactions have provided good evidence for the Group's own industrial properties which reduced the weighted average capitalisation rate used to value the industrial portfolio from 8.0% to 7.3% over the year to 30 June 2015.

Office

Over the past two to three years, the commercial property market has experienced solid investment activity from both domestic and international institutional investors, predominantly for A-grade office assets, which has led to firmer yields. However, in contrast to the buoyant investment metrics, office leasing conditions remain challenging. Following some new leasing deals, lease extensions to existing tenants and a strong investment market, the weighted average capitalisation rate used in valuing the office portfolio has firmed from 7.8% to 7.3% over the year to 30 June 2015.

		2015 Rm	2014 Rm
14.2	**Straight-line lease income adjustment**		
	Opening balance	**2 021**	1 778
	Arising during the year	**130**	193
	Foreign exchange (loss)/gain	**(33)**	50
		2 118	2 021
14.3	**Investment property reclassified as held for sale**		
	Opening fair value of property held for sale	**265**	545
	Properties no longer held for sale – reclassified as investment property (note 14.1)	**(109)**	(69)
	Transferred from investment property (note 14.1)	**539**	265
	Additions at cost – capital expenditure	**1**	4
	Proceeds on disposals	**(157)**	(480)
	Closing fair value of property held for sale	**539**	265
	– cost	**512**	133
	– cumulative fair value surplus	**27**	132

14. PROPERTY ASSETS continued

14.3 Investment property reclassified as held for sale continued

The investment property reclassified as property held for sale are properties that the directors have decided will be recovered through sale rather than through use. The opening balance relates to two investment properties in the retail sector, three investment properties in the office sector and three investment properties in the industrial sector. In the current year, seven of the investment properties were disposed of for R157 million and one was transferred back into investment properties as the sale was cancelled.

Sale agreements have been entered into for a further five properties, two in the office sector and three in the industrial sector, with a fair value of R539 million at year end.

14.4 Measurement of fair value

14.4.1 Fair value hierarchy

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Valuation techniques	Inter-relationship between key unobservable inputs and fair value measurements
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental and expense growth rates, vacant periods, lease incentive costs such as rent-free periods and other costs not recovered from tenants. The expected net cash flows are discounted using a discount rate. The discount rate applied is derived using an appropriate capitalisation rate and adding a growth rate based on market-related rentals, testing this for reasonableness by comparing the resultant Rand rate per m^2 against comparative sales of similar properties in similar locations. Among other factors, the capitalisation rate estimation considers the quality of the building, its location, the tenants' credit quality and their lease terms.	The estimated fair value would increase/(decrease) if: – expected market rental growth was higher/(lower); – expected expense growth was lower/(higher); – vacant periods were shorter/(longer); – the occupancy rate was higher/(lower); – rent-free periods were shorter/(longer); – discount rate was lower/(higher); and – reversionary capitalisation rate was lower/(higher).

The fair value measurement for investment property (including investment property reclassified as held for sale) of R93 574 million (FY14: R69 913 million) has been categorised as level 3 under the fair value hierarchy based on the inputs to the valuation technique used. Refer to note 45.2 for the level 3 reconciliation.

		2015 Rm	2014 Rm
15.	**EQUITY-ACCOUNTED INVESTMENTS**		
	Equity-accounted investment – V&A Waterfront (note 15.1)	**6 047**	5 574
	Equity-accounted investments – other (note 15.2)	**55**	148
	Equity-accounted investments – other (note 15.3)	**362**	–
		6 464	5 722
15.1	**Equity-accounted investment – V&A Waterfront**		
	Initial investment in equity	**156**	156
	Share in equity-accounted results – prior years	**418**	288
	Share in equity-accounted results – current year	**473**	130
	Equity-accounted investment	**1 047**	574
	Debenture holding in joint venture	**5 000**	5 000
		6 047	5 574

Growthpoint has a 50% shareholding in the properties owned by the V&A Waterfront Holdings (Pty) Ltd in Cape Town as part of a joint arrangement with the Government Employees' Pension Fund, represented by the Public Investment Corporation (SOC) Limited (PIC).

This entity is structured as a separate vehicle and the Group has a residual interest in its net assets.