

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of Stor-Age Property REIT Limited

### Report on the audit of the consolidated and separate financial statements

#### *Opinion*

We have audited the consolidated and separate financial statements of Stor-Age Property REIT Limited (the group and company) set out on pages 62 to 122, which comprise the consolidated and separate statements of financial position as at 31 March 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Stor-Age Property REIT Limited as at 31 March 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)*, and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Part A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified the following key audit matters pertaining to both the consolidated and separate financial statements:

### 1. Valuation of Investment Properties

Investment properties – consolidated: R2 050.2 million and separate: R36.6 million

*Refer to the accounting policies note 1.6 and note 3 to the consolidated financial statements.*

Key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties is an area of judgement which could materially affect the financial statements given that the investment properties are measured at fair value.</p> <p>Independent valuations are obtained for one third of the number of properties each year such that all properties are independently valued every three years. The independent valuations were performed at 31 March 2017 by an external registered valuer. The remaining two-thirds of the number of properties were internally valued by management at 31 March 2017. All valuations were reviewed by the executive directors to assess the reasonability of the property valuations and approved by the board of directors. For all investment properties, their current use equates to the highest and best use.</p> <p>The fair value calculations are prepared by considering the discounted cash flow of the net operating income over a 10 year period and notional sale of the asset in year 10. The income capitalisation method is also applied to ensure that the discounted cash flow valuation is appropriate. The data used in the fair value calculations includes significant unobservable inputs including forecast net income, occupancy levels, discount rates, capitalisation rates, rental escalations and operating cost inflation.</p> <p>Our audit focused on the fair value measurement of investment properties due to its impact on the consolidated and separate financial statements and the significance of the judgements involved in the determination of the fair value.</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• We assessed the competence, capabilities and objectivity of the independent external valuer, and verified their qualifications.</li> <li>• We assessed the competence, capabilities and objectivity of executive directors reviewing the valuations and the board of directors who approve these.</li> <li>• We focused our audit work on testing the key assumptions used in the determination of the fair value, which included: <ul style="list-style-type: none"> <li>• Evaluating the valuation models prepared in March 2017 to ensure that the valuation methodology was appropriate.</li> <li>• Assessing the reasonableness of the following assumptions used in determining fair value with reference to available industry data for similar investment properties: <ul style="list-style-type: none"> <li>– Discount rates;</li> <li>– Capitalisation rates; and</li> <li>– Operating cost inflation.</li> </ul> </li> <li>• Assessing the reasonableness of the following assumptions used in determining fair value with reference to recent actual rental experience: <ul style="list-style-type: none"> <li>– Forecast net income; and</li> <li>– Rental escalation.</li> </ul> </li> </ul> </li> <li>• We assessed whether the disclosures in the financial statements were appropriate.</li> </ul>

# INDEPENDENT AUDITOR’S REPORT (continued)

We have identified the following key audit matters pertaining to the consolidated financial statements only:

## 1. Significant Business Combinations

*Refer to note 20 to the consolidated financial statements.*

Key audit matter	How the matter was addressed in our audit
<p>The group acquired Storage RSA Investments Proprietary Limited and Units 1–4 Somerset West Business Park Proprietary Limited which were considered significant business combinations.</p> <p>Our audit focused on the accounting for these transactions in terms of IFRS 3 <i>Business Combinations</i>, due to its impact on the financial statements and the significance of the judgements involved in the determination of the fair value of identifiable assets and liabilities arising from the acquisitions.</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• We assessed the treatment of each transaction to ensure the accounting was in line with the group accounting policies.</li> <li>• We agreed the transactional details and total purchase consideration to underlying legal agreements.</li> <li>• We assessed the fair value of the identifiable assets and liabilities arising from the acquisitions for reasonableness.</li> <li>• As the most significant identifiable asset, we compared the fair value of the investment property at acquisition date to the fair value audited in-line with the procedures above to determine if the movement was reasonable.</li> <li>• We assessed whether the disclosures in the financial statements were appropriate.</li> </ul>

## 2. Goodwill

Goodwill – R47.5 million

Refer to accounting policies note 1.9 and note 5 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>Goodwill arises from the acquisitions made by the group. Management performs an annual impairment test on the recoverability of the goodwill as required by IAS 36 Impairment of Assets, which is subjective in nature due to judgements having to be made of future performance.</p> <p>The fair value calculations are prepared by considering the discounted cash flow of the net operating income over a 10 year period. The income capitalisation method is also applied to ensure that the discounted cash flow valuation is appropriate. The data used in the fair value calculations includes significant unobservable inputs including forecast income, discount rates, exit capitalisation rates, growth rates and cost inflation.</p> <p>Our audit focused on the fair value measurement of goodwill due to its impact on the assessment for impairment and the significance of the judgements involved in the determination of the fair value</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• We focused our audit work on testing the key assumptions made by management in the determination of the fair value, which included: <ul style="list-style-type: none"> <li>• Evaluating the valuation models prepared to ensure that the valuation methodology was appropriate.</li> <li>• Assessing the reasonableness of the following assumptions used in determining fair value with reference to available industry data for similar investment property contracts: <ul style="list-style-type: none"> <li>– Discount rates;</li> <li>– Exit capitalisation rates; and</li> <li>– Cost inflation.</li> </ul> </li> <li>• Assessing the reasonableness of the following assumptions used in determining fair value with reference to recent actual experience: <ul style="list-style-type: none"> <li>– Forecast income; and</li> <li>– Growth rates.</li> </ul> </li> </ul> </li> <li>• We assessed whether the disclosures in the financial statements were appropriate.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit and Risk Committee Report, and the Declaration by the Company Secretary as required by the Companies Act of South Africa, and the Directors' responsibility statement, Unaudited property portfolio information and Unaudited shareholder analysis, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT (continued)

## ***Responsibilities of the Directors for the consolidated and separate financial statements***

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

## ***Auditor's responsibilities for the audit of the consolidated and separate financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***Report on other legal and regulatory requirements***

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Stor-Age Property REIT Limited for two years.



**KPMG Inc.**  
Per **GM Pickering**  
Chartered Accountant (SA)  
Registered Auditor  
Director  
13 June 2017