

A collage of hexagonal images showing various scenes from a shopping mall, including people walking, escalators, and storefronts. The images are arranged in a circular pattern around the central text.

VUKILE

PROPERTY FUND

REAL ESTATE. REAL GROWTH.

Unaudited condensed consolidated
interim results for the six months
ended 30 September 2019

www.vukile.co.za



VUKILE

PROPERTY FUND

REAL ESTATE. REAL GROWTH.

HIGHLIGHTS

- **3.5% increase in dividends in line with guidance to 80.84 cents per share**

Vukile Property Fund Limited

(Incorporated in the Republic of South Africa)

(Registration number 2002/027194/06)

JSE share code: VKE

ISIN: ZAE000056370

NSX share code: VKN

Debt company code: VKEI

(Granted REIT Status with the JSE)

(Vukile or the group or the company)

- **Outstanding retail performance in Spain**

- Investment property increased to **€1 028 million** from €916 million
- Acquisition of Puerta Europa Mall for **€56.8 million** and additional El Corte Ingles units for **€37 million**
- Reduced vacancy to **1.4%** for the period with **6.7% positive reversions** and **21% growth** on new leases
- Maintaining a rent collection rate of **over 99%**
- EPRA NAV increased by **3.14%** to **€594 million** equating to **€6.89 per share**



■ Continued strong operational results from defensive portfolio in southern Africa

- Retail vacancies reduced to **2.8%** with **82%** retail tenant retention
- Like-for-like growth in net income of **6.1%**
- **3.5%** like-for-like trading density growth, and rent-to-sales ratio down to **5.9%**
- Cost-to-income ratio well contained at **16.9%** of all expenses
- Acquired Mdantsane Shopping Centre for **R516.5 million** in November 2019

■ Robust balance sheet leading to upgraded credit rating

- Corporate long-term credit rating upgraded to **AA_(ZA)**
 - Interest cover ratio of **6.4 times**
 - Loan-to-value ratio of 40.8% with **86.5%** of debt hedged
- ### ■ 47% of earnings now generated in Spain
- Acquired additional stake in Castellana for **€38.9 million**, increasing total interest to 82.5%

COMMENTARY

NATURE OF OPERATIONS

Vukile is a high-quality, low-risk retail-focused Real Estate Investment Trust (REIT), domiciled and operating in southern Africa, with growing international exposure in Spain. The results reflect a strong operational focus with a core competence in active property asset management.

FINANCIAL PERFORMANCE

EXECUTIVE SUMMARY

Vukile remains focused on generating sustainable and predictable dividend growth over the long term. Key decisions and strategy are aligned to this long-term approach, and the group avoids transactions which do not complement the long-term strategy of the group.

Over the six-month period to 30 September 2019, we have continued to build on momentum gained with organic and acquisitive growth in the southern African and Spanish portfolios, offering investors a retail-focused investment property portfolio in southern Africa and Spain. Asset management interventions continue to add value and drive growth in both the Spanish and southern African portfolios.

At a high level, the following significant events and transactions took place during the six months to 30 September 2019:

- Vukile raised equity capital of R700 million in April 2019 via an accelerated bookbuild;
- Vukile acquired an additional 10.38% holding in Castellana over the period, bringing our total interest to 82.5%;
- In Spain, Castellana acquired the Puerta Europa Mall situated in Algecira, Cadiz for €56.8 million and additional El Corte Ingles units at the Bahía Sur and Los Arcos Centres for €37 million (funded by Vukile by subscribing for additional Castellana equity totalling c.€76 million as well as debt of c.€17.8 million);
- Vukile's senior secured long-term credit rating was upgraded to AAA_(ZAWEL), the corporate long-term credit rating was upgraded to AA_(ZAW) and the corporate short-term rating was upgraded to A1+_(ZAW), with a stable outlook;
- Subsequent to period-end, Vukile concluded the acquisition of Mdantsane Shopping Centre for R516.5 million (November 2019);
- In South Africa, the asset management team achieved practical completion of Maluti Crescent phase 2 and Pine Crest developments in July and August respectively.

Group total assets amount to R37.6 billion at 30 September 2019 (31 March 2019: R35.1 billion). Direct property investments account for R32.9 billion at 30 September 2019 (31 March 2019: R30.5 billion). Listed property investments amounted to R2.3 billion at 30 September 2019.

DIVIDEND GROWTH AND DISTRIBUTABLE PROFIT FOR THE PERIOD

The directors of Vukile are pleased to report that dividends for the six months ended 30 September 2019 increased by 3.5% to 80.83610 cents per share (September 2018: 78.10251 cents per share), in line with guidance.

KEY FINANCIAL MEASURES

A summary of key financial measures is provided below:

Key financial measures	30 September 2019	30 September 2018	31 March 2019	% change
Dividend per share (cents)	80.84	78.10	181.48	3.5
Net asset value per share (cents)	2 000	2 027	2 026	(1.3)
Interest cover ratio (times) ⁽¹⁾	6.44	5.10	6.05	
Loan-to-value ratio net of cash (%) ⁽²⁾	40.8	39.7	37.2	

⁽¹⁾ Based on operating profit plus dividends from listed investments (EBITDA) divided by finance costs, after deducting all finance income (net interest cost) over the respective period.

⁽²⁾ Based on directors' valuations of the group's portfolio and the market value of listed investments at 30 September 2019, less cash (excluding cash held on deposit from tenants).

SHARE PRICE AND LIQUIDITY

Vukile's share price decreased by 5% from R20.00 per share at 31 March 2019, to R19.00 at 30 September 2019. The negative share price movement is largely in line with the decline in the SAPI Index, which reduced by 4.1% over the same period.

Over the six months ended 30 September 2019, 311.5 million Vukile shares were traded, which equates to approximately 26.0 million shares per month. The market capitalisation of Vukile at 30 September 2019 was R18.2 billion (31 March 2019: R18.4 billion). The shares traded represent R6.2 billion or 34.3% of market capitalisation at 30 September 2019 (31 March 2019: 38%), demonstrating the liquidity of Vukile's shares in the market.

GROUP PROPERTY INCOME AND PROFIT BEFORE TAX

The high-level geographical split of revenue and net property income at 30 September 2019 is as follows:

Geographical segment	Revenue ⁽ⁱ⁾ 30 September 2019 Rm	Revenue ⁽ⁱ⁾ 30 September 2018 Rm	% change	Net property income 30 September 2019 Rm	Net property income 30 September 2018 Rm	% change
Southern Africa	793.0	741.2	7.0%	654.0	594.4	10.0
Spain	603.0	309.4	94.9%	580.0	239.4	142.3
Total	1 396.0	1 050.6	32.9%	1 234.0	833.8	48.0
Split %						
Southern Africa	56.8	70.6		53.0	71.3	
Spain	43.2	29.4		47.0	28.7	

⁽ⁱ⁾ Excludes straight-line rental income and utility recoveries

The contribution to each geographical segment is shown in the table above. Group net property income increased by 48.0% from R833.8 million to R1 234.0 million. Portfolio specific measures and movements are discussed more fully in the relevant southern African and Spanish portfolio commentary hereafter.

GROUP CASH FLOW

The major items reflected in the composition of cash generated and utilised during the period under review are set out below:

	Rm
Cash from operating activities	1 045.5
Dividend paid (final dividend FY19)	(1 033.8)
Excess cash generated over dividend paid for the period	11.7
Net proceeds from the issue of shares	696.3
Borrowings and advances	2 536.0
Borrowings repaid	(418.0)
Acquisitions/improvements to investment property: southern Africa	(167.2)
Acquisitions/improvements to investment property: Spain	(1 720.9)
Additional investment in Castellana	(617.8)

Cash flow from property investments (including net finance costs) comfortably covered the dividend paid for the period under review. The net proceeds from additional debt raised, combined with proceeds from shares issued, were utilised to acquire additional shares in Castellana, in addition to the acquisition of investment property, primarily in Spain.

COMMENTARY continued

GROUP CORPORATE EXPENDITURE

	30 September 2019 Rm	30 September 2018 Rm	Variance Rm	Variance %
Southern Africa	86.0	68.0	18.0	26.5
Spain	54.0	28.6	25.4	88.8
Group total	140.0	96.6	43.4	44.9

The primary factors giving rise to the increases in corporate costs are as follows:

- Southern Africa:
 - Salary and related costs increased by R12.0 million due to additional amortisation of awards to qualifying employees on the group share scheme, following the outperformance of criteria set in the scheme, and additional members being included in the scheme for the period under review. There were also additional senior executives on the payroll, prior to the retirement of two longstanding directors
 - Additional costs relating to the Vukile Academy of R2.4 million.
- Spain:
 - Of the total variance of R25 million, R20 million relates to increased salary costs, as the Castellana staff complement increased from 12 to 26 (a 116% increase). The balance of the increase relates primarily to increased travel costs, legal fees and office operational costs. The Castellana team is now operating at full capacity.

Annualised corporate expenditure equates to 0.74% of total assets, being 0.46% attributable to southern Africa and 0.29% attributable to Spain.

NET ASSET VALUE (PER SHARE)

The net asset value (NAV) of the group decreased over the reporting period by 1.3% from R20.26 per share to R20.00 per share at 30 September 2019, as set out in the table below.

	Rand per share
NAV 1 April 2019	20.26
Increase in investment property	1.75
Increase in investment property held for sale	0.86
Increase in other non-current assets	0.30
Decrease in current assets	(0.20)
Increase in current liabilities	(0.80)
Increase in non-current liabilities	(0.77)
Decrease in non-controlling interest	0.60
Adjusted for additional shares in issue	(2.00)
NAV 30 September 2019	20.00

The NAV of R20.00 per share represents a 5.3% premium to Vukile's share price of R19.00 per share at 30 September 2019.

GROUP INVESTMENT AND OTHER INCOME

	30 September 2019 Rm	30 September 2018 Rm	Movement	
			Rm	%
Investment and other income	99.4	61.5	37.9	61.6
Interest income	36.4	32.0	4.4	13.8
Net interest received on cross-currency interest rate swaps (CCIRS) after deducting finance costs	93.1	74.3	18.8	25.3
Total	229.0	167.8	61.2	36.5

Further commentary on investment income is provided under “Listed investments”. The CCIRS ratio to total international investments (on a consolidated basis) has reduced to 30.2% (September 2018: 34.5%). Vukile has chosen to limit the utilisation of CCIRS to 45% of the total value of international investments. At 30 September 2019 the CCIRS nominal value was €182.5 million.

CALCULATION OF DISTRIBUTABLE EARNINGS

	30 September 2019 Rm	30 September 2018 Rm	Variance %
Revenue	1 382	1 030	34.1
Property expenses (net of recoveries)	(162)	(217)	25.3
Net profit from property operations	1 220	814	50.0
Corporate administration expenses	(140)	(97)	44.3
Investment and other income	229	168	36.3
Operating profit before finance costs	1 309	885	48.0
Finance costs	(296)	(247)	(19.8)
Profit before equity-accounted income	1 013	638	58.9
Share of income from associate (Atlantic Leaf)	41	46	(10.9)
Profit before taxation	1 054	684	54.2
Taxation	(14)	(17)	(17.6)
Profit for the year	1 040	667	56.0
Net profit attributable to non-controlling interests	(88)	(25)	(100.0)
Attributable to Vukile group	952	642	48.4
Non-IFRS adjustments	(105)	70.9	
Profit before tax of subsidiary (Castellana)	(111)	—	100.0
Listed investments (Fairvest and Gemgrow)	1	—	100.0
Non-cash impact of IFRS 16 (Leases)	3	—	100.0
Antecedent dividend	2	70.9	(97.6)
Available for distribution	847	713	
Total dividend for the period (Rand)	773	702	
Total dividend for the period (cents per share)	80.84	78.10	3.5
Number of shares in issue at period end	956 226 628	875 339 319	

COMMENTARY continued

LISTED INVESTMENTS

Vukile views its investments in Arrowhead (formerly Gemgrow) and Atlantic Leaf as non-core to the group's strategy going forward. Given the right opportunity, the group will consider exiting these investments in order to deploy the sale proceeds into the core portfolio in South Africa and Spain.

Entity	30 September 2019			31 March 2019	
	Carrying value Rm	Number of shares held	% held	Carrying amount Rm	% held
Fairvest	551.6	270 394 812	26.6	567.8	26.9
Arrowhead	515.0		11.3	728.9	25.3
Arrowhead – A shares	46.9	4 691 084		44.6	
Arrowhead – B shares	468.1	114 438 564		684.3	
Atlantic Leaf	1 251.8	65 958 606	34.9	1 302.9	34.9
Total	2 318.4			2 599.6	

Fairvest – 26.6% shareholding

Fairvest Properties Limited (Fairvest) is a JSE listed REIT with a retail-focused portfolio, located mostly in rural and non-metropolitan areas, including convenience and community centres.

Fairvest's management has forecast a distribution growth of 4% to 6% to 30 June 2020. Dividends calculated on a full 12-month period therefore reflect a yield of 11.1%, based on the value of Fairvest's shares at 30 September 2019.

Arrowhead (formerly Gemgrow) – 11.3% shareholding

Arrowhead Properties Limited (Arrowhead) is a JSE listed REIT with a dual share structure, comprising A and B shares. Prior to 30 September 2019, the shareholders of Gemgrow and Arrowhead, approved the merger of the two entities to create a simpler, more efficient structure, reducing corporate costs and allowing for improved liquidity, and in order to better position the merged entity to access equity markets in future. Following the merger, the entity is a diversified fund that invests in retail, office and industrial property, situated across South Africa.

Vukile anticipates a total dividend from Arrowhead of R84.9 million for the year to March 2020, a decrease of 7.2% over the prior year. Dividends calculated on a full 12-month period reflect a yield of 16.8%, based on the share price at 30 September 2019.

Atlantic Leaf – 34.9% shareholding

Atlantic Leaf Properties (Atlantic Leaf) is a dual listed UK REIT focusing on industrial and warehouse distribution centres in the UK. Its shares are listed on the Johannesburg and Mauritian stock exchanges. In terms of IFRS, Atlantic Leaf is accounted for as an equity-accounted associate of Vukile.

Dividends received from Atlantic Leaf for the six months to September 2019 were R41.2 million after dividend withholding tax (WHT), compared to R46.5 million for the same period to September 2018 (the prior period had no WHT deducted since Atlantic Leaf converted to UK REIT in February 2019). In total, 89% of forecast net dividends from Atlantic Leaf (represented by a gross dividend of 9.5 pence per share) is hedged over the next 12 months. Dividends calculated on a full 12-month period reflect a yield of 8.6%, based on the value of Atlantic Leaf's shares at 30 September 2019.

INVESTMENT IN SUBSIDIARY

Castellana – 82.5%

Castellana Properties is a Spanish SOCIMI (equivalent to a REIT) specialising in the acquisition, ownership and management of shopping centres in Spain. The company was founded in 2015 and was listed on the Alternative Spanish Stock Exchange (MAB) on 25 July 2018.

Vukile's shareholding in Castellana over the six-month period increased from 72.1% to 82.5%, following share subscriptions and the acquisition of shares from Westbrooke, a minority shareholder in Castellana. Other minority shareholders hold the balance of the shares (17.5%).

Details of the Spanish property portfolio, including details relating to acquisitions, valuations, value creation and investment strategy are set out in the portfolio review below.

TREASURY MANAGEMENT

Group borrowings summary

The group's funding strategy is to optimise funding costs and while minimising refinance risk. Total debt as at 30 September 2019 amounted to R15.5 billion. A summary of funding by currency is provided below:

Funding breakdown	Number of funders	Rm	
Foreign Spanish funders (EUR)	7	8 144	} Partly secured against Vukile's SA balance sheet
SA funders (EUR)	4	3 926	
SA funders (GBP)	1	533	
SA funders (ZAR)	5	926	
DMTN (ZAR)		2 007	
Grand total		15 536	

Sources of funding

Vukile's funding of R15.5 billion is well diversified across a number of funders, in line with the group's strategy to manage concentration and refinance risk.

Group debt and hedging exposure per bank (ZAR)	Debt ⁽¹⁾	Debt exposure	Hedging and
	Rm	per bank %	fixed debt ⁽²⁾
			Rm
Aareal ⁽³⁾	2 653	17.1	2 348
Allianz	2 572	16.6	2 572
ABSA	2 401	15.5	2 618
DMTN – corporate bonds	2 007	12.9	–
Caixabank ⁽³⁾	1 336	8.6	1 253
Standard Bank	1 149	7.4	913
Banco Santander ⁽³⁾	1 018	6.6	969
Investec	969	6.2	966
RMB	766	4.9	41
Liberbank ⁽³⁾	247	1.6	–
Banco Popular ⁽³⁾	186	1.2	186
Pichincha ⁽³⁾	132	0.8	–
Nedbank	100	0.6	984
Grand total	15 536	100.0	12 850

⁽¹⁾ Foreign currency denominated debt converted at a EUR/ZAR spot rate of R16.49 and GBP/ZAR spot rate of R18.59 at 30 September 2019.

⁽²⁾ Hedging exposure is represented by exposure per banking relationship.

⁽³⁾ Group exposure includes Castellana Properties SOCIMI debt of €494 million (R8.144 billion equivalent), and swaps of €146.0 million (R2.408 billion equivalent).

COMMENTARY continued

VUKILE GROUP LOAN AND SWAP EXPIRY PROFILE AT 30 SEPTEMBER 2019

As part of the group's funding strategy, Vukile targets no more than 25% of total group debt expiring in any single financial year.

	2020	2021	2022	2023	2024	2025	2026	2027 and beyond	Total
Loan expiry profile including access facility (%)	7.6	12.0	21.5	12.5	10.6	0.1	33.8	1.9	100.0
Loan expiry profile (Rm)	574	1 824	3 304	1 941	1 650	19	5 244	301	14 857
Access facility expiry profile (Rm)	613	35	31	—	—	—	—	—	679
Hedging (swap and fixed debt) profile (Rm)	75	382	1 367	2 234	8 767	25	—	—	12 850

A summary of group debt ratios at 30 September 2019 is provided below:

	30 September 2019			31 March 2019		
	Group Rm	Southern Africa Rm	Spain Rm	Group Rm	Southern Africa Rm	Spain Rm
Total debt (excluding access facilities)	R14 857	R6 713	R8 144	R12 771	R5 450	R7 322
Interest-bearing debt fixed/hedged (%)	86.5	82.2	90.0	95.7	91.7	98.7
Hedged (swaps and fixed debt) maturity profile (years)	3.42	3.11	3.66	3.55	2.66	4.16
Debt maturity profile (years)	3.51	1.67	5.18	3.92	2.01	5.46
Loan-to-value ratio (net of cash) ⁽¹⁾ (%)	40.8	38.8	42.9	37.2	30.0	45.9
Interest cover ratio (six months) ⁽²⁾	6.44 times	8.04 times	5.32 times	6.05 times	7.94 times	4.07 times
Gearing ratio ⁽³⁾ (%)	40.6	37.7	43.9	37.0	30.1	45.6

⁽¹⁾ Loan-to-value ratio is calculated as a ratio of nominal interest-bearing debt less cash and cash equivalents (excluding tenant deposits and restricted cash) divided by the sum of (i) the amount of the most recent director's valuation of all the direct property portfolio on a consolidated basis and (ii) the market value of listed investments.

⁽²⁾ Interest cover ratio is based on operating profit excluding straight-line lease income plus dividends from equity-accounted investments and listed securities income (EBITDA) divided by the finance costs after deducting all finance income (net interest cost) over the respective period.

⁽³⁾ Gearing ratio is calculated as a ratio of interest-bearing debt on a consolidated IFRS basis divided by total assets.

GROUP FINANCE COSTS

The group's average cost of finance (including amortisation of capitalised raising fees) for the period ended 30 September 2019 is 4.0% (31 March 2019: 4.7%).

Interest-bearing debt is 86.5% hedged (31 March 2019: 95.7%).

Group finance costs have increased by R49.0 million, from R247.0 million to R296.0 million, which is due to group borrowings increasing to R15.5 billion at 30 September 2019 from R13.2 billion at 30 September 2018.

Over the reporting period, the acquisition of the El Corte Ingles units, the Puerta Europa Centre and Westbrooke's Castellana shares contributed to the increase in the group Euro debt. Castellana's cost of debt is c.2.5% in Spain, while Vukile's cost of Euro debt in South Africa is at 2.2%.

The average cost of finance decreased over the period since a larger portion of group debt is Euro based. Finance costs by currency, using the historic weighted average cost of debt, is represented in the following table:

	HY20 historical cost of debt %	Debt at 30 September 2019 Rm	FY19 historical cost of debt %	Debt at 31 March 2019 Rm
ZAR	9.6	2 900	9.2	3 226
EUR	2.5	12 070	2.7	9 462
GBP	3.4	534	3.5	542
Total	4.0	15 504	4.5	13 230

UNDRAWN FACILITIES

Undrawn available facilities amount to R1.2 billion at 30 September 2019 (31 March 2019: R1.4 billion).

UNENCUMBERED ASSETS

	30 September 2019 Rm	31 March 2019 Rm
Property assets	3 300	3 400
Listed shares	5 400	3 800
Unencumbered assets	8 700	7 200
Unsecured debt	1 500	1 300
Unsecured debt to unencumbered assets ratio (%)	17.5	18.7

CREDIT RATING

Global Credit Ratings Co. (GCR) upgraded Vukile's rating in July 2019, such that the senior secured long-term credit rating was upgraded to AAA_{(ZA)(EL)}, the corporate long-term credit rating was upgraded to AA_(ZA) and the corporate short-term rating was upgraded to A1_(ZA), with a stable outlook.

MOVEMENT IN GROUP DEBT

During the period total group debt increased by R2.3 billion. In addition to foreign exchange movements on translation of balances in the group's foreign denominated debt, the most significant movements in debt were as follows:

	Nominal debt drawn/ repaid Rm	Foreign exchange movements Rm	Net Rm
Vukile ZAR bank debt	(292.9)	—	(292.9)
Vukile ZAR DMTN debt	—	—	—
Vukile GBP debt	—	(8.5)	(8.5)
Vukile EUR debt	1 754.5	30.7	1 785.2
Castellana EUR debt	717.1	105.2	822.3
Grand total	2 178.7	127.4	2 306.1

There was no movement in the DMTN programme over the period. During the period, Vukile extended ZAR interest rate swaps amounting to R403 million at an estimated annualised saving of R0.5 million. Vukile extended and entered into new EUR interest rate swaps totalling €116.8 million, at an estimated annualised saving of R6.0 million, and Vukile EUR interest rate swaps amounting to c.€20.7 million matured. The group has comfortably complied with all bank and DMTN LTV and ICR covenants, where applicable.

COMMENTARY continued

GROUP FOREIGN EXCHANGE CURRENCY HEDGES

Vukile has adopted a strategy of hedging its foreign dividend exposure at 75% on average over a three to five-year period, in line with anticipated dates of dividend receipts, to minimise adverse foreign exchange fluctuations and to provide stable, predictable income streams for investors, while still maintaining its profile as a rand hedge share given the significant percentage of earnings generated offshore.

EUR net income exposure

Dividend payment dates	Dec 2019	Jun 2020	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
Fixed EUR/ZAR rate	R17.4997	R18.1463	R18.4702	R19.2738	R20.1694	R20.9673	R21.8077	R22.6975	R23.0560	R23.9613
	Average over 1 year	Average over 3 years	Average over 5 years							
Average % net EUR dividend hedged	91	88	82							

GBP net income exposure

Dividend payment dates	Nov 2019	May 2020	Nov 2020
Fixed GBP/ZAR rate	R19.9029	R20.6072	R21.3622
	Average over 1 year	Average over 3 years	Average over 5 years
Average % net GBP dividend hedged	89	40	22

Vukile has chosen not to enter into new GBP FECs for the periods between May 2021 and November 2023, as there is uncertainty to the long-term prospects of Vukile retaining its interest in Atlantic Leaf.

CROSS-CURRENCY INTEREST RATE SWAPS

At 30 September 2019, the following CCIRS were in place:

	EUR nominal €m	ZAR nominal Rm	EUR/ZAR initial rate	EUR fixed rate over term (%)	ZAR average rate over term (%)	Maturity
Nedbank CCIRS June 2018	93.2	1 346.2	14.4446	1.90	8.81	14 June 2021
Nedbank CCIRS June 2018	23.8	360.4	15.1420	1.29	8.81	14 June 2021
ABSA CCIRS July 2018	40.0	629.9	15.7465	3.70	11.88	13 June 2022
Investec CCIRS July 2018	25.5	401.4	15.7400	3.72	11.88	13 June 2022
Total	182.5	2 737.9				

The board limits CCIRS to 45% of offshore investments. At 30 September 2019, CCIRS were 30.2% of total offshore investments on a consolidated basis. No new CCIRS were entered into during the period.

SA REIT ASSOCIATION BEST PRACTICE RECOMMENDATIONS (BPR)

The SA REIT Association has recently released a second edition BPR, which deals with best practice reporting for SA REITs. The new BPR is applicable for financial year-ends starting from 1 January 2020. Vukile will assess the new BPR in due course and will, as far as possible, endeavour to comply with the recommendations contained therein. Vukile confirms that this set of results is fully compliant with the current BPR as published by the SA REIT Association.

PORTFOLIO REVIEW – southern Africa

“In remarkably challenging market conditions, our resilient and defensive retail portfolio has again delivered a sterling performance. In an environment deficient of growth, we are driving operational efficiencies by embracing innovative solutions that are cost effective, ensure a high standard of property asset management and protect value in the long term.”

The southern Africa total direct property portfolio at 30 September 2019 consisted of 59 properties with a total value of R15.8 billion, and gross lettable area (GLA) of 993 361m², with an average value of R268 million per property.

The southern African retail portfolio, which accounts for 92% of the value of the assets, was valued at R14.6 billion and consists of 45 properties with an average value of R325 million. 83% of retail space is let to national tenants with vacancies limited to 2.8%.

OPERATING ENVIRONMENT

Key themes

- Performance: The portfolio has held up admirably under very tough trading conditions, portfolio metrics have shown improvement when compared to the corresponding prior period results.
- Asset management model: Focused operational efficiency strategy yielding strong results with regards to operating costs and portfolio occupancy rates.
- Portfolio composition: Marked improvement in trading densities and foot count across the portfolio, with all categories showing growth barring department stores.

At an industry level, retail sales have been under severe pressure, leading to challenged trading densities and lower occupancy levels. Notwithstanding this, the Vukile portfolio has shown a significant increase in trading statistics. Portfolio allocation both from a geographical and asset size perspective has been the key differentiator in delivering these impressive results.

The portfolio realised an annualised portfolio trading density growth of 3.5% and footfall was up 2.5% as at 30 September 2019. Trading densities including asset management interventions, driven mostly by tactical tenant introductions, have resulted in growth of 4.7% over the same period.

Township asset performance remains strong with annual trading densities of R39 450/m² and a rent-to-sales ratio of 4.9%; R30 465/m² and 5.3% for rural and R25 116/m² and 7.0% for urban respectively. The portfolio delivered improved overall category performance with 13 of the 14 retail categories showing positive trading density growth. Department stores are now the only negative category within the portfolio, driven by the challenged Edcon business, which is receiving very close attention from the asset management team. (Refer to note regarding Edcon at the end of the southern Africa portfolio review).

At an industry level we are seeing a divergence in the micro-performance of properties between good, well-located dominant assets and secondary non-dominant assets. Due to our robust portfolio underwriting processes and our data driven asset management approach, we have ended up on the right side of this divergence in performance as can be seen from the overall improvement in operating metrics.

OPERATIONAL HIGHLIGHTS

- Like-for-like net income growth of 6.1% compared to 3.4% at previous year-end
- Retail vacancies down from 3.0% to 2.8%
 - 11 malls now fully let
 - 25 malls with vacancies less than 1 000m²
- Rent-to-sales ratio of the portfolio marginally down from 6.0% to 5.9%
- New retail leases were concluded at 3.8% above budget
- Retail reversions have slowed from 4.5% in prior period to 1.9%. (Out of 201 leases renewed 70% were positive, 18% flat and only 12% were negative.)
- 2% growth in asset value of property portfolio
- In-contract escalations held steady at 7%, but under increasing pressure from fashion retailers
- 82% retail retention rate
- Fibre rolled out to 35 of our malls, wifi live in two malls with proof of concept relating to mall data analytics in progress
- Specialised skills of in-house leasing and capital projects management yielding positive results

COMMENTARY continued

- Building condition assessments for the portfolio concluded
- Successful launch of redeveloped Pine Crest Centre
- WALE down to 3.8 years from 4 years
- Decreased Edcon exposure from 4.3% to 3.5% of retail portfolio rent (down to seventh from fifth biggest tenant)
- Clicks now in top 10 tenants – testament to strong performance in health and beauty category
- Trading densities up from 1.1% at year-end to 3.5% (like-for-like) and 4.7% (with asset management interventions)
- Net cost-to-property revenue ratio well contained at 16.9% of all expenses
- 4% of the electricity now generated through 12 PV projects generating enough power for c.1 600 houses.

Property asset management in action

We are committed to constantly improving and optimising our portfolio, to create both long term and short-term value. Acquisitions, new developments, redevelopments, maintenance, strategic leasing and disposals are all tools that we use to achieve this. Our acquisitions and upgrades are planned to ensure that our properties are dominant in their catchment areas, and this is now the case with most of our centres.

While opportunities to grow the South African retail portfolio by acquiring assets of the right quality at the right price were scarce in the market, Vukile continued to invest in the development, upgrade and expansion of its retail assets.

Utilities management

Energy efficiency, water savings, cost efficiency and the ability of our properties to operate without disruption are crucial factors for our tenants' businesses. To ensure that our properties can offer this, we have in-house expertise that oversees the constant monitoring of energy and water consumption in the portfolio to identify potential areas to improve recoveries, reduce wastage and innovate savings. We focus on reviewing and investing in technologies that provide both optimal results and payback periods.

Alternative income management

To provide a top-quality experience for our tenants and their customers, we need to understand and connect with them. Value-add experiences are at the heart of this. We have grown in-house expertise to boost our understanding of consumers and how to engage with them, using the latest platforms and technology. This not only supports the positive performance of our retailers, and thus protects and supports our property income streams, but also creates added alternative income opportunities.

Leasing

We have established a new in-house leasing team, which is engaging with a far broader array of retailers and creating more diverse and interesting tenant mixes in our centres. While our portfolio will remain a combination of listed big nationals and second-tier nationals, we already have relationships with the big-name brands, and thus most leasing activity with them involves renewals.

Through bringing elements of our leasing in-house, we are driving new relationships with the retailers we believe are the future of the sector. These are typically second-tier national retailers that are growing aggressively. They are nimble because they are smaller, and they tend to be closer to their shoppers. This gives them a deeper understanding of their markets and what consumers want. They have a proficient grasp of price-points, and their marketing resonates well with shoppers.

Tenant arrears

Tenant arrears (including tenant recharge accruals) amounted to R97.5 million at 30 September 2019 compared to R117.3 million at 31 March 2019.

A significant portion of the arrears balance is fully provided for. In southern Africa, the retail sector continues to experience headwinds, resulting in difficult trading conditions for our tenants. This has been confirmed from macro-trends experienced by both our property managers, JHI and Broll over the portfolios they manage.

The allowance for the impairment of tenant receivables at 30 September 2019 increased slightly to R36.2 million, from R31.5 million at 31 March 2019. Bad debts written off in the six months to 30 September 2019 amounted to R12.4 million, compared to R10.0 million at 30 September 2018.

Small capital projects

We have built a new internal team to focus on the small capital projects that ensure the upkeep of our shopping centres, which supports successful leasing and tenant retention. The way that we spend money and manage and oversee these projects is driving much value. We want to ensure that we can get the right quality of work at the right price, and thus we have secured these dedicated skills in-house. Vukile spends approximately R70 million per year on various small "capital" projects.

By sharpening our focus in this area, delivering quality projects on time and within budget, we are creating real value for money. This gives us an essential advantage. The portfolio has undergone a complete building condition assessment for each asset, which has resulted in a capital budget plan to run into the medium term. This will ensure that the assets within the portfolio remain competitive and relevant within their context.

PROJECTS

Completed upgrade project

Pine Crest Shopping Centre, KwaZulu-Natal

The upgraded and extended Pine Crest Centre in Pinetown was successfully relaunched on 25 July 2019. Pine Crest Centre, the first and still the biggest shopping centre in Pinetown, underwent a R200 million redevelopment. The rebranding and relaunch of the centre, has added a brand-new look to the centre and an enhanced shopping experience.

The new food court, which will in future link directly to the GoDurban bus terminus, includes Spur, Nando's, Roots Grill, KFC, Debonairs, Steers, Fishaways and Galaxy Bingo, which are all trading above expectations. More than 20 new brands were added with the upgrade and extensions which includes, *inter alia*, HiFi Corporation, Roots, Old Mutual, OK Furniture, Capitec Bank, Tekkie Town, Rage, Power Fashion, Street Fever, Cross Trainer, Skipper Bar and Pedros Chicken. The new mall entrance directly off Kings Road provides commuter shoppers with much easier access to the centre from the nearby taxi rank.

Current Vukile projects

Our major development capital expenditure projects approved and in progress at 30 September 2019 are:

Approved	Completion	Approved R000	Paid to 30 September 2019 R000
Phuthaditjhaba: Maluti Crescent	31 August 2019	391 650	353 738
Pinetown: Pine Crest Centre	31 July 2019	200 000	178 979
Durban: Phoenix Plaza	31 May 2018	35 000	31 916
Meadowdale Mall (67%)	29 August 2018	16 264	14 365
Springs Mall (25%)	29 March 2019	8 560	8 203
Hammarisdale Junction Extension	31 March 2019	4 500	4 354
		655 974	591 555

The projects are financed from the proceeds of property sales and existing bank facilities.

SALES

Sandton Linbro Galaxy Drive was sold for R17.4 million at a yield of 8.9% during the period.

COMMENTARY continued

VALUATION OF SOUTHERN AFRICAN PORTFOLIO

The southern African portfolio consists of 59 properties with a total gross lettable area of 993 361m².

The accounting policies of the group require that the directors value the entire portfolio every six months at fair value. Using a DCF methodology, approximately one-half of the portfolio is valued every six months, on a rotational basis, by registered independent external valuers. The directors have valued the southern African property portfolio at R15.8 billion⁽ⁱ⁾ at 30 September 2019. This is R300 million or 2.0% higher than the valuation as at 31 March 2019. The resulting forward yield for the portfolio is 8.4%.

The external valuations by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd are in line with the directors' valuations.

⁽ⁱ⁾ The southern African property portfolio value takes into account Moruleng Mall at 80%, whereas in the summarised consolidated interim financial statements the group property value reflects 100% of Clidet No 1011 (Pty) Ltd, which owns Moruleng Mall.

TOP 15 PROPERTIES BY VALUE

Vukile's top 15 properties are all retail assets. They are 83% exposed to national, listed and franchised tenants. These properties comprise 60.2% of the total portfolio value and 46.2% of the total portfolio GLA.

Property	Location	GLA m ²	Value Rm	% of total portfolio	Valuation R/m ²
Boksburg East Rand Mall ⁽ⁱ⁾	Gauteng	34 202	1 448	9.2	42 331
Pinetown Pine Crest	KwaZulu-Natal	43 431	1 155	7.3	26 592
Durban Phoenix Plaza	KwaZulu-Natal	24 231	939	5.9	38 764
Phuthaditjhaba Maluti Crescent	Free State	35 303	808	5.1	22 890
Pretoria Kolonnade Retail Park	Gauteng	39 665	547	3.5	13 801
Gugulethu Square	Western Cape	25 323	545	3.4	21 514
Soweto Dobsonville Mall	Gauteng	26 438	545	3.4	20 603
Queenstown Nonesi Mall	Eastern Cape	27 898	507	3.2	18 181
Bloemfontein Plaza	Free State	43 771	458	2.9	10 461
Germiston Meadowdale Mall ⁽ⁱⁱ⁾	Gauteng	33 156	454	2.9	13 702
Thohoyandou Thavhani Mall ⁽ⁱⁱⁱ⁾	Limpopo	17 780	447	2.8	25 163
Oshakati Shopping Centre	Namibia	24 632	428	2.7	17 392
Daveyton Shopping Centre	Gauteng	17 774	428	2.7	24 058
Randburg Square	Gauteng	40 777	413	2.6	10 116
Moruleng Mall ^(iv)	North West	25 274	411	2.6	16 242
Total top 15 properties		459 655	9 533	60.2	20 739
% of total portfolio		46.2	60.2		
% of retail portfolio		53.4	65.2		

⁽ⁱ⁾ 50% undivided share in this property.

⁽ⁱⁱ⁾ 67% undivided share in this property.

⁽ⁱⁱⁱ⁾ 33% undivided share in this property.

^(iv) 80% share in Clidet No 1011 (Pty) Ltd.

SUMMARY OF PORTFOLIO CHANGES

GLA reconciliation	GLA m ²
Balance at 31 March 2019	988 303
GLA adjustments	7 489 ^①
Disposals	(2 431)
Acquisitions and extensions	—
Balance at 30 September 2019	993 361

Vacancy reconciliation	GLA m ²	%
Balance at 31 March 2019	38 845	3.9
Less: Properties sold since 31 March 2019	—	—
Remaining portfolio balance at 31 March 2019	38 845	3.9
Leases expired	73 960	
Tenants vacated	14 855	
Moved from development vacancy	937	
Renewal of expired leases	(38 956)	
Leases to be renewed	(20 149)	
New letting of vacant space	(31 429)	
Balance at 30 September 2019	38 063	3.8

^① Residential units were previously measured in number of units and not GLA. Randburg Square Apartments of 7 508m² is now included in GLA measures.

PORTFOLIO PROFILES

Geographic profile

Vukile's portfolio is well represented in most South African provinces and in Namibia. At the same time, it is focused on high-growth nodes and some 75% of the gross income comes from Gauteng, KwaZulu-Natal, Free State and Limpopo.

	% of gross income	% of GLA
Gauteng	38	44
KwaZulu-Natal	21	16
Free State	8	8
Limpopo	8	7
Western Cape	7	6
Namibia	7	6
North West	4	5
Mpumalanga	4	5
Eastern Cape	3	3

COMMENTARY continued

Sectoral profile

Based on value, 92% of the southern African portfolio is in the retail sector, followed by 3% in the industrial, 3% in the office, 1% in the motor-related sector and 0.4% in the residential sector.

Tenant profile

Large national and listed tenants and major franchises account for 77% of our tenants by rentable area. In the retail portfolio this is even higher, with 83% exposure to national, listed and franchised tenants.

	% of Rent		% of GLA	
	Retail	Total portfolio	Retail	Total portfolio
A – Large national and listed tenants and major franchises	68	66	73	68
B – National and listed tenants, franchised and medium to large professional firms	12	11	10	9
C – Other (1 226 tenants)	20	23	17	23

Lease expiry profile

Vukile's southern African lease expiry profile shows that 14% of the leases based on rentals are due for renewal in 2020. Some 47% of leases are due to expire in 2023 and beyond (up from 42% beyond 2022 in the prior year).

	March 2020	March 2021	March 2022	March 2023	Beyond March 2023
% of contractual rent	14	19	20	15	32
Cumulative	14	33	53	68	100

	Vacant	March 2020	March 2021	March 2022	March 2023	Beyond March 2023
% of GLA	3.8	14	15	17	13	37
Cumulative	3.8	18	33	50	63	100

Vacancy profile

The portfolio's vacancy measured on GLA improved marginally from 3.9% at 31 March 2019 to 3.8% at 30 September 2019. Retail vacancies reduced by 1 083m² from 3.0% to 2.8%, with some positive movement in both the industrial and office sectors as well. The main reason for the high office vacancies is the vacancy at Sunninghill Sunhill Park which is held for sale and transferred in early December 2019. If this property is excluded, the September 2019 vacancy on the total portfolio improves to 3.1% and offices to 2.7%.

Vacancies (% of GLA)	September 2019 %	March 2019 %
Retail	2.8	3.0
Industrial	5.1	5.7
Offices	20.0	21.0
Motor Related	—	—
Residential	15.6	[⊖]
Total	3.8	3.9

Including development vacancy, the September 2019 vacant GLA is 3.9%.

[⊖] Residential units were previously measured in number of units and not GLA and vacant rental is now included together with the change to measurement in GLA.

Vacancies (% of gross rental)	September 2019 %	March 2019 %
Retail	3.0	3.0
Industrial	5.3	2.9
Offices	18.3	19.6
Motor Related	—	—
Residential	9.5	⁽ⁱ⁾
Total	3.6	3.6

Including development vacancy, the September 2019 vacant rent is 3.8%.

⁽ⁱ⁾ Residential units were previously measured in number of units and not GLA and vacant rental is now included together with the change to measurement in GLA.

Leasing profile

Vukile concluded new leases and renewals in excess of 83 000m² with a contract value of R596 million. Tenant retention on the total portfolio was 80%, with retail retention at 82%.

Rental profile

We achieved positive reversions of 2.5% on the total portfolio, with retail reversions at 1.9%. To retain tenants in difficult market conditions, focus had to be given to the total cost of occupancy of 15 specific boxes which reduced the average retail reversion rate. If these 15 special transactions are excluded, the average renewal rate on the remaining retail reversions is 5.7%. Although transactions were limited in the industrial and offices sector, positive reversions of 8.8% and 8.0% were concluded in these sectors respectively.

New leases were concluded at 3.8% above budget in the retail sector but the ongoing pressure in the office and industrial sectors, to which we now have little exposure, dictated that new leases be concluded at or below budget rates. This resulted in the total portfolio's new leases finalised at 3.1% above budget.

The weighted average base rental rates (excluding recoveries) increased by 3.5% from R127.54/m² to R132.06/m².

Base rental rates (excluding recoveries) (R/m ²)	September 2019	March 2019	Escalation
Retail	139.26	134.78	3.3
Industrial	59.31	57.83	2.6
Offices	101.20	95.32	6.2
Motor Related	165.70	131.68	25.8 ⁽ⁱ⁾
Residential	146.67	—	⁽ⁱⁱ⁾
Portfolio weighted average base rentals	132.06	127.54	3.5

⁽ⁱ⁾ The increase in average rate for motor-related properties is due to the sale of Linbro Galaxy drive which carried lower rentals. The six-month growth in rental rates on the remainder of the portfolio was 3.1%.

⁽ⁱⁱ⁾ Residential units were previously measured in number of units and not GLA therefore no average rental based on R/m² was calculated in March 2019.

In-contract escalations remained stable at average 7.0%, with slight increases in the industrial and office sectors. Retail escalations of average 7.0% are under pressure with national tenants demanding lower in-contract escalations.

	September 2019	March 2019
Retail	7.0	7.0
Industrial	7.8	7.6
Offices	7.5	7.0
Motor Related	7.0	7.0
Total	7.0	7.0

COMMENTARY continued

COSTS

The largest expense categories contribute 84% to the total expenses. These are government services (48%), rates and taxes (18%), cleaning and security (11%) and property management (7%).

We continuously evaluate methods of containing costs in the portfolio and urge our property managers to implement innovative solutions to achieve this. The remaining portfolio's recurring net costs to income ratios remain stable and well contained at 16.9% forecast for the 2020 year.

Net costs to income ratio: remaining portfolio	2014	2015	2016	2017	2018	2019	2020 forecast
All expenses	19.4	18.0	17.5	16.2	15.7	16.3	16.9
All expenses excluding rates and taxes and electricity	16.9	17.9	16.3	15.5	15.4	15.2	16.1

LIKE-FOR-LIKE NET OPERATING INCOME GROWTH

Like-for-like growth (stable portfolio)	30 September 2019	30 September 2018	% change
Property revenue (Rm)	662.7	628.0	5.5
Net property expenses (Rm)	117.7	114.1	3.2
Net property income (Rm)	545.0	513.9	6.1
Net cost-to-income ratio (%)	17.8	18.2	

EDCON

During the period, Vukile, along with other landlords, subscribed for equity in Edcon as part of its restructure. At 30 September 2019, management is not aware of any information indicating that the investment in Edcon should be impaired. We are also not aware of any material deviations from Edcon's stated business plan as presented as part of its restructure. Accordingly, management's best estimate of the fair value of the investment is the cost thereof. Management continues to monitor the fair value of the investment and will reassess this fair value as more information becomes available.

PORTFOLIO REVIEW – Spain

“The Spanish portfolio is now substantial at over €1 billion. The management team is positioned to add significant value to our strategic assets through upgrades and repositioning projects.”

At 30 September 2019 the Spanish portfolio consisted of 18 properties with a total value of €1 028.4 million, and GLA of 373 022m², with an average value of €57.1 million per property.

The Spanish retail portfolio, which accounts for 97% of the value of the assets, was valued at €1 002.1 million and consists of 16 properties with an average value of €62.6 million. In total, 93% of retail space is let to national and international tenants with vacancies limited to 1.4%.

OPERATING ENVIRONMENT

Economy and political environment

The Spanish economy remains strong

The GDP outlook in Spain is highly favourable after registering growth of 2.6% in 2018, with a consensus forecast growth of 2.2% for 2019 according to Spanish market analysts. Consumption grew by 2.6% in 2018 and will grow by 2.0% this year. Inflation increased to 1.2% by the end of 2018 and is forecast to reach 1.4% at the FY19 year-end. The most impressive key performance indicator is employment growth, which is a positive economic driver as households start to increase their spending power. The unemployment rate decreased from 26% at its peak in 2012, to 14.3% at the end of 2018, and it is forecast to reduce to 13.9% in 2019.

After new elections during the first week of November 2019, the political situation has not improved since April 2019. Some main political parties have diluted against others, putting strain on the effectiveness of parliament. Although there is still uncertainty on the political front the positive is that while government is still forming, the economy is still growing at healthy rates, well ahead of its main Eurozone peers.

Retail environment

Spanish consumption continues to grow

Spanish consumption and retail sales continue to grow, fuelled by the favourable economic environment. Capital values have stabilised while rents continue to grow with the economy. Even so, rental levels have not yet reached pre-crisis levels. This means there are considerable opportunities for rental growth in the medium and long-term investment horizon as evidenced in these results.

One of the main industries in Spain, and a major driver of its economy, is tourism. Spain is the second biggest tourist destination in the world. It is only behind France having now moved ahead of the US. In 2018, international tourist visits to the country grew 9%, accounting for more than 82.6 million visits. In 2017, international tourist spending in Spain reached almost €87 billion, 12% higher than in 2016. As at August 2019, 58.1 million tourists visited Spain, up 2.7% on the previous year. These figures reflect a positive landscape for retail parks and shopping centres in Spain and provides a strong, defensive buffer against online sales.

OPERATIONAL HIGHLIGHTS

Tenant arrears

Tenant arrears (including tenant recharge accruals) amounted to R51.6 million at 30 September 2019 compared to R72.3 million at 31 March 2019. Castellana's in-house leasing team collects at least 99% of monthly rentals invoiced.

The allowance for the impairment of tenant receivables at 30 September 2019 remained at R2.7 million (€165 000). Bad debts written off in the six months to 30 September 2019 amounted to a mere €9 000.

Asset management in action

We are committed to constantly improving and optimising our portfolio to create both long term and short-term value. Value-add projects undertaken this year include the repositioning projects in Los Arcos, Bahía Sur and El Faro to improve the customer offering and introduce more and improved food and beverage, leisure and fashion offerings, a continuation of the down-sizing of low-rent boxes to increase rentals, and consistently filling vacancies. In addition, we are continuously making new acquisitions to strengthen and grow the portfolio.

Castellana has established itself as a leading retail-focused SOCIMI in Spain, ranking as the eighth largest SOCIMI in Spain by market capitalisation and the seventh largest retail landlord by GLA. In the first half of 2019, Puerta Europa, a dominant shopping centre in the port city of Algeciras was acquired for a total price of €56.8 million (excluding transaction costs). Puerta Europa is a high quality dominant centre with low average rentals and high sales rates which should result in attractive income growth over the short to medium term. In addition, Castellana acquired additional units in Bahía Sur and Los Arcos shopping centres from El Corte Ingles (department store in Spain) in order to execute significant accretive value-add repositioning projects, thereby increasing its portfolio value to over €1 billion. Castellana now holds a diversified portfolio of high-performing shopping centres and retail parks across Spain.

Mirroring Vukile's successful strategy, Castellana has invested in high-performing, low-risk retail assets, with attractive rental growth prospects. The portfolio is a well-balanced, geographically diverse portfolio.

The team, now with a significant retail portfolio platform in place, continues to deliver sustainable returns from the assets and drive outperformance through active asset management and value-enhancing repositioning projects.

Highlights for the period include:

- Surpassing budgeted net operating income targets for the portfolio overall by 3.63%
- Containing vacancy at 1.4% for the period
- Letting activity has been vibrant, with more than 30 000m² of GLA let in the year to date
- Heads of terms have been reached on more than 80% of the GLA in respect of the projects being undertaken in Los Arcos and Bahía Sur
- Concluding the purchase of additional units at Bahía Sur and Los Arcos and commencing the repositioning projects, the projects are forecast to create an additional €5.1 million annualised NOI on completion

Acquisitions

In May 2019, Castellana acquired additional units at Bahía Sur and Los Arcos for €37 million (excluding transaction costs). The total GLA of the units is 23 434m². The units will be incorporated into the centre in the repositioning projects.

In June 2019, Castellana acquired additional units at Pinatar Park for €3.6 million (excluding transaction costs). The total GLA of the units is 2 624m². The units were opened at the moment of the purchase.

COMMENTARY continued

In July 2019, Castellana acquired Puerta Europa Shopping Centre in the port city of Algeciras, Andalusia for a price of €56.8 million excluding costs. The centre has a total GLA of 29 742m². The centre has an average monthly rental of €14.18/m² and a WALE to expiry of 9.0 years. The centre is dominant and currently experiences low rents coupled with strong sales performances which should result in attractive rental growth over time.

PROJECTS

Castellana has embarked on exciting redevelopment projects in Los Arcos, Bahía Sur and El Faro. The projects aim to strengthen the existing offerings in the centres through the addition of new and exciting retailers, the creation of pedestrianised open space, and the introduction of attractive F&B and leisure operators in the centres. These projects underpin Castellana's strategy of continually improving and enhancing the shopper experience in its centres. The projects have already commenced and we aim to complete works by the second half of 2020.

In Los Arcos, 86% of GLA has been tied up with heads of terms including Media Markt and Mercadona. El Faro has 40% of GLA secured under heads of terms with Yelmo Cinemas already signed. Bahía Sur has 85% of tenants under heads of terms.

VALUATION OF SPANISH PORTFOLIO

The asset management team has successfully added value to the retail park portfolio through asset management initiatives and repositioning projects.

The Spanish portfolio has been independently valued by Colliers at €1 028.4 million (R17.0 billion) at 30 September 2019 (2019: €916.5 million; R14.9 billion).

The fair values of commercial buildings are estimated using an income approach, which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of contractual leases and expectations of rentals from future leases over the remaining economic life of the buildings.

TOP 10 PROPERTIES BY VALUE

All of our top 10 properties are retail assets. Cumulatively, 95% of their tenants are national and international tenants. These properties comprise 89% of the total portfolio value, 88% of the total portfolio rent and 81% of the total portfolio GLA.

Property	Location	GLA m ²	Value €m	% of total portfolio	Valuation €/m ²
El Faro	Extremadura	43 407	164.1	16.0	3 780
Bahía Sur	Andalucía	36 433	142.0	13.8	3 898
Los Arcos	Andalucía	29 696	136.4	13.3	4 593
Granaita Retail Park	Andalucía	54 490	114.9	11.2	2 109
Vallsur	Castilla Leon	35 212	93.4	9.1	2 653
Habaneras	Com. Valenciana	24 166	89.8	8.7	3 716
Puerta Europa	Andalucía	29 742	62.6	6.1	2 105
Parque Oeste	Madrid	13 604	51.8	4.9	3 808
Parque Principado	Asturias	16 246	34.7	3.4	2 136
Marismas del Polvorín	Andalucía	18 079	28.5	2.8	1 576
Total top 10 properties		301 075	918.2	89.3	3 050
% of total portfolio		80.7	89.3		
% of retail portfolio		84.5	91.6		

SUMMARY OF PORTFOLIO CHANGES

GLA reconciliation		GLA m ²
Balance at 31 March 2019		317 106
GLA adjustments		116
Acquisitions and extensions		55 800
Balance at 30 September 2019		373 022
Areas under development		(41 921)
GLA excluding areas under development		331 101

Vacancy reconciliation		GLA m ²	%
Balance at 31 March 2019		6 796	2.1
Vacancy movement		(2 253)	
Balance at 30 September 2019		4 543	1.4

PORTFOLIO PROFILES

Geographic profile

The geographical distribution of the Spanish portfolio is indicated in the table below. Some 88% of the gross income comes from Andalucía, Extremadura, Com. Valenciana and Castilla Leon.

Geographic portfolio	% of rental income	% of GLA
Andalucía	48	48
Extremadura	19	21
Com. Valenciana	10	7
Castilla Leon	11	9
Madrid	7	7
Asturias	3	4
Murcia	2	4

Tenant profile

Large national and international tenants account for 93% of tenants by rent and GLA.

	% of rental income	% of GLA
Large national and international tenants	93	93
Local tenants (90 tenants)	7	7

Expiry profile

Castellana has a 14.2-year retail tenant expiry profile and 2.8 years to break with 50% (52% including the office tenant expiry profile) of contractual rental expiring in 2029 and beyond.

The expiry profile as a percentage of contractual rent is shown below:

	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	Beyond March 2029
	%	%	%	%	%	%	%	%	%	%	%
% of contractual rent	5	5	4	7	7	8	3	4	5	4	48
Cumulative	5	10	14	21	28	36	39	43	48	52	100

COMMENTARY continued

Expiry profile continued

	March 2020 %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	Beyond March 2029 %
Retail	5	6	4	7	7	8	3	5	5	4	46
Offices	—	—	—	—	—	—	—	—	—	—	100

Break profile

The break profile (the date upon which the tenant has an option to terminate the lease prior to the expiry date) as a percentage of contractual rent is shown below. The earlier expiries portrayed by the break profile could impact positively on the portfolio if re-tenanting can be concluded at improved market-related rental rates, especially at recently upgraded centres.

	March 2020 %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	Beyond March 2029 %
% of contractual rent	16	25	14	18	8	8	3	—	3	—	5
Cumulative	16	41	55	73	81	89	92	92	95	95	100

	March 2020 %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	Beyond March 2029 %
Retail	16	26	15	18	8	8	3	—	4	—	2
Offices	—	—	—	—	—	—	—	—	—	—	100

Vacancy profile

The portfolio's vacancy was 1.4% at 30 September 2019.

	September 2019 %	March 2019 %
Vacancies (% of GLA)		
Shopping centres	2.4	3.6
Retail parks	0.5	1.0
Offices	—	—
Total	1.4	2.1

Rental profile

The Castellana portfolio's weighted average rental is €14.38/m². We believe that a significant portion of the portfolio is at below-market rentals. We anticipate rental growth to come through over the short to medium term.

	September 2019	March 2019	Escalation (%)
Shopping centres	20.05	19.98	0.4
Retail parks	9.36	9.32	0.4
Offices	9.60	9.32	3.0
Portfolio weighted average base rentals	14.38	14.14	1.7

THE VUKILE ACADEMY

The Vukile Academy (the Academy) officially launched its skills development and transformation programme in January 2019. Following the launch of the Academy, we are proud to announce the following progress:

- **The Vukile Bursary Fund** – Our bursary fund has been able to award more than 55 bursaries to students currently studying towards an undergraduate degree in property/real estate related studies as well as in the fields of commerce and marketing. An amount in excess of R5.5 million has been spent for FY19 and we anticipate spending similar amounts for FY20. We expect 65% to 70% of the bursary recipients to graduate at the end of calendar year 2019, with the remaining students continuing their studies in 2020.
- **The Vukile Internship Programme** – We welcomed eight interns to our programme this year. The interns have completed 10 of the 11 modules planned for calendar year 2019. The final module is their graduation and certification ceremony. The programme comprised a property-related component as well as a life skills/personal mastery component. This was to prepare our interns for the real world once they complete their programme.
 - A mentorship and support programme has been in place for our interns throughout their internship
 - Our interns are fully employed on a 12-month term contract with Vukile during their internship
 - The Vukile internship programme will result in an absorption rate close to 100% of our candidates into the South African property sector.
- **Vukile BEE certification** – Vukile property Fund is proud to announce that the implementation of our board-approved transformation and empowerment strategy has resulted in Vukile achieving a level 3 B-BBEE certification for the 12-month period during FY19/20.

PROSPECTS FOR THE GROUP

SOUTHERN AFRICA

Due to the persistent macro-economic challenges which require structural changes over time, we expect the current challenging conditions to last into the next reporting period.

At an industry level, it is a welcomed development to see the national greenfield shopping centre development pipeline slow down. It is our view that dominant A grade malls should continue to show growth over time as the market consolidates into these sites due to slowing supply.

Operational efficiencies and efficient capital deployment will continue to be our primary goal into the next reporting cycle. The operational efficiency focus will help absorb the top line pressure of challenged sales growth.

We expect the portfolio's full year like-for-like growth to be in line with the first half of the year. We also expect to gain more traction with regards to decreasing vacancies across the portfolio. On the downside, further pressure on escalations and lease duration will most likely persist. However, Vukile is well positioned with low vacancies and reduced exposure to high-risk tenants. We will continue to engage with our major tenants to ensure mutually acceptable reversions, space optimisation, and containment of administrative costs.

SPAIN

Castellana's retail portfolio is well placed to deliver sustainable returns. Castellana's strategy is to keep growing the portfolio through organic growth, value-added asset management initiatives and accretive acquisitions.

The Castellana team is resolutely focused on the delivery of the value-add projects in Los Arcos, Bahía Sur and El Faro which will transform the three assets in terms of an improved tenant mix, greater dominance in their catchment areas and better experience with leisure and food and beverage activities. We expect to complete those projects within the next 12 months and anticipate that it will change the outlook of the portfolio by increasing NOI over time, but most of all it will further demonstrate the Castellana team's ability to deliver enhanced and growing income. On the retail park portfolio there are several projects taking place that will enhance the tenant mix. The team is working hard to continue to reduce exposure to electronics, mostly by replacing these shops with other operators in the sports, fashion and household sectors.

The Spanish retail real estate market is forecast to be less active this year as investors have turned to other asset classes. As a result, many opportunities are coming to Castellana as shown by the large pipeline. Our investment strategy will remain focused on enhancing and adding value to our portfolio of low-risk, dominant retail assets that produce predictable and sustainable income streams.

While capital values and yields are stabilising, we expect rentals to keep growing at healthy rates.

We believe the time is right for a different approach to soft services, repairs and maintenance in the Spanish shopping centre environment. We are challenging our property managers to keep developing innovative solutions that offer us better value in the year ahead.

We are well on our way to positioning Castellana at the top end of the market with our quality retail portfolio, highly skilled team and significant opportunities for value enhancement.

GROUP DIVIDEND GUIDANCE

With the strong benefits of geographic and macro-economic diversification becoming increasingly evident, and the ongoing focus on driving operational performance, Vukile reaffirms the guidance for growth in dividends of between 3% to 5% for the full year. The guidance assumes no material adverse change in trading conditions or large corporate failures. Forecast rental income is based on contracted escalations, market-related renewals and on the successful conclusion of certain transactions currently in progress. The forecast has not been reviewed or reported on by the company's auditors.

SUBSEQUENT EVENTS

DIVIDEND DECLARATION

In line with IAS 10 – *Events after the Reporting Period*, the declaration of the dividend occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

The board approved a final dividend on 27 November 2019 of 80.83610 cents per share for the six months ended 30 September 2019 amounting to R773 million.

ACQUISITION OF MDANTSANE CITY SHOPPING CENTRE (MDANTSANE)

During November 2019, Vukile concluded the acquisition of Mdantsane for R516.5 million. Mdantsane City is located in Mdantsane which is one of the largest townships in South Africa. It is an established and very well supported shopping centre in the node and is situated on the main arterial route through Mdantsane. Mdantsane City has over 90 shops, with Shoprite, Pick n Pay and Cashbuild as anchor tenants. It has a high national tenant component and includes retailers such as Truworths, Woolworths, Foschini, Mr Price and Markham.

SALE OF NON-CORE PROPERTY PORTFOLIOS

MICC Properties Namibia

Vukile has actively been marketing a wholly owned subsidiary, MICC Properties Namibia (Pty) Ltd, which is available for immediate sale. The price at which it is being marketed is in line with the fair value of the subsidiary, primarily driven by the fair market value of the underlying properties. As at 30 September 2019, no sale had been concluded, but it is highly probable that a sale will occur within 12 months. Vukile is in advanced discussions with a prospective purchaser.

Non-retail, commercial and industrial portfolio

On 27 November 2019, Vukile entered into an agreement with Mbako Property Fund (Mbako) whereby Vukile will dispose of all its remaining non-retail property assets for R700 million.

Mbako is a new black women-owned and managed property fund led by AWCA Investment Holdings (AIH) as its founding shareholder. Mbako, meaning “to build”, embodies its co-founders’ vision of working together to build a sustainable South African property fund.

The sizeable Mbako seed portfolio includes nine properties split between the office and industrial sectors. The portfolio has a total gross lettable area of more than 94 000m².

The sale is subject to a number of conditions precedent including, *inter alia*, Mbako obtaining equity funding and approval of the Competition Authority.

DECLARATION OF A CASH DIVIDEND

The board has approved and notice is hereby given of a final distribution of 80.83610 cents per share for the six months ended 30 September 2019. An announcement relating to the salient dates and tax treatment of the distribution payment will be released separately on SENS.

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with and containing the information required by IFRS, IAS 34 – *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Announcements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the relevant sections of the South African Companies Act.

All amendments to standards applicable for Vukile's financial period beginning on 1 April 2019 have been considered. All accounting policies applied in the preparation of these interim financial statements are consistent with those applied by Vukile in its consolidated annual financial statements for the year ended 31 March 2019, other than the adoption of those amendments or new standards that became effective or were early adopted in the current period. Note 1.2 to the financial statements explains these changes in further detail.

Preparation of the unaudited condensed consolidated interim financial statements was supervised by Laurence Cohen CA(SA) in his capacity as chief financial officer. These unaudited condensed consolidated interim financial statements have not been reviewed or reported on by Vukile's independent external auditors.

On behalf of the board

NG Payne

Chairman

LG Rapp

Chief executive officer

Houghton Estate
2 December 2019

VUKILE PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2002/027194/06)

JSE share code: VKE ISIN: ZAE000056370

Debt company code: VKEI

NSX share code: VKN

(granted REIT status with the JSE)

(Vukile or the group or the company)

JSE sponsor: Java Capital

NSX sponsor: IJG Group, Windhoek, Namibia

Executive directors: LG Rapp (chief executive), LR Cohen (chief financial officer), IU Mothibeli (managing director: southern Africa), GS Moseneke

Non-executive directors: NG Payne (chairman), PS Moyanga, SF Booysen, RD Mokate, H Ntene, HM Serebro, B Ngonyama

Registered office: 4th Floor, 11 Ninth Street, Houghton Estate, 2198

Company secretary: J Neethling

Transfer secretaries: Link Market Services South Africa (Pty) Ltd, Braamfontein, Johannesburg

Investor relations: Instinctif Partners, The Firs 302, 3rd Floor, Corner Craddock Avenue and Biermann Road, Rosebank, Johannesburg, South Africa, Tel: +27 11 447 3030

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www.vukile.co.za

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2019

	Unaudited 30 September 2019 Rm	Unaudited 30 September 2018 Rm	Audited 31 March 2019 Rm
ASSETS			
Non-current assets	34 107	30 753	32 678
Investment property	30 946	27 296	29 334
Straight-line rental income accrual	362	286	347
Financial assets at fair value through profit or loss	1 138	1 433	1 325
Investment in associate (equity-accounted)	1 252	1 327	1 303
Derivative financial instruments	88	8	42
Financial assets at amortised cost	277	237	271
Deferred taxation	15	111	14
Other non-current assets	29	55	42
Current assets	3 509	3 103	2 446
Trade and other receivables	277	219	281
Derivative financial instruments	21	2	10
Current taxation assets	—	11	3
Cash and cash equivalents	1 404	814	1 136
Non-current assets held for sale	1 807	2 057	1 016
Total assets	37 616	33 856	35 124
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	19 124	17 747	18 656
Stated capital	12 838	11 225	12 142
Other components of equity	5 691	6 154	5 889
Retained earnings	595	368	625
Non-controlling interest	1 749	2 152	2 300
Non-current liabilities	13 870	12 258	12 035
Interest-bearing borrowings	13 090	11 863	11 548
Lease liability	180	—	—
Derivative financial instruments	593	387	480
Deferred taxation	7	8	7
Current liabilities	2 873	1 699	2 133
Trade and other payables	439	681	640
Short-term portion of interest-bearing borrowings	2 409	1 005	1 431
Short-term portion of lease liability	16	—	—
Derivative financial instruments	5	6	60
Current taxation liabilities	4	7	2
Total equity and liabilities	37 616	33 856	35 124

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2019

	Unaudited 30 September 2019 Rm	Unaudited 30 September 2018 Rm	Audited 31 March 2019 Rm
Revenue	1 763	1 240	2 806
Straight-line rental income accrual	14	20	29
Gross property revenue	1 777	1 260	2 835
Property expenses	(543)	(426)	(932)
Net profit from property operations	1 234	834	1 903
Corporate and administrative expenses	(140)	(97)	(199)
Investment and other income	229	168	345
Fair value movement on non-designated portion of CCIRS	18	(32)	48
Operating profit before finance costs	1 341	873	2 097
Finance costs	(296)	(247)	(510)
Operating profit after finance costs	1 045	626	1 587
Fair value loss on financial instruments	(204)	(10)	(327)
Foreign exchange profit/(loss)	8	(51)	(66)
Impairment of goodwill	(17)	—	(48)
Other expenses	(1)	—	(7)
Profit before changes in fair value of investment property	831	565	1 139
Fair value adjustments			
Gross change in fair value of investment property	98	389	804
Change in fair value of right-of-use asset	3	—	—
Straight-line rental income accrual	(14)	(20)	(29)
Profit before equity-accounted investment	918	934	1 914
Share of income from associate	41	46	54
Profit before taxation	959	980	1 968
Taxation	(14)	(17)	(18)
Profit for the year	945	963	1 950
Attributable to owners of the parent	830	833	1 709
Attributable to non-controlling interest	115	130	241
Basic and diluted earnings per share (cents)	87.00	101.77	199.05

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2019

	Unaudited 30 September 2019 Rm	Unaudited 30 September 2018 Rm	Audited 31 March 2019 Rm
Profit for the period	945	963	1 950
Other comprehensive income			
Items that will be reclassified to profit or loss			
Foreign currency translation reserve	(25)	225	36
Cash flow hedges	(63)	52	(25)
Deferred tax on hedging instruments	—	—	(35)
Other comprehensive loss for the year	(88)	277	(24)
Total comprehensive income for the year	857	1 240	1 926
Attributable to owners of the parent	727	1 000	1 604
Attributable to non-controlling interest	130	240	320

RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS

for the six months ended 30 September 2019

	Unaudited 30 September 2019 Cents per Rm share		Unaudited 30 September 2018 Cents per Rm share		Audited 31 March 2019 Cents per Rm share	
Profit attributable to owners of the parent	830	87.00	833	101.77	1 709	199.05
Earnings and diluted earnings	830	87.00	833	101.77	1 709	199.05
Change in fair value of investment property (net of allocation to non-controlling interest)	(74)	(7.73)	(284)	(34.65)	(667)	(77.65)
Impairment of goodwill	17	1.78	—	—	48	5.61
Loss/(profit) on sale of investment property	1	0.13	—	—	6	0.74
Loss/(profit) on sale of furniture, fittings and computer equipment	1	—	—	—	—	—
Remeasurement included in (equity-accounted) earnings of associate	17	1.81	(9)	(1.14)	(40)	(4.71)
Headline and diluted headline earnings	792	82.99	540	65.98	1 056	123.04
There are no dilutionary shares in issue						
Number of shares in issue at period-end	956 226 628		875 339 319		920 962 145	
Weighted average number of shares	954 299 608		818 643 584		858 774 136	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 September 2019

	Unaudited 30 September 2019 Rm	Unaudited 30 September 2018 Rm	Audited 31 March 2019 Rm
Cash flow from operating activities	1 046	913	1 786
Cash flow from investing activities	(2 262)	5 724	(7 362)
Cash flow from financing activities	1 476	(6 915)	5 617
Net increase/(decrease) in cash and cash equivalents	260	(278)	41
Foreign currency movements in cash	8	(2)	1
Cash and cash equivalents at the beginning of the period	1 136	1 094	1 094
Cash and cash equivalents at the end of the period	1 404	814	1 136
Major items included in the above:			
Cash flow from operating activities	1 046	913	1 786
Profit before tax	960	981	1 967
Working capital adjustments	101	(256)	(266)
Cash flow from investing activities	(2 262)	5 724	(7 362)
Acquisition of investment property	(1 888)	(9 058)	(9 574)
Equity contributed from non-controlling interest	3	1 784	1 828
Investment in subsidiary	(618)	—	—
Proceeds on sale of investment property	17	—	—
Cash flow from financing activities	1 476	(6 915)	5 617
Interest-bearing borrowings advanced	2 536	5 107	6 895
Interest-bearing borrowings repaid	(418)	—	(1 892)
Proceeds from issue of share capital	696	1 697	2 615
Finance costs paid	(248)	(209)	(461)
Dividends paid	(1 034)	(758)	(1 518)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2019

Rm	Stated capital	Other components of equity	Retained earnings	Shareholders' interest Total	Non-controlling interest (NCI)	Total
Balance at 30 September 2018	11 225	6 155	366	17 746	2 152	19 898
Initial adoption of IFRS 9	—	—	5	5	—	5
Issue of share capital	917	—	—	917	1 945	2 862
Dividend	—	—	(702)	(702)	(59)	(761)
	12 142	6 155	(331)	17 966	4 038	22 004
Profit for the year	—	—	877	877	107	984
Transfer to non-distributable reserve	—	93	(93)	—	—	—
Share issue expenses of subsidiary	—	(2)	—	(2)	(122)	(124)
Change in ownership of subsidiary	—	(104)	—	(104)	(1 726)	(1 830)
Subsidiary share swap	—	—	172	172	38	210
Equity-settled share scheme	—	12	—	12	—	12
Other comprehensive loss	—	(265)	—	(265)	(35)	(300)
Balance at 31 March 2019	12 142	5 889	625	18 656	2 300	20 956
Issue of share capital	696	—	—	696	(615)	81
Dividend	—	—	(989)	(989)	(46)	(1 035)
	12 838	5 889	(364)	18 363	1 639	20 002
Profit for the period	—	—	830	830	115	945
Transfer to non-distributable reserve	—	(129)	129	—	—	—
Share issue expenses of subsidiary	—	(1)	—	(1)	—	(1)
Change in ownership of subsidiary	—	21	—	21	(21)	—
Equity-settled share scheme	—	15	—	15	—	15
Other comprehensive loss	—	(104)	—	(104)	16	(88)
Balance at 30 September 2019	12 838	5 691	595	19 124	1 749	20 873

SUMMARISED OPERATING SEGMENT REPORT

for the six months ended 30 September 2019

	Southern Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group income for the period ended 30 September 2019							
Revenue ⁽ⁱ⁾	726	53	779	575	28	603	1 382
Straight-line rental income accrual	13	1	14	—	—	—	14
Gross property revenue	739	54	793	575	28	603	1 396
Property expenses ⁽ⁱ⁾	(130)	(9)	(139)	(22)	(1)	(23)	(162)
Net profit from property operations	609	45	654	553	27	580	1 234
Corporate and administrative expenses	(80)	(6)	(86)	(40)	(14)	(54)	(140)
Investment and other income	189	40	229	—	—	—	229
Fair value movement on non-designated portion of CCIRS	18	—	18	—	—	—	18
Operating profit before finance costs			815			526	1 341

⁽ⁱ⁾ The revenue and property expense have been reflected net of recoveries. The audited consolidated statement of profit or loss and other comprehensive income reflects the gross property revenue and gross property expenses.

SUMMARISED OPERATING SEGMENTS REPORTING continued

for the six months ended 30 September 2019

	Southern Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group statement of financial position at 30 September 2019							
Assets							
Non-current assets	13 993	3 152	17 145	15 566	1 396	16 962	34 107
Investment property	13 654	332	13 986	15 566	1 394	16 960	30 946
Straight-line rental income accrual	339	23	362	—	—	—	362
Financial assets at fair value through profit or loss	—	1 138	1 138	—	—	—	1 138
Investment in associate (equity-accounted)	—	1 252	1 252	—	—	—	1 252
Derivative financial instruments	—	88	88	—	—	—	88
Financial assets at amortised costs	—	277	277	—	—	—	277
Deferred taxation	—	14	14	—	1	1	15
Other non-current assets	—	28	28	—	1	1	29
Current assets	1 082	1 357	2 439	721	349	1 070	3 509
Trade and other receivables	114	83	197	79	1	80	277
Derivative financial instruments	—	21	21	—	—	—	21
Current taxation	—	—	—	—	—	—	—
Cash and cash equivalents	33	381	414	642	348	990	1 404
Non-current assets held for sale	935	872	1 807	—	—	—	1 807
Total assets							37 616
Equity and liabilities							
Equity attributable to the owners of the parent							
Stated capital	—	12 838	12 838	—	—	—	12 838
Other components of equity	4 769	—	4 769	530	392	922	5 691
Retained earnings	380	215	595	—	—	—	595
Non-controlling interest	50	—	50	1 699	—	1 699	1 749
Non-current liabilities	180	5 543	5 723	—	8 147	8 147	13 870
Interest-bearing borrowings	—	5 011	5 011	—	8 079	8 079	13 090
Lease liability	180	—	180	—	—	—	180
Derivative financial instruments	—	532	532	—	61	61	593
Deferred tax	—	—	—	—	7	7	7
Current liabilities	234	2 482	2 716	143	14	157	2 873
Trade and other payables	234	88	322	103	14	117	439
Short-term portion of interest-bearing borrowings	—	2 369	2 369	40	—	40	2 409
Short-term portion of lease liability	—	16	16	—	—	—	16
Derivative financial instruments	—	5	5	—	—	—	5
Current taxation liabilities	—	4	4	—	—	—	4
Total equities and liabilities							37 616

	Southern Africa			UK Rm	Spain		Total Rm	Total group Rm
	Retail Rm	Other Rm	Total Rm		Retail Rm	Other Rm		
Group income for the period ended 30 September 2018								
Revenue ^①	654	67	721	—	290	19	309	1 030
Straight-line rental income accrual	18	2	20	—	—	—	—	20
Gross property revenue	672	69	741	—	290	19	309	1 051
Property expenses ^①	(142)	(5)	(147)	—	(70)	—	(70)	(217)
Net profit from property operations	530	64	594	—	220	19	239	834
Corporate and administrative expenses	—	—	(68)	—	—	—	(29)	(97)
Investment and other income	—	—	157	—	7	5	11	168
Fair value movement on non-designated portion of CCIRS	—	—	(32)	—	—	—	—	(32)
Operating profit before finance costs			651	—			221	873
Profit from associate				46				46

^① The revenue and property expense have been reflected net of recoveries. The audited consolidated statement of profit or loss and other comprehensive income reflects the gross property revenue and gross property expenses.

SUMMARISED OPERATING SEGMENTS REPORTING continued

for the six months ended 30 September 2019

	Southern Africa			UK	Retail	Spain	Total	Total group
	Retail Rm	Other Rm	Total Rm	Rm	Rm	Other Rm	Rm	Rm
Group statement of financial position at 30 September 2018								
Assets								
Non-current assets	—	—	14 635	1 327	—	—	14 791	30 753
Investment property	12 167	358	12 525	—	14 390	381	14 771	27 296
Straight-line rental income accrual	275	10	285	—	—	1	1	286
Financial assets at fair value through profit or loss	—	—	1 433	—	—	—	—	1 433
Investment in associate (equity-accounted)	—	—	—	1 327	—	—	—	1 327
Derivative financial instruments	—	—	8	—	—	—	—	8
Financial assets at amortised costs	—	—	237	—	—	—	—	237
Deferred taxation	—	—	110	—	—	—	1	111
Other non-current assets	—	—	37	—	—	—	18	55
Current assets			439				607	1 046
Trade and other receivables	—	—	183	—	—	—	36	219
Derivative financial instruments	—	—	2	—	—	—	—	2
Current taxation	—	—	2	—	—	—	9	11
Cash and cash equivalents	—	—	252	—	—	—	562	814
Non-current assets held for sale	1 037	1 020	2 057	—	—	—	—	2 057
Total assets								33 856
Equity and liabilities								
Total equity								19 899
Non-current liabilities			5 193				7 065	12 258
Interest-bearing borrowings	—	—	4 811	—	—	—	7 053	11 864
Lease liability	—	—	—	—	—	—	—	—
Derivative financial instruments	—	—	382	—	—	—	5	387
Deferred tax	—	—	—	—	—	—	7	7
Current liabilities			1 330				369	1 699
Trade and other payables	—	—	315	—	—	—	366	681
Short-term portion of interest-bearing borrowings	—	—	1 005	—	—	—	—	1 005
Derivative financial instruments	—	—	6	—	—	—	—	6
Current taxation liabilities	—	—	4	—	—	—	3	7
Total equity and liabilities								33 856

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30 September 2019

1 GENERAL ACCOUNTING POLICIES

This is the first set of group financial statements where IFRS 16 – *Leases* has been applied. Changes to significant accounting policies are described in Note 1.2.

1.1 Basis of preparation

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16, which is described below.

Estimates

The revaluation of investment property requires judgement in the determination of future cash flows from leases and an appropriate reversionary capitalisation rate. Note 2.3 sets out further details of the fair measurement of investment property.

Judgements

Judgement is applied in certain areas based on historical experience and reasonable expectations relating to future events. Key areas of judgement are noted below:

Business combination versus asset acquisition

Management assessed properties acquired and has concluded that in its view, except for Castellana Properties SOCIMI SA (acquired in a prior period), all acquisitions are property acquisitions in terms of IAS 40 – *Investment Property* and are therefore accounted for in terms of that standard. Apart from Castellana, in the opinion of management, these properties did not constitute a business as defined in terms of IFRS 3 – *Business Combinations*, as there were no adequate processes identified within these properties to warrant classification as businesses.

Non-current assets held for sale

Management applied judgement in assessing whether investment property and subsidiaries that are actively being marketed qualify to be classified as held for sale. In management's opinion, MICC Namibia and the non-core commercial and industrial portfolio in southern Africa met the IFRS 5 requirements and are classified as held for sale.

1.2 Change in accounting policy

The only material impact of IFRS 16 – *Leases* relates to instances where Vukile leases land from a third party.

On adoption of IFRS 16, the group recognised lease liabilities in relation to land leases which had previously been classified as “operating leases” under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The incremental borrowing rate applied to the lease liabilities on 1 April 2019 ranged from 10.35% to 15.50%, depending on the lease term. Subsequently, each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

On transition date, the corresponding right-of-use assets were measured at the amount equal to the lease liability. The right-of-use asset relating to land leases are subsequently remeasured at fair value in terms of IAS 40.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the six months ended 30 September 2019

2 FAIR VALUE MEASUREMENT

2.1 Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

2.2 Fair value hierarchy

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value.

Group	30 September 2019			Total Rm
	Level 1 Rm	Level 2 Rm	Level 3 Rm	
Assets				
Investments in associates at fair value	1 067	—	—	1 067
Executive share scheme financial assets	97	—	—	97
Unlisted investment at fair value	—	—	8	8
Derivative financial instruments	—	91	18	109
Total	1 164	91	26	1 281
Liabilities				
Executive share scheme financial liabilities	—	(35)	—	(35)
Derivative financial instruments	—	(434)	(164)	(598)
Total	—	(469)	(164)	(633)
Net fair value	1 164	(378)	(138)	648

Group	31 March 2019				30 September 2018		
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Total Rm
Assets							
Investments in associates at fair value	1 297	—	—	1 297	1 393	—	1 393
Executive share scheme financial assets	72	—	—	72	73	—	73
Derivative financial instruments	—	53	—	53	—	10	10
Total	1 369	53	—	1 422	1 466	10	1 476
Liabilities							
Executive share scheme financial liabilities	—	(45)	—	(45)	—	(33)	(33)
Derivative financial instruments	—	(316)	(224)	(540)	—	393	393
Total	—	(361)	(224)	(585)	—	360	360
Net fair value	1 369	(308)	(224)	837	1 466	370	1 836

There have been no significant transfers between levels 1, 2 and 3 in the reporting period under review.

2 FAIR VALUE MEASUREMENT continued

2.2 Fair value hierarchy continued

Investments in associates at fair value

This comprises shares held in listed property companies at fair value, which are determined by reference to quoted closing prices at the reporting date.

Executive share scheme financial assets and liabilities

This comprises equity-settled share-based long-term incentive reimbursement rights net of the settlement liability, stated at fair value.

Unlisted investment at fair value

As part of Edcon's restructure, Vukile agreed to subscribe for equity in Edcon. Management's best estimate of the fair value of the investment is the cost thereof. While management is not aware of any immediate information indicating that the investment is impaired, the fair value will continue to be monitored and reassessed as more information becomes available to make a more detailed assessment of the fair value. Currently, nothing has come to our attention which indicates a material negative deviation from Edcon's stated business plan.

Derivative financial instruments

Level 2 derivatives consist of interest rate swap contracts, CCIRS and forward exchange contracts. The fair values of these derivative instruments are determined by Absa Capital, Rand Merchant Bank, Standard Bank, Nedbank, Investec Bank Limited, Banco Popular, Banco Santander and Caixabank using a valuation technique that maximises the use of observable market inputs. Level 3 derivatives consist of net settled derivatives and share warrants that have been valued using the Black Scholes option pricing model.

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

2.3 Fair value measurement of non-financial assets (investment property)

The fair values of commercial buildings are estimated using an income approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases over the remaining economic life of the buildings.

The most significant inputs are the discount rate and the reversionary capitalisation rate. The inputs used in the valuations were:

	30 September 2019					31 March 2019				
	Discount rate		Reversionary capitalisation rate			Discount rate		Reversionary capitalisation rate		
	Range	Weighted average	Range	Weighted average	Range	Weighted average	Range	Weighted average		
	%	%	%	%	%	%	%	%		
Southern Africa	12.4 to 17.7	13.4	7.4 to 13.3	8.6	12.4 to 17.4	13.5	7.4 to 13.0	8.7		
Spain	7.0 to 9.0	7.9	5.0 to 9.3	6.1	7.0 to 9.0	7.9	5.0 to 9.2	6.0		

NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the six months ended 30 September 2019

2 FAIR VALUE MEASUREMENT continued

2.3 Fair value measurement of non-financial assets (investment properties) continued

The estimated fair value would increase/(decrease) if the expected market rental growth was higher/(lower), expected expense growth was lower/(higher), the vacant periods were shorter/(longer), the occupancy rate was higher/(lower), the rent-free periods were shorter/(longer), the discount rate was lower/(higher) and/or the reversionary capitalisation rate was lower/(higher).

The effect of a 25 basis point (bps) change to the base discount rate will have the following impact on the 30 September 2019 value of the portfolio:

	25bps increase				25bps decrease		
	Fair value Rm	Decreased fair value Rm	Decrease Rm	% decrease	Increased fair value Rm	Increase Rm	% increase
Southern Africa ⁽¹⁾	15 813	15 354	(459)	(2.9)	16 302	489	3.1

	25bps increase				25bps decrease		
	Fair value €m	Decreased fair value €m	Decrease €m	% decrease	Increased fair value €m	Increase €m	% increase
Spain	1 028	1 009	(19)	(1.9)	1 048	20	1.9

⁽¹⁾ Fair value excludes non-controlling interest in Clidet No 1011 (Pty) Ltd, which owns 80% of Moruleng Mall.

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value:

	30 September 2019 Recurring fair value measurements Level 3 Rm	30 September 2018 Recurring fair value measurements Level 3 Rm	31 March 2019 Recurring fair value measurements Level 3 Rm
Investment property	31 112	27 373	29 518
Investment property under development	—	—	163

	30 September 2019 Non-recurring fair value measurements Level 3 Rm	30 September 2018 Non-recurring fair value measurements Level 3 Rm	31 March 2019 Non-recurring fair value measurements Level 3 Rm
Investment property held for sale	1 801	2 057	1 002

There were no transfers in or out of level 3 in the reporting period under review.




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