



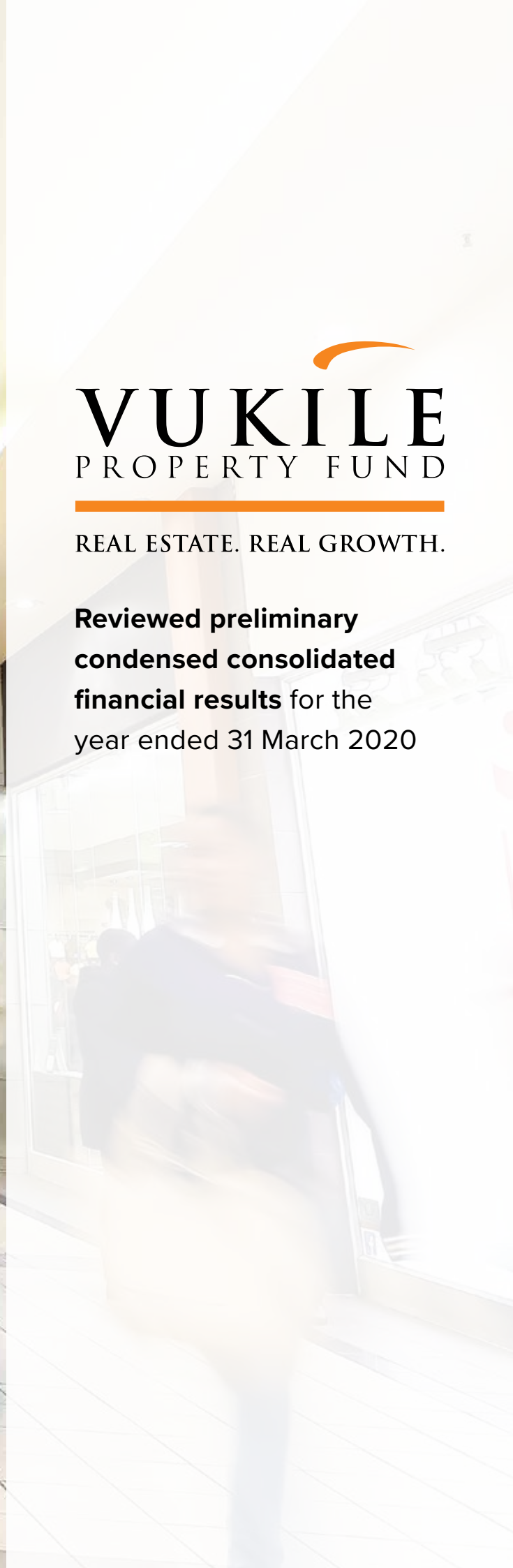
# VUKILE

PROPERTY FUND

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REAL ESTATE. REAL GROWTH.

**Reviewed preliminary  
condensed consolidated  
financial results** for the  
year ended 31 March 2020



## HIGHLIGHTS



**3.2%**

**increase** in distributable earnings per share

### **Impressive retail performance in Spain**

- Castellana dividend growth of 9.6%
- Vacancies contained at 1.8%
- Increase of 10.8% in reversions and new lettings
- Maintaining a rent collection rate of 99%

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)



### Strong cash cover and well diversified sources of funding

- Vukile remains comfortably solvent and liquid
- Complies with all funding and debt covenants
- Interest cover ratio of 5.8 times
- 77% (R1.8 billion) of FY21 maturing debt facilities successfully re-financed



### Continued strength in Southern African portfolio

- Like-for-like trading density grew by 3.4% and by 5.1% when considering asset management interventions
- Successful launch of redeveloped Pine Crest Centre and Maluti Crescent
- Retail vacancies contained at 2.9% with 84% retail tenant retention and positive reversions of 1.1%
- Retail like-for-like net income growth of 6.0%

### Operational focus in readying centres to reopen in a COVID-19 environment

- Primary focus on the health and wellbeing of our customers, tenants and staff
- Hygiene protocols for centres developed with input from leading virologist and hygiene expert
- Very successful reopening of all our centres in both Southern Africa and Spain



## 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 significant international exposure in Spain. The results reflect another year of strong operational delivery in both South Africa and Spain, driven by a hands-on pro-active property asset management approach.

### FINANCIAL PERFORMANCE

#### Executive summary

Now more than ever, Vukile continues to draw on its prudent financial management, quality financial reporting and capital markets expertise to demonstrate robust balance sheet management to further augment its strong operational results. We remain true to our principles of long-term sustainability through the generation of predictable earnings streams, diversified between Southern Africa and Spain. We operate through a simple and transparent corporate structure that emphasises long-term results, generated through operational excellence and value-added asset management. Extraordinary times necessitate an awareness of the needs of all our stakeholders, and the execution of strategic initiatives and business practices to ensure a viable business for the long term. The latter part of the year ended 31 March 2020 (the year) was headlined by COVID-19, its impact on the broader economy and our businesses in Southern Africa and Spain. Our decisions and strategies have, and always will, take a long-term approach into account, avoiding transactions which do not complement the long-term strategy of the group.

The year ended 31 March 2020 saw Vukile consolidate its organic and acquisitive growth in the Southern Africa and Spanish portfolios. Our asset management interventions continued to add value and drive growth across the portfolio.

The following significant events and transactions took place during the year to 31 March 2020:

- Vukile raised equity capital of R700 million in April 2019 via an accelerated bookbuild
- Vukile acquired an additional 10.4% interest in Castellana during the year, 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)
- In November 2019, the acquisitions of Mdantsane Shopping Centre (R512.2 million) and an additional share in Springs Mall (R22.5 million) were concluded
- In Southern Africa, the asset management team achieved practical completion of Maluti Crescent phase 2 and Pine Crest developments in July and August 2019 respectively
- In February 2020, Vukile issued senior unsecured corporate bonds totalling R500 million spread over three and five year maturities, both of which were substantially oversubscribed, with demand exceeding maximum offer by 4.2 times.

Total assets amount to R40.1 billion at 31 March 2020 (31 March 2019: R35.1 billion). Direct property investments account for R35.7 billion at 31 March 2020 (31 March 2019: R29.7 billion). Total indirect property holdings (listed property investments) were R2.1 billion at 31 March 2020 (31 March 2019: R2.6 billion).

### Calculation of distributable earnings

	31 March 2020 Rm	31 March 2019 Rm	Variance %
Property revenue	2 635	2 187	20.50
Property expenses (net of recoveries)	(318)	(313)	1.80
<b>Net profit from property operations</b>	<b>2 317</b>	1 874	23.62
Corporate administration expenses	(279)	(199)	39.94
Investment and other income	422	345	22.52
<b>Operating profit before finance costs</b>	<b>2 460</b>	2 020	21.82
Finance costs	(615)	(510)	20.70
<b>Profit before equity-accounted income</b>	<b>1 845</b>	1 510	22.20
Share of income from associate (Atlantic Leaf)	127	54	>100.00
<b>Profit before taxation</b>	<b>1 972</b>	1 564	26.14
Taxation	(40)	(18)	>100.00
<b>Profit for the year</b>	<b>1 932</b>	1 545	25.08
Net profit attributable to non-controlling interests	(130)	(102)	27.37
<b>Attributable to Vukile group</b>	<b>1 802</b>	1 443	24.91
<b>Non-IFRS adjustments</b>	<b>(11)</b>	247	>(100.00)
Antecedent dividend	2	125	(98.63)
Accrued dividends	(19)	122	(1.16)
Non-cash impact of IFRS 16 – Leases	6	—	100.00
Available for distribution	1 791	1 690	
Number of shares in issue at year-end	956 226 628	920 962 145	

### Revenue and net income from direct property portfolio

Geographical segment	Revenue <sup>(i)</sup> 31 March 2020 Rm	Revenue <sup>(i)</sup> 31 March 2019 Rm	% change	Net property income 31 March 2020 Rm	Net property income 31 March 2019 Rm	% change
Southern Africa	1 625	1 518	7.0	1 385	1 234	12.2
Spain	1 065	698	52.6	987	668	47.8
<b>Total</b>	<b>2 690</b>	2 216	21.4	<b>2 372</b>	1 902	24.7
<b>Split percentage</b>						
Southern Africa	60.4	68.5		58.4	64.9	
Spain	39.6	31.5		41.6	35.1	

<sup>(i)</sup> Excludes utility recoveries.

Net profit from operations increased by 24.7% from R1 902 million to R2 372 million. Portfolio-specific measures and movements are discussed more fully in the relevant Southern African and Spanish portfolio commentary hereafter.

## COMMENTARY continued

### Group investment and other income

	31 March 2020 Rm	31 March 2019 Rm	Movement	
			Rm	%
Investment and other income	177.3	126.4	50.9	40.3
Interest income	60.1	55.4	4.7	8.5
Net interest received on cross-currency interest rate swaps (CCIRS) after deducting finance costs	185.0	163.1	21.9	13.4
<b>Total</b>	<b>422.4</b>	<b>344.9</b>	<b>77.5</b>	<b>22.5</b>

Further commentary on investment income is provided under “listed investments”. The CCIRS ratio to total international investments (on a consolidated basis) has reduced to 32.4% (March 2019: 33.7%). Vukile has chosen to limit the utilisation of CCIRS to 45% of the total value of international investments. At 31 March 2020 the CCIRS nominal value was €182.5 million.

### Listed investments

Entity	31 March 2020			31 March 2019	
	Carrying value Rm	Number of shares held	% held	Carrying value Rm	% held
Fairvest	338.0	270 394 812	26.6	567.8	26.9
Arrowhead	245.9		11.3	728.9	25.3
Arrowhead – A shares	39.9	4 691 084		44.6	
Arrowhead – B shares	206.0	114 438 564		684.3	
Atlantic Leaf	1 518.2	65 958 606	34.9	1 302.9	34.9
<b>Total</b>	<b>2 102.1</b>			<b>2 599.6</b>	

#### Fairvest – 26.6% shareholding

Fairvest Properties Limited (Fairvest) is a JSE-listed REIT with a retail-focused portfolio, located primarily in rural and non-metropolitan areas of South Africa, including convenience and community centres. The carrying value of the investment in Fairvest reduced by R230 million over the period, with its share price reducing from R2.10 at 31 March 2019 to R1.25 at 31 March 2020. Dividends received from Fairvest for the year to 31 March 2020 were R59 million (31 March 2019: R54 million).

#### 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. During the year, shareholders of Gemgrow and Arrowhead approved the merger of the two entities, creating a diversified fund that invests in retail, office and industrial property across South Africa. The carrying value of the investment in Arrowhead A and B shares reduced by a combined R483 million over the period, with the price of the A shares reducing from R9.50 at 31 March 2019 to R8.50 at 31 March 2020 and the price of the B shares reducing from R5.98 at 31 March 2019 to R1.80 at 31 March 2020. Total dividends (A and B shares) received from Arrowhead for the year to 31 March 2020 were R85 million (31 March 2019: R72 million).

#### 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 in the period to 31 March 2020 were R101.5 million after dividend withholding tax (WHT), compared to the prior period (31 March 2019: R108.7 million). There was no WHT in the prior year since Atlantic Leaf converted to UK REIT in February 2019.

On 22 May 2020, Atlantic Leaf announced the possible sale of all of its issued shares in terms of a scheme of arrangement. Vukile has undertaken to vote in favour of the scheme, and subject to the scheme becoming unconditional in accordance with its terms, will dispose of its shares held in Atlantic Leaf. Further disclosure in this regard is provided in the notes relating to subsequent events in the commentary to these condensed results.

### Group corporate expenditure

	31 March 2020 Rm	31 March 2019 Rm	Variance Rm	Variance %
Southern Africa	<b>160.8</b>	122.3	(38.5)	(31.5)
Spain	<b>118.2</b>	77.1	(41.1)	(53.3)
<b>Group total</b>	<b>279.0</b>	199.4	(79.6)	(39.9)

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

- Southern Africa:
  - Salary and related costs increased by R16.7 million due to additional short-term and long-term incentive awards to qualifying employees on the group share scheme following the outperformance of criteria set in the scheme, and additional participants being included in the scheme for the year under review. There were also additional senior executives on the payroll (during the first half of FY20), prior to the retirement of two longstanding directors; and
  - Additional costs relating to the Vukile Academy of R2.9 million.
- Spain:
  - Of the total negative variance of R41.1 million, R34.0 million relates to increased salary costs, as the Castellana staff complement increased from a yearly average of 17 to 27 employees (a 58.82% increase in the current period). This increase in staff costs includes a long-term incentive plan implemented in the current year;
  - Directors fees have increased by R5.4 million due to additional directors being in office for the current year compared to prior year; and
  - The balance of the increase relates primarily to increased travel costs, legal fees and office operational costs.

Corporate expenditure equates to 0.70% of total assets, being 0.84% attributable to Southern Africa and 0.56% attributable to Spain.

### Group cash flow

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

	Rm
Cash from operating activities	<b>2 417</b>
Dividend paid	<b>(1 867)</b>
Excess cash generated over dividend paid for the period	<b>550</b>
Net proceeds from the issue of shares	<b>696</b>
Borrowings and advances	<b>3 102</b>
Borrowings repaid	<b>(448)</b>
Acquisitions/improvements to investment property: Southern Africa	<b>(896)</b>
Acquisitions/improvements to investment property: Spain	<b>(1 806)</b>
Additional investment in Castellana	<b>(1 047)</b>

Cash flow from operating activities (including net finance costs) exceeded dividends paid for the year by R550.0 million. Net proceeds from additional debt raised and the proceeds from shares issued, were utilised to acquire additional shares in Castellana and for the acquisition of investment property in South Africa and Spain.

During the year, Vukile acquired an additional 17 187 793 shares in Castellana, taking its total shareholding to 71 204 716 shares, a 82.54% interest (31 March 2019: 54 016 923 shares and a 72.17% interest).

## COMMENTARY continued

### Net asset value (per share)

The net asset value (NAV) of the group decreased by 9.4% from R20.26 per share to R18.34 per share at 31 March 2020, as set out in the table below.

	Rands per share
<b>NAV 1 April 2019</b>	<b>20.26</b>
Net property income	<b>2.58</b>
Additions and upgrades to investment property	<b>2.93</b>
Change in fair value of investment property	<b>(1.35)</b>
Change in fair value of listed investments	<b>(0.54)</b>
Increase in borrowings (additional shares in Castellana)	<b>(1.14)</b>
Increase in borrowings (additions and upgrades to investment property)	<b>(2.73)</b>
Dividends paid	<b>(1.91)</b>
Foreign currency movements	<b>1.11</b>
Other	<b>(0.86)</b>
<b>NAV 31 March 2020</b>	<b>18.34</b>

Vukile's share price of R7.08 per share at 31 March 2020 represents a 61.4% discount to the NAV per share of R18.34. Subsequent to year-end, the share price has recovered to R7.74 per share on 25 June 2020, a discount of 57.8% to the NAV per share at 31 March 2020.

### Share trading and liquidity

During the year, 395.0 million Vukile shares traded, equating to approximately 32.9 million shares per month. The shares traded represent 41% of shares in issue, demonstrating the high liquidity of Vukile's shares in the market.

### Treasury management

Balance sheet and treasury risk management remains one of Vukile's key focus areas. At 31 March 2020, consolidated group loan-to-value (LTV) net of cash was 46.1%, which should be viewed in the context of a very healthy group interest cover ratio of 5.8 times. Vukile's debt metrics are all within covenant levels at a group (consolidated) and subsidiary level. The movement in LTV of 5.3% from 40.8% at 30 September 2019 to its current level can largely be attributed to the dramatic weakening of the Rand, which was driven by the twin impact of Moody's credit downgrade of South Africa and the onset of the global COVID-19 pandemic. The Rand weakened by 19% against the Euro from R16.49 at 30 September 2019 to R19.70 at 31 March 2020, which resulted in a 2.3% increase to the LTV. In addition, the dramatic weakening of share prices in the REIT sector impacted the value of Vukile's listed holdings in Fairvest, Arrowhead and Atlantic Leaf, which dropped by R581.2 million from their 30 September 2019 values, which led to a 0.8% increase in the LTV. Finally, additional Rand borrowings of R517.1 million, taken for the acquisition of Mdantsane City Shopping Centre, together with the reduction in valuation of the South African and Spanish property portfolios of R216.5 million and €24.9 million, respectively, contributed a further increase in the LTV by 2.2%. Group LTV net of cash is forecast to reduce to approximately 43.9% should the Atlantic Leaf disposal be successfully completed.

Funding, debt and treasury metrics are monitored on a continual basis, as part of Vukile's extensive forecasting, stress testing and modelling of various scenarios, including sensitivities arising from the COVID-19 pandemic.

Stress testing of earnings indicates that the portfolio would need to undergo a 66% reduction in group EBITDA before reaching the 2 times bank interest cover covenant level. Extensive scenario analysis has been performed on the business in relation to the COVID-19 pandemic, and the business remains comfortably solvent and liquid even under some extreme scenarios. Vukile and Castellana continue to benefit from very strong relationships with its diversified funding providers and has made significant progress by concluding agreements to extend c.80% of all debt expiring in the next 12 months (FY21).



### Group borrowings summary

The group's funding strategy is to optimise funding costs while minimising refinance risk. Total debt at 31 March 2020 amounted to R18.5 billion. A summary of funding by currency is provided below:

Funding breakdown	Number of funders	Rm	
Foreign Spanish funders (EUR)	6	9 728	} Secured only against Castellana's balance sheet with no recourse to Vukile
South African funders (EUR)	4	5 026	
South African funders (GBP)	1	318	} Partly secured against Vukile's South African balance sheet
South African funders (ZAR)	5	943	
Domestic Medium Term Note (DMTN) programme (ZAR)		2 507	
<b>Grand total</b>		<b>18 522</b>	

### Sources of funding

Vukile's debt funding 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 exposure and Hedging and fixed debt		
	Debt <sup>(1)</sup> Rm	exposure per bank %	Hedging and fixed debt <sup>(2)</sup> Rm
Aareal <sup>(3)</sup>	6 241	33.7	5 877
ABSA	2 746	14.8	2 733
DMTN – corporate bonds	2 507	13.5	—
Caixabank <sup>(3)</sup>	1 596	8.6	1 497
Standard Bank	1 427	7.7	962
Banco Santander <sup>(3)</sup>	1 216	6.6	1 157
Investec	1 120	6.1	791
RMB	894	4.8	49
Liberbank <sup>(3)</sup>	295	1.6	—
Banco Popular <sup>(3)</sup>	222	1.2	222
Pichincha <sup>(3)</sup>	158	0.9	—
Nedbank	100	0.5	1 121
<b>Grand total</b>	<b>18 522</b>	<b>100.0</b>	<b>14 409</b>

<sup>(1)</sup> Foreign currency denominated debt converted at a EUR/ZAR spot rate of R19.70 and GBP/ZAR spot rate of R22.16 at 31 March 2020.

<sup>(2)</sup> Hedging exposure is represented by exposure per banking relationship.

<sup>(3)</sup> Group exposure includes Castellana debt of €494 million (R9.728 billion equivalent), and swaps of €146.0 million (R2.876 billion equivalent).

### Vukile group loan and swap expiry profile at 31 March 2020

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

	2021	2022	2023	2024	2025	2026	2027 and beyond	Total
Loan expiry profile including access facility (%)	12.4	20.7	18.9	10.1	2.2	33.8	1.9	100.0
Loan expiry profile (Rm)	2 251	3 798	2 780	1 864	404	6 264	359	17 720
Access facility expiry profile (Rm)	40	45	717					802
Hedging (swap and fixed debt) profile (Rm)	456	1 149	919	9 451	1 235	649	550	14 409

## COMMENTARY continued

A summary of group debt ratios at 31 March 2020 is provided below:

	31 March 2020			31 March 2019		
	Group Rm	Southern Africa Rm	Spain Rm	Group Rm	Southern Africa Rm	Spain Rm
Total debt (excluding access facilities)	17 720	7 992	9 728	12 771	5 449	7 322
Hedged portion (interest rate swaps and fixed debt)	14 409	5 656	8 753	12 219	4 995	7 224
Interest-bearing debt fixed/hedged (%)	81.3	70.8	90.0	95.7	91.7	98.7
Hedged (swaps and fixed debt) maturity profile (years)	3.4	3.8	3.2	3.6	2.7	4.2
Loan to value ratio (net of cash) <sup>(1)</sup> (%)	46.1	48.1	44.4	37.2	30.0	45.9
Interest cover ratio <sup>(2)</sup>	5.8 times	7.74 times	4.24 times	6.1 times	7.94 times	4.1 times

<sup>(1)</sup> Loan to value ratio (net of cash) 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 directors' valuation (external valuation in the case of the Spanish portfolio) of all the direct property portfolio on a consolidated basis and (ii) the market value of listed investments.

<sup>(2)</sup> 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.

### Group finance costs

The group's average cost of finance (including amortisation of capitalised raising fees) for the year ended 31 March 2020 is 4.0% (31 March 2019: 4.5%).

Interest-bearing debt is 81.3% hedged with a 3.4 year hedged maturity profile (31 March 2019: 95.7% with a 3.6 year hedge maturity profile).

Group finance costs increased by R105 million, from R510 million in the prior year to R615 million in the year to 31 March 2020, in part due to an increase in borrowings to fund acquisitions of investment property and capital expenditure during the year.

Further detail in respect of acquisitions and capital expenditure during the year is provided below, under the Southern Africa and Spain portfolio reviews.

Average cost of finance decreased over the year due to a relatively larger proportion of group debt being Euro based. Finance costs by currency, using the historic weighted average cost of debt, is indicated below:

	FY20 historical cost of debt %	Debt at 31 March 2020 Rm	FY19 historical cost of debt %	Debt at 31 March 2019 Rm
ZAR	9.3	3 450	9.2	3 226
EUR	2.5	14 754	2.7	9 462
GBP	3.6	318	3.5	542
<b>Total</b>	<b>4.0</b>	<b>18 522</b>	<b>4.5</b>	<b>13 230</b>

### Undrawn facilities

Undrawn facilities at 31 March 2020 amount to R1.1 billion (31 March 2019: R1.4 billion). Subsequent to year-end, management has concluded agreements to increase the undrawn facilities to R1.6 billion which significantly underlies Vukile's strong liquidity position.

### Unencumbered assets

	31 March 2020 Rm	31 March 2019 Rm
Property assets (external valuation)	4 177	3 400
Listed shares	4 997	3 800
<b>Unencumbered assets</b>	<b>9 174</b>	<b>7 200</b>
Unsecured debt	2 080	1 300
<b>Unsecured debt to unencumbered assets ratio (%)</b>	<b>22.7</b>	<b>18.7</b>

Atlantic Leaf shares amounting to R1.2 billion are unencumbered and included in unencumbered listed shares above.

### Movement in group debt

During the year total group debt increased by R5.3 billion. Driven primarily by foreign exchange movements on translation of 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	(276)	—	(276)
Vukile ZAR DMTN debt	500	—	500
Vukile GBP debt	(318)	94	(224)
Vukile EUR debt	2 432	453	2 885
Castellana EUR debt	857	1 550	2 407
<b>Grand total</b>	<b>3 195</b>	<b>2 097</b>	<b>5 292</b>

During the year, Vukile issued R500 million in unsecured corporate bonds in order to raise funding to repay secured corporate notes VKE07 (R200 million) and VKE09 (R378 million) which mature in June and July 2020, respectively, resulting in the issuance being LTV neutral. VKE received significant market support for the capital raise which was 4.2 times oversubscribed with margins issued at or below price guidance. Interest rate swaps amounting to R3.1 billion were extended at an estimated annualised saving of R7.0 million and new EUR interest rate swaps totalling €144.8 million were extended, at an estimated annualised saving of R6.0 million. The group has complied with all bank and DMTN group LTV and ICR covenants, where applicable.

### 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.

## COMMENTARY continued

### EUR net income exposure

Dividend payment dates	Jun 2020	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024
Fixed EUR/ZAR rate	<b>R18.1143</b>	R18.4598	R19.2738	R20.1694	R20.9673	R21.8077	R22.6975	R23.0560	R23.9613	R24.2649
	<b>Average over 1 year</b>	Average over 3 years	Average over 5 years							
Average % net EUR dividend hedged*	<b>83</b>	67	63							

\* Based on pre-COVID-19 FY21 budget.

### GBP net income exposure

Dividend payment dates	May 2020	Nov 2020	
Fixed GBP/ZAR rate	<b>R20.6072</b>	R21.3622	
	<b>Average over 1 year</b>	Average over 3 years	Average over 5 years
Average % net GBP dividend hedged	<b>92</b>	28	16

Vukile has chosen not to enter into new GBP FECs for the periods between May 2021 and November 2024, given the possible sale of Vukile's shareholding in Atlantic Leaf.

### Cross-currency interest rate swaps

At 31 March 2020, 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	Mark-to-market Rm
Nedbank CCIRS June 2018	93.2	1 346.2	14.4446	1.90	8.81	14 June 2021	(475)
Nedbank CCIRS June 2018	23.8	360.4	15.1420	1.29	8.81	14 June 2021	(100)
ABSA CCIRS July 2018	40.0	629.9	15.7465	3.70	11.88	13 June 2022	(99)
Investec CCIRS July 2018	25.5	401.4	15.7400	3.72	11.88	13 June 2022	(66)
<b>Total</b>	<b>182.5</b>	<b>2 737.9</b>					<b>(740)</b>

The board limits CCIRS to 45% of the total value of offshore investments. At 31 March 2020, CCIRS were 32.4% of total offshore investments on a consolidated basis. No new CCIRS were entered into during the year. The mark-to-market of CCIRS at 31 March 2020 was -R740 million, with no margining applicable. In addition, at the initiation of the Nedbank contract, Vukile placed R100 million cash on fixed deposit with Nedbank in order to mitigate against mark-to-market (MtM) losses on expiry of the CCIRS in case of future weakening of the Rand.

### Events post year-end in response to COVID-19

At the onset of the COVID-19 crisis, Vukile immediately conducted extensive stress testing across its business in order to understand the potential impact on its solvency and liquidity. As mentioned previously, Vukile remains comfortably solvent and liquid. Vukile has engaged extensively with all its bank funders both in South Africa and Spain, as well as many of its noteholders in its DMTN programme in order to communicate the financial position of both Vukile and Castellana and their respective abilities to navigate through the crisis.

A decision was taken to expedite the refinancing of debt due to expire in FY21. At 31 March 2020, an amount of R2.3 billion was due to be refinanced during FY21. Vukile has made significant progress in this regard and has already extended 77% (R1.8 billion) of the debt due to mature in the year ahead. The remaining 23% is only due to expire in December 2020 and February 2021 and management is highly confident of its ability to refinance these facilities with the bank funder concerned. All South African bank funders have extended debt with Vukile post the outbreak of COVID-19.

Given the significant reduction in the South African base rates and increased margin by South African funder originated Euro-denominated debt, management is currently undertaking a significant review of its debt in terms of its currency mix, hedging profile and debt tenor.

### Credit rating

Global Credit Ratings Co. (GCR) upgraded Vukile's rating in July 2019. The senior secured long-term credit rating was upgraded to AAA<sub>(ZA)(EL)</sub>, the corporate long-term credit rating was upgraded to AA<sup>-</sup><sub>(ZA)</sub> and the corporate short-term rating was upgraded to A1<sup>+</sup><sub>(ZA)</sub>, with a stable outlook.

### 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 and will accordingly be applicable to Vukile from the financial year ending 31 March 2021. 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 first edition BPR as published by the SA REIT Association.

## PORTFOLIO REVIEW – SOUTHERN AFRICA

"In remarkably challenging market conditions, our top-quality 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 the highest standard of property asset management to protect and create value in the long term."

The Southern African total direct property portfolio at 31 March 2020 consisted of 59 properties with a total value of R15.6 billion, and gross lettable area (GLA) of 1 015 536m<sup>2</sup>, with an average value of R265 million per property.

The Southern African retail portfolio, which accounts for 93% of the value of the assets, was valued at R14.6 billion and consists of 46 properties with an average value of R317 million. In total 83% of retail space is let to national tenants with vacancies limited to 2.9%.

### Operating environment

#### Portfolio overview

The operating environment has been incredibly challenging over the past financial year. It has been characterised by low levels of business and consumer confidence, a marked increase in unemployment, unstable power supply, and fiscal pressures which have collectively led to a technical economic recession. The Southern African retail sales growth of 2.0% as at the end of February 2020 has progressively softened over the year and this all before the COVID-19 pandemic further impacted the broader economy. The prevailing macro-economic environment has resulted in lower consumer disposable income which has led to the sector-wide softening in trading densities, occupancy absorption and rental reversions.

Notwithstanding these incredible headwinds, the South African portfolio has performed admirably, showing improved overall operating metrics when compared to the 2019 financial year.

Key to the sustained strong performance of the portfolio has been the combination of Vukile's refined operating model and disciplined portfolio construction methodology. The operating model has focused inwardly and prioritised driving significant and sustainable efficiencies as a core strategy. Value has been driven across all areas of asset management including leasing structures, utilities and energy management, alternative income management, collections, operating costs, and general property management. The disciplined portfolio composition process has ensured that the tail of the portfolio is effectively winnowed through an annual underwriting process, resulting in a strong, nodally dominant core portfolio. We continue to invest in this core portfolio to ensure that sustained results are generated from our assets well into the future.

The trading density of the portfolio grew by 3.4% on a strict like-for-like basis and when considering our asset management interventions grew by a very impressive 5.1%. This was the main contributor to an above-inflationary like-for-like growth in net operating income of 6.0% for the year. Retail reversions remained positive at 1.1%, with vacancy levels marginally improving to 2.9% compared to 3.0% at the end of FY19.

Our strong operating metrics, tight focus on constant operational improvements, symbiotic tenant relationships and forward-looking investment into sustainable energy and customer-centric technology will be the bedrock off which we will navigate the uncertain COVID-19 and macro-economic environment to position the business for future sustainable growth.

## COMMENTARY continued

### Operational highlights

- Retail like-for-like net income growth of 6.0% up from 4.4% in FY19
- Retail vacancies down from 3.0% to 2.9%
  - 12 malls now fully let
  - 22 malls with vacancies less than 1 000m<sup>2</sup>
- Rent-to-sales ratio of the portfolio maintained at 6.0%
- New retail leases concluded at 2.4% above budget
- Retail reversions have slowed from 4.5% in prior period to 1.1% – of 345 leases renewed 73% were positive, 10% flat and only 17% were negative
- In-contract escalations declined marginally from 7.0% to 6.9%
- 84% retail tenant retention rate
- Fibre rolled out to 35 of our malls, Wi-Fi live in five malls with 12 more to be rolled out by October 2020
- Specialised in-house leasing and capital projects management teams delivering positive results
- Successful launch of redeveloped Pine Crest Centre and Maluti Crescent
- WALE down to 3.7 years from 4 years
- Decreased Edcon exposure from 4.3% to 3.0% of retail portfolio rent
- Trading density growth increased from 1.1% at previous year-end to 3.4% on a like-for-like basis and 5.1% including asset management interventions
- Net cost to property revenue ratio reduced to 15.5% of all expenses, down from 16.9% in FY19

### Operational efficiencies

Our inwardly focused operational strategy has yielded positive results. We have focused on low capital-intensive interventions that return sustainable savings into the future. Below are some of the positive outcomes:

- 5% of the electricity is now generated through 14 PV projects. Energy, water and sewer projects generated 7% sustainable savings in expenses in FY20
- Soft services integration project resulted in 6% savings in budgeted expenditure in FY20
- Internalised leasing strategy has resulted in higher occupancy levels and improved tenant relationships
- Collections less balances and credits at a credible 90% for the year due to improved administration processes and collection strategies

### Effective capital allocation

Over the year we fully executed on our operational capex programme. This has been a hallmark of the portfolio's continued operational success as assets within the portfolio are not only well located and nodally dominant but are well maintained and managed.

### Operational capex

- R93 million spent on 396 projects
- Focused primarily on – HVAC, OHS Act, fire detection and prevention, replacement of escalators, lifts and shopfronts

### Continuous investment in high-yielding PV projects

- Total installed PV plant capacity for FY20 is 9.8MW (14 PV plants installed)
- Total expected savings from these PV plants in FY21 is budgeted to be R17.6 million
- Budgeted new PV plants for FY21 is 5MW, with expected generation of 725 000kWh per annum, generating expected annual savings of R8.3 million

### Continued energy management spend

- Billing and metering optimisation through remote metering remained a key focus area throughout the year
- Installed 18 000kl of backup water tanks, enough to fill some 700 swimming pools
- Drilled eight boreholes with capacity for 62 000kl (2 400 swimming pools) resulting in annual savings of R1.1 million on water consumption

### Innovation for future fitness

We strongly believe that retail as a property asset class will evolve and specialisation, especially in the field of customer centricity, will be key to establishing a sustainable competitive advantage in this space. As a result, gearing the business for these changes is core to our strategy. Below are some highlights on progress regarding this important development.

### Concluded 31% investment in prop-tech investment (post year-end)

- First investment into geolocation prop-tech business that will provide operational insights on geographical shopper-behaviour patterns and to be rolled out in both South Africa and Spain
- Applicability not only in portfolio operations but across entire retail value chain and expected to be of significant value to our tenants

**Improved customer and tenant focus**

- Proof of concept on best of breed hyper location Wi-Fi project successfully completed at five sites and a further 12 now in progress
- Already have an opt-in database of c.700 000 customers from the pilot sites
- Shopper-behavioural analytics greatly improved and now extends to conversion rate, individualised dwell time, shopper leakage, current versus new visitors, return rate and shopfront efficiencies on a dynamic real-time basis
- Now able to provide captive portal advertising to tenants as a value-add proposition in our tenant engagement strategy

**COVID-19 update**

The COVID-19 pandemic is a global humanitarian crisis that has brought unprecedented challenges to the forefront. Our response has been to prioritise the health and safety of our shoppers and tenants while working co-operatively across our value chain to create outcomes that ensure the sustainability of our various stakeholders, most importantly our tenants.

The Vukile board appointed leading virologist Professor Barry Schoub as a special adviser to the Board to evaluate the effects of the pandemic. As a global expert on pandemics and hygiene standards, Professor Schoub has helped Vukile to navigate the data and impacts from a scientific perspective and to work with the South African and Spanish teams to formulate appropriate protocols for our centres to ensure they are safe and welcoming spaces for our customers and tenants.

Our sincerest thanks and gratitude go to all our staff across the portfolio for selflessly ensuring that our malls continued to trade as going concerns over the past 14 weeks. From the initial closing on the 27 March 2020 to the partial reopening at varying levels, we have been buoyed by the absolute humbling display of “ubuntu” across all our sites both in South Africa and in Namibia.

**Facility management**

Critical importance in the fight against COVID-19 has been gearing our properties for increased and effective surface level cleaning, adequate social distancing strategies and data driven information around the spread of the virus. We understand that spaces within our malls must be safe. We have actively driven awareness campaigns to encourage shoppers to feel safe within the mall environment.

**Key focus areas**

- Safety and wellbeing of our tenants, shoppers, service providers and other stakeholders
- Maintaining social distancing, en route, upon arrival and inside the mall
- Ensuring we have the correct service providers for stock and personal protective equipment
- Driving a coherent strategy which complements the efforts of our tenants
- Ensuring a continuous awareness and information campaign for our shoppers

**Actual expenditure**

We spent R2.5 million on additional security, cleaning and marketing over April and May throughout the portfolio, which is a 16% upward variance on the budget for the two months. Of the R2.5 million increase, 52% was spent on additional cleaning, 31% on security and 17% on marketing.

**Forecast**

- Total COVID-19-related spend for FY21 on soft services is forecast to be R5.5 million
- Partial funding of additional costs to come from savings emanating from soft services integration
- We project the additional hygiene-related costs to form part of future budgets going forward and will result in an overall soft services expense increase of c.6%

**Tenant relief and relationship management**

Understanding that the effects of the crisis pose significant threats to our tenants and our own business, we have adopted a pragmatic approach to continuously engage with our tenants to find commercially driven mutually acceptable solutions that ensure both their ongoing viability as well as ours. This is a time for responsible corporate leadership and calls for a co-operative approach among stakeholders to ensure the ongoing sustainability of the whole value chain.

Vukile formed part of the Property Industry Group to facilitate discussions with national tenants and offer solutions to SMME and mid-tier tenants. Vukile has adopted the relief guidelines, which were widely published, as a guide to our discussions with tenants and have to a large degree concluded deals broadly in line with the guidelines. Deals with tenants have generally focused on the lockdown periods of April and May 2020 although in the case of tenants such as restaurants, entertainment, health and wellness deals have extended to the month of June 2020.

## COMMENTARY continued

Below is a progress update on the quantum of deals done for the months of April, May and June within our portfolio.

Number of tenant deals completed:

- Nationals: 70%
- Mid-tier: 90%
- SMME: 90%

To date we have finalised deals with 19 out of our top 20 tenants which represent 56% of our total rent.

### Billings and collections

In total R108m was offered as relief to the tenants during the three months April to June 2020. This equates to 20% of the quarterly billings, or 5% of annual billings. Small, medium and micro enterprises benefitted most with concessions of R49m (32% of their quarterly commitment).

Rent collections remain under pressure, with non-essential services, mid-tier tenants and small, medium and micro enterprises showing strain under the COVID-19 impact.

	Total	Essential services	Non-essential services	National tenants	Mid-tier tenants	SMMEs
Quantum of relief offered						
April 2020	R75m (41%)*	R3m (5%)	R72m (60%)	R34m (31%)	R8m (38%)	R33m (64%)
May 2020	R31m (17%)	R2m (4%)	R29m (24%)	R10m (10%)	R5m (21%)	R16m (32%)
June 2020	R2m (1%)	—	R2m (2%)	R1m (1%)	R1m (5%)	—
<b>Total</b>	<b>R108m (20%)**</b>	<b>R5m (3%)</b>	<b>R103m (29%)</b>	<b>R45m (14%)</b>	<b>R14m (22%)</b>	<b>R49m (32%)</b>
April 2020 collections	72%	86%	52%	80%	52%	58%
May 2020 collections	73%	90%	59%	79%	66%	55%
June 2020 collections (until 19 June 2020)	65%	79%	57%	74%	60%	49%

Excluding Edcon.

\* Percentage of monthly billings.

\*\* Percentage of quarterly billings.

### Turnover and footfall

April 2020

- Footfall decreased by 68% across the portfolio over the period of the full lockdown, when compared against the same period last year. The table below provides greater detail on trends across the segments in our portfolio
- Rural centres performed better, showing 43% of normal flow during April 2020 compared to 19% in urban centres
- The turnover of the essential services tenants increased by 8% in township, commuter, rural and value centres and by 4% in the urban context over this time indicating the extent of panic buying

May 2020

- Footfall on average decreased by 43% over the period of level 4 lockdown
- The turnover of the major national tenants increased by 10% in township, commuter, rural and value centres and by 1% in the urban context over the month

Exposure	% relative to prior year									
	%	April 2020					May 2020			
		Footfall	Trading densities of tenants trading during lockdown			Footfall	Trading densities of tenants trading during lockdown			
			Essential services	Non-essential services	Total		Essential services	Non-essential services	Total	
<b>Total</b>	100	<b>32</b>	108	34	92	<b>57</b>	110	99	104	
Township and commuter	43	<b>31</b>	93	22	83	<b>53</b>	101	92	97	
Rural	27	<b>43</b>	111	50	98	<b>68</b>	120	113	116	
Value centre	11	—	149	33	135	—	124	83	106	
Urban	19	<b>19</b>	104	27	73	<b>58</b>	100	98	99	



### Short-term focus areas

The key focus areas for the portfolio in the short-term will be on strengthening tenant relationships, further understanding the essence of our customers' behaviour and continuing our pursuit of operational excellence.

#### Tenant relationships

- Strengthen relationships coming out of COVID-19 with internalised full-strength leasing team
- Execute a focused renewal strategy in the next six months without changing key tenants of current lease structures
- Trial new, de-risked new-tenant introduction options for both tenant and landlord
- Continue to incubate pop-up shops to ultimately integrate fully fledged SMMs into the portfolio

#### Customer insights

- Integrate data analytics from multiple modes of tested customer insights solutions into a single powerful asset management tool
- Integration will include current portfolio metrics, psychographic information, nodal dynamics and individualised customer data from Wi-Fi database
- This will enable the business to respond in real time to customer behaviour changes
- It will open other avenues for alternative revenue sources

#### Operational excellence

- Continue looking at sustainable solutions to manage costs through integration, efficiency of operations, and cash flow management
- This will be across soft-services, hard-services, marketing and promotions, property, utility and alternative income management

#### People and communities

- Empower community-based service providers to become partners in mall operations
- Continue to invest in CSI initiatives that make a difference in the communities in which we operate
- Over the COVID-19 lockdown period we assisted 65 organisations, benefiting c.20 000 individuals across eight provinces

### Key risks

#### Utility Supply

Water scarcity remains a risk across the portfolio with interruptions in most cases linked to either local municipal capacity challenges or regional droughts. To protect our assets, fire and domestic water backup tanks have been constructed in high-risk areas. Water backup projects for FY21 have been identified across the portfolio with the aim to install a further 300 megalitres of water backup across the portfolio. This will ensure that the centres will be able to trade should there be water outages.

#### Tenant risks

The retail portfolio's exposure to Edcon is 3% of rent spread across 30 stores.

	% of retail portfolio		
	Number of stores	GLA	Rent
<b>Edcon</b>	<b>30</b>	<b>4.4</b>	<b>3.0</b>
Jet	25	2.7	2.1
Edgars	5	1.7	0.9

The Edcon business rescue plan was received on 9 June 2020, which substantiates the business rescue practitioner's view that a sale of the Edcon divisions as a going concern provides the best outcome for creditors. The plan furthermore illustrates that, while the prospect of recovery under business rescue is less than 10c in the Rand for creditors like landlords, the alternative is a liquidation of Edcon with no prospect of a dividend.

It was confirmed during meetings between the practitioner and the landlords that keen interest was received for both the Edgars and Jet brands from prospective buyers with the intention to finalise binding offers of intent by the end of June 2020.

The business rescue plan contains a list of creditors, dividing landlords into different categories including onerous, non-viable, marginal and viable stores. Stores in the Vukile portfolio were classified as viable stores.

Edcon Namibia forms part of a separate entity and is not included in the business rescue plan. The business rescue plan has been approved by more than 75% of the voting interests, adopting the plan as proposed.

## COMMENTARY continued

### Potential risk categories post-COVID-19

The retail portfolio exposure to high-risk categories in need of assistance during lower levels of lockdown is limited to 138 stores occupying 4.9% of GLA and spread across 94 tenants contributing 5.2% to rent.

	% of retail portfolio		
	Number of stores	GLA	Rent
Gymnasiums and adventure sport	13	3.0	2.1
Restaurants	56	1.3	2.1
Hair and beauty salons	68	0.5	0.9
Cinemas	1	0.1	0.1

### Tenant arrears

Tenant arrears (including tenant recharge accruals) amounted to R97.5 million at 31 March 2020 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 31 March 2020 decreased to R12.2 million, from R34.2 million at 31 March 2019. Bad debts written off for the year ended 31 March 2020 amounted to R42 million (31 March 2019: R15 million).

### Projects

Major capital projects completed and in progress at 31 March 2020 are:

Approved	Completion	Approved R000	Paid to 31 March 2020 R000
Phuthaditjhaba Maluti Crescent	31 August 2019	391 650	360 358
Pinetown Pine Crest Centre	31 July 2019	218 570	216 866
Gugulethu Square	14 August 2020	6 105	1 609
		616 325	578 833

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

In the context of the challenging capital markets and capital constraints, we have deferred a portion of the operational capex budget, energy efficiency budget as well as defensive non-yielding development to one of our major assets to FY22.

### Acquisitions

Mdantsane City Shopping Centre was acquired for R512.2 million at a yield of 9.0% and we increased our stake in Springs Mall from 25% to 27% at an acquisition price of R22.5 million yielding 9.0%.

### Sales

Sandton Linbro Galaxy Drive and Sandton Sunninghill Sunhill Park were sold for R17.4 million and R44.6 million respectively during the year.

### Valuation of Southern African portfolio

The Southern African portfolio consists of 59 properties with a total GLA of 1 015 536m<sup>2</sup>.

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 R15.6 billion<sup>(i)</sup> with a forward yield of 9.0% at 31 March 2020. This is R120.2 million or 0.8% higher than the valuation as at 31 March 2019. The value of the stable portfolio (excluding acquisitions and sales) is R354.4 million or 2.2% lower than the March 2019 value mainly attributable to 25bps increase in base discount rate, lower net operating income growth expectations and provision for reduced FY21 net operating income due to the impact of COVID-19.

The external valuations by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd are marginally higher than the directors' valuations.

<sup>(i)</sup> 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 59.3% of the total portfolio value and 45.1% of the total portfolio GLA.

Property	Location	GLA m <sup>2</sup>	Value Rm	% of total portfolio	Valuation R/m <sup>2</sup>
Boksburg East Rand Mall <sup>(i)</sup>	Gauteng	34 186	1 357.8	8.7	39 718
Pinetown Pine Crest	KwaZulu-Natal	43 354	1 107.6	7.1	25 548
Durban Phoenix Plaza	KwaZulu-Natal	24 231	889.4	5.7	36 705
Phuthaditjhaba Maluti Crescent	Free State	35 725	713.8	4.6	19 980
Soweto Dobsonville Mall	Gauteng	26 438	564.9	3.6	21 367
Pretoria Kolonnade Retail Park	Gauteng	39 665	563.9	3.6	14 217
Gugulethu Square	Western Cape	25 681	538.1	3.4	20 953
Mdantsane City Shopping Centre	Eastern Cape	36 309	509.7	3.3	14 038
Queenstown Nonesi Mall	Eastern Cape	27 919	480.3	3.1	17 203
Germiston Meadowdale Mall <sup>(ii)</sup>	Gauteng	33 156	442.3	2.8	13 340
Bloemfontein Plaza	Free State	43 771	437.7	2.8	10 000
Thohoyandou Thavhani Mall <sup>(iii)</sup>	Limpopo	17 780	435.7	2.8	24 505
Daveyton Shopping Centre	Gauteng	17 774	423.1	2.7	23 804
Oshakati Shopping Centre	Namibia	24 632	408.0	2.6	16 564
Moruleng Mall <sup>(iv)</sup>	North West	25 253	392.1	2.5	15 527
<b>Total top 15 properties</b>		<b>455 874</b>	<b>9 264.4</b>	<b>59.3</b>	<b>20 322</b>
% of total portfolio		<b>45.1</b>	<b>59.3</b>		
% of retail portfolio		<b>50.8</b>	<b>63.5</b>		

<sup>(i)</sup> 50% undivided share in this property.

<sup>(ii)</sup> 67% undivided share in this property.

<sup>(iii)</sup> 33% undivided share in this property.

<sup>(iv)</sup> 80% share in Clidet No 1011 (Pty) Ltd.

## COMMENTARY continued

### Summary of portfolio changes

GLA reconciliation	GLA m <sup>2</sup>
<b>Balance at 31 March 2019</b>	988 303
GLA adjustments	7 788 <sup>0</sup>
Disposals	(17 221)
Acquisitions and extensions	36 666
<b>Balance at 31 March 2020</b>	<b>1 015 536</b>

Vacancy reconciliation	GLA m <sup>2</sup>	%
<b>Balance at 31 March 2019</b>	38 845	3.9
Less: Properties sold since 31 March 2019	(7 435)	43.2
<b>Remaining portfolio balance at 31 March 2019</b>	31 410	3.2
Leases expired	152 641	
Tenants vacated	30 975	
Moved from development vacancy	863	
Renewal of expired leases	(88 626)	
Leases to be renewed	(33 040)	
New letting of vacant space	(60 206)	
<b>Balance at 31 March 2020</b>	<b>34 017</b>	3.4

<sup>0</sup> Residential units were previously measured in number of units and not GLA. Randburg Square Apartments of 7 508m<sup>2</sup> 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 72% of the gross income comes from Gauteng, KwaZulu-Natal, Limpopo and Western Cape.

	% of gross income	% of GLA
Gauteng	36	41
KwaZulu-Natal	21	16
Limpopo	8	7
Western Cape	7	6
Free State	7	8
Namibia	7	6
Eastern Cape	6	6
North West	4	5
Mpumalanga	4	5

#### Sectoral profile

Based on value, 93% of the Southern African portfolio is in the retail sector, followed by 3% in the industrial, 2% 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	65	72	67
B – National and listed tenants, franchised and medium to large professional firms	12	12	11	10
C – Other (1 249 tenants)	20	23	17	23

### Lease expiry profile

Vukile's Southern African lease expiry profile shows that 25% of the leases based on rentals are due for renewal in 2021. Some 37% of leases are due to expire in 2024 and beyond.

	March 2021	March 2022	March 2023	March 2024	Beyond March 2024
% of contractual rent	25	21	17	17	20
Cumulative	25	46	63	80	100

	Vacant	March 2021	March 2022	March 2023	March 2024	Beyond March 2024
% of GLA	3.4	21	18	14	17	27
Cumulative	3.4	24	42	56	73	100

### Vacancy profile

The total portfolio's vacancy measured on GLA improved from 3.9% at 31 March 2019 to 3.4% at 31 March 2020. The focused in-house leasing drive to fill vacancies resulted in reduced retail vacancies albeit amid turbulent times in the build-up to the COVID-19 lockdown. The sale of Sunninghill Sunhill Park together with some movement in the remaining office portfolio impacted positively on office vacancies. Industrial vacancies remain under pressure, with increased vacancies at two properties in the latter part of the year contributing to the increase from 5.7% to 8.7%.

Vacancies (% of GLA)	March 2020 %	March 2019 %
Retail	2.9	3.0
Industrial	8.7	5.7
Offices	3.5	21.0
Motor-related	—	—
Residential <sup>(i)</sup>	4.3	—
<b>Total</b>	<b>3.4</b>	<b>3.9</b>

Including development vacancy, the March 2020 vacant GLA is 3.8%.

<sup>(i)</sup> 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)	March 2020 %	March 2019 %
Retail	2.9	3.0
Industrial	6.9	2.9
Offices	5.6	19.6
Motor-related	—	—
Residential <sup>(i)</sup>	10.9	—
<b>Total</b>	<b>3.1</b>	<b>3.6</b>

Including development vacancy, the March 2020 vacant rent is 3.4%.

<sup>(i)</sup> 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 153 000m<sup>2</sup> with a contract value of R1 092 million. Tenant retention on the total portfolio was 80%, with retail retention at 84%.

### Rental profile

We achieved positive reversions of 1.6% on the total portfolio, with retail reversions at 1.1%. To retain tenants in difficult market conditions, focus had to be given to the total cost of occupancy of 29 specific boxes which reduced the average retail reversion rate. If these 29 special transactions are excluded, the average renewal rate on the remaining retail reversions is 6.1%. Although transactions were limited in the industrial and offices sector, positive reversions of 7.8% and 8.0% were concluded in these sectors respectively.

## COMMENTARY continued

New leases were concluded at 2.4% 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 1.2% above budget.

The weighted average base rental rates (excluding recoveries) increased by 5.8% from R127.54/m<sup>2</sup> to R134.98/m<sup>2</sup>.

Base rental rates (excluding recoveries)	March 2020 R/m <sup>2</sup>	March 2019 R/m <sup>2</sup>	Escalation %
Retail <sup>(i)</sup>	141.43	134.78	4.9
Industrial	61.41	57.83	6.2
Offices <sup>(ii)</sup>	106.52	95.32	11.7
Motor-related <sup>(iii)</sup>	171.87	131.68	30.5
Residential <sup>(iv)</sup>	142.94	—	—
<b>Portfolio weighted average base rentals</b>	<b>134.98</b>	127.54	5.8

<sup>(i)</sup> The increase in average rate for the retail portfolio is impacted by the acquisition of Mdantsane City at average rental rate of R123.86/m<sup>2</sup>. If Mdantsane City is excluded the rental growth of the remainder retail portfolio was 5.5%.

<sup>(ii)</sup> The increase in average rate for offices is due to the sale of Sunninghill Sunhill Park which carried lower rentals. The annual growth in rental rates on the remainder of the portfolio was 5.9%.

<sup>(iii)</sup> The increase in average rate for motor-related properties is due to the sale of Linbro Galaxy drive which carried lower rentals. The annual growth in rental rates on the remainder of the portfolio was 7.0%.

<sup>(iv)</sup> Residential units were previously measured in number of units and not GLA therefore no average rental based on R/m<sup>2</sup> 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 6.9% are easing with national tenants demanding lower in-contract escalations.

	March 2020 %	March 2019 %
Retail	6.9	7.0
Industrial	7.8	7.6
Offices	7.6	7.0
Motor-related	7.0	7.0
<b>Total</b>	<b>7.0</b>	7.0

### Costs

The largest expense categories contribute 83% to the total expenses. These are government services (47%), 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 15.5%.

Net costs to income ratio: remaining portfolio	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %
All expenses	19.4	18.0	17.7	16.2	15.4	16.1	15.5
All expenses excluding rates and taxes, and electricity	16.9	17.9	16.4	15.4	15.2	15.0	15.3

### Like-for-like net operating income growth

Like-for-like growth (stable portfolio)	March 2020	March 2019	% change
Property revenue (Rm)	1 295.5	1 242.9	4.2
Net property expenses (Rm)	204.2	212.0	(3.7)
Net property income (Rm)	1 091.3	1 030.9	5.9
Net cost to income ratio (%)	15.8	17.1	

## PORTFOLIO REVIEW – SPAIN

“The Spanish portfolio is well positioned to withstand the current pandemic. With over 93% of our tenants comprised of international and national tenants, the business is ready to adapt to the new reality.”

At 31 March 2020 the Spanish portfolio consisted of 18 properties with a total value of €1 003.5 million, and a GLA of 373 419m<sup>2</sup>, with an average value of €55.7 million per property.

The Spanish retail portfolio, which accounts for 97% of the value of the assets, was valued at €970.9 million and consists of 16 properties with an average value of €60.7 million. In total, 92.7% of retail space is let to international and national tenants with vacancies limited to 1.8%.

### Operating environment

#### FY20 Operational highlights

##### Asset management in action

Castellana has continued to improve and optimise its portfolio over the last financial year. The asset management team have performed admirably in continuing to improve the quality of the portfolio.

Highlights for the period include:

- Increasing occupancy to 98.3%
- Containing vacancy at 1.7% for the period
- Improving the average rent/m<sup>2</sup> of reversions and new lettings by 10.84%
- Maintaining a rent collection rate of 98.9% for the year
- Letting activity has been vibrant, with more than 62 000m<sup>2</sup> of GLA let in the year
- Concluding the purchase of additional units at Bahía Sur and Los Arcos and commencing the repositioning projects which are forecast to create an additional €5.1 million annualised net operating income (NOI) on completion
- Leases and heads of terms have been reached on more than 85% of the GLA in respect of the projects being undertaken in Los Arcos, El Faro and Bahía Sur

#### 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 434m<sup>2</sup>. 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 624m<sup>2</sup>.

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 732m<sup>2</sup>. The centre has an average monthly rental of €14.24/m<sup>2</sup> and a weighted average lease to expiry (WALE) of 9.6 years by rent. The centre is dominant and currently experiences low rents coupled with strong sales performances which should result in attractive rental growth over time. Castellana has already improved footfall by 25% since the acquisition date and the centre is now fully let. The centre has now been valued at €62.9 million, an increase of 10.7% on the acquisition price (excluding transaction costs).

#### Tenant arrears

Tenant arrears (including tenant recharge accruals) amounted to R45 million (€2.3 million) at 31 March 2020 compared to R72.3 million at 31 March 2019. Castellana’s in-house leasing team collected 98.94% of monthly rentals invoiced.

The allowance for the impairment of tenant receivables at 31 March 2020 remained at R6.8 million (€345 000). Bad debts written off for the year ended 31 March 2020 amounted to R3.1 million (€188 000).

#### Projects

Castellana has embarked on exciting redevelopment projects in Los Arcos, Bahía Sur and El Faro. The projects aim to strengthen the existing offerings and dominance of the centres through the addition of new and exciting retailers, the creation of pedestrianised open space, and the introduction of attractive food and beverage 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 are at an advanced stage and we aim to complete works by the second half of 2020.

In Los Arcos, 85% of GLA has been signed and committed. Mercadona, Decimas, Etam, Soloptical, Extensionmania, Jolfer, Movistar and Game will open in July 2020.

El Faro has 65% of GLA secured under heads of terms with 25% of tenants signed and committed to leases. Although Yelmo Cines opening will be delayed a few months due to COVID-19, there has been significant progress in the works and units are ready to be delivered.

## COMMENTARY continued

Bahía Sur has 96% of tenants signed and committed. Although COVID -19 has delayed the delivery of a few units, the project is making commendable progress. Zara, Lefties and Kiko will open during summer 2020.

### COVID-19 in Spain

Spain has reopened its economy to a “new normality” after an April peak in new cases and deaths due to the disease. Since then, Spain has undertaken a phased de-escalation approach to the reopening of the economy which started on 2 May 2020.

The de-escalation process was declared by the Spanish government in phases

2 May 2020: Phase 0 – Preparation

- Opening of high street premises <400m<sup>2</sup> by appointment for individual customer service
- A preferential service schedule established for people over 65 years of age

11 May 2020: Phase 1 – Initial

- General opening of high street commercial premises <400m<sup>2</sup>
- Capacity limited to 30%
- Preferential service schedule for people >65 years of age
- Outdoor markets with conditions of distance between stalls. Limited to 25% of the usual footfall or increase usable space to ensure safety and distance

25 May 2020: Phase 2 – Intermediate

- Opening of shopping centres and retail parks, without use of common areas
- Capacity limited to 40% in stores and 30% in common areas
- Preferential service schedule for people >65 years of age
- For outdoor markets, the number of stalls is limited to 1/3 of the usual number or increase of common area to ensure safety and distance

8 June 2020: Phase 3 – Advanced

- Use of common areas of shopping centres and retail parks
- Capacity limited to 50%
- Outdoor markets may increase their activity to 50% or increase available space that allows correct distancing between stalls

22 June 2020 – New normality

- Most regions to enter into a “new normality” by 22 June 2020 without restrictions

From the 25 May 2020, most retail centres in the country, apart from those in Madrid, Valencia, Castila Leon and Barcelona, were able to open with certain limitations, depending on whether the autonomous region met requirements set by the national government. Spain has reopened the economy with very limited restrictions on 22 June 2020.

The Spanish government, along with the European Union and European Central Bank have instituted fiscal and tax relief packages to bolster the economy against the negative impacts of the pandemic. Spain has committed a €100 billion package of government guaranteed loans, temporary employment reductions, lines of credit, rent moratoriums and tax deferrals to respond to the crisis while Europe as mobilised a €3.4 trillion stimulus package. This should strengthen Europe as a whole to enable it to better weather the crisis.

### Economic overview

Spain's GDP could contract by up to 9.7% in 2020, however, market consensus points to a strong rebound of the Spanish economy in 2021. While Spanish debt could reach 120% of national GDP, in line with that of France, the EU's €3.4 trillion package should ease pressure on national deficits.

Intervention of the European Central Bank through its €870 billion Pandemic Emergency Purchase Programme (PEPP) and a “lower for longer” interest rates policy suggests debt costs will remain at lower levels for an extended period. Compared to the financial crisis where there was a significant yield spread between northern and southern European countries, today Spanish 10Y bonds trade at similar yields to its Northern European neighbours which indicates that Spain has since decoupled from other Southern European countries.

Unemployment has risen. Registered unemployment, excluding ERTes (a mechanism allowing workers to claim unemployment benefits while temporarily furloughed), rose in April for the first time since 2013, with the total unemployment rate reaching 14%. It is expected that unemployment could rise to c.20% due to the COVID-19 crisis, however, this is still well below the peak of c.26% experienced in 2012.



Similarly, consumer and business confidence has declined significantly since the start of the pandemic, however, the Spanish and European coordinated fiscal relief response should buffer the impacts and restore business and consumer confidence in the short to medium-term. Tourism has been impacted during the pandemic. Spain intends to open the country to tourists from 1 July 2020 which should facilitate an uptick in the summer season.

### **Political environment**

The political environment in Spain remains fluid as there is not yet a majority in parliament. After the November 2019 elections, the Spanish Socialist Workers' Party (PSOE) signed an agreement with the far-left Unidas Podemos to form a "progressive coalition".

Following parliament's approval of the proposed "State of Alarm" on 15 March 2020, the coalition parties were given full decision-making power during the COVID-19 crisis. Since then, the Spanish population has been informed about the rules related to lockdown, health issues, mobility, economic assistance, and related issues through Royal Decrees issued once a week. The last and final extension of the state of alarm was approved until the 21 June 2020 and after this period the so-called "new normality" commenced and coalition negotiations resumed.

The political blockade, despite two general elections last year, has put an end to the one-party government tradition in Spain with no outright majority expected for any current party in the short term. While most small and regional parties have given support to the "progressive coalition" the centre-right group Ciudadanos, the conservative Popular Party (PP), and the far-right Vox (a spinoff of PP after the corruption scandals of 2010 to 2012) signalled that they would vote against it. As a result, Prime Minister Pedro Sánchez needs the support of the pro-independence Republican Left of Catalonia (ERC) and the Basque Nationalists (PNV) to resolve the political blockage and enable decisions in the parliament following the "State of Alarm."

### **Castellana COVID-19 response plan**

Shops in Castellana's retail centres closed on 14 March 2020 apart from essential services (mainly supermarkets and pharmacies), which have remained open throughout. On 25 May 2020, 12 out of the 16 assets reopened with some restrictions and by 22 June 2020, normal operations resumed with all centres and shops fully opened with safety measures implemented.

Over the past three months, Castellana has focused its response on undertaking a full business review, engaging with tenants and industry participants as well as partnering with our debt providers with a view to drive a clear and focused reopening strategy for our malls.

### **Business review**

Castellana has undertaken extensive scenario modelling to understand the impacts to the business over the next 12 to 24 months. This analysis has shown that even under some extreme scenarios the business remains both solvent and liquid. This process has underpinned our view that the business is well capitalised and able to comfortably continue from a position of strength in these uncertain times. In addition, we have performed a legal review of our lease agreements and found these contracts to be robust. Furthermore, over 93% of tenants are national and international tenants who are better placed to ride out the consequences of the pandemic. A review of insurance contracts was completed to assess the possibility of loss of rent claims. We ascertained that pandemics were not covered in the policies and that claims would only be possible in the case of damage to buildings. This review has put the company in a better position to understand our options in managing the business and finding the best possible outcomes for Castellana, its shareholders, tenants and customers

### **Tenant and industry engagement**

Castellana granted 100% discounts to minimum guaranteed rent (MGR) to tenants affected by the lockdown for the month of April and some further discounts for May. Throughout the lockdown all tenants were invoiced 100% their regular service charges amounts. These MGR discounts were granted in exchange for longer mandatory periods, more regular sales reporting, and break option waivers. From 1 June 2020 onwards, normal invoicing resumed and collections are expected to get back to normal over the rest of the year. Throughout the lockdown, Castellana collected close to 100% of the amounts it invoiced to tenants. Furthermore, 100% of the service charges invoiced to tenants was recovered. This has generally led to stronger and more beneficial relationships with our tenants. In addition, Castellana has promoted a Retail Landlords Forum to lobby for government assistance along with other leading socimis and real estate funds in the market.

### **Debt provider engagement**

Castellana had extensive discussions with its debt partners to communicate Castellana's balance sheet strength and to find ways to work together during this period. Due to this proactive and decisive action, and notwithstanding that we remain confident of Castellana's ability to remain well within its LTV and ICR covenant levels, the banks have agreed to a number of concessions which have further strengthened our position. Castellana will continue to service interest payments as normal

## COMMENTARY continued

to its debt partners and for the next 12 months will limit its cash utilisation on capex to finalising the “El Corte Ingles value-add projects”. Aareal and Allianz have agreed to waive all covenant tests until 1 April 2021, and have committed to continue financing the “ECI value-add projects” as agreed. The syndicated loan banks (Santander and Caixabank) have agreed to waive all covenant tests for FY21, deferring the amortisation schedule on the capex syndicated loan, totalling €3.3 million to June 2021. These actions ensure that Castellana is in a strong position to navigate the effects of the pandemic.

### Focused reopening strategy

While Castellana’s strategy has always been to create places to relax, to meet, to shop and to create a community, COVID-19 has provoked a shift in societal values and hence in ours. Preparations were completed to make our centres a safe place for our customers, tenants and other stakeholders with more than 200 measures implemented in time for the reopening date of 25th May 2020. All Castellana assets are now fully reopened. Castellana has created a COVID-19 protocol document together with Professor Barry Schoub for all centres to ensure the highest standards of hygiene and safety are followed throughout our portfolio. In addition we are in constant communication with customers via social media and other digital tools.

Our reopening strategy has comprised three main objectives, health and safety, social distancing and awareness.

#### Health and safety:

- Identification of high-risk health and hygiene points within the asset
- Complete and regular disinfection of assets
- Provision of appropriate PPE to our customers
- Implementation of hygiene and health protocols in every centre

#### Social distancing:

- Keeping social distancing of a minimum of two meters in each of the assets.
- New signage into the shopping centres to keep customers and employees safe
- Active Access Ratio to limit the number of people per m<sup>2</sup>

#### Awareness

- Institution of behavioural regulations in dealing with awareness of customers, centre staff and stores
- Application of regulations and protocols in each centre
- Large scale communication campaigns to train customers to the new normality

### Footfall, sales and collections performance April to June 2020

#### Footfall and sales:

	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
<b>Change in footfall January to June 2020 (versus corresponding month in 2019) (%)</b>	(4)	3	(60)	(94)	(78)	(38)

Castellana’s portfolio footfall was above national benchmarks for the period January to December 2019 showing growth of 3.9% relative to a national decline of 1.9%. Footfall significantly declined from the start of the lockdown in mid-March but has recovered relatively well once centres were able to reopen.

While Castellana’s portfolio sales were in line with benchmarks from January to December 2019, sales also declined significantly from the start of the lockdown in mid-March, with only essential services (mainly supermarkets and pharmacies) able to trade during the State of Alarm. No sales data was available from tenants in April and May 2020 due to the State of Alarm and June 2020 sales data will only be available in July 2020.

Castellana undertook a retailer sounding exercise to understand what the recovery could look like from its tenants’ point of view. As expected, most tenants experienced little to no sales for April and May, however, most assumed a recovery thereafter. Feedback from tenants generally reflects a gradual recovery of sales towards the end of the year. Operators expect on average a decrease in sales of c.35 to 40% for the full calendar year with a full recovery expected from early 2021.

The impact on sales is directly correlated with the level of human interaction necessary in each tenant category. Tenant categories where social distancing is easier to maintain, and where goods and services are essential, perform better than other categories.

93% of Castellana Properties tenants are national and international brands.

## Collections

Collections January to June 2020	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020*
Total net invoiced amount (€m)	5.8	5.8	6.0	1.6	1.7	3.5
Total collected (%)	99.6	98.9	96.9	80.9	82.3	99.4
Total outstanding (%)	0.4	1.1	3.1	19.1	17.7	0.6

\* Note: June 2020 figures are estimated as amounts are still being negotiated with tenants.

### Valuation of Spanish portfolio

The Spanish portfolio has been independently valued by Colliers at €1 003.5 million (R19.8 billion) at 31 March 2020 (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.

### COVID-19 valuations impact – external valuers approach

The valuation prepared as at 31 March 2020 reflects the following main assumptions to reflect the possible impact of the COVID-19:

Rent reductions were applied as follows:

- Two months without rental income (April and May)
- Two additional months assuming 50% of the rental income (June and July)
- Five months with 75% of the rental income (August to December)

The above rent reductions exclude supermarkets, which are present in nine properties. Potential income as turnover rents and mall income was treated following the same pattern as the rent reductions above. For the two office buildings in the portfolio only a 50% rental discount was applied for the first two months (April and May).

In addition to the above assumptions, we adopted the following changes compared with September 2019 valuations:

- Increase of 25 bps to discount rates (IRRs) to retail parks
- More conservative market rental growth rates were also applied

### Real estate market in Spain

While we expect some weakness in FY21 due to the COVID-19 pandemic, Castellana's portfolio is expected to benefit from the various tenant engagements to ensure sustainability. This allows tenants to better absorb shocks such as the impacts of COVID-19 and provide some downside protection to the landlord against rent pressure. This is particularly evident if we look back at how events unfolded during the financial crisis of 2008 to 2012. Rents are still comfortably below the pre-2008 peaks.

Cost of debt during the 2007 and 2012 financial crisis reached c.6%. Today, property owners' balance sheets are healthier with borrowing costs at c.2 to 2.5%. Also, a significant spread of 600 bps between shopping centre yields and Spanish 10Y bond suggests there is little room for significant further yield expansion.

Since the financial crisis, the ownership structure of shopping centres has changed. The vast majority of assets mostly owned by developers and closed-end funds in 2012 are now in the hands of more stable long-term sector specialists like Castellana.

Furthermore, alternative sectors (offices and logistics) are trading at historically low yields, versus retail yields which are already close to 2012 peaks.

## COMMENTARY continued

### Portfolio overview

#### Top 10 properties by value

All of our top 10 properties are retail assets. Cumulatively 96% of their tenants are international and national tenants. These properties comprise 89% of the total portfolio value, 86% of the total portfolio rent and 81% of the total portfolio GLA.

Property	Location	GLA m <sup>2</sup>	Value €m	% of total portfolio	Valuation €/m <sup>2</sup>
El Faro	Extremadura	43 593	158.7	15.8	3 640
Bahía Sur	Andalucía	36 433	140.7	14.0	3 862
Los Arcos	Andalucía	29 696	132.8	13.2	4 472
Granaita Retail Park	Andalucía	54 571	111.1	11.1	2 036
Vallsur	Castilla Leon	35 212	91.4	9.1	2 596
Habaneras	Com. Valenciana	24 166	88.9	8.9	3 679
Puerta Europa	Andalucía	29 732	62.9	6.3	2 116
Parque Oeste	Madrid	13 604	50.2	5.0	3 690
Parque Principado	Asturias	16 246	33.1	3.3	2 037
Marismas del Polvorín	Andalucía	18 220	27.3	2.7	1 498
<b>Total top 10 properties</b>		<b>301 473</b>	<b>897.1</b>	<b>89.4</b>	<b>2 976</b>
% of total portfolio		<b>81</b>	<b>89</b>		

### Summary of portfolio changes

#### GLA reconciliation

	GLA m <sup>2</sup>
<b>Balance at 31 March 2019</b>	317 106
GLA adjustments	
Acquisitions and extensions	55 800
<b>Balance at 31 March 2020</b>	<b>373 419</b>
Areas under development	(41 921)
GLA excluding areas under development	330 848

#### Vacancy reconciliation

	GLA m <sup>2</sup>	%
<b>Balance at 31 March 2019</b>	4 543	2.1
Vacancy movement	1 104	
<b>Balance at 31 March 2020</b>	<b>5 647</b>	<b>1.7%</b>

### Portfolio profiles

#### Geographic profile

The geographic 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

### Sectoral profile

Based on value, 97% of the Spanish portfolio is in the retail sector and by 3% in the office.

### 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 13-year retail tenant expiry profile and 2.8 years to break with 51% (54% 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 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	March 2030	Beyond March 2030
	%	%	%	%	%	%	%	%	%	%	%
% of contractual rent	8	4	6	6	9	3	4	6	4	4	46
Cumulative	8	12	18	24	33	36	40	46	50	54	100

	Vacant	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	March 2030	Beyond March 2030
	%	%	%	%	%	%	%	%	%	%	%	%
% of GLA	2	5	2	2	3	7	1	3	6	3	3	63
Cumulative	2	7	9	11	14	21	22	25	31	34	37	100

	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	March 2030	Beyond March 2030
	%	%	%	%	%	%	%	%	%	%	%
Retail	8	4	7	6	10	3	5	6	4	3	44
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-tenancing can be concluded at improved market-related rental rates, especially at recently upgraded centres.

	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	March 2030	Beyond March 2030
	%	%	%	%	%	%	%	%	%	%	%
% of contractual rent	32	16	21	8	9	3	0	4	1	1	5
Cumulative	32	48	69	77	86	89	89	93	94	95	100

**COMMENTARY** continued

	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
Retail	33	16	21	9	9	3	—	4	1	1	3
Offices	—	—	—	—	—	—	—	—	—	—	100

**Vacancy profile**

The portfolio's vacancy was 1.7% at 31 March 2020.

Vacancies (% of GLA)	March 2020 %	March 2019 %
Shopping centres	2.8	2.4
Retail parks	0.8	0.5
Offices	—	—
<b>Total</b>	<b>1.7</b>	1.4

**Rental profile**

The Castellana portfolio's weighted average rental is €14.27m<sup>2</sup>. We believe that a significant portion of the portfolio is at below-market rentals. We anticipate rental growth to come through over the medium term.

	31 March 2020 €m <sup>2</sup>	31 March 2019 €m <sup>2</sup>	Escalation (%)
Shopping centres	19.6	20.1	(2.5)
Retail parks	9.5	9.4	1.1
Offices	9.6	9.6	(2.5)
<b>Portfolio weighted average base rentals</b>	<b>14.3</b>	14.4	(0.7)

**Costs**

Service charges are the most significant expense and represents 71% of total property expenses. Service charges mainly include utilities, cleaning, marketing, security and management. Likewise Property Tax is another significant expense and represents 10% of the total expenses.

**Like-for-like net operating income growth**

Like-for-like growth (stable portfolio)	31 March 2020	31 March 2019	% change
Property revenue (€m)	19.7	19.2	2.6
Net property expenses (€m)	(0.8)	(0.9)	(11.1)
Net property income (€m)	18.9	18.3	3.3
Net cost to income ratio (%)	3.95	4.47	(11.7)

## THE VUKILE ACADEMY

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

- **The Vukile Bursary Fund** in partnership with SAPOA, WPN, SAIBPP as well as WITS University, University of Pretoria, University of KwaZulu-Natal and University of Johannesburg contributed in excess of R6 million towards tertiary education tuitions for 65 students. They were awarded bursaries for studies in property/real estate related fields. The students were primarily in their third or honours year of studies.
- **The Vukile Internship and Mentorship Programme** – Our internship programme, now in its second year, welcomed eight young, passionate and driven candidates. Vukile undertook a rigorous and transparent selection process to identify and offer eight deserving candidates a position in the Vukile Internship Programme. Our programme is designed as an integration platform into the professional world for graduates, mainly from our Bursary Fund. The industry leading programme is designed with curriculum experts and professionals from the industry and tertiary institutions like GIBS and UP. It delivered over 10 modules including a personal mastery programme, which forms a crucial element of the programme, for a holistic integration process. The essence of the internship programme is to impart the Vukile Brand DNA to our candidates. They are each offered a fixed-term employment contract for a period of one year. Each intern is allocated a mentor and receives 12 mentorship session per annum and two life coaching block sessions per annum. The first intake to the Vukile Academy internship programme graduated at the end of calendar year 2019 and 75% of them were absorbed into the property sector on a full-time basis.
- **The Entrepreneur Property Development Hub** – This is our incubator programme which is designed to assist black professionals and entrepreneurs realise their dreams and vision of entering the property development market. The entrepreneurs received support and guidance from the Vukile Academy interns and the full Vukile Property Fund team. Three projects have been identified located in Daveyton, Phuthaditjhaba and Thokoza, which comprise two retail centres and one student accommodation development.

### Vukile BEE certification

Vukile is a level 3 B-BBEE entity, with a 110% recognition level. The current B-BBEE certificate expires in January 2021.

## PROSPECTS FOR THE GROUP

The initial phase of the COVID-19 crisis had a negative impact on the markets in general and the property sector in particular. Sentiment towards Vukile was also impacted by our specialist focus on the hard-hit retail sector and exposure to Spain, which was one of the first countries to be severely affected by the rapid spread of the disease and resultant lockdown of the economy.

While the Spanish economy will be hard hit in 2020, along with the global economy, current forecasts anticipate a strong rebound in 2021. Spain is a key European economy underpinned by strong fundamentals providing Vukile shareholders with a very good element of diversification into a country with a healthy structural retail real estate environment. In particular, Castellana's geographically diversified portfolio and high-quality tenant profile made up of 93% international and national tenants should provide a very solid recovery platform.

In South Africa, the economy will not only have to deal with the impact of the pandemic but also the effects of the credit downgrade in March and concomitant weakening of the Rand. However, our South African portfolio remains very well positioned to recover swiftly given its very defensive positioning in the middle to lower LSM markets, with a strong township and rural bias. The high level of tenants exposed to grocery and non-discretionary spend means that our centres have been trading at encouraging levels as the economy reopened on a phased approach.

The board and management have used this unique market crisis to critically evaluate Vukile's business model and remain committed to its stated strategy and focus.

The COVID-19 crisis has also shone the spotlight on the future of retail along with other real estate asset classes. As predicted, it is very clear that the retail landscape will change and while we will continue to experience a rise in online shopping, quality retail centres will have a critical role in any economy as part of an ongoing evolution to a world of omnichannel retailing. The changes in retail must be embraced and both Vukile and Castellana are very well positioned to capitalise on an era of greater specialisation which is needed to thrive in the changing retail environment.

Vukile has the key ingredients to ensure that it continues to provide great spaces that meet customers' needs including by building great tenant relationships, increasing focus on customer centricity and the agility to adapt quickly. When deployed effectively, these elements translate into our nodally dominant centres being very profitable spaces for tenants to operate from.

Our balance sheet remains solid and the business is very cash generative with healthy interest cover ratios and the ability to comfortably meet all debt servicing requirements. Even though the LTV is currently higher than the preferred level, plans are in place to reduce it over time. Both Vukile and Castellana have enjoyed tremendous support from their well-diversified funding base, as evidenced by the large percentage of refinancing already completed for the 2021 financial year.

## COMMENTARY continued

A decision in respect of the final dividend will be made once the JSE provides feedback to the market on any potential amendments or temporary rulings applicable to the REIT sector, following the broad industry consultation process currently underway. The decision will be communicated on or before the publication of Vukile's audited annual results.

Looking ahead, Vukile does not anticipate paying an interim dividend in respect of the first half of the 2021 financial year and the board has made a decision not to provide dividend guidance for the full year. Vukile also intends to adopt a variable dividend payout ratio going forward and will no longer pay out 100% of distributable earnings to enable greater capital flexibility and cash retention.

Vukile remains very well positioned to navigate the current uncertain environment and ensure long-term sustainability for all stakeholders. Until such time as the broader impacts of the COVID-19 pandemic become clearer, our focus will continue to be on prioritising cash retention and balance sheet strength over short-term earnings.

### EVENTS AFTER REPORTING PERIOD

#### COVID-19 impact

The extended lockdowns in response to the COVID-19 pandemic impacted Vukile shopping centres and operations in South Africa, Namibia and Spain in the period subsequent to year-end.

We are comfortable that Vukile and Castellana have the required cash resources to meet their respective obligations to banks and other creditors for the period ahead. Management remains confident that the quality of both portfolios, which are underpinned by a diverse tenant base, strong balance sheets and healthy cash flows, provide the necessary foundation to manage through the COVID-19 challenges and, once the health situation stabilises, position them to continue delivering value and growth for all stakeholders.

Further detail in respect of the operational response to and impact of the COVID-19 pandemic is included above, in the Southern Africa and Spain portfolio reviews.

#### Sale of interest in Atlantic Leaf

On 22 May 2020, Atlantic Leaf entered into an agreement with South Downs Investment LP (the Offeror) to sell all issued shares in Atlantic Leaf for a cash consideration of GBP80.5 pence per share by way of a scheme of arrangement (the Scheme).

Vukile holds in aggregate 65 958 606 shares in the share capital of Atlantic Leaf (constituting 34.9% of Atlantic Leaf's issued share capital) (the Sale Shares).

Vukile has furnished an irrevocable undertaking in favour of the Offeror pursuant to which Vukile has agreed to vote in favour of the Scheme and, subject to the Scheme becoming unconditional in accordance with its terms, to sell the Sale Shares to the Offeror on the terms and conditions of the Scheme (the Proposed Transaction).

The Proposed Transaction is in line with Vukile's stated strategy of exiting its non-core investments. The proceeds from the Proposed Transaction will provide further strength and optionality to the Vukile balance sheet.

The aggregate proceeds that Vukile would receive in respect of its Sale Shares on implementation of the Scheme (excluding the May 2020 Distribution in an aggregate amount of GBP2 968 137.27 that was paid to Vukile on 25 May 2020) will be GBP53 096 677.83. The Proposed Transaction remains subject to the Scheme becoming unconditional and being implemented in accordance with its terms.

#### Interest in customer data analytics venture

Subsequent to year-end, Vukile concluded the acquisition of a 31% interest in Bodlero Limited, an entity that has acquired the rights to customer data analytics software that applies artificial intelligence to geolocation technology, to provide insights into shopper behaviour.

The ability to track customer behaviour, when combined with other initiatives such as in-mall analytics, provides Vukile and Castellana the ability to significantly enhance the customer and tenant experience, and allow more meaningful research into customer data and trends.

Vukile anticipates that the investment will go a long way towards improving the tenant and shopper offering in our malls in Southern Africa and Spain.

The abovementioned subsequent events do not provide evidence of conditions that existed at 31 March 2020. As a result, no adjustments are required to the financial statements in this regard.



## REVIEW CONCLUSION

These condensed consolidated financial statements for the year ended 31 March 2020 have been reviewed by PricewaterhouseCoopers Inc, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office, together with the condensed consolidated financial statements, as identified in the auditor's report.

## BASIS OF PREPARATION

The preliminary reviewed condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – *Interim Financial Reporting*.

The accounting policies applied in the preparation of the preliminary reviewed condensed consolidated financial results are consistent with those adopted in the financial statements for the year ended 31 March 2019, except for the adoption of IFRS 16 – *Leases*.

The reviewed preliminary condensed consolidated financial statements have been prepared under the supervision of Laurence Cohen CA(SA) in his capacity as chief financial officer.

On behalf of the board

**NG Payne**

**LG Rapp**

Chairman

Chief executive officer

Houghton Estate  
30 June 2020

## 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 Booyesen, 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

**Media relations:** Marketing Concepts, 10th Floor, Fredman Towers, 13 Fredman Drive, Sandton, Johannesburg, South Africa, Tel: +27 11 783 0700, Fax: +27 11 783 3702

[www.vukile.co.za](http://www.vukile.co.za)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 March 2020

	Reviewed 31 March 2020 Rm	Audited 31 March 2019 Rm
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>38 181</b>	32 679
Investment property	<b>35 317</b>	29 334
Straight-line rental income asset	<b>419</b>	347
Financial assets at fair value through profit or loss	<b>263</b>	28
Investment in associate at fair value	<b>338</b>	1 297
Investment in associate (equity-accounted)	<b>1 518</b>	1 303
Derivative financial instruments	<b>29</b>	42
Financial assets at amortised cost	<b>260</b>	271
Deferred taxation	<b>7</b>	14
Other non-current assets	<b>30</b>	43
<b>Current assets</b>	<b>1 874</b>	2 448
Trade and other receivables	<b>314</b>	282
Derivative financial instruments	<b>1</b>	10
Current taxation assets	<b>—</b>	3
Cash and cash equivalents	<b>1 559</b>	1 137
Non-current assets held for sale	<b>—</b>	1 016
<b>Total assets</b>	<b>40 055</b>	35 127
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>	<b>17 542</b>	18 656
Stated capital	<b>12 838</b>	12 142
Other components of equity	<b>3 988</b>	5 889
Retained earnings	<b>716</b>	625
<b>Non-controlling interest</b>	<b>1 957</b>	2 300
<b>Non-current liabilities</b>	<b>17 324</b>	12 035
Interest-bearing borrowings	<b>15 958</b>	11 547
Lease liability	<b>196</b>	—
Derivative financial instruments	<b>1 159</b>	480
Deferred taxation	<b>11</b>	8
<b>Current liabilities</b>	<b>3 232</b>	2 136
Trade and other payables	<b>852</b>	642
Short-term portion of interest-bearing borrowings	<b>2 291</b>	1 431
Short-term portion of lease liability	<b>17</b>	—
Derivative financial instruments	<b>64</b>	60
Current taxation liabilities	<b>6</b>	3
Shareholder for dividend	<b>2</b>	—
<b>Total equity and liabilities</b>	<b>40 055</b>	35 127

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 March 2020

	Reviewed 31 March 2020 Rm	Audited 31 March 2019 Rm
Revenue	3 446	2 806
Straight-line rental income accrual	55	29
<b>Gross property revenue</b>	<b>3 501</b>	2 835
Property expenses	(1 129)	(932)
<b>Net profit from property operations</b>	<b>2 372</b>	1 903
Corporate and administrative expenses	(279)	(200)
Investment and other income	422	345
Fair value movement on non-designated portion of CCIRS	113	48
<b>Operating profit before finance costs</b>	<b>2 628</b>	2 096
Finance costs	(615)	(510)
<b>Operating profit after finance costs</b>	<b>2 013</b>	1 586
Fair value loss on financial instruments	(744)	(327)
Foreign exchange profit/(loss)	(65)	(66)
Impairment	(30)	(48)
Other expenses	(9)	(8)
<b>Profit before changes in fair value of investment property</b>	<b>1 165</b>	1 137
<b>Fair value adjustments</b>		
Gross change in fair value of investment property	(1 243)	804
Change in fair value of right-of-use asset	7	—
Straight-line rental income accrual	(55)	(29)
<b>(Loss)/profit before equity-accounted investment</b>	<b>(126)</b>	1 912
Share of income from associate	127	54
<b>Profit before taxation</b>	<b>1</b>	1 966
Taxation	(40)	(18)
<b>(Loss)/profit for the year</b>	<b>(39)</b>	1 948
Attributable to owners of the parent	(103)	1 709
Attributable to non-controlling interest	64	239
Basic and diluted earnings per share (cents)	<b>(10.81)</b>	199.05

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	Reviewed 31 March 2020 Rm	Audited 31 March 2019 Rm
<b>(Loss)/profit for the year</b>	<b>(39)</b>	1 948
<b>Other comprehensive income</b>		
<b>Items that will be reclassified to profit or loss</b>		
Foreign currency translation reserve	<b>458</b>	36
Cash flow hedges	<b>(22)</b>	(25)
Deferred tax on hedging instruments	<b>—</b>	(35)
Other comprehensive income/(loss) for the year	<b>436</b>	(24)
<b>Total comprehensive income for the year</b>	<b>397</b>	1 924
Attributable to owners of the parent	<b>8</b>	1 603
Attributable to non-controlling interest	<b>389</b>	321

## RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS

for the year ended 31 March 2020

	Reviewed 31 March 2020		Audited 31 March 2019	
	Rm	Cents per share	Rm	Cents per share
(Loss)/profit attributable to owners of the parent	(103)	(10.81)	1 709	199.05
<b>Earnings and diluted earnings</b>	<b>(103)</b>	<b>(10.81)</b>	1 709	199.05
Change in fair value of investment property (net of allocation to non-controlling interest)	1 177	123.18	(667)	(77.65)
Impairment of goodwill	17	1.76	48	5.61
Loss/(profit) on sale of investment property	9	0.99	6	0.74
Remeasurement included in (equity-accounted) earnings of associate	17	1.80	(40)	(4.71)
<b>Headline and diluted headline earnings</b>	<b>1 117</b>	<b>116.92</b>	1 056	123.04
Number of shares in issue at period-end	<b>956 226 628</b>		920 962 145	
Weighted average number of shares	<b>955 263 118</b>		858 774 136	
There are no dilutionary shares in issue.				

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 March 2020

	Reviewed 31 March 2020 Rm	Audited 31 March 2019 Rm
Cash flow from operating activities	2 417	1 786
Cash flow from investing activities	(2 977)	(7 362)
Cash flow from financing activities	865	5 617
Net increase in cash and cash equivalents	305	41
Foreign currency movements in cash	117	2
Cash and cash equivalents at the beginning of the year	1 137	1 094
<b>Cash and cash equivalents at the end of the year</b>	<b>1 559</b>	<b>1 137</b>
<b>Major items included in the above:</b>		
<b>Cash flow from operating activities</b>	<b>2 417</b>	<b>1 786</b>
Profit before tax	1	1 967
Adjustments <sup>0)</sup>	2 256	(266)
Working capital adjustments	186	110
Other	(26)	(25)
<b>Cash flow from investing activities</b>	<b>(2 977)</b>	<b>(7 362)</b>
Acquisition of investment property	(2 488)	(9 574)
Equity contributed from non-controlling interest	3	1 828
Other	(492)	384
<b>Cash flow from financing activities</b>	<b>865</b>	<b>5 617</b>
Interest-bearing borrowings advanced	3 102	6 895
Interest-bearing borrowings repaid	(448)	(1 892)
Proceeds from issue of share capital	696	2 615
Finance costs paid	(570)	(461)
Dividends paid	(1 867)	(1 518)
Other	(48)	(22)

<sup>0)</sup> Adjustments to cash flows from operating activities for March 2020 include fair value of investment property of R1 242.7 million, finance costs of R615.2 million and fair value losses on equity investments of R712.9 million.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2020

Rm	Stated capital	Other components of equity	Retained earnings	Shareholders' interest Total	Non-controlling interest (NCI)	Total
<b>Balance at 31 March 2018</b>	9 527	5 738	505	15 770	82	15 852
Initial adoption of IFRS 9	—	113	(83)	30	—	30
Issue of share capital	2 615	—	—	2 615	1 945	4 560
Dividend	—	—	(1 456)	(1 456)	(62)	(1 518)
	12 142	5 851	(1 034)	16 959	1 965	18 924
Profit for the year	—	—	1 709	1 709	239	1 948
Transfer to non-distributable reserve	—	222	(222)	—	—	—
Share issue expenses of subsidiary	—	(2)	—	(2)	(122)	(124)
Change in ownership of subsidiary	—	(107)	—	(107)	107	—
Subsidiary share swap	—	—	172	172	38	210
Equity-settled share scheme	—	23	—	23	—	23
Other comprehensive loss	—	(98)	—	(98)	73	(25)
<b>Balance at 31 March 2019</b>	<b>12 142</b>	<b>5 889</b>	<b>625</b>	<b>18 656</b>	<b>2 300</b>	<b>20 956</b>
Issue of share capital	696	—	—	696	(614)	82
Dividend	—	—	(1 762)	(1 762)	(107)	(1 869)
	12 838	5 889	(1 137)	17 590	1 579	19 169
Profit for the year	—	—	(103)	(103)	64	(39)
Transfer from non-distributable reserve	—	(1 956)	1 956	—	—	—
Share issue expenses of subsidiary	—	—	—	—	(1)	(1)
Change in ownership of subsidiary	—	(105)	—	(105)	(13)	(118)
Equity-settled share scheme	—	49	—	49	3	52
Other comprehensive income	—	111	—	111	325	436
<b>Balance at 31 March 2020</b>	<b>12 838</b>	<b>3 988</b>	<b>716</b>	<b>17 542</b>	<b>1 957</b>	<b>19 499</b>







# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the year ended 31 March 2020

## 1 ACCOUNTING POLICIES

### 1.1 Basis of preparation

#### Estimates

Management discusses with the audit committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates. Actual results may differ from these 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.

In determining the lease liability in accordance with IFRS 16, the incremental borrowing rate was estimated by management using the three-year DMTN margin as a starting point. The rate was adjusted to reflect an estimated spread for a tenor of 10 year, 25 years, and 50 years.

#### Judgements

Judgement is applied in certain areas based on historical experience and reasonable expectations relating to future events. Uncertainty around the future economic impact as a result of the COVID-19 pandemic has also been considered. Key areas of judgement are noted below:

#### Investments

As part of Edcon's restructure, Edcon approached its top 31 landlords, offering them the opportunity to subscribe for an equity interest in Edcon, or as an alternative, requested a 40.9% reduction in rental for a 24-month period commencing 1 April 2019. Vukile agreed to assist Edcon by subscribing for equity in Edcon on a quarterly basis. Management's best estimate of the fair value of the investment at 31 March 2020 is zero, resulting in a R15 million impairment.

#### Determining the lease term

In determining the lease term as per IFRS 16, management applies its judgement in considering all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options and periods after termination options are only included in the lease term if it is reasonably certain to be extended or not terminated.

### 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*. Under IAS 17, the lease expense was recognised in property expenses as incurred. Under IFRS 16, 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. 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 constitutes 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*.

In applying IFRS 16, the group has used the following practical expedients permitted by the standard:

- operating leases with a remaining lease term of less than 12 months as at 1 April 2019 have been treated as short-term leases;
- small ticket items have been accounted for as operating leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis in the statement of profit or loss.

The group has elected the modified retrospective approach, thus not restating comparative periods.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

### Investment in associate at fair value

This comprises shares held in listed property securities (Fairvest) 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 equity settlement to staff, amortised over the vesting period, stated at fair value.

### Equity investments at fair value

Unlisted equity investment: Vukile agreed to assist Edcon in its restructure by subscribing for equity in Edcon on a quarterly basis. At 31 March 2020, the fair value of the investment in Edcon was determined to be zero.

Listed equity investment: The fair value of shares held in listed property securities (Arrowhead) is determined by reference to the quoted closing price at the reporting date.

### Derivative financial instruments

Level 2 derivatives consist of interest rate swap contracts, cross-currency interest rate swaps (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 a discounted cash flow 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:

	Reviewed 31 March 2020				Audited 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	12.7 to 19.6	13.8	7.7 to 15.5	9.1	12.4 to 17.4	13.5	7.4 to 13.0	8.7
Spain	7.3 to 9.0	8.0	5.0 to 9.3	6.1	7.0 to 9.0	7.9	5.0 to 9.2	6.0

The discount rate and reversionary capitalisation rate range for the South African portfolio is wide. Accordingly, we have provided a disaggregation in the tables below.

For the Southern African portfolio, the discount rate and reversionary capitalisation rate has been disaggregated based on geography. The table below also illustrates the impact on valuations resulting from changes in net operating income (NOI).

	Average discount rate	Average exit capitalisation rate	Valuation impact if base discount rate is increased by 50bps	Valuation impact of 50% NOI reduction in year one	Valuation impact of 5% NOI reduction in capitalisation year	Valuation impact of 5% NOI reduction in cash flow in capitalisation year
Southern African directly held property portfolio						
Total portfolio	13.8%	9.1%	(5.5)%	(3.6)%	(3.5)%	(5.1)%
Retail	13.8%	9.0%	(5.5)%	(3.6)%	(3.5)%	(5.1)%
Other	14.0%	10.4%	(5.0)%	(4.1)%	(2.9)%	(5.2)%
Gauteng	13.5%	8.9%	(5.7)%	(3.5)%	(3.6)%	(5.1)%
KwaZulu-Natal	13.5%	8.7%	(5.4)%	(3.5)%	(3.3)%	(5.1)%
Western Cape	13.2%	8.8%	(5.7)%	(3.5)%	(3.5)%	(5.1)%
Free State	13.5%	8.7%	(5.7)%	(3.3)%	(3.7)%	(5.1)%
Limpopo	14.2%	9.3%	(5.1)%	(4.0)%	(3.3)%	(5.0)%
Eastern Cape	13.6%	8.8%	(5.8)%	(3.6)%	(3.8)%	(5.2)%
Namibia	16.1%	11.5%	(4.3)%	(4.4)%	(2.8)%	(5.1)%
North West	14.4%	9.5%	(5.4)%	(3.7)%	(3.4)%	(5.1)%
Mpumalanga	14.9%	10.3%	(5.1)%	(4.2)%	(3.5)%	(5.2)%

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

The above information has been further disaggregated based on risk (discount rates). Refer to the following three tables:

Discount rate below 14%	Portfolio exposure	Average discount rate	Average exit capitalisation rate	Valuation impact if base discount rate is increased by 50bps	Valuation impact of 50% NOI reduction in year one	Valuation impact of 5% NOI reduction in capitalisation year	Valuation impact of 5% NOI reduction in cash flow in capitalisation year
Total portfolio	58%	13.0%	8.3%	(5.9)%	(3.3)%	(3.6)%	(5.1)%
Retail	58%	13.0%	8.2%	(5.9)%	(3.3)%	(3.6)%	(5.1)%
Other	55%	13.1%	9.2%	(5.6)%	(3.7)%	(2.6)%	(5.2)%
Gauteng	68%	13.0%	8.3%	(6.0)%	(3.3)%	(3.7)%	(5.1)%
KwaZulu-Natal	71%	13.2%	8.3%	(5.5)%	(3.4)%	(3.2)%	(5.1)%
Western Cape	60%	12.7%	8.2%	(6.2)%	(3.2)%	(3.5)%	(5.2)%
Free State	62%	13.2%	8.2%	(6.0)%	(3.1)%	(3.7)%	(5.0)%
Limpopo	40%	12.7%	8.0%	(6.1)%	(3.2)%	(3.7)%	(5.0)%
Eastern Cape	49%	13.2%	8.2%	(6.2)%	(3.4)%	(3.9)%	(5.2)%
North West	64%	13.2%	8.3%	(5.9)%	(3.3)%	(3.7)%	(5.0)%

Discount rate between 14% and 16%	Portfolio exposure	Average discount rate	Average exit capitalisation rate	Valuation impact if base discount rate is increased by 50bps	Valuation impact of 50% NOI reduction in year one	Valuation impact of 5% NOI reduction in capitalisation year	Valuation impact of 5% NOI reduction in cash flow in capitalisation year
Total portfolio	35%	14.4%	9.7%	(5.1)%	(3.9)%	(3.4)%	(5.1)%
Retail	36%	14.4%	9.6%	(5.1)%	(3.9)%	(3.4)%	(5.1)%
Other	33%	14.7%	11.6%	(4.3)%	(4.4)%	(3.2)%	(5.1)%
Gauteng	26%	14.2%	9.8%	(5.2)%	(3.8)%	(3.6)%	(5.1)%
KwaZulu-Natal	29%	14.5%	9.6%	(5.1)%	(3.7)%	(3.6)%	(5.0)%
Western Cape	40%	14.0%	9.8%	(5.1)%	(3.9)%	(3.5)%	(5.1)%
Free State	38%	14.0%	9.4%	(5.3)%	(3.6)%	(3.6)%	(5.1)%
Limpopo	48%	14.9%	10.0%	(4.4)%	(4.5)%	(2.9)%	(5.1)%
Eastern Cape	51%	14.0%	9.3%	(5.4)%	(3.8)%	(3.7)%	(5.2)%
Namibia	69%	15.2%	10.2%	(4.5)%	(4.1)%	(2.7)%	(5.0)%
North West	25%	15.0%	10.0%	(5.0)%	(4.0)%	(3.5)%	(5.1)%
Mpumalanga	67%	14.3%	9.4%	(5.5)%	(3.9)%	(3.8)%	(5.3)%

Discount rate above 16%	Portfolio exposure	Average discount rate	Average exit capitalisation rate	Valuation impact if base discount rate is increased by 50bps	Valuation impact of 50% NOI reduction in year one	Valuation impact of 5% NOI reduction in capitalisation year	Valuation impact of 5% NOI reduction in cash flow in capitalisation year
Total Portfolio	7%	17.0%	12.6%	(4.0)%	(5.0)%	(3.1)%	(5.1)%
Retail	6%	17.1%	12.6%	(4.1)%	(4.9)%	(3.1)%	(5.1)%
Other	12%	16.3%	12.8%	(4.0)%	(5.0)%	(2.9)%	(5.2)%
Gauteng	6%	16.3%	11.9%	(4.2)%	(4.9)%	(3.2)%	(5.1)%
Limpopo	12%	16.3%	11.3%	(4.5)%	(4.4)%	(3.4)%	(5.2)%
Namibia	31%	18.1%	13.7%	(3.7)%	(5.3)%	(3.1)%	(5.1)%
North West	11%	19.6%	15.5%	(3.4)%	(5.5)%	(1.5)%	(5.1)%
Mpumalanga	33%	16.3%	12.1%	(4.2)%	(4.8)%	(3.1)%	(5.2)%

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 31 March 2020 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 <sup>(1)</sup>	15 621	15 182	(439)	(2.8)	16 105	484	3.1

	25bps increase				25bps decrease		
	Fair value €m	Decreased fair value €m	Decrease €m	% decrease	Increased fair value €m	Increase €m	% increase
Spain	16 481	16 175	(306)	(1.8)	16 797	316	1.9

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

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

	Reviewed 31 March 2020 Recurring fair value measurements Level 3 Rm	Audited 31 March 2019 Non-recurring fair value measurements Level 3 Rm
Investment property	35 522	29 518
Right-of-use asset	214	—
Investment property under development	—	163
	Reviewed 31 March 2020 Non-recurring fair value measurements Level 3 Rm	Audited 31 March 2019 Non-recurring fair value measurements Level 3 Rm
Investment property held for sale	—	1 002



### 3 RELATED-PARTY TRANSACTIONS AND BALANCES

Type of transaction		Reviewed 2020		Audited 2019	
		Amount paid/ (received) by Vukile Rm	Amount owed to/(by) related parties Rm	Amount paid/ (received) by Vukile Rm	Amount owed to/(by) related parties Rm
<b>Group companies</b>					
MICC Property Income Fund (MICC IF)	Asset management fees <sup>(1)</sup>	—	—	46	—
MICC IF	Debenture interest	(165)	—	(156)	—
MICC IF	Loan	—	—	—	37
MICC IF	Corporate administration recovery <sup>(2)</sup>	—	—	(2)	—
MICC Properties	Corporate administration recovery <sup>(2)</sup>	—	—	(3)	—
MICC Properties	Interest received	(23)	(261)	(34)	(341)
MICC Properties	Interest paid	—	—	5	—
MICC Namibian subsidiaries	Interest paid <sup>(3)</sup>	—	—	5	—
Clidet No. 1011	Dividends received	(17)	—	(8)	—
Clidet No. 1011	Interest received	(25)	(285)	(26)	(284)
Castellana	Interest received	(7)	—	—	—
Morzal Properties Iberia S.L (Morzal)	Initial investment in Morzal	—	—	3 630	—
Vukile ALP 1 Pty Ltd	Dividends received	(6)	—	—	—
Vukile ALP 2 Pty Ltd	Dividends received	(6)	—	—	—
Vukile ALP 3 Pty Ltd	Dividends received	(1)	—	—	—
Vukile ALP 1 Pty Ltd	Interest received	(26)	(364)	—	(367)
Vukile ALP 2 Pty Ltd	Interest received	(26)	(364)	—	(367)
Vukile ALP 3 Pty Ltd	Interest received	(13)	(180)	—	(181)
Atlantic Leaf Properties Limited	Dividend received	(102)	—	(109)	—
Fairvest Property Holdings Limited	Dividend received	(59)	—	(54)	—
Arrowhead Properties Limited	Dividend received	(85)	—	(72)	—
Investment in Castellana	Dividend received	(430)	—	(290)	—
Castellana Westbrooke/ Morzal Properties Iberia S.L (Morzal)	Dividend received	(20)	—	(49)	—

## NOTES TO THE SUMMARISED FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

Type of transaction	Reviewed 2020		Audited 2019		
	Amount paid/ (received) by Vukile Rm	Amount owed to/(by) related parties Rm	Amount paid/ (received) by Vukile Rm	Amount owed to/(by) related parties Rm	
<b>Other related parties</b>					
Diversified Real Estate Asset Management (DREAM)	Share warrant	—	—	18	—
Diversified Real Estate Asset Management (DREAM)	Refund of salary costs and expenditure incurred in assisting DREAM in preparation of feasibilities, negotiation with debt funders, and review of loan and sale agreements with reference to the acquisition of 11 retail parks (expense recovery at cost)	—	—	(17)	—
Directors and other officers	Interest	(19)	(266)	(13)	(271)
Executive directors	Remuneration	50	—	52	—
Key management (excluding directors)	Remuneration	15	—	34	—

<sup>(1)</sup> Fees paid by Vukile for the management of the group's property portfolios by MICC IF.

<sup>(2)</sup> Allocation of corporate and administration costs paid to Vukile.

<sup>(3)</sup> Market-related interest paid by Vukile on listed commercial paper issued to its Namibian subsidiaries.

Related parties comprise the company's subsidiaries, associates and key management.

Refer to the commentary section of this report for information regarding revenue from external customers, repayment of debt, dividends paid, and comments about the impact of COVID-19.

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