VUKILE
PROPERTY FUND

REAL ESTATE. REAL GROWTH.

SUMMARISED CONSOLIDATED RESULTS

for the year ended 31 March 2019 and **change to the board of directors**

HIGHLIGHTS

Vukile is a high-quality, low-risk retail REIT in southern Africa with growing international exposure in Spain. The results show a strong operational focus with a core competence in active asset management.

7.5% increase in dividends in line with guidance to 181.48 cents per share

Strong balance sheet and capital market support

- ICR of 6 times
- LTV reduced to 37% with 96% of debt hedged
- Corporate long-term credit rating upgraded to A+$_{(ZA)}$
- Raised R2.6 billion in new equity during the year and R700 million in April 2019
- Raised R1.2 billion in corporate bonds

Significant presence in Spain

- Investment properties increased to €916 million from €308 million following the acquisition of five dominant shopping centres
- Positive benefits of diversification with a solid pipeline of opportunities

Value-add asset management from Castellana

- All retail parks acquired in June 2017 now fully let
- Like-for-like growth in gross rental income of 3.5%
- Reversions and new lettings at 11% above expiring rentals
- Successful redevelopment of Kinepolis Leisure Centre at a yield of 11%

Continuing solid operating performance in southern Africa

- Positive retail reversions at +4.5%
- Retail vacancies reduced to 3.0% with 87% tenant retention
- Like-for-like growth in net income of total portfolio of 3.4%
- Established Vukile Academy

COMMENTARY

1. NATURE OF OPERATIONS

The group is a long-term investor in retail-focused property portfolios with strong contractual cash flows managed for income growth, sustainability and capital appreciation.

2. SUMMARY OF GROUP FINANCIAL PERFORMANCE

The group's total assets amounted to R35.1 billion at 31 March 2019. The group's direct property investments were valued at R30.5 billion at 31 March 2019 (March 2018: R19.2 billion), and are located in South Africa, Namibia and Spain. The Spanish properties were valued at R14.9 billion (€916 million) at year-end (March 2018: R4.5 billion (€308 million)).

Additionally, Vukile held the following listed investments at year-end:

- A 34.9% shareholding in an associate, Atlantic Leaf Properties Limited (Atlantic Leaf) with a carrying value of R1.3 billion (March 2018: R1.2 billion). The net asset value of Atlantic Leaf at February 2019 amounted to £195 million (February 2018: £204.2 million);
- A 26.9% shareholding in Fairvest Property Holdings Limited (Fairvest) valued at R568 million (March 2018: R595 million); and
- A 25.3% shareholding in Gemgrow Properties Limited (Gemgrow) valued at R729 million (March 2018: R790 million).

Ongoing improvements in financial and operating metrics

The group is focused on generating dividends that are growing, sustainable, and predictable over the long term. Key decisions and strategies are aligned to this long-term approach and the group will avoid transactions which do not complement the longer-term strategies of the group.

It is pleasing to report that the dividend for the six months ended 31 March 2019 increased by 7.5% to 103.37872 cents per share. Dividends for the full year rose by 7.5% to 181.48123 cents per share, in line with guidance.

The group's net profit available for distribution was R1.7 billion for the year ended 31 March 2019, representing an increase of 30% (March 2018: R1.3 billion).

The proposed total dividend for the year comprises:

	Rm	% split	Cents per share
First	701.5	41.5	78.10251
Second[1]	988.5	58.5	103.37872
Total	1 690.0	100.0	181.48123

[1] *Based on shares in issue at 29 May 2019.*

Key financial measures	**March 2019**	March 2018	% change
Dividend per share (cents)	**181.48**	168.82	7.5
Earnings (Rm)	**1 709**	2 402	(28.9)
Net asset value per share (cents)	**2 026**	2 010	0.8
Loan to value ratio net of cash (%)[1]	**37.2**	28.2	
Gearing ratio (%)[2]	**37.0**	29.6	

[1] *Based on directors' valuations of the group's portfolio and the market value of equity investments at 31 March 2019 less cash (excluding cash held on deposit from tenants).*

[2] *The gearing ratio is calculated by dividing total interest-bearing borrowings by total assets.*

Share price and liquidity

Vukile's share price decreased by 8.6%, from R21.88 per share at 31 March 2018 to R20.00 per share at year-end. Vukile's share price performed better than the SAPY index which declined by 12.2% over the same period.

Vukile's market capitalisation at year-end amounted to R18.4 billion (March 2018: R17.2 billion).

During the 12 months ended 31 March 2019, 344 million Vukile shares were traded, which equates to approximately 28.7 million shares per month. The total value of shares traded during the year amounted to R7 billion or 38% of the company's market capitalisation at 31 March 2019 (March 2018: 41%), demonstrating the liquidity of Vukile's shares in the market.

Equity issuances

Equity issuance and dividend reinvestments for the year amounted to R2.6 billion:

- Vukile issued 86 715 812 shares under an accelerated bookbuild on 26 July 2018 at R18.66 per share, including a specific issue to Encha Properties Equity Investments (Pty) Ltd (Encha) at R19.60 per share, raising R1.6 billion.
- Shares issued under an election to reinvest cash dividends in return for shares were as follows:
  – 22 June 2018: 3 857 140 shares at R20.30 – R78 million; and
  – 24 December 2018: 4 480 038 shares at R19.40 – R87 million.
- On 5 November 2018, Vukile issued 22 889 305 shares to settle the purchase price of R470.6 million for Kolenade Retail Park.
- Vukile issued 18 253 483 shares under two further issuances in February and March 2019 at an average of R20.21 per share – raising R369 million.

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	1 786
Issue of shares	2 615
Borrowings and advances	6 895
Borrowings repaid	(1 892)
Acquisitions/improvements to investment properties : Local	(988)
: Spain	(8 586)
Dividends paid	(1 518)
Equity contribution from non-controlling shareholders	1 828

Cash flow from operating activities more than covered the full dividend for the year.

Additional net debt raised of R5.6 billion, share issuances of R2.6 billion and external investors funding into Castellana of R1.8 billion were utilised to acquire investment properties of R10.1 billion, mainly in Spain.

Net asset value

The net asset value (NAV) of the group increased over the reporting period by 0.8% from 2 010 cents per share to 2 026 cents per share at 31 March 2019, as set out in the table below.

	Cents per share
Opening NAV 1 April 2018	2 010
Investment properties	1 340
Investment properties held for sale	126
Other non-current assets	17
Current assets	18
Current liabilities	(18)
Non-current liabilities	(835)
Non-controlling interest	(283)
Adjusted for additional shares in issue	(349)
Closing NAV 31 March 2019	2 026

The NAV of 2 026 cents per share represents a slight premium to Vukile's share price of 2 000 cents per share at 31 March 2019.

It should be noted that although the gross change in fair value of investments amounted to R804 million for the year ended 31 March 2019, this increase to NAV was offset by the following:

	Rm
Unrealised fair value loss on listed property shares	**(88)**
Unrealised foreign exchange loss on foreign loans	**(66)**
Impairment of goodwill	**(48)**
Fair value loss on net-settled derivatives	**(208)**
	(410)

The group's NAV would increase to 2 070 cents per share if the impact of the temporary items above are excluded.

Extract from the calculation of distributable earnings for the year ended 31 March 2019

	2019		2018		Variance	
GROUP	R000	R000	R000	R000	%	Notes
Property revenue		**2 186 904**		1 561 798	40.0	
Property expenses (net of recoveries)		**(312 603)**		(252 723)	(23.7)	
Net profit from property operations per segmental report excluding straight-line rental income accrual		**1 874 301**		1 309 075	43.2	(i)
Investment and other income		**344 815**		323 255	9.5	(ii)
Dividends received	**126 390**		137 889		(8.3)	
Interest and other income	**218 425**		185 366		17.8	
Share of income from associate (Atlantic Leaf)		**53 585**		95 485	(43.8)	
Corporate expenditure		**(199 371)**		(127 474)	(56.4)	(iii)
Finance costs		**(509 749)**		(367 808)	(38.6)	(iv)

Full details of distributable income are set out in the segmental report included in the separate consolidated annual financial statements for the year ended 31 March 2019.

(i) Group net profit from property operations

Net group profit from property operations, excluding the straight-line income adjustment, increased by R565 million (43%) from R1.31 billion to R1.87 billion. The Castellana growth contributed R669 million (36%) towards the group's net profit from property operations (March 2018: R174 million). The growth in net property revenue of the stable portfolio was 3.4%.

Group tenant arrears

Group tenant arrears (including tenant recharge accruals) amounted to R189 million at year-end (March 2018: R116 million) or 6.7% of gross rental income (March 2018: 5.8%). The increase of R73 million mainly arises due to the addition of Morzal debtors of R46 million being included for the first time. Castellana's in-house leasing team collects at least 99% of monthly rentals invoiced.

The retail sector reported lower sales growth in general during the past financial period and the difficult trading environment has affected certain non-national tenants negatively. Our primary property managers, Excellerate Real Estate Services (Pty) Ltd trading as JHI and Broll Property Group (Pty) Ltd, report similar trends across the various portfolios they manage.

Impairment allowance – tenant receivables

The allowance for the impairment of tenant receivables decreased by R9.5 million from R43.7 million at 31 March 2018 to R34.2 million at 31 March 2019, under the new IFRS 9 requirements. The allowance is considered to be adequate. The impairment allowance represents 1.2% of gross property revenue (March 2018: 2.2%). In total, 26% of group tenant arrears have been accounted for as impaired. A summary of the movement in the impairment allowance of trade receivables is set out below:

	Group R000
Allowance for impairment of trade receivables:	
At 1 April 2018	**43 709**
IFRS 9 adjustment	**(8 397)**
Reduction in the impairment allowance	**(1 098)**
At 31 March 2019	**34 214**
Rental written off in the statement of profit or loss	**14 868**

(ii) Group investment and other income

Investment and other income increased by R21.6 million to R345 million, made up as follows:

	2019 R000	2018 R000	R000	Movement %
Dividends received	**126 390**	137 889	(11 499)	(8.3)
Interest and other income	**55 351**	91 490	(36 139)	(39.5)
Cross-currency interest rate swaps (CCIRS)	**163 074**	93 876	69 198	73.7
	344 815	323 255	21 560	6.7

Dividends received of R126.4 million during the year comprised:

Fairvest	R54.5 million
Gemgrow	R71.9 million
	R126.4 million

Fairvest has performed well during the year, while Gemgrow's results have been disappointing, resulting in a reduction in dividend income of R11.5 million year-on-year.

Higher net interest of R69 million on CCIRS was generated mainly due to €89 million new CCIRS concluded during the year. This higher income was offset by lower bank and money market interest earned compared to the prior year as surplus cash resources were extensively used to part fund new acquisitions in Spain.

(iii) Group corporate expenditure

Group corporate and administrative expenditure of R199.4 million is R71.9 million higher than the previous year's expenditure (March 2018: R127.5 million).

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

South Africa:

- Salary and related costs increased by R18 million comprising normal increases and the appointment of two new employees, including the appointment of an in-house leasing specialist.
- New costs relating to the Vukile Academy of R5.5 million.

Spain:

- Salary costs increased to €2.7 million (approximating R43 million) at 31 March 2019 (March 2018: €0.5 million). The number of employees in the Castellana team increased to 24 employees compared to eight employees in the previous year. The Castellana team is now at scale and the business could absorb another three assets without having to increase the staff complement.

Corporate expenditure equates to 0.57% of total assets (March 2018: 0.55%).

(iv) Group finance costs

Group finance costs increased by R142 million, from R368 million to R510 million.

The primary reasons for this increase are set out below:

- Interest was incurred on new R600 million debt drawn from local banks off Vukile's balance sheet to part fund the acquisitions of Habaneras and the four shopping centres by Castellana from Unibail-Rodamco-Westfields.
- Additional debt of €300 million was raised by Castellana to part fund the abovementioned acquisitions which incurred finance costs of R113 million. This new debt is compared to the €246 million debt in place in the prior year. This debt is non-recourse to Vukile, and secured against Spanish assets only.

The average cost of finance (including amortisation of capital raising fees) for the year equates to 4.53% (March 2018: 5.74%), with interest-bearing term debt being 96% hedged (March 2018: 100%).

(v) Investments in associates at fair value

Fairvest – 26.9%

Fairvest continues to focus on the lower living standards measure (LSM) retail market, similar to Vukile's strategy, but targeting smaller properties. Fairvest management has forecast a distribution growth of 8% to 10% for the period ending 30 June 2019.

Vukile owned 270.4 million shares in Fairvest at 31 March 2019 valued at R568 million. Dividends of R54.5 million (March 2018: R21.5 million) were received during the year ended 31 March 2019. Dividends calculated on a full 12-month period equates to a yield of 9.6% based on the value of Fairvest's shares at year-end.

Gemgrow – 25.3%

Vukile owned 4.7 million Gemgrow "A" shares and 114.4 million Gemgrow "B" shares with a combined value of R729 million at year-end.

Gemgrow's management has forecast a reduction in dividends for the "B" shares of 10% for the year ending 30 September 2019.

Dividends received in respect of the "A" and "B" shares held by Vukile for the year ended 31 March 2019 amounted to R71.9 million (March 2018: R92.6 million), a decrease of 6.5% from the prior year.

The management of Gemgrow and Arrowhead Properties Limited announced on 10 April 2019 that an agreement in principle had been reached for a reverse takeover of Gemgrow by Arrowhead, creating a company with a market capitalisation of R6.8 billion. This should result in a savings in corporate costs and provide for a Gemgrow "B" share which is expected to be significantly more liquid than at present.

Vukile does not consider this investment core to its strategy and will seek to dispose of this investment at an appropriate time and price, in order to reinvest the proceeds into investment opportunities in Spain or South Africa.

(vi) Investment in associate equity accounted

Atlantic Leaf – 34.9%

Atlantic Leaf's assets (net of straight-line lease income adjustment) have increased to £372 million at 28 February 2019 (28 February 2018: £363 million) while total revenue increased by 11.5% to £26.9 million for its financial year ended 28 February 2019.

The company's focus on the UK industrial and warehouse distribution centres, an attractive market segment, has provided growth in distributions of 2.2%, from 9.1 pence to 9.3 pence for the year ended 28 February 2019.

Dividends of R115.4 million, including the positive impact of hedging these dividends, were earned during the year to 31 March 2019. Vukile's share of equity-accounted profits from Atlantic Leaf for the year ended 31 March 2019 amounted to R53.6 million. Dividend income has generated an 8.3% yield in Pound Sterling for Vukile, based on the carrying value of the investment in Atlantic Leaf at year-end of R1.3 billion.

Atlantic Leaf's management are forecasting a dividend of 10 pence per share for the year ending 28 February 2020, or a 7.5% growth in dividends. However, Atlantic Leaf's after-tax earnings will be boosted due to corporate taxes no longer being payable following its conversion to a UK REIT. Any dividends it declares will be subject to a 20% withholding tax, with 5% being recoverable from the UK tax authorities in terms of the Double Tax agreement concluded between South Africa and the United Kingdom. In total, 72% of the £5.6 million dividends forecast to be received from Atlantic Leaf by Vukile for the year ending March 2020 are subject to forward exchange contracts, at an average exchange rate of R20.38.

While performing in line with expectations, Vukile is open to exploring an exit of its stake in Atlantic Leaf and to redeploy the proceeds in its core Spanish strategy.

(vii) Investment in subsidiary

Castellana – 72.2%

Despite Castellana's significant growth in assets for the current year, Vukile's shareholding in Castellana has decreased over the year from 98.7% to its current level of 72.2% as a result of introducing a strategic minority shareholder who part funded the equity required for the Unibail-Rodamco-Westfields transaction and now holds 18.2% of Castellana. Other minority shareholders hold 9.6%.

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

Key financial measures

	2019	2018	
Cash dividends net of withholding taxes ((2.0%) (March 2018: 2.66%))	—	€10.4 million	Declared and paid in May 2018 for the year ended 31 December 2017
	€7.5 million	—	Declared for the six months ended 30 September 2018 and paid in November 2018
	€11.3 million	—	Declared and paid in May 2019 for the year ended 31 March 2019
Investment properties	€916 million	€308 million	
Interest-bearing debt	€450 million	€146 million	
Loan to value ratio net of cash (%)	45.9	42.2	

It should be noted that under Spanish law, Castellana and its subsidiaries are required to utilise Spanish GAAP in the preparation of their individual annual financial statements and requires Castellana's consolidated annual financial statements to be prepared under IFRS. The consolidated IFRS financial statements have been used in the preparation of Vukile's consolidated annual financial statements.

Treasury management

Group borrowings

The group's finance strategy is to optimise funding costs and minimise refinance risk.

Total debt as at 31 March 2019 amounted to R13.2 billion. A detailed breakdown is provided below:

	Rm*	
Foreign Spanish funders (EUR) – four Spanish bank funders	7 322	Secured only against Castellana's balance sheet with no recourse to Vukile
Local funders (EUR) – four local bank funders	2 140	Partly secured against Vukile's SA balance sheet
Local funders (GBP) – one local bank funder	542	
Local funders (ZAR) – five local bank funders	1 219	
DMTN (ZAR)	2 007	
	13 230	

* *Excludes debt raising fees of R252 million.*

Sources of funding

Vukile's funding of R13.2 billion is well diversified across a number of funders, in line with its strategy of reducing refinancing risk.

	Debt[(1)] R000	Debt exposure per bank %	Hedging and fixed debt[(2)] R000
Group debt and hedging exposure per bank in ZAR			
Aareal[(3)]	4 850 309	36.66	4 850 309
DMTN term debt	2 007 000	15.17	—
Absa	1 520 478	11.49	2 616 957
Caixabank[(3)]	1 296 781	9.80	1 235 623
Banco Santander[(3)]	991 522	7.49	954 827
Investec	921 420	6.96	1 155 497
Standard Bank	777 812	5.88	902 323
RMB	581 735	4.40	40 646
Banco Popular[(3)]	183 247	1.39	183 247
Nedbank	100 000	0.76	280 000
Grand total	13 230 304	100.00	12 219 429

(1) *Foreign currency denominated debt converted at EUR/ZAR spot rate of 16.2582 and GBP/ZAR spot rate of 18.8855 at 31 March 2019.*

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

(3) *Group exposure includes Castellana Properties SOCIMI debt of €450.3 million (R7.32 billion equivalent), and swaps of €146.0 million (R2.37 billion equivalent).*

Vukile group loan and swap expiry profile at 31 March 2019

The strategy of ensuring that no more than 25% of debt expires in any one year is being monitored.

Vukile group loan and hedging (swap and fixed term debt) expiry profile at 31 March 2019:

	2020	2021	2022	2023	2024	2025	2026	Total
Loan expiry profile (Rm)	1 084	1 441	2 454	1 330	1 612	—	4 850	**12 771**
Commercial paper and access facility expiry profile (Rm)	347	12	100	—	—	—	—	**459**
Hedging (swap and fixed debt) profile (Rm)	518	842	2 013	2 145	6 676	25	—	**12 219**

A summary of group debt ratios at 31 March 2019 is provided below:

	Group R000	South Africa R000	Spain €000
Total debt (excluding access facilities and commercial paper)	12 771 363	5 449 504	450 349
Interest-bearing debt hedged (%)	95.68	91.67	98.66
Debt maturity profile (years)	3.92	2.01	5.46
Swaps – maturity profile (years)	3.55	2.66	4.16
Interest cover ratio (times)[(3)]	6.05	7.94	4.07
Directors' valuation LTV ratio (excluding MTM of derivatives) net of cash[(1)] (%)	37.18	29.98	45.93
Gearing ratio[(2)] (%)	37.00	30.13	45.63

(1) *Directors' valuation LTV ratio is calculated as a ratio of interest-bearing debt divided by the sum of (i) the amount of the most recent directors' valuation of all the properties in the Vukile group property portfolio, on a consolidated basis, and (ii) the market value of equity investments.*

(2) *Gearing is calculated as a ratio of total interest-bearing borrowings to total assets.*

(3) *Interest cover ratio is based on the 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).*

Undrawn available facilities at 31 March 2019

Undrawn available facilities amount to R1.4 billion.

Unencumbered assets at 31 March 2019

As at 31 March 2019, unencumbered assets amounted to R7.2 billion (R3.4 billion property assets and R3.8 billion listed shares) compared with unsecured debt of R1.3 billion. The total unsecured debt to unencumbered assets ratio at 31 March 2019 was 18.7% and total unsecured debt to unencumbered property assets ratio at 31 March 2019 was 39.9%.

Ratings

Global Credit Rating Company (Pty) Ltd (GCR) affirmed a secured long-term credit rating of AA+(ZA), corporate long-term credit rating upgraded to A+(ZA) and corporate short-term rating of A1(ZA), with the outlook accorded as stable, in July 2018.

Group debt movement during the year ended 31 March 2019

During the 12-month period ended 31 March 2019 the total group debt increased by R6.2 billion.

Significant financing transactions are summarised below:

- R456 million of bank debt was repaid.
- R660 million unlisted and listed corporate bonds were repaid during the year.
- R317 million commercial paper was repaid during the year.
- R1.2 billion of new corporate bonds were issued.
- Within Castellana, €42 million of fixed bank debt was entered for the Habaneras acquisition – this debt is non-recourse to Vukile.
- Proceeds of the Vukile equity bookbuild issuance of R1.6 billion were partially utilised together with R400 million of ZAR bank debt and €15 million of EUR bank to acquire shares in Morzal for the acquisition of four shopping centres in Spain.
- Within Castellana €256 million of fixed bank debt was entered and restructured for the acquisition of four shopping centres – this debt is non-recourse to Vukile.
- Vukile rebalanced/extended and entered new ZAR interest rate swaps totalling R1.9 billion and entered new EUR interest rate swaps totalling €15 million, at an estimated new annualised additional cost of R2.5 million (R0.8 million cost for FY19).

The group has complied with all the bank's LTV covenants. The southern African group has also complied with the DMTN covenants.

Group foreign exchange currency hedges at 31 March 2019

Vukile has adopted a strategy of hedging its foreign dividend exposure at 75% over a three to five-year period in line with anticipated dates of dividend receipts.

EUR net income exposure – as at 31 March 2019

	June 2019 €000	December 2019 €000	June 2020 €000	December 2020 €000	June 2021 €000	December 2021 €000	June 2022 €000	December 2022 €000	June 2023 €000
Dividend payment dates									
Net EUR dividends forecast	**6 616**	**7 881**	8 549	8 439	7 551	9 416	9 721	11 270	11 533
Existing CCIRS hedge interest costs[1]	**(2 278)**	**(2 291)**	(2 316)	(2 278)	(2 278)	(1 228)	(1 228)	–	–
Existing forward exchange contract (FEC) hedges on dividends	**(7 684)**	**(5 375)**	(5 289)	(5 495)	(5 508)	(4 600)	(4 600)	(4 600)	(4 600)
Average FEC EUR/ZAR rate	**16.9725**	**17.7734**	18.4981	18.5148	19.4321	20.6629	21.5255	22.4193	23.3412
Unhedged dividend income	**(1 068)**	**2 506**	3 260	2 944	2 043	4 816	5 121	6 670	6 933
FEC hedges/(net distribution + CCIRS hedge) (%)	**116.13**	**68.20**	61.87	65.11	72.95	48.85	47.32	40.82	39.89
Average hedge (%)	**75**								

[1] *Funded out of EUR dividends receivable from Castellana.*

In total, 75% of net EUR dividends are hedged over the next 2.5 years (5 Castellana dividends).

GBP net income exposure – as at 31 March 2019

	May 2019 £000	November 2019 £000	May 2020 £000	November 2020 £000
Dividend payment dates				
Net GBP dividends forecast (after interest cost)	**2 546**	**2 282**	2 282	2 338
FEC hedges on dividends	**(2 035)**	**(1 996)**	(2 045)	(2 070)
Average FEC GBP/ZAR rate	**19.2135**	**19.9029**	20.6072	21.3622
Unhedged dividend income	**511**	**286**	237	268
FEC hedges/net distribution (%)	**80**	**87**	90	89
Average hedge (%)	**86**			

In total, 86% of net GBP dividends forecast are hedged over the next two years (four Atlantic Leaf dividends).

Group cost of finance at 31 March 2019

The make-up for the year ended 31 March 2019 of the historic weighted average interest cost of 4.53% comprises the following:

	FY19 historic weighted average cost of finance (%)	Debt as at 31 March 2019 Rm
ZAR	9.21	3 226
EUR	2.70	9 462
GBP	3.45	542
Weighted average	**4.53**	**13 230**

SA REIT Association best practice recommendations

The SA REIT Association has published a draft second edition to its best practice recommendations (BPR) for financial reporting. In support of the sector's transparency, Vukile is engaging SA REITs regarding the reporting measures that will most clearly, accurately and consistently represent the performance of REITs such as Vukile. The sector representative body has indicated that it expects to finalise the second edition before the end of 2019 and that it should be effective for financial year-ends starting from 1 January 2020. This will not impact Vukile's reporting for FY20.

3. SOUTHERN AFRICA PROPERTY PORTFOLIO OVERVIEW

The southern African property portfolio at 31 March 2019 consisted of 60 properties with a total value of R15.5 billion (excluding the 20% non-controlling interest in Moruleng Mall) and gross lettable area (GLA) of 988 303m², with an average value of R258 million per property. The average value per property on the retail portfolio is R316 million.

The geographical distribution of the southern African portfolio is indicated in the table below. The portfolio is well represented in most of the South African provinces and Namibia. Some 76% of the gross income comes from Gauteng, KwaZulu-Natal, Western Cape and Limpopo.

Geographic portfolio	Total portfolio %
% of gross income	
Gauteng	38
KwaZulu-Natal	22
Western Cape	8
Limpopo	8
Namibia	7
Free State	6
North West	4
Mpumalanga	4
Eastern Cape	3

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

The tenant profile is listed in the table below:

Tenant profile	Retail %	Total portfolio %
% of GLA		
A – Large national and listed tenants and major franchises	74	69
B – National and listed tenants, franchised and medium to large professional firms	9	8
C – Other (1 193 tenants)	17	23

Excluding 180 residential units

The retail portfolio's exposure to national, listed and franchised tenants is 83% in total.

The portfolio has low tenant concentration risk with the top 10 tenants accounting for 41.1% of total rent and 47.3% of total GLA. Based on rent, the Pepkor group is the single largest tenant with 7.5% of total rent (8.1% of retail rent), with Pick n Pay the second largest at 5.8% of total rent (6.2% of retail rent).

The top 15 properties, all of which are retail assets, have 84.3% exposure to national, listed and franchised tenants and represent 58.8% of the southern African portfolio value and 46.5% of the southern African portfolio GLA.

Top 15 properties by value

Property	Location	Rentable area m²	Director's valuation at 31 March 2019 Rm	% of total	Valuation R/m²
Boksburg East Rand Mall[1]	Gauteng	34 126	**1 433**	9.2	42 002
Pinetown Pine Crest	KwaZulu-Natal	43 414	**1 047**	6.8	24 125
Durban Phoenix Plaza	KwaZulu-Natal	24 231	**940**	6.1	38 812
Phuthaditjhaba Maluti Crescent	Free State	35 335	**667**	4.3	18 887
Gugulethu Square	Western Cape	25 322	**553**	3.6	21 840
Soweto Dobsonville Mall	Gauteng	26 589	**546**	3.5	20 520
Queenstown Nonesi Mall	Eastern Cape	27 898	**500**	3.2	17 905
Pretoria Kolonnade Retail Park	Gauteng	39 450	**497**	3.2	12 598
Germiston Meadowdale Mall[2]	Gauteng	33 156	**438**	2.8	13 225
Oshakati Shopping Centre	Namibia	24 632	**428**	2.8	17 364
Daveyton Shopping Centre	Gauteng	17 774	**421**	2.7	23 685
Thohoyandou Thavhani Mall[3]	Limpopo	17 761	**414**	2.7	23 285
Bloemfontein Plaza	Free State	43 771	**411**	2.7	9 388
Randburg Square	Gauteng	40 767	**409**	2.6	10 025
Moruleng Mall[4]	North West	25 274	**399**	2.6	15 790
Total top 15 properties		459 500	**9 103**	58.8	19 811
% of total portfolio		*46.5*	***58.8***		
% of retail portfolio		*53.4*	***64.0***		

(1) 50% undivided share in this property.
(2) 67% undivided share in this property.
(2) 33% undivided share in this property.
(4) 80% share in Clidet No 1011 (Pty) Ltd.

3.1 Valuation of southern African portfolio

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 third-party valuers. The directors have valued the southern African property portfolio at R15.5 billion[i] as at 31 March 2019. This is R1.0 billion or 7.0% higher than the valuation as at 31 March 2018. Pretoria Kolonnade Retail Park was acquired for R471 million and Hillcrest Richdens Shopping Centre was sold. The value of the stable portfolio increased by 3.3%. The calculated recurring forward yield for the portfolio is 8.4%.

During the year all southern African properties were valued by external valuers and the valuations by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd are in line with the directors' valuations.

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

3.2 Southern African property portfolio performance

We achieved like-for-like growth in net profit from our southern African operations of 3.4%. Income was under pressure at Sandton Sunninghill Sunhill Park due to increased vacancies, and at Rustenburg Edgars and Vereeniging Bedworth Centre due to restructuring of leases. Excluding the reduced rentals at these properties, property revenue escalated at 5.3% and net property income at 4.6%.

The above inflationary increase in net expenses is mainly contributed by the irregular municipal increases in rates/taxes and utilities.

Financial performance for the stable portfolio (excluding acquisitions and sales)

	31 March 2019	31 March 2018	% change
Property revenue (Rm)	**1 364.9**	1 308.3	4.3
Net property expenses (Rm)	**(231.2)**	(212.2)	9.0
Net property income (Rm)	**1 133.7**	1 096.1	3.4
Net cost to income ratio (%)	**16.9**	16.2	

New leases and renewals in excess of 218 000m² with a contract value of R1.8 billion were concluded during the year, with tenant retention at 81% (retail portfolio 87%).

Expiry profile

The lease expiry profile table reflects that 23%, based on rent, of the leases are due for renewal in the 2020 financial year. Approximately 42% of leases are due to expire in 2023 and beyond (up from 38% in 2022 and beyond in the prior year).

Lease expiry % of rent	March 2020 %	March 2021 %	March 2022 %	March 2023 %	Beyond March 2023 %
Rent	23	17	18	12	30
Cumulative as at March 2019	23	40	58	70	100
Cumulative as at March 2018	47	62	73	84	100

Lease expiry % of GLA	Vacant %	March 2020 %	March 2021 %	March 2022 %	March 2023 %	Beyond March 2023 %
GLA	3.9	20	14	16	11	35
Cumulative as at March 2019	3.9	24	38	54	65	100
Cumulative as at March 2018	4.2	46	59	68	83	100

Vacancies

At 31 March 2019 the portfolio's vacancy (measured as a percentage of gross rental) was 3.6% excluding development vacancy, compared to 3.7% at 31 March 2018. Retail vacancies decreased from 3.4% to 3.0% and industrial from 6.0% to 2.9%. The main reason for the increased office vacancies during 2019 was the high vacancy at Sunninghill Sunhill Park which is currently in the process of being sold.

Vacancies (% of gross rental)	March 2019 %	March 2018 %
Retail	**3.0**	3.4
Industrial	**2.9**	6.0
Offices	**19.6**	10.3
Motor related	**—**	—
Total*	**3.6**	3.7

Including development vacancy the 2019 vacant rent is 4.4%.
** Excluding 14 vacant residential units.*

The vacancy per sector (measured as a percentage of gross lettable area) is indicated in the table below:

Vacancies (% of GLA)	March 2019 %	March 2018 %
Retail	**3.0**	3.9
Industrial	**5.7**	3.5
Offices	**21.0**	13.5
Motor related	**—**	—
Total*	**3.9**	4.2

Including development vacancy the 2019 vacant GLA is 4.2%.
** Excluding 14 vacant residential units.*

GLA summary	GLA m²
Balance at 31 March 2018	937 463
GLA adjustments	187
Disposals	(10 196)
Acquisitions and extensions	60 849
Balance at 31 March 2019	988 303

Vacancy reconciliation	Area m²	%
Balance at 31 March 2018	39 681	4.2
Less: Properties sold since 31 March 2018	(864)	8.5
Remaining portfolio balance at 31 March 2018	38 817	4.2
Leases expired or terminated early	204 625	
Tenants vacated	38 197	
Renewal of expired leases	(137 991)	
Leases to be renewed	(26 872)	
Development vacancy	(2 840)	
New letting of vacant space	(75 091)	
Balance at 31 March 2019	38 845	3.9

Base rentals (excluding recoveries)

The weighted average monthly base rental rates per sector, between 31 March 2018 and 31 March 2019, are set out in the table below:

Weighted average base rentals (R/m²) excluding recoveries	March 2019	March 2018	Escalation %
Retail	**134.78**	130.44	3.3
Industrial	**57.83**	54.42	6.3
Offices	**95.32**	95.74	(0.4)
Motor related	**131.68**	128.64	2.4
Total *	**127.54**	122.77	3.9

The average growth in the retail rental rate is influenced by the newly acquired Pretoria Kolonnade Retail Centre's lower than average rate of R108/m². If this property is excluded, the average retail rental rate is R136.13/m² showing a year-on-year growth of 4.4%.

* *Excluding residential units.*

The average contractual rental escalation of 7.0% is slightly lower than the previous year at 7.2%. We achieved positive reversions of 4.0% on the total portfolio, with retail reversions at 4.5% and industrial at 5.5%. Reversions were concluded at lower rates in the office sector. New leases were concluded at 3.2% above budget in the retail sector. The ongoing pressure in the office and industrial sectors, to which we now have little exposure, dictated that new leases be concluded below budget rates. This resulted in the total portfolio's new leases finalised at 1.4% above budget.

Expense categories and ratios

The top four expense categories contribute 82% of the total expenses. These are: government services (46%), rates and taxes (18%), cleaning and security (11%) and property management fees (7%).

The group continuously evaluates methods of containing costs in the portfolio.

3.3 Southern African property portfolio – developments, acquisitions and sales

Acquisition

Kolonnade Retail Park, Pretoria, Gauteng

We acquired the fully let 39 450m² retail park for R470.6 million on a yield neutral basis.

This is a strong centre with a good tenant mix. This single-level centre is anchored by a 12 261m² Pick n Pay Hyper, with more than 40 stores, a health and fitness component and home décor appeal. It has a Virgin Active Health Club with indoor swimming pool, Kauai-in-motion and Club V as well as a Sportsman's Warehouse, Mr Price Sport, Puma, Tekkie Town and Chrome Supplements & Accessories. It also has a Continental Linen, Coricraft, Dial-a-Bed, Good Knight Bedding, MRP Home, Plus10 Discount Furnishers, Rochester, Sheet Street and UFO Furniture.

Vukile is very satisfied to have acquired Kolonnade Retail Park in a market where there are few sizeable, quality assets available on the market. It is located in an established retail node and is ideally matched to Vukile's investment strategy.

Completed upgrade project

Maluti Crescent, Phuthaditjhaba, Free State

Maluti Crescent, formerly Setsing Crescent, underwent a major R392 million redevelopment with a projected yield of 8.09% on capital expenditure. The project added 13 797m² of GLA and transformed the former strip centre into a fully enclosed 35 335m² mall with three levels of parking. The first phase of the expanded Maluti Crescent Shopping Centre opened on 21 March 2019 to become the largest shopping centre in Phuthaditjhaba in the Free State. It includes new undercover parking as well as the first and only structured taxi facility of its kind in the area.

The major upgrade responds to shopper and retail demand. It builds on the centre's excellent trading metrics and unlocks further income enhancement. Its development also achieved significant skills transfer through local employment.

Redevelopment projects in progress

Pine Crest Shopping Centre, KwaZulu-Natal

Pine Crest, the first and still the biggest shopping centre in the Pinetown CBD, is being extended and upgraded at a cost of R200 million with an expected yield of 7.4%. The project is due for completion by the end of July 2019. The new mall, with street access, is linked to the existing banking mall which leads to the second and third shopping levels by means of a new set of escalators. The new food court with direct access to the planned GoDurban bus terminus will cater to both shoppers and commuters. Tenants already trading in the new food court includes Spur, Nandos, KFC and Debonairs, all showing trade exceeding expectations.

The centre's rebranding and relaunching has been conceptualised and planned by Totem, a specialist rebranding company based in Spain, but with international experience. It promises a brand new look and experience which will ensure that Pine Crest not only stay the most popular shopping centre in the area but also keeps on growing.

This capital investment keeps the centre relevant to its customer base, which has changed dramatically in recent years.

Current southern African portfolio projects

Our major development capital expenditure projects approved and incurred to 31 March 2019 are:

Approved	Completion	Approved R000	Paid to 31 March 2019 R000	Budget April 2019 to March 2020 R000
Phuthaditjhaba: Maluti Crescent	31 August 2019	391 650	**304 594**	87 056
Pinetown: Pine Crest	31 July 2019	200 000	**138 435**	61 565
Durban: Phoenix Plaza	31 May 2018	35 000	**31 444**	3 556
Meadowdale Mall	29 August 2018	16 264	**14 365**	1 899
Springs Mall (25%)	29 March 2019	8 560	**8 102**	458
Hammarsdale Junction Extension	31 March 2019	4 500	**3 227**	1 273
		655 974	**500 167**	155 807

The projects will be financed out of the proceeds from property sales and existing bank facilities.

Southern African property sales

Vukile concluded property sales during the year of R138 million, which supported our strategy to focus on a low-risk, high-quality portfolio of retail properties.

	Sales price R000	Yield* %	Dates of sale
Hillcrest Richdens Shopping Centre	**138 000**	9.8	29 March 2019
	138 000	9.8	

* *Based on year one net operating income forecast.*

4. SPANISH PROPERTY PORTFOLIO OVERVIEW

The Spanish property portfolio at 31 March 2019 consisted of 17 properties with a total value of €916.5 million and GLA of 317 106m², with an average value of €53.9 million per property.

The geographical distribution of the Spanish portfolio is indicated in the table below. Some 87% of the gross income comes from Andalucia, Extremadura, Castilla Leon and Com. Valenciana.

Geographic portfolio

% of rental income	Total portfolio %
Andalucia	44
Extremadura	22
Castilla Leon	11
Com. Valenciana	10
Madrid	8
Asturias	4
Murcia	1

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

The tenant profile is indicated in the table below:

Tenant profile	Retail %	Total portfolio %
% of GLA		
Large national and international tenants	94	89
Local tenants (83 tenants)	6	11

Large national and international tenants account for 89% of tenants by GLA, and 90% of tenants by rent.

The portfolio has low tenant concentration risk with the top 10 tenants accounting for 28.3% of total rent and 41.8% of total GLA. Based on rent, Media Markt is the single largest tenant, with 4.0% of total rent (5.3% of total GLA), with Zara the second largest at 4.0% of total rent (3.8% of total GLA).

List of properties

Property	Location	Rentable area m²	External value at 31 March 2019 €m	% of total	Valuation €/m²
El Faro	Extremadura	43 423	**162.4**	17.7	3 740
Bahía Sur	Andalucia	24 789	**120.2**	13.1	4 849
Los Arcos	Andalucia	17 906	**118.2**	12.9	6 601
Granaita Retail Park	Andalucia	54 367	**113.7**	12.4	2 091
Vallsur	Castilla Leon	35 211	**92.8**	10.1	2 636
Habaneras	Com. Valenciana	24 158	**88.8**	9.7	3 676
Parque Oeste	Madrid	13 604	**51.6**	5.6	3 793
Parque Principado	Asturias	16 246	**34.6**	3.8	2 130
Marismas del Polvorín	Andalucia	18 079	**28.4**	3.1	1 571
Edificio Alcobendas	Madrid	11 046	**20.6**	2.3	1 865
La Heredad	Extremadura	13 447	**20.1**	2.2	1 495
La Serena	Extremadura	12 405	**16.1**	1.8	1 298
Pinatar Park	Murcia	10 637	**11.8**	1.3	1 109
Motril Retail Park	Andalucia	5 559	**8.9**	1.0	1 601
Mejostilla	Extremadura	7 281	**8.9**	1.0	1 222
Ciudad del Transporte	Com. Valenciana	3 250	**7.4**	0.8	2 277
Edificio Bollullos	Andalucia	5 698	**5.7**	0.6	1 000
El Faro Development	Extremadura		**3.3**	0.4	
Los Arcos Development	Andalucia		**3.0**	0.2	
Total		317 106	**916.5**	100.0	2 890

Valuation of the Spanish portfolio

During the year all the properties were valued by external valuers, Colliers International.

Expiry profile

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

The Spanish properties' lease expiry profile reflects that 9%, based on rent, of the leases are due for renewal in the 2020 financial year. Approximately 47% of leases are due to expire in 2029 and beyond.

Lease expiry	March 2020 %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	Beyond March 2029 %
Lease expiry % of rent											
Rent	9	5	4	7	7	6	3	4	8	4	43
Cumulative as at March 2019	9	14	18	25	32	38	41	45	53	57	100
Cumulative as at March 2018	2	3	4	4	5	5	5	7	15	15	100

Break profile*	March 2020 %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	Beyond March 2029 %
Lease expiry % of rent											
Rent	25	20	12	17	6	6	2	–	6	–	6
Cumulative as at March 2019	25	45	57	74	80	86	88	88	94	94	100
Cumulative as at March 2018	23	46	58	76	79	82	84	84	84	84	100

** Break profile is the date upon which the tenant has an option to terminate the lease prior to the expiry date.*

Vacancy profile

The vacancy per sector (measured as a percentage of GLA) is indicated in the table below:

Vacancies (% of GLA)	March 2019 %	March 2018 %
Shopping centre	**3.6**	
Retail park	**1.0**	3.2
Offices	**—**	—
Total	**2.1**	2.8

The shopping centres were acquired during the year, and did not carry vacancies in 2018. The total retail vacancies are 2.3% at year-end.

GLA summary	GLA m²
Balance at 31 March 2018	172 974
GLA adjustments	(1 355)
Disposals	—
Acquisitions and extensions	145 487
Balance at 31 March 2019	**317 106**

Vacancy reconciliation	Area m²	%
Balance at 31 March 2018	4 924	2.8
Vacancy on new acquisitions	5 279	3.6
Vacancy let	(3 407)	
Balance at 31 March 2019	**6 796**	**2.1**

Base rentals (excluding recoveries)

The weighted average monthly base rental rates per sector, between 31 March 2018 and 31 March 2019, are set out in the table below:

Weighted average base rentals (€/m²) excluding recoveries	March 2019	March 2018	Escalation %
Shopping centre	**19.98**	—	
Retail park	**9.32**	9.24	0.9
Offices	**9.32**	9.05	3.0
Total	**14.14**	9.22	53.4

The average retail rental rate increased from €9.24/m² to €14.41/m² due to the acquisition of the five shopping centres during the year.

Spain property portfolio – developments, acquisitions and sales

Acquisitions

In May 2018, Castellana acquired the Habaneras shopping centre for €83.8 million. The GLA of the centre is 24 158m², the average unexpired lease term is 6.1 years with an occupancy rate of 95.8%. The shopping centre has a 91.9% national tenant component.

Vukile announced on 31 July 2018 that its subsidiary, Morzal, had acquired four high-quality shopping centres in Spain at a cost of €480.6 million (including acquisition costs), at an attractive pre-gearing yield of 5.7%. The acquisition is in line with Vukile's strategy of increasing its international exposure to developed Europe through Spain.

The five shopping centres referred to above have a WALE of 10 years. The total GLA of the shopping centres is 145 487m² and 96% of gross revenue is derived from leading Spanish national and international retail tenants including Media Markt, Decathlon, Carrefour, Inditex Group, Primark, AKI and Mercadona. The average monthly rental of €19.98 per m² across the centres is at the lower end of the market rental which is between €15 and €32 per m², which is well positioned for income growth.

	Province	GLA m²	Weighted average rental per m²	Purchase price of the property €m*
El Faro	Extremadura	43 423	17.10	157.36
Bahía Sur	Andalucia	24 789	25.40	120.92
Los Arcos	Andalucia	17 906	32.76	110.70
Vallsur	Castilla Leon	35 211	14.58	91.61
Habaneras	Com. Valenciana	24 158	18.33	83.81
Total		145 487	19.98	564.40

* *Including transaction costs.*

Redevelopment projects completed

Granaita Retail Park

Kinepolis Retail Park, Kinepolis Leisure Centre and Alameda shopping centre were merged and rebranded as a single shopping node – Granaita Retail Park. Granaita, as the largest retail and leisure park in the Granada region, offers a wide range of leisure, fashion, food and beverage to the local community. Granaita has emerged as a unique and powerful brand among customers.

In March 2019, Castellana completed and launched the newly redeveloped Granaita Leisure Centre in Granada. The project achieved and surpassed the following objectives:

- Interior was upgraded and natural light was increased.
- Installation of a customised high-visibility children's play area.
- New outdoor terraces were opened up to take advantage of the favourable Spanish climate.
- Improvement of green areas.
- Improvement of tenant mix.

In its entirety, the project capital expenditure was c.€5.4 million. The project will add an additional c.€600 000 to the net property income portfolio on an annualised stabilised basis resulting in a yield on capex of 10.9%.

The major upgrade, merger and rebranding responds to shopper and retail demand. It builds on the centre's excellent trading metrics and unlocks further income enhancement.

Prospects for Castellana

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

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

While capital values and yields are reaching cycle peak levels, we expect rentals to start growing at better rates as spending and confidence return to the Spanish population.

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

We do believe that within the near future we will position Castellana at the top end of the market with our quality retail portfolio and its integrated opportunities for value enhancement.

5. VUKILE ACADEMY

The Vukile Academy is a skills development, mentorship and transformation platform which was launched in January 2019.

The Academy was initiated by Vukile to create a meaningful and impactful contribution towards reducing the skills gap in the property sector and to also create economic transformation.

The Academy is designed as a three-tiered programme which focuses on the following areas:

- The Vukile Bursary Fund – The Vukile Bursary Fund is a tertiary education-targeted fund. On an annual basis 50 plus students are identified and awarded bursaries for studies in property/real estate-related fields. The students are in their third year or honours year level of studies. The Bursary Fund is in partnership with industry organisations or the tertiary institutions directly. We have partnered with SAPOA, WPN, SAIBPP as well as Wits, UP, UKZN and UJ. Vukile has invested in excess of R5 million in the past financial year on our bursary programme.
- The Vukile Internship Programme – On an annual basis, Vukile undertakes a rigorous and transparent selection process to identify and offer 10 deserving candidates a position in the Vukile Internship Programme. The programme is designed as an integration platform into the Real professional world for 10 graduates 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 runs over 11 modules. A personal mastery programme 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.
- The Entrepreneur Property Development Hub – An incubator programme which is designed to assist black professionals and entrepreneurs realise their dreams and vision of entering the property development market. The developments are small to medium sized and generally located in underserviced areas of South Africa. The entrepreneurs receive 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, these comprise two retail centres and one student accommodation development.

The Vukile Academy is our initiative to give back to our communities and South Africa as a whole. We endeavour to uplift the lives of our people and create a better environment for all.

6. INTERNATIONAL EXPANSION

In line with its focused strategy, Vukile has decided that for the short to medium term, its only international expansion will be focused on Spain.

7. PROSPECTS FOR THE GROUP

The Vukile business remains in very good shape; operationally and strategically. Our clearly focused retail strategy in both South Africa and Spain is providing benefits in each of these markets as seen by the strong operational metrics. In addition, at group level, the macro-economic benefits of diversification for South African investors is evident. The business remains very well positioned for long-term sustainability.

In South Africa, while encouraged by the results of the recent elections, and remaining hopeful of much needed political and economic change being effected, we still anticipate the short to medium-term economic conditions to remain challenging overall. Against this backdrop, we believe that our assets are defensive and well positioned in their markets, and should continue to weather the storm in the year ahead. Vukile continues to look for accretive opportunities to invest in the South African market as evidenced by the Rebosis transaction currently under evaluation.

The Spanish economy is continuing to outperform the Eurozone, albeit at a slower pace. We are, however, very encouraged by the operational performance of the business; specifically, the value add being created by our asset management team. Castellana is well established in the market and continues to see very strong deal flow.

We are pleased with the progress we have made in reducing our LTV from 42% at the time of the acquisition of the four shopping centres from Unibail-Rodamco-Westfields, to the current level of 37%. The balance sheet remains strong with well diversified sources of funding. Vukile's interest cover ratio is significantly above the covenant level at 6 times cover.

Assuming no material adverse change in trading conditions or large corporate failures, Vukile expects to deliver growth in dividends of between 3% to 5% in the year ahead. Forecast rental income is based on contracted escalations, market-related renewals and on the successful conclusion of certain transactions in progress currently. Vukile is currently in negotiations, some at advanced stages, to recycle certain non-core assets and redeploy the proceeds into core strategy business opportunities currently under evaluation. The forecast for the year will be impacted by the closing and the timing of the various transactions. The forecast does not take into account the Rebosis transaction. Once Vukile has greater clarity and certainty on the finalisation of these deals and resultant impact on the forecast for FY2020, Vukile will update the market via a SENS announcement in order to provide an updated guidance range for the year ahead.

This forecast has not been audited or reviewed by the group's auditors.

8. SUBSEQUENT EVENTS

Dividend declaration

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

The board approved a final dividend on 27 May 2019 of 103.37872 cents per share for the six months ended 31 March 2019 amounting to R988.5 million.

Issue of shares

On 11 April 2019 the company issued 35 264 483 shares at R19.85 in terms of an accelerated bookbuild under the general authority to issue shares for cash.

Acquisition of shopping centres

South Africa

On 12 May 2019, Vukile announced the acquisition of three shopping centres known as Mdantsane City Shopping Centre, Bloed Street Mall and Sunnypark Shopping Centre from Rebosis Property Fund Limited (Rebosis).

The purchase consideration will be an amount determined by applying a yield of 9.00% to the forecast net property income (the forecast NOI) to be generated from the shopping centres for the 12-month period commencing 31 August 2019. The forecast NOI has been assumed to be R160 million which would translate into an aggregate purchase price of R1.78 billion. The deal remains subject to funding with Vukile prepared to take on no more than 25% of debt to fund the acquisition.

Vukile will acquire the shopping centres with effect from the transfer date, which is anticipated to be 31 August 2019. The purchase consideration will be settled in cash and will be discharged on the transfer date.

The acquisition is still subject to a number of outstanding conditions precedent, including *inter alia* the completion by Vukile of a comprehensive due diligence investigation in respect of the shopping centres, approval of the Competition Authority, the securing by Rebosis of any necessary shareholder approvals required for it to dispose of the shopping centres, the securing by Vukile of shareholder approval to undertake the vendor consideration placement and the successful conclusion of the vendor consideration placement in respect of at least 75% of the purchase price at a pricing and on terms acceptable to Vukile.

The acquisition is a non-adjusting event that is not recognised in the financial statements.

Spain

On 24 May 2019, Castellana Properties SOCIMI announced the purchase of two El Corte Ingles (ECI) units in Bahía Sur and Los Arcos for a total purchase consideration of €38.4 million (including estimated transaction costs), and asset management initiatives incorporating related capex upgrade projects in Bahía Sur, Los Arcos and El Faro for a total capex budget of €28.49 million.

9. DECLARATION OF A CASH DIVIDEND

Notice is hereby given of a gross dividend amounting to 103.37872 cents per share out of distributable income for the six-month period to 31 March 2019. Vukile will not be providing shareholders with the option to elect (in respect of all or part of their holding) a dividend reinvestment (DRIP) for this reporting period.

Tax implications

Vukile was granted REIT status by the JSE Limited with effect from 1 April 2013 in line with the REIT structure as provided for in the Income Tax Act, 58 of 1962, as amended (the Income Tax Act) and section 13 of the JSE Listings Requirements.

The REIT structure is a tax regime that allows a REIT to deduct qualifying dividends paid to investors, in determining its taxable income.

The cash dividend of 103.37872 cents per share meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act (a qualifying distribution) with the result that:

- dividends received by South African resident Vukile shareholders must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(i)(aa) of the Income Tax Act), with the effect that the dividends are taxable as income in the hands of the Vukile shareholder. These dividends are, however, exempt from dividends withholding tax, provided that the South African resident shareholders provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:
  - a declaration that the distribution is exempt from dividends tax; and
  - a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

- dividends received by non-resident Vukile shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that dividends received by non-residents are subject to dividends withholding tax at a rate of 20% unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder. Assuming dividends withholding tax will be withheld at a rate of 20%, the net distribution amount due to non-resident shareholders is 82.70298 cents per share. A reduced dividend withholding rate in terms of the applicable DTA, may only be relied upon if the non-resident holder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:
  - a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
  - a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident holders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Shareholders are further advised that:
- the issued capital of Vukile is 956 226 628 shares of one cent each at 29 May 2019, being the declaration date; and
- Vukile's tax reference number is 9331/617/14/3.

This cash dividend may have tax implications for resident as well as non-resident shareholders. Shareholders are therefore encouraged to consult their tax and/or professional advisers should they be in any doubt as to the appropriate action to take.

The salient dates relating to the cash dividend are as follows:

Salient dates and times	**2019**
Last day to trade *cum* dividend	Tuesday, 18 June
Shares trade *ex* dividend	Wednesday, 19 June
Record date	Friday, 21 June
Payment date	Monday, 24 June

Notes:
1. Shares may not be dematerialised or rematerialised between Wednesday, 19 June 2019 and Friday, 21 June 2019, both days inclusive.
2. Payment of the distribution will be made to shareholders on Monday, 24 June 2019. In respect of dematerialised shareholders, the distribution will be transferred to CSDP/broker accounts on Monday, 24 June 2019. Certificated shareholders dividend payment will be paid to certificated shareholders bank accounts on or about Monday, 24 June 2019.

10. CHANGES TO BOARD OF DIRECTORS

Two property stalwarts in Vukile's team retire at the end of June 2019, our FD Mike Potts and MD of South Africa Ina Lopion. Mike will stay with the group as a non-executive director of Castellana and serve on its audit committee. Ina is intending to use her exceptional experience and talents to build a career as an executive coach and will continue her connection with Vukile by taking on a coaching role with some of our top senior talent as well as playing a mentorship role within the Vukile Academy. We would like to take the opportunity to thank Mike and Ina for their immeasurable contributions to Vukile's success over an extended period of 15 years.

Vukile has appointed Laurence Cohen as its new CFO. Laurence, who is widely respected for his extensive experience in the listed property sector, joined the team on 1 March 2019 as CFO designate. He will succeed Mike and be appointed to the Vukile board of directors on 1 July 2019.

Itumeleng (Itu) Mothibeli, director of Asset Management will succeed Ina as MD of South Africa and will be appointed to the board on 1 July 2019. Itu has been with Vukile since 2012 and has developed into an exceptional talent whom we are confident will continue to grow the South African business into the future.

Both Mike and Ina have mentored our next generation of leaders, who are already up-to-speed with Vukile's strategic imperatives and systems, and will advance Vukile seamlessly.

11. BASIS OF PREPARATION

The summarised consolidated financial statements for the year ended 31 March 2019, and comparative information, have been prepared in accordance with, and containing the information required by, International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Announcements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements, IAS 34 and relevant sections of the South African Companies Act.

Except for the amendments adopted as set out below, all accounting policies applied by the group in the preparation of these summarised consolidated financial statements are consistent with those applied by the group in its consolidated financial statements as at and for the year ended 31 March 2018. The group has adopted the following amendments to standards which were effective for the first time for the financial period commencing 1 April 2018:
- Amendments to IAS 40 – Investment Properties
- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- Amendments to IFRS 2 – Share-based Payments
- International Financial Reporting Interpretations Committee (IFRIC) 22 – Foreign Currency Transactions and Advance Considerations

Based on management's assessment of these amendments, the only material impact identified on the financial statements relates to IFRS 9.

These statements, which comprise the statement of financial position at 31 March 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the 12 months then ended, are extracted from audited information, but is itself not audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unqualified opinion thereon. The auditor's report does not necessarily cover all of the information included in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of the audit report together with the accompanying financial information from the registered office of the company situated at 4th Floor, 104 Oxford Road, Houghton Estate.

The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying financial statements.

This report was compiled under the supervision of Michael John Potts CA(SA), the financial director of the company.

The directors are not aware of any matters or circumstances arising subsequent to 31 March 2019 that require any additional disclosure or adjustment to the financial statements and which are not disclosed in this announcement.

On behalf of the board

N Payne
Chairman

LG Rapp
Chief executive officer

Houghton Estate
29 May 2019

VUKILE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE
ISIN: ZAE000056370
Debt company code: VKEI
NSX share code: VKN
(granted REIT status with the JSE)
(Vukile or the group or the company)

JSE sponsor: Java Capital

NSX sponsor: IJG Group, Windhoek, Namibia

Executive directors: LG Rapp (chief executive), MJ Potts (financial director), HC Lopion (executive director: asset management), GS Moseneke

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

Registered office: 4th Floor, 104 Oxford Road, 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

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 March 2019

GROUP	2019 R000	2018 R000
ASSETS		
Non-current assets	**32 678 563**	22 028 749
Investment properties including straight-line rental adjustments	**29 334 373**	18 821 251
Investment properties	**29 517 796**	19 102 209
Investment properties under development	**163 250**	54 476
Total investment properties	**29 681 046**	19 156 685
Straight-line rental income adjustment	**(346 673)**	(335 434)
Other non-current assets	**3 344 190**	3 207 498
Straight-line rental income asset	**346 673**	335 434
Investments in associates at fair value	**1 296 737**	1 384 645
Investment in associate equity accounted	**1 302 925**	1 199 292
Property, plant, equipment and intangible assets	**43 370**	75 342
Executive share scheme financial asset	**27 822**	34 099
Derivative financial instruments	**42 291**	26 039
Long-term loans granted	**270 709**	103 672
Deferred taxation assets	**13 663**	48 975
Current assets	**2 447 338**	1 298 393
Trade and other receivables	**281 380**	186 743
Derivative financial instruments	**10 333**	—
Current taxation assets	**3 155**	7 290
Cash and cash equivalents	**1 136 250**	1 093 860
Non-current assets held for sale	**1 016 220**	10 500
Total assets	**35 125 901**	23 327 142
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent	**18 655 690**	15 770 080
Stated capital	**12 142 017**	9 527 445
Other components of equity	**5 888 689**	5 737 852
Retained earnings	**624 984**	504 783
Non-controlling interest	**2 300 320**	81 311
Non-current liabilities	**12 035 161**	5 484 980
Interest-bearing borrowings	**11 547 551**	5 346 371
Derivative financial instruments	**480 350**	131 304
Deferred taxation liabilities	**7 260**	7 305
Current liabilities	**2 134 730**	1 990 771
Trade and other payables	**641 225**	428 733
Short-term portion of interest-bearing borrowings	**1 430 736**	1 554 359
Derivative financial instruments	**60 415**	175
Current taxation liabilities	**2 354**	7 504
Total equity and liabilities	**35 125 901**	23 327 142

SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 March 2019

GROUP	2019 R000	2018 R000
Property revenue	2 806 484	2 014 966
Straight-line rental income accrual	28 506	5 401
Gross property revenue	2 834 990	2 020 367
Property expenses	(932 183)	(705 891)
Net profit from property operations	1 902 807	1 314 476
Corporate and administrative expenses	(199 371)	(127 474)
Total investment and other income	344 815	323 255
Investment and other income	134 083	150 813
Finance income	47 658	78 566
Net interest from cross-currency interest rate swaps	163 074	93 876
Fair value movement on non-designated portion of cross-currency interest rate swaps	47 603	—
Operating profit before finance costs	2 095 854	1 510 257
Finance costs	(509 749)	(367 808)
Operating profit after finance costs	1 586 105	1 142 449
(Loss)/profit on sale of investment properties	(6 368)	13 405
(Loss)/profit on sale of furniture and equipment	(18)	144
Fair value loss on associates at fair value	(87 908)	(16 411)
Fair value movement of derivative financial instruments	(1 581)	7 408
Cost of terminating derivative financial instrument	—	(3 250)
Executive share scheme financial asset – current period loss	(28 946)	—
Foreign exchange (loss)/profit	(65 912)	59 936
Restructuring fee on associate	(815)	—
Impairment of goodwill	(48 218)	—
Loss on sale of listed property securities	—	(26 240)
Fair value loss on net settled derivatives	(208 104)	—
Profit before changes in fair value of investment property	1 138 235	1 177 441
Fair value adjustments	775 076	1 149 988
Gross change in fair value of investment properties	803 582	1 155 389
Straight-line rental income adjustment	(28 506)	(5 401)
Profit before equity-accounted investment	1 913 311	2 327 429
Share of income from associate	53 585	95 485
Profit before taxation	1 966 896	2 422 914
Taxation	(18 427)	(10 668)
Profit for the year	1 948 469	2 412 246
Attributable to owners of the parent	1 709 426	2 401 943
Attributable to non-controlling interest	239 043	10 303
Other comprehensive income		
Items that will be reclassified to profit or loss		
Foreign currency translation reserve	36 348	(69 047)
Foreign currency translation reserve: associates	140 220	(7 826)
Foreign currency translation reserve: subsidiaries	(103 872)	(61 221)
Cash flow hedges	(24 825)	(60 202)
Deferred tax on hedging instruments	(34 720)	—
Executive share scheme financial assets – prior year losses	—	(17 610)
Other comprehensive loss for the year	(23 197)	(146 859)
Total comprehensive income for the year	1 925 272	2 265 387
Attributable to owners of the parent	1 604 158	2 254 319
Attributable to non-controlling interest	321 114	11 068
Number of shares in issue at basic and diluted earnings per share (cents)	199.05	320.65
Number of shares in issue at 31 March	920 962 145	784 766 367
Weighted average number of shares in issue	858 774 136	749 084 702

RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS

for the year ended 31 March 2019

	2019		2018	
	R000	Cents per share	R000	Cents per share
Profit attributable to owners of the parent	1 709 426	199.05	2 401 943	320.65
Earnings and diluted earnings	1 709 426	199.05	2 401 943	320.65
Change in fair value of investment properties (net of allocation to non-controlling interest)	(666 843)	(77.65)	(1 148 906)	(153.37)
Impairment of goodwill	48 218	5.61	—	—
Loss/(profit) on sale of investment properties	6 368	0.74	(13 405)	(1.79)
Loss/(profit) on sale of furniture, fittings and computer equipment	18	—	(144)	(0.02)
Remeasurement included in equity-accounted earnings of associate	(40 422)	(4.71)	(10 267)	(1.37)
Headline and diluted headline earnings	1 056 765	123.04	1 229 221	164.10

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 March 2019

GROUP	2019 R000	2018 R000
Cash flow from operating activities	1 785 694	1 333 611
Cash flow from investing activities	(7 361 885)	(4 664 679)
Cash flow from financing activities	5 616 823	3 096 868
Net increase/(decrease) in cash and cash equivalents	40 632	(234 200)
Foreign currency movement in cash	1 758	(1 885)
Cash and cash equivalents at the beginning of the year	1 093 860	1 329 945
Cash and cash equivalents at the end of the year	1 136 250	1 093 860

Major items included in the items above:

GROUP	2019 R000	2018 R000
Cash flow from operating activities		
Profit before taxation	1 966 896	2 422 914
Adjustments	(266 204)	(1 216 409)
Cash flow from investing activities		
Acquisition and improvements of investment properties	(9 574 280)	(4 703 030)
Equity contributed from non-controlling interest	1 827 741	—
Cash flow from financing activities		
Interest-bearing borrowings advanced	6 894 960	5 857 327
Interest-bearing borrowings repaid	(1 891 575)	(2 762 399)
Proceeds from issue of share capital	2 614 572	1 556 631
Finance costs paid	(460 995)	(352 990)
Dividends paid	(1 518 404)	(1 180 331)

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

	Stated capital R000	Other components of equity R000	Retained earnings R000	Shareholders' interest Total R000	Non-controlling interest (NCI) R000	Total R000
Balance at 31 March 2017	7 970 814	4 681 806	458 805	13 111 425	73 367	13 184 792
Issue of share capital	1 556 631	–	–	1 556 631	–	1 556 631
Dividend distribution	–	–	(1 176 155)	(1 176 155)	(2 741)	(1 178 896)
	9 527 445	4 681 806	(717 350)	13 491 901	70 626	13 562 527
Profit for the year	–	–	2 401 943	2 401 943	10 303	2 412 246
Change in fair value of investment properties	–	1 155 389	(1 155 389)	–	–	–
Change in fair value of investment properties attributable to non-controlling interest	–	(6 486)	6 486	–	–	–
Share-based remuneration	–	21 077	–	21 077	–	21 077
Deferred taxation on change in fair value of derivatives	–	(2 241)	–	(2 241)	–	(2 241)
Transfer to non-distributable reserves – currency revaluation	–	59 936	(59 936)	–	–	–
Transfer from non-distributable reserve	–	(4 498)	12 835	8 337	–	8 337
Share issue expenses of a subsidiary	–	(3 637)	–	(3 637)	(59)	(3 696)
Change in shareholding of a subsidiary	–	324	–	324	(324)	–
Legal reserve transfer – foreign subsidiary	–	217	(217)	–	–	–
Revaluation of equity investments	–	(16 411)	16 411	–	–	–
Other comprehensive loss						
Currency loss on translation of investment in foreign entities	–	(70 129)	–	(70 129)	803	(69 326)
Currency loss on translation of goodwill	–	279	–	279	–	279
Revaluation of available-for-sale financial asset	–	(17 610)	–	(17 610)	–	(17 610)
Revaluation of cash flow hedges	–	(90 737)	–	(90 737)	(38)	(90 775)
Deferred taxation on change in fair value of cash flow hedges	–	30 573	–	30 573	–	30 573
Balance at 31 March 2018	9 527 445	5 737 852	504 783	15 770 080	81 311	15 851 391
Initial application of IFRS 9	–	113 152	(83 139)	30 013	326	30 339
Lease receivables: impairment provision	–	–	8 342	8 342	55	8 397
Deferred tax on above	–	–	(1 752)	(1 752)	(11)	(1 763)
Executive share scheme: change in classification	–	113 152	(113 152)	–	–	–
Borrowings: non-substantial loan modification	–	–	23 423	23 423	282	23 705
Issue of share capital	2 614 572	–	–	2 614 572	1 944 877	4 559 449
Dividend distribution	–	–	(1 456 219)	(1 456 219)	(62 185)	(1 518 404)
	12 142 017	5 851 004	(1 034 575)	16 958 446	1 964 329	18 922 775
Profit for the year	–	–	1 709 426	1 709 426	239 043	1 948 469
Transfer to non-distributable reserve	–	221 525	(221 525)	–	53	53
Share issue expenses of a subsidiary	–	(2 315)	–	(2 315)	(122 372)	(124 687)
Change in ownership recognised in equity	–	(106 969)	–	(106 969)	106 969	–
Subsidiary share swap	–	–	171 658	171 658	37 934	209 592
Equity-settled share scheme	–	23 005	–	23 005	–	23 005
Other comprehensive loss						
Foreign currency translation reserve	–	(45 723)	–	(45 723)	82 071	36 348
Cash flow hedges	–	(17 118)	–	(17 118)	(7 707)	(24 825)
Deferred tax on hedging instruments	–	(34 720)	–	(34 720)	–	(34 720)
Balance at 31 March 2019	12 142 017	5 888 689	624 984	18 655 690	2 300 320	20 956 010

SUMMARISED OPERATING SEGMENTS REPORTING

for the year ended 31 March 2019

	Southern Africa			Spain			
GROUP	Retail R000	Other R000	Total R000	Retail R000	Other R000	Total R000	Grand total R000
Group income for the year ended 31 March 2019							
Property revenue from external customers(i)	1 348 238	140 686	1 488 924	668 327	29 653	697 980	2 186 904
Straight-line rental income accrual	25 937	2 706	28 643	(137)	–	(137)	28 506
	1 374 175	143 392	1 517 567	668 190	29 653	697 843	2 215 410
Property expenses (net of recoveries)(i)	(277 689)	(5 548)	(283 237)	(29 345)	(21)	(29 366)	(312 603)
Profit from property operations	1 096 486	137 844	1 234 330	638 845	29 632	668 477	1 902 807
Corporate and administrative expenses	(110 737)	(11 555)	(122 292)	(73 804)	(3 275)	(77 079)	(199 371)
Investment and other income	119 920	12 513	132 433	1 650	–	1 650	134 083
Finance income	13 325	34 327	47 652	6	–	6	47 658
Fair value movement on non-designated portion of CCIRS	43 511	4 092	47 603	–	–	–	47 603
Net interest from CCIRS	149 057	14 017	163 074	–	–	–	163 074
Operating profit	1 311 562	191 238	1 502 800	566 697	26 357	593 054	2 095 854

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

GROUP	Southern Africa Retail R000	Southern Africa Other R000	Southern Africa Total R000	Spain Retail R000	Spain Other R000	Spain Total R000	Grand total R000
Group statement of financial position at 31 March 2019							
ASSETS							
Non-current assets	13 525 803	4 250 415	17 776 218	13 821 029	1 081 316	14 902 345	32 678 563
Investment properties including straight-line rental adjustments	13 208 928	1 242 106	14 451 034	13 821 029	1 062 310	14 883 339	29 334 373
Investment properties	13 362 553	1 271 904	14 634 457	13 821 029	1 062 310	14 883 339	29 517 796
Investment property under development	163 250	–	163 250	–	–	–	163 250
Total investment properties	13 525 803	1 271 904	14 797 707	13 821 029	1 062 310	14 883 339	29 681 046
Straight-line rental income adjustment	(316 875)	(29 798)	(346 673)	–	–	–	(346 673)
Other non-current assets	316 875	3 008 309	3 325 184	–	19 006	19 006	3 344 190
Straight-line rental income asset	316 875	29 798	346 673	–	–	–	346 673
Investments in associates at fair value	–	1 296 737	1 296 737	–	–	–	1 296 737
Investment in associate equity accounted	–	1 302 925	1 302 925	–	–	–	1 302 925
Property, plant, equipment and intangible assets	–	25 210	25 210	–	18 160	18 160	43 370
Executive share scheme financial asset	–	27 822	27 822	–	–	–	27 822
Derivative financial instruments	–	42 291	42 291	–	–	–	42 291
Long-term loans granted	–	270 709	270 709	–	–	–	270 709
Deferred tax assets	–	12 817	12 817	–	846	846	13 663
Current assets	1 182 647	562 412	1 745 059	694 488	7 791	702 279	2 447 338
Trade and other receivables	108 208	54 526	162 734	118 646	–	118 646	281 380
Derivative financial instruments	–	10 333	10 333	–	–	–	10 333
Current taxation	–	6	6	–	3 149	3 149	3 155
Cash and cash equivalents	58 219	497 547	555 766	575 842	4 642	580 484	1 136 250
Non-current assets held for sale	1 016 220	–	1 016 220	–	–	–	1 016 220
Total assets							35 125 901
EQUITY AND LIABILITIES							
Equity	–	–	–	–	–	–	20 956 010
Non-current liabilities	–	4 464 422	4 464 422	7 570 739	–	7 570 739	12 035 161
Interest-bearing borrowings	–	4 464 271	4 464 271	7 083 280	–	7 083 280	11 547 551
Derivative financial instruments	–	–	–	480 350	–	480 350	480 350
Deferred tax liabilities	–	151	151	7 109	–	7 109	7 260
Current liabilities	240 065	1 530 262	1 773 036	311 035	52 660	363 694	2 134 730
Trade and other payables	240 065	74 903	317 677	272 889	52 660	325 548	641 225
Short-term portion of interest-bearing borrowings	–	1 430 736	1 430 736	–	–	–	1 430 736
Derivative financial instruments	–	22 269	22 269	38 146	–	38 146	60 415
Current taxation liabilities	–	2 354	2 354	–	–	–	2 354
Total equity and liabilities							35 125 901

SUMMARISED OPERATING SEGMENTS REPORTING continued

for the year ended 31 March 2019

GROUP	Southern Africa Retail R000	Southern Africa Other R000	Southern Africa Total R000	United Kingdom R000	Spain Retail R000	Spain Other R000	Spain Total R000	Total group R000
Group income for the year ended 31 March 2018								
Property revenue[i]	1 232 435	124 674	1 357 109	–	177 965	26 724	204 689	1 561 798
Straight-line rental income accrual	4 780	484	5 264	–	137	–	137	5 401
	1 237 215	125 158	1 362 373	–	178 102	26 724	204 826	1 567 199
Property expenses (net of recoveries)[i]	(213 875)	(7 952)	(221 827)	–	(27 521)	(3 375)	(30 896)	(252 723)
Profit from property operations	1 023 340	117 206	1 140 546	–	150 581	23 349	173 930	1 314 476
Profit from associate	–	–	–	95 485	–	–	–	95 485

[i] *The property revenue and property expense have been reflected net of recoveries. The audited consolidated statement of profit or loss reflects the gross property revenue and gross property expenses.*

GROUP	Southern Africa Retail R000	Southern Africa Other R000	Southern Africa Total R000	United Kingdom R000	Spain Retail R000	Spain Other R000	Spain Total R000	Total group R000
Group statement of financial position at 31 March 2018								
ASSETS								
Investment properties	13 328 678	1 249 288	14 577 966	–	4 113 957	375 256	4 489 213	19 067 179
Add: Lease commissions	–	–	35 030	–	–	–	–	35 030
	13 328 678	1 249 288	14 612 996	–	4 113 957	375 256	4 489 213	19 102 209
Goodwill	48 218	–	48 218	–	–	15 070	15 070	63 288
Investment properties held for sale	–	10 500	10 500	–	–	–	–	10 500
	13 376 896	1 259 788	14 671 714	–	4 113 957	390 326	4 504 283	19 175 997
Add:								
Investment property under development	–	–	54 476	–	–	–	–	54 476
Equity investments	–	–	1 384 645	–	–	–	–	1 384 645
Investment in associate	–	–	–	1 199 292	–	–	–	1 199 292
Furniture, fittings, computer equipment and intangible asset	–	–	11 202	–	–	–	852	12 054
Available-for-sale financial asset	–	–	34 099	–	–	–	–	34 099
Derivative financial instruments	23 808	2 231	26 039	–	–	–	–	26 039
Loans receivable	–	–	103 672	–	–	–	–	103 672
Deferred taxation assets	–	–	48 975	–	–	–	–	48 975
Trade and other receivables	–	–	166 133	–	–	–	20 610	186 743
Taxation refundable	–	–	6	–	–	–	7 284	7 290
Cash and cash equivalents	–	–	826 371	–	–	–	267 489	1 093 860
Total assets								23 327 142
EQUITY AND LIABILITIES								
Stated capital	8 710 972	816 473	9 527 445	–	–	–	–	9 527 445
Interest-bearing borrowings	4 437 744	415 947	4 853 691	–	2 047 039	–	2 047 039	6 900 730
	13 148 716	1 232 420	14 381 136	–	2 047 039	–	2 047 039	16 428 175
Add: Excluded items								
Other components of equity and retained earnings	–	–	4 146 104	–	–	–	2 096 531	6 242 635
Non-controlling interest	–	–	47 990	–	–	–	–	81 311
Derivative financial instruments	82 528	45 885	128 413	–	3 066	–	3 066	131 479
Deferred taxation liabilities	–	–	934	–	–	–	–	7 305
Trade and other payables	–	–	339 325	–	–	–	89 408	428 733
Current taxation liabilities	–	–	7 347	–	–	–	157	7 504
Total equity and liabilities								23 327 142

CALCULATION OF DISTRIBUTABLE EARNINGS

	31 March 2019 R000	31 March 2018 R000	Variance %
Property revenue	**2 186 904**	1 561 798	40.02
Property expenses (net of recoveries)	**(312 603)**	(252 723)	(23.69)
Net profit from property operations per segmental report excluding straight-line rental income accrual	**1 874 301**	1 309 075	43.18
Corporate administration expenses	**(199 371)**	(127 474)	(56.40)
Net interest from cross-currency interest rate swap	**163 074**	—	100.00
Investment and sundry income	**181 741**	323 255	(43.78)
Operating profit before finance costs	**2 019 745**	1 504 856	34.22
Finance costs	**(509 749)**	(367 808)	(38.59)
Profit before equity-accounted income	**1 509 996**	1 137 048	32.80
Profit share of associate	**53 585**	95 485	(43.88)
Profit before taxation	**1 563 581**	1 232 533	26.86
Taxation	**(18 427)**	(10 668)	(72.73)
Profit for the year	**1 545 154**	1 221 865	26.46
Costs of terminating interest rate swap	**—**	(3 250)	100.00
Net profit attributable to non-controlling interests	**(102 304)**	(10 303)	(100.00)
Attributable to Vukile group	**1 442 850**	1 208 312	19.41
Non-IFRS adjustments	**247 223**	99 064	0.23
Shares issued *cum* dividend	**125 399**	35 019	100.00
Accrued dividends and *cum* dividend on shares acquired	**60 036**	44 940[1]	33.59
Dividends accrued on listed associate net of share of income	**61 788**	19 105	100.00
Available for distribution	**1 690 073**	1 307 376	29.27
Total dividend for the year (Rand)	**1 690 073**	1 301 734	
Total dividend for the year (cents per share)	**181.48**	168.82	
Number of shares in issue at 31 March	**920 962 145**	784 766 367	

[1] *Shares in Castellana subsidiaries, owning 11 retail parks, acquired* cum *dividend on 30 June 2017.*

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS

for the year ended 31 March 2019

Financial instruments

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	2019				2018		
GROUP	Level 1 R000	Level 2 R000	Level 3 R000	Total R000	Level 1 R000	Level 2 R000	Total R000
ASSETS							
Investments in associates at fair value	1 296 737	—	—	1 296 737	1 384 645	—	1 384 645
Executive share scheme financial assets	72 439	—	—	72 439	79 152	—	79 152
Derivative financial instruments	—	52 624	—	52 624	—	26 039	26 039
Total	1 369 176	52 624	—	1 421 800	1 463 797	26 039	1 489 836
LIABILITIES							
Executive share scheme financial liabilities	—	(44 617)	—	(44 617)	—	(45 053)	(45 053)
Derivative financial instruments	—	(316 430)	(224 335)	(540 765)	—	(131 479)	(131 479)
Total	—	(361 047)	(224 335)	(585 382)	—	(176 532)	(176 532)
Net fair value	1 369 176	(308 423)	(224 335)	836 418	1 463 797	(150 493)	1 313 304

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

Investments in associates at fair value

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

Executive share scheme financial assets and liabilities

This comprises the long-term reimbursement right, which is legally offset by the long-term employee benefit liability. This comprises equity-settled share-based long-term incentive reimbursement rights stated at fair value. Fair value has been determined by reference to Vukile's quoted closing price at the reporting date after deduction of executive and management rights.

Derivative financial instruments

Level 2 derivatives consist of interest rate swap contracts, cross-currency interest rate swaps 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.

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

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value at 31 March:

	2019 Recurring fair value measurements Level 3 R000	2018 Recurring fair value measurements Level 3 R000
Investment properties	**29 517 796**	19 102 209
Investment properties under development	**163 250**	54 476

	2019 Non-recurring fair value measurements Level 3 R000	2018 Non-recurring fair value measurements Level 3 R000
Investment properties held for sale	**1 001 672**	10 500

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

As at 31 March 2019, the directors have valued the southern African property portfolio at R15.8 billion, and an external valuer have valued the Spanish portfolio at R14.9 billion (2018: R11.8 billion and R7.3 billion respectively). This includes assets classified as held for sale.

This is R11.5 billion or 60.08% higher than the group's valuation as at 31 March 2018.

The external valuations performed by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd at 31 March 2019 on 51% of the southern African portfolio are in line with the directors' valuations. The Spanish portfolio was valued by Colliers International.

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

The most significant inputs are the discount rate and the reversionary capitalisation rate. The inputs used in the valuations at 31 March were:

	2019				2018			
	Discount rate		Reversionary capitalisation rate		Discount rate		Reversionary capitalisation rate	
	Range %	Weighted average %	Range %	Weighted average %	Range %	Weighted average %	Range %	Weighted average %
Southern Africa	12.4 to 17.4	13.5	7.4 to 13.0	8.7	12.2 to 17.3	13.4	7.5 to 12.8	8.6
Spain	7 to 9.0	7.9	5 to 9.2	6	7.5 to 10.3	8.8	5 to 9.1	6.1

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 change to the base discount rate is as follows on the 31 March 2019 value of the portfolio:

		25 bps increase			25 bps decrease		
	Fair value R000	Decreased fair value R000	Decrease R000	% decrease	Increased fair value R000	Increase R000	% increase
Southern Africa	15 501 000	15 050 000	(451 000)	(2.91)	15 979 000	478 000	3.1

	Fair value €000	Decreased fair value €000	Decrease R000	% decrease	Increased fair value €000	Increase R000	% increase
Spain	916 470	899 945	(16 525)	(1.8)	933 420	16 950	1.8

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