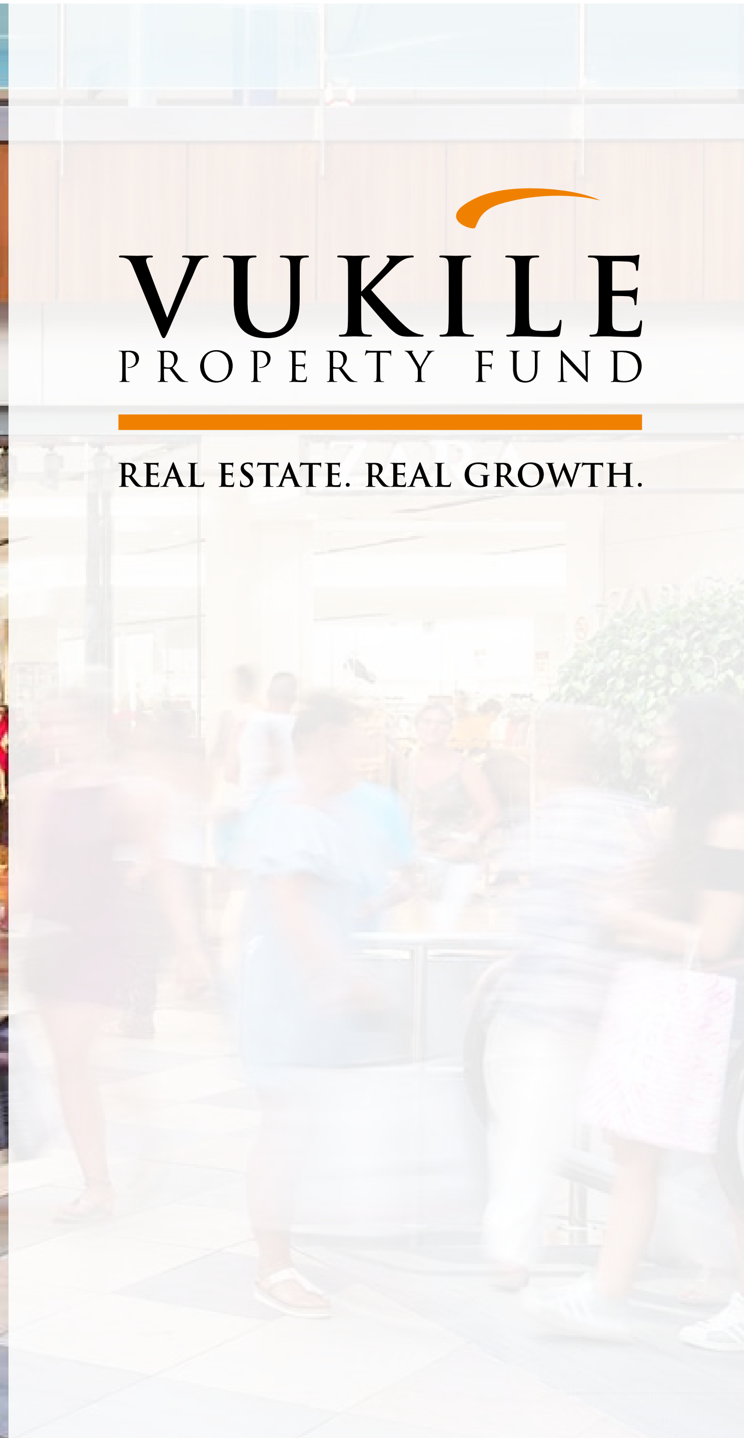
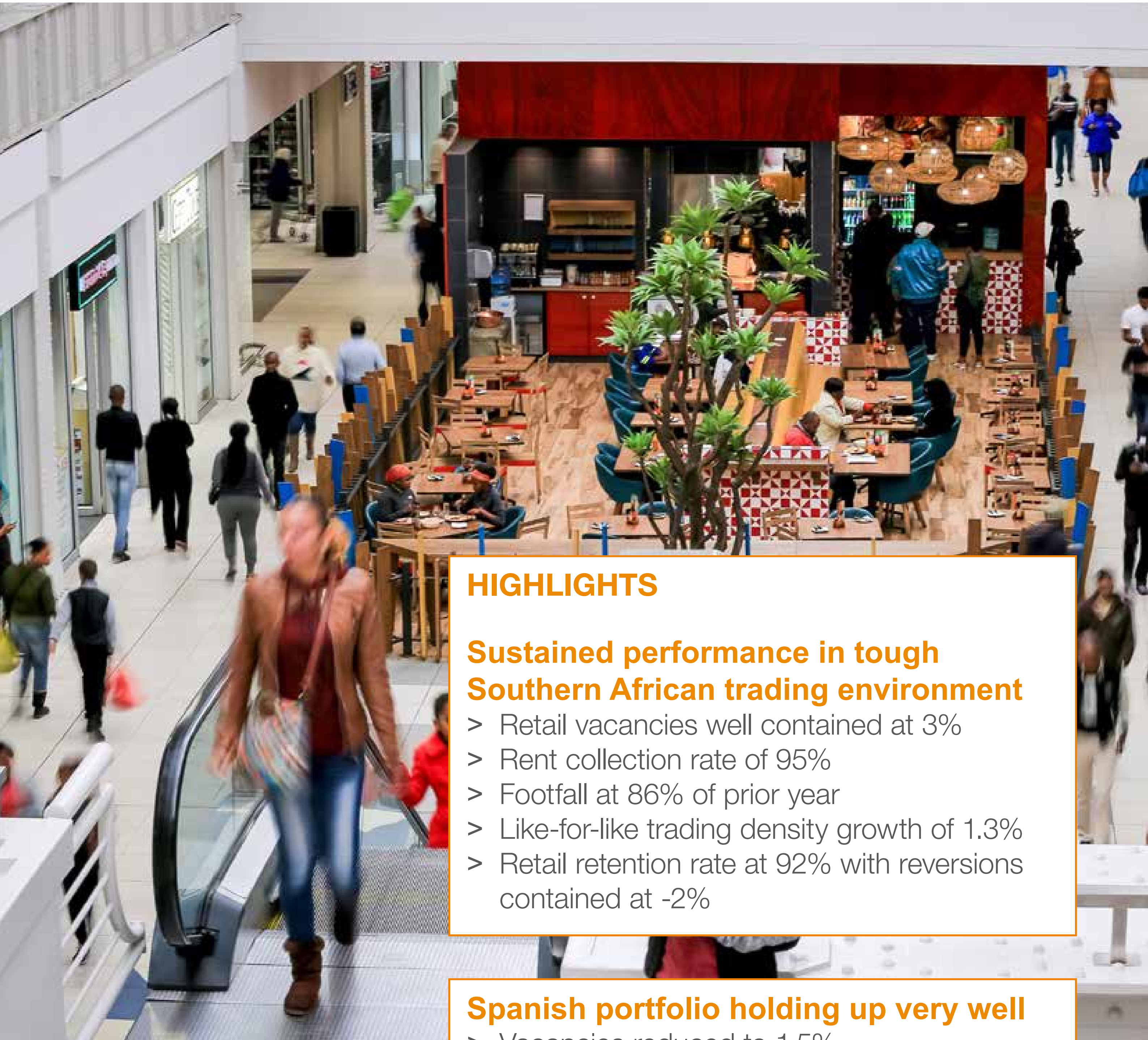


REAL ESTATE. REAL GROWTH.

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020



HIGHLIGHTS

Sustained performance in tough Southern African trading environment

- Retail vacancies well contained at 3%
- Rent collection rate of 95%
- Footfall at 86% of prior year
- Like-for-like trading density growth of 1.3%
- Retail retention rate at 92% with reversions contained at -2%

Spanish portfolio holding up very well

- Vacancies reduced to 1.5%
- Rent collection rate of 90%
- Footfall at 84% of prior year
- Sales at 95% of prior year
- Completed redevelopment projects with 91% of GLA let
- Portfolio WALE of 13.9 years

Vukile Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE
ISIN: ZAE000056370
NSX share code: VKN
Debt company code: VKEI
(Granted REIT Status with the JSE)
(Vukile or the group or the company)

Strong balance sheet and well diversified funding base

> Debt reduced by R1.5 billion
> LTV reduced to 44.3% (FY20 46.1%)
> 100% of FY21 maturing debt repaid or extended
> Undrawn debt facilities increased to R2.3 billion
> Interest cover ratio (ICR) of 3.7 times

Extensive tenant relief provided in Southern Africa and Spain

> Negotiation and administration of COVID-19 lockdown rental relief programmes completed
  – In Southern Africa, rental relief of R133 million granted to tenants
  – In Spain, rental relief of €15 million granted to tenants
> Primary focus on the health and wellbeing of our customers, tenants and staff

VUKILE
PROPERTY FUND

REAL ESTATE. REAL GROWTH.

COMMENTARY

NATURE OF OPERATIONS

Vukile is a high-quality, low-risk, retail-focused Real Estate Investment Trust (REIT), domiciled and operating in Southern Africa, with significant international exposure in Spain. Our results are reflective of a strong operational focus and a hands-on, proactive approach to property asset management as well as balance sheet risk management.

FINANCIAL PERFORMANCE

Executive summary

The first quarter of the 2021 financial year was dominated by the outbreak of the COVID-19 pandemic and subsequent lockdowns imposed by the governments in Southern Africa and Spain. Notwithstanding the unprecedented and challenging operating environment, the portfolio performed remarkably well, to limit the short-term impacts of the pandemic. Our asset management interventions and strategic initiatives allowed us to withstand the numerous unforeseen and unparalleled shocks to the markets in which we operate. We were able to respond promptly to protect our staff, customers and tenants. The negotiation and administration of the lockdown period rental relief programmes have been completed and all malls are now fully operational.

Despite the uncertain trading environment, Vukile remains focused on its core strategy of generating sustainable and predictable earnings by investing in nodally dominant shopping centres in Southern Africa and Spain. As communicated in June, given the uncertain trading environment and lack of clarity on the impact of second waves of COVID-19 on its tenants and business, the board has decided to remain prudent and not declare an interim dividend in order to retain cash. Vukile will continue to focus on balance sheet strength and ensuring a healthy liquidity position. The various risk mitigation measures undertaken prior to, and during, the onset of the COVID-19 pandemic, place Vukile in a good position to return to growth once trading conditions stabilise.

The following significant events and transactions took place during the six months ended 30 September 2020:

- During August 2020, Vukile disposed of its shares in Atlantic Leaf (R1.1 billion), in line with Vukile's strategy of exiting its non-core investments;
- During the six-month period ended 30 September, debt decreased by R1.5 billion, lowering the loan to value (LTV) from 46.1% to 44.3%;
- €91.0 million and GBP14.4 million of foreign-denominated debt was converted to ZAR-denominated debt;
- Vukile acquired a 31% interest in Fetch Analytics, an entity providing insights into shopper behaviour through artificial intelligence and geolocation technology;
- In Southern Africa, rental relief of c.R133 million was granted to tenants;
- In Spain, rental relief of c.€15 million was granted to tenants;
- On 1 September 2020, Vukile sold Welgedacht Van Riebeeckshof Shopping Centre for R80 million.

Total assets amount to R38.1 billion at 30 September 2020 (31 March 2020: R40.1 billion). Direct property investments account for R35.1 billion at 30 September 2020 (31 March 2020: R35.7 billion). Following the sale of Vukile's interest in Atlantic Leaf, total indirect property holdings (listed property investments) were R0.6 billion at 30 September 2020 (31 March 2020: R2.1 billion).

The onset of the COVID-19 pandemic, and ensuing hard lockdowns in Southern Africa and Spain, coincided with our March financial year-end and a significant portion of the anticipated financial stress owing to the pandemic was experienced in the first half of the current financial year, as reported in this set of results. As such, readers are cautioned not to assume that the second half of the financial year will mirror, to a large degree, the first half results as is usually the case in a REIT. In the absence of further hard lockdowns in Spain and/or Southern Africa, we would expect the second half results to show an improvement.

Calculation of distributable earnings

	30 September 2020 Rm	30 September 2019 Rm	Variance %
Property revenue	**997**	1 382	(27.8)
Property expenses (net of recoveries)	**(223)**	(162)	(37.5)
Net profit from property operations	**774**	1 220	(36.6)
Corporate administration expenses	**(154)**	(140)	(9.8)
Investment and other income	**131**	229	(42.6)
Operating profit before finance costs	**751**	1 309	(42.6)
Finance costs	**(368)**	(296)	(24.4)
Profit before equity-accounted income	**383**	1 013	(62.2)
Share of income from associate (Atlantic Leaf)	**20**	41	
Profit before taxation	**403**	1 054	(61.7)
Taxation	**(5)**	(14)	
Profit for the year	**398**	1 040	(61.7)
Net profit attributable to non-controlling interests	**(10)**	(88)	89.1
Attributable to Vukile group	**388**	952	(59.2)
Non-IFRS adjustments	**58**	(105)	
Antecedent dividend	**—**	2	
Accrued dividends	**55**	(110)	
Non-cash impact of IFRS 16 – *Leases*	**3**	3	
Available for distribution	**446**	847	(47.3)
Number of shares in issue at year-end	**956 226 628**	956 226 628	

Revenue and net income from direct property portfolio

Geographical segment	**Revenue[(i)] 30 September 2020 Rm**	Revenue[(i)] 30 September 2019 Rm	% change	**Net property income 30 September 2020 Rm**	Net property income 30 September 2019 Rm	% change
Southern Africa	**690**	779	(11.4)	**534**	640	(16.6)
Spain	**307**	603	(49.1)	**240**	580	(58.6)
Total	**997**	1 382	(27.9)	**774**	1 220	(36.6)
Split percentage						
Southern Africa	**69.2**	56.4		**69.0**	52.5	
Spain	**30.8**	43.6		**31.0**	47.5	

[(i)] *Excludes utility recoveries.*

The majority of the impact of COVID-19 on operations and rental income (in both Southern Africa and Spain) was felt in the interim period ended 30 September 2020. Net property income decreased by 36.6% from R1.220 billion to R774 million, largely due to rental relief provided to tenants in Southern Africa and Spain during the lockdown period in both portfolios. Portfolio-specific measures, operational results and trading are discussed more fully in the relevant Southern African and Spanish portfolio reviews hereafter.

COMMENTARY continued

Group investment and other income

	30 September 2020 Rm	30 September 2019 Rm	Movement Rm	Movement %
Investment and other income	**14.8**	99.4	(84.6)	(85.1)
Interest income	**23.5**	36.4	(12.9)	(35.4)
Net interest received on cross-currency interest rate swaps (CCIRS) (after deducting finance costs)	**92.2**	93.1	(0.9)	(1.0)
Total	**130.5**	228.9	(98.4)	(43.0)

Further commentary relating to investment income is provided under "listed investments". The CCIRS ratio to total international investments (on a consolidated basis) has increased to 36.5% (31 March 2020: 32.4%). The primary reason for the increase in the CCIRS ratio was as a result of the sale of Atlantic Leaf. No new CCIRS were entered into during the period. Vukile limits CCIRS to 45% of the total value of international investments. At 30 September 2020, the CCIRS nominal value was €182.5 million. Existing CCIRS will in all likelihood be settled on maturity.

Listed investments

	30 September 2020			31 March 2020	
Entity	**Carrying value Rm**	**Number of shares held**	**% held**	Carrying value Rm	% held
Fairvest	**424.5**	**270 394 812**	**26.6**	338.0	26.6
Arrowhead	**148.8**		**10.8**	245.9	11.3
Arrowhead – A shares	**–**	**–**		39.9	
Arrowhead – B shares	**148.8**	**114 438 564**		206.0	
Atlantic Leaf	**–**	**–**	**–**	1 518.2	34.9
Total	**573.3**			2 102.1	

Fairvest – 26.6% shareholding
Fairvest Properties Limited (Fairvest) is a JSE-listed REIT with a retail-focused portfolio, located primarily in rural and non-metropolitan areas of South Africa, including convenience and community centres. The carrying value of the investment in Fairvest increased by R87 million over the period, with its share price increasing from R1.25 at 31 March 2020 to R1.57 at 30 September 2020. Dividends from Fairvest for the six months to 30 September 2020 were R22.8 million (30 September 2019: R30.2 million).

Arrowhead – 10.8% shareholding
Arrowhead Properties Limited (Arrowhead) is a JSE-listed REIT with a dual share structure, comprising A and B shares. During the period, Vukile disposed of its A shares, in line with its strategy to recycle non-core assets. The carrying value of the remaining investment in Arrowhead reduced by R57 million over the period, with the price of B shares reducing from R1.80 at 31 March 2020 to R1.30 at 30 September 2020. During the six months to 30 September 2020, Vukile did not receive dividends from Arrowhead (30 September 2019: R42.3 million). The investment in Arrowhead remains non-core and will be exited in due course. Vukile remains concerned that in the absence of a catalyst brought about by corporate change, the share price is unlikely to show any recovery in the short-to medium-term.

Atlantic Leaf (sold)
Atlantic Leaf Properties (Atlantic Leaf) is a UK property company focusing on industrial and warehouse distribution centres in the UK. During the period, Vukile disposed of its shares in Atlantic Leaf for R1.1 billion. The proceeds from the transaction were applied to the reduction of debt and provide further strength and optionality to the Vukile balance sheet. The disposal was in line with Vukile's strategy of exiting its non-core investments. Dividends from Atlantic Leaf for the period to 30 September 2020 were R42.3 million (net of dividend withholding tax) (30 September 2019: R41.2 million).

Group corporate expenditure

	30 September 2020 Rm	30 September 2019 Rm	Variance Rm	Variance %
Southern Africa	**83.6**	86.0	2.4	2.8
Spain	**70.1**	54.0	(16.1)	(29.8)
Group total	**153.7**	140.0	(13.7)	(9.8)

The net increase in corporate costs in Spain was primarily due to exchange rate fluctuations. Spain's corporate costs (Euro) remained largely unchanged. The primary factors giving rise to savings in corporate costs in Southern Africa were as follows:

- Salary and related costs decreased by R6.7 million due to outperformance criteria set in the scheme not being met for the period; and
- Cost savings of R2.7 million, due to employees working remotely during the COVID-19 lockdown.

These cost savings were partly offset by:

- R2.2 million spent on COVID-19 relief and related costs, for initiatives such as food programmes and community projects; and
- Additional costs relating to the Vukile Academy of R1.3 million.

Annualised corporate expenditure equates to 0.81% of total assets (31 March 2020: 0.70%), being 0.95% attributable to Southern Africa (31 March 2020: 0.84%) and 0.68% attributable to Spain (31 March 2020: 0.56%).

Group cash flow

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

	Rm
Cash from operating activities	**615**
Minority interest	**(75)**
Net finance costs paid	**(201)**
Increase in borrowings	**2 099**
Borrowings repaid	**(3 531)**
Net proceeds from sale of interest in Atlantic Leaf	**1 103**
Disposal of investment property	**79**
Acquisitions/improvements to investment property	**(296)**

Interest-bearing borrowings amounting to R1.4 billion were repaid during the period.

Net asset value (per share)

The net asset value (NAV) of the group decreased by 6.0% from R18.34 per share to R17.24 per share at 30 September 2020, as set out in the table below.

	Rands per share
NAV 1 April 2020	**18.34**
Net property income	**0.78**
Additions to investment property (net of disposals)	**0.23**
Decrease in borrowings	**1.50**
Net finance costs	**(0.26)**
Disposal of investments in listed property securities	**(1.64)**
Change in fair value of investment property	**(0.53)**
Dividends declared	**(0.56)**
Increase in net derivative financial instruments	**(0.19)**
Other	**(0.43)**
NAV 30 September 2020	**17.24**

Vukile's share price of R4.88 per share at 30 September 2020 represents a 71.7% discount to the NAV per share of R17.24.

Share trading and liquidity

During the six months, 422.2 million Vukile shares traded, equating to approximately 70.4 million shares per month. The shares traded represent 44.2% of shares in issue, demonstrating the high liquidity of Vukile's shares in the market.

Treasury management

Balance sheet and treasury risk management remains one of Vukile's key focus areas. At 30 September 2020, consolidated group LTV net of cash was 44.3%, which should be viewed in the context of a healthy group interest cover ratio of 3.7 times, after providing significant rental relief given over the period. Vukile's debt metrics are all within covenant levels at a group (consolidated) and subsidiary level. The movement in LTV of -1.8% (from 46.1% at 31 March 2020) to 44.3% can largely be attributed to the R1.5 billion reduction in debt, primarily following the sale of Atlantic Leaf.

COMMENTARY continued

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

Stress testing of earnings (after taking into account the impact of the COVID-19 pandemic) indicates that the portfolio would need to undergo a further 46% reduction in group EBITDA before reaching the 2 times bank interest cover covenant level. Vukile and Castellana continue to benefit from very strong relationships with their diversified funding providers and have made significant progress, by concluding agreements to extend all debt expiring in the current financial year (FY21) and 26% of debt expiring in FY22.

As part of the continuing proactive management of key balance sheet drivers, Vukile is in advanced discussions to extend the MEREV put option for another three years.

Group borrowings summary

The group's funding strategy is to optimise funding costs while minimising refinance risk. Total debt at 30 September 2020 amounted to R17.0 billion (31 March 2020: R18.5 billion). A summary of funding by currency is provided below:

Funding breakdown	Number of funders	Rm	
Foreign Spanish funders (EUR)	6	**9 692**	Secured against Castellana's balance sheet with no recourse to Vukile
South African funders (EUR)	4	**3 221**	Partly secured against Vukile's South African balance sheet
South African funders (GBP)	–	**–**	
South African funders (ZAR)	5	**2 177**	
Domestic medium-term note (DMTN) programme (ZAR)		**1 929**	
Grand total		**17 019**	

Sources of funding

Vukile's debt funding is well diversified across a number of funders, in line with the group's strategy to manage concentration and refinance risk. R3.2 billion of debt facilities were extended during the six months ended 30 September 2020.

Group debt and hedging exposure per bank (ZAR)	Debt[(1)] Rm	Debt exposure per bank %	Hedging and fixed debt[(2)] Rm
Aareal[(3)]	6 218	36.5	5 855
ABSA	2 651	15.6	2 158
DMTN – corporate bonds	1 929	11.3	–
Caixabank[(3)]	1 590	9.4	1 491
Banco Santander[(3)]	1 211	7.1	1 153
Investec	1 116	6.6	788
Standard Bank	839	4.9	341
RMB	400	2.4	49
Nedbank	393	2.3	1 078
Liberbank[(3)]	294	1.7	–
Banco Popular[(3)]	221	1.3	221
Pichincha[(3)]	157	0.9	–
Grand total	**17 019**	**100.0**	**13 134**

(1) *Foreign currency denominated debt converted at a EUR/ZAR spot rate of R19.63 at 30 September 2020.*
(2) *Hedging exposure is represented by exposure per banking relationship.*
(3) *Group exposure includes Castellana debt of €494 million (R9.692 billion equivalent), and swaps of €146.0 million (R2.865 billion equivalent).*

Vukile group loan and swap expiry profile at 30 September 2020

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

	2021	2022	2023	2024	2025	2026	2027 and beyond	**Total**
Loan expiry profile including access facility (%)	—	16.7	24.0	17.5	3.0	36.7	2.1	**100.0**
Loan expiry profile (Rm)	—	2 849	3 618	2 983	519	6 241	357	**16 567**
Access facility expiry profile (Rm)	—	—	452	—	—	—	—	**452**
Hedging (swap and fixed debt) profile (Rm)	—	1 056	916	8 758	1 205	649	550	**13 134**

A summary of group debt ratios at 30 September 2020 is provided below:

	30 September 2020			31 March 2020		
	Group	**Southern Africa**	**Spain**	Group	Southern Africa	Spain
Total debt (excluding access facilities) (Rm)	**16 567**	**6 875**	**9 692**	17 720	7 992	9 728
Hedged portion (interest rate swaps and fixed debt) (Rm)	**13 134**	**4 414**	**8 720**	14 409	5 656	8 753
Interest-bearing debt fixed/hedged (%)	**79.3**	**64.2**	**90.0**	81.3	70.8	90.0
Hedged (swaps and fixed debt) maturity profile (years)	**3.0**	**3.7**	**2.7**	3.4	3.8	3.2
Debt maturity profile (years)	**3.3**	**2.0**	**4.2**	3.3	1.8	4.7
Loan-to-value ratio (net of cash)[1](%)	**44.3**	**43.0**	**45.5**	46.1	48.1	44.4
Interest cover ratio[2]	**3.7 times**	**5.2 times**	**2.2 times**	5.8 times	7.74 times	4.24 times

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

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

Group finance costs

The group's average cost of finance (including amortisation of capitalised raising fees) for the period ended 30 September 2020 was 3.7% (31 March 2020: 4.0%).

Interest-bearing debt is 79.3% hedged with a 3.0 year hedged maturity profile (31 March 2020: 81.3% with a 3.4 year hedge maturity profile).

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

COMMENTARY continued

The average cost of finance reduced for the six-month period ended 30 September 2020. Given the significant reduction in ZAR base rates, (226bps reduction in the 3M Jibar since 30 March 2020), Vukile has repaid/converted R2.1 billion of foreign-denominated debt into local Rand debt. Finance costs by currency, using the historical weighted average cost of debt, is indicated below:

	HY21 historical cost of debt %	Debt at 30 September 2020 Rm	FY20 historical cost of debt %	Debt at 31 March 2020 Rm
ZAR	**8.0**	**4 106**	9.3	3 450
EUR	**2.6**	**12 913**	2.5	14 754
GBP	**3.5**	**—**	3.6	318
Total	**3.7**	**17 019**	4.0	18 522

Undrawn facilities

Undrawn facilities at 30 September 2020 amount to R2.3 billion (31 March 2020: R1.1 billion), which significantly underlie Vukile's strong liquidity position, with sufficient undrawn facilities to repay debt capital markets (DCM) maturities in FY22, if required.

Unencumbered assets	30 September 2020 Rm	30 March 2020 Rm
Property assets (external valuation)	**4 050**	4 177
Listed shares	**3 073**	4 997
Unencumbered assets	**7 123**	9 174
Unsecured debt	**2 255**	2 080
Unsecured debt to unencumbered assets ratio (%)	**31.7**	22.7

The reduction in unencumbered assets is principally as a result of the sale of Atlantic Leaf.

Movement in group debt

During the period, total group debt decreased by R1.5 billion. Given the significant reduction in the South African ZAR base rates and increased margin by South African Euro-denominated debt, €91.0 million and GBP14.4 million (R2.1 billion equivalent) of foreign-denominated debt was repaid or converted into local Rand debt. The most significant movements in debt were as follows:

	Nominal debt drawn/ (repaid) Rm	Foreign exchange movements Rm	Net Rm
Vukile ZAR DMTN debt	**(578)**	**—**	**(578)**
Vukile ZAR bank debt	**1 234**	**—**	**1 234**
Vukile GBP debt	**(311)**	**(7)**	**(318)**
Vukile EUR debt	**(1 785)**	**(19)**	**(1 804)**
Castellana EUR debt	**—**	**(36)**	**(36)**
Grand total	**(1 440)**	**(62)**	**(1 502)**

During the six-month period ended 30 September 2020, Vukile repaid R578 million of secured corporate notes VKE07 (R200 million) and VKE09 (R378 million), in June and July 2020, respectively. No ZAR interest rate swaps were rebalanced/ extended. €66.5 million of EUR interest rate swaps were terminated at a once-off cost of R4.5 million, and GBP14.35 million of GBP interest rate swaps were terminated at a once-off cost of R4.3 million. The group has complied with all bank and DMTN covenants.

Group foreign exchange currency hedges

Vukile has adopted a strategy of hedging at least 75% of its foreign dividend exposure (in aggregate) over a three to five-year period, in line with anticipated dates of dividend receipts, to minimise adverse foreign exchange fluctuations and to provide stable, predictable income streams for investors.

EUR net income exposure

Dividend payment dates	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024	Jun 2025
Fixed EUR/ZAR rate	**R18.4598**	R19.2738	R20.1694	R20.9673	R21.8077	R22.6975	R23.0560	R23.9613	R24.2649	R0.0000
	Average over 1 year	Average over 3 years	Average over 5 years							
Average % net EUR dividend hedged*	**109**	92	73							

* *The current over-hedging in FY21 (next two Castellana dividends) arose due to Castellana's dividend forecast being revised downward because of COVID-19. Vukile's intention is to early settle CCIRS and/or terminate foreign exchange contracts during periods of ZAR strength to rectify the over-hedging.*

GBP net income exposure

Vukile disposed of all its Atlantic Leaf shares for a net consideration (after the settlement of transaction hedges) of c. R1.1 billion. The proceeds of the sale were primarily used to repay foreign-denominated debt, specifically all GBP debt was repaid or converted into ZAR debt in September 2020.

Cross-currency interest rate swaps (CCIRS)

At 30 September 2020, the following CCIRS were in place:

	EUR nominal €m	ZAR nominal Rm	EUR/ZAR initial rate	EUR fixed rate over term %	ZAR average rate over term %	Maturity	Mark-to-market Rm
Nedbank CCIRS June 2018	**93.2**	**1 346**	**14.4446**	**1.90**	**8.81**	**14 June 2021**	**(457)**
Nedbank CCIRS June 2018	**23.8**	**361**	**15.1420**	**1.29**	**8.81**	**14 June 2021**	**(96)**
ABSA CCIRS July 2018	**40.0**	**630**	**15.7465**	**3.70**	**11.88**	**13 June 2022**	**(102)**
Investec CCIRS July 2018	**25.5**	**401**	**15.7400**	**3.72**	**11.88**	**13 June 2022**	**(63)**
Total	**182.5**	**2 738**					**(718)**

The board limits CCIRS to 45% of the total value of offshore investments. At 30 September 2020, CCIRS were 36.5% of total offshore investments on a consolidated basis. No new CCIRS were entered into during the period. The mark-to-market of CCIRS at 30 September 2020 was -R718 million, with no margining applicable. In addition, on initiation of the Nedbank contract, Vukile placed R100 million cash on fixed deposit with Nedbank in order to mitigate against mark-to-market losses on expiry of the CCIRS. It is Vukile's intention not to roll the CCIRS on maturity and to consider early settlement thereof should the Rand strengthen against the Euro.

Response to COVID-19

At the onset of the COVID-19 crisis, Vukile immediately conducted extensive stress testing across its business in order to understand the potential impact on its solvency and liquidity. Vukile engaged with all its bank funders both in South Africa and Spain to ensure clear lines of communication, which assisted with a smooth navigation through the crisis.

A decision was taken to expedite the refinancing of debt due to expire in FY21. During the six months ending 30 September 2020, an amount of R3.2 billion of debt was newly negotiated or extended, such that all debt due to mature in FY21 (R2.3 billion) has been repaid or extended; 26% of debt due to mature in FY22 (R1.0 billion) has also been repaid or extended.

COMMENTARY continued

In order to alleviate any perceived liquidity concerns, new access facilities were negotiated such that undrawn facilities have increased by R1.2 billion to R2.3 billion (31 March 2020: R1.1 billion).

Credit rating

Global Credit Ratings Co. (GCR) reviewed Vukile's credit rating in September 2020 as part of their annual review, and all of Vukile's ratings remained unchanged. GCR affirmed the national scale issuer rating of AA-$_{(ZA)}$ and A1+$_{(ZA)}$, for the long and short term respectively, with a stable outlook. Concurrently, the ratings assigned to outstanding Senior Secured Group 1 Notes issued by Vukile has remained unchanged and been affirmed at AAA$_{(ZA)(EL)}$.

SA REIT Association Best Practice Recommendations (BPR)

The SA REIT Association has recently released a second edition BPR, which deals with best practice reporting for SA REITs. The new BPR is applicable for financial year ends starting from 1 January 2020, and will accordingly be applicable to Vukile from the financial year ending 31 March 2021. Vukile will assess the new BPR in due course and will, as far as possible, endeavour to comply with the recommendations contained therein. Vukile confirms that this set of results is fully compliant with the first edition BPR as published by the SA REIT Association.

PORTFOLIO REVIEW – Southern Africa

The first half results for the Southern African portfolio were delivered entirely in the unprecedented COVID-19 environment. The overarching goal and approach throughout the crisis has been to ensure the safety of our staff, shoppers, tenants, service providers and all other stakeholders. We have endeavoured to foster an environment of constructive and symbiotic discussions with our tenants to ensure the sustainability of the entire value chain, while sharing the unavoidable downside pain of a government-imposed lockdown.

The Southern African total direct property portfolio at 30 September 2020 consisted of 58 properties with a total value of R15.6 billion, and gross lettable area (GLA) of 1 010 662m², with an average value of R269 million per property.

The Southern African retail portfolio, which accounts for 94% of the value of the assets, was valued at R14.6 billion and consists of 45 properties with an average value of R324 million. In total, 84% of retail space is let to national tenants. Very pleasingly, vacancies were limited to 3.0% versus the 2.9% reported in March 2020.

Operating environment

Portfolio overview

We have continued to pursue our strategy which focuses on operational excellence, driving further efficiencies in our business and appropriately resourcing the team, which has continued to deliver impressive results, even in the current challenging environment.

Although there is pressure on operating metrics across the portfolio, we have been encouraged by the vibrant leasing activity, strong retentions and competitive reversion rates within the portfolio. We continue to see a steady increase in feet back to the malls, now at 86% of the footfall generated as at the end of September last year.

As usually measured, the trading density of the portfolio grew by 1.3% on a 24-month like-for-like basis. The value centres and rural portfolio showed growth of 9.4% and 5.7% respectively, while the township and urban portfolios declined by 1.6% and 4.9%. Groceries, food specialty, pharmacies, electronics and home furnishings/decor showed growth during the period under review, with fashion, fast foods and restaurants showing negative growth.

Retail vacancies have held firm under a very difficult trading environment, increasing by only 10bps from 2.9% to 3.0%. Although the movement is not material, there has been vibrant and significant letting activity over this period. In total, 8 738m² of vacant space has been let, when contrasted with 9 044m² of tenants who vacated (1.0% of total retail GLA). An important observation is that out of the total number of tenants which have vacated over this period, 56% of them have been SMMEs.

The like-for-like net operating income for the interim period is 20% lower when compared to the prior year interim period. This decrease is primarily attributable to the COVID-19 impact of rental concessions, delayed transactions, increased cleaning, security expenses and bad debt provisions which together equal to an amount of R185 million.

Looking forward to the next 6 to 12 months, we anticipate an environment of continued tough trading conditions, particularly for discretionary goods. This environment will be characterised by a segmental divergence in performance in favour of the township, rural and value centre portfolios. We have been encouraged by the extension of special social relief grants until January 2021, which should continue to flow through to the steady performance in our core segments, although the macro-economic environment and job absorption rates remain significant concerns.

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

Operational highlights

- Footfall improved to 86% of prior year, with rural centres recovering fastest at 90%. Township and commuter centres are performing well at 86% of prior year while visits to urban centres were slower to pick up at 83% of prior year trends
- Retail vacancies marginally up from 2.9% to 3.0%
  - 9 malls fully let
  - 23 malls with vacancies less than 1 000m²
  - rural vacancies decreased from 2.6% to 2.1%, value centre vacancies decreased from 2.1% to 2.0%, township and commuter centre vacancies remained stable at 2.8% and urban vacancies increased from 5.2% to 6.9%
- Retail reversions have slowed from 1.1% in the prior period to negative 2.0% in the current period. However, it remains encouraging to note that out of the 169 leases renewed, 61% were positive, 16% flat and only 23% were negative. This is a firm indication of the strength of the portfolio composition and is testament to the nodal dominance which the majority of our assets enjoy. An average lease term of 4.6 years with an average in-contract escalation of 6.7% has been attained on recent transactions
- Strong rebound in rental collections following the lockdown; now sitting at 95% of billings
- In-contract escalations declined marginally from 6.9% to 6.8%
- 92% retail tenant retention rate with the majority (56%) of vacated tenants falling in the SMME category
- WALE down to 3.5 years from 3.7 years
- Alternative income management strategy of opt-in database now increased to 1.7 million users, whose behaviour we can now actively track
  - opens up advertising opportunities for tenants to effectively communicate with shoppers
  - enables management to more accurately track shopper behaviour
- All 25 Jet stores as well as the five Edgars stores have been absorbed by Foschini and Retailability respectively

Operational efficiencies

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

- 6.5% of the electricity is now generated through 15 PV projects.
- The implementation of an integrated service delivery model for soft services is well progressed. The major thrust going forward is to maintain the model, continuously drive financial benefits, entrench best practices service delivery based on technology, ensure compliance and develop SMMEs
- The integrated service delivery model also proved to be invaluable during the lockdown period. Precautionary action steps were seamlessly and coherently implemented involving only three service providers and web-enabled platforms.

Continuous investment in high-yielding PV projects

- Total installed PV plant capacity to date is 9.93MW (15 PV plants installed)
- One new PV plant completed in FY21 at Letlhabile Mall phase 2 (150kWp) with three projects in progress at Queenstown Nonesi Mall (1 300kWp), Emalahleni Highland Mews (1 100kWp) and Gugulethu Square (837kWp)
- Total expected savings from these PV plants in FY21 is expected to be R17.6 million

Continued energy management spend

- Billing and metering optimisation through remote metering remains a key focus area. Bulk conversions resulting in lower municipal charges are in progress on two properties, resulting in annual savings of R1.8 million
- Water outages in rural areas have been addressed by linking boreholes and water treatment plants to the centres providing 85 000kl (3 400 swimming pools) of water, resulting in annual savings of R1.4 million

COVID-19 update

Key focus areas

Our primary protocols remain in place and have ensured that our shopper-base have limited exposure to COVID-19. Safety, social distancing, a continued awareness and information campaign, personal protective equipment and a complementary coherent strategy with our tenants remain the backbone of our COVID-19 execution strategy.

Financial impact, billings and collections

Rental concessions to the value of R133 million was offered as relief to tenants during the six months to 30 September 2020. This equates to one month's rent and was allocated 30%, 20% and 50% to SMME, mid-tier and national tenants respectively. Small, medium and micro enterprises and mid-tier tenants benefitted with concessions to the value of 150% of their monthly rent (R67 million).

Delayed transactions and reduced turnover rent resulted in lower income of R31 million. Combined with increased cleaning and security expenses of R5 million as well as bad debt of R22 million, the total negative net operating income impact is R191 million (R185 million like-for-like comparison).

Rent collections improved significantly since the end of the hard lockdown during April and May 2020, with total collections for the year to date at 95%.

COMMENTARY continued

	Total	Essential services	Non-essential services	National tenants	Mid-tier tenants	SMMEs
Quantum of relief offered	R133m (101%)*	R4m (10%)	R129m (141%)	R66m (77%)	R27m (150%)	R40m (150%)
Collections:						
April 2020	61%	87%	46%	63%	42%	63%
May 2020	81%	96%	68%	80%	52%	231%
June 2020	97%	104%	92%	107%	94%	65%
July 2020	123%	95%	146%	138%	123%	89%
August 2020	96%	105%	91%	97%	98%	91%
September 2020	108%	98%	113%	104%	127%	108%
October 2020	105%	101%	107%	108%	108%	98%
Average	**95%**	**98%**	**94%**	**98%**	**91%**	**90%**

Excluding Edcon.
* *Percentage of monthly rent.*

Footfall and turnover

Compared to the corresponding period in the prior year, footfall returned to 86% of historical levels, with brisk recovery in rural areas and urban areas slower to recover.

	Footfall during lockdown – compared to corresponding period in the prior year				
	Level 5	Level 4	Level 3	Level 2	Level 1
	26 Mar 20 to 30 Apr 20	1 May 20 to 31 May 20	1 Jun 20 to 17 Aug 20	18 Aug 20 to 20 Sep 20	21 Sep 20 to date
	%	%	%	%	%
Rural	43	68	81	86	90
Township and commuter	32	54	77	82	86
Urban	19	59	72	75	83
Total portfolio	**33**	**58**	**77**	**82**	**86**

Annual turnover contracted by 5% during the previous 12 months compared to the preceding 12-month period. Turnover of groceries and pharmacies increased by 6% and 10% respectively. Restaurants, coffee shops, bottle stores and health and beauty showed substantial decline.

	Movement in turnover Oct 19 to Sep 20 vs Oct 18 to Sep 19 %	Portfolio exposure based on turnover %
Total	**(5)**	**100**
Grocery and food	4	40
Fashion, department and home	(11)	40
Rest	(10)	20
Grocery and food		
Grocery/Supermarket	6	31
Food	(2)	9
Fashion, department and home		
Fashion	(11)	27
Department stores	(13)	8
Home furnishings/art/antiques/décor	(4)	5
Other		
Pharmacies	10	5
Sporting/outdoor goods and wear	(9)	3
Bottle stores	(25)	3
Restaurants and coffee shops	(32)	2
Cell phones	—	2
Electronics	(6)	1
Accessories	(19)	1
Health and beauty	(22)	—
Other	(16)	5

Annualised trading densities (annualised turnover per m² occupied space) increased by 1.3%, with groceries, food and pharmacies showing consistent growth prior to and during the pandemic.

	Urban %	Rural %	Township and Commuter %	Value Centre %	Total %
Total	**(4.9)**	**5.7**	**(1.6)**	**9.4**	**1.3**
Grocery and food	(1.4)	8.6	0.3	16.2	5.3
Fashion, department and home	(6.6)	2.9	(4.1)	3.3	(1.9)
Other	(4.0)	2.9	(2.6)	0.4	(1.2)

COMMENTARY continued

	Annualised trading density growth %
Total	**1.3**
Grocery/Supermarket	5.4
Food	5.1
Pharmacies	9.3
Home furnishings/art/antiques/décor	7.2
Cell phones	9.8
Electronics	3.1
Fashion	(1.4)
Sporting/outdoor goods and wear	(3.5)
Other	(4.2)
Accessories	(5.8)
Health and beauty	(8.0)
Bottle stores	(8.2)
Restaurants and coffee shops	(17.8)

Short-term focus areas

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

Tenant relationships

- Strengthen relationships coming out of COVID-19 with an internalised full-strength leasing team
- Execute a focused renewal strategy in the next six months, without changing key tenets of current lease structures
- Introduce creative leasing structures for new value-add tenants
- Continue to incubate pop-up shops to ultimately integrate fully fledged SMMEs into the portfolio

Customer insights

- Integrate data analytics from multiple modes of tested customer insights solutions into a single powerful asset management tool
- Integration will include current portfolio metrics, psychographic information, nodal dynamics and individualised customer data from Wi-Fi database. This will enable the business to respond in real time to customer behaviour changes
- A multi-mall shopping application has been released on Apple iStore and Google Playstore, which now allows shoppers to gain benefits from centre-focused rewards programmes

Operational excellence

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

People and communities

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

Key risks

Utility supply

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

Tenant arrears

Tenant arrears (net of provisions) amounted to R102.7 million at 30 September 2020 compared to R63.5 million at 31 March 2020. Excluding provisions, the balance at 30 September 2020 amounted to R139.5 million compared to R75.7 million at 31 March 2020.

A significant portion of the arrears balance is fully provided for in terms of IFRS standards.

In Southern Africa, due to difficult trading conditions having persisted through the COVID-19 lockdown period, our tenants continue to experience headwinds as can be seen in the macro-trends our portfolio is exposed to. Management remains critically focused on arrears, demonstrated further in the collection statistics provided.

Consequently, the allowance for the impairment of tenant receivables at 30 September 2020 increased to R36.8 million from R12.2 million at 31 March 2020. The increase is primarily attributable to Edcon arrears being fully provided to the extent that there will be no settlement emanating from business rescue proceedings, and a general increased allowance for impairment, primarily on SMME arrears.

Excluding the impact of the Edcon impairment allowance mentioned above, bad debts written off in the six months to 30 September 2020 amounted to R3.5 million (30 September 2019: R12.4 million). Total tenant deposits held amount to R71.4 million (31 March 2020: R71.6 million).

Sales

Welgedacht Van Riebeeckshof Shopping Centre was sold for R80 million.

Valuation of Southern African portfolio

The Southern African portfolio consists of 58 properties with a total GLA of 1 010 662m².

The accounting policies of the group require that the directors value the entire portfolio every six months at fair value. Using a DCF methodology, approximately one-half of the portfolio is valued every six months, on a rotational basis, by registered independent external valuers. The directors have valued the Southern African property portfolio at R15.6 billion[(i)] with a forward yield of 8.9% at 30 September 2020. This is R45.0 million or 0.3% less than the valuation as at 31 March 2020. The value of the stable portfolio (excluding acquisitions and sales) is R39.1 million or 0.3% higher than the March 2020 value.

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

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

Top 15 properties by value

Vukile's top 15 properties are all retail assets. They are 84% exposed to national, listed and franchised tenants. These properties comprise 59.8% of the total portfolio value and 46.7% of the total portfolio GLA.

Property	Location	GLA m²	Value Rm	% of total portfolio	Valuation R/m²
Boksburg East Rand Mall[(i)]	Gauteng	34 184	1 310.1	8.4	38 325
Pinetown Pine Crest	KwaZulu-Natal	43 352	1 098.9	7.1	25 348
Durban Phoenix Plaza	KwaZulu-Natal	24 072	853.1	5.5	35 440
Phuthaditjhaba Maluti Crescent	Free State	35 725	777.2	5.0	21 755
Pretoria Kolonnade Retail Park	Gauteng	39 665	598.1	3.8	15 079
Soweto Dobsonville Mall	Gauteng	26 438	577.8	3.7	21 855
Gugulethu Square	Western Cape	25 681	538.7	3.5	20 977
Mdantsane City Shopping Centre	Eastern Cape	36 309	529.6	3.4	14 586
Queenstown Nonesi Mall	Eastern Cape	27 919	494.8	3.2	17 723
Germiston Meadowdale Mall[(ii)]	Gauteng	33 156	444.5	2.9	13 406
Thohoyandou Thavhani Mall[(iii)]	Limpopo	17 780	434.5	2.8	24 438
Daveyton Shopping Centre	Gauteng	17 774	425.8	2.7	23 956
Bloemfontein Plaza	Free State	43 771	412.9	2.7	9 433
Oshakati Shopping Centre	Namibia	24 632	398.8	2.6	16 190
Randburg Square	Gauteng	40 778	391.2	2.5	9 593
Total top 15 properties		471 236	9 286.0	59.8	19 706
% of total portfolio		46.7	59.8		
% of retail portfolio		52.8	63.8		

(i) 50% undivided share in this property.
(ii) 67% undivided share in this property.
(iii) 33.33% undivided share in this property.

COMMENTARY continued

Summary of portfolio changes

GLA reconciliation	GLA m²
Balance at 31 March 2020	1 015 536
GLA adjustments	301
Disposals	(5 175)
Acquisitions and extensions	—
Balance at 30 September 2020	**1 010 662**

Vacancy reconciliation	GLA m²	%
Balance at 31 March 2020	34 017	3.3
Less: Properties sold since 31 March 2020	(561)	10.8
Remaining portfolio balance at 31 March 2020	33 456	3.3
Leases expired	92 774	
Tenants vacated or relocated	13 532	
Moved from development vacancy	—	
Renewal of expired leases	(25 300)	
Leases to be renewed	(58 652)	
New letting of vacant space	(21 106)	
Balance at 30 September 2020	**34 704**	3.4

Portfolio profiles

Geographic profile

Vukile's portfolio is well represented in most South African provinces and in Namibia. At the same time, it is focused on high-growth nodes and some 72% of the gross income comes from Gauteng, KwaZulu-Natal, Limpopo and Free State.

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

Sectoral profile

Based on value, 94% of the Southern African portfolio is in the retail sector, followed by 3% in the industrial, 2% in the office, 1% in the motor-related sector and 0.4% in the residential sector.

Tenant profile

Large national and listed tenants and major franchises account for 78% of our tenants by rentable area. In the retail portfolio this is even higher, with 84% exposure to national, listed and franchised tenants.

	% of rent		% of GLA	
	Retail	Total portfolio	Retail	Total portfolio
A – Large national and listed tenants and major franchises	**67**	**66**	**72**	**67**
B – National and listed tenants, franchised and medium to large professional firms	**14**	**13**	**12**	**11**
C – Other (1 175 tenants)	**19**	**21**	**16**	**22**

Lease expiry profile
Vukile's Southern African lease expiry profile shows that 19% of the leases based on rentals are due for renewal in 2021. Some 42% of leases are due to expire in 2024 and beyond.

	March 2021	March 2022	March 2023	March 2024	Beyond March 2024
% of contractual rent	19	21	18	20	22
Cumulative	19	40	58	78	100

	Vacant	March 2021	March 2022	March 2023	March 2024	Beyond March 2024
% of GLA	3.4	16	18	14	20	29
Cumulative	3.4	19	37	51	71	100

Vacancy profile
The total portfolio's vacancy (based on GLA) was maintained at 3.4%. The focused in-house leasing drive to fill vacancies resulted in reduced retail vacancies albeit amid turbulent times in the build-up to the COVID-19 lockdown. Although industrial vacancies reduced since 31 March 2020, both industrial and office vacancies remain under pressure.

Vacancies (% of GLA)	**September 2020 %**	March 2020 %
Retail	**3.0**	2.9
Industrial	**6.6**	8.7
Offices	**6.2**	3.5
Motor-related	**—**	—
Residential	**13.1**	4.3
Total	**3.4**	3.4

Including development vacancy, the 30 September 2020 vacant GLA is 3.7%.

Vacancies (% of gross rental)	**September 2020 %**	March 2020 %
Retail	**3.3**	2.9
Industrial	**8.6**	6.9
Offices	**4.3**	5.6
Motor-related	**—**	—
Residential	**8.7**	10.9
Total	**3.5**	3.1

Including development vacancy, the 30 September 2020 vacant rent is 3.9%.

COMMENTARY continued

Individual property vacancy profile

The properties with the highest vacancies as a percentage of GLA, where each had a vacancy higher than 1 000m² during the period (excluding development vacancy), are:

	Vacancy				
	30 September 2020		31 March 2020		Movement
	m²	**%**	m²	%	m²
Windhoek 269 Independence Avenue	**3 810**	**30**	2 236	17	1 574
Boksburg East Rand Mall	**1 237**	**4**	766	2	471
Jhb Houghton 1 West Street	**1 375**	**31**	976	22	399
Pinetown Pine Crest	**1 049**	**2**	863	2	186
Emalahleni Highland Mews	**1 008**	**6**	841	5	167
Roodepoort Ruimsig Shopping Centre	**1 808**	**16**	1 781	15	27
Randburg Square	**2 828**	**7**	2 819	7	9
Mbombela Shoprite Centre	**2 190**	**16**	2 208	16	(18)
Roodepoort Hillfox Power Centre	**2 174**	**6**	2 229	6	(55)
Midrand Allandale Industrial Park	**2 202**	**10**	2 348	11	(146)
Oshikango Shopping Centre	**1 338**	**15**	1 487	16	(149)
Letlhabile Mall	**1 586**	**9**	1 925	11	(339)
Centurion Samrand N1	**2 745**	**24**	3 778	33	(1 033)
Moruleng Mall	**281**	**1**	1 322	5	(1 041)

Leasing profile

Vukile concluded new leases and renewals in excess of 54 000m² with a contract value of R335 million. Tenant retention on the total portfolio was 90%, with retail retention at 92%.

Rental profile

There were negative reversions of 1.8% on the total portfolio, with retail reversions at negative 2.0%. To retain tenants in difficult market conditions, focus had to be given to the total cost of occupancy of 21 specific boxes which reduced the average retail reversion rate. If these 21 special transactions are excluded, the average renewal rate on the remaining retail reversions is positive 5.9%. Although transactions were limited in the industrial sector, positive reversions of 0.1% were concluded.

No leasing transactions were concluded on offices during the period.

The weighted average base rental rates (excluding recoveries) increased by 1.7% from R134.98/m² to R137.22/m² during the six months under review.

Base rental rates (excluding recoveries)	**30 September 2020 R/m²**	31 March 2020 R/m²	Escalation %
Retail	**143.86**	141.43	1.7
Industrial	**62.18**	61.41	1.3
Offices	**111.60**	106.52	4.8
Motor-related	**177.30**	171.87	3.2
Residential	**141.40**	142.94	(1.1)
Portfolio weighted average base rentals	**137.22**	134.98	1.7

In-contract escalations softened from 6.9% to 6.8%, with slightly higher escalations in the industrial and office sectors. Retail escalations of an average 6.8% are easing with national tenants demanding lower in-contract escalations.

	September 2020 %	March 2020 %
Retail	**6.8**	6.9
Industrial	**7.6**	7.8
Offices	**7.5**	7.6
Motor-related	**7.0**	7.0
Total	**6.8**	6.9

Retail tenant profile and exposure

Vukile's tenant exposure is low risk, with national tenants representing c.81% of retail rental income.

Our top 10 tenants account for 44% of total rent and 53% of GLA. Pepkor and Foschini are our two single largest tenants, accounting for 8.4% and 7.0% of total rent respectively. Post the Jet acquisition, Foschini moved from fourth largest to second largest tenant in the portfolio.

Our data-driven asset management enables us to identify risk early. It is our strategy to mitigate the risk of overexposure to a single retail group or brand, and we have put strategies in place where there is a potential risk. In this way, we mitigate risk but can also respond quickly to opportunities to introduce new retail brands to our portfolio.

Weighted average lease expiry (WALE)

Vukile has a retail tenant expiry profile based on rent of 3.5 years, with 42% of contractual rental expiring in 2024 and beyond.

Costs

The largest expense categories contribute 81% to the total expenses. These are government services (46%), rates and taxes (18%), cleaning and security (11%) and property management (6%).

We continuously evaluate methods of containing costs in the portfolio and urge our property managers to implement innovative solutions to achieve this.

The cost to income ratio increased materially over the period as a result of concessions granted to tenants and additional expenses brought upon by the COVID-19 environment.

Net costs to income ratio: remaining portfolio	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 Forecast %
All expenses	18.0	17.7	16.1	15.4	16.0	15.5	**19.4**
All expenses excluding rates and taxes, and electricity	17.9	16.3	15.3	15.1	15.0	15.3	**18.4**

Like-for-like net operating income growth

Like-for-like growth (stable portfolio)	30 September 2020	30 September 2019	% change
Property revenue (Rm)	**657.9**	758.5	(13.3)
Net property expenses (Rm)	**154.3**	129.1	19.5
Net property income (Rm)	**503.6**	629.4	(20.0)
Net cost to income ratio (%)	**23.5**	17.0	

COMMENTARY continued

PORTFOLIO REVIEW – Spain

"The Spanish portfolio is well positioned to withstand the current pandemic. With over 93% of our tenants comprising international and national tenants, the business continues to show strength in the new reality we face."

At 30 September 2020 the Spanish portfolio consisted of 18 properties with a total value of €993.8 million, and a GLA of 373 478m², with an average value of €55.2 million per property.

The Spanish retail portfolio, which accounts for 97% of the value of the assets, was valued at €961.2 million and consists of 16 properties with an average value of €60.1 million. In total, 92.7% of retail space is let to international and national tenants with vacancies limited to 1.5%. The portfolio mandatory period (WAULT) is currently 2.9 years to first break and 13.9 years to expiry.

Operating environment

Operational highlights

Asset management in action

Castellana continued to improve and optimise its retail portfolio over the past six months. The portfolio has demonstrated its resilience and strength admirably during what has been an extremely challenging economic environment. The asset management team has performed exceptionally in ensuring that the portfolio continues to show impressive performance and quality.

Highlights for the period include the following:

- Increasing portfolio occupancy to 98.5% (vacancy limited to 1.5%)
- Improving portfolio WALE from 13.6 years to 13.9 years, and WALE to break has increased to 2.9 years due to strong negotiations with tenants
- Maintaining average base rentals at €14.3/m² despite tough trading conditions
- Footfall and sales steadily recovering following a decline in the last month of only -16% in footfall and -5% in sales
- Letting activity has kept pace despite the pandemic. In total 54 leases amounting to 14 399m² of GLA have been leased during the period, with an incremental annualised net operating income of €1.9 million
- Completed the redevelopment projects with 91% tenants in place (by GLA)
- Opening of new anchor units such as Zara and Lefties in Bahía Sur and Mercadona in Los Arcos
- Rental discount agreements concluded in respect of 83% of the portfolio, allowing for visibility and predictability of future income
- Retail parks kept at 100% occupation

Tenant arrears

Tenant arrears (including tenant recharge accruals) amounted to R61.8 million (€3.1 million) at 30 September 2020 (31 March 2020: R45 million). Castellana's in-house leasing team collected 90.48% of monthly rentals invoice during the period.

The allowance for the impairment of tenant receivables at 30 September 2020 increased to R17.9 million (€916 014) (31 March 2020: R6.8 million).

Projects

Castellana has made significant progress regarding its value-added redevelopment projects in Los Arcos, Bahía Sur and El Faro. The projects aim to strengthen the existing offerings and dominance of the centres through the addition of new and exciting retailers, the creation of pedestrianised open space, and the introduction of attractive food and beverage and leisure operators in the centres. These projects have already demonstrated their potential to enhance the customer experience and improve the number and quality of retailers in the centres.

In Los Arcos, 84% of the GLA has been signed and committed. There have been eight new openings in Los Arcos SC due to the refurbishment project. Having commenced in mid-July with the opening of Mercadona, Etam, Movistar, Décimas, Soloptical and Kiko, other tenants have subsequently also opened new stores, offering an enhanced experience for our customers. A far-reaching communication campaign was launched in Seville, specifically for the Mercadona opening, with a very positive reception from customers, far exceeding expectations.

El Faro has 92% of the project GLA secured under signed heads of terms. There has been significant progress made and the project is nearing completion. Yelmo Premium cinema will open in November, the only premium cinema in the region. The offering will include bowling and video games that will add value for our customers and complement the food offering coming into the new space.

Bahía Sur has 95% of tenants signed and committed. Although COVID-19 has delayed the delivery of a few units, the project is making commendable progress with five new openings in October: Zara, Lefties, Décimas, Soloptical and Kiko. The new 3 700m² Zara flagship store has also opened. It has an omnichannel focus, with dedicated areas for online orders where customers can collect their order through QR codes and use a VIP fitting room. There is also a self-checkout, where customers can pay or return items by themselves.

COVID-19 in Spain

Since the reopening of the country on 21 June 2020 COVID-19 has slowly regained ground in Spain, albeit with significant differences between regions. Some countries, like the United Kingdom, have forced travellers coming from Spain to quarantine. Others, like France and Germany, simply advise against travelling to the most affected regions. However, the general feeling is that the country is more prepared, as it is now equipped with adequate equipment and health measures as well as an increased sense of individual responsibility. In addition, the amount of testing has increased exponentially to 386 000 tests per 1 million inhabitants.

Spain is now facing a second wave of the pandemic with regional governments taking charge of most decisions that affect health and mobility. In this regard, regional governments have employed tracers, built new hospitals, and are constantly monitoring hospital capacity and the number of available beds to decide whether to impose mobility restrictions.

On a more positive note, while the number of confirmed daily infections is increasing, most affected patients appear younger and the number of hospitalisations is much lower than was the case during the state of alarm, leaving hospitals, for now, with sufficient capacity. According to the Ministry of Health, as of 24 November, in Spain there were 17 695 people hospitalised with COVID-19, occupying 14% of the available hospital beds, 2 922 of them requiring intensive care or ICU beds. The occupancy of ICU beds in Spain is c.30% on average.

Since March, the number of confirmed cases reached 1.5 million while over 43 000 deaths have been registered, 922 deaths per 1 million inhabitants.

Economic overview

Spain's GDP experienced a positive rebound in Q3 2020 of 16.7% compared to Q2 2020 which returned a decrease of -17.8%. Year-on-year, the Spanish economy registered a decrease of -8.7% compared to Q3 2019, whilst Q2 2019 returned a -21.5% decrease. However, the reintroduction of restrictions in some territories due to the increasing number of cases slowed down the recovery in August.

Spain's consumer confidence declined by -0.4 percentage points from the previous month to 49.5 in September 2020, the lowest since December 2012, amid concerns about a resurgence in COVID-19 cases and its impact on the country's economic recovery and labour market.

In September, Spain's retail sales fell -3.3% compared to September 2019, following a -2.9% drop in August. Sales retreated further for non-food products (-3.1% vs -1.7% in August), while food fell by a lesser amount (-2.7% vs -2.9% in August). Meanwhile, sales of household equipment jumped 12.5%, ahead of the 8.2% gain in the prior month.

The unemployment rate for Q3 2020 stood at 16.3% from 15.3% in the previous quarter. People in ERTE (Temporary Employment Regulation Files), whose status has been extended until 31 January 2021, amounted to 728 909 people as of 30 September.

Spain's public debt grew in Q2 2020 by €66.5 billion, reaching €1.3 trillion. Compared to GDP, this figure represents 110.2% of the Spanish economy (vs 99% in the previous quarter). Due to actions taken by the European Central Bank (ECB) to decrease government borrowing costs and access to debt markets, Spanish 10-year bond yields have compressed in line with other European counterparts.

Short-term outlook

As opposed to the 2009 financial crisis, we expect an expansionary macro-economic policy, keeping interest rates low, while public debt will be placed comfortably on the debt capital markets. Regarding fiscal policy, markets expect an increase in spending in line with the European recovery plan ("Next Generation EU") with €140 billion potentially available to Spain if the government meets with the ongoing requirements and reforms.

Based on these assumptions, a -13% drop in GDP is expected for 2020, driven by a severe reduction in investment (-18%) and consumption (c.16%), weighed down by the contraction of labour income in a context of ERTEs and loss of jobs as well as cautious families who choose to save instead of spend.

The rebound expected in 2021 will take GDP growth to 7.9%. However, GDP will still be 3.9% below its pre-COVID-19 levels. It is likely that the recovery would not be complete until 2023, or even 2024, depending on the economic reforms implemented and the trajectory of the pandemic.

Finally, the increase in public spending (estimated at €26 billion), and the collapse in collections (-€72 billion), will be reflected in the public deficit, which will exceed 12% of the GDP in 2020. Public debt, for its part, will stand close to 120% of GDP by year end.

The above numbers are based on the assumption that COVID-19 cases will be contained, which would avoid a further national lockdown. The numbers do not include the availability of a vaccine to most of the population until the end of 2021, in line with recent WHO forecasts.

Political environment

On 21 July 2020, the European Council agreed on a €750 billion recovery plan ("Next Generation EU") and a €1 074 billion long-term budget 2021-2027. With €140 billion in grants (€72.7 billion) and loans (€67.3 billion), Spain has been among the largest recipients of benefits, second only to Italy. Overall, this deal is symbolically a major step for the EU because it overcomes two historic taboos of European integration: (i) Long-term opposition to large-size EU common issuance or Eurobonds; and (ii) Opposition to explicit fiscal transfers across countries.

COMMENTARY continued

At national level, the government has presented a draft of the State General Budget for 2021 that will now need to be negotiated with other political parties, as the current government, formed by the coalition of PSOE and Unidas Podemos, does not hold a majority in Parliament. The budget is expected to be approved by Parliament before the end of December 2020.

Castellana COVID-19 response plan

Shops in Castellana's retail centres closed on 14 March 2020 apart from essential services (mainly supermarkets and pharmacies), which have remained open throughout. On 25 May 2020, 12 of the 16 assets reopened with some restrictions and since 22 June 2020, all Castellana centres have remained open with comprehensive health and safety measures in place across the portfolio. Recently, as a consequence of the second wave, further restrictions in Valladolid and Granada have limited activity to essential services in Vallsur and Granaita respectively.

Castellana continues to engage with all stakeholders to strategically manage the portfolio through the pandemic, including its tenants, banking partners and others, to ensure a smooth and consistent performance.

Business review

Castellana remains well capitalised and continues to operate from a position of strength due to the quality of its retail portfolio. Early engagement with tenants, banks and others at the start of the state of alarm in March supported the right strategic decisions with the business having now recovered most of its footfall and sales compared to the prior year. Castellana continues to update its scenario modelling which has confirmed and strengthened management's view that the business is well positioned to withstand the economic impact of the pandemic. Notwithstanding the current economic situation, Castellana has ensured a "business as usual" environment across the most part of its portfolio.

Tenant and industry engagement

Castellana granted 100% discounts to Minimum Guaranteed Rent (MGR) to tenants affected by the lockdown in April and some further discounts for May. Throughout the lockdown all tenants were invoiced 100% of their regular service charges. The MGR discounts were granted in exchange for longer lease terms, more regular sales reporting, and break option waivers. From 1 June 2020 onwards, normal invoicing resumed and collections are expected to get back to normal over the remainder of the year. Notwithstanding the economic effects of the pandemic, Castellana's mandatory lease periods have increased overall versus the previous year, offering more long-term stability and predictability of cash flows. Castellana continues to engage regularly with its tenants, to gauge performance and to exchange strategic management ideas.

Debt provider engagement

Castellana continues to engage with its debt providers. The response has been positive and they are satisfied with Castellana's balance sheet strength and cash position. Due to Castellana's proactive and decisive approach, and notwithstanding that we remain confident of Castellana's ability to remain well within its LTV and ICR covenant levels, the banks have agreed to a number of concessions which have further strengthened Castellana's balance sheet position. Castellana will continue to service interest payments as normal and for the next 12 months will limit its cash utilisation on capex to finalising the "El Corte Ingles value-add projects". Aareal and Allianz have agreed to waive all covenant tests until 1 April 2021 and have committed to continue financing the "El Corte Ingles value-add projects". The syndicated loan banks (Santander and Caixabank) have agreed to waive all covenant tests for FY21, deferring the amortisation schedule on the capex syndicated loan, totalling €3.3 million, to June 2021. These actions ensure that Castellana continues to be in a strong position to navigate the effects of the pandemic.

In order to facilitate prudent cash management in Castellana, Vukile's share of Castellana's final dividend for FY2020 was retained by Castellana via a shareholder loan. Given the better than expected recovery in Spain, it was decided not to convert the shareholder loan to equity.

Focused reopening strategy

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

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

Health and safety:

- Identification of high-risk health and hygiene areas within each asset
- Complete and regular disinfection of shopping centres
- Provision of appropriate PPE to our customers
- Implementation of hygiene and health protocols in every centre

Social distancing:

- Keeping social distancing of a minimum of two metres in each of the assets
- New signage into the shopping centres to keep customers and employees safe
- Active access ratio to limit the number of people per m^2

Awareness

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

Following the government recommended measures and ensuring the safest possible spaces for our customers, we have created an exciting new leisure offering in our shopping centres:

- Second Edition of Bahía En Vivo! Festival in Bahía Sur. It offered three main activities: drive-in cinema, concerts and outdoor seating facilities, in a safe COVID-free environment, creating an innovative and stand-out entertainment offering in the province of Cadiz.
- A far-reaching communication campaign was launched in Los Arcos (Seville) and surrounding neighbourhoods for the Mercadona opening, followed by an exhibition inspired by the Museum of Ice Cream in New York, as well as a summer programme of activities.
- New outdoor space in Granaita Retail Park to extend the terraces from our food and beverage area, together with local music concerts every Friday.
- Vallsur created music concerts on Sundays, combined with cinema promotions, to dynamise and encourage the F&B area, creating a unique and special environment with all required health measures.
- Large promotion to reward purchases at El Faro shopping centre, with an event simulating an American fair.

Footfall, sales and collections performance (June to October 2020)

Footfall and sales:

	June 2020 %	July 2020 %	August 2020 %	September 2020 %	October 2020 %
Change in footfall June to October 2020 (versus corresponding month in 2019)	**(34.2)**	**(30.7)**	**(26.6)**	**(17.1)**	**(16.4)**

Castellana has seen a continuous improvement in footfall and sales since June 2020. The positive trend continued, with footfall having recovered close to 90% of pre-COVID levels.

While further restrictions have been imposed during October 2020, our customers consider our centres to be safe places and continue to visit, albeit more frequently per week for shorter dwell times.

	June 2020 %	July 2020 %	August 2020 %	September 2020 %	October 2020 %
Change in sales June to October 2020 (versus corresponding month in 2019)	**(14.5)**	**(12.7)**	**(7.8)**	**(7.0)**	**(5.1)**

The recovery of sales has been faster than footfall, with average basket size increasing as a result of customers spending higher amounts more frequently. Retail parks performed exceptionally, with growth of over 20% over the last three months. Shopping centres continue to show consistent improvement each month. DIY, electronics, pets and household goods have shown the strongest performance.

93% of Castellana's tenants are national and international brands.

Collections

Collections June to October 2020	June 2020**	July 2020	August 2020	September 2020	October 2020
Total net invoiced amount (€m)*	**4.5**	**4.7**	**5.0**	**5.1**	**5.0**
Total collected (%)	**87.7**	**91.9**	**90.9**	**90.5**	**90.3**
Total outstanding (%)	**12.3**	**8.1**	**9.1**	**9.5**	**9.7**

* *Not considering net turnover rent, €1.4 million invoiced in May 2020.*
** *June 2020 invoiced during October 2020.*

COMMENTARY continued

Valuation of Spanish portfolio

The Spanish portfolio has been independently valued by Colliers at €993.8 million (R19.5 billion) at 30 September 2020 (31 March 2020: €1 003.5 million or R19.8 billion), representing a -1.0% decline in value over the six-month period.

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

Overall, the portfolio has proven its strength due to the strong retail park portfolio as well as the improvement projects in Los Arcos, Bahía Sur and El Faro, which are expected to generate a substantial increase in value when all extension units are open and operational and market yields return to normal.

The small decline in valuations are more a consequence of valuers downgrading macro-economic assumptions than actual cash flows and operational performance, as NOI from March to September increased by 0.05%. Some of these adjustments include conservative assumptions in terms of average market growth rates (1.94% vs 2.24% in March), CPI (1.80% vs 1.86% in March) and yields or IRRs (8.2% from 7.98% in March). Exit yields have remained stable since March at 6.14%.

Real estate market in Spain

After a positive first quarter with over €4 billion in real estate transactions, second quarter deal flow barely exceeded €1.1 billion, the lowest level since 2013.

The investment market is undergoing a challenging period, where investors are predominantly taking a “wait and see” approach. In an environment of low interest rates, high liquidity and LTVs far below the levels of 2007 to 2012, sellers are resisting lowering prices for the moment, while buyers expect that the uncertainty should be reflected in the price. This is the main impediment to market activity.

Yields are being driven more by sentiment rather than operational performance. In Q2, all sectors, except for logistics, have seen their prime yields rise by around 25bps on average. The exception being prime logistics warehouses intended for e-commerce (5%), where prime yields are below those of shopping centres (5.5%) for the first time.

Portfolio overview

Top 10 properties by value

All of our top 10 properties are retail assets. Cumulatively, 97% of their tenants are international and national tenants. These properties comprise 89% of the total portfolio value, 88% of the total portfolio rent and 81% of the total portfolio GLA.

Property	Location	GLA m²	Value €m	% of total portfolio	Valuation €/m²
El Faro	Extremadura	43 593	155.7	15.7	3 572
Bahía Sur	Andalucia	36 432	137.9	13.9	3 785
Los Arcos	Andalucia	29 696	134.3	13.5	4 522
Granaita Retail Park	Andalucia	54 571	109.1	11.0	1 999
Vallsur	Castilla Leon	35 212	90.7	9.1	2 576
Habaneras	Com. Valenciana	24 166	84.8	8.5	3 509
Puerta Europa	Andalucia	29 792	64.7	6.5	2 172
Parque Oeste	Madrid	13 604	49.5	5.0	3 639
Parque Principado	Asturias	16 246	33.5	3.4	2 062
Marismas del Polvorín	Andalucia	18 220	27.0	2.7	1 482
Total top 10 properties		301 532	887.2	89.3	2 942
% of total portfolio		81	89		

Summary of portfolio changes

GLA reconciliation	GLA m²
Balance as at 31 March 2020	373 419
GLA adjustments	59
Balance as at 30 September 2020	**373 478**
Areas under development	14 653
Non-lettable area	7 038
GLA excluding areas under development	351 787

Vacancy reconciliation	GLA m²	%
Balance as at 31 March 2020	5 647	1.7
Vacancy movement	(361)	
Balance as at 30 September 2020	**5 286**	**1.5**

Portfolio profiles

Geographic profile

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

Geographic portfolio	% of rental income	% of GLA
Andalucia	**49**	**48**
Extremadura	**20**	**21**
Com. Valenciana	**10**	**7**
Castilla Leon	**9**	**9**
Madrid	**7**	**7**
Asturias	**3**	**4**
Murcia	**2**	**4**

Sectoral profile

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

Tenant profile

Large national and international tenants account for 94% of tenants by rent and GLA.

	% of rental income	% of GLA
Large national and international tenants	**94**	**94**
Local tenants (93 tenants)	**6**	**6**

COMMENTARY continued

Expiry profile

Castellana has a 13-year retail tenant expiry profile and 2.9 years to break with 51% (54% including the office tenant expiry profile) of contractual rental expiring in 2029 and beyond.

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

Retail portfolio

	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of contractual rent	4	4	6	6	8	5	3	5	5	4	50
Cumulative	4	8	14	20	28	33	36	41	46	50	100

	Vacant %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of GLA	2	5	2	3	3	6	2	2	4	4	3	64
Cumulative	2	7	9	12	15	21	23	25	29	33	36	100

Total portfolio

	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of contractual rent	4	4	6	6	7	4	3	5	5	4	52
Cumulative	4	8	14	20	27	31	34	39	44	48	100

	Vacant %	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of GLA	1	5	2	2	3	6	2	2	4	4	3	66
Cumulative	1	6	8	10	13	19	21	23	27	31	34	100

Break profile

The break profile (the date upon which the tenant has an option to terminate the lease prior to the expiry date) as a percentage of contractual rent is shown below. The break profile has improved due to the concessions granted to tenants at the start of the state of alarm in March 2020. Castellana negotiated more favourable lease terms in exchange for granting these temporary concessions.

Retail portfolio

	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of contractual rent	19	18	24	12	10	8	1	4	1	1	2
Cumulative	19	37	61	73	83	91	92	96	97	98	100

Total portfolio

	March 2021 %	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	Beyond March 2030 %
% of contractual rent	18	17	23	12	10	8	1	4	1	1	5
Cumulative	18	35	58	70	80	88	89	93	94	95	100

Vacancy profile

The portfolio's vacancy was 1.5% at 30 September 2020, an improvement from 1.7% at 31 March 2020.

Vacancies (% of GLA)	September 2020 %	March 2020 %
Shopping centres	**2.6**	2.8
Retail parks	**0.4**	0.8
Offices	**—**	—
Total	**1.5**	1.7

Rental profile

The Castellana portfolio's weighted average rental is €14.34/m². We believe that a significant portion of the portfolio is at below-market rentals. We anticipate rental growth to come through over the medium term. Shopping centre rents have declined due to larger tenants entering the portfolio.

	30 September 2020 €/m²	31 March 2020 €/m²	Escalation (%)
Shopping centres	**19.24**	19.63	(2.0)
Retail parks	**9.44**	9.50	(0.6)
Offices	**9.89**	9.60	3.0
Portfolio weighted average base rentals	**14.34**	14.27	0.5

Costs

Service charges are the most significant expense and represent 72.2% of total property expenses. Service charges mainly include utilities, cleaning, marketing, security and management. Property tax is another significant expense and represents 17.2% of the total property expenses.

Like-for-like net operating income growth

Like-for-like growth (stable portfolio)	30 September 2020	30 September 2019	% change
Property revenue (€m)	**14.7**	28.2	(47.8)
Net property expenses (€m)	**1.4**	1.4	(2.0)
Net property income (€m)	**13.3**	26.8	(50.2)
Net cost to income ratio (%)	**9.24**	4.92	87.8

COMMENTARY continued

THE VUKILE ACADEMY

The Vukile Academy (the Academy) is a proudly Vukile Property Fund initiative that continues 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.

Following its launch in 2019, the Academy continued its skills development and transformation objectives into the current year. Two interns from the "Class of" 2019 were placed as permanent staff members in the Vukile team, and a further four were successfully placed among our business partners, a great success for the initiative. The remaining two interns continued on their professional career paths. We are proud to announce the following progress this year:

The Vukile Bursary Fund – The Academy has continued its partnership with SAPOA and the Universities of the Witwatersrand, Pretoria, KwaZulu-Natal and Johannesburg, and aims to contribute over R6 million toward furthering tertiary education for 65 students in their third or honours year of property studies.

The Vukile Internship and Mentorship Programme – The second intake of eight young, passionate and driven interns were welcomed this year and they continue to grow throughout our industry-leading programme, as designed by curriculum experts, professionals from industry and tertiary institutions like GIBS and UP. Throughout lockdown, the programme continued online, with key mentorship and life coaching sessions included, as we continued to impart the Vukile DNA to our interns. Given that a significant part of this year was characterised by remote working, the Vukile Exco has decided to extend the current interns' contracts to next year, in order to provide them ample opportunity to experience both the practical and academic aspects of the programme.

Vukile BEE certification

Vukile is a level 3 B-BBEE entity, with a 110% recognition level.

CHANGE TO BOARD OF DIRECTORS

Effective 1 September 2020, Dr Sedise Moseneke stepped down as an executive director of the Company and assumed the position of non-executive director and member of the Property and Investment Committee.

PROSPECTS FOR THE GROUP

The COVID-19 crisis has had a negative impact on the global property market and on retail real estate companies in particular. Our specialist retail focus has contributed towards the negative market sentiment towards Vukile, which has been further exacerbated by our exposure to Spain, which was one of the first countries to be affected by the pandemic and resultant lockdown of the economy.

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

In South Africa, the economy will not only have to deal with the impact of the pandemic, but also the effects of the credit downgrades in March and November and ongoing macro-economic challenges, led by a growing fiscal deficit that needs to be urgently and decisively dealt with by government.

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

Vukile has the key ingredients to ensure that it continues to provide great spaces that meet customers' needs, including building closer tenant relationships, increasing focus on customer centricity and the agility to adapt quickly. When deployed effectively, these elements translate into our nodally dominant centres being very profitable spaces for tenants to operate from. Our business and decision making is nimble and willing and able to adapt to a changing consumer environment.

Our balance sheet remains solid and the business is very cash generative, with healthy interest cover ratios and the ability to comfortably meet all debt servicing requirements. We are happy with the progress made in the past six months in reducing our LTV and will continue with plans to reduce it further over time. Both Vukile and Castellana have enjoyed tremendous support from their well-diversified funding base.

Having successfully navigated through the past six months, which would probably represent the most severe period of the COVID crisis, Vukile management is exceptionally happy with the way the portfolio has performed. We remain confident that the strength of our business and the portfolios in both Southern Africa and Spain will continue to be evident and set up a solid foundation from which to re-establish the profitability achieved in prior years. The board and management have used this unique crisis to critically evaluate Vukile's business model, and remain committed to its stated strategy and focus.

The spectre of further COVID-19 waves, as experienced in Spain and potentially in South Africa, creates further economic uncertainty. The board, consistent with guidance given previously, has decided not to pay an interim dividend for the first half of the 2021 financial year. Rather, we believe it is prudent to retain cash and assess the evolution of the pandemic for the remainder of the financial year, before deciding on a final dividend. As highlighted in our FY20 results, Vukile will adopt a variable payout ratio going forward and any dividends paid will be based on a 75% payout ratio.

Vukile remains very well positioned to navigate the current uncertain environment and ensure long-term sustainability for all stakeholders. Until such time as the broader impacts of the COVID-19 pandemic become clearer, we will continue to adopt a more conservative inward-looking approach, focusing on operational excellence and balance sheet strength.

COMMENTARY continued

BASIS OF PREPARATION

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

All amendments to standards applicable for Vukile's financial period beginning on 1 April 2020 have been considered. All accounting policies applied in the preparation of these interim financial statements are consistent with those applied by Vukile in its consolidated annual financial statements for the year ended 31 March 2020, other than the adoption of those amendments that became effective in the current period. Note 1.2 to the financial statements explains these changes in further detail.

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

On behalf of the board

NG Payne
Chairman

LG Rapp
Chief executive officer

Houghton Estate

30 November 2020

VUKILE PROPERTY FUND LIMITED

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

JSE sponsor: Java Capital

NSX sponsor: IJG Group, Windhoek, Namibia

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

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

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

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

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2020

Group	**Unaudited 30 September 2020 Rm**	Unaudited 30 September 2019 Rm	Audited 31 March 2020 Rm
ASSETS			
Non-current assets	**36 381**	34 107	38 182
Investment property	**35 004**	30 946	35 317
Straight-line rental income accrual	**390**	362	419
Financial assets at fair value through profit and loss	**171**	71	264
Investment in associate at fair value	**425**	1 067	338
Investment in associate (equity-accounted)	**14**	1 252	1 518
Derivative financial instruments	**27**	88	29
Long-term loans granted	**259**	277	260
Deferred taxation assets	**13**	15	7
Other non-current assets	**78**	29	30
Current assets	**1 750**	3 509	1 874
Trade and other receivables	**395**	277	314
Derivative financial instruments	**1**	21	1
Cash and cash equivalents	**1 354**	1 404	1 559
Non-current assets held for sale	**—**	1 807	—
Total assets	**38 131**	37 616	40 056
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	**16 485**	19 124	17 542
Stated capital	**12 838**	12 838	12 838
Other components of equity	**3 003**	5 691	3 988
Retained earnings	**644**	595	716
Non-controlling interest	**1 814**	1 749	1 957
Non-current liabilities	**15 900**	13 870	17 324
Interest-bearing borrowings	**15 160**	13 090	15 958
Lease liability	**199**	180	196
Derivative financial instruments	**529**	593	1 159
Deferred taxation liabilities	**12**	7	11
Current liabilities	**3 932**	2 873	3 233
Trade and other payables	**938**	439	852
Short-term portion of interest-bearing borrowings	**1 631**	2 409	2 291
Short-term portion of lease liability	**18**	16	18
Derivative financial instruments	**879**	5	64
Current taxation liabilities	**4**	4	6
Shareholder for dividends	**462**	0	2
Total equity and liabilities	**38 131**	37 616	40 056

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2020

Group	**Unaudited 30 September 2020 Rm**	Unaudited 30 September 2019 Rm	Audited 31 March 2020 Rm
Property revenue	**1 420**	1 763	3 446
Straight-line rental income accrual	**(29)**	14	55
Gross property revenue	**1 391**	1 777	3 501
Property expenses	**(646)**	(543)	(1 129)
Net profit from property operations	**745**	1 234	2 372
Corporate and administrative expenses	**(154)**	(140)	(279)
Total investment and other income	**131**	229	422
Fair value movement on non-designated portion of CCIRS	**9**	18	113
Operating profit	**731**	1 341	2 628
Finance costs	**(368)**	(296)	(615)
Operating profit after finance costs	**363**	1 045	2 013
Loss on sale of investment property	**(6)**	(1)	(9)
Fair value loss on financial instruments	**(133)**	(204)	(744)
Impairment losses	**(9)**	(17)	(30)
Loss on sale of associate	**(32)**	—	—
Foreign exchange gain/(loss) on GBP loans	**9**	8	(65)
Profit before changes in fair value of investment property	**192**	831	1 165
Fair value adjustments:	**(479)**	87	(1 291)
Gross change in fair value of investment property	**(511)**	98	(1 243)
Change in fair value of right-of-use asset	**3**	3	7
Straight-line rental income adjustment	**29**	(14)	(55)
(Loss)/profit before equity-accounted investment	**(287)**	918	(126)
Share of income from associate	**20**	41	127
(Loss)/profit before taxation	**(267)**	959	1
Taxation	**(5)**	(14)	(40)
(Loss)/profit for the period	**(272)**	945	(39)
Attributable to owners of the parent	**(206)**	830	(103)
Attributable to non-controlling interest	**(66)**	115	64
Basic and diluted earnings per share (cents)	**(21.52)**	87.00	(10.81)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2020

	Unaudited 30 September 2020 Rm	Unaudited 30 September 2019 Rm	Audited 31 March 2020 Rm
(Loss)/profit for the period	**(272)**	945	(39)
Other comprehensive income			
Items that will be reclassified to profit and loss			
Foreign currency translation reserve	**141**	(25)	458
Cash flow hedges	**(213)**	(63)	(22)
Other comprehensive profit/(loss) for the period	**(72)**	(88)	436
Total comprehensive income/(loss) for the period	**(344)**	857	397
Attributable to owners of the parent	**(271)**	727	8
Attributable to non-controlling interest	**(73)**	130	389

RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS

for the six months ended 30 September 2020

	Unaudited 30 September 2020		Unaudited 30 September 2019		Audited 31 March 2020	
	Rm	**Cents per share**	Rm	Cents per share	Rm	Cents per share
Profit/(loss) attributable to owners of the parent	**(206)**	**(21.52)**	830	87.00	(103)	(10.81)
Earnings and diluted earnings	**(206)**	**(21.52)**	830	87.00	(103)	(10.81)
Change in fair value of investment property (net of allocation to non-controlling interest)	**436**	**45.55**	(74)	(7.73)	1 177	123.18
Impairment of goodwill	**—**	**—**	17	1.78	17	1.76
Loss/(profit) on sale of investment property	**6**	**0.66**	1	0.13	9	0.99
Loss/(profit) on sale of furniture, fittings and computer equipment	**—**	**—**	1	—	—	—
Loss on sale of listed properties securities	**32**	**3.30**	—	—	—	—
Remeasurement included in (equity-accounted) earnings of associate	**—**	**—**	17	1.81	17	1.80
Headline and diluted headline earnings	**268**	**27.99**	792	82.99	1 117	116.92
Number of shares in issue at period-end	**956 226 628**		956 226 628		956 226 628	
Weighted average number of shares	**956 226 628**		954 299 608		955 263 118	

There are no dilutionary shares in issue.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2020

Rm	Stated capital	Other components of equity	Retained earnings	Shareholders' interest Total	Non-controlling interest (NCI)	Total
Balance at 30 September 2019	12 838	5 691	595	19 124	1 749	20 873
Dividend distribution	—	—	(773)	(773)	(61)	(834)
	12 838	5 691	(178)	18 351	1 688	20 039
Profit for the period	—	—	(933)	(933)	(51)	(984)
Transfer to non-distributable reserve	—	(1 827)	1 827	—	—	—
Share issue expenses of a subsidiary	—	1	—	1	—	1
Change in ownership of a subsidiary recognised in equity	—	(126)	—	(126)	8	(118)
Equity-settled share scheme	—	34	—	34	3	37
Other comprehensive gain	—	215	—	215	309	524
Balance at 31 March 2020	**12 838**	**3 988**	**716**	**17 542**	**1 957**	**19 499**
Issue of share capital	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Dividend distribution	**—**	**—**	**(461)**	**(461)**	**(74)**	**(535)**
	12 838	**3 988**	**255**	**17 081**	**1 881**	**18 962**
Profit for the period	**—**	**—**	**(206)**	**(206)**	**(66)**	**(272)**
Transfer to non-distributable reserve	**—**	**(595)**	**595**	**—**	**—**	**—**
Realisation of OCI on proportionate disposal of equity-accounted associate	**—**	**(347)**	**—**	**(347)**	**—**	**(347)**
Change in ownership of a subsidiary recognised in equity	**—**	**(4)**	**—**	**(4)**	**4**	**—**
Equity-settled share scheme	**—**	**26**	**—**	**26**	**2**	**28**
Other comprehensive loss	**—**	**(65)**	**—**	**(65)**	**(7)**	**(72)**
Balance at 30 September 2020	**12 838**	**3 003**	**644**	**16 485**	**1 814**	**18 299**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 September 2020

	Unaudited 30 September 2020 Rm	Unaudited 30 September 2019 Rm	Reviewed 31 March 2020 Rm
Cash flow from operating activities	**615**	1 046	2 417
Cash flow from investing activities	**1 059**	(1 644)	(2 359)
Cash flow from financing activities	**(1 876)**	858	247
Net increase in cash and cash equivalents	**(202)**	260	305
Foreign currency movements in cash	**(3)**	7	117
Cash and cash equivalents at the beginning of the period	**1 559**	1 137	1 137
Cash and cash equivalents at the end of the period	**1 354**	1 404	1 559
Major items included in the above:			
Cash flow from operating activities	**615**	1 046	2 417
Profit before tax	**(267)**	959	1
Adjustments[(i)]	**917**	101	2 256
Working capital adjustments	**(23)**	(5)	186
Other	**(12)**	(9)	(26)
Cash flow from investing activities	**1 059**	(1 644)	(2 359)
Disposal of investment in equity-accounted associate	**1 103**	—	—
Acquisition of investment property and development costs	**(296)**	(1 888)	(2 920)
Dividends received from associate	**54**	—	102
Acquisition of furniture, fittings and computer equipment	**(49)**	—	(7)
Other	**247**	244	466
Cash flow from financing activities	**(1 876)**	858	247
Interest-bearing borrowings advanced	**2 099**	2 536	3 102
Interest-bearing borrowings repaid	**(3 531)**	(418)	(448)
Further investment in subsidiary	**—**	(618)	(618)
Proceeds from issue of share capital	**—**	696	696
Finance costs paid	**(317)**	(248)	(570)
Dividends paid	**(75)**	(1 034)	(1 867)
Other	**(52)**	(56)	(48)

(i) Adjustments to cash flows from operating activities for 30 September 2020 include fair value loss on investment property of R511 million, finance costs of R368 million and fair value gain on equity investments of R29 million.

SUMMARISED OPERATING SEGMENT REPORT

for the six months ended 30 September 2020

	Southern Africa			Spain			Total group
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	Rm
Group income for the period ended 30 September 2020							
Revenue[i]	652	38	690	263	44	307	997
Straight-line rental income accrual	(27)	(2)	(29)	—	—	—	(29)
Gross property revenue	625	36	661	263	44	307	968
Property expenses[i]	(148)	(8)	(156)	(60)	(7)	(67)	(223)
Net profit from property operations	477	28	505	203	37	240	745
Corporate and administrative expenses	(79)	(5)	(84)	(32)	(38)	(70)	(154)
Investment and other income	105	26	131	—	—	—	131
Fair value movement on non-designated portion of CCIRS	9	—	9	—	—	—	9
Operating profit before finance costs	512	49	561	171	(1)	170	731
Share of profit from associate	—	20	20	—	—	—	20

[i] *The revenue and property expense have been reflected net of recoveries. The condensed consolidated statements of profit or loss and other comprehensive income reflect the gross property revenue and gross property expenses.*

	Southern Africa			Spain			
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	Total group Rm
Group statement of financial position at 30 September 2020							
Assets							
Non-current assets	14 913	1 962	16 875	17 851	1 655	19 506	36 381
Investment property	14 555	946	15 501	17 850	1 653	19 503	35 004
Straight-line rental income accrual	358	32	390	—	—	—	390
Financial assets at fair value through profit and loss	—	171	171	—	—	—	171
Investment in associate (equity-accounted)	—	14	14	—	—	—	14
Derivative financial instruments	—	27	27	—	—	—	27
Financial assets at amortised costs	—	259	259	—	—	—	259
Deferred taxation assets	—	13	13	—	—	—	13
Other non-current assets	—	500	500	1	2	3	503
Current assets	267	404	671	740	339	1 079	1 750
Trade and other receivables	247	34	281	110	4	114	395
Derivative financial instruments	—	1	1	—	—	—	1
Cash and cash equivalents	20	369	389	630	335	965	1 354
Total assets							38 131
Equity and liabilities							
Equity attributable to the owners of the parent	1 897	13 050	14 947	1 163	375	1 538	16 485
Stated capital	—	12 838	12 838	—	—	—	12 838
Other components of equity	1 448	—	1 448	1 163	392	1 555	3 003
Retained earnings	449	212	661	—	(17)	(17)	644
Non-controlling interest	43	—	43	1 771	—	1 771	1 814
Non-current liabilities	199	7 113	7 312	—	8 588	8 588	15 900
Interest-bearing borrowings	—	6 629	6 629	—	8 531	8 531	15 160
Lease liability	199	—	199	—	—	—	199
Derivative financial instruments	—	481	481	—	48	48	529
Deferred taxation liabilities	—	3	3	—	9	9	12
Current liabilities	309	2 101	2 410	1 510	12	1 522	3 932
Trade and other payables	309	53	362	564	12	576	938
Short-term portion of interest-bearing borrowings	—	685	685	946	—	946	1 631
Short-term portion of lease liability	—	18	18	—	—	—	18
Derivative financial instruments	—	879	879	—	—	—	879
Current taxation liabilities	—	4	4	—	—	—	4
Shareholder for dividends	—	462	462	—	—	—	462
Total equities and liabilities							38 131

SUMMARISED OPERATING SEGMENT REPORT

for the six months ended 30 September 2020

	Southern Africa			Spain			
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	Total group Rm
Group income for the period ended 30 September 2019							
Revenue[(i)]	726	53	779	575	28	603	1 382
Straight-line rental income accrual	13	1	14	—	—	—	14
Gross property revenue	739	54	793	575	28	603	1 396
Property expenses[(i)]	(130)	(9)	(139)	(22)	(1)	(23)	(162)
Net profit from property operations	609	45	654	553	27	580	1 234
Corporate and administrative expenses	(80)	(6)	(86)	(40)	(14)	(54)	(140)
Investment and other income	189	40	229	—	—	—	229
Fair value movement on non-designated portion of CCIRS	18	—	18	—	—	—	18
Operating profit before finance costs			815			526	1 341
Profit from associate							46

(i) *The revenue and property expense have been reflected net of recoveries. The condensed consolidated statements of profit or loss and other comprehensive income reflect the gross property revenue and gross property expenses.*

	Southern Africa			Spain			Total
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	group Rm
Group statement of financial position at 30 September 2019							
Assets							
Non-current assets	13 993	3 152	17 145	15 566	1 396	16 962	34 107
Investment property	13 654	332	13 986	15 566	1 394	16 960	30 946
Straight-line rental income accrual	339	23	362	—	—	—	362
Financial assets at fair value through profit or loss	—	1 138	1 138	—	—	—	1 138
Investment in associate (equity-accounted)	—	1 252	1 252	—	—	—	1 252
Derivative financial instruments	—	88	88	—	—	—	88
Financial assets at amortised costs	—	277	277	—	—	—	277
Deferred taxation	—	14	14	—	1	1	15
Other non-current assets	—	28	28	—	1	1	29
Current assets	1 082	1 357	2 439	721	349	1 070	3 509
Trade and other receivables	114	83	197	79	1	80	277
Derivative financial instruments	—	21	21	—	—	—	21
Cash and cash equivalents	33	381	414	642	348	990	1 404
Non-current assets held for sale	935	872	1 807	—	—	—	1 807
Total assets							37 616
Equity and liabilities							
Total equity							20 873
Non-current liabilities	180	5 543	5 723	–	8 147	8 147	13 870
Interest-bearing borrowings	—	5 011	5 011	—	8 079	8 079	13 090
Lease liability	180	—	180	—	—	—	180
Derivative financial instruments	—	532	532	—	61	61	593
Deferred taxation	—	—	—	—	7	7	7
Current liabilities	234	2 482	2 716	143	14	157	2 873
Trade and other payables	234	88	322	103	14	117	439
Short-term portion of interest-bearing borrowings	—	2 369	2 369	40	—	40	2 409
Short-term portion of lease liability	—	16	16	—	—	—	16
Derivative financial instruments	—	5	5	—	—	—	5
Current taxation liabilities	—	4	4	—	—	—	4
Total equity and liabilities							37 616

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30 September 2020

1 GENERAL ACCOUNTING POLICIES

1.1 Basis of preparation

Estimates

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

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

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

Judgements

Judgement is applied in certain areas based on historical experience and reasonable expectations relating to future events. Uncertainty regarding the future economic impact of the COVID-19 pandemic has also been considered. Management applied judgement in accounting for the impact of the COVID-19 related rent concessions. Note 1.2 sets out further details in respect of the rental concessions.

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

1.2 COVID-19 related rental concessions

As a result of national lockdowns that were enforced in Southern Africa and Spain (from 21 March 2020 and 14 March 2020 respectively), rental discounts and deferrals were negotiated and provided to tenants. This was done to provide support to tenants that were severely impacted by COVID-19 restrictions.

In Southern Africa, tenants were granted either rental discounts or deferrals. In Spain, Castellana provided rental discounts only. Rental income is recognised net of discounts provided.

In some instances, interest-free rental deferrals were provided to South African tenants such as SMMEs. The time-value-of-money of the deferrals was determined to be immaterial from an accounting perspective. In terms of IFRS 16, Southern African rental discounts and deferrals did not result in lease modifications, as the scope of the leases were unchanged.

2 FAIR VALUE MEASUREMENT

2.1 Fair value measurement of financial instruments

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

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

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

Level 3: Unobservable inputs for the asset or liability

2.2 Fair value hierarchy

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

Group	30 September 2020 Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets				
Investment in associate at fair value	149	—	—	149
Equity investment at fair value	425	—	—	425
Executive share scheme financial asset	32	—	—	32
Derivative financial instruments	—	14	14	28
Total	606	14	14	634
Liabilities				
Executive share scheme financial liability	—	(10)	—	(10)
Derivative financial instruments	—	(1 112)	(296)	(1 408)
Total	—	(1 122)	(296)	(1 418)
Net fair value	606	(1 108)	(282)	(784)

	31 March 2020				30 September 2019			
Group	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets								
Investment in associate at fair value	246	—	—	246	1 067	—	—	1 067
Equity investment at fair value	338	—	—	338	—	—	—	—
Executive share scheme financial asset	36	—	—	36	97	—	—	97
Unlisted investment at fair value	—	—	—	—	—	—	8	8
Derivative financial instruments	—	12	18	30	—	91	18	109
Total	620	12	18	650	1 164	91	26	1 281
Liabilities								
Executive share scheme financial liability	—	(18)	—	(18)	—	(35)	—	(35)
Derivative financial instruments	—	(1 060)	(163)	(1 223)	—	(434)	(164)	(598)
Total	—	(1 078)	(163)	(1 241)	—	(469)	(164)	(633)
Net fair value	620	(1 066)	(145)	(591)	1 164	(378)	(138)	648

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

Investment in associate at fair value
This comprises shares held in a listed property company (Fairvest) at fair value, which is determined by reference to the quoted closing price at the reporting date.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the six months ended 30 September 2020

2 FAIR VALUE MEASUREMENT continued

2.2 Fair value hierarchy continued

Executive share scheme financial assets and liabilities

This comprises equity-settled share-based long-term incentive reimbursement rights stated at fair value.

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.

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

At 30 September 2020, the directors valued the Southern African property portfolio at R15.6 billion (31 March 2020: R15.6 billion), and an external valuer valued the Spanish portfolio at R19.5 billion (31 March 2020: R19.8 billion).

The external valuations performed by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd at 30 September 2020 on 54% of the Southern African portfolio were in line with the directors' valuations. The Spanish portfolio was valued by Colliers International.

The fair values of commercial buildings are estimated using a discounted cash flow method, 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 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 most significant inputs are the discount rate and the reversionary capitalisation rate. The inputs used in the valuations were:

	Unaudited 30 September 2020				Audited 31 March 2020			
	Discount rate (%)		Reversionary capitalisation rate (%)		Discount rate (%)		Reversionary capitalisation rate (%)	
	Range	Weighted average	Range	Weighted average	Range	Weighted average	Range	Weighted average
Southern Africa	**12.7 to 19.6**	**13.8**	**7.8 to 15.5**	**9.3**	12.7 to 19.6	13.8	7.7 to 15.5	9.1
Spain	**7.3 to 9.0**	**7.9**	**5.0 to 9.3**	**6.1**	7.3 to 9.0	8.0	5.0 to 9.3	6.1

The impact of the COVID-19 pandemic and the government-imposed lockdowns on the economies in Southern Africa and Spain has resulted in a decrease to the expected cash flows and growth rates.

The discount rates and reversionary capitalisation rate range for the Southern African portfolio are wide. Accordingly, we have provided a disaggregation in the tables below. A disaggregation is not provided for Spain as the ranges are much smaller. For the Southern African portfolio, the discount rate and reversionary capitalisation rate have been disaggregated based on geography. The table below also illustrates the impact on valuations resulting from changes in net operating income (NOI).

Southern African directly-held property portfolio	Average discount rate %	Average exit capitalisation rate %	Valuation impact if base discount rate is increased by 50bps %	Valuation impact of 50% NOI reduction in year one %	Valuation impact of 5% NOI reduction in capitalisation year %	Valuation impact of 5% NOI reduction in cash flow in capitalisation year %
Total portfolio	13.8	9.3	(5.2)	(4.2)	(3.4)	(5.0)
Retail	13.7	9.2	(5.3)	(4.1)	(3.4)	(5.0)
Other	14.3	10.7	(4.8)	(4.7)	(2.8)	(5.2)
Gauteng	13.6	9.1	(5.4)	(4.0)	(3.5)	(5.0)
KwaZulu-Natal	13.6	9.2	(5.1)	(4.2)	(3.2)	(5.0)
Western Cape	13.2	9.2	(5.3)	(4.1)	(3.4)	(5.1)
Free State	13.2	8.5	(5.8)	(3.8)	(3.6)	(5.0)
Limpopo	14.2	9.5	(4.9)	(4.5)	(3.2)	(5.0)
Eastern Cape	13.6	9.0	(5.4)	(4.0)	(3.6)	(5.0)
Namibia	16.0	11.7	(4.1)	(5.0)	(2.8)	(5.0)
North West	14.3	9.8	(5.2)	(4.4)	(3.4)	(5.1)
Mpumalanga	14.9	10.6	(4.7)	(4.7)	(3.4)	(5.1)

The above information has been further disaggregated based on risk (discount rates). Refer to the following 3 tables:

Discount rate below 14%	Portfolio exposure %	Average discount rate %	Average exit capitalisation rate %	Valuation impact if base discount rate is increased by 50bps %	Valuation impact of 50% NOI reduction in year one %	Valuation impact of 5% NOI reduction in capitalisation year %	Valuation impact of 5% NOI reduction in cash flow in capitalisation year %
Total portfolio	58.0	13.0	8.5	(5.6)	(3.9)	(3.5)	(5.0)
Retail	58.0	13.0	8.5	(5.6)	(3.8)	(3.5)	(5.0)
Other	57.0	13.1	9.2	(5.5)	(4.2)	(2.6)	(5.2)
Gauteng	68.0	13.0	8.5	(5.7)	(3.8)	(3.6)	(5.0)
KwaZulu-Natal	70.0	13.2	8.8	(5.2)	(4.1)	(3.2)	(5.0)
Western Cape	64.0	12.7	8.7	(5.6)	(3.8)	(3.3)	(5.1)
Free State	65.0	12.7	7.8	(6.2)	(3.5)	(3.7)	(5.0)
Limpopo	39.0	12.7	8.2	(5.9)	(3.7)	(3.7)	(5.0)
Eastern Cape	48.0	13.2	8.5	(5.7)	(3.9)	(3.7)	(5.1)
North West	64.0	13.2	8.6	(5.7)	(3.9)	(3.7)	(5.1)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

for the six months ended 30 September 2020

Discount rate between 14% and 16%	Portfolio exposure %	Average discount rate %	Average exit capitalisation rate %	Valuation impact if base discount rate is increased by 50bps %	Valuation impact of 50% NOI reduction in year one %	Valuation impact of 5% NOI reduction in capitalisation year %	Valuation impact of 5% NOI reduction in cash flow in capitalisation year %
Total portfolio	34.0	14.4	9.9	(4.8)	(4.4)	(3.3)	(5.0)
Retail	36.0	14.4	9.8	(4.9)	(4.4)	(3.3)	(5.0)
Other	10.0	14.4	12.3	(4.0)	(5.3)	(3.2)	(5.1)
Gauteng	23.0	14.2	9.7	(5.1)	(4.2)	(3.5)	(5.0)
KwaZulu-Natal	29.0	14.5	9.9	(4.9)	(4.3)	(3.5)	(5.0)
Western Cape	36.0	14.0	10.1	(4.8)	(4.6)	(3.4)	(5.0)
Free State	35.0	14.0	9.7	(5.0)	(4.4)	(3.5)	(5.0)
Limpopo	48.0	14.9	10.3	(4.2)	(5.1)	(2.9)	(5.0)
Eastern Cape	52.0	14.0	9.5	(5.1)	(4.1)	(3.5)	(5.0)
Namibia	70.0	15.2	10.5	(4.4)	(4.7)	(2.6)	(5.0)
North West	26.0	15.0	10.4	(4.7)	(4.6)	(3.4)	(5.0)
Mpumalanga	68.0	14.3	9.7	(5.1)	(4.3)	(3.5)	(5.1)

Discount rate above 16%	Portfolio exposure %	Average discount rate %	Average exit capitalisation rate %	Valuation impact if base discount rate is increased by 50bps %	Valuation impact of 50% NOI reduction in year one %	Valuation impact of 5% NOI reduction in capitalisation year %	Valuation impact of 5% NOI reduction in cash flow in capitalisation year %
Total portfolio	9.0	16.9	12.7	(3.9)	(5.4)	(3.0)	(5.1)
Retail	6.0	17.0	12.6	(4.0)	(5.4)	(3.0)	(5.1)
Other	32.0	16.4	12.8	(3.9)	(5.5)	(3.0)	(5.1)
Gauteng	9.0	16.3	12.1	(4.1)	(5.2)	(3.1)	(5.1)
KwaZulu-Natal	1.0	16.3	13.3	(3.6)	(6.3)	(3.0)	(5.1)
Limpopo	12.0	16.3	11.5	(4.3)	(4.8)	(3.3)	(5.1)
Namibia	30.0	18.1	13.8	(3.6)	(5.8)	(3.0)	(5.0)
North West	10.0	19.6	15.5	(3.3)	(7.0)	(1.4)	(5.1)
Mpumalanga	32.0	16.3	12.3	(4.0)	(5.4)	(3.0)	(5.1)

The effect of a 25bps change to the base discount rate will have the following impact on the 30 September 2020 valuation of the portfolio:

	25bps increase				25bps decrease		
	Fair value Rm	Decreased fair value Rm	Decrease Rm	% decrease	Increased fair value Rm	Increase Rm	% increase
Southern Africa[1]	**15 576**	**15 158**	**(418)**	**(2.7)**	**16 019**	**443**	**2.8**

	Fair value €m	Decreased fair value €m	Decrease Rm	% decrease	Increased fair value €m	Increase Rm	% increase
Spain	**994**	**976**	**(352)**	**(1.8)**	**1 012**	**362**	**1.9**

[1] *Fair value excludes non-controlling interest in Clidet.*

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value at 30 September:

	Unaudited 30 September 2020 Recurring fair value measurements Level 3 Rm	Unaudited 30 September 2019 Recurring fair value measurements Level 3 Rm	Audited 31 March 2020 Recurring fair value measurements Level 3 Rm
Investment property	**35 177**	31 112	35 522
Right-of-use asset	**217**	196	214

	Unaudited 30 September 2020 Non-recurring fair value measurements Level 3 Rm	Unaudited 30 September 2019 Non-recurring fair value measurements Level 3 Rm	Audited 30 March 2020 Non-recurring fair value measurements Level 3 Rm
Investment property held for sale	**–**	1 081	–

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