

VUKILE
PROPERTY FUND

REAL ESTATE. REAL GROWTH.

Summarised consolidated
results for the year ended
31 March 2022



CONTINUED STRONG OPERATING RESULTS AND FINANCIAL POSITION LAY THE PLATFORM FOR FUTURE GROWTH



STRONG PERFORMANCE WITH INCREASED COMPETITION FOR SPACE IN SOUTH AFRICA

- Normalised like-for-like NOI growth of **3.9%**
- Retail vacancies reduced to **2.6%**
- Like-for-like trading density growth up by **6.1%**
- Retention rate improved to **93%** with a **100%** collection rate
- Like-for-like retail valuation increase of **4.6%**



MARKET LEADING PERFORMANCE FROM CASTELLANA

- Positive reversions of **3.12%**
- Vacancies reduced to **1.6%**
- Rent collection rate at **98.7%**
- Portfolio WALE of **13.2 years**
- Retail sales **ahead of 2019 levels**
- Successful completion of **redevelopment projects** with a **10% cash-on-cash return**

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)



CASH DIVIDENDS

- Total FFO of **136.3 cents per share, up 6.8%** on prior year
- Total dividend of **105.8 cents per share**, with final dividend of **65.3 cents per share** to be paid in July 2022





STRONG BALANCE SHEET WITH WELL-DIVERSIFIED FUNDING BASE

- Interest cover ratio (ICR) of **3.4 times** highlights a strong cash flow
- LTV ratio maintained at **43%**
- **66%** of debt expiring in FY23 has already been repaid or extended
- Undrawn debt facilities increased to **R3.1 billion**



ACTIVE ASSET ROTATION

- Sale of non-core direct property assets of **R798 million** in South Africa and **€26,5 million** in Spain
- Sale of **64%** shareholding in the Namibian portfolio generating **c.R700 million** in cash
- Sale of Fairvest shares for **R504 million**
- Castellana acquired 21.7% shareholding in Lar España for **c.€100 million**

NATURE OF OPERATIONS

Vukile is a high-quality, low-risk, retail-focused Real Estate Investment Trust (REIT) operating in South Africa and Spain. Our results reflect a strong operational focus and a hands-on, proactive approach to property asset management and balance sheet risk management.

FINANCIAL PERFORMANCE

EXECUTIVE SUMMARY

As the world economy emerges from the COVID-19 pandemic, Vukile is well positioned for recovery and continued growth, following a strong operational performance in South Africa and Spain. Our retail property asset management expertise and conservatively managed balance sheet continues to be amongst our key strengths.

Vukile continues to simplify its business, with non-core asset disposals, reduction of South African Euro debt and termination of cross currency interest rate swaps (CCIRS). Our capital allocation and risk management strategies are guided by robust balance sheet management, while we pursue growth opportunities that are aligned with our core strategy.

THE FOLLOWING SIGNIFICANT EVENTS AND TRANSACTIONS TOOK PLACE DURING THE YEAR ENDED 31 MARCH 2022:

- In line with Vukile's strategy of disposing of non-core assets:
 - A c.64% shareholding in the Namibian portfolio was sold during March 2022 for c.R700 million. Vukile has retained a c.36% interest in the portfolio, which is equity accounted
 - c.R798 million of direct SA property assets were sold during FY22 at or above book value
 - c.€26.5 million Castellana non-core office assets were sold during FY22 at above book value
 - Further, c.R187 million of direct property sales in SA are unconditional and expected to transfer in Q2 2022
- In December 2021, Vukile purchased 3.5 million Castellana shares from MEREV
- In January 2022, Castellana acquired a 21.7% shareholding in Lar España for a total investment of c.€100 million (including costs). The transaction was partly funded with a €75 million shareholder loan from Vukile, which has subsequently been converted to equity. The acquisition of additional shares in Castellana, together with the conversion of the Vukile shareholder loan to equity, has resulted in Vukile's shareholding in Castellana increasing to 89.6%
- In February 2022, R300 million of new equity was issued (24 million Vukile shares)
- Following the merger of Fairvest and Arrowhead, Vukile disposed of c.58% of its holding in the enlarged Fairvest for c.R504 million, reducing Vukile's shareholding to 7.0% of Fairvest (c.108.7 million Fairvest B shares)
- All remaining CCIRS nominal exposure has been hedged (no foreign exchange rate risk in respect of CCIRS) with c.R119 million to be net settled at maturity in June 2022

The SA REIT ratios, together with comparatives, are included in a separate section at the end of this report, following the condensed financial statements.

DIVIDEND

The board approved a final dividend of 65.28653 cents per share for the year ended 31 March 2022. This equates to a final dividend of R640 million. A dividend declaration announcement in respect of the dividend, containing information relating to the salient dates and tax treatment of the dividend will be released separately on SENS.

CALCULATION OF FUNDS FROM OPERATIONS (FFO)

	31 March 2022 Rm	31 March 2021 Rm	Variance %
Property revenue	2 607	2 242	16.3
Property expenses (net of recoveries)	(384)	(379)	(1.3)
Net Income from property operations	2 223	1 863	19.3
Corporate administration expenses	(296)	(286)	(3.5)
Investment and other income	393	318	23.6
Loss on realisation of derivative	(59)	—	(100.0)
Operating Income before finance costs	2 261	1 895	19.3
Finance costs	(809)	(707)	(14.4)
Income before equity-accounted income	1 452	1 188	22.2
Share of income from associate and joint venture	23	17	35.3
Income before taxation	1 475	1 205	22.4
Taxation	(21)	(40)	47.5
Income for the year	1 454	1 165	24.8
Net Income attributable to non-controlling interests (NCI)	(47)	(49)	4.1
Attributable to Vukile group	1 407	1 116	26.1
Non-IFRS* adjustments	(71)	104	
Early termination of derivative	(58)	—	
Accrued dividends	15	98	
Equity-accounted profit from associate	(33)	—	
Non-cash impact of IFRS 16 – Leases	5	6	
FFO	1 336	1 220	9.5%
Number of shares in issue at year-end	980 226 628	956 226 628	

* International Financial Reporting Standards (IFRS).

REVENUE AND NET INCOME FROM DIRECT PROPERTY PORTFOLIO

Geographical segment	Revenue ⁽ⁱ⁾ 31 March 2022 Rm	Revenue ⁽ⁱ⁾ 31 March 2021 Rm	% change	Net property income 31 March 2022 Rm	Net property income 31 March 2021 Rm	% change
	South Africa	1 624	1 501	8.2	1 335	1 228
Spain	983	741	32.7	888	635	39.8
Total	2 607	2 242	16.3	2 223	1 863	19.3
Split percentage						
South Africa	62.3	66.9		60.1	65.9	
Spain	37.7	33.1		39.9	34.1	

⁽ⁱ⁾ Excludes straight-lining and recoveries.

The majority of the impact of COVID-19 on operations and rental income (both in South Africa and Spain) was felt in the year ended 31 March 2021. As a result, net property income increased by 19.3% from R1.9 billion to R2.2 billion in the current year. Portfolio-specific measures, operational results and trading are discussed more fully in the relevant South African and Spanish portfolio reviews hereafter.

GROUP INVESTMENT AND OTHER INCOME

	31 March 2022 Rm	31 March 2021 Rm	Movement	
			Rm	Variance %
Income from listed investments	129.6	94.6	35.0	37.0
Early termination of forward exchange contract (FEC)	101.4	—	101.4	100.0
FEC realised	26.4	(12.0)	38.4	100.0
Other income	—	2.9	(2.9)	(100.0)
Interest income	27.8	36.6	(8.8)	(24.0)
Net interest received on cross-currency interest rate swaps (CCIRS) (after deducting finance costs)	107.7	195.6	(87.9)	(44.9)
Total	392.9	317.7	75.2	23.7

Income from listed investments includes income from Fairvest and Arrowhead only (no income from Lar España has been accrued in FY22). See further detail in respect of income from listed investments below.

In terms of SA REIT best practice, only R43.8 million of the R101.4 million gain from early termination of FECs has been included in FFO for the current year.

Net interest received from CCIRS was reduced by 44.9%, due to the settlement of a nominal €117 million in CCIRS in June 2021.

The remaining nominal €65.5 million in CCIRS will be settled on maturity in June 2022. See further detail in this regard under CCIRS in the Treasury Management section of this commentary.

Entity	31 March 2022			31 March 2021	
	Carrying value Rm	Number of shares held	% held	Carrying value Rm	% held
Fairvest (B shares)	359.8	108 688 143	7.0	538.1	26.6
Arrowhead	—	—	—	309.0	11.0
Lar España Real Estate SOCIMI	1 452.4	18 157 459	21.7	—	—
Total	1 812.2			847.1	

Fairvest – 7.0% shareholding

During the year, Fairvest and Arrowhead merged by way of a share swap on a basis of 0.54054 Arrowhead B shares per Fairvest share. The listing of Fairvest shares on the Main Board of the Johannesburg Stock Exchange (JSE) was terminated, effective from 26 January 2022. Arrowhead remained listed on the JSE and changed its name to Fairvest. The effective date of the transaction was 1 October 2021.

The share price of Fairvest B shares at 31 March 2022 was R3.31, resulting in a carrying value and Vukile interest in the merged entity at 31 March 2022 of R359.8 million.

Total dividends received for the year from Fairvest and Arrowhead amounted to R129.6 million (R75.0 million from Fairvest and R54.6 million from Arrowhead) (31 March 2021: R57 million from Fairvest and R38 million from Arrowhead). Dividends from Fairvest and Arrowhead included in FFO for the year ended 31 March 2022 amounts to R102.2 million (R71.7 million from Fairvest and R30.5 million from Arrowhead), (31 March 2021: R56 million from Fairvest and R34 million from Arrowhead).

Lar España Real Estate SOCIMI (LarEspaña) – 21.7% shareholding

On 26 January 2022, Castellana acquired 18 157 459 shares in Lar España at a price of €5.35 per share. Lar España is a leading, Madrid-stock exchange-listed, 100% retail-focused Spanish SOCIMI comprising a high-quality, low-risk retail real estate portfolio offering predictable cash flows. The share price of Lar España at year-end was €4.95 per share, resulting in a ZAR equivalent carrying value of the investment of R1.45 billion at 31 March 2022.

Further narrative in respect of Castellana's investment in Lar España is provided in the portfolio review (Spain), further in this commentary.

GROUP CORPORATE EXPENDITURE

	31 March 2022 Rm	31 March 2021 Rm	Variance Rm	Variance %
Total corporate expenditure (South Africa)	157.0	153.5	3.5	2.3
South Africa (excluding environmental, social and governance (ESG) costs)	152.4	150.6	1.8	1.2
South Africa – ESG costs	4.6	2.9	1.7	58.6
Total corporate expenditure (Spain)	138.9	132.3	6.6	5.0
Spain (excluding ESG and innovation costs)	122.6	126.2	(3.6)	(2.9)
Spain – Innovation costs	7.6	3.9	3.7	94.9
Spain – ESG costs	8.7	2.2	6.5	100.0
Group total	295.9	285.8	10.1	3.5

Corporate expenditure equates to 0.85% of total assets (31 March 2021: 0.79%), being 0.96% attributable to South Africa (31 March 2021: 0.84%) and 0.76% attributable to Spain (31 March 2021: 0.75%). Admin and other overhead costs in South Africa include head office costs that benefit both the Vukile and Castellana portfolios.

GROUP CASH FLOW

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

	31 March 2022 Rm	31 March 2021 Rm
Cash from operating activities	2 054	1 178
Dividends paid	(1 376)	(556)
Net finance costs paid	(338)	(359)
Increase in borrowings	8 974	2 647
Borrowings repaid	(9 169)	(4 173)
Equity issuance	300	—
Disposal of investment property (net of additions)	1 188	(454)
Net acquisition of listed investments	(1 099)	1 103
Cash from the settlement of derivatives	(269)	(21)
Purchase of additional shares in Castellana	(545)	—
Other cash movements	(158)	4
Net decrease in cash and cash equivalents⁽¹⁾	(438)	(631)

⁽¹⁾ Excluding foreign currency movements of R25 million loss (2021: R75 million profit).

NET ASSET VALUE (PER SHARE)

The net asset value (NAV) of the group decreased by 1.3% from R18.16 per share to R17.92 per share at 31 March 2022, as set out in the table below.

	Rand per share
NAV 1 April 2021	18.16
Net property income	2.31
Investment property disposals	(1.29)
Decrease in borrowings	0.19
Equity issuance	(0.45)
Change in fair value of listed equity investments	1.02
Change in fair value of investment property	0.72
Dividends paid	(1.42)
Foreign currency and other movements	(1.32)
NAV 31 March 2022	17.92

The primary reason for the marginal reduction in NAV per share was due to a strengthening of the Rand to the Euro, from R17.32 at 31 March 2021 to R16.16 at 31 March 2022. Following the reduction in SA Euro debt and CCIRS (refer to the Treasury Management section of the commentary), Vukile's NAV has become more positively exposed to a weaker Rand going forward, hence becoming more of a Rand hedge.

Vukile's share price of R14.06 per share at 31 March 2022 represents a 21.5% discount to the NAV per share of R17.92.

SHARE TRADING AND LIQUIDITY

During the year, 535.7 million Vukile shares were traded, equating to approximately 44.6 million shares per month. The shares traded represent 54.7% of shares in issue.

TREASURY MANAGEMENT

Balance sheet and treasury risk management remain one of Vukile's key focus areas.

At 31 March 2022, consolidated group LTV net of cash was 43.0% (31 March 2021: 42.8%), which should be viewed in the context of a very healthy group ICR of 3.4 times (31 March 2021: 3.3 times). Vukile's debt metrics are comfortably within covenant levels at a group (consolidated) and subsidiary level.

Payment of the FY21 and HY22 dividend (R1.35 billion), settlement of CCIRS (R0.3 billion), purchase of Castellana shares (€31.6 million) and Lar España acquisition (€98.9 million) were largely offset by the sale of non-core properties (in SA, Namibia and Spain, R1.5 billion and €26 million, respectively), the sale of Fairvest B shares (R0.5 billion), equity issuance (R0.3 billion) and increase in property valuations (in SA and Spain), in aggregate resulting in a negligible increase in the consolidated group LTV.

Stress testing of 12-month historic earnings before interest, taxes, depreciation, and amortisation (EBITDA) (which is impacted by once-off COVID-19 relief) indicates that the portfolio would need to undergo a further 40% reduction in group EBITDA before reaching the two times bank group interest cover covenant level. Vukile and Castellana continue to benefit from very strong relationships with their diversified funding providers and have made significant progress in extending expiring debt with the debt maturity profile increasing to 3.8 years (31 March 2021: 2.9 years). During the year, Castellana refinanced the syndicate loan into a new seven-year €185 million facility. During the COVID-19 pandemic, debt was strategically refinanced with shorter terms (two-years) as margins had increased significantly. As this debt has matured, it has been refinanced into new three to five years facilities, increasing the debt maturity profile.

Stress testing of LTV indicates that group assets would need to undergo a further 13% reduction in asset value to reach a 50% group LTV ratio and Castellana's assets would need to undergo a further 34% reduction in asset value to reach a 65% Castellana LTV ratio.

CREDIT RATING

Global Credit Ratings Co. (GCR) reviewed Vukile's credit rating in July 2021 as part of their annual review, and all of Vukile's ratings remained unchanged at investment grade. 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 have remained unchanged and affirmed at AAA_(ZA)(EL).

In March 2022, Fitch Ratings Inc. (Fitch) assigned Castellana a first-time Long-Term Issuer Default Rating (IDR) of BBB-, with a stable outlook. The rating reflects an international investment-grade rating for Castellana.

GROUP BORROWINGS SUMMARY

The group's funding strategy is to optimise funding costs while minimising refinance risk. Total debt at 31 March 2022 amounted to R14.7 billion (31 March 2021: R15.4 billion). A summary of funding by currency is provided below:

Funding breakdown	Number of funders	Rm	
Foreign Spanish funders (EUR)	3	8 049	Secured against Castellana's balance sheet with no recourse to Vukile
South African bank funders (EUR)	3	590	
South African bank funders (ZAR)	4	4 271	Secured against Vukile's South African balance sheet
Domestic medium-term note (DMTN) programme (ZAR)		1 744	
Total⁽¹⁾		14 654	

⁽¹⁾ Excludes amortised cost.

SOURCES OF FUNDING

Vukile's debt funding is well diversified across several funders, in line with the group's strategy to manage concentration and refinance risk.

Group debt and hedging exposure per bank (ZAR)	Debt ⁽¹⁾ Rm	Debt exposure per bank %	Hedging and fixed debt ⁽²⁾ Rm
Aareal ⁽³⁾	7 683	52.4	7 123
ABSA	2 200	15.0	1 864
DMTN – corporate bonds	1 744	11.9	–
RMB	1 051	7.2	–
Nedbank	873	6.0	603
Standard Bank	737	5.0	751
Liberbank ⁽³⁾	239	1.6	–
Pichincha ⁽³⁾	127	0.9	–
Investec	–	–	294
Goldman Sachs	–	–	300
Grand Total	14 654	100	10 935

⁽¹⁾ Foreign currency-denominated debt is converted at a EUR/ZAR spot rate of R16.16 at 31 March 2022. All amounts are nominal debt exposure and exclude amortised transaction costs and accrued interest.

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

⁽³⁾ Group exposure includes Castellana debt of €489 million (R8.049 billion equivalent).

VUKILE GROUP LOAN AND SWAP EXPIRY PROFILE AT 31 MARCH 2022

As part of the group's funding strategy, Vukile proactively manages its debt expiry. Two-thirds (66%) (R2.3 billion) of debt due to mature in FY23 has been repaid, refinanced or extended. FY23 debt that remains to be refinanced amounts to R1.2 billion, compared to cash and undrawn committed facilities of R3.7 billion (3.1 times covered). Vukile continues to maintain material undrawn committed facilities, to reduce refinance risk while providing an ability to quickly deploy capital for strategic opportunities.

	FY23	FY24	FY25	FY26	FY27	FY28 and beyond	Total
Loan expiry profile including access facilities (%)	7.9	11.4	14.2	37.3	8.3	20.9	100.0
Term loan expiry profile (Rm)	1 001	1 675	2 085	5 469	1 221	3 041	14 492
Access facility expiry profile (Rm)	162	—	—	—	—	—	162
Hedging (swap and fixed debt) profile (Rm)	992	4 616	1 338	622	603	2 764	10 935

A summary of group debt ratios at 31 March 2022 is provided below:

	31 March 2022			31 March 2021		
	Group	South Africa	Spain	Group	South Africa	Spain
Total debt (excluding access facilities) (Rm)	14 492	6 443	8 049	15 226	6 521	8 705
Hedged portion (interest rate swaps, caps and fixed debt) (Rm)	10 935	3 812	7 123	11 882	4 187	7 695
Interest-bearing debt fixed/hedged (%)	75.5	59.2	88.5	78.0	64.2	88.4
Hedged (swaps and fixed debt) maturity profile (years)	2.7	2.4	2.9	2.6	3.3	2.2
LTV ratio (net of cash) ⁽¹⁾ (%)	43.0	42.9	43.0	42.8	37.9	47.6
LTV covenant level (%)	50	N/A	65	50	N/A	65
LTV stress level margin (% asset value reduction to respective covenant levels)	13.0	—	33.8	14.1	—	26.7
ICR ⁽²⁾	3.4 times	4.0 times	2.6 times	3.3 times	4.7 times	2.1 times
ICR covenant level	2.0 times	N/A	1.15 times	2.0 times	N/A	1.15 times
ICR stress level margin (% EBITDA reduction to respective covenant levels)	40.3	—	55.6	39.8	—	43.9

⁽¹⁾ LTV ratio (net of cash) is calculated as a ratio of nominal interest-bearing debt less cash and cash equivalents (excluding restricted cash) divided by the sum of (i) the amount of the most recent directors' valuation (external valuation in the case of the Spanish portfolio) of all the direct property portfolio on a consolidated basis; (ii) the market value of listed investments and (iii) investments in associates (Namibian portfolio) and joint ventures (Dream).

⁽²⁾ ICR is based on operating profit excluding straight-line lease income plus earnings from investments less corporate costs (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 31 March 2022 increased to 4.9% (31 March 2021: 3.9%), mainly as a result of Vukile EUR debt (€128 million) being converted to ZAR debt as well as an increase in ZAR base rates. Interest costs are expected to increase by c.R40 million for FY23 as a result of interest rate hikes (assumed 100bps) and further hedging costs.

Interest-bearing debt (excluding access facilities) is 75.5% hedged with a 2.7-year hedged maturity profile (31 March 2021: 78.0% with a 2.6-year hedge maturity profile). While cognisant of an interest rate hiking cycle over the next few years, the current cost of hedging with interest rate swaps is at all-time highs in South Africa. Hedging with interest rate swaps in the current market does not mitigate the risk of interest rate hikes, but will rather lock in future potential higher rates. Vukile will continue to dynamically hedge interest rate risk utilising interest rate CAPS, to ensure interest rate risk is mitigated, while still benefiting from lower interest rates in the short to medium term.

Vukile has repaid/converted €127.6 million (R2.3 billion equivalent) of Vukile EUR debt into ZAR facilities, such that the total Vukile EUR debt has been reduced to €36.5 million, a 78% reduction from the total Vukile EUR debt of €164 million at 31 March 2021. The reduction in EUR debt makes Vukile's NAV more positively exposed to a weaker ZAR going forward, hence becoming more of a "Rand hedge".

Finance costs by currency, using the historical weighted average cost of debt, are indicated below:

	FY22 historical cost of debt %	Debt at 31 March 2022 Rm	FY21 historical cost of debt %	Debt at 31 March 2021 Rm
ZAR	7.2	6 015	8.1	3 856
EUR	3.1	8 639	2.6	11 548
Total	4.9	14 654	3.9	15 404

UNDRAWN FACILITIES

Undrawn facilities at 31 March 2022 amount to R3.1 billion (31 March 2021: R1.9 billion). The ratio of cash and undrawn committed facilities to debt expiring over the next 12 months, is 3.1x, which demonstrates Vukile's strong liquidity position, with more than sufficient capacity to repay debt expiring over the next 12 months, if required.

UNSECURED DEBT AND UNENCUMBERED ASSETS

Unencumbered assets	31 March 2022 Rm	31 March 2021 Rm
Property assets (external valuation)	1 168	3 795
Listed shares	9 113	2 811
Unencumbered assets	10 281	6 606
Unsecured debt	1 550	1 735
Covenant exclusive facilities ⁽¹⁾	428	459
Unsecured + covenant exclusive	1 978	2 194
Unsecured debt to unencumbered assets (%)	15.1	26.3

⁽¹⁾ Covenant exclusive facilities form part of the bank's secured debt, with rights to the its secured security pool, however, they do not form part of transactional financial covenants.

The increase in unencumbered assets is primarily due to the inclusion of unpledged Lar España shares held by Castellana and the release of Castellana shares that were previously pledged.

MOVEMENT IN GROUP DEBT

During the year, total group debt decreased by R750 million. The most significant movements in debt were as follows:

	Nominal debt drawn/ (repaid) Rm	Foreign exchange movements Rm	Net Rm
Vukile ZAR DMTN debt	(185)	—	(185)
Vukile ZAR bank debt	2 344	—	2 344
Vukile EUR debt	(2 062)	(190)	(2 252)
Castellana EUR debt	(74)	(582)	(656)
Total	23	(772)	(749)

During the year ended 31 March 2022, Vukile repaid R685 million of unsecured corporate notes, comprising VKE12 (R150 million) and VKE13 (R535 million), in May and August 2021, respectively. An auction for R500 million of unsecured corporate bonds was held in August 2021. The auction was 4.4x oversubscribed (R2.2 billion of bids). Vukile issued a R158 million unsecured one-year note at a margin of 135bps (mid of guidance) and a R342 million unsecured three-year note was issued below guidance at 185bps.

Vukile rebalanced R515 million of ZAR interest rate swaps at no cost and executed R900 million interest rate caps at a once-off cost of R2.6 million. Vukile terminated €71.8 million of EUR interest rate swaps and €15.0 million of EUR interest rate floors at a once-off cost of R4.0 million. Castellana terminated €102.2 million interest rate swaps at a once-off cost of €0.6 million.

Vukile is committed to ESG principles and has entered into a new five-year R200 million use-of-proceeds Green Loan with Nedbank to fund 19 solar energy projects.

The group has comfortably complied with all bank and DMTN covenants.

GROUP FOREIGN EXCHANGE CURRENCY HEDGES

Vukile has adopted a layered approach to hedging its EUR dividend exposure (in aggregate) with FECs, targeting an average hedge ratio of c.60% across a five-year period (tiered 100% hedging in year one, 80% hedging in year two, etc.), in line with Spanish Generally Accepted Accounting Practice income and anticipated dates of dividend receipts, to minimise adverse foreign exchange fluctuations and to provide stable, predictable income streams for investors. Castellana FFO is not hedged, thus ensuring Vukile's FFO is more positively exposed to a weaker Rand, allowing Vukile to be a "Rand hedge", while still providing predictable dividends over the short term to medium term.

64% of Castellana's net forecast FY23 dividends are hedged. Given the recent ZAR strength against the EUR, forecast income related to the acquisition from Lar España has not yet been hedged. The intention is to hedge this income when the EUR/ZAR foreign exchange rate has stabilised.

CROSS-CURRENCY INTEREST RATE SWAPS (CCIRS)

At 31 March 2022, 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	Market to Market (MtM) Rm
Absa CCIRS July 2018	40.0	630	15.7465	3.70	11.88	13 June 2022	1
Investec CCIRS July 2018	25.5	401	15.7400	3.72	11.88	13 June 2022	(2)
Total	65.5	1 031					(1)

The board limits CCIRS to 45% of the total value of offshore investments. At 31 March 2022, CCIRS were 11% of total offshore investments on a consolidated basis (31 March 2021: 38%). The CCIRS ratio was reduced due to the settlement of the Nedbank CCIRS in June 2021. No new CCIRS were entered into during the year. The balance of MtM of CCIRS at 31 March 2022 amounted to a R1 million net liability. The remaining CCIRS nominal of €65.5 million has been hedged, eliminating foreign exchange risk at maturity in June 2022 (with the amount to be net settled amounting to R119 million). Following the maturity of the last remaining CCIRS in June 2022, Vukile will have no further CCIRS exposure on its balance sheet.

PORTFOLIO REVIEW – SOUTH AFRICA

The full-year results for the South African portfolio were delivered in a challenging environment that not only had COVID-19 induced headwinds, but also civil unrest, worsening basic service interruptions, deepening social polarisation and more recently the flooding in KwaZulu-Natal. These headwinds have been exacerbated by an environment of slow macro-economic growth and continued public maladministration at municipal level, resulting in an environment of increased unemployment and voter disenchantment. Notwithstanding these significant and persistent macro and social challenges, the financial and diversification benefits of holding a well managed, nodally dominant, diversified portfolio of retail assets geared for mostly non-discretionary spend in the mass market are self-evident through the continued improvement in our overall operating metrics. The rural, township, value and commuter mall environment is undoubtedly the sweet spot of SA retail real estate. In our journey to be even more entrenched in the communities we serve, we will continue putting our customers at the forefront of our asset management endeavours, which should augur well for the continued strong performance of the portfolio.

The South African total direct property portfolio on 31 March 2022 consisted of 44 properties with a total value of R14.5 billion, and a gross lettable area (GLA) of 845 659m², with an average value of R329 million per property.

The South African retail portfolio, which accounts for 95% of the value of the assets, was valued at R13.8 billion and consists of 36 properties with an average value of R382 million per property. In total, 86% of retail space is let to national tenants. Vacancies have decreased from 3.2% to 2.6%.

OPERATING ENVIRONMENT

Portfolio overview

The South African retail portfolio has recovered significantly over a sustained difficult trading environment since the onset of the COVID-19 induced lockdowns 26 months ago. It has delivered a normalised, like-for-like net operating income (NOI) growth, excluding the impact of COVID-19 of 3.9%. Including the base effects of COVID-19 concessions, additional security and increased bad debts necessitated by last year's strict COVID-19 trading environment, NOI growth was 18.5%. Compared to the FY21 vacancy of 3.2%, the retail portfolio's vacancy reduced to 2.6% partly due to the sale of the Namibian portfolio, but more importantly due to significant leasing activity in the rural and township portfolio. Vacancies are trending downwards and are the lowest they have been since listing in 2004. Tenant retention has improved from 90% (March 2021) to 93% (March 2022).

There has been significant leasing activity over this period. In total, 30 260m² of vacant space (3.9% of total retail GLA) has been let, contrasted with 31 001m² of tenants who vacated. Out of the total number of tenants which have vacated over this period, c.56% of them have been small, medium, and micro-enterprises (SMMEs). Over the period under review, 716 leases were concluded (536 renewals and 180 new leases) covering 171 580m², with a total contract value of R1 336 million. This equates to 22% of the portfolio's lettable area compared to 11% FY21 and 14% FY20. This is in line with what was achieved in pre-COVID-19 FY19, when the leasing activity was 23% of the lettable area. 83% of the leasing activity was concluded with national and second-tier retailers.

The portfolio rent-to-sales ratio decreased by 20bps to 6.1% and the annualised trading densities increased to 6.1% (1.7% FY21; 3.4% FY20) measured on a 24-month like-for-like basis. The township, commuter, rural and urban portfolios grew by 10.2%, 7.9%, 6.9% and 4.5% respectively, while the value centres remained flat after showing significant growth of 16.4% in FY21. On average the turnover within the portfolio was 6.6% higher than in the preceding 12 months. 13 of the 14 retail categories within the portfolio showed growth, in both annualised trading densities and overall turnover.

The portfolio has operated over the second half of FY22 with no prohibition in trade due to COVID-19-related lockdowns. As a result, we have communicated to tenants that COVID-19 concessions will no longer be entertained, unless there is a government-imposed prohibition on trade in future. Over the duration of this reporting period, limited COVID-19-related concessions to the value of R6.8 million were granted to tenants, assisting those primarily in the hospitality, gyms, bottle stores and restaurant categories. The concessions granted in FY22 were significantly lower than the R141 million granted in the previous reporting period.

Footfall is now at 91% compared to pre-COVID-19 levels. Township (94%) and rural (107%) malls' footfall have exhibited a strong recovery towards pre-COVID-19 levels, while commuter (76%) and urban (84%) malls continue to lag with regards to a recovery in footfall. Although footfall was affected over the COVID-19 lockdown period, spend per head was sustained, indicating that shoppers spent more per visit than in the past. The COVID-19 environment has undoubtedly evolved the way shoppers interact with the mall, but not to an extent where the overall operating metrics are affected. We have launched a customer-centricity desk to ideate and solve for instances where there will most likely be changes, to ensure that our malls remain relevant, primary shopping and lifestyle destinations for our communities.

Pine Crest, Dobsonville Mall, Daveyton Mall, Hammarsdale Junction, The Workshop and KwaMashu were damaged to varying degrees in the July 2021 unrest. All of these malls have been fully reinstated and, in all instances, are ahead of the competition in their respective primary catchment areas and are trading well. The expected reinstatement claim for damages is R150 million, with 473 shops affected. Also quantified is the loss of rental as a result of the unrest which equates to R59 million. The full claim submitted has been approved by SASRIA. Vukile has received R160 million (77%) thus far, comprising R104 million (69%) for material damages and R56 million (95%) for loss of rental. The remainder of R49 million (23%) is expected to be received by end July 2022.

We are excited by the current robust leasing environment driven by both national and second-tier retailers.

We are engaging with these stakeholders creatively and continuously to ensure that we are property partners of choice, who not only provide bricks and mortar suites, but other value-add services, such as customer and community insights in order for them to thrive.

Communities and shoppers will continue to be a strong focus area for the business. The success of our malls is strongly linked to community stability at a micro level, to this end we will continue to proactively engage all key community structures and work towards mutually symbiotic relationships.

Although the operational results for the past 12 months are on most key metrics ahead of pre-COVID-19 levels, we remain cautious in our optimism, as there are still significant structural changes needed to ensure that our economy regains a sustainable growth trajectory.

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 position the business for ongoing and sustainable growth.

Operational highlights

- Footfall is trending towards pre-COVID-19 levels, with rural and township centres leading the recovery. Urban centres have recovered to pre-COVID-19 levels, and commuter centres are slower to recover at 94% of pre-COVID-19 levels.
- Retail vacancies decreased from 3.2% to 2.6%.
 - 10 malls fully let
 - 19 malls with vacancies less than 1 000m²
 - Rural vacancies decreased to 1.5%, the lowest in four years, and value centres at a record low of 0.8%
- Retail reversions of negative 2.4% are steadily improving relative to the prior period at negative 3.3%. Out of the 536 leases renewed, 55% were positive, 13% flat, and only 32% were negative. An improved average lease term of 4.3 years has been attained on recent transactions.
- Strong rebound in rental collections following the lockdown; now at 100% of billings.
- In-contract escalations of 6.4%, still ahead of inflation.
- An improvement in the retail retention ratio from 90% in the prior period to 93%.
- WALE has increased from 3.3 years to 3.4 years.

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.

Continuous investment in high-yielding Photovoltaic (PV) projects

- 9.0% of the electricity is now generated through 17 PV projects.
- Total installed PV plant capacity to date is 12.7MW (17 PV plants installed).
- New PV projects were completed at Gugulethu Square (837kWp), Atlantis Phase 2 (500kWp), Ermelo Game (250kWp) and Bedworth Phase 2 (300kWp).

Continued energy management spend

- Energy-efficient LED light fittings were installed at Atlantis and Mdantsane. Lighting levels were improved, and the two projects cumulatively produced estimated savings of 335 000 kWh per annum.
- Additional borehole water of 6 100kℓ per annum at Giyani Plaza and Highland Mews, increasing the current 85 000kℓ of current borehole water within the portfolio.

Footfall and turnover

Compared to the corresponding period in the prior years, footfall is trending towards pre-COVID-19 levels, with consistent recovery in rural and township shopping centres.

	Footfall		
	March 2022 versus March 2019	March 2022 versus March 2020	March 2022 versus March 2021
	%	%	%
Rural	107	111	106
Township	94	104	104
Urban	84	100	101
Commuter	76	94	106
Total portfolio	91	103	104

Annual turnover increased by 6.6% when comparing the 12 months ended 31 March 2022 to 31 March 2021.

	Movement in annual turnover %	Portfolio exposure based on turnover %
Total	6.6	100.0
Grocery and food	7.6	43.9
Fashion, department and home	3.6	34.7
Other categories	9.8	21.4
<u>Grocery and food</u>		
Grocery/supermarket	7.5	34.2
Food	7.9	9.7
<u>Fashion, department and home</u>		
Fashion	4.3	22.6
Department stores	5.4	6.3
Home furnishings/art/antiques/décor	(0.8)	5.8
<u>Other categories</u>		
Bottle stores	37.4	2.5
Restaurants and coffee shops	22.3	1.5
Accessories	8.8	0.8
Sports utilities/gyms/outdoor goods and wear	7.8	3.9
Pharmacies	6.8	5.8
Electronics	6.6	0.9
Health and beauty	3.9	0.3
Other	3.6	4.0
Cell phones	2.8	1.7

Annualised trading densities (annualised turnover per m² of occupied space) increased by 6.1%.

	Township %	Urban %	Rural %	Value Centre %	Commuter %	Total %
Total	10.2	4.5	6.9	(0.4)	7.9	6.1
Grocery and food	11.7	3.3	9.8	(0.3)	5.4	7.8
Fashion, department and home	4.3	3.2	2.3	(4.4)	9.2	2.8
Other	13.1	7.5	8.7	5.1	7.6	8.7

	Annualised trading density growth %
Total	6.1
Bottle stores	32.1
Restaurants and coffee shops	22.0
Food	8.0
Grocery/supermarket	7.7
Sports utilities/gyms/outdoor goods and wear	6.6
Pharmacies	6.4
Electronics	5.2
Department stores	4.8
Fashion	4.3
Health and beauty	3.7
Cell phones	2.7
Other	1.3
Accessories	0.1
Home furnishings/art/antiques/décor	(4.3)

Short-term focus areas

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

Tenant relationships

- Continue to be a partner of choice by providing well managed and a safe shopping environment for our retailers to thrive
- Be the home of innovation, allowing low barriers to entry for innovative game-changing retail offerings
- Execute on renewal programme without changing the key tenets of current lease covenants and agreements
- Continue to incubate new entrants and SMMEs into the portfolio via our retailer academy programme.

Customer insights

- Utilise accumulated data on consumers to improve shopper journey in a tangible and meaningful way
- Integration will include current portfolio metrics, psychographic information, nodal dynamics and individualised customer data from the Wi-Fi database
- This will enable the business to respond in real time to consumer behaviour changes
- It will open other avenues for alternative revenue sources.

Operational excellence

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

People and communities

- Empower community-based service providers to become partners in mall operations
- Continue to invest in corporate social investment initiatives that make a difference in the communities in which we operate.

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. Boreholes have been drilled at shopping centres with constant water outages. This will ensure that the centres will be able to trade should there be water outages. We identified centres with high water consumption, with a focus on common areas and cooling systems and installed smart water meters, enabling us to detect abnormal consumption and take remedial action where necessary.

Tenant arrears

Tenant arrears (net of provisions) amounted to R58.3 million on 31 March 2022 compared to R75.8 million at 31 March 2021. Excluding provisions, the balance on 31 March 2022 amounted to R107.9 million compared to R118.1 million at 31 March 2021.

Management remains critically focused on arrears, demonstrated further in the collection statistics provided.

The allowance for the impairment of tenant receivables on 31 March 2022 increased to R49.5 million from R42.3 million at 31 March 2021.

Bad debts written off for the year ended 31 March 2022 amounted to R33.0 million (31 March 2021: R18 million).

Acquisitions

We increased our stake in Springs Mall from 27% to 28% at an acquisition price of R11.6 million yielding 8.75%.

Sales

The sale of 64% of the shares in MICC Properties Namibia (Pty) Ltd was registered on 1 March 2022.

Seven properties were transferred during FY22:

■ Ulundi King Senzangakona Shopping Centre	R308.7 million
■ Letlhabile Mall	R164.2 million
■ Soshanguve Batho Plaza	R160.0 million
■ Makhado Nzhelele Valley Shopping Centre	R70.0 million
■ Centurion Samrand N1	R46.2 million
■ Pretoria Rosslyn Warehouse	R25.0 million
■ Kempton Park Spartan Warehouse	R23.8 million

In aggregate, these sales represent a total value of R798 million (excluding the sale of the Namibian portfolio), at a combined aggregate yield of 9.8%.

Valuation of South African portfolio

The South African portfolio consists of 44 properties with a total GLA of 845 659m².

The accounting policies of the group require that the directors value the entire portfolio every six months at fair value. Using a discounted cash flow (DCF) methodology, approximately half of the portfolio is valued every six months, on a rotational basis, by registered independent external valuers. The directors have valued the South African property portfolio at R14.5 billion⁹ with a forward yield of 8.8% on 31 March 2022. The value of the stable portfolio (excluding sales and acquisitions) is R554.1 million or 4.0% higher than the March 2021 value. Reporting of the remaining 36% in MICC Properties Namibia (Pty) Ltd is included in investments, and portfolio performance is excluded from the direct property portfolio.

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

⁹ The South 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 86% exposed to national, listed and franchised tenants. These properties comprise 67.9% of the total portfolio value and 53.7% of the total portfolio GLA.

Property	Location	GLA m ²	Value Rm	% of total portfolio	Valuation R/m ²
Pinetown Pine Crest	KwaZulu-Natal	43 338	1 111.6	7.7	25 650
Boksburg East Rand Mall ⁽ⁱ⁾	Gauteng	34 261	1 107.9	7.7	32 337
Durban Phoenix Plaza	KwaZulu-Natal	24 072	851.7	5.9	35 381
Phuthaditjhaba Maluti Crescent	Free State	35 741	839.1	5.8	23 477
Pretoria Kolonnade Retail Park	Gauteng	39 665	685.8	4.7	17 290
Soweto Dobsonville Mall	Gauteng	26 438	639.7	4.4	24 196
Gugulethu Square	Western Cape	25 699	631.2	4.4	24 561
Queenstown Nonesi Mall	Eastern Cape	27 971	562.0	3.9	20 092
Mdantsane City Shopping Centre	Eastern Cape	36 604	542.7	3.8	14 826
Daveyton Shopping Centre	Gauteng	19 815	533.3	3.7	26 914
Germiston Meadowdale Mall ⁽ⁱⁱ⁾	Gauteng	33 156	486.5	3.4	14 673
Thohoyandou Thavhani Mall ⁽ⁱⁱⁱ⁾	Limpopo	17 779	472.7	3.3	26 588
Moruleng Mall ^(iv)	North West	25 246	458.3	3.2	18 153
Atlantis City Shopping Centre	Western Cape	21 984	455.7	3.1	20 729
Bloemfontein Plaza	Free State	44 159	412.9	2.9	9 350
Total top 15 properties		455 928	9 791.1	67.9	21 475
% of total portfolio		53.7	67.9		
% of retail portfolio		58.8	71.1		

⁽ⁱ⁾ 50% undivided share in this property.

⁽ⁱⁱ⁾ 67% undivided share in this property.

⁽ⁱⁱⁱ⁾ 33.33% undivided share in this property.

^(iv) 80% share in the company.

SUMMARY OF PORTFOLIO CHANGES

GLA reconciliation		GLA m ²	
Balance on 31 March 2021		987 768	
GLA adjustments		481	
Disposals		(145 230)	
Acquisitions and extensions		2 640	
Balance on 31 March 2022		845 659	
Vacancy reconciliation		GLA m ²	%
Balance on 31 March 2021		38 123	3.9
Less: Properties sold since 31 March 2021		(12 420)	8.6
Remaining portfolio balance on 31 March 2021		25 703	3.1
Leases expired		215 379	
Tenants vacated or relocated		39 947	
Renewal of expired leases		(147 901)	
Leases to be renewed		(48 205)	
New letting of vacant space		(60 838)	
Balance on 31 March 2022		24 085	2.9

PORTFOLIO PROFILES

Geographic profile

Vukile's portfolio is well represented in most South African provinces. At the same time, it is focused on high-growth nodes and some 77% of the gross income comes from Gauteng, KwaZulu-Natal, Free State and Limpopo.

	% of gross income	% of GLA
Gauteng	39	44
KwaZulu-Natal	21	15
Free State	9	9
Limpopo	8	8
Western Cape	8	6
Eastern Cape	7	8
Mpumalanga	4	6
North West	4	4

Sectoral profile

Based on value, 95% of the South African portfolio is in the retail sector, followed by 2% in the office, 1% in the industrial, 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 83% of our tenants by rentable area. In the retail portfolio this is even higher, with 86% 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	71	70	76	73
B – National and listed tenants, franchised and medium to large professional firms	11	11	10	10
C – Other (1 026 tenants)	18	19	14	17

Lease expiry profile

Vukile's South African lease expiry profile shows that 32% of the leases based on rentals are due for renewal in 2023. Some 27% of leases are due to expire in 2026 and beyond.

		March 2023	March 2024	March 2025	March 2026	Beyond March 2026
% of contractual rent		32	26	15	7	20
Cumulative		32	58	73	80	100
	Vacant	March 2023	March 2024	March 2025	March 2026	Beyond March 2026
% of GLA	2.9	26	24	13	10	24
Cumulative	2.9	29	53	66	76	100

Vacancy profile

The total portfolio's vacancy (based on GLA) decreased from 3.9% in March 2021 to 2.9%. Compared to the FY21 vacancy of 3.2%, the retail portfolio's vacancy reduced to 2.6% partly due to the sale of the Namibian portfolio but more importantly due to robust leasing activity. The focused in-house leasing drive to fill vacancies resulted in retaining retail vacancies at 2.6% amid turbulent times during the July 2021 unrest and the lagging impact of the COVID-19 pandemic. Industrial, office and residential markets remain under pressure, but significant traction was made to reduce vacancies in these segments as well.

Vacancies (% of GLA)	31 March 2022 %	31 March 2021 %
Retail	2.6	3.2
Offices	4.2	7.5
Industrial	6.7	9.3
Motor related	—	—
Residential	12.5	30.9
Total	2.9	3.9

Including development vacancy, the 31 March 2022 vacant GLA is 3.0%.

Vacancies (% of gross rental)	31 March 2022 %	31 March 2021 %
Retail	2.7	3.5
Offices	6.9	6.5
Industrial	6.1	12.2
Motor related	—	—
Residential	23.5	15.5
Total	3.0	3.8

Including development vacancy, the 31 March 2022 vacant rent is 3.3%.

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				
	31 March 2022		31 March 2021		Movement
	m ²	%	m ²	%	m ²
Pinetown Pine Crest	1 560	4	285	1	1 275
Mdantsane City Shopping Centre	1 571	4	711	2	860
Durban Workshop	1 236	6	390	2	846
Queenstown Nonesi Mall	1 212	4	705	3	507
Randburg Square	2 855	7	2 476	6	379
Johannesburg Houghton 1 West Street	1 190	27	1 375	31	(185)
Mbombela Shoprite Centre	3 051	22	3 688	26	(637)
Boksburg East Rand Mall	517	2	1 194	3	(677)
Midrand Allandale Industrial Park	1 866	9	2 575	12	(709)
Randburg Square Apartments	941	13	2 318	31	(1 377)
Roodepoort Hillfox Power Centre	601	2	3 743	10	(3 142)

Leasing profile

Vukile concluded new leases and renewals in excess of 188 000m² with a contract value of R1 366.8 million. Tenant retention on the total portfolio was 91%, with retail retention at 93%.

Rental profile

There were negative reversions of 2.4% on the retail portfolio. Although transactions were limited in the industrial and office sectors, reversions were concluded at flat or marginally negative to retain tenants. Retail reversions were stronger in the value, rural and township segments, and are starting to show an improvement in the urban and commuter portfolios.

The weighted average base rental rates (excluding recoveries) increased by 5.4% from R141.26/m² to R148.91/m² during the year.

Base rental rates (excluding recoveries)	31 March 2022 R/m ²	31 March 2021 R/m ²	Escalation %
Retail	152.69	146.40	4.3
Offices	113.72	110.23	3.2
Industrial	69.48	60.05	15.7
Motor related	196.78	183.90	7.0
Residential	130.63	140.48	(7.0)
Portfolio weighted average base rentals	148.91	141.26	5.4

The higher average rental rate growth on industrial properties is due to the sale of Pretoria Rosslyn Warehouse, Kempton Park Spartan Warehouse and Centurion Samrand N1. Excluding the sold properties, average rental growth on the industrial portfolio is negative 2.5%.

Retail escalations of an average 6.4% are easing with national tenants demanding lower in-contract escalations. Escalations, however, remain ahead of inflation rates.

	31 March 2022 %	31 March 2021 %
Retail	6.4	6.7
Offices	7.5	7.5
Industrial	7.5	7.7
Motor related	7.0	7.0
Total	6.5	6.7

Retail tenant profile and exposure

Vukile's tenant exposure is well diversified and low risk, with national tenants representing c.82% of retail rental income.

Our top 10 tenants account for 44% of total rent and 51% of GLA. Pepkor and Foschini are our two single largest tenants, respectively accounting for 7.3% of total rent.

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 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 2.8 years, with 26% of contractual rental expiring in 2026 and beyond.

Costs

The largest expense categories contribute 78% to the total expenses. These are government services (44%), rates and taxes (17%), 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 is now tracking closer to historical averages.

Net cost-to-income ratio: remaining portfolio	2016	2017	2018	2019	2020	2021	2022
	%	%	%	%	%	%	%
All expenses	18.4	15.4	15.6	16.4	15.9	18.9	16.8
All expenses excluding rates and taxes and electricity	17.2	15.2	15.1	15.4	15.5	18.4	17.7

Like-for-like net operating income (NOI) growth

Although most of the COVID-19 impact was felt in FY21, delayed effect is still visible in FY22 due to deferred occupancy of new stores, lower turnover rental, increased bad debt and marginal rental concessions. The stable portfolio delivered 17.7% NOI growth versus the comparable period in FY21. Excluding the effect of COVID-19, growth of 3.5% was achieved.

Like-for-like growth (stable portfolio) – including COVID-19 impact	31 March 2022	31 March 2021	% change
Property revenue (Rm)	1 474.7	1 283.9	14.9
Net property expenses (Rm)	248.3	242.3	2.5
Net property income (Rm)	1 226.4	1 041.6	17.7
Net cost-to-income ratio (%)	16.8	18.9	

Like-for-like growth (stable portfolio) – excluding COVID-19 impact	31 March 2022	31 March 2021	% change
Property revenue (Rm)	1 465.5	1 415.4	3.5
Net property expenses (Rm)	248.1	238.8	3.9
Net property income (Rm)	1 217.4	1 176.6	3.5
Net cost-to-income ratio (%)	16.9	16.9	

PORTFOLIO REVIEW – SPAIN

The Spanish portfolio demonstrated its high quality and resilience. With over 94% of its GLA let to international and national tenants, the business continues to show its strength, nodal dominance and long-term sustainability.

At 31 March 2022 the Spanish portfolio consisted of 16 properties externally valued at €1 001 million, with a GLA of 350 271m², and an average value of €63 million per property. Total property-related assets are valued at €1 091 million, including the 21.7% stake in Lar España acquired during the period.

OPERATING ENVIRONMENT

Operational highlights

Asset management in action

Castellana again demonstrated the importance of having specialist retail management, with the portfolio continuing to show its strength and reliability despite the ongoing challenges posed by the pandemic. Castellana strengthened its relationships with key tenants, leading to new store openings, growing rents and low vacancies across the portfolio.

Highlights for the period include the following:

- Castellana became a 100% retail-focused SOCIMI by disposing of the Konecta office portfolio for an 18% premium on the original purchase price and at 101% of book value.
- Acquiring a 21.7% stake in Spanish-listed retail-focused SOCIMI Lar España at €5.35 per share, representing a discount to NAV of approximately 50%.
- A 98.4% portfolio occupancy, with negligible vacancies of 1.6%. The market considers a portfolio with an occupancy rate above 97% as fully let.
- A long and stable portfolio WALE of 13.2 years, and WALE to break at 2.6 years.
- Positive rental reversions of 3.12% at an average of €21.7/m² for renewals, relocations and replacements.
- Increasing average base rentals to €15.17/m².
- Growing footfall and growth trends over the entire year that outperformed national benchmarks. Footfall increased to 94.4% of pre-COVID-19 levels. Sales grew by 2.21%.
- More leasing activity with 170 leases covering 36 366m² of GLA signed, representing an incremental annualised NOI of €3.2 million.
- Successful completion of redevelopment projects with rental projections already exceeding budgets and with 95.2% of related GLA already occupied.
- New anchor tenants opened stores across the portfolio, such as Primark in Bahía Sur (4 100m²), Lefties (2 700m²) in Los Arcos, Aldi (1 352m²) in Parque Oeste, Massimo Dutti (718m²) in El Faro, and Muebles Boom (1 687m²) and Homelandia (4 158m²) in Granaita. Furthermore, Pepco signed leases for Granaita (795m²), Parque Oeste (609m²) and Los Arcos (100m²). Notably Pull&Bear relocated within Los Arcos, whilst increasing its GLA (887m²).

TENANT ARREARS

Tenant arrears amounted to €1.02 million (R17 million) at 31 March 2022, and were reduced significantly from the prior year when arrears stood at €3.3 million. Castellana's in-house property administration team collected 98.7% of monthly rental invoices.

The allowance for the impairment of tenant receivables at 31 March 2022 decreased to €1.2 million (R20.5 million) (31 March 2021: €1.5 million).

PROJECTS

Castellana secured 95.2% of the leases on its value-adding redevelopment projects in Los Arcos, Bahía Sur and El Faro. The projects aim to strengthen the existing offerings and dominance of the centres by adding new and exciting retailers, creating pedestrianised open spaces, and introducing attractive fashion, food and beverage, and leisure operators in the centres. These projects have already demonstrated their ability to enhance the customer experience and improve the number and quality of retailers in the centres, with most stores already open.

In Los Arcos, 91.3% of the project GLA is signed and committed, and there have been 20 new store openings. During the year, new tenants such as Juguettos, Mary Paz, Miniso, Jolfer and Game have opened, with Pepco and RKS due to open soon. The centre has reinforced its position as the best, and most convenient shopping centre in its area, with the most extensive tenant offering.

Some 97.1% of the El Faro project GLA is secured with signed leases. This project was essentially complete at year-end. The shopping centre reinforced its tenant mix with Max Colchón, Ginos, Taco Bell, Loco Arroz, Don G and Cantina Mariachi.

Bahía Sur has 95.2% of project tenants signed and committed. New brand, Inside, opened in September 2021, and Primark opened in January 2022.

KONECTA DISPOSAL

With a selling price above the current valuation and at a significant premium of 18% to the original purchase price, the sale of the Konecta office portfolio increased available cash on Castellana's balance sheet, providing flexibility for balance sheet management and the pursuit of new opportunities.

INVESTMENT IN LAR ESPAÑA

In January 2022 Castellana acquired approximately 21.7% of the shares in Lar España for €97 million at €5.35 per share. The investment was acquired at a 48% discount to net tangible asset value with a forward FFO yield in the range of 9% to 11%.

Lar España is a Spanish retail-focused REIT externally managed by Grupo Lar. The company has a gross asset value of €1.4 billion across a GLA of 550 000m². Lar España has a net LTV of 41% with about €200 million of cash on its balance sheet.

With this acquisition, Castellana is now the largest shareholder in Lar España. Castellana has increased its exposure to the retail property market by investing in the largest listed retail-focused REIT in Spain, which owns a portfolio of high-quality shopping centres and retail parks. The acquisition price takes advantage of the current dislocation between the listed real estate and direct property markets, enabling Castellana to acquire a stake in a portfolio of high-quality retail properties at a significant discount to NAV. The investment offers a high dividend yield with powerful capital appreciation potential over the medium to long term.

COVID-19 IN SPAIN

Spain has successfully vaccinated 93% of the population above 12 years of age against COVID-19, equating to 40 million people. This has resulted in very low hospitalisation rates and deaths. Spain removed all restrictions on indoor masking on 19 May 2022, with masks only required on public transport and in healthcare centres, senior living homes and pharmacies. Activity levels have returned to normal across the country.

ECONOMIC OVERVIEW

The outlook for the Eurozone has become more uncertain and dependent on events in Ukraine. Soaring energy prices and low-consumer confidence linked to the conflict in Ukraine imply short-term headwinds to domestic demand. However, the consensus view is that these effects will be temporary. Over the medium term, the market is expecting supply bottlenecks from the pandemic to fade and growth to converge towards historical average rates, despite a less supportive fiscal stance and an increase in interest rates by the European Central Bank to contain inflation. Overall, real gross domestic product (GDP) growth is projected to average 2.8% in 2022 and 2.3% in 2023 in the Eurozone.

Consumption is projected to remain stable in 2022, despite the increased uncertainty posed by the conflict in Ukraine and is expected to continue to drive economic growth. The pent-up demand accumulated during the pandemic, is expected to partially offset the impact of inflation on household consumption. Together with a rebound in tourism adding to domestic demand.

Despite higher inflation rates and the withdrawal of fiscal transfers, the labour market recovered in 2021 to pre-pandemic levels with record employment figures not seen since the beginning of the global financial crisis of 2008. Last year, Spain created jobs at the highest rate since 2005. Unemployment fell to a rate of around 13%.

Business investment is expected to increase over the medium term and account for an increasing share of real GDP, notwithstanding the conflict in Ukraine, as supply bottlenecks ease and funds from NextGenerationEU, the EU's recovery plan for Europe, are disbursed.

CASTELLANA GROWTH PLAN

Castellana's portfolio has been fully open and trading well during FY22. Sales and footfall have experienced a very positive trend during the past 12 months, even surpassing pre-pandemic levels in the final months of the financial year. This clearly conveys that Castellana's portfolio has recovered significantly versus 2019, beating the benchmark. This performance reinforces the dominance and resilience of the portfolio.

Business review

Castellana remains well capitalised and continues to operate from a position of strength due to the quality of its retail portfolio. Constant engagement with tenants, banks and other stakeholders allowed us to take forward-looking strategic decisions. The results of these decisions are reflected in the improvement of several metrics such as vacancy, arrears, debt restructuring, and footfall and sales. The business has demonstrated its robustness during the most challenging period in recent memory.

Tenant and industry engagement

After overcoming the sixth wave of the COVID-19 pandemic, dominated by the Omicron variant, during the final part of 2021 and early 2022, footfall and sales have continued to recover very positively in both our shopping centres and retail parks. These metrics closed the fiscal year at almost 2019 levels and, in some cases, surpassed them. The impact was significantly lower than in previous waves. Despite a large number of diagnosed cases, life was mostly back to normal.

In addition, the strength of our portfolio has been reinforced by the recently completed value-added projects. We already see improvements in most of the metrics and expect further improvements in the coming year. In terms of footfall, El Faro (11.7% FY22 versus FY20) and Bahía Sur (6.9% FY22 versus FY20) are already performing better than FY20 and Los Arcos (93% of FY20) is recovering back to previous levels month by month. In terms of sales El Faro (99.9% of FY20), Bahía Sur (100.9% of FY20) and Los Arcos (90.5% of FY20) are all showing significant improvement and a return to normality.

Regarding rental discounts, the first and the last months of FY22 were affected by the fifth and sixth waves of the pandemic respectively, impacting mainly the leisure and food and beverage sectors. Trying to assist these tenants, we agreed to occasional temporary rental discounts. In aggregate, the rental discounts were around €3 million. This initiative has allowed us to maintain full occupancy in the portfolio and has improved the collection rate each month. We closed the year with an occupancy of 98.4% and a

collection rate of 98.7%. Looking to the future, we expect a recovery in the categories of retail most affected by the pandemic. Players in the food and beverage category have restarted their expansion plans. In the leisure category, cinemas are already opening at full capacity and improving their metrics monthly. The entry of new international operators into the Spanish market is well documented. They have ambitious expansion plans and, given our scale and quality of assets, are choosing our portfolio to achieve their goals. All this signals a confident and promising growth path ahead.

Debt provider engagement

Castellana continues to engage with its debt providers who fully support the business and are satisfied with Castellana's balance sheet strength and cash position. We are confident of Castellana's ability to remain comfortably within its LTV and net yield on debt covenant levels. In February 2022 Castellana completed the syndicated loan refinancing of our retail park portfolio including Habaneras Shopping Centre in Alicante. By concluding a €185 million, fixed-rate, seven-year agreement with Aareal Bank A.G. and Banco Santander This agreement is a clear sign of the confidence that credit institutions have in Castellana. It places the company's average debt maturity at five years.

Castellana Properties obtained a BBB- Investment Grade long-term rating with a stable outlook. Fitch, a premier international rating agency, positively assessed our stability, active management, quality of our portfolio, increased rents, and improved cash flow.

This rating confirms the quality of the management team and our position as one of the leading retail real estate SOCIMs in the Spanish market.

Footfall, sales and collections performance (April 2021 to March 2022)

Footfall and sales

	2021			2022		
	Oct 2021 %	Nov 2021 %	Dec 2021 %	Jan 2022 %	Feb 2022 %	Mar 2022 %
Change in footfall October 2021 to March 2022 (versus the corresponding month of 2019)	(1.0)	(2.0)	(7.4)	(8.5)	0.2	(5.1)

Castellana has seen a continuous improvement in footfall and sales during the year. A new wave of the pandemic caused by the Omicron variant impacted the portfolio during December 2021 and January 2022, but the recovery was rapid after restrictions were lifted.

	2021			2022		
	Oct 2021 %	Nov 2021 %	Dec 2021 %	Jan 2022 %	Feb 2022 %	Mar 2022 %
Change in sales October 2021 to March 2022 (versus the corresponding month of 2019)	7.2	5.8	(2.6)	(3.6)	12.3	6.9

Retail parks and shopping centres are currently performing above pre-COVID-19 levels. The leisure, food and beverage and fashion and accessories categories continue recovering each month. The pets, DIY and sports categories achieved the strongest growth compared to FY20. The portfolio sales closed FY22 at 102.21% of FY20.

A high 94% of Castellana's rentable area is let to tenants that are national and international brands.

Collections

During the year, discount agreements and payment plans were agreed upon with Inditex, Yelmo and other tenants. As a result, many outstanding amounts have subsequently been received and normalised, increasing the collection rate for the year to 98.7%.

Collections April 2021 to March 2022	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022
Total net invoiced amount (€m)*	5.1	5.7	5.0	5.8	5.4	5.5	5.8	5.9	5.9	6.3	6.3	5.9
Total collected (%)	99.1	99.1	98.7	98.9	98.8	99.0	99.0	99.4	98.8	98.8	97.2	95.2
Total outstanding (%)	0.9	0.9	1.3	1.1	1.2	1.0	1.0	0.6	1.2	1.2	2.8	4.8

* Not considering net turnover rent, €943 000 invoiced in FY22 and accounting date for invoicing.

Recent months are always higher as there has not been sufficient arrears management. The more time the collection team spends on recovering the amounts the lower the arrears rate.

VALUATION OF SPANISH PORTFOLIO

The Spanish portfolio was independently valued by Colliers at €1 001.0 million (R17.1 billion) at 31 March 2022 (31 March 2021: €987.2 million or R17.1 billion), representing a 4.5% like-for-like increase in value over the last financial year, (excluding the sale of the Konecta offices in June 2021 for €26.5 million).

During the Covid-19 pandemic, the portfolio declined in value by (2.6)% however the current valuation as at 31 March 2022 demonstrates the strength of the portfolio with a like-for-like increase of 0.2% versus the pre-Covid portfolio value as at 30 September 2019.

The fair value of the portfolio is estimated using a DCF 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 considers 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.

Real estate market in Spain

In 2021, retail property investors continued to focus their capital on food retail, with record trading volumes triple those of 2019. Four large supermarket portfolio sales took place, the biggest being a portfolio of 27 Mercadona supermarkets purchased for more than €100 million.

We saw two major new openings in 2021: Open Sky, a 90 600m² GLA shopping centre in Madrid, and Vialia de Vigo, an asset that will house an intermodal train and bus station with a leisure area, a public square of more than 30 000m² and a 43 000m² GLA shopping centre with more than 120 stores.

There were no significant shopping centre transactions in 2021. However, the market was positively surprised by two large transactions in early 2022. Torrecardenas, a dominant 60 000m² GLA shopping centre and retail park in Almeria were sold for €172 million, and Ribera del Xuquer, a 40 000m² GLA shopping centre in Valencia, sold for €42 million.

The arrival of 2022 also brought a strong appetite for supermarket portfolios and supermarket-anchored retail parks. Some of the reasons this asset class is gaining more attention from investors include its resilience to adverse economic cycles and pandemics, good locations with the possibility of functioning as last-mile distribution warehouses, lower rents, lower competition, longer lease terms, and it is a lower-cost alternative for tenants.

Portfolio overview

Top 10 properties by value

Castellana is now 100% retail focused. Cumulatively, 97% of tenants are international and national tenants. These properties comprise 92% of the total portfolio value, 91.5% of the total portfolio rent and 84% of the total portfolio GLA.

Property	Location	GLA m ²	Value €m	% of total portfolio	Valuation €/m ²
El Faro*	Extremadura	40 318	168.5	16.8	4 179
Bahía Sur	Andalucia	35 333	147.2	14.7	4 166
Los Arcos*	Andalucia	26 680	134.3	13.4	5 034
Granaita Retail Park	Andalucia	54 807	107.2	10.7	1 956
Vallsur	Castilla Leon	35 212	83.0	8.3	2 357
Habaneras	Com. Valenciana	25 021	86.5	8.6	3 457
Puerta Europa	Andalucia	29 783	71.7	7.2	2 407
Parque Oeste	Madrid	13 604	52.0	5.2	3 822
Parque Principado	Asturias	16 090	37.2	3.7	2 312
Marismas del Polvorín	Andalucia	18 220	28.1	2.8	1 542
Total top 10 properties		295 068	915.7	91.4	3 103
% of total portfolio		84	92		

*Excluding development properties valuation.

SUMMARY OF PORTFOLIO CHANGES

GLA reconciliation		GLA m ²	
Balance as at 31 March 2021		367 015	
GLA adjustment (Konecta disposal)		(16 744)	
Balance as at 31 March 2022		350 271	
Areas under development		—	
Non-lettable area		—	
GLA excluding areas under development		350 271	
Vacancy reconciliation		GLA m ²	%
Balance as at 31 March 2021		6 186	1.7
Vacancy movement		(544)	
Balance as at 31 March 2022		5 642	1.6

PORTFOLIO PROFILES

Geographic profile

The geographic distribution of the Spanish portfolio is indicated in the table below. Some 90.4% of the gross income comes from Andalucía, Extremadura, Com. Valenciana and Castilla Leon.

Geographic portfolio	% of rental income	% of GLA
Andalucía	51	49
Extremadura	20	21
Com. Valenciana	10	8
Castilla Leon	10	10
Madrid	4	4
Asturias	3	4
Murcia	2	4

Sector profile

Based on value, 100% of the Spanish portfolio is in the retail sector.

Tenant profile

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

	% of rental income	% of GLA
Large national and international tenants	94	94
Local tenants (108 tenants)	6	6

Expiry profile

Castellana has a 13.2 years tenant expiry profile and 2.6 years to break with 58% of contractual rental expiring in 2031 and beyond.

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

Total portfolio

	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	March 2029	March 2030	March 2031	Beyond March 2031
	%	%	%	%	%	%	%	%	%	%	%
% of contractual rent	1	7	5	7	5	4	5	5	3	4	54
Cumulative	1	8	13	20	25	29	34	39	42	46	100

COMMENTARY continued

Total portfolio continued

	Vacant	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	March 2031 %	Beyond March 2031 %
% of GLA	1.6	1	4	3	6	2	2	4	4	3	3	66
Cumulative	1.6	3	7	10	16	18	20	24	28	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.

Total portfolio

	March 2022 %	March 2023 %	March 2024 %	March 2025 %	March 2026 %	March 2027 %	March 2028 %	March 2029 %	March 2030 %	March 2031 %	Beyond March 2031 %
% of contractual rent	1	30	20	16	15	6	6	2	1	2	1
Cumulative	1	31	51	67	82	88	94	96	97	99	100

Vacancy profile

The portfolio's vacancy rate at 31 March 2022 was 1.6%.

Vacancies (% of GLA)	31 March 2022 %	31 March 2021 %
Shopping centres	2.3	2.2
Retail parks	0.8	1.3
Offices	—	—
Total	1.6	1.7

Rental profile

The Castellana portfolio's weighted average rental has increased up to €15.17/m².

	30 March 2022 €/m ²	31 March 2021 €/m ²	Escalation %
Shopping centres	19.43	18.58	4.6
Retail parks	10.07	9.56	5.3
Offices	—	9.89	(100.0)
Portfolio weighted average base rentals	15.17	14.22	6.7

COSTS

Service charges are the most significant expense and represent 76.32% of total property expenses. Service charges mainly include utilities, cleaning, marketing, security and management. Property tax is another significant expense representing 13.10% of the total property expenses.

LIKE-FOR-LIKE NET OPERATING INCOME GROWTH (WITH RENT CONCESSIONS)

Like-for-like growth (stable portfolio)	31 March 2022	31 March 2021	% change
Property revenue (€m)*	55.53	40.48	37.18
Net property expenses (€m)*	(4.86)	(3.66)	32.79
Net property income (€m)	50.67	36.82	37.62
Net cost-to-income ratio (%)	8.75	9.04	(3.20)

*Calculated according to EPRA Cost Ratio excluding corporate expenses

THE VUKILE ACADEMY

The Vukile Academy (www.vukileacademy.co.za) is Vukile's flagship project for skills development, mentorship and transformation.

The academy's focus is to contribute highly skilled, motivated and passionate young black professionals to the South African property sector each year. It is a platform that facilitates access to quality tertiary education in the property sector and by creating access to job opportunities for young black property professionals, provides education, work experience and career development.

The Vukile Academy is proudly a Vukile Property Fund initiative that continues to give back to our communities and SA as a whole. We endeavour to uplift the lives of our people and create a better environment for all.

The academy focuses on the following areas:

THE VUKILE BURSARY FUND

The Vukile Bursary Fund, in partnership with the South African Property Owners Association (SAPOA), Women's Property Network (WPN), South African Institute of Black Property Practitioners (SAIBPP), as well as the University of Pretoria (UP) contributed c.R6.5 million towards tertiary education tuition for 66 students through bursaries for studies in property/real estate-related fields.

THE VUKILE INTERNSHIP AND MENTORSHIP PROGRAMME

Our internship programme welcomed nine young, passionate and driven candidates in February 2022. Vukile undertook a rigorous and transparent selection process to identify and award deserving candidates a position in the Vukile Internship and Mentorship Programme. We received well over 70 applications. Our programme is designed as an integration platform into the real professional world for graduates who, in the main, are selected from our bursary recipients. The industry-leading programme is designed by curriculum experts and professionals from the industry and tertiary institutions like the Gordon Institute of Business Science and the UP. It delivers over 10 modules, including a personal mastery programme, which forms a crucial element of the programme. The essence of the internship programme is to impart the Vukile Brand DNA to our candidates. They are each offered a fixed-term employment contract for one year. Each intern is allocated a mentor and receives 12 mentorship sessions and two life coaching block sessions during the year.

VUKILE RETAIL ACADEMY

In the past financial year we have launched an innovative and uniquely South African retail incubation programme, whose objective is to create greater diversification in tenant and category mix within our malls.

This is an incubation programme designed to help the next wave of second-tier retailers, particularly after observing the strong performance of this category of tenants over the past five years.

The retail academy provides favourable leasing terms, a growth plan within the portfolio, mentorship by a team of pre-eminent retailers and access to Vukile's development and project team to enable these retailers to thrive with reduced barriers to entry.

Nine candidates were selected for the programme, namely Fakizinto Concepts, Malea Garments, Delisabhem Restaurant, The Scrummy Ice Cream, Tso's Café, Zonwabo Cakes, Lielo Beauty, Ikhaya Homeware and Décor and Imbewu Fruit and Veg. These retailers cover numerous categories such as fashion, shoes, food services, confectionery, restaurant, health and beauty, homeware and décor and fruit and veg. Total GLA of 1 035m² has been allocated to this project. Malls identified to ensure that the project succeeds are Daveyton, Dobsonville, Hammanskraal, Hillfox and Randburg Square.

PROSPECTS FOR THE GROUP

Having successfully navigated the ongoing challenges of the COVID-19 pandemic and unrest in South Africa during the past financial year, we are delighted with the results produced and the extremely strong position of the business going forward. While there remains uncertainty about the global growth outlook fuelled by the war in Ukraine, ongoing supply chain dislocations, inflation fears and a rising interest rate cycle, our business model has been proven to be resilient, sustainable and well positioned to withstand potential volatility.

Retail sales and footfall have returned to pre-COVID-19 levels and we are very encouraged by the strong trading environment in both Spain and South Africa, where we are seeing good demand and competition from retailers to expand our portfolios. We continue to see benefits from our retail specialisation model and data-driven asset management capabilities.

The balance sheet remains strong, with a long expiry profile and significant support from our funders. Interest rate exposure in both Vukile and Castellana is well hedged and a rising interest rate environment should not have a material impact on earnings or outlook in the short to medium term.

Based on our current forecasts, an assumed ZAR/EUR exchange rate of R16.80 and maintaining a similar payout ratio to the current year, we expect to deliver growth in FFO per share and dividend per share of between 5% to 7% for the year ending 31 March 2023. This will equate to a full year dividend per share of between 111 and 113 cents (FY22: 105.8 cents), to be paid with an interim and a final dividend. The forecast also assumes no material adverse change in trading conditions or large corporate failures, contracted escalations and market-related renewals.

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

SUBSEQUENT EVENTS

I. DECLARATION OF DIVIDEND

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

The board approved a final dividend on 9 June 2022 of 65.29 cents for the year ended 31 March 2022 amounting to R640 million. The dividend represents a payout ratio of 77% of total group FFO.

II. SALE OF INVESTMENT PROPERTY

The following properties transferred after year-end and meet the definition of non-adjusting post-balance sheet events as per IAS 10 – *Events after the Reporting Period*:

- On 18 May 2022, Mbombela Truworths was transferred at a selling price of R22.2 million.

BASIS OF PREPARATION

The summarised consolidated financial statements for the year ended 31 March 2022, and comparative information, have been prepared in accordance with, and containing the information required by, International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Announcements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements, IAS 34, and relevant sections of the Companies Act, 71 of 2008, as amended (Companies Act).

All accounting policies applied by the group in the preparation of these condensed consolidated financial statements are consistent with those applied by the group in its consolidated financial statements for the year ended 31 March 2021, except where new standards have been introduced as disclosed in note 1.2.

These statements, which comprise the statement of financial position at 31 March 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the 12 months then ended, are extracted from audited information, but are themselves not audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unqualified opinion thereon. The auditor's report does not necessarily cover all of the information included in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of the audit report together with the accompanying financial information, both of which are available on the company's website and at the registered office of the company.

The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying financial statements. This report was compiled under the supervision of Laurence Cohen CA(SA) in his capacity as chief financial officer.

The directors are not aware of any matters or circumstances arising subsequent to 31 March 2022 that require any additional disclosure or adjustment to the financial statements and which are not disclosed in this announcement.

On behalf of the board



NG Payne

Chairman



LG Rapp

Chief executive officer

Houghton Estate

9 June 2022

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

Namibian Stock Exchange (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: South Africa)

Non-executive directors: NG Payne (chairman)*, SF Booysen*, RD Mokate*, H Ntene*, GS Moseneke, B Ngonyama*, AMSS Mokgabudi*

* Independent

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Company secretary: J Neethling

Transfer secretaries: JSE Investor Services (Pty) Ltd, Braamfontein, Johannesburg

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WWW.VUKILE.CO.ZA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2022

Group	31 March 2022 Rm	31 March 2021 Rm
ASSETS		
Non-current assets	33 597	33 989
Investment property	30 535	32 073
Straight-line rental income accrual	326	341
Financial assets at fair value through profit or loss (FVTPL)	406	340
Equity investment at fair value through other comprehensive income (FVTOCI)	1 452	—
Investment in associate at fair value	—	538
Investment in associate (equity accounted)	120	16
Investment in joint venture (equity accounted)	48	55
Derivative financial instruments	260	168
Long-term loans granted	278	254
Deferred taxation assets	—	3
Other non-current assets	172	201
Current assets	1 128	2 003
Trade and other receivables	309	391
Derivative financial instruments	40	47
Current taxation assets	12	—
Other current assets	15	—
Cash and cash equivalents	565	1 003
Non-current assets held for sale	187	562
Investment property	182	551
Other assets	10	11
Other liabilities	(5)	—
Total assets	34 725	35 992
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent	17 568	17 361
Stated capital	13 138	12 838
Other components of equity	2 529	3 153
Retained earnings	1 901	1 370
Non-controlling interest	1 082	1 559
Non-current liabilities	14 197	13 356
Interest-bearing borrowings	13 333	12 622
Lease liability	272	201
Share scheme liability	1	—
Derivative financial instruments	373	279
Deferred taxation liabilities	33	23
Other non-current liabilities	185	231
Current liabilities	1 878	3 716
Trade and other payables	610	585
Short-term portion of interest-bearing borrowings	1 163	2 604
Short-term portion of lease liability	18	19
Derivative financial instruments	79	501
Current taxation liabilities	5	4
Shareholders for dividends	3	3
Total equity and liabilities	34 725	35 992

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 March 2022

Group	31 March 2022 Rm	31 March 2021 Rm
Property revenue	3 485	3 117
Straight-line rental income accrual	(10)	(67)
Gross property revenue	3 475	3 050
Property expenses	(1 238)	(1 203)
Expected credit loss (ECL): tenant receivables	(24)	(51)
Net profit from property operations	2 213	1 796
Corporate and administrative expenses	(296)	(286)
Total investment and other income	393	318
Fair value movement on non-designated portion of CCIRS	(59)	(32)
Profit before finance costs	2 251	1 796
Finance costs	(809)	(707)
Profit after finance costs	1 442	1 089
Loss on disposals and acquisitions	(36)	(30)
Loss on realisation of derivative	(59)	—
Fair value (loss)/gain on financial instruments	3	233
Impairments	1	(13)
Foreign exchange gain on GBP loans	—	9
Profit before changes in fair value of investment property	1 351	1 288
Fair value adjustments:	652	(847)
Gross change in fair value of investment property	637	(920)
Change in fair value of right-of-use asset	5	6
Straight-line rental income adjustment	10	67
Profit before equity-accounted investment	2 003	441
Share of income from associate	27	18
Share of loss from joint venture	(4)	(1)
Profit before taxation	2 026	458
Taxation	(34)	(40)
Profit for the year	1 992	418
Attributable to owners of the parent	1 909	584
Attributable to non-controlling interest	83	(166)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2022

	31 March 2022 Rm	31 March 2021 Rm
Profit for the year	1 992	418
Other comprehensive income (OCI) net of tax		
Items that will not be reclassified to profit or loss:		
Equity investments designated at fair value through OCI	(156)	—
Fair value adjustment on equity investments	(156)	—
Items that will be reclassified to profit or loss:		
Foreign currency translation reserve	(675)	(61)
Associate	(3)	(17)
Joint venture	(3)	(4)
Subsidiary	(669)	(40)
Cash flow hedges	153	(96)
Interest rate swaps	151	(96)
Barrier option	2	—
Items that have been reclassified to profit or loss:		
Realisation of OCI on disposal of equity-accounted associate (Atlantic Leaf)	—	(328)
Other comprehensive loss for the year	(678)	(485)
Total comprehensive income/(loss) for the year	1 314	(67)
Attributable to owners of the parent	1 264	238
Attributable to non-controlling interest	50	(305)

RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS

for the year ended 31 March 2022

	31 March 2022		31 March 2021	
	Rm	Cents per share	Rm	Cents per share
Profit attributable to owners of the parent	1 909	199.10	584	61.04
Earnings and diluted earnings	1 909	199.10	584	61.04
Change in fair value of investment property (net of allocation to non-controlling interest)	(601)	(62.73)	705	73.72
Remeasurement of right-of-use asset	(5)	(0.48)	(6)	(0.60)
Profit on sale of investment property	(1)	(0.14)	(2)	(0.20)
Profit on acquisition of joint operations	(1)	(0.08)	—	—
Loss on sale of listed property securities (Atlantic Leaf)	—	—	32	3.30
Loss of control of subsidiary	17	1.75	—	—
Impairment of investment in associate	8	0.81	—	—
Remeasurement included in equity-accounted earnings of associate	(38)	(3.98)	—	—
Headline and diluted headline earnings	1 288	134.25	1 313	137.26
Number of shares in issue	980 226 628		956 226 628	
Weighted average number of shares	958 593 751		956 226 628	

There are no dilutionary shares in issue.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2022

Rm	Stated capital	Other components of equity	Retained earnings	Total shareholders' interest	NCI	Total
Balance at 31 March 2020	12 838	3 988	716	17 542	1 957	19 499
Dividend	—	—	(461)	(461)	(95)	(556)
	12 838	3 988	255	17 081	1 862	18 943
Profit for the period	—	—	584	584	(166)	418
Transfer to non-distributable reserve	—	(531)	531	—	—	—
Transactions with NCI	—	—	—	—	(3)	(3)
Change in ownership of a subsidiary recognised in equity	—	(3)	—	(3)	3	—
Equity-settled share scheme	—	45	—	45	2	47
Other comprehensive loss	—	(346)	—	(346)	(139)	(485)
Balance at 31 March 2021	12 838	3 153	1 370	17 361	1 559	18 920
Issue of share capital	300	—	—	300	—	300
Dividend	—	—	(1 354)	(1 354)	(23)	(1 377)
	13 138	3 153	16	16 307	1 536	17 843
Profit for the period	—	—	1 909	1 909	83	1 992
Transfer to non-distributable reserve	—	24	(24)	—	—	—
Transactions with NCI	—	—	—	—	(545)	(545)
Change in ownership of a subsidiary recognised in equity	—	(38)	—	(38)	38	—
Equity-settled share scheme	—	35	—	35	3	38
Other comprehensive loss	—	(645)	—	(645)	(33)	(678)
Balance at 31 March 2022	13 138	2 529	1 901	17 568	1 082	18 650

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 March 2022

	31 March 2022 Rm	31 March 2021 Rm
Cash flow from operating activities	2 054	1 178
Cash flow from investing activities	356	930
Cash flow from financing activities	(2 823)	(2 739)
Net decrease in cash and cash equivalents	(413)	(631)
Foreign currency movements in cash	(25)	75
Cash and cash equivalents at the beginning of the period	1 003	1 559
Cash and cash equivalents at the end of the period	565	1 003
Major items included in the above:		
Cash flow from operating activities	2 054	1 178
Profit before tax	2 026	458
Adjustments ⁽ⁱ⁾	(39)	1 034
Working capital adjustments	91	(288)
Taxation paid	(24)	(26)
Cash flow from investing activities	356	930
Disposal of investment in equity-accounted associate	—	1 103
Proceeds on sale of investment property	1 218	211
Acquisition of investment property and development costs	(549)	(665)
Acquisition of investment in equity instruments at fair value through other comprehensive income	(1 600)	—
Proceeds on sale of listed securities	501	40
Loss of control of subsidiary	530	—
Investment and other income	308	323
Other	(52)	(82)
Cash flow from financing activities	(2 823)	(2 739)
Interest-bearing borrowings advanced	8 974	2 647
Interest-bearing borrowings repaid	(9 169)	(4 173)
Finance costs paid	(646)	(591)
Dividends paid	(1 376)	(556)
Equity transactions with NCI	(545)	—
Proceeds from issue of share capital	300	—
Settlement of derivatives	(324)	(21)
Other	(37)	(45)

⁽ⁱ⁾ Adjustments to cash flows from operating activities for 31 March 2022 include fair value gain on investment property of R637 million, finance costs of R809 million and fair value gain on equity investments of R35 million.

SUMMARISED OPERATING SEGMENT REPORT

for the year ended 31 March 2022

	Southern Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group income for the year ended 31 March 2022							
Revenue ⁽ⁱ⁾	1 557	67	1 624	891	92	983	2 607
Property expenses ⁽ⁱ⁾	(279)	(10)	(289)	(83)	(12)	(95)	(384)
Net income from property operations	1 278	57	1 335	808	80	888	2 223
Corporate and administrative expenses	(151)	(6)	(157)	(130)	(9)	(139)	(296)
Investment and other income	247	10	257	—	—	—	257
Finance income	5	23	28	—	—	—	28
Net interest CCIRS	103	5	108	—	—	—	108
Loss on realisation of derivative financial instrument	—	(59)	(59)	—	—	—	(59)
Income before finance costs	1 482	30	1 512	678	71	749	2 261
Finance costs	(61)	(459)	(520)	(278)	(11)	(289)	(809)
Income before equity-accounted income	1 421	(429)	992	400	60	460	1 452
Share of income from associate	—	27	27	—	—	—	27
Share of income from joint venture	—	(4)	(4)	—	—	—	(4)
Income before taxation	1 421	(406)	1 015	400	60	460	1 475
Taxation	(34)	13	(21)	—	—	—	(21)
Income	1 387	(393)	994	400	60	460	1 454
Net income attributable to NCI	—	(5)	(5)	—	(42)	(42)	(47)
Attributable to Vukile Group	1 387	(398)	989	400	18	418	1 407
Non-IFRS adjustments	5	(60)	(55)	—	(16)	(16)	(71)
Early termination of derivative	—	—	—	—	(58)	(58)	(58)
Accrued dividends	—	(27)	(27)	—	42	42	15
Equity-accounted profit adjustment	—	(33)	(33)	—	—	—	(33)
Non-cash impact of IFRS 16 – Leases	5	—	5	—	—	—	5
FFO	1 392	(458)	934	400	2	402	1 336

⁽ⁱ⁾ The revenue and property expense have been reflected net of recoveries. The summarised consolidated statements of profit or loss and OCI reflect the gross property revenue and gross property expenses.

	South Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group statement of financial position at 31 March 2022							
ASSETS							
Non-current assets	13 983	1 882	15 865	15 346	2 386	17 732	33 597
Investment property	13 675	686	14 361	15 253	921	16 174	30 535
Straight-line rental income accrual	308	18	326	—	—	—	326
Financial assets at fair value through profit or loss	—	406	406	—	—	—	406
Equity investments at fair value through other comprehensive income	—	—	—	—	1 452	1 452	1 452
Investment in associate (equity accounted)	—	120	120	—	—	—	120
Investment in joint venture (equity accounted)	—	48	48	—	—	—	48
Derivative financial instruments	—	260	260	—	—	—	260
Long-term loans granted	—	278	278	—	—	—	278
Other non-current assets	—	66	66	93	13	106	172
Current assets	406	162	568	424	136	560	1 128
Trade and other receivables	173	58	231	71	7	78	309
Derivative financial instruments	—	40	40	—	—	—	40
Current taxation	—	12	12	—	—	—	12
Short-term investments	—	—	—	—	15	15	15
Cash and cash equivalents	46	52	98	353	114	467	565
Non-current assets held for sale	187	—	187	—	—	—	187
Total assets							34 725
EQUITY AND LIABILITIES							
Equity attributable to the owners of the parent							17 568
Non-controlling interest							1 082
Non-current liabilities	272	5 860	6 132	185	7 880	8 065	14 197
Interest-bearing borrowings	—	5 460	5 460	—	7 873	7 873	13 333
Lease liability	272	—	272	—	—	—	272
Share scheme liability	—	1	1	—	—	—	1
Derivative financial instruments	—	373	373	—	—	—	373
Deferred taxation liabilities	—	26	26	—	7	7	33
Other non-current liabilities	—	—	—	185	—	185	185
Current liabilities	293	1 321	1 614	231	33	264	1 878
Trade and other payables	293	81	374	231	5	236	610
Short-term portion of interest-bearing borrowings	—	1 135	1 135	—	28	28	1 163
Short-term portion of lease liability	—	18	18	—	—	—	18
Derivative financial instruments	—	79	79	—	—	—	79
Current taxation liabilities	—	5	5	—	—	—	5
Shareholder for dividends	—	3	3	—	—	—	3
Total equities and liabilities							34 725

SUMMARISED OPERATING SEGMENT REPORT CONTINUED

for the year ended 31 March 2022

	Southern Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group income for the period ended 31 March 2021							
Revenue ⁽ⁱ⁾	1 418	83	1 501	645	96	741	2 242
Property expenses ⁽ⁱ⁾	(259)	(14)	(273)	(92)	(14)	(106)	(379)
Net distributable income from property operations	1 159	69	1 228	553	82	635	1 863
Corporate and administrative expenses	(145)	(9)	(154)	(54)	(78)	(132)	(286)
Investment and other income	78	5	83	2	—	2	85
Finance income	7	30	37	—	—	—	37
Net interest from cross-currency interest rate swaps	192	4	196	—	—	—	196
Distributable income before finance costs	1 291	99	1 390	501	4	505	1 895
Finance costs	(58)	(404)	(462)	(234)	(11)	(245)	(707)
Distributable income before equity-accounted	1 233	(305)	928	267	(7)	260	1 188
Share of income from associate (Atlantic Leaf)	—	18	18	—	—	—	18
Share of income from joint venture	—	(1)	(1)	—	—	—	(1)
Distributable Income before taxation	1 233	(288)	945	267	(7)	260	1 205
Taxation	(40)	—	(40)	—	—	—	(40)
Distribution income	1 193	(288)	905	267	(7)	260	1 165
Net distributable income attributable to non-controlling interests	—	(4)	(4)	—	(45)	(45)	(49)
Attributable to Vukile Group	1 193	(292)	901	267	(52)	215	1 116
Non-IFRS adjustments	—	104	104	—	—	—	104
Accrued dividends	—	98	98	—	—	—	98
Non-cash impact	—	6	6	—	—	—	6
Available for distribution	1 193	(188)	1 005	267	(52)	215	1 220

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

	Southern Africa			Spain			Total group Rm
	Retail Rm	Other Rm	Total Rm	Retail Rm	Other Rm	Total Rm	
Group statement of financial position at 31 March 2021							
ASSETS							
Non-current assets	15 028	1 735	16 763	15 752	1 474	17 226	33 989
Investment property	14 705	273	14 978	15 642	1 453	17 095	32 073
Straight-line rental income accrual	323	18	341	—	—	—	341
Financial assets at fair value through profit or loss	—	340	340	—	—	—	340
Investment in associate at fair value	—	538	538	—	—	—	538
Investment in associate	—	16	16	—	—	—	16
Executive share scheme financial asset	—	55	55	—	—	—	55
Derivative financial instruments	—	168	168	—	—	—	168
Financial assets at amortised cost	—	254	254	—	—	—	254
Deferred taxation	—	3	3	—	—	—	3
Other non-current assets	—	70	70	110	21	131	201
Current assets	243	1 051	1 294	547	162	709	2 003
Trade and other receivables	210	52	262	130	(1)	129	391
Derivative financial instruments	—	47	47	—	—	—	47
Cash and cash equivalents	33	390	423	417	163	580	1 003
Non-current assets held for sale	—	562	562	—	—	—	562
Total assets							35 992
EQUITY AND LIABILITIES							
Equity attributable to the owners of the parent							17 361
Non-controlling interest							1 559
Non-current liabilities	201	5 200	5 401	231	7 724	7 955	13 356
Interest-bearing borrowings	—	4 939	4 939	—	7 683	7 683	12 622
Lease liability	201	—	201	—	—	—	201
Derivative financial instruments	—	246	246	—	33	33	279
Deferred tax	—	15	15	—	8	8	23
Other non-current liabilities	—	—	—	231	—	231	231
Current liabilities	345	2 322	2 667	1 044	5	1 049	3 716
Trade and other payables	326	66	392	188	5	193	585
Short-term portion of interest-bearing borrowings	—	1 749	1 749	855	—	855	2 604
Short-term portion of lease liability	19	—	19	—	—	—	19
Derivative financial instruments	—	500	500	1	—	1	501
Current taxation liabilities	—	4	4	—	—	—	4
Shareholders for dividends	—	3	3	—	—	—	3
Total equity and liabilities							35 992

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the year ended 31 March 2022

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 determining discount rates 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 tenure 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. Management applied judgement in assessing whether certain assets qualify to be classified as held for sale. In management's opinion, the following assets met all the IFRS 5 requirements and are classified as held for sale:

- Mbombela Truworths Centre
- Monsterlus Moratiwa Crossing

1.2 NEW STANDARDS AND AMENDMENTS

The group has adopted the following new standards, or amendments to standards which were effective for the first time for the financial period commencing 1 April 2021:

1.2.1 Management has assessed the changes to IFRS 7 relating to the interest rate benchmark reform which is to result in amendments to the following standards:

- Amendments to IFRS 7 – *Financial Instruments: Disclosures*; and
- IFRS 16 – *Leases*.

IFRS 7 – *Financial Instruments: Disclosure* relates to instances where interbank offered rates (IBORs) are expected to be replaced by an alternative benchmark. This amendment permits the continuation of hedge accounting for such hedge relationships for phase 1. This will have no impact on the group.

1.2.2 Management has assessed the changes to IFRS 16 – *Leases* in respect of COVID-19-related rent concessions providing lessees with an exemption from assessing whether a COVID-19-related rent concession was a lease modification. The amendment had no impact on the group.

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	31 March 2022				31 March 2021			
	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	—	—	—	—	538	—	—	538
Equity investment at fair value through profit or loss	360	—	—	360	309	—	—	309
Equity investments at fair value through other comprehensive income	1 452	—	—	1 452	—	—	—	—
Executive share scheme financial asset	109	—	—	109	57	—	—	57
Derivative financial instruments	—	300	—	300	—	214	1	215
Total	1 921	300	—	2 221	904	214	1	1 119
Liabilities								
Executive share scheme financial liability	—	(63)	—	(63)	—	(26)	—	(26)
Derivative financial instruments	—	(220)	(232)	(452)	—	(578)	(202)	(780)
Total	—	(283)	(232)	(515)	—	(604)	(202)	(806)
Net fair value	1 921	17	(232)	1 706	904	(390)	(201)	313

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

Equity investment at fair value

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

Executive share scheme financial assets and liabilities

This comprises equity-settled share-based long-term incentive reimbursement rights stated at fair value. The level 1 asset is determined with reference to Vukile's share price.

2 FAIR VALUE MEASUREMENT continued**2.2 FAIR VALUE HIERARCHY** continued**Derivative financial instruments**

Level 2 derivatives consist of interest rate swap contracts, cross-currency interest rate swaps and forward exchange contracts and barrier call options. The fair values of these derivative instruments are determined by Vukile's and Castellana's bank funders, 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 to measure fair value are unchanged compared to the previous reporting period.

2.3 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (INVESTMENT PROPERTY)

At 31 March 2022, the directors valued the South African property portfolio at R14.5 billion (31 March 2021: R15.6 billion), and an external valuer valued the Spanish portfolio at R16.2 billion (31 March 2021: R17.1 billion).

The external valuations performed by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd at 31 March 2022 on 52% of the South 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 DCF 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:

	31 March 2022				31 March 2021			
	Discount rate %		Reversionary capitalisation rate %		Discount rate %		Reversionary capitalisation rate %	
	Range	Weighted average	Range	Weighted average	Range	Weighted average	Range	Weighted average
South Africa	12.7 to 19.6	13.5	7.7 to 15.3	9.0	12.7 to 19.6	13.8	7.7 to 15.3	9.2
Spain	7.3 to 9.5	8.1	5.0 to 6.9	6.1	7.3 to 9.0	8.2	5.0 to 9.3	6.2

2 FAIR VALUE MEASUREMENT continued

2.3 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (INVESTMENT PROPERTY) continued

South Africa

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 base discount rates as well as NOI for year one and the capitalisation year.

South African directly held property portfolio	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	100.0	13.5	9.0	(5.6)	(4.1)	(3.5)	(5.1)
Retail	95.0	13.5	8.9	(5.6)	(4.1)	(3.5)	(5.1)
Other	5.0	14.0	10.7	(5.0)	(4.8)	(2.6)	(5.2)
Gauteng	40.0	13.4	8.9	(5.7)	(4.0)	(3.6)	(5.1)
KwaZulu-Natal	20.0	13.4	8.8	(5.4)	(4.0)	(3.2)	(5.1)
Free State	9.0	13.1	8.5	(5.9)	(3.9)	(3.7)	(5.1)
Western Cape	8.0	13.2	9.1	(5.5)	(4.2)	(3.4)	(5.1)
Eastern Cape	8.0	13.6	9.1	(5.5)	(4.1)	(3.6)	(5.1)
Limpopo	7.0	14.1	9.4	(5.1)	(4.6)	(3.3)	(5.0)
Mpumalanga	4.0	15.1	10.6	(4.9)	(4.8)	(3.4)	(5.1)
North West	4.0	14.0	9.2	(5.6)	(4.3)	(3.4)	(5.0)

Given that the discount rate for the portfolio ranges from 12.7 to 19.6, the table above has been further disaggregated based on risk showing discount rates below 14%, between 14%-16% and above 16%.

Refer to the following three tables:

Discount rate below 14%	Portfolio exposure %	Average discount rate %	Average exit capitalisation rate %	Valuation impact if base discount rate is increased by 50bps	Valuation impact of 50% NOI reduction in year one	Valuation impact of 5% NOI reduction in capitalisation year	Valuation impact of 5% NOI reduction in cash flow in capitalisation year
				%	%	%	%
Total portfolio	66.0	12.9	8.4	(5.9)	(3.8)	(3.5)	(5.1)
Retail	63.0	12.9	8.3	(5.9)	(3.8)	(3.6)	(5.1)
Other	3.0	13.0	9.4	(5.7)	(4.4)	(2.4)	(5.4)
Gauteng	28.0	12.9	8.3	(6.0)	(3.9)	(3.7)	(5.1)
KwaZulu-Natal	16.0	13.2	8.6	(5.5)	(3.9)	(3.2)	(5.1)
Free State	6.0	12.7	7.7	(6.4)	(3.5)	(3.8)	(5.1)
Western Cape	5.0	12.7	8.7	(5.7)	(4.0)	(3.4)	(5.1)
Eastern Cape	4.0	13.2	8.5	(5.8)	(3.9)	(3.7)	(5.1)
Limpopo	3.0	12.7	8.0	(6.1)	(3.7)	(3.7)	(5.0)
North West	4.0	13.2	8.4	(5.9)	(3.9)	(3.6)	(5.0)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS continued

2 FAIR VALUE MEASUREMENT continued

2.3 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (INVESTMENT PROPERTY) continued

	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	29.0	14.2	9.7	(5.1)	(4.4)	(3.4)	(5.1)
Retail	28.0	14.2	9.7	(5.1)	(4.4)	(3.4)	(5.1)
Other	1.0	14.2	11.2	(4.6)	(4.8)	(2.8)	(5.1)
Gauteng	9.0	14.2	9.6	(5.3)	(4.2)	(3.5)	(5.1)
KwaZulu-Natal	4.0	14.2	9.7	(5.2)	(4.4)	(3.5)	(5.1)
Free State	3.0	14.0	10.1	(4.9)	(4.6)	(3.4)	(5.0)
Western Cape	3.0	14.0	9.7	(5.1)	(4.4)	(3.5)	(5.0)
Eastern Cape	4.0	14.0	9.6	(5.1)	(4.3)	(3.5)	(5.0)
Limpopo	3.0	14.9	10.3	(4.2)	(5.4)	(2.8)	(5.0)
Mpumalanga	3.0	14.3	9.5	(5.3)	(4.3)	(3.6)	(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	5.0	16.7	12.7	(4.0)	(5.7)	(3.0)	(5.1)
Retail	4.0	16.8	12.5	(4.1)	(5.6)	(3.0)	(5.1)
Other	1.0	16.3	13.6	(3.7)	(5.7)	(3.1)	(5.1)
Gauteng	3.0	16.3	12.4	(4.1)	(5.5)	(3.2)	(5.1)
Limpopo	1.0	16.3	11.8	(4.2)	(5.2)	(3.2)	(5.0)
Mpumalanga	1.0	17.0	13.4	(3.9)	(5.9)	(3.0)	(5.2)
North West	0.0	19.6	15.3	(3.5)	(7.2)	(1.5)	(5.2)

2 FAIR VALUE MEASUREMENT continued

2.3 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (INVESTMENT PROPERTY) continued

Spain

The tables below show the impact on the fair value of investment property, per property type, for a 25bps change in discount rate:

		31 March 2022	
		Variation of discount rate	
		25bps decrease €'000	25bps increase €'000
Retail		14 960	(20 270)
Theoretical result		14 960	(20 270)

		31 March 2021	
		Variation of discount rate	
		25bps decrease €'000	25bps increase €'000
Retail		17 360	(16 960)
Office		410	(410)
Land and purchase option		330	(320)
Theoretical result		18 100	(17 690)

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

South Africa ⁽¹⁾	Fair value Rm	25bps increase			25bps decrease		
		Decreased fair value Rm	Decrease Rm	% decrease	Increased fair value Rm	Increase Rm	% increase
31 March 2022	14 472	14 066	(406)	(2.8)	14 903	431	3.0
31 March 2021	15 554	15 143	(411)	(2.6)	15 991	437	2.8

Spain ⁽²⁾	Fair value €m	25bps increase			25bps decrease		
		Decreased fair value €m	Decrease Rm	% decrease	Increased fair value €m	Increase Rm	% increase
31 March 2022	1 001	981	(328)	(2.0)	1 016	242	1.5
31 March 2021	987	969	(306)	(1.8)	1 005	313	1.8

⁽¹⁾ Fair value excludes non-controlling interest in Clidet.

⁽²⁾ Fair value sensitivity analysis at 25bps increase/decrease for standing investments and c.100bps increase/decrease for land and related options.

2 FAIR VALUE MEASUREMENT continued**2.3 FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS (INVESTMENT PROPERTY)** continued

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

	31 March 2022 Recurring fair value measurements Level 3 Rm	31 March 2021 Recurring fair value measurements Level 3 Rm
Investment property	30 571	32 193
Right-of-use asset	290	220
	31 March 2022 Non-recurring fair value measurements Level 3 Rm	31 March 2021 Non-recurring fair value measurements Level 3 Rm
Investment property held for sale	187	562

SA REIT RATIOS

for the year ended 31 March 2022

SA REIT FUNDS FROM OPERATIONS (SA REIT FFO)

Group	31 March 2022 Rm	31 March 2021 Rm
Profit per IFRS statement of comprehensive income attributable to the parent	1 909	584
Adjusted for:		
Accounting/specific:		
Fair value adjustments to:	(636)	1 079
Investment property	(647)	854
Debt and equity instruments held at fair value through profit or loss	(32)	(289)
Depreciation and amortisation of intangible assets	6	4
Asset impairments (excluding goodwill) and reversals of impairment	(1)	13
Impact of asset reclassifications and asset transfers on profit or loss	—	314
Deferred tax movement recognised in profit or loss	13	18
Straight-lining operating lease adjustment	10	67
Adjustments to dividends from equity interests held	15	98
Adjustments arising from investing:		
Gains or losses on disposal of:	35	46
Investment property and property, plant and equipment	(2)	(2)
Debt and equity instruments	—	48
Subsidiaries and equity-accounted entities held	37	—
Foreign exchange and hedging items:	31	(251)
Fair value adjustments on derivative financial instruments employed solely for hedging purposes	58	49
Reclassified foreign currency translation reserve upon disposal of a foreign operation	—	(330)
Adjustments to amounts recognised in profit or loss relating to derivative financial instruments	(27)	39
Foreign exchange gains or losses relating to capital items – realised and unrealised	—	(9)
Other adjustments:	3	(216)
Adjustments made for equity-accounted entities	(33)	—
Non-controlling interests in respect of the above adjustments	36	(216)
SA REIT FFO	1 342	1 242
Number of shares outstanding (net of treasury shares)	980 226 628	956 226 628
SA REIT FFO cents per share	136.91	129.89
Company-specific adjustments	(6)	(22)
Depreciation	(6)	(4)
Deferred tax	—	(18)
FFO	1 336	1 220
FFO per share (cents)	136.30	127.58

SA REIT RATIOS continued

SA REIT NAV

	31 March 2022 Rm	31 March 2021 Rm
Reported NAV attributable to the parent	17 568	17 361
Adjustments:		
Dividend declared	(640)	(966)
Fair value of derivative financial instruments	(32)	28
Goodwill and intangible assets	(3)	(3)
SA REIT NAV	16 893	16 420
Shares outstanding		
Number of shares in issue (net of treasury shares)	980 226 628	956 226 628
SA REIT NAV per share	17.23	17.17

SA REIT COST-TO-INCOME RATIO

Southern Africa portfolio	31 March 2022 Rm	31 March 2021 Rm
Expenses		
Operating expenses per IFRS income statement (includes municipal expenses)	899	870
Administrative expenses per IFRS income statement	157	154
Excluding:		
Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets	(5)	(5)
Operating costs	1 051	1 019
Rental income		
Contractual rental income per IFRS income statement (excluding straight-lining)	1 624	1 501
Utility and operating recoveries per IFRS income statement	610	598
Gross rental income	2 234	2 099
SA REIT cost-to-income ratio⁽¹⁾ (%)	47.0	48.5
Spain portfolio		
Expenses		
Operating expenses per IFRS income statement (includes municipal expenses)	363	384
Administrative expenses per IFRS income statement	139	132
Operating costs	502	516
Rental income		
Contractual rental income per IFRS income statement (excluding straight-lining)	983	740
Utility and operating recoveries per IFRS income statement	268	278
Gross rental income	1 251	1 018
SA REIT cost-to-income ratio⁽¹⁾ (%)	40.1	50.7

⁽¹⁾ The SA REIT cost-to-income ratio includes the impact of rent concessions granted to tenants (in Southern Africa and Spain) primarily impacting the March 2021 ratios.

SA REIT ADMINISTRATIVE COST-TO-INCOME RATIO

Southern Africa portfolio		31 March 2022 Rm	31 March 2021 Rm
Administrative costs			
Administrative expenses as per IFRS income statement		157	154
Rental income			
Contractual rental income per IFRS income statement (excluding straight-lining)		1 624	1 501
Utility and operating recoveries per IFRS income statement		610	598
Gross rental income		2 234	2 099
SA REIT administrative cost-to-income ratio (%)		7.0	7.3
Spain portfolio		31 March 2022 Rm	31 March 2021 Rm
Administrative costs			
Administrative expenses as per IFRS income statement		139	132
Rental income			
Contractual rental income per IFRS income statement (excluding straight-lining)		983	740
Utility and operating recoveries per IFRS income statement		268	278
Gross rental income		1 251	1 018
SA REIT administrative cost-to-income ratio (%)		11.1	13.0

SA REIT GLA VACANCY – SOUTHERN AFRICA

		31 March 2022 Rm	31 March 2021 m ²
GLA of vacant space		24 085	38 123
GLA of total property portfolio		825 844	958 001
SA REIT GLA vacancy rate (%)		2.9	4.0

SA REIT GLA VACANCY – SPAIN

		31 March 2022 Rm	31 March 2021 m ²
GLA of vacant space		5 642	6 186
GLA of total property portfolio		350 271	329 118
SA REIT GLA vacancy rate (%)		1.6	1.9

SA REIT COST OF DEBT

31 March 2022		ZAR %	EUR %
Variable interest rate borrowings			
Floating reference rate plus weighted average margin		6.3	0.3
Fixed interest rate borrowings			
Weighted average fixed rate		—	1.9
Pre-adjusted weighted average cost of debt		6.3	2.2
Adjustments:			
Impact of interest rate derivatives		1.3	0.0
Amortised transaction costs imputed into the effective interest rate		0.1	0.2
SA REIT all-in weighted average cost of debt		7.7	2.4

SA REIT RATIOS continued

SA REIT COST OF DEBT continued

31 March 2021	ZAR %	EUR %
Variable interest rate borrowings		
Floating reference rate plus weighted average margin	5.6	0.8
Fixed interest rate borrowings		
Weighted average fixed rate	—	0.9
Pre-adjusted weighted average cost of debt	5.6	1.7
Adjustments:		
Impact of interest rate derivatives	2.6	0.2
Amortised transaction costs imputed into the effective interest rate	0.1	0.4
SA REIT all-in weighted average cost of debt	8.3	2.3

Excludes impact of CCIRS.

SA REIT LTV

	31 March 2022 Rm	31 March 2021 Rm
Gross debt	14 654	15 404
Less:		
Cash and cash equivalents	(565)	(987)
Cash and cash equivalents balance sheet	(565)	(1 003)
Less restricted cash	—	16
Add/less:		
Net derivative financial instruments liability/(asset)	(33)	365
Forward exchange contracts	(119)	(212)
CCIRS	1	337
Interest rate swaps	85	240
Net debt	14 056	14 782
Total assets – per statement of financial position	34 725	35 992
Less:		
Cash and cash equivalents	(565)	(1 003)
Tenant deposits ⁽¹⁾	(118)	
Derivative financial assets:	(253)	(214)
Forward exchange contracts	(246)	(212)
Cross-currency interest rate swaps	(1)	—
Interest rate swaps	(6)	(2)
Goodwill and intangible assets	(3)	(3)
Trade and other receivables	(307)	(391)
Carrying amount of property-related assets	33 479	34 381
SA REIT LTV %	42.0	43.0

⁽¹⁾In the prior year, tenant deposits in Castellana amounting to R128 million were not deducted from total assets. If the tenant deposits had been deducted, the SA REIT LTV in the prior year would have been 43.2%.



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