VUKILE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE NSX share code: VKN
ISIN: ZAE000180865
Debt company code: VKEI
(Granted REIT status with the JSE)
("**Vukile**" or "**the company**")

VUKILE PROPERTY FUND

REAL ESTATE. REAL GROWTH.

ACQUISITION OF INTEREST IN A COMPANY OWNING 4 SHOPPING CENTRES IN SPAIN

1. INTRODUCTION

Shareholders are advised that Vukile will be concluding an agreement to subscribe for shares in Morzal Properties Iberia S.L ("**Morzal**") for an aggregate subscription consideration of EUR152 million (the "**Vukile share subscription**"), representing a 66% interest in Morzal at the time the Vukile share subscription is implemented.

Morzal has secured the opportunity to acquire a portfolio of 4 Spanish shopping centres from Unibail-Rodamco-Westfield ("**the vendor**") for an aggregate purchase consideration of EUR489 million (including of transaction costs of c.EUR30 million) ("**the acquisition**").

Castellana Properties Socimi S.A ("**Castellana**") a company incorporated in the Kingdom of Spain, a 98% held subsidiary of Vukile, is expected to list on the Alternative Equity Market operated by the Spanish Stock Exchange on or about 25 July 2018 ("**the listing**"), which listing process precluded it from being party to the proposed transaction. Post the implementation of the acquisition and the listing, Vukile will present Castellana with the opportunity for Castellana, subject to its own board corporate governance and approval processes, to acquire 100% of the equity in Morzal at a price of EUR6.00 per share, which represents Morzal's acquisition cost, by way of a shares for shares transaction ("**Castellana share swap**"). Castellana has and will at the time of the listing have no contractual or other legal obligations under the proposed transaction.

At the time the acquisition is implemented, Morzal will be a wholly-owned subsidiary of Morze European Real Estate Ventures S.A.R.L ("**MEREV**"), a company incorporated in Luxembourg which is owned by the Morze family (64%) and Simon Fifield and his associates (36%). Morzal will secure EUR257 million senior debt funding from European banks to part-fund the acquisition. This funding is to be secured by a pledge over the Morzal shares and shareholder claims and an undertaking to register mortgage bonds over the properties to be acquired. Thereafter the required net equity of EUR232 million in Morzal will be subscribed for by MEREV injecting EUR80 million to acquire a 34% stake and Vukile injecting the Vukile share subscription to acquire a 66% stake in Morzal (less such portion of the equity in Morzal to be acquired by the underwriter as more fully detailed below). MEREV will have certain monetisation rights in respect of its investment in Morzal and, subsequently Castellana, should its board and shareholders approve and implement the proposed Castellana share swap, as envisaged below (the "**co-investor arrangements**").

Vukile will also be concluding an underwrite agreement with Westbrooke Yield Plus S.A.R.L, a company incorporated in Luxembourg and representing a consortium arranged by Capricorn Capital Partners (the "**underwriter**") in terms of which the underwriter will underwrite up to EUR35 million, of which Vukile has committed to placing at least EUR30 million with the underwriter, with the value of the Vukile share subscription being reduced accordingly to a minimum of not less than a 50.1% interest in Morzal (the "**underwrite arrangements**"), assuming the full underwriting facility is utilised.

The acquisition, Vukile share subscription, MEREV subscription, the co-investor and underwrite arrangements are collectively referred to as the "**proposed transaction**".

In accordance with Spanish law, property/finance agreements are concluded on an unconditional basis before a notary public. As such, whilst agreements in respect of the Vukile share subscription, the MEREV subscription, co-investor and underwrite agreements are in advanced form and are expected to be concluded in advance of the implementation of the acquisition, it is anticipated that a binding agreement in respect of the acquisition will only be concluded on or around 31 July 2018, after Vukile has successfully raised the required equity capital to fund the Vukile share subscription.

2. RATIONALE

The proposed transaction will provide meaningful scale to Vukile's strategy to invest in the Spanish economy through retail property assets with strong fundamentals at an attractive yield of 5.9% and a cash on cash yield of 8.07% in the first 12 months. Vukile considers the proposed transaction to be a transformational deal for its Spanish strategy, presenting Vukile with an opportunity to buy into a high-quality unique portfolio of shopping centres, through an off-market acquisition from the vendor.

3. OVERVIEW OF THE PORTFOLIO

The property portfolio which forms the subject matter of the acquisition comprises four strong and leading retail shopping centres in their respective catchment areas in Spain known as Bahía Sur, El Faro, Los Arcos and Vallsur ("**the portfolio**"). Set out below is a brief description of the shopping centres.

- Bahía Sur is a regional shopping centre with a total gross lettable area ("**GLA**") of c. 59 300m2 of which 24 789m2 are part of the acquisition, situated in a strategic location within the Bahía de Cádiz area. Bahia Sur is the leading shopping centre within its effective catchment area which includes the city of Cádiz, Puerto Real and San Fernando. 87% of the tenants at the centre are companies with an international or national footprint including the Inditex Group, Mango, Cortifiel and Disney. Bahía Sur has a large fashion component of 70% and is complimented by a large owner-occupied department store (El Corte Ingles) and hypermarket (Carrefour).

- El Faro is a regional shopping centre with a total GLA of 66 300m2of which 43 423m2 are part of the acquisition, situated in Badajoz, a city in the southwest of Spain, close to the Portuguese border. El Faro is the leading shopping centre not only in Badajoz city, but also in the surrounding areas, including Portugal (with c.20% of annual footfall from Portugal). 92% of the tenants at the centre are companies with an international or national footprint, including the Inditex Group, Bricor, Media Markt and Primark. Given the centre's location, competition is scarce with low commercial density in the area and limited competition coming from convenience centres with an inferior tenant mix.

- Los Arcos is a 44 000m2 shopping centre (of which 17 906m2 are part of the acquisition) situated in Seville, the capital city of Andalusia and the fourth largest city in Spain. The centre was one of the first retail schemes opened in Seville (opened in 1992 with major refurbishments in 2013 and 2016) and has maintained its leading position. Key tenants include the Inditex Group and Sfera. There is opportunity to further strengthen Los Arcos' position by enhancing the centre's leisure offering.

- Vallsur is a 36 000m2 shopping centre (of which 35 220m2 are part of the acquisition) situated in Valladolid, the 13th largest city in Spain. It is strategically placed within a mid-to-high class residential area. 93% of the tenants are companies with an international or national footprint, including the Inditex Group, New Yorker and Carrefour.

4. CONDITIONS TO THE ACQUISITION

As noted above, the formal agreements for the acquisition of the portfolio are still to be finalised but the agreements are substantially in agreed format and will be supplemented by a binding offer which will be made by Morzal on or around 31 July 2018. The execution of the formal acquisition agreements is subject only to the raising of the necessary equity and debt finance, the procurement of which is advanced and is anticipated to be finalised prior to the anticipated date for the execution of the formal acquisition agreements and implementation of the acquisition.

5. THE DETAILS OF THE PROPOSED TRANSACTION

5.1. The Vukile share subscription

Prior to the implementation of the acquisition (and the Vukile share subscription), Morzal is to have secured the EUR257 million of debt funding from European banks referred to above. Thereafter, MEREV will subscribe for Morzal shares to the value of EUR80 million. Subject to the MEREV subscription and Morzal debt funding being in place, Vukile and the underwriter will then, on the effective date, subscribe for shares in Morzal to the value of EUR152 million.

Whilst the proposed transaction will lead to a temporary increase in the Vukile loan-to-value ("**LTV**") to above 40%, Vukile has put in place active plans to bring Vukile's LTV down to the target level of 35% within the short-term.

5.2. The co-funding arrangements

MEREV will not, for a period of three years after the effective date, sell, transfer or otherwise dispose of its interest in Morzal without Morzal and Vukile's consent.

90 days before the third anniversary of the effective date, MEREV will be entitled to issue a notice to Morzal to place or purchase all or some of its Morzal shares for a cash consideration of EUR6.50 per share. MEREV has also granted Vukile a pre-emptive right over all of its Morzal shares.

MEREV has secured funding from FirstRand Bank Limited acting through its Rand Merchant Bank Limited division ("**RMB**") to fund its subscription for shares in Morzal (the "**subscription loan**"). In the event that either MEREV breaches any of its funding obligations in terms of the subscription loan, Vukile or Castellana breach any of their LTV and debt funding covenants, or MEREV is unable to refinance the subscription loan at the end of its 3 year term if it has not disposed of all of its shares in the Morzal pursuant to the arrangements with Vukile, Morzal, will have the obligation to endeavour to procure the acquisition or placement of MEREV's shares in Morzal for a purchase price equal to EUR86 666 667 (equating to EUR6.50 per Morzal share) within 30 days. If Morzal is unable to place MEREV's shares in Morzal, MEREV will be obliged to sell to Vukile, which will be obliged to purchase such shares from MEREV, for a purchase price equal to EUR86 666 667 (equating to EUR6.50 per Morzal share). RMB will, amongst other securities, have a pledge over the MEREV shares and in event of breach of the subscription loan prior to the implementation of the Castellana share swap, RMB shall have the right to exercise the above process in regard to the MEREV shares.

At any time after the expiry of 18 months from the effective date, Vukile will be entitled to require MEREV to sell all or any Morzal shares held by MEREV pursuant to the co-investor arrangements for a purchase price equal to EUR86 666 667 (equating to EUR6.50 per Morzal share) to a third party purchaser identified and nominated by Vukile.

The obligations of Morzal in terms of the co-funding arrangements will transfer to Castellana should the Castellana share swap be implemented.

5.3. The underwriting arrangements

The underwriter will undertake that it will not, for a period of 12 months after the effective date, sell, transfer or otherwise dispose of its shares in Morzal without Morzal and Vukile's consent.

45 days before the first anniversary of the date on which the underwriter advances its equity contribution to Morzal (the **"underwrite draw-down date**"), the underwriter will be entitled to issue a notice to Morzal requiring Morzal to endeavour to place the underwriter's shares at a

specified price estimated to be EUR6.69 (at an IRR to the underwriter of 11.173%) (the **"specified price"**). If Morzal is unable to place the underwriter's shares in Morzal, Vukile will be obliged to purchase such shares at the specified price. The underwriter has granted Vukile a pre-emptive right over all of its Morzal shares in terms of which Vukile may acquire the Morzal shares held by the underwriter when they are disposed of, at the lower of the specified price and the price at which it is proposed to dispose of such shares.

In consideration for the underwriter reserving sufficient capital to fulfil the underwrite arrangements, the underwriter will be entitled to an agreed commitment fee of EUR100 000.

All dividends in respect of the Morzal shares held by the underwriter will be ceded to Vukile or its nominee.

The obligations of Morzal in terms of the underwriting arrangements will transfer to Castellana should the Castellana share swap be implemented.

6. PROPERTY SPECIFIC INFORMATION

Details of the portfolio to be acquired by Morzal, including property name, geographical location, sector, GLA and weighted average rental per square metre and valuation are set out in the table below:

Property name	Geographical location	Sector	GLA (m2)	Weighted average rental (EUR/m2/ month) (8 months to 31 Mar 2019)	External valuation (EUR'000)
El Faro	Badajoz, Spain	Retail	43 423	16.63	157 400
Los Arcos	Seville, Spain	Retail	17 906	32.28	112 000
Bahia Sur	Cadiz, Spain	Retail	24 789	25.36	118 800
Vallsur	Valladolid, Spain	Retail	35 220	14.17	93 100

The fair market value of the portfolio was determined by an independent valuation carried out by James Allwood, an external independent valuer, of Colliers International Property Consultants Inc. as at 6 June 2018. James Allwood is a member of the Royal Institute of Chartered Surveyors. As Vukile is subscribing for 66% of the shares in Morzal at the net asset value of EUR6.00 per share, no purchase price per property can be ascribed.

7. FINANCIAL INFORMATION

Set out below are the forecast revenue, operational net income, net profit after tax and earnings available for distribution of the proposed transaction (the "**forecast**") for the 8 months ending 31 March 2019 and year ending 31 March 2020 (the "**forecast period**").

The forecast has been prepared on the assumption that the proposed transaction will be implemented on 31 July 2018 and on the basis that the forecast includes forecast results for the duration of the forecast period.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the company. The forecast has not been reviewed or reported on by independent reporting accountants.

The forecast presented in the table below has been prepared in accordance with the company's accounting policies, which are in compliance with International Financial Reporting Standards.

	8 months ending 31 March 2019 €	Year ending 31 March 2020 €
Revenue	**19 504 314**	**29 867 722**
Property operating costs	(1 072 069)	(2 212 002)
Net operating income	**18 432 245**	**27 655 720**
Other expenses	(2 045 087)	(3 274 090)
Earnings before interest and taxation	**16 387 158**	**24 381 630**
Finance costs	(3 405 079)	(5 107 619)
Profit before taxation	**12 982 079**	**19 274 011**
Taxation	(345 323)	(512 689)
Profit after tax	**12 636 756**	**18 761 322**
Profit after tax	**12 636 756**	**18 761 322**
Less: Non-controlling interests	(5 994 804)	(8 900 264)
Profit attributable to Vukile	**6 641 951**	**9 861 059**

Property Revenue

	8 months ending 31 March 2019 €	Year ending 31 March 2020 €
Contracted	17 990 487	24 372 069
Near-contracted	1 039 565	4 738 527
Uncontracted	474 262	757 126
Total	**19 504 314**	**29 867 722**

Notes and assumptions

The forecast incorporates the following material assumptions:

1. The forecast is based on information derived from tenancy schedules provided by the vendor and which were subject to a due diligence.
2. Uncontracted rental income relates to assumptions on leases that expire and are assumed to be re-let during the forecast period.
3. No straight-line income adjustment has been made.
4. Contracted revenue is based on existing lease agreements including stipulated increases, all of which are valid and enforceable. Leases expiring during the forecast period have been forecast on a lease-by-lease basis and have been assumed to renew at current market rates unless the lessee has indicated its intention to terminate the lease.
5. Property operating expenditure has been forecast by the Vukile management team based on a due diligence of the vendor's property operating expense forecast budgets and historical actual expenses.
6. All-in interest costs of 2.69% relating to the debt funding procured of €257 million have been included in the forecast.
7. No fair value adjustment is recognised.
8. Profit available for distribution is stated net of withholding tax of 2.66%.
9. The profit attributable to non-controlling interests has been calculated on the assumption that the underwrite is fully utilised.
10. There will be no unforeseen economic factors that will affect any lessee's ability to meet their commitments in terms of existing lease agreements.

8. CATEGORISATION OF THE VUKILE SHARE SUBSCRIPTION, CO-INVESTMENT AND UNDERWRITE ARRANGEMENTS

As the Vukile share subscription, co-investment and underwrite arrangements involve the acquisition or disposal of securities in one particular company, Morzal, the Vukile share subscription and the co-investment and underwrite arrangements will be aggregated for purposes of categorisation in terms of the JSE Listings Requirements. The Vukile share subscription, co-investment and underwrite arrangements are collectively classified as a category 2 transaction in terms of the JSE Listings Requirements and, accordingly, are not subject to shareholder approval.

9. INVESTOR PRESENTATION AND INVESTOR CALL

An investor presentation containing additional information on the proposed transaction will be available today, Wednesday, 18 July 2018 from 08.45 (SA time) on Vukile's website - www.vukile.co.za.

In addition, Vukile will be hosting an investor conference call in respect of the proposed transaction today, Wednesday, 18 July 2018 at 09.00 (SA time).

The call details are as follows:

Pre-registration link –
http://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=1227893&linkSecurityString=6f646f9a

Dial-in Numbers (Participants should request to join the Vukile Conference Call)

SA: 011 535 3600 or 010 201 6800
UK: 0 333 300 1418
USA and Canada: +1 508 924 4326
Other: +27 11 535 3600 or +27 11 10 201 6800

18 July 2018

Corporate advisor and JSE sponsor

JAVA CAPITAL

NSX sponsor

IJG Securities (Pty) Ltd. Member of the NSX

South African legal advisors

CDH Cliffe Dekker Hofmeyr

Spanish legal advisors

ashurst