VUKILE PROPERTY FUND

REAL ESTATE. REAL GROWTH.

Unaudited condensed consolidated interim results for the six months ended 30 September 2018

www.vukile.co.za

Highlights

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)

7.5% increase

- In dividends in line with guidance to 78.10 cents per share

Gathering significant momentum in Spain

- Investment properties increased to c.€900 million from €308 million following the acquisition of 5 dominant shopping centres
- Castellana* listed on the junior board in Madrid on 25 July 2018
- Positive benefits of diversification with a solid pipeline of opportunities

Impressive asset management results from Castellana

- 11 retail parks acquired in June 2017 now fully let post yield enhancing asset management initiatives
- Organic growth in the value of investment properties of 8.8% relative to acquisition price
- Full strength, experienced team now in place

* *Castellana Properties SOCIMI S.A, a 97.5% held Spanish subsidiary of the Vukile group*

Solid operating performance in southern Africa

- Like for like net income growth of 5.1%
- Retail reversions still positive at +4.3% in difficult trading conditions
- Retail vacancies maintained at 3.4% with 87% tenant retention
- Portfolio rent to sales ratio remains ahead of industry averages

Strong capital market support

- Gearing at 38% with 94% of debt hedged
- Corporate long-term credit rating upgraded to A+(ZA)
- Raised R1.6 billion in over-subscribed book-build in July 2018
- Raised R825 million in domestic medium term note programme

1. NATURE OF OPERATIONS

Vukile is a property holding and investment company with direct and indirect ownership of immovable property. The group has invested in a portfolio of predominantly retail property assets in southern Africa as well as strategic shareholdings in listed Real Estate Investment Trusts (REITs).

The company is listed on the Johannesburg Stock Exchange (JSE) and the Namibian Stock Exchange (NSX) under the Retail REITs sector. Castellana Properties Socimi S.A (Castellana), a 97.5% owned subsidiary of Vukile, is listed on the Mercado Alternativo Bursatil (MAB) in Spain.

The group has significant property investments in Spain and in the United Kingdom with a focus on retail and logistics respectively. The group has more than trebled its investment in retail properties in Spain from R4.56 billion at 31 March 2018 to R14.77 billion at 30 September 2018. The group has maintained its clear strategy of investing in dominant, high quality retail parks and shopping centres in Spain, whilst retaining an appetite for earnings enhancing local acquisitions.

2. SIGNIFICANT EVENTS AND TRANSACTIONS

The following significant events and transactions took place during the six months to 30 September 2018:

- Castellana acquired the Habaneras Shopping Centre on 9 May 2018 for €80.6 million;
- Vukile subscribed for a 51% stake in Morzal Properties Iberia S.L. (Morzal). The balance of the shareholding in Morzal was subscribed for by co-investors. Morzal acquired four shopping centres from Unibail – Rodamco – Westfield at a cost of €480 million, including acquisition costs of €19 million, effective on 31 July 2018. The shares in Morzal were exchanged for shares in Castellana on 27 November 2018 on a share-for-share basis, resulting in Morzal becoming a 100% subsidiary of Castellana. Subsequent to these acquisitions the Spanish investment properties will represent 50.2% of Vukile's group investment properties*;
- Vukile raised capital of R1.63 billion on 18 July 2018 of which R1.38 billion was raised pursuant to a heavily oversubscribed book-build at R18.66 per share, and R250 million was raised by way of a placement with the Encha Special Purpose Vehicle in terms of the Encha equity funding platform;
- Global Credit Rating Co. (GCR) upgraded Vukile's corporate long-term credit rating to A+(ZA) with the outlook accorded as stable, and reaffirmed Vukile's corporate short-term rating of A1(ZA) and secured long-term credit rating of AA+(ZA). This has resulted in a tightening of margins when issuing unsecured bonds; and
- Castellana was listed on the MAB on 25 July 2018. The shares were listed by way of introduction at €6.00 per share, which attributed a market capitalisation to Castellana of c.€204 million at that date. The listing ensures that Castellana complies with applicable Spanish tax legislation in order for Castellana to maintain its REIT status.

** net of straight-lining, based on the summarised operating segment report at 30 September 2018*

3. COMMENTARY ON GROUP RESULTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

Dividend growth

The directors of Vukile are pleased to report that the dividend for the six months ended 30 September 2018 has increased by 7.5% to 78.10251 cents per share (prior period: 72.65350 cents per share).

The group's net profit available for distribution amounted to R713.5 million for the six months to 30 September 2018 (September 2017: R578.5 million), which represents an increase of 23.3% over the comparable period.

Property income and profit before taxation

At reporting date, the geographic contribution and percentage split to group gross and net property income is represented below:

	30 September 2018			
	Gross Property Revenue[2]		Net Profit from Property Operations	
Operating Segment	R000	%	R000	%
Vukile (Southern Africa)	721 251	70.0	594 432	71.3
Castellana and Morzal[1] (Spain)	309 142	30.0	239 363	28.7
Vukile Group total	**1 030 393**	**100.0**	**833 795**	**100.0**

[1] *Results for Morzal are for a two month period from 1 August 2018 to 30 September 2018*

[2] *The property revenue and property expense have been reflected net of recoveries in terms of the Best Practice Recommendations of the SA REIT Association. The unaudited condensed consolidated statement of profit and loss reflects gross property revenue and gross property expenses.*

The geographic contribution to group profit before taxation and fair value adjustments, including the group's share of equity accounted profits from associates, is represented below:

Operating Segment	30 September 2018 R000	30 September 2018 %
Vukile (Southern Africa)	415 814	68.0
Atlantic Leaf Properties Limited (UK) (Atlantic Leaf) share of profits	46 482	7.6
Castellana and Morzal (Spain)	149 157	24.4
Vukile Group profit before taxation and fair value adjustments	**611 453**	**100.0**

Key financial indicators

A summary of the group's key financial indicators at reporting date is shown below:

	30 September 2018	30 September 2017	31 March 2018
Net asset value per share (cents)	2 027	1 917	2 010
Dividend per share (cents)	78.10	72.65	168.82
Loan to value ratio (%)[1]	41.3	30.5	32.9
Loan to value ratio net of available cash (%)	39.7	28.8	28.2
Gearing ratio (%)[2]	38.0	28.9	29.6

[1] *Interest-bearing debt which includes R77.0 million commercial paper issued to a Namibian subsidiary (eliminated on consolidation), is divided by the directors' valuation of the group's property portfolio at 30 September 2018, plus equity investments.*

[2] *Gearing is calculated by dividing total group interest-bearing borrowings by group total assets, per the group's unaudited condensed consolidated statement of financial position at 30 September 2018. Interest bearing borrowings are reduced by the group's unamortised portion of capitalised borrowing costs, calculated in terms of International Financial Reporting Standards (IFRS) of R237.2 million (comprising R17.7 million on ZAR debt and €14.5 million on Castellana EUR debt, converted to ZAR at 30 September closing spot rates where applicable.)*

A reconciliation of distributable earnings for the period to 30 September 2018 is set out under the segmental report on page 37.

Equity and equity issuances

During the 12 months ended 30 September 2018, 359 million Vukile shares were traded, which equates to approximately 30 million shares per month. The total value of shares traded during the 12 months ended 30 September 2018 amounted to R7.4 billion or 41.5% of the company's market capitalisation at 30 September 2018 (31 March 2018: 41%). This demonstrates the liquidity of Vukile's shares in the market.

Equity issuances and dividend reinvestments (DRIP) during the period totalled R1.71 billion. These issuances comprised the following:

- Vukile issued 73.9 million shares under general authority by way of an accelerated book-build on 26 July 2018 at R18.66 per share – equating to R1.38 billion;
- 12.7 million shares were issued to Encha on 26 July 2018 at R19.60 per share, under the Encha equity approval scheme – totalling R250 million; and
- Shares issued under an election to reinvest cash dividend in return for shares on 22 June 2018 – totalling 3.9 million shares at R20.30 – equating to R78 million.

Cash flow

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

	30 September 2018 R000
Cash flow from operating activities	912 928
Issue of shares	1 697 242
Interest bearing borrowings received	5 107 446
Equity contribution from non-controlling interest in new subsidiary	1 784 121
Acquisitions of and improvements to investment properties	(9 057 728)
Dividends paid	(757 729)

Issues of shares to the value of R1.7 billion, contributions from minorities of R1.8 billion, and additional borrowings of R5.1 million were utilised to acquire investment properties of R9.1 billion in Spain during the period under review.

Extracts from the unaudited condensed consolidated statement of profit or loss for the six months ended 30 September 2018

	30 September 2018		30 September 2017		%	
	R000	R000	R000	R000	Variance	Notes
Net profit from property operations[1]		813 543		602 864	34.9	(a)
Investment and other income		93 451		158 006	(40.9)	(b)
– Dividends received	49 869		67 213		(25.8)	
– Interest and other income	43 582		90 793		(52.0)	
Share of income from associate (Atlantic Leaf)		46 482		34 358	35.3	
Corporate and administrative expenses		(96 588)		(56 801)	(70.0)	(c)
Finance costs		(246 810)		(171 601)	(43.8)	(d)
Taxation		(16 594)		(8 986)	(84.7)	(e)

[1] *Excludes straight-line rental income*

(a) Net profit from property operations

The group's net profit from property operations, exclusive of straight-line rental accruals, has increased by R210.6 million (34.9%) over the comparable period, from R602.9 million to R813.5 million. The southern African stable portfolio reflected a pleasing like-for-like growth of c. 5.1% for the six months ended 30 September 2018. The Spanish portfolio has experienced a significant increase in the growth of net property revenue over the comparative period due to ongoing acquisitions.

Further details of the group's property portfolio performance are shown under paragraphs 7 and 8 and in the operating segment analysis section.

Gross rental receivables (tenant arrears)

Group tenant arrears were R102.2 million at 30 September 2018 (31 March 2018: R87.7 million). Gross rental receivables have increased by R14.5 million over the six month period, mainly attributable to the acquisition of Morzal which contributed R12.8 million.

Impairment allowance for tenant receivables

The allowance for the impairment of tenant receivables has increased to R47.1 million at 30 September 2018. The explanation for the increase is represented below, including the impact of the adoption of IFRS 9. Further details of this IFRS 9 adoption are set out in Note 1 to the unaudited condensed consolidated financial statements at 30 September 2018.

The impairment allowance represents 2.0% of gross rental income for the 12 months ended 30 September 2018 (31 March 2018: 2.2%). A summary of the movement in the impairment allowance for trade receivables by operating segment is set out below:

	Southern Africa	Spain	Total
	R000	R000	R000
Impairment allowance 1 April 2018	43 710	1 230	44 940
Adjustment to retained income due to IFRS 9 adoption	(4 807)	–	(4 807)
Foreign Currency Translation Reserve	–	70	70
Allowance for receivables impairment for the six month period	4 577	2 280	6 857
Impairment allowance 30 September 2018	43 480	3 580	47 060

(b) Investment and other income

Investment and other income has reduced significantly from R158.0 million (30 September 2017) to R93.5 million at 30 September 2018. The reduction of R64.5 million is mainly attributable to the following:

	Rm
Interest earned on Cross Currency Interest Rate Swaps (CCIRS) in prior year reflected under investment income and now reflected separately*	(32.3)
Additional interest earned on staff loans over prior period**	7.7
Atlantic Leaf pre-commitment fee earned in prior period (non-recurring)	(9.4)
Reduced interest earned on call and money market deposits over prior period due to acquisitions made	(13.4)
Increase in dividends earned from Fairvest Property Holdings Limited (Fairvest) over prior period	5.0
Reduced Gemgrow Properties Limited (Gemgrow) dividends over prior period due to change from quarterly to a bi-annual dividend cycle and which will normalise over the full reporting period	(22.4)
Other	0.3
Total variance to prior period	(64.5)

** Current period interest on CCIRS reflected separately in the condensed statement of profit or loss equates to c. R74.3 million*
*** The cost to Vukile of financing these loans was R8 million for the period ended 30 September 2018*

(c) Corporate and administrative expenses

Group corporate administrative expenditure of R96.6 million is R39.8 million (70.0%) higher than the previous period's expenditure of R56.8 million. The majority of this increase is due to the employment of an experienced property team in Spain, who have been in place for the six month period ended 30 September 2018. The staff complement employed in Spain has increased from four employees at 30 September 2017 to 21 at 30 September 2018, to cater for the significant expansion in investment properties. The table below shows the geographic split of expenditure by segment, and the primary categories contributing to the increase on a like for like basis compared to prior periods.

	30 September 2018		30 September 2017	
	R000	%	R000	%
Southern Africa	67 987	100.0	54 666	100.0
Salary and related costs	48 506	71.3	37 986	69.5
Directors fees	2 365	3.5	1 307	2.4
Professional, regulatory, valuation and legal fees	3 869	5.7	3 226	5.9
Premises, property, plant and equipment	5 662	8.3	5 182	9.5
Audit fees	1 944	2.9	1 679	3.0
Consulting fees	1 676	2.5	1 464	2.7
General operating costs	3 609	5.3	3 338	6.1
Loss on foreign exchange transactions	356	0.5	484	0.9
Spain	28 601	100.0	2 135	100.0
Salary and related costs	16 725	58.5	609	28.5
Directors fees	566	2.0	—	0.0
Professional, regulatory, valuation and legal fees	6 303	22.0	1 277	59.8
Premises, property, plant and equipment	890	3.1	—	0.0
Audit fees	1 108	3.9	—	0.0
Consulting fees	402	1.4	—	0.0
General operating costs	2 607	9.1	249	11.7

Vukile has increased its staff complement mainly in finance and asset management which has led to an increase in remuneration costs.

(d) Finance costs

Group finance costs have increased by R75.2 million from R171.6 million to R246.8 million. This increase is primarily due to additional finance costs incurred in the financing of the acquisition of five shopping centres in Spain during the past six months. A comparison of the group's cost of funding is split by currency in the table below:

	30 September 2018 %	30 September 2017 %
ZAR	**9.08**	9.27
GBP	**3.47**	3.10
EUR	**2.85**	2.12

Vukile's weighted average historical cost of finance equates to c. 4.74%, with 94.2% of interest-bearing term debt hedged.

(e) Taxation

The first six month's tax accrual of R16.6 million is higher than the comparable period of R9.0 million, primarily as a result of additional taxation arising in Castellana of R4.5 million, compared to the prior period.

4. LISTED INVESTMENTS

Fairvest

Vukile held a 27.3% shareholding in Fairvest at 30 September 2018 (31 March 2018: 31.4%).

Vukile's investment in Fairvest is valued at R622.0 million at 30 September 2018, based on R2.30 per share (31 March 2018: R2.20 per share).

Dividends received during the six months ended 30 September 2018 amount to R13.8 million of which 50% is related to the year ended 31 March 2018. Based on the public guidance provided by Fairvest management, it is anticipated that dividends of c.R58.0 million will be received or accrued for the period ending 31 March 2019.

Gemgrow

Vukile holds 4.7 million and 114.4 million Gemgrow "A" and "B" shares respectively, equating to 26.3% of total shares in issue.

These shares are valued at R771.0 million at 30 September 2018 based on the market prices of R9.35 and R6.35 (31 March 2018: R9.79 and R6.50) for the A and B shares respectively.

Vukile has received dividends during the period amounting to R23.4 million, which related to the period ended 31 March 2018. Dividends of R91.6 million are budgeted to be received and accrued for the period ending 31 March 2019 in terms of public guidance issued by Gemgrow management.

Investment in associate

Atlantic Leaf – 34.9%

Vukile held a 34.9% shareholding in Atlantic Leaf at 30 September 2018 (31 March 2018: 34.9%). Vukile currently holds 66.0 million shares in Atlantic Leaf.

In terms of IFRS, Atlantic Leaf is regarded as an associate of Vukile. As such, all dividends received reduce the carrying value of the investment in Atlantic Leaf, which amounted to R1.3 billion at 30 September 2018.

However, as dividends receivable for the six month period to 30 September 2018 of R56.0 million are represented by cash, these dividends are regarded as distributable.

Based on the guidance contained in the prospects statement issued by Atlantic Leaf in October 2018, dividends, inclusive of forward exchange contracts (FECs), of R112.0 million are anticipated to be received and accrued by Vukile for the period ending 31 March 2019.

The share of profits earned by Atlantic Leaf for the six month period to 30 September 2018 amounts to R46.5 million as determined under IFRS.

Investment in subsidiaries

Castellana – 97.5% and Morzal – 50.9%

During the six month period Castellana acquired the Habaneras shopping centre for €83.8 million together with transaction costs. The acquisition was funded via an equity injection of €42.7 million and a loan from Aareal Bank.

Castellana's total property portfolio was valued at €406.3 million at 30 September 2018.

The Castellana portfolio is well diversified across Spain (none of the properties are situated in Catalonia) and comprises high-quality retail parks and shopping centres with solid long-term trading histories. The low-average base rentals provide room for income growth going forward.

Vukile anticipates dividends of €6.4 million from Castellana for the six month period ended 30 September 2018.

Vukile announced on 31 July 2018 that its subsidiary, Morzal, had acquired four high-quality shopping centres in Spain at a cost of €480.6 million (including acquisition costs), at an attractive pre-gearing yield of 5.7%. €256.0 million of the acquisition was funded through a bank loan and the remainder through equity, which included two external investors who contributed €115.0 million.

Morzal's total property portfolio was valued at €494.0 million at 30 September 2018.

Vukile's 50.9% shareholding in Morzal is expected to generate a dividend of €1.1 million for the two-month period to 30 September 2018 based on dividends calculated under Spanish GAAP. The dividends for the second period will be increased to adjust for the depreciation of the four properties under Spanish GAAP to better match the IFRS earnings generated by Morzal.

Post a share swap on 27 November 2018, Morzal has become a 100% subsidiary of Castellana and Vukile's shareholding in Castellana has reduced from 97.5% to 72.6%.

	30 September 2018	31 March 2018
Cash dividends (net of withholding taxes of 2.66%)	€7.5 million	€10.4 million [1]
Investment properties	€898 million	€308 million
Interest-bearing debt[2]	€444 million	€146 million
Loan to value ratio	49.4%	47.4%
Loan to value ratio net of cash	47.2%	42.2%

[1] *Declared and paid to Vukile in May 2018 for year ended 31 December 2017*

[2] *Interest bearing borrowings are reduced by Castellana's and Morzal's unamortised portion of capitalised borrowing costs, calculated in terms of IFRS of €14.5 million at 30 September 2018*

It should be noted that under Spanish law, Castellana and its subsidiaries are required to utilise Spanish GAAP in the preparation of their individual annual financial statements and also requires Castellana's consolidated annual financial statements to be prepared under IFRS. These consolidated IFRS financial statements have been used in the Vukile group's consolidation, in terms of the basis of preparation as set out in note 10.

5. GROUP BORROWINGS

The group's finance strategy is to optimise funding costs and minimise refinance risk. Total debt as at 30 September 2018 amounted to R13,2 billion. A detailed breakdown is provided below:

	Rm	
Foreign Spanish funders (EUR)	7 290	Secured against Castellana and Morzal's investment properties with no recourse to Vukile.
Local funders (EUR)	2 160	Secured against a major portion of Vukile's southern Africa balance sheet
Local funders (GBP)	528	
Local funders (ZAR)	1 338	
DMTN (ZAR)	1 884	
	13 200	

Vukile's funding of R13.2 billion (including R77.0 million commercial paper issued by Vukile to its Namibian subsidiaries, which is eliminated on consolidation, reducing group debt to R13.1 million), is well diversified across a number of funders, in line with its strategy of reducing refinancing risk.

Sources of funding

	Debt R000	Debt exposure per bank %
Aareal	4 894 670	37.1
Absa	1 703 413	12.9
Banco Popular	184 923	1.4
Banco Santander	963 560	7.3
Caixabank	1 246 924	9.5
DMTN – Corporate bonds	1 707 000	12.9
DMTN – Commercial paper	177 000	1.3
Investec	828 584	6.3
Nedbank	100 000	0.8
RMB	610 843	4.6
Standard Bank	783 463	5.9
Grand total	13 200 380	100.0

Vukile group loan and hedging (swap and fixed term debt) expiry profile at 30 September 2018

	2019	2020	2021	2022	2023	2024	2025	2026	Total
Loan expiry profile (Rm)	356	1 116	1 402	2 133	1 313	1 430	–	4 895	12 645
Commercial Paper and Access Facility expiry profile (Rm)	177	339	39	–	–	–	–	–	555
Hedging (Swap & Fixed debt) profile (Rm)	245	519	1 050	2 253	1 271	1 655	25	4 895	11 913
Loan expiry profile (%)	2.7	8.5	10.6	16.2	9.9	10.8	–	37.1	95.8
Commercial Paper and Access Facility expiry profile (%)	1.3	2.6	0.3	–	–	–	–	–	4.2
Hedging (Swap and Fixed debt) profile (%)	2.1	4.4	8.8	18.9	10.6	13.9	0.2	41.1	100.0

€42.3 million of debt with Aareal, relating to Habaneras, is fixed. €256.0 million of debt with Aareal, related to Morzal, is initially floating for three months and will be fixed for five years on 14 December 2018, in terms of the loan agreement with Aareal Bank and has therefore been included in the interest bearing debt hedged ratio and fixed rate maturity profile.

The strategy of the group is to ensure that no more than 25% of debt expires in any one year. More than 25% of debt will mature in FY2026. Aareal provided funding of €42.3 million for the Habaneras acquisition and €256.0 million for the Morzal acquisition. The intention is that as this debt reaches maturity, Castellana's overall debt will have increased and as a percentage this debt will be less than 25% of total debt at that point in time. It should also be noted that Aareal intends to syndicate up to 50% of the €256.0 million loan which will reduce Vukile's exposure to Aareal. As can be observed from the above expiry profile, there is a low refinance risk over the next five years.

A summary of group debt ratios at 30 September 2018 is provided below:

	Group R000	Southern Africa R000	Spain €000
Total debt (excluding access facilities and commercial paper)	**12 645 584**	**5 355 506**	**444 330**
Interest-bearing debt hedged (%)	**94.2**	**86.3**	**100.0**
Debt maturity profile (years)	**4.3**	**2.2**	**6.0**
Hedging (swap and fixed debt) – maturity profile (years)	**4.7**	**2.8**	**6.0**
Directors' valuation loan-to-value (LTV) ratio (net of cash)[(1)] (%)	**39.7**	**33.4**	**47.2**
Gearing ratio[(2)] (%)	**38.0**	**31.5**	**45.8**
Interest cover ratio (times)[(3)]	**2.88**	**2.89**	**2.85**

(1) *Directors' Valuation LTV ratio (net of cash) calculated as a ratio of actual interest-bearing debt owing less cash and cash equivalents (excluding tenant deposits & restricted cash) divided by the sum of (i) the amount of the Director's Valuation of all the Properties in the Vukile Group Property Portfolio at 30 September 2018, on a consolidated basis and (ii) the market value of equity investments.*

(2) *Gearing is calculated by dividing total group interest-bearing borrowings by group total assets, per the group's unaudited condensed consolidated statement of financial position at 30 September 2018. Interest bearing borrowings are reduced by the group's unamortised portion of capitalised borrowing costs, calculated in terms of IFRS of R237.2 million (comprising R17.7 million on ZAR debt and €14.5 million on Castellana EUR debt, converted to ZAR at 30 September closing spot rates where applicable.)*

(3) *Calculated for the six month period ended 30 September 2018.*

Undrawn facilities at 30 September 2018

Undrawn facilities amount to c.R1.46 billion and are detailed as follows:

	Facility amount R000	Facility drawn R000	Facility undrawn R000
ABSA Revolving Credit Facility (RCF)	**850 000**	**300 733**	**549 267**
Investec Access Facility	**100 000**	**38 083**	**61 917**
Investec RCF (ZAR)	**100 000**	**–**	**100 000**
Investec Term Loan (EUR)	**388 770**	**246 104**	**142 667**
RMB Access Facility	**200 000**	**38 980**	**161 020**
Standard Bank Access Facility	**80 000**	**–**	**80 000**
Standard Bank Term Loan (EUR)	**360 952**	**–**	**360 952**
Grand total	**2 079 722**	**623 900**	**1 455 823**

Total DMTN Commercial paper issued for R117 million is fully backed by undrawn facilities.

Ratings

GCR upgraded Vukile's corporate long-term credit rating to A+(ZA) with the outlook accorded as stable, and reaffirmed Vukile's corporate short-term rating of A1(ZA) and secured long-term credit rating of AA+(ZA).

Group debt movement during the six months ended 30 September 2018

During the six month period ended 30 September 2018:

- c. R256 million of Bank debt was repaid;
- c. R88.5 million of Access Facilities were utilised primarily for South African development or expansion projects;
- Corporate bonds of R690 million were repaid during the six month period;
- R825 million of new Corporate bonds were issued;
- c. €6 million of EUR Bank debt was entered into to acquire shares in Castellana for the Habaneras acquisition;
- Within Castellana, €42.3 million of fixed Bank debt was entered into for the Habaneras acquisition – this debt is non-recourse to Vukile;
- A large percentage of the proceeds of the Vukile equity book-build issuance of c. R1.6 billion was utilised together with R400 million of ZAR Bank debt and €15 million of EUR Bank debt to acquire shares in Morzal;
- Within Morzal, €256 million of Bank debt (which is to be fixed on 14 December 2018) was concluded – this debt is non-recourse to Vukile;
- Vukile extended ZAR Interest Rate Swaps totalling c. R961.3 million, at an estimated new annualised additional cost of R1.5 million.

The group has complied with all the bank's group LTV covenants of 50%. The group has also complied with the DMTN's LTV covenant of 45% in respect of those properties mortgaged as security under the DMTN programme.

Group foreign exchange currency hedges at 30 September 2018

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

EUR net income exposure – as at 30 September 2018

Dividend payment dates	Dec-18 €000	Jun-19 €000	Dec-19 €000	Jun-20 €000	Dec-20 €000	Jun-21 €000	Dec-21 €000	Jun-22 €000	Dec-22 €000	Jun-23 €000
Net EUR dividends forecast	4 294	6 853	6 986	7 149	7 115	7 283	8 762	8 933	10 134	10 309
Existing forward exchange contract (FEC) hedges on dividends	(3 209)	(4 884)	(5 375)	(5 289)	(5 495)	(5 508)	(4 600)	(4 600)	(4 600)	(4 600)
Fixed FEC EUR/ZAR rate	16.4265	17.1270	17.7734	18.4981	18.5148	19.4321	20.6629	21.5255	22.4193	23.3412
Unhedged dividend income	1 085	1 969	1 611	1 860	1 620	1 775	4 162	4 333	5 534	5 709
Percentage EUR income hedged over three years	75%	71%	77%	74%	77%	76%	53%	51%	45%	45%
Average hedge	75%									

GBP net income exposure – as at 30 September 2018

Dividend payment dates	Nov-18 £000	May-19 £000	Nov-19 £000	May-20 £000	Nov-20 £000
Net GBP dividends forecast	2 595	2 434	2 322	2 378	2 434
FEC hedges on dividends	(1 981)	(2 035)	(1 996)	(2 045)	(2 070)
Fixed FEC GBP/ZAR rate	18.5923	19.2135	19.9029	20.6072	21.3622
Unhedged dividend income	614	400	326	332	364
Percentage EUR income hedged over three years	76%	84%	86%	86%	85%
Average hedge	83%				

Group cost of finance at 30 September 2018

Group cost of finance for the period ended 30 September 2018 at the historic weighted average interest cost of 4.74% comprises the following:

- ZAR – 9.08%
- EUR – 2.85%.
- GBP – 3.47%.

The table below shows actual funding costs and nominal borrowing by currency between FY2018, HY2019 and a forecast for FY2019. Historic rates are based on actual interest costs including hedging and amortised transaction costs, divided by the average debt by month over the respective period. Forecast rates are based on assuming R160 million of new ZAR debt utilised in December 2018 with assumptions for current debt and swaps expiring during the forecast period.

	FY2019 12 month forecast of debt	HY2019 Historic cost of debt	FY2018 Historic cost of debt	Debt as at 30 September 2018	Debt as at 31 March 2018
	%	%	%	R000	R000
ZAR	9.23	9.08	9.24	3 221 796	2 854 530
EUR	2.72	2.85	2.28	9 450 145	3 740 248
GBP	3.49	3.47	3.34	528 439	476 102
Total	4.52	4.74	5.74	13 200 380	7 070 880

6. CCIRS AS A PERCENTAGE OF FOREIGN INVESTMENT EXPOSURE

CCIRS have the ability to hedge both foreign exchange fluctuations on Vukile's earnings and asset exposure. To minimise the impact of unexpected risks at the maturity of the CCIRS, Vukile has chosen to limit the utilisation of CCIRS to 45% of total international investments.

The CCIRS ratio to total value of international investments (on a consolidated basis) is 34.5%.

	EUR Nominal €000	ZAR Nominal R000	EUR/ZAR Initial Rate	EUR Fixed Rate over Term	ZAR Average Rate over Term	Maturity
Nedbank CCIRS June 2018	93 200	1 346 240	14.4446	1.90%	8.81%	14-06-2021
Nedbank CCIRS June 2018	23 800	360 380	15.1420	1.29%	8.81%	14-06-2021
ABSA CCIRS July 2018	40 000	629 860	15.7465	3.70%	11.88%	13-06-2022
Investec CCIRS July 2018	25 500	401 370	15.7400	3.72%	11.88%	13-06-2022
Total	182 500	2 737 850				

Vukile's foreign exchange rate hedging policy's intention is to reduce the impact of foreign currency fluctuations, and not to necessarily profit from ZAR weakness, however investors may expect Vukile's foreign investments to provide some "Rand Hedge" which is currently the case from both an earnings perspective where 25% of foreign earnings are hedged.

7. SOUTHERN AFRICA

7.1 SOUTHERN AFRICAN PROPERTY PORTFOLIO OVERVIEW

The southern Africa property portfolio at 30 September 2018 consisted of 60 properties with a total market value of R14.5 billion excluding capitalised lease commissions, and gross lettable area (GLA) of 939 123m², with an average value of R242 million per property. The southern African retail portfolio which accounts for c.91.0% of the value of the assets, was valued at R13.3 billion and consists of 45 properties with an average value of R295 million.

The geographical and sectoral distribution of the group's southern African property portfolio is indicated in the tables below. The portfolio is well-represented in most of the South African provinces and Namibia. Some 75.0% of the gross income is derived from Gauteng, KwaZulu-Natal, Western Cape and Namibia.

Geographic profile

% of gross income	Total portfolio %
Gauteng	**36**
KwaZulu-Natal	**23**
Namibia	**8**
Western Cape	**8**
Limpopo	**7**
Free State	**6**
North West	**5**
Mpumalanga	**4**
Eastern Cape	**3**

Based on market value, 91% of the southern African portfolio is in the retail sector followed by 3% in offices, 3% in industrial, 2% in motor-related and 1% in the residential sectors.

The tenant profile is listed in the table below:

Tenant profile

% of Total GLA	Total portfolio %
Large national and listed tenants and major franchises	67
National and listed tenants, franchised and medium to large professional firms	10
Other	23

The retail portfolio's exposure to national, listed and franchised tenants is 82% in total.

Vukile's tenant concentration risk is considered to be low as the top 10 tenants account for 47% of total GLA. Shoprite is the single largest tenant, occupying 8.5% of total GLA with Pick n Pay the second largest at 7% of total GLA.

The top 15 properties, all of which are retail assets, have 82% exposure to national, listed and franchised tenants and represent 58.2% of the total portfolio value and 47% of the total portfolio GLA.

Top 15 properties by value

Property	Location	GLA m²	Directors' valuation at 30 September 2018 Rm	% of total	Valuation R/m²
Boksburg East Rand Mall*	Gauteng	34 064	1 396.6	9.6	40 999
Durban Phoenix Plaza	KwaZulu-Natal	24 351	925.9	6.4	38 023
Pinetown Pine Crest	KwaZulu-Natal	40 086	897.4	6.2	22 387
Gugulethu Square	Western Cape	25 322	572.0	3.9	22 589
Soweto Dobsonville Mall	Gauteng	26 628	556.3	3.8	20 892
Queenstown Nonesi Mall	Eastern Cape	27 898	478.0	3.3	17 134
Oshakati Shopping Centre	Namibia	24 632	432.6	3.0	17 563
Daveyton Shopping Centre	Gauteng	17 774	420.6	2.9	23 664
Germiston Meadowdale Mall**	Gauteng	33 046	414.4	2.9	12 540
Bloemfontein Plaza	Free State	43 771	412.8	2.8	9 431
Phuthaditjhaba Maluti Crescent	Free State	21 680	408.8	2.8	18 856
Randburg Square	Gauteng	40 767	406.7	2.8	9 976
Thohoyandou Thavhani Mall***	Limpopo	17 602	406.1	2.8	23 071
Moruleng Mall#	North West	25 137	370.3	2.6	14 731
Roodepoort Hillfox Power Centre	Gauteng	38 245	341.4	2.4	8 927
Total top 15		441 003	8 439.9	58.2	19 138

* *Represents an undivided 50% share in this property.*
** *Represents an undivided 67% share in this property.*
*** *Represents an undivided 33% share in this property.*
\# *Represents 80% share in the company.*

7.2 SOUTHERN AFRICAN PROPERTY PORTFOLIO VALUATIONS

The accounting policies of the group require that the directors value the entire portfolio every six months at fair market value. Approximately one-half of the portfolio is valued every six months, on a rotational basis, by registered independent third-party valuers. The directors have valued the southern African property portfolio at R14.5 billion as at 30 September 2018[(1)]. This is R22.4 million, or 0.2% higher than the valuation as at 31 March 2018. The calculated recurring forward yield for the portfolio is a conservative 8.4%.

The external valuations by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd at 30 September 2018 of 52% of the total portfolio are in line with the directors' valuations of the same properties.

[(1)] *The group's property portfolio value takes into account Moruleng Mall at 80%, whereas in the financial statements the group property value reflects 100% of Clidet, the entity which owns Moruleng Mall.*

7.3 SOUTHERN AFRICAN PROPERTY PORTFOLIO PERFORMANCE

The financial performance of the stable portfolio is set out below:

Financial performance for the stable portfolio (excluding acquisitions and sales)	**September 2018 Rm**	September 2017 Rm	% change
Property revenue	**681.0**	647.2	5.2
Net property expenses	**(113.3)**	(106.9)	(6.0)
Net property income	**567.7**	540.3	5.1
Property expense ratios (%)*	**16.6**	16.5	0.6

* *Recurring cost to property revenue ratios (including rates and taxes and electricity costs; excluding asset management fee).*

New leases and renewals in excess of 119 000m² with a contract value of R878 million were concluded year to date, keeping tenant retention at 82%.

Details of large contracts concluded

Tenant	Property	Sector	Contract value Rm	Lease duration Years
Pick n Pay	Pinetown Pine Crest	Retail	77.7	10
Cashbuild	Phuthaditjhaba Maluti Crescent	Retail	31.8	10
Shoprite Checkers	Durban Phoenix Plaza	Retail	25.6	5
Shoprite Checkers	Mbombela Shoprite Centre	Retail	24.0	5
Truworths	Boksburg East Rand Mall (50%)	Retail	22.9	5
Shoprite Checkers	Tzaneen Maake Plaza (70%)	Retail	19.8	5
Spar	Ulundi King Senzangakona Shopping Centre	Retail	14.1	5
The Hub	Durban Phoenix Plaza	Retail	13.3	5
Spar	Hammanskraal Renbro Shopping Centre	Retail	13.0	5

Group lease expiry

The group lease expiry table reflects that 15% of the leases are due for renewal in the second half of the year. Approximately 49% of leases are due to expire in 2022 and beyond (up from 38%).

% of contractual rent	March 2019	March 2020	March 2021	March 2022	Beyond March 2022
Rent	15	19	17	15	34
Cumulative as at September 2018	15	34	51	66	100
Cumulative as at March 2018	29	47	62	73	100

% of GLA	Vacant	March 2019	March 2020	March 2021	March 2022	Beyond March 2022
GLA	4.3	14	15	13	12	42
Cumulative as at September 2018	4.3	18	33	46	58	100
Cumulative as at March 2018	4.2	31	46	59	68	100

Vacancies

At 30 September 2018, the portfolio's vacancy (measured as a percentage of gross rental) was 3.9% compared to 3.7% at 31 March 2018 and the portfolio's vacancy (measured as a percentage of GLA) was 4.3% compared to 4.2% at 31 March 2018. The retail portfolio vacancy based on gross rental is unchanged at 3.4% (31 March 2018: 3.4%)

Vacancies (% of gross rental)	September 2018	March 2018
Retail	**3.4**	3.4
Industrial	**2.1**	6.0
Offices	**19.5**	10.3
Motor Related	**0.0**	0.0
Portfolio vacancy	**3.9**	3.7

Office vacancies increased due to a tenant vacating 3721m² at Sandton Sunninghill Sunhill Park. We are currently evaluating various options to convert the property. This vacancy will be moved to development vacancy in future.

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

Vacancies (% of GLA)	September 2018	March 2018
Retail	**3.7**	3.9
Industrial	**1.6**	3.5
Offices	**22.0**	13.5
Motor Related	**0.0**	0.0
Portfolio Vacancy	**4.3**	4.2

GLA summary	GLA m²
Balance at 31 March 2018	**937 463**
GLA adjustments	1 660
Disposals	0
Acquisitions and extensions	0
Balance at 30 September 2018	**939 123**

Vacancy summary	Area m²	%
Balance at 31 March 2018	**39 681**	**4.2**
Less: Properties sold since 31 March 2018	0	
Remaining portfolio balance at 31 March 2018	**39 681**	**4.2**
Leases expired or terminated early	120 678	
Tenants vacated	21 674	
Renewal of expired leases	(78 960)	
Contracts to be renewed	(19 652)	0.1
Development vacancy	(5 547)	
New letting of vacant space	(37 236)	
Balance at 30 September 2018	**40 638**	**4.3**

Base rentals (excluding recoveries)

The weighted average monthly base rental rates per sector, between 31 March 2018 and 30 September 2018, are set out in the table below:

Weighted average base rentals (R/m²) excluding recoveries	September 2018	March 2018	Escalation
Retail	132.66	130.44	1.8
Industrial	55.94	54.42	2.8
Offices	97.77	95.74	2.2
Motor Related	134.24	128.64	4.4
Portfolio weighted average base rentals	**124.99**	122.77	1.8

Average contractual rental escalations are 7.1%.

The average escalation on expiry rentals on the total portfolio of 4.1% is positive against the backdrop of a difficult trading environment. Positive reversions of 4.3% were achieved in the retail sector.

Expense categories and ratios

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

The group continuously evaluates methods of containing costs in the portfolio. The stable portfolio's recurring net costs to income ratio of 17.3% is still in line with the ratio of 16.6% at 31 March 2018.

7.4 DEVELOPMENTS AND ACQUISITIONS

Upgrades/Redevelopments – R607.9 million

As part of the ongoing strategy to improve the quality of the existing portfolio, the following projects have been completed or are in progress:

Phuthaditjhaba: Maluti Crescent

Maluti Crescent, previously known as Setsing Crescent, is located in Phuthaditjhaba in the eastern Free State. It has a GLA of 22 000m² and the major tenants include Spar, Game, Cashbuild, Clicks, all five major banks and a very strong national fashion component. The centre is currently being extended and upgraded. The total project cost has increased from R338.0 million, with a projected yield of 8.5%, to R391.6 million (8.1%). The cost increase is mainly due to scope variations and additional maintenance work not foreseen in the initial feasibility. The extension area is due for completion by March 2019 while the relocation of tenants in the existing mall will be completed by August 2019.

The centre is being transformed from a strip mall into an almost fully enclosed mall. The multi-level extension includes new under cover parking and taxi ranks on the ground and mezzanine levels with 12 357m² of new retail space on the top level. Tenants in the extension area include Pick n Pay, Mr Price, additional Foschini Group outlets and a relocated and enlarged Woolworths. More than 90% of the leases for the extension area have been finalised.

The existing centre is being upgraded to complement the new mall. Provision has been made for a new PV cell solar installation on the roof of the extension.

Flanagan & Gerard, who have extensive experience in shopping centre development, are the development managers.

Pinetown: Pine Crest Centre

Vukile acquired SA Corporate Real Estate's 50% shareholding in Pine Crest Centre in April 2017.

Pine Crest Centre is the biggest shopping centre in the Pinetown central business district with a GLA of 40 087m² spread over three levels. Major tenants include Pick n Pay, Game, Dischem, Virgin Active, Woolworths, Foschini, Ackermans, Edgars Active, Truworths, Mr Price, Jet Stores, Wimpy, KFC, SA Post Office as well as the five major banks. The centre is currently being extended and upgraded at a total cost of R200.0 million at a projected yield of 7.4%. At the same time major maintenance work will be done, mainly to the roof waterproofing, the escalators and the HVAC systems. The project is due to be completed in June 2019.

The existing ground level mall is being extended into the adjacent parking deck and new GLA of about 5 000m² as well as a new street level entrance and additional escalator access to the upper shopping levels, are being provided.

The food court on the third level is being extended and upgraded. New tenants to this area include a Spur restaurant and a Galaxy Bingo, while the existing food outlets, including KFC and Nando's, will be upgraded.

Germiston Meadowdale Mall

At the beginning of 2018 Vukile partnered with the Moolman Group to invest a total of R23 million to relocate Cashbuild into a new standalone 1 350m² store, reconfigure their former store to accommodate new tenants (4x4 Mega World and Crazy Pets), and undertake other essential improvements. Vukile's two-thirds capital contribution amounted to R16.3 million at a yield of 11.5%. The brand-new Cashbuild store reopened to the public on 8 August 2018.

The centre is currently fully let with a weighted average lease expiry (WALE) of 5.7 years on GLA and the trading density growth higher than benchmark.

Current Vukile projects

A summary of major capex projects approved and incurred to 30 September 2018 is set out below:

Approved projects	Completion	Approved R000	**Paid to 30 September 2018 R000**	Budget October 2018 to March 2019 R000
Phuthaditjhaba: Maluti Crescent	31 August 2019	391 650	**140 923**	141 650
Pinetown: Pine Crest Centre	30 June 2019	200 000	**35 497**	120 350
Germiston: Meadowdale Mall	31 July 2018	16 264	**13 499**	2 765
Total		607 914	**189 919**	264 765

Developments

No developments during the period.

Acquisitions – R470.6 million

Kolonnade Retail Park

Vukile acquired the property and letting enterprise known as Kolonnade Retail Park measuring 39 450m² from Sasol Pension Fund for a purchase price of R470.6 million. The acquisition is expected to be yield neutral in the first year. The centre is conveniently situated 2.5km from the N1 Highway, on the corner of Sefako Makgatho Drive (previously Zambesi Drive) and Enkeldoorn Avenue. Kolonnade Retail Park is a typical value centre with big box retailers and is anchored by a 12 957m² Pick n Pay Hyper and Liquor, a 4 592m² Mr Price Home & Sport and a 2 333m² West Pack Lifestyle. The centre is fully let and has a weighted average lease expiry of just under four years and a national tenant component of 88% of the total GLA. Kolonnade Retail Park was transferred post half-year end in November 2018.

Property sales – Southern Africa

No properties were sold during the period.

Investment properties held for sale – R2.04 billion

The investment properties held for sale comprise the Namibian portfolio and Vukile's non-retail, commercial and industrial portfolio. It is intended to redeploy the proceeds from the sale of these portfolios, once concluded, into Spain.

8. SPAIN

8.1 SPANISH PROPERTY PORTFOLIO OVERVIEW

The Spanish property portfolio at 30 September 2018 consisted of 19 properties with a total market value of €897.9 million, excluding capitalised lease commissions, and GLA of 318 622m², with an average value of €47.3 million per property.

The geographical and sectoral distribution of the group's property portfolio is indicated in the tables below. Some 87% of gross income is derived from Andalucia, Extremadura, Castilla Leon and Valencia.

Geographic profile

% of gross income	Total portfolio %
Andalucia	44
Extremadura	22
Castilla Leon	11
Valencia	10
Madrid	8
Asturias	4
Murcia	1

Based on market value, 97% of the group portfolio is in the retail sector followed by 3% in the office sector.

The tenant profile is listed in the table below:

Tenant profile

% of gross income	Total portfolio %
Large national and international tenants	91
Local tenant	9

The tenant concentration risk is considered to be low as the top 10 tenants account for 30% of gross income. AKI is the single largest tenant, occupying 6.1% of total GLA with Media Markt the second largest at 5.7% of total GLA.

List of total portfolio by value

Property	Province	Sector	GLA m²	Market value €'m	% of total portfolio	Valuation €/m²
El Faro	Extremadura	Shopping Centre	43 423	**161.5**	18.0	3 719
Bahía Sur	Andalucia	Shopping Centre	24 760	**119.5**	13.0	4 826
Los Arcos	Andalucia	Shopping Centre	17 906	**114.3**	13.0	6 383
Vallsur	Castilla Leon	Shopping Centre	35 211	**96.4**	11.0	2 738
Habaneras	Valencia	Shopping Centre	24 158	**85.2**	9.0	3 527
Centro Comercial Alameda	Andalucia	Retail Park	27 913	**59.8**	7.0	2 142
Parque Oeste de Alcorcón	Madrid	Retail Park	13 604	**52.7**	6.0	3 874
Kinépolis Retail Park	Andalucia	Retail park	18 508	**34.1**	4.0	1 842
Parque Principado	Asturias	Retail Park	16 396	**32.8**	4.0	2 000
Marismas del Polvorín	Andalucia	Retail Park	20 000	**29.1**	3.0	1 455
Edificio Alcobendas	Madrid	Offices	11 046	**20.4**	2.0	1 847
Mérida	Extremadura	Retail Park	13 447	**20.0**	2.0	1 487
Villanueva	Extremadura	Retail Park	12 405	**16.1**	2.0	1 298
Kinépolis Leisure Centre	Andalucia	Shopping Centre	7 420	**14.1**	1.0	1 900
Pinatar Park	Murcia	Retail Park	10 637	**11.5**	1.0	1 081
Motril	Andalucia	Retail Park	5 559	**8.9**	1.0	1 601
Mejostilla	Extremadura	Retail Park	7 281	**8.7**	1.0	1 195
Ciudad del Transporte	Valencia	Retail Park	3 250	**7.2**	1.0	2 215
Edificio Bollullos de la Mitación	Andalucia	Offices	5 698	**5.7**	1.0	1 000
Total			318 622	**898.0**	100.0	2 818

8.2 SPANISH PROPERTY PORTFOLIO VALUATIONS

The Castellana and Morzal property portfolios comprising 19 properties, which include the two call centres acquired in 2016, were valued by Colliers International at €897.9 million as at 30 September 2018.

The 11 retail parks acquired in July 2017 for €193.0 million have increased in value by 15.9% to €223.6 million as a result of strong asset management initiatives. The Alameda and Pinatar properties acquired in December 2017 have increased in value by 9.2% to €71.3 million.

The 4 properties acquired at a cost of €480.6 million were externally valued at €491.7 million at 30 September 2018, two months after the acquisition.

8.3 SPANISH PROPERTY PORTFOLIO PERFORMANCE

Details of large contracts concluded

Tenant	Property	Sector	Annual Rent €	Lease duration Years
Fransveta, S.L.	Kinépolis Leisure Centre	Shopping Centre	155 000	15
Masquepet, S.L.U.	Motril	Retail Park	79 272	15
Tiendas Espacio Casa, S.L.	Villanueva	Retail Park	74 304	14
Marvimundo, S.L.	Habaneras	Shopping Centre	97 161	10
Villanueva Pomodoro Global, S.L.	Villanueva	Retail Park	44 694	20
Reji Car Tuning, S.L.	Kinépolis Leisure Centre	Shopping Centre	68 283	10
Worten España Distribución, S.L.	Villanueva	Retail Park	64 350	9
El Italoamericano, S.L.	Kinépolis Leisure Centre	Shopping Centre	35 466	15
Indaloretail, S.L.	Centro Comercial Alameda	Retail Park	44 400	5
Restabell Franquicias, S.L.U.	Centro Comercial Alameda	Retail Park	65 484	3

Expiry profile

The Spanish properties' lease expiry profile table reflects that 2%, based on rent, of the leases are due for renewal in the 2019 financial year. Approximately 47% of leases are due to expire in 2028 and beyond.

Lease expiry

% of contractual rent (Expiry date)	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	Beyond 2028
Rent	2%	7%	6%	5%	7%	6%	5%	3%	4%	8%	47%
Cumulative as at September 2018	**2%**	**9%**	**15%**	**20%**	**27%**	**33%**	**38%**	**41%**	**45%**	**53%**	**100%**

Break profile

Castellana's lease break profile table reflects that 7%, based on rent, of the leases have break options in the 2019 financial year.

The break profiles by expiry date and first break date are also shown by GLA below:

% of contractual rent (First break date)	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	Beyond 2028
Rent	7%	29%	18%	9%	14%	4%	5%	1%	—%	3%	10%
Cumulative as at September 2018	**7%**	**36%**	**54%**	**63%**	**77%**	**81%**	**86%**	**87%**	**87%**	**90%**	**100%**

% of GLA (Expiry date)	Vacant	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	Beyond 2028
GLA	2%	1%	4%	3%	2%	3%	3%	3%	1%	3%	10%	65%
Cumulative as at September 2018	**2%**	**3%**	**7%**	**10%**	**12%**	**15%**	**18%**	**21%**	**22%**	**25%**	**35%**	**100%**

% of GLA (First break date)

% of GLA (First break date)	Vacant	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024	March 2025	March 2026	March 2027	March 2028	Beyond 2028
GLA	2%	4%	26%	16%	11%	12%	3%	6%	2%	—%	4%	14%
Cumulative as at September 2018	**2%**	**6%**	**32%**	**48%**	**59%**	**71%**	**74%**	**80%**	**82%**	**82%**	**86%**	**100%**

Vacancies

At 30 September 2018, the portfolio's vacancy (measured as a percentage of GLA) was 1.8% compared to 2.8% at 30 September 2017.

Vacancies (% of GLA)	**30 September 2018**	30 September 2017
Shopping Centre	**3.4**	31.1
Retail Park	**0.4**	1.7
Offices	**0.0**	0.0
Portfolio vacancies	**1.8**	2.8

A reconciliation of GLA and vacancy movements for the six months is shown below:

GLA summary	**GLA m²**
Balance at 31 March 2018	**172 974**
GLA adjustments	**190**
Disposals	**—**
Acquisitions and extensions	**145 458**
Balance at 30 September 2018	**318 622**

Vacancy summary	**Area m²**	**%**
Balance at 31 March 2018	**4 924**	**2.8%**
Vacancy on new acquisitions since 31 March 2018	**4 579**	
Stable Portfolio	**(3 660)**	
Balance at 30 September 2018	**5 843**	**1.8%**

Base rentals (excluding recoveries)

The weighted average monthly base rental rates per sector are set out in the table below:

Weighted average base rentals (€/m²) excluding recoveries	**September 2018**	**March 2018**
Shopping Centre	**19.2**	**8.9**
Retail Park	**9.2**	**9.2**
Offices	**9.3**	**9.1**
Weighted average base rentals	**14.0**	**9.2**

Contractual rental escalation's in the European market are CPI linked.

The Castellana asset management team have systematically added additional Net Operating Income (NOI) to the portfolio through a combination of re-letting of vacant space in the portfolio (Alameda, Habaneras, Motril), redevelopment projects (Kinépolis Leisure Centre) and value-add initiatives that increase rentals through splitting up larger boxes into smaller spaces that command higher rental rates per m² (Parque Oeste, Huelva, Motril, Kinépolis Retail Park, Villanueva). The team will add €1.2 million of additional annualised net operating income to the portfolio through these initiatives. This additional income will be fully reflected for FY2020.

8.4 DEVELOPMENTS AND ACQUISITIONS

Acquisitions – Spanish retail

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

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

The 5 shopping centres referred to above have a WALE of 5 years. The total GLA of the shopping centres is 145 458 m² and of gross revenue is derived from leading Spanish national and international retail tenants including Media Markt, Decathlon, Carrefour, Inditex Group, Primark, AKI and Mercadona. The average monthly rental of €19.68 per m² across the centres is at the lower end of the market rental which is between €15 and €32 per m², which is well positioned for income growth.

Property	Province	GLA m²	Weighted average rental per m²	Purchase price of the property €'m
El Faro	Badajoz	43 423	16.70	157.36
Bahía Sur	Cadiz	24 760	24.72	120.92
Los Arcos	Seville	17 906	32.28	110.70
Vallsur	Valladolid	35 211	14.71	91.61
Habaneras	Alicante	24 158	17.80	83.81
Total		145 458		564.40

The weighted average rental per m² for the total portfolio is €19.68.

Kinépolis

The Kinépolis redevelopment project is due to be completed in March 2019. The project is 99.5% let to strong national food and beverage operators including Burger King and Muerde la Pasta. The project has upgraded the finishes and increases natural light into the centre. A children's play area and outdoor plaza will be added to the centre to improve the centre's appeal to families and take advantage of the region's favourable weather. The centre will also be integrated with the adjacent Alameda centre to create a coherent retail precinct. The project is set to yield 10% on a capital expenditure of €5.5 million and should see an increase in value on completion of the project.

Asset management initiatives and increased letting

Asset	Project	GLA signed (m²)	Additional Annualised NOI (€)	% increase in base rentals
Parque Oeste Alcorcón	Worten split box	843	43 278	6.55%
Huelva	C&A split box	150	15 984	5.86%
Motril	Worten split box, vacancy let	1 639	23 066	5.21%
Kinépolis LC	Redevelopment	2 678	552 266	60.89%
Kinépolis RP	Media Markt split box	1 230	4 998	0.82%
Villanueva	Electrocasa split box	2 172	151 994	59.45%
Alameda	Vacancy let	1 946	201 322	100.00%
Habaneras	Vacancy let	692	208 924	100.00%
TOTAL		11 350	1 201 832	

The percentage increase in base rentals for the above asset management initiatives amounts to 37.6%.

9. DECLARATION OF A CASH DIVIDEND WITH THE ELECTION TO REINVEST THE CASH DIVIDEND IN RETURN FOR VUKILE SHARES

Notice is hereby given of the declaration of a dividend amounting to 78.10251 cents per share, out of distributable income, for the six month period ended 30 September 2018.

Shareholders will be entitled to elect (in respect of all or part of their holding) to reinvest the cash dividend of 78.10251 cents per share, in return for shares (the dividend reinvestment alternative), failing which they will receive the cash dividend in respect of (all or part of) their holdings.

A circular providing further information in respect of the cash dividend and the dividend reinvestment alternative will be posted to shareholders on Thursday, 29 November 2018.

Shareholders who have dematerialised their shares are required to notify their duly appointed Central Securities Depository Participant (CSDP) or broker of their election in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker.

Tax implications

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

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

The cash dividend of 78.10251 cents per share meets the requirements of a qualifying distribution for the purposes of section 25BB of the Income Tax Act (a qualifying distribution) with the result that:

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

  both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the above mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.
- qualifying distributions received by non-resident Vukile shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Qualifying distributions are subject to dividends withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder. Assuming dividends withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 62.48201 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied upon if the non-resident holder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:
  - a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
  - a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;
  - both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident holders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the above mentioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Shareholders who are South African residents are advised that in electing to participate in the dividend reinvestment alternative, pre-taxation funds are utilised for reinvestment purposes and that taxation will be due on the total cash dividend amount of 78.10251 cents per share.

Shareholders are further advised that:

- the issued capital of Vukile is 898 228 624 no par value shares before any election to reinvest the cash; and
- Vukile's tax reference number is 9331/617/114/3.

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

Summary of the salient dates relating to the cash dividend and dividend reinvestment alternative are as follows:

Salient dates and times	2018
Interim results including declaration announcement released on SENS	Thursday, 29 November
Circular and form of election posted to shareholders	Thursday, 29 November
Finalisation information including the share ratio and price per share published on SENS	Monday, 10 December
Last day to trade in order to participate in the election to receive the dividend reinvestment alternative or to receive a cash dividend (LDT)	Tuesday, 18 December
Shares trade 'ex' dividend	Wednesday, 19 December
Listing of maximum possible number of shares under the dividend reinvestment alternative and trading in new shares commences	Friday, 21 December
Last day to elect to receive the dividend reinvestment alternative or to receive a cash dividend (no late forms of election will be accepted) at 12:00 (SA time)	Friday, 21 December
Record date for the election to receive the dividend reinvestment alternative or to receive a cash dividend (record date)	Friday, 21 December
Results of cash dividend and dividend reinvestment alternative published on SENS	Monday, 24 December
Cash dividends paid to certificated shareholders by electronic funds transfer on or about	Monday, 24 December
Accounts credited by CSDP or broker to dematerialised shareholders with the cash dividend payment	Monday, 24 December
Share certificates posted to certificated shareholders on or about	Thursday, 27 December
Accounts updated with the new shares (if applicable) by CSDP or broker to dematerialised shareholders	Thursday, 27 December
	2019
Adjustment to shares listed on or about	Wednesday, 2 January

Notes

1. *Shareholders electing the share reinvestment alternative are alerted to the fact that the new shares will be listed on LDT +3 and that these new shares can only be traded on LDT +3, due to the fact that settlement of the shares will be three days after record date, which differs from the conventional one day after record date settlement process.*
2. *Shares may not be dematerialised or rematerialised between Wednesday, 19 December 2018 and Friday, 21 December 2018, both days inclusive.*
3. *The above dates and times are subject to change. Any changes will be released on SENS.*

Foreign shareholders

The distribution of the circular and/or accompanying documents and the right to elect shares under the dividend reinvestment alternative in jurisdictions other than the Republic of South Africa may be restricted by law and a failure to comply with any of these restrictions may constitute a violation of the securities laws of any such jurisdictions. It is the responsibility of each foreign shareholder to satisfy himself as to the full observation of the laws and regulatory requirements of the relevant foreign jurisdiction in connection with the share reinvestment alternative. The shares have not been and will not be registered for the purposes of the election under the securities laws of the United Kingdom, European Economic Area, Canada, United States of America, Japan or Australia and accordingly are not being offered, sold, taken up, re-sold or delivered directly or indirectly to recipients with registered addresses in such jurisdictions.

10. BASIS OF PREPARATION

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

All amendments to standards applicable for Vukile's financial period beginning on 1 April 2018 have been considered. All accounting policies applied in the preparation of these interim financial statements are consistent with those applied by Vukile in its consolidated annual financial statements for the year ended 31 March 2018, other than the adoption of those amendments or new standards that became effective or were early adopted in the current period. Note 1.3 to the financial statements explains these changes in further detail.

Preparation of the unaudited condensed consolidated interim financial statements was supervised by Michael Potts CA(SA) in his capacity as financial director. These unaudited condensed consolidated interim financial statements have not been reviewed by Vukile's independent external auditors.

11. POST-PERIOD EVENTS

Dividend

Declaration of dividend

In line with IAS 10 – Events after the Reporting Period, the declaration of the dividend of 78.10251 cents per share in respect of the six month period ended 30 September 2018 amounting to R701.5 million occurred after the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

Acquisition of immovable property

Pretoria Kolonnade Retail Park

After the reporting period, Vukile entered into an agreement to acquire the Pretoria Kolonnade Retail Park in Montana Park, Pretoria. The effective date of the transaction was 1 November 2018, with a total purchase price of R470.6 million.

Board changes

Mr AD Botha resigned as independent non-executive director and chairman of the board at the annual general meeting of the company held on 14 August 2018. The company thanks Mr Botha for his invaluable contribution, wisdom and guidance during his time as chairman of the board since the company's listing in 2004.

Further to the SENS dated 3 September 2018, shareholders are advised that Mr E Bosch has resigned from Vukile and that the current financial director, Mr MJ Potts, has withdrawn his intention to retire by 31 March 2019, and will continue to occupy the role of financial director until further notice.

12. PROSPECTS

With the South African market continuing to be beset by macroeconomic challenges, Vukile is expected to continue benefiting from the defensive nature of its local retail portfolio as well as the geographic diversification achieved through its increased investment in Spain as evidenced by the performance of the high quality, low risk Castellana portfolio.

While still dependent on the local economy not worsening significantly from current levels, the full-year growth in dividends is expected to be in line with the growth achieved in the first half of the current financial year and is in line with the previous guidance provided.

On behalf of the board

NG Payne	**LG Rapp**
Chairman	*Chief executive officer*

Melrose Estate
29 November 2018

JSE sponsor: Java Capital, 6A Sandown Valley Crescent, Sandown 2146
PO Box 522606, Saxonwold, 2132

NSX sponsor: IJG Group, Windhoek, Namibia

Executive directors: LG Rapp (chief executive), MJ Potts (financial director), HC Lopion (managing director: southern Africa), GS Moseneke

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

Registered office: Ground floor, One-on-Ninth, Cnr Glenhove Road and Ninth Street, Melrose Estate, 2196

Company secretary: J Neethling

Transfer secretaries: Link Market Services South Africa (Pty) Ltd,19 Ameshoff Street, Braamfontein, Johannesburg

Investor and media relations: Instinctif Partners, The Firs, 3rd Floor, cnr Cradock and Biermann Road, Rosebank, 2196, Johannesburg, South Africa, Telephone +27 11 447 3030
Marketing Concepts, 1st Floor, Wierda Court, 107 Johan Avenue, Wierda Valley, Sandton, Johannesburg, 2196, Telephone +27 11 783 0700, Fax +27 11 783 3702

www.vukile.co.za

Unaudited condensed consolidated statement of financial position

at 30 September 2018

GROUP	Unaudited 30 September 2018 R000	Unaudited 30 September 2017 R000	Audited 31 March 2018 R000
ASSETS			
Non-current assets	**30 752 813**	19 663 689	22 028 749
Investment properties	**27 295 764**	16 435 657	18 821 251
Investment properties	**27 372 502**	16 607 207	19 102 209
Investment properties under development	**208 859**	150 598	54 476
	27 581 361	16 757 805	19 156 685
Straight-line rental income adjustment	**(285 597)**	(322 148)	(335 434)
Other non-current assets	**3 457 049**	3 228 032	3 207 498
Straight-line rental income asset	**285 597**	322 148	335 434
Equity investments at fair value through profit and loss	**1 392 924**	1 357 556	1 384 645
Investment in associate	**1 326 700**	1 290 589	1 199 292
Goodwill	**44 006**	64 797	63 288
Furniture, fittings, computer equipment and other intangible assets	**11 080**	13 240	12 054
Executive share scheme financial asset	**40 204**	42 785	34 099
Derivative financial instruments	**8 168**	–	26 039
Long-term loans granted	**237 452**	109 360	103 672
Deferred taxation assets	**110 918**	27 557	48 975
Current assets	**1 045 906**	684 712	1 287 893
Trade and other receivables	**218 900**	240 931	186 743
Derivative financial instruments	**2 145**	489	—
Current taxation assets	**10 946**	2	7 290
Cash and cash equivalents	**813 915**	443 290	1 093 860
Non-current assets held for sale	**2 057 190**	1 189 508	10 500
Total assets	**33 855 909**	21 537 909	23 327 142
EQUITY AND RESERVES			
Equity attributable to owners of the parent	**17 746 450**	14 534 204	15 770 080
Non-controlling interest	**2 151 646**	82 672	81 311
Non-current liabilities	**12 258 339**	5 264 179	5 484 980
Borrowings	**11 863 455**	5 023 096	5 346 371
Derivative financial instruments	**387 288**	231 896	131 304
Deferred taxation liabilities	**7 596**	9 187	7 305
Current liabilities	**1 699 474**	1 656 854	1 990 771
Trade and other payables	**681 266**	539 825	428 733
Borrowings	**1 004 969**	1 112 475	1 554 359
Derivative financial instruments	**5 876**	—	175
Current taxation liabilities	**7 363**	4 554	7 504
Total equity and liabilities	**33 855 909**	21 537 909	23 327 142
Net asset value (cents per share)[1]	**2 027**	1 917	2 010

[1] *Excluding non-controlling interest.*

Unaudited condensed consolidated statement of profit and loss and other comprehensive income

for the six months ended 30 September 2018

GROUP	Unaudited 30 September 2018 R000	Unaudited 30 September 2017 R000	Audited 31 March 2018 R000
Property revenue	1 239 518	942 840	2 014 966
Straight-line rental income accrual	20 252	4 947	5 401
Gross property revenue	1 259 770	947 787	2 020 367
Property expenses	(425 975)	(339 976)	(705 891)
Net profit from property operations	833 795	607 811	1 314 476
Corporate and administrative expenses	(96 588)	(56 801)	(127 474)
Investment and other income	93 451	158 006	323 255
Ineffectiveness on cross-currency interest rate swaps	(32 447)	—	—
Net interest from cross-currency interest rate swaps	74 334	—	—
Operating profit before finance costs	872 545	709 016	1 510 257
Finance costs	(246 810)	(171 601)	(367 808)
Profit before capital items	625 735	537 415	1 142 449
Profit on sale of investment properties	—	4 134	13 405
Profit/(loss) on sale of furniture and equipment	(3)	43	144
Fair value (loss)/gain on listed property securities	8 279	(37 740)	(16 411)
Fair value movement of derivative financial instruments	—	(3 961)	7 408
Cost of terminating derivative financial instruments	—	—	(3 250)
Executive share scheme financial assets – current period loss	(16 563)	—	—
Foreign exchange (loss)/profit	(51 136)	(103 054)	59 936
Other capital items	—	(248)	—
Loss on sale of listed property securities	—	—	(26 240)
Fair value gain/(loss) on net settled derivative	(1 341)	—	—
Profit before fair value adjustments	564 971	396 589	1 177 441
Fair value adjustments	369 052	558 501	1 149 988
Gross change in fair value of investment properties	389 304	563 448	1 155 389
Straight-line rental income adjustment	(20 252)	(4 947)	(5 401)
Profit before equity-accounted investment	934 023	955 090	2 327 429
Profit share of associate	46 482	34 358	95 485
Profit before taxation	980 505	989 448	2 422 914
Taxation	(16 594)	(8 986)	(10 668)
Profit for the period	963 911	980 462	2 412 246
Profit attributable to:			
Owners of the parent	833 095	975 787	2 401 943
Non-controlling interests	130 816	4 675	10 303
Other comprehensive income/(loss) net of tax:			
Items that will be reclassified subsequently to profit or loss:			
Currency gain/(loss) on translation of investment in foreign entities	222 681	231 200	(69 326)
Currency gain/(loss) on translation of associate	116 294		
Currency gain/(loss) on translation of subsidiaries	106 387		
Currency gain/(loss) on translation of goodwill	1 897	—	279
Cash flow hedges	52 452	(26 850)	(60 202)
Available for sale financial assets – current period loss	—	(8 924)	(17 610)
Other comprehensive income/(loss) for the period	277 030	195 426	(146 859)
Total comprehensive income for the period	1 240 941	1 175 888	2 265 387
Total comprehensive income attributable to:			
Owners of the parent	1 000 592	1 168 882	2 254 319
Non-controlling interest	240 349	7 006	11 068
Basic and diluted earnings per share (cents)	102	137	321
Number of shares in issue	875 339 319	758 041 475	784 766 367

Vukile has no dilutionary shares in issue

Unaudited reconciliation of earnings to headline earnings

for the six months ended 30 September 2018

	Unaudited 30 September 2018		Unaudited 30 September 2017		Audited 31 March 2018	
	Group R000	Cents per share	Group R000	Cents per share	Group R000	Cents per share
Attributable profit to owners of the parent	833 095	101.77	975 787	136.72	2 401 943	320.65
Earnings per share	833 095	101.77	975 787	136.72	2 401 943	320.65
Change in fair value of investment properties (net of allocation to non-controlling interest)	(283 651)	(34.65)	(560 427)	(78.52)	(1 148 906)	(153.37)
Profit on sale of investment properties	–	–	(4 134)	(0.58)	(13 405)	(1.79)
Profit/(loss) on sale of furniture, fittings, computer equipment and other	3	–	(43)	(0.01)	(144)	(0.02)
Remeasurement included in equity-accounted earnings of associate	(9 305)	(1.14)	—	—	(10 267)	(1.37)
Headline earnings per shares	540 142	65.98	411 183	57.61	1 229 221	164.10
Weighted average number of shares in issue	818 643 584		713 695 323		749 084 702	
Headline and diluted headline earnings per share		65.98		57.61		164.10

Unaudited condensed consolidated statement of cash flow

for the six months ended 30 September 2018

GROUP	Unaudited 30 September 2018 R000	Unaudited 30 September 2017 R000	Audited 31 March 2018 R000
Cash flow from operating activities	**912 928**	571 156	1 333 611
Cash flow from investing activities	**(6 914 925)**	(2 282 336)	(4 599 117)
Cash flow from financing activities	**5 723 788**	814 895	3 031 306
Net decrease in cash and cash equivalents	**(278 209)**	(896 285)	(234 200)
Foreign currency movements in cash	**(1 736)**	9 630	(1 885)
Cash and cash equivalents at the beginning of the period	**1 093 860**	1 329 945	1 329 945
Cash and cash equivalents at the end of the period	**813 915**	443 290	1 093 860
Major items included in the above:			
Cash flow from operating activities			
Profit before tax	**980 505**	989 448	2 422 914
Adjustments	**(255 935)**	(431 826)	(1 216 409)
Cash flow from investing activities			
Acquisition of and improvements to investment properties	**(9 057 728)**	(566 298)	(4 703 030)
Investment in associate	**—**	(417 829)	(418 287)
Equity contribution from non-controlling interest in new subsidiary	**1 784 121**	—	—
Investment in a subsidiary	**—**	(1 538 855)	13 649
Net proceeds on sale of investment properties	**—**	19 925	175 316
Cash flow from financing activities			
Issue of shares	**1 697 242**	1 038 004	1 556 631
Dividends paid	**(757 729)**	(627 940)	(1 180 331)
Finance costs	**(209 349)**	(167 521)	(352 990)
Interest-bearing borrowings advanced	**5 107 446**	635 911	3 094 928

Unaudited condensed consolidated statement of changes in equity

for the six months ended 30 September 2018

GROUP	Share capital R000	Other components of equity R000	Retained earnings R000	Shareholders' interest R000	Non-controlling interest R000	Total R000
Balance at 30 September 2017	9 008 818	5 139 972	385 414	14 534 204	82 672	14 616 876
Issue of capital	518 627	—	—	518 627	—	518 627
Dividend distribution	—	—	(550 744)	(550 744)	(2 741)	(553 485)
	9 527 445	**5 139 972**	**(165 330)**	**14 502 087**	**79 931**	**14 582 018**
Profit for the period	—	—	1 426 156	1 426 156	5 628	1 431 784
Change in fair value of investment properties	—	591 941	(591 941)	—	—	—
Change in fair value of investment properties attributable to non-controlling interest	—	(3 465)	3 465	—	—	—
Share-based remuneration	—	11 139	—	11 139	—	11 139
Deferred taxation on change in fair value of derivatives	—	(2 931)	—	(2 931)	—	(2 931)
Transfer to non-distributable reserve	—	154 358	(146 021)	8 337	—	8 337
Fair value movement on cross currency interest rate swaps	—	162 784	—	162 784	—	162 784
Share issue expenses of a subsidiary	—	(850)	—	(850)	(11)	(861)
Change in shareholding of subsidiary	—	4 077	—	4 077	(2 671)	1 406
Legal reserve transfer – foreign subsidiary	—	217	(217)	—	—	—
Revaluation of investments	—	21 329	(21 329)	—	—	—
Other comprehensive loss	—	(340 719)	—	(340 719)	(1 566)	(342 285)
Balance at 31 March 2018	**9 527 445**	**5 737 852**	**504 783**	**15 770 080**	**81 311**	**15 851 391**
Issue of capital	1 697 242	—	—	1 697 242	—	1 697 242
Dividend distribution	—	—	(754 680)	(754 680)	(3 049)	(757 729)
	11 224 687	**5 737 852**	**(249 897)**	**16 712 642**	**78 262**	**16 790 904**
Adjustment from initial application of IFRS 9:	—	113 152	(88 278)	24 874	492	25 366
Lease receivables: Impairment provision	—	—	4 541	4 541	266	4 807
Deferred tax on above	—	—	(1 707)	(1 707)	(56)	(1 763)
Executive share scheme: change in classification	—	113 152	(113 152)	—	—	—
Borrowings: Non-substantial loan modification	—	—	22 040	22 040	282	22 322
Profit for the period	—	—	833 095	833 095	130 816	963 911
Change in fair value of investment properties	—	389 304	(389 304)	—	—	—
Change in fair value of investment properties attributable to non-controlling interest	—	(105 653)	105 653	—	—	—
Share-based remuneration transferred to non-distributable reserve	—	(129 715)	129 715	—	—	—
Change in fair value of equity investments	—	8 279	(8 279)	—	—	—
Share based remuneration	—	11 382	—	11 382	—	11 382
Fair value loss on net settled derivative	—	(1 341)	1 341	—	—	—
Ineffectiveness on cross-currency interest rate swaps	—	(32 447)	32 447	—	—	—
Change in ownership recognised in equity	—	(3 040)	—	(3 040)	1 832 543	1 829 503
Other comprehensive income net of tax						
Currency gain on translation of associate	—	116 294	—	116 294	—	116 294
Currency gain/(loss) on translation of subsidiaries	—	(3 204)	—	(3 204)	109 591	106 387
Currency gain on translation of goodwill	—	1 897	—	1 897	—	1 897
Cash flow hedges	—	52 510	—	52 510	(58)	52 452
Balance at 30 September 2018	**11 224 687**	**6 155 270**	**366 493**	**17 746 450**	**2 151 646**	**19 898 096**

Summarised operating segment report

for the six months ended 30 September 2018

The group identifies and presents operating segments based on the information that is provided internally to the executive management committee (Exco). This forum reviews the performance of its offshore investments and investment properties held by the group, on an individual basis. Reportable segments for the six month period ended 30 September 2018, is consistent with that reported as at 31 March 2018. Exco, the group's operating decision-making forum, driven by its international strategy and the fact that in excess of 90% of the southern African portfolio is Retail, has taken a decision to aggregate operating segments and disclose such reportable segments on a geographical basis, namely:

- Southern Africa;
- United Kingdom; and
- Spain.

	Southern Africa		
	Retail R000	Other R000	Total R000
Group income for the six months ended 30 September 2018			
Property revenue[1]	653 849	67 402	721 251
Straight-line rental income accrual	18 135	1 819	19 954
Gross property revenue	671 984	69 221	741 205
Property expenses[1]	(141 774)	(4 999)	(146 773)
Net profit from property operations	530 210	64 222	594 432
Corporate and administrative expenses	–		(67 987)
Investment and other income	6 366	75 973	82 339
Ineffectiveness on cross-currency interest rate swaps	–	–	(32 447)
Net cash flow from cross-currency interest rate swaps	–	–	74 334
Operating profit before finance costs	–	–	650 671
Finance costs	(36 536)	(138 899)	(175 435)
Profit before capital items	–	–	475 237
Loss on sale of furniture and equipment	–	–	(3)
Fair value gain on listed property securities	–	–	8 279
Executive share scheme financial assets – current period loss	–	–	(16 563)
Foreign exchange loss	–	–	(51 136)
Fair value loss on cash settled derivative	–	–	–
Profit before fair value adjustments	–	–	415 814
Fair value adjustments	(38 686)	(11 029)	(49 715)
Gross change in fair value of investment properties	(20 551)	(9 210)	(29 761)
Straight-line rental income adjustment	(18 135)	(1 819)	(19 954)
Profit before equity-accounted investment	–	–	366 099
Profit share of associate	–	–	–
Profit before taxation	–	–	366 099

[1] *The property revenue and property expense have been reflected net of recoveries in terms of the Best Practice Recommendations of the SA REIT Association. The unaudited condensed consolidated statement of profit and loss reflects gross property revenue and gross property expenses.*

The results of the operating segments are reviewed regularly by Exco to assess performance and make decisions to allocate capital to each of the segments. The measurement policies that the group uses for segment reporting under

IFRS 8 are the same as those used in its financial statements, except that the following items, inter alia, are not included in arriving at operating profit of the operating segments:

- Corporate administrative expenditure
- Investment and other income.

United Kingdom R000	Spain Retail R000	Spain Other R000	Spain Total R000	Group Total R000
—	289 742	19 400	309 142	1 030 393
—	298	—	298	20 252
—	290 040	19 400	309 440	1 050 645
—	(69 712)	(365)	(70 077)	(216 850)
—	220 328	19 035	239 363	833 795
—	—	—	(28 601)	(96 588)
—	6 578	4 534	11 112	93 451
—	—	—	—	(32 447)
—	—	—	—	74 334
—	—	—	221 874	872 545
—	(68 632)	(2 743)	(71 375)	(246 810)
—			150 498	625 735
—	—	—	—	(3)
—	—	—	—	8 279
—	—	—	—	(16 563)
—	—	—	—	(51 136)
—	—	—	(1 341)	(1 341)
—			149 157	564 971
—	412 438	6 329	418 767	369 052
—	412 736	6 329	419 065	389 304
—	(298)	—	(298)	(20 252)
—	—	—	567 924	934 023
46 482	—	—	—	46 482
46 482	—	—	567 924	980 505

Summarised operating segment report continued

for the six months ended 30 September 2018

	Southern Africa Retail R000	Southern Africa Other R000	Southern Africa Total R000
Group statement of financial position at 30 September 2018			
Assets			
Non-current assets	–	–	14 636 038
Investment properties	12 166 702	358 431	12 525 133
Investment properties	12 233 076	368 359	12 601 435
Investment properties under development	208 859	–	208 859
Straight-line rental income adjustment	(275 233)	(9 928)	(285 161)
Other non-current assets	–	–	2 110 905
Straight-line rental income asset	275 233	9 928	285 161
Equity investments at FVTPL	–	–	1 392 924
Investment in associate	–	–	–
Goodwill	–	–	27 039
Furniture, fittings, computer equipment and other intangible assets	–	–	9 892
Executive share scheme financial asset	–	–	40 204
Derivative financial instruments	–	–	8 168
Long-term loans granted	–	–	237 452
Deferred taxation assets	–	–	110 065
Current assets	–	–	438 905
Trade and other receivables	–	–	183 162
Derivative financial instruments	–	–	2 145
Current taxation assets	–	–	2 046
Cash and cash equivalents	–	–	251 552
Investment properties held for sale	1 036 783	1 020 407	2 057 190
Total assets			
Equity and NCI Liabilities			
Non-current liabilities	–	–	5 192 899
Borrowings	–	–	4 810 588
Derivative financial instruments	–	–	381 889
Deferred taxation liabilities	–	–	422
Current liabilities	–	–	1 330 167
Trade and other payables	–	–	314 594
Borrowings	–	–	1 004 969
Derivative financial instruments	–	–	5 876
Current taxation liabilities	–	–	4 728
Total equity and liabilities			

United Kingdom R000	Retail R000	Spain Other R000	Total R000	Group Total R000
1 326 700	—	—	14 790 075	30 752 813
—	14 390 050	380 581	14 770 631	27 295 764
—	14 390 486	380 581	14 771 067	27 372 502
—	—	—	—	208 859
—	(436)	—	(436)	(285 597)
1 326 700	—	—	19 444	3 457 049
—	436	—	436	285 597
—	—	—	—	1 392 924
1 326 700	—	—	—	1 326 700
—	—	—	16 967	44 006
—	—	—	1 188	11 080
—	—	—	—	40 204
—	—	—	—	8 168
—	—	—	—	237 452
—	—	—	853	110 918
—	—	—	607 001	1 045 906
—	—	—	35 738	218 900
—	—	—	—	2 145
—	—	—	8 900	10 946
—	—	—	562 363	813 915
—	—	—	—	2 057 190
				33 855 909
			—	19 898 096
—	—	—	7 065 440	12 258 339
—	—	—	7 052 867	11 863 455
—	—	—	5 399	387 288
—	—	—	7 174	7 596
—	—	—	369 307	1 699 474
—	—	—	366 672	681 266
—	—	—	—	1 004 969
—	—	—	—	5 876
—	—	—	2 635	7 363
				33 855 909

Summarised operating segment report continued

for the six months ended 30 September 2018

GROUP	Southern Africa Retail R000	Southern Africa Other R000	Total R000	United Kingdom Total R000	Spain Total R000	Group Total R000
Group income for the six months ended 30 September 2017						
Property revenue[(1)]	597 495	65 440	662 935	—	65 659	728 594
Straight-line rental income accrual	1 191	139	1 330	—	3 617	4 947
	598 686	65 579	664 265	—	69 276	733 541
Property expenses (net of recoveries)[(1)]	(112 035)	(8 949)	(120 984)	—	(4 746)	(125 730)
Profit from property and other operations	486 651	56 630	543 281	—	64 530	607 811
Profit from associate	—	—	—	34 358	—	34 358

[(1)] *The property revenue and property expense have been reflected net of recoveries in terms of the Best Practice Recommendations of the SA REIT Association. The unaudited condensed consolidated statement of profit and loss reflects gross property revenue and gross property expenses.*

GROUP	Southern Africa Retail R000	Southern Africa Other R000	Total R000	United Kingdom Total R000	Spain Total R000	Group Total R000
Group statement of financial position at 30 September 2017						
Assets						
Investment properties	11 770 676	1 210 891	12 981 567	—	3 604 044	16 585 611
Add: Lease commissions	19 914	1 682	21 596	—	—	21 596
	11 790 590	1 212 573	13 003 163	—	3 604 044	16 607 207
Goodwill	48 218	—	48 218	—	16 579	64 797
Investment properties held for sale	1 118 508	71 000	1 189 508	—	—	1 189 508
	12 957 316	1 283 573	14 240 889	—	3 620 623	17 861 512
Add: Excluded items						—
Investment property under development	150 598	—	150 598	—	—	150 598
Equity investments	—	—	1 357 556	—	—	1 357 556
Investment in associate	—	—	—	1 290 589		1 290 589
Furniture, fittings, computer equipment and other intangible assets	—	—	13 066	—	174	13 240
Available-for-sale financial asset	—	—	42 785	—	—	42 785
Derivative financial instruments	—	—	489	—		489
Loans receivable	—	—	88 897	—	20 463	109 360
Deferred taxation assets	—	—	27 557	—	—	27 557
Trade and other receivables	—	—	211 306	—	29 625	240 931
Taxation refundable	—	—	2	—	—	2
Cash and cash equivalents	—	—	345 840	—	97 450	443 290
Total assets	—	—	16 478 985	1 290 589	3 768 335	21 537 909
Equity and liabilities						
Stated capital	6 589 824	2 418 994	9 008 818	—	—	9 008 818
Interest-bearing borrowings	4 488 084	27 171	4 515 255	—	1 620 316	6 135 571
	11 077 908	2 446 165	13 524 073	—	1 620 316	15 144 389
Add: Excluded items						
Other components of equity and retained earnings	—	—	5 515 984	—	9 402	5 525 386
Non-controlling interest	—	—	49 765	—	32 907	82 672
Derivative financial instruments	—	—	231 896	—	—	231 896
Deferred taxation liabilities	—	—	9 187	—	—	9 187
Trade and other payables	—	—	539 825	—	—	539 825
Current taxation liabilities	—	—	4 347	—	207	4 554
Total equity and liabilities	—	—	19 875 077	—	1 662 832	21 537 909

Reconciliation of distributable earnings

	30 September 2018 R000	30 September 2017 R000	Variance %
Property revenue	**1 030 393**	728 594	41
Property expenses (net of recoveries)	**(216 850)**	(125 730)	(73)
Net profit from property operations per segmental report excluding straight-line rental income accrual	**813 543**	602 864	35
Corporate administration expenses	**(96 588)**	(56 801)	(70)
Net cash flow from cross-currency interest rate swaps	**74 334**	—	>100
Investment and other income	**93 451**	158 006	(41)
Operating profit before finance costs	**884 740**	704 069	26
Finance costs	**(246 810)**	(171 601)	(44)
Profit before taxation	**637 930**	532 468	20
Taxation	**(16 594)**	(8 986)	(85)
Profit for the period	**621 336**	523 482	19
Dividends from associate	**46 482**	34 358	35
Profit for the period	**667 818**	557 840	20
Other capital items	**—**	(248)	>100
Net profit attributable to non-controlling interests	**(25 163)**	(1 654)	(1 421)
Attributable to Vukile group	**642 655**	555 938	16
Non-IFRS adjustments			
Shares issued cum dividend	**70 888**	22 588	214
Available for distribution	**713 543**	578 526	23
Proposed dividend	**701 539**		
Number of shares in issue at 30 September[1]	**875 339 319**		
Dividend per share	**78.10251**		

[1] *An additional 22 889 305 shares were issued in terms of the Kolonade Retail Park acquisition post 30 September 2018 and qualify for the above dividend.*

1. COMPLIANCE WITH IFRS

1.1 Basis of accounting

This is the first set of group financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 1.3.

1.2 Use of estimates and judgements

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9, which are described in Note 1.3.

Estimates

The revaluation of investment properties requires judgement in the determination of future cash flows from leases and an appropriate reversionary capitalisation rate. Note 2.2 sets out further details of the fair measurement of investment properties.

Judgements

Business combination versus asset acquisition

Management assessed properties acquired and has concluded that in its view, except for Castellana (acquired in a prior period), all acquisitions are property acquisitions in terms of IAS 40 – Investment Property and are therefore accounted for in terms of that standard. Apart from Castellana, in the opinion of management, these properties did not constitute a business as defined in terms of IFRS 3 – Business Combinations, as there were no adequate processes identified within these properties to warrant classification as businesses.

1.3 Change in accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 31 March 2018. The changes in accounting policies are also expected to be reflected in the group's consolidated financial statements as at and for the year ending 31 March 2019. The group has initially adopted IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments from 1 April 2018. IFRS 15 does not have a material effect on the group's financial statements.

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces IAS 39 – Financial Instruments: Recognition and Measurement. The group has elected not to restate comparatives on initial application. The group also elected to early adopt the IFRS 9 hedge accounting requirements which is applied prospectively.

Hedge accounting:

IFRS 9 requires that the group's hedge accounting relationships are aligned with risk management objectives and strategies and to apply a more qualitative and forward-looking approach in assessing hedge effectiveness.

All hedging relationships designated under IAS 39 at 31 March 2018 met the criteria for hedge accounting under IFRS 9 at 1 April 2018. The following table summarises the group's hedging relationships under IFRS 9:

Hedging instrument	Hedged item	Hedging relationship
Interest rate swaps	Floating rate debt	Cash flow hedge
GBP forward exchange contracts	GBP dividend income	Net investment hedge
EUR forward exchange contracts	Net investment in a foreign operation	Net investment hedge
Cross currency interest rate swaps	Net investment in a foreign operation	Net investment hedge
EUR denominated debt	Net investment in a foreign operation	Net investment hedge

Classification and measurement:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments. The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at fair value through profit and loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial instruments as at 1 April 2018. The only change in classification relates to the executive share scheme that is now classified as fair value through profit and loss:

GROUP	IAS 39 classification	IFRS 9 classification	IAS 39 measurement	IFRS 9 measurement
ASSETS				
Equity Investments	Fair value through profit and loss	Fair value through profit and loss – mandatory	1 384 645	1 384 645
Executive Share Scheme	Available-for-sale	Fair value through profit and loss – mandatory	(10 954)	(10 954)
Long term loans granted	Loans and receivables	Amortised Cost	103 672	103 672
Trade and other receivables[1]	Loans and receivables	Amortised Cost	186 743	178 346
Cash and cash equivalents	Loans and receivables	Amortised Cost	1 093 860	1 093 860
Derivative financial instruments	Fair value through profit and loss	Fair value through profit and loss – mandatory	26 039	26 039
Total			2 784 005	2 775 608
LIABILITIES				
Executive Share Scheme	Available-for-sale	Fair value through profit and loss - mandatory	45 053	45 053
Borrowings	Loans and receivables	Amortised Cost	6 900 730	6 878 408
Trade and other payables	Loans and receivables	Amortised Cost	428 733	428 733
Shareholders for dividends	Loans and receivables	Amortised Cost	—	—
Derivative financial instruments	Fair value through profit and loss	Fair value through profit and loss – mandatory	131 479	131 479
Total			7 505 995	7 483 673

[1] *Lease receivables continue to be measured in terms of IAS 17.*

Impairment of financial assets:

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, lease receivables and debt investments at fair value through other comprehensive income, but not to investments in equity instruments.

At each reporting date, the group assesses whether financial assets carried at amortised cost (such as long-term loans granted) are credit-impaired. The group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive).

The group has elected to measure loss allowances for trade receivables (including lease receivables) at an amount equal to lifetime ECLs by making use of the simplified impairment model. When estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information based on the group's historical experience and includes forward-looking information.

The following analysis provides further detail about the calculation of ECLs related to lease receivables on the adoption of IFRS 9. The group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The ECLs were calculated based on actual credit loss experience over the past 12 months. The group performed the calculation of ECL rates separately for national tenants, government entities, and other tenants.

Exposures within each group were segmented based on common credit risk characteristics. The weighted average loss rate was adjusted to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the group's view of economic conditions over the expected lives of the receivables. The following table provides information about the exposure to credit risk and ECLs for lease receivables as at 1 April 2018:

GROUP	Gross carrying amount R000	Weighted average loss rate	Impairment loss allowance R000
National tenants			
Current	9 192	10.53%	968
30 days past due	1 766	11.51%	203
60 days past due	904	10.43%	94
90 days past due	951	10.99%	104
120 days past due	441	11.83%	52
150 days past due	2 223	12.62%	281
South African Government			
Current	401	6.17%	25
30 days past due	316	9.63%	30
60 days past due	168	9.63%	16
90 days past due	57	10.24%	6
120 days past due	68	11.56%	8
150 days past due	191	15.60%	30
Namibian Government			
Current	686	10.00%	69
30 days past due	506	10.00%	51
60 days past due	275	10.00%	27
90 days past due	258	10.00%	26
120 days past due	257	10.00%	26
150 days past due	3 234	10.00%	323
Regular tenants			
Current	12 365	28.54%	3 529
30 days past due	5 825	36.91%	2 150
60 days past due	4 112	38.51%	1 583
90 days past due	3 511	44.77%	1 572
120 days past due	3 437	49.87%	1 714
150 days past due	40 966	55.01%	22 535
Other tenants	5 889	–	–

Financial liabilities

Under current IAS 39, a foreign subsidiary modified its financial liabilities without triggering derecognition. Under IFRS 9, this modification resulted in an adjustment to opening retained earnings which will be amortised over a six year period.

Conclusion

The following table summarises the overall impact, net of tax, of the transition to IFRS 9: (R000)

	Opening retained earnings Dr/(Cr)	Borrowings Dr/(Cr)	Non-controlling interest net of deferred tax Dr/(Cr)	Impairment provision Dr/(Cr)	Deferred tax asset Dr/(Cr)
Non-substantial loan modifications	(22 040)	22 322	(282)	—	—
Expected credit losses on receivables	6 423	—	(211)	8 397	(1 763)

2. MEASUREMENTS OF FAIR VALUE

2.1 Financial instruments

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.

	30 September 2018		
GROUP	**Level 1 R000**	**Level 2 R000**	**Total R000**
ASSETS			
Equity investments at fair value through profit and loss	1 392 924	–	1 392 924
Executive share scheme financial asset	73 054	–	73 054
Derivative financial instruments	–	10 313	10 313
Total	1 465 978	10 313	1 476 291
LIABILITIES			
Executive share scheme financial liabilities	–	(32 850)	(32 850)
Derivative financial instruments (Note 1)	–	393 164	393 164
Total	–	360 314	360 314
Net fair value	1 465 978	370 627	1 836 605

Note 1

Derivative financial liabilities includes a net settled derivative of R1.3 million in respect of the Morzal acquisition. The derivative has been valued using a Black Scholes Option pricing model which assumes the efficient market hypothesis requiring that markets react to perfect information and that share price movements are normally distributed. Although Castellana shares are listed but illiquid, the Black Scholes model still provides the best estimate of the value of this derivative.

On 31 July 2018, Vukile obtained a controlling interest in Morzal, with the minority partners being Westbrooke Yield Plus (Westbrooke) and Morze European Real Estate Ventures (MEREV). The investment agreement provided for a share swap of Morzal shares for Castellana shares on a 1 for 1 basis. The share swap executed on 27 November 2017 resulted in the original shareholders of Morzal now holding a proportionate number of Castellana shares, and Morzal becoming a 100% subsidiary of Castellana.

The agreement grants Vukile the right to require MEREV to sell its Castellana shares to one or more third parties. There is also a pre-emptive right in favour of Vukile should MEREV wish to sell its Castellana shares to a third party. Should a trigger event or a repayment date occur, Castellana is required to act as agent to sell MEREV's Castellana shares to a third party at a predetermined price. In the event that Castellana does not successfully place the shares at the predetermined price, Vukile will be required to make good the difference between the selling price and the predetermined rate, namely will be required to net settle any shortfall.

Similarly, Vukile has been awarded a pre-emptive right should Westbrooke wish to sell their shares in Castellana. The agreement also provides for Westbrooke's monetisation right to request Castellana to act as an agent to procure a purchaser for their Castellana shares, which purchaser could include Vukile. Should Westbrooke's remaining Castellana shares not be purchased by a third party at a predetermined price, Vukile will be obliged to net settle the difference between the selling price and the predetermined rate. Should the monetisation right not be utilised, Vukile will have a Placement Right to procure a third party to purchase the shares in Castellana.

	30 September 2017			31 March 2018		
GROUP	Level 1 R000	Level 2 R000	Total R000	Level 1 R000	Level 2 R000	Total R000
ASSETS						
Equity investments at fair value through profit and loss	1 357 556	—	1 357 556	1 384 645	—	1 384 645
Available-for-sale financial asset	71 519	—	71 519	79 152	—	79 152
Derivative financial instruments	—	489	489	—	26 039	26 039
Total	1 429 075	489	1 429 564	1 463 797	26 039	1 489 836
LIABILITIES						
Available-for-sale financial liabilities	—	(28 734)	(28 734)	—	(45 053)	(45 053)
Derivative financial instruments	—	(231 896)	(231 896)	—	(131 479)	(131 479)
Total	—	(260 630)	(260 630)	—	(176 532)	(176 532)
Net fair value	1 429 075	(260 141)	1 168 934	1 463 797	(150 493)	1 313 304

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

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Equity investments

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

Executive share scheme financial assets and liabilities (Previously: Available-for-sale financial asset and liabilities)

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

Derivative financial instruments

The fair values of these derivative instruments are determined by Absa Capital, Rand Merchant Bank, Standard Bank, Nedbank, Investec Bank Limited, Banco Popular, Banco Santander and Caixabank using a valuation technique that maximises the use of observable market inputs. Derivatives entered into by the group are included in level 2 and consist of interest rate swap contracts, cross-currency interest rate swaps and forward exchange contracts.

2.2 Non-financial assets

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

GROUP	**30 September 2018 Recurring fair value measurements Level 3 R000**	30 September 2017 Recurring fair value measurements Level 3 R000	31 March 2018 Recurring fair value measurements Level 3 R000
ASSETS			
Investment properties	**27 372 502**	16 607 207	19 102 209
Investment properties held for sale	**2 057 190**	1 189 508	10 500

Fair value measurement of non-financial assets (investment properties)
The fair value of commercial buildings is estimated using an income approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases over the remaining economic life of the buildings.

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

	30 September 2018			
	Discount rate		**Reversionary capitalisation rate**	
GROUP	**Range**	**Weighted average**	**Range**	**Weighted average**
Southern Africa	**12.4% to 17.5%**	**13.6%**	**7.4% to 13%**	**8.8%**
Spain	**7.5% to 10.3%**	**8.6%**	**5% to 9.1%**	**6%**

	30 September 2017			
	Discount rate		Reversionary capitalisation rate	
	Range	Weighted average	Range	Weighted average
Southern Africa	12.8% to 19.6%	13.9%	7.8% to 15.1%	9.1%
Spain (at 30 June 2017)	7.4% to 10.3%	8.4%	5.7% to 9.5%	6.5%

	31 March 2018			
	Discount rate		Reversionary capitalisation rate	
	Range	Weighted average	Range	Weighted average
Southern Africa	12.2% to 17.3%	13.4%	7.5% to 12.8%	8.6%
Spain	7.5% to 10.3%	8.8%	5% to 9.1%	6.1%

The estimated fair value would increase/(decrease) if the expected market rental growth was higher/(lower), expected expense growth was lower/(higher), the vacant periods were shorter/(longer), the occupancy rate was higher/(lower), the rent-free periods were shorter/(longer), the discount rate was lower/(higher) and/or the reversionary capitalisation rate was lower/(higher).

2.3 Investments outside South Africa

The relevant exchange rates used to convert to Rand at the respective dates were as follows:

	Spot rates at 30 September 2018	Spot rates at 30 September 2017	Spot rates at 31 March 2018
EUR	**16.4069**	16.0316	14.5730
GBP	**18.4125**	18.1557	16.5889

3. ACQUISITION OF SUBSIDIARIES

During the period under review, the group acquired two new subsidiaries in Spain which have been consolidated since the acquisition date. Management concluded that in its view, these two acquisitions are property acquisitions and are therefore accounted for in terms of IAS 40 – Investment Property. These properties did not constitute a business as defined in terms of IFRS 3 – Business Combinations, as there were no adequate processes identified within these properties to warrant classification as businesses.

	Purchase price R000	Purchase price €000	Date of purchase
Junction Parque Habaneras S.L.	**636 390**	42 700	08/05/2018
Morzal Property Iberia S.L.	**1 827 888**	119 000	27/07/2018

4. NON-CURRENT ASSETS HELD FOR SALE

The group's investment in MICC Namibia and Vukile's non-retail, commercial and industrial portfolio are held for sale in terms of IFRS 5. The non-current assets held for sale comprise of the following:

	30 September 2018 R000
ASSETS	
Investment Properties	**1 965 922**
Investment Properties	**2 036 011**
Straight-line rental income adjustment	**(70 089)**
Straight-line rental income asset	**70 089**
Transfer of cash generating units goodwill from other non-current assets	**21 179**
Non-current assets held for sale	**2 057 190**

VUKILE
PROPERTY FUND

REAL ESTATE. REAL GROWTH.