VUKILE
PROPERTY FUND

REAL ESTATE. REAL GROWTH.



INTEGRATED ANNUAL REPORT 2019

Welcome to the Vukile Property Fund Limited integrated annual report 2019

Integrated reporting and scope

The Vukile group (Vukile) takes pleasure in presenting its fifteenth integrated annual report to stakeholders for the year ended 31 March 2019. This integrated annual report is prepared to assist stakeholders in assessing Vukile's ability to create and sustain value. Vukile reports on the significant issues within the business, along with material matters identified through engagement with its stakeholders. This provides stakeholders with information that is relevant to their decision making and interaction with the group.

This integrated annual report covers the group's business, sustainability and financial activities from 1 April 2018 to 31 March 2019. Material events and business developments which occurred after the reporting date are also covered in this report. Reporting is based on applicable legislation and accounting guidelines, the King IV Report on Corporate Governance™* (King IV) and the Johannesburg Stock Exchange (JSE) Listings Requirements.

The scope and boundaries of the information contained in this report describe the group's business activities and property portfolios in southern Africa and Spain and interests in other listed property companies. This report aims to indicate how Vukile will create and sustain value for stakeholders over the short, medium and long term.

Approval

On 29 May 2019, the board of directors of Vukile (the board) approved the integrated annual report and the supplementary documents. The directors acknowledge that they are responsible for the content of Vukile's integrated annual report and supplementary documents. The board has applied its mind to this report and believes that, read with the supplementary documents made available online, it addresses all material issues and fairly represents the financial, operational and sustainability performance of the group.

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ABOUT VUKILE

Corporate profile

Vukile Property Fund Limited (Vukile or the company or the group) is a focused retail REIT, which listed on the JSE Limited on 24 June 2004 (JSE code: VKE) and on the Namibian Stock Exchange (NSX) on 11 July 2007 (NSX code: VKN). Vukile's market capitalisation was R18.4 billion on 31 March 2019 and its direct property portfolio was valued at R30.4 billion at year-end. There were 920 962 145 shares in issue at year-end. On 1 April 2013, Vukile became the first property company to be awarded REIT status by the JSE Limited.



HIGHLIGHTS FOR THE FINANCIAL YEAR



7.5%
increase in dividends

Dividends in line with guidance to **181.48 cents** per share

Strong
balance sheet and capital market support

Raised **R2.6 billion** in new equity during the year and R700 million in April 2019

Interest cover ratio of **six times**

Loan-to-value reduced to **37%** with **96%** of debt hedged

Corporate long-term credit rating upgraded to **A+(ZA)**

Raised **R1.24 billion** in corporate bonds



Significant
presence in Spain

Investment properties increased to **€916 million** from €308 million following the acquisition of five dominant shopping centres

Positive benefits
of diversification with a solid pipeline of opportunities

Like-for-like **growth** in gross rental income of **3.5%**

All retail parks acquired in June 2017 now fully let

Successful redevelopment of Kinepolis Leisure Centre at a yield of **11%**

Value-add
asset management from Castellana

Reversions and new lettings at **11%** above expiring rentals

Continuing
solid operating performance in southern Africa

Retail vacancies reduced to **3.0%** with **87%** tenant retention

Positive retail reversions at **+4.5%**

Established **Vukile Academy**

Retail like-for-like growth in net income of **4.4%**

GROUP OVERVIEW

Strategic intent – three pillars

Vukile's strategic intent can be captured in three pillars. Within each pillar, we have clearly defined focus areas and objectives which are highlighted below:



Southern Africa

- Continued focus on defensive retail sector in line with our high-quality, low-risk portfolio
- Further investment in our existing portfolio through expansions and upgrades
- Strong operational focus to keep delivering solid results
- Increased focus on consumer analytics and alternative income streams from our shopping centres
- Appetite to invest further in South Africa but limited local acquisition prospects at the right price.

International

- Focus will be on Spain to drive home the advantage we have created in Castellana, through scale, on-the-ground presence and operational capabilities
- Despite performing in line with expectations, unlikely to invest further new equity into Atlantic Leaf Properties Limited (Atlantic Leaf) under current conditions, but rather working with management to unlock value
- Decision was made not to consider any other new markets in the short to medium term but rather to focus on Spain.

Balance sheet management

- Disciplined and conservative financial management with stable loan-to-value (LTV) target around 35%
- Prudent interest rate policy to hedge at least 75% of debt
- Foreign exchange hedging policy to minimise adverse foreign exchange fluctuations by hedging forward on average 75% of foreign dividends by way of forward currency swaps over a three to five-year period
- Look to recycle non-core assets into core strategy:
  – Timing and price dependent
  – Includes stake in Gemgrow Properties Limited (Gemgrow).

Who we are

- High-quality, low-risk **retail REIT** operating in South Africa and **Spain**
- Clarity of **vision, strategy** and **structure**
- Prudent **financial management** and strong **capital markets expertise**



Property-related assets at year-end

4% — **United Kingdom R1.3bn**

45% — **Spain R14.9bn**

51% — **Southern Africa R16.8bn**

Direct property portfolio R15.5bn

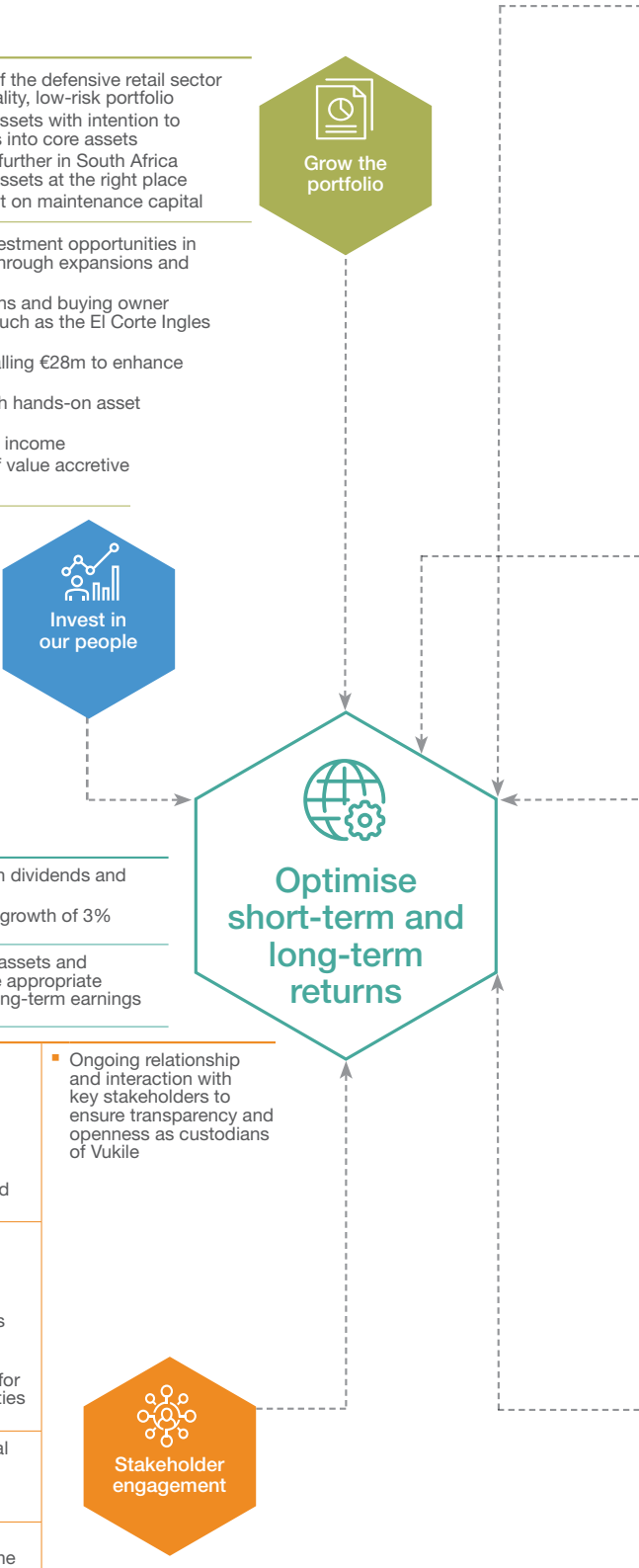
Fairvest: R568m

Gemgrow: R729m

- Strong **operational** focus with a core competence in **active asset management**
- Aim for **simplicity** and **transparency**
- **45%** of assets now focused in Spain and 4% in the UK
- Listings on the **JSE** and **NSX**
- **Entrepreneurial approach** to deal making
- **72%** held subsidiary Castellana Property Socimi listed on the **MAB** (Madrid junior board)
- History of strong compounded growth and **shareholder returns** with CAGR of **20.3%** since listing

STRATEGIC INTENT

Critical success factors	2019 progress/outcome	2020 target
Growth in South Africa	Extension and upgrade to Pine Crest Centre to the value of R200m R392m redevelopment of Maluti Crescent Acquisition of Kolonnade Retail Park for R471m	Continued focus of the defensive retail sector in line with our quality, low-risk portfolio Sale of non-core assets with intention to redeploy proceeds into core assets Appetite to invest further in South Africa through the right assets at the right place R111m to be spent on maintenance capital
Growth in Spanish market	Investment properties increased to €916m from €308m following the acquisition of five dominant shopping centres All retail parks acquired in June 2017 now fully let 6.49% like-for-like growth in stable portfolio value 11.17% in total portfolio revaluations since acquisition Successful redevelopment of Kinepolis Leisure Centre at a yield of 11% (renamed Granaita Leisure Centre)	Identify further investment opportunities in existing portfolio through expansions and upgrades Organic acquisitions and buying owner occupied boxes (such as the El Corte Ingles (ECI) transaction) Capex project totalling €28m to enhance ECI units Drive value through hands-on asset management Enhance non-GLA income Healthy pipeline of value accretive opportunities
Maintain strong workforce in property industry	Active succession planning to replace CFO and MD (SA) R477k spent on training and development in SA Increased headcount in Spain to 26 professionals	Strong focus on governance and leadership
Stable and consistent workforce	Low staff turnover Employer of choice and enhanced working environment through Vukile's new head office building	Welcoming our new executives in a seamless transition
Workforce diversity in respect of age, skill and race	Enhanced workforce diversity by the introduction of new finance, investment and alternative income skills	Continue enhancing workforce diversity
Annual growth in dividends	7.5% increase in dividends 15-year unbroken track record of growth in distributions	Focus on growth in dividends and NAV Forecast dividend growth of 3% to 5%
Long-term returns	CAGR of 20.3% since listing	Recycle non-core assets and investments where appropriate without harming long-term earnings momentum
Communication with shareholders and debt providers	Annual ESG roadshow Annual debt roadshow to DMTN participants Member of the Debt Issuers Association (DIA) and representation on its executive committee Active participation on SA REIT Association committees Attendance at SA REIT conference and international conferences Successful roadshow of select Spanish retail centres was completed with shareholders, analysts and journalists early 2019	Ongoing relationship and interaction with key stakeholders to ensure transparency and openness as custodians of Vukile
Key leadership roles in the industry held by Vukile executives	Dr Sedise Moseneke was elected as the chairman of the Property Sector Charter Council (PSCC) Itu Mothibeli elected as a director of the South African Council of Shopping Centres Castellana Properties is a member of the Spanish Shopping Centres Council, represented by Alfonso Brunet who takes an active role as board member of the council Alfonso Brunet also takes an active role in market communications for the Asocimi (Spanish Reits Association) of which Castellana Properties is a founding member	
Strong relationships with property managers	Introduction of a rewards and incentive programme to derive optimal outcomes for Vukile	
Engaging with communities in which our retail centres are located	The Vukile community participation and liaison policy is an ongoing project, across seven locations. It identifies opportunities to make the lives of the communities around our shopping centres better We have nurtured loyalty and created a sense of belonging through projects such as: Afrika Tikkun, Umastandi, Black Suppliers, Neh Women Food Vendors Enterprise Development, Dream Room Reach For A Dream	



Vision

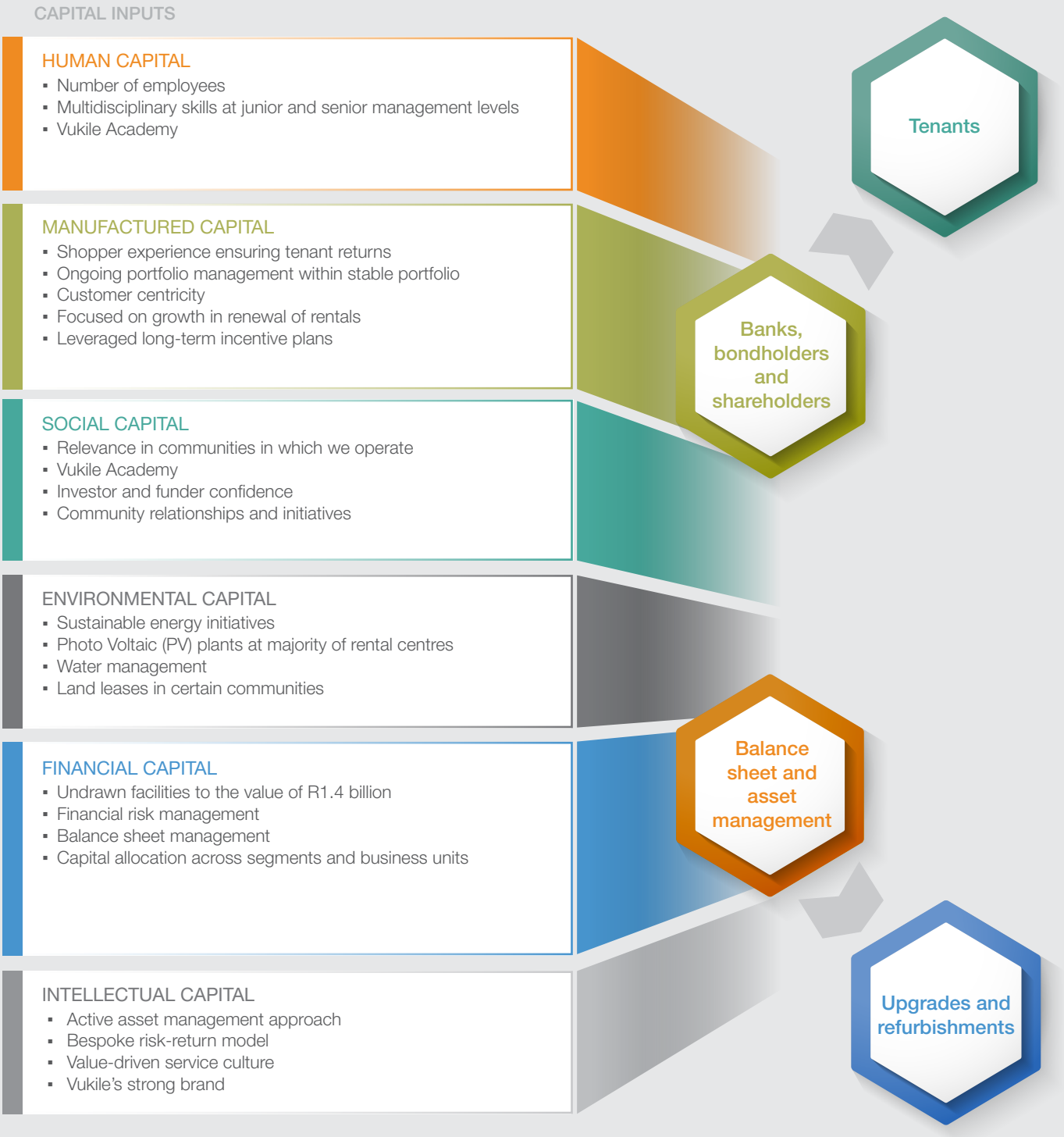
At Vukile we aspire to be a leading international REIT generating sustainable growth in earnings and superior returns for our stakeholders through our portfolio optimisation, data-driven asset management, active deal making, conservative financial management and the provision of a top-quality experience for our tenants and their customers in our predominantly retail portfolio.

Critical success factors	2019 progress/outcome	2020 target
Minimise cost of funding and refinance risk		
▪ Balance sheet management	▪ Good progress in reducing LTV to 37% ▪ Interest cover ratio (ICR) of six times	▪ Continue working to reduce LTV to target level of 35% ▪ Further reduce LTV in Spain through value-added projects and, if possible, paper funded acquisitions
▪ Minimise refinance risk through diversified sources and providers of finance, with no more than 25% of total interest-bearing debt to mature within any one financial year	▪ Diversified sources of funding through DMTN and banks ▪ Bank funding is diversified across nine funding providers, both local and foreign ▪ Reduce group cost of funding to 4.5% from 5.7% due to funding mix ▪ Progress in enhanced risk management analysis tools	▪ Maintain conservative and well diversified funding strategy ▪ R1.4bn of bank debt expiring in FY20 will be refinanced; currently R1.1bn already in advanced negotiations ▪ Further enhancement of risk management analysis tools
▪ Risk management in respect of currency and interest rate risk	▪ 95.7% of interest-bearing debt hedged with a 3.6 year fixed rate maturity profile ▪ 75.2% of forecast net EUR income from Castellana hedged over the next 2½ years ▪ 86.0% of forecast net GBP income from Atlantic Leaf hedged over the next two years	▪ Hedge local and foreign term debt funding ▪ Continue to hedge foreign earnings to provide predictability in earnings
Transformation		
▪ B-BBEE certification	▪ The collapse of our previous rating agency, Empowerdex, and subsequent appointment of a new rating agency has led to delays in verification. We expect to publish our rating in August 2019 on SENS	▪ Achieve B-BBEE certification to level 3 or better with 100% recognition level ▪ Improve enterprise supplier development score
▪ Actively drive transformation and skills development	▪ Creation of the Vukile Academy ▪ Funded 55 bursaries to top performing black students at a cost of R5.2m ▪ Internships granted to eight top candidates	▪ Internships to 10 top candidates ▪ Empower candidates with the Vukile Brand DNA ▪ Increased skills development spend
Improve customer and tenant focus		
▪ Understand customer and tenant needs	▪ 35 properties have live fibre connections ▪ Wifi installed at two properties, currently in technical testing phase	▪ Develop internal capabilities around market research and consumer behaviour ▪ Increase revenue and marketing opportunities through greater consumer insight
▪ Understand our customers' retail behaviour	▪ Ongoing research in respect of target market customer behaviour in both South Africa and Spain	▪ Evolve into a customer-led organisation to better adapt to changing customer trends to ensure long-term sustainability
▪ Engagement with major retail tenants	▪ Websites and social media sites for all South African retail properties are being upgraded or created ▪ A centrally designed marketing strategy to be implemented locally across 33 shopping centres	▪ Ongoing interaction with retail tenant base to ensure a symbiotic, mutually beneficial business relationship
Operational efficiencies in the portfolio		
Southern African portfolio		
▪ Operating metrics	▪ Retail vacancies reduced to 3.0% ▪ Positive retail reversions at +4.5% ▪ Contractual escalations of 7.0% ▪ Like-for-like net income growth of 3.4%	▪ Strong operational focus to keep delivering solid results with a specific intent to further reduce vacancies and lower operating costs
▪ Energy-saving initiatives	▪ 5.5 million kWh sustainable electricity savings ▪ R2.8m saved through billing and metering optimisation ▪ Total installed PV capacity of 4.8MW ▪ R53m spent to date with annual income of R10m ▪ Sustainable water savings of 18 000kℓ per annum	▪ Energy savings of 8.6 million kWh ▪ Increasing PV capacity by 3.6MW ▪ Further optimised metering and billing savings of +R0.6m ▪ Additional water savings of +15 000kℓ per annum
▪ Tenant profile	▪ 87% tenant retention ▪ WALE of 4.0 years ▪ National exposure 83% of GLA (79% of rent)	▪ Reduce Edcon exposure to 39 800m² (4.9% of retail GLA, and 2.0% of the group's rental exposure) and active re-letting of space to new tenants
▪ Efficiency	▪ Industry-leading rent to sales ratio of 6.0% ▪ Net cost to property revenue 16.9% ▪ Annualised growth in trading densities 2.8%	▪ Continue to provide great shopping centres to our tenants to ensure an industry-leading rent to sales ratio ▪ Net cost to property revenue of 16% to 18%
Spanish portfolio		
▪ Tenant profile	▪ 94% of retail space let to national tenants ▪ 27% of income from top 10 tenants ▪ WALE of 14.2 years ▪ 99.3% rent collection rate	▪ Focus on value-add asset management initiatives ▪ Increase dominance in shopping centres by repositioning best brands ▪ Improve the shopper experience by introducing new ways of consumption
▪ Operating metrics	▪ 10.8% increase in reversions and new lettings ▪ 97.9% occupancy ▪ 3.5% like-for-like growth in rental income ▪ Value-add projects and refurbishment of Granaita Leisure Centre – from 48% occupancy to 100% let	▪ Operate as locals on the ground ▪ Continue optimising income expenses ratio ▪ Focus on the marketing functions to increase footfall

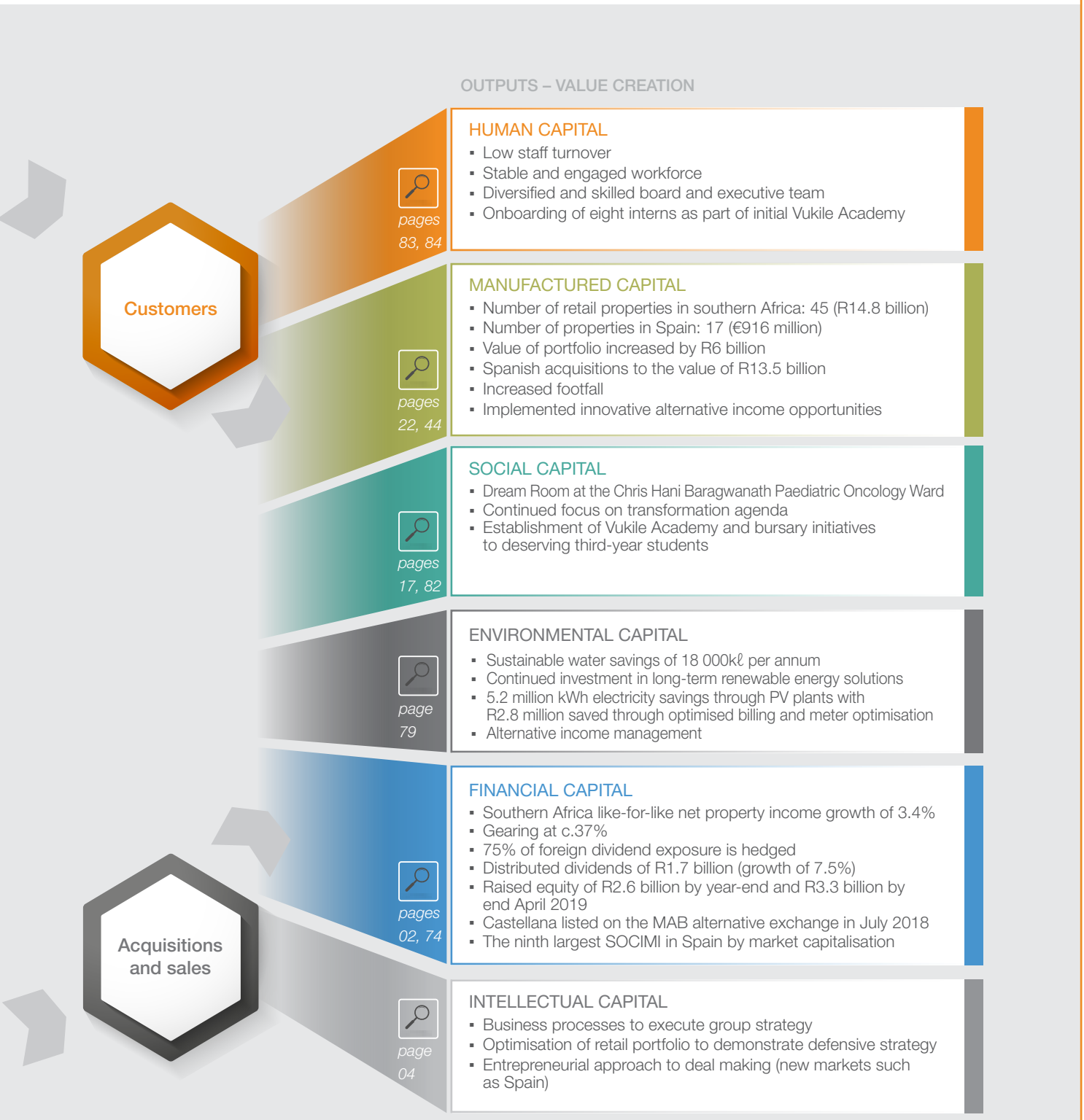
BUSINESS MODEL

Creating value using the six capitals

Vukile creates value primarily through direct and indirect ownership of immovable property. Value creation depends on various relationships and resources, known as the six capitals. To deliver on the group's strategy and generate value for all stakeholders, inputs of each type of



capital is required. During the capital allocation and decision-making process, consideration is given to the trade-offs between the capitals with the view of maximising the positive outcomes and limiting the negative impacts.



FROM THE CHAIRMAN

"This is my first report for Vukile as chairman and I am pleased to begin this new chapter with a business that is in great shape; it is well governed and managed by a great team of talented people, and has a quality portfolio of properties with a geographic spread that makes it unique in its market."

This year, Vukile continued its growth story. For a 15th successive year, Vukile has delivered dividend growth and performance for investors. When you look at it, over the past 15 years Vukile has delivered a total return to shareholders of 20.3% a year compared with 17.1% for the sector.

Vukile is a compellingly liquid and tradable way to own property, and it enjoys a solid and diverse shareholder base.

It has earned a track record of delivering what it promises, whatever the market conditions. Vukile has performed consistently through various property cycles supported by effective strategies, deal making and management skills. It is also in a good position to create value and continue delivering reasonable and sustainable growth in long-term profitability in the future through strategic progress.

Strategy

Vukile's three strategic pillars are its strong retail property foundation in South Africa, its international investment focus on retail property in Spain, and its robust balance sheet. This year, Vukile achieved significant strategic outcomes in all three pillars.

International investment now accounts for some 50% of Vukile's assets, and almost all of this is in Spain. Vukile bought well in Spain. Besides the significant growth in Spanish assets, yield-enhancing asset management initiatives are now also increasing asset value, demonstrating the success of the business model. The team has quickly established a track record of delivering deals in Spain, which is attracting even more opportunities. Internationalisation in developed markets brings real diversification to our business, so Vukile will continue to focus on growing both the portfolio in Spain and its contribution to our distributions.

Domestically, Vukile continued to improve the overall quality of the property portfolio and reinforce its low-risk profile. We are positively positioned with retail assets concentrated in the emerging sector of our economy, in township and rural communities. The portfolio delivered a pleasing performance and good metrics.

The changing nature of retail creates uncertainty that introduces both risk and opportunity. Vukile only explores investment opportunities in the defensive and future growth areas of the market, and steers clear of those that are over-capitalised and likely to be hit hard. We are pleased to have many world-class retailers among our major tenants in both countries.

While Spain and South Africa are two different strategic pillars, both centre on retail property. With the ever-changing retail landscape, our sustainability in this sphere means that we need to imagine what shopping centres will look like in 2030, what skills and capabilities will be required and, in fact, what Vukile itself will look like.

This will enable us to be an even better business and to continue to distinguish ourselves in future. Our focused retail property investment and specialised active asset management sets us apart.



The information and idea sharing between the two teams, which speak the common language of retail albeit in the nuanced accents of their specific markets, is amplifying this advantage that we have created for ourselves. This unique alchemy of experience and innovation is propelling our retail assets and our business into the future.

All this is underpinned by Vukile's disciplined and conservative financial management and sustainable business model. Our balance sheet strength, which we continually test and reinforce, is our springboard for growth, locally and internationally. Our sustainable funding model, including our interest rate and hedging strategies, serve us well by minimising our exposure to macro-economic events over which we have very little control.

The combined progress of our three strategic pillars has built a strong foundation for Vukile. In South Africa we are well differentiated as a retail REIT. Our total property-related assets are valued at R30.4 billion, of which offshore investments amounted to R14.9 billion.

We are confident in our strategies and will continue to build on our strategic pillars in the year ahead.

Operating environment

Vukile's investment is divided equally between local and international markets. Our business is subject to operating environments in both southern Africa and Spain, which are detailed in dedicated reviews later in this report. However, as a JSE-listed SA REIT deeply rooted in South Africa, there are specific business drivers in the domestic context that have a strong bearing on our business.

On the ground, the economic environment has been difficult. Globally, growth is slowing. Locally, the last 12 months have been marked by political turbulence, a stalling economy, increased uncertainty, and low business and consumer confidence exacerbated by Edcon's woes and the return of Eskom's rolling blackouts.

While South Africa avoided a Moody's downgrade, the South African Reserve Bank downgraded its economic growth forecast to a mere 1.3% for 2019, and we have also seen corporate earnings forecasts downgraded. With the sluggish economy, businesses in South Africa are going through anxious times and are under increasing pressure; and it is not going to get better soon.

2018 has been dubbed the *annus horribilis* of the listed property sector. Catalyst Fund Managers reported that the SA Listed Property (SAPI) underperformed other asset classes on a rolling 12-month period to 31 March 2019 with returns of –5.68% compared to SA cash at 7.26%, SA equities at 5.04% and SA bonds at 3.45%. Of course, the value destruction that characterised the sector since December 2017 is mostly due to only a handful of counters. That said, the sector faces the same problems as the South African economy as a whole, and there is evidence of lower growth from the listed property sector in general and a more subdued outlook.

Within this context, I am pleased that Vukile was among the top 10 performing South African REITs for the 12 months to 31 March 2018 according to research published by Bridge Fund Managers for the SA REIT Association, which measures REITs comparable with us. Over three years, Vukile delivered the fourth highest annualised returns at 15.1%. It was the second highest performing REIT over both five and 10 years, achieving 12.7% and 17.7% annualised returns respectively.

Vukile's positive performance is a testament to its strengthened strategic position and thanks to data-driven decision making, prudent financial management, well-timed offshore growth, and the continual enhancement of its South African portfolio; all executed within a stringent governance framework.

Vukile continues to be well positioned to take advantage of opportunities arising from a tangible improvement in local fundamentals. It all comes down to the economy turning which, in turn, rests on South Africa's political will to achieve this; and this requires a sensible election outcome.

In December 2018, the South African National Assembly adopted a report recommending that the constitution be amended to expropriate land without compensation. We still do not know what the final law will look like and a draft bill is scheduled for debate in October 2019. While President Ramaphosa has assured investors that property rights will be protected, there is still much that is unclear about this issue and its application. Certainty is necessary for investor confidence in South Africa.

Vukile is deeply committed to transformation, which is obvious when you consider our actions and achievements detailed later in this report. At this point, I must mention that Vukile gave a real push to transformation for the entire property sector this year, with the proud launch of Vukile Academy's new bursaries and internships.

FROM THE CHAIRMAN continued

Governance continues to be a strong focus concerning the listed property sector. We believe in transparency and welcome greater scrutiny of, and clarity from, the sector.

One of the requirements of the SA REIT structure is to pay at least 75% of taxable earnings available for distribution to its investors each year. Since it was formally introduced in 2013, the norm has been for REITs to distribute effectively 100%. This furthers the short-termism associated with our sector. It is our responsibility to explore every avenue available to us to create value for our shareholders in the medium to long term. As such, we are analysing scenarios across different points within the 75% to 100% range and exploring their possible advantages for Vukile and our stakeholders.

The Vukile board

This year saw a leadership transition for the Vukile board. On 14 August 2018, Anton Botha, who had been chairman of the board since 2004, retired. We thank him for his valued service to Vukile and wish him well in his retirement. It is a privilege for me to take on this role which is built on a rock-solid base of good governance. As part of this change, Dr Renosi Mokate assumed the role of lead independent non-executive director from 1 June 2018.

This leadership transition will continue in the year ahead with the retirement of our financial director Mike Potts, and managing director: southern Africa (MD SA) Ina Lopion, on 30 June 2019. We extend our sincere appreciation to both for their tremendous contributions to Vukile's management and board over the years. From 1 July, our new chief financial officer (CFO), Laurence Cohen, and new MD SA, Itumeleng Mothibeli, will be taking up these board seats. We welcome them in advance and wish them every success in their new roles.

Corporate governance has always been a point of strength for Vukile and will remain so going forward, as borne out by our highly competent board members. Vukile has a high-calibre, experienced, multiskilled and independent board of directors. They are exceptionally engaged in the business, readily available and committed to Vukile and the highest levels of corporate governance.

We are confident this ethos and expertise is echoed in the board and governance of Castellana, which includes three Vukile board members.

Acknowledgements

We have an excellent team at Vukile and they have performed well in a tough operating environment. Even while overcoming today's challenges, they are keeping their eyes on the horizon of tomorrow, and finding ways to be an even better business in future for all our stakeholders.

Our shopping centres in southern Africa and Spain are enjoyed by millions of people, and we deeply value their support. We will continue to strive to offer them the best experiences defined by choice, value and enjoyment at our shopping centres.

My colleagues on the board are generous with their wisdom, insight and commitment, and I thank them for their contributions. Vukile's excellent executive team, led by Laurence Rapp, has once again demonstrated extraordinary talent, agility and leadership, to succeed even in the most challenging context.

Vukile has excellent business partners, service providers and tenants, and we are pleased to be associated with these companies and individuals. We are thankful for the professional and proactive property managers of Vukile's portfolio in southern Africa: Broll, JHI, McCormick, Spire and Trafalgar. We also extend our thanks to the entire Castellana team in Spain.

We deeply appreciate the confidence and continued support of Vukile's shareholders and funders, especially our loyal strategic empowerment shareholder, Encha Group. We appreciate the shareholder support for our capital raises during the year, and commit to the same level of diligence in managing your capital as we have shown in the past.

Vukile will continue to strive to deliver on our strategies and our promises to add value to all our stakeholders.



NG Payne
Chairman
29 May 2019

FROM THE CHIEF EXECUTIVE

"Vukile has once again performed in line with expectations to deliver another set of good results and extend its 15-year unbroken track record of growth in distributions."



Vukile's distributions increased 7.5% on the prior year, even as the South African economy served up yet another in a six-year string of difficult years leading to a very challenging operating environment. The increased distribution is in line with our guidance.

As a high-quality, low-risk retail REIT, our dividend growth was achieved with the value created by our investments in South Africa and Spain, as well as through our robust balance sheet. Behind this performance is our strong operational emphasis, proactive asset management, prudent financial management and capital markets expertise.

More than this, as a business Vukile has matured and really came into its own this year.

Our clarity of vision, structure and business model, with excellent corporate governance and leadership as cornerstones, has seen Vukile stand out in its class. In a tough environment with subdued sector performance, we are being rewarded by the market for keeping our structure and business simple and clean.

Q **Vukile has grown its international investment in Spain significantly. Do you intend to continue your Spanish growth at this pace?**

A **The exponential growth of Vukile's investments in Spain was a major highlight of the past year and gives us a significant advantage for the future. By diversifying internationally into a developed economy with different and stronger economic drivers, we offer investors exposure to a truly diversified investment with a lower risk profile.**

Castellana Properties SOCIMI SA has quickly matured to become a credible, well-recognised company in the Spanish real estate environment and the ninth largest listed REIT in Spain. Its high-quality portfolio, which started the year valued at EUR308 million, has grown by some EUR608 million of acquisitions, asset management initiatives and organic growth during the year and increased in value to EUR916 million.

Our Spanish investment has played out in line with our bold strategy and aspirations in this market – the underlying operational side of the business performed very well. As planned, we added value to the properties with traditional asset management, such as the extensive redevelopment of the former Kinepolis, now Granaita Leisure Centre, which we consider a flagship project. Based on external valuations, our asset management interventions have added EUR25.8 million to the value of properties. At an average exchange rate of R15.92, this translates to R411 million. It is worth noting the emphasis of our asset management is on driving increased sustainable net income.

Vukile's Spanish subsidiary listed as a REIT on the junior market of the Spanish Stock Exchange in Madrid on 25 July 2018. From its listing price of EUR6 per share, Castellana ended the year with an EPRA NAV of EUR6.68. Castellana closed on 31 March 2019 at a price of EUR6.65 with a market capitalisation of EUR499 million. It is well funded with good access to local and international bank finance. Our Spanish subsidiary's debt is fully hedged with a long expiry profile.

Importantly, Castellana has scaled its team to 26 highly regarded and experienced people, establishing a stable business with Vukile's processes and governance spliced into its operating DNA. Castellana's team competes

directly as locals on the ground, unlike typical foreign funds operating in Spain which we believe creates a significant source of advantage in the market.

Our portfolio construction strategy in Spain is to invest in all elements of retail property. We started with a portfolio of scale comprising very solid, low-risk assets, and have since augmented this base with strong, high-quality assets that are aesthetically pleasing and dominant in their markets. Acquisitions have supported a better category mix across tenants, with a greater representation of fashion, food and beverage, and health and beauty brands in the portfolio. Asset management has further improved this with interventions that set the stage for better retail experiences with more appealing retail mixes.

Vukile's international growth aspirations are firmly focused on Spain. We have now settled down and are feeling more at home in the Spanish market and, as such, have the capacity for more growth through asset management interventions and selective acquisitions.

While we do keep a sharp eye on related territories, such as Portugal, Vukile is not actively looking at expanding into other markets at this stage. Castellana has good deal flow and opportunities in its market. The Spanish economy is outperforming the Eurozone with above average GDP growth, albeit at a slightly lower rate than in recent years. Lower unemployment is supporting local consumption, which is amplified by a flourishing tourism market with more than 80 million tourists visiting Spain each year.

The favourable macro and micro-factors in this market are playing out in tune with our initial investment assumptions. This supports the further growth of our investment in Spain. However, our focus is more on growing earnings than portfolio size.

Q **Is your defensive southern African retail portfolio meeting its performance expectations in the face of weak economic and property fundamentals?**

A **Harsh economic headwinds continued to restrict growth, demand and confidence in the South African market but, against this backdrop, I am delighted with the performance of our team. Our metrics are holding up well in a very corrosive environment. Retail vacancies improved, decreasing over the year to 3.0%. Good leasing results were enhanced by our new in-house leasing service, which is engaging with a far broader array of retailers and creating a more diverse tenant mix in our centres. We also achieved a very positive retail rental reversion rate of 4.5%, despite the attrition in the market. Lease expiries remain healthy with 41% of leases expiring in 2023 and beyond.**

Vukile has a solid, well-managed retail portfolio which is borne out by the fact that we had a retention rate of 87% during the year. Our strong operational focus supports the customer appeal of our shopping centres and sets the stage for positive retailer trading.

We remain open to investment possibilities in South Africa, but the right assets at the right price are scarce, especially in the case of bigger, better assets. We acquired Kolonnade Retail Park in Pretoria for R470.6 million on a yield-neutral basis. This is a strong centre with a good tenant mix and, importantly, is an accretive acquisition for Vukile.

However, the current market dictates that the best value can be found in growing our portfolio's size and quality by investing in our existing core assets through upgrades, redevelopments and expansions.

Two projects of note this year are the extensions and upgrades to Maluti Crescent and Pine Crest Centre. The enlarged Maluti Crescent officially opened on 21 March 2019 as our financial year closed. The major R392 million project increased the centre's GLA from 21 538m^2 to 33 895m^2, with added retail and fast-food variety, making it the dominant centre in the town of Phuthaditjhaba. The R200 million extension and upgrade of the Pine Crest Centre is set to open at the end of July 2019. The project introduces a new food court, a refreshed tenant mix and improved access, as well as fresh new brands.

Naturally, we continue to assess our portfolio for opportunities to improve and expand assets, winnow non-core assets out of the portfolio and redeploy capital into better quality investments. The team keeps a keen eye on opportunities that will help tighten our portfolio to fewer, better, more dominant assets.

Looking at our portfolio composition in South Africa, all Vukile's top 10 assets are new-builds or have been upgraded in the past five years. It is a portfolio of strong, relevant and dominant shopping centres.

Q **A robust balance sheet is as important to Vukile as its investment portfolios in South Africa and Spain, so how do you test and measure its strength?**

A **Having a strong balance sheet is a powerful pillar of Vukile's business. Our sustainable funding model rests on disciplined and conservative management of our balance sheet and treasury.**

Because of its importance to our business, we continually structure our balance sheet for robustness and stress test it for risk. While the loan to value (LTV) ratio is the generally accepted go-to metric for SA REIT sector analysis, we believe that interest cover ratios (ICR) are equally important but perhaps they do not get as much attention from the market as they should.

LTV is based on the value of properties. Property value, however, is not an absolute definitive science. It is perhaps more of an art. It relies on a significant number of assumptions and judgement calls. It remains subjective to a large degree.

On the other hand, good cash management and the ability to comfortably service debt is ultimately what funders are looking for, and the ICR

is the appropriate measure to be looking at. Cash flow is a much more objective measure of the financial strength of an asset and is not reliant on any assumptions. The cash flow is either there or it is not.

By way of example, in our Spanish business, a 40% reduction in Castellana's property income would have to take place before its ICR covenants are breached. This is highly improbable. For one thing, it is unlikely based on the high quality of our tenants. Our top 10 tenants account for 28% of retail rental income and are all national or international brands that are market leaders in their respective segments. In addition, when the financial crisis was at its peak, and vacancies in the Castellana portfolio were at their worst, they were a mere 6%.

Of course, for reporting purposes, both ICR and LTV are necessary measures. But, when you have a healthy ICR, we believe LTV becomes a secondary measure. LTV is subjective whereas ICR is objective.

That said, we have made very good progress in reducing our LTV to 37% after it was nudged up to 42% by the Unibail-Rodamco-Westfields transaction in Spain. We worked hard to bring it below the 40% mark quickly and, post-balance sheet, this was further reduced to 36% and in line with our long-term level of around 35%. Our term debt at the group level was 95.7% hedged with a 3.6-year fixed-rate maturity profile. A 20% or R6.5 billion reduction in property values would trigger Vukile group's debt covenant levels.

Another indication of balance sheet strength is our credit rating. Vukile received a credit upgrade of our corporate long-term rating from our rating agency GCR during the year to $A+_{(za)}$ with a stable outlook. We have a corporate short-term $A1_{(za)}$ rating and secured long-term $AA+_{(za)}$ rating.

Vukile's ability to access the debt capital and banking markets is excellent. Our low-risk approach is borne out by our diverse sources of debt funding. Vukile's multibank funding is spread across five local and four international banks. We also have a domestic medium-term note (DMTN) programme of capital markets funding. Our average group cost of funding is 4.53%.

For international investment, we manage the impact of exchange rate fluctuations as much as possible and aim to hedge 75% of our dividend flow from offshore investments over five years. By locking in these dividends, Vukile offers stable rand-denominated growth for South African investors built on high-quality European assets.

Q **Where do Vukile's equity-accounted investments fit into your overall strategy?**

A **Our equity investments really all need to be evaluated individually and not as a collective part of our strategy.**

Our R568 million stake in Fairvest Property Holdings Limited is a solid investment and closely aligned with our own retail investment strategy. It is a cost-effective way to invest in similar, but smaller, retail assets. It is delivering a pleasing performance, and an attractive total return on our investment.

Atlantic Leaf, which invests in the UK, is Vukile's original international investment vehicle. Our investment in Atlantic Leaf now stands at R1.3 billion. However, given our strong growth in Spain and access to significant deal flow, it now falls outside of our foreign investment focus and we continue to assess its place in our portfolio.

We closed the year with a non-core R729 million stake in Gemgrow Properties Limited. After year-end, a proposed merger between Gemgrow and Arrowhead Properties was announced and Vukile, as Gemgrow's second-largest shareholder after Arrowhead, has given its irrevocable support in favour of the merger. With increased scale, the merged Gemgrow entity will become an index constituent with significantly improved liquidity, relative to the current highly illiquid share, enhancing our ability to exit the investment and to then redeploy the money into our core strategy.

Q **Are you well prepared for the management transitions at Vukile in the coming year?**

A **First, I would like to extend a warm welcome to our new chairman, Nigel Payne, who took the reins in August 2018 and thank him for the significant support he is giving me and value he is adding to the business.**

Once again, I'd like to express my sincere appreciation for the invaluable contribution of our past-chairman, Anton Botha, who retired and concluded his term at the helm of our board during the first five months of FY19.

Nigel, who has served on the Vukile board since 2012, already has a deep understanding of our business and brings his extensive financial and board experience to our leadership table.

Two property stalwarts in Vukile's team retire at the end of June 2019, our FD Mike Potts and SA MD Ina Lopion. It is impossible to measure the huge contribution both have made to the business, not only by being excellent in their respective roles but also in a broad sense by being integral to the values, culture and the very DNA of Vukile.

Mike has maintained the highest standard of leadership and financial stewardship in his years as FD. As a founding director of Vukile, Mike has played a pivotal role in the business and its evolution into a retail REIT that is invested internationally, during which time Vukile stakeholders have participated in remarkable growth and value creation. His tenure is distinguished by a legacy of tremendous transparency and clarity in reporting. It has been my great fortune and privilege to work with such an accomplished executive, who with his integrity, talent and mentorship has contributed so much to Vukile's success. Mike will stay with the group as a non-executive director of Castellana and serve on its audit committee.

FROM THE CHIEF EXECUTIVE continued

Ina's esteemed leadership embodies excellence and innovation over a decade of heading up asset management at Vukile and, most recently, as MD SA. She is a touchstone of competence, commitment and distinction within Vukile and beyond. Her time at the company is marked by the complete refocus of our South African portfolio of assets and Ina has been integral in sculpting Vukile's significant retail portfolio, enhancing its quality, composition and shopper experiences. With care and creativity, she has devised key organisation processes and systems that underpin our operations and success. It has been my tremendous honour to work with such an outstanding executive who is a pioneer and true role model for women in the property sector. Looking to the future, Ina is intending to use her exceptional experience and talents to build a career as an executive coach and will continue her connection with Vukile by taking on a coaching role with some of our top senior talent as well as playing a mentorship role within the Vukile Academy.

Both Mike and Ina have mentored our next generation of leaders, who are already up-to-speed with Vukile's strategic imperatives and systems, and will advance Vukile seamlessly and without any delays.

Rob Hawton and Maurice Shapiro have both spent already nearly a year as FD South Africa and Group Head of Treasury respectively under Mike's guidance and we are confident in their skills to take the roles forward on his retirement.

I am also pleased to report that our active succession planning has ensured that, over the past few years, our highly skilled asset management executive, Itumeleng Mothibeli, has been thoroughly prepared by Ina to take over from her and head our South African asset management team. I am thrilled that Itu's immense skills and talent will be brought to this position. Not only does he have an impressive track record in asset management, but he is also intimately familiar with Vukile's properties, portfolio and processes. He will also be appointed to our board on 1 July 2019.

Hiring these great people internally shows the effectiveness of our comprehensive succession plan. It protects and optimises our valuable institutional memory and intellectual capital.

Vukile has also appointed Laurence Cohen as its new CFO. Laurence, who is widely respected for his extensive financial leadership experience in the listed property sector, joined the team on 1 March 2019 as CFO designate. He will succeed Mike and be appointed to the Vukile board of directors on 1 July 2019. He is already making a significant contribution to the group and has integrated extremely well into the Vukile culture. I look forward to a very successful working relationship with Laurence.

These appointments give us plenty of strategic depth, insights and skill to tackle the exciting road ahead for our business. They extend Vukile's track record of quality management and best-of-breed corporate governance. We are in very good hands to maximise opportunities as they arise.

Low staff turnover shows Vukile is regarded as a great place to work and our new offices, which we occupied from January 2019, add to the positive experience of Vukile. The new offices create a strong presence and even greater sense of belonging for the Vukile team. It is an inspiring space where both our people and our business can grow.

Q **You mention the Vukile culture; what makes it unique?**

A **At this critical juncture, and after several years of refocusing our business, as a team, we recently took the opportunity to distil and define the Vukile culture.**

Through this exercise it became resoundingly clear that Vukile's culture is characterised by a deep sense of respect and trust among the team members. This defines our interactions and relationships which – carried out thoughtfully with real humility and underpinned by openness, transparency, and honesty – generate a strong sense of our unwavering integrity. This reliable, stable foundation is rounded off with entrepreneurial flair. It is this culture that we seek to live by in our day-to-day interactions within the team and with our various stakeholders.

Vukile is a place for people to grow. It is an exciting environment where ambitious, talented, passionate and fun-loving people belong.

This culture holds across the teams in South Africa and Spain. Some of us have English as our business language; others have Spanish. Nevertheless, we all speak the common language of Vukile.

Q **How has your transformation journey progressed in FY19?**

A **Because of their significance, empowerment, social and economic transformations are sustainability imperatives for Vukile.**

Vukile continues to be very focused on achieving at least a level 4 B-BBEE rating. This rating process is still under way due to the unfortunate collapse of our previous rating agency, Empowerdex, and the appointment of a new verification agency which has led to some delays in finalising our updated scorecard. We expect to have that published on SENS during August 2019. However, the most exciting development for us in the transformation arena is the launch of the Vukile Academy.

We want to create a new generation of talented professionals for Vukile, but also for the property industry.

This initiative is about tangible transformation in the sector and is designed to make a real difference. We could not be prouder to launch the Vukile Academy. It offers promising young black university students more than 50 bursaries to help continue their studies, as well as eight hands-on internships at Vukile with mentorship from its skilled team.

It launched at the beginning of 2019 with influential partners including four universities and three industry bodies. We look forward to further refining the programme and believe that in time it could become a broader industry initiative.

Q **Is Vukile's business model sustainable?**

A **The sustainability of our business model remains imperative for Vukile. Our business model rests on the pillars of regulatory compliance, strong governance, financial controls and sustainability; and we have all the essential checks and balances to uphold these pillars. In addition, our sustainable funding model is detailed earlier in this report.**

As a property company, taking a long-term sustainable approach to business is in our nature. Vukile strives to conduct its business in accordance with the environment and the communities in which we operate. Because it is so important to us, there is a detailed sustainability review in this report with more information on our progress, goals and plans to achieve them.

We see good corporate governance as the key to sustainable success, so it is no coincidence that governance is a strength of Vukile. We also offer the market what it wants: clarity of vision, strategy and structure. We strive to run our business in harmony with our society and the environment.

Q **How does Vukile action its environmental commitment as part of its business?**

A **Vukile complies with environmental legislation, but we also go well beyond what is required of us.**

Energy savings and efficiency, and producing renewable energy, along with water saving and consumption control, are as much part of our business as they are our environmental sustainability. Our energy and water savings have direct bottom-line advantages to both Vukile and our tenants in the form of cost savings. They align with the responsible environmental and cost-efficiency goals of many of our tenants, and thus support the sustainability and appeal of our properties. Importantly, they lighten our environmental footprint.

Managing our energy and water consumption is a core competency at Vukile, and we are enormously pleased with our progress on this journey. In the past two years alone, we have completed five photovoltaic projects with a total size of 3 618kWp and we have another five under way of 2 511kWp. Our goal to have 2MWp installed by the close of FY20 is ambitious, but I am confident it is achievable.

Water savings have come into sharper focus for us in recent years. Our asset management team is concentrating on managing water leaks, driving efficiencies and investigating alternatives where there are supply constraints.

Q **As a retail REIT, how does Vukile view the so-called "retail apocalypse"?**

A **We think that it is grossly overstated and based on many incorrect assumptions and observations, especially around ecommerce which has been singled out as the primary reason for retail challenges. In many respects, the current negative views on retail are borne out of the experience in the US and the UK and then people applying those observations to other markets and assuming they will behave the same way. We think that needs to be unpacked in greater detail to really evaluate the implications more broadly and then specifically to the markets in which we operate.**

Let us start with the US. The US is widely acknowledged to be over-retailed. This is very clearly evident when looking at retail trading densities expressed as retail GLA per 1 000 people. Based on research done by Cushman and Wakefield, the US has a retail density of 2 183m^2/1 000 people. This is five times more than the UK and seven times bigger than Spain. There is no doubt in my mind that excess supply is the primary reason for recent failures in US retail centres. By the way, this is largely happening in non-dominant secondary and tertiary centres; not dominant malls. Furthermore, US shopping centres tend to be anchored by department stores and not supermarkets as we have here and in Spain. With the decline of the department store format, that is putting pressure on the centres. Plus, leveraged buyouts have left some retailers over-indebted and failing, while other retailers have rested on their past popularity, and fallen out of touch with customers.

Across the pond, the UK's Brexit woes are the overriding factor in its retail pain, denting business and consumer confidence and constricting spend.

We live in an omnichannel world and, of course, ecommerce plays a role in the retail landscape. Any shopping centre owner needs to be extremely cognisant of the situation and ready to adapt their tenant mix and strategy to this new reality. But, in South Africa its penetration is poor; any growth is coming off a very low base. We think there are also structural constraints in our local market that mitigate very heavily against any material impact of ecommerce on our malls, especially those focused in the middle to lower LSM markets where we operate. In Spain, online sales account for about 5% of retail sales, and only 30% of this is in categories that compete with shopping centres. One also has to look at the large role played by the tourism market in Spain which provides a defensive element to the retail landscape. While online retail is very convenient, tourists typically do not go on holiday to shop online. They want to experience local cuisine, entertainment, shopping and fashion trends and therefore remain very happy to continue frequenting malls.

Perhaps the most revealing impact of online shopping is the new category of retailers it is creating for shopping centres. More and more previously

pure-play online brands are being forced to acknowledge that they too operate in an omnichannel world and, as a result, are opening bricks-and-mortar stores. Examples range from Amazon internationally to Yuppiechef locally.

While the reality in our markets could not be in starker contrast to the doom and gloom of a retail apocalypse in the UK and US, sensational headlines have become a market force, and we are seeing attractive buying opportunities stemming from it.

Regardless of what is happening elsewhere in the world, we believe that putting the customer at the centre of what we do will keep Vukile's shopping centres relevant, appealing and competitive. We are building expertise to engage with customers to better predict their future needs. We plan to be at the forefront of future retail trends.

Q As a specialist retail property fund, can Vukile identify shopper needs and consumer trends in the South African market and respond quickly?

A Absolutely, and we also make it a priority to understand both macro-trends in consumer markets and micro-trends at each of our shopping centres.

We believe that knowing and understanding retailers and their customers is a key focus area and will become a cornerstone of shopping centre ownership in future. Shopping centres need this information to be an excellent conduit between retailers and their customers, enabling them to perform their very purpose.

In South Africa, it is interesting to note that our township retail is showing the strongest performance, followed by rural shopping centres. Urban malls, however, are the backmarkers in our portfolio; they are feeling some strain.

Our centres' trading densities tell us a lot about how South Africans are spending their money. Groceries and fashion are under a little pressure, while retailers in the health and beauty and sports categories are gaining spend. This also reflects shifting trends, such as the rise of athleisure as a fashion category.

Vukile's alternative income management journey has taken longer than initially anticipated, but our initiatives gained traction this year. Our innovative fibre deal is fully funded by MTN. Fibre has now been installed in 35 of our malls, and others are coming online soon. We have started piloting free public wifi and our app to gain greater customer insights through its opt-in database. This, in turn, will help us apply more customer-centric approaches in the way we manage, lease and market our shopping centres.

We intend to increase our spend and focus on building greater capabilities, both in South Africa and Spain, around our customer analytics and marketing capabilities. We believe that we need to be firmly on a journey of becoming a true customer-centric organisation to respond to the challenges and opportunities presented by this new world of omnichannel retailing.

Q Does your insight into shopper communities help Vukile to be a better corporate citizen and have more meaningful social impacts?

A We have always strived to invest in the communities that our shopping centres serve. When it comes to shopping centres, we believe they are integral to their communities and should act in this way. As we get closer to shoppers, using our increased data and analytics capabilities, we are better able to understand how we can have the most meaningful outcomes with our social investment. At each of our shopping centres, we encourage our asset managers to drive social investment projects pertinent to each asset and community. By acting locally, we have the biggest impact.

Actively engaging with shoppers at each of the centres also enables us to better meet their unique needs, creating experiences that build loyalty and customer support, thus creating a symbiotic relationship.

Naturally, we strive to make positive social impacts at group level. Besides our new Vukile Academy with its implications at tertiary level education and beyond, we also aim to have a positive influence at the outset of the education chain as a long-time supporter of Afrika Tikkun and its childhood education projects.

This year, a social investment highlight was Vukile's sponsorship of the Darren Serebro Dream Room at the Chris Hani Baragwanath Paediatric Oncology Ward. Dream Rooms are an initiative of Reach for a Dream, and we hope this one will bring much comfort to the children, the families, and the community that it serves.

Q Did Vukile participate in the recapitalisation and restructuring of Edcon, and are there any implications for your stakeholders?

A Considering the potential large-scale job losses in the retail and textile sectors should Edcon fail, as well as implications for the broader South African economy, we chose to be proactive in our negotiations with Edcon and be part of its restructuring.

We felt, however, that it was crucial to preserve the integrity of the underlying rental streams for Vukile shareholders while mitigating risk. So, we agreed to take a R36 million capital investment in Edcon in exchange for shares in the retailer, injected monthly over 24 months.

Vukile's participation in the Edcon restructuring did not impact our distribution to shareholders for FY19.

Looking beyond this, Vukile is actively reducing its exposure to Edcon, which represented 2.5% of Vukile's group rental income at year-end. However, the Edcon footprint in Vukile's shopping centres is expected to reduce with a further 11 258m² from 51 058m² to 39 800m² by August 2019, reducing the Vukile

group rental value exposure to 2.0%. We have already relet or are in advanced stages of negotiations to let the majority of the 11 258m². Additional asset management intervention could reduce our exposure to Edcon to 1.6% of Vukile group rental revenue by the end of FY20.

Q **Please take us through the post-balance sheet events that have a material impact on Vukile in FY20 and beyond?**

In April 2019, Vukile undertook a R400 million capital raise, which was increased to R700 million in response to strong market demand.

The new equity raised from this share sale allows us to take advantage of yield-accretive asset management opportunities in Spain, specifically in the portfolio Castellana recently acquired from Unibail-Rodamco-Westfields. As Europe's largest department store,

A El Corte Ingles owns two large boxes in our Los Arcos and Bahía Sur shopping centres, which we will acquire and enhance through asset management interventions before retenanting. Also, we will restructure the El Corte Ingles lease at El Faro, to unlock a strategic redevelopment opportunity to introduce more entertainment to the centre. The malls will become more dominant in their market with this exciting initiative. The capital raise also allowed us to reduce Vukile's LTV to 36%.

An offer has been received to purchase 70% of the share capital and shareholders' loans of MICC Properties Namibia, subject to the satisfactory completion of a due diligence, Competition Commission and other regulatory approval. As a package, the offer is in line with our internal market valuations.

Post-balance sheet developments with Gemgrow are likely to see us exiting this equity-accounted asset.

Q **What prospects do the financial year ahead hold for Vukile and its stakeholders?**

A **In the South African REIT sector, we have become too conditioned to short-termism. This has come into sharp focus in the persistently weak South African economy, which is increasingly placing short-term gains and longer-term performance at odds.**

A principal responsibility of directors is ensuring the medium-term and long-term sustainability of their REIT. Unfortunately, for some shareholders in the sector, short-term payouts are their only focus, which pressures listed property counters into doing what they have always done, prioritising the next period's distribution growth. This is short-sighted and often damaging to the longer-term sustainability of the business.

We find ourselves in a place where we need courageous leaders in the sector who do not bow to pressure from the markets to deliver short-term distribution growth at all costs. We also need shareholders who are knowledgeable and realistic about what an investment in property means; it is a long-term play, not a short-term pick. Fortunately, good sense is prevailing and the market is telegraphing a lower growth scenario, a shift towards long-term sustainability and value creation, and a preference for businesses that keep things clean and simple.

Vukile is positioned defensively for what we expect to be yet another tough year in the context of South Africa.

We will continue to pursue earnings growth in Spain and South Africa and progress our southern African asset rotation programme, out of non-core assets and into our two core investment strategies. We expect balance sheet metrics to remain robust and in line with those of FY19.

Assuming no material adverse change in trading conditions or large corporate failures and the successful implementation of transactions under way, Vukile expects to deliver growth in dividends of between 3% to 5% in the year ahead. Forecast rental income is based on contracted escalations and market-related renewals.

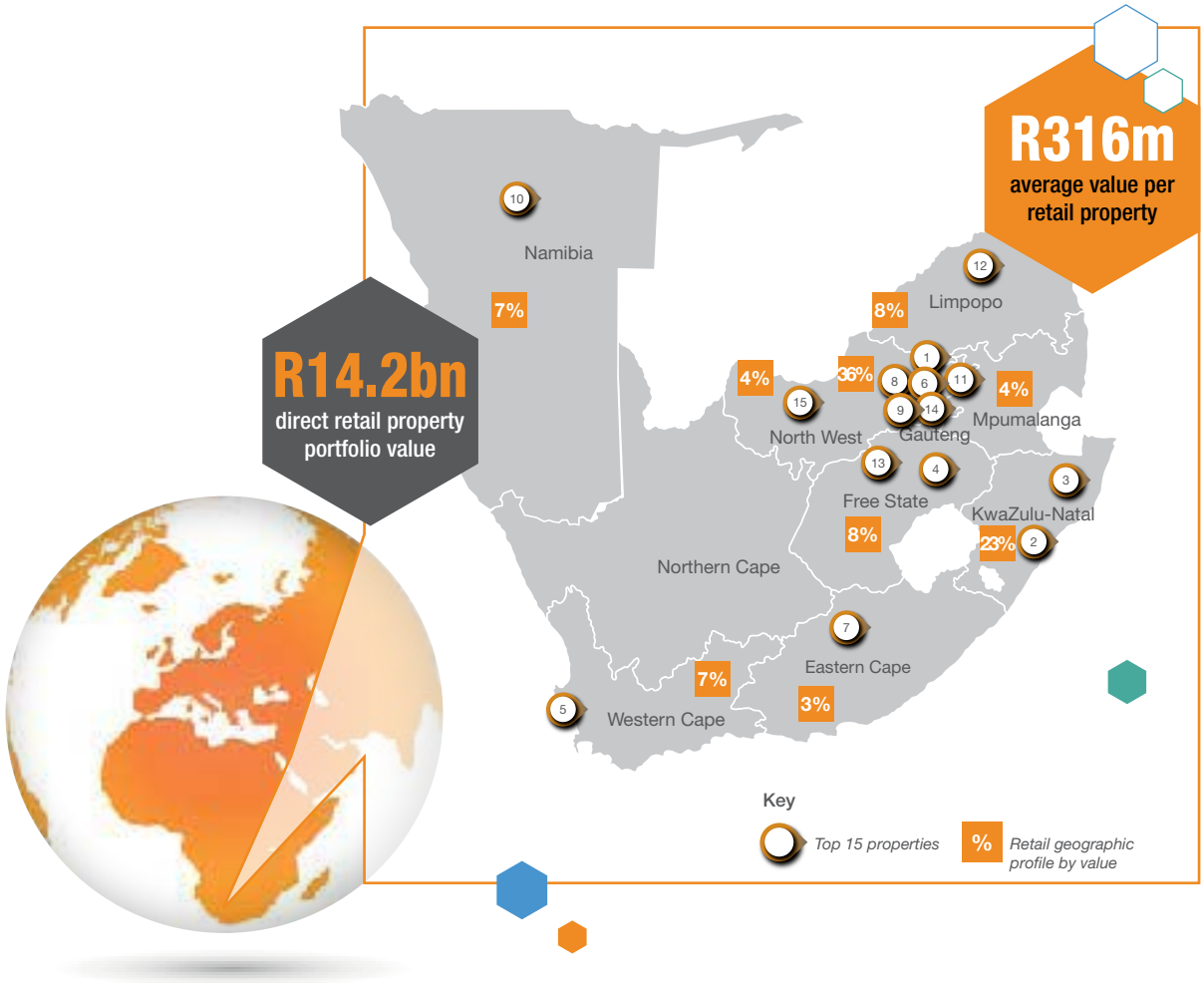
This forecast has not been reviewed or reported on by the company's auditors.

A strong set of results in a weak economy is only possible thanks to the drive and dedication of Vukile's management team and staff, and the passion and professionalism of our new team at Castellana. This is further strengthened by the guidance of good leaders, the backing of a strong board, and a framework of excellent governance. All this is rounded out with the specialist advice, solutions, services and implementation of Vukile's various business partners. To everyone who is part of our immediate and extended Vukile teams, I offer my sincere appreciation.



Laurence Rapp
Chief executive
29 May 2019

OUR RETAIL FOOTPRINT – southern Africa



Our top 15 properties

1. East Rand Mall
2. Pine Crest Centre
3. Phoenix Plaza
4. Maluti Crescent
5. Gugulethu Square
6. Dobsonville Mall
7. Nonesi Mall
8. Kolonnade Retail Park
9. Meadowdale Mall
10. Oshakati
11. Daveyton
12. Thavhani Mall
13. Bloemfontein Plaza
14. Randburg Square
15. Moruleng Mall

Retail property portfolio

8.7%
Average exit capitalisation rate

R14.2bn
Direct retail property portfolio value

64%
Top 15 asset percentage of retail portfolio

860 591m²
Gross lettable area (GLA)

45
Retail properties

R316.3m
Average value per retail portfolio

13.5%
Average discount rate

PORTFOLIO REVIEW – southern Africa

"In remarkably challenging market conditions, our resilient and defensive southern African retail portfolio has again delivered a sterling performance. In an environment deficient of growth, we are driving operational efficiencies by embracing innovative thinking and solutions that are cost-effective, ensure a high standard of operations now and protect value in the long term."



Valuation of southern African portfolio

The accounting policies of the group require that the directors value the entire portfolio every six months at fair value. Using a DCF methodology, approximately one-half of the portfolio is valued every six months, on a rotational basis, by registered independent third-party valuers. The directors have valued the southern African property portfolio at R15.5 billion[i] as at 31 March 2019. This is R1.0 billion or 7.0% higher than the valuation as at 31 March 2018. Pretoria Kolonnade Retail Park was acquired for R471 million and Hillcrest Richdens Shopping Centre was sold. The value of the stable portfolio increased by 3.3%. The calculated recurring forward yield for the portfolio is 8.4%.

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

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

Vukile is positioned defensively with an excellent portfolio of retail assets distinguished by their strong trading metrics. Our properties differentiate Vukile in the market.

Vukile invests in a high-quality, low-risk portfolio of southern African retail properties. The properties serve large segments of the market and cater to non-discretionary spend. Vukile's South African shopping centres cater mainly for customers in the LSM 7 band and below. This is well aligned with the demographics of South Africa.

Vukile has 92% of its southern African portfolio invested in retail property which now accounts for 40.5% or R14.2 billion of Vukile's total assets.

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

Our retail focus positions us to confidently deliver sustainable returns from a defensive portfolio. It highlights the value that our data-driven asset management adds to property performance, and it demonstrates our ability to secure and deliver accretive deals and enhancing developments and redevelopments.

Value creation

We are pleased with the focus, operation, enhanced quality and defensive position of our southern African portfolio, and the value this signifies for Vukile.

A major theme for this financial year was driving operational efficiencies. We are placing every aspect of our operations under the microscope, not only to achieve cost savings but also to boost performance and ensure long-term sustainability. We will not opt for short-term gains that result in long-term pain or drive down costs at any price.

We achieved like-for-like growth in net profit from our southern African operations of 3.4%. Income was under pressure at Sandton Sunninghill Sunhill Park due to increased vacancies, and at Rustenburg Edgars and Vereeniging Bedworth Centre due to restructuring of leases. Excluding the reduced rentals at these properties, property revenue escalated at 5.3% and net property income at 4.6%. The above inflationary increase in net expenses is mainly contributed by the irregular municipal increases in rates/taxes and utilities.

The southern African portfolio consists of 60 properties with a total gross lettable area of 994 622m^2, including 100% of Moruleng Mall. Our property values increased from R14.5 billion to R15.5 billion at the close of the financial year, representing a growth of 7.0% in asset value. Our valuations methodology is detailed in the financial performance review of this report.

Our southern African portfolio of assets contributed R1.2 billion (71%) to Vukile's net profit from property operations.

PORTFOLIO REVIEW – southern Africa continued

We continue to invest in our systems and our team in South Africa and this, in turn, adds value to our investments.

Our shopping centres create value in their communities, not only as much needed retail facilities, but as centres of economic activity and employment, and as resources for community support through their social responsibility initiatives. Our focus on conserving resources and our high-impact energy and water savings efforts have positive impacts on our communities, the environment and the sustainability of our tenants' businesses, and thus our own sustainability.

Investment strategy

Vukile's investment is concentrated in the defensive retail sector in southern Africa, which is the basis for its high-quality, low-risk portfolio. There are few appropriately priced acquisition prospects to grow our portfolio in the South African market, but we continue to invest in our existing portfolio with expansions and upgrades. In this way we optimise returns, unlock new trading opportunities and ensure our centres remain competitive and powerfully positioned for the future – the performance of our portfolio of assets is enhanced by our data-driven asset management approach. Our strong operational focus ensures that we keep on delivering solid results.

The southern African retail portfolio is a compelling investment proposition for Vukile because:

- Retail property has outperformed other property sub-sectors over the long term;
- The portfolio is well diversified across regions, various types of retail properties and tenants, which generates stable and predictable income;
- The portfolio focuses on shopping centres that mostly cater to non-discretionary spend, which helps to sidestep the negative impacts of economic downturns;
- Based on rent, 79% of tenants are national retailers with strong covenants and brand loyalty;
- Our top 10 assets are all new-builds or have been upgraded in the past five years, so they are well aligned with the latest consumer trends and experiences;
- The quality of our portfolio has been improved over time, which fortifies its ability to deliver sustainable results through different cycles;
- The portfolio is well aligned with the latest shopping trends of the biggest consumer markets in the country;
- The centres are strongly positioned to add value to their shopper and retailer experience; and
- There is still some future growth potential within the portfolio through development, expansion and upgrade.

Operating environment

In this environment, with persistently weak macro-economic factors, trading densities are slowing. Nationally, retail sales are down overall, which is evident in the results of most listed retailers.

The rate of new retail development has slowed, which is positive as it brings the supply more in equilibrium with the demand.

Our rural and township centres are showing continued strong performance, thus having a diversified retail portfolio supported our positive performance.

Our portfolio shows that groceries and apparel sales are trending backwards. Athleisure is doing well, and the health and beauty category is among the strongest performing retail categories. Liquor sales are also on the rise. Lay-byes are supporting sales in the apparel category. Retail in our main markets is showing that it is sensitive to the grant system. We are also seeing some second-tier nationals emerging as strong contenders in the highly competitive retail environment.

Edcon, of course, was a significant focus for the sector and Vukile elected to participate in its proposed recapitalisation and restructuring, as detailed in the CEO's report. We have already reduced Edcon's footprint in Vukile's shopping centres, and we are working to decrease it even further. Thanks to proactive and innovative asset management interventions we expect Edcon to account for only 2.0% of Vukile's group rental income by 1 August 2019 and its total footprint to decline from 51 058m² to 39 800m². We have already relet or are in advanced stages of negotiations to let the majority of the 11 258m².

We keep a sharp eye on the trading performance of all significant tenants in our portfolio and are alert for signs of underperformance or risk. Unfortunately, in this harsh market, some other national retailers could also be at risk. When a retailer is flagged, we assess whether it is temporary or systemic, and take appropriate action where we deem steps are needed to reduce our exposure or work with the retailer to see them through their tough time. Our data-driven asset management enables us to operate in this proactive way.

With each risk, however, there is opportunity, and any space that opens up in our portfolio allows us to diversify our tenant exposure by introducing more promising second-tier national retailers to our malls.

Our in-force escalations held steady at 7% – a positive achievement in the current market – which speaks to the quality of our centres. They are dominant and demonstrate strong performance. Retailers want to be in them, which still gives us negotiating power.

Management

Asset management

Asset management at Vukile is undertaken by our highly experienced and respected in-house team of hands-on South African retail property experts.

The southern Africa team was led by Ina Lopion, MD SA. Ina has a BSc from Stellenbosch University and qualifications in executive leadership. She has in-depth knowledge of the South African property market gained over nearly 28 years in the industry, plays an active role in industry leadership and is a director of the South African Council of Shopping Centres. Itumeleng Mothibeli heads up the asset management team and has an MCom from the University of Cape Town with 12 years' experience in the property industry and chairs the Gauteng Chapter of the South African Council of Shopping Centres.

Our asset managers focus on Vukile's strategic initiatives, providing direction, guidance and mandates to our outsourced property managers. They optimise the returns of our properties

PORTFOLIO REVIEW – southern Africa continued

by ensuring our shopping centres are relevant and appealing to our shoppers which, in turn, makes them attractive to retailers.

Our asset management is targeted to create both short-term and long-term value.

Utilities management

Energy efficiency, water savings, cost efficiency and the ability of our properties to operate without disruption are crucial factors for our tenants' businesses. To ensure that our properties can offer this, we have in-house expertise that oversees the constant monitoring of energy and water consumption in the portfolio to identify potential areas to improve recoveries, reduce wastage and innovate savings. We focus on reviewing and investing in technologies that provide both optimal results and payback periods.

Alternative income management

To provide a top-quality experience for our tenants and their customers, we need to understand them and connect with them. Value-add experiences are at the heart of this. We have grown in-house expertise to boost our understanding of consumers and how to engage with them, using the latest platforms and technology. This not only supports the positive performance of our retailers, and thus protects and supports our property income streams, but also creates added alternative income opportunities.

Property management

Vukile's property management is outsourced to external property managers who oversee the day-to-day operations of our properties.

We have used this model since listing in 2004 and still believe it is the best for Vukile, given the size of our portfolio.

This year we set out to drive real efficiencies in both soft and hard services. We are implementing an integrated service delivery model for both soft and hard services. This will enable financial benefits while simultaneously enhancing quality and consistency of service delivery, tenant relationships, governance, risk management, controls and performance evaluation. The gist of the model is to bundle services such as security, cleaning, pest control, hygiene and landscaping under one service provider thereby creating a single point of accountability while omitting unnecessary lines of management.

Additionally, other value-adding benefits such as streamlining of administrative functions and access to the service providers' web-enabled management platforms are obtained. Regarding soft services, a detailed procurement process was followed identifying service providers capable of executing integrated services. Excellent progress has been made and a roll-out plan has commenced where all our shopping centres and tenants will benefit from the deliverables as from 1 September 2019. A similar process is currently under way with the procurement pertaining to the construction, maintenance and inspections of hard services. Nine packages comprising mechanical installations, lifts and escalators, electrical installations, electronic installations, gas installations, compactors, fire services, wet services and general building works have been identified and generic and detailed specifications are being compiled. Benefits are expected to materialise during the first quarter of 2020.

Property management for the Vukile property portfolio is outsourced to five different managers:

1. **Excellerate Real Estate Services (Pty) Ltd t/a JHI:** 25 properties with a value of R8.6 billion, including East Rand Mall
2. **Broll Property Group (Pty) Ltd:** 30 properties with a value of R5.9 billion
3. **Spire Property Management (Pty) Ltd:** two properties with a value of R0.7 billion
4. **McCormick Property Development (Pty) Ltd:** two properties with a value of R0.1 billion
5. **Trafalgar Property Management (Pty) Ltd:** residential units with a value of R0.07 billion.

The property managers are mainly responsible for daily property operations such as:

- Leasing
- Invoicing of tenants
- Rent collection
- Maintenance
- Tenant interactions
- Financial administration
- Managing relationships with third-party service providers and local government.

We manage these relationships with:

- Service level agreements
- Formal monthly meetings to monitor performance and operational issues
- Frequent interactions about property-specific issues.

Leasing

We have established a new in-house leasing team, which is engaging with a far broader array of retailers and creating more diverse tenant mixes in our centres. While our portfolio will remain a combination of listed big nationals and second-tier nationals, we already have relationships with the big-name brands, and thus most leasing activity with them involves renewals.

Through bringing elements of our leasing in-house, we are driving new relationships with the retailers we believe are the future of the sector. These are typically second-tier national retailers that are growing aggressively. They are nimble because they are smaller, and they tend to be closer to their shoppers. This gives them a deeper understanding of their markets and what consumers want. They have a proficient grasp of price-points, and their marketing resonates well with shoppers.

By taking a fresh approach to leasing, we are building relationships that help us better understand retailers' business and them to understand our portfolio better. We have concluded a pleasing number of new deals, bringing new retailers into our portfolio and diversifying the tenant mixes of our shopping centres.

Small capital projects

We have built a new internal team to focus on the small capital projects that ensure the upkeep of our shopping centres, which supports successful leasing and tenant retention. The way that we spend money and manage and oversee these projects is driving much value. We want to ensure that we can get the right quality of work at the right price, and thus we have secured these dedicated skills in-house. Vukile spends about R100 million a year on different

PORTFOLIO REVIEW – southern Africa continued

small "capital" projects. By sharpening our focus on this area, delivering quality projects on time and within budgets, we are creating real value for money. This gives us an essential advantage.

Strategic milestones achieved

1. Achieving budgeted performance and positioning ourselves for the future in the face of difficult market dynamics, including retail failures
2. Optimising our assets with R566 million of development, expansions and improvements
3. Maintaining positive portfolio metrics, including reducing vacancy levels and keeping contractual escalations steady
4. Introducing risk mitigation strategies for retailers that are a higher risk in the harsh economic environment
5. Rolling out the R80 million installation of fibre by MTN to 35 of our malls, with two to follow
6. Launching our wifi and app pilot at two malls
7. Achieving energy, water and sewerage efficiencies that directly benefit our bottom line
8. Applying cost controls and massive operational efficiencies, and restricting contracts with key service providers to continue to drive this
9. Launching an in-house leasing team focused on building relationships with a broader range of tenants and diversifying the tenant mix in our assets
10. Introducing the specialised skills and benefits of an in-house small capital projects team.

The southern African portfolio

This is a low-risk, high-quality portfolio of assets diversified across southern Africa that is extremely defensive and has a strong focus on non-discretionary retail spend.

- R14.2 billion retail market value
- 92% of total portfolio by value
- 45 retail properties
- 860 591m² of lettable retail space
- 3.0% retail vacancy rate based on rent
- 83% of retail space let to national tenants
- R316 million average retail asset value per property
- 4.0 years weighted average lease expiry (WALE) on retail properties
- An estimated 21 million people visit our shopping centres on a monthly basis.

Top 15 properties by value

Our top 15 properties are all retail assets. They are 84.3% exposed to national, listed and franchised tenants. These properties comprise 58.8% of the total portfolio value and 46.5% of the total portfolio GLA.

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

[1] 50% undivided share in this property.
[2] 67% undivided share in this property.
[3] 33% undivided share in this property.
[4] 80% share in Clidet No 1011 (Pty) Ltd.

PORTFOLIO REVIEW – southern Africa continued

Top 15 retail centres – Southern Africa



East Rand Mall

1

OR Tambo International Airport is a key gateway in the area, and as such has a very well-supported road and transport system. Convenient access from major highways and ample parking make shopping a pleasure. The centre forms part of South Africa's largest Pick n Pay Hypermarket, and with its well-planned tenant combination, includes all major chain stores and a host of smaller, specialised stores.

Voted most popular centre in the region, the **East Rand Mall** brand is well established and top of mind in the region.

Value	R1 433m# (9.2% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	68 253m²
Vacancy	1.8%
Monthly rental*	R278/m²
National tenant exposure	94%
Average annual trading density	R30 079/m²

 # Vukile's 50% portion of the property value.
** Average base rental excluding recoveries.*

Major tenants: 23 268m² (34%)

- Edgars – 8 141m² (12%)
- Woolworths – 7 635m² (11%)
- Truworths – 3 031m² (4%)
- Ster Kinekor – 2 326m² (3%)
- Mr Price – 2 135m² (3%)



Phoenix Plaza



Pine Crest Centre

2

Pine Crest Centre was established in 1988 and has served shoppers from the business, industrial and community sectors for over 30 years. The primary catchment area for Pine Crest Centre stretches from Kwadabeka in the north to Kwadengezi in the south, and from Cowies Hill in the east to Kloof in the west.

The centre's strong tenancy in financial services, cellular, food and fashion make it the most dominant centre in Pinetown.

The centre is highly visible and a convenient one-stop retail destination with ample parking. The upgrade and extensions to the centre are in process.

Value	R1 047m (6.8% of direct southern African portfolio)
Region	KwaZulu-Natal
Gross lettable area	43 414m²
Vacancy	4.1% development vacancy
Monthly rental*	R175/m²
National tenant exposure	91%
Average annual trading density	R28 986/m²

** Average base rental excluding recoveries.*

Major tenants: 17 273m² (40%)

- Game Stores – 5 754m² (13%)
- Pick n Pay – 5 286m² (12%)
- Woolworths – 2 499m² (6%)
- Virgin Active – 2 350m² (5%)
- Dis-Chem – 1 384m² (3%)

3

Phoenix Plaza was built in 1993 and is situated north of Durban in the beautiful diverse province of KwaZulu-Natal.

Phoenix Plaza offers a unique shopping experience with a wide variety of eastern, western and specialty stores, presenting itself as a one-stop shopping destination. The centre upgrade has been completed and shoppers now enjoy shopping in a mall with high-quality finishes and a fresh modern look.

Value	R940m (6.1% of direct southern African portfolio)
Region	KwaZulu-Natal
Gross lettable area	24 231m²
Vacancy	1.0%
Monthly rental*	R273/m²
National tenant exposure	78%
Average annual trading density	R37 194/m²

** Average base rental excluding recoveries.*

Major tenants: 8 282m² (34%)

- Shoprite Checkers – 3 830m² (16%)
- The Hub – 1 541m² (6%)
- Jet Stores – 1 154m² (5%)
- First National Bank – 901m² (4%)
- Osmans Clocks and Watches – 856m² (4%)

PORTFOLIO REVIEW – southern Africa continued

Top 15 retail centres – Southern Africa continued

4

Phuthaditjhaba (formerly QwaQwa or Witsieshoek) is located in the foothills of the Maluti mountains of the Drakensberg range. It can be found right off the junction of the R57 and R712, which runs from Harrismith, through Golden Gate Highlands National Park, and onto Clarens. It is a former homeland capital, making it a central gathering place and the headquarters of the region's district and local municipality, as well as home to many community facilities. **Maluti Crescent** is at the heart of all this, with a strong retail mix. It has been upgraded and extended with phase 1 of the extension opening on 21 March 2019. Final completion of the last phase is estimated for end August 2019.

Phuthaditjhaba Maluti Crescent



Value	R667m (4.3% of direct southern African portfolio)
Region	Free State
Gross lettable area	35 335m²
Vacancy	1.2% development vacancy
Monthly rental*	R144/m²
National tenant exposure	94%
Average annual trading density	R27 919/m²

** Average base rental excluding recoveries.*

Major tenants: 13 932m² (39%)

- Game Stores – 3 933m² (11%)
- Spar – 3 420m² (10%)
- Woolworths – 2 398m² (7%)
- Pick n Pay – 2 311m² (7%)
- Cashbuild – 1 870m² (5%)

Gugulethu Square



5

Gugulethu Square was established in 2009, in partnership between West Side Trading and esteemed businessman, Mzoli Ngcawuzele. The centre was the first step towards establishing a Gugulethu central business district, which accelerated the township's integration into the formal economy.

The centre's architecture includes energy-efficient finishes, extensive natural lighting, eco-friendly materials, efficient use of space with roof parking, efficient artificial lighting and air-conditioning. Landscaping integrates the centre into the surrounding environment. The centre has now acted as a catalyst to further growth in economic activity in the node, which encompasses governmental buildings in close proximity.

Value	R553m (3.6% of direct southern African portfolio)
Region	Western Cape
Gross lettable area	25 322m²
Vacancy	Fully let
Monthly rental*	R164/m²
National tenant exposure	88%
Average annual trading density	R34 394/m²

** Average base rental excluding recoveries.*

Major tenants: 10 002m² (39%)

- Shoprite Checkers – 3 500m² (14%)
- Spar – 2 924m² (12%)
- Jet Stores – 1 508m² (6%)
- Cashbuild – 1 320m² (5%)
- OK Furniture – 750m² (3%)

PORTFOLIO REVIEW – southern Africa continued



6 Dobsonville Mall

Dobsonville Mall was the first shopping centre in Soweto, and started trading in 1994, with Shoprite as anchor tenant. The centre brought much needed services and is well accepted by the community. With 73 stores and a taxi rank for easy access, the centre has retained its significant association with the community. Following the redevelopment and extension of the centre, it is now suitably geared to fully service the next generation of shoppers in the north-west of Soweto.

Value	R546m (3.5% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	26 589m²
Vacancy	Fully let
Monthly rental*	R141/m²
National tenant exposure	82%
Average annual trading density	R39 223/m²

** Average base rental excluding recoveries.*

Major tenants: 9 950m² (37%)

- Shoprite Checkers – 3 644m² (14%)
- Pick n Pay – 2 466m² (9%)
- Jet Stores – 1 453m² (5%)
- Food Lovers Market – 1 438m² (5%)
- Betsa – 949m² (4%)



Pretoria Kolonnade Retail Park

Value	R497m (3.2% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	39 450m²
Vacancy	Fully let
Monthly rental*	R108/m²
National tenant exposure	83%
Average annual trading density	R25 292/m²

** Average base rental excluding recoveries.*



7 Queenstown Nonesi Mall

Queenstown in the Eastern Cape was founded in 1853. Nonesi Mall is a u-shaped, single-level centre with open parking and strong anchor tenants.

As a premier shopping destination, the centre accommodates thousands of customers on a day-to-day basis, with an offering of approximately 80 shops. When the mall opened in October 2012, it boosted employment by providing job opportunities for locals.

Value	R500m (3.2% of direct southern African portfolio)
Region	Eastern Cape
Gross lettable area	27 898m²
Vacancy	Fully let
Monthly rental*	R128/m²
National tenant exposure	97%
Average annual trading density	R29 447/m²

** Average base rental excluding recoveries.*

Major tenants: 14 435m² (52%)

- Game Stores – 4 819m² (17%)
- Shoprite Checkers – 3 175m² (11%)
- Pick n Pay – 3 033m² (11%)
- Woolworths – 1 908m² (7%)
- Edgars – 1 500m² (5%)

8

Anchored by the massive 12 261m² Pick n Pay Hypermarket introducing the new Evolution concept with offerings from a bakery, butchery, deli and liquor to groceries, clothing, furniture and a pharmacy with a clinic, all under one roof; **Kolonnade Retail Park** opened opposite Kolonnade Shopping Centre on 29 November 2006.

Positive support was enjoyed since day one and a mere five years later in 2011 Kolonnade Retail Park expanded with a second development anchored by the Virgin Active Health Club and currently this vibrant little strip mall hosts a variety of lifestyle tenants ranging from sport and health to furniture and décor. This spread is supplemented with services and speciality stores to selected eateries.

Known for community involvement and continuously sharing our platform with the community, the SACSC awarded Kolonnade Retail Park four times for Community Relations in 2010, 2012, 2016 and 2018.

Major tenants: 24 281m² (62%)

- Pick n Pay – 12 261m² (31%)
- Mr Price Home and Sport – 4 592m² (12%)
- Virgin Active – 3 593m² (9%)
- West Pack – 2 333m² (6%)
- Sportsmans Warehouse – 1 502m² (4%)

PORTFOLIO REVIEW – southern Africa continued

Top 15 retail centres – Southern Africa continued



Germiston Meadowdale Mall

9

Meadowdale Mall is conveniently located on the N12 highway with easy access from all major routes. With the recently completed extensions and upgrade, shoppers now enjoy one-stop shopping with ample free parking.

A unique variety of a convenient food offering, healthcare and value stores are catered for.

Value	R438m# (2.8% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	49 487m²
Vacancy	Fully let
Monthly rental*	R81/m²
National tenant exposure	81%
Average annual trading density	R21 769/m²

 # Vukile's 67% portion of the property value.
** Average base rental excluding recoveries.*

Major tenants: 30 540m² (62%)

- Shoprite Checkers – 19 080m² (39%)
- House & Home – 5 810m² (12%)
- Just Gym – 2 039m² (4%)
- Apple Tree – 1 842m² (4%)
- Cashbuild – 1 769m² (4%)



Oshakati Shopping Centre

10

Oshakati, after Windhoek, is the second biggest town in Namibia. It is the regional capital of the northern area of Namibia known as Ovamboland and is well known as the "commercial centre of the north". The town is situated 713km north-west of Windhoek, the capital city of Namibia and 45km south of Angola. The town is the hub of transborder trade with Angola.

The **Oshakati Shopping Centre** offers a variety of food, fashion, furniture, banking and healthcare and dominates trade in the area.

Value	R428m (2.8% of direct southern African portfolio)
Region	Namibia
Gross lettable area	24 632m²
Vacancy	2.4%
Monthly rental*	R138/m²
National tenant exposure	94%
Average annual trading density	R27 599/m²

** Average base rental excluding recoveries.*

Major tenants: 10 155m² (41%)

- Game Stores – 3 706m² (15%)
- Pick n Pay – 2 713m² (11%)
- Edgars – 1 502m² (6%)
- Jet Stores – 1 289m² (5%)
- Truworths – 945m² (4%)

PORTFOLIO REVIEW – southern Africa continued



Daveyton Shopping Centre

11

Daveyton in Ekurhuleni was established in 1952 – the first township to have electricity. The mall is well located in Eiselen Street (major road) in Daveyton within the central business district of the township opposite the main, busiest taxi rank.

It plays a dual role as a convenience and community centre due to its size.

Value	R421m (2.7% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	17 774m²
Vacancy	1.4%
Monthly rental*	R166/m²
National tenant exposure	83%
Average annual trading density	R41 758/m²

** Average base rental excluding recoveries.*

Major tenants: 7 068m² (40%)

- Pick n Pay – 3 700m² (21%)
- Jet Stores – 1 184m² (7%)
- Pep Stores – 902m² (5%)
- Mr Price – 650m² (4%)
- OBC Chicken – 632m² (4%)



Thohoyandou Thavhani Mall

12

Thavhani Mall, located in Thohoyandou, Limpopo, opened its doors to overwhelming support by the community. It is the second biggest mall in the province. It is seen as a catalyst for further developments in the area, in particular the development of the Thavhani precinct which will in future incorporate motor dealerships, a hotel, a private hospital, offices, etc.

The centre has a vast catchment area, particularly the Vhembe district and beyond.

Value	R414m# (2.7% of direct southern African portfolio)
Region	Limpopo
Gross lettable area	53 289m²
Vacancy	0.9%
Monthly rental*	R165/m²
National tenant exposure	92%
Average annual trading density	R27 896/m²

 # Vukile's 33.33% portion of the property value.
** Average base rental excluding recoveries.*

Major tenants: 17 436m² (33%)

- Edgars – 4 000m² (8%)
- Spar – 3 856m² (7%)
- Woolworths – 3 556m² (7%)
- Sasol – 3 040m² (6%)
- Pick n Pay – 2 984m² (6%)



Bloemfontein Plaza

13

Bloemfontein Plaza is located in the central business district of Bloemfontein in close proximity to a major bus and taxi rank. The centre has been a landmark in Bloemfontein and offers a variety of food and fashion to surrounding offices and commuters.

It is complemented by a Protea Hotel which has direct access to the mall.

Value	R411m (2.7% of direct southern African portfolio)
Region	Free State
Gross lettable area	43 771m²
Vacancy	2.0%
Monthly rental*	R88/m²
National tenant exposure	56%
Average annual trading density:	R21 585/m²

** Average base rental excluding recoveries.*

Major tenants: 22 245m² (51%)

- Bon Hotel Bloemfontein Central – 9 311m² (21%)
- Jet Stores – 4 756m² (11%)
- Department of Public Works – 3 843m² (9%)
- Ackermans – 2 498m² (6%)
- Fashion World – 1 837m² (4%)

PORTFOLIO REVIEW – southern Africa continued

Top 15 retail centres – Southern Africa continued



Randburg Square

14

Randburg Square Shopping Centre is situated in Randburg central business district in close proximity to established residential suburbs and has been serving these areas for over 35 years.

The centre has a very big catchment area due to a taxi rank close to the centre that mainly services Diepsloot, Randburg, Soweto and Cosmo City.

Major tenants: 15 370m² (38%)

- Shoprite Checkers – 8 062m² (20%)
- Pick n Pay – 3 037m² (7%)
- Edgars – 1 685m² (4%)
- Jet Stores – 1 500m² (4%)
- PQ Clothing – 1 086m² (3%)

Value	R409m (2.6% of direct southern African portfolio)
Region	Gauteng
Gross lettable area	40 767m²
Vacancy	5.6%
Monthly rental*	R104/m²
National tenant exposure	78%
Average annual trading density	R16 057/m²

** Average base rental excluding recoveries.*

Moruleng Mall



15

Moruleng Mall opened its doors in October 2013. As the first mall of its kind in the densely populated rural area of Moruleng, the development brings a world-class shopping centre to the heart of a region with significant economic potential. The mall provides residents with choice, quality and convenience in a state-of-the-art shopping environment.

Value	R399m# (2.6% of direct southern African portfolio)
Region	North West
Gross lettable area	31 592m²
Vacancy	4.9%
Monthly rental*	R118/m²
National tenant exposure	86%
Average annual trading density	R25 098/m²

 # Vukile's 80% portion of the property value.
** Average base rental excluding recoveries.*

Major tenants: 11 961m² (38%)

- Shoprite Checkers – 4 988m² (16%)
- Pick n Pay – 2 645m² (8%)
- Edgars – 2 000m² (6%)
- Truworths – 1 400m² (4%)
- Fair Price Discounters – 928m² (3%)

PORTFOLIO REVIEW – southern Africa continued

Portfolio highlights

Asset management in action

We are committed to constantly improve and optimise our portfolio, to create both long-term and short-term value. Acquisitions, new developments, redevelopments, maintenance, strategic leasing and disposals are all tools that we use to achieve this. Our acquisitions and upgrades are planned to ensure that our properties are dominant in their areas, and this is now the case with most of our centres.

While opportunities to grow the South African retail portfolio by acquiring assets of the right quality at the right price were scarce in the market, Vukile continued to invest in the development, upgrade and expansion of its retail assets.

Acquisition

Kolonnade Retail Park, Pretoria, Gauteng

We acquired the fully let 39 450m² retail park for R470.6 million on a yield neutral basis. This centre was valued at R497 million at 31 March 2019, a 5.6% uplift over the purchase price.

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

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

Completed upgrade project

Maluti Crescent, Phuthaditjhaba, Free State

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

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

Redevelopment projects in progress

Pine Crest Shopping Centre, KwaZulu-Natal

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

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

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

Current Vukile projects

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

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

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

PORTFOLIO REVIEW – southern Africa continued

Property sales

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

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

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

Summary of portfolio changes

GLA reconciliation	**GLA m²**	
Balance at 31 March 2018	937 463	
GLA adjustments	187	
Disposals	(10 196)	
Acquisitions and extensions	60 849	
Balance at 31 March 2019	**988 303**	
Vacancy reconciliation	**GLA m²**	**%**
Balance at 31 March 2018	39 681	4.2
Less: Properties sold since 31 March 2018	(864)	8.5
Remaining portfolio balance at 31 March 2018	38 817	4.2
Leases expired or terminated early	204 625	
Tenants vacated	38 197	
Renewal of expired leases	(137 991)	
Leases to be renewed	(26 872)	
Development vacancy	(2 840)	
New letting of vacant space	(75 091)	
Balance at 31 March 2019	**38 845**	3.9

Alternative income management (AIM) initiatives

The AIM strategy is based upon three main pillars. One, to drive efficiencies with regards to all forms of media and court income, which entails maximising sustainable revenue with indoor media, outdoor media, and digital media within the mall environment. Secondly, AIM seeks to drive the overarching strategy with regards to promotions and in-mall marketing within the portfolio thus ensuring that the mall is promoted within the current and potential customer base. The last is predicated on customer centricity. The need to know the customers better has resulted in the formation of the third pillar, the idea of digitising the mall, wifi enabling it, creating a vehicle to collect customer data and communicate that which is important to them directly to create a sticky customer. To this end AIM has in conjunction with MTN FTTB fibre enabled 35 malls and is in the process of trialling an uncapped wifi solutions with an application which allows for rewards to be granted to shoppers.

AIM has also in the past year played an active role in the redesign and development philosophy of assets within the portfolio. In conjunction with the world-renowned branding expert Andy Stalman, the team has created a template that will aid in the approach of our design philosophy in developments. It caters for branding and customer understanding as a genesis for design. The first such design has been Pine Crest and all future redevelopments will use this IP to better capture the consumer needs and requirements within mall design and architecture.

PORTFOLIO REVIEW – southern Africa continued

Portfolio profiles

Geographic profile

Vukile's portfolio is well represented in most South African provinces and in Namibia. At the same time, it is focused on high-growth nodes and some 76% of the gross income comes from Gauteng, KwaZulu-Natal, Western Cape and Limpopo.

	% of gross income	% of GLA
Gauteng	38	43
KwaZulu-Natal	22	16
Western Cape	8	6
Limpopo	8	7
Namibia	7	7
Free State	6	8
North West	4	5
Mpumalanga	4	5
Eastern Cape	3	3

Sectoral profile

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

Tenant profile

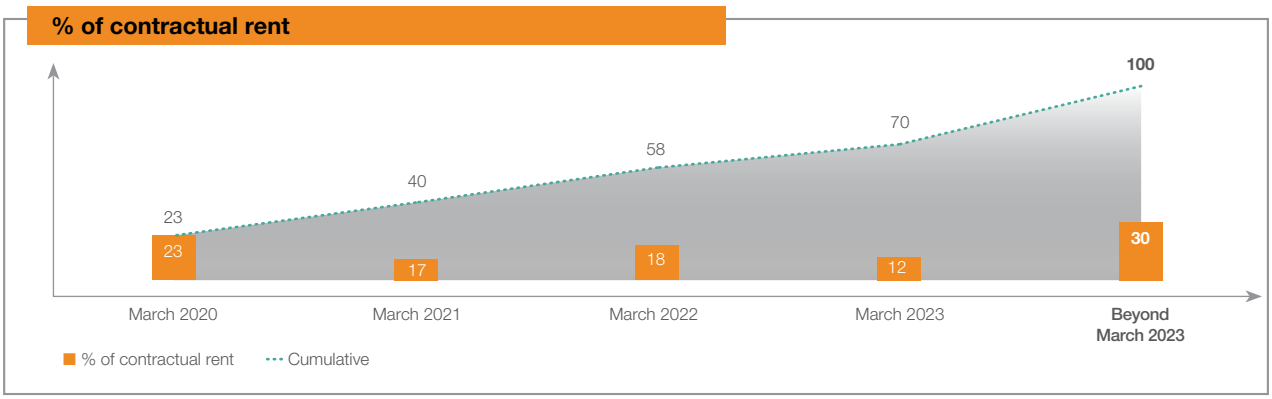
Large national and listed tenants and major franchises account for 77% of our tenants by rentable area. In our retail portfolio this is even higher, with 83% exposure to national, listed and franchised tenants.

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

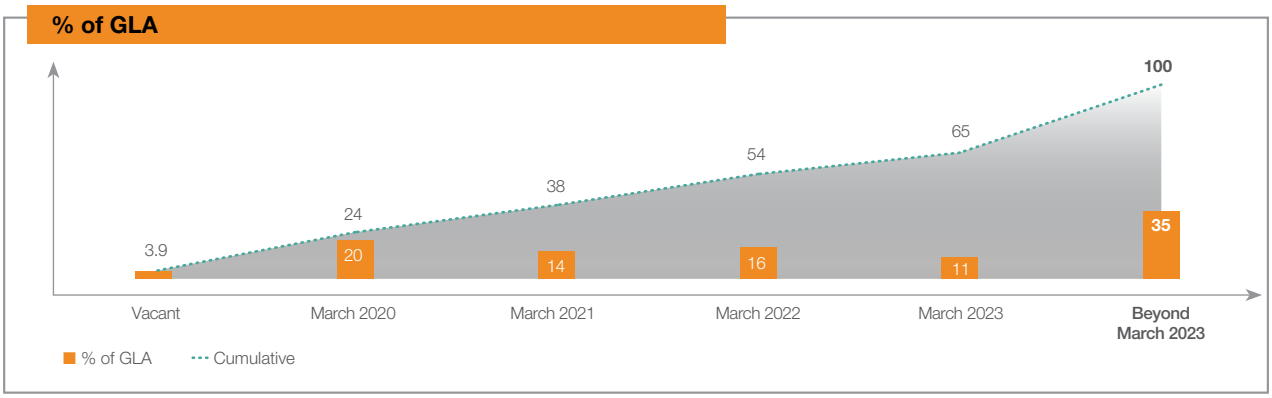
Excluding 180 residential units.

Lease expiry profile

Vukile's southern African lease expiry profile shows that 23% of the leases based on rentals that are due for renewal in 2020. Some 42% of leases are due to expire in 2023 and beyond (up from 38% beyond 2022 in the prior year).



PORTFOLIO REVIEW – southern Africa continued



Vacancy profile

We measure our portfolio's vacancy as a percentage of gross rental. Excluding development vacancy, the portfolio's vacancy was 3.6% at year-end compared to 3.7% for the 2018 financial year. Retail vacancies decreased from 3.4% to 3.0% and industrial from 6.0% to 2.9%. The main reason for the increased office vacancies during 2019 is the high vacancy at Sunninghill Sunhill Park which is held for sale.

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

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

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

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

PORTFOLIO REVIEW – southern Africa continued

Individual property vacancy profile

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

	Vacancy				
	31 March 2019		31 March 2018		Movement
	m²	**%**	m²	%	m²
Vereeniging Bedworth Centre	**1 066**	**3**	2 596	8	(1 530)
Roodepoort Hillfox Power Centre	**2 037**	**5**	3 448	9	(1 411)
Randburg Square	**2 267**	**6**	3 500	9	(1 233)
Sandton Linbro 7 On Mastiff Business Park	**—**	**—**	1 075	7	(1 075)
Hammanskraal Renbro Shopping Centre	**438**	**3**	1 062	8	(624)
Soshanguve Batho Plaza	**949**	**7**	1 525	11	(576)
Midrand Allandale Industrial Park	**1 095**	**5**	1 560	7	(465)
Johannesburg Houghton 1 West Street	**1 577**	**36**	1 975	45	(398)
Letlhabile Mall	**1 811**	**11**	2 086	12	(275)
Emalahleni Highland Mews	**1 512**	**9**	1 679	10	(167)
Moruleng Mall (80%)	**1 241**	**5**	1 186	5	55
Oshikango Shopping Centre	**1 087**	**12**	551	6	536
Mbombela Shoprite Centre	**2 847**	**20**	1 842	13	1 005
Windhoek 269 Independence Avenue	**2 003**	**16**	907	7	1 096
Pinetown Richmond Industrial Park	**2 636**	**33**	—	—	2 636
Sandton Sunninghill Sunhill Park	**7 435**	**50**	3 714	25	3 721

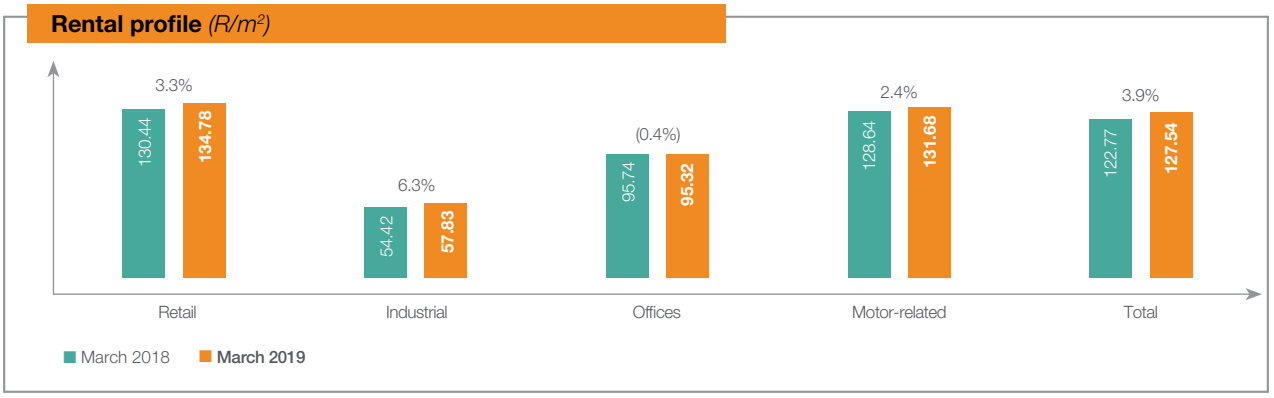
Leasing profile

Vukile concluded new leases and renewals in excess of 218 000m² with a contract value of R1.8 billion. Tenant retention on the total portfolio was 81%, with retail retention at 87%.

Rental profile

We achieved positive reversions of 4.0% on the total portfolio, with retail reversions at 4.5% and industrial at 5.5%. Reversions were concluded at lower rates in the offices sector. Containing vacancy levels, new leases were concluded at 3.2% above budget in the retail sector. The ongoing pressure in the office and industrial sectors, to which we now have little exposure, dictated that new leases be concluded below budget rates. This resulted in the total portfolio's new leases finalised at 1.4% above budget.

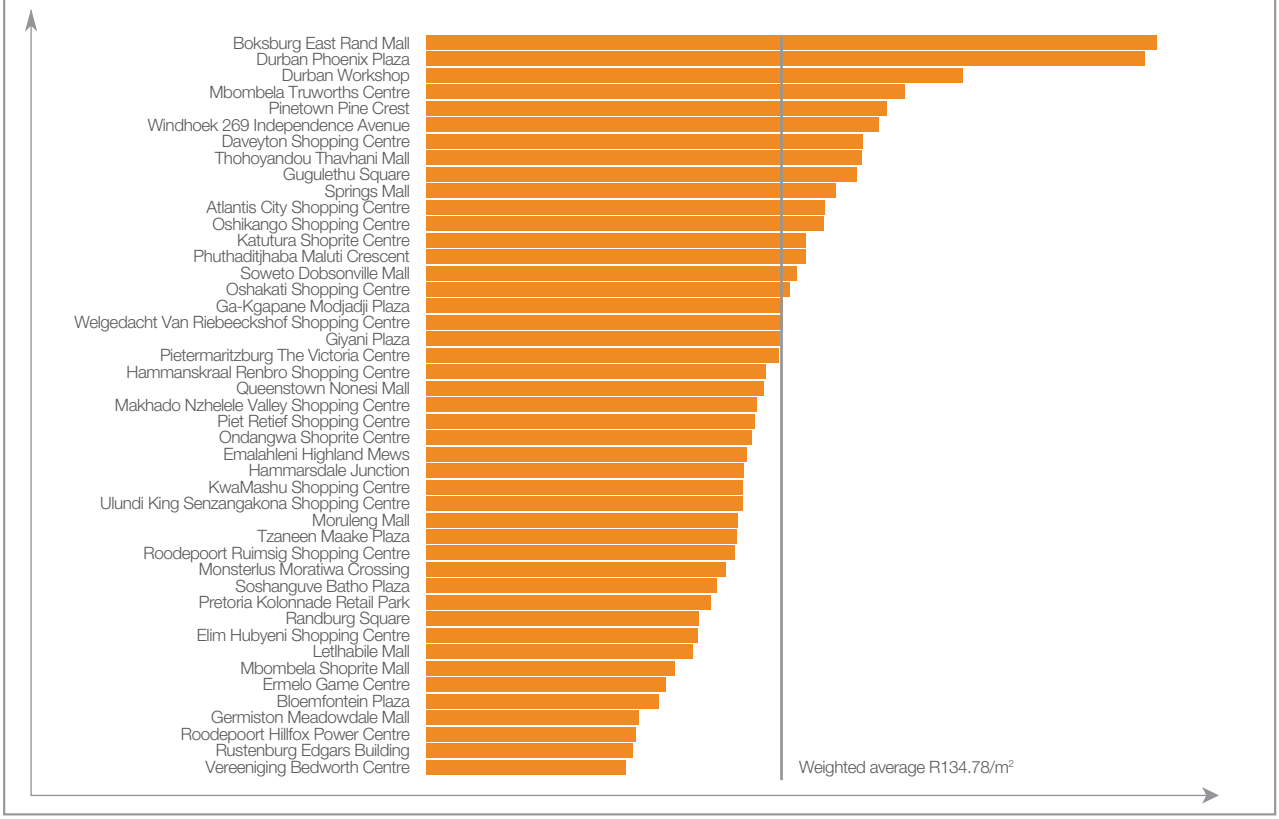
The weighted average base rental rates per sector during the year are set out below where the percentages represent the annual escalation:



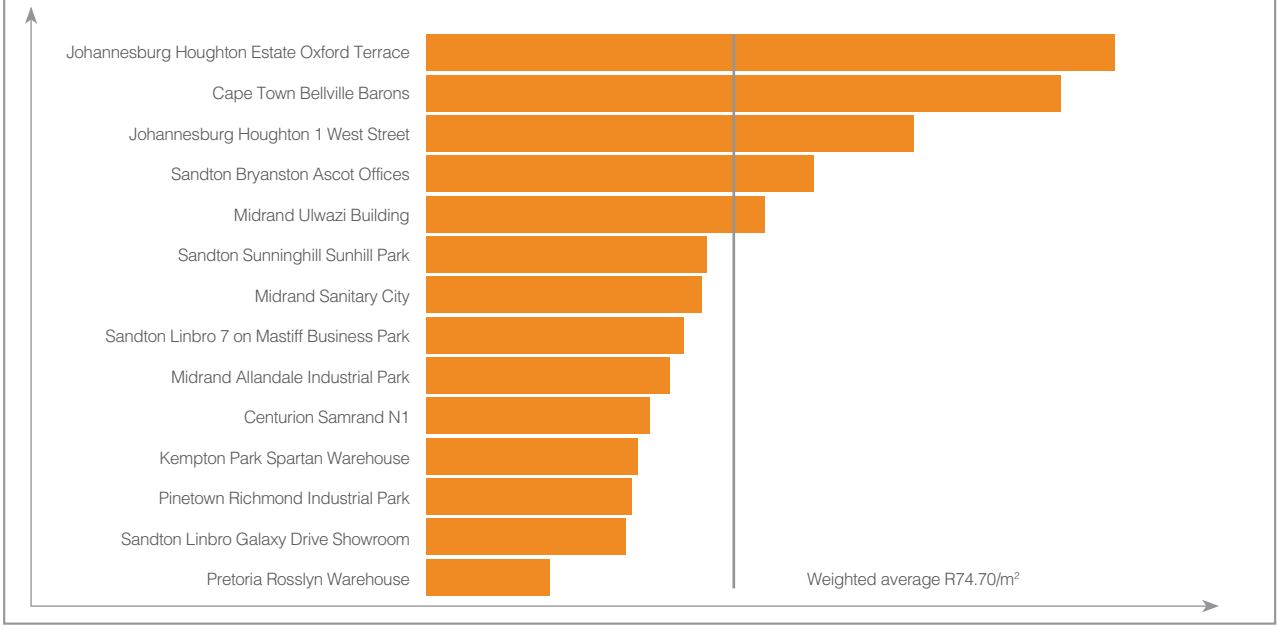
The average growth in the retail rental rate is influenced by the newly acquired Pretoria Kolonnade Retail Centre's lower than average rate of R108/m². If this property is excluded, the average retail rental rate is R136.13/m² showing a year-on-year growth of 4.4%.

PORTFOLIO REVIEW – southern Africa continued

Weighted average base rentals *(R/m²) retail portfolio (excluding recoveries)*



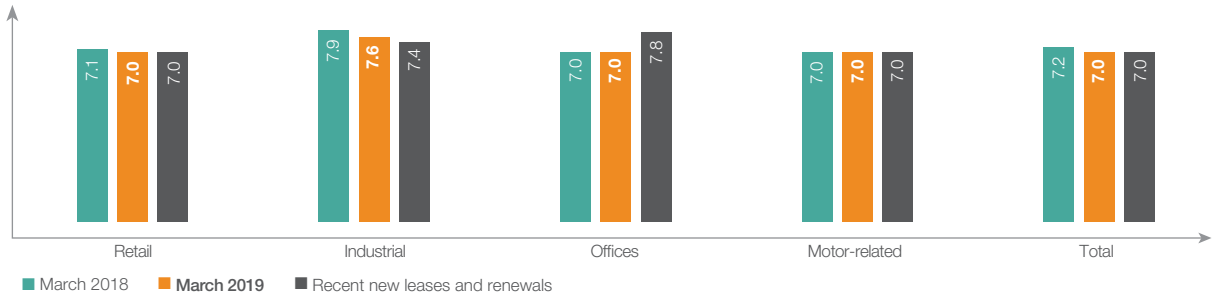
Weighted average base rentals *(R/m²) other properties (excluding recoveries)*



PORTFOLIO REVIEW – southern Africa continued

Contractual rental escalations *(%)*

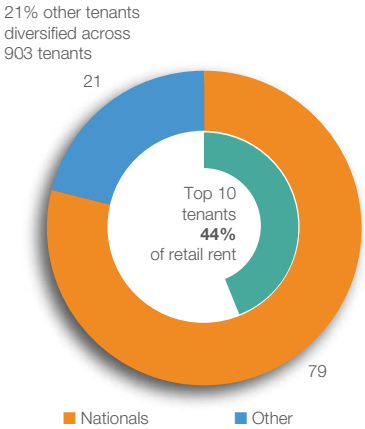
The average contractual rental escalation of 7.0% is slightly lower than the previous year at 7.2%.



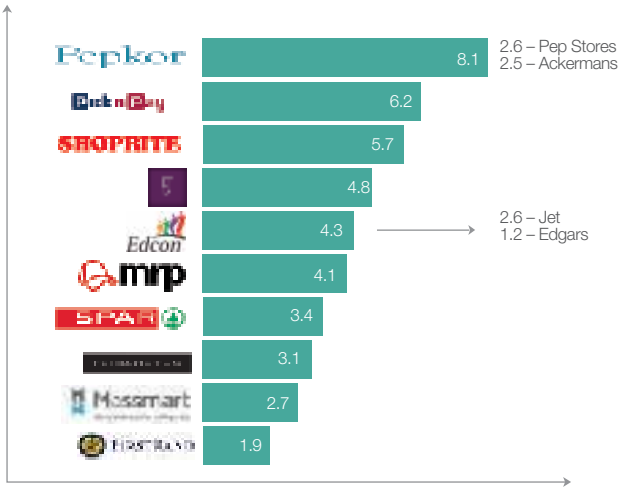
Retail tenant profile and exposure

Vukile's tenant exposure is low risk, with national tenants representing c.80% of retail rental income.

Tenant profile by contractual rent *(%)*



Top 10 tenants by rent *(%)*



Our top 10 tenants account for 44.2% of total rent and 53.8% of GLA. Pepkor and Pick n Pay are our two single largest tenants, accounting for 8.1% and 6.2% of total rent respectively.

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

Vukile's total exposure to Edcon tenancies equates to 6.2% of the occupied retail GLA (5.5% of total portfolio GLA) of our southern African portfolio, or 4.3% of its retail rental income (4.0% of total portfolio rental income). Most of this is leased by Edcon's value brands, with Jet accounting for 3.5% of the 6.2% of GLA.

We have, however, been in discussion with Edcon to restructure specific leases, including reducing store sizes and store closures. The space in question accounts for 1.4% of the occupied retail GLA. This would reduce Vukile's exposure to Edcon from 6.2% to 4.9% of occupied retail GLA.

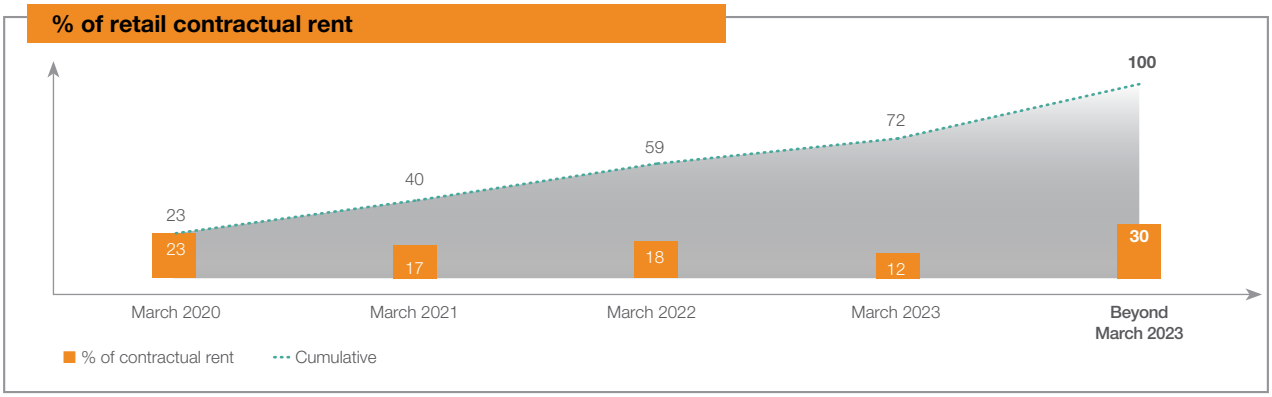
We view "opening up" this 1.4% of retail space as an opportunity for Vukile to attract a more diversified tenant mix, including a greater number of second-tier nationals that generally commit to higher rentals and escalations. Our early discussions with second-tier nationals have been positive. Supporting the lettability of these spaces, they are in good positions within our shopping centres and are big-box spaces that are easily sub-divided.

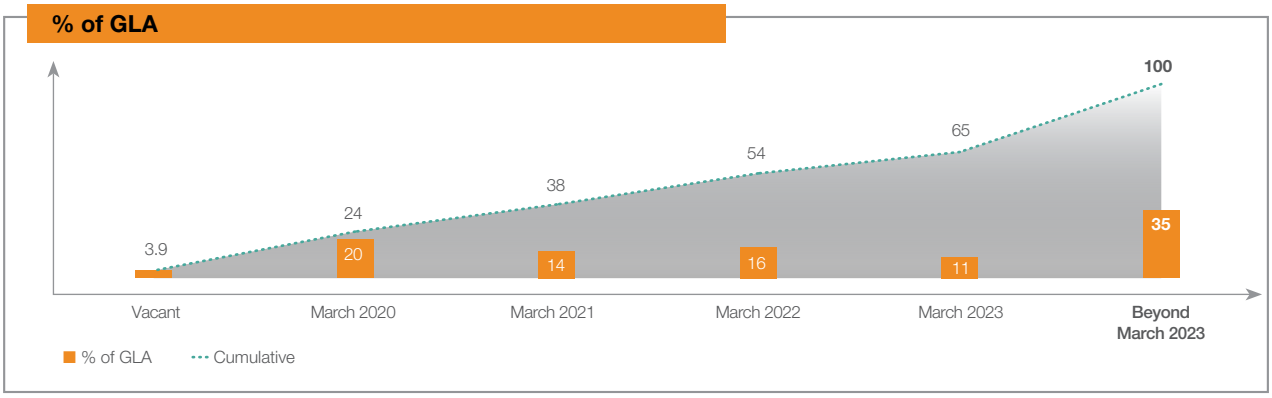
The effects of the restructured Edcon leases have already been factored into our figures and form part of Vukile's guidance for our next financial year. We will continue to monitor and engage with Edcon as part of our ongoing risk management.

PORTFOLIO REVIEW – southern Africa continued

Weighted average lease expiry (WALE)

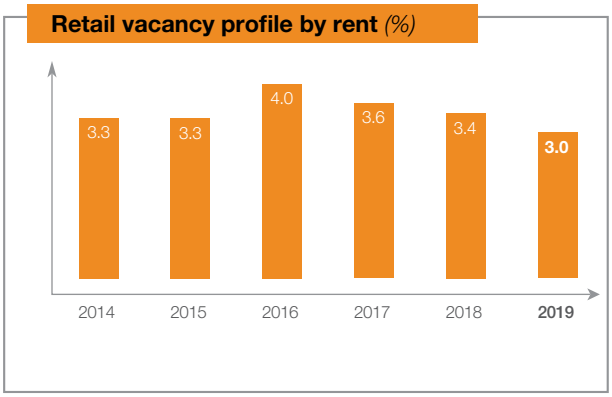
Vukile has a retail tenant expiry profile based on rent of 4.0 years, with 41% of contractual rental expiring in 2023 and beyond.

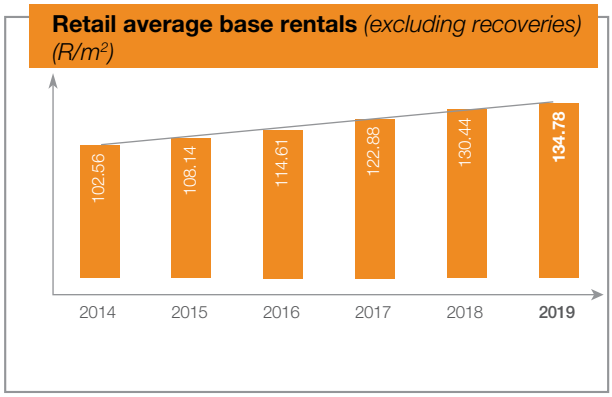




Retail tenant affordability

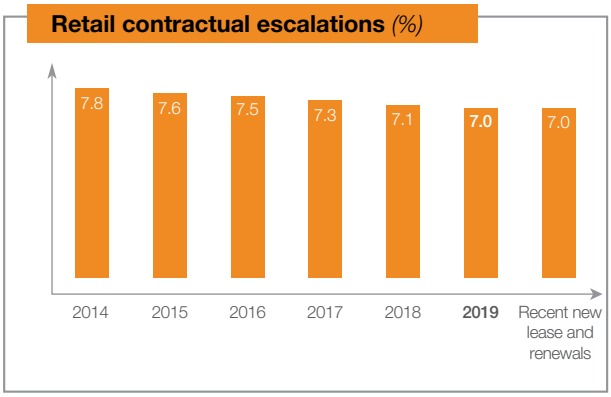
Consistently strong metrics dominate our portfolio's retail tenant affordability.



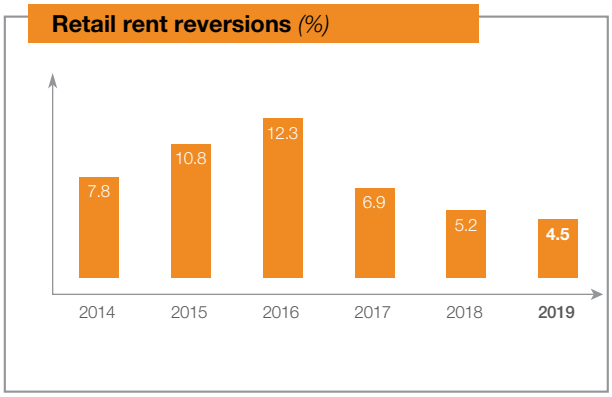


PORTFOLIO REVIEW – southern Africa continued

Retail contractual escalations *(%)*



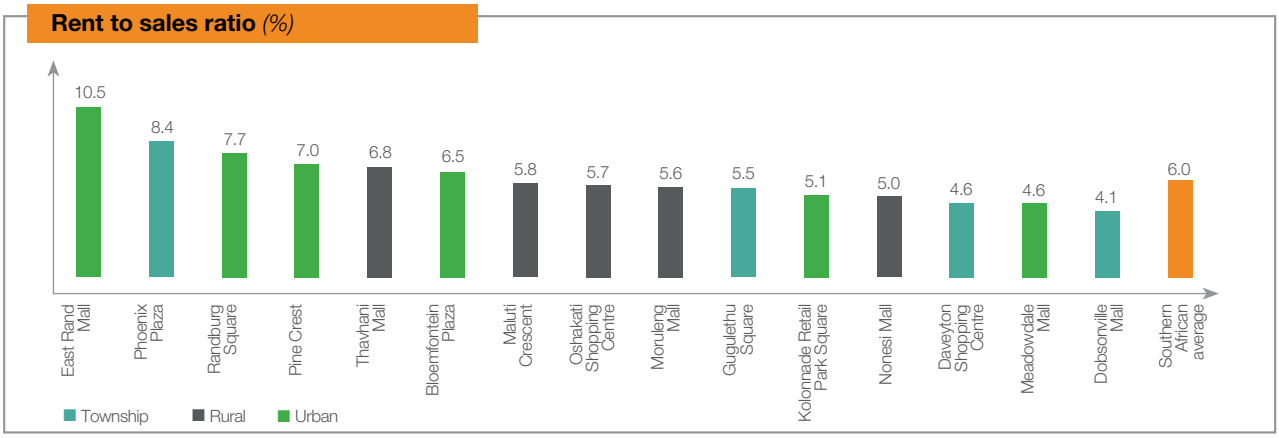
Retail rent reversions *(%)*



Rent to sales ratio

Vukile remains ahead of industry benchmarks. This is a draw-card for tenants as the cost of occupancy is low.

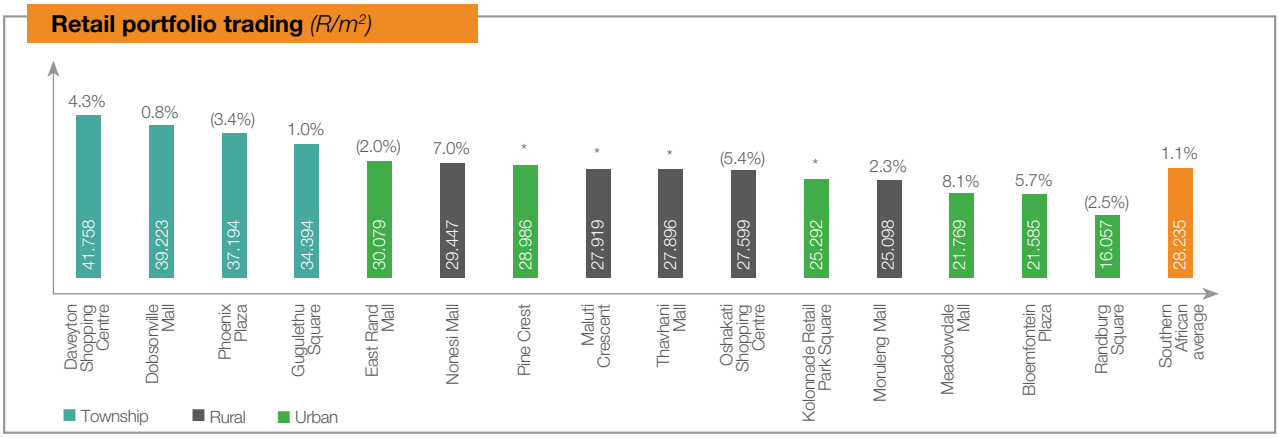
Rent to sales ratio *(%)*



Retail portfolio trading

Our retail portfolio trading statistics show high-trading density with solid growth that is ahead of comparable market figures.

Retail portfolio trading *(R/m²)*



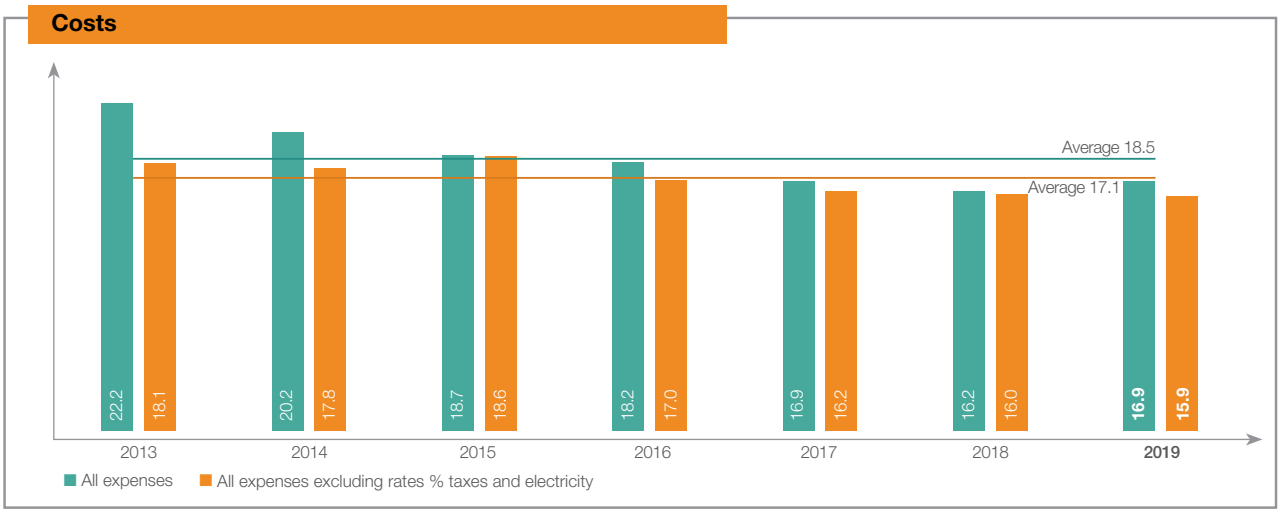
Note: Annualised trading density calculated using monthly trading density over 12 months. Trading density like-for-like growth calculated on stable tenants.

** Trading density like-for-like growth excludes Pine Crest, Maluti Crescent, Thavhani Mall and Kolonnade as recent developments/refurbishments/acquisition.*

PORTFOLIO REVIEW – southern Africa continued

Costs

We continuously evaluate methods of containing costs in the portfolio and urge our property managers to implement innovative solutions to achieve this. The stable portfolio's recurring net costs to income ratios remained stable and well contained at 16.9% during the year.



Prospects

Vukile's retail portfolio is defensively positioned to continue to deliver sustainable returns. It is well placed to meet the challenges of the ongoing weak domestic economic environment.

This report is being written as South Africa is undergoing the process of national elections, the sensible outcome of which is crucial to economic, consumer and retail fundamentals. As we have said before, we need at least a year or more of real GDP growth before we are likely to see any measurable improvement. We hope to see this start soon.

Meanwhile, we expect retail dynamics to be persistently challenging in the immediate future, but we are in a confident position to face this challenge.

Without economic growth, South Africa's retail sector has been treading water, cutting space and shedding jobs. With their bottom lines under pressure, operational efficiencies are a significant focus in retail businesses, thus driving operational efficiencies through our business has become an even higher priority for us.

We look forward to the upside we are creating by taking a different approach to soft and hard services in the shopping centre environment. We are confident that our restructured contracts with our property managers will result in innovative solutions that offer us better value in the year ahead.

Our investment strategy will remain focused on enhancing our low-risk, high-quality retail portfolio. Significant acquisitions remain a rare opportunity in the prevailing market. We will continue to focus on unlocking opportunities, potential and value within our portfolio with our asset management and market expertise.

Alternative income management continues to be an ongoing focus for Vukile's portfolio. As important as this area's potential for revenue generation is, another key benefit is getting to know our customers better so that we can offer them a superior shopping experience and give retailers a superior trading environment. This will have direct benefits for our portfolio.