Performance review

Irrespective of geographic jurisdiction, future performance will be premised on the extent of vaccinations and economic recovery.

Independent economic overview

South Africa

The South African economy contracted by 7% in 2020, which was one of the larger economic contractions globally. This outcome was, however, better than consensus expectations, aided by a faster-than-expected recovery in the second half of 2020. Despite the fact that the peak of the second wave of Covid-19 infections occurred in January 2021, South Africa's real GDP then expanded by 4.6% quarter-on-quarter in 1Q21 – although it remained below the 4Q19 pre-pandemic base – implying that recovery was still far from complete. The pace of recovery thus far has also been very uneven, highlighting the pandemic's unequal impact on activity in different economic sectors.

Household consumption has been surprisingly strong in FY21, increasing by 7.5% in 4Q20 and 4.6% quarter-on-quarter in 1Q21, to just 1.3% below its 4Q19 pre-pandemic base. We attribute the resilience to policy support measures, increased savings by individuals and the fact that job losses induced by Covid-19 were concentrated in lower-skilled occupations as opposed to occupations where income levels are higher.

That said, consumers appear to be pessimistic about current conditions, with the Consumer Confidence Index (CCI) compiled by the Bureau for Economic Research (BER) deteriorating to -13 index points in 2Q21 from -9 in 1Q21. By contrast, the RMB/BER Business Confidence Index (BCI), increased by 15 points to 50 in 2Q21. This was the BCI's first reading in "positive" territory since 4Q14 and implies a significant improvement in sentiment, although gross fixed capital formation in 2Q21 was 17.8% lower than in 4Q19.

Consumer and business sentiment levels are likely to be adversely affected by the negative economic effects of the restrictive measures once again enforced during the Covid-19 third wave, as well as the recent incidents of unrest. The third wave accelerated sharply from early June, exceeding the severity of the first and second waves, with new daily infections peaking at 26 485 on 3 July 2021. To counter this, the government progressively tightened lockdown restrictions, from Level 1 on 31 May to Level 4 on 28 June and although it strived to keep much of the economy open, the adverse effects of the restrictive measures on growth are likely unavoidable.

Meanwhile, the violent protests and looting that took place in July 2021, after year end, were a further serious setback, given the business interruptions, damage to economic infrastructure and disruptions to supply chains they caused. The spending directed towards cleaning up and supporting affected businesses (to combat the increased risk of insolvencies), and the potential need to recapitalise the state-owned South African Special Risks Insurance Association (SASRIA) will add to the government's fiscal burden. SASRIA has said that it will be able to settle claims of up to R10bn from its own balance sheet, But the South African Property Owners Association (SAPOA) has estimated that the unrest will cost the economy at least R50bn.

As in other countries, the combination of supply-side price shocks, improving economic activity and fears of contagion from a global bond market shock has raised concerns in South Africa about the future path of inflation. While there are several cost-push factors (including fuel and food prices and shortages of raw and intermediate inputs) exerting upside pressure, our economists are of the view that the ongoing weakness in the labour market (unemployment rate of 32.6%), evident in both subdued wage inflation and the slow recovery in employment levels, will keep demand-pull pressure inflation muted, and that any near-term shocks will be transitory. They believe that headline CPI inflation in the current cycle has peaked and is set to remain broadly anchored close to the mid-point of the South African Reserve Bank's 3% to 6% target range.

As economic activity gradually improves, the market will increasingly focus on understanding when the SARB will start to withdraw the exceptional economic support measures introduced in response to Covid-19 – and how fast and how far it will go in doing so. These measures include the reduction of the repo rate to a record low of 3.5% in May last year, but Absa economists expect the SARB Monetary Policy Committee to keep this rate on hold for the remainder of 2021, before increasing it by a cumulative 75 basis points during 2022 and a further 50 basis points in 2023.

South Africa's external balances are currently strong, with record trade and current account surpluses reflecting the surge in export commodity prices and to some extent these surpluses mitigate the risk of a global inflation surge and a bond market dislocation spreading into the economy via the capital account. Meanwhile Absa economists forecast a national budget deficit of 7.9% of GDP in the current fiscal year and 6.6% in FY22/23, and a rising debt ratio over the next few years that will peak in FY25/26 at 84.5%.

Although there has been some structural reform progress, the to-do list remains long. The most notable reforms to date are the increase in the licensing threshold for embedded electricity generation projects from 1MW to 100MW, and the decision to corporatise and unbundle Transnet's port operations. The sale of 51% of the perennially loss-making SAA is symbolically important, but due diligence is pending, among other suspensive conditions. The implementation of further necessary reforms could also take time, due to the weak implementation capacity of the state as well as ideological contestation within the governing alliance. Without a much more aggressive structural reform programme, Absa economists are of the view that further credit rating downgrades are more likely than not.

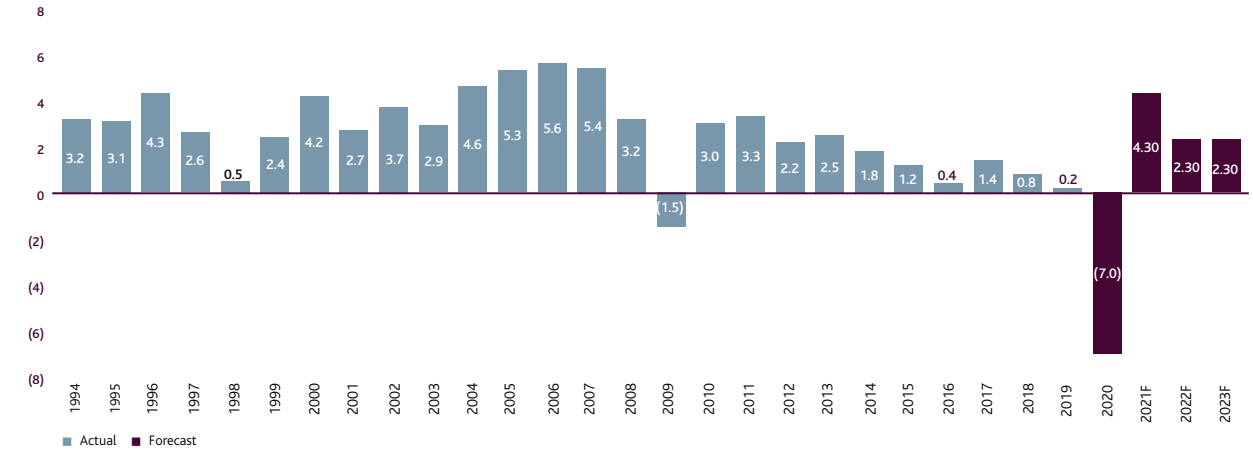
Independent economic overview *continued*

Absa economists forecast GDP growth of 4% for 2021, following a stronger-than-expected 1Q21 outcome. In 2022, widespread vaccination should deliver a further boost in confidence and will likely lead to a stronger improvement in tourism-related activity. However, beyond this, real GDP growth is forecast to settle at just below 2% per annum, reflecting the ongoing difficulty of undertaking reforms, some lasting damage from the pandemic and the recent political unrest, which may well dampen investor sentiment.

The outlook for the property sector, much like that for the economy as a whole, is clouded by uncertainty as South Africa – and the rest of the world – navigate the Covid-19 pandemic. As is evident in other countries, the path to normalisation is dependent on the pace of vaccine roll-out. With only 7% of the South African population vaccinated as of 13 August 2021, the risk of recurring waves of infection remains a reality, and a likely headwind to economic recovery. Given the slow pace of the vaccine rollout, combined with an absence of catalysts for meaningful economic growth, property fundamentals are likely to remain under pressure.

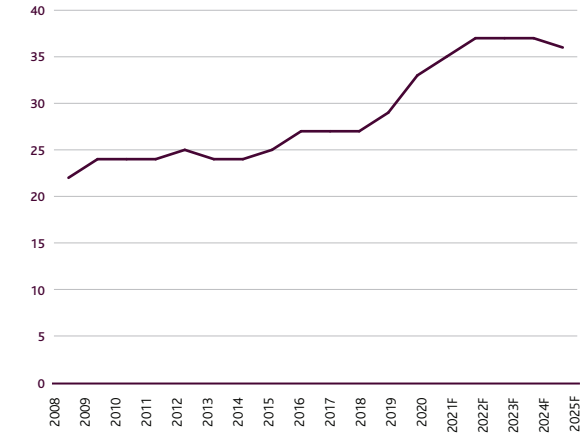
Sources: Absa Research, IMF, Bloomberg

SA real GDP (%)



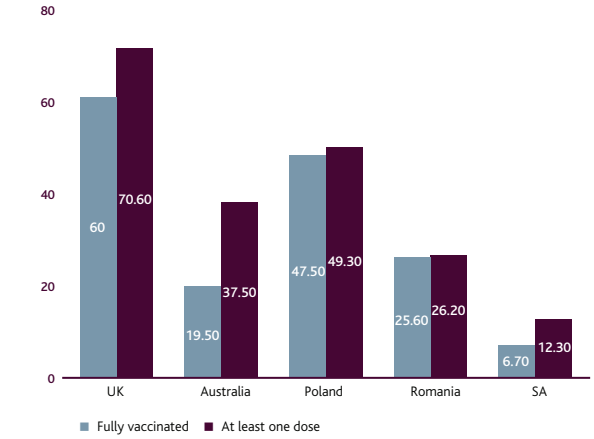
Sources: SARB, National Treasury, Stats SA, Refinitiv, Absa Research

SA unemployment (%)



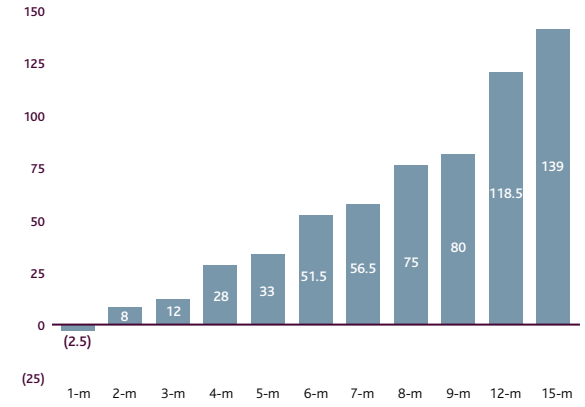
Sources: SARB, National Treasury, Stats SA, Refinitiv, Absa Research

Vaccine roll-out (% of population) as at 13 August 2021



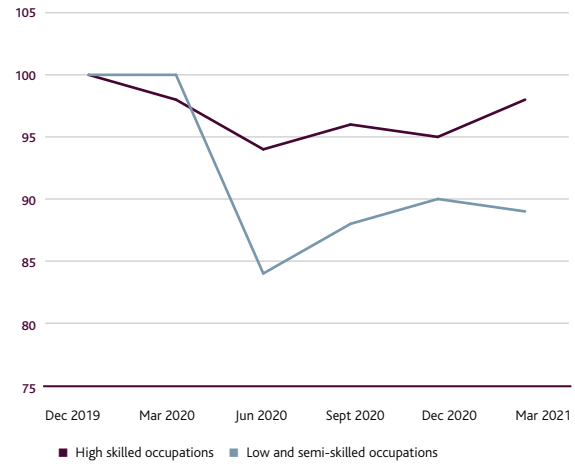
Sources: Bloomberg, Absa Research

SA FRA pricing (basis points)



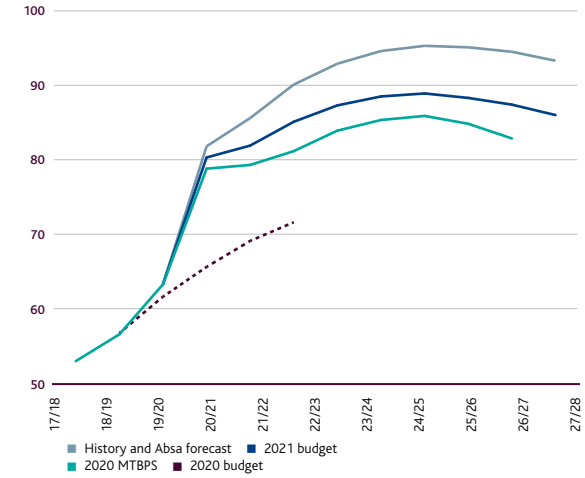
Sources: Refinitiv, Absa Research

SA high vs low skilled occupations (Index Q4 19 = 100) **Covid-19**



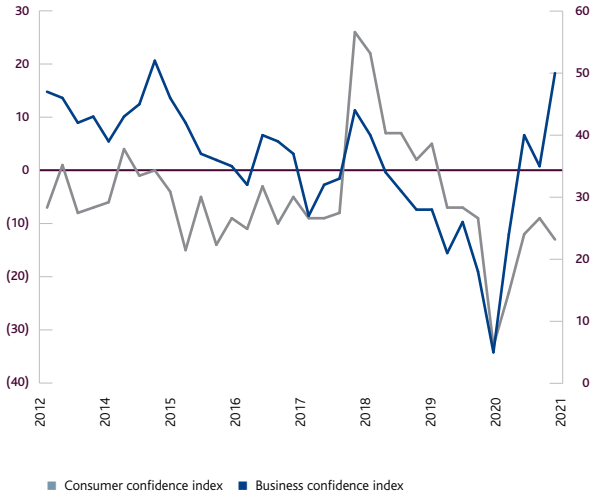
Sources: Stats SA, Absa Research

SA debt to GDP (%)



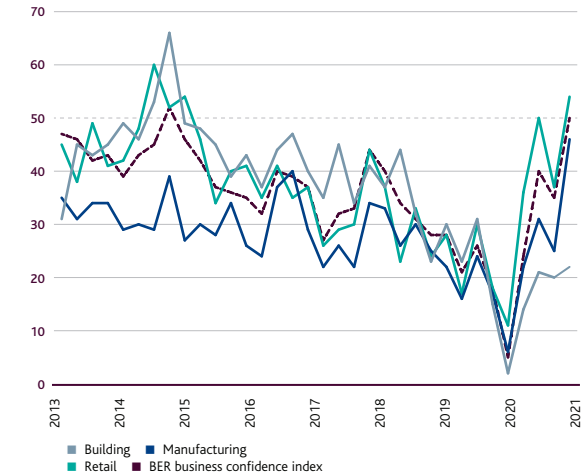
Sources: National Treasury, Absa Research

BCI: 50 = Neutral (CCI: 0 = Neutral)



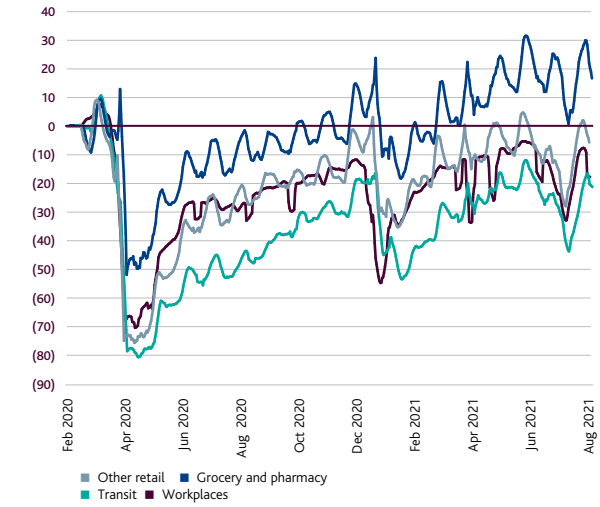
Sources: BER, Absa Research

SA business confidence index (50 = neutral)



Sources: BER, Absa Research

SA Google mobility data (7 day rolling % change from baseline)



Sources: Google Mobility, Absa Research

Independent economic overview *continued*

Australia

So far, Australia seems to have weathered the pandemic better than many other countries. It has been able to avoid wide-spread infection of its population through a combination of health management initiatives and the implementation of stringent travel restrictions. Australia effectively closed its borders to non-residents from mid-March 2020 and these restrictions remain in place to date. Swift, localised lockdowns in cities where infections threaten to spread have aided in the containment of community spread. Nevertheless, the effects of Covid-19 meant that Australia was unable to avoid its first recession in 30 years and ended 2020 with GDP growth down by 2.4%. This was primarily due to changes in consumer spending patterns that were driven by the limited access to certain goods and services as well as personal financial uncertainties.

Australia's economy rebounded rapidly in 1Q21 as Covid-19 cases declined and restrictions were eased. GDP growth was 1.8% quarter-on-quarter and surpassed its pre-pandemic level in nominal terms. This swift recovery was driven by rising consumer spending that was due to pent up demand, increasing business investment and the higher prices of commodity exports. The recovery was also fuelled by strong fiscal and monetary policy responses implemented by the government. The JobKeeper wage subsidy programme has kept the unemployment rate low, with unemployment falling to 5.2% in June 2021 from 6.5% in December 2020.

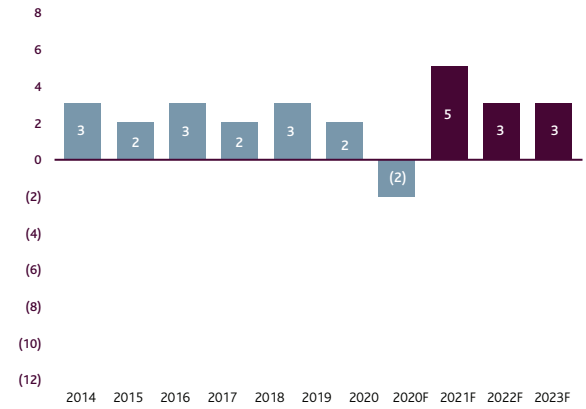
The Reserve Bank of Australia (RBA) Cash Rate, the country's benchmark interest rate, was cut to 0.1% in November 2020 and has remained at this level since. Headline inflation rose to 3.8% y-o-y in 2Q21, which is above the RBA's medium-term target range of 2% to 3% thanks to base effects that are considered transitory in nature. Market expectations are for the monetary policy to remain accommodative.

Bloomberg consensus forecasts expect the Australian economy to grow by 4.8% in 2021 on the back of the strong recovery seen in the first half of the year. However, a slower than anticipated vaccine roll-out, combined with a surge in Covid-19 cases driven by the Delta variant, presents downside risks to this forecast. Australia's two most populous cities, Sydney and Melbourne, have been under lockdown since June 2021 in response to a rise in infections, and early macro-economic indications are that this will dampen economic recovery in the third quarter. Australia is lagging developed market peers, with only 19% of the population fully vaccinated due to a delayed start to the programme plus some population complacency. The government is aiming to have 80% of the adult population vaccinated by year end and claims to have secured sufficient vaccine supply to achieve this.

Transaction volumes in the office sector were negatively impacted by the pandemic in 2020 as investors adopted a cautious approach on reduced demand for office space, highlighting the structural demand uncertainties associated with potentially broader adoption of work from home. By contrast, the industrial and logistics sector showed sturdy resilience due to high quality covenants and confidence in the ability to collect income. This trend continued through the first half of 2021 as the industrial and logistics sector experienced a period of sustained elevated activity among both the occupiers and investors.

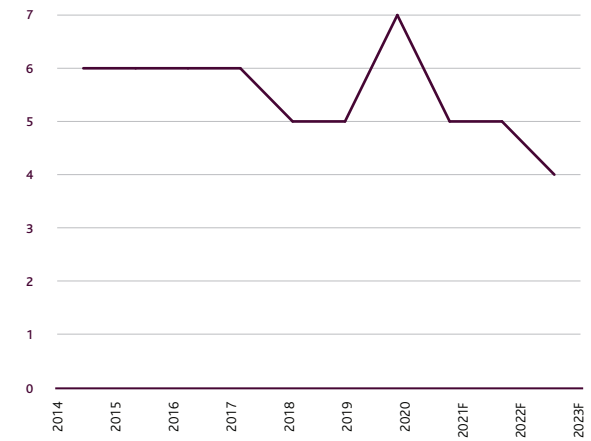
Sources: Absa Research, Bloomberg, KPMG Australia, Reuters, JLL

Australia real GDP (%)



Sources: Absa Research, Bloomberg

Australia unemployment (%)



Sources: Absa Research, Bloomberg

Central and Eastern Europe: Poland and Romania

The CEE-6 region, consisting of Poland, Romania, Hungary, Czech Republic, Bulgaria and Slovakia, outperformed the EU in 2020 despite the impact of Covid-19. The region averaged a 4.3% GDP contraction for the year, compared to the EU average of -5.9%.

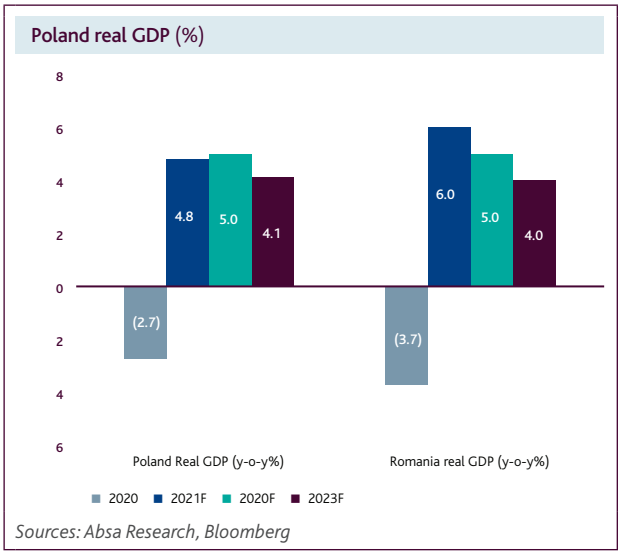
The Polish economy has managed to navigate the pandemic relatively well to date. Poland's GDP contraction of 2.7% in 2020 was significantly better than the 4.6% average contraction of its CEE peers. GDP growth rebounded to 1.1% quarter-on-quarter in 1Q21, and the unemployment rate of 5.9% in 2Q21 was only marginally weaker than the pre-pandemic rate of 5.2% in December 2019.

This relative economic outperformance can largely be attributed to two key factors, the first being Poland's geographic location, which meant that it was affected by the coronavirus relatively late, allowing the Polish government adequate time to prepare and implement a lockdown strategy that limited the impact of the first wave of infections, and allowed restrictions to be relaxed over the summer period. Secondly, the composition of the Polish economy, which is less service-based and more manufacturing focused, made it more resilient to lockdown measures.

The relaxation of lockdown restrictions combined with a successful vaccination campaign (47% of the population fully vaccinated) is expected to positively contribute to a sustained recovery for the remainder of 2021. Bloomberg consensus forecasts expect GDP to grow by 4.8% in 2021, primarily driven by pent-up demand.

Polish real estate investment volumes declined by 30% in 2020, but still achieved the third best result on record. Investor focus shifted significantly towards industrial and office assets, which made up 48% and 35%, respectively, of total investment volumes in 2020. This sectoral shift in focus continued through to 2021, and growing confidence combined with pent up demand boosted investment activity during the first half of the year. Leasing activity in the office sector also accelerated in 2Q21 as restrictions eased, but tenants are increasingly looking for shorter-term leases and flexibility as they assess their changing working model and space requirements.

Sources: Absa Research, Bloomberg, Polish National Statistics Office, LSE, JLL



Sources: Absa Research, Bloomberg

Romania managed to avoid a technical recession in 2020 as it recorded only one period of negative growth in 2Q20 (-12.8% quarter-on-quarter). The Romanian economy contracted by 3.7% in 2020 as strict lockdown measures in the first half of the year dampened consumer spending, the main driver of economic growth in recent years. In contrast, strong construction activity and a boost in public investment to the highest level in a decade limited the economic fallout induced by Covid-19. Output rebounded sharply with quarter-on-quarter growth of 4.8% recorded in 4Q20 as restrictions were eased and economic activity resumed. This strong performance is expected to continue through 2021, with quarter-on-quarter GDP growth of 2.8% recorded in 1Q21 and Bloomberg consensus forecasts estimating 6% growth for 2021 and a return to pre-pandemic levels. Unemployment is expected to settle at 6% by the end of 2021, compared to 3.9% in December 2019.

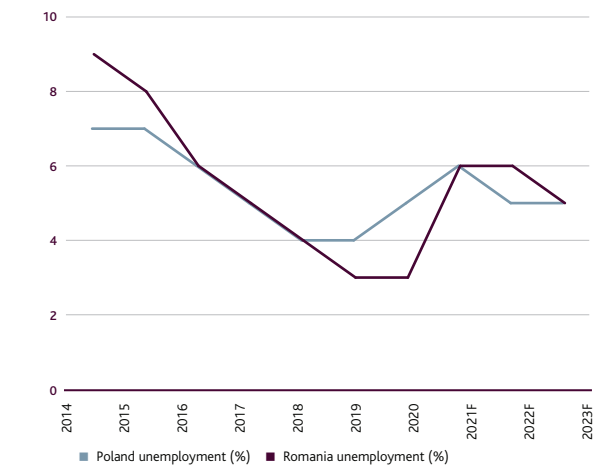
However, a slow vaccination campaign threatens to dampen the positive growth outlook with only 25% of the Romanian population fully vaccinated, well below the EU average of 54%, leaving the country vulnerable to further waves of infection and accompanying lockdowns. The pace of the vaccination rollout has been negatively affected by population hesitancy and infrastructure difficulties, given the country's large rural component.

Independent economic overview *continued*

Romanian property investment volumes rose by almost 30% in 2020, driven primarily by transactions initiated before the onset of the pandemic. Offices were the most liquid asset class and accounted for 85% of total market volume. The impact of the pandemic on the real estate market has been lower than expected, with investors being encouraged by the swift macro-economic recovery, so transaction volumes remained robust through the first half of 2021.

Sources: Absa Research, Romania National Institute of Statistics, European Commission, JLL

Poland and Romania unemployment (%)



Source: Absa Research

United Kingdom

The UK economy contracted by 10% in 2020 as Covid-19 severely impacted economic activity and brought the country to a near standstill. The UK was relatively badly affected when compared to its developed country peers; the US and EU, for example, recorded GDP contractions of 3.4% and 5.9%, respectively in 2020. This relative underperformance can partially be attributed to the largely service-driven nature of the UK economy, as well as the severity of the lockdown restrictions imposed throughout much of the year. Following an easing of restrictions in 3Q20, which saw quarter-on-quarter GDP growth of 16.9%, the UK entered into a second hard lockdown in November 2020 in response to a rapid rise in infections and some level of restrictions remained in place throughout much of the first half of 2021.

Initial fears about a sharp rise in unemployment were proved unfounded as the government furlough scheme successfully supported the labour market and kept unemployment relatively low at just 4.4% in December, compared to 3.8% a year earlier. At its peak, the Coronavirus Job Retention Scheme supported around a third of private sector employees.

A successful vaccination campaign has seen 71% of the population receiving at least one dose of a Covid-19 vaccine and 60% being fully vaccinated. This has enabled a phased reopening of the economy, with the majority of domestic Covid-19 restrictions having been removed by mid-July. Bloomberg consensus forecasts expect GDP to grow by 6.8% in 2021, driven by a combination of pent-up demand, excess household savings and an increase in business investment. A return to pre-pandemic growth levels is expected by 2022, with consensus forecast growth of 5.5% for 2022.

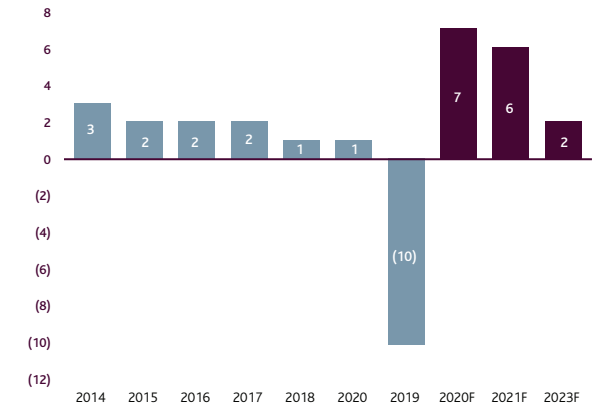
UK inflation rose to 2.5% year-on-year in June 2021, which is above the Bank of England's 2% target level and mostly due to a sharp rise in demand combined with rising cost pressures and increased import costs from the EU. These factors are, however, expected to be transitory and expectations are for monetary policy measures to remain accommodative to limit the impact of potential downside risks.

These risks include a rise in business insolvencies and unemployment as government support schemes are tapered off. The unemployment rate is forecast to settle at 5.1% at the end of 2021, according to Bloomberg consensus. Further headwinds could arise as the impact of Brexit on EU trade becomes apparent. Initial data indicates that UK trade with EU countries was 27% lower in the first four months of 2021 than in the same period in 2019, while trade with non-EU countries only showed a 13% decline. However, it is still too soon to draw conclusions on the long-term impact of Brexit as key negotiations remain ongoing. Another downside risk is that there will be a rapid rise in Covid-19 cases again as restrictions are lifted and possible new variants emerge, and a return to stricter lockdown measures in response.

Recovery is expected to differ across sectors following the reopening of the economy as certain trends take longer to reverse and others potentially do not ever revert to pre-pandemic norms. Food and drink activities, hotels and air travel, which were the most severely impacted sectors in 2020 and much of the second lockdown, are likely to rebound sharply following the relaxation of a majority of domestic Covid-19 restrictions. In the retail sector, the permanency of the accelerated adoption of online retail remains to be seen. Online sales as a proportion of total sales peaked at 36% during the pandemic, but declined as restrictions were eased, which indicates a significant return to bricks and mortar trade.

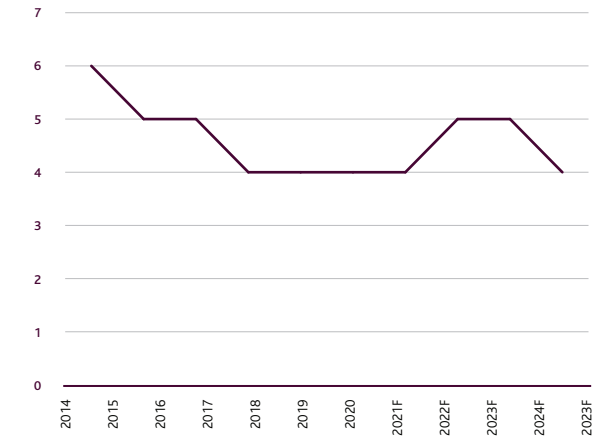
Sources: Absa Research, Bloomberg, KPMG UK, PwC UK

UK real GDP (%)



Source: Absa Research

UK unemployment (%)



Source : Absa Research

Mahir Hamdulay
Equity Analyst
Absa Capital

Chairman's review

Francois Marais
Chairman

Our conservative approach to business stood us in good stead and, together with the strength of our skilled management and staff, has laid a solid foundation for this unprecedented time.

Growthpoint performed as well as could have been expected in turbulent times. The South African business performed in line with budget and our offshore investments bolstered our performance. Diversification by both geography and sector stood Growthpoint in good stead.

The early impact of the Covid-19 pandemic emphasised the need to maximise liquidity. The capital we raised in November 2020 significantly increased liquidity and enhanced balance sheet strength.

Offshore assets **39.9%**

B-BBEE rating **Level 1**

We received criticism at the time about the significant discount to the net asset value at which the capital raise was priced. However, a greater understanding of the property industry's challenges crystalised an acceptance that it was the right thing

Growthpoint's *journey*

1987
Incorporated as a public company

Listed as public company on the "Financial – real estate" sector of the JSE – with 17 properties valued at R90.1m

2001
Growthpoint had a market capitalisation of R30m and assets worth R120m.

Mines Pension Fund (MPF) reversed their listed property assets into Growthpoint for a total purchase price of R1.5bn

2002
Growthpoint acquired R650m worth of listed property stock from MPF

Growthpoint merged with Primegro Properties Limited (Primegro) by acquiring all Primegro's assets to the value of R2.5bn

2005
Acquisition of a portfolio of 48 office, industrial and retail properties and one hospital from Tresso Trading 119 (Pty) Ltd for a total of R1.2bn.

Announced R900m BEE deal.
Launched a R5bn securitisation programme

2006
Acquisition of a further 23 office, industrial and retail properties from Tresso for a total of R1.4bn.
Acquisition of R2.4bn industrial property fund Metboard Properties Limited

BEE Partner (Phatsima) acquires 22m Growthpoint linked units (R280m)

2007
Acquisition of R3.4bn Paramount portfolio.

Growthpoint acquired property asset management and property administration business of IPG for R1.6bn

2008
Launch of enterprise development initiative – Property Point.

Acquired R3.4bn worth of properties.

Inclusion in the EPRA/NAREIT Emerging Market Index, MSCI Emerging Market Index, and JSE Top 40 Index

2009
Successful rights offer of R1.7bn.

Acquired 50.1% in Australian listed Orchard industrial property fund, now Growthpoint Properties Australia Limited (GOZ). Thereafter, increased investment in GOZ to 76.2% – total investment R1.3bn.

Inclusion in the JSE Socially Responsible Index

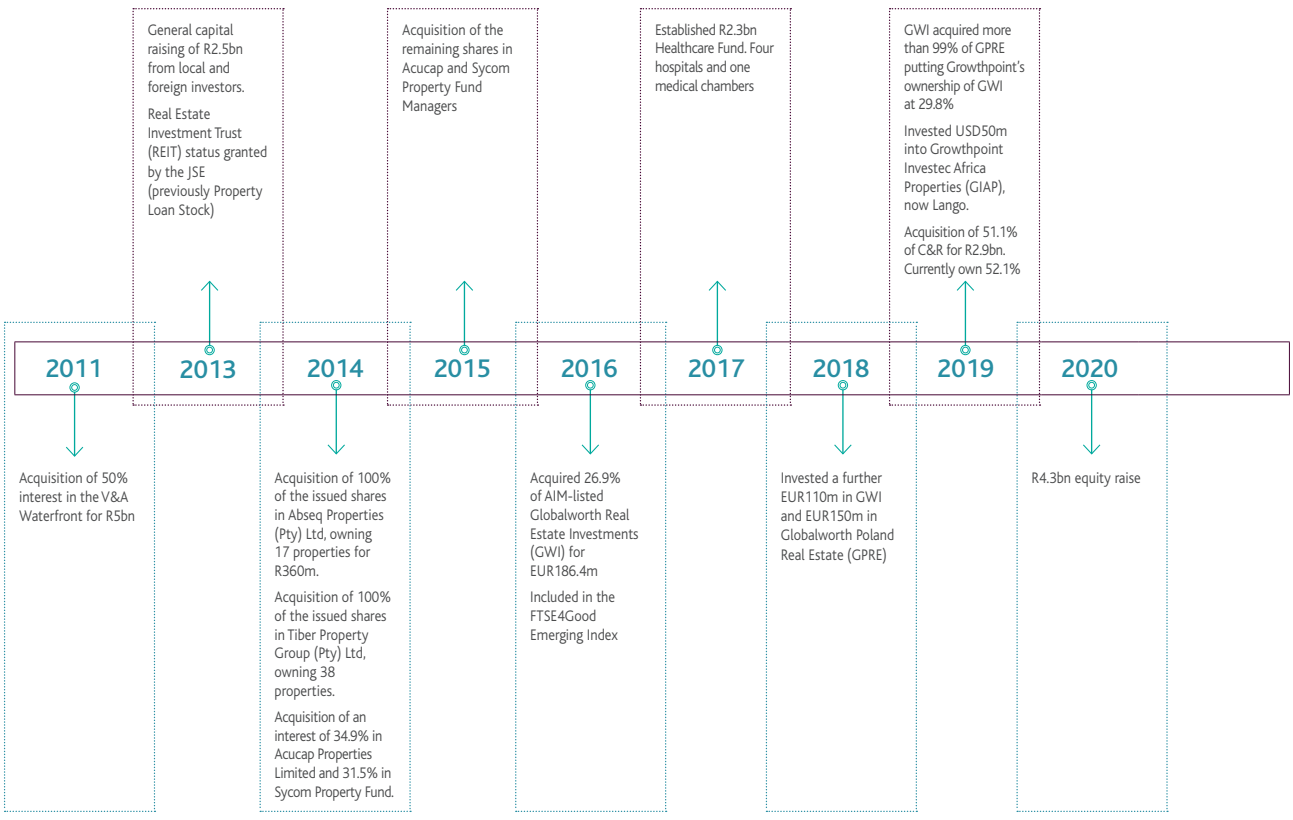
2010
First issue of long-term Corporate Bond – R500m

For management, tenant attraction and retention have become even more critical than in the past and increased attention is being given to customers' experiences.

to do. It was a prudent move in line with the conservatism with which we manage our business and Growthpoint now finds itself in a financially sound position that enables positive business decisions in line with our strategic initiatives. It allows Growthpoint to support its investments and pursue opportunities as and when they arise.

The economic environment in which the property industry operates has changed over the last few years and necessitates a re-evaluation of the REIT model as we have traditionally known it. Covid-19 has, in addition, challenged Growthpoint to think differently about its business. Capital allocation, our strategic focus, and our international investment model are the important aspects at the centre of our deliberations. Growthpoint is fortunate to be able to reset from a position of financial strength and with a sound business at its core, notwithstanding the operational challenges we face. In the medium term, our growth focus is international and in respect of the South African business, asset management is paramount to ensure an optimal portfolio composition.

In FY21, the prevalence of Covid-19 required a sustained operational focus and Growthpoint with its capable staff handled the operational challenges commendably. We kept



our staff safe and our businesses operating, endeavoured to provide the best possible experience to our clients and found ways to support the South African economy through the rental discounts and deferrals we gave our tenants. We also played a leading role in the industry initiatives around the Covid-19 pandemic. Special recognition and words of gratitude are due to our staff who performed admirably during this challenging period. To those who suffered bereavement, we express our heartfelt condolences. To those still recovering from the effects of the virus, we wish a speedy and complete recovery.

During the July 2021 riots, Growthpoint was able to minimise damage and protect its assets. Recognition must be given to the staff who worked so diligently throughout the riots to help to protect our assets and the assets of our tenants. Through the hard work of our staff, our tenants have almost all been able to recommence trading.

The South African operating environment remains challenging. The challenges are most aptly illustrated by the V&A Waterfront, where the FY21 contribution to Growthpoint's revenue was down 39.8% on FY20. In addition, our Sandton-centric office portfolio is seeing vacancies increase amid chronic oversupply and continued economic uncertainty.

For management, tenant attraction and retention has become even more critical than in the past and increased attention is being given to customers' experiences. Greater tenant engagement is taking place at all levels to ensure that we remain close to our tenants. However, deteriorating public sector service delivery and political uncertainty continue to make things difficult at all levels of South African society and lead to concerns among our tenants about the sustainability of their rental commitments. These concerns are exacerbated by considerable increases in administered costs, which affect our top line and the bottom line of our tenants. Particularly concerning for the property sector and ourselves are the excessive increases in municipal rates and taxes over the past few years, combined with the deterioration of municipal service delivery. The impact of these increases has reached the stage where it poses a threat to the future profitability of our South African business.

As a leading employer, Growthpoint continues to face the challenge of skills retention and has seen increased levels of resignations from staff. Some staff are leaving the property industry entirely, and several skilled employees are emigrating. Skills are in short supply in South Africa and even more lacking in our industry. The skills of our employees are transferrable from the property sector, which has undoubtedly lost some of its attraction to other, better-perceived industries that are considered safer and more successful.

We continue to work with our industry associations to address these and other concerns, share crucial messages and play a positive role in difficult conversations. However, in the final analysis, what is required is a reset of the political and business environment. The government will have to become more responsive to business needs, including the need for a stable, business-friendly environment.

Notwithstanding our concerns, Growthpoint is a South African business with an extensive portfolio of real estate investments in South Africa. We started here, and we are staying here. However, in the context of the challenges we face, we are seeking ways to future-proof our South African business. This entails more aggressive asset management and a keener focus on sustainability and the elements that make up sustainability and governance. Linked to this, we are enhancing our ability to self-help.

Building a more capital-light business in South Africa has become a primary focus. In the light of this, more activity can be expected in our funds management business, which is already making positive social contributions by investing in asset classes such as healthcare and, in the case of our newest fund scheduled to launch in FY22, student residential accommodation. Growthpoint's internationally controlled businesses also recognise the appeal of capital-light strategies and further possibilities are actively being explored in Australia.

Over the past two years, we have been reconstituting our Board as long-serving Directors retire. The emphasis throughout the process has been on enhancing the board's skill set and we hope to complete this in the next year. The board appointment process is structured and specific. In the first instance, we consider candidates who can fulfil the holistic role of a Director and perform particular functions on the Board's sub-committees. We focus on strong, relevant pre-identified skills and expect our Directors to contribute to Board discussions with insight and understanding of the underlying businesses and their

imperatives. I take this opportunity to welcome our new Chairman, Rhidwaan Gasant, who is active in this process and has worked closely with me on all Board-related matters for the past year.

Environmental, social and governance (ESG) responsibilities are essential considerations. Growthpoint has always been known for its good governance, as well as industry leadership in the field of sustainability. However, investor attention is driving a renewed focus on our ESG practices. As a result, we took an even deeper look in FY21 at what we do in these areas, and how we measure ESG and report on it.

As alluded to earlier, we are having a critical look at our business model. Part of this is a reduction in the pay-out ratio and the basis of income recognition – seeking a more sustainable model. We are aware that this change has proven difficult for some longstanding, loyal investors who initially invested in Growthpoint because of our predictable distribution policy and have become reliant on their listed-property income. These stakeholders have been affected by the decrease in the pay-out ratio and without compromising long-term sustainability, we keep them in mind during our deliberations. We are committed to retaining our REIT status and intend to continue to pay dividends twice a year, of at least 75% of distributable income.

Appreciation

As I will be retiring at the upcoming annual general meeting, I would like to take this opportunity to extend my thanks to the Directors of Growthpoint, past and present. They have given their time, knowledge and commitment during my tenure on the Growthpoint Board. In addition, I use this opportunity to recognise the role of my predecessor, Sam Hackner, who sadly passed away earlier this year. Sam was my counterpart in negotiating the internalisation of the management of Growthpoint, a process which brought into being Growthpoint as we know it. In addition, Sam steered Growthpoint through the complex internalisation process. Our thoughts and best wishes are with Sam's family.

I am also grateful for the wisdom and generosity of the people and partners who have contributed to Growthpoint's tremendous success and growth during my tenure on the Board. In addition, the support of our investors, funders and many stakeholders has been valued and appreciated.

My gratitude also goes to the Growthpoint Executives for ably executing the agreed strategies with dedication and passion and embracing the goals and challenges set for them.

Growthpoint is a property company, but our business is about the people who build and manage buildings and those that occupy the buildings. It has been a pleasure to serve the Growthpoint family, direct and extended.

Over the past 20 years, Growthpoint has built a world-class sustainable and conservatively managed business that successfully competes in the jurisdictions in which it does business. In doing so, Growthpoint has always acted:

- Deliberately and analytically
- According to the conservative financial metrics that underpin its business, avoiding dilutive transactions, barring exceptional circumstances that dictated otherwise, and not entering into a transaction that puts its balance sheet under unnecessary pressure or at risk
- In a nimble enough manner to take advantage of the unexpected opportunities that so characterise the property industry.

I would encourage Growthpoint to face the future with the same blend of rigour and entrepreneurial flair that has stood it in such good stead over the past 20 years. Now is the time to protect the scarce skills that have helped build the business and do everything commercially reasonable to retain our human capital. It is also the time to seek growth opportunities that enhance the Growthpoint value proposition for all our stakeholders.

Francois Marais
Chairman

Group CEO's review

Norbert Sasse
Group CEO

> Refining our strategies and implementing them in a capital-constrained environment is a noteworthy achievement.

Growthpoint performed admirably during FY21 under inconceivably harsh circumstances that were unlike any previously experienced.

We continued to operate successfully in these circumstances and, in line with our responsibilities to our staff and clients, adapted our business processes, both internally and externally. Some of these changes will be permanent.

Notwithstanding the challenges, we generated R5bn of distributable income, successfully improved our loan-to-value (LTV) ratio, secured a strong liquidity position and limited arrears despite significantly weakening property trends.

Refining our strategies and implementing them in a capital-constrained environment is a noteworthy achievement. We also did exceptionally well in retaining jobs and awarding increases to all our staff, save for 20% of our highest-earning staff who did not receive any increases in July 2020.

Balance sheet strength was the overriding theme for the year and accordingly, we spent much of our efforts in the first half of the financial year working on this.

The economic climate we are in, and have been in for a few years now, has left us with negative property fundamentals and rising yields, leading to the likelihood of property values decreasing. In May 2020 we estimated that commercial property values in South Africa would fall by between 10% and 20% in the following 18 to 24 months, and our property values have fallen by 16.2% since, although the rate of decline is now slowing, with valuations decreasing 8.8% at end-June 2020, 5% at end-December 2020, and 2.4% at year end. Since June 2019, the value of Growthpoint's South African portfolio has been written down by more than R12.5bn.

In the absence of a meaningful economic accelerator to improve property fundamentals, continued downward pressure on valuations is likely, and should bond yields trend upwards, they will increase this pressure. However, assuming no further deterioration in the South African economy, stabilisation of the operating environment and a return to growth – albeit off the low base following a 7% decline in 2020 – we expect a further moderation of valuation write-downs to flat or only marginally negative over the next 12 to 18 months.

Group LTV ratio	New liquidity
40%	**R6.3bn**

A consequence of falling property values is rising LTV ratios. When these exceed a certain threshold, funders become concerned, which affects both the cost and availability of funding and can lead to a liquidity crunch. To avoid this possibility and given our conservative and prudent business management approach, we strengthened our balance sheet in FY21 with an equity raise, a dividend re-investment plan (DRIP), asset sales and the retention of funds as a result of the 80% dividend pay-out ratio, creating R6.3bn worth of liquidity that was used primarily to reduce debt.

By adjusting our pay-out ratio to retain capital, we restructured our business towards a more sustainable funding model which is further supported by asset sales and DRIPs, and we will be managing our capital spend within that framework because we feel it is essential to contain the business within these parameters at this time.

Growthpoint's global credit rating from Moody's is linked to the sovereign rating and although it was again downgraded during the year (from Ba1 to Ba), this has had no impact on our ability to borrow or on our cost of borrowing. The national credit scale rating was maintained at Aa1.za.

The sustainability of the REIT model has never been more challenged than during this period under Covid-19, and while the SA REIT structure has proven to be resilient, 100% pay-out ratios are not. Rather, pay-out ratios closer to the 75%

We are reluctant in the current environment to consider markets other than those we already know well, so we remain committed to our existing international investments.

minimum are to be expected going forward, based on the sector's outlook. Even if the market should normalise, the return to 100% pay-out ratios is unlikely – and imprudent, because it leads to a constant cycle of capital raising and debt funding. Investors within the sector seem to have shifted their focus from income to total return expectations – which highlight capital growth as well as income – and this is healthier for all. Retained earnings should reflect in net asset value (NAV). All of this will serve to enhance the sustainability of the SA REIT model and our own business model.

It would be fair to say that during the course of FY21, the executive spent more time analysing and communicating our strategy than in any other year to date. We remained faithful to the way we operate within existing, approved strategies.

With the support of the Board, Growthpoint has grown its funds management business, and by doing so, has adopted an increasingly equity-light strategy. We have always preferred to own 100% of the assets on our balance sheet but in the current capital-constrained environment, which is set to persist for some time, raising equity is unfavourable when our shares are trading at a discount to NAV, and debt funding is equally unappealing in the light of its impact on our LTV ratio, which we aim to keep below 40%. Co-investing with third-party investors requires some additional capital, but the amounts are relatively modest compared to the sole-ownership model.

This growth strategy aims to increase assets under management rather than the assets on our balance sheet, and creates new income streams by raising asset management and property management fees.

Managing assets for others leverages Growthpoint's multi-skilled South African-based platform, which consists of a strong team with expertise across the entire real estate field – funds management, financial, asset, development property management, leasing, marketing and facilities management.

Using in-house resources, we continued to build our successful funds management business in FY21. This business started with the African fund, Lango Real Estate, followed by our healthcare fund, and will soon be further expanded by our purpose-built student accommodation fund. Our successes have already enabled us to grow critical mass and earn further credibility as property fund managers.

The funds management strategy is one we are supporting across all the investment entities that we control. Growthpoint Properties Australia (GOZ) has already expressed interest in incorporating funds management into its model. This strategy also makes sense for the Capital & Regional platform in the UK once its financial position has been stabilised, especially given the market opportunities there.

A large amount of strategic work has been completed with the Board in order to optimise our South African portfolio by striking the right balance and degree of diversity. This is an ongoing exercise. We have always been opportunistic and will continue to optimise our portfolio with a fine-tuned refocus on the locations, sectors, and even subsectors that provide good growth opportunities.

South Africa's property industry has been one of the most negatively affected by the economic impact of Covid-19, yet it has also been the most accommodating of other businesses, through rent concessions and deferments, in recognition of the fact that its performance is closely linked to the sustainability of tenants' businesses. The relief given by the real estate sector – and Growthpoint – since the onset of the pandemic is unprecedented. In the absence of other avenues, we did what was expected of us and more, certainly shouldering more than our fair share of the burden.

From a strategic perspective, new dimensions such as work-from-home structures and changes to online retailing are unfolding and need to be considered. Although these dynamics are not entirely new, both have been amplified by the tailwinds of Covid-19 and, no matter how one looks at it, work-from-home will result in less demand for office space. Only time will reveal the extent of this, but while there are likely to be some counterbalancing factors, such as greater distancing within workspaces, the overall effect will be negative.

Group CEO's review *continued*

More concerning, however, is the general state of the no-growth South African economy and its significance for property fundamentals. Stagnant demand and a growing oversupply of space, especially within the office and retail sectors, were evident even before the pandemic. Without significant economic growth to change this, the outlook for real estate will remain muted. As we are the biggest accommodator of other businesses in South Africa, with tenants across all economic sectors, Growthpoint is a barometer for the economy, and there are limits to how much we can defy this.

Although we had hoped to do better in South Africa in FY21, we were hindered by the significant disruption in economic and social activity due to Covid-19 – long months of lockdowns, changing restrictions, and forced work-from-home. These anomalies resulted in the inability to enact even basic operations sometimes, and further highlighted non-delivery from municipalities and state-owned enterprises.

The Board has reconfirmed its desire to increase Growthpoint's offshore exposure, even though it is acutely aware of current capital limitations. The progress we can make in the short to medium term may be limited, but we still intend to focus more deliberately on our international investment model and asset allocation.

Having said that we are reluctant in the current environment to consider markets other than those we already know well, we remain committed to our existing international investments.

Considering Australia is the market we have invested in the longest – and where we have significant knowledge, expertise and relationships – GOZ remains a natural focus for expansion. It is our biggest international platform, so it makes operational sense. In addition, while investment into Australia is expensive relative to South Africa, it is a growth market receiving more international interest than ever before.

Because there was little impact from pandemic lockdowns in Australia during FY21, GOZ continued to perform well, and all the business and portfolio metrics are in great shape. The office sector was affected more negatively than the industrial sector in GOZ's portfolio, with higher incentives being needed to attract good quality tenants for long leases. Growthpoint earned less dividend income from GOZ, as the GOZ Board also decided to reduce the distribution payment ratio to below 80% to ensure liquidity and bolster balance sheet strength. However, the underlying currency performance and the re-valuation of assets benefited us and reflected positively on our balance sheet.

GWI also delivered a solid performance overall, notwithstanding the significant reduction in distribution to Growthpoint. We received an offer for all our shares in this business at EUR7 per share, but neither the Independent Committee of the GWI Board, nor the Growthpoint Board, was of the opinion that the price offered reflected the underlying value and future prospects of the GWI business, so we decided not to accept the offer.

Similar dynamics to those in the Australian market are evident in the office and industrial sectors in Eastern Europe, even though the region was subjected to heavier Covid-19 lockdowns. These had less impact than those in the South African market because the economies of Poland and Romania are still growing and they were thus ready to recover faster. Market forces have had a bearing on office demand and rental dynamics for GWI, and will create some pressure going forward. Another challenge is the opportunity cost associated with the EUR460m of cash on GWI's balance sheet. Given the uncertain economic backdrop, it has been a deliberate strategy not to invest capital, but with a new controlling shareholder in place, we expect a strategy reset that will see the money being used – at the very least to settle debt.

C&R in the UK faced the most prolonged lockdown period of any of our investments during the 12 months covered by this report. The UK's extreme lockdowns, accompanied by regulations that limited landlords' ability to collect rent, led to equally extreme asset value write-downs and excessive gearing levels. This resulted in the company breaching some of its covenants and declaring no dividends. Its Board is considering various options to reduce debt and achieve more sustainable outcomes. Although it disappointed in FY21, we still believe that C&R is well-positioned to benefit from the UK turnaround.

Overall, the income we received from our overseas investments was materially lower this year. In the year ahead, we expect consistent good performance from GOZ, better performance from GWI with the prudent deployment of its capital being a major contributing factor, and an improved contribution from C&R, driven by the rapid re-igniting of one of the world's biggest economies. Each of these investments remains strategically attractive and we will continue to support them.

While write-downs associated with the C&R portfolio as well as the South African portfolio had the biggest impact on Growthpoint's valuations, our budgeted income was most impacted by the reduction of revenue from the V&A Waterfront, which has been hard hit by the lockdowns and international travel restrictions.

The recovery of the V&A is directly linked to a rebound in international tourism and also subject to the dynamics of the local economy. Though there may well be pent-up demand for leisure and sports tourism, the return of business travel and conferencing in the wake of Covid-19 is likely to take longer, perhaps even several years. Nonetheless, just as the V&A fell further than the rest of the South African portfolio, we expect to see it recover much faster off a low base, once there is a rebound in international tourism. This will of course depend on the progress of vaccination programmes and relaxed travel restrictions.

Changes to the Board have ignited discussions on our strategy, and encouraged exploration, questioning and confirmation of our priorities. Just as it has been a priority to ensure we have the right people on our Board with relevant skillsets and the necessary time to commit to meeting our unique requirements – while also achieving diversity and transformation – our management must also be optimised to deliver on our strategy. A review of our management structure was carried out in consultation with, and approved by, the Remuneration Committee and the Board. The new structure includes appropriate resources to advance our internationalisation and funds management strategies, and strengthen our corporate finance function. It also provides for a dedicated head of development and a focus on key accounts.

A key and emerging line of questions from our investors, funders and many other stakeholders revolves around our ESG impacts. Growthpoint is committed to doing the right thing. We are also realistic about what we can achieve, both alone and in joint efforts with peers and partners. All our international investments provide reporting on their ESG efforts and impacts, some of which we have included in this report. We have originated our new funds under management with responsible sustainability priorities in their DNA. Although only three years' old, Lango is already providing reporting on its ESG responsibility and impacts. In addition, the healthcare fund has satisfied the ESG requirements for International Finance Corporation (IFC) funding, setting a high bar indeed. In our various geographies there is a move to report in accordance with the Task Force on Climate-related Financial Disclosure (TCFD) and align our efforts to having an impact on the United Nations Sustainable Goals most material to our business.

The Group made great strides in this area in FY21 by introducing a Board-approved ESG strategy for South Africa and adopting a new ESG position statement: With integrity, ethics and our values guiding our governance, we provide space to thrive in environmentally friendly buildings, while improving the social and material wellbeing of individuals and communities.

We are committed to ESG best practices and have a long track record of positive performance, impacts and reporting in this regard. Our efforts in these areas have been externally recognised by, for instance, our ability to raise funding through "green" bonds.

Our governance and our environmental and social commitments are areas of continuous advancement and improvement, especially as measurement and reporting in these fields is evolving. By today's standards, we can see how some of our past efforts could have been more strategically directed. These were, however, well-intended and our new strategy aligns with the latest best practices globally while providing a clear roadmap for the next stage of our ESG actions.

The past year and a half, and the past couple of months in particular, have been exceptionally difficult, but there is cause for optimism, with FY22 presenting the prospect of stability for all our investments. It is likely to set a new base level from which we can start building again.

That said, we have entered the new financial year in South Africa with uncertainty prevailing in the health, political, social and economic spheres, which is being exacerbated by the inability to access property infrastructure due to failed municipalities and state-owned enterprises.

The consequences of the pandemic will remain the biggest challenge for businesses in the year ahead. At the moment, vaccinations are the best way to get through it, and the pace and success of the vaccination rollouts in each of our investment territories, but especially South Africa, will be significant drivers of our success. They will have a material impact on confidence levels and the desire to go shopping, to the office, to travel, and other behaviours.

Equally, a stable socio-political environment will be crucial for economic recovery and the success of our business and our tenants' businesses. The July 2021 unrest in KwaZulu-Natal and Gauteng further devastated the economy, investment, jobs, households and families.

Whereas South Africa Inc will need to focus all its efforts on growing the economy and job creation, our ongoing priorities will be balance sheet strength and running the business sustainably. In the current environment this inhibits debt and equity raises, supports the growth of our capital-light funds management strategy and necessitates cost containment and customer acquisition and retention.

It is not going to be an easy year, but Growthpoint is strong with a robust business platform supported by the abilities of our people, who remain our greatest strength. Growthpoint will continue to be defined by our optimal and efficient use of capital, our liquidity to advance our clearly stated strategies to the fullest extent possible and the delivery of superior returns. At the same time, we will continue to use our signature conservative financial management approach to protect our balance sheet and to leverage our multi-skilled business platform to grow our business.

Financial Director's review

Gerald Völkel
Group Financial Director

> Falling asset values over the past three reporting periods led to LTV's initially going up, but this situation has now stabilised as a result of conservative debt management.

Under the circumstances, Growthpoint has performed very well. Even though it was initially difficult to get to grips with operating in the unexpected conditions of Covid-19, we delivered a FY21 performance in line with that of our expectations.

Prudent financial management enabled us to continue to pay dividends to our shareholders, meet our contractual obligations to suppliers and customers and avoid the need to retrench employees. These achievements and our overall financial performance demonstrate the sustainability of our business. They were also only possible because our people are passionate about our business, assets and tenants. I am inspired by our team's performance this year.

We entered the year awaiting clarification from the JSE, National Treasury and SARS about assistance and relief for the REIT sector. The wait delayed our AGM and dividend pay-out. The JSE allowed REITs that failed their liquidity test to retain REIT status without paying a dividend. However, this had no impact on Growthpoint as we met liquidity test requirements.

Growthpoint moved quickly to strengthen its balance sheet, and achieved this with a capital raise in November 2020 and by offering a DRIP in December 2020. This put us in a solid position to sustain operations, although it added more shares to our base.

The business has numerous components and their achievements and contributions to our performance are detailed separately. With Covid-19 as a backdrop for FY21, we continued our detailed disclosure and reporting on discounts, deferments, arrears and bad debts, as well as the influence of higher vacancy levels in South Africa on our rental income. We provided rental relief in the form of discounts and deferments and incurred R10m in expenses related to Covid-19. The impact of the pandemic on our tenants is clearly evident in our operational metrics.

Property values and loan-to-value ratios were also very much in the spotlight. Falling asset values over the past three reporting periods led to LTV's initially going up, but this situation has now stabilised as a result of conservative debt management.

Distributable income per share	Group EBIT from offshore
148.1 cents	**29.1%**

We responded to an increased number of requests to disclose the inputs that determine our fair values for both properties and debt, and provided the market with the information required.

Reporting and communication

Growthpoint won the property sector category of the Investment Analysts Society of South Africa (IAS) Excellence in Financial Reporting and Communication Awards for the 2020 financial year. We have been acknowledged by the IAS for our excellent and extensive reporting every year since 2011, an achievement which demonstrates our consistency in best-practice reporting and sets a commendable benchmark.

This award was all the more meaningful in a year when excellence and transparency in financial disclosure and communication became more relevant than ever before due to the impact of Covid-19 on the financial performance and results of so many companies. Since March 2020, the pandemic has had a major influence on investor communication and disclosure. In Growthpoint's case, this included providing detailed updates and insights into our South African portfolio, 50% stake in the V&A Waterfront, and international investments in Australia, Poland, Romania and the UK.

We provided updates on a wide range of actions and outcomes across the business in our six-monthly reporting and pre-close calls. Frequency and depth of reporting are needed in such times, and this has served to improve our already good stakeholder relationships.

Due to the pandemic, some traditional channels for financial communication were restricted, so we also had to find alternative ways of presenting our financial reporting to the broader investment community as well as our key stakeholders.

The past year has highlighted the fact that good relationships with funders, investors, suppliers and customers are the key to our sustainability, access to capital and income streams.

The IAS award was welcome confirmation that we successfully adapted to the changed circumstances, and is something that everyone at Growthpoint can be proud of.

ESG and collaborating for sustainability

Our reporting goes beyond amalgamating the figures for the financial disclosures required of us and includes our integrated thinking, investor relations and ESG communications. Capital providers such as the IFC are providing valuable input for our ESG disclosure. Consequently, our ESG strategy and its implementation, benchmarking and communication impacts our access to funding.

The past year has highlighted the fact that good relationships with funders, investors, suppliers and customers are the key to our sustainability, access to capital and income streams. Our finance function plays a vital role in building and maintaining these relationships. The discounts and deferrals for tenants in all the South African sectors required greater engagement with our different teams and tenants. Growthpoint's immediate response to the financial needs of our tenants has ensured their sustainability and will have long-lasting benefits for our own sustainability.

Our good relationships with the South African Property Owners Association, SA REIT Association, South African Council of Shopping Centres and other industry organisations also proved particularly valuable this year. The collaboration of these organisations culminated in the formation of The Property Industry Group, which assisted in lobbying government on behalf of our sector, and smoothed the road for positive negotiations by creating a consensus framework for rental relief for retail tenants and small businesses.

Audit

FY21 is the second financial year that EY has been Growthpoint's appointed auditor. Notwithstanding the limited physical interaction because of the pandemic, we have worked well together to produce timely, accurate and relevant reporting. We did not need to access any of the exceptional extensions available for reporting our results.

Automation and business intelligence

The migration to MRI, our new property and financial management system, helped us to unlock more business intelligence, add more value to our customers and keep us ahead in a competitive market. We have fully automated our group results consolidation process in the current year.

Tax and regulatory updates

By opting for an 80% pay-out ratio and continuing enjoying the benefits of being a REIT, Growthpoint was able to retain a reliable source of capital in our business to deliver on our strategic objectives. This decision was necessary because our DRIP, which has previously helped us to retain capital in the business, has decreased from over 60% participation to below 30%. However, retaining 20% of distributable income in our business means that we now have to pay tax, which we will do with due care and consideration.

Tax legislation changes in FY22 that will have the most significant impact on Growthpoint include the taxation of foreign dividends. This impacts all REITs and we will consider our response to it through our industry sub-committees.

Regarding South Africa's carbon tax, Growthpoint does partake in listed activities (energy production from fossil fuels in generators), and cumulatively this crosses a threshold. However, all diesel and petrol emissions are not subject to direct tax as this is already paid at the pump by all consumers. Although we need to register for the tax, we will not be liable to pay at this stage. We expect to be affected by 2023.

As detailed in the treasury management report, changes in the debt-listing requirements required us to appoint a debt-listing officer, which we duly did.

Best practice

Growthpoint was an early adopter of the SA REIT Association Best Practice Recommendations version 2, and we continue to report in the recommended manner.

Simplified distribution income statement
For the year ended 30 June 2021

	Notes	Total Group FY21 Rm	Total Group FY20 Rm
Revenue	1	**12 804**	12 008
Property expenses		**(3 436)**	(3 234)
Net property income		**9 368**	8 774
Other operating expenses		**(613)**	(580)
Finance and other investment income	6	**906**	1 310
Interest paid		**(3 107)**	(3 569)
Profit before taxation		**6 554**	5 935
Taxation	7	**(450)**	(180)
Profit before dividends and debenture interest		**6 104**	5 755
Minorities' share of profit and realised foreign exchange loss		**(1 052)**	(740)
Distributable income		**5 052**	5 478
Number of shares in issue (net of treasury shares)		**3 402 889 319**	2 989 240 606
Distributable income per share (cents)		**148.1**	183.1

Simplified balance sheet
At 30 June 2021

	Notes	Total Group FY21 Rm	Total Group FY20 Rm
ASSETS			
Property assets	8	**128 790**	140 013
Equity-accounted investments		**15 003**	17 537
Intangible assets	9	**538**	641
Derivative assets		**814**	1 607
Long-term loans granted		**2 534**	2 338
Listed investments		**1 122**	837
Unlisted investments		**808**	922
Equipment		**57**	63
Deferred tax		**12**	–
Current assets		**4 718**	4 482
Cash and cash equivalents		**2 622**	2 420
Taxation receivable		**9**	–
Other current assets		**2 087**	2 062
Total assets		**154 396**	168 440
EQUITY AND LIABILITIES			
Shareholders' interest		**66 410**	67 877
Non-controlling interest		**14 192**	15 168
Interest-bearing borrowings		**61 947**	70 766
Derivative liabilities		**1 995**	4 762
Lease liability		**2 235**	2 947
Deferred taxation	10	**4 224**	3 820
Current liabilities		**3 393**	3 100
Trade and other payables		**3 204**	2 999
Taxation payable		**189**	101
Total equity and liabilities		**154 396**	168 440

Reconciliation between Statutory and Simplified financial statements
For the year ended 30 June 2021

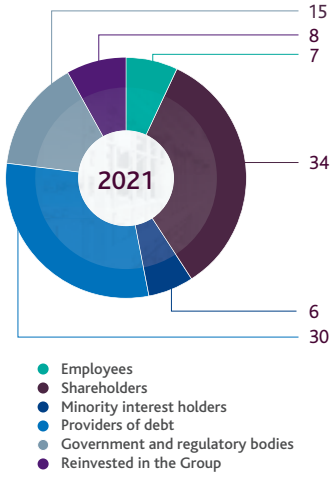
		FY21 Rm	FY20 Rm
1	**Revenue as stated**	**13 126**	12 361
	Less: straight-line lease income adjustment	**(322)**	(353)
		12 804	12 008
2	**Fair value adjustments as stated**	**(4 163)**	(10 196)
	Less: fair value adjustments reversed	**4 163**	10 196
		–	–
3	**Equity-accounted investment profit/loss**	**(1 206)**	(923)
	Less: equity-accounted investment profit reversed	**1 206**	923
		–	–
4	**Non-cash charges as stated**	**(166)**	(1 293)
	Less: non-cash charges reversed	**166**	1 293
		–	–
5	**Capital items as stated**	**(52)**	396
	Less: capital items reversed	**52**	(396)
		–	–
6	**Finance and other investment income as stated**	**933**	1 323
	Less: Globalworth/GPRE dividend declared after year end, based on FY20 earnings	**(239)**	(282)
	Add: Globalworth/GPRE dividend declared after year end, based on FY21 earnings	**195**	239
	Add: antecedent dividend received	**17**	30
		906	1 310
7	**Taxation as stated**	**(850)**	(1 180)
	Add: deferred taxation	**400**	1 000
		(450)	(180)
8	**Property assets as stated**	**128 061**	139 029
	Add: investment property reclassified as held for sale/ trading and development	**729**	984
		128 790	140 013
9	**Intangible assets as stated**	**597**	700
	Reversal of additional goodwill raised on deferred taxation liability*	**(59)**	(59)
		538	641
10	**Deferred taxation as stated**	**4 283**	3 879
	Reversal of additional deferred tax liability on intangible asset	**(59)**	(59)
		4 224	3 820

* *In terms of IFRS 3* Business Combinations, *goodwill was created as a result of the deferred tax liability that was raised on initial recognition of the intangible asset acquired in terms of the acquisition of the property services businesses.*

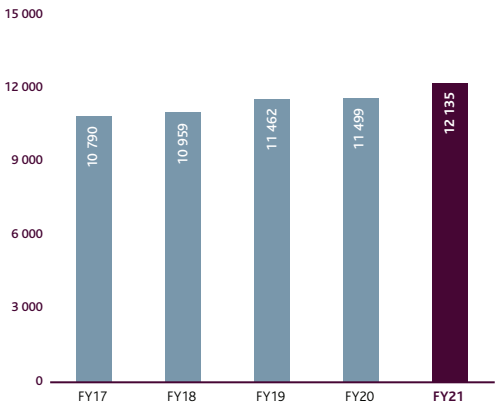
Value added statement

	FY21 Rm	FY20 Rm	FY19 Rm	FY18 Rm	FY17 Rm
Turnover	**14 707**	12 935	12 313	11 817	11 565
Property and other operating expenses	**(2 245)**	(2 124)	(1 554)	(1 426)	(1 340)
Value added	**12 462**	10 811	10 759	10 391	10 225
Finance, investment income and other adjustments	**327**	688	703	568	565
Wealth created	**12 135**	11 499	11 462	10 959	10 790
Attributed to:					
Shareholders	**4 068**	4 495	6 430	6 108	5 548
Providers of debt	**3 640**	3 138	2 627	2 597	2 922
Government and regulatory bodies	**1 810**	1 447	1 042	1 176	1 016
Employees	**852**	707	643	623	669
Minority interest holders	**748**	729	720	455	471
Reinvested in the Group	**1 017**	983	–	–	164
Wealth allocation	**12 135**	11 499	11 462	10 959	10 790

FY21 (%)



Wealth created and allocated (Rm)



Treasury management

This report pertains to the treasury activities managed in South Africa.

Capital flows

Growthpoint sought to place a greater emphasis on proactive and prudent balance sheet and liquidity management this year, and we undertook various initiatives to accomplish this. These included a R4.3bn equity raise, R577m in proceeds received from the DRIP in December 2020, and R559m from asset sales. It is expected that around R865m (after income tax) is retained with the consistent application of the 80% dividend pay-out ratio for FY21.

In addition, we were able to pay R456.8m to the capex programme and a more muted R556.1m to the development programme. Direct property acquisitions were also muted at R309.0m. During FY21, Growthpoint invested very little in its foreign subsidiaries – only reinvesting Lango dividends of R6.6m – as the bulk of the funds were used to repay debt. This resulted in the nominal debt balance reducing from R43.4bn in FY20 to R37.8bn in FY21.

Liquidity position

Bolstering our liquidity position was an objective for FY21. In this respect, we managed to increase our unutilised committed facilities to R6.4bn as at June 2021 (from R3.1bn at the end of FY20) with a surplus cash balance of R709m. The undrawn facilities are spread across several financiers at different terms. At year end, loans due in the next 12 months amounted to R2.3bn. During the year, capital expenditure projects were curtailed to include only those that were critical or offered an opportunity to earn a development profit at acceptable risk. The Board continues to assess the impact of investment decisions on Growthpoint's balance sheet and liquidity position.

Interest-bearing liabilities

The SA debt capital market normalised during FY21, although investors continue to favour better credit quality issuers.

Growthpoint only undertook a public issue in April 2021, when we sought to re-finance R694m of maturing debt. The book was 4.1 times over-subscribed. We issued a three-year note for R249m at 155 basis points over Johannesburg interbank average rate (JIBAR) and a five-year note for R498m at 199 basis points over JIBAR.

Given the muted bond supply into the SA debt capital market, together with a subdued macro-economic outlook, it seems that the peak of the widening of the credit spreads has passed. The Covid-19 shock increased pricing on a three-year Growthpoint note from 125 basis points in November 2019 to 210 basis points in June 2020. Fortunately, it reduced to 155 basis points in April 2021.

On a net basis, Growthpoint redeemed R929m in the domestic debt capital market during FY21.

We believe that the quality of our credit rating will see the bond market continuing to support us in our bond issues. It is, however, concerning that the debt capital market seems to bifurcate the credit margins between corporates and REITs, with REIT issuance priced higher. Since the pandemic, the bond market interprets the credit risk of REITs as being higher than that of non-REIT corporates, due to the impact that the Covid-19 crisis has had on the real estate sector.

Growthpoint's Information Statement and other items relating to the DMTN Programme were updated and brought in line with the amended JSE Debt Listings Requirements.

The solid relationships we have with our banks proved invaluable during the Covid-19 crisis. The banks supported Growthpoint through the pandemic, and the capital raise provided an opportunity to convert existing debt to unutilised revolving credit facilities.

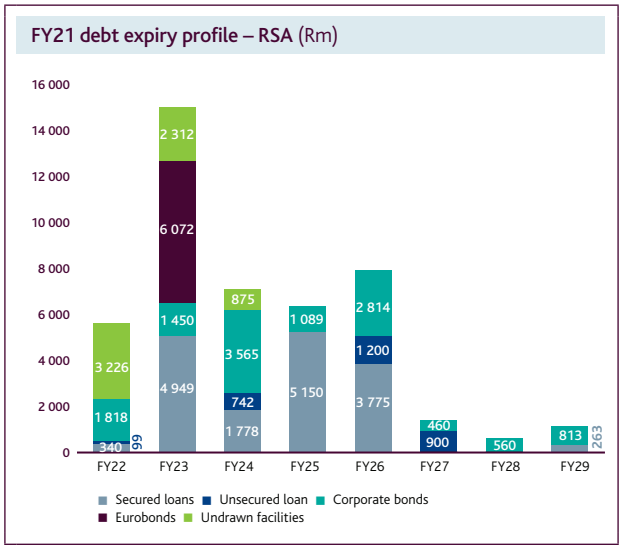
Interest-bearing liabilities

	FY21 Rm	% of total debt	FY20 Rm	% of total debt
South Africa				
Secured debt	**16 255**	**43.0**	18 872	43.5
Bank debt	**13 702**	**36.2**	16 319	37.6
Institutional financiers	**2 553**	**6.8**	2 553	5.9
Unsecured debt	**21 581**	**57.0**	24 501	56.5
Bank debt/institutional financiers	**2 941**	**7.8**	3 629	8.4
Corporate bonds	**12 569**	**33.2**	13 498	31.1
Eurobonds	**6 071**	**16.0**	7 374	17.0
Total South African debt	**37 836**	**100.0**	43 373	100.0
Accrued interest	**257**		290	
Fair value on debt	**398**		388	
Australia and UK				
Secured debt – bank debt and loan note	**23 456**		27 491	
Consolidated debt	**61 947**		70 766	

Post 30 June 2021, we signed a four-year, USD60m convertible loan facility from the IFC, with the IFC having the option to convert the loan to equity in the GHPH.

There is currently a great interest in ESG-related and sustainability-linked debt, and we are exploring various funding opportunities on the back of our recently approved ESG strategy.

Liabilities of R2.4bn matured during FY21 and were repaid, while facilities to the tune of R4.6bn (with a maturity date post 30 June 2021) were either redeemed or re-financed.



The weighted average term of the liabilities reduced to 3.1 years for FY21 from 3.6 years in FY20 because a number of liabilities were re-financed with shorter dated maturities given the economic climate and the view on real estate. The maturity of the USD425m bond in May 2023 is also starting to weigh in heavily and is skewing the weighted average term towards the shorter side. Management is currently considering various options in respect of the redemption of this bond.

Of the total outstanding liabilities as at 30 June 2021, 57.0% were unsecured, which is in line with the percentage in FY20 (56.5%). Most of the unutilised facilities are secured facilities, so should these facilities be utilised, this percentage will increase.

The ratio of secured loans to total property value for the South African operations was 23.8% as at 30 June 2021. The unencumbered direct property pool at year end amounted to R29.3bn and our shares in V&A, GOZ, GWI, C&R and Lango are all unencumbered (the equity listed investments plus the market value of the shareholdings in GOZ and C&R total R36.4bn).

Foreign exchange denominated liabilities

We apply the principle of not using hard-currency denominated debt to fund the ZAR-denominated South African operations. We only take out hard currency-denominated debt for hard-currency-denominated investments. In this respect, we view cross-currency interest rate swaps as synthetic foreign-denominated debt. These swaps are utilised to fund foreign investments because, from a pricing point of view, they are typically more efficient instruments than vanilla loans.

Balance sheet hedge table

Investment	Currency	Assets at NAV in millions	Cost in millions	Market value in millions	FX debt in millions	CCIRS in millions	FX debt + CCIRS in ZAR millions	Debt as a % of assets at NAV
GOZ	AUD	**$1 964**	**$1 087**	**$1 954**	**$0**	**$970**	**R10 384**	**49**
GWI	EUR	**€509**	**€543**	**€451**	**€0**	**€326**	**R5 527**	**64**
C&R	GBP	**£72**	**£155**	**£42**	**£0**	**£0**	**R0**	**NA**
Lango	USD	**$53**	**$50**	**Unlisted**	**$30**	**$14**	**R633**	**83**

During the year under review, Growthpoint repaid the GBP78m facility that was used to fund the investment into C&R. We also re-financed a EUR50m facility into a ZAR facility. The table above reflects a number of metrics relating to our foreign-denominated investments and debt. The "Debt as a % of assets at NAV" (the LTV calculated as foreign-denominated liabilities over foreign-denominated assets at NAV) has declined since 30 June 2020 and reduced the valuation and foreign-exchange-rate risks related to our foreign investments.

Cost of funding

The weighted average cost of funding as per the SA REIT best practice recommendations is set out in the table:

SA REIT BPR – cost of debt

Basis	ZAR Quarterly %	AUD Semi-annually %	EUR Semi-annually %	USD Semi-annually %
Floating reference rate plus weighted average margin	**5.4**	**0.0**	**0.0**	**0.0**
Weighted average fixed rate	**9.9**	**0.0**	**0.0**	**5.9**
Pre-adjusted weighted average cost of debt	**5.5**	**0.0**	**0.0**	**5.9**
Adjustments				
Impact of interest-rate derivatives	**2.0**	**0.0**	**1.4**	**0.0**
Impact of cross-currency interest-rate swaps	**0.3**	**3.6**	**2.4**	**(0.9)**
Amortised transaction costs imputed into the effective interest rate	**0.0**	**0.0**	**0.0**	**0.2**
All-in weighted average cost of debt	**7.8**	**3.6**	**3.8**	**5.2**

Treasury management *continued*

Growthpoint's weighted average cost of SA-denominated debt has decreased since the end of FY20 due to a further interest rate cut of 25 basis points by the Reserve Bank (SARB). However, Growthpoint's weighted average margin on the debt increased slightly, due to the impact of the higher margins on the book.

Credit ratings and covenants

After the April 2020 downgrade, Moody's again downgraded the credit rating of the government of SA, this time from Ba1 to Ba2 in anticipation of a weakening in SA's fiscal strength over the medium term. The downgrade reflected Moody's assessment of the impact the pandemic would have both directly on the government's debt burden and indirectly on the country's economic challenges, as well as the social obstacles to reform. The negative outlook was maintained to reflect the risk of the government's debt burden and debt affordability showing significant further deterioration.

In line with this, Growthpoint's global scale credit rating was also downgraded from Ba1 to Ba2, although the national scale rating was maintained at Aa1.za. The negative outlook was also maintained. Moody's does not consider our international exposure to be sufficient to warrant a delinking from the sovereign rating.

While the capital raise has provided some additional headroom in Growthpoint's loan covenants, the challenging operational environment and the resultant reduction in valuations remain a concern. As at the end of FY21, we were compliant with our covenants. Growthpoint's strictest corporate loan covenants are set out in the table below.

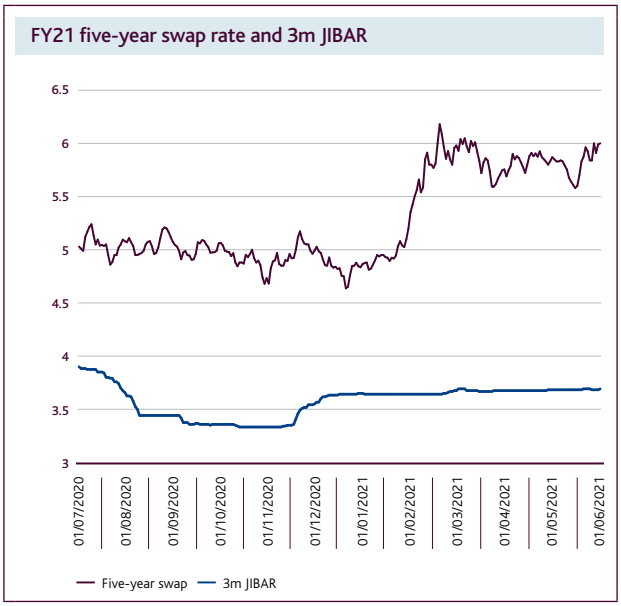
Covenants	Limit	FY21 including GOZ and C&R	FY21 excluding GOZ and C&R	FY20 including GOZ and C&R	FY20 excluding GOZ and C&R
Loan-to-value ratio (as per SA REIT BPR)	≤55%	40.0%	35.1%	43.9%	39.8%
Interest-cover ratio (operating profit plus investment income/net interest expense)	≥2.0x	2.9x	3.2x	3.1x	3.4x

Given Growthpoint's targeted loan-to-value ratio of below 40%, the Board is carefully weighing the impact of each investment decision.

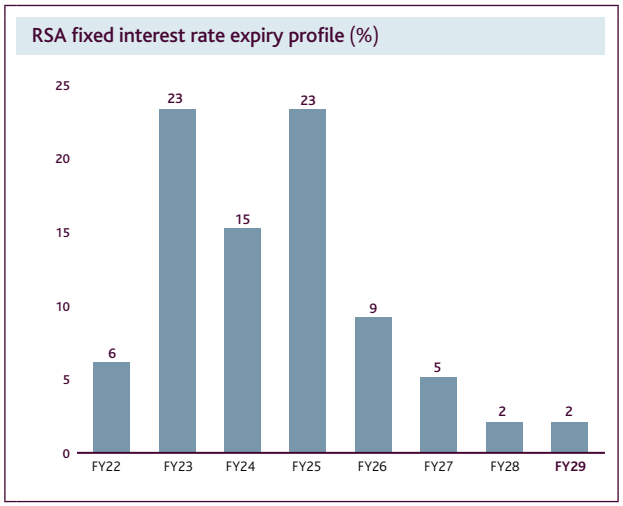
Interest rate risk management

Swap rates have consistently stayed above the three-month JIBAR rates as short-term interest rates are expected to increase.

FY21 five-year swap rate and 3m JIBAR



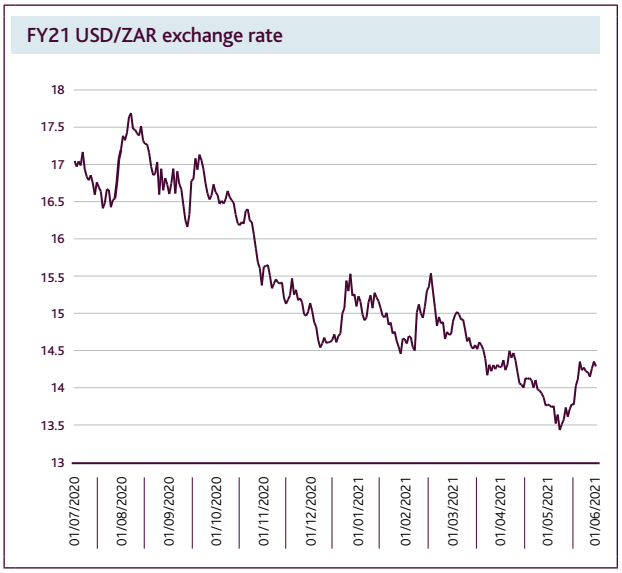
As Growthpoint has a large debt portfolio, our earnings are exposed to interest rate changes. We have a policy of hedging at least 75% of our borrowings at a fixed interest rate to reduce volatility in earnings, and as at 30 June 2021, 85.1% of Growthpoint's borrowings were hedged at a fixed interest rate. This is in comparison to 80.6% in FY20. Should interest rates increase by a full 1%, Growthpoint would pay an additional R56.5m worth of interest, which translates to 1.6c in distribution per share. Growthpoint therefore believes that the interest rate risk is appropriately mitigated.



The weighted average term of the fixed interest rate profile remained at 3.1 years (FY20: 3.1 years). Growthpoint has taken advantage of the lower swap curve and extended a number of the existing swaps with a shorter maturity.

Exchange rate risk management

The Rand is a volatile currency as reflected in the graph. Although the Rand weakened significantly due to the shock of the pandemic, it recovered during FY21 and, towards the end of the financial year, was stronger than before the onset of the pandemic.



From a balance sheet point of view, some of the foreign denominated investments are hedged via foreign denominated liabilities, either in the form of direct foreign denominated debt or via cross-currency interest rate swaps. The foreign exchange denominated liabilities section of the balance sheet hedge table reflects the percentage of hedging in Growthpoint's balance sheet.

As the dividends from the foreign investments are earned in foreign currency, our earnings are subject to exchange rate movements. Growthpoint mitigates this foreign exchange rate risk by matching the interest expense in the same currency as the dividend receipt, and by fixing the balance of the receipts via forward exchange contracts (FECs).

FY22 FX dividend hedge table

Investment	Currency	% of dividends to be used for servicing FX interest	% dividends hedged to ZAR via FECs	Weighted average FX rate on FECs	Impact of ZAR1 change in FX rate on DPS (in cents)
GOZ	AUD	**20**	**20**	**12.15**	**1.5**
GWI	EUR	**57**	**25**	**20.15**	**0.1**
C&R	GBP	**N/A**	**N/A**	**N/A**	**N/A**
Lango	USD	**46**	**0**	**N/A**	**0.1**

The table is based on the expected dividends from the foreign denominated investments in FY22. These are able to cover the expected interest payments in respect of the debt taken out for the GOZ, GWI and Lango investments. The dividend for Lango includes an expected dividend from Lango Real Estate Management Limited. Currently, no dividend is expected from C&R and no foreign denominated liabilities are outstanding in this regard.