

SAFARI INVESTMENTS RSA LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 2000/015002/06
Share code: SAR
ISIN: ZAE000188280
(Approved as a REIT by the JSE)
("Safari" or "the Company")



SOUTHERN PALACE UPDATE

Safari shareholders are referred to the circular dated 7 June 2017 relating to a capital raise in which the company issued 99 552 633 shares at R7,60 per share, raising an aggregate sum of R756 600 011 from Grinrod Asset Management Pty Ltd (R160 million), Safari Hold Pty Ltd (R5 million), Southern Palace Capital Pty Ltd (R501,6 million) (**Southern Palace**), Stanlib Asset Management Ltd (R40 million) and WDB Investment Holdings Pty Ltd (R50 million).

The capital raised was used to reduce the company's bond debt, strengthening the Company's balance sheet and cashflows. As set out in the circular, the subscription by Southern Palace was principally funded by a financial institution, Sanlam Life Insurance Limited (acting through its Sanlam Capital Markets Division) (**Sanlam**), through loans to the extent of approximately R451 million (**Sanlam Southern Palace Facility**). The balance was raised separately by Southern Palace from Sanlam through an equity bridge facility. As required by Sanlam, and as a condition to Southern Palace's subscription, Safari provided financial support for the Sanlam Southern Palace Facility in the form of a guarantee (**Safari Guarantee**), supported by a R250 million facility to Safari from ABSA Bank Limited (**ABSA Facility**) under which ABSA provided Sanlam with a collateral guarantee in the amount of R250 million. Any balance of the Safari Guarantee was covered by earmarked capacity within Safari's other facilities.

Southern Palace's liability to Safari in relation to the Safari Guarantees and the amounts paid and payable thereunder, is secured by a reversionary pledge and cession of the 53 million Safari shares held by Southern Palace (prior to the default event described below in September 2018, the number of shares subject to the pledge amounted to 66 million Safari shares) (**Reversionary Pledge and Cession**), a guarantee by Southern Palace's holding company and a pledge and cession of all of the shares in Southern Palace (collectively, **Southern Palace Security**). Safari's reversionary security is subordinate to that of Sanlam, and becomes first-ranking security upon repayment of the amounts outstanding on the Sanlam Southern Palace Facility and the full and final discharge of all obligations thereunder.

We further refer shareholders to previous communication and our 2019 Integrated Annual Report for more background to the history of the Southern Palace transaction.

Sanlam has called on Southern Palace for repayment of the outstanding balance under the Sanlam Southern Palace Facility. Southern Palace has not made the required payment, and Sanlam has consequently called on Safari under the Safari Guarantee for repayment of the outstanding debt of approximately R221 million, which amount Safari will pay to Sanlam within the required 10 business days (and which is expected to be on 6 May 2020). The funds will be drawn down from the balance of the ABSA Facility and from Safari's other existing debt facilities.

Safari will accordingly have a corresponding claim against Southern Palace (and, through the guarantee, against its holding company) for repayment of the aforementioned amount following payment to Sanlam, and for repayment of all other amounts paid and payable by Safari (including interest, costs and fees) relating to this transaction (**Southern Palace Indebtedness**), secured by the Southern Palace Security. As at the date of this announcement, following payment of the final amounts to Sanlam, the amount owing by Southern Palace (and its holding company, as guarantor) to Safari will

be approximately R503 million, and carries base (i.e. non default) interest at a back-to-back rate equal to Safari's borrowing costs for such funds.

Upon discharge of the amounts payable to Sanlam, the Reversionary Pledge and Cession will no longer be subordinated to that of Sanlam, and consequently, Safari will hold a first ranking cession and pledge over 53 million Safari shares (**Pledged Shares**) owned by Southern Palace, and will continue to hold a first ranking cession and pledge over all of the shares in Southern Palace. In terms of the Southern Palace Security, all distributions paid under the Pledged Shares are secured in favour of Safari and are required to be applied in reduction of the Southern Palace Indebtedness while so held.

Safari's weighted average cost of funding (and the cost of the incremental additional borrowing to effect the repayment) is lower than the cost of funding payable by Southern Palace to Sanlam, which was secured by Safari and which was at a fixed interest rate of 9.55%. The exercise by Sanlam of its right to accelerate maturity of the structure has accordingly improved Safari's effective funding costs associated with the structure, with an estimated ongoing monthly saving of approximately R520 000 at present interest rates (less once-off break fees of approximately R700 000).

With the structure having otherwise been due to mature in August 2020, the requirement to settle Sanlam under the Safari Guarantee has been anticipated and accommodated for in Safari's debt provisioning. The drawdown of these funds is thus not expected to adversely impact Safari's effective net cashflows or its general operational financial provisioning.

In broad, simple, summary terms, the commercial position for Safari under the Southern Palace transaction is thus that it received R501,6 million in equity subscriptions from Southern Palace (with funding therefore being underwritten by Safari) against the issue of 66 million Safari shares, and Safari applied the funds to reduce the Company's net debt at the time. Safari will have expended approximately R503 million in aggregate in discharging the transaction funding it underwrote, including interest and costs paid to ABSA for the monies available and drawn under the ABSA Facility. These payments are funded through Safari's existing debt facilities. The funding raised by Southern Palace for the transaction was also partly paid down by the sale of 13 million of the initial 66 million shares at a price of approximately R4,67 per share, and from the dividends received by Southern Palace on the Safari shares. The R503 million disbursed by Safari is, in turn, claimable from Southern Palace and its holding company, and is recoverable from these parties as a debtor secured by the 53 million Safari shares and the guarantee from Southern Palace's holding company. In realising the 53 million Safari shares, Safari has the right to sell all or some of these by public or private sale, or to take all or some of them over (and therefore cancel them) at fair market value. As noted below, the approach to be taken by Safari is being evaluated by the Safari board, and will be subject to Safari shareholder approval, as appropriate.

The minimum recovery for Safari in respect of the debt owed by Southern Palace will therefore be the value of the shares, either on cancellation or on realisation. Cancellation of all or some of the shares may have additional consequences for shareholders, e.g. dividend per share, which may be beneficial, and which will be evaluated as part of the board's considerations.

The accounting treatment of the transaction in terms of IFRS is set out in the Company's Integrated Annual Reports for financial years ending 31 March 2018 and 2019. Safari presently anticipates releasing its annual financial statements and integrated report for the year ended 31 March 2020 in around June, which will continue to set out the accounting treatment of the position, whether as a subsequent balance sheet event or otherwise.

Safari will engage with Southern Palace and its holding company in respect of the amounts owing to Safari by these companies, will continue to evaluate the position on an ongoing basis in light of prevailing market circumstances, and will update shareholders on any material developments in due course as required. Pending any such developments, Safari will accordingly continue to hold the Southern Palace Security and will apply any distributions made on the Safari shares in reduction of the Southern Palace Indebtedness. While so held, the shares will be classified as treasury shares for purposes of the JSE Listings Requirements.

Pretoria
4 May 2020

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