HERIOT REIT LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2017/167697/06)
JSE share code: HET ISIN: ZAE000246740
(Approved as a REIT by JSE)
("Heriot" or "the Company" or "the Group")

www.heriotreit.com

Unaudited condensed consolidated financial statements for the six months ended 31 December 2018

Highlights
- Dividend growth of 12,6%
- Net gearing of 34,4%
- New 10 year Dischem lease in Cape Town's CBD

Summarised consolidated statement of financial position

	Unaudited 31 December 2018 R'000	Unaudited 30 November 2017 R'000	Audited 30 June 2018 R'000
Assets			
Non-current assets			
Investment property	4 509 538	4 140 242	4 451 963
Property, plant and equipment	24 956	26 099	25 373
Investment in associate	10 360	13 192	10 430
Financial assets	34 864	43 456	34 788
	4 579 718	4 222 989	4 522 554
Current assets			
Trade and other receivables	20 713	64 823	24 165
Financial assets	75 156	54 455	77 760
Taxation	2 903	1 901	2 918
Cash and cash equivalents	38 322	112 525	113 081
	137 094	233 704	217 924
Total assets	4 716 812	4 456 693	4 740 478
Equity and liabilities			
Equity			
Stated capital	2 548 624	2 551 062	2 548 624
Retained earnings	412 164	235 280	410 841
	2 960 788	2 786 342	2 959 465
Non-controlling interests	44 613	59 851	46 400
	3 005 401	2 846 193	3 005 865
Non-current liabilities			
Interest-bearing liabilities	1 587 992	1 507 820	1 211 036
Derivative financial instrument	2 415	1 536	-
Deferred taxation	62 057	54 645	59 808

	1 652 464	1 564 001	1 270 844
Current liabilities			
Interest-bearing liabilities	-	2 865	403 886
Derivative financial instrument	-	-	812
Trade and other payables	58 947	43 634	59 071
	58 947	46 499	463 769
Total equity and financial liabilities	4 716 812	4 456 693	4 740 478
Net asset value per shares (cents)	1 159,29	1 089,96	1 158,78
Net tangible asset per share (excluding deferred taxation) (cents)	1 183,59	1 111,34	1 182,19

Summarised consolidated statement of profit and loss and other comprehensive income

	Unaudited 6 months ended 31 December 2018 R'000	Unaudited 6 months ended 30 November 2017 R'000	Audited 13 months ended 30 June 2018 R'000
Rental income	225 836	199 092	444 828
Contractual rental income and recoveries	235 978	207 040	463 913
Straight line rental income	(10 142)	(7 948)	(19 085)
Property expenses	(56 979)	(40 820)	(99 376)
Net property income	168 857	158 272	345 452
Income from associate	(69)	3 543	781
Other income	3 821	4 577	11 074
Administrative expenses and corporate costs	(19 290)	(14 114)	(34 481)
Profit from operations	153 319	152 278	322 826
Finance income	7 453	3 581	16 776
Finance charges	(68 132)	(69 511)	(152 147)
Profit before fair value adjustments	92 640	86 348	187 455
Fair value adjustments	25 330	155 497	328 583
Investment properties	26 933	154 227	326 590
Derivative financial instrument	(1 603)	1 270	1 993
Profit before taxation	117 970	241 845	516 038
Taxation	(2 756)	(535)	(6 098)
Net profit after taxation	115 214	241 310	509 940
Attributable to:			
Equity holders of the company	114 157	235 280	498 445
Non-controlling interests	1 057	6 030	11 495
	115 214	241 310	509 940
Reconciliation of earnings and headline earnings			
Profit attributable to equity holders of the company	114 157	235 280	498 445
Change in fair value of investment properties attributable to shareholders of the company	(27 585)	(154 227)	(318 546)
Change in fair value of investment properties	(26 933)	(154 227)	(326 590)
Attributable to non-controlling shareholders	(652)	-	8 044
Headline earnings attributable to equity			

holders	86 572	81 053	179 899
Share Metrics:			
Number of shares in issue at reporting date *	255 395 858	255 637 235	255 395 858
Weighted average number of shares in issue	255 395 858	255 637 235	252 363 996
Basic and diluted earnings per share (cents) ^	44,70	92,04	197,51
Basic and diluted headline earnings per share (cents) ^	33,90	31,71	71,29
Distribution per share (cents)	39,50	35,09	79,27

* Excluding 900,000 treasury
^ Refer to the prior period error note

Segmental report

For the six months ended 31 December 2018	GLA	Investment property	Revenue	Straight line rental income	Property expenses	Net income
	m2	R'000	R'000	R'000	R'000	R'000
Retail	137 345	2 354 450	124 392	(1 907)	(34 963)	87 522
Industrial	326 113	1 655 641	94 419	(8 703)	(18 685)	67 031
Office	12 445	261 650	13 758	534	(3 094)	11 198
Specialised	#	94 409	3 409	(65)	(238)	3 106
Property under development	9 825	143 394	-	-	-	-
Net property income	485 728	4 509 544	235 978	(10 142)	(56 979)	168 857
Other income						3 821
Equity accounted profits (net of taxation)						(69)
Administrative and corporate costs						(19 290)
Net finance charges						(60 679)
Changes in fair values						25 330
Taxation						(508)
Total comprehensive income for the year						117 462
Distributable earnings adjustments						(16 580)
Straight line rental income accrual						10 142
Changes in fair values						(25 330)
Equity accounted profits (net of taxation)						69
Attributable to minorities						(1 709)
Owner occupied depreciation						248
Distributable earnings						100 882

For the six months ended 30 November 2017	GLA	Investment property	Revenue	Straight line rental income	Property expenses	Net income

	m2	R'000	R'000	R'000	R'000	R'000
Retail	150 360	2 181 853	113 206	-	(29 222)	83 984
Industrial	331 513	1 652 193	76 739	-	(7 609)	69 130
Office	7 105	214 133	13 853	-	(3 948)	9 905
Specialised	#	92 063	3 242	-	(41)	3 201
Net property income	488 978	4 140 242	207 040	-	(40 820)	166 220
Other income						4 577
Equity accounted profits (net of taxation)						3 543
Administrative and corporate costs						(14 114)
Net finance charges						(65 930)
Changes in fair values						155 497
Taxation						(535)
Total comprehensive income for the year						249 258
Distributable earnings adjustments						(159 555)
Changes in fair values						(155 497)
Equity accounted profits (net of taxation)						(3 543)
Dividend from associate						1 500
Attributable to minorities						(2 015)
Distributable earnings						89 703

For the six months ended 30 June 2018	GLA	Investment property	Revenue	Straight line rental income	Property expenses	Net income
	m2	R'000	R'000	R'000	R'000	R'000
Retail	137 345	2 304 450	246 679	(517)	(64 249)	181 914
Industrial	326 113	1 680 475	180 949	(21 090)	(27 409)	132 450
Office	12 445	266 775	29 181	2 585	(7 373)	24 392
Specialised	#	93 400	7 104	(63)	(345)	6 695
Property under development	9 988	106 863	-		-	-
Net property income	485 891	4 451 963	463 913	(19 085)	(99 376)	345 452
Changes in fair values						328 583
Other income						10 984
Profit on disposal investment property						90
Equity accounted profits (net of taxation)						781
Administrative and corporate costs						(34 481)
Net finance charges						(135 371)
Taxation						(6 098)
Total comprehensive income for the year						509 940
Distributable earnings adjustments						(307 007)

Straight line rental income accrual	19 085
Changes in fair values	(328 584)
Profit on disposal of investment property	(90)
Equity accounted profits (net of taxation)	(781)
Dividend from associate	1 500
Antecedent interest adjustment	249
Attributable to minorities	(3 451)
Deferred taxation	5 065
Distributable earnings	202 933

The specialised property comprises of 8 382ha2 of industrial farms and the inclusion of this, measured by hectare, in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole

Summarised consolidated statement of changes in equity

	Stated capital R'000	Retained earnings R'000	Non controlling interests R'000	Total equity R'000
Issue of shares	2 556 371	-	87 112	2 643 483
Share issue expenses	(5 309)	-	-	(5 309)
Acquisition of minority interests	-	-	(33 291)	(33 291)
Total comprehensive income for the 6 months ended 30 November 2017	-	235 280	6 030	241 310
Balance at 30 November 2017	2 551 062	235 280	59 851	2 846 193
Share issue expenses	(24)	-	-	(24)
Acquisition of minority interests	6 586	2 330	(18 916)	(10 000)
Treasury shares acquired	(9 000)	-	-	(9 000)
Total comprehensive income for the 7 months ended 30 June 2018	-	263 165	5 465	268 630
Dividend distributions to owners of company recognised directly in equity	-	(89 934)	-	(89 934)
Balance at 30 June 2018	2 548 624	410 841	46 400	3 005 865
Total comprehensive income for the 6 months ended 31 December 2018	-	114 157	1 057	115 214
Dividend distributions to owners of company recognised directly in equity	-	(112 834)	(2 844)	(115 678)
Balance at 30 June 2018	2 548 624	412 164	44 613	3 005 401

Summarised consolidated statement of cash flows

	Unaudited 6 months ended 31 December 2018	Unaudited 6 months ended 30 November 2017	Audited 13 months ended 30 June 2018

Cash generated from operations	162 975	202 188	394 998
Net finance charges	(60 679)	(65 930)	(135 371)
Taxation paid	(493)	(82)	(1 596)
Cash flows from operating activities	101 803	136 176	394 207
Acquisition and development of investment property	(40 835)	(207 681)	(343 727)
Proceeds from disposal of investment property	-	-	22 890
Acquisition of property, plant and equipment	(25)	(52)	(97)
Cash on acquisition of businesses	-	13 692	13 692
Dividends received from associates	-	1 500	1 500
Loan to related party repaid	2 604	50 022	26 717
Share scheme debt repaid	1 458	-	1 470
Cash from investing activities	(36 798)	(142 519)	(277 555)
Proceeds from the issue of share capital	-	29	29
Share issue expenses	-	(5 309)	(5 333)
Acquisition of non-controlling interests	-	(33 291)	(43 291)
Dividend distributions to owners of company recognised directly in equity	(112 834)	-	(89 934)
Interest bearing liabilities repaid	(26 930)	-	(202 074)
Interest bearing borrowings raised		157 439	473 208
Net cash generated from financing activities	(139 764)	118 868	132 605
Net movement in cash and cash equivalents	(74 759)	112 525	113 081
Cash and cash equivalents at the beginning of the period	113 081	-	-
Cash and cash equivalents at the end of the period	38 322	112 525	113 081

Commentary

Introduction
Heriot, a property holding and investment company listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE"), is invested in industrial, retail, office and specialised properties situated in areas with high growth potential. The Group's primary objective is to develop or acquire yield-enhancing assets within South Africa to create a stable and diverse portfolio of assets for the purposes of generating secure and escalating net rental income.

Financial results
In April 2018, Heriot changed its year end from 31 May to 30 June. As a consequence, Heriot's year end results were for the 13 months ended 30 June 2018 and its previous interim results were for the six months ended 30 November2017. The results for the six months ended 31 December 2018 are therefore not comparable in all respects to the previous interim results.

Heriot's distributable earnings for the six months ended 31 December 2018 of R100,9 million, or 39.50 cents per share, are 12,6% ahead of the previous interim distribution for the six months ended 30 November 2017 of 35.09 cents per share. This growth is mainly attributable to the restructuring secured borrowings of R400 million, rental escalations and efficient property management.

Property portfolio
Heriot's portfolio comprises 43 properties across major sectors within South Africa. At the reporting date, the properties were externally valued at R4,366 billion, excluding the property under development that is recognised at cost.

Property under development comprises the Adderley Street property in the Cape Town CBD that is being redeveloped into 215 residential units with 870 m2 ground floor retailthat has been let to Dischem on a 10 year lease commencing in May 2019. Total costs incurred to 31 December 2018 amount to R143,4 million and the project is expected to be completed in May 2019.

Over and above Heriot's investment property portfolio, Heriot owns the Group's head office, comprising 717 m2 A Grade office space in Melrose Arch. This property has been accounted for as property, plant and equipment in terms of the accounting standard relating to owner occupied property.

Vacancies
As at 31 December 2018, vacancies amounted to 2,5% of the portfolio. Since the reporting date, 10,393 m2 of the 11,670 m2 GLA has been let, reducing the overall vacancies to 0,3%.

Bad debts
Trade receivables have been assessed for recoverability on a tenant by tenant basis. Bad debts of R0,6 million have been provided for during the period under review.

Funding
Heriot's secured borrowings of R1,588 billion as at 31 December 2018 equates to a gearing ratio of 35,2%. The average cost of borrowing was 8,95% for the period under review and 45% of borrowings have been fixed. The average remaining term of the debt is 2,9 years. After accounting for cash on hand at the reporting date, the Group's net gearing is 34,4%.

While the group has a facility in place to fund development costs of the Adderley Street property, development costs of approximately R60,0 million to date have been funded from available cash resources.

Financial assets

Financial assets comprise of:
- Non-current
Loans to participants of the employee share purchase scheme. The share scheme loan bears interest at Heriot's average cost of borrowings and the Company is entitled to claim repayment of the loans at any time after the expiration of 10 years from the advance date.
- Current
Loan to a related party, being a company owned by SB Herring, which loan bears interest at the average cost of borrowings and is repayable on demand. Subsequent to the reporting date, R22,7 million of this loan has been repaid.

Share Capital
There were no changes to the issued share capital during the reporting period.

As at 31 December 2018, the Company had 255,395,858 shares in issue, excluding the 900,000 treasury shares owned by the Group.

Payment of dividend

The board has approved and notice is hereby given of gross dividend number 3 of 39,50000 cents per share for the six months ended 31 December 2018. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2019
Last date to trade cum dividend	Tuesday, 5 March
Shares trade ex dividend	Wednesday, 6 March
Record date	Friday, 8 March
Payment date	Monday, 11 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 March 2019 and Friday, 8 March 2019, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Monday, 11 March 2019. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about, Monday, 11 March 2019.

In accordance with Heriot's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that such shareholders provide the following forms to their Central Securities Depository

Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) a declaration that the dividend is exempt from dividends tax; and
b) a written undertaking to inform the CSDP, broker or the Company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. Any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 31,60000 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
b) a written undertaking to inform their CSDP, broker or the Company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Shares in issue at the date of the dividend: 255,395,858 (excluding 900,000 treasury shares)

Heriot's income tax reference number: 9541295185

Prospects

The board remains confident that Heriot will deliver growth of 9,0% to 11,0% in distributable income per share for the year ending 30 June 2019. This growth has been determined with reference to the distributable earnings of 73,27 cents per share for the 12 months ended 31 May 2018.

This forecast is based on the assumption that there will be no change in the current trading conditions of the existing portfolio, a stable macro-economic environment will prevail, tenants will be able to absorb rising utility cost and that there will be no major corporate failures. This forecast has not been audited or reviewed by the Company's auditors.

Basis of preparation

The unaudited condensed consolidated financial statements for the six months ended 31 December 2018 have been prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The JSE Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. The accounting policies applied in the preparation of these financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

These unaudited results for the six months ended 31 December 2018, prepared under the supervision of the Chief Financial Officer JA Finn CA(SA), have not been reviewed or reported on by the Company's auditors.

The directors are not aware of any matters or circumstances arising subsequent to the six month period ended 31 December 2018 that require any additional disclosure or adjustment to the financial statements. The directors further take full responsibility for the preparation of these condensed consolidated financial statements.

Prior period errors

Basic and diluted earnings per share was incorrectly calculated in the comparative figures. For the six months ended 30 November 2017, earnings were calculated excluding the change in fair value of investment properties and for the 13 months ended 30 June 2018, the calculation was based on the actual number of shares in issue as opposed to the weighted average number of shares in issue for the period. The earnings per share has now been correctly calculated to comply with IAS 33 Earnings per share.

The correction of the errors results in adjustments as follows:

	Basic and diluted earnings per share For six months ended 30 November 2017 (cents)	For 13 months ended 30 June 2018 (cents)	Basic and diluted headline earnings per share For six months ended 30 November 2017 (cents)	For 13 months ended 30 June 2018 (cents)
Reported	31.71	195.17	31.71	70.44
Restated	92.04	195.51	31.71	71.29
Difference	60.33	0.34	-	0.85

Changes to the board
Shareholders are advised that the chairperson of the board, Mr David Friend, has resigned from the board with effect from Monday, 18 February 2019. The board would like to thank Mr Friend for his valuable contribution to the company. Mr Steven Herring, currently a non-executive director of Heriot, will assume the role of chairperson of the board with effect from Monday, 18 February 2019.

Notification in terms of section 45(5) of the Companies Act 71 of 2008
Notice is hereby given that, in terms of the provisions of section 45(5) of the Companies Act 71 of 2008 ("Companies Act"), and pursuant to the special resolution passed at the annual general meeting of Heriot held on 7 December 2018 authorising the board to provide direct or indirect financial assistance to, inter alia, subsidiaries of the Company, the board has adopted a resolution on 15 February 2019 in terms of section 45(2) of the Companies Act authorising the Company to provide financial assistance to Moditouch Proprietary Limited by way of the Company providing a guarantee in the amount of R35.5 million to Moditouch Proprietary Limited.

By order of the Board

15 February 2019

Company Secretary: CIS Company Secretaries Proprietary Limited (G Prestwich)

Registered office: Suite 1, Ground Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, 2196
PO Box 652737, Benmore, 2010

Directors as at the date of approval of the interim results by the Board:
SD Friend (Chairperson) *, RL Herring (CEO), JA Finn (CFO), SJ Blieden *#, T Cohen *#,
SB Herring*^, N Ngale *#
*Non-executive # Independent ^ British

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Designated Advisor: Java Capital

Release date: 18 February 2019