



Summarised audited condensed consolidated financial statements

for the year ended 31 May 2018 and for the 13 months ended 30 June 2018

Highlights

	30 June 2018	31 May 2018
Property portfolio valuation	R4,452 billion	R4,374 billion
Number of properties	43	43
Net asset value (per share)	R11,59	R11,35
Increase in net asset value since listing	16,0%	13,6%
Distributable earnings (cents per share)	79,27	73,27
Distributable earnings ahead of listing forecast (cents per share)		1,60

Summarised consolidated statement of financial position

	Audited 30 June 2018 R'000	Audited 31 May 2018 R'000
Assets		
Non-current assets		
Investment property	4 451 963	4 374 199
Property, plant and equipment	25 373	25 447
Investment in associate	10 430	10 430
Financial assets	34 788	34 530
	4 522 554	4 444 606
Current assets		
Trade and other receivables	24 165	33 553
Financial assets	77 760	76 803
Taxation	2 918	2 475
Cash and cash equivalents	113 081	90 081
	217 924	202 912
Total assets	4 740 478	4 647 518
Equity and liabilities		
Equity		
Stated capital	2 548 624	2 548 624
Retained earnings	410 841	350 919
	2 959 465	2 899 543
Non-controlling interests	46 400	45 655
	3 005 865	2 945 198
Non-current liabilities		
Interest-bearing liabilities	1 211 036	1 184 078
Deferred taxation	59 808	59 808
	1 270 844	1 243 886
Current liabilities		
Interest-bearing liabilities	403 886	403 772
Derivative financial instrument	812	1 110
Trade and other payables	59 071	53 552
	463 769	458 434
Total equity and financial liabilities	4 740 478	4 647 518
Net asset value per shares (cents)	1 158,78	1 135,31
Net tangible asset per share (excluding deferred taxation) (cents)	1 182,19	1 158,73



Summarised consolidated statement of profit and loss and other comprehensive income

	Audited 13 months ended 30 June 2018 R'000	Audited Year ended 31 May 2018 R'000	Forecast Year ended 31 May 2018 R'000
Rental income	444 828	409 701	400 307
Contractual rental income and recoveries	463 913	427 069	417 802
Straight line rental income	(19 085)	(17 368)	(17 495)
Property expenses	(99 376)	(89 885)	(74 997)
Net property income	345 452	319 816	325 310
Income from associate	781	781	275
Other income	11 074	10 145	7 373
Administrative expenses and corporate costs	(34 481)	(32 478)	(28 965)
Profit from operations	322 826	298 264	303 993
Finance income	16 776	15 810	5 659
Finance charges	(152 147)	(140 630)	(137 207)
Profit before fair value adjustments	187 455	173 444	172 445
Fair value adjustments	328 583	281 821	17 495
Investment properties	326 590	280 125	17 495
Derivative financial instrument	1 993	1 696	–
Profit before taxation	516 038	455 265	189 940
Taxation	(6 098)	(5 992)	(1 553)
Net profit after taxation	509 940	449 273	188 387
Attributable to:			
Equity holders of the company	498 445	438 523	183 210
Non-controlling interests	11 495	10 750	5 177
	509 940	449 273	188 387
Reconciliation of earnings and headline earnings			
Profit attributable to equity holders of the company	498 445	438 523	183 210
Change in fair value of investment properties attributable to equity holders of the company	(318 546)	(272 593)	(17 495)
Change in fair value of investment properties	(326 590)	(280 125)	(17 495)
Attributable to non-controlling shareholders	8 044	7 532	
Headline earnings attributable to equity holders	179 899	165 930	165 715
Number of shares in issue at reporting date*	255 395 858	255 395 858	255 637 235
Weighted average number of shares in issue	252 363 996	252 114 801	255 637 235
Basic and diluted earnings per share (cents)	195,17	171,70	71,67
Basic and diluted headline earnings per share (cents)	70,44	64,97	64,82
Distribution per share (cents)	79,27	73,27	71,67

* Excluding 900,000 treasury shares.



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	(5 333)			(5 333)
Acquisition of non-controlling interests	6 586	2 330	(52 207)	(43 291)
Treasury shares acquired	(9 000)			(9 000)
Profit for the year ended 31 May 2018		438 523	10 750	449 273
Dividend distributions to owners of company recognised directly in equity		(89 934)		(89 934)
Balance at 31 May 2018	2 548 624	350 919	45 655	2 945 198
Profit for the period 1 June to 30 June 2018		59 922	745	60 667
Balance at 30 June 2018	2 548 624	410 841	46 400	3 005 865



Summarised consolidated statement of cash flows

	Audited 13 months ended 30 June 2018 R'000	Audited Year ended 31 May 2018 R'000
Cash generated from operations	394 998	353 988
Net finance charges	(135 371)	(124 820)
Taxation paid	(1 596)	(1 046)
Cash flows from operating activities	258 031	228 122
Acquisition and development of investment property	(343 727)	(310 703)
Proceeds from disposal of investment property	22 890	22 890
Acquisition of property, plant and equipment	(97)	(97)
Cash on acquisition of businesses	13 692	13 692
Dividends received from associates	1 500	1 500
Loan to related party repaid	26 717	27 674
Share scheme debt repaid	1 470	1 470
Cash from investing activities	(277 555)	(243 574)
Proceeds from the issue of share capital	29	29
Share issue expenses	(5 333)	(5 333)
Acquisition of non-controlling interests	(43 291)	(43 291)
Dividend distributions to owners of company recognised directly in equity	(89 934)	(89 934)
Interest bearing liabilities repaid	(202 074)	(224 387)
Interest bearing borrowings raised	473 208	468 449
Net cash generated from financing activities	132 605	105 533
Net movement in cash and cash equivalents	113 081	90 081
Cash and cash equivalents at the beginning of the period	–	–
Cash and cash equivalents at the end of the period	113 081	90 081



Commentary

Introduction

Heriot, a property holding and investment company, listed in the "Diversified REITs" sector on the Alternative Exchange ("AltX") of the JSE Limited ("JSE") on 24 July 2017. Heriot 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

Subsequent to listing, Heriot changed its year end from 31 May to 30 June and in compliance with the JSE Listings Requirements, is required to publish reviewed results for the Group for the year ended 31 May 2018 and audited results for the Group for the 13 months ended 30 June 2018.

Heriot's total distributable earnings for the year ended 31 May 2018 of R187,5 million exceeds the forecast distributable income of R183,2 million, as reflected in the pre-listing statement issued on 17 July 2017 ("PLS"), by R4,3 million mainly due to the refinancing of secured borrowings at more attractive interest rates and improved cash management. Total distributable earnings for the 13 months ended 30 June 2018 amounted to R202,9 million.

Heriot's distributable earnings for the year ended 31 May 2018 of 73,27 cents per share exceeds the forecast distribution of 71,67 cents per share by 1,60 cents per share or 2,2% and the net asset value at 31 May 2018 was R11,35 per share, an increase of 135 cents per share over the listing price of R10,00 per share. At 30 June 2018, the net asset value per share increased by 24 cents per share to R11,59 per share and the distributable earnings increased by 6,00 cents per share to 79,27 cents per share for the 13 months then ended.

The board has declared a final dividend of 44,18 cents per share which together with the interim dividend of 35,09 cents per share equates to a total dividend of 79,27 cents for the 13 months ended 30 June 2018.

No comparative figures have been presented as the Company was incorporated on 18 April 2017 and only commenced trading on 5 June 2017.

Property portfolio

Heriot's portfolio comprises 43 properties across major sectors within South Africa. The properties were externally valued at R4,275 billion at 31 May 2018, excluding the property under development that is recognised at cost. This represents an increase of R280,1 million, or 6,4%, on the cost of the assets acquired pursuant to the listing.

After accounting for an increase in fair value in the investment properties of R46,5 million for June 2018 and for the acquisition of the non-controlling shareholder's 50% interest in the Shoprite Seapoint property for R24,0 million on 18 June 2018, the fair value of investment properties had increased to R4,345 billion at 30 June 2018.

Property under development comprises the Adderley Street property in the Cape Town CBD that is currently being redeveloped into 212 residential units with 870 m² ground floor retail. 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 May and 30 June 2018, 0,6% of the portfolio was vacant. Subsequent to the reporting date, the vacancy reduced to 0,4% with the take-up of 796 m² office space at an average rental of R200/m².

Bad debts

Trade receivables have been assessed for recoverability on a tenant by tenant basis. Bad debts of R0,37 million have been written off during the review period and a further provision of R0,23 million for doubtful debts has been raised.

Sectoral analysis

For the 13 months ended 30 June 2018

	GLA m ²	Investment property R'000	Revenue R'000	Fair value adjustments R'000	Straight line rental income R'000	Property expenses R'000	Net income R'000
Retail	150 360	2 304 450	246 679	186 908	(517)	(64 249)	368 821
Industrial	326 113	1 680 475	180 949	128 690	(18 797)	(27 409)	263 433
Office	12 445	266 775	29 181	6 989	292	(7 373)	29 089
Specialised	*	93 400	7 104	4 003	(63)	(345)	10 699
Property under development	9 825	106 863	–	–	–	–	–
Net property income	498 743	4 451 963	463 913	326 590	(19 085)	(99 376)	672 042
Fair value adjustments – derivative financial instrument							1 993
Other income							10 984
Profit on disposal of 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							19 085
Fair value adjustments							(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.



Commentary continued

For the year ended 31 May 2018

	GLA m ²	Investment property R'000	Revenue R'000	Fair value adjustments R'000	Straight line rental income R'000	Property expenses R'000	Net income R'000
Retail	150 360	2 261 250	228 195	168 940	(594)	(58 524)	338 017
Industrial	326 113	1 659 500	165 170	105 682	(16 854)	(24 449)	229 549
Office	12 445	261 700	27 163	2 059	134	(6 599)	22 757
Specialised	*	92 760	6 541	3 444	(54)	(313)	9 618
Property under development	9 825	98 989	–	–	–	–	–
Net property income	498 743	4 374 199	427 069	280 125	(17 368)	(89 885)	599 941
Fair value adjustments – derivative financial instrument							1 696
Other income							10 055
Profit on disposal of investment property							90
Equity accounted profits (net of taxation)							780
Administrative and corporate costs							(32 478)
Net finance charges							(124 820)
Taxation							(5 991)
Total comprehensive income for the year							449 273
Distributable earnings adjustments							(261 727)
Straight line rental income							17 368
Fair value adjustments							(281 821)
Profit on disposal of investment property							(90)
Equity accounted profits (net of taxation)							(780)
Dividend from associate							1 500
Antecedent interest adjustment							249
Attributable to minorities							(3 218)
Deferred taxation							5 065
Distributable earnings							187 546

Funding

Heriot's secured borrowings of R1,588 billion as at 31 May 2018 equates to a gearing ratio of 36,3%. The average cost of borrowing was 9,07% for the period under review and 45% of borrowings have been fixed. The average remaining term of the debt is 1,8 years. The increase of R27,1 million in secured borrowings to R1,615 billion at 30 June 2018 relates to the acquisition of the non-controlling shareholder's interest in the Shoprite Seapoint property. Net of cash, the gearing ratio was 34,6% at 30 June 2018.

In July 2018, R460 million of secured borrowings was refinanced, reducing the average cost of debt to 8,85% and increasing the average term of debt to 3,2 years.



Financial assets

Financial assets comprise of:

- 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; and
- A 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.

Share capital

Pursuant to its listing, the Company issued 251 437 235 shares at R10 each for the acquisition of the Group's assets together with 4 200 000 shares in respect of the Company's share purchase scheme. These shares, issued to employees at R10 per share, were funded by Heriot. Effective 1 December 2017, 900 000 shares were acquired by a subsidiary from employees who had resigned from the Company. These shares are now held as treasury shares by the Group.

On 14 December 2017, 658 623 shares were issued at R10 per share as part settlement for the acquisition of a non-controlling interest in a portfolio of three retail assets based in the Western Cape. The balance of the purchase price of R16,6 million was settled in cash.

As at 31 May and 30 June 2018, the Company had 255 395 858 shares in issue, excluding the treasury shares.

Distribution declaration

Distribution number 2 of 44,18000 cents per share for the seven months ended 30 June 2018 will be paid to shareholders in accordance with the timetable set out below:

2018	
Last date to trade cum dividend:	Tuesday, 18 September
Shares trade ex dividend:	Wednesday, 19 September
Record date:	Friday, 21 September
Payment date:	Tuesday, 25 September

Share certificates may not be dematerialised or rematerialised between Wednesday, 19 September 2018 and Friday, 21 September 2018, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Tuesday, 25 September 2018. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about, Tuesday, 25 September 2018.

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 35,344 000 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 is of the view that the dividend per share will grow at between 9% and 11% per share for the financial year ending 30 June 2019. This growth has been determined with reference to the distributable earnings of 73,27 cents per share for the year 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

These results have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34, Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, JSE Listings Requirements and the requirements of the Companies Act of South Africa. These financial results have been prepared under the supervision of the Chief Financial Officer, JA Finn, CA(SA). The results for the year ended 31 May 2018 and for the 13 months ended 30 June 2018 have been audited by the Company's independent auditors, Grant Thornton Johannesburg Partnership. The accounting policies applied in the preparation of the consolidated financial statements, from which the summarised consolidated financial statements were derived, are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the financial statements included in the PLS.

This summarised report is extracted from audited information but is not itself audited. The auditors, Grant Thornton, has expressed an unmodified opinion on the consolidated financial statements from which these summarised financial statements were derived. A copy of the auditor's report on the annual financial statements is available at the Company's registered office, together with the financial statements identified in the auditor's report.

The directors are not aware of any matters or circumstances arising subsequent to 30 June 2018 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement. The directors further take full responsibility for the preparation of these summarised consolidated financial statements and for ensuring that the financial information has been correctly extracted from the underlying audited financial statements.

By order of the Board

31 August 2018





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")

COMPANY SECRETARY

CIS Company Secretaries Proprietary Limited (G Prestwich)

REGISTERED OFFICE

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DIRECTORS

SD Friend (*Chairperson*)*, RL Herring (*CEO*), JA Finn (*CFO*), SJ Blieden**, T Cohen**,
SB Herring*, N Ngale**

SB Herring*, N Ngale**

**Non-executive *Independent*

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

DESIGNATED ADVISOR

Java Capital

www.heriotreit.com