



## Distributable earnings growth of **7,8%** to **90,72** cents per share for the year

Final dividend of **46,88** cents per share

100% dividend payout

Gearing of **38,3**%

Portfolio vacancy of 2,1% at year end

# Heriot

Heriot REIT Limited ("Heriot", the "company" or the "group") is a property holding and investment company, listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE").

Heriot is invested in a diversified portfolio of assets with a focus on emerging market retail and industrial properties within Southern Africa for the purpose of generating capital growth and secure escalating net rental income streams for shareholders.

## Commentary

#### Introduction

Distributable earnings of the group for the year ended 30 June 2021 (the "reporting period") of R231,7 million, or 90,72 cents per share, are 7,74% ahead of distributable earnings of 84,20 cents per share for the previous financial year and are at the upper end of the forecast dividend growth of 6,0% to 8,0% as presented in the unaudited condensed consolidated financial statements for the six months ended 31 December 2020.

This growth is mainly attributable to the group's low level of fixed debt that positioned Heriot to take advantage of the decrease of 300 bps in the repo rate during the 2020 calendar year, reducing the average cost of debt from 8,62% in 2020 to 6,32% for the reporting period.

Heriot's earnings have further been supported by the fact that the majority of its property portfolio is invested in retail properties in non-metropolitan areas, one of the stand-out sectors emerging from the COVID-19 pandemic.

Other than the loss of two major industrial tenants, Heriot's tenancies remained relatively stable during the reporting period. The group, however, experienced several rental reversions on lease renewals in the industrial sector, reducing the average industrial rental from R48,99/m² in 2020 to R45,00/m² in 2021. Prior to year end, replacement tenants have been secured for both industrial properties at an average rental of R43,00/m².

As at 30 June 2021, Heriot's net asset value ("NAV") per share increased by 36,0 cents to R11,43 per share from R11,07 as at 30 June 2020. This increase in value was largely driven by a net increase of R65,655 million in the fair value of investment property.

The group's continued effective cash management and resulting strong cash flows have ensured that Heriot has sufficient cash to pay 100% of its distributable earnings for the reporting period as a dividend.

## Investment property

Heriot's investment property portfolio, comprising 44 properties across all major sectors within South Africa, was externally valued at R4,54 billion at the end of the reporting period.

The property portfolio was independently valued as at 30 June 2021 by Peter Parfitt of Quadrant Properties Proprietary Limited, a registered valuer in terms of section 19 of the Property Valuers Professional Act, 47 of 2000, using the discounted cash flow method. The net increase in the value of the portfolio, amounting to 1,6% on a like-for-like basis, was driven by increases of R79.3 million and R56.3 million in the fair value of properties in the retail and specialised sectors respectively, offset by a decrease of R95.1 million in the value of industrial assets. The enhancement in the value of the retail property is reflective of the resilience displayed by properties in non-metropolitan areas through the COVID-19 pandemic, while the increase in the value of the specialised properties, comprising paper plantations, is mainly as a result of the significant increase in the value of paper and pulp commodities in recent years. The decrease in the value of the industrial portfolio is as a result of rent reversions in this sector.

During the reporting period, a rooftop solar system was installed at Tsakane Mall, a retail property co-owned with Exemplar REIT. The installation was brought into commission on 19 January 2021. Heriot's share of the cost was R6.259 million and the project is currently vielding approximately 15.0%. As part of Heriot's commitment to sustainability initiatives, the group has employed a full-time resource to head up solar and other sustainability initiatives and within the 2022 financial year, rooftop solar systems will be installed at the group's four largest retail properties at a cost of approximately R45,0 million. These installations will be funded by debt and are forecast to yield in excess of 20,0% per annum.

## Commentary continued

Over and above Heriot's investment property portfolio, the group owns two properties under development, one of which is being redeveloped into student accommodation and the other into residential space, to enhance their values and to maximise returns on these well-located properties.

Heriot further owns the group's head office, comprising 717m<sup>2</sup> 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**

While vacancies increased during the year due to the loss of two large industrial tenants, two large national companies have been secured as replacement tenants for these industrial spaces and as at year end, the effective vacancy was 2,1% (2020: 1,4%).

#### Trade receivables

During the period under review, no further COVID-19 relief discounts were granted to tenants. However, after considering trade receivables individually for expected credit losses and based on judgement, future expectations and information affecting the debtor, together with historical experience, the expected credit loss was increased by R1,80 million to R4,43 million as at the reporting date. This increase is reflective of the difficulties experienced by some tenants as a result of their inability to trade continuously during the various levels of COVID-19 lockdown periods.

## **Funding**

Heriot's secured borrowings of R1,828 billion as at 30 June 2021 equate to a gearing ratio of 38,8%. The average cost of borrowings, including the amortisation of facility raising fees, was 6,32% for the reporting period (2020: 8,62%) and as at the reporting date,

16,4% of borrowings have been fixed (2020: 36,7%). During the year, Heriot refinanced facilities totalling R1,09 billion for an average period of 30 months at an average interest rate of three-month JIBAR plus a margin of 167 bps.

As at 30 June 2021, debt amounting to R431,024 million and expiring within 12 months from the reporting date, has been reflected as current. Subsequent to year end, agreements have been finalised for the refinance of R400,0 million for a further period of three years. R350,0 million of the refinanced facility is subject to interest at the rate of three-month JIBAR plus a margin of 195 bps while the balance, a revolving credit facility, is subject to interest at prime less 140 bps. Management is confident that the facility of R31,024 million, expiring in March 2022, will be refinanced on similar terms and conditions.

The group has hedged a portion of its interest rate risk by way of a derivative financial instrument in the form of an interest rate swap for a notional value of R300,0 million at a fixed JIBAR interest rate of 7,68%. The fair value of the swap is obtained from the recognised derivative dealer that values the instrument by discounting future cash flows, while taking into account current market prices and conditions. The swap is classified as level 2 in terms of the fair value hierarchy and expires on 27 November 2021.

The board continues to monitor interest rate risk and intends to hedge up to 40% of the debt within the medium term.

### Financial assets

Non-current financial assets comprise loans R35,041 million to participants of the employee share purchase scheme together with an investment of 8 550 000 shares in Safari Investments ("Safari") valued at R38,475 million as at the reporting date. The share scheme loans bear 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 of July 2017. The fair value of listed investments is determined using the closing market price on the relevant exchange.

A loan to a related party, being a family trust of which Steven Herring is a beneficiary, is disclosed as a current financial asset. The loan bears interest at the group's average cost of borrowings and is repayable on demand.

Subsequent to the reporting date, Heriot acquired a further 50 078 280 shares in Safari for a total consideration of R280,438 million or R5,60 per share, increasing Heriot's holding to 18,86% as at the date of this report Including an indirect beneficial holding of Safari shares held by a company owned and controlled by Steven Herring's family Trust, the effective holding in Safari as at the date of this report is 32,51%. Steven Herring was appointed chairman and non-executive director of Safari with effect from 23 September 2021.

## Share capital

There were no changes to the issued share capital during the reporting period. As at 30 June 2021, the company had 255 395 858 shares in issue, excluding the 900 000 treasury shares owned by the group.

## Subsequent events

The following significant events have occurred post the reporting date:

- The refinancing of the Standard Bank debt of R400,0 million as detailed in this report;
- The acquisition of 50 078 280 shares in Safari, increasing Heriot's holding to 18,86% of Safari as detailed in this report:
- An agreement for the disposal of the Mpact Nelspruit property for R77,0 million, which is in line with the valuation of this property as at 30 June 2021; and
- An agreement for the purchase of Shoprite
   Emmarentia for R58 0 million.

## **Prospects**

While there is evidence that markets are stabilising, uncertainty around COVID-19 remains and the expected fourth wave of infections may result in further trading restrictions for tenants. The vaccine take-up has been relatively slow in South Africa and the country's level of unemployment has reached unprecedented levels.

Heriot's focus remains on retaining tenants and reducing vacancies while continuing to explore opportunities to grow its asset base by way of the acquisition of high-quality properties in its target markets and core sectors and through the redevelopment of existing properties. Heriot will further focus on enhancing the value of properties in its portfolio through the installation of solar and other energy-saving initiatives.

The board is confident that Heriot's investment in retail properties in non-metropolitan areas, that cater more for the daily needs of shoppers, together with the high quality of its tenant base, will deliver growth of 6,0% to 8,0% in the dividend per share for the year ending 30 June 2022.

The forecast in support of this guidance has been prepared using the following key assumptions:

- Forecast property income is based on contractual rental escalations and marketrelated renewals:
- Adequate allowance has been made for vacancies and rent reversions;
- No further rental concessions will be granted due to harsher lockdown restrictions that may be imposed as a result of a fourth wave of COVID-19 infections;
- No further major corporate and tenant failures will occur other than those failures that occurred during the reporting period; and
- · Interest rates will remain unchanged.

This guidance has not been reviewed or reported on by the company's auditor.

## Condensed consolidated statement of financial position

	Reviewed 30 June 2021 R'000	Audited 30 June 2020 R'000
Assets		
Non-current assets		
Investment property	4 531 350	4 417 400
Property under development	109 242	89 462
Property, plant and equipment	27 094	26 003
Investment in associate	4 824	7 093
Financial assets	73 516	35 359
	4 746 026	4 575 317
Current assets		
Trade and other receivables	35 000	32 738
Financial assets	50 311	45 621
Taxation	_	14
Cash and cash equivalents	110 300	86 258
	195 611	164 631
Non-current assets held for sale	6 500	47 500
Total assets	4 948 137	4 787 448
Equity and liabilities		
Stated capital	2 548 624	2 548 624
Retained earnings	369 392	279 300
	2 918 016	2 827 924
Non-controlling interests	46 549	45 144
	2 964 565	2 873 068
Non-current liabilities		
Interest-bearing liabilities	1 397 265	1 634 066
Derivative financial instrument	_	17 676
Deferred taxation	63 732	63 424
	1 460 997	1 715 166
Current liabilities		
Interest-bearing liabilities	431 024	132 185
Derivative financial instrument	5 905	_
Trade and other payables	85 617	67 029
Taxation	29	_
	522 575	199 214
Total equity and financial liabilities	4 948 137	4 787 448
Net asset value per share (cents)	1 142,55	1 107,27
Net tangible asset value per share (excluding deferred taxation) (cents)	1 167,50	1 132,10

## Condensed consolidated statement of profit and loss and other comprehensive income

	Reviewed year ended 30 June 2021 R'000	Audited year ended 30 June 2020 R'000
Rental income	504 134	508 088
Contractual rental income and recoveries	529 977	520 931
Straight-line rental income	(25 843)	(12 843)
Property expenses	(154 615)	(139 416)
Net property income	349 519	368 672
Attributable (loss)/income from associate	(2 269)	266
Other income	10 050	12 955
Administrative expenses and corporate costs	(40 622)	(39 172)
Profit from operations	316 678	342 721
Finance income	10 163	10 988
Finance charges	(114 415)	(146 283)
Profit before fair value adjustments	212 426	207 426
Fair value adjustments	111 819	(117 654)
Investment properties	91 498	(106 282)
Financial assets	8 550	-
Derivative financial instrument	11 771	(11 372)
Profit before taxation	324 245	89 772
Taxation	(1 847)	(1 714)
Total comprehensive income for the year	322 398	88 058
Attributable to:		
Equity holders of the company	313 027	82 710
Non-controlling interests	9 371	5 348
	322 398	88 058
Reconciliation of earnings and headline earnings		
Profit attributable to equity holders of the company	313 027	82 710
Change in fair value of investment properties attributable to		
shareholders of the company	(89 944)	106 976
Change in fair value of investment properties	(91 498)	106 282
Attributable to non-controlling shareholders	1 554	694
Headline earnings attributable to equity holders	223 083	189 686
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Weighted average number of shares in issue	255 395 858	255 395 858
Basic and diluted earnings per share (cents)	122,57	32,39
Basic and diluted headline earnings per share (cents)	87,35	74,27
Distribution per share (cents)	90,72	84,20

<sup>\*</sup> Excluding 900 000 treasury shares.

## Condensed consolidated statement of cash flows

	Reviewed year ended 30 June 2021	Audited year ended 30 June 2020
Cash generated from operations	358 708	356 052
Net finance charges	(104 252)	(135 295)
Taxation paid	(1 496)	(327)
Cash flows from operating activities	252 960	220 430
Acquisition and development of investment property	(75 325)	(86 629)
Proceeds from disposal of investment property	47 500	_
Acquisition of property, plant and equipment	(2 397)	(1 748)
Acquisition of listed shares	(29 925)	_
Dividends received from associates	_	600
Loan repaid by related party	389	4 740
Loan advanced to related party	(5 079)	(7 043)
Share scheme debt repaid	2 474	2 749
Cash from investing activities	(62 363)	(87 331)
Dividend distributions to owners of the company	(222 935)	(209 735)
Dividends paid to non-controlling shareholders	(5 658)	(5 808)
Interest-bearing borrowings raised	92 038	141 063
Interest-bearing borrowings repaid	(30 000)	141 063
Net cash generated from financing activities	(136 555)	(74 480)
Net movement in cash and cash equivalents	24 042	58 619
Cash and cash equivalents at the beginning of the year	86 258	27 639
Cash and cash equivalents at the end of the year	110 300	86 258

## Condensed consolidated statement of changes in equity

	Stated capital R'000	Reserves R'000	Non- controlling interests R'000	Total R'000
Balance as at 30 June 2019	2 548 624	406 325	44 875	2 999 824
For the year ended 30 June 2020				
Total comprehensive income				
for the year		82 710	5 348	88 058
Dividends declared		(209 735)	(5 079)	(214 814)
Balance as at 30 June 2020	2 548 624	279 300	45 144	2 873 068
Total comprehensive income				
for the year		313 027	9 371	322 398
Dividends declared		(222 935)	(7 966)	(230 901)
Balance as at 30 June 2021	2 548 624	369 392	46 549	2 964 565

## Notes to the financial statements

## Basis of preparation

The reviewed provisional condensed consolidated financial statements for the year ended 30 June 2021 have been prepared in accordance with the JSE Listings Requirements for preliminary reports and the requirements of the Companies Act, 71 of 2008. The JSE Listings Requirements require these condensed financial results to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the 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, and are consistent with those used in the audited annual financial statements for the year ended 30 June 2020.

The reviewed provisional condensed consolidated financial statements were prepared under the supervision of the chief financial officer, Janys Finn CA(SA).

The directors are not aware of any matters or circumstances arising subsequent to the year ended 30 June 2021, other than those disclosed in this announcement, that require any additional disclosure or adjustment to the financial statements. The directors further take full responsibility for the preparation of these provisional condensed consolidated financial statements.

The provisional condensed consolidated financial statements for the year ended 30 June 2021 have been reviewed by BDO South Africa Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the reviewed financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying reviewed financial information from the issuer's registered office.

## 2. Segmental analysis

The group's portfolio is organised into five operating segments, namely retail, industrial, office, residential and specialised. The contribution of each segment to the overall performance of the group is as follows:

For the year ended 30 June 2021	Retail R'000	Industrial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	Total R'000
50 Julie 2021	N 000	N 000	11 000	N 000	H 000	N 000	N 000
Gross lettable area ("GLA") (m²)	119 379	271 534	25 581	*	9 825	8 222	434 541
Rent	212 920	143 285	44 523	7 820	16 010	_	424 558
Recoveries	57 355	36 122	10 022	201	1 719	_	105 419
Straight-lining of							
rental income	(3 212)	(20 983)	(1 365)	(283)	-	-	(25 843)
Property							
expenses	(84 407)	(44 952)	(15 128)	(270)	(9 383)	(475)	(154 615)
Net property	400.050	440.470	00.050	7.400	0.040	(475)	040.540
income	182 656	113 472	38 052	7 468	8 346	(475)	349 519
Other income (including results							
from associate)	_	_	_	_	_	7 781	7 781
Administration							
expenses	_	_	_	_	_	(40 622)	(40 622)
Net finance							
charges	-	-	-	-	-	(104 252)	(104 252)
Change in fair							
value	73 217	(31 374)	(2 621)	56 583	(4 307)	20 321	111 819
Profit before	055.070	00.000	05 404	C4 0F1	4.000	(447.047)	004.045
taxation	255 873	82 098	35 431	64 051	4 039	(117 247)	324 245
Investment	0.010.000	1 401 700	410.750	150,000	100,000		4 504 050
property Non-current	2 312 000	1 481 700	410 750	158 900	168 000	_	4 531 350
assets held							
for sale	_	6 500	_	_	_	_	6 500
Property under							
development		-	_	_	-	109 242	109 242
Property, plant							
and equipment	31	-	433	-	2 433	24 197	27 094
Trade and other							
receivables	8 342	4 550	434	-	3 503	18 170	35 000
Other assets	_	_	_			238 951	238 951
Total assets	2 320 373	1 492 750	411 617	158 900	173 936	390 560	4 948 137
Trade and other							
payables	36 984	14 465	2 655	3 773	3 215	24 525	85 617
Other liabilities	_		-	-	_	1 897 956	1 897 956
Total liabilities	36 984	14 465	2 655	3 773	3 215	1 922 481	1 983 573

<sup>\*</sup> The specialised property comprises 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.

For the year ended 30 June 2020	Retail R'000	Industrial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	Total R'000
GLA (m²)	119 379	282 039	19 918	*	9 825	5 532	436 693
Rent	198 687	149 758	37 176	7 221	18 362	3 380	414 584
Recoveries	57 653	34 542	10 790	_	1 394	1 968	106 347
Straight-lining of rental income	(7 758)	(6 626)	1 304	(204)	441	_	(12 843)
Property expenses	(77 782)	(36 372)	(14 683)	(248)	(8 146)	(2 185)	(139 416)
Net property income	170 800	141 302	34 587	6 769	12 051	3 163	368 672
Other income (including results from associate)	-	-	-	_	-	13 221	13 221
Administration expenses		_	_	_	_	(39 172)	(39 172)
Net finance charges	_	_	_	_	_	(135 295)	(135 295)
Change in fair value	(24 626)	(51 113)	(10 963)	4 154	(23 734)	(11 372)	(117 654)
Profit before	140 174	00.100	00.004	10.000	(11 000)	(100.455)	00.770
taxation	146 174	90 189	23 624	10 923	(11 683)	(169 455)	89 772
Investment property	2 234 500	1 535 800	373 200	102 600	171 300	_	4 417 400
Non-current assets held for sale	_	47 500	_	_	-	_	47 500
Property under development	_	_	_	_	_	89 462	89 462
Property, plant and equipment	4	_	178		1 252	24 569	26 003
Trade and other receivables	10 279	6 689	636	_	1 877	13 257	32 738
Other assets	-	_	_	_	_	174 345	174 345
Total assets	2 244 783	1 589 989	374 014	102 600	174 429	301 633	4 787 448
Trade and other payables	31 768	7 801	2 992	3 705	5 606	15 157	67 029
Other liabilities						1 847 351	1 847 351
Total liabilities	31 768	7 801	2 992	3 705	5 606	1 862 508	1 914 380

<sup>\*</sup> The specialised property comprises 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.

## 3. Prior period restatement

In previous reporting periods, Heriot disclosed 100% of the GLA and Heriot's 50% interest in the value of those properties in which Heriot owns an undivided 50% share. Heriot now believes that disclosing 50% of the GLA and 50% of the value of the co-owned properties would result in a fairer representation of Heriot's ownership of these assets. The segmental analysis has been prepared on this basis, including a restatement of the GLAs for the prior reporting periods.

The amendment to the disclosure results in adjustments as follows:

	Restated 30 June 2020 GLA (m²)	Reported 30 June 2020 GLA (m²)
Retail	119 379	131 813
Industrial	282 039	328 149
Office	19 918	25 613
Specialised	*	*
Residential	9 825	9 825
Other	5 532	5532
	436 693	500 932
Vacancy (%)	1,4	1,3

<sup>\*</sup> The specialised property comprises 8 382ha² 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.

The restatement affects only the GLA and has no impact on the previously recorded financial results.

#### 4. Distributable income

	Unaudited 30 June 2021 R'000	Unaudited 30 June 2020 R'000
Contractual rental income and recoveries, excluding straight-line rental income	529 977	520 931
Property expenses	(154 615)	(139 416)
Other income	10 050	12 955
Administrative expenses and corporate costs	(40 116)	(38 671)
Per statement of comprehensive income	(40 622)	(39 172)
Adjust for: Depreciation charged on owner occupied property	506	501
Net finance costs	(104 252)	(135 295)
Finance income	10 163	10 988
Finance charges	(114 415)	(146 283)
Income tax	(1 539)	(1 406)
Dividend received from equity-accounted entities	_	600
Non-controlling interest	(7 817)	(4 653)
	231 688	215 045
Number of shares in issue at reporting date*	255 395 858	255 395 858
Distribution per share (cents)	90,72	84,20

<sup>\*</sup> Excluding the 900 000 treasury shares in issue.

## 5. Investment property

The properties were valued by Peter Parfitt of Quadrant Properties Proprietary Limited who is a registered valuer in terms of section 19 of the Property Valuers Professional Act, 47 of 2000. The properties were valued using the discounted cash flow method which method values the properties by discounting the cash flows of future income streams of the properties, taking into account expected rental and expense growth rates, vacancies and costs not recoverable from tenants. The discounted cash flow valuations are tested for reasonableness by benchmarking against recent comparable sales activity and available market surveys and comparing the discounted cash flow values to the capitalised cash flow values. The capitalised cash flow values are calculated by applying appropriate capitalisation rates to the future earnings potential of the properties. The capitalisation rates are dependent on a number of factors such as location, the condition of the property, lease covenants and current market conditions.

## Inter-relationship between key unobservable inputs and fair value measurement

The fair value of investment properties would be affected by:

- change in expected market rental growth;
- · change in expected expense growth;
- · occupancy, vacancy and beneficial occupancy periods; and
- · change in discount and capitalisation rates.

	Reviewed 30 June 2021 %	Audited 30 June 2020 %
The average capitalisation rate applied was:	9,12	9,18
The rates applied per sector were as follows:		
Retail	9,02	9,05
Industrial	9,46	9,62
Office	9,87	9,46
Specialised	8,25	8,63
Residential	10,00	10,00

#### 6. Net asset value

	Unaudited 30 June 2021	Unaudited 30 June 2020
	R'000	R'000
NAV per share		
Total assets	4 948 137	4 787 448
Total liabilities	(2 030 121)	(1 959 524)
NAV	2 918 016	2 827 924
Deferred taxation	63 732	63 424
Net tangible assets	2 981 748	2 891 348
Number of shares in issue	255 395 858	255 395 858
NAV per share (cents)	1 142,55	1 107,27
Tangible NAV per share (cents)	1 167,50	1 132,10

## 7. Loan to value

	Unaudited 30 June 2021	Unaudited 30 June 2020
	R'000	R'000
Total secured debt		
Interest-bearing liabilities	1 828 289	1 766 251
Property-related assets		
Investment property	4 531 350	4 417 400
Property under development	109 242	89 462
Non-current assets held for sale	6 500	47 500
Owner-occupied property	23 190	23 695
Financial assets – shares in listed REIT	38 475	
Carrying amount of property-related assets	4 708 757	4 578 057
Loan to value (%)	38,8	38,6

## Payment of dividend

The board has approved and notice is hereby given of the final gross dividend of 46,88 cents per share for the year ended 30 June 2021. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2021
Last date to trade <i>cum</i> dividend	Tuesday, 19 October
Shares trade ex dividend	Wednesday, 20 October
Record date	Friday, 22 October
Payment date	Monday, 25 October

Share certificates may not be dematerialised or rematerialised between Wednesday, 20 October 2021 and Friday, 22 October 2021, both days inclusive. The dividend will be transferred to dematerialised shareholders' Central Securities Depository Participant ("CSDP")/broker accounts on Monday, 25 October 2021. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about Monday, 25 October 2021.

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, 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 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
- 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 ceases 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 above-mentioned 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 37.50400 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the nonresident 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 ceases 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 above-mentioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Shares in issue as at the date of the dividend: 255 395 858 (excluding 900 000 treasury shares.) Heriot's income tax reference number: 9541295185.

Where the transfer secretaries do not have the banking details of any certificated shareholder, the cash dividend will be held in trust by the transfer secretaries pending receipt of the relevant certificated shareholder's banking details whereafter the cash dividend will be paid via electronic transfer into the personal bank accounts of certificated shareholders.

By order of the board

30 September 2021

## Additional disclosures in terms of SA **REIT Best Practice Recommendations** ("SA REIT BPR")

## 1. SA REIT BPR funds from operations

	30 June 2021 R'000	30 June 2020 R'000
Profit per IFRS statement of comprehensive income attributable to equity holders of the company	313 027	82 710
Adjusted for:		
Accounting/specific adjustments		
Fair value adjustment to investment properties	(91 498)	106 282
Straight-line rental income adjustment	25 843	12 843
Fair value adjustment to financial assets	(8 550)	_
Depreciation of owner-occupied property	506	501
Deferred taxation movement	308	309
Adjustments to dividends from equity interests held	2 269	334
Hedging items		
Fair value adjustment to derivative instruments	(11 771)	11 372
Other adjustments		
Non-controlling interests in respect of the above adjustments	1 554	694
	231 688	215 045
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Distribution per share (cents)	90,72	84,20

<sup>\*</sup> Excluding the 900 000 treasury shares in issue.

## Additional disclosures in terms of SA REIT BPR continued

## 2. SA REIT BPR cost to income ratio

	30 June 2021 R'000	30 June 2020 R'000
Per IFRS income statement		
Property expenses including municipal expenses and depreciation	154 615	139 416
Administrative expenses and corporate costs	40 116	38 671
Per statement of comprehensive income	40 622	39 172
Adjust for: Depreciation charged on owner-occupied property	(506)	(501)
Total expenses	194 731	178 087
Contractual rental income and utility and operating recoveries, excluding straight-line rental income	529 977	520 931
Cost to income ratio (%)	36,7	34,19
Administrative cost to income ratio (%)	7,7	7,52

## SA REIT BPR vacancy rate

	30 June 2021 R'000	30 June 2020 R'000
GLA of property portfolio (m²)	434 541	436 693
Vacant GLA (m²)	9 271	6 331
Vacancy rate (%)	2,1	1,4

## 4. SA REIT BPR loan to value

	30 June 2021 R'000	30 June 2020 R'000
Interest-bearing liabilities	1 828 289	1 766 251
Less: Cash and cash equivalents	(110 300)	(86 258)
Add: Derivative financial instruments	5 905	17 676
Net debt	1 723 894	1 697 669
Investment property	4 531 350	4 417 400
Property under development	109 242	89 462
Non-current assets held for sale	6 500	47 500
Owner-occupied property	23 190	23 695
Financial assets – shares in listed REIT	38 475	_
Carrying amount of property-related assets	4 708 757	4 578 057
Loan to value (%)	36,61	37,08

## 5. SA REIT BPR NAV

	30 June 2021 R'000	30 June 2020 R'000
Reported NAV	2 918 016	2 827 924
Adjusted for:		
Dividend to be declared	(119 727)	(111 961)
Fair value of derivative financial instruments	5 905	17 676
Deferred taxation	63 732	63 424
SA REIT BPR NAV	2 867 926	2 797 063
Number of shares in issue	255 395 858	255 395 858
NAV per share (cents)	1 122,93	1 095,19

## Additional disclosures in terms of SA REIT BPR continued

## 6. SA REIT BPR cost of debt

	30 June 2021 R'000	30 June 2020 R'000
Variable interest rate borrowings		
Floating reference rate plus weighted average margin	5,20	6,44
Fixed interest rate borrowings		
Weighted average fixed rate	1,06	2,04
Preadjusted weighted average cost of debt	6,26	8,48
Amortised transaction costs imputed into the effective		
interest rate	0,06	0,14
All-in weighted average cost of debt	6,32	8,62

## Corporate information

## **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 the JSE)
("Heriot" or "the company" or "the group")

## Company secretary

CIS Company Secretaries Proprietary Limited Registered office: Suite 1, Ground Floor 3 Melrose Boulevard, Melrose Arch Johannesburg 2196 PO Box 652737, Benmore 2010

## **Directors**

SB Herring (Chairperson)\*\*
RL Herring (Chief executive officer)
JA Finn (Chief financial officer)
SJ Blieden\*†, T Cohen\*†
R Lockhart-Ross\*†, NA Ngale\*†
\*Non-executive ^ British † Independent

## **Auditor**

BDO South Africa Incorporated 52 Corlett Drive Wanderers Office Park Illovo 2196 (Private Bag X28, Benmore 2010)

## **Transfer secretaries**

Computershare Investor Services Proprietary Limited

## **Designated advisor**

Java Capital



www.heriotreit.co.za