

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")

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED 30 NOVEMBER 2017

COMMENTARY

Introduction

Heriot, a property holding and investment company, listed in the "Diversified REITs" sector on the Alternative Exchange ("AltX") of the 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 identify value-enhancing opportunities in South Africa to create a stable and diverse portfolio of assets capable of generating secure and escalating net rental income.

Financial results

Heriot has declared a maiden distribution of 35,09000 cents per share for the six months ended 30 November 2017. Heriot is on track to deliver on the forecast distribution of 71,67 cents per share forecast for the year ending 31 May 2018 as reflected in the pre-listing statement issued on 17 July 2017 ("PLS"). The net asset value at 30 November 2017 is R10,90 per share, an increase of 92 cents from the net asset value of R9.98 at 31 May 2017 disclosed in the PLS.

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

As at the reporting date, Heriot's property portfolio comprised 39 investment properties. The properties, which were internally valued by the directors at the reporting date, were valued at R4,14 billion. This valuation represents an increase of 3,7% compared to the valuations disclosed in the PLS.

The Group further owns the Heriot offices, comprising 717 m(2) A Grade office space in Melrose Arch, which has been accounted for as property, plant and equipment in terms of the accounting standard relating to owner occupied property.

Subsequent to the reporting date, Heriot has taken transfer of a 50% undivided share in two office properties located in Bruma, Johannesburg, at an average yield of 9.3%. The properties, having a total GLA of 5,340 m(2), were acquired for R34,5 million in terms of sale and leaseback agreements with Imperial Holdings Limited. The properties, which are valued at R37,8 million, are underpinned by leases with an annual escalation of 7.5% and an average lease term of 9 years.

On 13 December 2017, Heriot took transfer of the Absa building, a 9,998 m(2) office building in the Cape Town CBD, at a cost of R87,2 million. The property, currently tenanted by Absa, is considered to have excellent redevelopment potential and Heriot is considering the feasibility of conversion of the property into residential space that will be held for rental.

On 19 December 2017, the company disposed of an industrial property, with a GLA of 5,400 m(2). The selling price was in excess of carrying value.

Vacancies and arrears

As at the reporting date, Heriot had negligible vacancies amounting to 0.25% of retail GLA and 0.08% of total GLA. No bad debts were recorded during the period under review.

Sectoral analysis

	GLA	Value	Revenue	Property expenses	Net income
	m(2)	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
Dividend from associate					1,500
Other income					4,577
Administrative and corporate costs					(14,114)
Net finance charges					(65,930)
Taxation					(535)
Attributable to minorities					(2,015)
Distributable earnings					89,703

The specialised property comprises of 8 382ha(2) 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.

Funding

Heriot's borrowings of R1,51 billion as at the reporting date equate to a gearing ratio of 33,8%. The average cost of borrowing was 9.1% for the period under review and 48% of borrowings have fixed interest rates. The average remaining term of the debt is 2,4 years. At the reporting date, the Group has unutilised facilities of R186,8 million.

Related parties

The loan to the related party of R54,5 million is an amount due by a company owned by SB Herring. The amount is repayable within 12 months and bears interest at 9,1% per annum.

Shares

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 terms of the employee share purchase plan. These shares, issued to employees at R10 per share, are funded by Heriot. The debt bears interest at Heriot's average cost of debt and distributions are for the benefit of employees.

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. The shares issued rank for distribution number 1, as detailed below, and the acquisition is earnings neutral.

Distribution declaration

Distribution number 1 of 35,09000 cents per share for the six months ended 30 November 2017 will be paid to shareholders in accordance with the timetable set out below:

	2018
Last date to trade cum dividend	Tuesday, 27 February
Shares trade ex dividend	Wednesday, 28 February
Record date	Friday, 2 March
Payment date	Monday, 5 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 28 February 2018 and Friday, 2 March 2018, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Monday, 5 March 2018. Certificated shareholders' dividend payments will be posted on or paid to certificated shareholders' bank accounts on or about, Monday, 5 March 2018.

An announcement informing shareholders of the tax treatment of the dividends will be released separately on SENS.

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. The accounting policies are consistent with those disclosed in the PLS. These financial results have been prepared under the supervision of the Chief Financial Officer, JA Finn, CA(SA). The unaudited results for the six months ended 30 November 2017 have not been reviewed or reported on by the company's independent auditors, Grant Thornton Johannesburg Partnership.

The directors are not aware of any matters or circumstances arising subsequent to 30 November 2017 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement.

Directors

On 18 August 2017, Steven Bernard Herring resigned as chief executive officer of the company but remains on the board as a non-executive director. Richard Lawrence Herring was appointed as chief executive officer on that date.

Prospects

The board is confident that Heriot is well-positioned to achieve the forecast distribution of 71.67 cents per share as disclosed in the PLS issued on 17 July 2017.

By order of the Board

6 February 2018

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: SD Friend (Chairperson) *, RL Herring (CEO), JA Finn (CFO), SJ Blieden *†, T Cohen *†,

SB Herring*, N Ngale *†

*Non-executive † Independent

TRANSFER SECRETARIES: Computershare Investor Services Proprietary Limited

SPONSOR: Java Capital

Heriot REIT

Condensed Consolidated Statement of Financial Position

	Unaudited 30 Nov 2017 R'000
Assets	
Non-current assets	
Investment property	4 140 242
Property, plant and equipment	26 099
Investment in associate	13 192
Other financial assets	43 456
	4 222 989
Current assets	
Trade and other receivables	16 831
Prepayments	47 992
Loan to related party	54 455
Current tax receivable	1 901
Cash and cash equivalents	112 525

	233 704
Total assets	4 456 693
Equity and liabilities	
Equity	
Stated capital	2 551 062
Retained earnings	235 280
	2 786 342
Non-controlling interests	59 851
Non-current liabilities	
Interest-bearing liabilities	1 507 820
Derivative instrument	1 536
Deferred taxation	54 645
	1 564 001
Current liabilities	
Trade and other payables	43 634
Interest-bearing liabilities	2 865
	46 499
Total equity and liabilities	4 456 693
Net asset value per shares (cents)	1 089.96
Net tangible asset per share (excluding deferred taxation) (cents)	1 111.34

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Unaudited
	6 months ended 30
	Nov 2017
	R'000
Rental income	199 092
Contractual rental income and recoveries	207 040
Straight line rental income	(7 948)
Property expenses	(40 820)
Net property income	158 272
Income from associate	3 543
Other income	4 577
Administrative expenses and corporate costs	(14 114)
Profit from operations	152 278
Finance income	3 581
Finance charges	(69 511)
Profit before fair value adjustments	86 348
Fair value adjustments	155 497
Investment properties	154 227
Derivative instruments	1 270
Profit before taxation	241 845
Taxation	(535)
Net profit after taxation	241 310
Attributable to:	
Equity holders of the Company	235 280
Non-controlling interests	6 030
	241 310

Reconciliation of earnings and headline earnings	
Profit attributable to equity holders	235 280
Change in fair value of investment properties	(154 227)
Headline earnings attributable to equity holders	81 053
Share Metrics:	
Number of shares in issue at reporting date	255 637 235
Weighted average number of shares in issue	255 637 235
Basic and diluted earnings per share (cents)	31.71
Basic and diluted headline earnings per share (cents)	31.71
Distribution per share (cents)	35.09

Condensed Consolidated Statement of Changes in Equity

	Stated capital	Non controlling interests	Retained earnings	Total equity
	R'000	R'000	R'000	R'000
Issue of shares on listing	2 556 371	87 112		2 643 483
Share issue expenses	(5 309)			(5 309)
Acquisition of minority share		(33 291)		(33 291)
Profit for the period		6 030	235 280	241 310
	2 551 062	59 851	235 280	2 846 193

Condensed Consolidated Statement of Cash Flows

	Unaudited 6 months ended 30 Nov 2017 R'000
Cash generated from operations	202 188
Finance costs	(69 511)
Finance income	3 581
Dividends received	1 500
Taxation paid	(82)
Cash flows from operating activities	137 676
Acquisition of investment property	(207 681)
Acquisition of property, plant and equipment	(52)
Cash from investing activities	(207 733)
Proceeds from the issue of share capital	29
Share issue expenses	(5 309)
Acquisition of non-controlling interest	(33 291)
Decrease in loan to related party	50 022
Increase in interest bearing liabilities	157 439
Net cash generated from financing activities	168 890
Net movement in cash and cash equivalents	98 833
On acquisition of subsidiaries	13 692
Cash and cash equivalents at the end of the period	112 525