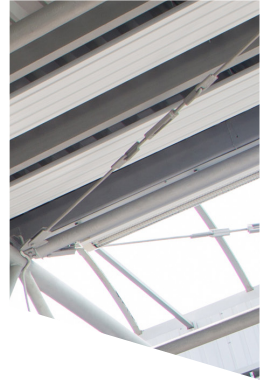




Heriot
REIT *Committed to excellence*



**Reviewed provisional
condensed consolidated
financial statements
for the year ended 30 June
2020**



Highlights

Distributable earnings growth of

4,1 %

Gearing of

36,9%

Final dividend of

43,45

cents per share

Portfolio vacancy of

1,3%

Total dividend of

84,20

cents per share, equating to 100% of distributable earnings

Partial shield from COVID-19 due to

high percentage of national tenancies

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, residential and specialised properties valued at R4,47 billion, 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 purpose of generating secure and escalating net rental income streams.

Financial results

While Heriot was on target to meet the upper end of its forecast range of 6,0% to 8,0% growth in distributable earnings for the year ended 30 June 2020, earnings were negatively impacted by the hard lockdown announced by government on 22 March 2020 in response to the COVID-19 pandemic. Heriot's focus on malls in non-metropolitan areas that cater more for daily needs of shoppers, together with the fact that a large portion of industrial tenants were deemed to be essential services providers, proved to be a fairly defensive tenant mix through the lockdown period. Further, given that only 36,7% of Group debt was fixed, Heriot benefitted from the decrease of 300 bps during the financial year under review. Despite the fact that rental relief totalling R11,3 million was granted to tenants for the period to 30 June 2020, Heriot's distributable earnings for the year ended 30 June 2020 increased by 4,1% to R215,0 million or 84,20 cents per share, compared to distributable earnings of 80,87 cents per share in 2019. Due to Heriot's strong cash management, Heriot has sufficient cash to pay 100% of its distributable earnings as a dividend for the 2020 financial year.

For the year under review, the net asset value of the Group decreased by 4,3% to R11,07 per share. This decrease can mainly be attributed to the valuer's more conservative approach due to the uncertain market conditions.

Investment property

Heriot's portfolio comprises 43 properties across all major sectors within South Africa. At the reporting date, the properties were externally valued at R4,47 billion on the basis of an average capitalisation rate of 9,35%. This equates to a decrease of 3,0% in the valuation of the property portfolio on a like-for-like basis.

Over and above Heriot's investment property portfolio, Heriot owns a property in Mowbray, Cape Town, that was vacated on 29 February 2020 for demolition and redevelopment into residential with ground floor retail. Heriot further owns the Group's head office comprising 717m² 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 30 June 2020, vacancies amounted to 1,3% (2019: 1,3%) of the portfolio. 42% of the vacancies relate to 86 residential apartments, 46 of which were tenanted post year end. A further 20%, or 1 257m², of the vacancies relate to the office portfolio of which 810m² is in respect of vacant space in the Melrose precinct.

Trade receivables

COVID-19 rental relief was granted to tenants on a case-by-case basis with reference to the tenants' ability to trade during the various levels of the lockdown period. Relief was both in the form of rental discounts, totalling R11,3 million, and deferrals of rentals. After allowing for the rental relief, tenants were individually assessed for expected credit losses and, based on management's assessment, provisions for expected credit losses were increased by R2,0 million to R2,6 million at year end.

Commentary continued

Funding

Heriot's secured borrowings of R1,766 billion at 30 June 2020 equate to a gearing ratio of 38,8%. The average cost of borrowing was 8,48% for the year (2019: 8,97%) and at the reporting date, 36,7% of borrowings have been fixed (2019: 40,0%). The average remaining term of the debt is one year. After accounting for cash on hand, the Group's net gearing is 36,9% at year end.

At 30 June 2020, Heriot had agreements in place for the refinance of facilities totalling R925,57 million that were expiring in July 2020. In terms of the agreements, this debt has been refinanced for an average period of 39 months at an average interest rate of JIBAR plus a margin of 165 bps. Negotiations for the refinance of a facility of R132,2 million, expiring on 31 October 2020, were well advanced at year end and at the date of this announcement, agreement had been reached for the refinance of this facility for a period of two years.

The derivative financial instrument comprises 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 fair value hierarchy and expires on 27 November 2021.

Financial assets

Financial assets comprise of:

Non-current

Loans to participants of the employee share purchase scheme. 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.

Current

Loan to a related party, being a company owned by SB Herring, which loan bears interest at the Group's average cost of borrowings and is repayable on demand. Interest of R3,6 million was received on the loan for the 2020 financial year.

Share capital

There were no changes to the issued share capital during the reporting period. As at 30 June 2020, the Company had 255,395,858 shares in issue, excluding the 900,000 treasury shares owned by the Group.

Events after the reporting period

Subsequent to the reporting date, the Group disposed of an industrial property in Port Elizabeth for R47,5 million. The property was revalued to its selling price and was disclosed as an asset held for sale in the statement of financial position at 30 June 2020.

The Group further took transfer of:

- a commercial property in the Cape Town CBD, with a GLA of 4,931m² for R42,0 million, at an effective yield of 9,4%; and
- a 50% undivided share of a small residential building in Illovo, Johannesburg at a yield of 12,0%. The property, which will be redeveloped into 100 residential units at an all-in cost to Heriot of approximately R25,0 million, will be held for rental income.

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 2020	Retail R'000	Industrial R'000	Office R'000	Specialised R'000	Residential R'000	Other R'000	Total R'000
GLA (m ²)	131 813	328 149	25 613	*	9 825	5 532	500 932
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
Change in fair value	(24 625)	(51 113)	(10 963)	4 154	(23 734)	–	(106 281)
Operating profit	146 175	90 189	23 624	10 923	(11 683)	3 163	262 391
Investment property	2 234 500	1 535 800	373 200	102 600	171 300	–	4 417 400
Non-current 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

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

Commentary continued

For the year ended 30 June 2019	Retail R'000	Industrial R'000	Office R'000	Specialised R'000	Residential R'000	Other R'000	Total R'000
GLA (m ²)	137 345	328 149	18 495	*	9 825	–	493 814
Rent	200 503	149 168	26 695	6 891	919	–	384 176
Recoveries	51 843	35 329	8 285	110	10	–	95 577
Straight-lining of rental income	2 809	(12 086)	2 812	(129)	–	–	(6 594)
Property expenses	(69 185)	(36 148)	(12 311)	(401)	(1 466)	–	(119 511)
Net property income	185 970	136 263	25 481	6 471	(537)	–	353 648
Change in fair value	33 657	(5 869)	(3 918)	5 380	(5 849)	–	23 401
Operating profit	219 627	130 394	21 563	11 851	(6 386)	–	377 049
Investment property	2 343 500	1 638 675	321 050	98 650	185 000	–	4 586 875
Property, plant and equipment	5	–	–	–	755	24 552	25 312
Trade and other receivables	7 366	3 351	1 687	–	435	18 738	31 577
Other assets	–	–	–	–	–	114 607	114 607
Total assets	2 350 871	1 642 026	322 737	98 650	186 190	157 897	4 758 371
Trade and other payables	33 702	6 020	1 908	3 639	3 187	15 937	64 393
Other liabilities	–	–	–	–	–	1 694 154	1 694 154
Total liabilities	33 702	6 020	1 908	3 639	3 187	1 710 091	1 758 547

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

Payment of dividend

The board has approved and notice is hereby given of the final gross dividend of 43,45000 cents per share for the six months ended 30 June 2020. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2020
Last date to trade <i>cum</i> dividend	Tuesday, 20 October
Shares trade <i>ex</i> dividend	Wednesday, 21 October
Record date	Friday, 23 October
Payment date	Monday, 26 October

Share certificates may not be dematerialised or rematerialised between Wednesday, 21 October 2020 and Friday, 23 October 2020, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Monday, 26 October 2020. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about Monday, 26 October 2020.

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 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 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 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 34,76000 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
- 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

Commentary continued

Where the transfer secretaries do not have the banking details of any certificated shareholders, 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.

Prospects

Heriot's focus for the forthcoming financial year will be to retain existing tenants and to limit vacancies while continuing in its efforts grow its asset base, improve its liquidity and move from the Alternative Exchange of the JSE onto the main board. While Heriot had no significant new vacancies directly attributable to the impacts of the pandemic at 30 June 2020, some tenant failure may be inevitable in the 2021 financial year as the impact of the restrictive lockdown on tenants unfolds.

Given the high levels of uncertainty in the market and low levels of investor and consumer confidence, the Board has resolved not to provide earnings and distribution guidance until it is comfortable that such guidance is highly probable.

Basis of preparation

The reviewed provisional condensed consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act, 71 of 2008, of South Africa. 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 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, and are consistent with those used in the annual financial statements for the year ended 30 June 2020 except for the amendments relating to the new standards and interpretations which became effective to the Group for the financial year beginning 1 July 2019. None of these amendments had a material impact on Heriot's financial results except for additional disclosures in the revenue and lease arrangements notes in terms of IFRS 16.

These reviewed results were prepared under the supervision of the Chief Financial Officer, JA Finn CA(SA). The directors are not aware of any matters or circumstances arising subsequent to the year ended 30 June 2020 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.

These provisional condensed consolidated financial statements for the year ended 30 June 2020 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 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 financial information from the issuer's registered office.

Non-IFRS measure – distributable earnings

In terms of REIT legislation, a REIT is required to distribute at least 75% of its taxable earnings, or distributable income, to shareholders annually. Heriot's distributable income has been calculated as follows:

	For the year ended 30 June 2020 R'000	For the year ended 30 June 2019 R'000
Profit per IFRS statement of comprehensive income attributable to equity holders of the Company	82 710	209 199
Adjusted for:		
Accounting/specific adjustments:		
Fair value adjustments to:	117 654	(17 910)
Investment property	106 282	(23 401)
Debt and equity instruments held at fair value through profit or loss	11 372	5 491
Depreciation of owner occupied property	501	495
Deferred tax movement recognised in profit or loss	308	3 308
Straight-lining operating lease adjustment	12 843	6 594
Other adjustments:		
Net adjustment made for equity-accounted entities	334	3 003
Non-controlling interests in respect of the above adjustments	694	1 854
	215 044	206 543
Number of shares in issue at reporting date*	255 395 858	255 395 858
Distribution per share	84,20	80,87

* Excluding the 900,000 treasury shares in issue.

The directors are of the opinion that, as a REIT, distributable earnings per share is a more relevant measure of financial performance than earnings and headline earnings per share. Accordingly, in terms of paragraph 3.4 (b)(vi) of the JSE Listings Requirements, Heriot has adopted distributable earnings per share as its measurement for trading statement purposes.

By order of the Board

30 September 2020

Condensed consolidated statement of financial position

	Reviewed 30 June 2020 R'000	Audited 30 June 2019 R'000
Assets		
Non-current assets		
Investment property	4 417 400	4 586 875
Property under development	89 462	–
Property, plant and equipment	26 003	25 312
Investment in associate	7 093	7 427
Financial assets	35 359	35 130
	4 575 317	4 654 744
Current assets		
Trade and other receivables	32 738	31 577
Financial assets	45 621	43 318
Taxation	14	1 093
Cash and cash equivalents	86 258	27 639
	164 631	103 627
Non-current assets held for sale	47 500	–
Total assets	4 787 448	4 758 371
Equity and liabilities		
Stated capital	2 548 624	2 548 624
Retained earnings	279 300	406 325
	2 827 924	2 954 949
Non-controlling interests	45 144	44 875
	2 873 068	2 999 824
Non-current liabilities		
Interest-bearing liabilities	1 634 066	914 734
Derivative financial instrument	17 676	6 304
Deferred taxation	63 424	63 116
	1 715 166	984 154
Current liabilities		
Interest-bearing liabilities	132 185	710 000
Trade and other payables	67 029	64 393
	199 214	774 393
Total equity and financial liabilities	4 787 448	4 758 371
Net asset value per share (cents)	1 107,27	1 157,01
Net tangible asset per share (excluding deferred taxation) (cents)	1 132,10	1 181,72

Condensed consolidated statement of profit and loss and other comprehensive income

	Reviewed year ended 30 June 2020 R'000	Audited year ended 30 June 2019 R'000
Rental income	508 088	473 159
Contractual rental income and recoveries	520 931	479 753
Straight-line rental income	(12 843)	(6 594)
Property expenses	(139 416)	(119 511)
Net property income	368 672	353 648
Income from associate	266	(3 003)
Other income	12 955	7 670
Administrative expenses and corporate costs	(39 172)	(33 539)
Profit from operations	342 721	324 776
Finance income	10 988	14 022
Finance charges	(146 283)	(137 327)
Profit before fair value adjustments	207 426	201 471
Fair value adjustments	(117 654)	17 910
Investment properties	(106 282)	23 401
Derivative financial instrument	(11 372)	(5 491)
Profit before taxation	89 772	219 381
Taxation	(1 714)	(5 458)
Net profit after taxation	88 058	213 923
Attributable to:		
Equity holders of the Company	82 710	209 199
Non-controlling interests	5 348	4 724
	88 058	213 923
Reconciliation of earnings and headline earnings		
Profit attributable to equity holders of the Company	82 710	209 199
Change in fair value of investment properties attributable to shareholders of the Company	106 976	(21 547)
Change in fair value of investment properties	106 282	(23 401)
Attributable to non-controlling shareholders	694	1 854
Headline earnings attributable to equity holders	189 686	187 652
Number of shares in issue at 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)	32,39	81,91
Basic and diluted headline earnings per share (cents)	74,27	73,47
Distribution per share (cents)	84,20	80,87

* Excluding 900,000 treasury shares.

Condensed consolidated statement of changes in equity

	Stated capital R'000	Retained earnings R'000	Non- controlling interests R'000	Total equity R'000
Balance as at 30 June 2018	2 548 624	410 841	46 400	3 005 865
Total comprehensive income for the year ended 30 June 2019	–	209 199	4 724	213 923
Dividend distributions to owners of the Company recognised directly in equity	–	(213 715)	(6 249)	(219 964)
Balance at 30 June 2019	2 548 624	406 325	44 875	2 999 824
Total comprehensive income for the year ended 30 June 2020	–	82 710	5 348	88 058
Dividend distributions to owners of the Company recognised directly in equity	–	(209 735)	(5 079)	(214 814)
Balance as at 30 June 2020	2 548 624	279 300	45 144	2 873 068

Condensed consolidated statement of cash flows

	Reviewed year ended 30 June 2020 R'000	Audited year ended 30 June 2019 R'000
Cash generated from operations	356 052	327 668
Net finance charges	(135 295)	(123 305)
Taxation paid	(327)	(325)
Cash flows from operating activities	220 430	204 038
Acquisition and development of investment property	(86 629)	(113 411)
Acquisition of property, plant and equipment	(1 748)	(797)
Dividends received from associates	600	–
Loan repaid by related party	4 740	34 442
Loan advanced to related party	(7 043)	–
Share scheme debt repaid	2 749	2 722
Cash from investing activities	(87 331)	(77 044)
Dividend distributions to owners of the Company	(209 735)	(217 120)
Dividends paid to non-controlling shareholders	(5 808)	–
Interest-bearing borrowings raised	141 063	32 044
Interest-bearing borrowings repaid	–	(27 360)
Net cash generated from financing activities	(74 480)	(212 436)
Net movement in cash and cash equivalents	58 619	(85 442)
Cash and cash equivalents at the beginning of the year	27 639	113 081
Cash and cash equivalents at the end of the year	86 258	27 639

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 (C Laidlaw)

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

Directors: SB Herring (*Chairperson*)*^, RL Herring (*CEO*), JA Finn (*CFO*), SJ Blieden*, T Cohen*[†]
 R Lockhart-Ross*, NA Ngale*[†] * Non-executive ^ British [†] Independent

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Designated advisor: Java Capital



Heriot
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