

REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2021

ARROWHEAD PROPERTIES

Focused on sustainable value

Arrowhead Properties Limited

(Incorporated in the Republic of South Africa) (Registration number 2007/032604/06) JSE share code: AHA ISIN: ZAE000275491 JSE share code: AHB ISIN: ZAE000275509 (Approved as a REIT by the JSE) ("Arrowhead" or "the Company" or "the Group")

Reviewed condensed consolidated results for the year ended 30 September 2021

HIGHLIGHTS -

- 5.2% increase in distributable earnings per B share
- 4.1% increase in dividend per A share
- 44.6% increase in dividend per B share
- 216% increase in price per B share
- 37 non-core assets disposed of for R1.047 billion at an 11.5% forward yield and a 2.2% discount to book value
- Gearing reduced to 36.9% (38.2% including derivatives), from 39.3% (42.6% including derivatives) as at the prior year-end
- Capital expenditure of R227 million (excluding Indluplace)
- Active investment in solar power plants: 6.7 megawatts installed or under construction, with over 5% of the portfolio's electricity requirement met at an annual yield of 19.8%
- Vacancies reduced to 8.4% compared with 8.6% in the prior year
- Arrow for Change disbursement of R2.5 million towards 26 projects assisting communities close to Arrowhead assets

NATURE OF THE BUSINESS

Arrowhead is a diversified South African Real Estate Investment Trust ("REIT") focused on creating long-term shareholder value.

Arrowhead holds a diverse portfolio of retail, office and industrial (collectively "commercial") properties valued at R8.3 billion (held directly and through subsidiaries). As at 30 September 2021, Arrowhead held a 61.0% interest (2020: 60.0 %) in its subsidiary, Indluplace Properties Limited ("Indluplace"), which owns a portfolio of residential properties.

The average value per direct property held as at 30 September 2021 was R78.2 million (R68.0 million as at 30 September 2020 and R57.2 million at the end of 30 September 2019). The sale of non-core assets over the last 2 years has improved the quality of the core portfolio with the average size of the asset base improving.

In addition, Arrowhead held an 8.6% interest (2020: 8.6%) in Dipula Income Fund Limited ("Dipula") at 30 September 2021.

DISTRIBUTABLE INCOME ANALYSIS

for the year ended 30 September 2021 —

R'000	2021	2020
Revenue (excl. straight-line rental income)	2 000 708	2 189 241
Listed securities income	20 557	18 325
Property expenses	(885 286)	(954 869)
Administration and corporate costs	(134 346)	(104 052)
Finance charges	(458 888)	(574 350)
Finance income	31 102	46 014
Reduction in income due to Indluplace dividend pay-out ratio	(17 965)	(18 012)
Non-controlling interest share in distributable income	(46 800)	(68 238)
Distributable income before listed securities income accrual	509 082	534 060
Accrued dividend on listed securities	20 325	-
Listed securities income recognised in the prior period	-	(18 325)
Total distributable income	529 407	515 735
Dividend to Arrowhead Charitable Trust	-	8 424
Total amount available for distribution after the effects of Arrowhead Charitable Trust	529 407	524 159
SA REIT cost-to-income ratio	50.9%	48.3%
SA REIT admin cost-to-income	6.7%	4.8%
Property cost-to-income ratio	44.2%	43.5%
A share - distributable income for the 12 months ended 30 September	75 395	72 415
B share - distributable income for the 12 months ended 30 September	454 012	451 744
Total amount available for distribution	529 407	524 159
Distributable income per A share (cents) for the 6 months ended 31 March	58.59	56.77
Distributable income per B share (cents) for the 6 months ended 31 March	23.19	30.65
Distributable income per A share (cents) for the 6 months ended 30 September	61.62	58.69
Distributable income per B share (cents) for the 6 months ended 30 September	24.53	14.74
Distributable income per A share (cents) for the 12 months ended 30 September	120.21	115.46
Distributable income per B share (cents) for the 12 months ended 30 September	47.72	45.39

RECONCILIATION OF INCOME / (LOSS) BEFORE TAX TO DISTRIBUTABLE EARNINGS

R'000	Reviewed for the year ended 30 September 2021	Audited for the year ended 30 September 2020
Income / (loss) attributable to shareholders	181 197	(733 284)
Adjustments:		
Changes in fair values of investment property	818 246	746 774
Changes in fair values of listed securities and financial instruments	(321 088)	492 266
Changes in fair values of loans in respect of the share purchase and option scheme	(133 727)	203 676
Loss on sale of investment properties	30 245	43 743
Straight-line rental income accrual	23 956	14 519
Dividend to the Arrowhead Charitable Trust	-	8 424
Impact of IFRS 16 - Leases	(1 254)	-
Accrued distribution on financial assets	20 325	-
Accrued distribution on financial assets recognised in prior financial year	-	(18 325)
Taxation	18 791	(21 645)
Loss due to Indluplace's payout ratio	(17 965)	(18 012)
Non-controlling interest share in above adjustments	(89 319)	(193 976)
Distributable earnings attributable to shareholders	529 407	524 159

COMMENTARY

Strategic Content

Arrowhead has continued to deliver on its strategic goals communicated to the market. The Company has disposed of a further 37 properties in excess of R1 billion which did not have strong letting demand and that were viewed as not being capable of rental growth over the long-term. This takes total sales since the inception of Arrowhead's sale process in 2018 to in excess of R2.5 billion. As a result of the success of its disposal programme, Arrowhead has successfully stabilised its balance sheet in a very difficult environment. Loan to value has improved to 36.9% (38.2% including derivatives) for the year under review.

Arrowhead's strategic focus has shifted from sales to (i) strengthening its portfolio by retaining and enhancing those properties that meet its investment criteria; and (ii) enhancing the returns on those properties through a tenant centric approach that puts tenants at the heart of all property management decisions. The proximity to, and close communication with our tenants that has been central to this approach, has seen our team unlocking various opportunities within our tenant base for additional space across the sectors and has resulted in Arrowhead's tenant retention increase from 69% in 2018 to 88% in 2021 (as compared to 89% at the last financial year end).

The Arrowhead team has responded well to the most difficult of environments including the riots and looting experienced primarily in KZN and Gauteng during July 2021. Unfortunately, certain properties within the portfolio were damaged however the damage was contained to approximately R12.9 million due to support received from local communities and other stakeholders with whom the Company has built strong relationships. Arrowhead's hands-on approach to its property management once again bore fruit as all available resources were accessed so as to ensure that lives were not endangered and damage to its properties averted, or where this was not possible, minimised. We have engaged extensively with our insurers and continue to do so, and to date have received payment of R9.4 million.

The drive to improve and build the Company culture continues with the Company having a zero staff attrition rate for 2021. The new property management system, MRI, was implemented during the year under review which has enhanced the access to and control of information. Environmental, Social and Corporate Governance ("ESG") remained top of mind during the 2021 financial year with increased commitment to enhancing the Company's ESG focus and reporting.

Market Conditions

The South African economy was left reeling in 2021 from several waves of the COVID-19 pandemic as well as civil unrest that occurred in July 2021. This has in particular had a negative impact on office vacancies, and in addition, there were significant rental reversions on lease renewals across all asset classes. Notwithstanding the challenging environment, Arrowhead continues to successfully navigate this tentative and unpredictable environment and is pleased with the performance of its direct property portfolio for the period under review. 81% of Arrowhead's income is attributable to its direct property portfolio, and this percentage increases to 92% if its majority interest in Indluplace is included.

As the difficult economic environment in which we currently find ourselves is not expected to ease in the short- to medium-term, the following defensive measures have been implemented:

- Innovative letting strategies.
- Invested in and implemented intensive tenant centric initiatives to improve relationships and tenant retention.
- Disposal of non-core assets with non-sustainable income streams.

- Strengthening the Company's balance sheet, by reducing debt and renegotiating and cancelling interest rate swaps.
- Investing in the Group's portfolio through increased defensive capital and operational expenditure.
- Investing in solar and water solutions, so benefitting the Company's ESG programme, supplementing the income of operations and reducing reliance on state-owned enterprises which are experiencing capacity constraints.

CHANGES TO THE BUSINESS

Disposals (excluding disposals by Indluplace)

In the 12-month period ended 30 September 2021, the Group disposed of 37 assets for R1.05 billion at an 11.5% forward yield and a 2.2% discount to book value.

Asset class	Number	Sales value (R)	Book value (R)	Discount to book value	Average yield	Average price per asset	Vacant GLA	Vacancy %
Retail	20	583 750 000	595 677 500	(2.0%)	11.6%	29 187 500	3 302	2%
Office	4	80 700 000	80 700 000	0.0%	11.6%	20 175 000	1 233	12%
Industrial	13	382 721 500	394 006 500	(2.9%)	11.4%	29 440 115	400	1%
Total	37	1 047 171 500	1 070 384 000	(2.2%)	11.5%	28 301 932	4 935	2%

REVENUE

Revenue includes rental income and expenditure that is recoverable from tenants.

At 30 September 2021 Arrowhead owned 106 commercial properties directly and 132 residential properties indirectly through Indluplace. At 30 September 2020, Arrowhead owned 143 commercial properties directly and 147 residential properties indirectly through Indluplace.

As at 30 September 2021 Arrowhead's direct property portfolio comprised, by revenue, 50% retail properties, 35% office properties and 15% industrial properties. The average gross and (net) monthly rental per m² per sector was R140 (R128) for retail, R115 (R98) for office and R44 (R41) for industrial. Gross rental includes parking, operational cost recoveries and rates recoveries. Rental reversions were -11.2% overall, comprising retail (-10.9%), office (-13.6%) and industrial (-5.6%). The average weighted lease escalation across the portfolio was 6.8%, with retail at 6.7%, office at 7.1% and industrial at 6.9%. The average lease length was 3.6 years. In the current financial year, a gross lettable area ("GLA") of 224 377m² came up for renewal, of which 172 164m² was renewed and a further 25 510m² re-let. In aggregate, overall retention was 88.1% of the GLA.

In what has been a very challenging economic environment we have experienced positive letting activity and a strong performance from the direct portfolio. Vacancies have decreased slightly from 8.6% at 30 September 2020 to 8.4% at 30 September 2021 (retail 6.1%, office 14.6% and industrial 4.5%).

12 Month Letting Report

	Total GLA m ²	Let GLA m ²	Vacant GLA m ²	Let (%)	Vacant (%)
As at 1 October 2020	1 130 972	1 033 949	97 023	91.4	8.6
Disposals	(190 001)	(185 417)	(4 584)		
Net adjustments	(1 485)	(401)	(1 084)		
Adjusted totals	939 486	848 131	91 355	90.3	9.7
Net (loss) / gain	-	12 652	(12 652)		
As at 30 September 2021	939 486	860 783	78 703	91.6	8.4

CORE DIRECT PORTFOLIO

	1 October 2020 to 30 September 2021	1 October 2019 to 30 September 2020	Growth
	R'000	R'000	(%)
Revenue	1 281 933	1 279 304	0.2
Property Expenses	(508 646)	(511 954)	(0.6)
Net Operating Income including COVID-19 relief	773 287	767 350	0.8
Add back COVID-19 relief *	5 521	64 250	-
Net operating income before COVID-19 relief	778 808	831 600	(6.3)

^{*} The COVID-19 relief reported above is in respect of the core portfolio only and differs from the total COVID-19 relief reported.

The core portfolio is in respect of the Arrowhead portfolio excluding Indluplace.

LISTED SECURITIES INCOME

During the current financial period, the investment in Rebosis was disposed of. Proceeds from the sale amounted to R21.1 million.

Dipula has declared and paid a 1st dividend for 2021 amounting to R20.6 million. Receipt of a final dividend of R20.3 million for 2021 has been provided for based on Dipula's results announcement dated 17 November 2021.

Operating Costs

R'000	2021	Total (%)	2020	Total (%)
Municipal expenses	363 140	66%	432 824	70%
Property management	41 607	8%	44 246	7%
Security	40 065	7%	39 904	6%
Letting commission	18 899	3%	19 127	3%
Cleaning	14 785	3%	16 453	3%
Repairs and Maintenance	10 058	2%	12 292	2%
Insurance	7 637	1%	8 033	1%
Building salaries	8 556	2%	6 572	1%
Other	42 610	8%	45 097	7%
Arrowheads' operating costs (excluding Indluplace)	547 357		624 548	_
Indluplace	336 675		330 320	
Total	884 032	_	954 868	

Operating costs have decreased principally due to lower municipal expenses, which is a direct result of buildings with higher consumption having been sold as well as savings from solar installations. Property management fees increased percentage wise as a result of collection rates having improved in the 2021 financial year, following a decrease as a result of COVID-19 in the prior financial year. The Group increased security across its portfolio which is reflected in increased security costs for the period under review.

Administrative Expenses

R'000	2021	Total (%)	2020	Total (%)
Salaries	64 550	61%	56 106	76%
Vesting of LTI schemes	18 644	18%	-	0%
Non-executive director fee	3 310	3%	3 151	4%
Professional fees	9 874	9%	9 993	14%
Legal fees	1 694	2%	672	1%
Other	7 867	7%	4 027	5%
Arrowheads' admin costs (excluding Indluplace)	105 939		73 949	
Plus Indluplaces' administration costs	28 407		30 104	
Total	134 346		104 053	

The increase in salaries in the 2021 financial year was attributable to the annualised effect of employees that were employed for a full year in 2021 and only in part for the 2020 financial year. Furthermore, the Company exceeded the performance target metrics reported on in the Remuneration Report in the 2020 year.

On account of the Company's strong performance in the current financial year, which saw the Arrowhead B share increase by 216% from R1.30 to R4.11 and the improvement of the loan-to-value criteria over the last two years through the successful sales program, the criteria for payment in terms of the long-term incentive schemes ("LTI") were met.

A concerted and focused effort was made to contain and where possible reduce costs in the 2021 financial year due to the negative impact of COVID-19 on the economy.

Finance Income

R'000	30 September 2021	Total (%)	30 September 2020	Total (%)
Interest on Group share purchase and option schemes	26 989	87	32 609	71
Interest on cash balances and tenant arrears	4 113	13	13 405	29
Total as per analysis of distributable earnings	31 102	100	46 014	100

Decreased interest earned on cash balances was primarily due to excess funds being transferred to loan facilities to reduce finance charges.

Finance Charges

R'000	30 September 2021	Total (%)	30 September 2020	Total (%)
Interest paid - secured financial liabilities and swap facilities	451 526	99	567 828	99
Lease liability	2 257	0	2 345	0
Amortisation of structuring fee and other interest paid	5 105	1	4 176	1
Total	458 888	100	574 349	100

Finance charges decreased due to a reduction in interest-bearing liabilities as a result of the successful sales program and the reduction in interest rates from 2020 to 2021. In order to align the hedging to the interest-bearing debt the Company, in accordance with its hedging policy, settled certain derivatives at the end of February 2021 resulting in lower finance costs being incurred in the subsequent months.

INVESTMENT PROPERTIES

At 30 September 2021, the portfolio comprised 106 retail, industrial and office properties valued at R8.3 billion with an average property value of R78.2 million. In addition, the Group owned 132 residential properties held by its subsidiary, Indluplace, valued at R3.5 billion with an average property value of R26.6 million.

Analysis of Movement in Investment Property

	Property I	Property Portfolio		Residential Portfolio *		al
	No. of buildings	R'000	No. of buildings	R'000	No. of buildings	R'000
Balance at the beginning of the year	143	9 731 534	147	3 807 924	290	13 539 458
Acquisitions, additions and fair value adjustments	-	(350 840)	-	(217 972)	-	(568 812)
Disposals	(37)	(1 070 384)	(15)	(73 755)	(52)	(1 144 139)
Balance at the end of the period #	106	8 310 310	132	3 516 197	238	11 826 507

^{*} The residential portfolio is a separately listed fund on the JSE. Arrowhead's shareholding in Indluplace was 61.0% at 30 September 2021 (2020: 60.0%)

Investment property decreased from R13.5 billion at 30 September 2020 to R11.8 billion at 30 September 2021. The material movements were mainly attributable to disposals of R1.07 billion; capital expenditure incurred of R259 million and fair value write-downs of R818 million.

^{*} The above includes non-current assets held for sale.

LOANS TO PARTICIPANTS OF GROUP SHARE PURCHASE AND OPTION SCHEMES

The loans to the participants of the Group share schemes are held at fair value in accordance with IFRS 9 "Financial Instruments" and have been adjusted to fair value. The fair value was determined by calculating a future share price by considering forward-looking parameters based on a dividend growth model. These loans all bear interest at a rate equal to the dividend declared for the period. These are considered related parties to the Group.

TRADE AND OTHER RECEIVABLES

Trade and other receivables decreased from R387.6 million as at 30 September 2020 to R247.0 million as at 30 September 2021. The decrease was primarily driven by the following key considerations:

- 1. A reduction in clearances paid for properties held for sale of R43 million.
- 2. Due to the internalisation of Indluplace's property management during the current financial year, cash amounts which were previously held by property managers classified as trade and other receivables are now held by Indluplace directly and are classified as cash and cash equivalents. The decrease in debtors equates to approximately R36 million year on year.
- 3. A property loan receivable for Indluplace of R50.4 million at the end of the 2020 financial year decreased to R8.7 million at the end of the 2021 financial year.

SECURED FINANCIAL LIABILITIES

Group loans of R4.6 billion (2020: R5.6 billion) were reduced by cash and cash equivalents, measured against investment property and financial assets of R12.3 billion (2020: R13.9 billion), representing a Group loan to value ("LTV") excluding derivatives of 36.9% (2020: 39.3%). The decrease in the LTV is mainly as a result of disposals to the value of R1.05 billion and the corresponding decrease in the Group's borrowings to the value of R1.0 billion. The interest rate swaps of R3.4 billion equates to 73.8% (74.7% for Arrowhead and 71.7% for Indluplace) of the total loans hedged.

Excess funds are placed in access facilities to reduce the overall interest charge. The weighted average interest rate for the period ended 30 September 2021 was 8.52% (30 September 2020: 9.15%) for the Group. The Group has loan facilities of R859 million which expire in the next 12 months. R228 million was renewed for a further 3 years post 30 September 2021 with R631 million approved for refinance with an alternate funder. Of the R631 million R300 million is being financed on a 3-year term with the balance refinanced for a period of 4 years. The legal implementation of this refinance is expected to happen shortly after year-end. As at 30 September 2021, the Group (excluding Indluplace) had free available cash of approximately R620.7 million. At its current LTV of 38.2% including derivatives, the Company is well within the Group and portfolio LTV covenants in respect of its facilities. The Company's Group interest cover ratio ("ICR") is 2.13 times, which is in excess of the 2 times cover required by its funders and also well above the portfolio interest cover covenants of all funders.

Maturity	3 month Jibar# margin %	Prime rate margin %	2021 R'000
October 2021	3.25		100 000
December 2021	1.85		300 000
April 2022	1.89		330 000
June 2022	2.10		31 095
July 2022	2.10		97 533
October 2022	2.15		350 854
October 2022 (Indluplace)	2.20		302 143
October 2022 (Indluplace)	2.20		302 143
November 2022	2.20		361 336
November 2022	2.05		280 000
November 2022	2.05		200 000
November 2022		Minus 1.15	22 333
July 2023	2.10		191 002
July 2023	2.05		661 000
November 2023 (Indluplace)	2.40		310 236
November 2023 (Indluplace)	2.30		165 459
December 2023	2.35		90 821
December 2023	2.35		110 000
September 2024	2.20		96 500
September 2024		Minus 1.00	28 796
November 2024 (Indluplace)	2.55		79 833
November 2024 (Indluplace)	2.40		79 833
November 2025 (Indluplace)	2.70		75 402
November 2025 (Indluplace)	2.50		75 402
Total exposure			4 641 721

 $^{^{*}}$ 3 month Jibar as at 30 September 2021 was 3.68%

	Arrowhead	Indluplace	Total
Maturity Date	Capital Amount (R`000)	Capital Amount (R`000)	Capital Amount (R`000)
Expiring in the next 12 months	858 628	-	858 628
Expiring in the next 24 months	2 066 524	604 286	2 670 810
Expiring in the next 36 months	326 117	475 696	801 813
Expiring in the next 48 months	-	159 666	159 666
Expiring in the next 60 months	-	150 804	150 804
	3 251 269	1 390 452	4 641 721

The Group has entered into interest rate swaps to hedge its exposure to fluctuations in the interest rates of its debt as follows:

Arrowhead	Indluplace

Notional Amount (R'000)	Maturity Date	Notional Amount (R'000)	Maturity Date
275 000	2023/04/28	275 025	2024/10/07
65 729	2023/04/28	28 485	2024/10/07
41 681	2023/04/28	144 979	2024/10/07
51 772	2023/04/28	275 025	2024/10/07
112 450	2023/04/28	28 485	2024/10/07
300 000	2023/05/05	144 979	2024/10/07
742 163	2023/05/05	50 000	2025/01/07
595 000	2024/09/12	50 000	2025/01/07
139 000	2024/10/03	996 978	
106 000	2024/10/03		
2 428 795			

TRADE AND OTHER PAYABLES

Trade and other payables decreased from R674.7 million as at 30 September 2020 to R645.0 million as at 30 September 2021 due to the reduction of accruals, the main contributor being R30 million which was accrued in the previous financial year for the purchase of the minority stake in Moolgem Proprietary Limited.

PROSPECTS

Arrowhead has made significant progress over the past few years in delivering on its strategy of stabilising its portfolio and strengthening its balance sheet and the Company believes it is now well positioned to deliver sustainable income over the medium to long-term. As previously communicated, the trade off in taking and implementing the decision to strengthen the balance sheet is that, in the current market, disposals typically dilute distributable income, and the full impact of this dilution will be felt in the upcoming financial year to end September 2022. This dilution is likely to be exacerbated by a number of factors including anticipated negative rental reversions in what remains a very difficult office market and a likely reduction in distributions from Dipula (as a consequences of either their recently announced proposed capital restructuring or the potential changes to the distribution policy highlighted in their recent results announcement).

Given the continued uncertainty surrounding the economic environment in which the Company operates and because of the potential impact of the Fairvest initiated merger between Arrowhead and Fairvest (the "Fairvest merger") (if implemented) on the Company's strategy, operations and distribution policy going forward, the Company is not in a position to provide the market with guidance as to its distributable income per share and dividend per share for the year ending 30 September 2022. However, shareholders are advised that, in compliance with the JSE Listing Requirements, the category 1 circular and accompanying revised listing particulars to be made available to Arrowhead shareholders in relation to the Fairvest merger (which is anticipated to be posted in or about December 2021) will include detailed forecasts for the periods ended 30 September 2022 and 2023, prepared in accordance with the relevant JSE Listing Requirements.

Analysis of Net Asset Value

	Review for the year ended	Review for the year ended
	30 September 2021	30 September 2020
Number of Arrowhead ordinary shares in issue		
Arrowhead A shares	62 718 658	62 718 658
Arrowhead B shares *	951 422 029	969 807 177
Net asset value per share (Rand)		
Arrowhead A shares	11.69	7.91
Arrowhead B shares	5.94	6.31
Gearing ratio / Loan to value (%)	38.2	42.6

^{*} For 2020 this excludes 25 534 700 B shares issued to the Arrowhead Charitable Trust. These shares were repurchased by the Group during the 2021 financial year and cancelled. Furthermore 18 385 148 shares held as security for the loans to the ex-CFO were repurchased by the Company and cancelled.

PAYMENT OF DIVIDEND FOR THE YEAR ENDED 30 SEPTEMBER 2021

On 26 May 2021 shareholders were advised that the Board had resolved to defer the decision on the payment on an interim dividend for the six months ended 31 March 2021 ("**interim dividend**") until the end of the financial year.

Given the strength of the balance sheet and liquidity of the Company, the Board has resolved to declare a dividend equal to 100% of the distributable income (FY2020: 76.5% pay-out ratio). The Board has resolved to declare an interim dividend (dividend number 11) of 58.59120 cents per A share and 23.18748 per B share and a final dividend for the six months ended 30 September 2021 ("**final dividend**") (dividend number 12) of 61.62004 cents per A share and 24.53188 per B share. Accordingly, a combined gross interim and final dividend of 120.21124 cents per A share and 47.71936 cents per B share for the year ended 30 September 2021 will be paid to shareholders in accordance with the timetable set out below:

Last date to trade cum distribution	Monday, 13 December
Shares trade ex-distribution	Tuesday, 14 December
Record date	Friday, 17 December
Payment date	Monday, 20 December

Share certificates may not be dematerialised or rematerialised between Tuesday, 14 December 2021 and Friday, 17 December 2021, both days inclusive. Payment of the dividend will be made to shareholders on Monday, 20 December 2021. In respect of dematerialised shareholders, the dividend will be transferred to the Central Securities Depositary Participant ("CSDP") accounts/broker accounts on Monday, 20 December 2021. Certificated shareholders' dividend payments will be deposited on or about Monday, 20 December 2021 to certificated shareholders' bank accounts.

In accordance with Arrowhead's status as a REIT, shareholders are advised that the dividends meet 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 distributions 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 they are dividends distributed by a REIT. These dividends are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders 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) a declaration that the dividend is exempt from dividends tax; and
- b) a written undertaking to inform the CSDP, broker or the Company 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 to arrange for the above mentioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted.

2021

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends which are exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. Dividends withholding tax is 20% and accordingly, any dividends 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 shareholders. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders in respect of the interim dividend per A share is 46.87296 cents per A share and in respect of the final dividend is 49.29603 cents per A share.

The net dividend amount due to non-resident shareholders in respect of the interim dividend per B share is 18.54998 cents per B share and in respect of the final dividend is 19.62550 cents per B 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 in respect of uncertificated shares, or the Company, in respect of certificated shares:

- a) a declaration that the dividends are 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 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 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.

Shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

A-shares in issue at the date of declaration of dividends: 62 718 658

B-shares in issue at the date of declaration of dividends: 951 422 029

Arrowhead's income tax reference number: 9068/723/17/1

Arrow for change relief initiative

As reported in the previous financial year, the Company implemented a social initiative, Arrow for Change, with start-up funding of R1.5 million from executives, Arrowhead Board members and employees, which the Company matched.

In 2021, the Board approved additional funding of R2.5 million and the Company received funding in excess of R300 000 from service providers towards Arrow for Change.

The initiative was primarily established to support communities in and around the assets of the Group but was also used to support national initiatives, addressing the negative impact of the COVID-19 pandemic and the recent civil unrest. To date the Company has disbursed R3.5 million of these funds and has approved a further R1.9 million towards various initiatives, leaving just over R400 000 available for disbursement.

Changes to the Board

Passing of Chairperson

Arrowhead was deeply saddened to announce the passing of Arrowhead Board member and independent non-executive Chairman, Mr. Matthew Nell on 3 September 2021.

Matthew dedicated a tremendous amount of time, care and commitment to Arrowhead and Arrowhead benefited enormously from his strategic acumen and attention to detail. Matthew's approach was steady and focussed, and his commitment and passion will be sorely missed by all those who knew him.

Retirement from Board

Mr. Selwyn Noik, who was due to retire by rotation at the Company's annual general meeting on 16 February 2021, did not offer himself up for re-election. Selwyn was a director since 2012 and the Board thanks Selwyn for his invaluable and committed contribution to the Company.

GOING CONCERN

The directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the reviewed results have been prepared on a going concern basis.

At face value the current liabilities are higher than the current assets. However, all short-term loans reflected in current liabilities have in principal been renewed post year end with the respective funders. Furthermore, the Company has access to undrawn unrestricted cash facilities of R682 million and other current assets of approximately R430 million which is sufficient to cover all current liabilities.

EVENTS AFTER REPORTING PERIOD

Restitution of performance in relation to purchase offers implemented in terms of the UPS and Cumulative loans

Between November 2012 and December 2014, loan funding was advanced to certain employees of the Arrowhead Group in terms of the subsequently discontinued Arrowgem Unit Purchase Scheme (the "**UPS**") and in December 2016 by Cumulative Properties Limited ("**Cumulative**") (a subsidiary of "**Arrowhead**") (collectively the "**Scheme Loans**") to finance the acquisition of shares in the Arrowhead Group (the "**Loan Shares**").

In common with a number of other companies in the listed sector, the Scheme Loans were put in place with and on the basis of expert legal advice received at the time.

Having regard to the implications of the Fairvest merger and issues raised in the litigation with Imraan Suleman, the Arrowhead Board sought a further, formal legal opinion on the application of the National Credit Act, No 35 of 2005, as amended (the "**NCA**") to the Scheme Loans and Scheme Shares (the "**NCA Opinion**"). The key conclusions of the NCA Opinion (received by the Company on 28 October 2021, post the Company's year end) are that:

- the conclusion of the Scheme Loans was prohibited in terms of the NCA and, as a result the Scheme Loans were void ab initio;
- the legal consequences of this are that the parties to the Scheme Loans must tender restitution of the performance which took place under the Scheme Loans, in order to restore the parties as near as possible in the circumstances to the position they would have been in had the Scheme Loans not been concluded (the "**Restitution**").

The NCA Opinion is based in part on relatively recent legal precedent, which has provided greater clarity on the court's interpretation of the scope of the NCA and its potential application to the Scheme Loans and the Loan Shares. Based on this Opinion and having taken further legal advice, the Group has addressed letters to the employees concerned advising them that, the Group intends to give effect to the Restitution with effect from 30 November 2021 (the "**Restitution Effective Date**"), such that with effect from that date:

- the Loan Shares (currently held as security for the Scheme Loans) are placed under the control and at the disposal of the Group to be disposed of in a responsible manner at an appropriate time by way of an on-market disposal; a sale by private treaty; a sale to Arrowhead or one of its subsidiaries; or otherwise (with the proceeds of such disposal accruing to and being for the benefit of the Group);
- any benefits accruing to or in favour of the Loan Shares shall accrue to and be for the benefit of the Group; and the voting rights attaching to the Loan Shares shall be exercisable by the Group (provided that such exercise is permitted in terms of the JSE Listings Requirements, the Companies Act, Arrowhead's MOI or otherwise).
- the Scheme Loans will be derecognised, resulting in an estimated decrease in total assets of R91.7 million.

If no objections are received from any affected employee to the proposed Restitution by 26 November 2021, Restitution will take place on and with effect from the Restitution Effective Date as a non-adjusting post balance sheet event.

Given that the Group took the decision in 2019, 2020 and again in these financial results, to materially impair the value of the Scheme Loans to a value calculated with reference to the value of the Loan Shares, the Restitution will not have a material impact on the financial position of the Group.

The NCA Opinion does not impact the other loan schemes in the Group (namely the Arrowgem Unit Purchase and Option Scheme, the Arrowhead Share Purchase and Option Scheme and the Indluplace Share Purchase and Option Scheme) where loans were provided, not to individuals, but to participation SPVs and which the Group has been advised are, accordingly, exempt from the provisions of the NCA. The aforesaid Group loan schemes have been discontinued in that the Boards of the relevant Group companies have resolved not to issue any further shares nor advance further loans pursuant to these schemes.

LITIGATION STATEMENT

There are no legal or arbitration proceedings, including any proceedings that are pending or threatened, of which Arrowhead is aware, that may have or have had in the recent past, being the previous 12 months, a material effect on the Group's financial position.

BASIS OF PREPARATION –

The consolidated results for the year ended 30 September 2021 have been reviewed by the Group's auditors, BDO South Africa Incorporated.

These reviewed condensed consolidated financial statements for the year ended 30 September 2021 ("condensed results") have been prepared in accordance with the requirements of International Financial Reporting Standards, the Financial Pronouncements as issued by Financial Reporting Standards Council, IAS 34: Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa, no. 71 of 2008. The accounting policies are consistent with the previous year. These results have been prepared under the supervision of J Limalia, CA (SA), Arrowhead's Chief Financial Officer.

The directors take full responsibility for the preparation of the condensed results. The auditors BDO South Africa have issued an unmodified review conclusion for the condensed results for the year end 30 September 2021 and a copy of the review conclusion is available for inspection at the Company's registered office at 3rd Floor, Upper Building, 1 Sturdee Avenue, Rosebank, Johannesburg. The auditor's review conclusion does not necessarily report on all the information contained in the announcement of the financial results. 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 review conclusion together with the Company financial information from the Company's registered office.

NEW STANDARDS AND INTERPRETATIONS ADOPTED

Amendments to IAS 1: Presentation of Financial Statements

Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020 and has been adopted in the current financial year. The amendment did not have an impact on the Company's financial statements.

Amendments to IAS 8: Accounting policies, Changes in accounting estimates and Errors

Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020. The amendment did not have an impact on the Company's financial statements.

Amendments to IFRS 16: Leases

COVID-19-Related Rent Concessions: Amendment providing lessees with an exemption from assessing whether a COVID- 19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification.

The effective date of the amendment is for years beginning on or after 01 June 2020 and has been adopted in the current financial year. The amendment did not have an impact on the Company's financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2021 —

R'000	Reviewed for the year ended 30 September 2021	Audited for the year ended 30 September 2020
Rental income	2 000 708	2 189 241
Straight-line rental income accrual	(23 956)	14 519
Listed securities income	20 557	18 325
Total revenue	1 997 309	2 222 085
Operating costs	(884 032)	(954 868)
Administration and corporate costs	(134 346)	(104 053)
Net operating profit	978 931	1 163 164
Changes in fair values	(393 676)	(1 500 977)
Profit / (loss) from operations	585 255	(337 813)
Finance charges	(458 888)	(574 349)
Finance income	31 102	46 014
Income / (loss) before taxation	157 469	(866 148)
Taxation	(18 791)	21 644
Total comprehensive income / (loss)	138 678	(844 504)
Income / (loss) for the year attributable to:		
Equity shareholders of Arrowhead	181 197	(733 284)
Non-controlling interest	(42 519)	(111 220)
Total comprehensive income / (loss) for the year	138 678	(844 504)
Weighted average number of shares		
Arrowhead A shares	62 718 658	62 718 658
Arrowhead B shares	958 222 015	975 150 972
Arrowhead B shares - Dilutive	968 532 878	975 150 972
Basic earnings (loss) per share (cents)		
Arrowhead shares	17.75	(70.66)
Diluted earnings (loss) per share (cents)		
Arrowhead shares	17.57	(70.66)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2021 ——

	Reviewed for the year ended	Audited for the year ended
R'000	30 September 2021	30 September 2020
Assets		
Non-current assets	11 914 978	12 400 258
Investment property	11 439 246	12 111 511
Fair value of property portfolio	11 297 977	11 946 285
Straight-line rental income accrual	141 269	165 226
Property, plant and equipment	5 060	632
Loans to participants of Group share purchase and option schemes	236 504	132 183
Financial assets	195 490	97 833
Deferred tax	38 678	58 099
Current assets	429 552	605 902
Trade and other receivables	246 967	387 550
Loans to participants of Group share purchase and option schemes		48 263
Current tax receivable	632	-
Cash and cash equivalents	181 953	170 089
Non-current assets held for sale	387 261	1 427 948
Total assets	12 731 791	14 434 108
Equity and liabilities		
Shareholders' interest	6 381 295	6 619 225
Stated capital	7 160 453	7 206 556
Share-based payments reserve	10 199	3 059
Accumulated losses	(789 357)	(590 390)
Non-controlling interest	865 376	992 364
Non-current liabilities	3 976 133	4 012 919
Secured financial liabilities	3 775 728	3 531 578
Derivative instruments	161 228	458 213
Lease liabilities	39 177	23 128
Current liabilities	1 508 987	2 809 600
Trade and other payables	645 000	674 714
Secured financial liabilities	858 628	2 086 920
Current tax payables	-	46 495
Lease liabilities	5 359	1 471
Total equity and liabilities	12 731 791	14 434 108

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY -

		Share-based	Accumulated	Non-controlling	
R'000	Stated capital	payment reserve	losses	interest	Total
Balance at 30 September 2019	7 295 523	-	500 241	1 210 368	9 006 132
Share buyback	(88 967)	-	5 680	(14 157)	(97 444)
Changes in ownership interest for Moolgem	-	-	3 807	(40 430)	(36 623)
Employee share scheme	-	3 059	-	321	3 380
Dividends paid	-	-	(366 834)	(52 518)	(419 352)
Total comprehensive loss for the year	-	-	(733 284)	(111 220)	(844 504)
Balance at 30 September 2020	7 206 556	3 059	(590 390)	992 364	7 611 589
Share buyback	(46 103)	-	12 106	(28 983)	(62 980)
Employee share scheme	-	7 140	-	734	7 874
Dividends paid	-	-	(392 270)	(56 220)	(448 490)
Total comprehensive income for the year	-	-	181 197	(42 519)	138 678
Balance at 30 September 2021	7 160 453	10 199	(789 357)	865 376	7 246 671

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS -

	Reviewed for	Audited for
R'000	the year ended 30 September 2021	the year ended 30 September 2020
Net cash utilised from operating activities	246 817	381 939
Cash generated from operations	1 169 826	1 311 301
Finance charges paid	(458 888)	(574 349)
Interest received	10 707	46 014
Dividends received - listed securities	20 557	18 325
Tax paid	(46 495)	-
Dividends paid - non-controlling interest	(56 620)	(52 518)
Dividends paid	(392 270)	(366 834)
Net cash utilised in investing activities	863 956	644 768
Capital expenditure / acquisition of investment property	(281 920)	(229 853)
Proceeds from disposal of investment property	1 113 894	872 903
Investment in financial assets	-	(5 799)
Loans to participants of share purchase option schemes repaid	16 200	-
Sale of property, plant and equipment	-	47
Sale of financial assets	21 131	8 000
Acquisition of property, plant and equipment	(5 349)	(530)
Net cash generated from financing activities	(1 098 909)	(1 017 617)
Cost incurred in share buyback	-	(97 521)
Acquisition of additional interest in subsidiary	(30 000)	(6 623)
Proceeds from lease liabilities	21 090	-
Repayment of lease liabilities	(1 153)	(750)
Settlement of interest rate derivatives	(99 927)	-
Repayments of financial liabilities	(988 919)	(912 723)
Net movement in cash and cash equivalents	11 864	9 090
Cash and cash equivalents at the beginning of the year	170 089	160 999
Cash and cash equivalents at the end of the year	181 953	170 089

RECONCILIATION OF EARNINGS TO HEADLINE EARNINGS -

R'000	Reviewed for the year ended 30 September 2021	Audited for the year ended 30 September 2020
Income / (loss) for the year attributable to Arrowhead shareholders	181 197	(733 284)
Income / (loss)	181 197	(733 284)
Change in fair value of investment property	818 246	761 293
Change in fair value of investment property - non-controlling interest	(107 428)	(144 402)
Loss on sale of investment property	30 246	43 743
Headline profit / (loss) attributable to shareholders	922 261	(72 650)
Number of A shares in issue	62 718 658	62 718 658
Number of B shares in issue	951 422 029	969 807 177
Weighted average number of A shares in issue	62 718 658	62 718 658
Weighted average number of B shares in issue	958 222 015	975 150 972
Weighted average number of B shares in issue after dilutive impact of Conditional Share Plan	968 532 878	979 402 988
Basic earnings / (loss) per combined shares in issue (cents)	17.75	(70.65)
Diluted earnings / (loss) per combined shares in issue (cents)	17.57	(70.65)
Headline earnings / (loss) per combined shares in issue (cents)	90.33	(7.00)
Diluted headline earnings / (loss) per combined shares in issue (cents)	89.43	(7.00)

CONDENSED CONSOLIDATED SEGMENTAL ANALYSIS

Geographical

The Company has five reportable segments based on the geographic split of the country, which determines the Company's strategic business segments. The Company's executive directors review internal management reports on a monthly basis and all segments greater than 5% are considered strategic. All segments are located in South Africa. There are no single major tenants. The following summary describes the operations in each of the entity's reportable segments.

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Limpopo	Other	Total
30 September 2021							
Contractual rental income	1 314 065	256 916	122 166	126 113	122 920	58 528	2 000 708
Straight-line rental income	(16 572)	(6 316)	(626)	2 164	(1 748)	(858)	(23 956)
Listed securities income	-	-	-	-	-	20 557	20 557
Operating costs and administrative costs	(646 269)	(81 265)	(44 570)	(50 524)	(32 054)	(163 696)	(1 018 378)
Net operating income / (loss) before interest	651 224	169 335	76 970	77 753	89 118	(85 469)	978 931
Interest received	18 324	196	22	59	179	12 322	31 102
Finance charges	(2 234)	(209)	(4)	(10)	(21)	(456 410)	(458 888)
Net operating income / (loss)	667 314	169 322	76 988	77 802	89 276	(529 557)	551 145
Changes in fair values	(614 704)	(120 353)	(8 232)	19 986	(46 848)	376 475	(393 676)
Profit / (loss) before taxation	52 610	48 969	68 756	97 788	42 428	(153 082)	157 469
Taxation	-	-	-	-	-	(18 791)	(18 791)
Reportable segment profit / (loss) after tax	52 610	48 969	68 756	97 788	42 428	(171 873)	138 678
Reportable segment assets	6 672 520	1 900 369	724 419	853 903	675 265	1 905 315	12 731 791
Reportable segment liabilities	(378 552)	(44 291)	(25 287)	(21 041)	(38 618)	(4 977 331)	(5 485 120)
	6 293 968	1 856 078	699 132	832 862	636 647	(3 072 016)	7 246 671

Sectoral

R'000	Commercial	Industrial	Retail	Residential	Overheads	Total
30 September 2021						
Contractual rental income	457 079	235 043	703 525	602 314	2 747	2 000 708
Straight-line rental income	(4 951)	(15 338)	(2 234)	(1 433)	-	(23 956)
Listed securities income	-	-	-	-	20 557	20 557
Operating costs and administrative costs	(196 685)	(99 188)	(241 644)	(336 675)	(144 186)	(1 018 378)
Net operating income / (loss) before interest	255 443	120 517	459 647	264 206	(120 882)	978 931
Interest received	267	400	11 678	6 462	12 295	31 102
Finance charges	(316)	(230)	(1 928)	-	(456 414)	(458 888)
Net operating income / (loss)	255 394	120 687	469 397	270 668	(565 001)	551 145
Changes in fair values	(428 621)	4 029	(124 036)	(269 618)	424 570	(393 676)
Profit / (loss) before taxation	(173 227)	124 716	345 361	1 050	(140 431)	157 469
Taxation	-	-	-	-	(18 791)	(18 791)
Reportable segment profit / (loss) after tax	(173 227)	124 716	345 361	1 050	(159 222)	138 678
Reportable segment assets	2 771 073	1 268 907	4 467 986	3 581 296	642 529	12 731 791
Reportable segment liabilities	(159 697)	(64 268)	(187 165)	(121 614)	(4 952 376)	(5 485 120)
	2 611 376	1 204 639	4 280 821	3 459 682	(4 309 847)	7 246 671

Geographical

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Limpopo	Other	Total
30 September 2020							
Contractual rental income	1 449 843	255 770	132 570	120 802	166 129	64 127	2 189 241
Straight-line rental income	(33)	(625)	1 480	(1 338)	-	15 035	14 519
Listed securities income	-	-	-	-	-	18 325	18 325
Operating costs and administrative costs	(684 613)	(90 877)	(48 130)	(45 457)	(45 154)	(144 690)	(1 058 921)
Net operating income / (loss) before interest	765 197	164 268	85 920	74 007	120 975	(47 203)	1 163 164
Interest received	15 717	213	83	248	495	29 258	46 014
Finance charges	(2 141)	(307)	(1)	(7)	(10)	(571 883)	(574 349)
Net operating income / (loss)	778 773	164 174	86 002	74 248	121 460	(589 828)	634 829
Changes in fair values	(664 355)	(557)	(24 174)	(17 749)	(47 172)	(746 970)	(1 500 977)
Profit / (loss) before taxation	114 418	163 617	61 828	56 499	74 288	(1 336 798)	(866 148)
Taxation	-	-	-	-	-	21 644	21 644
Reportable segment profit / (loss) after tax	114 418	163 617	61 828	56 499	74 288	(1 315 154)	(844 504)
Reportable segment assets	7 524 147	2 135 119	870 350	821 716	1 104 915	1 977 861	14 434 108
Reportable segment liabilities	(357 708)	(49 555)	(47 317)	(21 816)	(51 252)	(6 294 871)	(6 822 519)
	7 166 439	2 085 564	823 033	799 900	1 053 663	(4 317 010)	7 611 589

Sectoral

R'000	Commercial	Industrial	Retail	Residential	Overheads	Total
30 September 2020						
Contractual rental income	528 276	273 657	744 180	645 878	(2 750)	2 189 241
Straight-line rental income	4 168	1 697	(3 514)	(2 866)	15 034	14 519
Listed securities income	-	-	-	-	18 325	18 325
Operating costs and administrative costs	(223 101)	(116 761)	(268 379)	(357 724)	(92 956)	(1 058 921)
Net operating income / (loss) before interest	309 343	158 593	472 287	285 288	(62 347)	1 163 164
Interest received	807	890	15 319	16 147	12 851	46 014
Finance charges	(337)	(90)	(2 003)	(131 051)	(440 868)	(574 349)
Net operating income / (loss)	309 813	159 393	485 603	170 384	(490 364)	634 829
Changes in fair values	(169 404)	(153 515)	(64 290)	(505 476)	(608 292)	(1 500 977)
Profit / (loss) before taxation	140 409	5 878	421 313	(335 092)	(1 098 656)	(866 148)
Taxation	-	-	-	-	21 644	21 644
Reportable segment profit / (loss) after tax	140 409	5 878	421 313	(335 092)	(1 077 012)	(844 504)
Reportable segment assets	3 243 919	1 659 751	5 134 578	3 878 564	517 296	14 434 108
Reportable segment liabilities	(159 336)	(78 157)	(227 626)	(93 370)	(6 264 030)	(6 822 519)
	3 084 583	1 581 594	4 906 952	3 785 194	(5 746 734)	7 611 589

FAIR VALUE HIERARCHY

The different levels have been defined as:

Level 1 - fair value is determined from quoted prices (unadjusted) in active markets for identical asset or liabilities;

Level 2 - fair value determined through the use of valuation techniques based on observable inputs, either directly or indirectly; and

Level 3 - fair value is determined through the use of valuation techniques using significant inputs

The investment in Dipula and (formerly) Rebosis shares are valued using a level 1 model.

The loans to participants of Group share purchase option schemes are valued based on a level 3 model.

The derivative instruments are valued by the various financial institutions by discounting the future cashflows using the JIBAR swap curve based on a level 2 model. Investment property is valued using a level 3 model.

Measurement of fair value for level 3

Investment property

The fair value of investment property is calculated using a combination of the discounted cashflow model ("**DCF**") valuation technique and income capitalisation rate method. The DCF approach calculates the market value of each property by adding the present value of the anticipated future cash flows of the asset, to the present value of the property's expected worth at the end of the period under consideration. The income capitalisation rate method calculates market value by applying an appropriate capitalisation rate to the property's net income.

The key inputs are as follows:

• Expected net operating income:

- Discount rate (13.25% 16.50%; 2020: 14.50% 21.50%);
- Exit CAP rate (8.50% 13.78%; 2020: 8.25% 12.95%);
- Growth rate (0% 7.00%; 2020: 0% 12.00%)

If the capitalisation rate increased or decreased by 0.25%, the value of investment property, measured using the discounted net cash flow method and income capitalisation rate method, would increase by R213 million (2020: R338 million) and would decrease by R203 million (2020: R322 million) in totality. Broken down per sector it would have the following impact:

Sector	Capitalisation rate decreased by 0.25%	Capitalisation rate increased by 0.25%
Industrial	+R17 million	-R17 million
Commercial	+R40 million	-R38 million
Retail	+R73 million	-R69 million
Residential	+R83 million	-R79 million

If the discount rate increased or decreased by 0.25%, the value of investment property, measured using the discounted net cash flow method, would increase by R75 million and would decrease by R72 million in totality. Broken down per sector it would have the following impact:

Sector	Discount rate decreased by 0.25%	Discount rate increased by 0.25%
Industrial	+R11 million	-R10 million
Commercial	+R24 million	-R24 million
Retail	+R40 million	-R38 million
Residential	N/a - income capitalisation	N/a - income capitalisation rate
	rate method used	method used

Reconciliation of investment property

R'000	Reviewed for the year ended 30 September 2021	Audited for the year ended 30 September 2020
Opening balance	13 539 458	14 934 305
Improvements to investment property	260 996	255 692
Transfers	20 924	-
Disposals	(1 144 138)	(916 646)
Tenant installations, lease commission and straight-lining	(32 594)	27 149
Fair value adjustments	(818 139)	(761 042)
Closing balance	11 826 507	13 539 458

Loans to participants of Group share purchase option schemes

To determine the fair value, a future share price assessment was carried out taking forward looking parameters such as expected dividend yield and dividend growth into account and applying these factors to a Dividend Growth Model based on a weighted scenario probability analysis, resulting in the fair market value of the future share price at the expiry of the loan discounted back to present value using a discount rate.

The key inputs are as follows:

- Dividend yield (2021: 11%; 2020: 18% 20%);
- Growth in annual dividend (2021: 0% 5%; 2020: 1% 9%);
- Discount rate (2021: 5%-8%; 2020: 7%);

Sensitivity analysis if key inputs change as follows:

R'000	Up 2%	Down 2%
Dividend yield	(17 758)	25 384
Growth rate	9 333	(8 753)
Discount rate	(11 331)	12 572

Reconciliation of loans to participants of Group share purchase option schemes

R'000	Reviewed for the year ended 30 September 2021	Audited for the year ended 30 September 2020
Opening balance	180 446	384 122
Loans repaid	(77 669)	-
Fair value adjustments	133 727	(203 676)
Closing balance	236 504	180 446

Group **Year ended 30 September 2021**

	Designated at			
R'000	fair value	Level 1	Level 2	Level 3
Investment property (incl. non-current assets held for sale)	11 826 507	-	-	11 826 507
Financial assets	418 804	182 300		236 504
Listed securities	182 300	182 300	-	-
Loans to participants of Group share purchase option schemes	236 504	-	-	236 504
Total assets	12 245 311	182 300	<u>-</u>	12 063 011
	161 228	-	161 228	-
Interest rate swaps	161 228	-	161 228	-
Total liabilities	161 228	-	161 228	-

Group **Year ended 30 September 2020**

	Designated at			
R'000	fair value	Level 1	Level 2	Level 3
Investment property (incl. non-current assets held for sale)	13 539 459	-	-	13 539 459
Financial assets	265 089	84 643		180 446
Listed securities	84 643	84 643	-	-
Loans to participants of Group share purchase option schemes	180 446	-	-	180 446
Total assets	13 804 548	84 643	-	13 719 905
	458 213	-	458 213	-
Interest rate swaps	458 213	-	458 213	-
Total liabilities	458 213	-	458 213	-

REIT RATIOS (NON IFRS DISCLOSURE)

SA REIT Associations best practise recommendations

The second edition of the SA REIT Association's best practice recommendations was issued in November 2019 and is effective for reporting periods commencing on or after 1 January 2020. The comparative figures have been disclosed on the same basis.

SA REIT FUNDS FROM OPERATIONS (SA REIT FFO) PER SHARE Group -

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Profit / (loss) per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent	181 197	(733 284)
Adjusted for:		
Accounting/specific adjustments:	623 561	1 032 672
Fair value adjustments to:	560 489	1 058 123
Investment property	818 246	746 774
Gain / (loss) on revaluation of listed securities	(118 644)	110 035
 Fair value gain / (loss) on loans to participants of Group share purchase option schemes 	(133 727)	203 676
Sundry adjustments	(5 386)	(2 362)
Non-distributable deferred tax movement recognised in profit/loss	19 423	(68 140)
Non-distributable income tax movement recognised in profit/loss	(632)	46 495
Straight-lining operating lease adjustment	23 956	14 519
Transaction costs expensed in accounting for a business combination	-	-
Adjustments to dividends from equity interests held	20 325	(18 325)
Adjustments arising from investing activities:		
Losses on disposal of:	30 245	43 743
Investment property and property, plant and equipment	30 245	43 743
Foreign exchange and hedging items:	(197 058)	384 592
Fair value adjustments on derivative financial instruments employed solely for hedging purposes	(197 058)	384 592
Other adjustments:	(107 284)	(203 564)
Non-controlling interests in respect of the above adjustments	(89 319)	(194 230)
Adjustments relating to subsidiary Indluplace - adjusting for pay-out ratio and other sundry items	(17 965)	(17 757)
Interest earned from Arrowhead Charitable Trust		8 423
SA REIT FFO:	530 661	524 159
Allocated to the A shares:	75 395	72 415
Thus balance allocated to the B shares:	455 266	451 744
Number of shares outstanding at end of period (net of treasury shares) - A shares	62 718 658	62 718 658
Number of shares outstanding at end of period (net of treasury shares) - B shares	951 422 029	995 341 877
SA REIT FFO per share - A shares (cents)	120.21	115.46
SA REIT FFO per share - B shares (cents)	47.85	45.39

SA REIT NET ASSET VALUE (SA REIT NAV)

Group —

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Reported NAV attributable to the parent	6 381 295	6 619 225
Adjustments:		
Dividend to be declared	(529 407)	(400 760)
Dividend to be received from Indluplace and Dipula	74 218	84 326
Fair value of certain derivative financial instruments	161 228	458 213
Deferred tax	(38 678)	(58 100)
SA REIT NAV:	6 048 656	6 702 904
Allocated to the A shares:	733 428	495 781
Thus balance allocated to the B shares:	5 315 228	6 207 123
Number of shares outstanding at end of period (net of treasury shares) - A shares	62 718 658	62 718 658
Number of shares outstanding at end of period (net of treasury shares) - B shares	951 422 029	969 807 177
Effect of dilutive instruments	10 310 863	4 252 016
Dilutive number of shares in issue	961 732 892	974 059 193
SA REIT NAV per A share (cents):	1 169	790
SA REIT NAV per B share (cents):	553	637

SA REIT COST-TO-INCOME RATIO

Group —

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Expenses		
Operating expenses per IFRS income statement (incl. municipal expenses)	884 032	954 869
Administrative expenses per IFRS income statement	134 346	104 052
Exclude:		
Depreciation expense in relation to property, plant and equipment of an administrative nature and	024	204
ammortisation expense in respect of intangible assets	921	894
Operating costs	1 019 299	1 059 815
Rental income		
Contractual rental income per IFRS income statement (excl. straight-lining)	1 509 965	1 648 496
Utility and operating recoveries per IFRS income statement	490 743	540 745
Gross rental income	2 000 708	2 189 241
SA REIT cost-to-income ratio	50.9%	48.4%

SA REIT ADMINISTRATIVE COST-TO-INCOME RATIO

Group —

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Expenses		
Administrative expenses per IFRS income statement	134 346	104 052
Operating costs	134 346	104 052
Rental income		
Contractual rental income per IFRS income statement (excl. straight-lining)	1 509 965	1 648 496
Utility and operating recoveries per IFRS income statement	490 743	540 745
Gross rental income	2 000 708	2 189 241
SA REIT administrative cost-to-income ratio	6.7%	4.8%

SA REIT GLA VACANCY RATE

Group —

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Gross lettable area of vacant space	78 677	97 023
Gross lettable area of total property portfolio	939 486	1 130 972
SA REIT GLA vacancy rate	8.4%	8.6%

^{*} The above excludes Indluplace as Indluplace reports vacancy on a unit basis and not GLA basis.

SA REIT LOAN-TO-VALUE Group —

R'000	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Gross debt	4 678 892	5 643 096
Less:		
Cash and cash equivalents (excl. restricted cash and cash equivalents)	(151 976)	(190 234)
Add/less:		
Derivative financial instruments	161 228	458 213
Net debt	4 688 144	5 911 075
Total assets - per Statement of Financial Position	12 731 792	14 434 107
Less:		
Cash and cash equivalents	(181 953)	(190 234)
Derivative financial assets	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·
Goodwill and intangible assets	(38 678)	(58 100)
Trade and other receivables (excl. property loan receivable)	(238 306)	(316 965)
Carrying amount of property-related assets	12 272 855	13 868 808
SA REIT loan-to-value ("SA REIT LTV")	38.2%	42.6%

SA REIT COST OF DEBT Group —

	Unaudited year ended 30 September 2021	Unaudited year ended 30 September 2020
Variable interest-rate borrowings		
Floating reference rate plus weighted average margin	5.7%	5.5%
Fixed interest-rate borrowings		
Weighted average fixed rate	0.0%	0.0%
Pre-adjusted weighted average cost of debt:	5.7%	5.5%
Adjustments:		
Impact of interest rate derivatives	2.7%	3.6%
Impact of cross-currency interest rate swaps	0.0%	0.0%
Amortised transaction costs imputed into the effective interest rate	0.1%	0.1%
All-in weighted average cost of debt:	8.5%	9.2%

By order of the Board

24 November 2021

Directors: G Kinross * (Chairperson), Mark Kaplan (CEO), J Limalia (CFO), T Adler*, A Basserabie*, N Makhoba*, S Mokorosi* * Independent non-executive. All directors are South African.

Registered office

3rd Floor, Upper building, 1 Sturdee Avenue, Rosebank, Johannesburg, 2196 PO Box 685, Melrose Arch, 2076

Transfer secretaries

JSE Investor Services Proprietary Limited

Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Company secretary

Vicki Turner

Website

www.arrowheadproperties.co.za

