Heriot
REIT *Committed to excellence*

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 2021

For the six months ended 31 December

Distributable earnings growth of **15,0%**

Interim dividend of **50,42** cents per share, equating to 100% of distributable earnings

Average cost of debt of **6,39%**

Portfolio vacancy of **3,0%**

Heriot

AT A GLANCE

Heriot, a property holding and investment company listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE"), is primarily invested in retail and industrial properties situated in areas with high growth potential.

Its total property portfolio, including investments in office, residential and specialised properties, is valued at R4,625 billion. 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.

Board commentary

Financial results

Distributable earnings of the group for the six months ended 31 December 2021 (the "reporting period") of R128,8 million, or 50,42 cents per share, are 15,0% ahead of distributable earnings of 43,84 cents per share for the comparable period in 2020.

Heriot's exceptional growth is attributable to its additional investment in Safari Investments RSA Limited ("Safari") by way of the purchase of 50 078 280 Safari shares in July 2021, increasing Heriot's shareholding to 18,9%, and the recovery of an insurance claim of R5,0 million for the loss of rental income incurred during the COVID-19 hard lockdown period in 2020.

Excluding the income enhancement from the Safari shares and the insurance recovery, the growth of 8,0% for the period is testimony to Heriot's strong and diversified property portfolio. The retail and industrial properties are underpinned by a high percentage of national tenants with long-term leases and high trading densities. Further, the retail properties, located in non-metropolitan areas and catering more for the daily needs of shoppers, have been relatively resilient to the difficult economic environment in South Africa and the various COVID-19 lockdown restrictions. As a result, tenancies have remained stable and vacancy levels have remained low during the reporting period. Due to the high percentage of floating debt, the group continues to benefit from the low interest rates prevailing in the market.

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

Heriot's net asset value ("NAV") per share increased by 2,1% from R11,43 at 30 June 2021 to R11,67 at 31 December 2021.

Investment property

Heriot's investment property portfolio comprises 43 properties across all major sectors within South Africa. At the reporting date, the portfolio was independently valued at R4,625 billion by Peter Parfitt of Quadrant Properties Proprietary Limited, a registered valuer in terms of section 19 of the Property Valuers Professional Act, 47 of 2000, using the discounted cash flow method. The net increase in the value of the portfolio, amounting to R55,6 million or 1,2% on a like-for-like basis, was driven mainly by increases of R36,2 million and R15,4 million in the fair value of properties in the retail and industrial sectors respectively.

The rooftop solar system at Tsakane Mall, a retail property co-owned with Exemplar REIT, was brought into commission in January 2021 and is currently yielding 17,7%. The planned installation of a further four rooftop solar systems at Heriot's large retail properties has been delayed but is expected to be completed at a cost of R35,0 million before 30 June 2022. The installations are being funded by debt and are forecast to yield in excess of 20,0% per annum.

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

Heriot further owns the group's head office, comprising 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

While the group's tenancies remained relatively stable throughout the reporting period, vacancies increased from 2,1% at 30 June 2021 to 3,0% at 31 December 2021. This increase was driven by a tenant failure in the industrial sector but subsequent to the reporting date, an offer has been received to re-let this space.

Funding

Heriot's secured borrowings of R2,077 billion at 31 December 2021 equate to a gearing ratio of 41,8% (30 June 2021: 38,8%). The increase in gearing is primarily as a result of debt of R280,0 million secured for the acquisition of the shares in Safari. The average cost of borrowings, including the amortisation of facility raising fees, was 6,39% for the reporting period (30 June 2021: 6,32%) and at the reporting date, all borrowings are at floating rates.

At 31 December 2021, debt amounting to R575,2 million is expiring within 12 months from the reporting date and has been reflected as current. Management are in advanced stages of discussions with the funders for the refinance of these facilities and are confident that the facilities will be refinanced on similar terms and conditions.

The board continues to monitor interest rate risk.

Investment in associate

As Heriot now owns an effective 18,9% of Safari, the investment has been classified as an associate in terms of IAS 28 *Investments in Associates*. Accordingly, Heriot has recognised its share of Safari's comprehensive income for the six months ended 30 September 2021 in its statement of comprehensive income. However, for purposes of calculating its distribution for the six months ended 31 December 2021, Heriot has included only the dividends of R16,8 million received from Safari during the reporting period.

Financial assets

Financial assets comprise loans of R34,6 million to participants of the employee share purchase scheme and a loan of R51,7 million to a related party, being a company owned by Steven Herring. The loans bear interest at the group's average cost of borrowings.

Share capital

There were no changes to the issued share capital during the reporting period. As at 31 December 2021, the company had 255 395 858 shares in issue, excluding the 900 000 treasury shares owned by the group.

Subsequent events

The group took transfer of Shoprite Emmarentia on 21 January 2022. The purchase price of R58,0 million, equating to a yield of 8,8%, has been funded on a four year facility at a rate of JIBAR plus 1,95%.

Prospects

Heriot's focus remains on exploring strategic opportunities to extract value from its existing portfolio and to further grow its asset base by way of the acquisition of high-quality properties in its target markets and core sectors.

There are indications that markets are stabilising but the very weak employment growth and rising interest rates are resulting in a contraction in the South African economy and higher than anticipated levels of inflation.

Despite difficult trading conditions, the board is confident that Heriot will deliver growth of 12,0% to 14,0% in the dividend per share for the year ending 30 June 2022.

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

- Forecast property income is based on contractual rental escalations and market-related renewals;
- Adequate allowance has been made for vacancies and rent reversions;
- No further major corporate and tenant failures will occur; and
- Interest rates will increase by no more than 50 bps during the six months ending 30 June 2022, excluding the 25 bps increase that was announced in January 2022.

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

Condensed consolidated statement of financial position

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Assets			
Non-current assets			
Investment property	4 509 950	4 421 100	4 531 350
Property under development	115 191	106 677	109 242
Property, plant and equipment	26 335	27 175	27 094
Investment in associate	319 959	7 975	4 824
Financial assets	34 569	69 108	73 516
	5 006 004	4 632 035	4 746 026
Current assets			
Trade and other receivables	44 487	37 851	35 000
Financial assets	51 724	48 069	50 311
Taxation	18	14	–
Cash and cash equivalents	160 527	102 811	110 300
	256 756	188 745	195 611
Non-current assets held for sale	–	6 500	6 500
Total assets	5 262 760	4 827 280	4 948 137
Equity and liabilities			
Stated capital	2 548 624	2 548 624	2 548 624
Retained earnings	430 841	251 095	369 392
	2 979 465	2 799 719	2 918 016
Non-controlling interests	50 954	49 238	46 549
	3 030 419	2 848 957	2 964 565
Non-current liabilities			
Interest-bearing liabilities	1 501 256	1 828 312	1 397 265
Deferred taxation	63 733	63 424	63 732
	1 564 989	1 891 736	1 460 997
Current liabilities			
Interest-bearing liabilities	575 248	–	431 024
Derivative financial instrument	–	12 777	5 905
Trade and other payables	92 104	73 810	85 617
Taxation	–	–	29
	667 352	86 587	522 575
Total equity and financial liabilities	5 262 760	4 827 280	4 948 137
Net asset value per share (cents)	1 166,61	1 096,23	1 142,55
Net tangible asset value per share (excluding deferred taxation) (cents)	1 191,56	1 121,06	1 167,50

Condensed consolidated statement of profit and loss and other comprehensive income

	Unaudited Six months ended 31 December 2021 R'000	Unaudited Six months ended 31 December 2020 R'000	Audited Year ended 30 June 2021 R'000
Rental income	282 320	235 783	504 134
Contractual rental income and recoveries	286 325	257 733	529 977
Straight-line rental income	(4 005)	(21 950)	(25 843)
Property expenses	(96 028)	(74 438)	(154 615)
Net property income	186 292	161 345	349 519
Income from associates	13 191	882	(2 269)
Other income	9 172	7 645	10 050
Administrative expenses and corporate costs	(22 572)	(20 139)	(40 622)
Profit from operations	186 083	149 733	316 678
Finance income	6 627	5 131	10 163
Finance charges	(66 852)	(59 419)	(114 415)
Profit before fair value adjustments	125 858	95 445	212 426
Fair value adjustments	60 487	(7 774)	111 819
Investment properties	54 582	(16 864)	91 498
Financial assets	–	4 190	8 550
Derivative financial instrument	5 905	4 900	11 771
Profit before taxation	186 345	87 671	324 245
Taxation	(760)	(810)	(1 847)
Total comprehensive income for the period	185 585	86 861	322 398
Attributable to:			
Equity holders of the company	181 180	82 767	313 027
Non-controlling interests	4 405	4 094	9 371
	185 585	86 861	322 398
Reconciliation of earnings and headline earnings			
Profit attributable to equity holders of the company	181 180	82 767	313 027
Change in fair value of investment properties attributable to shareholders of the company	(54 755)	16 963	(89 944)
Change in fair value of investment properties	(54 582)	16 864	(91 498)
Attributable to non-controlling shareholders	(173)	99	1 554
Headline earnings attributable to equity holders	126 425	99 730	223 083
Number of shares in issue at reporting date*	255 395 858	255 395 858	255 395 858
Weighted average number of shares in issue	255 395 858	255 395 858	255 395 858
Basic and diluted earnings per share (cents)	70,94	32,41	122,57
Basic and diluted headline earnings per share (cents)	49,50	39,05	87,35
Distribution per share (cents)	50,42	43,84	90,72

* *Excluding 900 000 treasury shares.*

Condensed consolidated statement of cash flows

	Unaudited Six months ended 31 December 2021 R'000	Unaudited Six months ended 31 December 2020 R'000	Audited Year ended 30 June 2021 R'000
Cash generated from operations	175 029	174 321	354 742
Net finance charges	(57 335)	(54 288)	(100 286)
Taxation paid	(809)	(810)	(1 496)
Cash flows from operating activities	116 885	119 223	252 960
Acquisition and development of investment property	(11 146)	(66 624)	(75 325)
Proceeds from disposal of investment property	83 250	47 500	47 500
Acquisition of property, plant and equipment	(65)	(1 841)	(2 397)
Acquisition of shares in associate	(280 663)	(29 925)	(29 925)
Dividends received from associates	17 195	–	–
Loan repaid by related party	–	188	389
Loan advanced to related party	(1 413)	(2 637)	(5 079)
Share scheme debt repaid	1 548	1 430	2 474
Cash from investing activities	(191 294)	(51 909)	(62 363)
Dividend distributions to owners of the company	(119 730)	(110 972)	(222 935)
Dividends paid to non-controlling shareholders	(3 850)	(1 850)	(5 658)
Interest-bearing borrowings raised	280 000	62 061	92 038
Interest-bearing borrowings repaid	(31 784)	–	(30 000)
Net cash generated from financing activities	124 636	(50 761)	(166 555)
Net movement in cash and cash equivalents	50 227	16 553	24 042
Cash and cash equivalents at the beginning of the period	110 300	86 258	86 258
Cash and cash equivalents at the end of the period	160 527	102 811	110 300

Condensed consolidated statement of changes in equity

	Unaudited Six months ended 31 December 2021 R'000	Unaudited Six months ended 31 December 2020 R'000	Audited Year ended 30 June 2021 R'000
Balance at the beginning of the period	2 964 565	2 873 068	2 873 068
Total comprehensive profit	185 584	86 861	322 398
Dividends paid	(119 730)	(110 972)	(230 901)
Balance at the end of the period	3 030 419	2 848 957	2 964 565

Notes to the financial statements

1. Basis of preparation

The condensed consolidated interim financial statements are 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, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, 71 of 2008. The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those used in the audited annual financial statements for the year ended 30 June 2021.

The preparation of the group's interim results for the six months ended 31 December 2021 was the responsibility of the chief financial officer, Janys Finn CA(SA). The results have not been audited or reviewed by the group's auditor, BDO South Africa Incorporated.

The second edition of the SA REIT Association's best practice recommendations was published in November 2019 encouraging consistent presentation and disclosure of relevant metrics in the SA REIT sector. We support this aim to enhance transparency and comparability and have included these metrics for the six months ended 31 December 2021 as an annexure to this announcement.

The directors are not aware of any matters or circumstances arising subsequent to 31 December 2021 that require any additional disclosure or adjustment to the financial statements. The directors further take full responsibility for the preparation of these provisional condensed consolidated financial statements.

The unaudited condensed consolidated interim financial statements were approved by the board on 24 February 2022.

2. Non-IFRS measure – distributable earnings

In terms of Real Estate Investment Trust ("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:

	Six months ended 31 December 2021 R'000	Six months ended 31 December 2020 R'000	Year ended 30 June 2021 R'000
Contractual rental income and recoveries, excluding straight-line rental income	286 325	257 733	529 977
Property expenses	(96 028)	(74 438)	(154 615)
Other income	9 172	7 645	10 050
Administrative expenses and corporate costs	(22 320)	(19 887)	(40 116)
Per statement of comprehensive income	(22 572)	(20 139)	(40 622)
Depreciation on owner-occupied property	252	252	506
Net finance costs	(60 225)	(54 288)	(104 252)
Finance income	6 627	5 131	10 163
Finance charges	(66 852)	(59 419)	(114 415)
Income tax	(760)	(810)	(1 539)
Dividend received from equity-accounted entities	17 195	–	–
Non-controlling interest	(4 578)	(3 994)	(7 817)
	128 781	111 961	231 688
Number of shares in issue at reporting date*	255 395 858	255 395 858	255 395 858
Distribution per share (cents)	50,42	43,84	90,72

* *Excluding the 900 000 treasury shares in issue.*

3. 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:

Six months ended 31 December 2021	Retail R'000	Industrial R'000	Office R'000	Specia-lised R'000	Resi-dential R'000	Other R'000	Total R'000
GLA (m²)	119 379	258 999	24 147	*	9 825	8 939	421 289
Rent	115 155	70 107	23 904	3 959	8 916	–	222 041
Recoveries	33 304	24 121	5 900	88	871	–	64 284
Straight-lining of rental income	(3 320)	899	(1 549)	(176)	141	–	(4 005)
Property expenses	(47 642)	(33 791)	(9 093)	(124)	(4 959)	(419)	(96 028)
Net property income	97 497	61 336	19 162	3 747	4 969	(419)	186 292
Other income	–	–	–	–	–	22 363	22 363
Administration expenses	–	–	–	–	–	(22 572)	(22 572)
Net finance charges	–	–	–	–	–	(60 225)	(60 225)
Change in fair value	38 562	10 324	(1 139)	4 976	1 859	5 905	60 487
Net profit before taxation	136 059	71 660	18 023	8 723	6 828	(54 948)	186 345
Investment property	2 348 200	1 420 050	408 000	163 700	170 000	–	4 509 950
Property under development	–	–	–	–	–	115 191	115 191
Property, plant and equipment	39	–	345	–	2 213	23 738	26 335
Trade and other receivables	8 762	5 785	348	–	2 834	26 758	44 487
Other assets						566 797	566 797
Total assets	2 357 001	1 425 835	408 693	163 700	175 047	732 484	5 262 760
Trade and other payables	45 513	14 610	4 702	1 526	3 460	22 293	92 104
Other liabilities	–	–	–	–	–	2 140 237	2 140 237
Total liabilities	45 513	14 610	4 702	1 526	3 460	2 162 530	2 232 341

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

Six months ended 31 December 2020	Retail R'000	Industrial R'000	Office R'000	Specia-lised R'000	Resi-dential R'000	Other R'000	Total R'000
GLA (m²)	119 379	271 534	24 864	*	9 825	8 222	433 824
Rent	106 675	66 281	21 105	3 738	7 260	–	205 059
Recoveries	27 905	18 950	4 695	144	980	–	52 674
Straight-lining of rental income	(3 469)	(17 898)	(441)	(142)	–	–	(21 950)
Property expenses	(41 999)	(20 624)	(6 492)	(47)	(5 276)	–	(74 438)
Net property income	89 112	46 709	18 867	3 693	2 964	–	161 345
Other income	–	–	–	–	–	8 527	8 527
Administration expenses	–	–	–	–	–	(20 139)	(20 139)
Net finance charges	–	–	–	–	–	(54 288)	(54 288)
Change in fair value	11 853	(20 815)	(8 329)	2 242	(1 815)	9 090	(7 774)
Net profit before taxation	100 965	25 894	10 538	5 935	1 149	(56 810)	87 671
Investment property	2 248 600	1 491 500	406 300	104 700	170 000	–	4 421 100
Non-current assets held for sale	–	6 500	–	–	–	–	6 500
Property under development		–	–	–	–	106 677	106 677
Property, plant and equipment	4	–	437	–	2 539	24 195	27 175
Trade and other receivables	12 292	5 166	1 741	–	2 157	16 495	37 851
Other assets	–	–	–	–	–	227 977	227 977
Total assets	2 260 896	1 503 166	408 478	104 700	174 696	375 344	4 827 280
Trade and other payables	40 333	8 371	2 835	1 166	3 445	17 660	73 810
Other liabilities						1 904 513	1 904 513
Total liabilities	40 333	8 371	2 835	1 166	3 445	1 922 173	1 978 323

* *The specialised property comprises 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.*

3. Segmental analysis continued

Year ended 30 June 2021	Retail R'000	Industrial R'000	Office R'000	Specia-lised R'000	Resi-dential R'000	Other R'000	Total R'000
GLA (m²)	119 379	271 534	25 581	*	9 825	8 222	434 541
Rent	212 920	143 285	44 523	7 820	16 010	–	424 558
Recoveries	57 355	36 122	10 022	201	1 719	–	105 419
Straight-lining of rental income	(3 212)	(20 983)	(1 365)	(283)	–	–	(25 843)
Property expenses	(84 407)	(44 952)	(15 128)	(270)	(9 383)	(475)	(154 615)
Net property income	182 656	113 472	38 052	7 468	8 346	(475)	349 519
Other income	–	–	–	–	–	7 781	7 781
Administration expenses	–	–	–	–	–	(40 622)	(40 622)
Net finance charges	–	–	–	–	–	(104 252)	(104 252)
Change in fair value	73 217	(31 374)	(2 621)	56 583	(4 307)	20 321	111 819
Net profit before taxation	255 873	82 098	35 431	64 051	4 039	(117 247)	324 245
Investment property	2 312 000	1 481 700	410 750	158 900	168 000	–	4 531 350
Non-current assets held for sale	–	6 500	–	–	–	–	6 500
Property under development		–	–	–	–	109 242	109 242
Property, plant and equipment	31	–	433	–	2 433	24 197	27 094
Trade and other receivables	8 342	4 550	434	–	3 503	18 171	35 000
Other assets	–	–	–	–	–	238 951	238 951
Total assets	2 320 373	1 492 750	411 617	158 900	173 936	390 561	4 948 137
Trade and other payables	36 984	14 465	2 655	3 773	3 215	24 525	85 617
Other liabilities						1 897 955	1 897 955
Total liabilities	36 984	14 465	2 655	3 773	3 215	1 922 480	1 983 572

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

4. Net asset value

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
NAV per share			
Total assets	5 262 760	4 827 280	4 948 137
Total liabilities, including deferred taxation	(2 283 295)	(2 027 561)	(2 030 121)
Net asset value	2 979 465	2 799 719	2 918 016
Deferred taxation	63 733	63 424	63 732
Net tangible assets	3 043 198	2 863 143	2 981 748
Number of shares in issue	255 395 858	255 395 858	255 395 858
NAV per share (cents)	1 166,61	1 096,23	1 142,55
Tangible NAV per share (cents)	1 191,56	1 121,06	1 167,50

5. Investment property

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

Inter-relationship between key unobservable inputs and fair value measurement

The fair value of investment properties would be affected by:

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

5. Investment property continued

	Six months ended 31 December 2021 %	Six months ended 31 December 2020 %	Year ended 30 June 2021 %
The average capitalisation rate applied was:	9,12	9,18	9,12
The rates applied per sector were as follows:			
Retail	8,75	9,05	8,75
Industrial	9,46	9,64	9,46
Office	9,86	9,46	9,86
Specialised	8,25	8,63	8,25
Residential	10,00	10,00	10,00

6. Loan to value ("LTV")

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Total secured debt			
Interest-bearing liabilities	2 076 504	1 828 312	1 828 289
Property-related assets			
Investment property	4 509 950	4 421 100	4 531 350
Property under development	115 191	106 677	109 242
Non-current assets held for sale	–	6 500	6 500
Owner-occupied property	22 961	23 442	23 190
Investment in associates	319 959	–	–
Financial assets - shares in listed REIT	–	34 115	38 475
Carrying amount of property-related assets	4 968 061	4 591 834	4 708 757
Loan to value (%)	41,8	39,8	38,8

Payment of dividend

The board has approved and notice is hereby given of the final gross dividend of 50,42 cents per share for the six months ended 31 December 2021. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2022
Last date to trade *cum* dividend	Tuesday, 15 March
Shares trade *ex* dividend	Wednesday, 16 March
Record date	Friday, 18 March
Payment date	Tuesday, 22 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 16 March 2022 and Friday, 18 March 2022, both days inclusive. The dividend will be transferred to dematerialised shareholders' Central Securities Depository Participant ("CSDP")/broker accounts on Tuesday, 22 March 2022. Certificated shareholders' dividend payments will be paid to certificated shareholders' bank accounts on or about Tuesday, 22 March 2022.

In accordance with Heriot's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, 58 of 1962 ("Income Tax Act"). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that such shareholders provide the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

- A declaration that the dividend is exempt from dividends tax; and
- A written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner,

both in the form prescribed by the Commissioner of the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. Any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 40,33600 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:

- Declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- Written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner ceases to be the beneficial owner,

both in the form prescribed by the Commissioner of 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.

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

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

By order of the board

24 February 2022

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

1. SA REIT BPR funds from operations

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Profit per IFRS statement of comprehensive income attributable to equity holders of the company	181 180	82 767	313 027
Adjusted for:			
Accounting/specific adjustments			
Fair value adjustment to investment properties	(54 582)	16 864	(91 498)
Straight-line rental income adjustment	4 005	21 950	25 843
Fair value adjustment to financial assets	–	(4 190)	(8 550)
Depreciation of owner-occupied property	252	252	506
Deferred taxation movement			308
Adjustments to dividends from equity interests held	4 004	(882)	2 269
Hedging items			
Fair value adjustment to derivative instruments	(5 905)	(4 900)	(11 771)
Other adjustments			
Non-controlling interests in respect of the above adjustments	(173)	100	1 554
	128 781	111 961	231 688
Number of shares in issue at reporting date*	255 395 858	255 395 858	255 395 858
Distribution per share (cents)	50,42	43,84	90,72

* *Excluding the 900 000 treasury shares in issue.*

2. SA REIT BPR cost-to-income ratio

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Per IFRS income statement			
Property expenses including municipal expenses and depreciation	96 029	74 438	154 615
Administrative expenses and corporate costs	18 041	13 867	31 648
Per statement of comprehensive income	22 572	20 139	40 622
Adjusted for:			
Salary recoveries included in sundry income	(4 279)	(6 020)	(8 468)
Depreciation charged on owner-occupied property	(252)	(252)	(506)
Total expenses	114 070	88 305	186 263
Contractual rental income and utility and operating recoveries, excluding straight-line rental income	286 325	257 733	529 977
Cost-to-income ratio (%)	39,84	34,26	35,15
Administrative cost-to-income ratio (%)	6,30	5,38	5,97

The cost-to-income ratio has been negatively impacted by the fact that the replacement tenants for two large industrial properties only commenced paying rental in the latter half of the reporting period and several triple net leases have been replaced by gross leases. With the inclusion of the new leases for a full reporting period, together with the earnings enhancement from the solar plants, the ratio is expected to normalise within the next 12 to 18 months.

3. SA REIT BPR vacancy rate

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
GLA of property portfolio (m²)	421 289	433 824	434 541
Vacant GLA (m²)	12 709	32 023	9 271
Vacancy rate (%)	3,0	7,4	2,1

4. SA REIT BPR loan to value

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Interest-bearing liabilities	2 076 504	1 828 312	1 828 289
Less: Cash and cash equivalents	(160 527)	(102 811)	(110 300)
Add: Derivative financial instruments	–	12 777	–
Net debt	1 915 977	1 738 278	1 717 989
Investment property	4 509 950	4 421 100	4 531 350
Property under development	115 191	106 677	109 242
Non-current assets held for sale	–	6 500	6 500
Owner-occupied property	22 961	23 442	23 190
Investments in associates	319 959	–	–
Financial assets – shares in listed REIT	–	34 115	38 475
Carrying amount of property-related assets	4 968 061	4 591 834	4 708 757
Loan to value (%)	38,57	37,86	36,48

5. SA REIT BPR NAV

	Unaudited 31 December 2021 R'000	Unaudited 31 December 2020 R'000	Audited 30 June 2021 R'000
Reported NAV	2 979 465	2 799 719	2 918 016
Adjusted for:			
Dividend to be declared	(128 781)	(111 961)	(119 727)
Fair value of derivative financial instruments	–	12 777	5 905
Deferred taxation	63 733	63 424	63 732
SA REIT BPR NAV	2 914 417	2 763 959	2 867 926
Number of shares in issue	255 395 858	255 395 858	255 395 858
NAV per share (cents)	1 141,14	1 082,23	1 122,93

6. SA REIT BPR cost of debt

	Unaudited 31 December 2021 %	Unaudited 31 December 2020 %	Audited 30 June 2021 %
Variable interest rate borrowings			
Floating reference rate plus weighted average margin	5,45	4,83	5,20
Fixed interest rate borrowings			
Weighted average fixed rate	0,48	1,31	1,06
Preadjusted weighted average cost of debt	5,93	6,13	6,26
Amortised transaction costs imputed into the effective interest rate	0,46	0,11	0,06
All-in weighted average cost of debt	6,39	6,24	6,32

Corporate information

Heriot REIT Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2017/167697/06)
JSE share code: HET
ISIN: ZAE000246740
(Approved as a REIT by the JSE)
("**Heriot**" or "**the company**" or "**the group**")

Company secretary

CIS Company Secretaries Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, Johannesburg 2196
(Private Bag X9000, Saxonwold 2132)

Directors

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

** Non-executive † Independent*

Auditor

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

Transfer secretaries

Computershare Investor Services Proprietary Limited

Designated advisor

Java Capital

Heriot
REIT
Committed to excellence

www.heriotreit.co.za