

Reviewed condensed
consolidated financial
statements
2023

for the year ended 30 June



Heriot
REIT *Committed to excellence*



HERIOT AT A GLANCE

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

At the reporting date, the property portfolio was valued at R9,258 billion (2022: R5,084 billion). This growth is predominantly attributable to the inclusion of investment property valued at R3,720 billion owned by Safari RSA Investments Limited (“Safari”) which was consolidated into Heriot’s results as at 30 June 2023. The Group’s primary objective is to grow and streamline Heriot’s asset base through the acquisition of high-quality properties, the redevelopment of existing properties and the disposal of assets identified as non-core.

Investment properties
valued at

**R9,258
billion**

(2022: R5,084 billion)

Gearing ratio of

41,1%

(2022: 38,5%)

Portfolio
vacancy of

2,4%

(2022: 3,0%)

Dividend per share

**106,33
cents**

(2022: 102,05 cents)

equating to 100% of
distributable earnings

Net property
operating income
growth of

13,8%

Distributable
earnings growth of

4,2%

Average cost
of debt

8,68%

(2022: 6,29%)

22,0%

growth in net
asset value
per share to

R14,72

(2022: R12,06)

BOARD COMMENTARY

FINANCIAL RESULTS

Distributable earnings of the Group for the year ended 30 June 2023 (the “period” or “reporting period”) of R271,552 million, or 106,33 cents per share, are 4,2% ahead of distributable earnings of 102,05 cents per share for the previous financial year. Distribution per share remains Heriot’s measure of performance.

Net property operating income (“NOI”) grew by 13,8%. While NOI from the specialised portfolio has grown through normal rental escalations of 6,0% to 8,0%, the industrial portfolio has significantly improved from reduced vacancies together with rental increases on lease renewals. The retail portfolio has achieved significant growth predominantly related to the Siyabuswa phase 3 extension. The residential portfolio has benefited from enhanced rentals achieved through short-term lettings. However, the office sector is still suffering the effects of the COVID-19 pandemic with challenges in filling vacancies and reduced rentals on lease renewals.

While the Group achieved double-digit growth from its property operations, distributions were negatively impacted by the 350bps increase in the repo rate during the reporting period as Heriot’s debt was entirely comprised of floating facilities for the period under review. As a result, the average cost of borrowings increased by 2,39%, from 6,29% in the comparable period, to 8,68%, reducing distributable earnings growth to 4,2%.

Effective cash management and strong cash flows support the payment of 100% of distributable earnings as a dividend and therefore, after accounting for the interim dividend of 52,04 cents paid on 11 April 2023, the Company is declaring a final dividend of 54,29 cents per share.

Heriot has adopted the SA REIT Association’s best practice metrics for reporting purposes. On this basis, Heriot’s net asset value per share increased by 22,0% from R12,06 at 30 June 2022 to R14,72

at 30 June 2023. This increase is mainly attributable to the consolidation of Safari’s statement of financial position at 31 March 2023 which resulted in an unrealised, non-distributable bargain gain of R464,3 million for the reporting period. The growth is further attributable to an increase of R289,3 million in the valuation of Heriot’s property portfolio, which is supported by the positive rental escalations achieved on renewals and re-lets across the portfolio during the period.

INVESTMENT IN SAFARI

Through the general offer made by Heriot to acquire shares in Safari at an offer price of R5,60 per share, Heriot acquired a further 23,6 million shares for R132,5 million during the reporting period, increasing Heriot’s shareholding from 19,2% to 26,8%.

Further material acquisitions of Safari shares during the reporting period were as follows:

- 20,0 million Safari shares at R5,60 per share, increasing Heriot’s interest in Safari to 33,2%;
- 18,2 million Safari shares from Heriot’s major shareholder, Heriot Investments Proprietary Limited (“Heriot Investments”) for a purchase price of R5,60 per share and an aggregate purchase consideration of R101,9 million (the “HI Acquisition”). The HI Acquisition was settled as follows:
 - 9,6 million Safari shares (with an aggregate value of R53,7 million) by way of an off-market block trade in full and final settlement of a loan owed by The Gusi Trust, the sole shareholder of Heriot Investments, to Heriot Properties Proprietary Limited, a wholly owned subsidiary of Heriot (“Heriot Properties”); and
 - 8,6 million Safari shares (with an aggregate value of R48,2 million) by way of an on-market block trade by Heriot Properties for cash.

Subsequent to this acquisition, Heriot’s shareholding increased to 39,1%.

The cash portion of the acquisition of Safari shares, totalling R292,7 million, was funded by secured debt from Nedbank Limited.

On 22 February 2023, Safari issued a firm intention announcement to repurchase and cancel the 53,0 million Southern Palace shares ("SP shares"), accounted for as treasury shares by Safari. The repurchase was unanimously approved at a general meeting of Safari shareholders held on 31 March 2023, at a price of R5,87 per share. Subsequent to the cancellation of the SP shares, Heriot's shareholding in Safari increased to 47,1%.

On 30 June 2023, Heriot sold 1,5 million Safari shares at R5,60 per share back to Heriot Investments. Heriot's effective shareholding in Safari consequently reduced to 46,5% at the end of the reporting period.

Together with its two concert parties, Heriot Investments and Reya Gola Investments Proprietary Limited, the wider Heriot Group's shareholding in Safari increased to an effective interest of 56,8%, or 146 516 751 shares at 30 June 2023.

ACCOUNTING TREATMENT OF SAFARI

Post the repurchase and cancellation of the SP shares by Safari, Heriot was deemed to effectively control Safari. Control was determined by reference to an analysis of historical voting patterns and is further supported by the fact that Steven Herring is the Chairman of both Safari and Heriot. On this basis, Heriot equity accounted Safari's 12-month results from 1 April 2022 to 31 March 2023, the date prior to which Heriot gained effective control and consolidated Safari's statement of financial position at 31 March 2023 into its results at 30 June 2023. Heriot has not included Safari's results for the three months ended 30 June 2023 ("three-month results") in its results for the reporting period. Instead, Heriot applied the lag accounting principle as Safari's three-month results were assessed as immaterial to the Group. Post Safari's year end, Safari has changed its year end from March to June and will therefore align with Heriot's year end from 30 June 2024.

INVESTMENT PROPERTY

Heriot's investment property portfolio comprises 48 properties across all major sectors within South Africa. At the reporting date, the portfolio was independently valued at R9,258 billion (2022: R5,084 billion) by Peter Parfitt of Quadrant Properties Proprietary Limited, a registered valuer in terms of Section 19 of the Property Valuers Profession Act (Act No 47 of 2000), using the discounted cash flow and comparable sales methods. The significant increase predominantly relates to:

- the inclusion of Safari's portfolio, comprising nine properties valued at R3,720 billion, including two assets held for sale; and
- growth of R289,3 million in the value of Heriot's portfolio.

On a like-for-like basis, the value of the investment property portfolio increased by an effective 5,4% from 30 June 2022 to 30 June 2023. The overall increase in the value of the portfolio is reflective of the resilience displayed by the retail and industrial properties in the portfolio.

During the period, Heriot completed the development of the 8 141m² extension to the Siyabuswa Mall which officially opened on 24 November 2022. The R95,4 million extension is projected to yield 15%.

Heriot's 50% interest in a small residential development, located in the northern suburbs of Johannesburg, was transferred to Investment Property at its fair value of R40,3 million, on completion in August 2022.

On 1 January 2023, Heriot commenced with the refurbishment of a commercial property, measuring 4 946m² and located in the Cape Town CBD, into a mixed-use property comprising of both commercial and residential space. The refurbishment is expected to cost R90 million, yield 14% and commence operations in December 2023. The strategy for this residential space is to adopt the apartment/hotel model.

Over and above Heriot's investment property portfolio, the Group owns a property, located in the Cape Town CBD, which is being redeveloped into student accommodation. At the reporting date, the property, valued at R91,3 million, was classified as property under development.

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.

At 30 June 2023, the Group's capital commitments of R408,957 million comprise improvements to investment property. R241,805 million of capital commitments relate to assets held for sale at 30 June 2023.

These commitments have been authorised and committed by both Heriot and Safari's Boards. These costs will be funded by the Group's cash reserves together with unutilised and committed credit facilities.

VACANCIES

The Group's tenancies remained stable throughout the reporting period with vacancies reducing from 3% at 30 June 2022 to 2,4% at 30 June 2023. Post year end, vacancies have reduced to 1,9%.

FUNDING

Heriot's secured borrowings of R3,834 billion at 30 June 2023 (2022: R2,216 billion), which includes R1,3 billion of Safari's debt facilities, equate to a gearing ratio of 41,1% (30 June 2022: 38,5%). The increase in gearing is primarily as a result of debt of R292,7 million secured for the acquisition of the additional shares in Safari. The average cost of borrowings, including the amortisation of facility raising fees, was 8,68% for the reporting period (30 June 2022: 6,29%). The significant rate hikes during the period have been the main contributor to the increased cost of borrowings. As Safari's results

for the three months ended 30 June 2023 were not included in Heriot's results for the reporting period, the average cost of borrowings reflects those for the Heriot Group alone. Throughout the reporting period, 100% of Heriot's debt was linked to floating facilities but with the consolidation of Safari at 30 June 2023, 10% of borrowings, equating to R394,0 million, are hedged at the reporting date. The Board continues to monitor interest rate risk on a regular basis.

The average remaining term of the debt is 2,2 years. Debt facilities held by Safari amounting to R608,9 million are expiring within 12 months from the reporting date and have been reflected as current. Safari's management is in advanced stages of discussions with the funders for the refinancing of these facilities and is confident that the facilities will be refinanced on similar terms and conditions.

INVESTMENT IN ASSOCIATES

During the reporting period, Heriot increased its stake in Safari from 19,2% at 30 June 2022 to 46,5% at 30 June 2023. As Heriot is considered to now have a controlling interest in Safari, Safari is treated as a subsidiary of the Group with effect from 31 March 2023.

ASSETS AND LIABILITIES HELD FOR SALE

Heriot, through Heriot Properties, entered into an agreement ("Disposal Agreement") to dispose of Hagley 3865 Proprietary Limited ("Hagley"), a wholly owned subsidiary to Heriot Investments for R40,3 million, effective 30 June 2023 ("Hagley Disposal"). Hagley's only asset is a strategically located property in Cape Town.

Hagley has entered into an agreement to develop a 35 000m² distribution centre for Ackermans. Heriot is disposing of Hagley in order to mitigate any development risks associated with the project.

In terms of the Disposal Agreement, Heriot will have an option to repurchase up to 100% of Hagley's equity at cost, which option will expire on 30 June 2028. As this option is exercisable at the discretion of Heriot, Heriot is deemed to still have control over Hagley. Hagley remains a subsidiary of Heriot and therefore, its property has been classified as "held for sale" at the reporting date.

Further, investment property owned by Safari equating to R184,9 million was classified as held for sale at year end.

FINANCIAL ASSETS

Financial assets comprise loans of R34,2 million to participants of the employee share purchase scheme together with a loan of R40,3 million owing by Heriot Investments for the purchase of Hagley. The loan to Heriot Investments bears interest at the three-month JIBAR rate plus 185bps and is repayable by no later than 24 months after the advance date.

SHARE CAPITAL

There were no changes to the issued share capital during the reporting period. As at 30 June 2023, the Company had 255 395 858 shares in issue, excluding the 900 000 treasury shares owned by the Group.

SUBSEQUENT EVENTS

The Directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

SUSTAINABILITY

Due to the power constraints facing the country, unreliable infrastructure and climate change, Heriot has continued to invest in renewable energy projects and water harvesting systems.

To date, Heriot has installed solar plants across its five major retail centres at a cost of R46,0 million. The plants are fully operational with a combined 5,16MWp of installed capacity. Heriot plans to increase the

current solar roll-out rate by 50% to achieve a total portfolio of 12MWp in 2024.

Eight groundwater harvesting plants are in operation with further plants in the exploration phase.

PROSPECTS

Heriot's results for the reporting period demonstrate the resilience of its portfolio and, in particular, the strength of its emerging market retail and industrial properties. The current local and global macro conditions have created difficult trading conditions for the Company in the short to medium term. Future prospects are inherently linked to the Group's operating environment and to significant macro issues facing the Company. The Board is committed to a proactive yet conservative approach to mitigate the effects of elevated interest rates, increasing costs of fuel, electricity shortages, unprecedented levels of unemployment and high levels of inflation.

Heriot will continue to explore strategic opportunities that will extract value from its existing portfolio while continuing to grow its asset base through the acquisition of high-yielding properties in its target markets. Furthermore, given the strength of Heriot's cash flows, the Board has resolved to maintain the 100% payout ratio of distributable earnings.

Despite difficult trading conditions, management is pursuing growth of 3,0% to 7,0% in the dividend per share for the year ending 30 June 2024.

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

- The inclusion of Safari's distributable income for the 15-month period 1 April 2023 to 30 June 2024;
- 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 50bps during the 12 months ending 30 June 2024.

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

GOING CONCERN

The Directors are of the opinion that the Company and Group have adequate financial resources to continue operations for the foreseeable future and, accordingly, the reviewed condensed consolidated financial statements have been prepared on a going concern basis. This opinion is based on:

- the strong current and projected cash flows of the Group;
- the Group comfortably meeting debt covenant ratios;
- the Group's positive solvency position reflected by the net asset value of R14,72 per share at the reporting date; and
- the Group having access to sufficient borrowing facilities to meet its foreseeable cash requirements for operational activities and capital commitments. This is supported by the fact that negotiations for the refinancing of maturing facilities, included as part of current liabilities at the end of the reporting period, are already at an advanced stage and close to being concluded on similar terms and conditions.

RESPONSIBILITY STATEMENT

Heriot accepts responsibility for the information contained in this announcement and certifies that, to the best of its knowledge and belief, the information contained herein is true and does not omit anything that is likely to affect the import of such information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 30 June 2023 R'000	Audited 30 June 2022 R'000
ASSETS		
Non-current assets		
Investment property	8 891 700	4 955 600
Property under development	91 345	129 263
Property, plant and equipment	31 251	26 277
Investment in associate	4 135	333 449
Derivative financial instrument	1 017	–
Right-of-use asset	3 997	–
Financial assets	74 425	34 219
	9 097 870	5 478 808
Current assets		
Trade and other receivables	47 248	45 283
Inventories	29 869	–
Financial assets	–	49 573
Taxation receivable	–	6
Derivative financial instrument	1 615	–
Cash and cash equivalents	45 695	122 959
	124 427	217 821
Non-current assets held for sale	275 206	–
Total assets	9 497 503	5 696 629

	Reviewed 30 June 2023 R'000	Audited 30 June 2022 R'000
EQUITY AND LIABILITIES		
Equity		
Stated capital	2 548 624	2 548 624
Retained earnings	1 404 967	730 469
	3 953 591	3 279 093
Non-controlling interests	1 350 884	42 391
	5 304 475	3 321 484
Non-current liabilities		
Interest-bearing liabilities	3 225 122	1 968 816
Lease liabilities	4 531	–
Deferred taxation	76 285	62 092
	3 305 938	2 030 908
Current liabilities		
Interest-bearing liabilities	608 926	247 055
Other financial liabilities	40 309	–
Trade and other payables	165 419	97 182
Lease liabilities	993	–
Taxation payable	402	–
	816 049	344 237
Non-current liabilities held for sale	71 041	–
Total equity and liabilities	9 497 503	5 696 629
Net asset value per share (cents)	1 471,57	1 206,19

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Reviewed Year ended 30 June 2023 R'000	Audited Year ended 30 June 2022 R'000
Rental income	625 956	575 984
Contractual rental income and recoveries	643 022	580 203
Straight-line rental income adjustment	(17 066)	(4 219)
Property expenses	(202 032)	(192 618)
Net property income	423 924	383 366
Equity-accounted profits (net of taxation)	78 122	114 894
Other income	12 467	14 625
Net impairment (losses)/reversals	–	(76 110)
Administrative expenses and corporate costs	(46 710)	(48 097)
Profit from operations	467 803	388 678
Finance income	10 747	12 733
Finance charges	(202 701)	(132 107)
Profit before fair value adjustments and bargain purchase gain	275 849	269 304
Fair value adjustments	241 599	344 775
Investment properties	289 306	338 870
Fair value adjustment on previously held equity interest	(47 707)	–
Derivative financial instrument	–	5 905
Bargain purchase gain on business combination (note 2)	464 289	–
Profit before taxation	981 737	614 079
Taxation	(4 327)	146
Total comprehensive income for the period	977 410	614 225
Attributable to:		
Equity holders of the Company	964 022	609 579
Non-controlling interests	13 388	4 646
	977 410	614 225

	Reviewed Year ended 30 June 2023 R'000	Audited Year ended 30 June 2022 R'000
Reconciliation of earnings and headline earnings		
Profit attributable to equity holders of the Company	964 022	609 579
Adjustments	(732 575)	(354 036)
Fair value adjustments: investment properties	(289 306)	(338 870)
Non-controlling shareholder portion of fair value adjustments	7 011	(3 907)
Bargain purchase on business combination (note 2)	(464 289)	–
Bargain purchase on acquisition of associate	–	(76 109)
Impairment of associate	–	76 110
Fair value adjustment on previously held equity interest	47 707	–
Fair value adjustments: equity-accounted investment property	(33 698)	(11 260)
Headline earnings attributable to equity holders	231 447	255 543
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Weighted average number of shares in issue*	255 395 858	255 395 858
Basic and diluted earnings per share (cents)	377,46	238,68
Basic and diluted headline earnings per share (cents)	90,62	100,06
Distribution per share (cents)	106,33	102,05

* Excluding 900 000 treasury shares.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed Year ended 30 June 2023 R'000	Audited Year ended 30 June 2022 R'000
Cash generated from operations	453 579	365 435
Net finance charges	(187 242)	(115 385)
Taxation paid	(2 975)	(1 529)
Net cash flows from operating activities	263 362	248 521
Acquisition and development of investment property	(178 456)	(187 132)
Proceeds from disposal of investment property	–	83 250
Acquisition of property, plant and equipment	(6 325)	(762)
Acquisition of shares in associate	(293 061)	(287 643)
Cash acquired on business combination (note 2)	10 914	–
Dividends received from associates	27 638	17 195
Loan repaid by related party	450	4 000
Loan advanced to related party	(1 577)	(126)
Share scheme debt repaid	3 026	2 974
Net cash used in investing activities	(437 391)	(368 244)
Dividend distributions to owners of the Company	(264 769)	(248 502)
Dividends paid to non-controlling shareholders	(6 252)	(6 699)
Acquisition of minority interest	(21 239)	–
Subscription by minority for additional shares in subsidiary	5 500	–
Proceeds from disposal of shares in subsidiary	8 801	–
Interest-bearing borrowings raised	800 332	467 900
Interest-bearing borrowings repaid	(424 856)	(80 317)
Net cash generated from/(used in) financing activities	97 517	132 382
Net movement in cash and cash equivalents	(76 512)	12 659
Cash and cash equivalents transferred to held for sale	(752)	–
Cash and cash equivalents at the beginning of the period	122 959	110 300
Cash and cash equivalents at the end of the period	45 695	122 959

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Reserves R'000	Non- controlling interests R'000	Total R'000
Audited				
Balance as at 1 July 2021	2 548 624	369 392	46 549	2 964 565
Total comprehensive income for the year	–	609 579	4 646	614 225
Dividends	–	(248 502)	(8 804)	(257 306)
Balance as at 30 June 2022	2 548 624	730 469	42 391	3 321 484
Reviewed				
Total comprehensive income for the year	–	964 022	13 388	977 410
Acquisition of minority interest	–	(18 749)	(2 490)	(21 239)
Subscription by minority for additional shares in subsidiary	–	–	5 500	5 500
Minority interest on acquisition of subsidiary	–	–	1 284 387	1 284 387
Sale of shares in subsidiary	–	(6 006)	14 807	8 801
Dividends	–	(264 769)	(7 099)	(271 868)
Balance as at 30 June 2023	2 548 624	1 404 967	1 350 884	5 304 475

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The reviewed condensed consolidated financial statements for the year ended 30 June 2023 have been prepared in accordance with the JSE Listings Requirements for preliminary reports and the requirements of the Companies Act, 71 of 2008 of South Africa. The JSE Listings Requirements require these condensed financial results to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the South African financial reporting requirements per Section 8.60 of the JSE Listings Requirements, and, to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these financial statements are in terms of IFRS and are consistent with those used in the audited financial statements for the year ended 30 June 2022.

The reviewed condensed consolidated financial statements were prepared under the supervision of the Chief Financial Officer, D Snoyman CA(SA). The Directors are not aware of any matters or circumstances arising subsequent to the year ended 30 June 2023, other than those disclosed in this announcement, that require any additional disclosure or adjustment to the financial statements. The Directors further take full responsibility for the preparation of these reviewed condensed consolidated financial statements.

The reviewed condensed consolidated financial statements for the year ended 30 June 2023 have been reviewed by BDO South Africa Incorporated, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the Company's registered office together with the reviewed financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying reviewed financial information from the issuer's registered office.

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

The second edition of the SA REIT Association's best practice recommendations ("BPR") 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 year ended 30 June 2023 as an annexure to this announcement. Heriot has adopted the SA REIT BPR for its 30 June 2023 reporting period.

The Directors are not aware of any matters or circumstances arising subsequent to 30 June 2023 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 reviewed condensed consolidated financial statements were approved by the Board on 27 September 2023.

2. BUSINESS COMBINATION

At 31 March 2023, the Company's interest in Safari increased to an effective holding of 47,1% both through the acquisition of additional shares in Safari and as a result of the repurchase and cancellation by Safari of 53,0 million treasury shares.

Heriot is deemed to have a controlling interest in Safari by virtue of the following:

- Steven Herring is both the Chairman of Heriot and Safari; and
- Heriot has voting control as was evidenced by historical voting patterns.

On this basis, Safari has been consolidated with effect from 31 March 2023, by applying the lag accounting principle.

The assets and liabilities arising from the acquisition are as follows:

	30 June 2023 R'000
Assets	3 793 341
Investment property at fair value	3 535 800
Investment property – closing carrying value	3 429 996
Straight-line income accrual	105 804
Investment property held for sale	184 900
Property, plant and equipment	603
Investment in associates and joint ventures	1 500
Right-of-use asset	3 997
Derivatives	2 632
Inventories	29 869
Trade and other receivables	23 126
Cash and cash equivalents	10 914
Liabilities	1 364 272
Interest-bearing borrowings	1 313 530
Deferred tax – net liability	13 249
Trade and other payables	31 969
Lease liabilities	5 524
Fair value of net assets acquired	2 429 069
Non-controlling interest	(1 284 387)
Fair value of Heriot REIT's share of net assets acquired*	1 144 682
Carrying amount of investment in associate	(680 393)
Bargain purchase gain on business combination	464 289

* Settled by funds advanced by Nedbank and utilising Heriot REIT's excess cash available.

2. BUSINESS COMBINATION

A bargain gain arose due to the fair value of the assets acquired exceeding the market value of the previously held equity-accounted investment. This gain arose when control was obtained and further highlights Heriot's view of the unrealised value of Safari. The benefits of synergies between both companies will further enhance revenue growth and future developments and streamline operating costs.

	30 June 2023 R'000
Net cash inflow on acquisition	
Cash and cash equivalents acquired	10 914
Included in the consolidated results for the year	
Equity-accounted profits	80 450
Dividends received from previously held equity interest	27 488
Had the business combination been included for the entire year	
Group profit after tax	322 912
Group turnover	456 899

3. NON-IFRS MEASURES – DISTRIBUTABLE EARNINGS

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

	Year ended 30 June 2023 R'000	Year ended 30 June 2022 R'000
Contractual rental income and recoveries, excluding straight-line rental income	643 022	580 203
Property expenses	(202 032)	(192 618)
Other income	12 467	14 625
Administrative expenses and corporate costs	(46 206)	(47 593)
Per statement of comprehensive income	(46 710)	(48 097)
Adjust for: Depreciation charged on owner-occupied property	504	504
Net finance costs	(191 954)	(119 374)
Finance income	10 747	12 733
Finance charges	(202 701)	(132 107)
Income tax	(3 383)	(1 494)
Net dividend distributed from equity-accounted entities	66 015	35 436
Dividend distributed from equity-accounted entities	66 015	36 277
Losses from associate	–	(841)
Non-controlling interest	(6 377)	(8 553)
	271 552	260 632
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Distribution per share (cents)	106,33	102,05

* Excluding the 900 000 treasury shares in issue.

4. 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:

	Year ended 30 June 2023						
	Retail R'000	Industrial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	Total R'000
Gross lettable area ("GLA") (m ²)	313 261	275 020	19 169	*	10 270	18 665	636 385
Contractual rental income	259 300	171 521	35 812	8 543	26 757	–	501 933
Recoveries	70 575	58 830	8 955	666	2 063	–	141 089
Straight-lining of rental income	(3 049)	(8 918)	(4 812)	(456)	169	–	(17 066)
Total revenue	326 826	221 433	39 955	8 753	28 989	–	625 956
Property expenses	(88 228)	(77 264)	(16 941)	(399)	(15 360)	(3 840)	(202 032)
Net property income	238 598	144 169	23 014	8 354	13 629	(3 840)	423 924
Other income and equity- accounted profit	–	–	–	–	–	90 589	90 589
Bargain purchase gain	–	–	–	–	–	464 289	464 289
Fair value adjustment on previously held equity interest	–	–	–	–	–	(47 707)	(47 707)
Administration expenses	–	–	–	–	–	(46 710)	(46 710)
Net finance charges	–	–	–	–	–	(191 954)	(191 954)
Change in fair value	161 501	60 686	(1 622)	17 856	50 885	–	289 306
Net profit before taxation	400 099	204 855	21 392	26 210	64 514	264 667	981 737
Investment property	6 296 600	1 777 000	324 000	194 100	266 000	34 000	8 891 700
Non-current assets held for sale	184 900	90 306	–	–	–	–	275 206
Property under development	–	–	–	–	–	91 345	91 345
Property, plant and equipment	766	–	108	–	7 435	22 942	31 251
Trade and other receivables	36 053	4 624	561	–	2 651	3 359	47 248
Other assets	–	–	–	–	–	160 753	160 753
Total assets	6 518 319	1 871 930	324 669	194 100	276 086	312 399	9 497 503
Trade and other payables	84 277	13 354	13 285	5 026	938	48 539	165 419
Non-current liabilities held for sale	–	71 041	–	–	–	–	71 041
Other liabilities	–	–	–	–	–	3 956 568	3 956 568
Total liabilities	84 277	84 395	13 285	5 026	938	4 005 107	4 193 028

* The specialised property comprises 8 382ha 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. SEGMENTAL ANALYSIS continued

Sectoral	Year ended 30 June 2022						
	Retail R'000	Industrial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	Total R'000
GLA (m ²)	123 219	275 020	19 169	*	9 825	8 222	435 455
Contractual rental income	233 435	146 388	47 111	8 020	19 180	329	454 463
Recoveries	66 155	46 081	11 496	88	1 737	183	125 740
Straight-lining of rental income	(3 427)	3 302	(3 993)	(367)	266	–	(4 219)
Total revenue	296 163	195 771	54 614	7 741	21 183	512	575 984
Property expenses	(89 019)	(70 413)	(19 044)	(613)	(10 159)	(3 370)	(192 618)
Net property income	207 144	125 358	35 570	7 128	11 024	(2 858)	383 366
Other income and equity- accounted profit	–	–	–	–	–	129 519	129 519
Impairment of investment in associate	–	–	–	–	–	(76 110)	(76 110)
Administration expenses	–	–	–	–	–	(48 097)	(48 097)
Net finance charges	–	–	–	–	–	(119 374)	(119 374)
Change in fair value	113 223	203 066	(11 495)	18 167	5 734	16 080	344 775
Net profit before taxation	320 367	328 424	24 075	25 295	16 758	(100 840)	614 079
Investment property	2 544 900	1 756 500	303 500	176 700	174 000	–	4 955 600
Non-current assets held for sale	–	–	–	–	–	–	–
Property under development	–	–	–	–	–	129 263	129 263
Property, plant and equipment	32	–	265	–	2 456	23 524	26 277
Trade and other receivables	11 161	10 188	683	–	610	22 641	45 283
Other assets	–	–	–	–	–	540 206	540 206
Total assets	2 556 093	1 766 688	304 448	176 700	177 066	715 634	5 696 629
Trade and other payables	41 911	8 901	3 948	4 450	3 883	34 088	97 181
Other liabilities	–	–	–	–	–	2 277 964	2 277 964
Total liabilities	41 911	8 901	3 948	4 450	3 883	2 312 052	2 375 145

* The specialised property comprises 8 382ha 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.

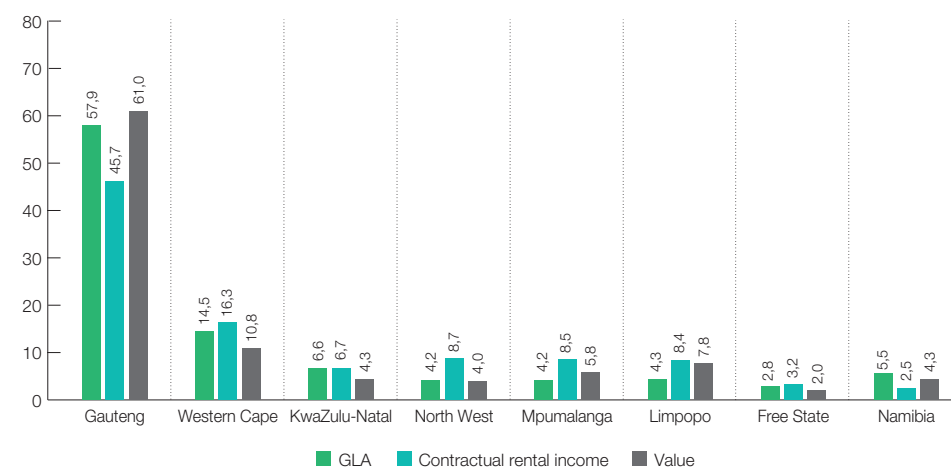
4. SEGMENTAL ANALYSIS continued

Geographical	Year ended 30 June 2023				Year ended 30 June 2023				
	Gauteng R'000	Western Cape R'000	KwaZulu- Natal R'000	North West R'000	Mpumalanga R'000	Limpopo R'000	Free State R'000	Namibia R'000	Total R'000
GLA (m²)	368 434	92 532	42 003	26 579	26 459	27 469	17 906	35 003	636 385
Investment property	5 458 200	819 400	394 100	369 000	535 000	725 000	189 000	402 000	8 891 700
Property under development	–	91 345	–	–	–	–	–	–	91 345
Non-current assets held for sale	184 900	90 306	–	–	–	–	–	–	275 206
Total property portfolio	5 643 100	1 001 051	394 100	369 000	535 000	725 000	189 000	402 000	9 258 251
Contractual rental income	228 610	81 938	33 516	43 887	42 848	42 207	16 171	12 756	501 933
Recoveries	52 509	35 162	6 112	16 387	12 801	10 769	7 509	(160)	141 089
	281 119	117 100	39 628	60 274	55 649	52 976	23 680	12 596	643 022
Geographical	Year ended 30 June 2022				Year ended 30 June 2022				
	Gauteng R'000	Western Cape R'000	KwaZulu- Natal R'000	North West R'000	Mpumalanga R'000	Limpopo R'000	Free State R'000	Namibia R'000	Total R'000
GLA (m²)	209 354	94 777	42 003	26 579	16 257	15 079	17 906	13 500	435 455
Investment property	2 292 000	770 000	374 900	354 400	400 300	434 000	182 000	148 000	4 955 600
Property under development	38 000	91 263	–	–	–	–	–	–	129 263
Total property portfolio	2 330 000	861 263	374 900	354 400	400 300	434 000	182 000	148 000	5 084 863
Contractual rental income	215 426	80 807	24 173	40 027	36 089	40 534	7 411	9 996	454 463
Recoveries	49 359	34 792	2 861	15 146	11 037	9 247	3 298	–	125 740
	264 785	115 599	27 034	55 173	47 126	49 781	10 709	9 996	580 203

Sectoral (%)



Geographical (%)



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 Profession Act (Act No 47 of 2000). The properties were valued using the discounted cash flow method which 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 by 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.

The vacant land, classified as other, was valued using the comparable sales method.

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;
- change in discount and capitalisation rates; and
- current comparable selling rates.

	Reviewed Year ended 30 June 2023 %	Audited Year ended 30 June 2022 %
Average capitalisation rate applied was:	9,10	8,93
The rates applied per sector were as follows:		
Retail	8,99	8,53
Industrial	9,49	9,25
Office	9,43	9,70
Specialised	8,50	8,25
Residential	9,00	10,00

5. INVESTMENT PROPERTY continued

	Reviewed Year ended 30 June 2023 R'000	Audited Year ended 30 June 2022 R'000
Value per sector		
Retail*	6 296 600	2 544 900
Industrial	1 777 000	1 756 500
Office	324 000	303 500
Specialised	194 100	176 700
Residential	266 000	174 000
Other	34 000	–
	8 891 700	4 955 600

* Includes Safari's portfolio comprising seven properties valued at R3,536 billion.

PAYMENT OF DIVIDEND

The Board has approved and notice is hereby given of the final gross dividend of 54,28910 cents per share for the year ended 30 June 2023. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below.

2023

Last date to trade <i>cum</i> dividend	Tuesday, 17 October
Shares trade ex dividend	Wednesday, 18 October
Record date	Friday, 20 October
Payment date	Monday, 23 October

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 October 2023 and Friday, 20 October 2023, both days inclusive. The dividend will be transferred to dematerialised shareholders' Central Securities Depository Participant ("CSDP")/broker accounts on Monday, 23 October 2023. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about, Monday, 23 October 2023.

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 for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the Company,

as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in Section 10(1)(k)(i) of the Income Tax Act. Any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 43,4313 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

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

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

Shares in issue at the date of the dividend: 255 395 858 (excluding 900 000 treasury shares)

Heriot's income tax reference number: 9541295185

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 shareholders' 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

27 September 2023

ADDITIONAL DISCLOSURES IN TERMS OF SA REIT BEST PRACTICE RECOMMENDATIONS ("SA REIT BPR")

1. SA REIT BPR FUNDS FROM OPERATIONS ("FFO")

	30 June 2023 R'000	30 June 2022 R'000
Profit per IFRS statement of comprehensive income attributable to equity holders of the Company	964 022	609 579
<i>Adjusted for:</i>		
Accounting/specific adjustments		
Fair value adjustment to investment properties	(289 306)	(338 870)
Straight-line rental income adjustment	17 066	4 219
Bargain purchase gain on business combination	(464 289)	–
Depreciation of owner-occupied property	504	504
Deferred taxation movement	944	(1 640)
Distributable earnings adjustment to equity interests held	35 600	(3 348)
Hedging items		
Fair value adjustment to derivative instruments	–	(5 905)
Other adjustments		
Non-controlling interests in respect of the above adjustments	7 011	(3 907)
	271 552	260 632
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Distribution per share (cents)	106,33	102,05

* Excluding the 900 000 treasury shares in issue.

2. SA REIT BPR COST-TO-INCOME RATIO

	30 June 2023 R'000	30 June 2022 R'000
Per IFRS income statement		
Property expenses including municipal expenses and depreciation	202 032	192 618
Administrative expenses and corporate costs	36 772	38 046
Per statement of comprehensive income	46 710	48 097
Adjust for:		
Salary recoveries included in sundry income	(9 434)	(9 547)
Depreciation charged on owner-occupied property	(504)	(504)
Total expenses	238 804	230 664
Contractual rental income and utility and operating recoveries, excluding straight-line rental income	643 022	580 203
Cost-to-income ratio (%)	37,14	39,76
Administrative cost-to-income ratio (%)	5,72	6,56

3. SA REIT BPR VACANCY RATE

	30 June 2023 R'000	30 June 2022 R'000
GLA of property portfolio (m²)	636 385	435 455
Vacant GLA (m²)	15 561	12 994
Vacancy rate (%)	2,4	3,0

4. SA REIT BPR LOAN-TO-VALUE

	30 June 2023 R'000	30 June 2022 R'000
Interest-bearing liabilities	3 834 048	2 215 871
Less: Cash and cash equivalents	(45 695)	(122 959)
Less: Derivative financial instruments	(2 632)	–
Net debt	3 785 721	2 092 912
Investment property	8 891 700	4 955 600
Property under development	91 345	129 263
Non-current assets and liabilities held for sale	204 165	–
Owner-occupied property	22 184	22 961
Investments in associates	4 135	333 449
Carrying amount of property-related assets	9 213 529	5 441 273
Loan-to-value (%)	41,09	38,46

5. SA REIT BPR NET ASSET VALUE (“NAV”)

	30 June 2023 R'000	30 June 2022 R'000
Reported NAV	3 953 591	3 279 093
Adjusted for:		
Dividend to be declared	(271 552)	(260 632)
Deferred taxation	76 285	62 092
SA REIT BPR NAV	3 758 324	3 080 553
Number of shares in issue	255 395 858	255 395 858
NAV per share (cents)	1 471,57	1 206,19

6. SA REIT BPR COST OF DEBT

	30 June 2023 %	30 June 2022 %
<i>Variable interest rate borrowings</i>		
Floating reference rate plus weighted average margin	8,61	5,73
<i>Fixed interest rate borrowings</i>		
Weighted average fixed rate	–	0,24
Pre-adjusted weighted average cost of debt	8,61	5,97
Amortised transaction costs imputed into the effective interest rate	0,07	0,32
All-in weighted average cost of debt	8,68	6,29

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 2196
PO Box 61051, Marshalltown 2107

DIRECTORS

SB Herring (*Chairperson*)^{*^}
RL Herring (*Chief Executive Officer*)
D Snoyman (*Chief Financial Officer*)
SJ Blieden^{*†}
JA Finn^{*}
R Lockhart-Ross^{*†}
NA Ngale^{*†}

** Non-executive ^ British † Independent*

TRANSFER SECRETARIES

Computershare Investor Services
Proprietary Limited

DESIGNATED ADVISOR

Java Capital

AUDITOR

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



Heriot

REIT

Committed to excellence

