

Tower Property Fund Limited
 (Incorporated in the Republic of South Africa)
 Registration number 2012/066457/06 JSE share code: TWR
 ISIN: ZAE000179040
 (Approved as a REIT by the JSE)
 ("Tower" or the "group" or the "fund")

Short-form: summarised audited consolidated annual results for the year ended 31 May 2019

- Total return of 10.7%*
- 45 properties valued at R5.2 billion
- Tangible net asset value (TNAV) up 2% to R9.13 per share
- Net asset value per share up 1% to R9.79 per share
- Reduction of Loan to value of 34.1%
- TPF International Limited established in Mauritius, facilitating R300 million investment
- Interest only loans approved in Croatia
- Portfolio vacancy of 5.6%
- Distribution per share down 7.3% to 74.2 cents per share
- Revenue up 13% to R472 million**
- Operating profit down 18% to R310 million***
- Headline earnings down 26% to R197 million***
- Headline earnings per share down 25% to 58.2 cents per share****
- Basic earnings down 16% to R246 million
- Basic earnings per share down 16% to 72.8 cents per share
- Distributable earnings down 11% to R235 million

* Growth in TNAV plus distribution per share over opening TNAV

** Increase as a result of the weakening of the rand against the euro and the sale of Napier Street residential units

*** Decrease as a result of the increase in the net property operating expenses

**** Decrease as a result of the increase in the net property operating expenses and the unrealised foreign exchange loss compared to the prior period

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 45 convenience retail, industrial and office properties valued at R5.2 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropolises with 46% by value in Cape Town, 44% in Gauteng and 10% in KwaZulu-Natal. The six Croatian properties represent 32% of the fund's total value. The fund currently has a sectoral spread by value of 46% convenience retail, 47% office, 6% industrial and inventory 1%.

The objective of the fund is to deliver attractive, growing, total returns by (i) investing in properties in strong nodes with growth potential; (ii) active property asset management of our existing portfolio, with a particular focus on unlocking available profits; (iii) prudent balance sheet management in order to manage risk and create capacity to unlock value; (iv) accepting variances in income where these can be shown to add sustainable value; (v) selling non-core and ex-growth properties to realise capital for re-investment; and (vi) cost containment, with a focus on "greening" initiatives.

FINANCIAL AND OPERATING PERFORMANCE

Tower's distribution paid reduced by 7.3% for the period and 8.4% for the full year (an improvement against the -9.5% for the half year results) to R250.7 million (or 74.2 cents per share) for this past year given the above and given the following strategic decisions which were communicated to shareholders during the year:

- Non-core properties (Pick n Pay Distribution Centre and Nampak) being sold at their valuations, but at yields above our cost of funding.
- The establishment of TPF International, which facilitated the investment by Oryx of R300 million, but which brings additional running costs and tax leakage in Mauritius.
- A EUR7.2 million (R117.2 million) repayment of the Standard Bank Euro loans with higher yielding cash from the funds raised from Oryx.
- The cash drag on a capital amount of R100 million due to the delay in the transfer of a new Croatian industrial property, Yazaki.
- The reduction of the Vukovarska rental to secure all other Konzum rental agreements.

All of the initiatives above strengthen the company but reduce the short-term earnings.

A dividend declaration announcement in respect of the dividend for the six months ended 31 May 2019 and containing information relating to the tax treatment of the dividend and the dividend payment timetable will be released separately on SENS.

Revenue increased by 13% to R471.7 million as a result of the weakening of the Rand against the Euro and the sale of the

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Napier Street units. Two non-core properties were sold during the year which reduced the current year rental income.

The increase in net property operating expenses relates to rates and electricity credits received in the prior year, the write off of the pre 9 April 2017 outstanding Konzum debt in the current year (R8.1 million) and an increase in the bad debts written off and provision for doubtful debts in the current year. Given the uncertain macro-economic environment in South Africa, we have been more conservative in providing for doubtful debts and bad debt write-offs in the year under review compared to previous years. The net property income decreased by 6% to R374.2 million, predominately as a result of the increase in net property operating expenses. On a like for like basis, property net income in South Africa was up 3% for the year with Croatian net income being slightly negative. Property income excludes the straight-line lease accrual and currency fluctuations, and is measured on a like-for-like basis, excluding acquisitions and disposals of property and once-off rates and electricity credits received.

The South African economy has experienced poor growth and institutional instability which has resulted in a sluggish economy forcing downward pressure on rentals. This has resulted in certain property sectors (mainly office and more recently retail) showing relatively flat (or negative) lease escalations, with increasing costs, across the sector resulting in rising vacancies.

These past two years have been the worst in the South African REIT sector's history with distributions reducing, in some companies, by more than 50%. The period however represents a very small percentage of the period in which property has been a star performer in South Africa (SA) so this must be viewed in context.

Property total returns (net income yields plus capital value increases) of greater than 10% per annum should be achievable in a property investment with our internal stretch target being 15% per annum. Tower's share incentive and bonus schemes are set up to align management with growth in shareholder value. The SA total property return for the past year was 9.6% (office 8.1%, retail 10.3% and industrial 14.9%). Total property return in Croatia, in Euro, was 5.64% (office 8.71% and retail 4.4%).

Tower's near-term attention remains (i) the development of 55 residential units at Old Cape Quarter, (ii) the sale of non-core properties in South Africa (iii) the unlocking of additional value and income growth in the Croatian portfolio through its shareholding in TPF International and (iv) reducing Euro debt secured by South African properties.

As the major shareholder of TPF International, Tower will be focused on assisting TPF International's management in growing its property income through 'sweating' its Croatian properties by increasing rentals and turnover.

PROGRESS ON VALUE ADD OPPORTUNITIES

- R300 million from Oryx for the investment in TPF International (July 2018) - Complete
- Napier Street refurbishment - Complete
- Old Cape Quarter upgrade of parking, retail, commercial and the addition of residential: started May 2019, expected completion date - January 2021
- Sale of non-core properties - R123 million sold in the period (Pick n Pay Distribution Centre and Nampak Industrial). Due to the amount of property currently on the market, progress has been slow. A further R91.6 million of sale proceeds are unconditional in the current period.
- Croatia - interest only loans at lower interest rates receiving final approval and implementation.

PROSPECTS

Focus is currently on the "value-add" opportunities detailed above. These should bring significant profits for the business which will be reinvested providing income and balance sheet strength.

Net property incomes are expected to grow by 3.5% in South Africa and 1-2% in Croatia, when compared to the net property income reflected in the consolidated statement of profit and loss and other comprehensive income, adjusted to reflect a like-for-like basis. Distribution growth is expected as a result.

These net property income forecasts assume a stable portfolio with no major tenant failures or macro-economic changes. The forecast financial information has not been reviewed and reported on by the auditors.

Our intention is to keep our loan to value below 35%, whilst developing and selling the residential apartments at Cape Quarter and to repurchase Tower shares with excess cash should the opportunity arise.

30 August 2019

THE DETAILED RESULTS ANNOUNCEMENT, TOGETHER WITH THE INVESTOR PRESENTATION, IS AVAILABLE AT WWW.TOWERPROPERTYFUND.CO.ZA

Short-form announcement

This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. This announcement itself has not been audited.

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Any investment decisions by shareholders and/ or investors in relation to the company's shares should be based on the full announcement which is available on <https://senspdf.jse.co.za/documents/2019/jse/isse/TWR/annual2019.pdf> and published on the company's website <http://www.towerpropertyfund.co.za/download/tower-abridged-results-leaflet-2019/>.

The full announcement is available for inspection during normal business hours at no charge, from 30 August 2019 until 12 September 2019 at:

- the company's registered office; and
- the offices of the sponsor, Java Capital (6A Sandown Valley Crescent, Sandown, Sandton, 2196); or
- copies of the full announcement may be requested via email to info@towerpropertyfund.co.za.

This short-form announcement is the responsibility of the fund's board of directors.

The financial statements were prepared under the supervision of Mrs J Mabin CA (SA) in her capacity as Chief Financial Officer.

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