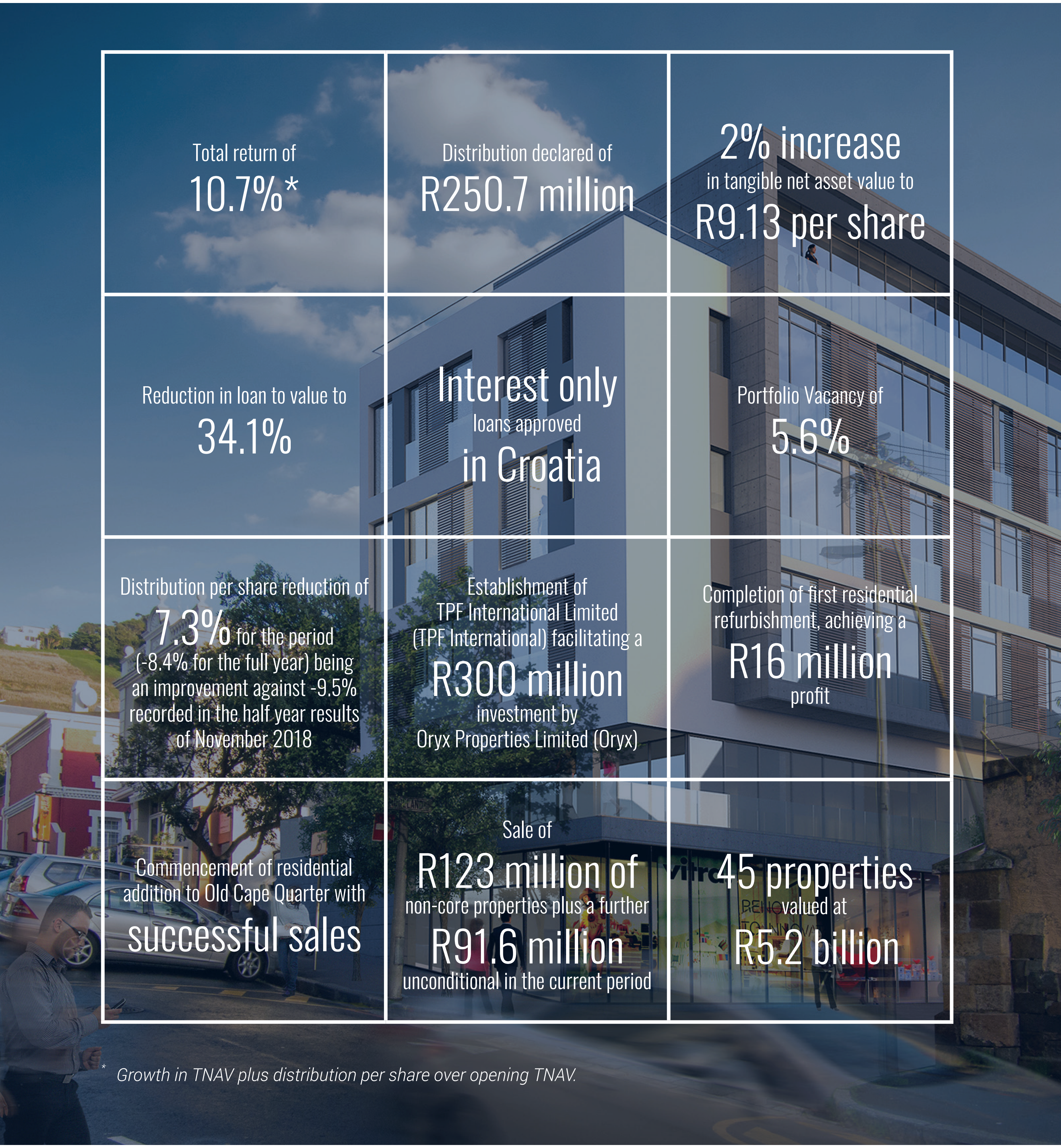
Summarised audited consolidated annual results

for the year ended 31 May

2019

TOWER

FINANCIAL HIGHLIGHTS



Total return of
10.7%*

Distribution declared of
R250.7 million

2% increase
in tangible net asset value to
R9.13 per share

Reduction in loan to value to
34.1%

Interest only
loans approved
in Croatia

Portfolio Vacancy of
5.6%

Distribution per share reduction of
7.3% for the period
(-8.4% for the full year) being
an improvement against -9.5%
recorded in the half year results
of November 2018

Establishment of
TPF International Limited
(TPF International) facilitating a
R300 million
investment by
Oryx Properties Limited (Oryx)

Completion of first residential
refurbishment, achieving a
R16 million
profit

Commencement of residential
addition to Old Cape Quarter with
successful sales

Sale of
R123 million of
non-core properties plus a further
R91.6 million
unconditional in the current period

45 properties
valued at
R5.2 billion

* *Growth in TNAV plus distribution per share over opening TNAV.*

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 metropoles 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.

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.

Financial performance

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.

Some of the sector's problems have been self-inflicted where income has been inflated over time through unsustainable means. A number of REITs have realised this and have recently reduced their distributions by eliminating the distribution of once-off incomes. We believe Tower has led the way, as a very small business relative to our larger peers, in adopting such a policy. With these "once-offs" out of a REIT's base, property net rental growth should be easier to achieve in a normal market.

Property is a long-term asset class and the occasional reduction in rentals and the resultant drop in earnings should be expected by the sector. A growth target for a REIT of beating inflation should be the realistic benchmark of any asset manager investing in property and we believe the recent correction in distributions by most REITs has been needed.

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 5.6% (office 8.7% and retail 4.4%).

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 €7.2 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.

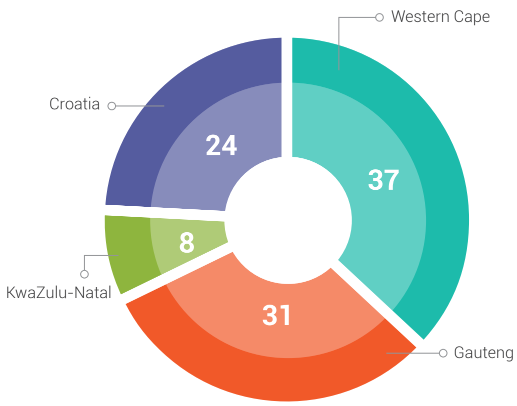
Financial performance continued

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

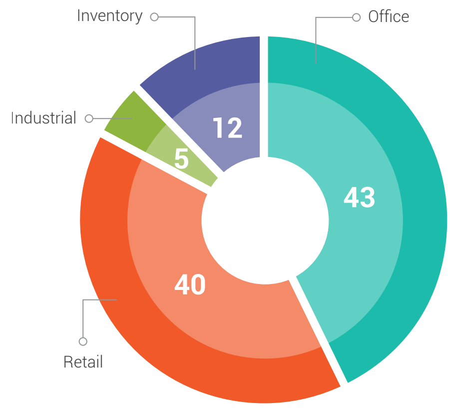
The increase in net property operating expenses relate to rates and electricity credits received in the prior year, the write off of the pre 9 April 2017 outstanding Konzum debt in the current year (R8.1 million) and an increase in the bad debts written off and provision for doubtful debts in the current 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 3% down due to the Vukovarska rental reduction. 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.

Administration expenses in the current year include R4.7 million of costs incurred to set up TPF International.

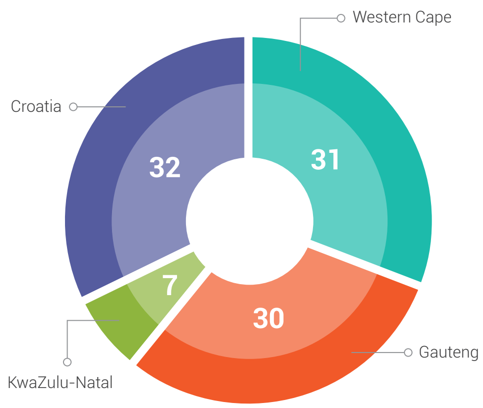
Geographic spread by revenue (%)



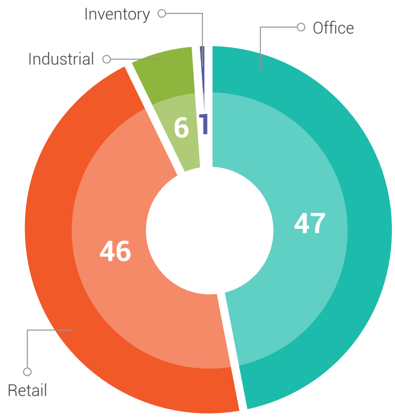
Sectoral spread by revenue (%)



Geographic spread by value (%)



Sectoral spread by value (%)



Successes

South Africa

Strong leasing activity has occurred over the year with 12 930m² being let to new tenants, and 44 205m² to existing tenants (ie renewals) with 70% of expiring tenants renewing their leases.

Non-core properties sold in the period were:

1. Nampak, KwaZulu-Natal – R27 million;
2. Pick n Pay Distribution Centre, KwaZulu-Natal – R96 million;

The Meadowbrook Distribution Centre sale has been agreed with transfer expected shortly. Sales proceeds of R91.6 million were achieved against a valuation of R86 million. The sale of these assets provides security against the Old Cape Quarter development ensuring that our loan to value remains at below target levels. The proceeds from these sales will be used to reduce debt in the portfolio and to repurchase shares if appropriate. Tower's immediate focus is on the extraction of value at Cape Quarter with the residential development of Old Cape Quarter (the addition of 55 residential apartments) and the creation of exciting new office space at Sunclare in Claremont (in the past four years, this property has increased by 62% in independent value from R193 million to R313 million due to rentals increasing). Refurbishments have been undertaken at 382 Jan Smuts and at Modimolle with a new, 15-year lease being secured with Pick n Pay.

The refurbishment of 32 Napier Street, part of the Cape Quarter Precinct was completed with strong sales prices being achieved. Profits of R16 million (profit on the units sold plus the value of remaining units and retail less the cost to build) were achieved with a possibility of increasing this amount through on-going insurance claims. The valuation of the unsold premises (which Tower will retain for short-term letting) and retail is R41.4 million.

The overall vacancies in the portfolio are 5.6%. SA vacancies are currently 6.6% (4.2% office, 1% retail and 1.4% industrial). The weighted average lease expiry (WALE) of the portfolio is 4.3 years.

Difficult areas remain in the office market in Johannesburg and our single retail property in KwaZulu-Natal, Link Hills Shopping Centre. Link Hills is currently undergoing a refurbishment, which we believe will result in increased turnover and value.

Overall, Tower's SA property valuations have increased by 1.6%. 38% of Tower's properties by value were independently valued in the period under review. The more notable reductions occurred in Sandton (Upper Grayston) where vacancies in the node have risen to record highs as well as at the Medscheme property which has been revalued downwards as a result of the seven year renewal being lower than the expiring rental.

Croatia

The Oryx transaction, disclosed in last year's annual report, took effect in July 2018. Oryx invested R300 million in TPF International. The funds went towards the reduction of Tower's Euro debt exposure (R117 million), the Yazaki industrial property transaction (R100 million) and South African debt and share repurchases (R83 million).

Tower's Croatian portfolio is performing well with increasing rentals in the office property, VMD Block B as well as turnovers increasing in the retail portfolio. There are no overdue rental debtors to TPF International in this portfolio (all properties are under head leases which are timeously paid) and the properties are performing as expected.

We do not have income vacancies in the portfolio given the head leases which underpin the rentals. However, physical vacancies are 6.7% – this is made up of 547m² of retail space and 2 458m² of office space on the 3rd floor of the Meridijan Shopping Centre.

The Croatian portfolio has been independently valued and is down 1.6% due to the re-valuation of Vukovarska.

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.

Operating performance

Key metrics	SA (Rand)	Croatia (Euro)
WALE (years)	2.9	7.2
Vacancy totals	6.6%	6.7%#
Office	4.2%	5.5%
Retail	1.0%	1.2%
Industrial	1.4%	0.0%
Rental reversions	-0.3%	n/a
Office	-0.3%	n/a
Retail	-0.2%	1.8%
Industrial	-2.8%	n/a
Average rentals	117.98	13.50
Office	135.16	13.50
Retail	126.14	13.32
Industrial	48.89	8.47
Trading densities (per m² per month)	4 012	337
Trading density growth	4.4%	7.3%
Rental as a percentage of turnover	6.1%	4.1%

Physical vacancies. No income vacancies due to head leases.

Borrowings

	Total debt	ZAR debt	Euro debt
Loan facilities (R'000)	1 842 470	575 829	1 266 641
Weighted cost of funding (%)	5.27	9.33	3.43
Debt expiry profile (years)	4.1	2.8	4.7
Percentage hedged (%)	81	87	79
Hedging expiry profile (years)	2.6	3.9	1.9

Based on a property portfolio valued at R5.2 billion, the loan to value (LTV) ratio of the group has reduced to 34.1% at the end of the year (37.3% in South Africa and 27.2% in Croatia). The LTV is calculated as other financial liabilities less cash, divided by investment property plus inventory.

Borrowings continued

Tower successfully reduced the interest rate on its Euro loans which are secured by South African assets, with effect from 1 November 2018. A saving of 0.45% was achieved, resulting in reduced interest costs of R3 million per annum. R470 million of the Rand debt was refinanced in January 2019 for three years at the 3 month jibar plus 1.80%. In July 2019, a further R159 million of ZAR debt was refinanced for three years at the 3 month jibar plus 1.85%. In August 2019, the R500 million swap was extended until August 2023 at a 0.02% interest saving.

At year end, all Tower's Croatian Euro loans were amortising. In July 2019, a loan for Euro 9.1 million was refinanced on an interest only basis at an interest saving of 1%. We are in the process of refinancing the remaining Euro loans on an interest only basis with interest rate savings expected to range from 1% to 1.7%.

A strategic intention of the company is to reduce its Standard Bank Euro loans which are secured over Tower's South African properties. This will strengthen the company's balance sheet which is a key priority for the company in order to position Tower to take full advantage of the growth potential in the portfolio. Where possible, the company will look to achieve this with capital generated from its value add opportunities currently underway and from the sale of certain properties. During the year, Tower repaid Euro 7.2 million (R117.7 million) of the Standard Bank Euro loans.

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.

Basis of preparation

The summarised audited consolidated annual financial statements (summarised results) for the year ended 31 May 2019, have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the Financial Pronouncements as issued by the Financial Reporting Standards Council and contains the information required by IAS 34 *Interim Financial Reporting*. The results comply with the JSE Listings Requirements and the Companies Act, 71 of 2008, of South Africa (Companies Act).

Mazars, the group's independent auditor, has audited the consolidated annual financial statements of Tower for the year ended 31 May 2019, and has expressed an unqualified audit opinion thereon. These summarised results have been extracted from the audited consolidated annual financial statements for the year ended 31 May 2019, but are not themselves audited. The audited consolidated annual financial statements and a copy of the audit opinion are available for inspection at the company's registered office. Their audit was conducted in accordance with International Standards on Auditing and the applicable requirements of the Companies Act. The auditor's report does not necessarily report on all information contained in these 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 report together with the underlying audited annual financial statements from the registered office of the company.

These summarised results were prepared under the supervision of Mrs J Mabin CA(SA) in her capacity as chief financial officer.

The directors take full responsibility for the preparation of the summarised results for the year ended 31 May 2019, and for ensuring that the financial and other information contained in the summarised results has been correctly extracted from the underlying audited consolidated annual financial statements for the year ended 31 May 2019. The directors are not aware of any matters or circumstances arising subsequent to 31 May 2019 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement.

The accounting policies and methods of computation applied in the preparation of these summarised consolidated annual financial results are in terms of IFRS and consistent with those applied in the most recently issued audited annual financial statements except for the adoption of IFRS 9 and IFRS 15 as discussed below:

Basis of preparation continued

Standards and interpretations effective and adopted in the current year

Tower adopted IFRS 9 and IFRS 15 in the current financial period for the first time at the mandatory adoption date. No standard, amendment or interpretation has been early adopted by Tower. The comparative information has not been restated, and complies with the requirements of IAS 39 and IAS 18. Other than the changes set out in the announcement, the accounting policies are consistent with those applied in the prior financial period and did not result in any comparative restatements.

IFRS 15 *Revenue from contracts with customers*

IFRS 15 *Revenue from contracts with customers* has not had a significant impact on the results of Tower. To date, Tower's revenue consists of rental income and the sale of properties.

Rental income

Rental income falls within the scope of IFRS 16 *Leases*, effective for years beginning on or after 1 January 2019. IFRS 16 was not early adopted. Tower doesn't expect the adoption of IFRS 16 *Leases* to be material to its financial results.

Sale of property

Tower's inventories consist of residential units under development. The recognition of revenue, from residential units sold during the year, is at a point in time on transfer of legal title of the property. This is consistent with the revenue recognition under IAS 18.

Time value of money

Tower does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, Tower does not adjust any of the transaction prices for the time value of money.

Impact

The adoption of IFRS 15 has not had a material impact Tower's financial performance or results.

IFRS 9 *Financial instruments*

Classification of financial assets

The group's significant financial assets consist of contract and trade receivables and cash and cash equivalents. Tower's business model is "hold and collect" capital and interest on financial assets. Accordingly; these instruments are measured at amortised cost under IFRS 9, which is consistent with the measurement under IAS 39. The accounting for financial liabilities is consistent with the IAS 39 policies.

Impairment

Tower was required to revise its impairment methodology under IFRS 9 for its financial assets from an incurred loss model to an expected loss model. In terms of its revised methodology Tower applied the IFRS 9 general approach to measuring expected credit losses in the current year. The adoption of IFRS 9 in the current year has not resulted in a significant change to the credit losses recognised under IAS 39.

Impact

The measurement of financial assets is consistent with the measurement principles under IAS 39. The expected credit loss model has not resulted in a significant adjustment to the group's financial assets. The adoption of IFRS 9 *Financial Instruments* resulted in additional disclosures in the financial statements.

Fair value measurement of investment property recognised in the statement of financial position

Valuations of all properties were performed by either the directors or independent valuer, and have resulted in a net upward re-valuation adjustment of R77.2 million (2018: R33.3 million). Independent external valuations are carried out on a rotational basis to ensure each property is valued independently at least every three years. Conservative valuation assumptions have been applied to take account of weakening market conditions. The valuations are based either on the discounted cash flow method or the capitalisation rate of net income method or a combination of these methods, which is consistent with the basis used in prior years.

The fair value measurement for investment property has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Significant unobservable inputs used were as follows:

- A capitalisation rate, ranging between 7% and 11% (2018: 7.25% and 10.50%) has been used; and
- The discount rate applied ranges between 13.20% and 17% (2018: 13.5% and 15.5%).

Basis of preparation continued

Standards and interpretations effective and adopted in the current year continued

Fair value of financial instruments recognised in the statement of financial position

The group measures fair values using the fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The valuation of interest rate swaps uses observable market data and requires management judgement and estimation. The availability of observable market data and model inputs reduces the need for management's judgement and estimation and also reduces uncertainty associated with the determination of fair values.

The fair value of the interest rate swap is determined by the bank using a valuation technique that maximises the use of observable market inputs. Interest rate swaps are valued by discounting future cash flows using the interest rate yield curve. Interest rate swaps are classified as level 2 financial instruments.

The interest rate has been fixed on R500 million of borrowings at 7.59%, expiring on 25 July 2022. The fair value of the swap at 31 May 2019 was –R8.1 million. The company has entered into the following Euro denominated swaps:

	Notional amount (Euro '000)	Fair Value 31 May 2019 (Rand '000)
Contract 1: 3.65% maturing 3 August 2020	7 000	(1 157)
Contract 2: 3.25% maturing 18 March 2021	2 540	(333)
Contract 3: 3.15% maturing 21 June 2021	30 514	(3 345)
Contract 4: 3.30% maturing 13 January 2022	13 199	(2 480)

Dividend declaration

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.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Notes	Audited 12 months ended 31 May 2019 R'000	Audited 12 months ended 31 May 2018 R'000
Revenue			
Contractual rental income		**413 775**	411 827
Straight-line lease accrual		**2 858**	4 593
Sale of inventory	3	**55 107**	–
		471 740	416 420
Net property operating expenses	4	**(44 518)**	(17 385)
Cost of sales	3	**(53 036)**	–
Net property income		**374 186**	399 035
Administration expenses	6	**(24 648)**	(18 074)
Loss on disposal on investment property	7	**(3 150)**	(1 671)
Disposal of goodwill	8	**(3 490)**	(3 468)
Impairment of goodwill	9	**(10 659)**	–
Foreign exchange (loss)/gain	10	**(22 204)**	937
Net operating profit		**310 035**	376 759
Fair value gains on investment properties		**245 191**	206 275
Fair value losses on investment properties		**(167 944)**	(172 955)
Fair value adjustments on interest rate derivatives		**(7 777)**	1 653
Profit from operations		**379 505**	411 732
Finance income		**3 348**	4 314
Finance costs		**(102 383)**	(120 050)
Profit before taxation		**280 470**	295 996
Taxation	11	**(5 650)**	–
Profit for the period		**274 820**	295 996
Other comprehensive income – items that may subsequently be reclassified to profit and loss			
Exchange difference on foreign operations		**35 367**	1 499
Total comprehensive profit for the period		**310 187**	297 495
Profit for the period attributable to:			
Equity shareholders of Tower Property Fund Limited		**246 400**	293 429
Non-controlling interest	12	**28 420**	2 567
		274 820	295 996
Total comprehensive income attributable to:			
Equity shareholders of Tower Property Fund Limited		**266 962**	294 815
Non-controlling interest	12	**43 225**	2 680
		310 187	297 495
Basic and diluted earnings per share (weighted average shares in issue) (cents)		**72.8**	86.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited 12 months ended 31 May 2019 R'000	Audited 12 months ended 31 May 2018 R'000
Assets			
Non-current assets			
Investment property		**4 594 668**	4 378 361
Straight-line lease accrual		**37 934**	60 741
Property, plant and equipment		**150**	193
Goodwill		**223 477**	237 626
		4 856 229	4 676 921
Current assets			
Inventories	13	**28 232**	35 150
Trade and other receivables		**108 921**	104 776
Cash and cash equivalents		**94 948**	92 775
		232 101	232 701
Investment property held for sale		**521 819**	504 596
		753 920	737 297
Total assets		**5 610 149**	5 414 218
Equity and liabilities			
Equity			
Stated capital		**3 035 344**	3 035 344
Treasury capital	14	**(14 085)**	–
Foreign currency translation reserve		**12 793**	(7 769)
Share-based payment reserve		**327**	–
Retained income		**268 046**	260 933
Shareholders' interest		**3 302 425**	3 288 508
Non-controlling interest	12	**312 770**	27 307
Total equity		**3 615 195**	3 315 815
Liabilities			
Non-current liabilities			
Other financial liabilities		**1 699 243**	1 361 688
Loan payable to shareholder		**25 881**	23 250
		1 725 124	1 384 938
Current liabilities			
Other financial liabilities		**162 313**	653 168
Trade and other payables	15	**83 109**	60 297
Rental guarantee	16	**24 408**	–
		269 830	713 465
Total equity and liabilities		**5 610 149**	5 414 218
Net asset value per share (shares in issue at period end) (cents)		**979**	968

CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited 12 months ended 31 May 2019 R'000	Audited 12 months ended 31 May 2018 R'000
Cash generated from operations	397 245	354 184
Finance income	3 348	4 314
Finance costs	(99 530)	(116 485)
Tax paid	(4 430)	–
Net cash from operating activities	**296 633**	242 013
Investment property acquired	(83 758)	–
Cost capitalised to investment property	(43 591)	(55 269)
Property, plant and equipment acquired	(42)	(77)
Proceeds on sale of investment property	16 899	13 615
Net cash from investing activities	**(110 492)**	(41 731)
Proceeds from the sale of interest to non-controlling shareholders	183 020	–
Acquisition of treasury shares	(14 085)	–
Local loans raised	275 422	322 250
Local loans repaid	(328 039)	(185 021)
Foreign loans repaid	(32 612)	(33 215)
Non-controlling interest loan repayment	–	(1 077)
Dividends paid	(268 083)	(269 527)
Net cash from financing activities	**(184 377)**	(166 590)
Net movement in cash and cash equivalents	1 764	33 692
Cash and cash equivalents at beginning of period	92 775	58 945
Foreign exchange differences on cash balances	409	138
Cash and cash equivalents at end of period	**94 948**	92 775

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated Capital R'000	Treasury Capital R'000	Foreign Currency Translation Reserve (FTCR) R'000	Share-based payment reserve R'000	Retained Income R'000	Shareholders' interest R'000	Non-controlling Interest R'000	Total R'000
Balance at 1 June 2017	3 039 980	(4 636)	(9 155)	–	237 031	3 263 220	24 627	3 287 847
Cancellation of treasury shares	(4 636)	4 636	–	–	–	–	–	–
Acquisition of foreign subsidiary	–	–	–	–	–	–	–	–
Profit for the year	–	–	–	–	293 429	293 429	2 567	295 996
Foreign currency translation differences	–	–	1 386	–	–	1 386	113	1 499
Dividends paid	–	–	–	–	(269 527)	(269 527)	–	(269 527)
Balance at 31 May 2018	**3 035 344**	**–**	**(7 769)**	**–**	**260 933**	**3 288 508**	**27 307**	**3 315 815**
Acquisition of treasury shares	**–**	**(14 085)**	**–**	**–**	**–**	**(14 085)**	**–**	**(14 085)**
Sale of interest in Tower International	**–**	**–**	**–**	**–**	**21 751**	**21 751**	**249 283**	**271 034**
Profit for the year	**–**	**–**	**–**	**–**	**246 400**	**246 400**	**28 420**	**274 820**
Share-based payment	**–**	**–**	**–**	**327**	**–**	**327**	**–**	**327**
Foreign currency translation differences	**–**	**–**	**20 562**	**–**	**–**	**20 562**	**14 805**	**35 367**
Dividends paid	**–**	**–**	**–**	**–**	**(261 038)**	**(261 038)**	**(7 045)**	**(268 083)**
Balance at 31 May 2019	**3 035 344**	**(14 085)**	**12 793**	**327**	**268 046**	**3 302 425**	**312 770**	**3 615 195**

RECONCILIATION OF EARNINGS AND HEADLINE EARNINGS

	Gross	Audited 12 months ended 31 May 2019 R'000 Net	Audited 12 months ended 31 May 2018 R'000 Net
Profit attributable to ordinary equity holders		**246 400**	293 429
Adjusted for:			
Change in fair value of investment properties			
Net of non-controlling interests	**(77 247)**	**(66 618)**	(33 631)
Disposal of goodwill	**3 490**	**3 490**	3 468
Impairment of goodwill	**10 659**	**10 659**	–
Loss on disposal on investment property	**3 150**	**3 150**	1 671
Headline earnings		**197 081**	264 937
Weighted average number of shares in issue		**338 589 340**	339 549 647
Headline and diluted headline earnings per share (weighted average shares in issue) (cents)		**58.2**	78.0

RECONCILIATION OF HEADLINE EARNINGS TO DISTRIBUTABLE EARNINGS (NON-IFRS MEASURE)

Distributable earnings is a key performance measure for South African REITs. There is no IFRS standard that governs the calculation of distributable earnings, and the following reconciliation is in line with the prior year and the SA REIT association best practice recommendations.

	Notes	Gross	Audited 12 months ended 31 May 2019 R'000 Net	Audited 12 months ended 31 May 2018 R'000 Net
Headline earnings			**197 081**	264 937
Adjusted for:				
Straight-line lease accrual			**(2 858)**	(4 593)
Equity-settled share-based payment reserve			**327**	–
Change in fair value of interest rate derivatives			**7 777**	(1 653)
Distributable profit			**202 327**	258 691
Adjusted for:				
Foreign exchange loss		**22 204**	**67 218**	2 292
Realised foreign exchange profit			**(47 018)**	–
Profit on sale of inventory			**(2 072)**	–
TPF International set up costs			**4 685**	–
Konzum arrears	17		**8 056**	1 959
Amortisation of debt raising fees			**1 776**	2 313
Distributable earnings			**234 972**	265 255
Development income lost	18		**15 691**	9 657
Distribution paid			**250 663**	274 912
Distribution paid			**250 663**	274 912
Taxable dividend (declared on 30 August 2019)			**126 010**	–
Taxable dividend (declared on 28 February 2019)			**124 653**	–
Taxable dividend (declared on 31 July 2018)			**–**	136 711
Taxable dividend (declared on 13 February 2018)			**–**	138 201
Number of shares in issue at year end (including treasury shares)			**339 549 647**	339 549 647
Number of shares in issue at year end (excluding treasury shares)			**337 244 093**	339 549 647
Distribution per share			**74.2**	81.0
Six months ended 31 May			**37.4**	40.3
Six months ended 30 November			**36.8**	40.7
Distributable earnings per share (weighted average shares in issue) (cents)			**69.4**	78.1

SEGMENTAL ANALYSIS

	South Africa					Croatia (including Mauritius)				
	Retail	Office	Industrial	Inventory	Total	Retail	Office	Industrial	Total	Grand Total
For the year ended 31 May 2019 (R'000)										
Property assets*	1 285 727	1 979 451	247 500	28 232	3 540 910	1 095 575	462 250	84 068	1 641 893	5 182 803*
Straight-line lease accrual	9 843	26 586	1 505	–	37 934	–	–	–	–	37 934
Segment liabilities**	523 850	802 298	98 844	17 129	1 442 121	333 602	168 442	139	502 183	1 944 304**
Fair value adjustment to investment properties	5 551	23 549	13 831	–	42 931	22 801	11 515	–	34 316	77 247
Revenue (excluding straight line lease adjustments)	107 333	170 405	22 636	55 107	355 481	78 153	32 496	2 752	113 401	468 882
Net operating costs	(17 926)	(16 093)	(1 410)	(53 036)	(88 465)	(8 056)	(1 033)	–	(9 089)	(97 554)
Segment profit	89 407	154 312	21 226	2 071	267 016	70 097	31 463	2 752	104 312	371 328
Straight line lease adjustment	–	–	–	–	–	–	–	–	–	2 858
Non property related expenses	–	–	–	–	–	–	–	–	–	(24 648)
Other income	–	–	–	–	–	–	–	–	–	(3 150)
Disposal of goodwill	–	–	(3 490)	–	(3 490)	–	–	–	–	(3 490)
Impairment of goodwill	–	(10 141)	(518)	–	(10 659)	–	–	–	–	(10 659)
Foreign exchange gain/(loss)	–	–	–	–	–	–	–	–	–	(22 204)
Net operating profit	–	–	–	–	–	–	–	–	–	310 035
For the year ended 31 May 2018 (R'000)										
Property assets*	1 303 386	1 910 688	351 763	35 150	3 600 987	969 861	408 193	–	1 378 054	4 979 041*
Straight-line lease accrual	31 500	27 151	2 090	–	60 741	–	–	–	–	60 741
Segment liabilities**	570 714	880 973	155 442	16 390	1 623 519	325 080	125 777	–	450 857	2 074 376**
Fair value adjustment to investment properties	(707)	66 430	12 119	–	77 842	(42 964)	(1 558)	–	(44 522)	33 320
Revenue (excluding straight line lease adjustments)	110 587	165 247	29 539	–	305 373	75 691	30 763	–	106 454	411 827
Net operating costs	(3 620)	(8 676)	(4 116)	–	(16 412)	–	(973)	–	(973)	(17 385)
Segment profit	106 967	156 571	25 423	–	288 961	75 691	29 790	–	105 481	394 442
Straight line lease adjustment	–	–	–	–	–	–	–	–	–	4 593
Non property related expenses	–	–	–	–	–	–	–	–	–	(18 074)
Other income	–	–	–	–	–	–	–	–	–	(1 671)
Disposal of goodwill	(2 607)	–	(861)	–	(3 468)	–	–	–	–	(3 468)
Foreign exchange gain/(loss)	–	–	–	–	–	–	–	–	–	937
Net operating profit	–	–	–	–	–	–	–	–	–	376 759

Tower has included inventory as a segment. The prior year information has been restated to reflect this newly identified segment.

NOTES

	Audited 12 months ended 31 May 2019 R'000	Audited 12 months ended 31 May 2018 R'000
1) Segmental analysis		
Investment property	**4 594 668**	4 378 361
Straight-line lease accrual	**37 934**	60 741
Property, plant and equipment	**150**	193
Inventories	**28 232**	35 150
Investment property held for sale	**521 819**	504 596
* Property assets	**5 182 803**	4 979 041
** Segment liabilities	**1 944 304**	2 074 376
Non-segment liabilities		
– Trade and other payables	**361**	777
– Loan to non–controlling interests	**25 881**	23 250
– Oryx guarantee	**24 408**	–
Total liabilities	**1 994 954**	2 098 403
2) Related party transactions included:		
Property management fees paid to Spire Property Management Proprietary Limited	**21 742**	19 002
Relationship: Key management personnel services entities		
Share based payments	**327**	–
During the period under review, share options were offered to the directors and senior management of the company. These options will vest equal tranches in three to five years, subject to the achievement of agreed upon vesting conditions contained in the rules of the scheme.		
3) Sale of inventory and Cost of sales relate to the sale of the Napier Street units. These were classified as inventory.		
4) Net property operating expenses		
Insurance	**2 297**	1 666
Letting commission	**6 680**	6 804
Municipal expenses	**107 868**	93 831
Other operating expenses	**25 514**	7 784
Property management fees	**14 269**	13 958
Repairs and maintenance	**7 960**	6 485
Security and cleaning	**20 839**	19 955
Gross property expenses	**185 427**	150 483
Operating expense recoveries	**(140 909)**	(133 098)
Net property operating expenses	**44 518**	17 385
5) Property ratios		
Net property expense ratio	**19%**	14%
Gross property expense ratio	**33%**	28%
Tenant retention ratio	**93%**	90%

NOTES
CONTINUED

	Audited 12 months ended 31 May 2019 R'000	Audited 12 months ended 31 May 2018 R'000
6) Administration and corporate costs		
Salaries	**11 397**	9 830
Professional service fees	**7 652**	2 607
Other	**5 599**	5 637
Total	**24 648**	18 074

The increase in professional fees in the current period is as a result of the costs paid to set up TPF International and the sale of 26% thereof to Oryx. The increase in salaries is partly due to the employment of another staff member in Croatia.

7) Loss on the disposal of investment property in the current year relates to the sales of Nampak and the Pick n Pay Distribution Centre and in the prior year it relates to the sales of Shoprite Brits and Arrowfield.

8) Goodwill of R3 million has been disposed of during the year. R145 million goodwill was raised on the acquisition of Tower Asset Management (Pty) Ltd (TAM). The goodwill is allocated on a pro rata basis to the properties which were held by the fund when the asset management company was internalised. As two of these properties, namely Nampak and the Pick n Pay Distribution Centre, were disposed of, the goodwill allocated to them was derecognised.

9) The goodwill is tested at each reporting date for impairment. The impairment of goodwill relates to the goodwill allocated to properties with valuations which were less at year end than when TAM was internalised.

10) The foreign exchange (loss)/gain relates to the foreign denominated loans that were granted by Standard Bank to fund the acquisition of VMD KVART and the Agrokor portfolio.

11) The tax expense in the current year is a result of tax paid in Croatia and Mauritius. The Croatian tax arose due to taxable foreign exchange gains made between the Kuna and the Euro and the tax deductible shareholder interest rate being reduced by the Croatian tax authorities.

12) Non-controlling interests relates to the Oryx 26% holding in TPF International and the VMD Grupa d.o.o. 20% holding in Tower Europe d.o.o.

13) Inventory relates to the Napier Street residential units which are currently for sale as well as costs incurred to date on the development of the Old Cape Quarter residential units.

14) A 100% held subsidiary of Tower acquired 2.3 million Tower shares during the year. The shares were acquired at an average price of R6.09 per share.

15) Trade and other payables has predominatly increased in the current year as a result of the VAT payable on the Napier Street residential units which were sold in May 2019 and the accrual for outstanding Napier Street and Old Cape Quarter development costs.

16) Oryx paid Tower Euro 1.6 million (R24 million) for Tower to guarantee to pay Oryx any shortfall in the difference between the contracted rental and the rental received from the Agrokor portfolio for a period of two years, ending 31 May 2020. For the year ending 31 May 2019, Tower had to reimburse Oryx R0.3 million of the guarantee due to the Vukovarska rental reduction.

17) The remaining pre 9 April 2017 (the date Agrokor, the holding company of Konzum, was placed under administration) Konzum arrears have been written off in the current year. These arrears were deducted from the distributable income in May 2017 and have therefore been added back in the reconciliation of distributable earnings at 31 May 2019.

18) Development income lost relates to untenanted properties under development during the year.

19) Subsequent events

Block B of the industrial property Yazaki is expected to transfer in the next few months for Euro 3.4 million (R54 million) and the purchase price will be settled through debt funding. The sale of Meadowbrook Distribution Centre is unconditional at year end. Rates clearance is imminent after which the property will lodge for transfer. Selling price is R91 680 000. An agreement of sale has been signed for the Medscheme property after year end and the buyer has commenced with its due diligence procedures. Selling price is R98 300 000.

NOTICE OF ANNUAL GENERAL MEETING

30 August 2019	The record date to receive the notice of annual general meeting is Friday.
9 September 2019	The notice of annual gereral meeting will be dispatched to shareholders on Monday.
9 October 2019	The annual general meeting will be held on Wednesday, at 10:00 at the Belmont Conference Centre, Belmont Road, Rondebosch, Cape Town 7700.
1 October 2019	The last day to trade to participate in and vote at the annual general meeting is Tuesday.
4 October 2019	The record date to participate in and vote at the annual general meeting is Friday.

Shareholders are advised that Towers integrated annual report has been dispatched and is available on the companies website, http://www.towerpropertyfund.co.za/download/integrated-annual-report-2019/.

By order of the Board
Tower Property Fund Limited
30 August 2019

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")

Registered address	2nd Floor, Spire House, Tannery Park, 23 Belmont Road, Rondebosch 7700 (PO Box 155, Rondebosch 7701)
Contact details	+27 (0)21 685 4020/info@towerpropertyfund.co.za
Company secretary	Ovland Management Services Proprietary Limited
Auditors	Mazars
Sponsor	Java Capital
Transfer secretaries	Link Market Services South Africa Proprietary Limited
Directors	A Dalling* (chairman), M Edwards (chief executive officer), J Bester*, M Evans*, J Mabin (chief financial officer), A Magwentshu*, N Milne*, R Naidoo*

* *Non-executive*

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