


# Unaudited condensed consolidated interim results

for the six months ended

# 30 November 2019


TOWER

# FINANCIAL HIGHLIGHTS

| | | |
|---|---|---|
| Total return of 5.8%* | Distribution declared of R118.1 million | 1.9% decrease in tangible net asset value (TNAV) to R8.95 per share** |
| Reduction in loan to value to 33.7% | Like-for-like property net income growth: Croatia 1.4% South Africa 2.3%*** | Portfolio vacancy of 5.5% |
| Distribution per share reduction of 4.9% for the period compared to the corresponding period due to additional fund costs and capex | Sale of R188 million of properties | 43 properties valued at R5 billion |

* Growth in TNAV plus distribution per share over opening TNAV for the twelve months to 30 November 2019.

** Due to Cape Quarter valuation taking into account expiring Deloitte lease.

*** Property net income on a like-for-like basis excludes the straight-line lease accrual, currency fluctuations, acquisitions and disposals of property and once-off rates and electricity credits received.

# Basis of preparation

The unaudited condensed consolidated interim financial results for the six months ended 30 November 2019 (the results), have been prepared in accordance with and containing the information required by IAS 34 *Interim Financial Reporting* and the Financial Pronouncements as issued by the Financial Reporting Standards Council. The results comply with the JSE Listings Requirements and the Companies Act, 71 of 2008, of South Africa (Companies Act).

These 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 results. The directors are not aware of any matters or circumstances arising subsequent to 30 November 2019 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement. These results have not been reviewed or reported on by Tower's auditors.

The accounting policies and methods of computation applied in the preparation of these results are in terms of IFRS and consistent with those applied in the most recently issued audited annual financial statements, except for the changes listed below.

# Changes in accounting policies and disclosures

## New standards and interpretations adopted in the current year

The group adopted IFRS 16 *Leases* in the current financial period for the first time on the mandatory adoption date. No standard, amended or interpretation has been early adopted by the group. IFRS 16 was adopted using the modified retrospective approach, and comparative information has not been restated and complies with the requirements of IAS 17 *Leases*.

### IFRS 16 *Leases*

IFRS 16 provides the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single accounting model for lessees building on the principle that all leases result in the lessee being entitled to use an asset and, if lease payments are made over time, obtaining financing. The standard eliminates the distinction of operating and financing leases for lessees resulting in a more accurate representation of the lessee's assets and liabilities and improved transparency regarding the lessee's financial leverage and capital employed. Lessor accounting is left largely unchanged from its predecessor (IAS 17 *Leases*).

The group does not have material commitments to operating lease payments. Therefore, no material adjustments have been made to the group's results in this announcement.

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

Valuations were performed by the directors as at 30 November 2019, and have resulted in a net downward revaluation adjustment of R47.7 million (November 2018: net upward revaluation adjustment of R59.0 million). Independent external valuations are carried out on a rotational basis at year-end 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 7.3% and 11% (31 May 2019: 7% and 10%) has been used.
- The discount rate applied ranges between 13.2% and 17% (31 May 2019: 13.2% and 17%).

## 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.

*Interest rate swaps*

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.

## Changes in accounting policies and disclosures continued

The interest rate has been fixed on R500 million of borrowings at 7.57%, expiring on 21 August 2023. The fair value of the swap at 30 November 2019 was -R10.3 million. The company has entered into the following Euro denominated swaps:

| | Notional amount €'000 | Fair value 30 November 2019 R'000 |
|---|---|---|
| Contract 1: 3.65% maturing 3 August 2020 | 7 000 | (730) |
| Contract 2: 3.25% maturing 18 March 2021 | 2 540 | (284) |
| Contract 3: 3.15% maturing 21 June 2021 | 30 514 | (3 109) |
| Contract 4: 3.30% maturing 13 January 2022 | 13 199 | (2 398) |

## Dividend declaration

A dividend declaration announcement in respect of the dividend for the six months ended 30 November 2019 and containing information relating to the tax treatment of the dividend and the dividend payment timetable will be released separately on SENS.

By order of the Board
**Tower Property Fund Limited**
21 February 2020

**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 "company")

| | |
|---|---|
| **Registered address** | 6th Floor, Sunclare Building, Protea Road, Claremont 7708<br>(PO Box 155, Rondebosch 7701) |
| **Contact details** | +27 (0)21 685 5948/info@towerpropertyfund.co.za |
| **Company secretary** | Statucor 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*,<br>J Mabin (chief financial officer), A Magwentshu*, N Milne*, R Naidoo* |

* *Non-executive*

## Profile

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 43 convenience retail, industrial and office properties valued at R5 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropoles with 47% by value in Cape Town, 42% in Gauteng and 11% in KwaZulu-Natal. The six Croatian properties represent 32% of Tower's total value. Tower currently has a sectoral spread by value of 48% convenience retail, 46% office, 5% industrial and inventory 1%.

Tower's objective is to deliver attractive, growing, total returns by investing in properties in strong nodes, with the potential to deliver value over the medium to long term. Current nodes which we believe meet these criteria are the Cape Quarter Precinct, Claremont, Rosebank and Croatia. Active property asset management of our existing portfolio, with a particular focus on unlocking available profits and prudent balance sheet management, are key strategic tools to deliver on our long-term goals.

As described in past reports, Tower's near-term focus remains: (i) the repositioning of the Cape Quarter Precinct as a lifestyle focused precinct through the completion of the redevelopment of the retail space and the development of 55 residential units at Old Cape Quarter (which commenced in May 2019); (ii) the sale of properties which no longer align with our strategy in South Africa in order to reduce debt and invest in properties with better growth prospects; (iii) unlocking additional value and income growth in the Croatian portfolio through Tower Property Fund International Limited (TPF International); and (iv) reducing Euro debt secured by South African properties. Added to this, we are dedicating significant time and focus to the successful re-letting of the expiring Deloitte and Pernod Ricard premises in the Cape Quarter.

Progress has been made on all these key strategic initiatives, despite a very challenging operating environment.

## Operational and financial performance

Our Croatian portfolio performed very well, with like-for-like property net income in Euros up 1.4% on the corresponding period as a result of inflation-linked escalations.

Our total return from Croatia for the twelve months to 30 November 2019 was 8.9% in Euros. Yields have compressed on our properties, resulting in the portfolio being valued at €5.2 million higher than purchase price. Once-off costs of approximately €58 600 were incurred in the exploration of a potential separate listing of the Croatian portfolio. While there was interest from Croatian institutions in a listing, at this stage it has been decided that, instead of raising fresh capital, TPF International will look to recycle capital through the sale of low growth properties in Croatia and the reinvestment of the proceeds into new higher-growth properties. The Croatian market is expected to remain strong in the short term with Tower's unique contacts in the region giving the business an advantage over peers.

In South Africa, we continue to face real challenges in the operating environment. Macroeconomic conditions in the country, potential ratings downgrades, failing municipalities and Eskom woes all add to the headwinds facing listed property owners in South Africa. This is particularly felt in our letting activities, with vacant space often taking longer than expected to fill, and anticipated tenant renewals often either not materialising, or happening at significantly lower levels. Despite the tough local market, asset management initiatives resulted in increased like-for-like net property income in the South African portfolio of 2.3%. Actual net property income (adjusted for buildings sold during the period) in South Africa is flat compared to the corresponding period.

Three key properties negatively impacted overall property income for the period. These properties have all undergone proactive asset management initiatives or planned changes of tenants which result in temporarily vacant premises but which improve the property portfolio considerably. These include reductions in parking and residential income from Cape Quarter (-R2 million), in part, attributable to the commencement of the re-development of Old Cape Quarter, by the strategic decision to terminate the call-centre lease on the 6th floor of Sunclare and renovate and re-tenant it to a standard (and at rental levels) in line with the rest of the building (-R2.2 million) and by the delay in the new Pick n Pay lease agreement at Sparrow Centre, Modimolle where a delay in opening reduced expected income by R1.7 million for the period. The new 15 year Pick n Pay lease has added R20 million to the value of the property.

These negatives have been partially offset by the release of a R4 million provision for electricity costs at one of our buildings, which proved unnecessary.

Fund costs increased in the period. This included once-off costs of R1 million of investigating a potential listing of TPF International, which will not reoccur. The strategic decisions to strengthen the balance sheet and improve the defensiveness and marketability of our portfolio, by (i) selling properties (Medscheme and Meadowbrook) and reducing debt; (ii) increasing capital expenditure across the portfolio during the period; and (iii) reducing cheap Euro-denominated debt, secured over South Africa assets, also weighed on distributable earnings.

## Operational and financial performance continued

The cumulative result of all these factors is that for the period to end November:

- revenue increased by 1% to R206.9 million;
- rental income reduced by 1% to R201.1 million, with the sale of the Medscheme and Meadowbrook properties during the period; and
- distributions reduced by 4.9% due to increased once-off fund costs

compared to the corresponding period last year.

In our report to shareholders for the full financial year to May 2019 we stated that we anticipated growth in Croatian net income (which has occurred) and 3.5% growth in net income in South Africa which would result in distribution growth for the year ending 31 May 2020. The proactive letting activities in Cape Quarter, Sunclare and Sparrow Centre, which resulted in temporary vacancies, have reduced South African net income to flat and, due to the extra fund costs described above, we anticipate the full year distribution to be slightly down on the previous year.

Given that the anticipated re-lettings of Sparrow Shopping Centre, Sunclare and Cleveland had taken place by the end of the period and that we will enjoy the benefit of the new lettings in the second half of the year, we anticipate that distributions for the half year ending 31 May 2020 will be flat to slightly up on the distributions for the corresponding period. This forecast has not been audited or reviewed by the group's auditors.

Overall risk to the company has been significantly reduced with our company loan to value at 33.7%, below the reduced 35% strategic target of the board. This positions Tower more strongly to weather the current difficult economic circumstances, manage any property value reductions that may flow from a downgrade or other macroeconomic factors, and continue to take advantage of opportunities for growth (which mostly emanate from the existing property portfolio).

Vacancies in the portfolio are low, particularly given Tower's sectoral mix of assets, at 5.5% (South Africa: 6.6%). However, as indicated, rentals have had to be reduced to secure renewing tenants.

## Key strategic decisions

Despite the difficult economic environment and the impact it has had on Tower in this period, we are pleased that a number of important strategic decisions made by the company over the past few years have strengthened our balance sheet and improved the defensiveness and marketability of our portfolio, which has positioned our business far better to weather the storms in these times than would have been the case had we not done so. These decisions include:

1. Investment into Croatia
2. Reduction in loan to value across the board, and particularly a reduction of the Euro debt secured against our South African portfolio
3. The repositioning of the Cape Quarter Precinct as a lifestyle focused precinct, through the residential additions and redevelopment of the retail space at Napier Street and Old Cape Quarter
4. Sale of properties and reduction of debt
5. Refurbishment of and reinvestment into properties

Several shareholders have asked why we are not buying back shares at current share prices. While we see significant value in the Tower share, we will only invest in our own shares with real excess capital. In the current environment of stagnant or reducing property values, capital in the business is generated through non-core property sales and through value-adding capital projects on our existing portfolio (like the Old Cape Quarter development). In the short term, proceeds from the sale of properties, such as that from the sales of Medscheme in October 2019 for R97.5 million and Meadowbrook in September 2019 for R91.6 million gross, will be used to reduce gearing to offset risks, including any risks around potential delays in the sale of the Old Cape Quarter units in the current market. As these risks are managed and excess capital generated, we will more actively consider the repurchase of Tower shares.

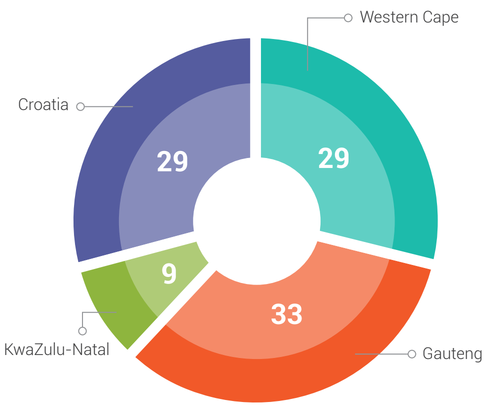
The Old Cape Quarter development, with the residential development and redevelopment of retail spaces, changes the appeal of the Cape Quarter Precinct from purely a mixed-use property to one more geared towards lifestyle.

The benefits of this are being felt in the context of the re-letting of the vacant Pernod Ricard and Deloitte space (which are to be vacated in July and November 2020 respectively), with applications and interest being received from a wider variety of tenants than would otherwise have been the case, including from a number of international hotel groups.

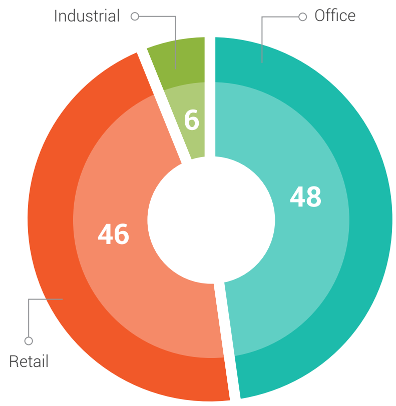
As a result, while the re-letting of this space will still result in a rental reversion, it appears that the re-letting will be easier and the reversion smaller, than would have been the case had we not made the decision to reposition the centre. The various options are all being carefully considered and costed to ensure the optimum use of the space in a way that complements the lifestyle nature of the centre, and achieves the highest possible market rental. We look forward to advising the market on progress in due course.

On the Old Cape Quarter development itself, R67.4 million (including VAT) worth of residential units have been sold to date. The scheme is expected to be completed in quarter 1 of 2021 and is currently on budget with 67% of contractors having been appointed.

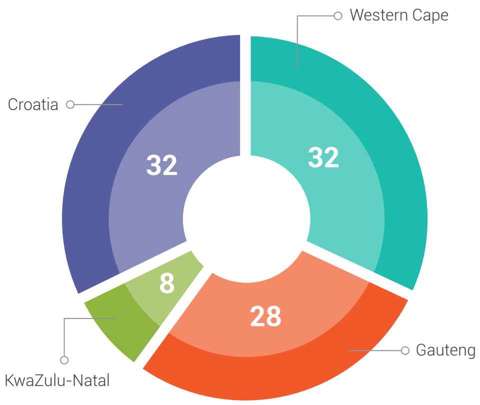
Geographic spread by revenue (%)



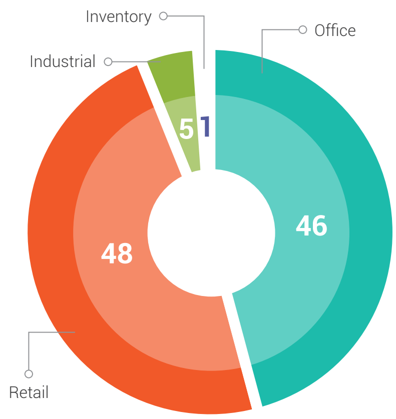

Sectoral spread by revenue (%)




Geographic spread by value (%)




Sectoral spread by value (%)




# Successes

## South Africa

A total GLA of 32 638m² was let during the period with 16 196m² let to new tenants and 16 442m² being renewals within the portfolio.

Non-core properties sold in the period were:

1. Meadowbrook Distribution Centre, Gauteng – R91.6 million
2. Medscheme Offices, Gauteng – R97.5 million

The sixth floor at Sunclare has undergone a renovation at a cost of R5.5 million. A call centre which occupied the full floor has vacated and has been replaced by high quality commercial tenants at higher rentals per square metre. Sunclare's recent upgrade places it as a key property in the Claremont node with the space in and around the Sunclare building serving as a drawcard to tenants and visitors in Claremont. Claremont, together with the Cape Quarter Precinct, Rosebank and Croatia are key nodes within the portfolio where we believe growth can be achieved and these nodes serve as key short-term areas of focus by the company.

The overall vacancies in the portfolio are 5.5%. South African vacancies are currently 6.6% (5.5% office, 1.1% retail and 0% industrial). The weighted average lease expiry (WALE) of the portfolio is 3.7 years (GLA) and 5.1 years (revenue).

Overall, Tower's South African property valuations have decreased by 1.6%. Notable reductions in value of R63.4 million occurred at Cape Quarter Square due to reduced rental expectations on the current Deloitte and Pernod Ricard premises.

## Successes continued

### Croatia

Tower's Croatian portfolio is performing well. 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. Yazaki block B is expected to transfer shortly.

We do not have income vacancies in the portfolio given the head leases which underpin the rentals. However, physical vacancies are 2.2%. This is made up of 90m² of retail space and 900m² of office space on the third floor of the Meridijan Shopping Centre.

## Progress on value add opportunities

- Old Cape Quarter upgrade of parking, retail, commercial and the addition of residential: started May 2019, expected completion date is Q1 2021
- Sale of non-core properties

## Operating performance

| Key metrics | South Africa R | Croatia € |
|---|---|---|
| **WALE GLA (years)** | 3 | 6.8 |
| WALE revenue (years) | 2.6 | 8.1 |
| **Vacancy totals** | 6.6% | 2.2%# |
| Office | 5.5% | 2% |
| Retail | 1.1% | 0.2% |
| Industrial | – | – |
| **Rental reversions** | 4%* | n/a |
| Office | 7.9%** | n/a |
| Retail | (6%) | 1.8% |
| Industrial | – | n/a |
| **Average rentals (per m²)** | 116.11 | 13.50 |
| Office | 137.21 | 13.50 |
| Retail | 121.88 | 13.32 |
| Industrial | 46.84 | 8.47 |
| **Trading densities (per m² per month)** | Various | 356 |
| **Trading density growth** | (3%) | 3% |
| **Rental as a percentage of turnover** | 6.6% | 4.1% |

*# Physical vacancies. No income vacancies due to head leases.*
** Including Medscheme: -12.5%*
*** Including Medscheme: -15.2%*

## Borrowings

| | Total debt | ZAR debt | Euro debt |
|---|---|---|---|
| Loan facilities (R'000) | 1 756 439 | 536 838 | 1 219 601 |
| Weighted cost of funding (%) | 5.22 | 9.51 | 3.33 |
| Debt expiry profile (years) | 3.1 | 2.5 | 3.4 |
| Percentage hedged (%) | 84 | 93 | 80 |
| Hedging expiry profile (years) | 2.2 | 3.7 | 1.4 |

Based on a property portfolio valued at R5.0 billion, the loan to value (LTV) ratio of the group has reduced to 33.7% at the end of the year (37.7% in South Africa and 25.3% in Croatia). The LTV is calculated as other financial liabilities less cash, divided by investment property plus inventory.

R159 million of ZAR debt was refinanced in July 2019 for three years at the three-month Johannesburg Interbank Agreed Rate (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, Tower successfully refinanced the bank loan for the VMD building on an interest only basis at the three-month Euro Interbank Offered Rate (Euribor) plus 3.5% (a saving of 1.0% on the previous facility). In January 2020, the bank loan for the Sub Dubrovnik Shopping Centre was refinanced on an interest-only basis at the three-month Euribor plus 2.7% (a saving of 1.65% on the previous facility). We are in the process of refinancing the remaining Euro loan on an interest-only basis.

As stated, 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.

## Prospects

As indicated, we expect distributions for the full year ending 31 May 2020 to be slightly down on distributions for the previous year. Distributions for the second six months of the financial year are anticipated to be flat to slightly up on the corresponding period last year. This projection is subject to the normal market risks prevalent in the current difficult economic environment and has not been reviewed and reported on by the auditors.

Our intention is to keep our LTV below 35%, while developing and selling the residential apartments at Cape Quarter and extracting value from existing properties in key nodes including Croatia, Claremont and Rosebank, which we remain confident will deliver real growth to shareholders in the medium to long term, while appropriately limiting risk.

In the short term our focus remains on the successful leasing of the Deloitte and Pernod Ricard premises at Cape Quarter and the creation of additional value through the various opportunities we have detailed above, including, in particular, through the sale of the residential units and completion of the development of Old Cape Quarter.

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

| | Notes | Unaudited 6 months ended 30 November 2019 R'000 | Unaudited 6 months ended 30 November 2018 R'000 | Audited 12 months ended 31 May 2019 R'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Contractual rental income | | **201 128** | 204 075 | 413 775 |
| Straight-line lease accrual | | **5 785** | 1 679 | 2 858 |
| Sale of inventory | 3 | **–** | – | 55 107 |
| | | **206 913** | 205 754 | 471 740 |
| Net property operating expenses | 4 | **(13 445)** | (22 458) | (44 518) |
| Cost of sales | 3 | **–** | – | (53 036) |
| **Net property income** | | **193 468** | 183 296 | 374 186 |
| Administration expenses | 6 | **(14 600)** | (15 802) | (24 648) |
| Loss on the disposal on investment property | 7 | **(8 285)** | (3 508) | (3 150) |
| Disposal of goodwill | 8 | **(2 794)** | (3 490) | (3 490) |
| Impairment of goodwill | 9 | **(100 368)** | – | (10 659) |
| Foreign exchange loss | 10 | **(3 180)** | (24 120) | (22 204) |
| **Net operating profit** | | **64 241** | 136 376 | 310 035 |
| Fair value gains on investment properties | | **103 097** | 125 048 | 245 191 |
| Fair value losses on investment properties | | **(150 828)** | (66 069) | (167 944) |
| Fair value adjustments on interest rate derivatives | | **(1 410)** | 1 842 | (7 777) |
| Fair value gain on rental guarantee | 11 | **11 803** | – | – |
| **Profit from operations** | | **26 903** | 197 197 | 379 505 |
| Finance income | | **2 578** | 1 745 | 3 348 |
| Finance costs | | **(50 644)** | (53 993) | (102 383) |
| **(Loss)/profit before taxation** | | **(21 163)** | 144 949 | 280 470 |
| Taxation | 12 | **(2 831)** | (655) | (5 650) |
| **(Loss)/profit for the period** | | **(23 994)** | 144 294 | 274 820 |
| **Other comprehensive income – items that may be subsequently reclassified to profit and loss** | | | | |
| Exchange difference on foreign operations | | **(7 334)** | 23 967 | 35 367 |
| **Total comprehensive income for the period** | | **(31 328)** | 168 261 | 310 187 |
| **(Loss)/profit for the period attributable to:** | | | | |
| Equity shareholders of Tower Property Fund Limited | | **(35 124)** | 136 313 | 246 400 |
| Non-controlling interest | 13 | **11 130** | 7 981 | 28 420 |
| | | **(23 994)** | 144 294 | 274 820 |
| **Total comprehensive income attributable to:** | | | | |
| Equity shareholders of Tower Property Fund Limited | | **(37 139)** | 159 808 | 266 962 |
| Non-controlling interest | 13 | **5 811** | 8 453 | 43 225 |
| | | **(31 328)** | 168 261 | 310 187 |
| Basic and diluted earnings per share (weighted average shares in issue) (cents) | | **(10.4)** | 40.2 | 72.8 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Unaudited 6 months ended 30 November 2019 R'000 | Unaudited 6 months ended 30 November 2018 R'000 | Audited 12 months ended 31 May 2019 R'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investment property | | **4 660 381** | 4 659 666 | 4 594 668 |
| Straight-line lease accrual | | **62 385** | 62 917 | 37 934 |
| Property, plant and equipment | | **174** | 185 | 150 |
| Goodwill | | **119 314** | 234 136 | 223 477 |
| | | **4 842 254** | 4 956 904 | 4 856 229 |
| **Current assets** | | | | |
| Inventories | 14 | **45 649** | 56 171 | 28 232 |
| Trade and other receivables | 15 | **133 923** | 110 539 | 108 921 |
| Cash and cash equivalents | 16 | **91 280** | 182 422 | 94 948 |
| Straight-line lease accrual | | **6 096** | – | – |
| | | **276 948** | 349 132 | 232 101 |
| Assets held for sale | 17 | **220 068** | 250 708 | 521 819 |
| | | **497 016** | 599 840 | 753 920 |
| **Total assets** | | **5 339 270** | 5 556 744 | 5 610 149 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Stated capital | | **3 035 344** | 3 035 344 | 3 035 344 |
| Treasury capital | 18 | **(14 085)** | (6 966) | (14 085) |
| Foreign currency translation reserve | | **10 778** | 15 726 | 12 793 |
| Share-based payment reserve | | **612** | 44 | 327 |
| Retained income | | **106 052** | 284 936 | 268 046 |
| Shareholders' interest | | **3 138 701** | 3 329 084 | 3 302 425 |
| Non-controlling interest | 13 | **312 495** | 283 581 | 312 770 |
| **Total equity** | | **3 451 196** | 3 612 665 | 3 615 195 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Other financial liabilities | | **1 713 446** | 1 310 457 | 1 699 243 |
| Loan payable to non-controlling interest | | **27 659** | 24 683 | 25 881 |
| | | **1 741 105** | 1 335 140 | 1 725 124 |
| **Current liabilities** | | | | |
| Other financial liabilities | | **61 882** | 517 336 | 162 313 |
| Trade and other payables | 19 | **72 782** | 91 603 | 83 109 |
| Rental guarantee | 11 | **12 305** | – | 24 408 |
| | | **146 969** | 608 939 | 269 830 |
| **Total equity and liabilities** | | **5 339 270** | 5 556 744 | 5 610 149 |
| Net asset value per share (shares in issue at period-end) (cents) | | **931** | 984 | 979 |
| Tangible net asset value per share (shares in issue at period-end) (cents) | | **895** | 914 | 913 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Unaudited 6 months ended 30 November 2019 R'000 | Unaudited 6 months ended 30 November 2018 R'000 | Audited 12 months ended 31 May 2019 R'000 |
|---|---|---|---|
| Cash generated from operations | 124 407 | 161 628 | 397 245 |
| Finance income | 2 578 | 1 745 | 3 348 |
| Finance costs | (54 423) | (55 426) | (99 530) |
| Tax paid | (2 149) | (127) | (4 430) |
| **Net cash from operating activities** | 70 413 | 107 820 | 296 633 |
| Investment property acquired | – | – | (83 758) |
| Cost capitalised to investment property | (54 368) | (23 348) | (43 591) |
| Property, plant and equipment acquired | (59) | (40) | (42) |
| Proceeds on sale of investment property | 91 781 | 16 899 | 16 899 |
| **Net cash from investing activities** | 37 354 | (6 489) | (110 492) |
| Proceeds from the sale of interest to non-controlling shareholders | – | 175 515 | 183 020 |
| Acquisition of treasury shares | – | (6 966) | (14 085) |
| Local loans raised | 235 913 | 141 389 | 275 422 |
| Local loans repaid | (186 240) | (167 916) | (328 039) |
| Foreign loans repaid | (25 418) | (16 738) | (32 612) |
| Non-controlling interest loan advance | 2 188 | – | – |
| Dividends paid | (132 956) | (138 174) | (268 083) |
| **Net cash from financing activities** | (106 513) | (12 890) | (184 377) |
| Net movement in cash and cash equivalents | 1 253 | 88 441 | 1 764 |
| Cash and cash equivalents at beginning of period | 94 948 | 92 775 | 92 775 |
| Foreign exchange differences on cash balances | (4 921) | 1 206 | 409 |
| **Cash and cash equivalents at end of period** | 91 280 | 182 422 | 94 948 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Stated capital R'000 | Treasury capital R'000 | Foreign currency translation reserve 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 2018** | 3 035 344 | – | (7 769) | – | 260 933 | 3 288 508 | 27 307 | 3 315 815 |
| Acquisition of treasury shares | – | (6 966) | – | – | – | (6 966) | – | (6 966) |
| Sale of interest in TPF International | – | – | – | – | 24 401 | 24 401 | 249 283 | 273 684 |
| Profit for the period | – | – | – | – | 136 313 | 136 313 | 7 981 | 144 294 |
| Share-based payment | – | – | – | 44 | – | 44 | – | 44 |
| Foreign currency translation differences | – | – | 23 495 | – | – | 23 495 | 472 | 23 967 |
| Dividends paid | – | – | – | – | (136 711) | (136 711) | (1 463) | (138 174) |
| **Balance at 30 November 2018** | 3 035 344 | (6 966) | 15 726 | 44 | 284 936 | 3 329 084 | 283 580 | 3 612 664 |
| Acquisition of treasury shares | – | (7 119) | – | – | – | (7 119) | – | (7 119) |
| Sale of interest in TPF International additional adjustment | – | – | – | – | (2 650) | (2 650) | – | (2 650) |
| Profit for the period | – | – | – | – | 110 087 | 110 087 | 20 439 | 130 526 |
| Share-based payment | – | – | – | 283 | – | 283 | – | 283 |
| Foreign currency translation differences | – | – | (2 933) | – | – | (2 933) | 14 333 | 11 400 |
| Dividends paid | – | – | – | – | (124 327) | (124 327) | (5 582) | (129 909) |
| **Balance at 31 May 2019** | **3 035 344** | **(14 085)** | **12 793** | **327** | **268 046** | **3 302 425** | **312 770** | **3 615 195** |
| (Loss)/profit for the year | **–** | **–** | **–** | **–** | **(35 124)** | **(35 124)** | **11 130** | **(23 994)** |
| Share-based payment | **–** | **–** | **–** | **285** | **–** | **285** | **–** | **285** |
| Foreign currency translation differences | **–** | **–** | **(2 015)** | **–** | **–** | **(2 015)** | **(5 319)** | **(7 334)** |
| Dividends paid | **–** | **–** | **–** | **–** | **(126 870)** | **(126 870)** | **(6 086)** | **(132 956)** |
| **Balance at 30 November 2019** | **3 035 344** | **(14 085)** | **10 778** | **612** | **106 052** | **3 138 701** | **312 495** | **3 451 196** |

# RECONCILIATION OF EARNINGS AND HEADLINE EARNINGS

| | Unaudited 6 months ended 30 November 2019 R'000 Gross | Net | Unaudited 6 months ended 30 November 2018 R'000 Net | Audited 12 months ended 31 May 2019 R'000 Net |
|---|---|---|---|---|
| **(Loss)/profit attributable to ordinary equity holders** | | (35 124) | 136 313 | 246 400 |
| *Adjusted for:* | | | | |
| Change in fair value of investment properties net of non-controlling interests | 47 731 | 47 731 | (58 979) | (66 618) |
| Disposal of goodwill | 2 794 | 2 794 | 3 490 | 3 490 |
| Impairment of goodwill | 100 368 | 100 368 | – | 10 659 |
| Loss on disposal of investment property | 8 285 | 8 285 | 3 508 | 3 150 |
| **Headline earnings** | | 124 054 | 84 332 | 197 081 |
| Weighted average number of shares in issue | | 337 244 093 | 339 076 685 | 338 589 340 |
| Headline and diluted headline earnings per share (weighted average shares in issue) (cents) | | 36.8 | 24.9 | 58.2 |

# 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 | Unaudited 6 months ended 30 November 2019 R'000 Gross | Net | Unaudited 6 months ended 30 November 2018 R'000 Net | Audited 12 months ended 31 May 2019 R'000 Net |
|---|---|---|---|---|---|
| **Headline earnings** | | | **124 054** | 84 332 | 197 081 |
| *Adjusted for:* | | | | | |
| Straight-line lease accrual | | **(5 785)** | **(5 785)** | (1 679) | (2 858) |
| Equity-settled share-based payment reserve | | **285** | **285** | 44 | 327 |
| Change in fair value of interest rate derivatives | | **1 410** | **1 410** | (1 842) | 7 777 |
| Change in fair value of rental guarantee | 11 | **(11 803)** | **(11 803)** | – | – |
| **Distributable profit** | | | **108 161** | 80 855 | 202 327 |
| *Adjusted for:* | | | | | |
| Foreign exchange loss | 10 | **3 180** | **2 735** | 69 491 | 67 218 |
| Realised foreign exchange profit | | | **–** | (47 018) | (47 018) |
| Profit on the sale of inventory | | | **–** | – | (2 072) |
| TPF International set up costs | | | **–** | 4 685 | 4 685 |
| Konzum arrears | | | **–** | 8 056 | 8 056 |
| Amortisation of debt raising fees | | **908** | **908** | 879 | 1 776 |
| **Distributable earnings** | | | **111 804** | 116 948 | 234 972 |
| Development income lost | 20 | | **6 259** | 7 705 | 15 691 |
| **Distribution paid** | | | **118 063** | 124 653 | 250 663 |
| Distribution paid | | | **118 063** | 124 653 | 250 663 |
| Taxable dividend (declared on 28 February 2019) | | | **–** | 124 653 | 124 653 |
| Taxable dividend (declared on 30 August 2019) | | | **–** | – | 126 010 |
| Taxable dividend (declared on 28 February 2020) | | | **118 063** | – | – |
| Number of shares in issue at period-end (including treasury shares) | | | **339 549 647** | 339 549 647 | 339 549 647 |
| Number of shares in issue at period-end (excluding treasury shares) | | | **337 244 093** | 338 452 444 | 337 244 093 |
| Distribution per share | | | **35.0** | 36.8 | 74.2 |
| Six months ended 31 May | | | **–** | – | 37.4 |
| Six months ended 30 November | | | **35.0** | 36.8 | 36.8 |
| Distributable earnings per share (weighted average shares in issue) (cents) | | | **33.2** | 34.5 | 69.4 |

# SEGMENTAL ANALYSIS

| | South Africa | | | | | Croatia (including Mauritius) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Retail R'000 | Office R'000 | Industrial R'000 | Inventory R'000 | Total R'000 | Retail R'000 | Office R'000 | Industrial R'000 | Total R'000 | Grand total R'000 |
| **For the 6 months ended 30 November 2019** | | | | | | | | | | |
| Property assets* | 1 308 122 | 1 864 228 | 163 522 | 45 649 | 3 381 521 | 1 076 326 | 454 316 | 82 590 | 1 613 232 | 4 994 753 |
| Straight-line lease accrual | 35 504 | 30 331 | 2 217 | – | 68 052 | – | – | – | – | 68 052 |
| Segment liabilities** | 538 000 | 749 664 | 64 271 | 25 740 | 1 377 675 | 320 318 | 149 344 | 134 | 469 796 | 1 847 471 |
| Fair value adjustment to investment properties | 16 377 | (64 904) | 796 | – | (47 731) | – | – | – | – | (47 731) |
| Revenue (excluding straight-line lease adjustments) | 52 654 | 78 750 | 9 319 | 331 | 141 054 | 40 403 | 16 513 | 3 158 | 60 074 | 201 128 |
| Net operating costs | (7 103) | (4 766) | (958) | – | (12 827) | – | (526) | (92) | (618) | (13 445) |
| Segment profit | 45 551 | 73 984 | 8 361 | 331 | 128 227 | 40 403 | 15 987 | 3 066 | 59 456 | 187 683 |
| Straight-line lease adjustment | – | – | – | – | – | – | – | – | – | 5 785 |
| Non-property-related expenses | – | – | – | – | – | – | – | – | – | (14 600) |
| Other income | – | – | – | – | – | – | – | – | – | (8 285) |
| Disposal of goodwill | – | – | (2 794) | – | (2 794) | – | – | – | – | (2 794) |
| Impairment of goodwill | – | (1 206) | – | – | – | (99 162) | – | – | – | (100 368) |
| Foreign exchange loss | – | – | – | – | – | – | – | – | – | (3 180) |
| Net operating profit | – | – | – | – | – | – | – | – | – | 64 241 |
| **For the 6 months ended 30 November 2018** | | | | | | | | | | |
| Property assets* | 1 268 936 | 2 013 202 | 235 215 | 56 171 | 3 573 524 | 1 025 454 | 430 669 | – | 1 456 123 | 5 029 647 |
| Straight-line lease accrual | 32 306 | 27 130 | 3 481 | – | 62 917 | – | – | – | – | 62 917 |
| Segment liabilities** | 475 596 | 775 734 | 88 887 | 21 403 | 1 361 620 | 375 533 | 157 387 | – | 532 920 | 1 894 540 |
| Fair value adjustment to investment properties | 14 504 | 42 734 | 1 741 | – | 58 979 | – | – | – | – | 58 979 |
| Revenue (excluding straight-line lease adjustments) | 53 427 | 83 178 | 12 356 | – | 148 961 | 38 762 | 16 352 | – | 55 114 | 204 075 |
| Net operating costs | (6 940) | (5 188) | (1 754) | – | (13 882) | (8 056) | (520) | – | (8 576) | (22 458) |
| Segment profit | 46 487 | 77 990 | 10 602 | – | 135 079 | 30 706 | 15 832 | – | 46 538 | 181 617 |
| Straight-line lease adjustment | – | – | – | – | – | – | – | – | – | 1 679 |
| Non-property-related expenses | – | – | – | – | – | – | – | – | – | (15 802) |
| Other income | – | – | – | – | – | – | – | – | – | (3 508) |
| Disposal of goodwill | – | – | (3 490) | – | (3 490) | – | – | – | – | (3 490) |
| Foreign exchange loss | – | – | – | – | – | – | – | – | – | (24 120) |
| Net operating profit | – | – | – | – | – | – | – | – | – | 136 376 |

* *Refer to page 16, note 1.*
** *Refer to page 16, note 1.*

Tower has included inventory as a segment. The 30 November 2018 information has been restated to reflect this newly identified segment.

# SEGMENTAL ANALYSIS CONTINUED

| | South Africa | | | | | Croatia (including Mauritius) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Retail R'000 | Office R'000 | Industrial R'000 | Inventory R'000 | Total R'000 | Retail R'000 | Office R'000 | Industrial R'000 | Total R'000 | Grand total R'000 |
| **For the year ended 31 May 2019** | | | | | | | | | | |
| 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 loss | – | – | – | – | – | – | – | – | – | (22 204) |
| Net operating profit | – | – | – | – | – | – | – | – | – | 310 035 |

# NOTES

| | Unaudited 6 months ended 30 November 2019 R'000 | Unaudited 6 months ended 30 November 2018 R'000 | Audited 12 months ended 31 May 2019 R'000 |
|---|---|---|---|
| **1. Segmental analysis** | | | |
| Investment property | **4 660 381** | 4 659 666 | 4 594 668 |
| Straight-line lease accrual | **68 481** | 62 917 | 37 934 |
| Property, plant and equipment | **174** | 185 | 150 |
| Inventories | **45 649** | 56 171 | 28 232 |
| Investment property held for sale | **220 068** | 250 708 | 521 819 |
| * Property assets | **4 994 753** | 5 029 647 | 5 182 803 |
| ** Segment liabilities | **1 847 471** | 1 894 540 | 1 944 304 |
| Non-segment liabilities | | | |
| – Trade and other payables | **639** | 455 | 361 |
| – Loan to non-controlling interests | **27 659** | 24 683 | 25 881 |
| – Oryx guarantee | **12 305** | 24 401 | 24 408 |
| **Total liabilities** | **1 888 074** | 1 944 079 | 1 994 954 |
| **2. Related-party transactions included:** | | | |
| Property management fees paid to Spire Property Management Proprietary Limited | **9 551** | 9 443 | 21 742 |
| Relationship: Key management personnel services entities | | | |
| Share-based payments | **612** | 44 | 327 |
| Share options were offered to the directors and senior management of the company in the prior year. These options will vest in 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. No Napier Street units have been sold in the current period. | | | |
| **4. Net property operating expenses** | | | |
| Insurance | **1 210** | 1 041 | 2 297 |
| Letting commission | **3 266** | 3 387 | 6 680 |
| Municipal expenses | **52 913** | 52 724 | 107 868 |
| Other operating expenses | **5 542** | 13 179 | 25 514 |
| Property management fees | **6 798** | 7 480 | 14 269 |
| Repairs and maintenance | **4 326** | 3 792 | 7 960 |
| Security and cleaning | **10 377** | 10 051 | 20 839 |
| Gross property expenses | **84 432** | 91 654 | 185 427 |
| Operating expense recoveries | **(70 987)** | (69 196) | (140 909) |
| Net property operating expenses | **13 445** | 22 458 | 44 518 |

Operating expenses were lower because included in the prior year other operating expenses is the write-off of the pre-9 April 2017 outstanding Konzum debt of R8.1 million and as a result of the reversal of the over-provision of the 31 Beacon Road electricity provision (R4 million).

# NOTES CONTINUED

| | Unaudited 6 months ended 30 November 2019 R'000 | Unaudited 6 months ended 30 November 2018 R'000 | Audited 12 months ended 31 May 2019 R'000 |
|---|---|---|---|
| **5. Property ratios** | | | |
| Net property expense ratio | **16%** | 19% | 19% |
| Gross property expense ratio | **31%** | 34% | 33% |
| Tenant retention ratio | **96%** | 96% | 93% |
| **6. Administration and corporate costs** | | | |
| Salaries | **8 885** | 5 477 | 11 397 |
| Professional service fees | **1 620** | 6 753 | 7 652 |
| Other | **4 095** | 3 572 | 5 599 |
| Total | **14 600** | 15 802 | 24 648 |
| Administrative cost-to-income ratio | **5%** | 6% | 4% |

7. Loss on the disposal of investment property in the current year relates to the sales of Medscheme and Meadowbrook Distribution Centre, and in the prior year it relates to the sales of Nampak Industrial and the Pick n Pay Distribution Centre.

8. Goodwill that arose from the internalisation of Tower Asset Managers Proprietary Limited (TAM) of R2.8 million has been written off during the year on the disposal of two properties, namely Medscheme and Meadowbrook.

9. Goodwill is tested at each reporting date for impairment. The goodwill in Sub Dubrovnik arose mainly as a result of the 12-year headlease entered into with Agrokor. The Croatian valuers do not value the headlease. The difference between the headlease rental and the base rental has reduced resulting in the impairment of the goodwill. The recoverable amount of the relevant cash-generating unit was based on value in use using a discount rate of 9.8%, and amounts to R1.1 billion.

   The TAM goodwill has been impaired by R1.2 million due to a reduction in the value of certain properties in the portfolio.

10. The foreign exchange loss is as a result of the forex movement on the Croatian bank loans and shareholder loans from euro to kuna.

11. Oryx paid Tower €1.6 million (R24 million) for Tower to guarantee 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 ended 31 May 2019, Tower had to reimburse Oryx R0.3 million of the guarantee due to the Vukovarska rental reduction. Tower has reduced the guarantee to maximum potential rental shortfall possible for the six months ended 31 May 2020 by R11.8 million.

12. The tax expense in the current year is a result of tax paid in Croatia and Mautitius. The tax in Croatia arose due to taxable foreign exchange gains made between the euro and the kuna and the tax deductible shareholder interest rate being reduced by the Croatian tax authorities.

13. 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.

14. 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.

15. Trade and other receivables has increased predominantly as a result of prepayments made in respect of the Old Cape Quarter development (R16.2 million) at period-end.

# NOTES CONTINUED

**16.** Cash and cash equivalents have reduced from the corresponding period as Yazaki Block A was acquired for cash (R100 million) in December 2018.

**17.** Clearview Motor Village has been classified as held for sale at year-end. De Ville Centre and Evagold Shopping Centre were reclassified from investment property held for sale to investment property during the year due to management taking these properties off the market.

**18.** A 100% held subsidiary of Tower acquired 2.3 million Tower shares during the 2019 financial year. The shares were acquired at an average price of R6.09 per share.

**19.** Trade and other payables have decreased in the current year as a result of the VAT payable on the sale of the Napier Street residential units in the prior period and the accrual of the Napier Street development costs in the prior period, as well as the reduction of municipal provisions in the current period.

**20.** Development income lost relates to untenanted properties under development during the year.

**21. Subsequent events**
Block B of the industrial property Yazaki is expected to transfer shortly for €3.4 million (R54 million) and the purchase price will be settled through debt funding.

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