

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”)



TOWER'S EXPOSURE TO AGROKOR THROUGH KONZUM

Shareholders are referred to Tower's acquisition of four retail properties from Konzum d.o.o (“Konzum”), Croatia's largest supermarket retailer in June 2016.

The four properties were acquired for EUR 66.4 million. Two of the properties are multi-tenanted shopping centres with a Konzum Supermarket as the anchor tenant (combined acquisition cost of EUR 44.4 million) and two are Konzum Super Stores (combined acquisition cost of EUR 22 million). Three of the properties are located in Croatia's capital city, Zagreb, with the other being located in Dubrovnik, the tourist capital of the country. The total gross lettable area of the properties is 30 354 m².

The properties, which are located in prime locations, were acquired on market related terms. The properties were acquired by means of sale and lease back agreements where a combination of head leases and property management agreements were signed over each property to limit Tower's exposure to multiple, smaller tenants. Under the head leases and property management agreements, Konzum guarantees the contracted monthly rental from the Konzum stores and from the line shops for a twelve year period.

Konzum is listed on the Croatian Stock Exchange and has over 700 stores in the country. Konzum's latest reported turnover and EBITDA is EUR 1.9 billion and EUR 0.2 billion respectively.

Konzum is predominantly owned by Agrokor d.d (“Agrokor”). Agrokor is a privately owned company which owns retail operations as well as food production and other businesses, and is the largest company operating in the Balkan region, employing over 100 000 people in the Balkan region and with latest reported turnover and EBITDA of over EUR 6.6 billion and EUR 0.5 billion respectively. Agrokor is a guarantor of Konzum's head lease obligations to Tower.

Agrokor's growth over the past number of years was achieved through, predominantly, mergers and acquisitions, which were largely funded through debt instruments, including “payment in kind” notes. As a result, gearing and interest charges grew significantly. High gearing, together with underperforming retail operations, particularly by its recently acquired Slovenian retail business, Mercator, which comprises approximately 40% of Agrokor's revenues, limited further access to capital markets. This compounded to a sharp rise in Agrokor's bond yields in January 2017 when Agrokor announced that a refinancing deal had fallen through. Agrokor's credit rating was severely downgraded by various international ratings agencies due to concern over rising refinancing risks related to debt which matures in 2018. Some companies within the group, including Konzum, had their bank accounts frozen due to unpaid accounts payable.

The Croatian government recognises Agrokor's strategic importance to Croatia, where it has over 30 000 employees and accounts for 16% of Croatia's gross domestic product. It initially allowed Agrokor's management to deal with its own debt restructuring whilst monitoring the situation closely. However on 6 April 2017 the government passed a new law, commonly known as “Lex Agrokor”, empowering the government to step into a managerial position to renegotiate Agrokor's and its subsidiaries' position with creditors and restructuring of its business. Based on Lex Agrokor, and at the request of the company, on 10 April 2017 the Commercial Court in Zagreb issued a decision on extraordinary administration of Agrokor and all its subsidiaries and affiliated companies in Croatia and confirmed Mr. Ante Ramljak's appointment by the government as administrator. With effect from 10 April 2017, the initiation of all litigation, enforcement and administrative procedures against Agrokor and its subsidiaries in Croatia was suspended, allowing their bank accounts to be unfrozen. It is expected that profitable going concerns will be sold off to reduce Agrokor's debt over time. The restructuring

under Lex Agrokor is expected to take between 9 and 15 months and independent consultants have been appointed in this regard. Tower, together with the other creditors is playing a role in the restructuring.

Tower's properties are strategic to Konzum and are performing well. Trading densities in the four stores, during 2016 (Croatia's record tourism year) were as follows:

Property	Vukovarska	Velika Gorica	Sub City, Dubrovnik	Meridijan 16
EUR per m ² per annum	7 344	3 288	3 516	3 720
ZAR per m ² per annum	103 548	46 356	49 572	52 452

Tower is actively involved in the management of these properties and interaction with tenants through its staff in Croatia. Tower is confident that these stores will continue to perform well from a trading perspective and will remain highly desirable properties for Konzum and other retailers. Tower is well networked and actively engaged with other large retailers in the region.

Konzum accounts for 6% of Tower's total net income and 4.5% of Tower's total GLA. The head leases (i.e. the entire Konzum portfolio of properties, including the line shops), account for 9% of Tower's total net income and 9.8% of Tower's total GLA.

Mr. Ramljak, as administrator, will independently manage the business operations of Agrokor and exercise Agrokor's shareholder rights with respect to its subsidiaries, including Konzum. Tower has met with and is co-operating with Mr. Ramljak to ensure its centres continue to perform well through the restructuring period. Mr. Ramljak has confirmed the strategic importance of Tower's properties to Konzum.

The Lex Agrokor law prescribes that Agrokor and its subsidiaries must pay their full, on-going obligations, as per their commitments (including lease agreements) and it is therefore expected that Konzum's future rental obligations as set out in the lease agreements will be settled. Amounts outstanding at the adoption of the Lex Agrokor law on 10 April 2017 including arrear rentals are to be evaluated by Mr. Ramljak and his creditor committee. In a meeting held with Tower, Mr Ramljak advised that it was his intention to recommend that rental arrears be settled in full. Tower has, since acquisition of the properties, pro-actively managed Agrokor and Konzum and, prior to January 2017 neither company had defaulted on their lease obligations. As at 9 April 2017, Tower was owed HRK 7.63 million (ZAR 14.41 million) by Konzum under the head leases, of which HRK 1.29 million (ZAR2.43 million) relating to the pro rata April rental (10 April 2017 to 30 April 2017) was settled on 24 April 2017. The balance of the arrears amounts to HRK 6.34 million (ZAR11.8 million) or approximately three months' rental. All creditors have until 10 June 2017 to submit their arrears claims. A decision on the timing and amount of the settlement of the arrears will be announced once the restructuring plan is in place. This is expected to be in approximately six to twelve months' time.

Tower's Croatian portfolio continues to perform very well. Tower is confident that Agrokor's new management will not impact on Tower's strong relationship with its anchor tenant, Konzum, given the excellent trade produced from these stores.

As set out in Tower's unaudited condensed consolidated interim results for the six months ended 30 November 2016, Tower provided guidance that it anticipated that its distribution for the year ending 31 May 2017 would be between 80 cents per share and 82 cents per share. Approximately 3.5 cents of this distribution guidance relates to the arrears rental owed by Konzum. This guidance is the responsibility of the directors of Tower and has not been reviewed and reported on by Tower's auditors

2 May 2017

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