

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")

Unaudited condensed
consolidated interim results
for the six months ended 30 November 2017

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 47 commercial, industrial and retail properties valued at R5.1 billion, located in South Africa (70% by value) and Croatia (30% by value). In South Africa, the properties are split by value as to, Gauteng 29%, the Western Cape 31% and KwaZulu-Natal 10%. The company aims to add value through active property asset management with a number of refurbishment projects under way. Tower continues to focus its efforts on reducing the operating costs within its portfolio through 'greening' its key properties and has achieved success with a net operating cost ratio of 13%.

The investment strategy of the company is firstly to improve the quality of earnings from its current portfolio through asset management initiatives and secondly, to expand its portfolio by targeting well located properties with strong cash flows with upside potential and to ensure a diversified sectoral and geographic spread of properties. The company will dispose of any property which it believes has reached its full growth potential - provided that a fair price is received. The company currently has a sectoral spread by value of 48% retail, 45% office and 7% industrial.

SUMMARY OF THE SIX MONTH PERIOD

The past six months have seen the fund focusing on (and mostly resolving or concluding) the following issues:

- Clarity around the tenancy of Konzum/Agrokor (concluded successfully - see below);
- Ringfencing of Tower's Croatian properties in a new vehicle to be known as Tower International (ongoing - expected to be completed in Q2 2018);
- Cape Quarter developments (ongoing - expected realisation of profits beginning from Q3 2018);
- Letting of large vacancies (success achieved with Meadowbrook - now fully let - and others); and
- Greening (ongoing - solar to be rolled out at the majority of the portfolio).

FINANCIAL PERFORMANCE

The Tower directors are pleased to declare a distribution of 40.70120 cents per share for the period ended 30 November 2017 which translates into 6% growth on the corresponding period. This is within the range of guidance provided for the financial year ending 31 May 2018. The number of shares in issue remained unchanged during the period.

The South African core portfolio is performing well. Certain key properties in the portfolio have performed above market norms. Examples of these are increases in property net income growth at Cape Quarter Square (10%) and De Ville (6%) against the prior corresponding period. The Johannesburg portfolio is certainly tougher to grow than the Cape Town portfolio - however, there have been some successes achieved. This includes the letting of the 14 000 m2 Meadowbrook logistics property to Globeflight, on a 10 year lease, from 1 February 2018.

The Croatian portfolio growth is restricted by the region's low inflation rate. It is for this reason, amongst others, that Tower has embarked on ringfencing its Croatian properties through a separate offshore company (proposed to be named "Tower International"). The key focus of this company will be to leverage Tower's existing relationships in Croatia and surrounding countries to grow its European exposure. Tower International will raise its own capital to fund new, quality, yield enhancing acquisitions, which will benefit Tower's distributable earnings. Tower's shareholding in Tower International will further continue to provide Tower with a hedge against exposure to one market. Further updates on this process will be announced when appropriate.

The South African market remains a challenging operating environment. Despite these challenges, Tower is pleased to report distributable earnings for the period totalled R135 million and the

distribution paid in the period totalled R138 million. The difference between the distributable earnings and the distribution paid represents R3 million of sustainable rental income forgone during the course of the Napier Street Development. This forgone rental is sustainable as it will once again be earned from retail tenants on completion of the Napier Street Development. Revenue decreased by 5% to R212 million as a result of the sale of properties and the income lost from Napier Street while under development. Operating profit decreased by 48% to R150 million mainly as a result of an unrealised foreign exchange loss during the period which relates to restating Tower's euro-denominated loans at period-end (the ZAR/Euro exchange rate weakened from May 2017 to November 2017). This unrealised loss does not impact the fund's distributable earnings.

AGROKOR UPDATE

Shareholders are referred to the announcements released on SENS on 2 May 2017, 26 June 2017, 25 July 2017 and 22 January 2018 regarding Agrokor d.d. ("Agrokor"), the guarantor and parent company of Konzum d.o.o. ("Konzum"), a major Croatian retailer and headlease tenant in respect of four retail properties acquired by Tower in Croatia in June 2016 (the "Konzum portfolio") (the "Agrokor SENS announcements"). Tower has held numerous meetings with the Commissioner of Agrokor and his team in order to ensure Tower's rights under Lex Agrokor (the common term referring to the extraordinary administration procedure instituted by the Croatian Government to manage the rescue of Agrokor as detailed in the Agrokor SENS announcements) are protected. Tower is pleased to advise shareholders that Agrokor has committed to the payment of contracted rentals in the Tower portfolio and has further confirmed that it is satisfied with the level of rental in each property, with the exception of the Vukovarska property, where Tower and Agrokor have agreed to a rental reduction of 20% (representing a reduction in rental of EUR197 278 per year, or 3% of Tower's total rental from its Croatian portfolio) per year.

Tower is further pleased to advise shareholders that Tower has signed an agreement with Spar Hrvatska d.o.o. ("Spar") whereby Spar has agreed and is obliged to move into the Konzum premises should Konzum/Agrokor default on their rental and Tower successfully evict them as a tenant. The rental terms are the same as those currently applying to Konzum and the period of the lease is to be 10 years, commencing on the date of the termination of the Konzum lease agreement and their successful eviction. The obligation under the agreement lasts until 2021 and can be extended at the option of Spar. This agreement with Spar underlines the desirability of Tower's Croatian retail properties and the sustainability of the current rental levels, and provides Tower with protection in the event of any further default by Konzum.

Tower remains in discussions with Agrokor over its rental arrears for the period prior to 9 April 2017 of HRK5.2 million (R11.16 million). Shareholders are reminded that Tower did not and has not included any of this amount in its recent distributions.

PROGRESS ON ANTICIPATED PROFITS

As announced in the November 2016 interim results, Tower anticipates generating capital profits of circa R240 million from certain asset management initiatives in the portfolio in the next six to 36 months. Subject to their tax treatment, it is the intention that these proceeds will be reinvested in the company to maximise returns. These capital profits arise from the refurbishment of 32 Napier Street and the Piazza at Cape Quarter, sales of non-core properties and other initiatives as announced on SENS on 11 January 2017. The first phase of the Cape Quarter residential scheme at 32 Napier Street is on schedule, with completion expected by July 2018. Half of the value of the new residential units have been sold with the other half now on the market for sale. 140 additional parking bays are being added to 32 Napier Street with 30 already in use, which will serve to satisfy the high demand in the area. A further 54 residential apartments are to be developed at Cape Quarter Piazza, with construction expected to commence in the second quarter of 2018.

All proceeds will be used to reduce Tower's debt facilities and may be used to acquire new assets or to repurchase Tower shares in the future.

SALE OF NON-CORE PROPERTIES

Tower has had some success in selling certain 'non-core' properties. The following properties have been sold or are in the sale process:

- Shoprite Brits - Sold for R91 million (book value of R90 million);
- 19 Section Street - Sold for R26.7 million (book value of R25.1 million);
- Pick n Pay Distribution Centre - In the sale process (purchaser must finalise its guarantees). Selling price of R96 million (book value of R94 million);
- Nampak - In the sale process (final due diligence) - selling price of R27.5 million (book value of R27.5 million).

The proceeds of the sales above will be used to reduce Tower's debt facilities and may be used to acquire new assets or to repurchase Tower shares in the future. The combined sales proceeds are similar to the book value which validates the book values of the portfolio.

CROATIAN PORTFOLIO AND FUTURE OFFSHORE PLANS

Tower's portfolio in Croatia is now valued at €96 million. Tower's office property, VMD, continues to perform well. Tower's four retail properties are performing well, despite the problems faced by the parent company (Agrokor) of the anchor tenant, Konzum. The recent commitment by Spar to move into the premises at current rentals is extremely encouraging. Tower is in discussions to acquire an additional property from its partners, VMD Group. The property and any additional properties acquired in the region will be undertaken through Tower International. It is the intention that Tower International, with its own management team, will give the group the capacity to raise external equity capital into Tower International which will look to continue to grow its profile in the Eastern European region, enhancing Tower's long-term returns.

OPERATING PERFORMANCE

There were certain unexpected vacancies in the period resulting in portfolio vacancies increasing to 9.13% at end November 2017. These vacancies are expected to reduce to 6.22% with the conclusion of certain large leases in January 2018. South African vacancies amount to 10.6% at end November 2017, but are expected to reduce to 7.2% by the time of the release of this report. The South African vacancies, at end November 2017, are broken down into 4.95% office, 1.32% retail and 2.86% industrial. At the half year there were 6.8% vacancies in the Croatian portfolio line shops, which is expected to drop to 0.6% by Q2 2018 due to leasing activity. However, as the line shop rentals are guaranteed by the headleases on the properties, contractual vacancies on the Croatian portfolio are counted as zero.

Above average positive rental reversions have been achieved in the period with retail recorded at 11.57% and offices at 9.68% - materially above inflation. Industrial is the laggard in this period at -0.57%.

Tower does an excellent job in retaining its tenants, as 92.8% of our tenants by GLA, whose leases expired in the period, opted to renew and continue their partnerships with Tower. We are very pleased with this statistic as it proves that we are doing something right on the ground.

Tower closely monitors expenses and refuses to allow "bloat". Tower innovatively utilises greening opportunities in conjunction with skilled partners to reduce expenses, with the result that expense ratios are a relatively lean 13% (net) and 26% (gross) of total income.

The weighted average lease expiry of the fund is 3.7 years with the South African portfolio at 2.8 years.

BORROWINGS

	Total debt	ZAR debt	Euro debt
Loan facilities (R'000)	1 982 815	664 316	1 318 499
Weighted cost of funding (%)	5.62	9.21	3.82
Debt expiry profile (years)	3.3	0.7*	4.6
Percentage hedged (%)	73	75	71
Hedging expiry profile (years)	3.2	2.8	3.4

*Renewal terms under negotiation.

Based on investment properties valued at R5.1 billion, the loan to value (LTV) ratio of the group was 39% at the end of the period. The LTV is calculated as other financial liabilities less cash, divided by investment property.

CHANGES TO THE BOARD

Bruce Kerswill and Keith Craddock did not stand for re-election at the AGM which took place on 17 October 2017.

PROSPECTS

A number of short-term initiatives should positively impact Tower's returns and strengthen the financial position of the company. These include:

- the successful resolution of the Agrokor/Konzum tenancy in Tower's Croatian properties;
- the conclusion of the Spar lease over the same properties detailed above;
- the ringfencing of Tower's Croatian properties into Tower International and raising additional

external equity capital to fund Tower International; and
- the completion of the Piazza and Napier Street Developments at Cape Quarter.

The successful conclusion of the last two of the four projects detailed above will result in material cash flow injection into Tower which will strengthen the company's financial position. The Croatian net property income is expected to remain flat for the year ahead. South African net property income is anticipated to grow between 4% and 6%. This should translate to distribution growth in the fund of 6% to 8% for the year ending 31 May 2018, which is in line with guidance previously provided. This assumes that current trading conditions remain as is and that there are no major tenant failures. This forecast has not been reviewed or reported on by the fund's auditors.

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial results ("the results") for the six months ended 30 November 2017 have been prepared in accordance with and containing the information required by IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the information required by the JSE Listings Requirements and in the manner required by the South African Companies Act, 71 of 2008. The accounting policies and methods of computation applied in the preparation of the results are consistent with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the audited annual financial statements for the year ended 31 May 2017.

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 for the six months ended 30 November 2017. The directors are not aware of any matters or circumstances arising subsequent to 30 November 2017 that require any additional disclosure or adjustment to the results, other than as disclosed in this announcement. These results have not been reviewed or reported on by Tower's auditors.

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 the 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 7.53%, expiring on 30 September 2020 and the company has entered into the following Euro-denominated swaps:

	Notional amount (Euro '000)
Contract 1: 4.10% maturing 3 August 2020	7 000
Contract 2: 3.70% maturing 18 March 2021	2 540
Contract 3: 3.60% maturing 21 June 2021	30 514
Contract 4: 3.75% maturing 13 January 2022	13 199

ADJUSTMENTS TO THE STATEMENT OF CASH FLOWS

In the statement of cash flows, the investment property acquired on 31 May 2017 has been reduced by R641 865 000 (30 November 2016: R521 267 514) and the Acquisition of Sub Dubrovnik has been reduced by R227 917 000 to the extent that it has been financed through loans. "Local loans raised" were reduced on 31 May 2017 by R51 949 000 (30 November 2016: R954 313) and "Foreign loans raised" were reduced on 31 May 2017 by R817 833 000 (30 November 2016: R520 313 201).

Proceeds on sale of investment property have been reduced by R104 600 000 at 31 May 2017 (30 November 2016: R4 600 000) to the extent that the proceeds have been paid directly to the bank for the repayment of loans. "Local loans raised" were reduced by the same amount.

These transactions have no cash flow effect and were removed from the statement of cash flows in correction. This restatement does not impact the other statements presented.

DIVIDEND DISTRIBUTION

Notice is hereby given that a gross cash dividend of 40.70120 cents per share (dividend number 9) has been declared from income reserves in respect of the six months ended 30 November 2017. In accordance with Tower's status as a REIT, shareholders are advised that the distribution meets the requirements of a qualifying distribution for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (Income Tax Act). The distribution on the shares will be deemed to be a dividend for South African tax purposes in terms of section 25BB of the Income Tax Act.

Accordingly, the dividend received by South African tax residents must be included in their gross income and will not be exempt in terms of the ordinary dividend exemption in section 10(1)(k)(i) of the Income Tax Act as a result of paragraph (aa) of the proviso thereto which provides that dividends distributed by a REIT are not exempt from income tax.

The dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their Central Securities Depository Participant (CSDP) or broker, as the case may be, in respect of uncertificated shares or the company, in respect of certificated shares:

- a. a declaration that the dividends are exempt from dividend tax; and
- b. a written undertaking to inform the CSDP or broker, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

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

Dividends received by non-resident shareholders will be exempt from income tax in terms of section 10(1)(k)(i) of the Income Tax Act, but will be subject to dividend withholding tax. Dividend withholding tax is levied at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder.

Should dividend withholding tax be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 32.56096 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares or the company, in respect of certificated shares:

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

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

The dividend is payable to Tower shareholders in accordance with the timetable set out below:

	2018
Last day to trade cum dividend distribution:	Tuesday, 27 February
Shares trade ex dividend distribution:	Wednesday, 28 February
Record date:	Friday, 2 March
Payment date:	Monday, 5 March

Share certificates may not be dematerialised between Wednesday, 28 February 2018 and Friday,

2 March 2018, both days inclusive.

Payment of the dividend will be made to shareholders on Monday, 5 March 2018. In respect of dematerialised shareholders, the dividend will be transferred to the CSDP/broker accounts on Monday, 5 March 2018. Certificated shareholders' dividend payments will be deposited on or about Monday, 5 March 2018.

Shares in issue at the date of declaration: 339 549 647.
Tower's income tax reference number: 9607/564/16/9.

By order of the Board

Tower Property Fund Limited
13 February 2018

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)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Unaudited Six months ended 30 November 2017 R'000	Unaudited Six months ended 30 November 2016 R'000	Audited 12 months ended 31 May 2017 R'000
REVENUE			
Contractual rental income	209 824	216 508	437 041
Straight-line lease accrual	2 400	6 208	10 300
	212 224	222 716	447 341
Net property operating expenses	3 (6 343)	(16 631)	(34 259)
NET PROPERTY INCOME	205 881	206 085	413 082
Administration expenses	5 (9 426)	(9 110)	(16 394)
Other income/(expenses)	6 (492)	809	533
Impairment of goodwill	7 (2 871)	(3 006)	(3 006)
Foreign exchange gain/(loss)	8 (43 415)	99 759	63 874
NET OPERATING PROFIT	149 677	294 537	458 089
Fair value adjustments on investment properties	89 709	84 072	123 993
Fair value adjustments on interest rate derivatives	7 420	(7 721)	(12 449)
PROFIT FROM OPERATIONS	246 806	370 888	569 633
Finance income	2 707	1 538	3 340
Finance costs	(62 336)	(66 158)	(127 899)
Indirect capital raising expenses	-	(557)	(557)
PROFIT BEFORE TAXATION	187 177	305 711	444 517
Taxation	-	-	-
PROFIT FOR THE PERIOD	187 177	305 711	444 517
OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT AND LOSS			
Exchange difference on foreign operations	28 283	(115 629)	(54 119)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	215 460	190 082	390 398
Profit for the period attributable to: Equity shareholders of Tower Property Fund Limited	186 919	305 142	437 103
Non-controlling interest	9 258	569	7 414

TOTAL COMPREHENSIVE INCOME		187 177	305 711	444 517
ATTRIBUTABLE TO:				
Equity shareholders of Tower Property Fund Limited		213 102	192 726	385 999
Non-controlling interest	9	2 358	(2 644)	4 399
		215 460	190 082	390 398
Basic and diluted earnings per share (weighted average shares in issue) (cents)		55.0	91.3	129.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated Capital R'000	Treasury Capital R'000	Foreign Currency Reserve (FPCR) R'000	Retained Income R'000	Shareholders' interest R'000	Non-controlling Interest R'000	Total R'000
BALANCE AT 31 MAY 2016	2 239 098	(2 854)	41 949	89 390	2 367 583	20 228	2 387 811
Shares issued during the period	812 895	-	-	-	812 895	-	812 895
Share issue expenses	(15 936)	-	-	-	(15 936)	-	(15 936)
Antecedent dividends	3 923	-	-	-	3 923	-	3 923
Acquisition of treasury shares	-	(1 782)	-	-	(1 782)	-	(1 782)
Profit for the year	-	-	-	305 142	305 142	569	305 711
Foreign currency translation differences	-	-	(112 416)	-	(112 416)	(3 213)	(115 629)
Dividends paid	-	-	-	(159 068)	(159 068)	-	(159 068)
BALANCE AT 30 NOVEMBER 2016	3 039 980	(4 636)	(70 467)	235 464	3 200 341	17 584	3 217 925
Profit for the year	-	-	-	131 961	131 961	6 845	138 806
Foreign currency translation differences	-	-	61 312	-	61 312	198	61 510
Dividends paid	-	-	-	(130 394)	(130 394)	-	(130 394)
BALANCE AT 31 MAY 2017	3 039 980	(4 636)	(9 155)	237 031	3 263 220	24 627	3 287 847
Treasury shares cancelled	(4 636)	4 636	-	-	-	-	-
Profit for the year	-	-	-	186 919	186 919	258	187 177
Foreign currency translation differences	-	-	26 183	-	26 183	2 100	28 283
Dividends paid	-	-	-	(131 326)	(131 326)	-	(131 326)
BALANCE AT 30 NOVEMBER 2017	3 035 344	-	17 028	292 624	3 344 996	26 985	3 371 981

SEGMENTAL ANALYSIS

	South Africa			Total
	Retail	Office	Industrial	
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2017 (R'000)				
Property assets*	1 337 211	1 849 942	381 740	3 568 893
Segment liabilities**	543 606	819 147	158 028	1 520 781
Additions to goodwill	-	-	-	-
Fair value adjustment to investment properties	65 320	39 577	(15 188)	89 709
Straight-line lease accrual	31 982	26 801	846	59 629
Revenue (excluding straight-line lease adjustments)	57 455	81 984	15 970	155 409
Net operating costs	568	(4 864)	(1 550)	(5 846)
SEGMENT PROFIT	58 023	77 120	14 420	149 563
Straight-line lease adjustment	-	-	-	-
Non-property related expenses	-	-	-	-
Other income	-	-	-	-
Impairment of goodwill	(2 607)	-	(264)	(2 871)
Foreign exchange gain/(loss)	-	-	-	-
Net operating profit	-	-	-	-
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2016 (R'000)				
Property assets*	1 324 214	1 864 436	410 659	3 599 309
Segment liabilities**	640 383	792 158	174 823	1 607 364
Additions to goodwill	36 040	56 057	11 824	103 921
Fair value adjustment to investment properties	19 217	56 937	7 918	84 072
Straight-line lease accrual	27 909	28 067	2 914	58 890
Revenue (excluding straight-line lease adjustments)	56 318	90 754	19 272	166 344
Net operating costs	(6 846)	(7 975)	(1 310)	(16 131)
SEGMENT PROFIT	49 472	82 779	17 962	150 213

Straight-line lease adjustment				
Non-property related expenses				
Other income				
Impairment of goodwill	-	(3 006)	-	(3 006)
Foreign exchange gain/(loss)				
Net operating profit				

FOR THE YEAR ENDED 31 MAY 2017 (R'000)

Property assets*	1 322 646	1 933 584	351 323	3 607 553
Segment liabilities**	591 857	830 627	155 823	1 578 307

Additions to goodwill	36 040	56 057	11 824	103 921
Fair value adjustment to investment properties	33 542	26 206	(40 798)	18 950
Straight-line lease accrual	26 564	26 305	1 636	54 505

Revenue (excluding straight-line lease adjustments)	113 256	183 932	39 657	336 845
Net operating costs	(19 097)	(12 363)	(1 842)	(33 302)
SEGMENT PROFIT	94 159	171 569	37 815	303 543

Straight-line lease adjustment				
Non-property related expenses				
Other income				
Impairment of goodwill	-	(3 006)	-	(3 006)
Foreign exchange gain/(loss)				
Net operating profit				

	Croatia			Total	Grand Total
	Retail	Office	Industrial		
FOR THE SIX MONTHS ENDED 30 NOVEMBER 2017 (R'000)					
Property assets*	1 111 173	449 749	-	1 560 922	5 129 815
Segment liabilities**	456 120	176 473	-	632 593	2 153 374
Additions to goodwill	-	-	-	-	-
Fair value adjustment to investment properties	-	-	-	-	89 709
Straight-line lease accrual	-	-	-	-	59 629
Revenue (excluding straight-line lease adjustments)	38 707	15 708	-	54 415	209 824
Net operating costs	-	(497)	-	(497)	(6 343)
SEGMENT PROFIT	38 707	15 211	-	53 918	203 481
Straight-line lease adjustment					2 400
Non-property related expenses					(9 426)
Other income					(492)
Impairment of goodwill	-	-	-	-	(2 871)
Foreign exchange gain/(loss)					(43 415)
Net operating profit					149 677

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2016 (R'000)

Property assets*	916 829	381 508	-	1 298 337	4 897 646
Segment liabilities**	369 458	170 293	-	539 751	2 147 115

Additions to goodwill	130 397	9 782	-	140 179	244 100
Fair value adjustment to investment properties	-	-	-	-	84 072
Straight-line lease accrual	-	-	-	-	58 890

Revenue (excluding straight-line lease adjustments)	34 315	15 849	-	50 164	216 508
Net operating costs	-	(500)	-	(500)	(16 631)
SEGMENT PROFIT	34 315	15 349	-	49 664	199 877

Straight-line lease adjustment					6 208
Non-property related expenses					(9 110)
Other income					809

Impairment of goodwill	-	-	-	-	(3 006)
Foreign exchange gain/(loss)					99 759
Net operating profit					294 537

FOR THE YEAR ENDED 31 MAY 2017 (R'000)

Property assets*	975 928	397 537	-	1 373 465	4 981 018
Segment liabilities**	343 829	163 390	-	507 219	2 085 526

Additions to goodwill	130 397	9 782	-	140 179	244 100
Fair value adjustment to investment properties	81 847	23 196	-	105 043	123 993
Straight-line lease accrual	-	-	-	-	54 505

Revenue (excluding straight-line lease adjustments)	69 882	30 314	-	100 196	437 041
Net operating costs	-	(957)	-	(957)	(34 259)
SEGMENT PROFIT	69 882	29 357	-	99 239	402 782
Straight-line lease adjustment					10 300
Non-property related expenses					(16 394)
Other income					533
Impairment of goodwill	-	-	-	-	(3 006)
Foreign exchange gain/(loss)					63 874
Net operating profit					458 089

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 November 2017 R'000	Unaudited Six months ended 30 November 2016 R'000	Audited 12 months ended 31 May 2017 R'000
Cash generated from operations	176 173	168 577	348 421
Finance income	2 707	1 538	3 340
Finance costs	(61 136)	(64 830)	(127 035)
NET CASH FROM OPERATING ACTIVITIES	117 744	105 285	224 726
Cost capitalised to investment property	(18 094)	-	(56 522)
Property, plant and equipment acquired	(65)	(149)	(255)
Acquisition of management company	-	(72 500)	(67 859)
Proceeds on sale of investment property	140	200	11 200
NET CASH FROM INVESTING ACTIVITIES	(18 019)	(72 449)	(113 436)
Proceeds from issue of shares	-	740 395	812 895
Capital raising expenses	-	(15 936)	(15 936)
Acquisition of treasury shares	-	(1 782)	(1 782)
Local loans raised	138 150	140 885	153 930
Local loans repaid	12 (77 744)	(765 336)	(745 572)
Foreign loans repaid	(17 052)	-	(25 436)
Non-controlling interest loan repayment	(166)	-	(6 551)
Dividends paid	(131 326)	(159 068)	(285 539)
NET CASH FROM FINANCING ACTIVITIES	(88 138)	(60 842)	(113 991)
Net movement in cash and cash equivalents	11 587	(28 006)	(2 701)
Cash and cash equivalents at beginning of period	58 945	63 620	63 620
Foreign exchange differences on cash balances	2 374	-	(1 974)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	72 906	35 614	58 945

*Prior period amounts have been restated. Refer to the basis of preparation.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited Six months ended 30 November 2017	Unaudited Six months ended 30 November 2016	Audited 12 months ended 31 May 2017
ASSETS			
NON-CURRENT ASSETS			
Investment property	4 703 649	4 838 756	4 395 194
Straight-line lease accrual	59 629	58 890	54 505
Property, plant and equipment	220	-	198
Goodwill	7 238 223	241 094	241 094
	5 001 721	5 138 740	4 690 991
CURRENT ASSETS			
Inventories	10 21 783	-	12 495
Trade and other receivables	111 646	104 951	117 194
Cash and cash equivalents	72 906	35 614	58 945
Amounts receivable for the sale of investment property	-	111 000	-
	206 335	251 565	188 634
Investment property held for sale	344 534	-	518 626
	550 869	251 565	707 260
TOTAL ASSETS	5 552 590	5 390 305	5 398 251

EQUITY AND LIABILITIES

EQUITY			
Stated capital	3 035 344	3 039 980	3 039 980
Treasury capital	-	(4 636)	(4 636)
Foreign currency translation reserve	17 028	(70 467)	(9 155)
Retained income	292 624	235 464	237 031
Shareholders' interest	3 344 996	3 200 341	3 263 220
Non-controlling interest	9 26 985	17 584	24 627
TOTAL EQUITY	3 371 981	3 217 925	3 287 847
LIABILITIES			
NON-CURRENT LIABILITIES			
Other financial liabilities	1 794 628	1 674 181	1 731 466
Loan payable to shareholder	26 709	24 872	24 369
	1 821 337	1 699 053	1 755 835
CURRENT LIABILITIES			
Other financial liabilities	295 961	403 771	279 441
Trade and other payables	63 311	69 556	75 128
	359 272	473 327	354 569
TOTAL EQUITY AND LIABILITIES	5 552 590	5 390 305	5 398 251

CALCULATION OF HEADLINE EARNINGS AND DISTRIBUTABLE EARNINGS RECONCILIATION

		Unaudited Six months ended 30 November 2017 Gross	Unaudited Six months ended 30 November 2016 Net	Audited 12 months ended 31 May 2017
PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS		186 919	305 142	437 103
Adjusted for:				
Change in fair value of investment properties net of non-controlling interests	(89 709)	(89 709)	(84 072)	(119 354)
Impairment of goodwill		2 871	3 006	3 006
Profit on sale of investment property		492	(809)	(533)
HEADLINE EARNINGS		100 573	223 267	320 222
Weighted average number of shares in issue		339 549 647	334 059 215	336 764 696
Headline and diluted headline earnings per share (weighted average shares in issue) (cents)		29.6	66.8	95.1

NOTES:

1. Segmental analysis

	Unaudited Six months ended 30 November 2017 R'000	Unaudited Six months ended 30 November 2016 R'000	Audited 12 months ended 31 May 2017 R'000
Investment property	4 703 649	4 838 756	4 395 194
Straight-line lease accrual	59 629	58 890	54 505
Property, plant and equipment	220	-	198
Inventories	21 783	-	12 495
Investment property held for sale	344 534	-	518 626
* Property assets	5 129 815	4 897 646	4 981 018
** Segment liabilities	2 153 374	2 147 115	2 085 526
NON-SEGMENT LIABILITIES			
- Trade and other payables	526	393	509
- Loan to non-controlling interests	26 709	24 872	24 369
TOTAL LIABILITIES	2 180 609	2 172 380	2 110 404

Tower has restated its segment information to provide sectoral information by region. Prior period information has been restated.

RECONCILIATION OF HEADLINE EARNINGS TO DISTRIBUTABLE EARNINGS

		Unaudited Six months ended 30 November 2017 R'000	Unaudited Six months ended 30 November 2016 R'000	Audited 12 months ended 31 May 2017 R'000
HEADLINE EARNINGS	Gross	100 573	223 267	320 222
Adjusted for:				
Straight-line lease accrual		(2 400)	(6 208)	(10 300)
Antecedent dividends		-	2 557	3 923
Change in fair value of interest rate derivatives (Profit)/loss on sale of investment property		(7 420)	7 721	12 449
DISTRIBUTABLE PROFIT		90 753	227 337	326 294
Adjusted for:				
Indirect capital raising expenses		-	557	557
Foreign exchange (gain)/loss	43 415	42 949	(100 648)	(61 812)
Contracted adjustment		-	1 822	3 798
Agrokor arrears		-	-	(10 286)
Amortisation of debt raising fees		1 175	1 328	3 171
DISTRIBUTABLE EARNINGS		134 877	130 396	261 722
Development income lost	11	3 324	-	-
DISTRIBUTION PAID		138 201	130 396	261 722
Distribution paid		138 201	130 396	261 722
Taxable dividend (declared on 31 January 2017)		-	130 396	130 396
Taxable dividend (declared on 31 July 2017)		-	-	131 326
Taxable dividend (declared on 13 February 2018)		138 201	-	-
Number of shares in issue at year-end (including treasury shares)		339 549 647	340 100 686	340 100 686
Number of shares in issue at year-end (excluding treasury shares)		339 549 647	339 549 647	339 549 647
Distribution per share		40.7	38.4	77.1
Six months ended 31 May		-	-	38.7
Six months ended 30 November		40.7	38.4	38.4
Distributable earnings per share (weighted average shares in issue) (cents)		39.7	39.0	77.7
Net asset value per share (shares in issue at period end) (cents)		985	941	961
		Unaudited Six months ended 30 November 2017 R'000	Unaudited Six months ended 30 November 2016 R'000	Audited 12 months ended 31 May 2017 R'000
2. Related party transactions included:				
Asset management fees paid to Tower Asset Managers Proprietary Limited ("TAM")		-	1 512	1 508
Property management fees paid to Spire Property Management Proprietary Limited Relationship: Key management personnel services entities		8 894	9 766	18 667
3. Net property operating expenses				
Insurance		763	776	1 631
Letting commission		3 378	2 505	5 403
Municipal expenses		44 423	51 710	99 936
Other operating expenses		4 384	5 190	15 315
Property management fees		6 180	6 462	16 226
Repairs and maintenance		3 309	4 224	6 482
Security and cleaning		9 769	8 565	17 453
Gross property expenses		72 206	79 432	162 446

Operating expense recoveries	(65 863)	(62 801)	(128 187)
Net property operating expenses	6 343	16 631	34 259
4. Property ratios			
Net property expense ratio	13%	13%	14%
Gross property expense ratio	26%	28%	29%
Rental reversions: retail	12%	11%	7%
Rental reversions: office	10%	12%	8%
Rental reversions: industrial	(1%)	32%	-
Tenant retention ratio	93%	94%	90%
Occupancy ratio	88%	94%	94%
Trading density growth	10%	9%	3%
5. Administration and corporate costs			
Asset management fees	-	1 508	1 508
Salaries	4 803	3 979	8 502
Professional service fees	1 756	1 920	1 771
Other	2 867	1 703	4 613
TOTAL	9 426	9 110	16 394

6. Other income/(expenses) in the current year includes the losses on the sale of Shoprite Brits (R359 284) and Arrowfield (R133 017) and in the prior year the profit on the sale of 7 Stirrup Lane.

7. Goodwill of R2.9 million has been impaired during the period. R145 million of goodwill was raised on the acquisition of TAM. The goodwill was allocated on a pro rata basis to the properties which were held by the fund when TAM was internalised. As two of these properties, namely Shoprite Brits and Arrowfield, were disposed of, the goodwill allocated to them amounting to R2.9 million was derecognised.

Correction of error - Goodwill

Goodwill to the amount of R99.2 million was erroneously impaired at the interim period 30 November 2016. The recoverable amount of the cash-generating units continuously exceeds the carrying amount and no impairment should have been recognised at the time. The error was corrected in the annual financial statements for the year ended 31 May 2017. This adjustment affected earnings per share, but did not affect headline or distributable earnings reported at 30 November 2016.

8. The foreign exchange gain/(loss) relates to the foreign denominated loan that was granted by Standard Bank to the the fund for the acquisition of VMD KVART and the Agrokor portfolio.

9. Non-controlling interests relates to the VMD Grupa d.o.o. 20% holding in Tower Europe d.o.o.

10. Inventory relates to the costs incurred to date on the development of the Napier Street residential units.

11. Development income lost relates to the untenanted properties under development during the period.

12. Local loans repaid are significantly less than those repaid in the comparative period. In the corresponding period Tower raised R740 million equity and used these funds to repay its local debt. Tower then increased its euro debt and used the funds to buy Croatian retail properties.