

Report of the nomination and remuneration committee

Background statement

The board of directors ensures that Tower remunerates the board of directors, executive management and employees in a fair, transparent and responsible manner. The nomination and remuneration committee is responsible for ensuring that responsible remuneration practices are designed and implemented.

The remuneration policy has been designed to attract, motivate and reward executives and senior management and promote the achievement of Tower's strategic objectives while ensuring responsible remuneration practices. This is achieved through the award of short- and long-term incentives.

The incentives are based on objectively determined best market practice through a report compiled by PricewaterhouseCoopers for Tower (Total Guaranteed Pay benchmarking Tower Property Fund Limited September 2016) (the PwC report).

At the upcoming annual general meeting the proposed long-term incentive scheme will be presented to shareholders for approval. Remuneration is currently limited to salaries, benefits, allowances and short-term incentives. The long-term incentive scheme aims to align management and shareholders with Tower's medium- to long-term strategies. Tower shares currently trade at a discount to the company's net asset value per share. It is Tower's intention to reduce this discount by focusing on a "Total Return" strategy in the aim of driving sustainable income as mentioned elsewhere in the IAR. Tower anticipates certain capital windfalls from the sale of non-core properties in the short-term. The deployment of this capital into various investment opportunities will be key to the strategy of reducing the discount to net asset value.

A key consideration of a "sustainable income/ total return strategy" is the strength of Tower's balance sheet. Major short- to medium-term focus will be on the reduction of our overall loan to value (LTV) with a targeted figure of 35% (the current LTV is 39%). Management will have to achieve certain vesting conditions in order to receive shares in respect of the share options awarded to them under the long-term incentive scheme. These conditions are detailed in this remuneration report.

The nomination and remuneration committee is satisfied that the objectives of the remuneration policy were met during the period under review.

Remuneration policy

The nomination and remuneration committee recognizes the need to properly incentivise key staff. Therefore, we have adopted a policy of awarding short-term incentives in addition to salaries, benefits and allowances. The current incentives are intended to reward above average performance.

Employee remuneration, excluding that for executive management, is determined on a market related basis. Employees received a total cost-to-company package. Provident fund and medical aid expenses are deducted from this. Employees have company and individual targets which make up their yearly short-term incentive which is typically equivalent to a thirteenth cheque.

None of the contracts with executive directors have any severance provisions or potential termination payments.

The full remuneration policy may be obtained from the company's website.



Fixed Remuneration

The nomination and remuneration committee is responsible for reviewing and recommending the remuneration of executive management. Executive management salaries are benchmarked against Tower's industry peers and in particular, with comparable roles, taking into account the PwC report.

Fees for non-executive directors are recommended by executive management to avoid a conflict of interests arising in respect of members of the nomination and remuneration committee. Non-executive director's fees are set by taking into account the director's time commitment and the contribution required to effectively discharge the duties of a non-executive director. These fees are also benchmarked against Tower's peers in the industry.

Variable Remuneration

Short-Term Incentives

Short-term incentives are rewards for the attainment of yearly short-term goals and targets and reward individual performance of executives and key employees. Short-term incentives are recommended by the chief executive officer and approved by the nomination and remuneration committee based on objective criteria. The chief executive officer's short-term incentive is evaluated and approved by the nomination and remuneration committee.

Short-term incentives are paid in cash and are awarded up to a maximum of the employee's total cost to company salary.

The following KPI's will be utilized

CEO

50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, linear vesting in between.

50% based on individual performance: including reduction in loan to value, management of executive team incentives.

CFO

50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, linear vesting in between.

50% based on individual performance reduction of total LTV, reducing the Euro LTV, refinancing of current loans at more attractive rate, appropriate hedging in line with strategy – minimum 70%.

Asset Managers

50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, linear vesting in between.

50% based on individual performance: sale of non-core properties, realization of the Old Cape Quarter profits growth of individual portfolio's in line with total return targets.

REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE CONTINUED

Long-Term Incentive Scheme

Tower's remuneration committee has approved a long term incentive scheme which is to be ratified by shareholders at the AGM.

The scheme awards options (based on a maximum of 100% of the employee's annual salary dependent on performance) for the achievement of certain objective criteria over a three year period. This may be changed by the remuneration committee from time to time depending on Tower strategy.

- Year one's options will be awarded with an exercise price of R6.68 per share (being the opening share price on the day of the approval of the long term incentive scheme by the Remuneration Committee). Tower was previously externally managed. Management was internalised in July 2016. Since that date, Tower has not had a long-term incentive scheme. In order to "kick-start" the long-term incentive scheme, Tower has agreed to a shorter vesting period for year-one options. For year-one's options, the total number of options will vest after year one, should all vesting conditions be met.
- From year 2, options will be awarded with a strike price equal to the spot share price (or 60 day VWAP) or at a zero cost depending on the Remuneration Committee's strategy for that year, and the options will vest over three years (i.e. one-third after year three, one-third after year four and one-third after year five) if the vesting conditions are achieved.

Recipients of the vesting shares will be required to hold the shares for at least one year unless the shares are required to be sold for tax purposes.

The following vesting conditions will apply to the long term incentives:

- One-third based on total shareholder return vs listed peers: with threshold vesting of 30% for median performance, 100% vesting for upper quartile and linear vesting in between
- One-third based on DPS growth: with threshold vesting of 0% for CPI, 100% vesting for CPI + 6% p.a. and linear vesting in between
- One-third based on TNAV per share growth: threshold vesting of 0% for CPI, 100% vesting for CPI + 6% p.a. and linear vesting in between

The scheme has good and bad leaver provisions which are evaluated by the Remuneration Committee

Voting on remuneration

Non-executive director's remuneration is tabled at the annual general meeting for shareholder approval at least every two years. This is in accordance with the provisions of the Companies Act.

The remuneration policy and the remuneration implementation report will be tabled each year at the annual general meeting for separate non-binding advisory votes. This is in accordance with King IV and the JSE Listings Requirements. In the event that either the remuneration policy or the remuneration implementation report, or both, are voted against by 25% or more of the voting rights exercised by shareholders, the board of directors of Tower will engage with shareholders to ascertain the reasons for the dissenting votes. They will then address all legitimate and reasonable objections and concerns raised. The engagement process will include the acceptance of written and verbal objections and concerns and Tower will report back in the next IAR on the results of the engagement process.





Remuneration implementation report

Salaries were in line with the fixed remuneration disclosed in the IAR on page 77 under Directors' Emoluments. No incentive bonuses were paid during the year under review.

The nomination and remuneration committee is satisfied that Tower complied with the remuneration policy, and that there were no substantial deviations from the policy.