

Tower Property Fund Limited
(Incorporated in the Republic of South Africa)
Registration number 2012/066457/06
JSE share code TWR
ISIN:ZAE00179040
(Approved as a REIT by the JSE)
("Tower or the "group" or the "fund")

SUMMARISED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 MAY 2020

- Dividend pay-out ratio of 75% for the financial year
- Loan to value of 39.1%
- Sale of Euro 12.4 million of Croatian properties during the year (and Euro 9.1 million after year-end)
- Sale of R189.2 million of South African properties
- Portfolio vacancy of 7.9%
- Refinancing of Euro 31.5 million debt secured by South African properties with Rand debt after year-end
- Average collection of 85% after relief granted (April - July)
- Investment property valuations down by R429 million during the year
- Tangible net asset value (TNAV) down 16% to R7.62 per share
- Net asset value per share down 22% to R7.62 per share*
- Revenue down 16.1% to R396 million**
- Operating profit down 71% to R91 million***
- Headline earnings down 23% to R153 million
- Headline earnings per share down 22% to 45.3 cents per share
- Basic earnings down 301% to -R495 million
- Basic earnings per share down 302% to -146.8 cents per share
- Distributable earnings down 14.8% to R200 million****
- Distribution per share down 40% to 44.5 cents per share*****

* As a result of the impairment of the goodwill and fair value adjustments to investment property and interest rate derivatives.

** As a result of the recognition of the R55.1 million of revenue arising from sale of the Napier Street residential units in the prior year and the reduction of the current year rental income as a result of the sale of non-core properties during the year.

*** As a result of the reduced net property income, impairment of the goodwill, foreign exchange loss and the inventory write-downs at Napier Street and the Old Cape Quarter.

**** The decrease is as a result of increased interest on debt incurred to fund capital expenditure, debt cancellation fees on certain refinanced facilities (which were not amortised over the period of the new facility), the sale of assets at yields higher than the cost of debt and the tax payable as a result of Tower's decision to reduce its pay-out ratio for the year to 75% of distributable income.

***** The decrease is as a result of the above-mentioned factors, together with Tower's decision, in the current environment, to no longer add back and distribute rental income lost on developments.

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 42 convenience retail, office and industrial properties valued at R4.8 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropolises with 47% by value in Cape Town, 41% in Gauteng and 12% in KwaZulu Natal. The five Croatian properties represent 37% of the fund's total value. The fund currently has a sectoral spread by value of 46% convenience retail, 46% office, 7% industrial and inventory 1%.

Tower's near-term focus remains (i) to do all things necessary to ensure that the company and its tenants weather the current worldwide crisis caused by the Covid-19 pandemic, (ii) the redevelopment of the Old Cape Quarter, including the development of the fifty-five new residential units, (iii) the sale of non-core properties in South Africa; and (iv) the unlocking of additional value and income growth in the Croatian portfolio through its shareholding in TPF International.

FINANCIAL AND OPERATING PERFORMANCE

Tower, like all businesses worldwide, has had to deal with the economic chaos resulting from the Covid-19 pandemic and subsequent national lockdowns in the

countries in which it operates. Although only impacting on two months (April and May) of the current period, the Covid-19 crisis (and national lock downs) in both South Africa and Croatia have created unprecedented challenges, reducing growth and adding to the pressures facing our tenants. The steps taken over the last twelve months to strengthen our balance sheet, through the disposal of properties and the reduction of debt, proved well-timed and have assisted, and will continue to assist Tower to weather this storm.

Tower's cash reserves were strong pre-lockdown, assisting the business in managing these turbulent times.

Tower has focused its attention on the most vulnerable tenants which include highly impacted tenants such as hairdressers, gyms, restaurants and coffee shops. Relief offered to tenants is dependent on how impacted they have been by the national lockdowns and is offered in either rental concessions for the most impacted, or deferrals. Rental deferrals are typically repayable over a six to twelve-month period. To date, Tower has offered R6.2 million in concessions and R5.2 million in deferrals.

Property performance was stable over the past year but has been negatively affected by certain factors elaborated on below. The SA total property return for the past year was -5.0% (retail -9.9%, office -4.5% and industrial -3.3%). Total property return in Croatia, in Euro, was 6.0% (retail 5.5%, office 6.4% and industrial 8.5%). Property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 16.1% to R395.6 million as a result of the recognition of the R55.1 million of revenue arising from sale of the Napier Street residential units in the prior year and the reduction of the current year rental income as a result of the sale of non-core properties during the year. This is partially offset by the acquisition of Yazaki Block B in Croatia and the weakening of the Rand.

Net property income decreased by 3.5% from the prior year to R361.2 million. This is predominately as a result of the sale of properties and the impact of Covid-19 related lockdowns, which was partially offset by the weakening of the Rand. On a like-for-like basis, property net income in SA was 3.2% down for the year, with the Croatian net income being 1.9% down. Property net income excludes the straight-line lease accrual and currency fluctuations, and is measured on a like-for-like basis, excluding acquisitions and disposals of property and once-off rates and electricity credits received.

The decrease in net property operating expenses from R44.6 million to R34.4 million is as a result of the properties sold in the current year and the write-off of the pre-9 April 2017 outstanding Konzum debt in the prior year (R8.1 million).

Other items that impacted negatively on Tower's distributable income for the period included increased interest on debt incurred to fund capital expenditure, debt cancellation fees on certain refinanced facilities (which were not amortised over the period of the new facility) and the sale of assets at yields higher than the cost of debt.

As a result of these factors, Tower's income available for distribution for the financial year is 61.6 cents per share (an 11.6% reduction on the prior year). This reduces to 59.4 cents per share after taking into account tax payable as a result of Tower's decision, detailed below, to reduce its pay-out ratio for the year to 75% of distributable income.

The combined results of these factors, as well as the decision, in the current environment, to no longer add back and distribute rental income lost on developments, means that total dividends for the financial year have reduced by 40% to 44.5 cents per share (35.0 cents interim and 9.5 cents final).

Tower renewed 19 122sqm of space and signed new leases totaling 24 421sqm. The total space let of 43 543sqm equates to 20% of total GLA. The overall vacancies in the portfolio are 7.9% (5.5% at 31 May 2019). SA vacancies are currently 9.5% (1.5% retail, 7.8% office and 0.2% industrial). The weighted average lease expiry (WALE) of the SA portfolio by revenue is 2.5 years and the WALE by GLA is 2.8 years.

Investment property valuations decreased by R429.3 million predominantly due to the downward revaluations of Cape Quarter (mainly due to the 8 000m2 Deloitte and Pernod Ricard expiring leases reverting to market rentals).

The performance of the Croatian portfolio has been pleasing. We do not have income vacancies in the properties given the head leases over the retail and office properties. Actual vacancies have reduced in the portfolio to 1.7% at year-end (6.7% at 31 May 2019) and income has grown.

PROSPECTS AND DIVIDEND

As the major shareholder of TPF International, Tower will be focused on assisting TPF International's management in growing its property income through 'sweating' its Croatian properties by increasing rentals and turnover and recycling capital into higher growth opportunities.

We expect South African growth to suffer in the current environment, and vacancies to rise over the short to medium-term. Our focus is on protecting value

for our shareholders in these difficult times. The recycling of capital through the sale of properties that have reached their potential or are insufficiently defensive, will remain a key focus, although we recognise the challenges in disposing of properties at reasonable prices in the current environment, and we will remain disciplined sellers.

Our balance sheet is strong which has assisted us in weathering the storm of Covid-19. We do believe that, going forward, there will be areas of good growth for our business, most especially in Croatia and surrounds. Cape Quarter and Old Cape Quarter will remain our focus in the short-term as we finalise the development, dispose of residential units and let up the vacant space.

As announced in previous reports, Tower has for some time considered whether the payment of 100% of its distributable income to shareholders is sustainable, given the need to preserve cash for defensive capital expenditure on its portfolio. Given the particular challenges facing the company in the current environment, we have, for the 2020 financial year, decided to reduce our payout ratio to the minimum payout ratio in terms of the JSE Listings requirements, being 75% of distributable income. The board will assess this ratio from time to time, however we do not expect to distribute more than 90% of our distributable income going forward.

21 August 2020

The detailed results announcement, together with the investor presentation, is available at www.towerpropertyfund.co.za

Short-form announcement

This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. Mazars, the group's independent auditor, has audited the consolidated annual financial statements of Tower for the year ended 31 May 2020, and has expressed an unqualified audit opinion thereon. Key audit matters were raised on the valuation of investment properties, impairment of goodwill and the impact that the COVID19 outbreak has had on Tower's results. The audited consolidated annual financial statements and a copy of the audit opinion are available for inspection at the company's registered office.

Any investment decisions by shareholders and/or investors in relation to the company's shares should be based on the full announcement which is available on <https://senspdf.jse.co.za/documents/2020/jse/isse/TWR/FY2020.pdf> and published on the company's website <http://www.towerpropertyfund.co.za/download/tower-abridged-resultsleaflet-2020/>.

The full announcement is available for inspection during normal business hours at no charge, from 21 August 2020 until 3 September 2020 at:

- the company's registered office; and
- the offices of the sponsor, Java Capital (6th floor, 1 Park Lane, Wierda Valley Sandton, 2196); or
- copies of the full announcement may be requested via email to info@towerpropertyfund.co.za.

This short-form announcement is the responsibility of the fund's board of directors.

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

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Sponsor

Java Capital

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Directors

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* Non-executive