



FORTRESS

REIT LIMITED

SHORT-FORM ANNOUNCEMENT AND CHANGES TO BOARD COMMITTEES CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

The interim reporting period of our 2021 financial year was characterised by the continued effects of the COVID-19 pandemic, which has now been prevalent for over a year and the impact of which was once again felt in the second quarter of this financial year. The pandemic has inevitably brought about a challenging economic environment, which saw South Africa's gross domestic product ("GDP") being 7,0% lower in 2020 compared to 2019. There is also continued uncertainty in the overall business environment and future macroeconomic conditions. Despite these challenging times, we remain focused on continuing our journey of rolling out the largest development pipeline of logistics real estate in South Africa, and ensuring that our defensively positioned convenience and commuter-oriented retail real estate assets continue to perform.

Since our 30 June 2020 year-end ("FY2020"), we have managed to complete, let and secure tenants for approximately 340 000m² of our 1,0 million square metre gross lettable area ("GLA") logistics development pipeline in South Africa, an achievement that we are proud of in these especially challenging times. Added to this, we sold R1,1 billion of properties at above book value, acquired two logistics parks in Poland, reduced our overall vacancies from 8,9% to 6,8%, maintained the trading densities in our retail portfolio at the same level as 2019 and shored up the balance sheet with additional liquidity, while reducing the loan-to-value ("LTV") ratio to 38,1%.

Over the past 18 months, various proactive steps were taken by management and the board of directors that were principally aimed at protecting the balance sheet, preserving liquidity and focusing on setting a solid base for the company for the future, which has allowed us to position the business for growth going forward.

NATURE OF THE BUSINESS

Fortress REIT Limited ("Fortress") is a Real Estate Investment Trust ("REIT") specialising in the logistics and retail property sectors with an established in-house development track record.

Our focus is on developing and in letting premium-grade logistics real estate in South Africa ("SA") and Central and Eastern Europe ("CEE"), as well as growing our convenience and commuter-oriented retail portfolio which currently comprises 56 shopping centres, which includes properties co-owned with partners.

In addition to our property portfolio, we have a 23,6% interest in NEPI Rockcastle plc ("NEPI Rockcastle"), valued at R13,5 billion at 31 December 2020.

CAPITAL STRUCTURE

The capital structure comprises two classes of ordinary shares, each with equal voting rights, but different entitlements to distributions and capital participation on redemption or winding up. The Fortress A ordinary share ("FFA"; share code: FFA) has a preferential right to distributions of income in any income period if a distribution is declared and to capital participation upon winding up or redemption, which is calculated as the 60-day volume-weighted average price ("VWAP") on the JSE Limited ("JSE") subject to a floor of R8,11 if redeemed. The Fortress B ordinary share ("FFB"; share code: FFB) has entitlement to the residual distribution of income in any income period if a distribution is declared and to the residual capital upon winding up.

The Memorandum of Incorporation ("MOI") governs the distribution in any income period. The MOI defines a first and a second income period. The FFA share is entitled in any income period to a distribution equal to the prior comparative period's distribution escalated by the lower of the Consumer Price Index ("CPI") or 5% ("the FFA entitlement") and the FFB share is entitled to any residual income in an income period. Should the company not earn sufficient distributable income to meet the FFA entitlement, the board may not distribute any income to FFA shareholders and as a result, no distribution may be declared to FFB shareholders. The FFA share dividends are non-cumulative.

SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2020	Dec 2019	% change
Dividend per share			
- FFA (cents)	-	77,67	(100,0)
- FFB (cents)	-	74,84	(100,0)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INFORMATION

	Dec 2020	Dec 2019	% change
Revenue from direct property operations (R'000)	1 614 033	1 810 977	(10,9)
Total revenue (including revenue from investments) (R'000)	1 614 033	1 919 091	(15,9)
Net asset value ("NAV") (R'000)	25 023 071	34 131 431	(26,7)
NAV per equity share (going concern) [^] (Rand)	11,59	15,81	(26,7)
NAV per FFA share* (Rand)	12,96	20,35	(36,3)
NAV per FFB share (Rand)	9,91	10,22	(3,0)
Basic earnings per share - FFA (cents)	52,69	35,97	46,5
Basic earnings per share - FFB (cents)	52,69	35,97	46,5
Headline earnings per share - FFA (cents)	35,73	68,68	(48,0)
Headline earnings per share - FFB (cents)	35,73	68,68	(48,0)

[^] The NAV per equity share is calculated as the total NAV divided by the aggregate number of FFA and FFB shares in issue, less shares held in treasury.

* 60-day volume-weighted average traded price at reporting date, limited to combined NAV.

MANAGEMENT ACCOUNTS INFORMATION

	Dec 2020	Dec 2019	% change
LTV ratio* (%)	38,1	33,3	#
NAV per equity share (going concern) [^] (Rand)	11,35	15,59	(27,2)
NAV per FFA share** (Rand)	12,96	20,35	(36,3)
NAV per FFB share (Rand)	9,48	10,08	(6,0)

% change not meaningful to disclose.

* The LTV ratio is calculated by dividing the total interest-bearing borrowings adjusted for cash on hand by the total of investments in property, listed securities and loans advanced, and is based on management accounts information.

[^] The NAV per equity share is calculated as the total NAV divided by the aggregate number of FFA and FFB shares in issue, less shares held in treasury.

** 60-day volume-weighted average traded price at reporting date, limited to combined NAV.

DISTRIBUTABLE INCOME

Distributable income, based on our communicated Fortress distribution methodology, was less than the FFA entitlement and accordingly no dividends have been declared for the first income period to either FFA or FFB shareholders. The total FFA entitlement for the first income period is R954,5 million, with actual distributable income achieved of R820,5 million. Despite not declaring dividends for the first income period, and based on Fortress receiving capitalisation shares in lieu of a cash dividend from NEPI Rockcastle in the first income period, we are confident that we will retain our REIT status for the financial year ending 30 June 2021.

DIVIDENDS AND DIVIDEND POLICY

No dividends for either the FFA share or the FFB share have been declared for the first income period of the 2021 financial year.

The dividend entitlement for the FFA share is increased by the lower of CPI or 5,0% over the prior comparable income period, using the CPI figures supplied by Statistics SA. CPI growth for the first income period was 3,13% and the FFA entitlement is 80,10 cents per share. This becomes the base for the FFA entitlement for future income periods.

Consistent with the more conservative distribution policy of recent reporting periods as previously communicated, we do not distribute capitalised interest in order to ensure balance sheet strength and sufficient liquidity in an uncertain economic environment.

PROSPECTS

Forecasting in the current market conditions remains challenging due to the uncertainty over lockdown restrictions and the changing financial position of tenants both in SA and in CEE. Fortress' forecast in respect of the FFA share dividends for 2H2021 remains unchanged at 78,79 cents per share (utilising an estimated CPI inflation rate of 3,5% for 2H2021) while the forecast in respect of the FFB share dividend for the same period has been lowered from a previous range of 10 cents to 15 cents per share to approximately 10 cents per share due to the lower dividends expected from NEPI Rockcastle.

Maintaining a strong balance sheet, retaining REIT status and ensuring sufficient available liquidity will continue to be balanced against the payment of dividends.

This forecast is based on the following assumptions:

Fortress-specific assumptions

- NEPI Rockcastle achieves its expected distributable earnings for its 2021 financial year and adheres to its payout ratio policy;
- No material sales nor acquisitions occur which necessitate a revision to this forecast;
- There is no unforeseen failure of material tenants in our portfolio;
- Contractual escalations and market-related renewals will be achieved with no major change in vacancy rates; and
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates.

Macro-economic and regulatory assumptions

- There is no change in the existing lockdown restrictions placed on any of our tenants in our direct portfolio;
- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure; and
- The South African Reserve Bank maintains the repurchase rate at 3,5%.

This forecast has not been audited, reviewed or reported on by Fortress' auditor.

CHANGES TO THE BOARD OF DIRECTORS AND BOARD COMMITTEES

The following changes to the board of directors were made since our previous report for the period ended 30 June 2020:

- Ms Tshiamo Matlapeng-Vilakazi passed away on 20 September 2020;
- Mr Ian Vorster was appointed as Debt Officer of Fortress on 2 October 2020 in terms of paragraphs 6.39(a) and 7.3(g) of the Debt Listings Requirements;
- Mr Benjamin Kodisang was appointed as an independent non-executive director on 9 February 2021 to fill a vacancy;
- Mr Thavanesan Chetty was appointed as an independent non-executive director on 9 February 2021 to fill a vacancy; and
- Mr Djurk Venter has announced his intention to resign from the board during 2H2021.

Due to the changes to the board of directors, the following changes to the board committees have been made:

- Ms Ina Lopion was appointed as a member of the risk committee and resigned as a member of the nomination committee on 9 March 2021; and
- Ms Vuyiswa Mutshekwane was appointed as a member of the nomination committee on 9 March 2021.

There have been no other changes to the board of directors.

SHORT-FORM ANNOUNCEMENT

This short-form announcement of the condensed unaudited consolidated interim financial statements ("full announcement") for the six months ended 31 December 2020 is a summary of the information in the full announcement and does not contain full or complete details of the financial results that were published on SENS on 10 March 2021 and is the responsibility of Fortress' board of directors. The information in this short-form announcement has been extracted from the full announcement for the six months ended 31 December 2020. Any investment decisions should be based on consideration of the full announcement published on Fortress' website:

https://cmsignition.co.za/download/files_1184/Interim_results_announcement_31_December_2020.pdf and available on the JSE's website at:

<https://senspdf.jse.co.za/documents/2021/jse/isse/FFAE/HY2021.pdf>.

A copy of the full announcement is available for inspection during business hours at the registered offices of Fortress or its sponsors, Java Capital and Nedbank Limited, acting through its Corporate and Investment Banking Division. Such inspection will be at no charge and investors may request a copy of Fortress' condensed unaudited consolidated interim financial statements for the six months ended 31 December 2020 from tamlyn@fortressfund.co.za.

The short-form announcement has not been audited or reviewed by Fortress' auditor.

By order of the board

Steven Brown Chief executive officer	Ian Vorster Chief financial officer	Johannesburg 10 March 2021
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Fortress REIT Limited

Incorporated in the Republic of South Africa | (Approved as a REIT by the JSE)
Registration number: 2009/016487/06 | JSE share code: FFA | ISIN: ZAE000248498
JSE share code: FFB | ISIN: ZAE000248506 | LEI: 378900FE98E30F24D975

Bond company code: FORI | ("Fortress" or "the group" or "the company")
Block C, Cullinan Place, Cullinan Close, Morningside, 2196 | PO Box 138, Rivonia, 2128

Lead sponsor

JAVACAPITAL

Joint sponsor



Debt sponsor

