



FORTRESS

REIT LIMITED

SHORT-FORM ANNOUNCEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

"The start of this interim reporting period was marred by civil unrest and widespread riots and looting concentrated in KwaZulu-Natal and Gauteng. Many businesses were severely affected and the social tragedy will remain for some time. Encouragingly, SASRIA, with the support of government, managed to settle insurance claims which aided the commencement of rebuilding all our affected assets. Despite the emergence of a new COVID-19 variant towards the end of the reporting period, panic subsided fairly quickly, and the world is now seemingly opening up, learning to live with the COVID-19 virus and returning to a more normalised environment. Overall, we saw evidence of this normalisation across our portfolio with growth in retail turnover and leasing enquiries for our logistics development pipeline increasing. We currently have an overall portfolio vacancy rate that is the lowest in four years and there are early signs of improving rental reversions across our core portfolio.

The positive steps taken over recent years to simplify our business have created a more robust model which will allow us to better withstand the volatility brought about by numerous forces globally. The various proactive steps taken, principally aimed at protecting the balance sheet during the pandemic, enabled us to continue developing our logistics property pipeline and grow our offshore presence, while retaining a comfortable level of gearing.

While we navigate the macroeconomic headwinds in South Africa, we remain optimistic about the prospects for our business and the sectors within which we operate and focus. We are monitoring the ongoing crisis in Ukraine, but obtain comfort that more than 99% of our exposure in Central and Eastern Europe, both direct and indirect, is limited to countries which are both members of the European Union and NATO."

Steven Brown, CEO

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 and Central and Eastern Europe, as well as growing our convenience and commuter-oriented retail portfolio which currently comprises 53 shopping centres, and 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 R15,3 billion at 31 December 2021.

SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2021	Dec 2020	% change
Dividend declared per share			
– FFA (cents)	–	–	–
– FFB (cents)	–	–	–
Dividend proposed per share			
– FFA (cents)	30,85 [#]		n/a
– FFB (cents)	30,85 [#]		n/a

[#] Subject to the approval of the proposed amendment to the Memorandum of Incorporation ("MOI") on 18 March 2022.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INFORMATION

	Dec 2021	Dec 2020	% change
Total revenue (revenue from direct property operations) (R'000)	1 688 947	1 614 033	4,6
Net asset value ("NAV") (R'000)	27 476 126	25 023 071	9,8
NAV per equity share (going concern) [^] (Rand)	13,05	11,59	12,6
Basic earnings per share			
– FFA (cents)	71,09	52,69	34,9
Basic earnings per share			
– FFB (cents)	71,09	52,69	34,9
Headline earnings per share			
– FFA (cents)	47,31	35,73	32,4
Headline earnings per share			
– FFB (cents)	47,31	35,73	32,4

[^] 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. The NAV per FFA share and FFB share is no longer disclosed from this interim reporting period.

SA REIT BEST PRACTICE INFORMATION

	Dec 2021	Dec 2020	% change
NAV per share	12,93	11,29	14,5
Loan-to-value ("LTV") ratio (%)	38,9	40,5	#
Funds from operations	814 582	837 443	(2,7)

[#] % change not meaningful to disclose.

MANAGEMENT ACCOUNTS INFORMATION

	Dec 2021	Dec 2020	% change
LTV ratio* (%)	38,8	38,1	#
NAV per equity share (going concern) [^] (Rand)	12,76	11,35	12,4
Direct property portfolio (completed buildings, including held for sale) (R'million)	26 348	25 349	3,9
Investment property under development (R'million)	3 546	3 472	2,1
Direct property disposals (R'million)	287	1 095	(73,8)
Listed equity portfolio (R'million)	15 265	13 465	13,4
Vacancy based on GLA (%)	6,5	6,8	#

[#] % 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. The NAV per FFA share and FFB share is no longer disclosed from this interim reporting period.

DISTRIBUTABLE INCOME

Distributable income, based on our communicated Fortress distribution methodology, was less than the FFA benchmark and accordingly no dividends may be declared by the board. Distributable income of R830,5 million was earned

for the interim six-month period to 31 December 2021 ("1H2022" or "first income period"), which represents growth of 1,22% over the comparable period ended 31 December 2020.

Consistent with the distribution policy of recent reporting periods and as previously communicated, we do not distribute capitalised interest and now include the dividends received from listed investments in distributable income in the period in which they are received.

The board is proposing to shareholders an amendment to the MOI, allowing a dividend to be declared to both classes of shareholders on a *pari passu* basis, as a result of the distributable earnings being below the FFA dividend benchmark for 1H2022. The payment of this dividend will assist meaningfully in meeting the minimum distribution required by the JSE Limited ("JSE") under the Listings Requirements for REITs, being to distribute 75% of distributable profit as defined. Furthermore, with a more stable operating environment compared to that of the past two years, it is the board's intention to uphold the policy of declaring semi-annual distributions to shareholders.

Should the recently published circular regarding the amendment to the MOI be approved by the requisite majority of shareholders, the board will be in a position to declare a dividend of 30,85 cents per share to FFA shareholders and 30,85 cents per share to FFB shareholders. This would result in R630 million or 75,9% of distributable profit earned in 1H2022 being declared as a dividend. Should the proposed amendment not be approved, then no dividends will be paid to either FFA or FFB shareholders for this interim period of 1H2022.

The dividend benchmark for the FFA share is increased by the lower of the Consumer Price Index ("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 5,13% and therefore the FFA benchmark has been escalated by 5%. On this basis the FFA benchmark base is 84,11 cents for future comparable income periods.

PROSPECTS

We have revised our distributable earnings guidance for the year ending 30 June 2022 to R1,7 billion from the R1,78 billion previously provided.

The revised downward adjustment is primarily as a result of a lower-than-expected dividend declared by NEPI Rockcastle in respect of the six months ended 31 December 2021 and increased borrowing costs post the South African Reserve Bank's decision to increase the repurchase rate in January 2022. The guided distributable earnings of R1,7 billion for the year ending 30 June 2022, when split into the two respective income periods, are below the FFA dividend benchmark for the six months ended 31 December 2021 (interim period) and are expected to be below the FFA dividend benchmark for the six months ending 30 June 2022 (final period).

This forecast is based on the following assumptions:

Fortress-specific assumptions

- 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.

Macroeconomic 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 4,0%.

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

SHORT-FORM ANNOUNCEMENT

This short-form announcement of the condensed unaudited consolidated interim financial statements for the six months ended 31 December 2021 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 2022 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 2021. Any investment decisions should be based on consideration of the full announcement published on Fortress' website: https://cmsignition.co.za/download/files_1184/Fortressinterimresults31December2021.pdf and available on the JSE's website at: <https://senspdf.jse.co.za/documents/2022/jse/isse/FFAE/HY2021.pdf>

Copies of the full announcement and the condensed unaudited consolidated interim financial statements are 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 2021 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 2022
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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")

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Lead sponsor



Joint sponsor



Debt sponsor

