

## SHORT-FORM ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2022

"The 2022 financial year has seen historic events, both locally and abroad, from the riots and looting seen in South Africa to the war in Ukraine impacting many European nations and further impacting global rates of inflation not seen in multiple generations. We certainly are living in interesting times. COVID-19 and the concern around the Omicron variant seem to be a distant memory in a volatile global environment where a perpetual increase in the pace of change seems to be the only constant. In this global environment of uncertainty, we continually strive for a simple and robust business that seeks to add real economic value for our stakeholders, as well as to impact the broader environment and communities in which we operate in a positive manner.

The core Fortress business has seen an improvement in conditions. The strategic focus on logistics, logistics developments and retail real estate is beginning to pay off and the operational metrics for the year are testament to this. The team has worked tirelessly to execute our strategy, while dealing with a variety of unforeseen events. We are constantly striving to optimise our assets to ensure both current tenant appeal and longevity, through investment in technology, as well as more sustainable building designs. It is remarkable to be part of an organisation with people who give so much of themselves to create and protect value for all of our stakeholders."

Steven Brown, CEO

### NATURE OF THE BUSINESS

Fortress REIT Limited ("Fortress") is a Real Estate Investment Trust ("REIT"), at 30 June 2022 and at the date of this announcement, 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 52 shopping centres, and includes properties co-owned with partners.

### CAPITAL STRUCTURE AND REIT STATUS

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 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 capital upon winding up.

The Memorandum of Incorporation ("MOI") governs the distribution in any six-month income period and defines a first and a second income period. The FFA share has a dividend benchmark which is the prior comparative period's dividend benchmark, escalated by the lower of the Consumer Price Index ("CPI") or 5% ("the FFA dividend benchmark"). Should the company earn distributable earnings in excess of the FFA dividend benchmark in any income period, the board may declare a dividend equal to the FFA dividend benchmark to the holders of FFA shares and any residual to the holders of FFB shares. Should the company earn distributable earnings below the FFA dividend benchmark, the board is not authorised to declare any distribution from income earned in that specific income period to either FFA or FFB shareholders.

Other than these differences mentioned above, as provided in the MOI, all shares rank *pari passu* in all respects in accordance with clause 34.7 of the MOI.

The board recently proposed a scheme of arrangement to shareholders, requiring 75% approval, to collapse the dual-share structure into a single share. However, this scheme failed to pass and as such Fortress remains listed with the dual-share structure in place. Fortress is required to meet the Minimum Distribution Requirement, per the JSE Listings Requirements, of a REIT ("minimum distribution requirement") in respect of FY2022 by 31 October 2022. Fortress' MOI prevents the payment of a distribution where distributable earnings are less than the FFA dividend benchmark in respect of that period, which was the case for both the interim six-month period ended 31 December 2021 ("1H2022") and the final six-month period ended 30 June 2022 ("2H2022") of the financial year ended 30 June 2022 ("FY2022"). In these circumstances, Fortress cannot comply with the minimum distribution requirement.

The board has not resolved to make any other proposal to facilitate the payment of a distribution in respect of FY2022. Accordingly, the company will engage with the JSE given its inability to comply with the JSE Listings Requirements pertaining to REITs, to proactively manage the process.

For so long as Fortress is not a REIT, it will retain distributable earnings rather than make distributions, until such time as the ratio of distributable earnings to the FFA dividend benchmark has increased to a level which mitigates the risk of distributable earnings being below the FFA dividend benchmark for the foreseeable future, at the time of electing to resume dividend payments. Distributable earnings will be applied to reduce debt or pursuant to other capital allocation decisions of the board.

### SUMMARY OF FINANCIAL PERFORMANCE

	Jun 2022	Jun 2021	% change
Dividend declared per share			
- FFA (cents)	-	74,70	#
- FFB (cents)	-	-	#

# Percentage change not meaningful to disclose or not applicable.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INFORMATION

	Jun 2022	Jun 2021	% change
Revenue from direct property operations (R'000)	3 446 471	3 231 356	6,7
Total revenue (including revenue from investments) (R'000)	3 446 471	3 233 454	6,6
Net asset value ("NAV") (R'000)	26 740 401	27 257 162	(1,9)
NAV per equity share (going concern) <sup>^</sup> (Rand)	12,70	12,63	0,6
Basic earnings per share			
- FFA (cents)	36,94	156,17	(76,3)
Basic earnings per share			
- FFB (cents)	36,94	156,17	(76,3)
Headline earnings per share			
- FFA (cents)	119,84	89,50	33,9
Headline earnings per share			
- FFB (cents)	119,84	89,50	33,9

<sup>^</sup> 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.

### MANAGEMENT ACCOUNTS INFORMATION

	Jun 2022	Jun 2021	% change
Loan-to-value ("LTV") ratio* (%)	40,0	36,7	#
NAV (R'000)	26 968 303	27 436 274	(1,7)
NAV per equity share (going concern) <sup>^</sup> (Rand)	12,43	12,34	0,7
Direct property portfolio (completed buildings, including held for sale) (R'million)	27 743	25 601	8,4
Investment property under development (R'million)	3 708	3 074	20,6
Direct property disposals (R'million)	577	1 650	(65,0)
Listed equity portfolio (R'million)	12 542	14 577	(14,0)
Vacancy based on GLA (%)	5,4	7,4	#

<sup>^</sup> 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.

# Percentage change not meaningful to disclose or not applicable.

\* 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.

### SA REIT BEST PRACTICE DISCLOSURE

	Jun 2022	Jun 2021	% change
NAV per share	12,22	12,17	0,4
Loan-to-value ("LTV") ratio (%)	38,7	36,6	#
Funds from operations	1 911 378	1 746 465	9,4

# Percentage change not meaningful to disclose or not applicable.

### DISTRIBUTABLE EARNINGS AND DIVIDEND BENCHMARK

Distributable earnings, based on our communicated Fortress distribution methodology for FY2022 were R1,707 billion, compared to R1,713 billion for FY2021.

Distributable earnings for 2H2022 were R876,9 million, which was below the FFA dividend benchmark of R967,9 million and accordingly no dividends may be declared by the board. Distributable earnings were R830,5 million in 1H2022 which were also below the 1H2022 FFA dividend benchmark of R979,7 million for that income period.

The dividend benchmark 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 2H2022 income period was 6,19% and therefore the FFA benchmark has been escalated by 5,0%. On this basis, the FFA benchmark base is 83,10 cents per share for future comparable income periods.

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

### PROSPECTS

We have revised our distributable earnings guidance for the year ending 30 June 2023 ("FY2023") as published on SENS on 6 June 2022 from R1,91 billion to R1,60 billion.

The downward revision primarily results from an estimated tax charge of approximately R350 million included in the FY2023 forecast of R1,60 billion above. This FY2023 tax charge stems from Fortress' current inability to meet the Minimum Distribution Requirements for a REIT per the JSE Listings Requirements in respect of FY2022. The cash retained in the business due to no dividends being paid for FY2022 has been conservatively assumed to repay debt and therefore lowers the absolute interest cost. However, the sharp rise in interest rates since the previous guidance was published, largely negates this assumed interest saving on cash retained. The revised upward distribution guidance published by NEPI Rockcastle on 23 August 2022 has been taken into account in our forecast.

This forecast is based on the following assumptions:

#### Fortress specific assumptions

- Fortress ceases to be a REIT on or about 31 October 2022;
- No material sales nor acquisitions, outside of our planned pipeline, 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 unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure; and
- The South African Reserve Bank increases the repurchase rate by a further 75 basis points during the remainder of FY2023.

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

### SHORT-FORM ANNOUNCEMENT

This short-form announcement of the summarised audited consolidated financial statements ("full announcement") for the year ended 30 June 2022 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 1 September 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 year ended 30 June 2022. Any investment decisions should be based on consideration of the full announcement published on SENS and Fortress' website as a whole. The full announcement has been published on Fortress' website at: [https://cmsignition.co.za/download/files\\_1184/Resultsannouncement30June2022.pdf](https://cmsignition.co.za/download/files_1184/Resultsannouncement30June2022.pdf) and available on the JSE's website at: <https://senspdf.jse.co.za/documents/2022/jse/issue/FFAE/FY2022.pdf>

In accordance with section 3.46A(g) of the JSE Listings Requirements, the audited consolidated annual financial statements together with the audit report thereon have been published on Fortress' website and are available at: [https://cmsignition.co.za/download/files\\_1184/Annualfinancialstatements30June2022.pdf](https://cmsignition.co.za/download/files_1184/Annualfinancialstatements30June2022.pdf)

The audit report on the annual financial statements in respect of which an unmodified opinion was expressed, notes the valuation of investment properties as a key audit matter.

Copies of the full announcement and the audited consolidated annual 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 audited consolidated financial statements for the year ended 30 June 2022 from [tamlyn@fortressfund.co.za](mailto:tamlyn@fortressfund.co.za).

The short-form announcement itself is not audited or reviewed by Fortress' auditor, but extracted from audited results.

By order of the board

<b>Steven Brown</b> Chief executive officer	<b>Ian Vorster</b> Chief financial officer	Johannesburg 1 September 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")

Block C, Cullinan Place, Cullinan Close, Morningside, 2196  
PO Box 138, Rivonia, 2128

Lead sponsor

JAVACAPITAL

Joint sponsor



Debt sponsor

