

SHORT-FORM ANNOUNCEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

"The 1H2023 reporting period has seen a record low vacancy rate in our logistics portfolio, coupled with solid trading within our retail assets. The successful roll-out of our development pipeline of logistics assets continued as planned. However, the unrelenting electricity crisis in South Africa is now creating headwinds for both us and our tenants and this is requiring our immediate attention. We are confident in addressing the majority of this risk within the next 12 months and view this painful period as an opportunity to progress embedded generation within our assets.

Fortunately, we hold a significant portion of our assets in fast-growing and lower-risk Central and Eastern European countries ("CEE"), which acts as a counterbalance to the South African direct property portfolio. The very strong operational performance of our associate, NEPI Rockcastle N.V. ("NEPI Rockcastle"), is pleasing and highlights the return of pre-COVID-19 consumer habits as it pertains to bricks and mortar retail shopping. The general trend of rising e-commerce penetration, and a requirement for a strong logistics backbone to any retail offering, continues to provide an underpin to demand and rental growth for our logistics assets.

The company's equity capital structure and our dual-share classes of Fortress A ("FFA") and Fortress B ("FFB") shares have remained front of mind for us and our shareholders. The board remains open to workable solutions to solve the problem of Fortress Real Estate Investments Limited's ("Fortress") sub-optimal capital structure, but, at this time, is not intending on proposing another potential solution to shareholders in the near term. It is important to note that existing and new shareholders have the option of neutralising their positions as it pertains to the capital structure by acquiring, in equal numbers, both FFA and FFB shares, which then allows participation in the equity of Fortress at a large discount to our NAV.

The business is in a solid and robust position to provide growth going forward, and staff and management continue to work tirelessly toward achieving operational excellence. The team's focus on our core strategic goals of disposing of underperforming and non-core assets and using this capital to grow our core portfolios of logistics and retail real estate, with a long-term total return mindset, has made and will continue to make Fortress a dominant player in the markets in which it operates."

Steven Brown, CEO

NATURE OF THE BUSINESS

Fortress is a real estate investment company with a focus on developing and letting premium-grade logistics real estate in South Africa ("SA") and CEE, as well as growing our convenience and commuter-oriented retail portfolio which currently comprises 51 shopping centres and includes properties co-owned with partners. Fortress also holds a strategic 23,7% interest in NEPI Rockcastle, a retail real estate investor with a EUR6,6 billion portfolio across nine CEE countries.

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 FFA share 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 FFB share has entitlement to the residual distribution of capital upon winding up.

FFB shares can be issued without issuing FFA shares, however, FFA shares must be issued contemporaneously with an equal number of FFB shares. Investors are able to capture the full equity value of Fortress, at a significant discount to NAV, by buying FFA and FFB shares in roughly equal numbers. This allows investors to take a neutral stance as it pertains to differences between the share classes.

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 distributable earnings be 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 distributable earnings be 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, all shares rank *pari passu* in all respects in accordance with clause 34.7 of the MOI.

Fortress was required to meet the minimum distribution requirement for a Real Estate Investment Trust ("REIT"), per the JSE Listings Requirements, being an annual distribution of at least 75% of distributable profit ("Minimum Distribution Requirement"), in respect of the year ended 30 June 2022 ("FY2022"). 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 reporting period for the six months ended 31 December 2021 ("1H2022") and the final reporting period for the six months ended 30 June 2022 ("2H2022"). In these circumstances, Fortress could not comply with the Minimum Distribution Requirement and, as a consequence, the JSE removed Fortress' REIT status with effect from 1 February 2023.

The removal of our REIT status has tax consequences, impacting both the company and its shareholders, which were outlined in a SENS announcement released on 20 January 2023.

SUMMARY OF FINANCIAL PERFORMANCE

| | Dec 2022 | Dec 2021 | % change |
|--------------------------------|----------|----------|----------|
| Distributable earnings (R'000) | 800 947 | 830 507 | (3,6) |
| Dividend declared per share | | | |
| – FFA (cents) | – | – | – |
| – FFB (cents) | – | – | – |

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INFORMATION

| | Dec 2022 | Dec 2021 | % change |
|--|------------|------------|----------|
| Revenue from direct property operations (R'000) | 1 871 919 | 1 688 947 | 10,8 |
| Total revenue (including revenue from investments) (R'000) | 1 871 919 | 1 688 947 | 10,8 |
| Net asset value ("NAV") (R'000) | 29 711 989 | 27 476 126 | 8,1 |
| NAV per equity share (going concern) [^] (Rand) | 14,11 | 13,05 | 8,1 |
| Basic earnings per share – FFA (cents) | 132,98 | 104,38* | 27,4 |
| Basic earnings per share – FFB (cents) | 132,98 | 29,92* | 344,5 |
| Headline earnings per share – FFA (cents) | 38,86 | 80,59* | (51,8) |
| Headline earnings per share – FFB (cents) | 38,86 | 6,14* | 532,9 |

[^] The NAV per equity share (going concern) for IFRS accounting is calculated as the total NAV per the IFRS statement of financial position divided by the aggregate number of FFA and FFB shares in issue, less shares held in treasury.

* Restated.

SA REIT BEST PRACTICE RECOMMENDATIONS DISCLOSURE

| | Dec 2022 | Dec 2021 | % change |
|---------------------------------|-----------|----------|----------|
| NAV per share | 13,70 | 12,93 | 6,0 |
| Loan-to-value ("LTV") ratio (%) | 36,9 | 38,9 | # |
| Funds from operations (R'000) | 1 088 334 | 814 582 | 33,6 |

Percentage change not meaningful to disclose or not applicable.

DISTRIBUTABLE EARNINGS AND DIVIDEND BENCHMARK

Distributable earnings, based on our communicated Fortress distribution methodology, for 1H2023, were R800,9 million, compared to R830,5 million for the prior comparable six-month period. The distributable earnings for 1H2023 were below the FFA dividend benchmark of R1 028,7 million and accordingly no dividends may be declared by the board.

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 1H2023 income period was 7,09% and therefore the FFA benchmark has been escalated by 5,0%. On this basis, the FFA benchmark base is 88,32 cents per share for future comparable income periods.

Given that the board is limited in its authority, by restriction in the MOI, to distribute the retained distributable earnings, it intends to reserve this capital by reducing debt and retaining it in liquid assets for deployment, in time, to resolve the capital structure. For 1H2023, the amount of R800,9 million will be retained in this manner. This capital retained is viewed as distinct from the capital generated from asset sales, which has and will continue to be earmarked for deployment into funding the pipeline of logistics developments, as well as enhancements to the retail portfolio.

The company remains liquid and solvent and the board is willing to declare dividends to shareholders, provided it is authorised to do so and this does not jeopardise the sustainability and predictability of future dividends to shareholders.

PROSPECTS

We have revised our distributable earnings guidance for the year ending 30 June 2023 as published on SENS on 21 November 2022 from R1,60 billion to R1,66 billion. The upward revision primarily results from better than expected forecast operational performance and dividends received from NEPI Rockcastle, offset marginally by a rise in interest rates since the previous guidance was published.

This forecast is based on the following assumptions:

Fortress specific assumptions

- 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;
- Tenants will be able to absorb the recovery of rising utility costs, municipal rates and electricity interruption costs; and
- The estimated tax payable is R330 million for the year ending 30 June 2023.

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 repurchase rate remains unchanged during the forecast period.

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

SHORT-FORM ANNOUNCEMENT

This short-form announcement is a summary of the condensed unaudited consolidated interim financial statements for the six months ended 31 December 2022 ("full announcement"), is the responsibility of Fortress' board of directors and is only a summary of the information in the full announcement and does not contain full or complete details. The information in this short-form announcement has been extracted from the full announcement. Any investment decisions should be based on consideration of the full announcement, published on 8 March 2023 on Fortress' website at: <https://fortressfund.co.za/financials/view-pdf?id=Interim%20results%20announcement%2031%20December%202022> and on the JSE's website at: <https://senspdf.jse.co.za/documents/2023/jse/issue/FFAE/1H2023.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 Trustees and Sponsors Proprietary Limited and Nedbank Limited, acting through its Corporate and Investment Banking Division. Such inspection will be at no charge during normal business hours from Wednesday, 8 March 2023. Copies of the full announcement may be requested by emailing tamlyn@fortressfund.co.za.

The short-form announcement itself is not audited or reviewed by Fortress' auditor.

By order of the board

Steven Brown
Chief executive officer

Ian Vorster
Chief financial officer

Johannesburg
8 March 2023

Fortress Real Estate Investments Limited

(formerly Fortress REIT Limited)
Incorporated in the Republic of South Africa
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

JAVACAPITAL

Joint sponsor



Debt sponsor

