

FORTRESS REAL ESTATE INVESTMENTS LIMITED

(Formerly Fortress REIT Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2009/016487/06)

JSE share codes: FFA ISIN: ZAE000248498

FFB ISIN: ZAE000248506

Bond company code: FORI

LEI: 378900FE98E30F24D975

(“Fortress” or the “Company”)



ANNOUNCEMENT RELATING TO:

- **CANCELLATION OF ALL FORTRESS A AND FORTRESS B TREASURY SHARES IN ISSUE;**
 - **FIRM INTENTION OF FORTRESS TO MAKE AN OFFER TO ACQUIRE THE REMAINING ISSUED FORTRESS B SHARES IN EXCHANGE FOR NEPI ROCKCASTLE SHARES TO BE IMPLEMENTED BY WAY OF A SCHEME OF ARRANGEMENT; AND**
 - **CONVERSION OF FORTRESS A SHARES INTO FORTRESS B SHARES PURSUANT TO SPECIAL RESOLUTIONS OF FORTRESS A SHAREHOLDERS AND COMBINED FORTRESS A AND B SHAREHOLDERS AND CERTAIN CONSEQUENTIAL AMENDMENTS TO THE MOI OF FORTRESS**
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1. INTRODUCTION

- 1.1. In 2022 certain Fortress shareholders requisitioned general meetings of the Company in terms of section 61(3) of the Companies Act, 71 of 2008 (“Companies Act”) in order to amend the Company’s Memorandum of Incorporation (“MOI”) to allow for the declaration of distributions out of income for the financial year ended on 30 June 2022 (“FY2022”), split between Fortress A (“FFA”) shares and Fortress B (“FFB”) shares in a ratio of 80:20. At the general meetings held on 12 January 2023 there was insufficient support to pass all the required special resolutions, and accordingly the MOI amendment did not pass. Following the failure to amend the MOI to enable a distribution to all shareholders out of income for FY2022, certain Fortress shareholders have engaged with the Company in respect of options to simplify the Company’s dual share structure.
- 1.2. Pursuant to these engagements, the board of directors of the Company (“Board”) has resolved to propose a scheme of arrangement (the “Scheme”) between the Company and the FFB shareholders in terms of section 114(1) read with section 115 of the Companies Act. Following implementation of the Scheme, if approved by shareholders, the Company’s dual share capital structure would be simplified into a single class of ordinary shares by repurchasing and cancelling all FFB shares in issue in exchange for shares of NEPI Rockcastle N.V. (“NEPI Rockcastle”) at a share-swap ratio of 0.060207 NEPI Rockcastle shares per FFB share (the “Share-swap Ratio”). The Share-swap Ratio is subject to an upward adjustment proportionally for any distribution by NEPI Rockcastle to its shareholders (whether such distribution constitutes a dividend, a capital distribution or other transfer of value) that is made between the date of this announcement and the date of implementation of the Scheme (the “NRP Dividend Adjustment”). The Scheme, if approved by shareholders, will have the effect of removing the current impediment contained in the MOI prohibiting the Board from declaring dividends in certain circumstances, as detailed in paragraph 2.
- 1.3. The Company has received non-binding letters of support for the Scheme (“Letters of Support”) from the shareholders holding 40.7% of the FFA shares and 51.9% of the FFB shares. Details of the Letters of Support are set out in paragraph 8 below.

- 1.4. In order to give effect to the Scheme and to ensure that, following implementation of the Scheme, there will be a single class of ordinary share with no impediments to the declaration of distributions:
 - 1.4.1. the 26 861 996 FFA and the 87 536 353 FFB treasury shares in issue will be cancelled by Fortress post the distribution of such shares from its subsidiaries (the “Treasury Share Cancellation”). This step will simplify implementation of the Scheme in a way that reduces the overall implementation costs;
 - 1.4.2. the remaining 1 005 676 675 FFB shares in issue after the Treasury Share Cancellation will be repurchased and cancelled, in consideration for the transfer of NEPI Rockcastle shares in the Share-swap Ratio (subject to the NRP Dividend Adjustment, to the extent applicable) in terms of the Scheme; and
 - 1.4.3. the remaining 1 164 733 176 FFA shares in issue after the Treasury Share Cancellation will be converted into FFB shares by way of a special resolution of FFA shareholders and a special resolution of combined FFA and FFB shareholders and consequential MOI amendments to amend the FFA share rights and preferences to match the rights and preferences attached to the FFB shares, so that a single class of ordinary shares (in the form of FFB shares) will remain in issue (the “FFA Conversion”).
- 1.5. The implementation of the Scheme and the FFA Conversion will be inter-conditional on one another, but will not be conditional on the implementation of the Treasury Share Cancellation, which Fortress intends to implement as soon as possible.

2. BACKGROUND AND RATIONALE

- 2.1. Fortress is a real estate investment company with a focus on developing and letting premium grade logistics real estate in South Africa and Central and Eastern Europe (“CEE”), as well as growing its convenience and commuter-oriented retail portfolio which currently comprises 46 shopping centres, inclusive of centres co-owned with partners. Fortress also has a strategic 23,9% shareholding in NEPI Rockcastle, the largest listed property company on the JSE, with a EUR7 billion portfolio across nine CEE countries.
- 2.2. Fortress’ share capital structure comprises Fortress A and Fortress B shares, both of which are listed on the JSE under share codes FFA and FFB respectively. The salient features of the current dual share structure are set out below:
 - 2.2.1. The FFA share has a preferential right to distributions of income (if declared) for each six month period and to a fixed capital participation on redemption of the FFA shares or winding up of Fortress based on a formula set out in the MOI. The FFB share has an entitlement to the residual distributions of income (if declared) for each six month period, and to the residual assets on winding up.
 - 2.2.2. In terms of clause 34.1 of the MOI, if Fortress resolves to declare a distribution of income to its shareholders, no such distribution of income may be declared in respect of the FFB shares for a six month period until the relevant distribution of income has been declared in respect of the FFA shares for that six month period; and no such distribution of income shall be paid by Fortress in respect of the FFB shares for such six month period unless the distribution of income for the FFA shares has been paid. Other than (i) distributions of income (if declared); (ii) capital participation on redemption of the FFA shares; and (iii) capital participation on winding up of the Company, the FFA and the FFB shares rank *pari passu*.

- 2.2.3. In respect of a six month period, the FFA share income distribution benchmark is equivalent to the corresponding six month period's fixed income distribution benchmark per share in the prior year (irrespective of whether the prior year's distribution of income was paid or not), escalated by an amount equal to the lesser of 5% or the most recently available Consumer Price Index figure multiplied by the number of FFA shares in issue, less treasury shares (the "Fortress A Distribution Benchmark"). The FFB share is entitled to the residual income distribution declared by the Company in respect of a six month period. In a scenario where there are no FFA shares in issue, the Fortress A Distribution Benchmark would be nil and the Board may declare and pay distributions to the FFB shareholders, subject only to compliance with the Companies Act and directors' fiduciary duties at the time that a distribution is considered.
- 2.2.4. In terms of the MOI, if the Board elects to declare a distribution of income for an income period and provided that the distributable earnings for that period are above the Fortress A Distribution Benchmark, the Board is required to first declare and pay the full Fortress A Distribution Benchmark. If distributable earnings for an income period are below the Fortress A Distribution Benchmark, the Board may not declare a distribution of income to any shareholders. Consequently, when the distributable earnings for an income period are below the Fortress A Distribution Benchmark, the distributable earnings are retained and would then form part of Fortress' capital base going forward. As set out above, in a scenario where there are no FFA shares in issue, the Board may declare and pay distributions subject only to compliance with the Companies Act and directors' fiduciary duties.
- 2.3. Fortress was required to meet the minimum distribution requirement for a REIT, per the JSE Listings Requirements, being an annual distribution of at least 75% of distributable profit (the "Minimum Distribution Requirement"), in respect of FY2022. Fortress' MOI prevents the payment of a distribution where distributable earnings are less than the Fortress A Distribution Benchmark in respect of that period, which was the case for both 1H2022 and 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.
- 2.4. In line with market guidance given in 2022, Fortress has not declared a dividend in 2023. Instead, retained earnings have been earmarked to reduce debt and invest in liquid assets for deployment, in time, to resolve the capital structure.
- 2.5. As is evidenced in its operational results for the year ended June 2023, the business of Fortress is performing strongly notwithstanding the prevailing challenging and volatile environment. The Board is optimistic regarding the prospects for the business and the property sectors in which the Company operates, with Fortress being well-positioned to continue to produce high quality and growing profits.
- 2.6. The dual share structure of Fortress remains a hindrance and the Board has communicated that it is open to resolving this sub-optimal structure. The Board continues to recognise that a single share structure has, *inter alia*, the following benefits:
- 2.6.1. it allows for distribution of income at the discretion of the Board without the restrictions of the MOI being applicable;
 - 2.6.2. dividend reinvestment programmes can be implemented;
 - 2.6.3. it offers greater flexibility with regard to corporate actions;
 - 2.6.4. it provides greater liquidity in a single share rather than having share liquidity spread across the two different classes of share;

- 2.6.5. a simpler share structure is likely to appeal to a broader range of potential investors; and
- 2.6.6. it allows Fortress management to focus more on the business rather than on the issues resulting from the dual share structure.
- 2.7. A proposal by Fortress in 2022 to collapse its dual share structure into a single class of shares and a subsequent shareholder initiative in January 2023 to amend the MOI of Fortress to allow for distributions both failed to achieve the requisite thresholds of shareholder support. This resulted in the removal of Fortress' REIT status as set out in paragraph 2.3 above.

3. TRANSACTION STEPS AND CONDITIONS PRECEDENT

- 3.1. Given the broad shareholder support for the Scheme from both classes of shares, as evidenced by the Letters of Support, Fortress proposes the Scheme and will convene the requisite meetings of FFA shareholders, FFB shareholders and a combined meeting of FFA and FFB shareholders (the "Shareholder Meetings") to approve the Scheme and the FFA Conversion.
- 3.2. Fortress has established the Independent Board (as described in paragraph 5 below), which must appoint the Independent Expert (as described in paragraph 5 below) and, after receiving and considering the fair and reasonable opinion of the Independent Expert, must form an opinion on the Share-swap Ratio (the "Scheme Consideration") and communicate its opinion to FFB shareholders. The Independent Board will communicate its opinion to shareholders in the scheme circular, as described in paragraph 5.3 below.
- 3.3. Implementation of the Treasury Share Cancellation will be conditional only on the board of each relevant Fortress subsidiary having, by resolution, declared the distribution of the Fortress treasury shares to its shareholder and acknowledged that it has applied the solvency and liquidity test, as set out in section 4 of the Companies Act, and reasonably concluded that it will satisfy the solvency and liquidity test immediately after the distribution of the FFA or FFB treasury shares held by it to its shareholder.
- 3.4. Implementation of the Scheme and the FFA Conversion will be conditional on the fulfilment or, in relation to paragraph 3.4.6, waiver by Fortress, of the following conditions ("Scheme Conditions"):
 - 3.4.1. the approval of the Scheme, in accordance with section 115(2)(a) of the Companies Act, by special resolution at a meeting of the FFB shareholders;
 - 3.4.2. the approval of the repurchase by Fortress of all of the FFB shares, in accordance with section 48(8)(a) (to the extent required), section 48(8)(b) and section 115(2)(a) of the Companies Act, by special resolution at a combined general meeting of FFA and FFB shareholders;
 - 3.4.3. the Board having, by resolution, acknowledged that it has applied the solvency and liquidity test, as set out in section 4 of the Companies Act, and reasonably concluded that Fortress will satisfy the solvency and liquidity test immediately after the implementation of the Scheme;
 - 3.4.4. approval by special resolution at a meeting of the FFA shareholders, and separately by special resolution of shareholders at a combined general meeting of FFA and FFB shareholders, of the conversion of the issued FFA shares into FFB shares and the requisite amendments to the MOI to amend the FFA share rights and preferences to match the rights and preferences attached to the FFB shares, so that a single class of ordinary shares of the Company (in the form of FFBs) will remain in issue after implementation of the Scheme;

- 3.4.5. if required under section 115(3) of the Companies Act, approval of the implementation of the Scheme resolution by a Court and, if applicable, Fortress not having treated the Scheme resolution as a nullity, as contemplated in section 115(5)(b) of the Companies Act;
 - 3.4.6. that appraisal rights (in terms of section 164 of the Companies Act) are not validly exercised by in aggregate more than 3% of FFA and FFB shareholders (on a combined basis), provided that Fortress may waive this condition; and
 - 3.4.7. receipt of all other regulatory and statutory approvals, if applicable.
- 3.5. Settlement of the Scheme will only occur following the issue of a compliance certificate by the Takeover Regulation Panel (“TRP”) in relation to the Scheme in terms of section 121(b)(i) of the Companies Act.

4. SCHEME PRICING COMPARISON TO MARKET PRICING

The table below illustrates the premiums/discounts associated with the Share-swap Ratio in respect of FFB shares at various undisturbed market pricing metrics as at 03 October 2023, being the last practicable date prior to the release of this SENS announcement.

Rands	FFB share price	NEPI Rockcastle share price ⁽²⁾	Scheme Consideration ⁽¹⁾	Premium/ (discount) to FFB share price
Closing price	6.20	103.95	6.26	0.9%
1-day VWAP	6.18	104.23	6.28	1.6%
7-day VWAP	6.08	104.35	6.28	3.4%
30-day VWAP	6.02	109.84	6.61	9.9%
90-day VWAP	5.34	111.08	6.69	25.3%

Note 1 - the Scheme Consideration is calculated as the corresponding NEPI Rockcastle share multiplied by the Share-swap Ratio of 0.060207.

Note 2 – shares in NEPI Rockcastle were trading cum dividend up to 12 September 2023 and ex dividend after that date.

5. INDEPENDENT BOARD AND INDEPENDENT EXPERT

- 5.1. Fortress has convened an independent board (the “Independent Board”), consisting of Caswell Rampheri (chairperson), Eddy Oblowitz, and Robin Lockhart-Ross to consider the Scheme.
- 5.2. The Independent Board will appoint an independent expert for purposes of preparing a fair and reasonable opinion in respect of the Scheme, in accordance with Regulation 90 as read with sections 114(2) and 114(3) of the Companies Act (the “Independent Expert”).
- 5.3. After receipt and consideration of the opinion of the Independent Expert, the Independent Board will formulate its views on the Scheme for inclusion in the scheme circular referred to in paragraph 10 below.

6. PRO FORMA FINANCIAL INFORMATION

In terms of Regulation 101(7)(b)(iv) of the Companies Act's Regulations, a firm intention announcement must contain, *inter alia*, the *pro forma* earnings and asset value per offeree regulated company security if the offer consideration consists wholly or partly of offeror securities.

The table below sets out the *pro forma* financial effects of the Scheme based on the results of Fortress for the financial year ended 30 June 2023, assuming that the Scheme had been implemented on 1 July 2022 for purposes of the statement of comprehensive income and on 30 June 2023 for purposes of the statement of financial position ("*pro forma* financial effects"). The *pro forma* financial effects are the responsibility of the directors of Fortress and are provided for illustrative purposes only to provide information about how the Scheme may have affected the financial performance and financial position of Fortress, and because of their nature, may not fairly represent the financial performance and financial position of Fortress after the Scheme. The *pro forma* financial effects have been prepared in compliance with the recognition and measurement principles of the International Financial Reporting Standards, the SAICA Guide on *Pro Forma* Financial Information and in accordance with the accounting policies of Fortress that were used in the preparation of the audited financial statements for FY 2023. The *pro forma* financial effects have not been reviewed or reported on by independent reporting accountants.

FFA share	Before the Scheme ⁽¹⁾	After the Scheme ⁽²⁾	Change (%)
NAV per share (Rands)	15.82	23.29	47.1%
NTAV per share (Rands)	15.25	22.25	45.9%
Earnings per share (cents)	281.92	359.36	27.5%
Headline earnings per share (cents)	90.99	211.59	132.5%
Number of FFA shares in issue for NAV calculation (000) ⁽³⁾	1 164 733	1 164 733	0.0%
Weighted average number of FFA shares in issue (000) ⁽³⁾	1 161 086	1 161 086	0.0%
FFB share ("After the Scheme" metrics based on corresponding NEPI Rockcastle metrics multiplied by the Share-swap Exchange Ratio)	Before the Scheme ⁽¹⁾	After the Scheme ⁽²⁾	Change (%)
NAV per share (Rands)	15.82	8.04	-49.2%
NTAV per share (Rands)	15.25	8.64	-43.3%
Earnings per share (cents)	281.92	105.78	-62.5%
Headline earnings per share (cents)	90.99	73.69	-19.0%
Number of FFB shares in issue for NAV calculation (000) ⁽³⁾	941 479	n/a	n/a
Weighted average number of FFB shares in issue (000) ⁽³⁾	937 832	n/a	n/a

Notes and assumptions:

1. Extracted from Fortress' audited annual financial statements for the financial year ended 30 June 2023 as published on 31 August 2023.
2. In terms of the Scheme, Fortress will repurchase all FFB shares in issue (with the exception of the 87 536 353 FFB shares held as treasury shares, which will have been cancelled pursuant to the Treasury Share Cancellation), with FFB shareholders receiving the Scheme Consideration of 0.060207 NEPI Rockcastle

shares per FFB share, resulting in 56 683 619 NEPI Rockcastle shares currently held by Fortress being used as consideration. FFB shareholder effects based on the financial results of NEPI Rockcastle for the 6 months ended 30 June 2023 multiplied by the Share-swap Ratio).

3. Number of shares in issue and weighted average number of shares in issue after the Scheme represent the FFA shares held by current FFA shareholders after the Scheme. Pursuant to the conversion of the FFA shares by way of the MOI amendments and shareholders resolution, the FFA shares shall become FFB shares.
4. Transaction costs amounting to approximately R18.0 million and Securities Transfer Tax of approximately R30 million, are settled in cash with an equivalent reduction to stated capital.
5. All adjustments, except for transaction costs, are expected to have a continuing effect.
6. There are no material subsequent events that require adjustments to the pro forma financial effects.

7. CONFIRMATIONS TO THE TRP

Fortress has confirmed to the TRP that it holds sufficient NEPI Rockcastle shares to settle the Scheme Consideration.

8. SHAREHOLDER SUPPORT

The table below sets out the names of the Fortress shareholders, and their respective holdings of FFA and FFB shares per class and on a combined basis, who have provided Letters of Support to the Company as at the date of this announcement and who have agreed to their names being disclosed:

Shareholder register	Shares			Shareholding (%)		
	FFA	FFB	Total	FFA	FFB	Total
Peregrine Capital	51 568 777	170 899 920	222 468 697	4.4%	17.0%	10.3%
Coronation Fund Managers	187 814 927	0	187 814 927	16.1%	0.0%	8.7%
Meago Asset Management	71 550 284	34 071 424	105 621 708	6.1%	3.4%	4.9%
Steyn Capital Management	16 603 448	45 386 263	61 989 711	1.4%	4.5%	2.9%
Stanlib Asset Management	38 475 457	19 302 354	57 777 811	3.3%	1.9%	2.7%
Fortress Empowerment 1	0	54 521 590	54 521 590	0.0%	5.4%	2.5%
Fortress Empowerment 2	0	32 098 895	32 098 895	0.0%	3.2%	1.5%
Fortress Empowerment 3	0	54 530 064	54 530 064	0.0%	5.4%	2.5%
Fortress Empowerment 4	0	32 098 895	32 098 895	0.0%	3.2%	1.5%
Momentum Investments	29 844 353	18 594 874	48 439 227	2.6%	1.8%	2.2%
Allan Gray	42 263 676	0	42 263 676	3.6%	0.0%	1.9%
M & G Investments	23 419 480	6 723 356	30 142 836	2.0%	0.7%	1.4%
Dusty Gold Investments (Mark Stevens)	31 231	23 354 653	23 385 884	0.0%	2.3%	1.1%
35 Los Paltos (Mark Stevens)	7 500	77 500	85 000	0.0%	0.0%	0.0%
Mazi Capital	12 900 000	10 200 000	23 100 000	1.1%	1.0%	1.1%
Clucas Gray Investment	0	11 400 000	11 400 000	0.0%	1.1%	0.5%
Jean Avenue Property Investments (Andrew Teixeira)	0	7 799 750	7 799 750	0.0%	0.8%	0.4%
Browndesk Property Investments (Andrew Teixeira)	0	693 972	693 972	0.0%	0.1%	0.0%
Total	474 479 133	521 753 510	996 232 643	40.7%	51.9%	45.9%
Shares in issue net of treasury shares	1 164 733 176	1 005 676 675	2 170 409 851			

9. NO CONCERT PARTY ARRANGEMENTS

Fortress is not acting in concert with any other person in relation to the Scheme.

10. POSTING OF SCHEME CIRCULAR

10.1. Fortress will issue a scheme circular to its shareholders, as contemplated in Regulations 102 and 106, and within the time period stipulated in Regulation 102(2)(a), setting out the full terms and conditions of the Scheme and including a notice convening general meetings of FFA shareholders, FFB shareholders and FFA and FFB shareholders on a combined basis.

10.2. A further announcement with regard to the posting of the scheme circular will be released in due course.

11. RESPONSIBILITY STATEMENT

Each of the Board and the Independent Board accepts responsibility for the information contained in this announcement. To the best of the knowledge and belief of each of the Board and the Independent Board, the information contained in this announcement relating to Fortress is true, and this announcement does not omit anything that is likely to affect the import of such information.

5 October 2023

Financial advisor to the Independent Board



Legal advisor



Lead sponsor



Joint sponsor

