FORTRESS

REAL ESTATE INVESTMENTS

SHORT-FORM ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023 AND PROSPECTS

"Our FY2023 results have highlighted a notable achievement in that we have the largest direct portfolio of real estate assets in our history at R30 billion, excluding developments in progress, coupled with the lowest portfolio vacancy, dating back to listing in October 2009, at 3,7%. At the core of this result is the continued capital recycling through the disposal of older, under-performing properties to fund new developments which are in demand and have lower structural vacancies. Our relentless focus on driving each asset's performance by our dedicated asset management teams has contributed significantly to these achievements.

During the year, we completed R3,5 billion of new, state-of-the-art logistics developments, which include the 163 533m² Pick n Pay distribution centre at Eastport, valued at R2,24 billion. These new logistics facilities provide a strong underpin to our future growth ambitions, as well as that of our tenants, who benefit from greater efficiency in their operations from occupying well-designed and more energy-efficient buildings.

We continued to enhance our retail portfolio with the acquisition, from our co-owners, of the remaining 50% share in Flamwood Walk and Flamwood Value Centre. We further approved a redevelopment of the old Thrupps Illovo Centre, now renamed 204 Oxford, as well as the expansion of AbaQulusi Plaza (formerly Vryheid Plaza). This aligns with our strategy of expanding and enhancing our best-performing assets, where we have approved capital spend of approximately R500 million for these and other retail investments. During FY2023, we sold under-performing retail assets in Secunda, Middelburg, Bellville, Philippi and Makhanda for combined net proceeds of R549,5 million.

Globally, the rapid rise in interest rates to counter inflation has impacted commercial real estate, both from a valuation perspective and an increase in the funding costs for real estate businesses who utilise debt as part of their capital structures. South Africa has not been immune to this global rise in interest rates, albeit less pronounced than in developed markets, given the higher base interest rates at the start of the hiking cycle.

These higher interest rates have been the primary reason for the flat investment property valuations across our portfolio compared to the prior year, despite higher net operating income.

A further impact has been higher interest costs on our debt, however, this has been mitigated to a large extent, although not fully, by our interest rate hedges which now cover 85% of our interest rate risk for a period of 3,5 years. We are fortunate that the South African banking and debt capital markets remain stable and we are able to access funding on good terms and at fair prices. In contrast, many developed markets face challenges of much higher interest rates, coupled with falling capital values.

While many developed markets may be facing headwinds, our exposure to Central and Eastern Europe has provided us with a strategic diversification benefit with a 26% rise in the valuation of our direct portfolio when converted to South African Rand over the period and a 27% increase in the value of our NEPI Rockcastle investment held throughout the year. Both our direct logistics assets in the region and our associate, NEPI Rockcastle, have again performed well and have been a highlight for FY2023.

During FY2023, we transitioned from being a Real Estate Investment Trust to a Real Estate Investment Company. I want to compliment Ian Vorster, our CFO, and his finance team who have collectively managed a tiresome restructuring and have done so effectively and successfully. In light of our particular focus on developments and our investment portfolio composition, the REIC structure allows for tax benefits which could significantly reduce any tax leakage as it pertains to the relationship between the company and our shareholders. The waters remain as yet untested for this transition, however, we are cautiously optimistic about the efficiency which can be gained as it pertains to tax payable at company and shareholder level.

Our equity capital structure and our dual-share classes of A and B shares remain a hindrance and the board remains open to workable solutions to solve this sub-optimal structure. Market participants have the ability to neutralise the nuances between the two share classes by acquiring both A and B shares in roughly equal numbers, thereby accessing a share of the equity of the company.

The coming year will bring opportunities to well-capitalised real estate investors who are well-placed to take advantage of opportunities in a market where many sub-sector fundamentals remain strong, but where many businesses are primarily focused on their balance sheet and liquidity positions.

At Fortress, our focus on total returns over the long term will continue to drive our investment and capital allocation decisions. I would like to thank our teams who have achieved such a strong operational result in an environment that is both challenging and volatile."

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 Central and Eastern Europe ("CEE"), as well as growing our convenience and commuter-oriented retail portfolio which currently comprises 46 shopping centres, inclusive of centres co-owned with partners. Fortress also holds a strategic 23,9% interest in NEPI Rockcastle, the largest listed property company on the JSE Limited ("JSE"), with a EUR7 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, 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 the 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 REIT, per the JSE Listings Requirements, being an annual distribution of at least 75% of distributable profit ("Minimum Distribution Requirement"), in respect of the financial 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

	Jun 2023	Jun 2022	% change
Distributable earnings (R'000)	**1 797 267**	1 707 455	5,3
Dividend declared per share			
– FFA (cents)	**–**	–	–
– FFB (cents)	**–**	–	–

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INFORMATION

	Jun 2023	Jun 2022	% change
Revenue from direct property operations (R'000)	**3 787 954**	3 446 471	9,9
Total revenue (including revenue from investments) (R'000)	**3 787 954**	3 446 471	9,9
Net asset value ("NAV") (R'000)	**33 330 390**	26 740 401	24,6
NAV per equity share (going concern)^ (Rand)	**15,82**	12,70	24,6
Basic earnings per share – FFA (cents)	**281,92**	70,33*	300,9
Basic earnings/(loss) per share – FFB (cents)	**281,92**	(4,38)*	6 536,5
Headline earnings per share – FFA (cents)	**90,99**	153,24*	(40,6)
Headline earnings per share – FFB (cents)	**90,99**	78,52*	15,9

^ *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.*

* *Restated.*

SA REIT BEST PRACTICE DISCLOSURE

	Jun 2023	Jun 2022	% change
NAV per share	**14,85**	12,22	21,5
Loan-to-value ("LTV") ratio (%)	**35,9**	38,7	#
Funds from operations	**2 188 936**	1 911 378	14,5

Percentage change not meaningful to disclose or not applicable.

DISTRIBUTABLE EARNINGS AND DIVIDEND BENCHMARK

Distributable earnings amounted to R1 797,2 million for the financial year ended 30 June 2023 ("FY2023"), comprising R800,9 million for the interim reporting period for the six months ended 31 December 2022 ("1H2023") and R996,3 million for the final reporting period for the six months ended 30 June 2023 ("2H2023"). Distributable earnings for FY2023 is an after-tax amount, as Fortress pays the tax as a normal taxpayer, whereas for FY2022 the distributable earnings would have been fully taxable in the hands of shareholders, at their marginal tax rates, had the earnings been distributed under the previous REIT structure. This is not applicable for FY2023. This represents an increase of 5,3% in distributable earnings for FY2023 compared to the R1 707,5 million reported for FY2022. The distributable earnings for both 1H2023 and 2H2023 were below the FFA dividend benchmark of R1 028,7 million and R1 016,3 million, respectively. Accordingly, no dividends may be declared by the board.

The dividend benchmark for the FFA share is increased by the lower of the CPI or 5,0% over the prior comparable income period, using the CPI figures supplied by Statistics SA. CPI growth for the 2H2023 income period was 6,58% and therefore the FFA benchmark has been escalated by 5,0%. On this basis, the FFA benchmark base is 87,26 cents per share for future comparable income periods.

Due to the restriction in the MOI, the board is limited in its authority to declare dividends or distribute the retained distributable earnings. Retained earnings will be used to reduce debt and invest in liquid assets for deployment, in time, to resolve the capital structure. For 1H2023, an amount of R800,9 million was retained in this manner and was utilised to take up the scrip offer from NEPI Rockcastle, resulting in an additional holding of 8 077 478 NEPI Rockcastle shares with a current value of approximately R930 million. This capital retained is viewed as distinct from the capital generated from asset sales, which has been, and will continue to be, earmarked for deployment into funding the pipeline of logistics developments, enhancements to the retail portfolio and opportunistic acquisitions.

The company remains liquid and solvent.

PROSPECTS

We forecast total distributable earnings for the financial year ending 30 June 2024 ("FY2024") of R1,93 billion, representing an increase of 7,3% over FY2023.

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
- There are no changes to current tax legislation in the jurisdictions in which the company operates.

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 of the audited consolidated financial statements ("full announcement") for the year ended 30 June 2023 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 31 August 2023 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 2023. Any investment decisions should be based on consideration of the full announcement published on SENS and Fortress' website as a whole. In accordance with section 3.46A(g) of the JSE Listings Requirements, the full announcement (audited consolidated financial statements) together with the company's auditor's, KPMG Inc., audit report thereon have been published on Fortress' website and are available at: https://fortressfund.co.za/financials/view-pdf?id=Annual%20financial%20statements%2030%20June%202023 and on the JSE's website at: https://senspdf.jse.co.za/documents/2023/jse/isse/FFAE/FY2023.pdf.

Fortress' summary consolidated financial statements for the year ended 30 June 2023 which include directors' commentary have been published on Fortress' website at: https://fortressfund.co.za/financials/view-pdf?id=Summary%20consolidated%20financial%20statements%2030%20June%202023.

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 (audited consolidated 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' audited consolidated financial statements for the year ended 30 June 2023 from 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

Steven Brown	**Ian Vorster**	**Johannesburg**
Chief executive officer	*Chief financial officer*	31 August 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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