FORTRESS
REIT LIMITED

2019

PROVISIONAL AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

Eastport Logistics Park

DIRECTORS' COMMENTARY

CAPITAL STRUCTURE AND NATURE OF BUSINESS

In October 2019, we will be celebrating Fortress' 10th anniversary of being listed on the JSE Limited ("JSE"). Fortress is a Real Estate Investment Trust ("REIT") with internal asset management and two classes of listed shares offering investors different risk and reward profiles. The Fortress A ordinary share (share code: FFA, "FFA") has a preferential right to distribution of income and to capital participation upon winding up, which is calculated as the 60-day volume weighted average traded price on the JSE. The Fortress B ordinary share (share code: FFB, "FFB") has entitlement to the residual distributable income and capital participation upon winding up. Both share classes have equal voting rights per share.

We are the largest owner and developer of core, premium-grade logistics real estate in South Africa. We also own a retail portfolio of 61 commuter-oriented shopping centres (including co-owned properties). Our strategy of focusing on the development and selective acquisition of premium logistics facilities with long leases, as well as our continued investment in commuter-oriented retail shopping centres, remains relevant and has proven to be defensive in the current difficult economic climate. Sustainable rental growth, through the economic cycle, is anticipated to flow from both these sectors in the future.

At 30 June 2019, our property portfolio comprised the following:

Sector	Completed properties by value (% of total)*	Strategic land parcels for development by value (% of total)*
Logistics	35,6	78,4
Retail	38,5	4,8
Industrial	15,0	–
Office	9,0	16,8
Other#	1,9	–

 # Comprises hotel, residential, motor dealership and serviced apartment properties.

** Based on management accounts.*

Approximately 84% of our investment properties (completed properties and developments by value, based on management accounts) are concentrated in the three most populated and economically active provinces of South Africa, being Gauteng (61,8%), KwaZulu-Natal (15,2%) and the Western Cape (7,4%).

In addition to our property portfolio, we also have a 23,9% interest in NEPI Rockcastle plc ("NEPI Rockcastle"), valued at R18,1 billion, and an effective 11,1% interest (excluding treasury shares) in Resilient REIT Limited ("Resilient"), valued at R2,5 billion at 30 June 2019.

2019 IN PERSPECTIVE

Our business experienced a year of transition across many spheres. We faced a number of challenges, some specific to Fortress and some stemming from the general environment in which we operate. Many positive changes were implemented, which placed significant demands on staff and their efforts in this regard are commendable. Some of the key achievements from the past year include:

- The appointment of three new independent non-executive directors;
- The appointment of a new chief executive officer ("CEO") and a new chief financial officer ("CFO");
- A chief operating officer ("COO") position was created and filled;
- Exited non-core investments totalling R3,4 billion;
- Completion of developments amounting to R1,4 billion by value;

DIRECTORS' COMMENTARY continued

- Investing in ourselves by repurchasing R543 million of FFB shares;
- Conclusion by PricewaterhouseCoopers ("PwC") of a report on historical property transactions and share dealings by Fortress, former and current directors and senior management. The findings of the investigation and the board's responses to the report were made public. We believe that this report provides comfort to our stakeholders that these matters have been dealt with and that we can now shift our focus to further growing the business;
- The unwinding of the Siyakha Education Trust and the Siyakha 2 Education Trust ("Siyakha Trusts") structure and concluding a new black economic empowerment ("BEE") transaction;
- Significant strides toward improving our BEE rating;
- Supporting a number of corporate social investment ("CSI") initiatives;
- Issuing shares to staff under the new Fortress Long Term Incentive Plan ("LTIP"), which was approved by shareholders in November 2017;
- Establishing a number of new environmental initiatives, including solar electricity generation, as well as water use reduction and purification installations;
- Improving policies and processes relating to corporate governance in light of a new management team; and
- Successfully refinancing debt facilities and accessing the debt capital markets at favourable rates.

We are confident that our achievements and the progress we made during 2019 have established a solid base for Fortress going forward.

SUMMARY OF FINANCIAL PERFORMANCE

	Jun 2019	Dec 2018	Jun 2018	Dec 2017
Dividend per A share (cents)	**73,62**	74,73	70,57	71,20
Dividend per B share (cents)	**78,01**	77,49	88,93	90,07
Shares in issue at the end of the period				
– FFA	**1 189 915 138**	1 189 915 138	1 184 496 438	1 184 496 438
– FFB	**1 091 532 994**	1 091 532 994	1 086 114 294	1 086 114 294
Shares used for dividend per share calculation				
– FFA	**1 189 915 138**	1 189 915 138	1 184 496 438	1 184 496 438
– FFB	**1 029 369 870**	1 058 732 543	1 069 690 297	1 086 114 294
FFB shares held in treasury	**62 163 124#**	32 800 451	16 423 997	–
Management accounts information				
Net asset value ("NAV") per FFA share*	**R19,77**	R17,26	R16,26	R17,39
NAV per FFB share	**R11,80**	R13,87	R16,54	R35,08
Loan-to-value ("LTV") ratio** (%)	**32,2**	32,3	31,8	22,9
Net property expense ratio (%)	**18,0**	19,2	16,1	18,3
Gross property expense ratio (%)	**35,8**	37,2	33,6	35,4
Net total expense ratio (%)	**15,0**	15,1	13,1	13,8
Gross total expense ratio (%)	**28,8**	27,9	25,7	26,1
International Financial Reporting Standards ("IFRS") accounting				
NAV per FFA share*	**R19,77**	R17,26	R16,26	R17,39
NAV per FFB share	**R11,78**	R13,87	R16,54	R28,85

* *60-day volume-weighted average traded price at reporting date, limited to combined NAV.*

** *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 Refer to pages 30 and 31.*

\# *Excludes 64 197 790 FFB shares held by Fortress Empowerment 2 and Fortress Empowerment 4, which are consolidated and treated as treasury shares for IFRS purposes.*

We achieved a pleasing financial performance in 2019, despite operating in exceptionally tough economic conditions and specifically one of the most difficult environments faced by the South African property sector in recent memory.

We met our guidance for total distributable income for the 2019 financial year of 155,50 cents per FFB share, as communicated to stakeholders during May 2019. The total dividend per FFA share was 148,35 cents for the year.

FFA distributable income

The FFA dividend for the six months ended 30 June 2019 increased by 4,32% compared to the six months ended 30 June 2018, calculated as being the lower of the Consumer Price Index ("CPI") or 5,0%, using data supplied by Statistics SA. Accordingly, the dividend for the FFA share increased from 70,57 cents to 73,62 cents per share for this period. The FFA dividend has increased by 4,64% year-on-year.

FFB distributable income

The FFB dividend decreased from 179,00 cents per share for 2018 to 155,50 cents per share for 2019, which is in line with guidance. The decrease is principally attributable to the following:

- The effect of a change in distribution methodology in respect of limiting the interest on the loans to the Siyakha Trusts to the dividend accrued on the FFA and FFB shares owned by the Siyakha Trusts, which served as security for the loans. This methodology was not applicable for the first half of the 2018 financial year, when the full interest income on the Siyakha Trusts' loans was distributed. Going forward, this base effect will no longer be in the comparable figures;
- The gearing effect of preferential growth in dividends given to the FFA share in a low-growth environment;
- The performance from our investment in Lighthouse Capital Limited ("Lighthouse") was below that of the prior year. We disposed of this investment during the second half of the financial year;
- Additional costs resulting from our relocation to new offices in May 2018. This included an approximate 25% increase in headcount from 30 June 2018 to 30 June 2019;
- Once-off costs incurred, including legal and other advisory costs, relating to PwC's report which was concluded during the year;
- Additional costs incurred relating to the conclusion of a new BEE transaction (as part of the unwinding of the Siyakha Trusts), CSI and environmental, social and governance ("ESG") initiatives during the year.

The Fortress board of directors declared a dividend of 78,01 cents per FFB share for the six months ended 30 June 2019, compared to 88,93 cents per share for the comparable six-month period.

NAV

The group NAV increased marginally by 1,4% to R35,7 billion at 30 June 2019, up from R35,2 billion at 31 December 2018, primarily due to a combination of positive revaluations on our investments in NEPI Rockcastle and Resilient, offset by:

- A loss from the disposal of our interest in Lighthouse;
- An impairment to the value of the Clairwood Logistics Park ("Clairwood") land of R560 million;
- A reduction of approximately 2,3% in the valuation of the direct property portfolio on a like-for-like basis due to an increase in capitalisation and discount rates applied to the income from the portfolio by external valuers; and
- An effective decrease in the economic carrying value of the unwound Siyakha Trusts and new BEE structure at 30 June 2019 compared to 31 December 2018.

Information based on management accounts.

LTV ratio

The LTV ratio improved marginally from 32,3% at 31 December 2018 to 32,2% at 30 June 2019 on a like-for-like basis based on management accounts, and remains within the target range.

DIRECTORS' COMMENTARY continued

DIRECT PROPERTY PORTFOLIO

Developments

The logistics developments completed during the year showed a moderate gain on total development cost, including capitalised interest, with a weighted average yield of 8,28%. The result was negatively impacted by the development loss of R51 million on the first building completed at Clairwood, discussed in more detail below. Excluding this loss, the development profit as a percentage of total development cost would have been 10,47% at a net initial weighted average yield of 8,97%. We are seeing attractive pricing on construction of developments and view the difference between acquisition prices of assets and newly built prices of developments as a driver to continue rolling out our development pipeline and taking advantage of currently low construction costs.

Developments completed during 2019	% owned	Fortress' pro rata share of development cost R million	Net initial yield %	Completion date	Valuation at 30 Jun 2019 R million	Profit/(loss) on development cost R million
Louwlardia Logistics Park ("Louwlardia") Building 3 – Vodacom	100,0	157	8,04	Oct 2018	**168**	11
Eastport Logistics Park ("Eastport") Building 1 – Savino Del Bene	65,0	125	8,75	Nov 2018	**148**	23
Clairwood Logistics Park Building 1 – Sammar	100,0	364	6,85	Dec 2018	**313**	(51)
Cornubia Ridge Logistics Park ("Cornubia Ridge") Pocket 1 – Makro	50,1	165	8,25	Feb 2019	**164**	(1)
Union Logistics Park ("Union Park") Alberton – Phase 2	100,0	150	10,42	Mar 2019	**180**	30
Eastport Building 2	65,0	108	10,60	Apr 2019	**132**	24
Montague Business Park ("Montague") Decofurn	25,0	59	7,28	Apr 2019	**52**	(7)
		1 128	8,28		1 157	29

Louwlardia

Vodacom took occupation of the new 17 725m² facility at Louwlardia during November 2018. Worldwide Automotive Group ("WAG") and We Buy Cars both exercised their options to purchase a 50% undivided share in their respective facilities. Subdivision of the property has experienced delays at council, however, transfers are expected to occur before the end of the 2019 calendar year.

We have commenced construction of our next speculative building, comprising 14 300m². The pre-cast tilt up columns and walls have been manufactured and will lead to a faster construction time once plan approval has been received. Completion of this building will result in the full development of the park within four years of taking ownership.

Eastport (65% interest)

During the second half of the 2019 financial year, the first speculative building at Eastport, a 22 095m² state-of-the-art logistics facility, was completed and let to Teralco Proprietary Limited, a third-party logistics provider to Tiger Brands. We are delighted to welcome this tenant to Eastport.

Savino Del Bene took occupation of their new 24 776m² logistics facility in November 2018, and entered into a 12-year lease at a 6,5% annual escalation, with an option to purchase the facility.

The next two developments at Eastport will consist of a pre-let facility of 14 400m² and a speculative building of 13 700m². In addition, we are pursuing several other tenant-driven developments.

Clairwood

The first building of 24 990m² was completed and let to Sammar Investments Proprietary Limited, a third-party logistics provider to Sasol. In addition, the spine road has been completed, the gatehouse is fully operational and the park fire protection systems were installed. The on- and off-ramps to Clairwood were completed and opened to the public. The construction of the next building will commence once plans are approved by council. Several large enquiries are being pursued at Clairwood, proving the demand for core logistics in the area.

We remain optimistic about the long-term future of this investment and the world-class logistics facilities being developed at Clairwood will enhance the quality of our logistics portfolio. The challenging soil conditions in the Durban south basin, where Clairwood is situated, increases building costs above the average of our other logistics parks. However, rental demand in this node around the Durban port remains strong, with market rental levels some of the highest in the country.

We recognised an impairment of R560 million to the carrying value of the undeveloped land portion of Clairwood at 30 June 2019. We believe that this is a prudent approach, given that the total cost of the first completed development (as disclosed in the table above) is higher than the valuation at 30 June 2019 at a net yield of 8,35%.

Cornubia Ridge (50,1% owned)

Along with our partners at Cornubia Ridge, we successfully completed a new Makro retail facility during the financial year. Makro has entered into a 20-year triple-net lease agreement for its new 18 900m² store. All road infrastructure to the park has been completed, with the new interchange and bridge to Umhlanga providing exceptional access to the park. A speculative building of 23 700m², which can be subdivided, is currently under construction. Cornubia Ridge is set to benefit from the growth along the north coast of KwaZulu-Natal.

Union Park

The second of 21 764m² was completed and let to Goldfields Logistics, an existing tenant in the portfolio that required additional space. The strategy of proactively engaging and building long-term relationships with our existing client base was proven during the tenanting of this building.

Montague (25% owned)

During the year, a new 24 896m² pre-let facility was completed and Decofurn took occupation in April 2019 after entering into a 10-year lease, with an 8% annual escalation.

DIRECTORS' COMMENTARY continued

Westlake View Logistics Park ("Westlake View")

Westlake View Building 2 was successfully completed during the year and let to Kevro Proprietary Limited ("Kevro"), a leading distributor of corporate branded merchandise, on a 10-year triple net lease. Kevro requested additions to the facility and this property remains under development with the expected completion being in October 2019. The anticipated yield on this development is 7,84%.

Retail

Despite deteriorating economic conditions in South Africa, sales within our retail portfolio increased by an average of 4,3% over the past 12 months. This pleasing trading performance bears testimony to the defensive nature of our retail portfolio. Shopping centres exposed to the central business district ("CBD") commuter market showed the most growth, as they benefited from high foot traffic derived from surrounding transport nodes. Although we have relatively less exposure to suburban shopping centres, the focus by our retail team on providing a solid convenience offering resulted in increased sales from these centres. Rural and township centres showed the least growth in the portfolio, mainly as a result of increased competition within our catchment areas. The provincial sales growth breakdown compared to the previous 12 months is detailed below:

Province	Sales growth
Free State	17,0%
KwaZulu-Natal	6,0%
Eastern Cape	5,0%
Mpumalanga	5,0%
Western Cape	5,0%
Limpopo	4,3%
Gauteng	1,0%
North West	0,5%
Northern Cape	(0,6%)

The Free State portfolio benefited from an improved tenant mix after completing redevelopments at both Bloemfontein Value Centre and at Central Park Shopping Centre. Retail sales at these centres grew by 18% and 16%, respectively.

Similarly, the re-tenanting of Nongoma Shopping Centre and the Shoprite Kokstad Shopping Centre supported the sales growth of the KwaZulu-Natal portfolio.

In the Eastern Cape, the extension and enclosure of Sterkspruit Plaza was completed on time and within budget. The centre was relaunched on 22 August 2019, and new tenants to the centre include Ackermans, Debonairs, OBC Meat and Chicken, Sheet Street, Steers and Webbers.

Subsequent to year-end, we successfully completed the construction of White River Crossing Shopping Centre in Mpumalanga. This retail development, of which we own 51%, boasts national tenants such as Checkers, Dis-Chem, Mr Price Home, Pick n Pay Clothing and Woolworths. The centre has rights for future expansion which we will consider based on tenant demand.

The Gauteng portfolio performed poorly over this period, mainly due to higher vacancies at Fourways Value Mart and the introduction of a competing centre to Yarona Shopping Centre in Tembisa.

The low sales growth of the North West portfolio is attributed to the closure of JetMart at Midtown Mall in Rustenburg. We have already concluded new lease agreements with Ackermans, as well as another clothing retailer, to fill the space vacated by JetMart. Both tenants have taken beneficial occupation of the premises.

The negative retail sales growth in the Northern Cape portfolio relates to Kimberley Junction Centre, where clothing retailers who previously reported sales figures were replaced by a Standard Bank branch which does not report sales figures.

Fortress supported the restructuring exercise undertaken by the Edcon Group and agreed to reduce the rental charged on all Edgars, Jet and JetMart stores by 40,9%, in exchange for shares in the Edcon business. We ascribe no value to these shares and will continue to distribute only the cash component of rental received. During the last six months, we have reduced our exposure to the Edcon group by approximately 8 000m^2.

Offices

The office portfolio continues to experience challenging conditions. Oversupply in the market, coupled with tenant consolidation and aggressive offers from competing landlords, continue to negatively impact the performance of this portfolio. During the year, the vacant ex-PwC building in Pretoria and ex-Nampak building in Atholl Gardens were sold.

As communicated to stakeholders, we will dispose of our office portfolio and the capital will be recycled into the development of prime logistics properties.

During the financial year, we took transfer of the strategically located site on the corner of West and Stella streets, opposite the Sandton Gautrain station, with bulk rights of approximately 42 000m^2. Fortress is in advanced negotiations with a co-developer and a hotel operator to develop two new hotels along with premium grade offices and a suitable retail offering.

Industrial

The industrial portfolio continued to experience headwinds as a result of the faltering manufacturing environment, which led to increased vacancies in our properties. We are actively managing the portfolio through disposals, managing tenant relationships, and ensuring the properties are in a good condition and offer value to tenants. The industrial portfolio is considered non-core and proceeds from the disposals will be recycled into premium logistics facilities.

VACANCIES

Total vacancies, measured as a percentage of gross lettable area ("GLA"), increased marginally from 7,0% at 31 December 2018 to 7,2% at 30 June 2019. Excluding properties held for sale, the vacancy reduces to 6,9% at 30 June 2019.

There was a pleasing reduction in vacancies in the logistics, retail and office portfolios from 31 December 2018, however the industrial vacancy increased due to continued pressure on tenants.

Sectoral vacancy	Based on GLA Jun 2019 %	Based on GLA Dec 2018 %	Based on value per m^2 of building Jun 2019# %	Sector % of property portfolio by value Jun 2019*	Sector % of property portfolio by value Dec 2018*
Total	7,2	7,0	5,8	–	–
Total (excluding held for sale properties)	6,9	$	5,6	–	–
Logistics	4,0	5,5	3,9	35,6	33,8
Retail	4,0	4,9	3,6	38,5	39,1
Industrial	11,2	7,1	9,7	15,0	15,0
Offices	21,4	23,2	21,7	9,0	10,2
Other^	2,1	1,7	1,0	1,9	1,9

Information based on management accounts.

 # Vacancy based on the Rand value rate per square metre (100% of GLA and value) of the building. New disclosure metric introduced for financial year-end reporting and not measured at interim reporting period.

** Value of completed buildings only, excluding investment property under development at 30 June 2019 and 31 December 2018.*

$ New disclosure metric introduced for financial year-end reporting and not measured at interim reporting periods.

^ Includes hotel, residential, motor dealership and serviced apartments properties.

DIRECTORS' COMMENTARY continued

PROPERTY DISPOSALS

The following properties were sold during the year:

Property name	Sector	Net proceeds R'000	Book value Jun 2018 R'000	Transfer date	Exit yield %
New Redruth Village*	Retail	184 450	184 450	Aug 2018	8,59
PricewaterhouseCoopers Pretoria	Office	153 000	115 000	Dec 2018	@
Radnor Road Tygerberg	Logistics	111 700	95 000	Jun 2019	7,57
114 Dennis Road Atholl Gardens	Office	50 750	61 000	Jun 2019	@
Watt Road Uitenhage	Logistics	44 000	47 000	May 2019	@
Woolworths Newcastle*	Retail	31 400	31 400	Sep 2018	9,24
Le Roux and West Street Midrand	Industrial	30 000	27 800	May 2019	8,17
Yaldwyn Road Jet Park	Industrial	28 500	23 350	Dec 2018	@
24 Rudo Nell Street Jet Park	Industrial	26 000	23 660	Jun 2019	@
243 JG Strydom Drive Constantia Kloof	Other – motor dealership	22 300	23 500	Dec 2018	@
Westar Park Stormill*	Industrial	20 000	20 000	Jul 2018	9,25
Tradeport Land (erf 30 City Deep)*	Logistics (vacant land)	18 783	18 740	Nov 2018	–
4 Electron Street Linbro Park	Logistics	17 509	14 740	Nov 2018	8,30
Palm Springs Mall (petrol station only)#	Retail	16 750	16 750	Dec 2018	–
108 Roan Crescent	Logistics	16 600	16 597	Jun 2019	@
456 Granite Drive^	Industrial	14 000	13 320	Apr 2019	@
62 Gazelle Avenue	Industrial	8 250	8 088	Jun 2019	11,0
Flamwood Walk – 50% undivided share (petrol station only)#	Retail	7 250	7 200	Jan 2019	8,30
31 Indianapolis Street Kyalami^	Industrial	2 100	2 100	Mar 2019	@
		803 342	**749 695**		

** Shown as held for sale at 30 June 2018.*
^ Shown as held for sale at 31 December 2018.
@ Vacant.
 # Portion of property.

The disposal of these non-core properties was concluded at an overall 7,2% premium to the book value at 30 June 2018. The disposals were slower in the current year compared to prior years due to purchasers being less confident in the current economic climate and their funding conditions becoming more stringent, which often resulted in failed transactions. However, our pipeline of sales of R600 million (excluding the held for sale properties listed below) is encouraging and the dedicated sales team continues to perform well.

The following properties were held for sale at 30 June 2019:

Property name	Sector	Net proceeds R'000	Book value Jun 2018 R'000	Transfer date	Exit yield %
Louwlardia					
– Occupied by WAG – 50% undivided share*	Logistics	154 500~	**140 500**	$	8,50
– Occupied by We Buy Cars – 50% undivided share*	Logistics	112 500~	**107 200**	$	8,25
Shell and McDonalds Amanzimtoti	Retail	66 000	**51 800**	Jul 2019	6,74
ACA House Press Avenue Crown City	Logistics	49 500	**50 400**	Aug 2019	8,10
17 Kosi Place Umgeni* (leasehold property)	Office	36 000	**36 000**	$	6,46
204 Rivonia Road Morningside (portion only)	Office	31 350	**28 178**	$	@
Cambridge Randburg	Retail	24 000	**23 200**	Aug 2019	8,75
4 Chloorkring Richards Bay	Industrial	19 000	**17 400**	Aug 2019	18,80
Essex Street Tunney (portion only)	Industrial	17 075	**20 504**	$	11,61
Parc Nicol (portion only)	Office	14 550	**13 928**	Aug 2019	9,37
		524 475	489 110		

** Shown as held for sale at 30 June 2018.*
~ Net proceeds will be calculated on date of transfer at the pre-determined exit yield.
@ Vacant.
$ Not yet transferred.

DIRECTORS' COMMENTARY continued

LISTED PORTFOLIO

	Jun 2019		Jun 2018	
Counter	Number of shares	Fair value R'000	Number of shares	Fair value R'000
Greenbay Properties Limited (GRP)#	–	–	1 987 507 364	2 623 510
Lighthouse Capital Limited (LTE)#	–	–	–	–
NEPI Rockcastle plc (NRP)*	139 990 000	18 116 106	139 990 000	17 143 175
Resilient REIT Limited (RES)^	40 432 184	2 505 178	41 060 000	2 309 625
		20 621 284		22 076 310

Greenbay Properties Limited changed its name to Lighthouse during the year. A 20:1 share consolidation was undertaken after a return of capital was completed during the year. Subsequent to this return of capital, during the second half of the 2019 financial year, the group disposed of its entire shareholding in Lighthouse. This investment was treated as an associate and equity accounted up to the date of disposal, with an impairment loss being recognised in the statement of comprehensive income.

* *Fortress' interest in NEPI Rockcastle was treated as an associate (equity accounted) and was not fair valued in the financial statements. This equity accounted investment was impaired at 30 June 2019 as the carrying value exceeded the recoverable amount, with a partial reversal of impairment loss being recognised in the 2019 financial year in the statement of comprehensive income.*

^ *Shown as an investment in the IFRS and management accounts.*


Central Park Bloemfontein

We disposed of our entire Lighthouse investment during the second half of the 2019 financial year, and sold 627 816 Resilient shares at attractive prices.

The exposure to Central and Eastern Europe ("CEE") through our equity investment in NEPI Rockcastle provides the group with offshore diversification of both its asset base and income streams. NEPI Rockcastle released pleasing results, with distribution growth in line with forecast and an attractive NAV increase of 2,4% since December 2018. NEPI Rockcastle's conservative approach to gearing, high-quality portfolio and dominance in the CEE region place it on a strong footing to provide sustainable distribution growth into the future.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

We remain committed to the Amended Property Sector Charter (the "Charter") that was gazetted in July 2017, including the envisaged improvements and amendments thereto. During the year, we made great strides and committed significant resources, in terms of time, dedicated human capital and funds, towards supporting our renewed focus on BEE.

As communicated to stakeholders via the Stock Exchange News Services ("SENS") on 4 July 2019, we provided funding to two new entrants to the property sector in Jade Capital Partners and YW Investments, who are two strategic partners that acquired 50% of the FFB shares previously held by the Siyakha Trusts. The remaining 50% was acquired by two BEE vehicles that we consolidated at 30 June 2019, with the intention to introduce new BEE partners to these vehicles. Apart from our commitment to continue supporting existing students benefiting from the legacy Siyakha Trusts until completion of their studies, we have no further relationship with the trusts.

Major emphasis has been placed on the priority pillars stated in the Charter, and a number of successful initiatives have been implemented.

Fortress is a member of the South African Institute of Black Property Practitioners ("SAIBPP") and we are considering various initiatives with SAIBPP to support transformation within the property sector. We continue to engage with the Property Sector Charter Council on various industry-related matters.

White River Crossing

DIRECTORS' COMMENTARY continued

FUNDING AND LIQUIDITY

At 30 June 2019, the LTV ratio (based on management accounts) was 32,2%, marginally improved from 32,3% at 31 December 2018. During the second half of the 2019 financial year, we accepted a new senior secured facility of R1,472 million in the four-year (R500 million), five-year (R700 million) and six-year (R272 million) tenors from Nedbank. We early settled R1,085 million of near-expiry Standard Bank facilities from the proceeds, as well as a maturing issuance under the commercial paper programme of R200 million. Nedbank also renewed a R240 million facility after year-end for a period of five years.

We marked a return to the debt capital markets by successfully refinancing a R250 million bond with a one-year issuance of the same value.

Sanlam returned R254 million in cash collateral to us and restructured its facilities accordingly. The Sanlam facility was reduced by mutual agreement and is the only facility secured exclusively by listed equity. This will be restructured in the coming financial year.

We further early-refinanced a facility with RMB of R1,150 million, set to expire in November 2019, to November 2022.

We have seen strong demand from investors in the debt capital markets and placed a total of R800 million, post year-end in August 2019, of commercial paper and bonds with maturities of six months (R100 million), three years (R400 million) and five years (R300 million) at attractive pricing. Maintaining a balanced pool of lenders from which to source funding for our business remains a priority.

Our facility expiry profile has continued to improve, and we remain well positioned in terms of liquidity by maintaining low levels of gearing and healthy relationships with our main bankers as well as disposing of our non-core assets.

Facility expiry	Amount R million	Average margin over 3-month Jibar %
Jun 2020	3 480	1,73
Jun 2021	4 864	1,88
Jun 2022	4 460	1,88
Jun 2023	4 847	1,77
Jun 2024	1 333	1,97
Jun 2025	856	1,93
Jun 2026	–	–
Jun 2027	206	1,99
	20 046	**1,84**

The following interest rate derivatives are in place in mitigation of South African Rand interest rate risk:

Interest rate swap expiry	Amount R million	Average swap rate %
Jun 2020	300	6,87
Jun 2021	700	8,16
Jun 2022	600	7,99
Jun 2023	300	7,79
Jun 2024	400	7,43
Jun 2025	800	7,81
Jun 2026	1 050	7,88
Jun 2027	450	8,12
	4 600	**7,84**

Interest rate cap expiry	Amount R million	Average cap rate %
Jun 2020	200	7,52
Jun 2021	400	7,80
Jun 2022	400	7,76
Jun 2023	300	7,71
Jun 2024	400	7,98
Jun 2025	750	7,90
Jun 2026	500	7,90
Jun 2027	250	8,18
	3 200	**7,86**

The all-in weighted average cost of local funding of Fortress was 9,05% at 30 June 2019 and the average hedge term was 4,42 years.

The following interest rate derivatives are in place in mitigation of the group's exposure to foreign interest rate risk:

Interest rate cap expiry	Amount EUR'million	Average cap %
Jun 2022	146 900	0,36
Jun 2023	146 900	0,49
Jun 2024	79 900	0,33
Jun 2025	53 900	0,38
Jun 2026	35 000	0,45
	462 600	**0,41**

In total, 99,5% of the exposure to foreign base rates is hedged and the average hedge term is 4,27 years.

Variable interest rates*	South Africa '000	Offshore listed in South Africa '000
Interest-bearing borrowings	R17 122 435	
Currency derivatives	(R7 203 579)	R7 203 579
Loans to co-owners	(R584 447)	
Cash and cash equivalents	(R10 722)	
Capital commitments contracted for	R367 902	
Capital commitments approved	R43 225	
Investment property held for sale	(R524 475)	
	R9 210 339	**R7 203 579**
Spot rate		R15,50
Exposure		EUR464 747
Total interest rate derivatives (swaps/caps)	R7 800 000	EUR462 600
Percentage hedged	**84,7%**	**99,5%**

Information based on management accounts.

DIRECTORS' COMMENTARY continued

CURRENCY DERIVATIVES

Balance sheet hedging

The board's policy is to use cross-currency swaps as a means of obtaining funding at rates in a currency matched to that of the foreign investments. Fortress' cross-currency swap exposure has reduced by EUR68,3 million since 30 June 2018 due to the disposal of our investment in Lighthouse. Cross-currency swaps totalled EUR464,7 million against investments of EUR1,130 million at year-end, being 41% of the exposure.

Income hedging

Income from foreign investments is hedged in line with the following policy:

- Hedge 100% of the income projected to be received in the following 12 months;
- Hedge 67% of the income projected to be received in months 13 to 24; and
- Hedge 33% of the projected income to be received in months 25 to 36.

In line with this policy, the following forward exchange contracts are in place:

Forward rate against ZAR	EUR
Jun 2019	18,34
Dec 2019	17,94
Jun 2020	18,75
Dec 2020	19,07
Jun 2021	20,08
Dec 2021	20,71
Jun 2022	21,18

All forward exchange contracts relating to Lighthouse have been terminated following the disposal of the entire shareholding during the year.

REPURCHASE OF FFB SHARES

A total of 45 739 127 FFB shares were repurchased during the year at an average price of R11,86 per share. Combined with the 16 423 997 FFB shares received as a result of the unbundling by Resilient, Fortress holds a total of 62 163 124 FFB shares in treasury.

SUCCESSION PLANNING AND BOARD CHANGES

In December 2018, we announced a number of changes to Fortress' board of directors. Mr Mark Stevens, who was the founding CEO of the company, advised of his intention to retire within the next 12 months. The board unanimously appointed Mr Steven Brown as the CEO designate. Subsequent to 30 June 2019, Mr Stevens informed the board of his retirement at the end of September 2019. Mr Stevens will continue as an executive director until then and Mr Brown was appointed as CEO, effective 8 July 2019.

Mr Ian Vorster was appointed as the CFO of Fortress in December 2018. Mr Vorster was the partner in charge of Corporate Finance at Grant Thornton, and brings a wealth of experience in mergers and acquisitions, tax and IFRS.

A new position of COO was created and Mr Donnovan Pydigadu was appointed to this role. Mr Pydigadu previously headed up investor relations and has been actively involved in all of the major development initiatives since joining in May 2017. Mr Vuso Majija continues in the crucial role of retail executive and is a non-independent, non-executive director at NEPI Rockcastle.

We also welcomed three new independent non-executive directors to the board this year, being Mr Robin Lockhart-Ross, Ms Susan Ludolph and Ms Vuyiswa Mutshekwane, who all bring a range of fresh skills and insights to Fortress.

FORTRESS SUBCOMMITTEE

Fortress established a subcommittee to undertake an investigation following a request made by several institutional stakeholders as announced via SENS on 6 September 2018. The subcommittee appointed PwC to review certain historical property transactions by Fortress and its current and former directors, as well as share trading activities by Fortress and in Fortress shares. During the year ended 30 June 2019, the subcommittee completed its scope of work. The outcome of the subcommittee's investigation is available on our website.

Fortress is committed to the highest levels of corporate governance and open communication with all stakeholders. Significant progress has been made in this regard over the past year and the board is committed to further improve thereon.

Fortress has noted that the Financial Sector Conduct Authority ("FSCA") has closed its investigation into insider trading in Fortress shares. The FSCA has one open investigation into prohibited trading practices in relation to Fortress shares between 1 October 2017 and 31 March 2018. It should be noted that this FSCA investigation is not into the affairs of Fortress itself but into the trading in Fortress' shares on the JSE. We look forward to the conclusion of this remaining outstanding investigation.

PROSPECTS

The low-growth South African economy is set to continue on its current trajectory in the medium term. The focus will continue to be on proactively managing the vacancies in the portfolio and disposing of the non-core portfolio of assets. We are actively seeking new opportunities for growth in order to provide shareholders with superior returns on equity.

For the coming financial year we forecast the following:

- Total distributable income to increase by approximately 1%;
- Distribution on the FFA share to increase by the lower of CPI or 5% to approximately 155,8 cents per share; and
- Distribution per FFB share of between 148 and 153 cents per share which is below previous forecasts given the impairments taken at 30 June 2019 and the dividend methodology of capitalising interest on developments at the lower of cost or fair value for distribution purposes.

The forecast for the year ending 30 June 2020 is based on the application of a consistent distribution methodology and on the following assumptions:

Macroeconomic

- The macroeconomic environment will not deteriorate further;
- The current political landscape will not change dramatically; and
- South Africa's sovereign rating will remain investment grade (as rated by Moody's) and the outlook will not deteriorate.

Fortress-specific

The aforementioned macroeconomic factors will also have an impact on the assumptions below given the diversity of our portfolio:

- Contractual escalations and market-related renewals will be achieved with no major change in vacancy rates;
- No major corporate failures will occur;
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates;
- Distributions from NEPI Rockcastle and Resilient will be in line with their guidance communicated to the market; and
- There is no material adverse change in the value of our investment property under development which includes our strategic land holdings.

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

By order of the board

Steven Brown
CEO

Ian Vorster
CFO

Johannesburg
2 September 2019

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019

	Audited Jun 2019 R'000	Re-presented* Audited Jun 2018 R'000
ASSETS		
Non-current assets	52 047 749	54 611 851
Investment property	25 165 374	24 822 540
Straight-lining of rental revenue adjustment	551 739	469 458
Investment property under development	4 018 888	4 266 318
Property, plant and equipment	28 039	28 039
Investment in and loans to associates	18 781 341	20 440 010
Investments	2 505 178	2 309 625
Staff scheme loans	221 680	328 914
Loans to BEE vehicles	–	1 946 947
Investment in BEE preference shares	775 510	–
Current assets	878 055	1 428 926
Staff scheme loans	9 720	18 359
Trade and other receivables	856 818	733 716
Cash and cash equivalents	11 517	676 851
Non-current assets held for sale	524 475	603 290
Investment property held for sale	513 129	596 878
Straight-lining of rental revenue adjustment	11 346	6 412
Total assets	53 450 279	56 644 067
EQUITY AND LIABILITIES		
Total equity attributable to equity holders	34 897 324	36 951 001
Stated capital	45 571 807	45 571 944
Treasury shares	(1 578 517)	(259 171)
Currency translation reserve	5 017	28 821
Reserves	(9 100 983)	(8 390 593)
Non-controlling interests	122 879	99 017
Total equity	35 020 203	37 050 018
Total liabilities	18 430 076	19 594 049
Non-current liabilities	14 670 513	14 971 050
Interest-bearing borrowings	14 570 884	14 924 587
Deferred tax	99 629	46 463
Current liabilities	3 759 563	4 622 999
Trade and other payables	975 802	1 281 218
Income tax payable	176 954	–
Interest-bearing borrowings	2 606 807	3 341 781
Total equity and liabilities	53 450 279	56 644 067

** Investment property held for sale with the related straight-lining of rental revenue adjustment have been removed from current assets, as historically presented, and presented under non-current assets held for sale to achieve enhanced disclosure.*

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Audited Jun 2019 R'000	Audited Jun 2018 R'000
Recoveries and contractual rental revenue	3 326 617	3 290 708
Straight-lining of rental revenue adjustment	87 215	99 207
Revenue from direct property operations	3 413 832	3 389 915
Revenue from investments	214 595	243 489
Total revenue	3 628 427	3 633 404
Fair value loss on investment property, investments and derivative financial instruments	(225 343)	(2 104 143)
Fair value (loss)/gain on investment property	(957 526)	127 197
Adjustment resulting from straight-lining of rental revenue	(87 215)	(99 207)
Fair value gain/(loss) on investments	233 695	(1 746 035)
Fair value gain/(loss) on derivative financial instruments	585 703	(386 098)
Property operating expenses	(1 183 974)	(1 096 350)
Administrative expenses	(171 261)	(109 898)
Impairment of staff scheme loans	(34 949)	(151 932)
Impairment of loans to BEE vehicles	(611 983)	(1 858 177)
IFRS 2: Share-based Payment – employee incentive scheme	(37 134)	–
IFRS 2: Share-based Payment – BEE	(136 308)	–
Reversal of impairment of investment in associate	1 052 952	–
Profit on sale of interest in associate	–	3 706 415
Impairment of investments in associates	(85 207)	(9 128 395)
Exchange loss realised on disposal of associate from foreign currency translation reserve	(29 571)	–
Income from associates	1 553 156	1 913 476
– distributable	1 287 267	1 250 111
– non-distributable	265 889	663 365
Profit/(loss) before net finance costs	3 718 805	(5 195 600)
Net finance costs	(650 457)	(655 337)
Finance income	540 738	531 694
– Interest on staff scheme and other	88 552	99 126
– Interest on loans to BEE vehicles	452 186	432 568
Finance costs	(1 191 195)	(1 187 031)
– Interest on borrowings	(1 608 451)	(1 523 878)
– Capitalised interest	417 256	336 847
Profit/(loss) before income tax	3 068 348	(5 850 937)
Income tax	(421 501)	981 577
Profit/(loss) for the year attributable to equity holders	2 646 847	(4 869 360)

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

for the year ended 30 June 2019

	Audited Jun 2019 R'000	Audited Jun 2018 R'000
Other comprehensive income/(loss) net of tax		
Items that may subsequently be reclassified to profit or loss		
Exchange gain realised on translation of associates	–	134 200
Exchange (loss)/gain on translation of associates	(53 375)	28 770
Total comprehensive income/(loss) for the year	2 593 472	(4 706 390)
Profit/(loss) for the year attributable to:		
Equity holders of the company	2 617 631	(4 904 290)
Non-controlling interests	29 216	34 930
	2 646 847	(4 869 360)
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of the company	2 564 256	(4 741 320)
Non-controlling interests	29 216	34 930
	2 593 472	(4 706 390)
Basic earnings/(loss) per FFA share (cents)	116,83	(216,76)
Basic earnings/(loss) per FFB share (cents)	116,83	(216,76)
Diluted earnings/(loss) per FFA share (cents)	116,72	(216,76)[@]
Diluted earnings/(loss) per FFB share (cents)	116,72	(216,76)[@]

[@] *For the year ended 30 June 2018, diluted loss per share is the same as basic loss per share as there were no dilutionary instruments in issue.*

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Audited Jun 2019 R'000	Restated* Audited Jun 2018 R'000
Operating activities		
Cash generated from operations	3 509 814	3 004 690
Interest on staff scheme and other	97 191	103 110
Interest on borrowings (excluding capitalised interest)	(1 222 020)	(1 156 865)
Dividends paid	(3 500 317)	(3 626 296)
Income tax	(175 066)	(118 721)
Cash outflow from operating activities	(1 290 398)	(1 794 082)
Investing activities		
Development and improvement of investment property	(1 071 549)	(1 515 055)
Capitalised interest on development of investment property	(417 256)	(336 847)
Acquisition of investment property	(405 148)	(238 899)
Disposal of investment property	803 342	1 698 757
Increase of interest in and loans advanced to associates	–	(1 272 746)
Proceeds from disposal of interest in associate	674 580	–
Loans advanced to staff	–	(84 292)
Staff scheme loans repaid	72 285	367 701
Cash flow on derivative financial instruments	132 015	43 340
Acquisition of investments	–	(197 706)
Proceeds on disposal of investments	38 784	–
Loan repaid by BEE vehicle	234 846	559 882
Return of capital by associate	2 164 348	–
Cash inflow/(outflow) from investing activities	2 226 247	(975 865)
Financing activities		
(Decrease)/increase in interest-bearing borrowings	(1 057 852)	3 431 028
Acquisition of treasury shares	(543 331)	–
Cash (outflow)/inflow from financing activities	(1 601 183)	3 431 028
(Decrease)/increase in cash and cash equivalents	(665 334)	661 081
Cash and cash equivalents at the beginning of the year	676 851	15 770
Cash and cash equivalents at the end of the year	11 517	676 851
Cash and cash equivalents consist of:		
Current accounts	11 517	533 400
Restricted cash**	–	143 451
	11 517	676 851

* *Refer to page 27 for details regarding the restatement of the 30 June 2018 statement of cash flows.*

** *The restricted cash at 30 June 2018 was held as collateral by Sanlam against scrip lending facilities. There is no restricted cash at 30 June 2019.*

PROVISIONAL AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS | FORTRESS REIT LIMITED
FOR THE YEAR ENDED 30 JUNE | 2019

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

Audited	Stated capital R'000	Treasury shares R'000	Currency translation reserve R'000	Reserves R'000	Equity attributable to equity holders R'000	Non-controlling interests R'000	Total equity R'000
Balance at Jun 2017	45 072 151	–	(134 149)	136 460	45 074 462	38 101	45 112 563
Issue of shares (equal number of FFA and FFB shares)	499 793				499 793		499 793
Loss for the year				(4 904 290)	(4 904 290)	34 930	(4 869 360)
Non-controlling interest on Mantraweb consolidation					–	29 519	29 519
FFB treasury shares		(259 171)			(259 171)		(259 171)
Exchange gain realised on translation of associates			134 200		134 200		134 200
Exchange gain on translation of associates			28 770		28 770		28 770
Dividends paid				(3 622 763)	(3 622 763)	(3 533)	(3 626 296)
Balance at Jun 2018	**45 571 944**	**(259 171)**	**28 821**	**(8 390 593)**	**36 951 001**	**99 017**	**37 050 018**
Issue of shares (equal number of FFA and FFB shares)*	**(137)**				**(137)**		**(137)**
Profit for the year				**2 617 631**	**2 617 631**	**29 216**	**2 646 847**
IFRS 2: Share-based Payment – employee incentive scheme (retained earnings)				**37 134**	**37 134**		**37 134**
IFRS 2: Share-based Payment – BEE (retained earnings)				**129 808**	**129 808**		**129 808**
FFB treasury shares		**(1 319 346)**			**(1 319 346)**		**(1 319 346)**
Exchange loss realised on translation of associates reclassified to profit or loss			**29 571**		**29 571**		**29 571**
Exchange loss on translation of associates			**(53 375)**		**(53 375)**		**(53 375)**
Dividends paid				**(3 494 963)**	**(3 494 963)**	**(5 354)**	**(3 500 317)**
Balance at Jun 2019	**45 571 807**	**(1 578 517)**	**5 017**	**(9 100 983)**	**34 897 324**	**122 879**	**35 020 203**

* *5 418 700 FFA shares and 5 418 700 FFB shares were issued under the new LTIP, accounted for in terms of IFRS 2: Share-based Payment, with the effect that these shares are issued at no value, other than share issue costs incurred.*

NOTES

1. PREPARATION AND ACCOUNTING POLICIES

The provisional audited summarised consolidated financial statements for the year ended 30 June 2019 have been prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa applicable to summary financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. This report complies with the SA REIT Association Best Practice Recommendations. This report and the full set of consolidated financial statements were compiled under the supervision of Ian Vorster CA(SA), the financial director of Fortress.

The accounting policies applied in the preparation of the consolidated financial statements, from which the provisional summarised consolidated financial statements were derived, are consistent with the accounting policies applied in the preparation of the previous consolidated financial statements, with the exception of the following:

- Standards and interpretations that became effective in the current year:
  - IFRS 9: *Financial Instruments* and IFRS 15: *Revenue From Contracts With Customers* became effective in the current year, neither of which had a material quantitative effect on the financial statements of the group; and
- Changes in accounting policy in the current year:
  - Capitalised interest previously classified under cash flows from operating activities has been reclassified to cash flow from investing activities.

The group's investment properties are valued internally by the directors at interim reporting periods and externally by independent valuers for year-end reporting, other than investment property under development which are valued internally at both interim and year-end reporting periods. In terms of IAS 40: *Investment Property* and IFRS 7: *Financial Instruments: Disclosure,* investment properties are measured at fair value and are categorised as a level 3 fair value measurement.

The revaluation of investment property requires judgement in the determination of future cash flows from leases and application of an appropriate capitalisation rate and discount rate. Capitalisation rates may vary between 7,60% and 11,50%, with the exception of Musina Shopping Centre, which has a capitalisation rate of 21,00% and which is a leasehold property with six years remaining on the lease. Discount rates may vary between 12,25% and 17,00%. Changes in the capitalisation rate or discount rate attributable to changes in market conditions can have a significant impact on property valuations. A 25 basis points increase in the capitalisation rate will decrease the value of investment property by R705,0 million. A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R745,2 million.

In terms of IFRS 9 and IFRS 7, the group's currency and interest rate derivatives, as well as the investment in BEE preference shares, are measured at fair value through profit or loss and are categorised as a level 2 fair value measurement. In terms of IFRS 9, investments in listed equities are measured at fair value, being the quoted closing price at the reporting date, and are categorised as a level 1 fair value measurement. There were no transfers between levels 1, 2 and 3 during the year. The valuation methods applied are consistent with those applied in preparing the previous consolidated financial statements.

The directors are not aware of any matters or circumstances arising subsequent to 30 June 2019 that require additional disclosure or adjustment to the financial statements.

These summarised consolidated financial statements for the year ended 30 June 2019 have been audited by Deloitte & Touche, who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual consolidated financial statements from which these summarised consolidated financial statements were derived.

A copy of the auditor's report on the summarised consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports.

The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

2. LEASE EXPIRY PROFILE

Based on	Rentable area %	Contractual rental revenue %
Vacant	7,2	
Jun 2020	25,9	22,5
Jun 2021	18,4	18,3
Jun 2022	11,3	13,1
Jun 2023	13,0	14,9
Jun 2024	10,1	11,6
> Jun 2024	14,1	19,6
	100,0	**100,0**

NOTES continued

3. SEGMENTAL ANALYSIS

	Audited for the year ended Jun 2019 R'000	Audited for the year ended Jun 2018 R'000
Total revenue		
Logistics	1 138 525	1 089 064
Industrial	584 570	588 942
Offices	338 101	384 370
Retail	1 249 700	1 232 300
Other	102 936	95 239
Corporate	214 595	243 489
Total	3 628 427	3 633 404
Profit/(loss) after tax		
Logistics	328 620	756 464
Industrial	204 242	420 998
Offices	16 326	30 419
Retail	589 134	1 148 617
Other	80 844	50 127
Corporate	1 427 681	(7 275 985)
Total	2 646 847	(4 869 360)
Total assets		
Logistics	12 898 780	12 960 647
Industrial	4 017 950	3 990 562
Offices	3 097 819	3 005 757
Retail	10 643 328	10 528 551
Other	677 381	695 114
Corporate	22 115 021	25 463 436
Total	53 450 279	56 644 067

	Audited for the year ended Jun 2019 R'000	Audited for the year ended Jun 2018 R'000
Reconciliation of profit/(loss) for the year to dividend declared		
Profit/(loss) for the year	2 646 847	(4 869 360)
Fair value loss/(gain) on investment property	957 526	(127 197)
Fair value (gain)/loss on investments	(233 695)	1 746 035
Fair value (gain)/loss on derivative financial instruments	(585 703)	386 098
Impairment of staff scheme loans	34 949	151 932
Impairment of loans to BEE vehicles	611 983	1 858 177
Reversal of impairment of investment in associate	(1 052 952)	–
Impairment of investments in associates	85 207	9 128 395
Profit on sale of interest in associate	–	(3 706 415)
Exchange loss realised on disposal of associate from foreign currency translation reserve	29 571	–
Non-distributable income from associates	(265 889)	(663 365)
Interest received on long-term incentive plan (reversed for IFRS 2 charge)	3 322	–
IFRS 2: Share-based Payment – employee incentive scheme	37 134	–
IFRS 2: Share-based Payment – BEE	136 308	–
Income tax	421 501	(981 577)
Non-controlling interests	(898)	1 298
Antecedent dividend* (issuance)	5 961	8 957
Antecedent dividend* (FFB repurchase)	(22 785)	–
Loans to BEE vehicles interest reversal	(452 186)	(183 612)
BEE vehicles FFA dividend	708	669
BEE vehicles FFB dividend	111 323	102 267
Staff scheme interest limitation	(6 229)	–
Dividends accrued	247 047	3 242
Interest on cross-currency swaps	596 336	611 921
Foreign dividend hedging	34 429	176 426
Interest rate derivatives	(51 313)	(35 092)
Fortress Empowerment 1 to 4 (BEE) dividend waiver adjustment	100 161	–
Amount available for distribution	3 388 663	3 608 799
Interim dividend declared		
– FFA shares	(889 224)	(843 361)
– FFB shares (2019 net of 32 800 451 treasury shares)	(820 412)	(978 263)
Final dividend declared		
– FFA shares	(876 016)	(835 899)
– FFB shares (2019 net of 62 162 124 treasury shares) (2018 net of 16 423 997 treasury shares)	(803 011)	(951 276)
	–	–

The methodology applied in calculating the dividend is consistent with that of the prior year, except for:

- *The interest accrued on the Siyakha Trusts loans which has been limited to the dividends accrued on the Fortress shares held by the Siyakha Trusts in the same period. The methodology was changed with effect from the period 1 January 2018.*
- *The add-back of the IFRS 2: Share-based Payment charges.*
- *The adjustment for dividends that have been waived by Fortress Empowerment vehicles 1 to 4.*

NOTES continued

3. SEGMENTAL ANALYSIS continued

	Audited for the year ended Jun 2019 R'000	Restated* Audited for the year ended Jun 2018 R'000
Reconciliation of profit/(loss) for the year to headline earnings		
Basic earnings – profit/(loss)for the year attributable to equity holders	**2 617 631**	(4 904 290)
Adjusted for:	**(284 741)**	5 350 178
Fair value loss/(gain) on investment property (net of straight-lining adjustment)	**1 044 741**	(27 990)
Profit on sale of interest in associate	**–**	(3 706 415)
Reversal of impairment of associate	**(1 052 952)**	
Impairment of associate	**85 207**	9 128 395
Fair value gain on investment property of associates	**(413 239)**	(34 962)
Income tax effect	**51 502**	(8 850)
Headline earnings	**2 332 890**	445 888
Headline earnings per FFA share (cents)	**104,12**	19,71
Headline earnings per FFB share (cents)	**104,12**	19,71
Diluted headline earnings per FFA share (cents)	**104,02**	19,71[@]
Diluted headline earnings per FFB share (cents)	**104,02**	19,71[@]

* *Headline earnings per share for the year ended 30 June 2018 have been restated in respect of the impairment of associates removed from headline earnings.*

[@] *For the year ended 30 June 2018, diluted earnings per share and diluted headline earnings per share are the same as basic earnings per share and headline earnings per share, respectively, as there are no dilutionary instruments in issue.*

Basic earnings per share, diluted earnings per share, headline earnings per share and diluted headline earnings per share are based on the following weighted average shares in issue during the year:

	Jun 2019	Jun 2018
Weighted average number of shares		
– FFA share	**1 184 496 438**	1 181 699 243
– FFB share	**1 056 047 431**	1 080 842 250
Diluted weighted average number of shares		
– FFA share	**1 186 241 364**	1 181 699 243[@]
– FFB share	**1 056 467 976**	1 080 842 250[@]

[@] *For the year ended 30 June 2018, diluted earnings per share and diluted headline earnings per share are the same as basic earnings per share and headline earnings per share, respectively, as there are no dilutionary instruments in issue.*

4. RESTATEMENT OF FINANCIAL STATEMENTS

	Audited for the year ended Jun 2018 R'000
Impact on statement of cash flows increase/(decrease) in cash flows	
Cash generated from operations	583 715
Interest on borrowings (excluding capitalised interest)	336 847
Cash flow from operating activities	920 562
Capitalised interest on development of investment property	(336 847)
Cash flow on derivative financial instruments	(583 715)
Cash flow from investing activities	(920 562)
Movement in cash and cash equivalents	–

Restatement of items disclosed in the statement of cash flows

Reclassification of derivative financial instruments – prior period error

The classification of derivative financial instruments in the statement of cash flows for the year ended 30 June 2018 was revisited. As contracts are not held for dealing or trading purposes, the cash flows were reclassified as investing activities. The following reclassifications were made:

- Interest on cross-currency swaps previously classified as cash flows from operating activities has been reclassified to cash flow on derivative financial instruments in cash flow from investing activities; and
- Interest on interest rate derivatives previously classified as cash flows from operating activities has been reclassified to cash flow on derivative financial instruments in cash flows from investing activities.

The above reclassifications in respect of derivative financial instruments amount to a R583,7 million increase in cash generated from operations and an increase in cash outflows on derivative financial instruments.

Reclassification of capitalised interest – change in accounting policy

During the current year, the group changed its accounting policy with respect to the disclosure and classification of capitalised interest in the statement of cash flows. Capitalised interest (finance costs) has been reclassified in the statement of cash flows, from cash flows from operating activities to cash flows from investing activities in the 2019 year, with 2018 comparatives being restated. Capitalised interest relates to borrowing costs capitalised on development properties at the average cost of local funding of the group during the period of development. The group considers it more accurate to include this under investing activities as it relates directly to costs incurred for development and improvement of investment property under development and is a more accurate presentation of how cash is utilised.

Capitalised interest in the 2018 financial year amounts to R336,8 million which upon reclassification results in an increase in cash inflows from operating activities and an increase in cash outflows from development and improvement of investment property.

Restatement of HEPS

HEPS for the year ended 30 June 2018 has been restated in respect of the impairment of associates removed from headline earnings.

NOTES continued

PAYMENT OF FINAL DIVIDENDS

The board has approved, and notice is hereby given of final dividends of 73,62000 cents per FFA share and 78,01000 cents per FFB share for the six months ended 30 June 2019. The dividends are payable to Fortress shareholders in accordance with the timetable set out below:

Last date to trade *cum* dividend	Monday, 23 September 2019
Shares trade *ex* dividend	Wednesday, 25 September 2019
Record date	Friday, 27 September 2019
Payment date	Monday, 30 September 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 25 September 2019 and Friday, 27 September 2019, both days inclusive. In respect of dematerialised shareholders, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 30 September 2019. Certificated shareholders' dividend payments will be deposited on or about Monday, 30 September 2019. An announcement informing shareholders of the tax treatment of the dividends will be released separately on SENS.

DIRECTORS

Iraj Abedian (chairperson); Mark Stevens*; Steven Brown*; Robin Lockhart-Ross; Susan Ludolph; Vuso Majija*; Tshiamo Matlapeng-Vilakazi; Vuyiswa Mutshekwane; Bongiwe Njobe; Jan Potgieter; Donnovan Pydigadu*; Banus van der Walt; Djurk Venter; Ian Vorster*

**Executive director.*

CHANGES TO THE BOARD OF DIRECTORS

The following changes to the functions of directors were made since our previous report for the period ended 31 December 2018:

Effective 8 July 2019

Mr Mark Stevens resigned as CEO and managing director, however he will remain an executive director of Fortress until his retirement on 30 September 2019.

Mr Steven Brown was appointed as CEO and managing director.

There have been no other changes to the board of directors.

MANAGEMENT ACCOUNTS

BASIS OF PREPARATION

In order to provide information of relevance to investors, Fortress presents management accounts in addition to IFRS accounts. Whilst the management accounts have been extracted from the audited financial information for the year ended 30 June 2019 they are not IFRS compliant and therefore constitute pro-forma financial information per the JSE Listings Requirements. The management accounts have been prepared on the following basis:

- The group's interest in Arbour Town, an associate, that is accounted for on the equity method for IFRS purposes, is proportionately consolidated;
- The group's listed investment in NEPI Rockcastle that is accounted for on the equity method for IFRS purposes, is fair valued;
- The group accounts for its share of the assets, liabilities and results of partially-owned subsidiaries (Bridge, Cornubia, Mantraweb Residential and The Prism) on a proportionately consolidated basis instead of consolidating them; and
- The consolidated financial position and performance of Fortress Empowerment 2 and Fortress Empowerment 4 have been deconsolidated.

The *pro forma* financial information ("management accounts") has been prepared in terms of the JSE Listings Requirements and the SAICA guide on *pro forma* financial information.

Fortress' auditor and reporting accountant, Deloitte & Touche, has issued an unmodified independent reporting accountant's assurance report on this *pro forma* information, which report is available for inspection at the registered office.

DIRECTORS' RESPONSIBILITY STATEMENT

The preparation of the management accounts is the sole responsibility of the directors. These accounts have been prepared on the basis stated, for illustrative purposes only, to show the impact on the summarised consolidated statement of financial position and the summarised consolidated statement of comprehensive income. Due to their nature, the management accounts may not fairly present the financial position and results of the group in terms of IFRS.

MANAGEMENT ACCOUNTS ADJUSTMENTS

Adjustment 1

This adjustment proportionately consolidates the indirect investments in The Galleria and Arbour Crossing that are held through Arbour Town (Fortress has a 25% interest), accounted for on the equity method in terms of IFRS.

It effectively discloses the group's interest in the assets, liabilities and results of operations from these investments by disclosing the audited financial statements for the year ended 30 June 2019 on a line-by-line basis.

Adjustment 2

The investment in NEPI Rockcastle is reflected at fair value by multiplying the 139 990 000 shares held by the quoted closing price at of R129.41 at 30 June 2019. All entries relating to accounting for these investments on the equity method are reversed. This more accurately reflects the group's loan-to-value ratio and net asset value.

Adjustment 3

This adjustment proportionately consolidates the indirect investments in partially-owned subsidiaries (the indirect investments in Bridge, Cornubia, Mantraweb Residential and The Prism), consolidated in terms of IFRS.

It uses the audited financial statements for the year ended 30 June 2019 of Bridge, Cornubia, Mantraweb Residential and The Prism to reverse the non-controlling interests to reflect the group's interest in the assets, liabilities and results of operations from these investments.

Adjustment 4

The adjustment deconsolidates the IFRS required consolidation of Fortress Empowerment 2 and Fortress Empowerment 4, on the basis that the deconsolidated position reflects the intended future position of these entities, being outside of the control of Fortress.

PROVISIONAL AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS | FORTRESS REIT LIMITED
FOR THE YEAR ENDED 30 JUNE | 2019

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited IFRS Jun 2019 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town Jun 2019 R'000	Adj 2 Fair value accounting for investment in associate – listed investment Jun 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries Jun 2019 R'000	Adj 4 Deconsolidation of BEE vehicles Jun 2019 R'000	Management accounts Jun 2019 R'000
ASSETS						
Non-current assets	52 047 749	(498)	–	(172 255)	775 510	52 650 506
Investment property	25 165 374	653 780		(536 160)		25 282 994
Straight-lining of rental revenue adjustment	551 739	10 957		(29 050)		533 646
Investment property under development	4 018 888			(191 492)		3 827 396
Property, plant and equipment	28 039					28 039
Investment in and loans to associates	18 781 341	(665 235)	(18 116 106)			–
Investments	2 505 178		18 116 106			20 621 284
Staff scheme loans	221 680					221 680
Investment in BEE preference shares	775 510				775 510	1 551 020
Loans to co-owners	–			584 447		584 447
Current assets	878 055	6 158	–	(10 570)	–	873 643
Staff scheme loans	9 720					9 720
Trade and other receivables	856 818	5 441		(9 058)		853 201
Cash and cash equivalents	11 517	717		(1 512)		10 722
Non-current assets held for sale	524 475	–	–	–	–	524 475
Investment property held for sale	513 129					513 129
Straight-lining of rental revenue adjustment	11 346					11 346
Total assets	53 450 279	5 660	–	(182 825)	775 510	54 048 624
EQUITY AND LIABILITIES						
Total equity attributable to equity holders	34 897 324	–	–	–	775 510	35 672 834
Stated capital	45 571 807					45 571 807
Treasury shares	(1 578 517)				775 510	(803 007)
Currency translation reserve	5 017					5 017
Reserves	(9 100 983)					(9 100 983)
Non-controlling interests	122 879			(122 879)		–
Total equity	35 020 203	–	–	(122 879)	775 510	35 672 834
Total liabilities	18 430 076	5 660	–	(59 946)	–	18 375 790
Non-current liabilities	14 670 513	–	–	(55 256)	–	14 615 257
Interest-bearing borrowings	14 570 884			(55 256)		14 515 628
Deferred tax	99 629					99 629
Current liabilities	3 759 563	5 660	–	(4 690)	–	3 760 533
Trade and other payables	975 802	5 660		(4 690)		976 772
Income tax payable	176 954					176 954
Interest-bearing borrowings	2 606 807					2 606 807
Total equity and liabilities	53 450 279	5 660	–	(182 825)	775 510	54 048 624
NAV per FFA share (R)	19,77					19,77
NAV per FFB share (R)	11,78					11,80

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Income statement	Audited IFRS for the year ended Jun 2019 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the year ended Jun 2019 R'000	Adj 2 Fair value accounting for investment in associate – listed investment for the year ended Jun 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the year ended Jun 2019 R'000	Adj 4 Deconsolidation of BEE vehicles for the year ended Jun 2019 R'000	Management accounts for the year ended Jun 2019 R'000
Recoveries and contractual rental revenue	3 326 617	84 776		(49 883)		3 361 510
Straight-lining of rental revenue adjustment	87 215	(1 161)		(15 010)		71 044
Revenue from direct property operations	3 413 832	83 615	–	(64 893)	–	3 432 554
Revenue from investments	214 595		1 236 075			1 450 670
Total revenue	3 628 427	83 615	1 236 075	(64 893)	–	4 883 224
Fair value (loss)/gain on investment property, investments and derivative financial instruments	(225 343)	(15 982)	1 221 206	(13 308)	–	966 573
Fair value loss on investment property	(957 526)	(17 143)		(28 318)		(1 002 987)
Adjustment resulting from straight-lining of rental revenue	(87 215)	1 161		15 010		(71 044)
Fair value gain on investments	233 695		1 221 206			1 454 901
Fair value gain on derivative financial instruments	585 703					585 703
Property operating expenses	(1 183 974)	(33 476)		13 794		(1 203 656)
Administrative expenses	(171 261)	(222)		155		(171 328)
Impairment of staff scheme loans	(34 949)					(34 949)
Impairment of loans to BEE vehicles	(611 983)					(611 983)
IFRS 2: Share-based Payment – employee incentive scheme	(37 134)					(37 134)
IFRS 2: Share-based Payment – BEE	(136 308)					(136 308)
Reversal of impairment of investment in associate	1 052 952		(1 052 952)			–
Impairment of investment in associate	(85 207)		85 207			–
Exchange loss realised on disposal of associate from foreign currency translation reserve	(29 571)		29 571			–
Income from associates	1 553 156	(34 049)	(1 519 107)	–	–	–
– distributable	1 287 267	(51 192)	(1 236 075)			–
– non-distributable	265 889	17 143	(283 032)			–

PROVISIONAL AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS | FORTRESS REIT LIMITED
FOR THE YEAR ENDED 30 JUNE | 2019

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

continued

Income statement continued	Audited IFRS for the year ended Jun 2019 R'000	Adj 1 Fair value accounting for investments in associate – Arbour Town for the year ended Jun 2019 R'000	Adj 2 Fair value accounting for investment in associate – listed investment for the year ended Jun 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the year ended Jun 2019 R'000	Adj 4 Deconsolidation of BEE vehicles for the year ended Jun 2019 R'000	Management accounts for the year ended Jun 2019 R'000
Profit before net finance costs	3 718 805	(114)	–	(64 252)	–	3 654 439
Net finance costs	(650 457)	114	–	35 036	–	(615 307)
Finance income	540 738	–	–	61 656	–	602 394
– Interest on staff scheme and other	88 552			61 656		150 208
– Interest on loans to BEE vehicles	452 186					452 186
Finance costs	(1 191 195)	114	–	(26 620)	–	(1 217 701)
– Interest on borrowings	(1 608 451)	114		–		(1 608 337)
– Capitalised interest	417 256			(26 620)		390 636
Profit before income tax	3 068 348	–	–	(29 216)	–	3 039 132
Income tax	(421 501)			–	–	(421 501)
Profit for the year attributable to equity holders	2 646 847	–	–	(29 216)	–	2 617 631
Profit for the year attributable to:						
Equity holders of the company	2 617 631	–	–	–	–	2 617 631
Non-controlling interests	29 216			(29 216)		–
Total comprehensive income for the year	2 646 847	–	–	(29 216)	–	2 617 631
Basic earnings per FFA share (cents)	116,83					116,83
Basic earnings per FFB share (cents)	116,83					116,83
Diluted earnings per FFA share (cents)	116,72					116,72
Diluted earnings per FFB share (cents)	116,72					116,72
Headline earnings per FFA share (cents)	104,12					164,77
Headline earnings per FFB share (cents)	104,12					164,77
Diluted headline earnings per FFA share (cents)	104,02					164,61
Diluted headline earnings per FFB share (cents)	104,02					164,61
Headline earnings						
Profit for the year attributable to equity holders	2 617 631					2 617 631
Adjusted for:	(284 741)					1 074 031
– fair value loss on investment property (net of straight-lining adjustment)	1 044 741					1 074 031
– reversal of impairment of associate	(1 052 952)					
– impairment of associate	85 207					
– fair value gain on investment property of associates	(413 239)					
– income tax effect	51 502					
Headline earnings	2 332 890					3 691 662

CORPORATE INFORMATION

COMPANY DETAILS

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
Bond company code: FORI
("Fortress" or "the group" or "the company")
(Approved as a REIT by the JSE)
Block C, Cullinan Place,
Cullinan Close, Morningside, 2196
(PO Box 138, Rivonia, 2128)

COMMERCIAL BANKERS

The Standard Bank of South Africa Limited

(Registration number: 1962/000738/06)
Corporate and Investment Banking
7th Floor, 3 Simmonds Street, Johannesburg, 2001
(PO Box 61029, Marshalltown, 2107)

TRANSFER SECRETARIES

Link Market Services South Africa Proprietary Limited

(Registration number: 2000/007239/07)
13th Floor,19 Ameshoff Street, Braamfontein, 2001
(PO Box 10462, Johannesburg, 2000)

LEAD SPONSOR

Java Capital Trustees and Sponsors Proprietary Limited

(Registration number: 2006/005780/07)
6A Sandown Valley Crescent, Sandown, Sandton, 2196
(PO Box 522606, Saxonwold, 2132)

JOINT SPONSOR

Nedbank Limited, acting through its Corporate and Investment Banking Division

(Registration number: 1951/000009/06)
3rd Floor, Corporate Place, Nedbank Sandton,
135 Rivonia Road, Sandton, 2196
(PO Box 1144, Johannesburg, 2000)

SECRETARY AND REGISTERED OFFICE

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