FORTRESS
REIT LIMITED

SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2020

Cornubia Logistics Park

DIRECTORS' COMMENTARY

The 2020 financial year was defined by the final quarter of the reporting period and the outbreak of the COVID-19 pandemic with the resulting lockdown imposed by the government in South Africa and other governments around the world. The conservative loan-to-value ("LTV") and cash retention measures implemented by management before the pandemic allowed us to withstand the numerous, unforeseen and unprecedented shocks to the markets in which we operate. We were able to react quickly to protect the people who run our business, as well as the people who use our real estate assets. Furthermore, we focused on protecting our liquidity and balance sheet and we feel confident that our business is currently, and will remain, well capitalised post the pandemic without major change to our strategy.

Lower distributable earnings and the need for a conservative approach to cash retention led to a reduction in dividends, but had to be balanced against the regulatory environment in which we operate and importantly the need to maintain our status as a Real Estate Investment Trust ("REIT").

The risk mitigation undertaken during the year now provides us with cash and available facilities of approximately R2,8 billion, a LTV ratio below 39% and no further exposure to Euro debt through cross-currency swaps. These measures have reduced the overall risk our business faces, which is welcomed at a time when focus on our existing assets and execution of our strategy have become even more important.

At the date of this report, there are no restrictions on trading at any of our directly owned properties following the easing of restrictions to Level 2 of the COVID-19 lockdown. This is pleasing given that, based on gross lettable area ("GLA"), tenants in our retail portfolio who were allowed to trade reduced to a low of 41% during the Level 5 lockdown.

NATURE OF THE BUSINESS

Fortress REIT Limited ("Fortress") is a REIT specialising in the logistics and retail property sectors with an established development track record.

Our focus remains on being the developer and landlord of choice for premium-grade logistics real estate in South Africa. The core logistics portfolio of assets is complemented by a development pipeline on which we are able to develop one million square metres of GLA. The retail portfolio comprises 59 shopping centres, which includes properties co-owned with partners. We have continued with the strategy of holding, developing and selectively acquiring core logistics facilities in prime locations, while continuing to invest in commuter-oriented convenience retail shopping centres.

At 30 June 2020, our property portfolio comprised of the following:

Sector	Direct property portfolio by value R'billion*	As a % of total direct property assets
Logistics^	12,0	42,3
Retail	10,1	35,6
Industrial	3,5	12,3
Office&	2,4	8,4
Other#	0,4	1,4
Total direct property portfolio	**28,4**	**100,0**

* *Based on management accounts.*
^ *Includes land bank and work-in-progress of R3,0 billion.*
& *Includes development sites of R0,3 billion.*
# *Comprises a hotel, residential units, motor dealerships and serviced apartment properties.*

DIRECTORS' COMMENTARY continued

In addition to our property portfolio, we have a 23,3% interest in NEPI Rockcastle plc ("NEPI Rockcastle"), valued at R12,4 billion at 30 June 2020.

	Jun 2020			Jun 2019		
Listed portfolio	Number of shares	Fair value R'000	Effective holding %	Number of shares	Fair value R'000	Effective holding %
NEPI Rockcastle	**140 000 000**	**12 426 400**	**23,3**	139 990 000	18 116 106	23,9
Resilient	**–**	**–**	**–**	40 432 184	2 505 178	11,1
		12 426 400			20 621 284	

We exited our entire investment in Resilient REIT Limited ("Resilient") during the second half of the financial year, mostly by way of a distribution *in specie* of the dividends declared on the Fortress A ("FFA") and Fortress B ("FFB") shares for the six months ended 31 December 2019. The remaining Resilient shares were disposed of through the market.

CAPITAL STRUCTURE

The current capital structure comprises two classes of ordinary shares, each with equal voting rights, but different entitlements to distributions and capital participation on redemption or winding up. The Fortress A ordinary share (share code: FFA) has a preferential right to distributions of income in any income period if a distribution is declared and to capital participation upon winding up or redemption, which is calculated as the 60-day volume-weighted average price on the JSE Limited ("JSE") subject to a floor of R8,11 if redeemed. The Fortress B ordinary share (share code: FFB) has entitlement to the residual distribution of income in any income period if a distribution is declared and to the residual capital upon winding up.

The board considered and embarked on a process to optimise the capital structure during the year. However, due to the volatility and uncertainty created by the COVID-19 pandemic and factoring in the feedback from engagements with shareholders, the sub-committee was dissolved and the capital structure remains unchanged.

2020 REVIEW

The 2020 financial year marks the first reporting cycle under the new executive management team. In addition to the highlights reported on for the six months ended 31 December 2019, notable matters and areas of focus for this past year and to the date of this report include:

- We amended our Memorandum of Incorporation ("MOI") to give the board the flexibility to declare a dividend less than the FFA distribution entitlement, but sufficient in total for the financial year to maintain our REIT status;
- We closed or neutralised all the synthetic Euro debt exposure under the cross-currency swaps at an average rate of R18,18 to the Euro;
- We proactively secured a healthy liquidity position of approximately R2,8 billion in cash and available facilities at the date of this report;
- We collected 93% of rental billed during the five months from April 2020 to August 2020;
- Our LTV ratio of 38,5%, while above our target of 30% to 35%, remains manageable given the dramatically lower interest rates;
- In addition to the refinancing of R4,5 billion of facilities as reported on in our 2020 interim results, we refinanced an additional R1 150 million facility to November 2023;
- We took advantage of the lower interest rates and entered into a net R1,3 billion of additional local interest rate hedges since the 2020 interim results announcement published on 5 March 2020, both during the six-month period and after financial year-end;
- We managed to limit a deterioration in vacancies from 8,0% at 31 December 2019 to 8,9% at 30 June 2020, despite unprecedented disruptions caused by the COVID-19 pandemic, load shedding and weaker economic fundamentals;
- We disposed of R877,5 million of non-core properties during the year and a further R14,6 million held for sale at year-end subsequently transferred;
- We exited our investment in Resilient as noted earlier;
- We placed a R200 million five-year bond in October 2019 and R300 million in one-year notes in February 2020 in the debt capital markets; and
- We generated five times more electricity from our solar installations than in the prior year.

SUMMARY OF FINANCIAL PERFORMANCE

	Jun 2020	Dec 2019	Jun 2019	Dec 2018
Dividend per FFA share (cents)&	**23,00**	77,67	73,62	74,73
Dividend per FFB share (cents)	**–**	74,84	78,01	77,49
Shares in issue at the end of the period				
– FFA	**1 191 595 172**	1 191 595 172	1 189 915 138	1 189 915 138
– FFB	**1 093 213 028**	1 093 213 028	1 091 532 994	1 091 532 994
Shares used for dividend per share calculation				
– FFA	**1 191 595 172**	1 191 595 172	1 189 915 138	1 189 915 138
– FFB	**1 031 049 904**	1 031 049 904	1 029 369 870	1 058 732 543
FFB shares held in treasury	**62 163 124#**	62 163 124#	62 163 124#	32 800 451
Management accounts information				
Net asset value ("NAV") per equity share (going concern)^	**R10,94**	R15,59	R16,07	R16,18
NAV per FFA share*	**R11,08**	R20,35	R19,77	R17,26
NAV per FFB share	**R10,77**	R10,08	R11,80	R13,87
LTV ratio** (%)	**38,5**	33,3	32,2	32,3
Net property expense ratio (%)	**24,3**	18,0	18,0	19,2
Gross property expense ratio (%)	**40,8**	36,1	35,8	37,2
Net total expense ratio (%)	**20,1**	15,6	15,0	15,1
Gross total expense ratio (%)	**34,2**	28,9	28,8	27,9
International Financial Reporting Standards ("IFRS") accounting				
NAV per equity share (going concern)^	**R11,17**	R15,81	R16,19	R16,18
NAV per FFA share*	**R11,08**	R20,35	R19,77	R17,26
NAV per FFB share	**R11,29**	R10,22	R11,78	R13,87

& *The dividend per FFA share of 23,00 cents is less than the entitlement of 76,13 cents which is further explained under the "Dividends" section.*

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.

^ *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.*

* *60-day volume-weighted average traded price at the 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 26 and 27.*

DIRECTORS' COMMENTARY continued

Distributable income

Total distributable income was down markedly from our forecast of R3,079 billion for the year to R2,217 billion due to the COVID-19 pandemic and the extent of the lockdown imposed by the South African government, as well as the lower earnings from our associate NEPI Rockcastle. The reduction from the prior year was 34,6%. Given the nature of the capitalisation issue by NEPI Rockcastle *in lieu* of a scrip dividend, which would have required a cash alternative to be offered to shareholders, we have applied the same methodology as to previously received scrip dividends and included the capitalisation issue in distributable earnings.

Dividends

We are appreciative for the overwhelming support received from our shareholders in the alteration of our MOI, which has given the board the required flexibility to distribute a dividend less than the FFA dividend entitlement, but greater than nil, in order to maintain our REIT status. As a result of our distributable income falling short of the FFA dividend entitlement, the board has taken the decision to declare a dividend of 23,00 cents per FFA share for the final six-month income period of the 2020 financial year. The FFB shares will not receive a dividend for the second income period of the 2020 financial year.

The dividend entitlement for the FFA share is increased by the lower of the Consumer Price Index ("CPI") or 5,0% over the prior comparable period, using data supplied by Statistics SA. CPI for the second six-month period of the 2020 financial year was 3,41% and the entitlement is therefore 76,13 cents per FFA share. This becomes the reference base for future dividends on the FFA share should the minimum distributable income be available.

Given these unprecedented times, the REIT sector has engaged with the JSE and National Treasury with a view to reduce the minimum payout ratio to maintain REIT status per the JSE Listings Requirements. We are supportive of these discussions which are ongoing and complicated. Our aggregated dividend declared for the full year ended 30 June 2020 meets the JSE requirement for a REIT to distribute 75% of its defined distributable profit.

Dividend policy

During the financial year, we communicated that Fortress would discontinue distributing capitalised interest. This conservative policy remains appropriate for the current economic environment in which balance sheet strength and liquidity are of paramount importance.

While our previously communicated dividend policy is based on sound principles, and in our view does not require alteration, we will continue to prioritise liquidity and balance sheet strength. In light of our higher LTV ratio and the unprecedented situation of COVID-19, we deem it necessary to reduce the dividend for the final distribution period of the financial year.

NAV

We have not recognised any intangible assets on our balance sheet and accordingly our NAV and tangible net asset value ("TNAV") are the same. Fortress had a TNAV of R34,6 billion at 31 December 2019, which has decreased to R24,3 billion at 30 June 2020, primarily due to:

- Fair value adjustments to our NEPI Rockcastle shareholding;
- Fair value adjustments on the standing and development property portfolio; and
- Fair value adjustments on the funding to our Black Economic Empowerment ("BEE") vehicles due to a lower FFB share price.

The TNAV per equity share at 30 June 2020 was R10,94, calculated as tangible NAV divided by all shares in issue, net of treasury shares. The TNAV per equity share metric was introduced for the first time in the 31 December 2019 interim results and in our view, outside of a redemption or winding-up event, provides the fairest reflection of the per share TNAV for both FFA and FFB shares.

Information based on management accounts.

LTV ratio

The LTV ratio has increased from 33,3% at 31 December 2019 to 38,5% at 30 June 2020 based on management accounts and is above the target range of 30% to 35%. However, lower interest rates have made the serviceability of this debt more affordable and management will continue to assess the position over the coming periods.

DIRECT PROPERTY PORTFOLIO

Logistics portfolio

(R9,0 billion asset value)

The standing logistics portfolio continues to perform well relative to the other portfolios. The vacancy remained controlled and low at 3,0%. The logistics portfolio was not immune to the impact of the lockdown with collections as a percentage of total billings of 95% for the five months from April 2020 to August 2020. The newer prime logistics assets were less impacted with the larger tenants able to withstand the turbulent market conditions.

Logistics developments

(R3,0 billion asset value)

During the financial year, we commenced the next round of speculative developments in our development pipeline. We reviewed all capital expenditure projects in light of the need to retain financial flexibility, but given our comfortable liquidity position and the manageable cost to complete the developments, decided to continue to completion rather than pause any ongoing developments. We have committed R675 million of capital expenditure for the coming financial year to roll out logistics facilities at Eastport Logistics Park ("Eastport"), Clairwood Logistics Park ("Clairwood"), Longlake Logistics Park ("Longlake") and Louwlardia Logistics Park ("Louwlardia").

Louwlardia

Louwlardia was acquired in 2015 and the last building in this park will be completed in October 2020. The completion of this park encapsulates the strategy of rolling out the pipeline through a combination of speculative buildings and pre-let, built-to-suit properties. The last building in this park will be a 14 300m^2 facility built to our latest specifications.

Eastport (65% interest)

Eastport, which is situated on the R21 highway, gives us exposure to one of the highest growth corridors in the largest provincial economy of Gauteng. This corridor has experienced significant growth over the years, as evidenced by the success of the older neighbouring parks. An array of blue-chip tenants is present in the corridor and we are well positioned to capitalise on their growing needs.

Our park will offer the market more than 450 000m^2 of premium-grade, core logistics facilities developed to the highest specification. Savino del Bene, the first tenant in the park, exercised their option to buy and took transfer of their building at a forward yield of approximately 7,4%, representing a 25% profit on total development cost. We continue to see the benefit of structuring deals on a similar basis with tenants.

Clairwood

Construction is underway on 49 000m^2 of sub-divisible warehousing opposite the warehouse let to Sammar. These warehouses will be completed in the next year.

Subsequent to year-end we signed an offer to lease a built-to-suit container terminal at Clairwood along with temporary container storage on the vacant land. We believe this will add to the attractiveness of the logistics park for other tenants once completed in 2021.

We recognised an impairment of R392 million in the 2020 financial year to the carrying value of the undeveloped land portion at Clairwood. This is consistent with our view that the land value at Clairwood has not appreciated since 30 June 2019. Market rentals in the area are also reflective of an economy under pressure.

Cornubia Ridge (50,1% owned)

Construction was delayed on the speculative development at Cornubia Ridge and practical completion was achieved in August 2020. We have agreed with our development partners to separate this asset into undivided shares and will transfer 49,9% of the Makro as well as 49,9% of the aforementioned development and the remaining land in the coming financial year. The development partners will repay the funding provided by us on transfer. We have provided funding of approximately R620 million against cost for the total Cornubia Ridge development of approximately R850 million.

An impairment of R72 million was recognised on the full Cornubia Ridge asset (Makro, land and development) at year-end given the market conditions. Our interest in this subsidiary is 50,1%.

Longlake

Longlake consists of two strategically situated portions of land, being Longlake Extension 4 and Longlake Extension 2. This park is located at the intersection of Marlboro Drive and the K113. Development has commenced on the first phase of this premium-grade park on Longlake Extension 4 with the construction of a 36 533m^2 sub-divisible logistics facility. Demand is strong in the node given the easy access to the N3 highway and the future extension of the road infrastructure to Allandale Road.

24 458m^2 of the park has been let to Zest Weg on a 10-year triple net lease at an 8,5% net initial yield, with an escalation of 7,0% per annum, commencing in January 2021.

DIRECTORS' COMMENTARY continued

Retail

(R10,1 billion asset value)

Following the outbreak of the COVID-19 pandemic, the South African government imposed a 35-day Level 5 lockdown from 27 March to 30 April 2020. During this period, only essential retailers were permitted to trade, resulting in only 41% of our tenants being permitted to open and trade, based on GLA. The lockdown added a further burden on a South African economy which was already in recession pre-COVID-19. Within this context, our retail portfolio delivered better than expected like-for-like annual sales figures contracting by 2,5%, however, still above the negative 7,5% national sales growth reported by Statistics SA for the same period.

The first nine months of the financial year saw positive sales growth of 3% from July 2019 to March 2020. April 2020 sales declined sharply to only 51% of the prior year's level, while May and June 2020 sales recovered well to 93% and 95% of corresponding prior year levels respectively, resulting in the overall full-year sales contraction of 2,5%. The steady recovery of sales has continued into July 2020 where sales figures were at 97% of the prior year's levels.

The grocery and pharmaceutical categories continue to outperform, while the hardware/home improvement category and clothing retailers, with a focus on affordability and comfort apparel, also performed well. Restaurants, liquor stores and places of gambling have been hardest hit by the lockdown and restrictions. We analyse turnover performance of the portfolio split as follows:

Portfolio split	Comparative annual turnover growth Jun 2019 (12 months) versus Jun 2020 (12 months) %	% of total retail portfolio by value
CBD and Township centres	(4,9)	35,2
Rural centres	(1,0)	23,3
Suburban centres	(1,2)	41,5
Combined retail portfolio	(2,5)	100,0

CBD and Township centres

The footfall at the CBD shopping centres was severely impacted by restrictions on the use of public transport and by people working from home. Secunda Square, The Plaza Mbombela, Bellstar Bellville, Park Central Shopping Centre and Central Park Bloemfontein, which serve the commuter market, were particularly affected by restrictions imposed on taxis and public transport.

The weaker performance of the Township centres can largely be attributed to social distancing management and resultant restrictions on the number of consumers allowed in-store. This created mass queueing in Township centres and discouraged shoppers.

Trading has improved at both CBD and Township centres since the relaxation of COVID-19 restrictions. The government's social support measures have helped to cushion the impact of rising unemployment and the effects of the pandemic in these areas.

Rural centres

Notwithstanding the negative impact of the COVID-19 pandemic, trading at rural centres proved to be defensive. This market is also a beneficiary of the government's social support measures. Trade in the rural areas was also boosted by migrant labourers returning home to rural areas for the lockdown period. Sterkspruit Plaza, Nongoma Shopping Centre and Shoprite Kokstad continued their growth trend since being redeveloped.

Suburban centres

The suburban shopping centres have benefitted from their convenience offerings, consumers working from home and a change in consumers' shopping behaviour which showed a preference for smaller convenience centres rather than larger super-regional malls. Arbour Crossing continued to trade well following the relocation and expansion of Food Lover's Market. White River Crossing celebrated its first anniversary in August 2020 and is fully let, performing well and trading above expectations.

Collections and COVID-19 rent credits

Currently, 100% of tenants in the retail portfolio are permitted to trade. By mid-August 2020, rental relief agreements had been concluded with approximately 96% of retail tenants who were considered to be non-essential retailers and those whose businesses have been negatively impacted by the pandemic. We approached tenant negotiations with compassion and understanding, while maintaining awareness of the need for our own business sustainability. COVID-19 rental relief discounts amounting to R63,5 million have been agreed with retail tenants to date.

Of the total tenant billings, excluding discounts, for the period April 2020 to August 2020, 84% has been collected, 11% relates to COVID-19 rental discounts agreed with tenants and 5% is due and collectable.

Edcon

The Edcon business rescue process is well progressed. Subject to conditions precedent, we have agreed lease terms with The Foschini Group on 13 of the 16 Jet stores within our portfolio. Similarly, lease terms have been agreed with Retailability on two of the three Edgars stores in our portfolio. Rental terms have been concluded with OBC and Studio 88 to occupy two of the stores vacated by Jet, being Market Square Grahamstown and Secunda Central, respectively. We are sourcing replacement tenants for Jet at Middelburg Plaza and Edgars at Evaton Mall.

Vacancies

Vacancies in the retail portfolio have increased to 6,0% at 30 June 2020 from 4,2% at 31 December 2019. At approximately 10 000m², 409 West Street in Durban is the main contributor to our retail vacancy. The redevelopment of this building has been delayed. New leases have been signed with Clicks and Studio 88 and we anticipate that the redevelopment of 409 West Street will be completed during the first quarter of 2021.

Retail outlook

Due to the nature of our retail portfolio, we anticipate that the impact of online trading will not be material, as online usage in rural, CBD and Township markets is likely to lag online shopping growth in the urban centres.

Uncertainty about the full impact of the pandemic is still evident and the pressures faced by the South African economy and retail environment pre-COVID-19 still remain. We expect muted trading conditions for the remainder of 2020. Government's social grant support measures will assist lower income households, but the prospects of rising unemployment will adversely affect disposable income and demand. Middle to higher income consumers may benefit from the reduction in interest rates and savings in discretionary costs accumulated during the lockdown period. Our focus for the foreseeable future will be on tenant retention.

Westlake View Logistics Park

Office (including office developments)

(R2,4 billion asset value)

The office portfolio continues to perform poorly with the vacancy at 23,6%. Disposal of this portfolio is a strategic imperative, but also challenging given the current conditions and uncertainty that many of the tenants face with regard to space requirements as well as pressure on many of their businesses. Pleasingly, we disposed of R200 million of office assets (including held for sale assets) at a 3,1% premium to their book value.

We recognised an impairment of R270 million on our Sandton site opposite the Gautrain station given the uncertainty on the development we had been planning. A total impairment of R105 million for the year on our 80% holding of the land in Sandton along Rivonia Road was also recognised.

DIRECTORS' COMMENTARY continued

Industrial

(R3,5 billion asset value)

The industrial portfolio has been particularly negatively affected during the reporting period. The vacancy of 17,6% reflects the poor state of manufacturing in the country, which is compounded by persistent load shedding, higher occupancy costs through excessive rates accounts and the nationwide lockdown during the period. During the year, five industrial properties were sold and a further two industrial properties are held for sale at year-end. In addition, we are exploring the repurposing of a sub-portfolio with an established entrepreneurial operator with a view to creating more flexible space for smaller tenants.

VACANCIES

Total vacancies, measured as a percentage of GLA, increased from 8,0% at 31 December 2019 to 8,9% at 30 June 2020.

The low vacancy in the logistics and retail portfolios offsets the high vacancies in the non-core industrial and office portfolios.

Sectoral vacancy	Based on GLA Jun 2020 %	Based on GLA Dec 2019 %	Based on value per m² of building Jun 2020# %	Based on value per m² of building Dec 2019# %
Total*	**8,9**	8,0	**5,7**	5,6
Total (excluding held for sale properties)*	**7,9**	7,7	**5,7**	5,5
Logistics	**3,0**	3,1	**2,0**	3,0
Retail	**6,0**	4,2	**4,2**	3,7
Industrial	**17,6**	15,6	**14,6**	12,6
Office	**23,6**	21,6	**21,4**	19,3
Other^	**2,3**	2,1	**1,0**	1,0

Information based on management accounts.

\# *Vacancy based on the Rand value rate per square metre (100% of GLA and value) of the building.*

* *Vacancy statistics at 30 June 2020 exclude Broad and Simmonds Streets, an industrial building of 11 090m², which is shown as held for sale (refer to the details above). Although completely vacant, all conditions of sale were met prior to year-end, including receipt of the full sale proceeds from the purchaser. Although lodged prior to 30 June 2020, closure of the deeds office meant that the property transferred on 20 July 2020. The value of the building is included in investment property held for sale at 30 June 2020.*

^ *Includes a hotel, residential units, motor dealerships and serviced apartment properties.*

PROPERTY DISPOSALS

The following properties were sold during the year:

Property name	Sector	Net proceeds R'000	Book value Jun 2019 R'000	Transfer date	Exit yield %
Eastport – Building 1 (Savino del Bene)&	Logistics	**155 851**	147 586	Jun 2020	7,4
Surprise Park Pinetown	Logistics	**151 000**	134 000	Mar 2020	8,9
Louwlardia – Building 1 (We Buy Cars) (50% undivided share)@*	Logistics	**112 500**	112 500	Aug 2020	8,3
Tiger Moth Road Aeroton	Industrial	**87 000**	85 890	Dec 2019	10,4
Shell and McDonald's Amanzimtoti*	Retail	**66 000**	66 000	Jul 2019	6,7
19 Girton Road Parktown	Office	**63 000**	62 000	Feb 2020	^
204 Rivonia Road Morningside (Block A, B and land)*	Office	**52 670**	48 280	Mar 2020	^
ACA House Press Avenue Crown City*	Logistics	**49 500**	49 500	Aug 2019	8,1
Cambridge Randburg*	Retail	**24 000**	24 000	Aug 2019	8,8
16th Street Midrand	Industrial	**23 450**	22 450	Jun 2020	10,0
4 Chloorkring Richards Bay*	Industrial	**19 000**	19 000	Aug 2019	18,8
555 Malcolm Moodie Crescent Jet Park	Industrial	**18 140**	15 120	Nov 2019	9,1
Essex Street Tunney (portion only)*	Industrial	**17 075**	17 075	Oct 2019	11,6
Parc Nicol (portion only)*	Office	**14 550**	14 550	Aug 2019	9,4
Wentworth Office Park Fourways	Office	**12 250**	12 200	Nov 2019	12,5
Malibongwe Drive	Retail	**11 500**	11 400	Jan 2020	10,0
		877 486	841 551		

& *Reflects Fortress' 65% ownership.*

@ *Effective date is 21 October 2019, transferred on 25 August 2020.*

* *Shown as held for sale at 30 June 2019.*

^ *Vacant building.*

DIRECTORS' COMMENTARY continued

The following properties were held for sale at 30 June 2020:

Property name	Sector	Net proceeds@ R'000	Book value Jun 2019 R'000	Transfer date	Exit yield %
Louwlardia – Building 2 (WAG) (50% undivided share)	Logistics	**154 500**	154 500	$	8,5
Protea Centre	Retail	**83 000**	86 000	$	12,0
204 Rivonia Road Morningside (Block C and E)&	Office	**30 830**	30 720	$	^
189 Monte Carlo Crescent Kyalami	Office	**26 235**	25 800	$	10,8
Louis Trichardt Street Nelspruit	Industrial	**22 500**	24 000	$	10,3
Broad and Simmonds Streets*	Industrial	**14 550**	13 990	Jul 2020	^
Groblersdal Centre	Retail	**7 500**	9 200	$	13,5
		339 115	344 210		

@ *Equal to book value at 30 June 2020.*
$ *Not yet transferred.*
& *Effective dates of 17 August 2020 and 1 September 2020 respectively.*
* *Refer to the note under the "Vacancies" section.*
^ *Vacant building.*

Notwithstanding the tough economic climate, the disposals team continues to receive strong interest from potential purchasers. The typical purchaser includes the owner-occupier market, neighbouring landlords and private investors. Market conditions remain challenging, but the historically low interest rates have invigorated interest from direct investors.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

Environmental

The overall impact of the Food & Trees for Africa ("FTFA") initiative to date has been 11 550 trees planted together with 88 beneficiary organisations which benefitted 24 390 direct beneficiaries and resulted in the upskilling and training of 103 community members in the planting and care of trees. The success of linking corporate social responsibility to these FTFA community initiatives not only benefits the broader community, but also contributes towards sustainability.

During the year, electricity produced by our solar installations increased by more than 500%. Renewable energy and water conservation are major focus areas for our direct assets and developments. We commenced with 13 new solar installations and embarked on a programme to install smart water meters to better detect leaks and monitor tenants' water usage more closely.

Social

We are committed to improve our empowerment credentials and have dedicated significant funds and resources to ensure that we improve our rating. We achieved a Level 8 B-BBEE rating for the 2019 financial year and we remain committed to improving this in the future through the various initiatives.

The enterprise and supplier development programme, in partnership with Property Point, enters its second year with the view to expand to other provinces. The socioeconomic development initiatives include an ongoing partnership with FTFA with whom there are currently six ongoing projects in under-resourced communities.

Fortress is also playing a participative role in the various technical committees of the Property Sector Charter Council as well as the SA REIT Association to give input to any further amendments to the Amended Property Sector Code.

During the lockdown, Fortress partnered with various community initiatives such as the Denis Hurley Foundation, to provide food relief to those most affected. In addition, members of management and the board, in their personal capacities, contributed approximately R2 million to various charities in support of President Ramaphosa's call to support those most affected by COVID-19.

Governance

This financial year was the final year under the chairmanship of Dr Iraj Abedian. The board wishes to thank Dr Abedian for his contribution to the oversight of the group and the steadfast leadership he displayed. The board wishes Dr Abedian all the best in his future endeavours and welcomes Mr Robin Lockhart-Ross as the new chairman of the board. The board also bid farewell to two non-executive directors during the year, being Mr Banus van der Walt who chaired the Investment Committee, as well as Ms Bongiwe Njobe and wishes them well for their respective future endeavours. Further to this, the board welcomed Ms Ina Lopion as a non-executive director and member of the Investment Committee during the year.

The 2020 financial year was the first year under the leadership of Steven Brown as CEO following the departure of Mark Stevens. Post the changes to the composition of the sub-committees announced *via* SENS on 4 August 2020, the board plans to simplify and make further changes to the sub-committees to ensure their efficiency and improve effective oversight. The market will be updated on this progress in due course.

CURRENCY DERIVATIVES

Balance sheet hedging

The board's approach to the use of cross-currency swaps as a means of obtaining funding in a currency matched to that of the foreign assets changed as a result of the dramatic reduction in local interest rates. The risk of the product was considered unacceptable given the market volatility and exchange rate movements and the much lower spreads earned necessitated a revised policy. Consequently, the cross-currency swap exposure was reduced post 31 December 2019 by EUR302,7 million to nil against investments of EUR638 million at the reporting date. The exposure was reduced partly by closing out EUR150 million of the cross-currency swaps and partly by entering into forward contracts of EUR152,7 million.

No exposure to foreign exchange rates other than that resulting from our NEPI Rockcastle holding and the forward exchange contracts entered into to hedge the NEPI Rockcastle dividend income as disclosed below, currently exists.

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 income projected to be received in months 25 to 36.

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

Forward rate against Rand	EUR
Dec 2020	18,88
Jun 2021	20,06
Dec 2021	20,43
Jun 2022	21,08
Dec 2022	21,35
Jun 2023	20,98

FUNDING AND LIQUIDITY

In addition to the refinancing and domestic medium term note ("DMTN") issuances reported on in March 2020 as part of the 31 December 2019 interim reporting period, we refinanced an expiring facility with Rand Merchant Bank of R1 150 million in June 2020 with a new expiry date of November 2023. As part of the collar entered into on 11 million NEPI Rockcastle shares, Fortress obtained funding of R750,7 million with staggered expiry dates from October 2021 to March 2022 at a fixed rate of 4,3%.

We repaid expiring issuances under our DMTN programme in June 2020 of R250 million, and R241 million after year-end in August 2020 from existing available facilities.

At the date of this report, we have approximately R2,8 billion available under our existing facilities.

DIRECTORS' COMMENTARY continued

Facility expiry	Amount R'million	Average margin over three-month Jibar %
Jun 2021	1 151	1,75
Jun 2022	4 976	1,67
Jun 2023	5 274	1,84
Jun 2024	3 777	1,96
Jun 2025	4 395	1,88
Jun 2026	250	1,93
Jun 2027	206	1,99
	20 029	**1,83**

The expiry dates of notes and bonds in issuance under our unsecured DMTN programme, included in the facility expiry profile above, are as follows:

Repayment date	Financial year	Amount R'million
Aug 2020*	Jun 2021	241
Feb 2021	Jun 2021	300
Aug 2022	Jun 2023	400
Nov 2022	Jun 2023	500
Aug 2024	Jun 2025	300
Oct 2024	Jun 2025	200
		1 941

* *This note was repaid in August 2020 from existing available facilities.*

It remains our intention to issue unsecured notes and bonds under our DMTN programme in future and we will be engaging with debt investors for potential issuances in the near future.

Subsequent to financial year-end, local interest rate swaps of R300 million and caps of R200 million expired. However, new local interest rate swaps with a nominal amount of R1 400 million and local interest rate caps with a nominal amount of R500 million were entered into with the effect that the combined weighted average swap and cap maturity profile has been extended to 4,87 years from 4,50 years. The combined weighted average swap and cap rate has reduced to 7,14% from 7,71%.

At the date of this report, 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 2021	600	8,21
Jun 2022	600	7,99
Jun 2023	300	7,79
Jun 2024	200	7,47
Jun 2025	950	7,03
Jun 2026	1 300	7,39
Jun 2027	850	7,05
Jun 2028	600	6,18
	5 400	**7,32**

Interest rate cap expiry	Amount R'million	Average cap rate %
Jun 2021	200	7,82
Jun 2022	400	7,76
Jun 2023	300	7,71
Jun 2024	400	7,98
Jun 2025	1 075	6,67
Jun 2026	950	5,96
Jun 2027	1 175	6,78
Jun 2028	1 300	7,29
	5 800	**6,97**

The all-in weighted average cost of local funding of Fortress was 7,09% at 30 June 2020 and the average hedge term was 4,50 years.

This average rate is expected to reduce further as Jibar rates reset.

Variable interest rates	South Africa R'000
Interest-bearing borrowings	16 651 072
Fixed-rate funding (collar over NEPI Rockcastle shares)	(751 319)
Loans to co-owners	(665 017)
Cash and cash equivalents	(485 431)
Capital commitments contracted for	788 420
Capital commitments approved	26 347
Investment property held for sale	(339 115)
	15 224 957
Total interest rate derivatives (swaps/caps)	11 200 000@
Percentage hedged	**73,6%**

Information based on management accounts.
@ At the date of this report.

PROSPECTS

The COVID-19 pandemic has had devastating effects on local and foreign economies to date. In addition, the pandemic has introduced significant uncertainty about the future for individuals, families, businesses and entire sectors. Given this high degree of uncertainty in local and foreign markets to which we have exposure, guidance of distributable earnings or dividends per share will not be provided until such time as a clearer picture of the impact and length of disruption emerges.

Notwithstanding, we are encouraged by some positive signs emerging post year-end from the majority of our portfolio and feedback received from our tenants in August 2020. The various risk mitigation measures undertaken before and during the COVID-19 pandemic, place Fortress in a position to return to growth once trading conditions stabilise and also to take advantage of opportunities should they arise.

We will keep our shareholders and other stakeholders apprised of changes to the above. The board is of the view that the focus for the foreseeable future should be on value protection, balance sheet strength and ensuring a healthy liquidity position.

By order of the board

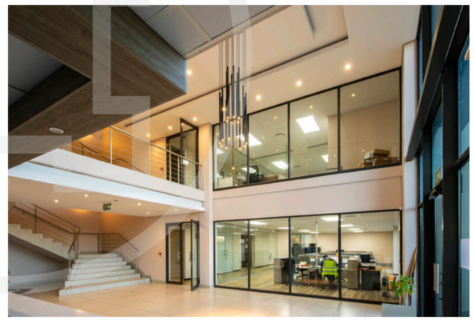
Steven Brown
CEO

Ian Vorster
CFO

Johannesburg
3 September 2020

Clairwood Logistics Park

Eastport Logistics Park



SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020

	2020 R'000	2019 R'000
ASSETS		
Non-current assets	41 628 427	52 047 749
Investment property	24 040 352	25 165 374
Straight-lining of rental revenue adjustment	570 387	551 739
Investment property under development	3 644 460	4 018 888
Property, plant and equipment	27 587	28 039
Investment in and loans to associates	13 077 617	18 781 341
Investments	–	2 505 178
Staff scheme loans	78 640	221 680
Investment in BEE preference shares	189 384	775 510
Current assets	1 236 807	878 055
Staff scheme loans	5 029	9 720
Trade and other receivables	744 857	856 818
Cash and cash equivalents	486 921	11 517
Non-current assets held for sale	339 115	524 475
Investment property held for sale	327 701	513 129
Straight-lining of rental revenue adjustment	11 414	11 346
Total assets	43 204 349	53 450 279
EQUITY AND LIABILITIES		
Total equity attributable to equity holders	24 116 771	34 897 324
Stated capital	45 571 743	45 571 807
Treasury shares	(1 578 517)	(1 578 517)
Currency translation reserve	113 392	5 017
Reserves	(19 989 847)	(9 100 983)
Non-controlling interests	88 668	122 879
Total equity	24 205 439	35 020 203
Total liabilities	18 998 910	18 430 076
Non-current liabilities	15 731 064	14 670 513
Interest-bearing borrowings	15 668 241	14 570 884
Deferred tax	62 823	99 629
Current liabilities	3 267 846	3 759 563
Trade and other payables	2 008 031	975 802
Income tax payable	221 729	176 954
Interest-bearing borrowings	1 038 086	2 606 807
Total equity and liabilities	43 204 349	53 450 279

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	2020 R'000	2019 R'000
Recoveries and contractual rental revenue	3 382 818	3 326 617
Straight-lining of rental revenue adjustment	18 716	87 215
Revenue from direct property operations	3 401 534	3 413 832
Revenue from investments	215 649	214 595
Total revenue	3 617 183	3 628 427
Fair value loss on investment property, investments and derivative financial instruments	(4 688 117)	(225 343)
Fair value loss on investment property	(1 887 662)	(957 526)
Adjustment resulting from straight-lining of rental revenue	(18 716)	(87 215)
Fair value (loss)/gain on investments	(1 653 586)	233 695
Fair value (loss)/gain on derivative financial instruments	(1 128 153)	585 703
Property operating expenses	(1 409 580)	(1 183 974)
Administrative expenses	(208 046)	(171 261)
Impairment of staff scheme loans	(142 326)	(34 949)
Impairment of loans to BEE vehicles	–	(611 983)
IFRS 2: *Share-based Payment* – employee incentive scheme	(52 764)	(37 134)
IFRS 2: *Share-based Payment* – BEE	–	(136 308)
Impairment of investments in associates	(4 305 017)	(85 207)
Exchange loss realised on disposal of associate from foreign currency translation reserve	–	(29 571)
Profit on sale of interest in associate	9 416	–
Reversal of impairment of investment in associate	–	1 052 952
(Loss)/income from associates	(139 712)	1 553 156
– Distributable	1 394 034	1 287 267
– Non-distributable	(1 533 746)	265 889
(Loss)/profit before net finance costs	(7 318 963)	3 718 805
Net finance costs	(1 046 729)	(650 457)
Finance income	80 814	540 738
– Interest on staff scheme and other	80 814	88 552
– Interest on loans to BEE vehicles	–	452 186
Finance costs	(1 127 543)	(1 191 195)
– Interest on borrowings	(1 521 526)	(1 608 451)
– Capitalised interest	393 983	417 256
(Loss)/profit before income tax	(8 365 692)	3 068 348
Income tax	(30 381)	(421 501)
(Loss)/profit for the year	(8 396 073)	2 646 847

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

for the year ended 30 June 2020

	2020 R'000	2019 R'000
Other comprehensive income/(loss) net of tax		
Items that may subsequently be reclassified to profit or loss:		
Exchange gain/(loss) on translation of associates	108 375	(53 375)
Total comprehensive (loss)/income for the year	(8 287 698)	2 593 472
(Loss)/profit for the year attributable to:		
Equity holders of the company	(8 369 338)	2 617 631
Non-controlling interests	(26 735)	29 216
	(8 396 073)	2 646 847
Total comprehensive (loss)/income for the year attributable to:		
Equity holders of the company	(8 260 963)	2 564 256
Non-controlling interests	(26 735)	29 216
	(8 287 698)	2 593 472
Basic (loss)/earnings per FFA share (cents)	(390,15)	116,83
Basic (loss)/earnings per FFB share (cents)	(390,15)	116,83
Diluted (loss)/earnings per FFA share (cents)	(390,15)	116,72
Diluted (loss)/earnings per FFB share (cents)	(390,15)	116,72

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	2020 R'000	2019 R'000
Operating activities		
Cash generated from operations	3 304 888	3 509 814
Interest on staff scheme and other	85 505	97 191
Interest on borrowings (excluding capitalised interest)	(1 203 016)	(1 222 020)
Dividends paid	(1 585 032)	(3 500 317)
Income tax	(22 412)	(175 066)
Cash inflow/(outflow) from operating activities	579 933	(1 290 398)
Investing activities		
Development and improvement of investment property	(744 139)	(1 071 549)
Capitalised interest on development of investment property	(393 983)	(417 256)
Acquisition of investment property	–	(405 148)
Disposal of investment property	877 486	803 342
Increase of interest in and loans advanced to associate	(15 183)	–
Proceeds from disposal of interest in associate	337 801	674 580
Staff scheme loans repaid	714	72 285
Cash flow on derivative financial instruments	(214 254)	132 015
Proceeds on disposal of investments	442 984	38 784
Loan repaid by BEE vehicle	–	234 846
Return of capital by associate	–	2 164 348
Cash inflow from investing activities	291 426	2 226 247
Financing activities		
Decrease in interest-bearing borrowings	(395 891)	(1 057 852)
Share issue costs/acquisition of treasury shares	(64)	(543 331)
Cash outflow from financing activities	(395 955)	(1 601 183)
Increase/(decrease) in cash and cash equivalents	475 404	(665 334)
Cash and cash equivalents at the beginning of the year	11 517	676 851
Cash and cash equivalents at the end of the year	486 921	11 517
Cash and cash equivalents consist of:		
Current accounts	206 656	11 517
Restricted cash#	280 265	–
	486 921	11 517

 # Restricted cash at 30 June 2020 was held as collateral by Sanlam against scrip lending facilities. There was no restricted cash at 30 June 2019.

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	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
GROUP							
Balance at 30 June 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 June 2019	**45 571 807**	**(1 578 517)**	**5 017**	**(9 100 983)**	**34 897 324**	**122 879**	**35 020 203**
Issue of shares (equal number of A and B shares)**	**(64)**				**(64)**		**(64)**
Loss for the year				**(8 369 338)**	**(8 369 338)**	**(26 735)**	**(8 396 073)**
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				**52 764**	**52 764**		**52 764**
Exchange gain on translation of associates			**108 375**		**108 375**		**108 375**
Dividends paid#				**(3 229 396)**	**(3 229 396)**	**(7 476)**	**(3 236 872)**
Fair value adjustment to shareholder dividend liability&				**657 106**	**657 106**		**657 106**
Balance at 30 June 2020	**45 571 743**	**(1 578 517)**	**113 392**	**(19 989 847)**	**24 116 771**	**88 668**	**24 205 439**

* *5 418 700 FFA shares and 5 418 700 FFB shares were issued under the long-term incentive plan ("LTIP") during the year ended 30 June 2019, 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.*

** *1 680 034 FFA shares and 1 680 034 FFB shares were issued under the LTIP during the year ended 30 June 2020, 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.*

\# *Of the total dividends paid during the financial year ended 30 June 2020, R1 653 million related to earnings for the six months ended 31 December 2019 which was settled by way of a dividend* in specie, *through the distribution of 29 702 673 Resilient shares held by Fortress to Fortress' shareholders on 30 March 2020 (net of total treasury shares).*

& *The shareholder dividend liability recognised at declaration date in respect of dividends declared relating to the six-month period ended 31 December 2019, was revalued at settlement date to reflect the reduction in fair value of Resilient shares distributed as a dividend* in specie, *from the declaration date to the settlement date.*

NOTES

1. PREPARATION AND ACCOUNTING POLICIES

The preliminary audited summarised consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with the JSE Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa, Act 71 of 2008 applicable to summary financial statements. The JSE Listings Requirements require preliminary 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 (First Edition) as applicable to the reporting period for the year ended 30 June 2020. The Second Edition of the SA REIT Association Best Practice Recommendations is effective for financial year-ends commencing on or after 1 January 2020 and has not been early adopted for the year ended 30 June 2020. This report and the full set of consolidated financial statements were compiled under the supervision of Ian Vorster CA(SA), the financial director and CFO of Fortress.

The accounting policies applied in the preparation of the consolidated financial statements, from which the preliminary summarised consolidated financial statements were derived, are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements with the exception of new and revised standards which became effective during the year. IFRS 16: *Leases* and IFRIC 23: *Uncertainty over Income Tax Treatments* were adopted in the current reporting period and had no effect on previously reported results. The adoption of these standards and interpretations had no material quantitative effect on the consolidated financial statements.

NOTES continued

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, most of 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 8,00% and 11,50%, with the exception of Musina Shopping Centre, which has a capitalisation rate of 21,50% and which is a leasehold property with five years remaining on the lease. Discount rates may vary between 12,00% and 16,50%, with the exception of Jeffreys Bay Centre which has a discount rate of 17,00%, Musina Shopping Centre (leasehold), which has a discount rate of 16,75% and Pineslopes Shopping Centre which has a discount rate of 10,50%. 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 R683,6 million. A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R721,9 million.

In terms of IFRS 9 and IFRS 7, the group's currency and interest rate derivatives, equity collar derivative, 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 annual financial statements.

The directors are not aware of any matters or circumstances arising subsequent to 30 June 2020 that require any additional disclosure or adjustment to the financial statements.

These summarised consolidated financial statements for the year ended 30 June 2020 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 audited annual consolidated financial statements, together with the audit report thereon, have been published on Fortress' website and are available at: https://fortressfund.co.za/financials

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

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	8,9	
Jun 2021	27,7	25,4
Jun 2022	14,7	15,6
Jun 2023	14,5	16,7
Jun 2024	11,3	12,9
Jun 2025	8,8	10,0
> Jun 2025	14,1	19,4
	100,0	**100,0**

3. SEGMENTAL ANALYSIS

	Audited for the year ended Jun 2020 R'000	Audited for the year ended Jun 2019 R'000
Total revenue		
Logistics	**1 198 241**	1 138 525
Retail	**1 343 049**	1 249 700
Industrial	**517 431**	584 570
Offices	**326 703**	338 101
Other	**16 110**	102 936
Corporate	**215 649**	214 595
Total	**3 617 183**	3 628 427
(Loss)/profit after tax		
Logistics	**151 425**	328 620
Retail	**426 015**	589 134
Industrial	**(95 808)**	204 242
Offices	**(374 128)**	16 326
Other	**(7 116)**	80 844
Corporate	**(8 496 461)**	1 427 681
Total	**(8 396 073)**	2 646 847
Total assets		
Logistics	**12 646 224**	12 898 780
Retail	**10 356 951**	10 643 328
Industrial	**3 550 228**	4 017 950
Offices	**2 474 400**	3 097 819
Other	**611 767**	677 381
Corporate	**13 564 779**	22 115 021
Total	**43 204 349**	53 450 279

NOTES continued

4. EARNINGS AND HEADLINE EARNINGS

Reconciliation of (loss)/profit for the year to headline earnings

	Audited for the year ended Jun 2020 R'000	Audited for the year ended Jun 2019 R'000
Basic (loss)/earnings for the year attributable to equity holders	(8 369 338)	2 617 631
Adjusted for:	6 995 039	(284 741)
– Fair value loss on investment property (net of straight-lining adjustment)	1 906 378	1 044 741
– Profit on sale of interest in associate	(9 416)	–
– Reversal of impairment of investment in associate	–	(1 052 952)
– Impairment of investments in associates	4 305 017	85 207
– Fair value loss/(gain) on investment property of associates	871 403	(413 239)
– Income tax effect	(78 343)	51 502
Headline (loss)/earnings	(1 374 299)	2 332 890
Headline (loss)/earnings per FFA share (cents)	(64,07)	104,12
Headline (loss)/earnings per FFB share (cents)	(64,07)	104,12
Diluted headline (loss)/earnings per FFA share (cents)	(64,07)	104,02
Diluted headline (loss)/earnings per FFB share (cents)	(64,07)	104,02

Weighted average number of shares

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:

	2020	2019
Weighted average number of shares		
– FFA shares	1 184 951 790	1 184 496 438
– FFB shares	960 208 732	1 056 047 431
Diluted weighted average number of shares		
– FFA shares	1 184 951 790	1 186 241 364
– FFB shares	960 208 732	1 056 467 976

Payment of final dividend

The board has approved, and notice is hereby given of a final dividend of 23,00000 cents per FFA share for the six months ended 30 June 2020. No dividend has been declared on the FFB share for this period.

The dividend is payable to Fortress shareholders in accordance with the timetable set out below:

Last date to trade *cum* dividend	Monday, 21 September 2020
Shares trade *ex* dividend	Tuesday, 22 September 2020
Record date	Friday, 25 September 2020
Payment date	Monday, 28 September 2020

Share certificates may not be dematerialised or rematerialised between Tuesday, 22 September 2020 and Friday, 25 September 2020, both days inclusive. In respect of dematerialised shareholders, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 28 September 2020. Certificated shareholders' dividend payments will be posted on or about Monday, 28 September 2020. An announcement informing shareholders of the tax treatment of the dividends will be released separately on SENS.

Directors

Robin Lockhart-Ross *(chairperson)*; Steven Brown*; Ina Lopion; Susan Ludolph; Vuso Majija*; Tshiamo Matlapeng-Vilakazi; Vuyiswa Mutshekwane; Jan Potgieter; Donnovan Pydigadu*; Djurk Venter; Ian Vorster*

* *Executive director.*

Changes to the board of directors

The following changes to the board of directors were made since our previous report for the period ended 31 December 2019:

- Ms Bongiwe Njobe resigned as an independent non-executive director on 30 April 2020;
- Dr Iraj Abedian retired as independent non-executive chairperson on 30 June 2020 and Mr Robin Lockhart-Ross was appointed as independent non-executive chairperson with effect from 1 July 2020; and
- Mr Djurk Venter has announced his intention not to stand for re-election at the next annual general meeting.

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

NOTES continued

Reconciliation of profit for the year to dividend declared

	Audited for the year ended Jun 2020 R'000	Audited for the year ended Jun 2019 R'000
(Loss)/profit for the year	**(8 396 073)**	2 646 847
Fair value loss on investment property	**1 887 662**	957 526
Fair value loss/(gain) on investments	**1 653 586**	(233 695)
Fair value loss/(gain) on derivative financial instruments	**1 128 153**	(585 703)
Impairment of staff scheme loans	**142 326**	34 949
Impairment of loans to BEE vehicles	**–**	611 983
Impairment of investment in associate	**4 305 017**	85 207
Reversal of impairment of investment in associate	**–**	(1 052 952)
Profit on sale of interest in associate	**(9 416)**	–
Exchange loss realised on disposal of associate from foreign currency translation reserve	**–**	29 571
Non-distributable income from associates	**1 533 746**	(265 889)
Interest received on long-term incentive plan (reversed for IFRS 2 charge)	**4 760**	3 322
IFRS 2: *Share-based Payment* – employee incentive scheme	**52 764**	37 134
IFRS 2: *Share-based Payment* – BEE	**–**	136 308
Income tax	**30 381**	421 501
Non-controlling interests	**1 366**	(898)
Antecedent dividend (issuance)	**2 284**	5 961
Antecedent dividend (FFB repurchase)	**–**	(22 785)
Loans to BEE vehicles interest reversal	**–**	(452 186)
BEE vehicles FFA dividend	**–**	708
BEE vehicles FFB dividend	**–**	111 323
Staff scheme interest limitation	**(15 994)**	(6 229)
Dividends accrued	**(319 243)**	247 047
Interest on cross-currency swaps	**387 968**	596 336
Foreign dividend hedging	**86 235**	34 429
Interest rate derivatives	**(125 206)**	(51 313)
Fortress Empowerment 1 to 4 (BEE) dividend waiver adjustment	**96 091**	100 161
Capitalised interest limitation	**(229 865)**	–
Amount available for distribution	**2 216 542**	3 388 663
Interim dividend declared		
– FFA shares	**(925 512)**	(889 224)
– FFB shares (net of 62 162 124 (2019: 32 800 451)) treasury shares	**(771 638)**	(820 412)
Final dividend declared		
– FFA shares	**(274 067)**	(876 016)
– FFB shares (net of 62 162 124 treasury shares)	**–**	(803 011)
Amount retained by Fortress	**(245 325)**	–
	–	–

The methodology applied in calculating the dividend is consistent with that of the prior year, except for the limitation of capitalised interest on the reduced carrying value of investment property under development after downward revaluation.

MANAGEMENT ACCOUNTS

BASIS OF PREPARATION

In order to provide information of relevance to investors, we present management accounts in addition to IFRS accounts. While the management accounts have been extracted from the audited financial information for the year ended 30 June 2020, 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, 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;
- The consolidated financial position and performance of Fortress Empowerment 2 and Fortress Empowerment 4 have been deconsolidated; and
- Revenue and expenses recognised for IFRS purposes in respect of COVID-19 related discounts are reversed.

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 audited consolidated statement of financial position and the condensed audited 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 2020 on a line-by-line basis.

Adjustment 2

The investment in NEPI Rockcastle is reflected at fair value by multiplying the 140 000 000 shares held by the quoted closing price of R88,76 per share at 30 June 2020. All entries relating to accounting for these investments on the equity method are reversed. This more accurately reflects the group's LTV ratio and NAV.

Adjustment 3

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

It uses the audited financial statements for the year ended 30 June 2020 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.

Adjustment 5

The adjustment adds back the revenue and expenses required to be recognised under IFRS for discounts related to the COVID-19 pandemic. This adjustment only affects the statement of comprehensive income.

FORTRESS REIT LIMITED SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS 2020

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	IFRS Jun 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town Jun 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle Jun 2020 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries Jun 2020 R'000	Adj 4 Deconsolidation of BEE vehicles Jun 2020 R'000	Management accounts Jun 2020 R'000
ASSETS						
Non-current assets	41 628 427	(1 629)	–	(138 840)	189 383	41 677 341
Investment property	24 040 352	632 566		(526 056)		24 146 862
Straight-lining of rental revenue adjustment	570 387	17 022		(55 173)		532 236
Investment property under development	3 644 460			(222 628)		3 421 832
Property, plant and equipment	27 587					27 587
Investment in and loans to associate and joint ventures	13 077 617	(651 217)	(12 426 400)			–
Investments	–		12 426 400			12 426 400
Staff scheme loans	78 640					78 640
Investment in BEE preference shares	189 384				189 383	378 767
Loans to co-owners	–			665 017		665 017
Current assets	1 236 807	7 327	–	(8 889)	–	1 235 245
Staff scheme loans	5 029					5 029
Trade and other receivables	744 857	5 995		(6 067)		744 785
Cash and cash equivalents	486 921	1 332		(2 822)		485 431
Non-current assets held for sale	339 115	–	–	–	–	339 115
Investment property held for sale	327 701					327 701
Straight-lining of rental revenue adjustment	11 414					11 414
Total assets	43 204 349	5 698	–	(147 729)	189 383	43 251 701
EQUITY AND LIABILITIES						
Total equity attributable to equity holders	24 116 771	–	–	–	189 383	24 306 154
Share capital	45 571 743					45 571 743
Treasury shares	(1 578 517)				189 383	(1 389 134)
Currency translation reserve	113 392		(113 392)			–
Reserves	(19 989 847)		113 392			(19 876 455)
Non-controlling interests	88 668			(88 668)		–
Total equity	24 205 439	–	–	(88 668)	189 383	24 306 154
Total liabilities	18 998 910	5 698	–	(59 061)	–	18 945 547
Non-current liabilities	15 731 064	–	–	(55 255)	–	15 675 809
Interest-bearing borrowings	15 668 241			(55 255)		15 612 986
Deferred tax	62 823					62 823
Current liabilities	3 267 846	5 698	–	(3 806)	–	3 269 738
Trade and other payables	2 008 031	5 698		(3 806)		2 009 923
Income tax payable	221 729					221 729
Interest-bearing borrowings	1 038 086					1 038 086
Total equity and liabilities	43 204 349	5 698	–	(147 729)	189 383	43 251 701
NAV per equity share (going concern)	11,17					10,94
NAV per FFA share (R)	11,08					11,08
NAV per FFB share (R)	11,29					10,77

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Income statement	IFRS for the year ended Jun 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the year ended Jun 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the year ended Jun 2020 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the year ended Jun 2020 R'000	Adj 4 Deconsolidation of BEE vehicles for the year ended Jun 2020 R'000	Adj 5 Reversal of COVID-19 related income and expenses under IFRS Jun 2020 R'000	Management accounts for the year ended Jun 2020 R'000
Recoveries and contractual rental revenue	3 382 818	82 635		(61 970)		(76 729)	3 326 754
Straight-lining of rental revenue adjustment	18 716	6 066		(11 336)			13 446
Revenue from direct property operations	3 401 534	88 701	–	(73 306)	–	(76 729)	3 340 200
Revenue from investments	215 649		1 350 021				1 565 670
Total revenue	3 617 183	88 701	1 350 021	(73 306)	–	(76 729)	4 905 870
Fair value loss on investment property, investments and derivative financial instruments	(4 688 117)	(35 267)	(5 691 771)	36 704	–	–	(10 378 451)
Fair value loss on investment property	(1 887 662)	(29 201)		25 368			(1 891 495)
Adjustment resulting from straight-lining of rental revenue	(18 716)	(6 066)		11 336			(13 446)
Fair value loss on investments	(1 653 586)		(5 691 771)				(7 345 357)
Fair value gain on derivative financial instruments	(1 128 153)						(1 128 153)
Property operating expenses	(1 409 580)	(38 566)		14 960		76 729	(1 356 457)
Administrative expenses	(208 046)	(163)		253			(207 956)
Impairment of staff scheme loans	(142 326)						(142 326)
IFRS 2: *Share-based Payment* – employee incentive scheme	(52 764)						(52 764)
Impairment of investments in associates	(4 305 017)		4 305 017				–
Profit on sale of interest in associate	9 416		(9 416)				–
Income from associate and joint ventures	(139 712)	(14 812)	154 524	–	–	–	–
– Distributable	1 394 034	(44 013)	(1 350 021)				–
– Non-distributable	(1 533 746)	29 201	1 504 545				–
Loss before net finance costs	(7 318 963)	(107)	108 375	(21 389)	–	–	(7 232 084)

MANAGEMENT ACCOUNTS continued

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

Income statement continued	IFRS for the year ended Jun 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the year ended Jun 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the year ended Jun 2020 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the year ended Jun 2020 R'000	Adj 4 Deconsolidation of BEE vehicles for the year ended Jun 2020 R'000	Adj 5 Reversal of COVID-19 related income and expenses under IFRS Jun 2020 R'000	Management accounts for the year ended Jun 2020 R'000
Loss before net finance costs	(7 318 963)	(107)	108 375	(21 389)	–	–	(7 232 084)
Net finance costs	(1 046 729)	107	–	48 124	–	–	(998 498)
Finance income	80 814	–	–	(409)	–	–	80 405
Interest on staff scheme and other	80 814			(409)			80 405
Finance costs	(1 127 543)	107	–	48 533	–	–	(1 078 903)
Interest on borrowings	(1 521 526)	107		61 785			(1 459 634)
Capitalised interest	393 983			(13 252)			380 731
Loss before income tax	(8 365 692)	–	108 375	26 735	–	–	(8 230 582)
Income tax	(30 381)						(30 381)
Loss for the year	(8 396 073)	–	108 375	26 735	–	–	(8 260 963)
Loss for the year attributable to:							
Equity holders of the company	(8 369 338)	–	108 375		–	–	(8 260 963)
Non-controlling interests	(26 735)			26 735			–
Total comprehensive loss for the year	(8 396 073)	–	108 375	26 735	–	–	(8 260 963)
Basic loss per FFA share (cents)	(390,15)						(372,79)
Basic loss per FFB share (cents)	(390,15)						(372,79)
Diluted loss per FFA share (cents)	(390,15)						(372,79)
Diluted loss per FFB share (cents)	(390,15)						(372,79)
Headline loss per FFA share (cents)	(64,07)						(286,82)
Headline loss per FFB share (cents)	(64,07)						(286,82)
Diluted headline loss per FFA share (cents)	(64,07)						(286,82)
Diluted headline loss per FFB share (cents)	(64,07)						(286,82)
Headline earnings							
Loss for the year attributable to equity holders	(8 369 338)						(8 260 963)
Adjusted for:	6 995 039						1 904 941
– fair value loss on investment property (net of straight-lining adjustment)	1 906 378						1 904 941
– reversal of impairment of associate	(9 416)						
– impairment of associate	4 305 017						
– fair value gain on investment property of associates	871 403						
– income tax effect	(78 343)						
Headline loss	(1 374 299)						(6 356 022)

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
LEI: 378900FE98E30724D75
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 4844, Johannesburg, 2000)

LEAD SPONSOR

Java Capital Trustees and Sponsors Proprietary Limited

(Registration number: 2006/005780/07)
6th Floor, 1 Park Lane, Wierda Valley, 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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EXTERNAL AUDITOR

Deloitte & Touche

Deloitte Buidling, T5 Magwa Crescent, Waterfall, 2090
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