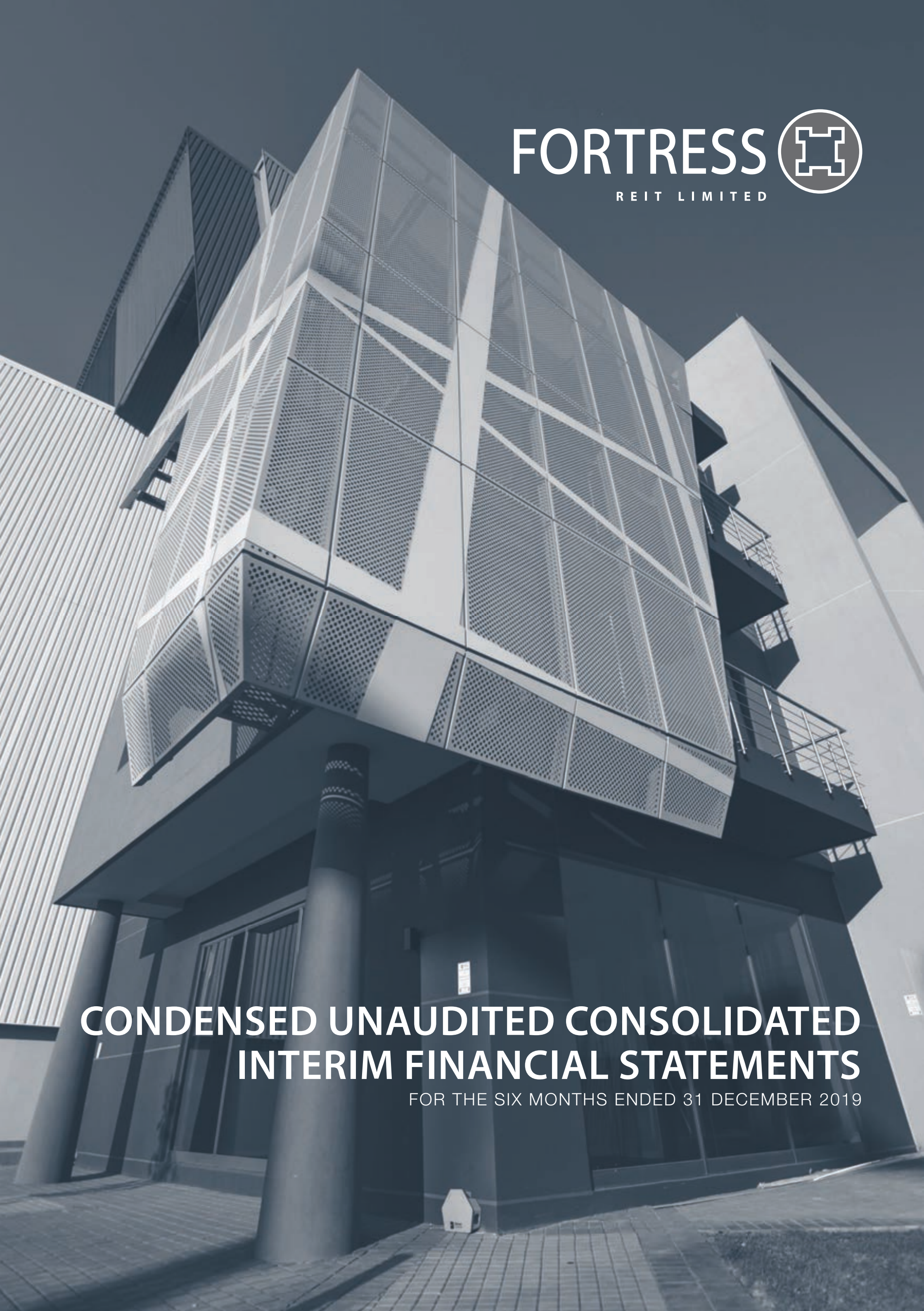
FORTRESS
REIT LIMITED



CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

DIRECTORS' COMMENTARY

NATURE OF BUSINESS

Fortress REIT Limited ("Fortress") is a Real Estate Investment Trust ("REIT") specialising in the logistics and retail property sectors with significant in-house development expertise.

We are focused on being the developer and landlord of choice for premium-grade logistics real estate in South Africa. The core logistics portfolio is complemented by a retail portfolio of 60 commuter-oriented shopping centres (including co-owned properties). We remain committed to the strategy of developing and selectively acquiring core logistics facilities in key locations, whilst continuing to invest in commuter-oriented retail shopping centres. We believe that these two asset classes, which form the base of our direct property portfolio, will continue to outperform through the cycle.

At 31 December 2019, our property portfolio comprised the following:

Sector	Direct property portfolio by value (R'billion)*	As a % of total direct property assets
Retail	10,3	34,3
Logistics	9,5	31,7
Industrial	3,8	12,7
Logistics developments^	3,0	10,0
Office	2,4	8,0
Office developments	0,6	2,0
Other#	0,4	1,3

* *Based on management accounts.*
^ *Current work-in-progress with approximately R5 billion to be spent to completion on existing land holdings.*
# *Comprises hotel, residential, motor dealership and serviced apartment properties.*

The majority of our properties (completed properties and developments by value, based on management accounts) are located in the most economically active provinces of Gauteng (61,2%), KwaZulu-Natal (15,3%) and the Western Cape (7,5%). Approximately 84% of our properties by value are located in, or in close proximity to, cities with a population of more than half a million people.

In addition to our property portfolio, we have a 23,3% interest in NEPI Rockcastle plc ("NEPI Rockcastle"), valued at R17,3 billion and an effective 11,1% interest (excluding treasury shares) in Resilient REIT Limited ("Resilient"), valued at R2,7 billion at 31 December 2019.

	Dec 2019			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	17 336 200	23,3	139 990 000	18 116 106	23,9
Resilient	40 130 184	2 730 458	11,1	40 432 184	2 505 178	11,1
		20 066 658			20 621 284	

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, "FFA") has a preferential right to distributions and to capital participation upon winding up, which is calculated as the 60-day volume-weighted average price on the JSE Limited. The Fortress B ordinary share (share code: FFB, "FFB") has entitlement to the residual distributions, for each six-month income period, and to the residual capital upon winding up.

The board is of the opinion that the current capital structure is not optimal and, as such, a special subcommittee has been established to consider the capital structure. This subcommittee will make recommendations to the board on the optimisation of the capital structure which may result in a proposal to shareholders. Shareholders will be advised of the progress made by the subcommittee.

HIGHLIGHTS

The six-month interim period ended 31 December 2019 marked the first reporting cycle under the new executive management team. Notable achievements for this period and to the date of this report include:

- Commencement of 172 000m^2 of logistics developments at an estimated incremental capital cost of R963 million;
- Disposal of R420 million of properties;
- Placed R200 million (five years) in October 2019 and R300 million (one year) post reporting period end in February 2020 in the debt capital markets;
- Secured refinancing of bank facilities of R4,5 billion; and
- Commenced five new solar installation projects.

SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2019	Jun 2019	Dec 2018	Jun 2018
Dividend per FFA share (cents)	77,67	73,62	74,73	70,57
Dividend per FFB share (cents)	74,84	78,01	77,49	88,93
Shares in issue at the end of the period				
– FFA	1 191 595 172	1 189 915 138	1 189 915 138	1 184 496 438
– FFB	1 093 213 028	1 091 532 994	1 091 532 994	1 086 114 294
Shares used for dividend per share calculation				
– FFA	1 191 595 172	1 189 915 138	1 189 915 138	1 184 496 438
– FFB	1 031 049 904	1 029 369 870	1 058 732 543	1 069 690 297
FFB shares held in treasury	62 163 124#	62 163 124#	32 800 451	16 423 997
Management accounts information				
Net asset value ("NAV") per equity share (going concern)^	R15,59	R16,07	R16,18	R16,39
NAV per FFA share*	R20,35	R19,77	R17,26	R16,26
NAV per FFB share	R10,08	R11,80	R13,87	R16,54
Loan-to-value ("LTV") ratio** (%)	33,3	32,2	32,3	31,8
Net property expense ratio (%)	18,0	18,0	19,2	16,1
Gross property expense ratio (%)	36,1	35,8	37,2	33,6
Net total expense ratio (%)	15,6	15,0	15,1	13,1
Gross total expense ratio (%)	28,9	28,8	27,9	25,7
International Financial Reporting Standards ("IFRS") accounting				
NAV per equity share (going concern)^	R15,81	R16,19	R16,18	R16,39
NAV per FFA share*	R20,35	R19,77	R17,26	R16,26
NAV per FFB share	R10,22	R11,78	R13,87	R16,54

^ *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 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 28 and 29.*
# *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.*

DIRECTORS' COMMENTARY continued

Distributable income

Total distributable income was in line with guidance and marginally below the comparable period by 0,7% from R1 709,6 million for the six months ended 31 December 2018 to R1 697,2 million for the six months ended 31 December 2019.

Dividends

The FFA dividend for the six months ended 31 December 2019 increased by 3,94% compared to the six months ended 31 December 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 74,73 cents to 77,67 cents per share for the interim six-month period.

The FFB dividend for the six months ended 31 December 2019 is 74,84 cents per share, compared to the dividend of 77,49 cents per share for the comparable interim period ended 31 December 2018, a decrease of 3,42%, however a like-for-like increase of 0,6% when adjusting for the change related to capitalising interest on the land holdings at the lower of cost or fair value (refer to page 12).

For this interim reporting period, the board of directors resolved that the dividends declared on both FFA and FFB shares will be settled by way of an *in specie* distribution of Resilient shares at a price of R52,69 per share, being a 5% discount to the five-day volume-weighted average price ("VWAP"), to close of business on 2 March 2020, less the Resilient dividend declared for the six months ended 31 December 2019 of 267,96 cents per share.

This price represents a significant discount to Resilient's latest published NAV per share of R68,78, which is underpinned by a high quality retail portfolio. This distribution *in specie* returns value to our shareholders, while allowing us to retain cash to fund the development pipeline and enhance future growth.

This *in specie* distribution will reduce the effective shareholding in Resilient to approximately 2,7%.

Dividend policy

The macroeconomic conditions in South Africa continued to deteriorate on the back of the latest round of load shedding, the lack of confidence in the South African economy as well as fiscal risks to government finances evidenced by National Treasury's prediction that debt to gross domestic product will reach 70% within three to four years. We note that business confidence, as measured by the RMB/BER Business Confidence Index, is at 20-year lows. The nature of our business has also changed to focus more on development activities, which differentiates us, but also necessitates a strong and liquid balance sheet with which to fund the development pipeline. Given the aforementioned factors, the board deems it appropriate, at this time, to adopt a more conservative approach to the dividend policy.

In future, the dividends will exclude capitalised interest on our strategic land holdings, which has historically been included in determining the total dividend payments, given that the growth in value of many of these land holdings is likely to remain below the rate at which we capitalise interest.

We believe this limitation on the capitalised interest component of distributions will add value over the longer term and is prudent in the current environment. Should conditions change, this policy will be reassessed.

Had this policy been adopted in prior periods, the total dividend would have been R390,6 million and R164,1 million less for the year ended 30 June 2019 and the six months ended 31 December 2019, respectively.

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 R35,7 billion at 30 June 2019 which has decreased to R34,6 billion at 31 December 2019, primarily due to:

- Fair value adjustments to our NEPI Rockcastle shareholding; and
- Fair value adjustments on the funding to our BEE empowerment vehicles due to a lower FFB share price.

The TNAV per equity share at 31 December 2019 was R15,59, calculated as tangible net asset value divided by all shares in issue, net of treasury shares. In a deviation from prior periods, we are of the view that outside of a redemption or winding-up event, this 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 32,2% at 30 June 2019 to 33,3% at 31 December 2019 based on management accounts and is within the target range of 30% to 35%.

DIRECT PROPERTY PORTFOLIO

Logistics portfolio (R9,5 billion asset value)

The standing logistics portfolio continues to perform as expected and remains core to our strategy. The portfolio continues to be in high demand as evidenced by the relatively low vacancy. However, negative reversions on expiring leases continue, given the low growth environment and benign cost increases which are evident on new developments and which further act as a cap on market rental growth for prime assets.

During the period we replaced Imperial Group's cold logistics division with Vector Logistics at our Frankenwald facility.

We considered the acquisition and development of various sale and leaseback transactions during the period, but after careful consideration and a comparison to our core logistics portfolio, we chose to continue developing our own properties on our strategic land holdings.

Logistics developments (R3,0 billion asset value)

We commenced the next round of speculative developments to further unlock value from our development pipeline. We believe that continuing our strategy of rolling out the development pipeline differentiates us from our peers and is the basis for growth. We currently estimate approximately R5 billion in incremental capital expenditure is required to complete the top structures within our logistics parks. The majority of the infrastructure at Clairwood and Eastport has been installed and the roll-out of the top structures continues as planned.

Louwlardia

Louwlardia Logistics Park ("Louwlardia") was acquired in 2015 and will be fully developed during 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. Plan approval has been obtained and a new 14 300m^2 premium logistics facility will be ready for occupation on 1 September 2020. Discussions are underway to expand this park with a further phase, taking advantage of the sunk cost already incurred for the existing infrastructure, as well as the land owner's willingness to provide us with optionality, rather than requiring a cash payment upfront.

Eastport (65% interest)

Eastport Logistics Park ("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 are 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, has exercised their option to purchase the building one year after lease commencement at a forward yield of approximately 7,4%, representing a 25% profit on total development cost. The strategy of partnering with tenants who require ownership allows us to recycle capital and more effectively mitigate risk.

We have commenced construction of the next pre-let building and two speculative buildings during this six-month period. Various enquiries have been received for differing sizes of warehousing, allowing us to plan the development schedule on an informed basis. The park is further complemented by the large super distribution centre under construction by DSV Logistics in the immediate vicinity.

Clairwood

Subsequent to 30 June 2019, we commenced construction of the next phase of buildings at Clairwood Logistics Park ("Clairwood"). Infrastructure at the park, such as the fire protection system, the physical security barriers, the spine road and gate houses at Barrier Lane and the M4 highway have been completed.

Clairwood offers users a safe, convenient and prime location in close proximity to the Durban Port. Clairwood is situated in an established node and a shortage of suitable land for further logistics developments reinforces our belief that Clairwood will be a prime asset once fully developed.

DIRECTORS' COMMENTARY continued

We recognised an impairment of R103,9 million to the carrying value of the undeveloped land portion at Clairwood, primarily consisting of capitalised interest during the period. This is consistent with our view that the land value at Clairwood has not appreciated since 30 June 2019.

Cornubia Ridge (50,1% owned)

The next speculative development at Cornubia Ridge Logistics Park ("Cornubia Ridge") is set for completion in May 2020. Cornubia, on the N2 highway, gives us exposure to the burgeoning North Coast corridor in KwaZulu-Natal, which has benefitted significantly from the large infrastructure projects during the last few years. Cornubia has been a major benefactor of the new Umhlanga interchange which effectively connects the Umhlanga Ridge Central Business District ("CBD") directly to our site across the N2 highway. We are in advanced negotiations with two potential tenants for the current speculative development and are investigating various pre-let options on the remaining sites, including a potential value retail offering.

Longlake

Longlake Logistics Park ("Longlake") consists of two strategically situated portions of land located at the intersection of Marlboro Drive and the K113. Development has commenced on the first phase of this premium-grade park 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.

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

Retail
(R10,3 billion asset value)

The retail portfolio delivered another solid performance due to the defensive nature of our commuter-oriented shopping centres. Like-for-like annual turnover at our centres increased by 3,9%, ahead of national retail sales growth of 1,2% reported by Stats SA for the same period. This positive performance was achieved in a challenging trading environment, which included persistently high unemployment figures, intensified load shedding and low consumer confidence.

The December holiday period has historically been the highlight of the South African shopping calendar, with an increasing focus over the past several years by retailers on Black Friday, which falls in November. Although Black Friday trade continues to grow annually, combined turnover for November and December showed muted growth due to the financial pressures experienced by consumers. The grocery and pharmaceutical categories continue to perform well, with athleisure being the standout category amongst the fashion retailers.

Vacancies in the retail portfolio increased marginally to 4,2% at 31 December 2019 from 4,0% at 30 June 2019. We commenced the redevelopment of 409 West Street Durban following the expiry of the Edgars lease. This 10 000m^2 redevelopment should be complete in the second half of the 2020 calendar year and discussions with several national tenants are ongoing. This is in line with our strategy of reducing our exposure to Edcon.

We analyse our retail portfolio in three distinct categories:

- **CBD and Township centres:** Includes assets such as our Park Central Centre adjacent to the Noord Street taxi rank in the Johannesburg CBD and Evaton Mall. This category is defensive in nature with high foot traffic and opportunities for growth from the effect of urbanisation.
- **Rural centres:** Includes centres in non-metropolitan towns such as Thohoyandou, where we have a dominant position near commuter hubs. These centres continue to grow and face diminished risk of competition in the current market.
- **Suburban centres:** Includes centres like Pineslopes Shopping Centre, Thrupps Illovo Centre and Weskus Mall. These assets are stable overall and focused on higher LSM convenience shopping rather than competing with super regional fashion-centric offerings.

We present the turnover growth per category in the following table:

Portfolio split	Comparative annual turnover growth Dec 2018 (12 months) versus Dec 2019 (12 months) %	% of total retail portfolio by value
Suburban centres	4,3	35,7
Rural centres	4,0	22,3
CBD and Township centres	3,4	42,0
Combined retail portfolio	3,9	100,0

Suburban centres

The convenient retail offering at our suburban shopping centres is proving defensive in a tough trading environment. Pineslopes Shopping Centre and Tzaneen Lifestyle Centre (25% owned) recorded growth of 6,4% and 8,5% respectively.

Rural centres

Better lettings and an improved tenant mix at Sterkspruit Plaza and Nongoma Shopping Centre were the main drivers of growth within our rural portfolio. We expect to see further growth from Sterkspruit Plaza on the back of a recently completed extension of the centre, which has been excluded from the calculation of comparable sales growth. We have received interest from other national tenants to take up the additional space at the centre.

The introduction of Clicks and medical suites at premises previously occupied by Jet at Nongoma Shopping Centre has similarly revitalised the centre and there is interest from other national tenants to take up space.

CBD and Township centres

The strategy of owning commuter-oriented shopping centres continues to deliver stable growth. These centres recorded combined growth of 3,4% on an annual comparable basis. Excluding turnover figures of 409 West Street Durban, Jet Midtown Mall and Mahikeng Station Road, like-for-like growth in the CBD and Township portfolio is 4,2%.

The space vacated by Jet at Midtown Mall has subsequently been let. Approximately 2 800m^2 of the 7 354m^2 Mahikeng Station Road centre was damaged by fire in November 2019. The affected area is currently being rebuilt and will be ready for tenant occupation in September 2020.

We do not anticipate major changes to the trading conditions in South Africa in the short to medium term. To ensure that our retail portfolio remains relevant for our various trading areas, we will remain focused on tenant retention, improvement of our tenant mix and pursue redevelopment opportunities within our portfolio. Streamlining of the retail portfolio will continue with several underperforming and smaller retail assets identified as non-core.

Office (including office developments)
(R3,0 billion asset value)

The exit from the office portfolio continues with the disposal of two office blocks during the six months to 31 December 2019, with a further sale of a vacant office building of 7 335m^2 subsequent to reporting period end, which reduced the office vacancy from 21,6% at 31 December 2019 to 18,6% at the date of this report. During the period, Life Healthcare advised us that they will be vacating our Oxford Manor building in Illovo. Given the location of this building on a prime corner on Oxford Road, numerous enquiries from potential purchasers have been received.

The site opposite the Sandton Gautrain Station continues to attract interest from various end-users and investors and we are optimistic in structuring an exit on this asset.

Industrial
(R3,8 billion asset value)

The industrial portfolio continued to underperform and recent persistent load shedding has had dire consequences for many of our tenants. Re-profiling and disposing of some of these assets will reduce the risk in this portfolio.

Subsequent to the reporting period end, we let 60 North Reef Road to Libstar Holdings on a 10-year triple-net lease.

DIRECTORS' COMMENTARY continued

VACANCIES

Total vacancies, measured as a percentage of gross lettable area ("GLA"), increased from 7,2% at 30 June 2019 to 8,0% at 31 December 2019. However, vacancies reduce to 7,1% if the disposal of Girton Road and the letting of 60 North Reef Road (both after reporting period end) are eliminated.

The industrial portfolio showed a further increase in vacancies whilst pleasingly, the vacancy in the logistics portfolio continued to decline.

Sectoral vacancy	Based on GLA Dec 2019 %	Based on GLA Jun 2019 %	Based on value per m² of building Dec 2019# %	Based on value per m² of building Jun 2019# %
Total	**8,0**	7,2	**5,6**	5,8
Total (excluding held for sale properties)	**7,7**	6,9	**5,5**	5,6
Logistics	**3,1**	4,0	**3,0**	3,9
Retail	**4,2**	4,0	**3,7**	3,6
Industrial	**15,6**	11,2	**12,6**	9,7
Office	**21,6**	21,4	**19,3**	21,7
Other^	**2,1**	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.

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

PROPERTY DISPOSALS

The following properties were sold during the six months ended 31 December 2019:

Property name	Sector	Net proceeds R'000	Book value at Jun 2019 R'000	Transfer date	Exit yield %
Louwlardia Logistics Park – Building 1 (We Buy Cars) (50% undivided share)*	Logistics	112 500	112 500	@	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
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
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
		420 015	**415 835**		

@ *Effective date is 21 October 2019.*

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

The disposals were slower in the current period 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. Sales, including held for sale, are R1 039,4 million at a 3,5% premium to book value at 30 June 2019.

The following properties were held for sale at 31 December 2019:

Property name	Sector	Net proceeds R'000	Book value at Jun 2019 R'000	Transfer date	Exit yield %
Eastport Logistics Park – Building 1 (Savino del Bene)&	Logistics	155 851	147 586	^	7,4
Louwlardia Logistics Park – Building 2 (WAG) (50% undivided share)	Logistics	154 500	154 500	$	8,5
Surprise Park Pinetown	Logistics	151 000	134 000	$	8,9
204 Rivonia Road Morningside	Office	83 500	79 000	**	#
19 Girton Road Parktown	Office	63 000	62 000	Feb 2020	#
Malibongwe Drive	Retail	11 500	11 400	Jan 2020	10,0
		619 351	**588 486**		

& *Reflects Fortress' 65% ownership.*

^ *Effective date 27 January 2020.*

$ *Not yet transferred.*

Vacant building.

** *Block A and B and the vacant land portion transferred in March 2020.*

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

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 Food & Trees for Africa ("FTFA") with whom there are currently six ongoing projects in under-resourced communities. The overall impact 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 it also contributes towards sustainability.

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 in any further amendments to the Amended Property Sector Code.

CURRENCY DERIVATIVES

Balance sheet hedging

The board's policy is to use cross-currency swaps as a means of obtaining funding in a currency matched to that of our foreign investments. The board has reviewed this policy and deemed it prudent to reduce the absolute level of cross-currency swaps to approximate the target LTV for Fortress of 30%. Consequently, the cross-currency swap exposure was reduced post 31 December 2019 by EUR162 million to EUR302,7 million against investments of EUR1 080 million at reporting date, being approximately 28% of the exposure, compared to 41% at 30 June 2019.

The EUR302,7 million of cross-currency swaps earn a spread of between 6,25% and 6,75% at current rates and South African Reserve Bank approval has been received to extend the expiry of these cross-currency swaps for up to five years, which allows us to further mitigate the liquidity risk associated with this product. Currently all expiries are more than 12 months from the reporting date.

DIRECTORS' COMMENTARY continued

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
Dec 2019	17,94
Jun 2020	18,73
Dec 2020	18,88
Jun 2021	20,05
Dec 2021	20,46
Jun 2022	21,16
Dec 2022	20,78

FUNDING AND LIQUIDITY

Subsequent to interim reporting period end, approval has been obtained to extend and restructure R4 508 million of secured facilities, with varying expiry dates, to March 2024 (R1 350 million), March 2025 (R2 538 million), October 2025 (R370 million) and March 2026 (R250 million). We issued a R200 million five-year bond in October 2019 and R300 million in one-year notes in February 2020, in our first public auction in more than two years, under the domestic medium-term note programme.

Facility expiry	Amount R'million	Average margin over 3-month Jibar %
Jun 2020	2 729	1,66
Jun 2021	5 195	1,87
Jun 2022	4 225	1,88
Jun 2023	4 747	1,76
Jun 2024	1 333	1,97
Jun 2025	1 596	1,92
Jun 2026	–	–
Jun 2027	206	1,99
	20 031	**1,83**

Following the reduction in our cross-currency position, we entered into additional local interest rate hedges, increasing the combined swaps and caps from R7,8 billion at 30 June 2019 to R9,9 billion at the date of this report.

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	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
	4 300	**7,90**

Interest rate cap expiry	Amount R'million	Average cap rate %
Jun 2020	100	7,49
Jun 2021	400	7,80
Jun 2022	400	7,76
Jun 2023	300	7,71
Jun 2024	400	7,98
Jun 2025	950	7,64
Jun 2026	700	7,69
Jun 2027	1 050	7,37
Jun 2028	1 300	7,29
	5 600	**7,56**

The all-in weighted average cost of local funding of Fortress was 8,85% at 31 December 2019 and the average hedge term was 4,41 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'000	Average cap rate %
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, 152,8% of the exposure to foreign base rates is hedged and the average hedge term is 4,19 years.

Variable interest rates	South Africa '000	Offshore listed in South Africa '000
Interest-bearing borrowings	R17 916 249	
Currency derivatives	(R4 825 787)	R4 825 787
Loans to co-owners	(R631 845)	
Cash and cash equivalents	(R637 903)	
Capital commitments contracted for	R523 903	
Capital commitments approved	R233 244	
Investment property held for sale	(R619 351)	
	R11 958 510	**R4 825 787**
Spot rate		R15,94
Exposure		EUR302 747
Total interest rate derivatives (swaps/caps)	R9 900 000@	EUR462 600
Percentage hedged	**82,8%**	**152,8%**

Information based on management accounts.

@ As at the date of this report.

DIRECTORS' COMMENTARY continued

PROSPECTS

We will continue with our strategy of exiting non-core assets and reinvesting the proceeds into our high-quality logistics parks. Given the current market, and in order to ensure that adequate funding is available for the development pipeline and to maintain balance sheet strength, we will be adopting a more conservative approach to dividends in the future.

As a consequence of the change to the dividend policy, where capitalised interest on our development pipeline is no longer distributed, together with the effect of the reduction in the cross-currency interest rate swaps, we forecast a reduction in our total dividends for the full 2020 financial year. However, on a like-for-like basis, taking into account the aforementioned changes, the dividends for the full 2020 financial year are forecast to be 3,4% higher than the 2019 financial year, but remain subject to declaration at the discretion of the board.

Revised distribution methodology

The total dividend declared for H1FY20# is R1 697,1 million based on the historic distribution methodology. Given the new distribution methodology is applicable from 1 January 2020, the forecast total dividend for H2FY20# is R1 382,0 million. The total dividend for the full 2020 financial year is forecast to be R3 079,1 million.

The table below includes a comparable analysis on a like-for-like basis had the revised policy and reduction in cross-currency swaps been in place for the historic periods presented.

	Forecast year ending Jun 2020 R'000	Year ended Jun 2019 R'000	*% change Jun 2019 to Jun 2020*	Six months ended Dec 2019 R'000	Six months ended Dec 2018 R'000	*% change Dec 2018 to Dec 2019*
Dividend declared per historic distribution methodology (as per published results announcements)*	–	3 388 663		1 697 150	1 709 636	
Forecast distribution (H1FY20 actual based on historic methodology, H2FY20 forecast post reduction of cross-currency swap position)	3 249 423					
Distributable income	3 249 423	3 388 663	*(4,1)*	1 697 150	1 709 636	*(0,7)*
Adjustment 1						
Capitalised interest	(334 406)	(390 636)		(164 118)	(210 498)	
Adjustment 2						
Effect of reduced cross-currency swap position	(111 629)	(286 318)		(111 629)	(158 981)	
Dividend assuming adoption of revised distribution methodology and after reduced cross-currency swap position^	**2 803 388**	**2 711 709**	***3,4***	**1 421 403**	**1 340 157**	***6,1***

* *The historic distribution methodology is similar to the SA REIT Association Best Practice Recommendations' "Funds From Operations" or "FFO".*
# *H1FY20: Actual for the six months ended 31 December 2019; H2FY20: Forecast for the six months ending 30 June 2020.*
^ *Dividend available for FFA and FFB shares net of FFB shares as treasury shares (refer to page 3).*

Adjustment 1
This adjustment eliminates all capitalised interest as historically reported and forecast for the full 2020 financial year, as applicable.

Adjustment 2
This adjustment represents the reduction in interest received on the cross-currency swap position on the basis that the Euro exposure was EUR302,7 million for all the periods presented above. Actual EUR:ZAR exchange rates and interest rate differentials for historic periods have been used.

Forecast – 30 June 2020

	R'000
Total dividend forecast for the year ending 30 June 2020^	3 079 135
H1FY20 dividend declared	1 697 150
H2FY20 forecast dividend applying revised distribution methodology	1 381 985

^ *The forecast dividend for the year ending 30 June 2020 comprises of the aggregate of the H1FY20 dividend declared (based on historic distribution methodology) and the H2FY20 forecast dividend (based on revised distribution methodology, as adopted with effect from 1 January 2020).*

As the optimisation of the capital structure may result in a proposal to shareholders, guidance on a per share basis has been withdrawn. The forecast for the year ending 30 June 2020 as presented is based on the following assumptions:

Macroeconomic

- The macroeconomic environment will not deteriorate more than expected;
- The current political landscape will not change dramatically; and
- South Africa's sovereign rating will remain investment grade (as rated by Moody's) for the remainder of the financial year.

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; and
- Distributions from NEPI Rockcastle and Resilient will be in line with their guidance communicated to the market.

This forecast, as contained in the prospects section, has not been audited, reviewed or reported on by Fortress' auditor.

By order of the board

Steven Brown
CEO

Ian Vorster
CFO

Johannesburg
5 March 2020

Longlake Logistics Park

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Unaudited Dec 2019 R'000	Audited Jun 2019 R'000	Unaudited Dec 2018 R'000
ASSETS			
Non-current assets	50 974 592	52 047 749	52 521 586
Investment property	25 112 369	25 165 374	25 280 197
Straight-lining of rental revenue adjustment	576 326	551 739	505 941
Investment property under development	3 835 121	4 018 888	4 828 049
Property, plant and equipment	28 039	28 039	28 039
Investment in and loans to associates	18 012 794	18 781 341	17 282 881
Investments	2 730 458	2 505 178	2 340 420
Staff scheme loans	165 902	221 680	318 715
Loans to BEE vehicles	–	–	1 879 010
Investment in BEE preference shares	513 583	775 510	–
Deferred tax	–	–	58 334
Current assets	1 796 941	878 055	1 453 359
Staff scheme loans	9 463	9 720	9 321
Trade and other receivables	1 148 863	856 818	738 407
Cash and cash equivalents	638 615	11 517	705 631
Non-current assets held for sale	619 351	524 475	430 122
Investment property held for sale	608 199	513 129	418 776
Straight-lining of rental revenue adjustment	11 152	11 346	11 346
Total assets	53 390 884	53 450 279	54 405 067
EQUITY AND LIABILITIES			
Total equity attributable to equity holders	34 131 431	34 897 324	35 219 151
Stated capital	45 571 743	45 571 807	45 571 807
Treasury shares	(1 578 517)	(1 578 517)	(491 918)
Currency translation reserve	18 503	5 017	8 856
Reserves	(9 880 298)	(9 100 983)	(9 869 594)
Non-controlling interests	121 997	122 879	103 604
Total equity	34 253 428	35 020 203	35 322 755
Total liabilities	19 137 456	18 430 076	19 082 312
Non-current liabilities	13 693 070	14 670 513	14 580 093
Interest-bearing borrowings	13 588 831	14 570 884	14 580 093
Deferred tax	104 239	99 629	–
Current liabilities	5 444 386	3 759 563	4 502 219
Trade and other payables	884 758	975 802	1 040 964
Income tax payable	176 954	176 954	232 328
Interest-bearing borrowings	4 382 674	2 606 807	3 228 927
Total equity and liabilities	53 390 884	53 450 279	54 405 067

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2019

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Unaudited for the six months ended Dec 2018 R'000
Recoveries and contractual rental revenue	1 786 584	3 326 617	1 673 989
Straight-lining of rental revenue adjustment	24 393	87 215	41 417
Revenue from direct property operations	1 810 977	3 413 832	1 715 406
Revenue from investments	108 114	214 595	106 337
Total revenue	1 919 091	3 628 427	1 821 743
Fair value gain/(loss) on investment property, investments and derivative financial instruments	243 243	(225 343)	205 168
Fair value (loss)/gain on investment property	(280 458)	(957 526)	88 506
Adjustment resulting from straight-lining of rental revenue	(24 393)	(87 215)	(41 417)
Fair value (loss)/gain on investments	(15 707)	233 695	30 795
Fair value gain on derivative financial instruments	563 801	585 703	127 284
Property operating expenses	(638 229)	(1 183 974)	(619 989)
Administrative expenses	(81 154)	(171 261)	(66 472)
Impairment of staff scheme loans	(46 901)	(34 949)	(1 974)
Impairment of loans to BEE vehicles	–	(611 983)	(177 614)
Impairment of investments in associates	(843 657)	(85 207)	(1 098 279)
Reversal of impairment of investment in associate	–	1 052 952	–
IFRS 2: *Share-based Payment* – employee incentive scheme	(25 711)	(37 134)	(9 283)
IFRS 2: *Share-based Payment* – BEE	–	(136 308)	–
Profit on sale of interest in associate	9 416	–	–
Exchange loss realised on disposal of associate from foreign currency translation reserve	–	(29 571)	–
Income from associates	752 867	1 553 156	779 721
– Distributable	714 083	1 287 267	756 979
– Non-distributable	38 784	265 889	22 742
Profit before net finance costs	1 288 965	3 718 805	833 021
Net finance costs	(510 704)	(650 457)	(337 153)
Finance income	36 846	540 738	246 713
– Interest on staff scheme and other	36 846	88 552	22 229
– Interest on loans to BEE vehicles	–	452 186	224 484
Finance costs	(547 550)	(1 191 195)	(583 866)
– Interest on borrowings	(750 023)	(1 608 451)	(794 364)
– Capitalised interest	202 473	417 256	210 498
Profit before income tax	778 261	3 068 348	495 868
Income tax	(4 610)	(421 501)	(190 821)
Profit for the period	773 651	2 646 847	305 047

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

for the six months ended 31 December 2019

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Unaudited for the six months ended Dec 2018 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	**13 486**	(53 375)	(19 965)
Total comprehensive income for the period	**787 137**	2 593 472	285 082
Profit for the period attributable to:			
Equity holders of the company	**771 371**	2 617 631	298 804
Non-controlling interests	**2 280**	29 216	6 243
	773 651	2 646 847	305 047
Total comprehensive income for the period attributable to:			
Equity holders of the company	**784 857**	2 564 256	278 839
Non-controlling interests	**2 280**	29 216	6 243
	787 137	2 593 472	285 082
Basic earnings per FFA share (cents)	**35,97**	116,83	13,27
Basic earnings per FFB share (cents)	**35,97**	116,83	13,27
Diluted earnings per FFA share (cents)	**35,95**	116,72	13,27
Diluted earnings per FFB share (cents)	**35,95**	116,72	13,27

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2019

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Restated* Unaudited for the six months ended Dec 2018 R'000
Operating activities			
Cash generated from operations	**1 478 542**	3 509 814	1 677 333
Interest on staff scheme and other	**37 103**	97 191	31 267
Interest on borrowings (excluding capitalised interest)	**(531 438)**	(1 222 020)	(587 339)
Dividends paid	**(1 579 559)**	(3 500 317)	(1 788 744)
Income tax	**–**	(175 066)	(46 975)
Cash outflow from operating activities	**(595 352)**	(1 290 398)	(714 458)
Investing activities			
Development and improvement of investment property	**(398 396)**	(1 071 549)	(688 306)
Capitalised interest on development of investment property	**(202 473)**	(417 256)	(210 498)
Acquisition of investment property	**–**	(405 148)	(405 148)
Disposal of investment property	**420 015**	803 342	492 640
Decrease of interest in and loans advanced to associates	**12 774**	–	18 577
Proceeds from disposal of interest in associate	**337 801**	674 580	–
Staff scheme loans repaid	**8 877**	72 285	8 225
Cash flow on derivative financial instruments	**245 274**	132 015	(51 524)
Proceeds on disposal of investments	**20 940**	38 784	–
Loan repaid by BEE vehicle	**–**	234 846	114 807
Return of capital by associate	**–**	2 164 348	2 067 244
Cash inflow from investing activities	**444 812**	2 226 247	1 346 017
Financing activities			
Increase/(decrease) in interest-bearing borrowings	**777 702**	(1 057 852)	(370 032)
Acquisition of treasury shares and share issuance costs	**(64)**	(543 331)	(232 747)
Cash inflow/(outflow) from financing activities	**777 638**	(1 601 183)	(602 779)
Increase/(decrease) in cash and cash equivalents	**627 098**	(665 334)	28 780
Cash and cash equivalents at the beginning of the period	**11 517**	676 851	676 851
Cash and cash equivalents at the end of the period	**638 615**	11 517	705 631
Cash and cash equivalents consist of:			
Current accounts	**638 615**	11 517	86 204
Restricted cash**	**–**	–	619 427
	638 615	11 517	705 631

* *Refer to note 2 for details regarding the restatement of the 31 December 2018 consolidated statement of cash flows.*

** *The restricted cash at 31 December 2018 was held as collateral against scrip lending facilities. There is no restricted cash at 31 December 2019 or 30 June 2019.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2019

Unaudited	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 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 period				298 804	298 804	6 243	305 047
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				9 283	9 283		9 283
FFB treasury shares		(232 747)			(232 747)		(232 747)
Exchange loss on translation of associates			(19 965)		(19 965)		(19 965)
Dividends paid				(1 787 088)	(1 787 088)	(1 656)	(1 788 744)
Balance at Dec 2018	45 571 807	(491 918)	8 856	(9 869 594)	35 219 151	103 604	35 322 755
Profit for the period				2 318 827	2 318 827	22 973	2 341 800
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				27 851	27 851		27 851
IFRS 2: *Share-based Payment* – BEE (retained earnings)				129 808	129 808		129 808
FFB treasury shares		(1 086 599)			(1 086 599)		(1 086 599)
Exchange loss realised on translation of associate reclassified to profit or loss			29 571		29 571		29 571
Exchange loss on translation of associates			(33 410)		(33 410)		(33 410)
Dividends paid				(1 707 875)	(1 707 875)	(3 698)	(1 711 573)
Balance at Jun 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 FFA and FFB shares)**	**(64)**				**(64)**		**(64)**
Profit for the period				**771 371**	**771 371**	**2 280**	**773 651**
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				**25 711**	**25 711**		**25 711**
Exchange gain on translation of associate			**13 486**		**13 486**		**13 486**
Dividends paid				**(1 576 397)**	**(1 576 397)**	**(3 162)**	**(1 579 559)**
Balance at Dec 2019	**45 571 743**	**(1 578 517)**	**18 503**	**(9 880 298)**	**34 131 431**	**121 997**	**34 253 428**

* *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 six months ended 31 December 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.*

NOTES

1. PREPARATION AND ACCOUNTING POLICIES

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2019 have been prepared in accordance with and contain the information required by IAS 34: *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. This report complies with the SA REIT Association Best Practice Recommendations (First Edition) as applicable to the six-month reporting period ended 31 December 2019. 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 six months ended 31 December 2019. 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 condensed unaudited consolidated interim financial statements 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 period. 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 condensed unaudited consolidated interim financial statements. Amendments to IFRS 9: *Financial Instruments* and IAS 28: *Interests in Associates and Joint Ventures* had no effect on previously reported results nor on the condensed unaudited consolidated interim financial statements.

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 R698,6 million. A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R738,5 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 annual financial statements.

The directors are not aware of any matters or circumstances arising subsequent to 31 December 2019 that require any additional disclosure or adjustment to the financial statements. As at 3 March 2020, having revalued the listed portfolio and our exposure to the FFB share, *via* our investment in BEE preference shares/loans with reference to current market prices and without making adjustments to investment property, the NAV per equity share on a going concern basis is R14,97 and the LTV ratio is 34,2%.

The condensed consolidated interim financial statements have not been audited or reviewed by Fortress' auditor.

2. RESTATEMENT OF FINANCIAL STATEMENTS

Impact on statement of cash flows (increase/(decrease)) in cash flows	Unaudited for the six months ended Dec 2018 R'000
Interest on borrowings (excluding capitalised interest)	210 498
Cash flow from operating activities	210 498
Capitalised interest on development of investment property	(210 498)
Cash flow from investing activities	(210 498)
Movement in cash and cash equivalents	**–**

Restatement of items disclosed in the statement of cash flows

Reclassification of capitalised interest – change in accounting policy

During the year ended 30 June 2019, 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 investment activities from the 2019 financial year. The statement of cash flows for the six months ended 31 December 2018 has been restated to reflect this reclassification. 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 for the six months ended 31 December 2018 amounts to R210,5 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.

3. LEASE EXPIRY PROFILE

Based on	Rentable area %	Contractual rental revenue %
Vacant	8,0	
Jun 2020	18,2	14,5
Jun 2021	17,4	17,3
Jun 2022	14,1	14,6
Jun 2023	12,2	14,7
Jun 2024	10,2	11,3
> Jun 2024	19,9	27,6
	100,0	**100,0**

NOTES continued

4. SEGMENTAL ANALYSIS

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Unaudited for the six months ended Dec 2018 R'000
Total revenue			
Retail	666 538	1 249 700	608 716
Logistics	656 039	1 138 525	598 788
Industrial	269 113	584 570	261 447
Office	165 595	338 101	172 894
Other	53 692	102 936	73 561
Corporate	108 114	214 595	106 337
	1 919 091	3 628 427	1 821 743
Profit for the period			
Retail	370 815	589 134	426 118
Logistics	397 868	328 620	420 397
Industrial	114 614	204 242	144 959
Office*	(21 678)	16 326	133 882
Other	30 412	80 844	41 343
Corporate	(118 380)	1 427 681	(861 652)
	773 651	2 646 847	305 047
Total assets			
Retail	10 660 242	10 643 328	10 417 733
Logistics	13 134 103	12 898 780	13 735 670
Industrial	3 879 364	4 017 950	3 950 827
Office	2 995 419	3 097 819	3 320 487
Other	678 424	677 381	690 349
Corporate	22 043 332	22 115 021	22 290 001
	53 390 884	53 450 279	54 405 067

* *The segmental loss in December 2019 resulted from an impairment of undeveloped land.*

5. EARNINGS AND HEADLINE EARNINGS

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Unaudited for the six months ended Dec 2018 R'000
Reconciliation of profit for the period to headline earnings			
Basic earnings – profit for the period attributable to equity holders	771 371	2 617 631	298 804
Adjusted for:	701 207	(284 741)	520 078
– Fair value loss/(gain) on investment property (net of straight-lining adjustment)	304 851	1 044 741	(47 089)
– Profit on sale of interest in associate	(9 416)	–	–
– Reversal of impairment of investment in associate	–	(1 052 952)	–
– Impairment of investment in associate	843 657	85 207	1 098 279
– Fair value gain on investment property of associates	(512 516)	(413 239)	(711 678)
– Income tax effect	74 631	51 502	180 566
Headline earnings	1 472 578	2 332 890	818 882
Headline earnings per FFA share (cents)	68,68	104,12	36,37
Headline earnings per FFB share (cents)	68,68	104,12	36,37
Diluted headline earnings per FFA share (cents)	68,64	104,02	36,36
Diluted headline earnings per FFB share (cents)	68,64	104,02	36,36

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 period:

	Dec 2019	Jun 2019	Dec 2018
Weighted average number of shares			
– FFA	1 184 496 438	1 184 496 438	1 184 496 438
– FFB	959 753 380	1 056 047 431	1 066 923 211
Diluted weighted average number of shares			
– FFA	1 185 723 711	1 186 241 364	1 184 979 390
– FFB	959 753 380	1 056 467 976	1 067 026 047

NOTES continued

SETTLEMENT OF INTERIM DIVIDENDS

The board has approved, and notice is hereby given of interim dividends of 77,67000 cents per FFA share and 74,84000 cents per FFB share for the six months ended 31 December 2019. The dividends will be settled by way of an *in specie* distribution of Resilient shares. Fortress shareholders will be advised of the settlement timetable *via* a separate SENS announcement in due course.

DIRECTORS

Iraj Abedian *(chairperson);* Steven Brown*; Robin Lockhart-Ross; Ina Lopion; Susan Ludolph; Vuso Majija*; Tshiamo Matlapeng-Vilakazi; Vuyiswa Mutshekwane; Bongiwe Njobe; 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 year ended 30 June 2019:

- Mr Banus van der Walt resigned as an independent non-executive director on 31 December 2019; and
- Mrs Ina Lopion has been appointed as an independent non-executive director with effect from 1 January 2020.

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

RECONCILIATION OF PROFIT FOR THE PERIOD TO DIVIDEND DECLARED

	Unaudited for the six months ended Dec 2019 R'000	Audited for the year ended Jun 2019 R'000	Unaudited for the six months ended Dec 2018 R'000
Profit for the period	**773 651**	2 646 847	305 047
Fair value loss/(gain) on investment property	**280 458**	957 526	(88 506)
Fair value loss/(gain) on investments	**15 707**	(233 695)	(30 795)
Fair value gain on derivative financial instruments	**(563 801)**	(585 703)	(127 284)
Impairment of staff scheme loans	**46 901**	34 949	1 974
Impairment of loans to BEE vehicles	**–**	611 983	177 614
Impairment of investments in associates	**843 657**	85 207	1 098 279
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	**(38 784)**	(265 889)	(22 742)
Interest received on long-term incentive plan (reversed for IFRS 2 charge)	**2 469**	3 322	840
IFRS 2: *Share-based Payment* – employee incentive scheme	**25 711**	37 134	9 283
IFRS 2: *Share-based Payment* – BEE	**–**	136 308	–
Income tax	**4 610**	421 501	190 821
Non-controlling interests	**(2 280)**	(898)	870
Antecedent dividend (issuance)	**2 284**	5 961	5 961
Antecedent dividend (FFB repurchase)	**–**	(22 785)	–
Loans to BEE vehicles interest reversal	**–**	(452 186)	(224 484)
BEE vehicles FFA dividend	**–**	708	708
BEE vehicles FFB dividend	**–**	111 323	111 323
Staff scheme interest limitation	**(2 439)**	(6 229)	(5 073)
Dividends accrued	**(64 853)**	247 047	(15 227)
Interest on cross-currency swaps	**288 844**	596 336	312 887
Foreign dividend hedging	**61 695**	34 429	27 335
Interest rate derivatives	**(35 367)**	(51 313)	(19 195)
Fortress Empowerment 1 to 4 (BEE) dividend waiver adjustment	**96 091**	100 161	–
Capitalised interest limitation	**(27 988)**	–	–
Amount available for distribution	**1 697 150**	3 388 663	1 709 636
Interim dividend declared			
– FFA shares	**(925 512)**	(889 224)	(889 224)
– FFB shares*	**(771 638)**	(820 412)	(820 412)
Final dividend declared			
– FFA shares		(876 016)	
– FFB shares#		(803 011)	
	–	–	–

** Dec 2019: Net of 62 163 124 treasury shares; Jun 2019 (interim dividend): Net of 32 800 451 treasury shares; Dec 2018: Net of 32 800 451 treasury shares.*

 # Jun 2019: Net of 62 163 124 treasury shares.

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.

Clairwood Logistics Park

Louwlardia Logistics Park

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 unaudited financial information for the six months ended 31 December 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.

This *pro forma* information has not been reviewed or reported on by Fortress' auditor.

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 condensed unaudited consolidated statement of financial position and the condensed unaudited 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 unaudited management accounts for the six months ended 31 December 2019 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 at of R123,83 at 31 December 2019. 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 unaudited management accounts for the six months ended 31 December 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.

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	IFRS Dec 2019 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town Dec 2019 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle Dec 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries Dec 2019 R'000	Adj 4 Deconsolidation of BEE vehicles Dec 2019 R'000	Management accounts Dec 2019 R'000
ASSETS						
Non-current assets	50 974 592	(147)	–	(169 496)	513 583	51 318 532
Investment property	25 112 369	666 041		(538 871)		25 239 539
Straight-lining of rental revenue adjustment	576 326	10 406		(29 050)		557 682
Investment property under development	3 835 121			(233 420)		3 601 701
Property, plant and equipment	28 039					28 039
Investment in and loans to associates	18 012 794	(676 594)	(17 336 200)			–
Investments	2 730 458		17 336 200			20 066 658
Staff scheme loans	165 902					165 902
Investment in BEE preference shares/loans	513 583				513 583	1 027 166
Loans to co-owners	–			631 845		631 845
Current assets	1 796 941	5 894	–	(13 337)	–	1 789 498
Staff scheme loans	9 463					9 463
Trade and other receivables	1 148 863	5 225		(11 956)		1 142 132
Cash and cash equivalents	638 615	669		(1 381)		637 903
Non-current assets held for sale	619 351	–	–	–	–	619 351
Investment property held for sale	608 199					608 199
Straight-lining of rental revenue adjustment	11 152					11 152
Total assets	53 390 884	5 747	–	(182 833)	513 583	53 727 381
EQUITY AND LIABILITIES						
Total equity attributable to equity holders	34 131 431	–	–	–	513 583	34 645 014
Share capital	45 571 743					45 571 743
Treasury shares	(1 578 517)				513 583	(1 064 934)
Currency translation reserve	18 503		(18 503)			–
Reserves	(9 880 298)		18 503			(9 861 795)
Non-controlling interests	121 997			(121 997)		–
Total equity	34 253 428	–	–	(121 997)	513 583	34 645 014
Total liabilities	19 137 456	5 747	–	(60 836)	–	19 082 367
Non-current liabilities	13 693 070	–	–	(55 256)	–	13 637 814
Interest-bearing borrowings	13 588 831			(55 256)		13 533 575
Deferred tax	104 239					104 239
Current liabilities	5 444 386	5 747	–	(5 580)	–	5 444 553
Trade and other payables	884 758	5 747		(5 580)		884 925
Income tax payable	176 954					176 954
Interest-bearing borrowings	4 382 674					4 382 674
Total equity and liabilities	53 390 884	5 747	–	(182 833)	513 583	53 727 381
NAV per equity share (going concern) (R)	15,81					15,59
NAV per FFA share (R)	20,35					20,35
NAV per FFB share (R)	10,22					10,08

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Income statement	IFRS for the six months ended Dec 2019 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the six months ended Dec 2019 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the six months ended Dec 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the six months ended Dec 2019 R'000	Adj 4 Deconsolidation of BEE vehicles for the six months ended Dec 2019 R'000	Management accounts for the six months ended Dec 2019 R'000
Recoveries and contractual rental revenue	1 786 584	43 722		(30 406)		1 799 900
Straight-lining of rental revenue adjustment	24 393	(550)				23 843
Revenue from direct property operations	1 810 977	43 172	–	(30 406)	–	1 823 743
Revenue from investments	108 114		689 949			798 063
Total revenue	1 919 091	43 172	689 949	(30 406)	–	2 621 806
Fair value gain/(loss) on investment property, investments and derivative financial instruments	243 243	550	(781 971)	–	–	(538 178)
Fair value loss on investment property	(280 458)					(280 458)
Adjustment resulting from straight-lining of rental revenue	(24 393)	550				(23 843)
Fair value loss on investments	(15 707)		(781 971)			(797 678)
Fair value gain on derivative financial instruments	563 801					563 801
Property operating expenses	(638 229)	(19 567)		7 264		(650 532)
Administrative expenses	(81 154)	(80)		101		(81 133)
Impairment of staff scheme loans	(46 901)					(46 901)
Impairment of investment in associate	(843 657)		843 657			–
IFRS 2: *Share-based Payment* – employee incentive scheme	(25 711)					(25 711)
Profit on sale of interest in associate	9 416		(9 416)			–
Income from associates	752 867	(24 134)	(728 733)	–	–	–
– Distributable	714 083	(24 134)	(689 949)			–
– Non-distributable	38 784		(38 784)			–

CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS | FORTRESS REIT LIMITED
FOR THE SIX MONTHS ENDED 31 DECEMBER | 2019

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

continued

Income statement continued	IFRS for the six months ended Dec 2019 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the six months ended Dec 2019 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the six months ended Dec 2019 R'000	Adj 3 Proportionate consolidation of partially-owned subsidiaries for the six months ended Dec 2019 R'000	Adj 4 Deconsolidation of BEE vehicles for the six months ended Dec 2019 R'000	Management accounts for the six months ended Dec 2019 R'000
Profit before net finance costs	1 288 965	(59)	13 486	(23 041)	–	1 279 351
Net finance costs	(510 704)	59		20 761		(489 884)
Finance income	36 846	–	–	(233)	–	36 613
– Interest on staff scheme and other	36 846			(233)		36 613
Finance costs	(547 550)	59	–	20 994	–	(526 497)
– Interest on borrowings	(750 023)	59		31 361		(718 603)
– Capitalised interest	202 473			(10 367)		192 106
Profit before income tax	778 261	–	13 486	(2 280)	–	789 467
Income tax	(4 610)					(4 610)
Profit for the period	773 651	–	13 486	(2 280)	–	784 857
Profit for the year attributable to:						
Equity holders of the company	771 371		13 486			784 857
Non-controlling interests	2 280			(2 280)		–
	773 651	–	13 486	(2 280)	–	784 857
Basic earnings per FFA share (cents)	35,97					35,54
Basic earnings per FFB share (cents)	35,97					35,54
Diluted earnings per FFA share (cents)	35,95					35,52
Diluted earnings per FFB share (cents)	35,95					35,52
Headline earnings per FFA share (cents)	68,68					49,32
Headline earnings per FFB share (cents)	68,68					49,32
Diluted headline earnings per FFA share (cents)	68,64					49,29
Diluted headline earnings per FFB share (cents)	68,64					49,29
Headline earnings						
Profit for the period attributable to equity holders	771 371					784 857
Adjusted for:	701 207					304 301
– Fair value loss on investment property (net of straight-lining adjustment)	304 851					304 301
– Profit on sale of interest in associate	(9 416)					
– Impairment of investment in associate	843 657					
– Fair value gain on investment property of associates	(512 516)					
– Income tax effect	74 631					
Headline earnings	1 472 578					1 089 158

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

Tamlyn Stevens CA(SA)

Block C, Cullinan Place,
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(PO Box 138, Rivonia, 2128)

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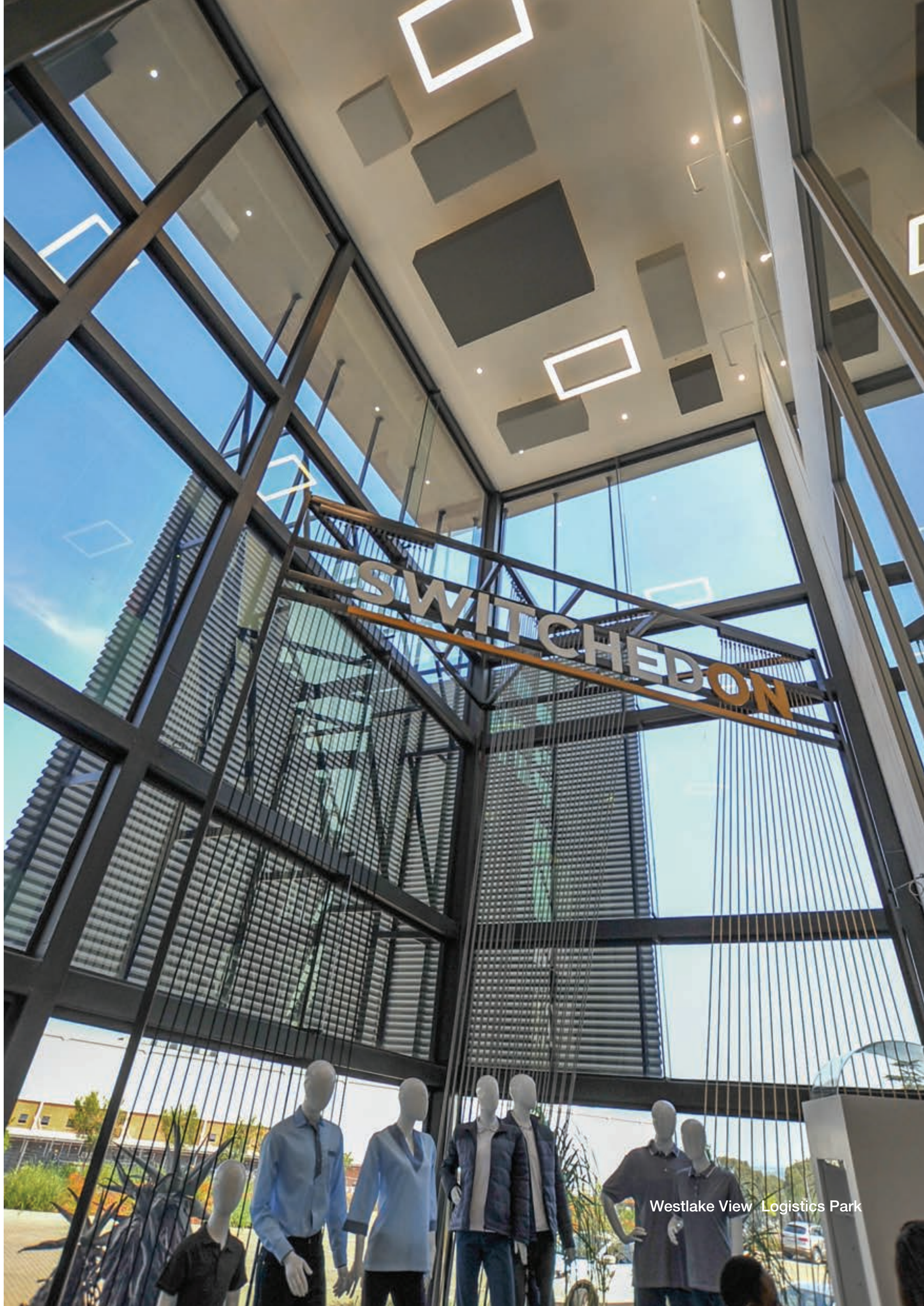

Westlake View Logistics Park

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