Powering Growth

CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2020

FORTRESS

REIT LIMITED

DIRECTORS' COMMENTARY

The interim reporting period of our 2021 financial year was characterised by the continued effects of the COVID-19 pandemic, which has now been prevalent for over a year and the impact of which was once again felt in the second quarter of this financial year. The pandemic has inevitably brought about a challenging economic environment, which saw South Africa's gross domestic product ("GDP") being 7,0% lower in 2020 compared to 2019. There is also continued uncertainty in the overall business environment and future macroeconomic conditions. Despite these challenging times, we remain focused on continuing our journey of rolling out the largest development pipeline of logistics real estate in South Africa, and ensuring that our defensively positioned convenience and commuter-oriented retail real estate assets continue to perform.

Since our 30 June 2020 year-end ("FY2020"), we have managed to complete, let and secure tenants for approximately 340 000m² of our 1,0 million square metre gross lettable area ("GLA") logistics development pipeline in South Africa, an achievement that we are proud of in these especially challenging times. Added to this, we sold R1,1 billion of properties at above book value, acquired two logistics parks in Poland, reduced our overall vacancies from 8,9% to 6,8%, maintained the trading densities in our retail portfolio at the same level as 2019 and shored up the balance sheet with additional liquidity, while reducing the loan-to-value ("LTV") ratio to 38,1%.

Over the past 18 months, various proactive steps were taken by management and the board of directors that were principally aimed at protecting the balance sheet, preserving liquidity and focusing on setting a solid base for the company for the future, which has allowed us to position the business for growth going forward.

NATURE OF THE BUSINESS

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

Our focus is on developing and in letting premium-grade logistics real estate in South Africa ("SA") and Central and Eastern Europe ("CEE"), as well as growing our convenience and commuter-oriented retail portfolio which currently comprises 56 shopping centres, which includes properties co-owned with partners.

At 31 December 2020, our property portfolio comprised of the following:

Sector	Direct property portfolio by value R'billion*	As a % of total direct property assets
Logistics – SA^	12,2	42,4
Retail	9,9	34,4
Industrial	3,4	11,8
Office&	2,2	7,6
Logistics – CEE@	0,7	2,4
Other#	0,4	1,4
Total direct property portfolio	**28,8**	**100,0**

* *Based on management accounts.*
^ *Includes landholdings and work-in-progress of R2,9 billion.*
& *Includes development sites of R0,3 billion.*
@ *Includes development sites of R0,2 billion.*
\# *Comprises a hotel, residential units, motor dealerships and serviced apartment properties.*

In addition to our property portfolio, we have a 23,6% interest in NEPI Rockcastle plc ("NEPI Rockcastle"), valued at R13,5 billion at 31 December 2020.

	Dec 2020			Jun 2020		
Listed portfolio	Number of shares	Fair value R'000	Effective holding %	Number of shares	Fair value R'000	Effective holding %
NEPI Rockcastle	**144 008 793**	**13 464 822**	**23,6**	140 000 000	12 426 400	23,3

CAPITAL STRUCTURE

The capital structure comprises two classes of ordinary shares, each with equal voting rights, but different entitlements to distributions and capital participation on redemption or winding up. The Fortress A ordinary share ("FFA"; 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 ("VWAP") on the JSE Limited ("JSE") subject to a floor of R8,11 if redeemed. The Fortress B ordinary share ("FFB"; 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 Memorandum of Incorporation ("MOI") governs the distribution in any income period. The MOI defines a first and a second income period. The FFA share is entitled in any income period to a distribution equal to the prior comparative period's distribution escalated by the lower of the Consumer Price Index ("CPI") or 5% ("the FFA entitlement") and the FFB share is entitled to any residual income in an income period. Should the company not earn sufficient distributable income to meet the FFA entitlement, the board may not distribute any income to FFA shareholders and as a result, no distribution may be declared to FFB shareholders. The FFA share dividends are non-cumulative.

REVIEW OF THE 2021 INTERIM REPORTING PERIOD

Highlights from the interim six-month period to 31 December 2020 ("1H2021" or "first income period") and to the date of this report include:

- Effectively executing our development strategy by letting, pre-letting and receiving offers on GLA of approximately 340 000m² of new logistics warehousing space, of which 62 495m² was completed and let during 1H2021. The remainder of approximately 278 000m² is work-in-progress;
- Disposing of 16 properties (seven of which were held for sale at 30 June 2020) for net proceeds of R1,1 billion, which was above book value, with a further 11 properties held for sale with a value of R371 million;
- Improving balance sheet strength with access to cash and available facilities of R2,8 billion and an LTV ratio of 38,1%;
- Maintaining the trading density in our retail portfolio at the same level as the comparable prior period;
- Reducing the overall vacancy in the property portfolio from 8,9% at 30 June 2020 to 6,8% at 31 December 2020, based on GLA;
- Successfully concluding the acquisition of our first directly held logistics parks in Poland totalling approximately 60 000m² of GLA, with available land for a further 110 000m² of logistics developments;
- Raising R680 million in a bond and note under our domestic medium-term note ("DMTN") programme in October 2020 and February 2021; and
- Currently having a total of 10 solar photovoltaic ("solar PV") installations at various buildings with 17 new solar PV projects at various stages of procurement or feasibility assessment. Installed plant capacity across our entire property portfolio is 3,585mWp compared to 2,808mWp at 30 June 2020.

Furthermore, we have refreshed our corporate identity and have launched a number of marketing activities and initiatives across various platforms which are bearing fruit, evident from an increase in direct enquiries from potential tenants.

DIRECTORS' COMMENTARY continued

SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2020	Jun 2020	Dec 2019	Jun 2019
Dividend per FFA share (cents)	**–**	23,00	77,67	73,62
FFA dividend entitlement (cents)	**80,10&**	76,13$	77,67	73,62
Dividend per FFB share (cents)	**–**	–	74,84	78,01
Shares in issue at the end of the period				
– FFA	**1 191 595 172**	1 191 595 172	1 191 595 172	1 189 915 138
– FFB	**1 093 213 028**	1 093 213 028	1 093 213 028	1 091 532 994
Shares used for dividend per share calculation				
– FFA	**1 191 595 172**	1 191 595 172	1 191 595 172	1 189 915 138
– FFB	**1 031 049 904**	1 031 049 904	1 031 049 904	1 029 369 870
FFB shares held in treasury	**62 163 124#**	62 163 124#	62 163 124#	62 163 124#
Management accounts information				
Net asset value ("NAV") per equity share (going concern)^	**R11,35**	R10,94	R15,59	R16,07
NAV per FFA share*	**R12,96**	R11,08	R20,35	R19,77
NAV per FFB share	**R9,48**	R10,77	R10,08	R11,80
LTV ratio** (%)	**38,1**	38,5	33,3	32,2
Net property expense ratio (%)	**24,6**	24,3	18,0	18,0
Gross property expense ratio (%)	**41,4**	40,8	36,1	35,8
Net total expense ratio (%)	**32,1^^**	20,1	15,6	15,0
Gross total expense ratio (%)	**36,7^^**	34,2	28,9	28,8
International Financial Reporting Standards ("IFRS") accounting				
NAV per equity share (going concern)^	**R11,59**	R11,17	R15,81	R16,19
NAV per FFA share*	**R12,96**	R11,08	R20,35	R19,77
NAV per FFB share	**R9,91**	R11,29	R10,22	R11,78

& *No dividend has been declared on the FFA share for the first income period of the 2021 financial year. The FFA entitlement is 80,10 cents for this income period which is further explained under the "Dividends" section.*

$ *The dividend per FFA share of 23,00 cents was less than the FFA entitlement of 76,13 cents.*

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 VWAP 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 28 and 29.*

^^ *Had NEPI Rockcastle's capitalisation issue in 1H2021 been accounted for as dividends received, the net total expense ratio and gross total expense ratio would have been 22,9% and 29,5% respectively.*

Distributable income

Distributable income, based on our communicated Fortress distribution methodology, was less than the FFA entitlement and accordingly no dividends have been declared for the first income period to either FFA or FFB shareholders. The total FFA entitlement for the first income period is R954,5 million, with actual distributable income achieved of R820,5 million. Despite not declaring dividends for the first income period, and based on Fortress receiving capitalisation shares in lieu of a cash dividend from NEPI Rockcastle in the first income period, we are confident that we will retain our REIT status for the financial year ending 30 June 2021.

Dividends and dividend policy

No dividends for either the FFA share or the FFB share have been declared for the first income period of the 2021 financial year.

The dividend entitlement for the FFA share is increased by the lower of CPI or 5,0% over the prior comparable income period, using the CPI figures supplied by Statistics SA. CPI growth for the first income period was 3,13% and the FFA entitlement is 80,10 cents per share. This becomes the base for the FFA entitlement for future income periods.

Consistent with the more conservative distribution policy of recent reporting periods as previously communicated, we do not distribute capitalised interest in order to ensure balance sheet strength and sufficient liquidity in an uncertain economic environment.

NAV

We have no intangible assets on our balance sheet and accordingly our NAV and tangible net asset value ("TNAV") are the same. Our TNAV has increased by 3,7% from R24,3 billion at 30 June 2020 to R25,2 billion at 31 December 2020. The increase is principally due to an increase in the NEPI Rockcastle share price over the period.

The TNAV per equity share at 31 December 2020 was R11,35, calculated as tangible NAV divided by all shares in issue, net of treasury shares. The TNAV per equity share, 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 reduced marginally from 38,5% at 30 June 2020 to 38,1% at 31 December 2020. Historically low interest rates have made our senior debt more affordable and the close-out of our synthetic Euro-denominated loans through cross-currency interest rate swaps ("CCIRS") has materially reduced risks to both our LTV and our liquidity position. This lower risk position, combined with lower variable interest rates, has resulted in us being comfortable with the current LTV ratio.

We will continue to assess our gearing and serviceability of debt to ensure that we balance taking advantage of investment opportunities with the risk of high levels of debt. We are not in breach of any of our debt covenants and continue to enjoy good relationships with our funders.

DIRECT PROPERTY PORTFOLIO (SA)

Logistics portfolio

(R9,3 billion asset value)

The standing logistics portfolio forms the base of our directly held property portfolio. Despite the defensiveness of the portfolio, it remains susceptible to the impact of the COVID-19 pandemic and resultant lockdowns, with vacancies increasing from 3,0% at 30 June 2020 to 4,3% at 31 December 2020. Collections as a percentage of billings for this interim reporting period were 98%. The recently completed new prime logistics assets were less impacted, as larger tenants were able to better withstand the turbulent market conditions.

DIRECTORS' COMMENTARY continued

Logistics developments

(R2,9 billion asset value)

The table below provides a summary of our logistics parks developments in SA as at the date of this report:

Logistics park	Shareholding %	Total GLA of the park m²	Completed developments (including sold developments) m²	Available GLA for development m²	Currently under development: Let/under offer* m²	Currently under development: Speculative/unlet m²	Remaining GLA to be developed m²
Louwlardia	100	89 656	89 656	–	–	–	
Eastport	65	420 000^	61 270	**358 730**	160 000	33 631	**165 099**
Longlake	100	96 562	36 562	**60 000**	–	–	**60 000**
Clairwood	100	300 000	24 990	**275 010**	90 364	28 929	**155 717**
Cornubia	50,1	103 568	42 238	**61 330**	–	–	**61 330**
Total: South Africa		1 009 786	254 716	**755 070**	250 364	62 560	**442 146**

** Development pre-let or under offer with prospective tenant.*

^ Previously we could develop approximately 450 000m² of GLA, however 60 000m² of land was sold to Teraco at a profit to book value.

Louwlardia Logistics Park

Louwlardia was acquired in 2015 and the last building of 14 310m² in this park was completed during this period. This building was let prior to completion on a 10-year triple net lease to Ultimate Sports Nutrition ("USN"). This park boasts high-quality tenants being We Buy Cars, Worldwide Automotive Group, Vodacom and USN. Discussions are ongoing with our development partner to co-develop the adjacent site.

Eastport Logistics Park (65% interest)

Once completed, Eastport will comprise 420 000m² of secure, premium-grade, core logistics facilities developed to the highest specification. This node on the R21 highway benefits from its proximity to OR Tambo International Airport and neighbouring areas that house blue-chip tenants, coupled with excellent road infrastructure. The area is becoming increasingly attractive to large logistics tenants as a result.

Construction is currently underway on two warehouses measuring 13 756m² and 19 875m². While these remain unlet, demand from potential tenants is strong. Furthermore, a warehouse which was pre-let to Clippa was completed in February 2021. We are negotiating with other users to rent the remaining space currently under construction. We continue to see the benefit of structuring agreements with tenants allowing them to own a portion of these facilities, thus ensuring the longevity of the asset through this tenant relationship. We disposed of 60 000m² of land at Eastport to a data centre operator to develop the largest data centre in Africa. This disposal was at a premium to our book value.

Furthermore, designs and final terms are being negotiated with a potential tenant for a new 160 000m² GLA distribution centre. The envisaged transaction will involve co-ownership with the tenant, with an exit of the current minority partner which holds 35%. This 160 000m² facility is included as "under offer" in the table above.

Clairwood Logistics Park

Construction is underway on 49 000m² of sub-divisible logistics facilities opposite the warehouse let to Sammar, of which 33 587m² has been let prior to completion and we are negotiating with other users to lease the remaining space. These facilities will be completed in the first half of the next financial year ending 30 June 2022. Construction has also recently commenced on 13 283m² of midi-warehousing space which will be completed before the end of the 2021 calendar year.

During 1H2021, we signed an offer to lease a 56 792m² container terminal at Clairwood for 10 years at an estimated yield of 9,2%. We believe that a container facility will further add to the attractiveness of Clairwood to potential tenants. We envisage Clairwood becoming a highly sought-after logistics park which will form the cornerstone of our exposure to the KwaZulu-Natal market.

Cornubia Ridge Logistics Park (50,1% interest)

Along with the Makro development completed in 2018, we completed a 23 727m² logistics facility at Cornubia during 1H2021 which has been fully let to two tenants occupying 14 002m² and 9 725m² on five-year and 10-year leases respectively. While these leases anchor the development, the demand in this node is for smaller units and we will tailor our offering to cater for this going forward.

The investment with our co-owners was restructured during the period to be held in undivided shares rather than through a subsidiary of Fortress. This restructure has been recorded as a disposal given that 49,9% was sold to parties external to the Fortress group. Our economic interest remains at 50,1% and the loan provided to our subsidiary to fund the development has now been fully repaid. This led to a cash inflow to the group of approximately R324 million, against a sale price of R454 million and book value of R416 million, being the 30 June 2020 impaired book value, plus costs incurred to transfer date.

Longlake Logistics Park

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. 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.

During the period, we completed the first warehouse of 24 458m² which we let on a 10-year triple net lease to Zest Weg at an 8,5% net initial yield. Subsequent to 31 December 2020, we completed the remaining speculative warehouse of 12 458m² which has been let to Cargo Carriers on a five-year lease.

Retail

(R9,9 billion asset value)

For 1H2021, retail sales have recovered to 100% of the levels achieved during the comparable period of the prior year. This is a pleasing result considering the continued impact of the COVID-19 pandemic and the further tightening of lockdown measures in December 2020. Sales have been recovering gradually since the Level 5 lockdown restrictions experienced during April and May 2020. The portfolio's exposure to the commuter and convenience shopping market, together with the easing of restrictions, have assisted in the quicker than anticipated recovery.

The grocery and pharmaceutical categories continued to outperform. Sales in restaurants, fast food and liquor stores were under pressure due to restrictions on the sale of alcohol and the government-imposed curfew, which limited trading hours. The unisex clothing category underperformed due to its exposure to workwear, challenges in stock supply and the restrictions on the number of people allowed in stores. Turnover performance by portfolio is split as follows:

Portfolio split	Comparative turnover growth* %
Township centres	(4,3)
CBD centres	0,9
Suburban centres	(0,1)
Rural centres	3,9
Overall retail portfolio	**0,4**

** Growth for the six-month period 1H2021 compared to the same six-month period of the prior year.*

Township centres

The recovery at our township centres has been the slowest within the Fortress retail portfolio. This market has been impacted by job losses, which are most prevalent within the lower income groups. The effect of this is evident in that, although the overall grocery category is performing positively, grocers have experienced no growth in our township centres.

The long queues which result from the limitation on the number of shoppers allowed in stores has been a cause of frustration, particularly at township centres during month-end and social grant payment periods. However, a decrease of 4,3% in 1H2021 is better than expected given the challenges brought about by the COVID-19 pandemic and the economic constraints, particularly in the townships. The government's social support measures, including the recently extended COVID-19 Social Relief of Distressed grant, continue to support this market.

DIRECTORS' COMMENTARY continued

CBD centres

The CBD centres have recovered well, as more people have gone back to their places of work and restrictions previously imposed on the operation of public transport have been relaxed substantially. The performance in this category was, however, negatively affected by vacancies at 409 West Street in Durban. The performance of Bellstar Bellville has been adversely affected by the closure of the train station due to construction, however, it is anticipated that the trains will be back to full operation in September 2021.

Suburban centres

Suburban centres continue to benefit from the effects of working from home and people's preference for convenience centres. Tzaneen Lifestyle Centre (25% interest), Arbour Crossing (25% interest), Checkers Mayville and Flamwood Walk (50% interest) continue to deliver strong, positive growth. White River Crossing performed particularly well during December 2020 compared to December 2019. This was aided by local shoppers who did not travel during the festive season and therefore shopped locally. Some of the new tenancies introduced to the portfolio include Mr Price Sport to White River Crossing and a Takealot depot and collection point at Pineslopes Shopping Centre. Feedback received to date is that these tenants are trading well.

Rural centres

The rural centres have shown their resilience during this interim period with Botlokwa Plaza, Sterkspruit Plaza, Village Walk Newcastle, Shoprite Kokstad and Morone Shopping Centre having shown particularly strong trading. This market is also a beneficiary of the government's social grant measures.

Collections and COVID-19 rent credits

Since the start of the COVID-19 pandemic, we have reached agreement with tenants on rent relief amounting to a total of R75 million. Of this amount, R6,6 million related to 1H2021. Based on improving turnover figures and the recently announced relaxation of lockdown restrictions to Level 1, we expect a reduction in the granting of further rent relief.

Collections for 1H2021 are encouraging with 100% of rental billings collected, after adjusting for the COVID-19 rent relief provided to tenants.

Vacancies

Vacancies in the retail portfolio have decreased to 5,3% at 31 December 2020 from 6,0% reported at 30 June 2020. The main contributors to this improvement have been lettings at Jeffreys Bay Centre, Fourways Value Mart and Monument Centre in Standerton. We have signed an agreement to sell the 409 West Street building and anticipate transfer to occur prior to the 2021 financial year-end. This will reduce vacancies in the retail portfolio by a further 1,6%.

Retail outlook

Trading conditions are expected to remain constrained on account of the pandemic and the tough economic conditions. We remain focused on tenant retention and will explore expansion opportunities within the portfolio.

We plan to redevelop Palm Springs Shopping Centre by introducing an additional grocery anchor, expanding the parking area and refreshing the facade of the centre. These changes will improve the centre's attractiveness to shoppers and improve our competitiveness within the catchment area. We also plan to redevelop Mafikeng Station centre to accommodate a Clicks and to expand the grocery offering at the centre.

Weskus Mall will be revamped in the coming months. The mall serves as a regional attraction on the west coast and upgrading the centre will secure its dominance.

During 1H2021, we sold and transferred Groblersdal Centre, Shoprite Port Shepstone and Protea Centre. We await the sale and transfer of 409 West Street and Nongoma Shopping Centre, which will likely occur prior to the 2021 financial year-end. We are actively pursuing new opportunities to expand our retail portfolio.

Office (including office developments)

(R2,2 billion asset value)

The office portfolio continues to perform poorly with the increase in vacancies to 26,8% due to a large tenant vacating space at Oxford Manor. The vacancy is concentrated in four nodes being Fourways, Sunninghill, Highveld Technopark and Illovo. Each of these areas have high levels of decentralised office space with significant vacancies.

Disposal of this portfolio is a strategic priority, but also challenging given the current conditions and the uncertainty that many of the tenants face with regard to space requirements, as well as general business pressure. We are investigating the sale of certain office properties to residential developers for the conversion to residential accommodation, but this exit mechanism remains limited.

We have concluded an agreement with a residential developer to acquire a portion of one of our Sandton development sites in which we have an 80% undivided share. Subject to this developer achieving its pre-sales target, we are optimistic about exiting this land during the second half of the financial year ending 30 June 2021 ("2H2021").

Until such time as the hospitality and office markets improve and demand returns to the Sandton CBD, we do not foresee demand to develop our site opposite the Gautrain station and we have recognised a further impairment of R62 million on the site.

Industrial

(R3,4 billion asset value)

The industrial portfolio has seen a marked reduction in vacancies from 17,6% to 7,9%. This has been achieved through a combination of disposal of vacant buildings and short-term lettings. This portfolio remains non-core and our disposals team continues to sell these assets. Our relationship with an established entrepreneurial operator to manage some of our more challenging industrial assets is proving to be beneficial, with a significant decrease in vacancies in the two assets they manage on our behalf. We aim to further expand this partnership with an intended exit from these assets. During 1H2021, five industrial properties were sold and a further eight properties are held for sale.

We continue to explore avenues of repurposing portions of this portfolio with a clear intention to exit these non-core assets.

DIRECT PROPERTY PORTFOLIO (CEE)

The table below summarises our logistics portfolio in CEE:

Logistics park	Shareholding %	Total GLA of the park m^2	Completed developments m^2	Remaining GLA to be developed m^2
Bydgoszcz	100	90 750	48 360	**42 390**
Stargard	100	79 650	11 480	**68 170**
Total: CEE		170 400	59 840	**110 560**

Poland

We embarked on a strategy of selectively acquiring and developing secure logistics parks in CEE. The combination of our expertise in logistics properties as an asset class and our knowledge of the CEE markets through our investment in NEPI Rockcastle, formed the strategic rationale for us to acquire two logistics parks in Bydgoszcz and Stargard in Poland. The total asset value is approximately EUR40 million, with debt of EUR12,3 million. There is no recourse to the South African balance sheet.

Poland is an attractive country for investment, with a GDP growth rate of 3,1% forecast for 2021 and a low unemployment rate.

The Polish logistics sector remains attractive with market activity mainly unaffected by the COVID-19 pandemic and continued leasing activity. Both tenant and investment sentiment remain positive in the country with relatively low vacancy rates and demand for space from both e-commerce and traditional retailers.

DIRECTORS' COMMENTARY continued

Bydgoszcz Logistics Park

Bydgoszcz is the eighth largest Polish city located in the north of the country, approximately 300 kilometres northwest of Warsaw and has a population of approximately 350 000 people. It has become one of the most important economic centres in Poland given its proximity to neighbouring countries. Bydgoszcz also has one of the largest railway junctions on the north-south and east-west corridors.

The park was acquired at a yield of 7,0% for the income producing portion with a weighted average lease expiry ("WALE") of 4,5 years. The undeveloped land was acquired at EUR36/m² and park infrastructure at cost.

Stargard Logistics Park

Stargard is a city in northwestern Poland, with a population of 70 000, approximately 520 kilometres from Warsaw. It is one of the biggest towns in the Szczecin agglomeration. Stargard is a major railroad junction, where the southwards connection from Szczecin splits into two directions, one towards Poznań and the other towards the port of Gdańsk. Stargard is approximately 170 kilometres from Berlin in Germany and the park is adjacent to the new Lidl distribution centre.

To date, one warehouse of 11 480m² has been completed and fully let with a WALE of 3,1 years and an acquisition yield of 7,5%. We have recently approved the development of a further 13 230m² of premium-grade logistics warehousing on the basis of a 60% pre-lease with an existing tenant looking to expand within the park. The land was acquired at a rate of EUR11/m² and park infrastructure at cost.

Romania

Further to the Polish acquisitions, we have entered into a conditional agreement to acquire a logistics facility in Bucharest comprising 50 000m² of GLA for a gross price of approximately EUR30 million. Should the pre-leasing and other conditions be met, we expect this transaction closing before the end of the 2021 financial year.

VACANCIES

Total vacancies, measured as a percentage of GLA, decreased from 8,9% at 30 June 2020 to 6,8% at 31 December 2020.

Sectoral vacancy	Based on GLA Dec 2020 %	Based on GLA Jun 2020 %	Based on value per m² of building Dec 2020# %	Based on value per m² of building Jun 2020# %
Total (including CEE)	**6,8**	8,9	**5,2**	5,7
Logistics – SA	**4,3**	3,0	**3,7**	2,0
Retail	**5,3**	6,0	**3,3**	4,2
Industrial	**7,9**	17,6	**7,4**	14,6
Office	**26,8**	23,6	**24,9**	21,4
Other^	**2,9**	2,3	**1,3**	1,0
Logistics – CEE	**–**	n/a	**–**	n/a

Information based on management accounts.
 # Vacancy based on the Rand value rate per square metre (100% of GLA and value) of the building.
^ Includes a hotel, residential units, motor dealerships and serviced apartment properties.

PROPERTY DISPOSALS

The following properties were sold during 1H2021:

Property name	Sector	Net proceeds R'000	Book value Jun 2020 R'000	Transfer date
Cornubia Ridge Logistics Park (49,9% share)#	Logistics	**454 289**	416 326	Dec 2020
Louwlardia Logistics Park – Building 2 (WAG) (50% undivided share)^	Logistics	**154 500**	154 500	Aug 2020*
Protea Centre^	Retail	**83 000**	83 000	Sep 2020
Eastport Logistics Park (65% share) – land portion only	Logistics land	**71 175**	58 693	Nov 2020**
Shoprite Port Shepstone	Retail	**67 320**	68 000	Oct 2020
Elliot Avenue Epping	Industrial	**45 000**	45 000	Nov 2020
2 Drakensberg Drive Longmeadow	Logistics	**39 500**	41 210	Dec 2020
Modderfontein Road Longmeadow	Other – Motor dealership	**32 725**	31 400	Dec 2020
204 Rivonia Road Morningside (Blocks C and E)^	Office	**30 830**	30 830	Aug and Sep 2020**
189 Monte Carlo Crescent Kyalami^	Office	**26 235**	26 235	Sep 2020
Louis Trichardt Street Nelspruit^	Industrial	**22 500**	22 500	Sep 2020
8 and 16 Harry Street	Industrial	**22 000**	23 740	Nov 2020
Brunton Circle Founders View South	Logistics	**18 000**	19 680	Dec 2020
Broad and Simmonds Streets^	Industrial	**14 550**	14 550	Jul 2020
Groblersdal Centre^	Retail	**7 700**	7 500	Nov 2020
Bart Street Wilbart	Industrial	**5 940**	5 940	Nov 2020
		1 095 264	1 049 104	

 # Book value at transfer date, net of impairment.
^ Held for sale at 30 June 2020.
** Effective date of sale transaction.*
*** Effective date of sale transaction. Proceeds have been received.*

DIRECTORS' COMMENTARY continued

The following properties were held for sale at 31 December 2020:

Property name	Sector	Net proceeds R'000	Book value Jun 2020 R'000	Transfer date
409 West Street	Retail	**83 000**	82 500	#
38 Isando Road Isando	Industrial	**70 000**	75 510	#
Pelican Park Jet Park	Industrial	**60 021**	59 380	#
30 Bell Street Hennopspark	Industrial	**51 500**	52 000	#
Nywerheid and Evergreen	Industrial	**28 000**	28 951	#
122 Koornhof Road Meadowdale	Industrial	**23 300**	23 197	Jan 2021
Lakeview Business Park (No. 9)	Industrial	**15 000**	12 700	#
4 Neutron Street Linbro Park	Logistics	**14 250**	13 700	#
Lakeview Business Park (No. 15)	Industrial	**13 200**	12 440	#
Library Office Park	Office	**6 750**	8 000	Feb 2021
Sharland Street Driehoek	Industrial	**5 700**	7 620	#
		370 721	375 998	

Not yet transferred.

During the period, our dedicated in-house disposals team sold nine properties, excluding those held for sale at 30 June 2020, despite a challenging economic environment. Purchasers of these properties included a mixture of owner occupiers and real estate investors.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

Environmental

We currently have 10 operational solar PV plants with five plants currently under construction. We are awaiting approval on a further eight sites and four sites are undergoing feasibility studies. Our installed capacity increased to over 3mWp and we are targeting 5mWp by 30 June 2021. We have generated 2,405mWh for 1H2021 compared to 1,385mWh for the corresponding period last year. Our target for FY2021 is 5,500mWh compared to 3,272mWh last year. The total cost of installed solar PV plants is R46 million to date with a further estimated cost of R107 million committed at sites under our control. The estimated internal rate of return is in excess of 15%.

Online water monitoring systems at selected properties allow us to monitor water consumption more closely, and the conversion of an initial pilot phase at two retail properties to a complete water and electricity online smart metering platform is another initiative showing our commitment to sustainability.

The Meycol Nature Reserve at Clairwood, which was acquired as part of an environmental offset agreement and subsequently transformed into and proclaimed a nature reserve, is our biodiversity initiative that aims to protect the natural environment and the ecosystem within it. We continue to manage and maintain this biologically sensitive site.

In line with our internal framework, we have initiatives that align environmental, sustainability and social investment goals. One such programme is our partnership with Food & Trees for Africa. In terms of overall impact, we have nine ecoclusters in seven provinces around South Africa, 17 725 trees have been planted, 39 enterprise orchards have been initiated, 389 community members have been trained and there have been 36 897 direct beneficiaries.

Social

The aim of our corporate social investment projects is to support sustainable, solution-driven initiatives that assist communities where we are based. These are fourfold:

- Community solutions, which includes various philanthropic efforts;
- An external corporate development initiative in partnership with a supplier and enterprise development incubator;
- An education and skills programme that helps scholars and young adults through assistance ranging from bursaries to academic support and internships; and
- Alignment to environmental and sustainability initiatives.

We expect to maintain our B-BBEE rating at Level 5.

Governance

The board welcomed Mr Benjamin ("Ben") Kodisang and Mr Thavanesan ("TC") Chetty as independent non-executive directors in early February 2021. Mr Kodisang is a member of the investment committee and the audit committee. Mr Chetty is a member of the investment committee and the remuneration committee. Mr Djurk Venter has informed the board that he intends to retire from the board by the end of May 2021. The board wishes Mr Venter well in his future endeavours.

CURRENCY DERIVATIVES

Balance sheet hedging

As previously communicated, we have discontinued the use of CCIRS as a means of obtaining funding in a currency matched to that of the foreign assets, as the risk of the product was considered too high under current conditions. All CCIRS have thus been exited, with final settlement of R542 million paid in cash in March 2021.

As a consequence of our investments in the Polish logistics assets during 1H2021 where in-country, ring-fenced debt of EUR12,3 million was acquired, we have retained EUR63,9 million of interest rate caps against this and future debt funding to roll out the development pipeline on the landholdings acquired as part of the transaction.

We have no other 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 further in this report.

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
Jun 2021	20,06
Dec 2021	20,43
Jun 2022	21,08
Dec 2022	21,35
Jun 2023	20,98
Dec 2023	21,51

Given the current significant volatility in the exchange rate, we may deviate from the above stated policy should conditions warrant an amendment.

FUNDING AND LIQUIDITY

We issued a R300 million three-year bond under our DMTN programme in October 2020, with a further tap issuance of R260 million under this bond post reporting period in February 2021. We also issued a one-year note of R120 million under the DMTN programme in February 2021.

DIRECTORS' COMMENTARY continued

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

Facility expiry	Amount R'million	Average margin over three-month JIBAR %
Jun 2021	610	1,82
Jun 2022	4 961	1,64
Jun 2023	5 274	1,79
Jun 2024	4 287	1,94
Jun 2025	4 395	1,88
Jun 2026	250	1,93
Jun 2027	206	1,99
	19 983	**1,81**

In addition to the facilities above, but excluded from the table, we acquired EUR12,3 million of senior, amortising debt repayable in FY2026 with an interest rate of Euribor plus 2,3%.

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
Feb 2022	Jun 2022	120
Aug 2022	Jun 2023	400
Nov 2022	Jun 2023	500
Oct 2023	Jun 2024	560
Aug 2024	Jun 2025	300
Oct 2024	Jun 2025	200
		2 080

Subsequent to 31 December 2020, we entered into a new local interest rate swap with a nominal amount of R300 million and local interest rate caps with a nominal amount of R900 million, with the effect that the combined weighted average swap and cap maturity profile is 4,69 years and a combined weighted average swap and cap rate of 7,30%.

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	400	8,21
Jun 2022	600	7,99
Jun 2023	300	7,79
Jun 2024	200	7,47
Jun 2025	950	7,03
Jun 2026	1 600	7,09
Jun 2027	850	7,05
Jun 2028	600	6,18
	5 500	**7,20**

Interest rate cap expiry	Amount R'million	Average cap rate %
Jun 2021	100	8,04
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	1 350	7,08
Jun 2028	1 600	7,13
Jun 2029	300	6,79
	6 100	**7,39**

The all-in weighted average cost of local funding of Fortress was 6,70% at 31 December 2020.

Variable interest rates	South Africa R'000
Interest-bearing borrowings	17 005 867
CCIRS settlement in March 2021	542 000
Fixed-rate funding (collar over NEPI Rockcastle shares)	(767 753)
Loans to co-owners	(196 892)
Cash and cash equivalents	(649 543)
Capital commitments contracted for	553 984
Capital commitments approved	223 495
Investment property held for sale	(370 721)
	16 340 437
Total interest rate derivatives (swaps/caps)	11 600 000@
Percentage hedged (%)	**71,0**

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

Our exposure of EUR12,3 million to foreign interest rates is hedged through retention of Euro interest rate caps of EUR63,9 million previously entered into at an average cap rate of 0,42% and average expiry of 4,6 years.

PROSPECTS

Forecasting in the current market conditions remains challenging due to the uncertainty over lockdown restrictions and the changing financial position of tenants both in SA and in CEE. Fortress' forecast in respect of the FFA share dividends for 2H2021 remains unchanged at 78,79 cents per share (utilising an estimated CPI inflation rate of 3,5% for 2H2021) while the forecast in respect of the FFB share dividend for the same period has been lowered from a previous range of 10 cents to 15 cents per share to approximately 10 cents per share due to the lower dividends expected from NEPI Rockcastle.

Maintaining a strong balance sheet, retaining REIT status and ensuring sufficient available liquidity will continue to be balanced against the payment of dividends.

This forecast is based on the following assumptions:

Fortress-specific assumptions

- NEPI Rockcastle achieves its expected distributable earnings for its 2021 financial year and adheres to its payout ratio policy;
- No material sales nor acquisitions occur which necessitate a revision to this forecast;
- There is no unforeseen failure of material tenants in our portfolio;
- Contractual escalations and market-related renewals will be achieved with no major change in vacancy rates; and
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates.

Macroeconomic and regulatory assumptions

- There is no change in the existing lockdown restrictions placed on any of our tenants in our direct portfolio;
- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure; and
- The South African Reserve Bank maintains the repurchase rate at 3,5%.

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

By order of the board

Steven Brown
CEO

Ian Vorster
CFO

Johannesburg
10 March 2021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Unaudited Dec 2020 R'000	Audited Jun 2020 R'000	Unaudited Dec 2019 R'000
ASSETS			
Non-current assets	**42 623 506**	41 628 427	50 974 592
Investment property	**24 214 479**	24 040 352	25 112 369
Straight-lining of rental revenue adjustment	**520 046**	570 387	576 326
Investment property under development	**3 472 277**	3 644 460	3 835 121
Property, plant and equipment	**27 587**	27 587	28 039
Investment in and loans to associates	**14 118 248**	13 077 617	18 012 794
Investments	**–**	–	2 730 458
Staff scheme loans	**77 633**	78 640	165 902
Investment in BEE preference shares	**193 236**	189 384	513 583
Current assets	**1 621 862**	1 236 807	1 796 941
Staff scheme loans	**5 779**	5 029	9 463
Trade and other receivables	**964 272**	744 857	1 148 863
Cash and cash equivalents	**651 811**	486 921	638 615
Non-current assets held for sale	**370 721**	339 115	619 351
Investment property held for sale	**368 148**	327 701	608 199
Straight-lining of rental revenue adjustment	**2 573**	11 414	11 152
Total assets	**44 616 089**	43 204 349	53 390 884
EQUITY AND LIABILITIES			
Total equity attributable to equity holders	**25 023 071**	24 116 771	34 131 431
Stated capital	**45 571 743**	45 571 743	45 571 743
Treasury shares	**(1 578 517)**	(1 578 517)	(1 578 517)
Currency translation reserve	**136 303**	113 392	18 503
Reserves	**(19 106 458)**	(19 989 847)	(9 880 298)
Non-controlling interests	**121 062**	88 668	121 997
Total equity	**25 144 133**	24 205 439	34 253 428
Total liabilities	**19 471 956**	18 998 910	19 137 456
Non-current liabilities	**12 763 749**	15 731 064	13 693 070
Interest-bearing borrowings	**12 662 223**	15 668 241	13 588 831
Deferred tax	**101 526**	62 823	104 239
Current liabilities	**6 708 207**	3 267 846	5 444 386
Trade and other payables	**2 139 279**	2 008 031	884 758
Income tax payable	**170 029**	221 729	176 954
Interest-bearing borrowings	**4 398 899**	1 038 086	4 382 674
Total equity and liabilities	**44 616 089**	43 204 349	53 390 884

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 December 2020

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Recoveries and contractual rental revenue	**1 673 215**	3 382 818	1 786 584
Straight-lining of rental revenue adjustment	**(59 182)**	18 716	24 393
Revenue from direct property operations	**1 614 033**	3 401 534	1 810 977
Revenue from investments	**–**	215 649	108 114
Total revenue	**1 614 033**	3 617 183	1 919 091
Fair value (loss)/gain on investment property, investments and derivative financial instruments	**(361 123)**	(4 688 117)	243 243
Fair value loss on investment property	**(258 634)**	(1 887 662)	(280 458)
Adjustment resulting from straight-lining of rental revenue	**59 182**	(18 716)	(24 393)
Fair value gain/(loss) on investments	**3 852**	(1 653 586)	(15 707)
Fair value (loss)/gain on derivative financial instruments	**(165 523)**	(1 128 153)	563 801
Property operating expenses	**(689 656)**	(1 409 580)	(638 229)
Administrative expenses	**(96 938)**	(208 046)	(81 154)
Impairment of staff scheme loans	**(8 627)**	(142 326)	(46 901)
IFRS 2: *Share-based Payment* – employee incentive scheme	**(26 144)**	(52 764)	(25 711)
Impairment of investments in associates	**–**	(4 305 017)	(843 657)
(Loss)/profit on sale of interest in associate	**(33 632)**	9 416	9 416
Reversal of impairment of investment in associate	**1 044 107**	–	–
Income/(loss) from associates	**164 222**	(139 712)	752 867
– Distributable	**20 723**	1 394 034	714 083
– Non-distributable	**143 499**	(1 533 746)	38 784
Profit/(loss) before net finance costs	**1 606 242**	(7 318 963)	1 288 965
Net finance costs	**(408 988)**	(1 046 729)	(510 704)
Finance income	**26 379**	80 814	36 846
– Interest on staff scheme and other	**26 379**	80 814	36 846
Finance costs	**(435 367)**	(1 127 543)	(547 550)
– Interest on borrowings	**(470 670)**	(1 521 526)	(750 023)
– Capitalised interest	**35 303**	393 983	202 473
Profit/(loss) before income tax	**1 197 254**	(8 365 692)	778 261
Income tax	**(28 598)**	(30 381)	(4 610)
Profit/(loss) for the period	**1 168 656**	(8 396 073)	773 651

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

for the period ended 31 December 2020

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Other comprehensive income net of tax			
Items that may subsequently be reclassified to profit or loss:			
Exchange gain on translation of associates	**22 911**	108 375	13 486
Total comprehensive income/(loss) for the period	**1 191 567**	(8 287 698)	787 137
Profit/(loss) for the period attributable to:			
Equity holders of the company	**1 130 791**	(8 369 338)	771 371
Non-controlling interests	**37 865**	(26 735)	2 280
	1 168 656	(8 396 073)	773 651
Total comprehensive income/(loss) for the period attributable to:			
Equity holders of the company	**1 153 702**	(8 260 963)	784 857
Non-controlling interests	**37 865**	(26 735)	2 280
	1 191 567	(8 287 698)	787 137
Basic earnings/(loss) per FFA share (cents)	**52,69**	(390,15)	35,97
Basic earnings/(loss) per FFB share (cents)	**52,69**	(390,15)	35,97
Diluted earnings/(loss) per FFA share (cents)	**52,63**	(390,15)	35,95
Diluted earnings/(loss) per FFB share (cents)	**52,63**	(390,15)	35,95

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2020

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Operating activities			
Cash generated from operations	**928 635**	3 304 888	1 478 542
Interest on staff scheme and other	**18 009**	85 505	37 103
Interest on borrowings (excluding capitalised interest)	**(414 550)**	(1 203 016)	(531 438)
Dividends paid	**(279 017)**	(1 585 032)	(1 579 559)
Income tax	**(51 729)**	(22 412)	–
Cash inflow/(outflow) from operating activities	**201 348**	579 933	(595 352)
Investing activities			
Development and improvement of investment property	**(613 910)**	(744 139)	(398 396)
Capitalised interest paid on development of investment property	**(35 303)**	(393 983)	(202 473)
Acquisition of investment property	**(718 425)**	–	–
Disposal of investment property	**961 458**	877 486	420 015
Decrease/(increase) of interest in and loans advanced to associate	**18 513**	(15 183)	12 774
Proceeds from disposal of interest in associate	**153 368**	337 801	337 801
Staff scheme loans repaid	**–**	714	8 877
Cash (outflow)/inflow from derivative financial instruments	**(136 137)**	(214 254)	245 274
Proceeds on disposal of investments	**–**	442 984	20 940
Cash (outflow)/inflow from investing activities	**(370 436)**	291 426	444 812
Financing activities			
Increase/(decrease) in interest-bearing borrowings	**333 978**	(395 891)	777 702
Share issue costs	**–**	(64)	(64)
Cash inflow/(outflow) from financing activities	**333 978**	(395 955)	777 638
Increase in cash and cash equivalents	**164 890**	475 404	627 098
Cash and cash equivalents at the beginning of the period	**486 921**	11 517	11 517
Cash and cash equivalents at the end of the period	**651 811**	486 921	638 615
Cash and cash equivalents consist of:			
Current accounts	**327 282**	206 656	638 615
Restricted cash#	**324 529**	280 265	–
	651 811	486 921	638 615

Restricted cash at 31 December 2020 and 30 June 2020 was held as collateral against scrip lending facilities. There was no restricted cash at 31 December 2019.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 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 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 31 Dec 2019	45 571 743	(1 578 517)	18 503	(9 880 298)	34 131 431	121 997	34 253 428
Loss for the period				(9 140 709)	(9 140 709)	(29 015)	(9 169 724)
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				27 053	27 053		27 053
Exchange gain on translation of associate			94 889		94 889		94 889
Dividends paid[#]				(1 652 999)	(1 652 999)	(4 314)	(1 657 313)
Fair value adjustment to shareholder dividend liability[&]				657 106	657 106		657 106
Balance at 30 Jun 2020	**45 571 743**	**(1 578 517)**	**113 392**	**(19 989 847)**	**24 116 771**	**88 668**	**24 205 439**
Profit for the period				**1 130 791**	**1 130 791**	**37 865**	**1 168 656**
IFRS 2: *Share-based Payment* – employee incentive scheme (retained earnings)				**26 144**	**26 144**		**26 144**
Exchange gain on translation of associate and subsidiaries			**22 911**		**22 911**		**22 911**
Dividends paid				**(273 546)**	**(273 546)**	**(5 471)**	**(279 017)**
Balance at 31 Dec 2020	**45 571 743**	**(1 578 517)**	**136 303**	**(19 106 458)**	**25 023 071**	**121 062**	**25 144 133**

* *1 680 034 FFA shares and 1 680 034 FFB shares were issued under the long-term incentive plan 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 REIT Limited ("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.*

Northdowns Office Park

Longlake Logistics Park

NOTES

1. PREPARATION AND ACCOUNTING POLICIES

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2020 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, Debt Listings Requirements and the requirements of the Companies Act of South Africa. The second edition of the SA REIT Association Best Practice Recommendations is effective for financial year-ends commencing on or after 1 January 2020, with the disclosure requirements thereof being applicable to the annual financial statements of Fortress for the year ending 30 June 2021. This report was 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. Amendment to IFRS 16: *Leases* (COVID-19-related Rent Concession applicable to the accounting of leases for lessees), Amendments to IAS 1: *Presentation of Financial Statements* (clarification of the classification of liabilities as current or non-current) and amendments to IFRS 3: *Business Combinations* (definition of a business) were adopted in the current reporting period and had no effect on previously reported results. The adoption of these standards and interpretations had no effect 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*: *Disclosures*, 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 7,00% and 11,50%, with the exception of Musina Shopping Centre (leasehold), which has a capitalisation rate of 21,50% given that it 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 10,5%. 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 R614,3 million. A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R708,4 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 2020 that require any additional disclosure or adjustment to the financial statements.

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

2. LEASE EXPIRY PROFILE

Based on	Rentable area %	Contractual rental revenue %
Vacant	6,8	
Jun 2021	19,0	15,7
Jun 2022	18,6	18,2
Jun 2023	14,5	16,7
Jun 2024	12,8	14,6
Jun 2025	8,4	9,7
> Jun 2025	19,9	25,1
	100,0	**100,0**

3. SEGMENTAL ANALYSIS

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Total revenue			
Logistics – SA	**572 164**	1 198 241	656 039
Retail	**603 779**	1 343 049	666 538
Industrial	**261 038**	517 431	269 113
Offices	**141 448**	326 703	165 595
Other	**35 604**	16 110	53 692
Logistics – CEE*	**–**		
Corporate	**–**	215 649	108 114
Total	**1 614 033**	3 617 183	1 919 091
Profit/(loss) after tax			
Logistics – SA	**350 713**	151 425	397 868
Retail	**331 143**	426 015	370 815
Industrial	**134 349**	(95 808)	114 614
Offices	**(54 992)**	(374 128)	(21 678)
Other	**10 503**	(7 116)	30 412
Logistics – CEE*	**–**		
Corporate	**396 940**	(8 496 461)	(118 380)
Total	**1 168 656**	(8 396 073)	773 651
Total assets			
Logistics – SA	**12 671 725**	12 646 224	13 134 103
Retail	**10 023 961**	10 356 951	10 660 242
Industrial	**3 435 027**	3 550 228	3 879 364
Offices	**2 296 295**	2 474 400	2 995 419
Other	**568 178**	611 767	678 424
Logistics – CEE*	**770 445**		
Corporate	**14 850 458**	13 564 779	22 043 332
Total	**44 616 089**	43 204 349	53 390 884

** The effective date for the acquisition of two logistics parks in Poland was in December 2020.*

NOTES continued

4. EARNINGS AND HEADLINE EARNINGS

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

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Basic earnings/(loss) for the period attributable to equity holders	**1 130 791**	(8 369 338)	771 371
Adjusted for:	**(363 866)**	6 995 039	701 207
– Fair value loss on investment property (net of straight-lining adjustment)	**199 452**	1 906 378	304 851
– Loss/(profit) on sale of interest in associate	**33 632**	(9 416)	(9 416)
– Reversal of impairment of investment in associate	**(1 044 107)**	–	–
– Impairment of investment in associate	**–**	4 305 017	843 657
– Fair value loss/(gain) on investment property of associates	**493 019**	871 403	(512 516)
– Income tax effect	**(45 862)**	(78 343)	74 631
Headline earnings/(loss)	**766 925**	(1 374 299)	1 472 578
Headline earnings/(loss) per FFA share (cents)	**35,73**	(64,07)	68,68
Headline earnings/(loss) per FFB share (cents)	**35,73**	(64,07)	68,68
Diluted headline earnings/(loss) per FFA share (cents)	**35,69**	(64,07)	68,64
Diluted headline earnings/(loss) per FFB share (cents)	**35,69**	(64,07)	68,64

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 period:

	Dec 2020	Jun 2020	Dec 2019
Weighted average number of shares			
– FFA shares	**1 185 511 216**	1 184 951 790	1 184 496 438
– FFB shares	**960 768 158**	960 208 732	959 753 380
Diluted weighted average number of shares			
– FFA shares	**1 187 111 357**	1 184 951 790	1 185 723 711
– FFB shares	**961 573 922**	960 208 732	959 753 380

Directors

Robin Lockhart-Ross *(chairperson)*; Steven Brown*; Thavanesan Chetty; Benjamin Kodisang; Ina Lopion; Susan Ludolph; Vuso Majija*; Vuyiswa Mutshekwane; Jan Potgieter; Donnovan Pydigadu*; Djurk Venter; Ian Vorster*

* *Executive director.*

Changes to the board of directors and board committees

The following changes to the board of directors were made since our previous report for the period ended 30 June 2020:

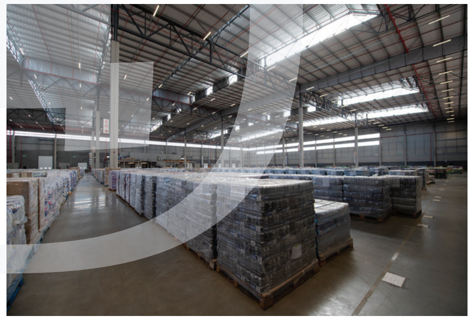
- Ms Tshiamo Matlapeng-Vilakazi passed away on 20 September 2020;
- Mr Ian Vorster was appointed as Debt Officer of Fortress on 2 October 2020 in terms of paragraphs 6.39(a) and 7.3(g) of the Debt Listings Requirements;
- Mr Benjamin Kodisang was appointed as an independent non-executive director on 9 February 2021 to fill a vacancy;
- Mr Thavanesan Chetty was appointed as an independent non-executive director on 9 February 2021 to fill a vacancy; and
- Mr Djurk Venter has announced his intention to resign from the board during 2H2021.

Due to the changes to the board of directors, the following changes to the board committees have been made:

- Ms Ina Lopion was appointed as a member of the risk committee and resigned as a member of the nomination committee on 9 March 2021; and
- Ms Vuyiswa Mutshekwane was appointed as a member of the nomination committee on 9 March 2021.

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

Louwlardia Logistics Park



NOTES continued

Reconciliation of profit for the period to dividend declared

	Unaudited for the six months ended Dec 2020 R'000	Audited for the year ended Jun 2020 R'000	Unaudited for the six months ended Dec 2019 R'000
Profit/(loss) for the period	**1 168 656**	(8 396 073)	773 651
Fair value loss on investment property	**258 634**	1 887 662	280 458
Fair value (gain)/loss on investments	**(3 852)**	1 653 586	15 707
Fair value loss/(gain) on derivative financial instruments	**165 523**	1 128 153	(563 801)
Impairment of staff scheme loans	**8 627**	142 326	46 901
Impairment of investment in associate	**–**	4 305 017	843 657
Reversal of impairment of investment in associate	**(1 044 107)**	–	–
Loss/(gain) on sale of interest in associate	**33 632**	(9 416)	(9 416)
Non-distributable income from associates	**(143 499)**	1 533 746	(38 784)
Interest received on long-term incentive plan (reversed for IFRS 2 charge)	**1 340**	4 760	2 469
IFRS 2: *Share-based Payment* – employee incentive scheme	**26 144**	52 764	25 711
Income tax	**28 598**	30 381	4 610
Non-controlling interests	**789**	1 366	(2 280)
Antecedent dividend (issuance)	**–**	2 284	2 284
Staff scheme interest limitation	**(9 140)**	(15 994)	(2 439)
Dividends accrued	**482 860**	(319 243)	(64 853)
Interest on cross-currency interest rate swaps	**46 031**	387 968	288 844
Foreign dividend hedging	**(40 021)**	86 235	61 695
NEPI collar – dividend protection	**30 750**	–	–
Interest rate derivatives	**(155 148)**	(125 206)	(35 367)
Fortress Empowerment 1 to 4 (BEE) dividend waiver adjustment	**–**	96 091	96 091
Capitalised interest limitation	**(35 303)**	(229 865)	(27 988)
Amount available for distribution	**820 514**	2 216 542	1 697 150
Interim dividend declared			
– FFA shares	**–**	(925 512)	(925 512)
– FFB shares (net of 62 162 124 treasury shares)	**–**	(771 638)	(771 638)
Final dividend declared			
– FFA shares		(274 067)	
– FFB shares (net of 62 162 124 treasury shares)		–	
Amount retained by Fortress	**820 514**	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 unaudited financial information for the six months ended 31 December 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.

This *pro forma* information has not been reviewed or reported on by Fortress' external 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 2020 on a line-by-line basis.

Adjustment 2

The investment in NEPI Rockcastle is reflected at fair value by multiplying the 144 008 793 shares held by the quoted closing price of R93,50 per share at 31 December 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 unaudited management accounts for the six months ended 31 December 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.

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	IFRS Dec 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town Dec 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle Dec 2020 R'000	Adj 3 Proportionate consolidation of partially owned subsidiaries Dec 2020 R'000	Adj 4 Deconsolidation of BEE vehicles Dec 2020 R'000	Management accounts Dec 2020 R'000
ASSETS						
Non-current assets	42 623 506	(105)	–	(212 685)	193 235	42 603 951
Investment property	24 214 479	637 658		(368 574)		24 483 563
Straight-lining of rental revenue adjustment	520 046	15 663		(41 003)		494 706
Investment property under development	3 472 277					3 472 277
Property, plant and equipment	27 587					27 587
Investment in and loans to associates	14 118 248	(653 426)	(13 464 822)			–
Investments	–		13 464 822			13 464 822
Staff scheme loans	77 633					77 633
Investment in BEE preference shares	193 236				193 235	386 471
Loans to co-owners	–			196 892		196 892
Current assets	1 621 862	6 291	–	(11 597)	–	1 616 556
Staff scheme loans	5 779					5 779
Trade and other receivables	964 272	5 729		(8 767)		961 234
Cash and cash equivalents	651 811	562		(2 830)		649 543
Non-current assets held for sale	370 721	–	–	–	–	370 721
Investment property held for sale	368 148					368 148
Straight-lining of rental revenue adjustment	2 573					2 573
Total assets	44 616 089	6 186	–	(224 282)	193 235	44 591 228
EQUITY AND LIABILITIES						
Total equity attributable to equity holders	25 023 071	–	–	–	193 235	25 216 306
Share capital	45 571 743					45 571 743
Treasury shares	(1 578 517)				193 235	(1 385 282)
Currency translation reserve	136 303		(151 207)			(14 904)
Reserves	(19 106 458)		151 207			(18 955 251)
Non-controlling interests	121 062			(121 062)		–
Total equity	25 144 133	–	–	(121 062)	193 235	25 216 306
Total liabilities	19 471 956	6 186	–	(103 220)	–	19 374 922
Non-current liabilities	12 763 749	–	–	(55 255)	–	12 708 494
Interest-bearing borrowings	12 662 223			(55 255)		12 606 968
Deferred tax	101 526					101 526
Current liabilities	6 708 207	6 186	–	(47 965)	–	6 666 428
Trade and other payables	2 139 279	6 186		(47 965)		2 097 500
Income tax payable	170 029					170 029
Interest-bearing borrowings	4 398 899					4 398 899
Total equity and liabilities	44 616 089	6 186	–	(224 282)	193 235	44 591 228
NAV per equity share (going concern)	11,59					11,35
NAV per FFA share (R)	12,96					12,96
NAV per FFB share (R)	9,91					9,48

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Income statement	IFRS for the six months ended Dec 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the six months ended Dec 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the six months ended Dec 2020 R'000	Adj 3 Proportionate consolidation of partially owned subsidiaries for the six months ended Dec 2020 R'000	Adj 4 Deconsolidation of BEE vehicles for the six months ended Dec 2020 R'000	Adj 5 Reversal of COVID-19-related income and expenses under IFRS Dec 2020 R'000	Management accounts for the six months ended Dec 2020 R'000
Recoveries and contractual rental revenue	1 673 215	40 466		(33 363)		(9 197)	1 671 121
Straight-lining of rental revenue adjustment	(59 182)	(1 360)		(3 428)			(63 970)
Revenue from direct property operations	1 614 033	39 106		(36 791)		(9 197)	1 607 151
Revenue from investments	–					-	–
Total revenue	1 614 033	39 106	–	(36 791)	–	(9 197)	1 607 151
Fair value loss on investment property, investments and derivative financial instruments	(361 123)	1 360	1 191 790	(35 226)	–	–	796 801
Fair value loss on investment property	(258 634)			(38 654)			(297 288)
Adjustment resulting from straight-lining of rental revenue	59 182	1 360		3 428			63 970
Fair value gain on investments	3 852		1 191 790				1 195 642
Fair value loss on derivative financial instruments	(165 523)						(165 523)
Property operating expenses	(689 656)	(19 709)		7 584		9 197	(692 584)
Administrative expenses	(96 938)	(67)		20			(96 985)
Impairment of staff scheme loans	(8 627)						(8 627)
IFRS 2: *Share-based Payment* – employee incentive scheme	(26 144)						(26 144)
Reversal of impairment of investment in associate	1 044 107		(1 044 107)				–
Loss on sale of interest in associate	(33 632)		33 632				–
Income from associates	164 222	(20 723)	(143 499)	–	–	–	–
– Distributable	20 723	(20 723)	–				–
– Non-distributable	143 499		(143 499)				–
Profit before net finance costs	1 606 242	(33)	37 816	(64 413)	–	–	1 579 612

MANAGEMENT ACCOUNTS continued

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

Income statement continued	IFRS for the six months ended Dec 2020 R'000	Adj 1 Fair value accounting for investment in associate – Arbour Town for the six months ended Dec 2020 R'000	Adj 2 Fair value accounting for investment in associate – NEPI Rockcastle for the six months ended Dec 2020 R'000	Adj 3 Proportionate consolidation of partially owned subsidiaries for the six months ended Dec 2020 R'000	Adj 4 Deconsolidation of BEE vehicles for the six months ended Dec 2020 R'000	Adj 5 Reversal of COVID-19-related income and expenses under IFRS Dec 2020 R'000	Management accounts for the six months ended Dec 2020 R'000
Profit before net finance costs	1 606 242	(33)	37 816	(64 413)	–	–	1 579 612
Net finance costs	(408 988)	33	–	26 548	–	–	(382 407)
Finance income	26 379			(131)			26 248
– Interest on staff scheme and other	26 379			(131)			26 248
Finance costs	(435 367)	33	–	26 679	–	–	(408 655)
– Interest on borrowings	(470 670)	33		28 045			(442 592)
– Capitalised interest	35 303			(1 366)			33 937
Profit before income tax	1 197 254	–	37 816	(37 865)	–	–	1 197 205
Income tax	(28 598)						(28 598)
Profit for the period	1 168 656	–	37 816	(37 865)	–	–	1 168 607
Profit for the period attributable to:							
Equity holders of the company	1 130 791		37 816				1 168 607
Non-controlling interests	37 865			(37 865)			–
Profit for the period	1 168 656	–	37 816	(37 865)	–	–	1 168 607
Basic earnings per FFA share (cents)	52,69						52,87
Basic earnings per FFB share (cents)	52,69						52,87
Diluted earnings per FFA share (cents)	52,63						52,81
Diluted earnings per FFB share (cents)	52,63						52,81
Headline earnings per FFA share (cents)	35,73						63,42
Headline earnings per FFB share (cents)	35,73						63,42
Diluted headline earnings per FFA share (cents)	35,69						63,35
Diluted headline earnings per FFB share (cents)	35,69						63,35
Headline earnings							
Profit for the period attributable to equity holders	1 130 791						1 168 607
Adjusted for:	(363 866)						233 318
– Fair value loss on investment property (net of straight-lining adjustment)	199 452						233 318
– Profit on sale of associate	33 632						
– Reversal of impairment of interest in associate	(1 044 107)						
– Fair value gain on investment property of associates	493 019						
– Income tax effect	(45 862)						
Headline earnings	766 925						1 401 925

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: 378900FE98E30F24D975
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)

DEBT SPONSOR

Rand Merchant Bank

(a division of FirstRand Bank Limited)
acting through its Corporate and
Investment Banking division
(Registration number: 1929/001225/06)
1 Merchant Place
Corner of Fredman Drive and Rivonia Road
Sandton, 2196

COMPANY SECRETARY AND REGISTERED OFFICE

Tamlyn Stevens CA(SA)

Block C, Cullinan Place,
Cullinan Close, Morningside, 2196
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EXTERNAL AUDITOR

Deloitte & Touche

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purple.frog

Bydgoszcz Logistics Park

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