



LIBERTY

two°degrees

Unaudited summarised group interim results

for the six months ended 30 June 2019



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Highlights



Half-year
distribution of
29.31 cents
per share



Trading
density growth
of **2.9%**



**Ongoing
implementation**
of strategic building
blocks



Vacancy rates
Portfolio **4.6%**
(↓ **1.4%**)
Retail **2.4%**
(↓ **1.9%**)



Eastgate
rates objection
**successfully
resolved**



LTV = 16%
with **68%**
of interest
rate exposure
hedged

Profile

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange (JSE) as a Real Estate Investment Trust with an iconic portfolio of South African assets.

L2D's vision and strategy

L2D's vision is to be the leading South African precinct focused, retail-centred REIT. This vision is supported by three strategic pillars that will drive distribution and capital growth, thereby creating shareholder value:

- Driving to future proof the assets;
- Having passionate people; and
- Growing to make an impact.

Financial results

On 1 November 2018 Liberty Two Degrees Trust (Old L2D) converted to a corporate Real Estate Investment Trust (REIT) and listed as Liberty Two Degrees Limited (L2D). The L2D group now includes 2 Degrees Properties Proprietary Limited (the operating subsidiary) and Stanlib REIT Fund Managers (RF) Proprietary Limited (the previous management company).

At 30 June 2019, L2D's portfolio was valued at R10.2 billion, following the acquisition of a further R1.2 billion of the co-owned Liberty Property Portfolio (LPP) with effect from 1 November 2018. L2D reported net property income of R338.8 million for the six months ended 30 June 2019, an increase of 24.19% on the prior period (30 June 2018 Restated: R272.8 million) after taking into account the additional assets acquired.

Profit before tax amounted to R244.2 million (30 June 2018 Restated: R203.9 million) after interest and fair value adjustments. The net asset value per share has decreased by 2.27% primarily as a result of the capital reorganisation accounting treatment related to the acquisition of the previous management company. Headline earnings include the reversal of fair value adjustments.

The predominantly retail portfolio continues to show positive net property income growth for the period. The net property income growth (normalised for ownership) was 6.1% which is supported by trading density growth of 2.9% for the period presented.

L2D elected to become an investor in Edcon as part of Edcon's restructuring. The investment is carried at fair value. For the period, a fair value adjustment of R7.7 million has been provided for. The investment is carried at R17.5 million as at 30 June 2019.

The board has declared an interim dividend of 29.31 cents per share for the six months ended 30 June 2019 (30 June 2018: 29.31 cents per share).

Capital reorganisation accounting treatment

The conversion to a corporate REIT became effective on 1 November 2018 and was treated as a capital reorganisation. L2D's group financial statements for the year ended 31 December 2018 include the group's full results as though the transaction had been effected from 31 December 2016 and the comparative information was restated as if the group had always existed in its current form. Accordingly the comparative information for the interim period ended 30 June 2018 has also been restated on the same basis. No other adjustments have been made.

The previous management company (SRFM) is required to meet the capital adequacy requirements as prescribed in terms of the Financial Sector Conduct Authority (FSCA). The entity is required to maintain a capital adequacy reserve of R600 000 until such time that it is unwound and de-registered. The required capital adequacy reserve has been maintained.

Changes in fair values

The group's property portfolio has been valued by external independent registered valuers on an open market value basis at 30 June 2019. Investment properties increased by R1.35 billion as a result of the acquisition of a further R1.20 billion of the LPP; as well as capitalised development and maintenance capital expenditure. The overall fair value adjustment resulted in a net decrease of R9.1 million (30 June 2018 Restated: net decrease of R67.3 million). In terms of IAS 40 and IFRS 13, investment properties are measured at fair value through profit or loss using valuation inputs which are categorised as level 3 on the fair value hierarchy.

Property portfolio

The portfolio vacancy rate decreased during the year to 4.6% (30 June 2018: 6.0%).

Leases covering 133 970m² (30 June 2018: 15 022m²) were renewed during the six month period at an overall reversion rate of -13.36% (30 June 2018: -0.3%). The largest contributor hereto was the renewal of the Standard Bank office lease for 92 789m² which had a reversion rate of -22%, the lease renewal did not include any tenant installation allowance. The overall office reversion rate was -23.3% and retail reversion for leases renewed thus far was -6.5%. The retail reversion rate excluding Melrose Arch is -4.0% and is based on approximately 45% of 2019 renewals having been concluded. The majority of retail renewals occur in the second half of the year.

In addition, a further 20 513m² (30 June 2018: 23 401m²) in new tenant lease agreements were concluded across the portfolio during the period. On average the rates achieved on these tenancies have been slightly ahead of the budget for the period.

Arrears decreased to 4.22% (30 June 2018: 5.33%) of the collectable book, although ageing of debtors has slightly deteriorated resulting in an increased bad debt provision.

Property portfolio

	Gross lettable area (m ²) ¹	Gross lettable area (%)
Sector profile (for 100% of assets)		
Retail	523 135	54.1
Office	331 326	34.2
Specialised	113 405	11.7
Total	967 866	100

	Gross lettable area (m ²) ¹	Gross lettable area (%)
Geographical profile (for 100% of assets)		
Gauteng	736 496	76.1
KwaZulu-Natal	119 003	12.3
Western Cape	91 624	9.5
Free State	20 743	2.1
Total	967 866	100

¹ L2D owns a 33% undivided share of the properties as at 30 June 2019.

%	30 Jun 2019	31 Dec 2018	30 Jun 2018
Vacancy profile (gross lettable area)			
Retail	2.4	1.2	4.3
Office	9.8	8.0	9.7
Specialised	0.0	0.0	0.0
Total	4.6	3.4	6.0

%	Vacant ²	Monthly	2019	2020	2021	2022	2023+
Lease expiry profile (gross lettable area)							
Total retail	2.4	6.0	7.0	11.7	14.8	11.2	46.9
Total office	9.8	2.1	2.9	17.5	7.9	22.6	37.2
Total specialised	0.0	0.4	0.2	53.3	0.6	5.5	40.0
Total	4.6	4.0	4.8	18.7	10.7	14.4	42.8

² Vacancies include storerooms, management offices and excludes pre-let deals.

Interest-bearing borrowings

The group's interest-bearing borrowings (net of cash and cash equivalents and including the fair value of cash settled hedges) represented 15.8% (30 June 2018: nil) of the value of its property portfolio. The average cost of funding (all Rand-denominated) is 9.39% (30 June 2018: nil), interest rate exposure is hedged at a ratio of 68.34% (30 June 2018: nil) of term borrowings for an average period of 3.01 years (30 June 2018: nil). The interest cover ratio is 4.63 (30 June 2018: nil). L2D has the ability to take on further debt and has a targeted long term LTV of 35%.

Post the reporting period an existing hedging arrangement was extended and the notional amount increased in order to increase the level of hedging and take advantage of a lower base interest rate. As a result 81.63% of term borrowings are now fixed for an average period of 3.34 years and the average cost of funding has reduced to 9.03%.

Commitments

Capital development commitments outstanding amount to R325.2 million (30 June 2018: R392.8 million), the largest of which includes the purchase of a share in the development of One on Whiteley (R128.2 million), Sandton City Checkers Refurbishment (R29 million) and the Eastgate Edgars reconfiguration (R26 million). Capital commitments will be funded from debt facilities.

Prospects

The South African economy remains under pressure with low growth forecast for the remainder of 2019. The quality and robust nature of the L2D property portfolio is evident in the company's solid operational performance despite the negative impact of low macroeconomic growth on the consumer. L2D's specialist retail skills and the steadfast execution of its strategic building blocks should continue to ensure that its predominantly retail portfolio will perform well. L2D remains on track to deliver on the full year distribution forecasted.

The forecast statements contained herein have not been reviewed or reported on by L2D's external auditors.

Changes in Board and Board sub-committees

David Munro, Group Chief Executive of Liberty Holdings, was appointed as a non-executive director to the Board from 29 July 2019. Zaida Adams has been appointed as chair of the Audit and Risk committee from 29 July 2019.

Declaration of a cash distribution

The Board has approved and notice is hereby given of a distribution of 29.31 cents per share for the six months ended 30 June 2019 (the distribution).

The distribution is payable to L2D shareholders in accordance with the timetable set out below:

2019	
Last date to trade <i>cum</i> dividend:	Tuesday, 20 August
Units trade <i>ex</i> dividend:	Wednesday, 21 August
Record date:	Friday, 23 August
Payment date:	Monday, 26 August

Share certificates may not be dematerialised or rematerialised between Wednesday, 21 August 2019 and Friday, 23 August 2019, both days inclusive.

Payment of the distribution will be made to shareholders on Monday, 26 August 2019. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Monday, 26 August 2019. Certificated shareholders' dividend payments will be posted on or about Monday, 26 August 2019.

Shares in issue at the date of declaration of this distribution: 908 443 335

L2D's income tax reference number: 9087144235

In accordance with L2D's status as a REIT, shareholders are advised that the distribution meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (Income Tax Act). The distribution on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The distribution received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a distribution distributed by a REIT. This distribution is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

- a declaration that the distribution is exempt from dividends tax; and
- a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Distributions received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act.

Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder, the net dividend amount due to non-resident shareholders is 23.448 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

- a. a declaration that the distribution is subject to a reduced rate as a result of the application of a DTA; and
- b. a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Events after reporting date

In line with IAS 10 Events After the Reporting Period, the declaration of the interim distribution of 29.31 cents per share for the six months ended 30 June 2019 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these financial statements.

Basis of preparation

The unaudited summarised group interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa and the JSE Listings Requirements.

The accounting policies applied in the preparation of these financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous financial statements. José Snyders CA(SA), the financial director, was responsible for supervising the preparation of these summarised interim financial statements.

These summarised interim financial statements have not been reviewed or audited by L2D's independent external auditors.

On behalf of the Board

Angus Band
Chairman

Amelia Beattie
Chief Executive

José Snyders
Financial Director

29 July 2019

Statement of financial position

as at 30 June 2019

R'000	Unaudited 30 Jun 2019	Restated Unaudited 30 Jun 2018	Audited 31 Dec 2018
Assets			
Non-current assets	10 205 896	8 706 337	10 145 122
Investment properties	10 169 138	8 656 908	10 111 609
Investment properties under development	32 768	48 327	32 768
Property, plant and equipment	783	1 102	745
Right-of-use assets	3 207	0	0
Current assets	354 685	376 523	333 264
Trade and other receivables ¹	260 075	148 546	277 963
Amount due from group companies ²	71 418	28 875	42 645
Financial investments ³	18 131	192 017	600
Current tax receivable	69	2 079	686
Cash and cash equivalents	4 992	5 006	11 370
Total assets	10 560 581	9 082 860	10 478 386
Equity and liabilities			
Equity			
Stated capital	8 780 921	8 782 290	8 780 489
Retained surplus	273 636	267 919	122 646
Mergers/capital reserve	(426 104)	(92 459)	(426 104)
Non-distributable reserve	84 748	(42 048)	106 865
Total equity	8 713 201	8 915 702	8 583 896
Liabilities			
Non-current liabilities	1 000 950	0	1 000 000
Financial liabilities	1 000 000	0	1 000 000
Lease liabilities	950	0	0
Current liabilities	846 430	167 158	894 490
Trade and other payables ¹	210 162	142 383	236 212
Provisions	21 447	17 730	23 372
Amount due to group companies	11	7 045	10
Financial instruments	14 024	0	8 289
Financial liabilities	597 936	0	626 607
Lease liabilities	2 850	0	0
Total liabilities	1 847 380	167 158	1 894 490
Total equity and liabilities	10 560 581	9 082 860	10 478 386

1 Working capital has increased compared to June 2018 due to the additional assets acquired as well as the hotel operations purchased on 1 November 2018.

2 Refer to the related party disclosure for detail regarding movements.

3 Balance as at 30 June 2019 includes investments in unlisted equity and mutual funds. In the prior period this comprised of investments in mutual funds only.

Statement of comprehensive income

for the six months ended 30 June 2019

R'000	Unaudited 30 Jun 2019	Restated Unaudited 30 Jun 2018	Audited 31 Dec 2018
Property portfolio revenue	483 285	417 213	913 810
Rental and related income	490 874	422 056	915 069
Adjustment for the straight-lining of operating lease income	(7 589)	(4 843)	(1 259)
Property operating expenses	(138 903)	(144 425)	(327 157)
Change in expected credit loss on rental debtors	(5 610)	0	2 469
Net property income	338 772	272 788	589 122
Asset management fee income	30 647	32 004	63 753
Development fee income	4 100	0	162
Revenue	373 519	304 792	653 037
Other income	0	1 040	4 049
Operating costs	(44 183)	(43 997)	(76 126)
Profit from operations excluding fair value adjustments and interest	329 336	261 835	580 960
Interest expense	(72 015)	0	(25 282)
Interest received	1 417	8 681	12 462
Realised loss on sale of equity	0	(2 085)	(2 085)
Profit before fair value adjustments	258 738	268 431	566 055
Net fair value adjustments	(14 527)	(64 567)	80 762
Fair value adjustments on investment properties	(5 881)	(67 342)	89 860
Fair value adjustment – recovery reversed	(3 257)	0	0
Fair value adjustment on derivatives	(5 734)	0	(8 289)
Fair value adjustment on financial instrument	(7 244)	(2 068)	(2 068)
Adjustment for the straight-lining of operating lease income	7 589	4 843	1 259
Profit before tax	244 211	203 864	646 817
Taxation	(57)	(3 130)	(6 082)
Total comprehensive income	244 154	200 734	640 735
Basic and diluted earnings per unit			
Basic earnings per share (cents)	26.88	22.10	70.53
Fully diluted earnings per share (cents)	26.88	22.10	70.53

Statement of changes in equity

for the six months ended 30 June 2019

R'000	Unaudited 30 Jun 2019	Restated Unaudited 30 Jun 2018	Audited 31 Dec 2018
Balance at beginning of period/year	8 583 896	8 993 465	8 993 465
Total comprehensive income	244 154	200 734	640 735
Capitalised transaction costs	432	0	(1 801)
Capital reorganisation impact	0	0	(333 645)
Distribution to shareholders	(115 281)	(265 447)	(695 232)
Distribution to Liberty Holdings Limited	0	(13 050)	(19 626)
Balance at end of period/year	8 713 201	8 915 702	8 583 896

Statement of cash flows

for the six months ended 30 June 2019

R'000	Unaudited 30 Jun 2019	Restated Unaudited 30 Jun 2018	Audited 31 Dec 2018
Cash flows from operating activities	118 426	6 265	(495 176)
Cash generated by operations	303 501	279 877	241 233
Interest received	1 417	8 682	12 462
Interest paid	(71 771)	0	(2 586)
Taxation paid	560	(3 797)	(5 356)
Distribution to shareholders	(115 281)	(265 447)	(695 232)
Distribution to Liberty Holdings Limited	0	(13 050)	(45 697)
Cash flows from investing activities	(95 888)	(23 892)	(1 119 826)
Expenditure on investment properties capitalised	(42 552)	(98 849)	(185 805)
Expenditure on investment properties under development	0	0	(108)
Acquisition of investment properties	(28 339)	0	(1 196 457)
Acquisition of investment properties under development	0	0	(3 543)
Acquisition of property, plant and equipment	(222)	(3)	(661)
Investment in financial instruments – mutual funds	(36)	(85 529)	(557 074)
Proceeds from disposal of financial instruments – mutual funds	0	8 863	672 196
Investment in financial instruments	(24 739)	0	0
Proceeds from disposal of financial instruments – equity instrument	0	151 626	151 626
Cash flows from financing activities	(28 916)	0	1 603 739
Loan paid	(138 064)	0	(105 913)
Loan received	109 148	0	1 709 652
Net decrease in cash and cash equivalents	(6 378)	(17 627)	(11 263)
Cash balance at the beginning of the period/year	11 370	22 633	22 633
Cash and cash equivalents at the end of the period/year	4 992	5 006	11 370

Headline earnings, distributable income and earnings per share

for the six months ended 30 June 2019

R'000	Unaudited 30 Jun 2019	Restated Unaudited 30 Jun 2018	Audited 31 Dec 2018
Reconciliation of total earnings to headline earnings and distributable income			
Total earnings (basic earnings)	244 154	200 734	640 735
Fair value adjustment to investment properties and financial investments	14 527	64 567	(80 762)
Loss on disposal of equity instruments	0	2 085	2 085
Capital reorganisation adjustment	0	(6 001)	(18 252)
Headline earnings	258 681	261 385	543 806
Straight-lining of operating lease income	7 589	4 843	1 259
Distributable income	266 270	266 228	545 065
	Cents	Cents	Cents
Earnings per share			
Basic and diluted	26.88	22.10	70.53
Headline	28.48	28.77	59.86
Distributable income	29.31	29.31	60.00
	Rand	Rand	Rand
Net asset value per share	9.59	9.81	9.45
	000s	000s	000s
Number of shares in issue	908 443	908 443	908 443
Weighted average number of shares in issue	908 443	908 443	908 443

Segmental information

Segment information

30 June 2019

GLA	Retail	Office	Other specialised	Hotels ³	Admin./ Other ¹	Total
Total property GLA m ²	523 135	331 326	113 405	—	—	967 866
L2D's share of total GLA (m ²) ²	150 070	60 485	23 483	—	—	234 038

Segment earnings

R'000	Retail	Office	Other specialised	Hotels ³	Admin./ Other ¹	Total
Property portfolio revenue	304 962	122 527	47 570	7 659	567	483 285
Rental and related income	309 828	124 488	48 332	7 659	567	490 874
Adjustment for the straight-lining of operating lease income	(4 866)	(1 961)	(762)	—	—	(7 589)
Property operating expenses	(87 573)	(35 296)	(13 704)	(1 281)	(1 049)	(138 903)
Change in expected credit loss on rental debtors	(3 573)	(1 468)	(569)	—	—	(5 610)
Net rental and related income	213 816	85 763	33 297	6 378	(482)	338 772
Asset management fee income	—	—	—	—	30 647	30 647
Development fee income	—	—	—	—	4 100	4 100
Revenue	213 816	85 763	33 297	6 378	34 265	373 519
Operating costs	—	—	—	—	(44 183)	(44 183)
Profit/(loss) from operations excluding fair value adjustments	213 816	85 763	33 297	6 378	(9 918)	329 336
Interest expense	—	—	—	—	(72 015)	(72 015)
Interest received	—	—	—	—	1 417	1 417
Profit before fair value adjustments	213 816	85 763	33 297	6 378	(80 516)	258 738
Net fair value adjustments on investment properties	(937)	(378)	(146)	(88)	—	(1 549)
Fair value adjustments	(5 803)	(2 339)	(908)	(88)	—	(9 138)
Adjustment for the straight-lining of operating lease income	4 866	1 961	762	—	—	7 589
Fair value adjustment on derivatives	—	—	—	—	(5 734)	(5 734)
Fair value adjustment on financial instrument	—	—	—	—	(7 244)	(7 244)
Total earnings	212 879	85 385	33 151	6 290	(93 494)	244 211
Taxation	—	—	—	—	(57)	(57)
Total comprehensive income	212 879	85 385	33 151	6 290	(93 551)	244 154

1 Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments.

2 L2D's share of the total GLA is based on L2D's undivided share of 33.3007% ownership in the Liberty Property Portfolio. Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

3 Hotels include the net rental, assets and liabilities of the Sandton Hotels. Hotels are measured based on the number of rooms and not on a GLA basis.

Segmental information (continued)

Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels ¹	Admin. / Other ²	Total
Investment property	6 317 040	2 546 064	988 497	350 305	—	10 201 906
Property, plant and equipment	—	—	—	—	783	783
Right-of-use assets	—	—	—	—	3 207	3 207
Trade receivables	131 645	53 059	20 600	39 983	14 788	260 075
Amount due from group companies	—	—	—	—	71 418	71 418
Financial investment	—	—	—	—	18 131	18 131
Current tax receivable	—	—	—	—	69	69
Cash and cash equivalents	—	—	—	—	4 992	4 992
Total assets	6 448 685	2 599 123	1 009 097	390 288	113 388	10 560 581
Trade payables and other	(88 451)	(35 650)	(13 841)	(30 342)	(41 878)	(210 162)
Employee benefits	—	—	—	—	(21 447)	(21 447)
Amount due to group companies	—	—	—	—	(11)	(11)
Financial instruments	—	—	—	—	(14 024)	(14 024)
Financial liabilities	—	—	—	—	(1 597 936)	(1 597 936)
Lease liabilities	—	—	—	—	(3 800)	(3 800)
Net assets	6 360 234	2 563 473	995 256	359 946	(1 565 708)	8 713 201

1 Hotels include the net rental, assets and liabilities of the Sandton Hotels. Hotels are measured based on the number of rooms and not on a GLA basis.

2 Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals.

Segmental information (continued)

Segment information

30 June 2018 Restated

GLA	Retail	Office	Specialised	Hotels	Admin./ Other ¹	Total
Total property GLA m ²	523 107	332 290	52 089	—	—	907 486
L2D's share of total GLA (m ²) ²	137 785	56 614	7 606	—	—	202 005

Segment earnings

R'000	Retail	Office	Other specialised	Hotels	Admin./ Other ¹	Total
Property portfolio revenue	284 346	116 834	15 696	—	337	417 213
Rental and related income	287 650	118 191	15 878	—	337	422 056
Adjustment for the straight-lining of operating lease income	(3 304)	(1 357)	(182)	—	—	(4 843)
Property operating expenses	(97 915)	(40 231)	(5 405)	—	(874)	(144 425)
Net property income	186 431	76 603	10 291	—	(537)	272 788
Asset management fee income	—	—	—	—	32 004	32 004
Development fee income	—	—	—	—	—	—
Revenue	186 431	76 603	10 291	—	31 467	304 792
Other Income	—	—	—	—	1 040	1 040
Operating costs	—	—	—	—	(43 997)	(43 997)
Profit/(loss) from operations excluding fair value adjustments	186 431	76 603	10 291	—	(11 490)	261 835
Interest received	—	—	—	—	8 681	8 681
Realised loss on sale of equity	—	—	—	—	(2 085)	(2 085)
Profit before fair value adjustments	186 431	76 603	10 291	—	(4 894)	268 431
Net fair value adjustments on investment properties	(42 629)	(17 516)	(2 354)	—	—	(62 499)
Fair value adjustments	(45 933)	(18 873)	(2 536)	—	—	(67 342)
Adjustment for the straight-lining of operating lease income	3 304	1 357	182	—	—	4 843
Fair value adjustment on financial instrument	—	—	—	—	(2 068)	(2 068)
Total earnings	143 802	59 087	7 937	—	(6 962)	203 864
Taxation	—	—	—	—	(3 130)	(3 130)
Total Comprehensive Income	143 802	59 087	7 937	—	(10 092)	200 734

1 Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals.

2 L2D's share of the total GLA is based on L2D's undivided share of 33.3007% ownership in the Liberty Property Portfolio. Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

Segmental information (continued)

Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels	Admin./ Other ¹	Total
Investment property	5 937 737	2 439 729	327 769	—	—	8 705 235
Property, plant and equipment	—	—	—	—	1 102	1 102
Trade receivables	91 932	37 773	5 075	—	13 766	148 546
Amount due from group companies	—	—	—	—	28 875	28 875
Financial investment	—	—	—	—	192 017	192 017
Current tax receivable	—	—	—	—	2 079	2 079
Cash and cash equivalents	—	—	—	—	5 006	5 006
Total assets	6 029 669	2 477 502	332 844	—	242 845	9 082 860
Trade payables and other	(72 659)	(29 855)	(4 011)	—	(35 858)	(142 383)
Amount due to group companies	—	—	—	—	(7 045)	(7 045)
Provisions	—	—	—	—	(17 730)	(17 730)
Net assets	5 957 010	2 447 647	328 833	—	182 212	8 915 702

¹ Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals.

Fair value hierarchy for financial instruments and investment property

IFRS 13 requires that an entity discloses for each class of assets and liabilities measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements.

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy for financial instruments and investment properties

Period ended 30 June 2019 (Unaudited)

R'000	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	10 169 138			10 169 138
Investment property under development	32 768			32 768
Financial investment – unlisted mutual funds	636		636	
Financial investment – unlisted equity instruments	17 495			17 495
	10 220 037	–	636	10 219 401
Liabilities				
Interest rate swap	14 024		14 024	
	14 024	–	14 024	–

Period ended 30 June 2018 (Unaudited)

R'000	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	8 656 908			8 656 908
Investment property under development	48 327			48 327
Financial investment – unlisted mutual funds	192 017		192 017	
	8 897 252	–	192 017	8 705 235

The fair value of trade and other receivables, cash and cash equivalents, trade and other payables approximate their carrying value and are not included in the hierarchy analysis as their settlement terms are short-term and therefore from a materiality perspective fair values are not required to be modelled.

Details of changes in valuation techniques

There have been no significant changes in valuation techniques in the period under review.

Significant transfers between level 1, level 2 and level 3

There have been no transfers between level 1, level 2 and level 3 financial investments and investment property for the period under review.

Fair value hierarchy for financial instruments and investment property (continued)

Valuation techniques

Valuation techniques used in determining the fair values of assets in level 2 and 3

Level	Instrument	Valuation basis	Main assumptions
1	Listed equity	Listed price	Not applicable
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Not applicable
3	Unlisted equity	Pro forma valuation	Discounted cash flow and reference to third-party acquisition price
3	Investment properties	Discounted cash flow	Refer to disclosure below for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

Investment properties – basis of valuation

The full investment properties portfolio was independently valued as at 30 June 2019 in line with the group's valuation policy by Broll Valuation and Advisory Services and Jones Lang LaSalle Proprietary Limited, all of which are registered valuers in terms of the Property Valuers Professional Act, No 47 of 2000.

The valuation of the properties is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and with the Royal Institution of Chartered Red Book, adapted for South African law and conditions.

Key assumptions

- capitalisation rate
- discount rate

Other assumptions

- annual rental and operating escalation
- annual cost escalation

Commentary on capitalisation rates

The capitalisation rate is best determined by referring to market transactions of comparable properties as it is based on information derived from market analysis. The capitalisation rate must take the prevailing interest rate into consideration. The higher the interest rate, the better return an investor will require. Similarly, risk is another factor that will influence the capitalisation rate. The higher the risk factor, the better the return an investor will require. The risk inherent to income producing properties is the degree of certainty that the income stream will be realised despite the uncertainty of the future.

Commentary on discount rates

The discount rate is the minimum annual return requirement and is calculated by adding a risk premium to an estimated risk-free rate of return. The risk premium takes into account liquidity risk and property risk (risks of structural change or market failure).

Commentary on rental and operating expenses annual growth rates

The annual growth escalations are based on current achievable rentals. Expenditures are based on information received from local authorities and experience with actual growth achieved and expectations as per market comparables of future increases based on budgets.

Valuation technique and significant unobservable inputs

Valuation techniques

The basis of value is 'fair value' which is defined as an opinion of the best price (adopting the highest and best use principle) at which the sale of an interest in property, taking into account existing tenant lease terms, would have been completed unconditionally for a cash consideration on the date of valuation assuming:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as at the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Fair value hierarchy for financial instruments and investment property (continued)

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the capitalisation rate is applied as at 30 June 2019.

In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 30 June 2019. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow.

Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current South African long-term bond yield (R204 risk free rate) and the relative attractiveness that an investor may place on property as an asset class.

Inter-relationship between key unobservable inputs and fair value measurements: The estimated fair value would increase/(decrease) if:

- exit capitalisation rate was lower/(higher);
- capitalisation rate was lower/(higher);
- market rental growth was (lower)/higher;
- expense growth was lower/(higher);

- vacancy and bad debt percentage escalation was lower/(higher);
- occupancy rate was (lower)/higher;
- rent-free periods were (longer)/shorter;
- discount rate was lower/(higher);
- reversionary capitalisation rate was lower/(higher); and
- annual growth escalation was higher/(lower).

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair values were derived by determining sustainable net rental income, to which an appropriate capitalisation rate is applied. Capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations. The capitalisation rates applied at 30 June 2019 range between 6.25% and 9.5% (June 2018: 6.25% and 9.00%).

An increase of 1% in the average capitalisation rate of the portfolio results in a valuation decrease of R1.2 billion. A decrease of 1% in the average capitalisation rate of the portfolio results in a valuation increase of R1.6 billion.

Unlisted equity

We have used discounted cash flow methodology to value our investment in Edcon.

An increase in our assumed discount rate of 1% results in a valuation decrease of R1.85 million. A decrease in the discount rate of 1% results in a valuation increase of R2.38 million.

Reconciliation of level 3 assets and liabilities

The table below analyses the movement of level 3 assets for the period under review.

R'000	Jun 2019	Jun 2018
Investment property and investment property under development		
Fair value at the beginning of the year	10 144 377	8 708 712
Additions – property acquired	28 339	–
Capitalised cost	35 071	63 865
Fair value adjustments (unrealised)	(5 881)	(67 342)
Closing balance	10 201 906	8 705 235

The fair value gains and losses are included in the fair value adjustments line in profit or loss.

Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Limited.

Parent

Liberty Group Limited (LGL).

Fellow subsidiaries

All subsidiaries of LGL are fellow subsidiaries of L2D Group — a full list can be obtained from the company secretary and details are contained in the published annual financial statements of LGL. Notably, STANLIB REIT Fund Managers (RF) Proprietary Limited (SRFM) and 2 Degrees Properties Proprietary Limited (2DP), are wholly owned subsidiaries of L2D.

Transactions with related entities

Liberty Centre Head Office Cape Town

83.1% of the property is let to LGL, a fellow subsidiary of L2D Group. Rental income received by L2D Group for the six month period ended 30 June 2019 was R7.7 million (30 June 2018: R5.2 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 74.5% of the property is let to LGL on a five-year lease. Rental income received by L2D Group for the six month period ended 30 June 2019 was R4.2 million (30 June 2018: R3.6 million).

Eastgate Office Tower

LGL took occupation of 2 790m² office space in the Eastgate Office Tower during the year. Rental income received by L2D Group Ltd for the six month period ended 30 June 2019 was R1.5 million (30 June 2018: R0).

STANLIB Property Development Proprietary Limited

Development fees amounting to R0.6 million were paid to STANLIB Property Development Proprietary Limited and were capitalised to the relevant development projects in the prior period (30 June 2018).

Effective 1 November 2018, following the transaction which included the internalisation through L2D purchasing the issued shares of the manager from Liberty Holdings Limited (LHL), the business of the manager was transferred to 2 Degrees Properties Proprietary Limited (2DP), development fees are now earned by 2DP.

Loan with LGL

This amount is the L2D Group proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits. A money market interest rate is earned on the amount outstanding and a portion of the interest earned is allocated to shopping centre merchants' associations for centre marketing.

As at 30 June 2019, R71.4 million is owed by LGL (30 June 2018: R28.4 million). The large increase results from to tenant arrears and property liabilities.

Transactions with other related entities

Operating lease payments

STANLIB Wealth Management Limited (STANLIB), as a lessee, paid an amount of R2.2 million (30 June 2018: R2.1 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

JHI Retail Property Proprietary Limited (JHI)

The property management function in respect of L2D Group is undertaken predominantly by JHI. JHI manages the Sandton City Complex, the Eastgate Complex, Liberty Promenade Shopping Centre, Liberty Midlands Mall, Nelson Mandela Square, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction, the Standard Bank Centre and Botshabelo Mall.

Amdec continues to manage the Melrose Arch precinct. Amdec is not a related party of the group.

JHI is 51% owned by JHI Properties Proprietary Limited and 49% by LHL. It is accounted for as a joint venture of the group.

Property management service net fees paid by L2D Group to JHI Retail for the period ended 30 June 2019 amounted to R13.2 million (30 June 2018: R11.9 million).

Loan with STANLIB Asset Management Limited

As at 30 June 2019, R11 266 is owed to STANLIB Asset Management Limited (30 June 2018: (R385 357)).

Loans with Standard Bank and property lease

L2D Group entered into a revolving credit facility and term lending facility with Standard Bank, effective 1 November 2018.

As at 30 June 2019 R831.1 million is owed to Standard Bank (30 June 2018: R0).

The Standard Bank Centre is fully let to Standard Bank on a five-year lease.

Rental income received by L2D Group for the period 1 January 2019 to 30 June 2019 was R7.9 million (30 June 2018: R8.9 million).

Change in accounting policy

The group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board (IASB) which were effective for the group from 1 January 2019. In particular, the following standard had an impact on the group's financial statements.

IFRS 16 Leases

Impact on the financial statements

L2D elected to adopt IFRS 16 retrospectively from 1 January 2019 using the modified retrospective approach without restating comparative figures. There was no impact to opening retained earnings on adoption of IFRS 16. IFRS 16 replaces the existing lease standard and the related interpretations.

In applying IFRS 16 for the first time, L2D used certain practical expedients permitted by the standard, namely a single discount rate for leases with reasonably similar characteristics.

The liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The incremental borrowing rate applied to the lease liability on 1 January 2019 was 7.56%.

Lessor accounting remains substantially unchanged and the group, as a lessor, has operating leases only. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. This fundamentally changes how the group will recognise operating leases where the group is the lessee. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The group will recognise a right-of-use asset and lease liability for its operating lease of property. The nature of expenses related to this lease will now change from an operating lease charge to a depreciation charge for the right-of-use asset and interest expense for the lease liability.

Reconciliation of right-of-use asset and lease liability

Right-of-use asset	R'000
Recognised on 1 January 2019	4 489
Additions	—
Depreciation	(1 282)
Balance at 30 June 2019	3 207
Lease liability	R'000
Recognised on 1 January 2019	4 489
Finance costs	161
Repayments	(850)
Balance at 30 June 2019	3 800

Corporate information

Liberty Two Degrees Limited

Date of registration: 10 July 2018
JSE share code: L2D
ISIN: ZAE000260576
(Approved as a REIT by the JSE)
(Liberty Two Degrees or L2D)

Registered Office

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Company Secretary

Jill Parrat resigned as the company secretary effective 25 February 2019.

Ben Swanepoel was appointed as the new company secretary on 25 February 2019.

Ben Swanepoel
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