LIBERTY

two°degrees

2021 SUMMARISED GROUP RESULTS

CONTENTS

HIGHLIGHTS

RETAIL PORTFOLIO RECOVERY UNDERPINS

5.47%

INCREASE IN FULL-YEAR DISTRIBUTION TO

34.1 cents

PER SHARE WITH LOAN TO VALUE REMAINING HEALTHY AT

23.97%

CONTINUED PRESSURE ON RENTAL REVERSIONS OF

-25.9%

RELATING TO

6.7%

OF PORTFOLIO GLA

STRONG RECOVERY IN OPERATIONAL METRICS, WITH TURNOVER UP

24.5%

AND OCCUPANCY UP TO

96.8%

COVID-19 IMPACT ON HOSPITALITY ASSETS REMAINED SIGNIFICANT RESULTING IN NPI DOWN

R17 million

(178%)

INTERNATIONAL SAFETY AND SECURITY CERTIFICATION

PUT OUR MALLS AMONG THE BEST IN THE WORLD

COMMENTARY

PROFILE

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange (JSE) with a market capitalisation of R4.3 billion at 31 December 2021 (31 December 2020: R3.9 billion). The L2D Group includes 2 Degrees Properties Proprietary Limited (the operating subsidiary), STANLIB REIT Fund Managers (RF) Proprietary Limited (the previous management company) and Liberty Two Degrees Restricted Share Plan Trust (Trust).

OVERVIEW

L2D's operational and financial metrics, achieved in the difficult context of Covid-19, showed sustained improvement in 2021. However, the recovery across the portfolio remains uneven with some sectors remaining impacted.

Demand for L2D retail space remains strong with occupancy across the portfolio stabilised. Trading levels in the retail portfolio recovered well and, in some cases, exceeded 2019 pre-Covid levels. The easing of restrictions and momentum in vaccinations drove footcount 22.6% higher during the second half of the year ending with a strong festive period. The net property income contribution from the retail portfolio improved by 27.3%, an increase of R100 million compared to 2020 however remained 18% (R103 million) below 2019 which indicates the continued impact of Covid-19. Rentals remain under pressure, and we expect to see a lag between improving turnover translating into rental income

The hospitality, food service and office sectors continued to bear the brunt of restrictions and weak economic activity with the lack of business travel and conferences continuing to impact our assets. The hospitality sector's contribution to net property income was c.R65 million less than 2019 and R17 million less than 2020. While it positions us for upside as occupancies improve in line with the recovery of business and travel sectors, our outlook for the sector remains guarded.

Property rates and utility cost hikes above inflation and rental growth rates remain a concern. Apart from greening and other initiatives to lower consumption, we are engaging alongside our peers with the relevant authorities. In particular, we continue to engage with the City of Johannesburg in respect of the finalisation of the valuation of Sandton City, against which we have lodged an appeal, as announced on SENS on 17 February 2022.

Our balance sheet remains strong, with a low loan to value of 23.87%.

Underpinned by these trends, which are fully detailed in the commentary below, full-year distributions were up 5.47% to 34.1 cents per share.

RETAIL TRADING PERFORMANCE

Annual turnover across our retail portfolio was 24.5% higher than last year. Trading gained momentum as the year progressed, with turnover in Q4 up 15.8% on Q4 2020 and 5.1% on Q4 2019. Sandton City and Midlands Mall recorded the largest increases in Q4 turnover in rand terms surpassing Q4 in both 2020 and 2019. Certain categories in our portfolio, including luxury brands, technology and grocery, showed an exceptionally strong recovery.

Quarterly turnover growth (%)	Q1 vs 2019	Q2 vs 2019	Q3 vs 2019	Q4 vs 2019	**Q4 vs 2020**
Sandton City	(3.5)	3.3	1.7	12.5	**17.7**
Eastgate	(16.6)	(11.9)	(15.0)	(6.3)	**8.4**
Nelson Mandela Square	(41.6)	(39.0)	(33.4)	(9.4)	**45.1**
Midlands Mall	(8.0)	(2.5)	8.3	17.7	**24.0**
Midlands Lifestyle Centre	11.6	16.3	37.7	58.1	**46.1**
Promenade	(8.7)	(9.9)	(13.8)	(5.5)	**7.0**
Botshabelo Mall	29.5	26.7	13.5	18.0	**6.0**
Total portfolio (excl. MA)	**(8.8)**	**(4.1)**	**(4.6)**	**5.9**	**15.6**
Melrose Arch	(26.7)	(27.2)	(29.4)	(13.3)	**22.0**
Portfolio full	**(9.7)**	**(5.1)**	**(5.7)**	**5.1**	**15.8**

Annual turnover at Sandton City outpaced 2020 and 2019 turnover by 31.3% and 4.3% respectively, generating its highest ever annual turnover of c. R7.4 billion. In contrast, Eastgate's recovery was muted. The economic decline of its catchment area over recent years resulted in pressure on rentals and a downward adjustment of 11.7% to its valuation. Various focused initiatives are in place to drive up turnover and dwell time at Eastgate. We are also working with management at Melrose Arch to find solutions to its high office vacancies.

Portfolio footcount followed a similar recovery trend to turnover, albeit at a slower rate. In 2021, it grew 26.1% with the last quarter having 22.9% more customers visiting our malls than in Q4 2020, only 3.4% below Q4 2019. This was due to greater movement of consumers and more workers returning to offices as restrictions eased and vaccinations increased. Our analysis of footcount data indicates a shift in shopping patterns, with consumers spending more money over fewer visits to our malls.

OCCUPANCY AND LEASING PERFORMANCE

Occupancy across the L2D portfolio remained stable. We ended the year at 93.7% occupancy in the overall portfolio (June 2021: 93.7%; December 2020: 93.3%). In the retail portfolio, occupancy improved marginally to 96.8% (June 2021: 96.7%; December 2020: 95.3%), above the MSCI Q3 2021 retail occupancy benchmark of 94.0%. Over the year, Sandton City and Eastgate have improved their occupancies from 97.9% and 92.9% to 98.3% and 94.6% respectively, ahead of the Q3 MSCI Super Regional benchmark of 93.2%. At 86.2% occupancy in our office portfolio (June 2021: 86.6%; December 2020: 87.6%), the rate of decline has slowed. It remains above the MSCI Q4 2021 office occupancy benchmark, which fell to an all-time low of 84.0%. Despite the stabilisation, the outlook for the office rental market remains a concern due to industry oversupply and the impact of remote working.

COMMENTARY CONTINUED

Demand for retail space in the L2D portfolio remains strong. We concluded 291 leases (renewals and new deals) in the year, equating to 147 507m² or 15.6% of total portfolio GLA (December 2020: 148 725m² or 15.7%). Our leasing strategy focused on attracting and retaining quality tenants. We achieved a retention rate of 92.5% of tenant leases expiring in 2021, of which 16.2% are still under negotiation. We have begun negotiating leases due for renewal in 2022, with good indication that major leases will be renewed.

Rental reversions for leases concluded during the period were negative for both the retail and office sector, down 26.0% and 24.8% respectively, albeit with some improvement over last year (December 2020: -32.2% and -26.2%, respectively). While we expect tenants to remain under pressure, the upward trend in renewals from this lower base should continue in 2022 given improving trading conditions. This will likely have a positive effect on the future portfolio valuation, which we believe has stabilised. Overall, the value of our portfolio declined by 0.8% in 2021.

At the end of December 2021, 99.0% of rent relief agreements pertaining to 2020 had been concluded. In 2021, we granted further relief of R17.7 million to assist tenants most impacted by continued Covid-19 restrictions. The fairness and transparency of our approach has motivated tenants to settle arrears and strengthened our partnership with them. Rental collections improved to 102.4%, based on full amounts due and before rental relief adjustments.

FINANCIAL PERFORMANCE

Notwithstanding the 24.5% increase in our retail tenant's turnover, revenue (excluding the accounting impact of lease straight lining) declined by 5%. The decline in the hospitality portfolio, negative lease reversions and income lost from the sale of Century City offices during the prior year contribute to this result. Net property income (NPI), excluding the accounting impact of lease straight lining, improved by 19% on 2020. The favourable movement in the NPI is explained by the net impact of the release of the ECL provision and lower rental relief provided, in line with the reduced impact of Covid-19, resulting in a credit to the income statement of R14.9 million (compared to a charge of R159.7 million in 2020). NPI growth also benefitted from the R12.1 million settlement of our Covid-19 business interruption claim.

(%)	NPI FY 21 vs FY 20	NPI FY 21 vs FY 19
Retail	**27**	(18)
Offices	**(3)**	(23)
Hospitality	**(178)**	(113)
Other	**7**	(23)
Total NPI[1]	**19**	(26)

1. *Total NPI excluding the adjustment for straight-lining of operating lease income.*

Profit from operations grew 34% to R459.2 million, and 16% to R473.3 million excluding lease straight lining. Net utility costs increased due to higher consumption, tariff hikes and provisions raised in respect of ongoing objections to municipal valuations. While operating costs were R16.7 million higher, this was off a low base in 2020, as a result of reduced costs due to the impact of Covid-19. In 2021, efforts to reduce head office costs included a review of the cost base and a freeze on hiring. However, lower asset management income earned on reduced investment property valuations largely offset the savings achieved.

Net interest expense increased marginally by 0.8%, with lower average debt costs offset by higher debt levels. Fair value adjustments include the positive R41.9 million mark to market on the interest rate hedges in place at the end of December 2021, and the property valuation write-down of R108.5 million in 2021. The taxation expense of R15.4 million resulted from temporary differences on the deferred tax asset unwinding as provisions were utilised. Headline earnings increased by 30.24% after adding back the fair value adjustments and the distribution growth of 5.47% is calculated after further adjustments for the impact of lease straight lining and deferred tax.

BALANCE SHEET AND PORTFOLIO VALUATION

Our balance sheet remains a key strength. With a loan to value (LTV) of 23.87% at 31 December 2021 (31 December 2020: 20.51%), we have sufficient liquidity and remain well within our bank covenants. Our interest cover ratio is healthy at 3.09 times, with 75.8% of our interest rate exposure hedged. The average cost of debt remains relatively low at 7.85%. Total unutilised revolving credit facilities amounted to R340 million at 31 December 2021. In terms of the share buyback programme, a further 15.36 million shares were acquired during the year at a cost of R70.3 million.

L2D's property portfolio was valued at R8.4 billion at 31 December 2021. This is marginally down from the December 2020 valuation, following the significant write down by R1.7 billion in 2020. Values are based on independent property valuations on 31 December 2021. The Standard Bank Centre has been classified as a non-current asset held for sale and is reflected at net selling price, following the signing of a binding offer to purchase. Net asset value per share at 31 December 2021 was R7.56, down (1.9%) mainly as a result of the payment of an interim dividend in August 2021 as well as the write down in property valuations. We have c.R850 million of term debt expiring in October 2022, the refinancing of which will extend the average duration of our term debt and hedged interest rate profile.

COMMENTARY CONTINUED

STRATEGIC BUILDING BLOCKS

The Safe Asset Group assessed all our malls during the year. Sandton City, Nelson Mandela Square and Eastgate improved their SHORE ratings significantly from 2020. Assessed for the first time, Midlands Mall, Promenade and Botshabelo Mall also scored above 80%.

Noteworthy achievements in our environmental initiatives included green star ratings on our entire portfolio of assets including a 6-star rating on Sandton City. We also increased waste diversion rates from around 40% to just under 80% (by weight), towards our target of being net zero waste ready in 2022. We expect to receive this rating in 2023, once we have 12 months of data for verification.

PROSPECTS

The operational performance of the retail portfolio is encouraging, supported by quality assets which have shown their resilience. This together with the strength of our tenant mix, should underpin strong demand for L2D space and further improvement in turnover. However, uncertainty in the trading environment is likely to continue to put pressure on certain categories of tenants. The strain in the office rental and hospitality sectors, together with negative rental reversions across the portfolio, is likely to slow our return to pre-pandemic levels of distributable income.

We have a focused operational strategy, grounded in robust property fundamentals, and remain committed to executing our business in a sustainable and flexible manner as we drive growth. The safety, security and wellbeing of our customers, tenants, employees, service providers and other stakeholders will remain our top priority.

Given the uncertainty that remains, we remain cautious about the year ahead. The board has therefore resolved not to provide earnings and distribution guidance for 2022.

SIGNIFICANT JUDGEMENTS APPLIED INCLUDING ADDITIONAL DISCLOSURE AMIDST UNCERTAINTY AND RISKS RELATED TO COVID-19

Valuations and changes in fair value

In addition to income forecasting assumptions, our valuers have also applied valuation metrics including adjustment to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space. Please refer to the Investment property note for more detail on the impact of valuations and the fair value hierarchy for financial instruments as well as the sensitivity analysis on the exit capitalisation rates and discount rates.

Expected credit loss

The expected credit loss (ECL) model methodology has remained unchanged from 2020 with the assumptions used for modelling having been updated for the current environment. The default percentages have improved as a consequence of improving tenant collections and economic variables. The assumptions used have considered the trend of rental relief offered on arrear positions and our view on the sustainability of the tenant's operations. The ECL provision has consequently decreased to R34.8 million (31 December 2020: R57.5 million).

In terms of IFRS 9, a prospective ECL provision is calculated by applying a pre-determined default percentage to the standard tenant arrear ageing buckets of current, 30 days, 60 days, 90 days and 120 plus days at a reporting period. The base line default percentage (historical loss rate) is derived from historical tenant arrear default trends. The historical data of November 2019 to October 2021 (24 months) was extracted and analysed to determine the base tenant billings and collections for the 24 months and the actual losses incurred and potential non-recoverable amounts, relating to the same period and tenant billings.

L2D is satisfied with the ECL provision raised with 52.4% of our tenant arrears balance of R66.4 million provided for as at 31 December 2021 and is of the opinion that the balance is recoverable.

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 23.87% (31 December 2020: 20.51%) of the value of its property portfolio. Using the SA REIT methodology, the average cost of debt (all Rand-denominated) is 8.16% (31 December 2020: 8.72%), with interest rates hedged through fixed rate contracts on 75.82% (31 December 2020: 82.06%) of borrowings for an average period of 2.09 years (31 December 2020: 2.1 years).

COMMENTARY CONTINUED

L2D's covenant compliance

	31 December 2021	31 December 2020	Covenant
Loan to value	**23.9%**	20.5%	40%
Interest cover ratio	**3.1x**	3.9x	1.9x

Total unutilised revolving credit facilities amount to R340 million as at 31 December 2021. Our modelling of the forecasted cash flow for the business indicates that the current unutilised bank facilities are sufficient for our liquidity needs for the next 12 months and the Company is comfortable that it will be able to meet its commitments as they fall due. None of our existing debt facilities have been modified due to Covid-19.

Debt maturity profile

	Term debt exposure	
Maturity periods	**Loan amount Rand**	**Expiry date**
Less than one year	**849 891 288**	**31 October 2022**
Less than two years	**500 000 000**	**31 October 2023**
Less than five years	**600 000 000**	**31 October 2026**
Total	**1 949 891 288**	

	Fixed rate exposure	
Counterparty	**Fixed rate amount Rand**	**Expiry date**
Absa Bank – interest rate swap	**728 500 000**	**1 November 2022**
Absa Bank – interest rate swap	**200 000 000**	**31 October 2024**
Standard Bank – fixed rate loan	**300 000 000**	**31 October 2026**
Standard Bank – fixed rate loan	**250 000 000**	**1 November 2023**
Total	**1 478 500 000**	

COMMITMENTS

Capital commitments outstanding amount to R299.9 million (31 December 2020: R345.1 million), which includes the acquisition of One on Whitely for R128.2 million, and operational capital expenditure of R158.6 million.

GOING CONCERN

Management have assessed L2D's ability to continue as a going concern. The assessment includes solvency and liquidity tests which include a forecast of debt covenants such as the loan-to-value and interest cover ratios. The liquidity tests consider expected cash flows in the next 12 months, including cash flow relating to funding and capital expenditure.

As at 31 December 2021, L2D had a net asset value of R7.56 per share and a stable liquidity position.

In addition to considering factors specific to L2D, management remain cautious given the continued impact of Covid-19. However, we have sufficient balance sheet capacity and liquidity to see us through this period and ensure the sustainability of our business.

Though heavily impacted by the economic conditions that currently prevail it is management's view that the going-concern status of the business remains intact. The pandemic has forced L2D to remain focused on the rebuilding for growth strategy and specifically on responding with Agility, taking a Back-to-basics approach in continuing to build strong property fundamentals and creating new Communities of merged environments to complement our precinct focused strategy.

COMMENTARY CONTINUED

PROPERTY PORTFOLIO

The portfolio occupancy rate increased during the period to 93.7% (31 December 2020: 93.3%). The retail occupancy increased to 96.8% (31 December 2020: 95.3%) and the office occupancy decreased to 86.2% (31 December 2020: 87.6%).

Leases covering 120 677m^2 including the Sandton Convention Centre (stated at 100% of asset GLA) (31 December 2020: 125 276m^2) were renewed in 2021 at an overall reversion rate of -25.9% (31 December 2020: -30.6%). The overall reversion rate was largely impacted by reversions at the super-regional shopping centres.

A further 26 830m^2 (stated at 100% of asset GLA) (31 December 2020: 23 449m^2) in new tenant lease agreements were concluded across the portfolio during the year.

Gross arrears after rental relief discounts decreased to R66.4 million (31 December 2020: R96.4 million). Of the current arrears, 41% is within 120 days overdue. As at 31 December 2021, 99% of rental relief provided for in relation to the 2020 year has been contractually concluded.

Geographical profile	Gross lettable area (m^2)	Gross lettable area (%)
Gauteng	730 865	77.2
KwaZulu-Natal	121 318	12.8
Western Cape	73 392	7.8
Free State	20 743	2.2
Total	**946 318**	**100.0**

Sector composition by GLA	Gross lettable area (m^2)[1]	Gross lettable area (%)
Retail	512 701	54.2
Office	316 011	33.4
Specialised	117 606	12.4
Total	**946 318**	**100.0**

[1] *Gross lettable area is at a 100% ownership share.*

Occupancy profile (%)	December 2021	December 2020
Total retail	96.8	95.3
Total office	86.2	87.6
Total specialised	–	–
Total portfolio occupancy profile	**93.7**	93.3

Lease expiry profile – gross lettable area (%)	Vacant	Monthly	2022	2023	2024	2025	2026+
Total retail	3.2	9.7	14.2	16.4	19.2	8.4	28.9
Total office	13.8	4.8	19.8	7.3	35.3	1.3	17.7
Total specialised	0.0	0.0	19.1	0.0	0.0	23.6	57.3
Total	**6.3**	**7.6**	**16.4**	**12.6**	**24.3**	**6.4**	**26.4**

COMMENTARY CONTINUED

DECLARATION OF A CASH DISTRIBUTION

The Board has approved, and notice is hereby given of a distribution of 18.31 cents per share for the six months ended 31 December 2021 (the distribution).

In addition to the interim dividend of 15.79 cents per share, the full year dividend for 2021 amounts to 34.10 cents per share.

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

	2022
Last date to trade *cum* dividend	Tuesday, 15 March
Shares trade *ex* dividend	Wednesday, 16 March
Record date	Friday, 18 March
Payment date	Tuesday, 22 March

L2D uses distribution per share as a relevant measure of financial performance. Share certificates may not be dematerialised or rematerialised between Wednesday, 16 March 2022 and Friday, 18 March 2022, both days inclusive. Payment of the distribution will be made to shareholders on Tuesday, 22 March 2022. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Tuesday, 22 March 2022. Certificated shareholders' dividend payments will be posted on or about Tuesday, 22 March 2022.

Shares in issue at the date of declaration of this distribution: 908 443 334, inclusive of 29 608 280 treasury shares.

L2D's income tax reference number: 9178869237.

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.

COMMENTARY CONTINUED

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 14.64800 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 declaration that the distribution is subject to a reduced rate as a result of the application of a DTA; and
- 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.

CHANGES IN BOARD AND BOARD SUB-COMMITTEES

Wolf Cesman, the lead independent director and member of the Audit and Risk, Remuneration and Nomination and Social and Ethics and Transformation Committees retired on 7 May 2021. Craig Ewin was appointed as a member and chairman of the Remuneration and Nomination Committee as well as a member of the Related Party Committee on 7 May 2021. Barbara Makhubedu was appointed as the lead independent director and as a member of the Remuneration and Nomination Committee on 7 May 2021. David Munro was also appointed as a member of the Remuneration and Nomination Committee on 7 May 2021. On 14 June 2021, Nick Criticos was appointed as a non-executive director. Angus Band will be retiring as a non-executive director and chairman of L2D with effect from 1 March 2022 in line with the Company's retirement policy. Nick Criticos has been appointed as chairman of the Board with effect from 1 March 2022.

EVENTS AFTER REPORTING DATE

In line with IAS 10 Events after the Reporting Period, the declaration of the final dividend of 18.31 cents per share for the six months ended 31 December 2021 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

BASIS OF PREPARATION

The summarised consolidated annual 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, 2008 (Act 71 of 2008), as amended of South Africa and the JSE Listings Requirements.

The accounting policies applied in the preparation of these consolidated annual financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements except where new standards have been introduced as disclosed in the notes. José Snyders CA(SA), the financial director, was responsible for supervising the preparation of these summarised consolidated annual financial statements.

This summarised report is extracted from the audited information but is not itself audited. The consolidated annual financial statements are audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor's report does not necessarily report on all the information contained in these summarised consolidated annual financial statements. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying audited consolidated annual financial statements, both of which are available for inspection at L2D's registered office. The Board takes full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying financial statements.

By order of the Board

Angus Band	**Amelia Beattie**	**José Snyders**
Chairman	*Chief Executive*	*Financial Director*

28 February 2022

STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

R'000	Notes	GROUP 2021	2020
Assets			
Non-current assets		**8 294 634**	8 521 511
Investment properties	4.2	**8 237 792**	8 458 913
Investment properties under development	4.3	**27 683**	30 074
Property plant and equipment		**10 591**	716
Investment in subsidiaries		**–**	–
IFRS 16 – lease asset		**2 144**	–
Deferred tax asset		**16 424**	31 808
Current assets		**481 320**	378 501
Trade and other receivables		**256 789**	223 070
Amount due from Group companies		**99 108**	80 993
Financial assets held at fair value through profit or loss		**22 075**	768
Current taxation receivable		**633**	633
Cash and cash equivalents		**102 715**	73 037
Non-current asset held for sale		**153 300**	–
Total assets		**8 929 254**	8 900 012
Equity			
Stated capital		**8 780 921**	8 780 921
Treasury shares		**(158 065)**	(80 709)
Retained surplus		**175 465**	301 075
Share-based payment reserve		**31 077**	26 212
Mergers/capital reserve		**(426 104)**	(426 104)
Non-distributable reserve		**(1 760 017)**	(1 693 432)
		6 643 277	6 907 963
Liabilities			
Non-current liabilities		**1 161 709**	1 240 891
Financial liabilities		**1 160 000**	1 240 891
IFRS 16 – lease liability		**1 709**	–
Current liabilities		**1 124 268**	751 158
Trade and other payables		**207 229**	154 854
IFRS 16 – lease liability		**541**	–
Employee benefits		**22 710**	13 844
Amount due to Group companies		**528**	33
Financial instruments		**18 535**	60 423
Financial liabilities		**874 725**	522 004
Total liabilities		**2 285 977**	1 992 049
Total equity and liabilities		**8 929 254**	8 900 012

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended December 2021

		GROUP	
R'000	Notes	**2021**	2020
Property portfolio revenue		**888 240**	878 769
Rental and related income		**902 304**	945 388
Adjustment for the straight-lining of operating lease income		**(14 064)**	(66 619)
Property operating expenses		**(387 219)**	(341 769)
Change in expected credit losses on property debtors and rental relief		**14 981**	(159 728)
Net property income		**516 002**	377 272
Asset management fee income		**51 336**	57 263
Development fee income		**1 921**	2 361
Total net property income and revenue		**569 259**	436 896
Other income		**2 412**	1 228
Operating costs		**(112 455)**	(95 769)
Profit/(loss) from operations excluding fair value adjustments		**459 216**	342 355
Interest expense		**(151 181)**	(149 307)
Interest received		**3 096**	2 398
Impairment loss		**–**	–
Dividend income		**–**	–
Profit/(loss) before fair value adjustments		**311 131**	195 446
Net fair value adjustments		**(52 521)**	(1 719 886)
Fair value adjustments on investment properties		**(108 473)**	(1 725 478)
Fair value adjustment on derivatives		**41 888**	(43 532)
Fair value adjustment on equity instrument		**–**	(17 495)
Adjustment for the straight-lining of operating lease income		**14 064**	66 619
Profit/(loss) before taxation		**258 610**	(1 524 440)
Taxation		**(15 384)**	31 637
Total comprehensive income/(loss)		**243 226**	(1 492 803)
Basic earnings per share (cents)	2	**27.40**	(166.09)
Fully diluted earnings per share (cents)	2	**27.40**	(166.09)

STATEMENT OF CHANGES IN EQUITY

for the year ended December 2021

	GROUP						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2020	8 780 921	(39 205)	18 240	93 073	290 081	(426 104)	8 717 006
Total comprehensive loss	–	–	–	–	(1 492 803)	–	(1 492 803)
Treasury shares movement (note 11)	–	(41 504)	–	–	–	–	(41 504)
Share-based payment transaction (note 26)	–	–	7 972	–	–	–	7 972
Capitalised costs	–	–	–	–	–	–	–
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	(1 725 478)	1 725 478	–	–
Fair value adjustment on derivatives	–	–	–	(43 532)	43 532	–	–
Fair value adjustment on equity instrument	–	–	–	(17 495)	17 495	–	–
Distribution to shareholders	–	–	–	–	(282 708)	–	(282 708)
Balance at 1 January 2021	**8 780 921**	**(80 709)**	**26 212**	**(1 693 432)**	**301 075**	**(426 104)**	**6 907 963**
Total comprehensive income	**–**	**–**	**–**	**–**	**243 226**	**–**	**243 226**
Treasury shares movement (note 11)	**–**	**(77 356)**	**–**	**–**	**–**	**–**	**(77 356)**
Share-based payment transaction (note 26)	**–**	**–**	**4 865**	**–**	**–**	**–**	**4 865**
Fair value adjustment on investment properties transferred to non-distributable reserve	**–**	**–**	**–**	**(108 473)**	**108 473**	**–**	**–**
Fair value adjustment on derivatives	**–**	**–**	**–**	**41 888**	**(41 888)**	**–**	**–**
Distribution to shareholders	**–**	**–**	**–**	**–**	**(435 421)**	**–**	**(435 421)**
Balance at 31 December 2021	**8 780 921**	**(158 065)**	**31 077**	**(1 760 017)**	**175 465**	**(426 104)**	**6 643 277**

STATEMENT OF CASH FLOWS

for the year ended December 2021

	GROUP	
R'000	2021	2020
Cash flows from operating activities	**(80 050)**	(36 644)
Cash generated from operations	**500 624**	396 563
Interest received on financial assets	**1 731**	477
Interest received	**1 366**	1 920
Interest paid	**(148 230)**	(152 022)
Interest paid – lease liability repayments	**(120)**	–
Taxation paid	**–**	(874)
Dividends received	**–**	–
Distribution to shareholders	**(435 421)**	(282 708)
Cash flows from investing activities	**(81 643)**	41 540
Expenditure on investment properties capitalised	**(50 440)**	(79 424)
Disposal of investment properties	**–**	123 213
Expenditure on investment properties under development	**–**	(1 426)
Acquisition of property plant and equipment	**(9 896)**	(716)
Investment in financial instruments – mutual funds	**(362 540)**	(113 050)
Proceeds from disposal of financial instruments – mutual funds	**341 233**	112 943
Cash flows from financing activities	**191 371**	2 942
Treasury shares acquired	**(96 843)**	(45 420)
Treasury shares sold and vested	**19 487**	3 916
Lease liability repayments	**(273)**	(1 446)
Loan paid	**(169 000)**	(219 473)
Loans received	**438 000**	265 365
Net increase/(decrease) in cash and cash equivalents	**29 678**	7 838
Cash balance at beginning of the year	**73 037**	65 199
Cash and cash equivalents at the end of the year	**102 715**	73 037

* *Restatement detail has been disclosed in note 19*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. KEY JUDGEMENTS

Key areas of judgement and sources of uncertainty

The preparation of consolidated annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under applicable circumstances. These are therefore continually evaluated.

Information regarding judgements that have the most significant effect on the amounts recognised in the consolidated annual financial statements, as well as the key sources of estimation uncertainty, is set out below.

1.1 Accounting for undivided shares in investment properties and related letting activities

L2D Group owns various undivided shares in investment properties. L2D Group has joint decision-making rights regarding all capital decisions relating to L2D Group's undivided shares in the assets for the benefit of the shareholders in L2D Group. L2D Group is responsible for letting activities on behalf of and for the benefit of co-owners in these investment properties.

Neither the undivided share ownership nor the letting activities meet the definition of joint arrangements as key decisions such as disposal or security for lending over the respective undivided shares do not require consent of the other co-owner and practically there is only one decision authority regarding letting activities.

L2D Group recognises its contractual rights linked to its undivided share ownership in investment properties being its share of relevant assets and liabilities and related income and expenses, which are presented on a gross basis. Management have therefore concluded that L2D Group has an ownership interest in the shared assets.

1.2 Investment properties fair value measurement

The Group invests in various properties which are predominantly owned for investment return. These properties are let to various tenants under lease agreements as defined under IFRS 16. These properties are classified as "investment properties" under IAS 40. Investment properties are measured at fair value by external valuation appraisers, taking into account characteristics of the properties that market participants would consider when pricing the properties at measurement date.

The key assumptions in the determination of the fair value are the exit capitalisation rates and discount rates. Other inputs considered relate to existing tenant terms, location, rental growth, vacancy levels and restriction, if any, on the sale or use of the asset. The Group makes judgement regarding the unit of account, i.e., whether it should be valued as a stand-alone property or as a group of properties. Three groups of properties (Sandton City Complex, Nelson Mandela Square, and the Melrose Arch precinct) are valued as one unit of account under IFRS 13 Fair Value Measurement. Determination of the fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible.

Valuer derived risk adjusted discount rates factor in liquidity and asset class risk. Refer to note 5 of the Group consolidated annual financial statements for specific details and note 10 for the valuation techniques and assumptions and a sensitivity analysis on the fair value of these properties to a change in the exit capitalisation and discount rate assumptions. Given the extent of management judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

1.3 Capital re-organisation

Following the conversion of Liberty Two Degrees Limited to a corporate REIT effective 1 November 2018, capital re-organisation accounting was applied to the transaction. IFRS does not have specific guidelines relating to the accounting treatment for combinations among entities under common control. Management has thus applied judgement in developing a policy that is relevant to the decision-making needs of users and that is reliable. Management are of the view that capital re-organisation accounting is considered to be the most appropriate treatment for this transaction as outlined in note 1.2.3. In this regard, a new entity was incorporated (New L2D) as the parent via the issue of shares and the businesses under common control that are combined in New L2D are considered to have single management and oversight and are treated as a capital re-organisation of the existing reporting entity. The re-organisation does not have any economic substance, therefore the comparative information was restated because the entity reported as if it had always existed in its current form. The impact of the restatement of the earliest comparative information has resulted in a merger reserve account, to account for the premium on the purchase price over the carrying value of the assets and liabilities.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. KEY JUDGEMENTS CONTINUED

1.3 Capital reorganisation continued

1.3.1 Transfer of investment in subsidiary

As a result of the capital re-organisation in 2018, Stanlib Reit Fund Managers (RF) Pty Ltd (SRFM) operations was transferred to 2DP. This included the transfer of the net asset value of SRFM to 2DP. The investment in subsidiaries at L2D company level was adjusted accordingly to transfer the effective cost of the investment in SRFM to the investment in 2DP as the economic benefit of the re-organisation now resides in 2DP. The transfer was done at a value that reflects the economic effect of the transaction, i.e. the value transferred based on the relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates the net asset value of the company. Refer to note 33 for the values of investment in subsidiaries.

1.4 Classification of hotels as investment property and income earned from hotel operations under IFRS 16

With effect from 1 November 2019, L2D entered into an arrangement with Tsogo Sun Hotels Limited (Tsogo) regarding the day-to-day operations of certain hotel properties. There is significant judgement applied regarding the assessment of economic benefits between the different parties, and control over the relevant activities, being the day-to-day operations of the hotel.

Application of IFRS 16 paragraph B23 considers "If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of retail space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the retail space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the retail space, a portion of which it then pays to the supplier as consideration for the right to use that space, which is interpreted to disregard proportional cash flows paid as compensation in the contract terms in the assessment of economic benefits between the contracted parties.

The decision to measure 'economic benefit' at the distribution line or turnover line is an area of significant judgement. On the face of it the agreements provide for 98% of EBITDAR to flow to the lessors, however where the lessee directs all cashflow generated from the asset and pays the lessor a percentage of such flows, B23 provides for such cashflows to be included in the benefit received by the Lessee.

Given the above and our view that Tsogo has the ability to direct the relevant activities/day-to-day operations when applying paragraph B23 of IFRS 16 to this arrangement, one needs to consider the use of the asset, in this case the hotels. Tsogo has sole use of the hotels and brand. In its capacity as principal, Tsogo obtains substantially all of the economic benefits from the use of the hotels/hotel brand (being the Turnover). Tsogo, as the customer pays the lessors a percentage of EBITDAR generated by the hotel operations. The fact that Tsogo pays a portion of the EBITDAR to the lessors does not preclude Tsogo from having the right to obtain substantially all of the economic benefits in its capacity as principal, being the turnover of the operations.

Tsogo manages the day-to-day operations and manages the hotel brand. This is considered to be a key point in identifying control. The key differences between the previous agreement and the current agreement is that Tsogo now has the ability to direct the relevant activities.

Based on the above, the hotel agreement in our assessment does contain a lease as the lessee retains substantially all the economic benefit and controls the operations as determined above.

IAS 40 para 14 states that judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7 – 13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

The criteria management has assessed includes the following:

- Although the owners have engaged Tsogo to run the day-to-day operations whilst retaining exposure to the variable returns, L2D retains an estimated 20% of their revenue for basic rental and turnover rental per annum which is not considered sufficiently significant. (Defined in the contract as 98% of EBITDAR);
- Tsogo directly controls how the operations are run as discussed above and therefore leases the hotels; and
- L2D is a passive investor.

The conclusion of the assessment is that Tsogo has majority economic benefits, they control the operations and therefore the arrangement contains a lease. As a result, the hotels have been classified as investment property.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. KEY JUDGEMENTS CONTINUED

1.4 Classification of hotels as investment property and income earned from hotel operations under IFRS 16 continued

1.4.1 Accounting for the temporary hotel agreement

Effective from 27 March 2020, the current lease agreement between Liberty Group Limited, 2 Degrees Properties Proprietary Limited, Pareto Limited (the Consortium) and Reshub Proprietary Limited (Reshub), a subsidiary of Tsogo, was amended to suspend certain provisions of the lease until such time that the lessee is able to conduct viable economic activity at the hotel premises, which date shall be agreed by the Parties to the addendum. This is referred to as the “Closed period” and follows the hard lockdown and restricted travel period implemented in response to the pandemic. Partial opening for essential services and permitted travel whilst the country is still operating under various lockdown levels in order to achieve some revenue to contribute towards the costs of the hotels does not change the terms of the amended agreement.

The terms of the temporary agreement are summarised as follows:

- The lessee is not liable to pay basic rental and turnover rental.
- The lessor is liable for the fixed costs of the hotel during the closed period.
- The lessee shall not charge the administration fee, marketing charge, licence fee, management fee and management incentive fee.
- All other terms of the lease shall remain in effect.

The agreement is in line with L2D’s philosophy to respond with humanity and empathy in dealing with lessee requests for relief whilst balancing the need to protect the sustainability of our business in the interest of all stakeholders. L2D’s intention remains that the hotels were purchased to earn rental income and for capital appreciation. The agreement is temporary and when agreed between the Parties that viable economic activity can be conducted at the hotel premises, the terms of the original lease will prevail. The hotel remains classified as investment property.

The above is a change in the scope of the lease as there has been a substantive change in the consideration for the duration of the lockdown i.e. a rental concession has been given to the lessee. These terms were not part of the original lease term and as a result constitute a lease modification.

Given the uncertainty of when lockdown restrictions will be lifted and the complexity in estimating the lease income, L2D continues to recognise hotel revenue as rental and related income and the costs incurred as property operating expenses in the Statement of comprehensive income. The fair value of the hotels is disclosed as investment property in the Statement of financial position.

1.5 Accounting for the Sandton Convention Centre agreement

Liberty Group Limited, 2 Degrees Properties Proprietary Limited and Pareto Limited (the Consortium) agreed to enter into a transition management agreement with SSHI commencing 1 September 2020 until 31 August 2021, and thereafter continuing for an indefinite duration subject to either the Consortium or the Convention Manager having the right to either renegotiate the terms of the Transition Management Agreement or to cancel upon six calendar months notice.

SSHI have been appointed as the Convention Centre Manager and will receive a management fee based on various key metrics.

Judgement is needed to determine whether a property qualifies as investment property. The group is currently not earning rental income from this property and negotiations for prospective tenants will commence once the economic conditions as a result of the pandemic improves. This arrangement with SSHI is deemed to be temporary. The property is held for capital appreciation while negotiations are being reviewed on an ongoing basis. On this basis, management have exercised their judgement that the Sandton City Convention Centre still meets the definition of an investment property.

The Consortium are all part owners of the property and are responsible for all capital expenditure, and major repairs and maintenance. The property is also held for capital appreciation. The day-to-day operations such as running of the Convention Centre has been outsourced to Southern Sun Hotels Interests (SSHI) in terms of the management agreement, which is reviewed by L2D on a quarterly basis and Liberty and L2D are passive investors in this regard. Liberty and L2D themselves do not provide management services to the Convention Centre.

Any short-term income that SSHI receives for the use of the property will be recorded as operating lease income from investment properties, and any expenses will be recorded as property expenses in the accounting records of L2D Group.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. KEY JUDGEMENTS CONTINUED

1.6 Deferred tax asset

Deferred tax assets are recognised for taxable temporary differences where management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future rental income, rental relief, operating costs, capital expenditure, dividends and other capital management transactions. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to profit or loss in the statement of comprehensive income.

Items which will unwind in the next year or two have been included in the deferred tax asset as management believes that future taxable profits are probable and where management believes that it is not probable that there will be taxable income against which these items will unwind, no deferred tax asset has been raised. The deferred tax asset unwind has decreased the net profit after taxation available for distribution in the current year. As the balances on which temporary differences were raised unwind, this will result in a lower net profit after taxation available for distribution in the following years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

2. HEADLINE EARNINGS PER SHARE

	GROUP	
		Restated[1]
R'000	**2021**	2020
Reconciliation between basic earnings and headline earnings		
Total comprehensive income/(loss) (basic earnings)	**243 226**	(1 492 803)
Fair value adjustment to investment properties and financial assets	**52 521**	1 719 886
Headline earnings	**295 747**	227 083
Cents		
Earnings/(loss) per share		
Basic and diluted	**27.40**	(166.09)
Headline	**33.32**	25.27
000s		
Actual number of shares in issue	**908 443**	908 443
Weighted average number of share in issue*	**887 552**	898 770
Diluted weighted average number of shares in issue*	**887 552**	898 770

* *Excludes 29 608 280 treasury shares as at 31 December 2021.*

[1] *The December 2020 weighted average number of shares in issue have been restated accordingly to be consistent with the December 2021 accounting treatment and disclosure.*

Basic earnings per share is basic earnings attributable to shareholders divided by the weighted average number of shares excluding treasury shares in issue during the year.

Headline earnings per share is a disclosure requirement in terms of the JSE Listings Requirements for companies listed on the JSE. Circular 1/2021, issued by the South African Institute of Chartered Accountants at the request of the JSE, stipulates the requirements for the calculation of headline earnings.

Headline earnings per share is calculated by dividing the headline earnings by the weighted average number of shares in issue during the period, excluding treasury shares.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. SEGMENT INFORMATION

The operating segments derive their revenue primarily from rental income from lessees. All of the Group's business activities and operating segments are reported within the below segments.

Segmental performance, based on net property income, is assessed using the below metrics by the Chief Executive and Financial Director at the Executive Committee.

Retail and offices: vacancies, footfall, trading density, reversions and turnover growth; and

Hotels: occupancy levels and revenue per room (RevPar).

The Group is disclosing L2D's share of Gross Lettable Area (GLA) excluding co-owners in line with the financial segment earnings. The portfolio underwent a GLA reconciliation at the end of 2020 to ensure alignment between reported GLA and the latest Architect's certificates. The changes in GLA have been due to natural attrition and movement in GLA as a result of refurbishments and changes in tenant mix over time.

December 2021

Unaudited GLA	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Total property GLA m²	512 701	316 011	117 606	–		946 318
L2Ds share of total GLA m²**	148 168	55 212	23 833	–		227 213

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

** *Segment earnings have been segmented per category GLA as a percentage of total GLA. Segments have been identified through primary function and use of the investment property. The hotels do not form part of the total GLA disclosed and the earnings are disclosed separately from the remainder of the portfolio.*

*** *Other specialised includes earnings from Gyms, Venues, Convention Centre, Industrial and Hospital.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. SEGMENT INFORMATION CONTINUED

3.1 Segment earnings – December 2021

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Property portfolio revenue	575 443	214 427	92 559	5 743	68	888 240
Rental and related income	584 614	217 844	94 035	5 743	68	902 304
Adjustment for the straight-lining of operating lease income	(9 171)	(3 417)	(1 476)	–	–	(14 064)
Property operating expenses	(247 335)	(92 164)	(39 784)	(7 714)	(222)	(387 219)
Change in expected credit loss on property debtors and rental relief	9 769	3 640	1 572	–	–	14 981
Net property income	337 877	125 903	54 347	(1 971)	(154)	516 002
Asset management fee income	–	–	–	–	51 336	51 336
Development fee income	–	–	–	–	1 921	1 921
Total net property income and revenue	337 877	125 903	54 347	(1 971)	53 103	569 259
Other Income	–	–	–	–	2 412	2 412
Operating costs	–	–	–	–	(112 455)	(112 455)
Profit/(loss) from operations excluding fair value adjustments	337 877	125 903	54 347	(1 971)	(56 940)	459 216
Interest expense	–	–	–	–	(151 181)	(151 181)
Interest received	–	–	–	–	3 096	3 096
Profit/(loss) before fair value adjustments	337 877	125 903	54 347	(1 971)	(205 025)	311 131
Net fair value adjustments on investment properties	(71 986)	(26 824)	(11 578)	15 979	–	(94 409)
Fair value adjustments	(81 157)	(30 241)	(13 054)	15 979	–	(108 473)
Adjustment for the straight-lining of operating lease income	9 171	3 417	1 476	–	–	14 064
Fair value adjustment on derivatives	–	–	–	–	41 888	41 888
Profit/(loss) before taxation	265 891	99 079	42 769	14 008	(163 137)	258 610
Taxation	–	–	–	–	(15 384)	(15 384)
Total comprehensive income/(loss)	265 891	99 079	42 769	14 008	(178 521)	243 226

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

** *Segment earnings have been segmented per category GLA as a percentage of total GLA. Segments have been identified through primary function and use of the investment property. The hotels do not form part of the total GLA disclosed and the earnings are disclosed separately from the remainder of the portfolio.*

*** *Other specialised includes earnings from Gyms, Venues, Convention Centre, Industrial and Hospital.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. SEGMENT INFORMATION CONTINUED

3.2 Segment assets and liabilities

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Investment property	5 201 563	1 938 252	836 668	288 992	–	8 265 475
Non-current asset held for sale****	–	153 300	–	–	–	153 300
Property plant and equipment	–	–	–	–	10 591	10 591
Amount due from Group companies	–	–	–	–	99 108	99 108
IFRS 16 – Lease asset*****	–	–	–	–	2 144	2 144
Trade and other receivables	140 036	43 244	18 667	29 802	25 040	256 789
Financial assets held at fair value through profit or loss	–	–	–	–	22 075	22 075
Deferred tax asset	–	–	–	–	16 424	16 424
Current taxation receivable	–	–	–	–	633	633
Cash and cash equivalents	–	–	–	–	102 715	102 715
Total assets	5 341 599	2 134 796	855 335	318 794	278 730	8 929 254
Trade and other payables	(124 447)	(37 434)	(16 159)	(64)	(29 125)	(207 229)
Employee benefits	–	–	–	–	(22 710)	(22 710)
IFRS 16 – Lease liability	–	–	–	–	(2 250)	(2 250)
Amount due to Group companies	–	–	–	–	(528)	(528)
Financial instruments	–	–	–	–	(18 535)	(18 535)
Financial liabilities	–	–	–	–	(2 034 725)	(2 034 725)
Net assets	5 217 152	2 097 362	839 176	318 730	(1 829 143)	6 643 277

* *Administration assets and liabilities includes the current account with LGL, VAT payable, Head office accruals and cash and cash equivalents.*

** *Segment assets and liabilities have been segmented per category GLA as a percentage of total GLA. Segments have been identified through primary function and use of the investment property. The hotels do not form part of the total GLA disclosed and the assets and liabilities are disclosed separately from the remainder of the portfolio.*

*** *Other specialised includes assets and liabilities from Gyms, Venues, Convention Centre, Industrial and Hospital.*

**** *Standard Bank Simmonds Street was classified as a non-current asset held for sale from investment property on 30 June 2021 and is still held for sale as at 31 December 2021.*

***** *L2D entered into a five year lease with Liberty Group Limited, effective April 2021 to occupy 1 337m² of office space at Nelson Mandela Square. L2D's ownership percentage of Nelson Mandela Square is 33.3007%. L2D recognised a right-of-use asset representing its right to use the underlying leased asset and depreciated this over the lease term. A lease liability representing its obligation to make lease payments was simultaneously recognised.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. SEGMENT INFORMATION CONTINUED

3.3 Segment earnings – December 2020

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Property portfolio revenue	569 532	212 225	91 609	5 127	276	878 769
Rental and related income	612 975	228 413	98 597	5 127	276	945 388
Adjustment for the straight-lining of operating lease income	(43 443)	(16 188)	(6 988)	–	–	(66 619)
Property operating expenses	(219 844)	(81 920)	(35 362)	(4 159)	(484)	(341 769)
Change in expected credit loss on property debtors and rental relief	(104 161)	(38 813)	(16 754)	–	–	(159 728)
Net property income	245 527	91 492	39 493	968	(208)	377 272
Asset management fee income	–	–	–	–	57 263	57 263
Development fee income	–	–	–	–	2 361	2 361
Total net property income and revenue	245 527	91 492	39 493	968	59 416	436 896
Other Income	–	–	–	–	1 228	1 228
Operating costs	–	–	–	–	(95 769)	(95 769)
Profit/(loss) from operations excluding fair value adjustments	245 527	91 492	39 493	968	(35 125)	342 355
Interest expense	–	–	–	–	(149 307)	(149 307)
Interest received	–	–	–	–	2 398	2 398
Profit/(loss) before fair value adjustments	245 527	91 492	39 493	968	(182 034)	195 446
Net fair value adjustments on investment properties	(1 024 214)	(381 653)	(164 744)	(88 248)	–	(1 658 859)
Fair value adjustments	(1 067 657)	(397 841)	(171 732)	(88 248)	–	(1 725 478)
Adjustment for the straight-lining of operating lease income	43 443	16 188	6 988	–	–	66 619
Fair value adjustment on derivatives	–	–	–	–	(43 532)	(43 532)
Fair value adjustment on equity instrument	–	–	–	–	(17 495)	(17 495)
(Loss)/profit before taxation	(778 687)	(290 161)	(125 251)	(87 280)	(243 061)	(1 524 440)
Taxation	–	–	–	–	31 637	31 637
Total comprehensive (loss)/income	(778 687)	(290 161)	(125 251)	(87 280)	(211 424)	(1 492 803)

* *Administration and other includes Head office administration expenses and investment income that cannot be allocated specifically to the operating segments.*
** *Segment earnings have been segmented per category GLA as a percentage of total GLA. Segments have been identified through primary function and use of the investment property. The hotels do not form part of the total GLA disclosed and the earnings are disclosed separately from the remainder of the portfolio.*
*** *Other specialised includes earnings from Gyms, Venues, Convention Centre, Industrial and Hospital.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. SEGMENT INFORMATION CONTINUED

3.4 Segment assets and liabilities

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Investment property	5 357 891	1 996 507	861 815	272 774	–	8 488 987
Property plant and equipment	–	–	–	–	716	716
Amount due from Group companies	–	–	–	–	80 993	80 993
Trade and other receivables	119 786	44 636	19 268	28 321	11 059	223 070
Financial assets held at fair value through profit or loss	–	–	–	–	768	768
Deferred tax asset	–	–	–	–	31 808	31 808
Current taxation receivable	–	–	–	–	633	633
Cash and cash equivalents	–	–	–	–	73 037	73 037
Total assets	5 477 677	2 041 143	881 083	301 095	199 014	8 900 012
Trade and other payables	(71 241)	(26 547)	(11 459)	(1 793)	(43 814)	(154 854)
Employee benefits	–	–	–	–	(13 844)	(13 844)
Amount due to Group companies	–	–	–	–	(33)	(33)
Financial instruments	–	–	–	–	(60 423)	(60 423)
Financial liabilities	–	–	–	–	(1 762 895)	(1 762 895)
Net assets	5 406 436	2 014 596	869 624	299 302	(1 681 995)	6 907 963

* *Administration assets and liabilities includes the current account with LGL, VAT payable, Head office accruals and cash and cash equivalents.*

** *Segment assets and liabilities have been segmented per category GLA as a percentage of total GLA. Segments have been identified through primary function and use of the investment property. The hotels do not form part of the total GLA disclosed and the assets and liabilities are disclosed separately from the remainder of the portfolio.*

*** *Other specialised includes assets and liabilities from Gyms, Venues, Convention Centre, Industrial and Hospital.*

**** *Standard Bank Simmonds Street was classified as a non-current asset held for sale from investment property on 30 June 2021 and is still held for sale as at 31 December 2021.*

***** *L2D entered into a five year lease with Liberty Group Limited, effective April 2021 to occupy 1 337m² of office space at Nelson Mandela Square. L2D's ownership percentage of Nelson Mandela Square is 33.3007%. L2D recognised a right-of-use asset representing its right to use the underlying leased asset and depreciated this over the lease term. A lease liability representing its obligation to make lease payments was simultaneously recognised.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES

R'000	Notes	GROUP 2021	GROUP 2020
4.1 Summary			
Investment properties	5.2	**8 237 792**	8 458 913
Fair value net of straight-lining at the beginning of the year		**8 458 913**	10 112 155
Expenditure on investment properties capitalised during the period		**38 287**	67 560
Fair value adjustment		**(106 108)**	(1 720 802)
Transfer to assets held for sale		**(153 300)**	–
Investment properties under development	5.3	**27 683**	30 074
Fair value at the beginning of the year		**30 074**	32 768
Expenditure on investment properties under development during the year		**–**	1 426
Fair value adjustment		**(2 391)**	(4 120)
Total investment properties		**8 265 475**	8 488 987
4.2 Investment properties			
Fair value of investment properties at the beginning of the year		**8 277 628**	9 864 729
Net fair value adjustment for the period		**(92 007)**	(1 654 661)
Fair value adjustment[1]		**(106 108)**	(1 720 802)
Net movement on straight-lining operating lease income		**14 101**	66 141
Expenditure on investment properties during the period		**38 287**	67 560
Additions – capitalised subsequent expenditure		**40 198**	69 865
Capitalised tenant installations		**4 733**	4 495
Amortisation of tenant installations		**(4 737)**	(4 464)
Capitalised letting commission		**5 509**	4 160
Amortisation of letting commission[2]		**(7 416)**	(6 496)
Transfer to assets held for sale		**(150 012)**	–
Transfer to assets held for sale		**(153 300)**	–
Impact of straight-lining of operating lease income on transfer of property		**3 288**	–
Investment properties at fair value		**8 073 896**	8 277 628

1 *Standard Bank Simmonds Street was classified as a non-current asset held for sale on 30 June 2021 and is still held for sale as at 31 December 2021. The fair value adjustment for the period is R0.03 million. This has been excluded above and included in the non current assets held for sale note.*

2 *Expenditure on investment property capitalised relating to Standard Bank Simmonds Street is (R0.03) million and has been excluded from the above and included in the non-current assets held for sale note.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

4.2 Investment properties continued

R'000	GROUP 2021	GROUP 2020
Operating leases accrued adjustment		
Straight-lining balance at the beginning of the year	**181 285**	247 426
Straight-lining of operating lease income of transfer of property to assets held for sale	**(3 288)**	–
Net movement on straight-lining of operating lease income[3]	**(14 101)**	(66 141)
Straight-lining of operating lease income	**163 896**	181 285
Total investment properties	**8 237 792**	8 458 913

4.3 Investment properties under development

R'000	GROUP 2021	GROUP 2020
Fair value of investment properties under development at the beginning of the year	**30 074**	32 768
Net fair value adjustment for the period	**(2 391)**	(4 120)
Fair value adjustment	**(2 391)**	(4 120)
Expenditure on investment properties under development during the period	**–**	1 426
Additions – capitalised subsequent expenditure	**–**	1 426
Total investment properties under development	**27 683**	30 074
Total investment properties	**8 265 475**	8 488 987

[3] *The impact of straight-lining operating lease income on Standard Bank Simmonds Street for the period 1 July 2021 to 31 December 2021 is R0.03 million. The total income statement movement for the year, which includes the straight-lining operating lease income on Standard Bank Simmond Street, from straight-lining is R14.1 million (2020: R66.6 million).*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

Interest expense
Interest incurred during the 2021 financial year on debt incurred to acquire the additional undivided share of properties was R123.6 million (2020: R125 million).

Basis of valuation

Valuation process
A panel of at least two independent external valuers are appointed to conduct L2D's interim and year-end valuations. L2D provided the valuers with the relevant information required in the valuation of the properties. Among other inputs, the independent valuers applied current market-related assumptions to risks in the rental streams of properties. Once the valuations have been completed by the independent valuers, it was reviewed internally, signed off by the Chief Executive and the Financial Director after which they were submitted to the various governance committees for final recommendation to the Board. The Board provides final approval of the valuations. The professional valuers, namely Broll Valuation and Advisory Services and Jones Lang LaSalle Proprietary Limited are registered valuers in terms of the Property Valuers Professional Act, No. 47 of 2000 and are RICS Registered Valuers.

The basis of value is 'fair value' which is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The full investment properties portfolio was independently valued as at 31 December 2021 in line with the Group's valuation policy.

The independent valuers are as follows:

Broll	J Karg	BSc, MRICS, MIV(SA), professional valuer
Jones Lang LaSalle	S Crous	BSc, MRICS, MIV(SA), professional valuer

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The properties have been valued using the discounted cash flow methodology based on significant unobservable inputs and whereby the forecasted net cash flow and residual value of the asset at the end of the forecasted cash flow period is discounted back to the valuation date, resulting in a present value of the asset.

The residual value is calculated by capitalising the net income forecasted for the 12-month period immediately following the final year of the cash flow at the exit capitalisation rate.

The Sandton Convention Centre valuation had previously been impacted by a change in methodology from prior valuations in 2020 given the expiry of the Convention Centre lease and the introduction of the interim management agreement. The methodology changed to a profit's method valuation on expiry of the lease. This method accounts for the underlying fundamentals of the business where previously the property was valued based on the income method utilitising the lease rental and reversion on expiry.

The unobservable inputs include:

Future rental cash inflows based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties.

Discount rates reflecting current market assessments of the uncertainty in the amount and timing of cash flows. Valuers may use any reasonable method for developing an appropriate discount rate with consideration being given to:

- The type of asset being valued;
- The rates implicit in comparable transactions in the market;
- The geographic location of the asset and/or the location of the markets in which the assets would trade;
- The life/term and/or maturity of the asset and the consistency of inputs; and
- The bases of value being applied.

Estimated vacancy rates based on current and expected future market conditions after expiry of any current lease.

Capitalisation rates based on actual location, size and quality of the properties and taking into account market data at the valuation date.

The discount rate and exit capitalisation rate are then tested for reasonableness and benchmarked against recent comparable sales and surveys prepared by the MSCI and South African Property Owners Association (SAPOA).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

Unobservable inputs:

	2021					2020				
	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)
Office (%)	8.5	13.25 – 13.5	1	Staggered growth rates applied over a period of five years which vary per property between 0 – 4.75	Staggered growth rates applied over a period of five years which vary per property between 5 – 6	8.25 – 9.75	13.25 – 14.00	0.5 – 1	Staggered growth rates applied over a period of five years which vary per property between 0 – 4.75	Staggered growth rates applied over a period of five years which vary per property between 5 – 6
Retail – super regional and regional (%)	7 – 7.75	10.5 – 11.5	0 – 5	Staggered growth rates applied over a period of five years which vary per property between (1) – 4	Staggered growth rates applied over a period of five years which vary per property between 5.5 – 6	6.5 – 7.75	10.5 – 11	0.5 – 2 5% for the offices in Sandton complex	Staggered growth rates applied over a period of five years which vary per property between (1) – 4	Staggered growth rates applied over a period of five years which vary per property between 5 – 6
Retail – other	7.75 – 8.25	11.75 – 12	0 – 1.5	Staggered growth rates applied over a period of five years which vary per property between (1) – 5	Staggered growth rates applied over a period of five years which vary per property between 5.5 – 6	7.75 – 8.25	11.75 – 13.25	1 – 1.5	Staggered growth rates applied over a period of five years which vary per property between (1) – 5	Staggered growth rates applied over a period of five years which vary per property between 5 – 6
Hotels (%)**	9.0	13.75 – 14.0				9.0	13.75 – 14.0			

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

	2021					2020				
	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)
Specialised Sandton Convention Centre (%)**	10.0	14.75				10.0	14.75			
Virgin Active and Parkade	8	10	–	Staggered growth rates applied over a period of five years (1) – 4	Staggered growth rates applied over a period of five years 5.5 – 6	8.5	13.5	–	Staggered growth rates applied over a period of five years (1) – 3.5	Staggered growth rates applied over a period of five years 5.5 – 6
John Ross Eco Junction*	8.25 – 9.25	13.75 – 14.5	1	Staggered growth rates applied over a period of five years 0 – 4.75	Staggered growth rates applied over a period of five years 5 – 6	8.25 – 9.25	13.75 – 14.5	1	Staggered growth rates applied over a period of five years 0 – 4.75	Staggered growth rates applied over a period of five years 5 – 6
John Ross Eco Junction (land)	–	14.5	–	Staggered growth rates applied over a period of five years 0 – 2.5	Staggered growth rates applied over a period of five years 5 – 6	–	14.5	–	3.85	Staggered growth rates applied over a period of five years 5 – 6

* *Includes John Ross Eco Junction Tangawizi and Melomed.*
** *There are no growth rates/vacancy rates disclosed for the hotels and the Sandton Convention Centre as the method of valuation is a profits method based on business modelling forecasts.*
*** *Standard Bank Simmonds Street was classified as a non-current asset held for sale on 30 June 2021 and has been excluded in the table above.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

Understanding the unobservable inputs

Discount rate
The discount rate is the annual return that a prudent, rational investor requires in order to invest in the property in a competitive market as opposed to alternative asset classes.

Exit capitalisation rate
The exit value should reflect the anticipated state of the property, physically and in tenure/leasing terms, at the exit date. The exit yield is influenced by several factors including risk, obsolescence, gross market rental growth rates, rates of return on alternative investments, mortgage rates, property condition and lease covenant.

Vacancy rate
The vacancy rate refers to vacancies caused by difficulties inherent to the property which management leaves vacant in order to accommodate the expansion of existing tenants; as well as to allow for rental voids due to tenant movement. Underlying the vacancy rate of properties in a specific market is the relationship of supply and demand of rental space in that market which is to a large extent driven by the property and economic cycle.

Rental growth
The rental growth factor refers to the anticipated growth of market rentals over the observed period (five years).

Expense growth
The anticipated growth of operating costs (relating to the operation of the property) over the observed period (five years).

Inter-relationship between key unobservable inputs and fair value measurements:

The most significant impact on value is an adjustment on metrics whereby the estimated fair value would increase/(decrease) if:

- exit capitalisation rate was lower/(higher); and
- discount rate was lower/(higher).

Other inputs that impact the value less significantly are:

- vacancy and rent free periods were shorter/(longer);
- expected market rental growth was higher/(lower); and
- expected expense growth was lower/(higher).

Conclusion on material uncertainty
In the prior year, the independent valuers noted a material valuation uncertainty for the retail, office and hospitality assets, whereas this only applied to hospitality assets in the current year.

L2D is satisfied with the property valuations as at 31 December 2021 considering the impact of COVID-19 and the associated impact on the hospitality industry.

Valuation summary

Offices
The Umhlanga Offices located in Umhlanga Ridge fall within this category. Standard Bank has been excluded from the above reporting.

The offices are multi-tenanted and are negatively impacted by market pressure in the office sector exacerbated by “work from home” trends. Liberty Head office Umhlanga Ridge is impacted by the expected reversion on lease renewals in Q1 and the tenants indication for returning part of the leased space. Market rentals have been static in the last 12 months with muted demand for space in the node, concurrently with changing to multi-tenanted use Umhlange Ridge Office Block has seen an increase in non-recoverable operating costs.

Retail
The Retail category consists of super regional, regional, small regional and community shopping centres. The retail portfolio valuations continue to be impacted by subdued market rental growth rates and expected negative pressure on lease renewals whilst rates and utility costs growth is expected to remain tracking ahead of inflation. On the prime retail portfolio, in most cases the discount rate has been adjusted slightly downwards due to the valuers view that by applying more sustainable market rents in their forecast they have reduced cashflow risk. The lower discount rates are reflective of the low market rental growth environment. Further adjustment of market rental assumptions have also been applied along with increased void periods and more conservative renewal assumptions for certain tenant categories specifically in the office and food service categories. While the current conditions present a number of challenges to the portfolio, we have observed improvement in the latter half of the year in the foot count, collections and turnover growth, compared to the prior period.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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4. INVESTMENT PROPERTIES CONTINUED

Super regional shopping centres
There has been a downward movement in both the Sandton Complex and Eastgate valuations largely driven by reversion assumptions for leases in both malls. The Eastgate valuation is futher negatively impacted by the valuers assumption of continued vacancy in the centre for the forecast period with a consequential negative impact on forecasted achievable rentals. The office component of the Sandton Complex valuation being Office Tower and Atrium on 5th have been negatively impacted by ongoing pressure in the office sector and increased vacancy assumptions.

Regional and small regional shopping centres
Liberty Promenade Shopping Centre, Nelson Mandela Square, Liberty Midlands Mall and Lifestyle Centre fall within this category. The valuations in this category have been positively impacted by escalations in contracted income and improvement in trading trends positively impacting achievable rental assumptions.

Community shopping centre
Botshabelo Mall's positive valuation movement is as a result of low vacancy in the mall and healthy tenant trading impacting lease renewals.

Other
Melrose Arch has seen an increase in the precincts valuation compared to the prior period. The marginal recovery in value is driven by improved trading in retail tenancies most notably those in the restaurant category. The precinct remains challenged by high office vacancies which are compounded by the increase in available space in the competing Rosebank node.

Hotels
The Hotel valuations have seen positive movement due to modeled recovery of business travel as restrictions are expected to be lifted over the forecasted period. The recovery in business occupancy has been modeled conservatively in the first year with more meaningful recovery expected from 2023 onwards.

Sandton Convention Centre
The SCC valuation has seen positive movement due to modeled recovery of planned events as restrictions are expected to be lifted over the forecasted period. The recovery has been modeled conservatively in the first year with more meaningful recovery expected from 2023 onwards.

Virgin Active and Parkade
The Virgin Active valuation has remained relatively flat on December 2020.

John Ross Eco Junction
The John Ross Eco Junction valuation as a whole has been positively impacted by the valuation of the Melomed hospital. The valuers have revised down the sales tempo and selling rates of the developable land parcels due to stagnant demand for land parcles in the area. The Tangawizi motor dealership, which forms part of the investment property, has seen a negative valuation movement due to downward revised market rents due to low economic activity in the node.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. INVESTMENT PROPERTIES CONTINUED

No.	Property name and % interest in the undivided shares held by L2D	Physical address and province	Main sector	December 2021 valuation R'000	December 2020 valuation R'000
1	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	**153 300**	147 356
2	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park lane, Umhlanga Ridge, KwaZulu-Natal	Office	**77 857**	102 100
3	Sandton City Complex (25.0%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	**3 110 502**	3 105 732
4	Nelson Mandela Square Complex (33.3%)	5th Street Sandton, Gauteng	Retail	**422 020**	405 436
5	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	**2 110 265**	2 389 292
6	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Retail* *(per unobservable input table)*	**480 801**	468 757
7	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	**838 761**	729 552
8	Liberty Promenade Shopping Centre (33.3.%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	**583 961**	536 141
9	Botshabelo Mall (33.3%)	Portions 2 and 3 of ERF 1 Botshabelo-H, Free State	Retail	**112 301**	93 275
10	John Ross Eco-Junction Estate – Tangawizi (33.3%)	Eco-Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	**20 347**	21 645
11	John Ross Eco-Junction Estate – Melomed (23.3%)	John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	**130 306**	126 010
12	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	**27 683**	30 074
13	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	**49 766**	48 980
14	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	**11 913**	11 862
15	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Hotels	**116 973**	114 037
16	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Hotels	**172 019**	158 738
Total				**8 418 775**	**8 488 987**

For purposes of disclosure of the unobservable inputs, Melrose Arch complex has been disclosed under retail as a retail discount rate has been used.

Below is the vacancy profile per sector (%)

Vacancy profile (%)	2021	2020
Total retail	**3.2**	4.7
Total office	**13.8**	12.4
Total specialised	**–**	–
Total	**6.3**	6.7

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for the year ended 31 December 2021

5. 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, investment properties and non-current assets held for sale

	Year ended 31 December 2021			
(R'000)	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investment properties	**8 237 792**	**–**	**–**	**8 237 792**
Investment property under development	**27 683**	**–**	**–**	**27 683**
Non-current asset held for sale	**153 300**	**–**	**–**	**153 300**
Financial assets	**22 075**	**–**	**22 075**	**–**
	8 440 850	**–**	**22 075**	**8 418 775**
Liabilities				
Interest rate swap	**18 535**	**–**	**18 535**	**–**
R'000	**18 535**	**–**	**18 535**	**–**

	Year ended 31 December 2020			
(R'000)	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	8 458 913	–	–	8 458 913
Investment property under development	30 074	–	–	30 074
Financial assets	768	–	768	–
	8 489 755	–	768	8 488 987
Liabilities				
Interest rate swap	60 423	–	60 423	–
	60 423	–	60 423	–

The fair value of trade and other receivables, amounts due from and to Group companies, cash and cash equivalents, and 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

5. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY CONTINUED

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 assets, derivatives, investment property and non-current assets held for sale for the period under review.

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

LEVEL	INSTRUMENT	VALUATION BASIS	MAIN ASSUMPTIONS
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Price-not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Price-not applicable
3	Investment properties	Discounted cash flow methodology and profit methodology for Sandton Convention Centre and the Hotels.	Refer to note 5 for detail regarding assumptions
3	Investment properties under development	Fair value	Refer to note 5 for detail regarding assumptions

Reconciliation of level 2 assets and liabilities
The table below analyses the movement of level 2 assets and liabilities for the period under review.

R'000	2021	2020
Financial assets		
Fair value at the beginning of the year	**768**	660
Additions	**360 809**	112 574
Disposals	**(341 233)**	(112 943)
Interest earned on investment	**1 731**	477
Closing balance at the end of the year	**22 075**	768

R'000	2021	2020
Interest rate swap		
Fair value at the beginning of the year	**(60 423)**	(16 891)
Fair value adjustments	**41 888**	(43 532)
Closing balance at the end of the year	**(18 535)**	(60 423)

Interest rate swaps totalling R928.5 million are in place in order to hedge the term loans with floating interest rates which is in accordance with the Board mandate to hedge a minimum of 75% of interest rate risk.

As at 31 December 2021, 75.8% of the Group's term debt is at fixed rates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

5. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY CONTINUED

Reconciliation of level 3 assets

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

R'000	2021	2020
Investment property and investment property under development		
Fair value at the beginning of the year	**8 488 987**	10 144 923
Transferred to non-current assets held for sale	**(153 300)**	–
Capitalised cost	**38 287**	68 986
Fair value adjustments	**(108 499)**	(1 724 922)
Closing balance at the end of the year	**8 265 475**	8 488 987
Non-current assets held for sale		
Fair value at the beginning of the year	**–**	123 213
Transferred from investment property	**153 300**	–
Capitalised cost	**–**	904
Amortisation	**(26)**	(347)
Disposal		(123 213)
Fair value adjustments	**26**	(557)
Closing balance at the end of the year	**153 300**	–
Unlisted equity		
Fair value at the beginning of the year	**–**	17 495
Fair value adjustments	**–**	(17 495)
Closing balance at the end of the year	**–**	–

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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5. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY CONTINUED

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair value were determined using the discounted cash flow methodology and a profit method valuation on expiry for Sandton Convention Centre and the Hotels. The exit capitalisation rates applied at 31 December 2021 range between 7.0% and 10.0% (2020: 6.5% and 10.0%).

The table below indicates the sensitivity of the aggregate market values for a 100 bps (2020: 100 bps) change in the exit capitalisation rate.

	Change in exit capitalisation rate		
	Rm	100 bps increase	100 bps decrease
2021			
Properties below 7.3% exit capitalisation rate	**3 110**	**2 832**	**3 482**
Properties between 7.3% – 8.5% exit capitalisation rate	**4 768**	**4 395**	**5 253**
Properties between 8.6% – 10.0% exit capitalisation rate	**540**	**522**	**563**
Total	**8 418**	**7 749**	**9 298**
2020			
Properties below 6.8% exit capitalisation rate	4 047	3 679	4 545
Properties between 6.8% – 8.5% exit capitalisation rate	3 890	3 594	4 274
Properties between 8.6% – 10.0% exit capitalisation rate	552	523	587
Total	8 489	7 796	9 406

The table below indicates the sensitivity of the aggregate market values for a 50 bps (2020: 50 bps) change in the discount rate.

	Change in discount rate		
	Rm	50 bps increase	50 bps decrease
2021			
Total property portfolio	**8 418**	**8 260**	**8 582**
2020			
Total property portfolio	8 489	8 216	8 557

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6. RELATED PARTY DISCLOSURE

List of related parties as defined

Ultimate parent
Standard Bank Group Limited (SBG).

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 consolidated annual financial statements of LGL. Notably, 2 Degrees Properties (2DP), and the Manager, the previous management company (SRFM), are all wholly-owned subsidiaries of L2D Limited.

Transactions with related entities

Transactions with SBG
As at 31 December 2021, R1.3 billion is owed to SBG for debt borrowed for the purchase of properties as well as the purchase of the SRFM business in 2018 (2020: R1.1 billion). Refer to detail disclosed in note 31.

Standard Bank Centre
The Standard Bank Centre is fully let to SBG on a seven-year lease. Rental income received by L2D Group for the year ended 31 December 2021 was R17.0 million (2020: R16.1 million).

Transactions with L2D, a portfolio established under the Liberty Two Degrees Scheme, a Collective Investment Scheme in Property established in terms of the Collective Investment Schemes Control Act, No. 45 of 2002, as amended
As at 31 December 2021, R192 474 is receivable from L2D CSIP (2020: R168 032).

Transactions with LGL

Liberty Centre Head Office Cape Town
83.1% of the property was let to LGL, the parent of L2D Group. The property was effectively sold and transferred to Spear REIT Limited on 9 July 2020. No rental income was received by L2D Group for the year ended 31 December 2021 (2020: R7.4 million).

Liberty Centre Head Office Umhlanga Ridge
LGL occupies 9 466 m² of office space in the Liberty Centre Head Office Umhlanga Ridge.

Rental income received by L2D Group for the year ended 31 December 2021 was R11.7 million (2020: R10.7 million).

Eastgate Office Tower
LGL occupies 2 824 m² of office space in the Eastgate Office Tower.

Rental income received by L2D Group for the year ended 31 December 2021 was R3.1 million (2020: R2.9 million).

Liberty Promenade Shopping Centre
LGL occupied 106 m² of office space in the Promenade, effective 1 April 2021.

Rental income received by L2D Group for the year ended 31 December 2021 was R160 239.

Liberty Midlands Lifestyle Centre
LGL occupies 758 m² of office space in the Liberty Midlands Lifestyle centre.

Rental income received by L2D Group for the year ended 31 December 2021 was R570 761 (2020: R460 085).

Development fee income
Development fee income is earned on development management of projects in the Liberty Portfolio. Development fee income amounting to R1.9 million was earned during 2021 (2020: R2.4 million). L2D commenced work on the Liberty Centre Braamfontein development in 2021, development fee income earned in 2021 was R1.5 million.

Asset management fee income
Management fees on assets under management amounting to R51.3 million was earned during 2021 (2020: R57.3 million).

Loan with LGL
As at 31 December 2021, R99.1 million is owed by LGL for working capital (2020: R81.0 million). The loan is unsecured and there are no fixed terms of repayment, the loan attracts no interest.

R54.5 million is owed by LGL for the proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits (2020: R52.4 million). 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

6. RELATED PARTY DISCLOSURE CONTINUED

Transactions with other related entities

Operating lease payments
STANLIB Wealth Management Limited, as a lessee, paid an amount of R2.7 million (2020: R3.2 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

L2D Group leased its head office premises from Stanlib Wealth Management up until 30 September 2020. L2D's new head office premises are located at Nelson Mandela Square and consist of 1 337m² of office space. The effective lease commencement date was 9 April 2021, with R0 payable to Liberty Consortium as at 31 December 2021.

JHI Retail Property Proprietary Limited ("JHI")
The property management function in respect of the 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, Botshabelo Mall, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction and the Standard Bank Centre.

Amdec continues to manage the Melrose Arch precinct. Amdec is not a related party of L2D Group.

JHI Retail is 51% owned by JHI Properties Proprietary Limited and 49% by Liberty Holdings Limited (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 year ended 31 December 2021 amounted to R22.9 million (2020: R20.6 million).

Loan with STANLIB Asset Management Limited
As at 31 December 2021, R528 142 is owed to STANLIB Asset Management Limited (2020: R32 789).

Stanlib Corporate Money Market Fund
As at 31 December 2021, L2D Group had R22.1 million (2020: R0.8 million) invested in the Stanlib Corporate Money Market Fund.

Interest earned during 2021 amounted to R1.7 million (2020: R0.5 million).

Intercompany transactions
As at 31 December 2021, The Liberty Two Degrees Restricted Share Plan Trust (Trust) held a capital contribution from 2DP of R91.5 million to acquire shares for the LTIP (2020: R75.1 million).

As at 31 December 2021, 2DP has a loan with SRFM of R6.1 million (2020: R6.3 million).

As at 31 December 2021, L2D Limited has a loan with 2DP of R58.3 million. This includes a dividend receivable of R182.6 million and the remainder is a working capital loan (2020: R186.3 million).

As at 31 December 2021, L2D Limited has a loan payable to the Trust of R26.6 million relating to a contribution to the trust to make good its losses (2020: R24.2 million.).

ANNEXURE

A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS

The principles encompassed in the calculations below are aligned with the best practice recommendations ("BPR") by the SA REIT Association published in 2019 and do not comply with IFRS. The BPR is effective for financials year-ends commencing on or after 1 January 2020.

Reconciliation between earnings and distributable earnings

The company has established strict guidelines regarding its distribution policy to ensure that the distributable earnings is a fair reflection of sustainable earnings. This comprises property-related income net of property-related expenditure, interest expense and administrative costs.

The specific adjustments are detailed in the statement of funds from operations below. All of these adjustments are derived from the face of the statement of comprehensive income presented and the accompanying notes to the financial statements.

SA REIT Funds from Operations (SA REIT FFO) per share	**2021 R'000**	2020 R'000
Profit or (loss) per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent	**243 226**	(1 492 803)
Adjusted for:		
Accounting/specific adjustments	**82 369**	1 757 221
Fair value adjustments to:		
– Investment property	**108 473**	1 725 478
– Debt and equity instruments held at fair value through profit or loss	**(41 888)**	61 027
– Straight-lining operating lease adjustment	**(14 064)**	(66 619)
Depreciation and amortisation of intangible assets	**400**	2 524
Deferred tax movement recognised in profit or loss	**15 384**	(31 808)
Straight-lining operating lease adjustment	**14 064**	66 619
Other adjustments	**(10 612)**	(3 780)
Antecedent earnings adjustment	**(10 612)**	(3 780)
SA REIT FFO	**314 983**	260 638
Number of shares outstanding at end of period (net of treasury shares)	**878 835**	895 457
	Cents	Cents
SA REIT FFO per share (cents)	**35.84**	29.11
Company-specific adjustments (per share)	**(1.74)**	3.22
Depreciation/amortisation	**(0.05)**	(0.28)
Deferred tax	**(1.75)**	3.55
2DP/trust earnings	**0.06**	(0.05)
Dividend per share (cents)	**34.10**	32.33

ANNEXURE CONTINUED

A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

Reconciliation of SA REIT funds from operations (SA REIT FFO) to cash generated from operations	2021 R'000	2020 R'000
SA REIT FFO	314 983	260 638
Adjustments		
Interest received	(3 096)	(2 398)
Interest expense	151 181	149 307
Amortisation of tenant installation and letting commission	12 179	11 307
Tax expense	–	171
Other non cash items	4 863	7 972
Antecedent earnings adjustment	10 612	3 780
Working capital changes		
(Increase)/decrease in trade and other receivables	(33 719)	30 171
(Increase)/decrease in amounts due from Group companies	(17 620)	(14 855)
Increase/(decrease) in employee benefits	8 866	(3 479)
Increase/(decrease) in trade and other payables	52 375	(46 051)
Cash generated from operations	500 623	396 563

SA REIT Net Asset Value (SA REIT NAV)		2021 R'000	2020 R'000
Reported NAV attributable to the parent		6 643 277	6 907 963
Adjustments:			
Dividend to be declared (net of 2DP and trust)		(299 714)	(289 503)
Deferred tax		(16 424)	(31 808)
SA REIT NAV	A	6 327 139	6 586 652
Shares outstanding			
Number of shares in issue at period end (net of treasury shares)		878 835	895 457
Effect of dilutive instruments (options, convertibles and equity interests)		–	–
Dilutive number of shares in issue	B	878 835	895 457
SA REIT NAV per share	A/B	7.20	7.36

ANNEXURE CONTINUED

A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

SA REIT cost-to-income ratio		2021 R'000	2020 R'000
Expenses			
Operating expenses per IFRS income statement (includes municipal expenses)		**372 238**	501 497
Administrative expenses per IFRS income statement		**112 455**	95 769
Exclude:			
Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets		**(400)**	(2 524)
Rental discounts granted		**(7 758)**	(112 030)
ECL provision (COVID-19)		**-**	(15 760)
Operating costs	A	**476 535**	466 952
Rental income			
Contractual rental income per IFRS income statement (excluding straight-lining)		**656 197**	705 451
Utility and operating recoveries per IFRS income statement		**233 981**	239 937
Gross rental income	B	**890 178**	945 388
SA REIT cost-to-income ratio[1]	(A/B)	**53.5%**	49.4%

[1] *Operating costs include the costs of managing the co-owned assets on behalf of a third-party, however, the management fee is not included in gross rental income above.*

SA REIT administrative cost-to-income ratio		2021 R'000	2020 R'000
Expenses			
Administrative expenses as per IFRS income statement		**112 455**	95 769
Administrative costs	A	**112 455**	95 769
Rental income			
Contractual rental income per IFRS income statement (excluding straight-lining)		**656 197**	705 451
Utility and operating recoveries per IFRS income statement		**233 981**	239 937
Gross rental income	B	**890 178**	945 388
SA REIT administrative cost-to-income ratio	(A/B)	**12.6%**	10.1%

ANNEXURE CONTINUED

A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

SA REIT GLA vacancy rate		**2021**	2020
Gross lettable area of vacant space	A	**59 685**	63 065
Gross lettable area of total property portfolio	B	**946 318**	946 318
SA REIT GLA vacancy rate	(A/B)	**6.3%**	6.7%

Cost of debt		**2021** **%**	2020 %
Variable interest-rate borrowings			
Floating reference rate plus weighted average margin		**5.3%**	7.0%
Fixed interest-rate borrowings			
Weighted average fixed rate		**8.9%**	9.2%
Pre-adjusted weighted average cost of debt	A	**6.3%**	7.6%
Adjustments:			
Impact of interest rate derivatives	B	**1.9%**	1.1%
All-in weighted average cost of debt	A+B	**8.2%**	**8.7%**

SA REIT loan-to-value		**2021** **R'000**	2020 R'000
Gross debt		**2 009 891**	1 740 891
Less:			
Cash and cash equivalents		**(102 715)**	(73 037)
Add/Less:			
Derivative financial instruments		**18 535**	60 423
Net debt	A	**1 925 711**	1 728 277
Total assets – per Statement of Financial Position		**8 929 254**	8 900 012
Less:			
Cash and cash equivalents		**(102 715)**	(73 037)
Trade and other receivables		**(355 897)**	(304 064)
Carrying amount of property-related assets	B	**8 470 643**	8 522 911
SA REIT loan-to-value ("SA REIT LTV")	A/B	**22.7%**	20.3%

ANNEXURE CONTINUED

A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

Net initial yield		2021 R'000	2020 R'000
Investment property		**8 418 775**	8 488 987
Less:			
Properties under development		**(27 683)**	(30 074)
Grossed up property value	A	**8 391 092**	8 458 913
Property income			
Contractual cash rentals		**655 077**	660 635
Less:			
Non-recoverable property expenses		**(158 158)**	(141 282)
Add:			
Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives		**5 189**	5 646
Annualised net rental	B	**502 108**	524 999
Net initial yield	B/A	**6.0%**	6.2%

CORPORATE INFORMATION

Date of registration: 10 July 2018

Liberty Two Degrees Limited

JSE code: L2D
ISIN: ZAE000260576
Company registration: 2018/388906/06
(Approved as a REIT by the JSE)
(Liberty Two Degrees or L2D or the Company or the Group)

Company secretary

Ben Swanepoel
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Registered office

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2090
(Private Bag X36, Sunninghill, 2157)

Sponsor – 31 December 2021

The Standard Bank of South Africa Limited
(Registration number 1962/000738/06)
30 Baker Street
Rosebank, 2196
(PO Box 61344, Marshalltown, 2017)
Tel: 011 721 6125

Sponsor – effective 1 January 2022

Merchantec Capital
(Registration number 2008/027362/07)
13th Floor, Illovo Point, 68 Melville Rd, Illovo,
Sandton, 2196
(PO Box 41480, Craighall, 2024)
Tel: 011 325 6363