



two°degrees

LIBERTY TWO DEGREES SUMMARISED GROUP RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2021 AND CASH DISTRIBUTION

SALIENT FEATURES

- Retail portfolio recovery underpins 5.47% increase in full-year distribution to 34.1 cents per share with loan to value remaining healthy at 23.87%
- Continued pressure on rental reversions of -25.9% relating to 6.7% of portfolio GLA
- Covid-19 impact on hospitality assets remained significant resulting in NPI down R17 million (178%)
- Strong recovery in operational metrics, with retail turnover up 24.5% and occupancy up to 96.8%
- International safety and security certification put our malls among the best in the world

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.

The full long-form announcement is available at: <https://senspdf.jse.co.za/documents/2022/jse/issue/l2de/YE21.pdf>. The contents of this short-form announcement are the responsibility of the Board. This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decisions made by investors and/or shareholders should be based on the full announcement as a whole. Shareholders are encouraged to review the full announcement, which is available on SENS and on L2D's website: <https://www.liberty2degrees.co.za/investors/sens/>. It is also available, at no cost, on request at: investors@liberty2degrees.co.za or from the Sponsor at: sponsorteam@merchantec.co.za during normal business hours. The financial results for the year ended 31 December 2021 were audited by the Group's auditor, PricewaterhouseCoopers Inc., who expressed an unqualified audit opinion thereon. The auditor's report is available on L2D's website at: <https://www.liberty2degrees.co.za/investors/results-centre/>. Sponsor: **Merchantec Capital**

FINANCIAL RESULTS

R'000	Audited 31 December 2021	Audited 31 December 2020	% Change
Revenue	888 240	878 769	1.08
Net property income	516 002	377 272	36.77
Profit from operations	459 216	342 355	34.13
Net interest expense	(148 085)	(146 909)	0.80
Profit before fair value adjustments	311 131	195 446	59.19
Profit/(loss) before tax	258 610	(1 524 440)	116.96
Headline earnings	295 747	227 083	30.24
Basic and diluted earnings/(loss) per share (cents)	27.40	(166.09)	116.50
Headline earnings per share (cents)	33.32	25.27 ¹	31.86
Distribution per share (cents)	34.10	32.33	5.47
Net asset value per share (Rand) ²	7.56	7.71	(1.90)

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.
2. Calculated based on total equity divided by the number of shares in issue (908 443 334) excluding treasury shares of 29 608 280 in 2021 and 12 986 793 in 2020.

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 NPI¹	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.

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 retail 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.

SUBSEQUENT EVENTS

As announced on SENS on 25 February 2022, Mr Angus Band will be retiring as a non-executive director and chairman of L2D with effect from 1 March 2022. L2D would like to thank him for his leadership, contribution, wisdom and stewardship over the years. Mr Nick Criticos has been appointed as chairman of the Board with effect from 1 March 2022. L2D looks forward to his contribution and welcomes him as chairman.

DECLARATION OF CASH DISTRIBUTION

The board of directors of L2D (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.

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

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.

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.

Any forecast or forward-looking statements have not been reviewed or audited by L2D's external auditors.

On behalf of the Board of Directors

Angus Band Chairman	Amelia Beattie Chief Executive	José Snyders Financial Director
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28 February 2022