



two°degrees

2022

**UNAUDITED  
SUMMARISED  
GROUP  
RESULTS  
FOR THE  
SIX MONTHS  
ENDED  
30 JUNE 2022  
AND CASH  
DISTRIBUTION**

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## Highlights

### 100% DISTRIBUTION PAY-OUT OF 17.48 CENTS PER SHARE

- INCREASE OF 10.7% ON HY21

### STRONG RECOVERY IN RETAIL OPERATIONS

- PORTFOLIO FOOTCOUNT UP 28.0% ON HY21 (10.2% VS HY19)
- RETAIL TURNOVER UP 25.1% ON HY21 (16.1% VS HY19)
  - RETAIL OCCUPANCIES INCREASED TO 97.2%

### PORTFOLIO RENTAL REVERSIONS REMAIN UNDER PRESSURE AT -16.3% YTD (REPRESENTING 2.7% OF PORTFOLIO GLA)

- IMPROVEMENT ON -25.5% AT HY21
- IN-FORCE ESCALATIONS REMAIN HEALTHY AT 6.8%

### NOTABLE RECOVERY IN AVERAGE HOTEL OCCUPANCIES

- SANDTON SUN: 71.5% (HY21 - 39.8%)
- GARDEN COURT: 40.7% (HY21 - 12.8%)

### STRONG BALANCE SHEET WITH LOAN-TO-VALUE OF 24.64%

### NET ASSET VALUE PER SHARE DECREASED MARGINALLY BY 1.18% BASED ON AN INDEPENDENT VALUATION OF THE PROPERTY PORTFOLIO.

# COMMENTARY

## PROFILE

Liberty Two Degrees Limited (L2D) is listed on the stock exchange operated by the JSE Limited (JSE) with a market capitalisation of R3.4 billion at 30 June 2022 (30 June 2021: R4.4 billion). The L2D group includes 2 Degrees Properties Proprietary Limited (the operating subsidiary), STANLIB REIT Fund Managers (RF) Proprietary Limited ("SRFM", the previous management company) and Liberty Two Degrees Restricted Share Plan Trust (trust).

## OVERVIEW

Overall L2D is seeing continued positive momentum in the recovery of its iconic retail property portfolio. This has been supported by some recovery in the hospitality assets that are starting to show increased levels of activity. The positive momentum has been facilitated by the lifting of the National State of Disaster as well as the recent removal of some of South Africa's last remaining Covid-19 regulations that ended the mask mandate and removed limitations on gatherings and travel, which contributed to a return in both retail and consumer confidence.

L2D's operational metrics have shown a steady recovery in the first half of 2022 with a 16.1% improvement in turnover growth compared to 2019. The portfolio also recorded the highest footcount in the first six months of 2022 compared to the prior three comparative years. This encouraging start to the year contributed to better occupancy rates and good leasing activity in the period indicating the strong demand for L2D retail space. However, rentals renewals for the 6-month period remained under pressure and the negative reversions attributed to these leases continue to have an adverse impact on earnings. The recovery in our office exposure remains muted whilst the continued double digit increases in municipal and utility costs, coupled with increased periods of loadshedding and a weak consumer environment facing increased inflationary pressure, remains a catalyst for downside pressure on the portfolio's performance.

Reinforced by a strong balance sheet, we are pleased to report another 100% interim distribution pay-out for

the first six months of 17.48 cents per share which is an increase of 10.7% over the prior comparative period.

## RETAIL TRADING PERFORMANCE

Turnover across our retail portfolio was 25.1% higher than the comparative period and 16.1% higher than 2019. Trading gained momentum as the year progressed, with turnover in Q2 up 18.4% on Q2 2019.

|                                   | Q1<br>2022 vs<br>2019 | Q2<br>2022 vs<br>2019 | HY<br>2022 vs<br>2019 |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| <b>Turnover growth</b>            |                       |                       |                       |
| Sandton City                      | 29.4%                 | 33.1%                 | <b>31.4%</b>          |
| Eastgate                          | (5.6%)                | 2.6%                  | <b>(1.4%)</b>         |
| Nelson Mandela Square             | (7.8%)                | (6.1%)                | <b>(6.9%)</b>         |
| Midlands Mall                     | 21.9%                 | 25.5%                 | <b>23.8%</b>          |
| Midlands Lifestyle Centre         | 63.2%                 | 80.8%                 | <b>72.2%</b>          |
| Promenade                         | (4.0%)                | 0.2%                  | <b>(1.8%)</b>         |
| Botshabelo Mall                   | 40.6%                 | 36.3%                 | <b>38.3%</b>          |
| <b>Total portfolio (excl. MA)</b> | <b>14.2%</b>          | <b>19.2%</b>          | <b>16.8%</b>          |
| Melrose Arch (MA)                 | 1.9%                  | 1.7%                  | <b>1.8%</b>           |
| <b>Portfolio full</b>             | <b>13.6%</b>          | <b>18.4%</b>          | <b>16.1%</b>          |

## OCCUPANCY AND LEASING PERFORMANCE

The portfolio occupancy level declined marginally to 92.9% in June 2022 with continued pressure in the office sector. L2D's office portfolio represents 33.4% of total portfolio GLA. Pleasingly, retail occupancy improved to 97.2% (December 2021: 96.8%).

Demand for retail space in the L2D portfolio remains strong. We concluded 179 leases (renewals and new deals) in the first half of 2022, equating to 46,992m<sup>2</sup>.

Though not yet positive, we are seeing an improvement in the downward trend that has plagued rental renewals over the last few periods. Rental reversions across the portfolio were negative 16.3%, with retail renewals reverting at -15.6% and offices at -26.1% (June 2021: retail -26.6%, office -21.0%). It is worth noting that there is a time

lag between turnover improvement and improvement in lease renewals which are also dependent on the timing of renewal/expiry of the in-force leases.

| Leasing update: June 2022 Portfolio |                              | Retail        | Office        |
|-------------------------------------|------------------------------|---------------|---------------|
| New deals                           | Number of deals concluded    | 68            | 25            |
|                                     | GLA % of portfolio           | 2.2%          | 1.4%          |
|                                     | GLA (m <sup>2</sup> )        | 21 337        | 13 419        |
| Renewals                            | Number of renewals concluded | 111           | 11            |
|                                     | GLA % of portfolio           | 2.7%          | 0.5%          |
|                                     | GLA (m <sup>2</sup> )        | 25 655        | 4 838         |
|                                     | Reversion (%)                | (16.3%)       | (26.1%)       |
| <b>Total</b>                        | <b>Number of deals</b>       | <b>179</b>    | <b>36</b>     |
| <b>Total</b>                        | <b>GLA (m<sup>2</sup>)</b>   | <b>46 992</b> | <b>18 257</b> |

## FINANCIAL PERFORMANCE

|                              | HY22<br>Contribution<br>to NPI (R'm) | % Change in<br>NPI HY 22<br>vs HY 21 | % Change in<br>NPI HY 22<br>vs HY 19 |
|------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Retail</b>                | <b>R224.5m</b>                       | <b>3%</b>                            | <b>(20%)</b>                         |
| <b>Offices</b>               | <b>R15.3m</b>                        | <b>(5%)</b>                          | <b>(23%)</b>                         |
| <b>Hospitality</b>           | <b>R12.2m</b>                        | <b>296%</b>                          | <b>(37%)</b>                         |
| <b>Other</b>                 | <b>R20.8m</b>                        | <b>5%</b>                            | <b>(18%)</b>                         |
| <b>Total NPI<sup>1</sup></b> | <b>R272.8m</b>                       | <b>10%</b>                           | <b>(21%)</b>                         |

<sup>1</sup> Total NPI excluding the adjustment for straight-lining of operating lease income.

Net property income, excluding lease straight-lining increased by 10% to R272.8 million compared to the prior comparative period, supported by lease income escalations and improved activity in the retail portfolio

# COMMENTARY CONTINUED

and hospitality assets. Included herein, net utility costs increased due to higher consumption coupled with marginally lower recoveries in certain cost categories which were exacerbated by the increased cost associated with load shedding, municipal tariff hikes and provisions raised in respect of ongoing objections to municipal rates valuations. The hospitality recovery has been encouraging with increased occupancies at both the Sandton Sun and Garden Court hotels. Net revenue from these assets are up R14.0 million from the prior year. Head Office operating costs were R7.1 million higher than the comparative 2021 period primarily driven by inflationary adjustments to the cost base, depreciation upon completion of our office fit-out and short- and long-term incentives awarded to staff which was off a lower base in the prior year.

Net interest expense increased by 7.95%, with lower average debt costs offset by higher debt levels. The decline in profit before tax is attributed to fair value adjustments which include the property valuation write-down of R80.1 million in June 2022, partially offset by a positive R18.5 million mark to market on the interest rate hedges in place at the end of June 2022. The taxation expense of R3.7 million resulted from temporary differences on the deferred tax asset unwinding as provisions were utilised.

## BALANCE SHEET AND PORTFOLIO VALUATION

Our balance sheet conservatism remains a key enabler in navigating a tough environment. With a loan to value (LTV) of 24.64% at 30 June 2022 (31 December 2021: 23.87%), we have sufficient liquidity to meet our operational needs and remain well within our banking covenants. Our interest cover ratio is healthy at 3.18 times, with 63.0% of our interest rate exposure hedged. We are in advanced stages of refinancing R850 million of term debt expiring in the second half of the year and have finalised a forward dated interest rate swap which will see our hedge ratio revert to 75%. As at 30 June 2022 the average cost of debt is 7.75% with total unutilised revolving credit facilities available of R290 million.

L2D's property portfolio was valued at R8.4 billion at 30 June 2022, which is a decrease of less than 1% from the

December 2021 valuation. Values are based on independent property valuations at 30 June 2022 which is in line with L2D's policy to have external independent valuations performed at both the interim and final reporting date.

## PROSPECTS

The South African economy remains under pressure with low growth forecast for the remainder of 2022 and into 2023. In the short-term, inflationary pressure remains and high levels of unemployment continues to threaten both economic recovery and social cohesion.

We continue to firmly execute on our strategic value drivers and priorities. Controllable costs remain well contained, however, continued increases in utility costs and municipal rates that far exceed inflation remain a concern. The strain in the office and hospitality sectors, coupled with negative rental reversions across the portfolio are priority focus areas.

Providing distribution guidance with this extent of ongoing uncertainty remains difficult and needs to be considered in this context. We do expect a stronger leasing performance going forward as the trading performance of retailers improve. Based on our current forecasts, and assuming that the board of directors of L2D (Board) continues to approve a 100% distribution pay-out ratio, we expect the full year distribution to be between 3% and 8% up on the prior year amount.

The guidance is reliant on the following key assumptions: forecasted net property income is based on contractual rental escalations and market-related renewals, appropriate allowance for vacancies have been included in the forecast, no major tenant failures will occur and that the current impact of the Covid-19 pandemic will not change substantially. The forecast or any forward-looking statements have not been reviewed or reported on by L2D's auditors.

## SIGNIFICANT JUDGEMENTS APPLIED

## 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 2021 with the assumptions used for modelling having been updated for the current environment. The ECL provision has increased marginally to R35.9 million (31 December 2021: R34.8 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 May 2020 to April 2022 (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.

The actual losses incurred are those rental and related income write-offs that are non-recoverable as well as potential non-recoverable amounts. Once the historical base line default percentage has been determined, current and forward-looking information is factored in. The economic factors considered for this are GDP growth, inflation rate growth, interest rate growth, and the retail sales indicator growth. The economic forecast from Trading Economics is used as a source for this dataset. The product of the forecasted movements in the four economic factors is the economic factor adjustment applied to the base line default percentage. In our modelling, an economic factor of less than one will indicate an improving economic outlook, while a factor or

# COMMENTARY CONTINUED

more than one will indicate a deteriorating environment. There was a forecasted improvement in economic growth, along with forecasted growth in interest rates and inflation rates, with marginal slower growth in retail sales which was punitive. The forecasted improved growth assisted in improving the economic factor.

L2D is satisfied with the ECL provision raised with 58.6% of our tenant arrears balance of R61.3 million provided for as at 30 June 2022 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 24.64% (30 June 2021: 23.97%) of the value of its property portfolio. Using the SA REIT methodology, the average cost of debt (all Rand-denominated) is 7.5% (30 June 2021: 8.2%), with interest rates hedged through fixed rate contracts on 63.0% (30 June 2021: 79.2%) of borrowings for an average period of 1.64 years (30 June 2021: 1.62 years). We have started the process of refinancing the term debt that expires in the second half of the year and will also be extending an interest rate swap that expires in November. Post the refinance our term debt facilities will have an average maturity of 4.01 years and the hedge ratio will increase to 75.2% with an average expiry on hedges of 3.75 years.

## L2D'S COVENANT COMPLIANCE

|                      | 30 June 2022 | 30 June 2021 | Covenant |
|----------------------|--------------|--------------|----------|
| Loan to value        | 24.64%       | 23.97%       | 40%      |
| Interest cover ratio | 3.2x         | 3.4x         | 1.9x     |

An unutilised revolving credit facility of R200 million is in place as at 30 June 2022. A further R90 million is

available to draw on another revolving credit facility which brings the total unutilised bank facilities to R290 million at 30 June 2022. Our modelling of the forecasted cashflow 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.

## DEBT MATURITY PROFILE

| Maturity periods     | Term debt exposure   |                 |
|----------------------|----------------------|-----------------|
|                      | Loan amount          | Expiry          |
| 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 |
| <b>Total</b>         | <b>1 949 891 288</b> |                 |

  

| Counter party | Fixed rate exposure  |                 |
|---------------|----------------------|-----------------|
|               | Fixed rate amount    | Expiry date     |
| Absa Bank     | 728 500 000          | 1 November 2022 |
| Absa Bank     | 200 000 000          | 31 October 2024 |
| Standard Bank | 300 000 000          | 31 October 2026 |
| <b>Total</b>  | <b>1 228 500 000</b> |                 |

## COMMITMENTS

Capital commitments outstanding amount to R241.9 million (30 June 2021: R285.6 million) and relate to the potential acquisition of One on Whitely for R128.2 million and operational capital expenditure of R113.7 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 30 June 2022, L2D had a net asset value of R7.53 per share and a stable liquidity position.

In addition to considering factors specific to L2D, management remain cautious given the heavily impacted economic conditions that currently prevail, however, we have sufficient balance sheet capacity and liquidity to see us through this period and ensure the sustainability of our business.

## PROPERTY PORTFOLIO

The portfolio occupancy rate decreased during the period to 92.9% (31 December 2021: 93.7%). Encouragingly, retail occupancy increased to 97.2% (31 December 2021: 96.8%), however, office occupancy further decreased to 83.3% (31 December 2021: 86.2%).

Leases covering 25 655m<sup>2</sup> (stated at 100% of asset GLA) (30 June 2021: 23 803 m<sup>2</sup>) were renewed during the six months ended 30 June 2022 at an overall reversion rate of -16.3% (30 June 2021: -25.5%). The overall reversion rate was impacted by reversions at the super-regional shopping centres, Eastgate and Sandton City. A further 21 337 m<sup>2</sup> (stated at 100% of asset GLA) (30 June 2021: 20 303 m<sup>2</sup>) in new tenant lease agreements were concluded across the portfolio during the period.

Gross arrears after rental relief discounts decreased to R61.3 million (31 December 2021: R66.4 million). Of the current arrears, 54.5% is within 120 days overdue.

# COMMENTARY CONTINUED

## Geographical profile

|               | Gross lettable area (m <sup>2</sup> ) | 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                     |
| <b>Total</b>  | <b>946 318</b>                        | <b>100.0</b>            |

## Sector composition by GLA

|              | Gross lettable area (m <sup>2</sup> ) <sup>1</sup> | Gross lettable area (%) |
|--------------|--|-------------------------|
| Retail       | 512 701  | 54.2                    |
| Office       | 316 011  | 33.4                    |
| Specialised  | 117 606  | 12.4                    |
| <b>Total</b> | <b>946 318</b>                                     | <b>100.0</b>            |

<sup>1</sup> Gross lettable area is at 100% ownership share.

## Occupancy rate (%)

|                                       | June 2022   | December 2021 |
|---------------------------------------|-------------|---------------|
| Total retail                          | 97.2        | 96.8          |
| Total office                          | 83.3        | 86.2          |
| Total specialised                     | -           | -             |
| <b>Total portfolio occupancy rate</b> | <b>92.9</b> | <b>93.7</b>   |

## Lease expiry rate - gross lettable area (%)

|  | Vacant     | Monthly    | 2022       | 2023        | 2024        | 2025       | 2026        | 2027 +      |
|--|------------|------------|------------|-------------|-------------|------------|-------------|-------------|
| Total retail                             | 2.8        | 7.0        | 7.4        | 18.0        | 20.0        | 11.2       | 14.9        | 18.7        |
| Total office                             | 16.7       | 8.7        | 5.0        | 8.8         | 35.8        | 3.2        | 4.5         | 17.3        |
| Total specialised                        | 0.0        | 0.6        | 9.6        | 6.6         | 0.4         | 20.4       | 5.0         | 57.5        |
| <b>Total portfolio lease expiry rate</b> | <b>7.1</b> | <b>7.1</b> | <b>6.7</b> | <b>13.9</b> | <b>24.0</b> | <b>9.1</b> | <b>10.5</b> | <b>21.6</b> |

## DECLARATION OF A CASH DISTRIBUTION

The Board has approved, and notice is hereby given, of a distribution of 17.48 cents per share for the six months ended 30 June 2022 (the distribution).

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

|  | 2022                 |
|--|----------------------|
| Last date to trade <i>cum</i> dividend | Tuesday, 30 August   |
| Shares trade <i>ex</i> dividend        | Wednesday, 31 August |
| Record date                            | Friday, 2 September  |
| Payment date                           | Monday, 5 September  |

L2D uses distribution per share as a relevant measure of financial performance. Share certificates may not be dematerialised or rematerialised between Wednesday, 31 August 2022 and Friday, 2 September 2022, both days inclusive. Payment of the distribution will be made to shareholders on Monday, 5 September 2022. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Monday, 5 September 2022. Certificated shareholders' dividend payments will be posted on or about Monday, 5 September 2022.

Shares in issue at the date of declaration of this distribution: 908 443 334, inclusive of 39 552 859 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

# COMMENTARY CONTINUED

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 ceases 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 13.98400 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 ceases 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

Angus Band, the outgoing Chairman of the Board retired on 1 March 2022. Nick Criticos was appointed Chairman of the Board from 1 March 2022 and replaced Angus on the following Committees:

- Chairman of the Nomination Committee;
- Member of the Remuneration Committee; and
- Member of the Social, Ethics and Transformation Committee

### Events after reporting date

In line with IAS 10 Events after the Reporting Period, the declaration of the interim dividend of 17.48 cents per share for the six months ended 30 June 2022 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated interim financial statements.

## BASIS OF PREPARATION

The unaudited summarised consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies applied in the preparation of these consolidated interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements with the exception of new and revised standards which became effective during the period. José Snyders CA(SA), the Financial Director, was responsible for supervising the preparation of these summarised consolidated interim financial statements.

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

On behalf of the Board

**Nick Criticos**  
*Chairman*

**Amelia Beattie**  
*Chief Executive*

**José Snyders**  
*Financial Director*

1 August 2022



# STATEMENT OF FINANCIAL POSITION

as at 30 June 2022

| R'000  | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 | Audited<br>December<br>2021 |
|--|---------------------------|---------------------------|-----------------------------|
| <b>Assets</b>  |                           |                           |                             |
| <b>Non-current assets</b>                                  | <b>8 231 496</b>          | 8 391 564                 | 8 294 634                   |
| Investment properties                                      | <b>8 178 747</b>          | 8 326 533                 | 8 237 792                   |
| Investment properties under development                    | <b>27 706</b>             | 28 599                    | 27 683                      |
| Property plant and equipment                               | <b>10 379</b>             | 9 735                     | 10 591                      |
| IFRS 16 - lease asset                                      | <b>1 892</b>              | 2 397                     | 2 144                       |
| Deferred tax asset   | <b>12 772</b>             | 24 300                    | 16 424                      |
| <b>Current assets</b>                                      | <b>408 920</b>            | 407 930                   | 481 320                     |
| Trade and other receivables <sup>(1)</sup>                 | <b>172 611</b>            | 223 219                   | 256 789                     |
| Amount due from group companies                            | <b>131 848</b>            | 104 290                   | 99 108                      |
| Financial assets held at fair value through profit or loss | <b>50 228</b>             | 50 443                    | 22 075                      |
| Current taxation receivable                                | <b>587</b>                | 633                       | 633                         |
| Cash and cash equivalents                                  | <b>53 646</b>             | 29 345                    | 102 715                     |
| Non-current asset held for sale                            | <b>153 300</b>            | 153 300                   | 153 300                     |
| <b>Total assets</b>  | <b>8 793 716</b>          | 8 952 794                 | 8 929 254                   |
| <b>Equity</b>  |                           |                           |                             |
| Stated capital   | <b>8 780 921</b>          | 8 780 921                 | 8 780 921                   |
| Treasury shares  | <b>(201 821)</b>          | (120 983)                 | (158 065)                   |
| Retained surplus   | <b>171 675</b>            | 151 458                   | 175 465                     |
| Share-based payment reserve                                | <b>39 639</b>             | 32 852                    | 31 077                      |
| Mergers/capital reserve                                    | <b>(426 104)</b>          | (426 104)                 | (426 104)                   |
| Non-distributable reserve                                  | <b>(1 821 614)</b>        | (1 662 455)               | (1 760 017)                 |
| <b>Total equity</b>  | <b>6 542 696</b>          | 6 755 689                 | 6 643 277                   |
| <b>Liabilities</b>   |                           |                           |                             |
| <b>Non-current liabilities</b>                             | <b>1 211 472</b>          | 1 304 773                 | 1 161 709                   |
| Financial liabilities                                      | <b>1 210 000</b>          | 1 302 891                 | 1 160 000                   |
| IFRS 16 - lease liability                                  | <b>1 472</b>              | 1 882                     | 1 709                       |
| <b>Current liabilities</b>                                 | <b>1 039 548</b>          | 892 332                   | 1 124 268                   |
| Trade and other payables                                   | <b>152 664</b>            | 128 959                   | 207 229                     |
| IFRS 16 - lease liability                                  | <b>572</b>                | 682                       | 541                         |
| Employee benefits  | <b>10 067</b>             | 6 769                     | 22 710                      |
| Amount due to group companies                              | <b>-</b>                  | 284                       | 528                         |
| Financial instruments <sup>(3)</sup>                       | <b>53</b>                 | 31 267                    | 18 535                      |
| Financial liabilities <sup>(2)</sup>                       | <b>876 192</b>            | 724 371                   | 874 725                     |
| <b>Total liabilities</b>                                   | <b>2 251 020</b>          | 2 197 105                 | 2 285 977                   |
| <b>Total equity and liabilities</b>                        | <b>8 793 716</b>          | 8 952 794                 | 8 929 254                   |

<sup>(1)</sup> Trade and other receivables includes tenant arrears amounting to R61.3 million (30 June 2021: R95.9 million).

<sup>(2)</sup> R849.9 million of term due to expire is included under current liabilities and is currently being refinanced (30 June 2021: R500.0 million).

<sup>(3)</sup> Positive fair value adjustments on the interest rate swap amounted to R18.5 million (30 June 2021: R29.2 million).

# STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2022

| R'000   | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 | Audited<br>December<br>2021 |
|---|---------------------------|---------------------------|-----------------------------|
| Property portfolio revenue  | 455 574                   | 438 800                   | 888 240                     |
| Rental and related income   | 467 387                   | 445 578                   | 902 304                     |
| Adjustment for the straight-lining of operating lease income                        | (11 813)                  | (6 778)                   | (14 064)                    |
| Property operating expenses   | (190 172)                 | (178 439)                 | (387 219)                   |
| Change in expected credit losses on property debtors and rental relief <sup>1</sup> | (4 372)                   | (19 623)                  | 14 981                      |
| Net property income   | 261 030                   | 240 738                   | 516 002                     |
| Asset management fee income   | 25 409                    | 25 642                    | 51 336                      |
| Development fee income  | 450                       | 1 132                     | 1 921                       |
| <b>Total net property income and revenue</b>  | <b>286 889</b>            | <b>267 512</b>            | <b>569 259</b>              |
| Other Income  | 1 206                     | 1 319                     | 2 412                       |
| Operating costs   | (60 763)                  | (53 622)                  | (112 455)                   |
| <b>Profit from operations excluding fair value adjustments</b>                      | <b>227 332</b>            | <b>215 209</b>            | <b>459 216</b>              |
| Interest expense  | (78 438)                  | (72 581)                  | (151 181)                   |
| Interest received   | 1 742                     | 1 534                     | 3 096                       |
| <b>Profit before fair value adjustments</b>   | <b>150 636</b>            | <b>144 162</b>            | <b>311 131</b>              |
| Net fair value adjustments  | (49 784)                  | 37 755                    | (52 521)                    |
| Fair value adjustments on investment properties                                     | (80 079)                  | 1 821                     | (108 473)                   |
| Fair value adjustment on derivatives  | 18 482                    | 29 156                    | 41 888                      |
| Adjustment for the straight-lining of operating lease income                        | 11 813                    | 6 778                     | 14 064                      |
| <b>Profit before taxation</b>   | <b>100 852</b>            | <b>181 917</b>            | <b>258 610</b>              |
| Taxation  | (3 652)                   | (7 508)                   | (15 384)                    |
| <b>Total comprehensive income</b>   | <b>97 200</b>             | <b>174 409</b>            | <b>243 226</b>              |
| Basic earnings per share (cents)  | 11.14                     | 19.59                     | 27.40                       |
| Fully diluted earnings per share (cents)  | 11.14                     | 19.59                     | 27.40                       |

<sup>(1)</sup> R3.2 million relates to rental relief granted to tenants and is not subject to any enforcement activity (30 June 2021: R15.0 million).

# STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2022

| R'000   | Capital          | Treasury shares  | Share-based payment reserve | Non-distributable reserve | Retained surplus | Mergers/capital reserve | Total            |
|---|------------------|------------------|-----------------------------|---------------------------|------------------|-------------------------|------------------|
| 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  | -                | -                | -                           | -                         | 174 409          | -                       | 174 409          |
| Treasury shares acquired  | -                | (40 274)         | -                           | -                         | -                | -                       | (40 274)         |
| Share-based payment transaction   | -                | -                | 6 640                       | -                         | -                | -                       | 6 640            |
| Fair value adjustment on investment properties transferred to non-distributable reserve | -                | -                | -                           | 1 821                     | (1 821)          | -                       | -                |
| Fair value adjustment on derivatives  | -                | -                | -                           | 29 156                    | (29 156)         | -                       | -                |
| Distribution to shareholders  | -                | -                | -                           | -                         | (293 049)        | -                       | (293 049)        |
| Balance at 30 June 2021   | 8 780 921        | (120 983)        | 32 852                      | (1 662 455)               | 151 458          | (426 104)               | 6 755 689        |
| Total comprehensive loss  | -                | -                | -                           | -                         | 68 817           | -                       | 68 817           |
| Treasury shares acquired  | -                | (37 082)         | -                           | -                         | -                | -                       | (37 082)         |
| Share-based payment transaction   | -                | -                | (1 775)                     | -                         | -                | -                       | (1 775)          |
| Fair value adjustment on investment properties transferred to non-distributable reserve | -                | -                | -                           | (110 294)                 | 110 294          | -                       | -                |
| Fair value adjustment on derivatives  | -                | -                | -                           | 12 732                    | (12 732)         | -                       | -                |
| Distribution to shareholders  | -                | -                | -                           | -                         | (142 372)        | -                       | (142 372)        |
| <b>Balance at 31 December 2021</b>  | <b>8 780 921</b> | <b>(158 065)</b> | <b>31 077</b>               | <b>(1 760 017)</b>        | <b>175 465</b>   | <b>(426 104)</b>        | <b>6 643 277</b> |
| Total comprehensive income  | -                | -                | -                           | -                         | 97 200           | -                       | 97 200           |
| Treasury shares acquired  | -                | (43 756)         | -                           | -                         | -                | -                       | (43 756)         |
| Share-based payment transaction   | -                | -                | 8 562                       | -                         | -                | -                       | 8 562            |
| Fair value adjustment on investment properties transferred to non-distributable reserve | -                | -                | -                           | (80 079)                  | 80 079           | -                       | -                |
| Fair value adjustment on derivatives  | -                | -                | -                           | 18 482                    | (18 482)         | -                       | -                |
| Distribution to shareholders  | -                | -                | -                           | -                         | (162 587)        | -                       | (162 587)        |
| <b>Balance at 30 June 2022</b>  | <b>8 780 921</b> | <b>(201 821)</b> | <b>39 639</b>               | <b>(1 821 614)</b>        | <b>171 675</b>   | <b>(426 104)</b>        | <b>6 542 696</b> |

# STATEMENT OF CASH FLOWS

for the six months ended 30 June 2022

| R'000  | Unaudited<br>June<br>2022 | Unaudited<br>Restated<br>June<br>2021 <sup>1</sup> | Audited<br>Restated<br>December<br>2021 <sup>1</sup> |
|--|---------------------------|--|--|
| <b>Cash flows from operating activities</b>                    | <b>1 621</b>              | (184 836)  | (81 781)   |
| Cash generated from operations                                 | 239 661                   | 177 950  | 500 624  |
| Interest received  | 1 472                     | 435  | 1 366  |
| Interest paid  | (76 900)                  | (70 172)   | (148 230)  |
| Interest paid - lease liability repayments                     | (71)                      | -  | (120)  |
| Taxation received  | 46                        | -  | -  |
| Distribution to shareholders                                   | (162 587)                 | (293 049)  | (435 421)  |
| <b>Cash flows from investing activities</b>                    | <b>(56 728)</b>           | (80 582)   | (79 912)   |
| Expenditure on investment properties capitalised               | (28 337)                  | (22 986)   | (50 440)   |
| Acquisition of property plant and equipment                    | (507)                     | (9 019)  | (9 896)  |
| Investment in financial instruments - mutual funds             | (49 460)                  | (360 810)  | (360 809)  |
| Proceeds from disposal of financial instruments - mutual funds | 21 576                    | 312 233  | 341 233  |
| <b>Cash flows from financing activities</b>                    | <b>6 038</b>              | 221 726  | 191 371  |
| Treasury shares acquired                                       | (49 898)                  | (45 559)   | (96 843)   |
| Treasury shares sold and vested                                | 6 142                     | 5 285  | 19 487   |
| Lease liability repayments                                     | (206)                     | -  | (273)  |
| Loan paid  | -                         | -  | (169 000)  |
| Loans received   | 50 000                    | 262 000  | 438 000  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>    | <b>(49 069)</b>           | (43 692)   | 29 678   |
| <b>Cash and cash equivalents at the beginning of the year</b>  | <b>102 715</b>            | 73 037   | 73 037   |
| <b>Cash and cash equivalents at the end of the period</b>      | <b>53 646</b>             | 29 345   | 102 715  |

<sup>1</sup> Restatement on the statement of cash flows has been disclosed in note 1.6.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 1.1 Key judgements

### Key areas of judgement and sources of uncertainty

The preparation of consolidated interim 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 interim financial statements, as well as the key sources of estimation uncertainty, is set out below.

### 1.1.1 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.

### 1.1.2 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.

Among other inputs, the independent valuers applied current market-related assumptions to risks in rental streams of properties. The key assumptions in determination of the fair value are the rent reversion factors, exit capitalisation rates and discount rates. Other inputs considered relate to expense growth, rental growth, existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. Valuations have been impacted by *inter alia*, review of forecast renewal assumptions of certain tenants on lease renewal and increased conservatism reflected in forecasted market leases, market rent growth rates and the time required to relet vacant space. Further to this, expense growth assumptions track ahead of inflation.

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 the investment properties note of the group consolidated interim financial statements for specific details and the fair value hierarchy for financial instruments and investment property note for the valuation techniques as well as 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 level of management judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

### 1.1.3 Transfer of investment in subsidiary

As a result of the capital re-organisation in 2018, SRFM's 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.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 1.1. Key judgements continued

### 1.1.4 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 will be classified as investment property.

#### 1.1.4.1 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

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 1.1. Key judgements continued

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

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 the time frame of when viable economic activity will be conducted at the hotel premises and the complexity in estimating the lease income, L2D has elected not to recognise any rental income for the hotels. 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.

### 1.1.5 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 on 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 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 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 Hotel 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.

## 1.2 Restatements

### 1.2.1 Restatement of cash flow line items

In the June 2021 and December 2021 financial statements, finance income earned on the money market investment, which is automatically re-invested in the money market account, was incorrectly disclosed in the "Cash flows from operating activities" and "Cash flows from investing activities" lines on the face of the Statement of Cash Flows. The June 2022 financial statements have been restated to reflect the correct disclosure. The restatement has had no impact on profit or

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 1.1. Key judgements continued

## 1.2 Restatements continued

loss or net assets.

Herewith is the effect of the restatement on the Statement of Cash Flows:

|  | June<br>2021 as<br>previously<br>stated               | Adjustment<br>increase/<br>(decrease)          | June 2021<br>Restated                 |
|--|---|--|---------------------------------------|
| <b>Extract of the Statement of Cash flows</b>      | <b>R'000</b>  | <b>R'000</b>                                   | <b>R'000</b>                          |
| <i>Cash flows from operating activities</i>        | (183 737)   | (1 099)  | (184 836)                             |
| Interest received on financial assets              | 1 085   | (1 085)  | -                                     |
| <i>Cash flows from investing activities</i>        | (81 681)  | 1 099  | (80 582)                              |
| Investment in Financial Instruments - mutual funds | (361 909)   | 1 099  | (360 810)                             |
|  | <b>December<br/>2021 as<br/>previously<br/>stated</b> | <b>Adjustment<br/>increase/<br/>(decrease)</b> | <b>December<br/>2021<br/>Restated</b> |
| <b>Extract of the Statement of Cash flows</b>      | <b>R'000</b>  | <b>R'000</b>                                   | <b>R'000</b>                          |
| <i>Cash flows from operating activities</i>        | (80 050)  | (1 731)  | (81 781)                              |
| Interest received on financial assets              | 1 731   | (1 731)  | -                                     |
| <i>Cash flows from investing activities</i>        | (81 643)  | 1 731  | (79 912)                              |
| Investment in Financial Instruments - mutual funds | (362 540)   | 1 731  | (360 809)                             |



# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 2. HEADLINE EARNINGS PER SHARE

| R'000   | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 | Audited<br>December<br>2021 |
|---|---------------------------|---------------------------|-----------------------------|
| <b>Reconciliation between basic earnings and headline earnings</b>  |                           |                           |                             |
| Total earnings (basic earnings)                                     | 97 200                    | 174 409                   | 243 226                     |
| Fair value adjustment to investment properties and financial assets | 49 784                    | (37 755)                  | 52 521                      |
| <b>Headline earnings</b>  | <b>146 984</b>            | 136 654                   | 295 747                     |
|   | <b>Cents</b>              | <b>Cents</b>              | <b>Cents</b>                |
| <b>Earnings per share</b>   |                           |                           |                             |
| Basic and diluted   | 11.14                     | 19.59                     | 27.40                       |
| Headline  | 16.84                     | 15.35                     | 33.32                       |
|   | <b>000's</b>              | <b>000's</b>              | <b>000's</b>                |
| Actual number of shares in issue                                    | 908 443                   | 908 443                   | 908 443                     |
| Weighted average number of share in issue*                          | 872 787                   | 890 401                   | 887 552                     |
| Diluted weighted average number of shares in issue*                 | 872 787                   | 890 401                   | 887 552                     |

\* Excludes 39 552 859 treasury shares as at 30 June 2022 (30 June 2021: 21 356 549, 31 December 2021: 29 608 280).

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 period.

Headline earnings per share is a disclosure requirement in terms of the JSE Listings Requirements for companies listed on the JSE. Circular 1/2019, 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 INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 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 meetings:

- Retail and offices: occupancies, 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.

### June 2022

| Unaudited GLA                           | Retail  | Office  | Other***<br>specialised | Hotels** | Administration/<br>Other* | Total   |
|---|---------|---------|-------------------------|----------|---------------------------|---------|
| Total property GLA m <sup>2</sup>       | 512 701 | 316 011 | 117 606                 | -        | -                         | 946 318 |
| L2D's share of total GLA m <sup>2</sup> | 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 INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 3. SEGMENT INFORMATION CONTINUED

### 3.1 Segment earnings – June 2022

| R'000  | Retail    | Office   | Other specialised*** | Hotels** | Administration/ Other* | Total     |
|--|-----------|----------|----------------------|----------|------------------------|-----------|
| <b>Property portfolio revenue</b>                                      | 290 134   | 108 113  | 46 668               | 10 484   | 175                    | 455 574   |
| Rental and related income  | 297 838   | 110 983  | 47 907               | 10 484   | 175                    | 467 387   |
| Adjustment for the straight-lining of operating lease income           | (7 704)   | (2 870)  | (1 239)              | -        | -                      | (11 813)  |
| Property operating expenses  | (124 023) | (46 214) | (19 949)             | 251      | (237)                  | (190 172) |
| Change in expected credit losses on property debtors and rental relief | (2 851)   | (1 062)  | (459)                | -        | -                      | (4 372)   |
| <b>Net property income</b>   | 163 260   | 60 837   | 26 260               | 10 735   | (62)                   | 261 030   |
| Asset management fee income  | -         | -        | -                    | -        | 25 409                 | 25 409    |
| Development fee income   | -         | -        | -                    | -        | 450                    | 450       |
| <b>Total net property income and revenue</b>                           | 163 260   | 60 837   | 26 260               | 10 735   | 25 797                 | 286 889   |
| Other Income   | -         | -        | -                    | -        | 1 206                  | 1 206     |
| Operating costs  | -         | -        | -                    | -        | (60 763)               | (60 763)  |
| <b>Profit/(Loss) from operations excluding fair value adjustments</b>  | 163 260   | 60 837   | 26 260               | 10 735   | (33 760)               | 227 332   |
| Interest expense   | -         | -        | -                    | -        | (78 438)               | (78 438)  |
| Interest received  | -         | -        | -                    | -        | 1 742                  | 1 742     |
| <b>Profit/(Loss) before fair value adjustments</b>                     | 163 260   | 60 837   | 26 260               | 10 735   | (110 456)              | 150 636   |
| Net fair value adjustments on investment properties                    | (69 854)  | (26 030) | (11 236)             | 38 854   | -                      | (68 266)  |
| Fair value adjustments on investment properties                        | (77 558)  | (28 900) | (12 475)             | 38 854   | -                      | (80 079)  |
| Adjustment for the straight-lining of operating lease income           | 7 704     | 2 870    | 1 239                | -        | -                      | 11 813    |
| Fair value adjustment on derivatives                                   | -         | -        | -                    | -        | 18 482                 | 18 482    |
| <b>Profit/(Loss) before taxation</b>                                   | 93 406    | 34 807   | 15 024               | 49 589   | (91 974)               | 100 852   |
| Taxation   | -         | -        | -                    | -        | (3 652)                | (3 652)   |
| <b>Total comprehensive income/(loss)</b>                               | 93 406    | 34 807   | 15 024               | 49 589   | (95 626)               | 97 200    |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 3. SEGMENT INFORMATION CONTINUED

### 3.2 Segment assets and liabilities – June 2022

| R'000  | Retail           | Office           | Other specialised*** | Hotels**       | Administration/ Other* | Total            |
|--|------------------|------------------|----------------------|----------------|------------------------|------------------|
| Investment property  | 5 137 423        | 1 914 351        | 826 351              | 328 328        | -                      | 8 206 453        |
| Non-current asset held for sale****                        | -                | 153 300          | -                    | -              | -                      | 153 300          |
| Property plant and equipment                               | -                | -                | -                    | -              | 10 379                 | 10 379           |
| Amount due from group companies                            | -                | -                | -                    | -              | 131 848                | 131 848          |
| Trade and other receivables                                | 88 013           | 32 797           | 14 157               | 29 582         | 8 062                  | 172 611          |
| Financial assets held at fair value through profit or loss | -                | -                | -                    | -              | 50 228                 | 50 228           |
| Deferred tax asset   | -                | -                | -                    | -              | 12 772                 | 12 772           |
| Current taxation receivable                                | -                | -                | -                    | -              | 587                    | 587              |
| IFRS 16 – lease asset*****                                 | -                | -                | -                    | -              | 1 892                  | 1 892            |
| Cash and cash equivalents                                  | -                | -                | -                    | -              | 53 646                 | 53 646           |
| <b>Total assets</b>  | <b>5 225 436</b> | <b>2 100 448</b> | <b>840 508</b>       | <b>357 910</b> | <b>269 414</b>         | <b>8 793 716</b> |
| Trade and other payables                                   | (89 201)         | (33 238)         | (14 348)             | (338)          | (15 539)               | (152 664)        |
| Employee benefits  | -                | -                | -                    | -              | (10 067)               | (10 067)         |
| Financial instruments                                      | -                | -                | -                    | -              | (53)                   | (53)             |
| IFRS 16 – lease liability*****                             | -                | -                | -                    | -              | (2 044)                | (2 044)          |
| Financial liabilities                                      | -                | -                | -                    | -              | (2 086 192)            | (2 086 192)      |
| <b>Net assets</b>  | <b>5 136 235</b> | <b>2 067 210</b> | <b>826 160</b>       | <b>357 572</b> | <b>(1 844 481)</b>     | <b>6 542 696</b> |

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

\*\* 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 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 30 June 2022.

\*\*\*\*\* L2D entered into a five year lease with Liberty Group Limited, effective April 2021 to occupy 1 337m<sup>2</sup> 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 INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 3. SEGMENT INFORMATION CONTINUED

### 3.3 Segment earnings – June 2021

| R'000  | Retail    | Office   | Other specialised*** | Hotels** | Administration/ Other* | Total     |
|--|-----------|----------|----------------------|----------|------------------------|-----------|
| <b>Property portfolio revenue</b>                                      | 285 214   | 106 279  | 45 877               | 1 395    | 35                     | 438 800   |
| Rental and related income  | 289 634   | 107 926  | 46 588               | 1 395    | 35                     | 445 578   |
| Adjustment for the straight-lining of operating lease income           | (4 420)   | (1 647)  | (711)                | -        | -                      | (6 778)   |
| Property operating expenses  | (112 819) | (42 040) | (18 147)             | (4 696)  | (737)                  | (178 439) |
| Change in expected credit losses on property debtors and rental relief | (12 797)  | (4 768)  | (2 058)              | -        | -                      | (19 623)  |
| <b>Net property income</b>   | 159 598   | 59 471   | 25 672               | (3 301)  | (702)                  | 240 738   |
| Asset management fee income  | -         | -        | -                    | -        | 25 642                 | 25 642    |
| Development fee income   | -         | -        | -                    | -        | 1 132                  | 1 132     |
| <b>Total net property income and revenue</b>                           | 159 598   | 59 471   | 25 672               | (3 301)  | 26 072                 | 267 512   |
| Other Income   | -         | -        | -                    | -        | 1 319                  | 1 319     |
| Operating costs  | -         | -        | -                    | -        | (53 622)               | (53 622)  |
| <b>Profit/(Loss) from operations excluding fair value adjustments</b>  | 159 598   | 59 471   | 25 672               | (3 301)  | (26 231)               | 215 209   |
| Interest expense   | -         | -        | -                    | -        | (72 581)               | (72 581)  |
| Interest received  | -         | -        | -                    | -        | 1 534                  | 1 534     |
| <b>Profit/(Loss) before fair value adjustments</b>                     | 159 598   | 59 471   | 25 672               | (3 301)  | (97 278)               | 144 162   |
| Net fair value adjustments on investment properties                    | 1 910     | 712      | 307                  | 5 670    | -                      | 8 599     |
| Fair value adjustments on investment properties                        | (2 510)   | (935)    | (404)                | 5 670    | -                      | 1 821     |
| Adjustment for the straight-lining of operating lease income           | 4 420     | 1 647    | 711                  | -        | -                      | 6 778     |
| Fair value adjustment on derivatives                                   | -         | -        | -                    | -        | 29 156                 | 29 156    |
| <b>Profit/(Loss) before taxation</b>                                   | 161 508   | 60 183   | 25 979               | 2 369    | (68 122)               | 181 917   |
| Taxation   | -         | -        | -                    | -        | (7 508)                | (7 508)   |
| <b>Total comprehensive income/(loss)</b>                               | 161 508   | 60 183   | 25 979               | 2 369    | (75 630)               | 174 409   |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 3. SEGMENT INFORMATION CONTINUED

### 3.4 Segment assets and liabilities – June 2021

| R'000  | Retail           | Office           | Other***       | Hotels**       | Administration/<br>Other* | Total            |
|--|------------------|------------------|----------------|----------------|---------------------------|------------------|
| Investment property  | 5 266 883        | 1 962 596        | 847 176        | 278 477        | -                         | 8 355 132        |
| Non-current asset held for sale****                        | -                | 153 300          | -              | -              | -                         | 153 300          |
| Property plant and equipment                               | -                | -                | -              | -              | 9 735                     | 9 735            |
| Amount due from group companies                            | -                | -                | -              | -              | 104 290                   | 104 290          |
| Trade and other receivables                                | 118 873          | 44 296           | 19 121         | 29 345         | 11 584                    | 223 219          |
| Financial assets held at fair value through profit or loss | -                | -                | -              | -              | 50 443                    | 50 443           |
| Deferred tax asset   | -                | -                | -              | -              | 24 300                    | 24 300           |
| Current taxation receivable                                | -                | -                | -              | -              | 633                       | 633              |
| IFRS 16 – lease asset*****                                 | -                | -                | -              | -              | 2 397                     | 2 397            |
| Cash and cash equivalents                                  | -                | -                | -              | -              | 29 345                    | 29 345           |
| <b>Total assets</b>  | <b>5 385 756</b> | <b>2 160 192</b> | <b>866 297</b> | <b>307 822</b> | <b>232 727</b>            | <b>8 952 794</b> |
| Trade and other payables                                   | (76 330)         | (28 443)         | (12 278)       | (352)          | (11 556)                  | (128 959)        |
| Employee benefits  | -                | -                | -              | -              | (6 769)                   | (6 769)          |
| Amount due to group companies                              | -                | -                | -              | -              | (284)                     | (284)            |
| Financial instruments                                      | -                | -                | -              | -              | (31 267)                  | (31 267)         |
| Financial liabilities                                      | -                | -                | -              | -              | (2 027 262)               | (2 027 262)      |
| IFRS 16 – lease liability*****                             | -                | -                | -              | -              | (2 564)                   | (2 564)          |
| <b>Net assets</b>  | <b>5 309 426</b> | <b>2 131 749</b> | <b>854 019</b> | <b>307 470</b> | <b>(1 846 975)</b>        | <b>6 755 689</b> |

\* 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.

\*\*\*\*\* L2D entered into a five year lease with Liberty Group Limited, effective April 2021 to occupy 1 337m<sup>2</sup> 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 INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES

|  | Notes | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|--|-------|---------------------------|---------------------------|
| R'000  |       |                           |                           |
| <b>4.1 Summary</b>   |       |                           |                           |
| Investment properties  | 4.2   | 8 178 747                 | 8 326 533                 |
| Fair value net of straight-lining at the beginning of the year     |       | 8 237 792                 | 8 458 913                 |
| Expenditure on investment properties capitalised during the period |       | 20 972                    | 17 624                    |
| Fair value adjustment  |       | (80 017)                  | 3 296                     |
| Transfer to assets held for sale                                   |       | -                         | (153 300)                 |
| Investment properties under development                            | 4.3   | 27 706                    | 28 599                    |
| Fair value at the beginning of the year                            |       | 27 683                    | 30 074                    |
| Expenditure on investment properties capitalised during the period |       | 85                        | -                         |
| Fair value adjustment  |       | (62)                      | (1 475)                   |
| <b>Total investment properties</b>                                 |       | <b>8 206 453</b>          | <b>8 355 132</b>          |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

|   | Notes | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|---|-------|---------------------------|---------------------------|
| R'000   |       |                           |                           |
| <b>4.2 Investment properties</b>  |       |                           |                           |
| Fair value of investment properties at the beginning of the year                          |       | 8 073 896                 | 8 277 628                 |
| Net fair value adjustment for the period  |       | (68 640)                  | 10 074                    |
| Fair value adjustment   |       | (80 017)                  | 3 296                     |
| Net movement on straight-lining of operating lease income                                 |       | 11 377                    | 6 778                     |
| Expenditure on investment properties during the period                                    |       | 20 972                    | 17 624                    |
| Additions – capitalised subsequent expenditure  |       | 17 800                    | 19 485                    |
| Capitalised tenant installations  |       | 3 516                     | 1 678                     |
| Amortisation of tenant installations  |       | (2 504)                   | (2 390)                   |
| Capitalised letting commission  |       | 6 936                     | 1 823                     |
| Amortisation of letting commission  |       | (4 776)                   | (2 972)                   |
| Transfer to assets held for sale  |       | -                         | (150 012)                 |
| Transfer to assets held for sale <sup>(1)</sup>   |       | -                         | (153 300)                 |
| Impact of straight-lining of operating lease income on transfer of property               |       | -                         | 3 288                     |
| <b>Investment properties at fair value</b>  |       | <b>8 026 228</b>          | <b>8 155 314</b>          |
| <b>Operating leases accrued adjustment</b>  |       |                           |                           |
| Straight-lining balance at the beginning of the year                                      |       | 163 896                   | 181 285                   |
| 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                                 |       | (11 377)                  | (6 778)                   |
| <b>Straight-lining of operating lease income</b>  |       | <b>152 519</b>            | <b>171 219</b>            |
| <b>Total investment properties</b>  |       | <b>8 178 747</b>          | <b>8 326 533</b>          |

<sup>1</sup> Standard Bank Simmonds Street was classified as a non-current asset held for sale on 30 June 2021.



# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

|  | Notes | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|--|-------|---------------------------|---------------------------|
| R'000  |       |                           |                           |
| <b>4.3 Investment properties under development</b>                                 |       |                           |                           |
| Fair value of investment properties under development at the beginning of the year |       | 27 683                    | 30 074                    |
| Net fair value adjustment for the period   |       | (62)                      | (1 475)                   |
| Fair value adjustment  |       | (62)                      | (1 475)                   |
| Expenditure on investment properties during the period                             |       | 85                        | -                         |
| Additions - capitalised subsequent expenditure                                     |       | 85                        | -                         |
| <b>Total investment properties under development</b>                               |       | <b>27 706</b>             | <b>28 599</b>             |
| <b>Total investment properties</b>   |       | <b>8 206 453</b>          | <b>8 355 132</b>          |

### Interest expense

Interest incurred during the six months ended 30 June 2022 on debt incurred to acquire the additional undivided share of properties was R65.8 million (2021: R59.6 million).

### Basis of valuation

The professional valuers, namely Broll Valuation and Advisory Services (Broll) and JLL Proprietary Limited (JLL) are registered valuers in terms of the Property Valuers Professional Act, No. 47 of 2000 and are RICS Registered Valuers.

### 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 independent valuers are as follows:

|       |         |  |
|-------|---------|--|
| Broll | R Long  | BSc, MRICS, MIV(SA), professional valuer |
| JLL   | S Crous | BSc, MRICS, MIV(SA), professional valuer |

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 30 June 2022 in line with the group's valuation policy.

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.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

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 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).

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 utilising the lease rental and reversion on expiry.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

Unobservable inputs:

|  | 2022              |                   |                  |  |                    | 2021              |                   |                  |  |  |
|--|-------------------|-------------------|------------------|--|--------------------|-------------------|-------------------|------------------|--|--|
|  | Exit cap rate (%) | Discount rate (%) | Vacancy rate (%) | Rental growth (%)  | Expense growth (%) | Exit cap rate (%) | Discount rate (%) | Vacancy rate (%) | Rental growth (%)  | Expense growth (%)   |
| Office                                   | 8.50              | 13.25 - 13.50     | 1.00             | Staggered growth rates applied for a period of 5 years which vary per property between 0.50 and 4.75 | 6.00               | 8.50              | 13.25 - 13.50     | 1.00             | Staggered growth rates applied for a period of 5 years which vary per property between 0 - 4.75      | Staggered growth rates applied for a period of 5 years which vary per property between 5.00 - 6.00 |
| Retail – super regional and regional     | 7.00 - 8.00       | 10.50 - 12.00     | 0 to 5.00        | Staggered growth rates applied for a period of 5 years which vary per property between 1.00 and 4.00 | 6.00               | 7.00 - 8.00       | 11.00 - 12.00     | -                | Staggered growth rates applied for a period of 5 years which vary per property between (1.00) - 4.00 | Staggered growth rates applied for a period of 5 years which vary per property between 5.50 - 6.00 |
| Retail – other                           | 8.25              | 10.75             | 0 to 1.00        | Staggered growth rates applied for a period of 5 years which vary per property between 1.50 and 4.00 | 6.00               | 7.75 - 8.25       | 11.75 - 13.25     | 1.00 - 1.50      | Staggered growth rates applied for a period of 5 years which vary per property between (1.00) - 5.00 | Staggered growth rates applied for a period of 5 years which vary per property between 5.00 - 6.00 |
| Hotels**                                 | 9.25              | 14.00             | -                | -  | -                  | 9.00              | 13.75 - 14.00     | -                | -  | -  |
| Specialised: Sandton Convention Centre** | 10.00             | 14.75             | -                | -  | -                  | 10.00             | 14.75             | -                | -  | -  |
| Virgin Active and Parkade                | 7.75              | 10.00             | -                | Staggered growth rates applied for a period of 5 years which vary between 1.00 and 4.00              | 6.00               | 8.50              | 12.50             | -                | Staggered growth rates applied for a period of 5 years (1.00) - 4.00                                 | Staggered growth rates applied for a period of 5 years 5.50 - 6.00                                 |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

|                               | 2022              |                   |                  |   |                    | 2021              |                   |                  |  |  |
|-------------------------------|-------------------|-------------------|------------------|---|--------------------|-------------------|-------------------|------------------|--|--|
|                               | Exit cap rate (%) | Discount rate (%) | Vacancy rate (%) | Rental growth (%)   | Expense growth (%) | Exit cap rate (%) | Discount rate (%) | Vacancy rate (%) | Rental growth (%)  | Expense growth (%)   |
| John Ross Eco Junction*       | 9.25              | 14.50             | 1.00             | Staggered growth rates applied for a period of 5 years which vary between 0.50 and 4.75 | 6.00               | 8.25 - 9.25       | 13.75 - 14.50     | 1.00             | Staggered growth rates applied for a period of 5 years 1.00 - 3.00 | Staggered growth rates applied for a period of 5 years 5.00 - 6.00 |
| John Ross Eco Junction (land) | -                 | 14.50             | -                | Staggered growth rates applied for a period of 5 years which vary between 0 and 2.00    | 6.00               | -                 | 14.50             | -                | Staggered growth rates applied for a period of 5 years 0 - 4.00    | Staggered growth rates applied for a period of 5 years 5.00 - 6.00 |

\* 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.

### 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 to 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).

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

### 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 hospitality assets, whereas this has been removed in the current year. L2D is satisfied with the property valuations as at 30 June 2022.

## Valuation summary

### Offices

The Office sector comprises the Umhlanga multi tenanted offices, located in KZN, as well as the Standard Bank offices located in the Johannesburg CBD. The offices have been negatively impacted by market pressure on rentals resulting in lower achievable rentals and increased voids. The office sector remains under significant pressure with business's reassessing their space needs, adding strain to the already oversupplied market.

The valuation of Liberty Head office Umhlanga Ridge is impacted by the pending Liberty renewal and downsize.

### Retail

The Retail category consists of super regional, regional, small regional and community shopping centres geographically diversified. The valuations of the retail portfolio have been impacted by, inter-alia, rental re-basing and forecast reversions of certain tenants on lease renewals and increased conservatism reflected in forecasted market leases and market rental growth rates. Further to this, expense growth assumptions track ahead of inflation primarily based on the expectation of rates and utility charge growth. The current conditions present a low growth market environment with assumed market rental growth underperforming lease escalations and assumed cost escalation growth resulting in continued pressure on the cashflow forecasts.

### Super regional shopping centres

There has been a negative movement in the Sandton Complex which includes Sandton City, Sandton Office Tower, Atrium on 5th and the Sandton Parkade. The negative impact on the retail side is as a result of revised reversion assumptions on certain renewals and market rents as well as forecast cost escalation growth.

Eastgate has seen a decrease in value largely driven by revised reversion assumptions on certain renewals and market rents.

### Regional and small regional shopping centres

Liberty Promenade Shopping Centre, Nelson Mandela Square, Liberty Midlands Mall and Lifestyle Centre fall within this category. These centres have seen positive valuation growth as a result of stabilised trading performance and low vacancies. The centres have benefitted from more favourable/affordable effort ratios reflecting potential growth prospects in renewal rentals in the period of the cashflow. Nelson Mandela Square growth is as a result of more positive outlook on rentals as the sector recovers from travel restrictions as well as improved vacancy levels in the retail sector.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

### Community shopping centre

Botshabelo Mall's valuation is driven by turnover growth and growth in rental due to lease escalations.

### Other

Melrose Arch's negative movement in value is driven by prolonged vacancy in the office sector impacting void periods applied.

### Hotels

The Hotel values have recovered relatively well driven by the recovery in demand and the anticipated reopening of the Sandton InterContinental Towers, rebranded as the Sandton Towers.

### Sandton Convention Centre

The Convention Centre has seen a slight decrease in value, driven by more conservative revenue forecasts. The Sandton Convention Centre and the Business Tourism sector have not evidenced the demand recovery anticipated for 2021 and 2022. Further pressure is expected to be felt in the short to medium term due to the slowdown in the global economy.

### Virgin Active and Parkade

The Virgin Active and Parkade valuation has been negatively impacted by revised market rental rates being applied as well as slower than previously anticipated parking recovery income.

### John Ross Eco Junction

John Ross Eco Junction is a diversified commercial and industrial development across 30 sites, appropriate for commercial workshops, light industrial, motor dealerships, general showrooms, office buildings, warehouses, wholesale and mini factory units. Currently the property comprises three components, namely the Melomed Hospital, Tangawizi Motors and the remaining estate (land parcels), which comprises several vacant development land parcels. The two leases (Melomed and Tangawizi) that have been entered into are triple net leases wherein all expenses associated with the operation of the property are for the account of the tenant. These are valued on a discounted cashflow methodology. On the land portions, the valuers noted an over supply of development land in the greater KZN area resulting in an adjustment of forecast land sales rates over the sales projection period.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

| No.          | Property name and % interest in the undivided shares by L2D | Physical address and province   | Main sector                                     | June 2022 valuation R'000          | June 2021 valuation R'000   |
|--------------|---|---|---|------------------------------------|-----------------------------|
| 1            | Standard Bank Centre (16.7%)                                | 5 Simmonds Street, Johannesburg, Gauteng  | Office  | <b>Classified as held for sale</b> | Classified as held for sale |
| 2            | Liberty Centre Head Office (Umhlanga Ridge) (33.3%)         | 21 Aurora Drive and 2 Park lane, Umhlanga Ridge, KwaZulu-Natal                      | Office  | <b>79 488</b>                      | 93 775                      |
| 3            | Sandton City Complex (25.0%)                                | 5 <sup>th</sup> Street, Alice Lane and Sandton Drive, Sandton, Gauteng              | Retail  | <b>2 952 232</b>                   | 3 231 733                   |
| 4            | Nelson Mandela Square Complex (33.3%)                       | 5 <sup>th</sup> Street Sandton, Gauteng   | Retail  | <b>453 290</b>                     | 354 386                     |
| 5            | Eastgate Complex (33.3%)                                    | 43 Bradford Road, Bedfordview, Johannesburg, Gauteng                                | Retail  | <b>2 117 991</b>                   | 2 249 828                   |
| 6            | Melrose Arch Complex (8.3%)                                 | 60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng      | Retail* ( <i>per unobservable input table</i> ) | <b>456 158</b>                     | 465 783                     |
| 7            | Liberty Midlands Mall (33.3%)                               | Sanctuary Road, Pietermaritzburg, KwaZulu-Natal                                     | Retail  | <b>867 150</b>                     | 789 000                     |
| 8            | Liberty Promenade Shopping Centre (33.3%)                   | Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape | Retail  | <b>592 453</b>                     | 552 958                     |
| 9            | Botshabelo Mall (33.3%)                                     | Portions 2 and 3 of ERF 1 Botshabelo-H, Free State                                  | Retail  | <b>121 448</b>                     | 97 005                      |
| 10           | John Ross Eco-Junction Estate - Tangawizi (33.3%)           | Eco-Junction Business Park, John Ross Highway, Richards Bay, KwaZulu-Natal          | Specialised                                     | <b>20 347</b>                      | 21 912                      |
| 11           | John Ross Eco-Junction Estate - Melomed (23.3%)             | John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal          | Specialised                                     | <b>130 306</b>                     | 130 306                     |
| 12           | John Ross Eco-Junction Estate (33.3%)                       | Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal                           | Specialised                                     | <b>27 706</b>                      | 28 599                      |
| 13           | Sandton Convention Centre (25.0%)                           | 161 Maude Street, Sandton, Gauteng  | Specialised                                     | <b>48 071</b>                      | 49 252                      |
| 14           | Virgin Active Sandton and Parkade (25.0%)                   | 149 West Street, Sandton, Gauteng   | Specialised                                     | <b>11 484</b>                      | 12 118                      |
| 15           | Garden Court Sandton (25.0%)                                | Cnr West and Maude Street, Sandton, Gauteng   | Hotels  | <b>139 434</b>                     | 115 312                     |
| 16           | Sandton Sun and Intercontinental (25.0%)                    | Cnr 5 <sup>th</sup> and Maude Street, Sandton, Gauteng                              | Hotels  | <b>188 895</b>                     | 163 165                     |
| <b>Total</b> |   |   |   | <b>8 206 453</b>                   | 8 355 132                   |

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

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 4. INVESTMENT PROPERTIES CONTINUED

Below is the vacancy profile per sector (%)

|                            | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|----------------------------|---------------------------|---------------------------|
| <b>Vacancy profile (%)</b> |                           |                           |
| Total retail               | 2.8                       | 3.3                       |
| Total office               | 16.7                      | 13.4                      |
| Total specialised          | -                         | -                         |
| <b>Total</b>               | <b>7.1</b>                | <b>6.3</b>                |

## 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**

| (R'000)                               | Six months ended 30 June 2022 |          |               |                  |
|---------------------------------------|-------------------------------|----------|---------------|------------------|
|                                       | Fair value                    | Level 1  | Level 2       | Level 3          |
| <b>Assets</b>                         |                               |          |               |                  |
| Investment properties                 | 8 178 747                     | -        | -             | 8 178 747        |
| Investment property under development | 27 706                        | -        | -             | 27 706           |
| Non-current asset held for sale       | 153 300                       | -        | -             | 153 300          |
| Financial assets                      | 50 228                        | -        | 50 228        | -                |
|                                       | <b>8 409 981</b>              | <b>-</b> | <b>50 228</b> | <b>8 359 753</b> |
| <b>Liabilities</b>                    |                               |          |               |                  |
| Interest rate swap                    | 53                            | -        | 53            | -                |
|                                       | <b>53</b>                     | <b>-</b> | <b>53</b>     | <b>-</b>         |



# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

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

| (R'000)                               | Six months ended 30 June 2021 |         |         |           |
|---------------------------------------|-------------------------------|---------|---------|-----------|
|                                       | Fair value                    | Level 1 | Level 2 | Level 3   |
| <b>Assets</b>                         |                               |         |         |           |
| Investment properties                 | 8 326 533                     | -       | -       | 8 326 533 |
| Investment property under development | 28 599                        | -       | -       | 28 599    |
| Non-current assets held for sale      | 153 300                       | -       | -       | 153 300   |
| Financial assets                      | 50 443                        | -       | 50 443  | -         |
|                                       | 8 558 875                     | -       | 50 443  | 8 508 432 |
| <b>Liabilities</b>                    |                               |         |         |           |
| Interest rate swap                    | 31 267                        | -       | 31 267  | -         |
|                                       | 31 267                        | -       | 31 267  | -         |

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.

### 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 Investment Properties Note for detail regarding assumptions |
| 3     | Investment properties under development | Fair value   | Refer to Investment Properties Note for detail regarding assumptions |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

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

### Reconciliation of level 2 assets

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

| R'000   | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|---|---------------------------|---------------------------|
| <b>Financial assets</b>                         |                           |                           |
| Fair value at the beginning of the year         | 22 075                    | 768                       |
| Additions                                       | 49 460                    | 360 809                   |
| Disposals                                       | (21 576)                  | (312 234)                 |
| Interest earned on investment                   | 269                       | 1 100                     |
| <b>Closing balance at the end of the period</b> | <b>50 228</b>             | <b>50 443</b>             |

### Reconciliation of level 2 liabilities

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

| R'000   | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2020 |
|---|---------------------------|---------------------------|
| <b>Interest rate swap</b>                       |                           |                           |
| Fair value at the beginning of the year         | (18 535)                  | (60 423)                  |
| Fair value adjustments                          | 18 482                    | 29 156                    |
| <b>Closing balance at the end of the period</b> | <b>(53)</b>               | <b>(31 267)</b>           |

Interest rate swaps totalling R928.5 million are in place in order to hedge the term loans with floating interest rates. As at 30 June 2022, 63.0% of the group's term debt is at fixed rates.

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 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  | Unaudited<br>June<br>2022 | Unaudited<br>June<br>2021 |
|--|---------------------------|---------------------------|
| <b>Investment property and investment property under development</b> |                           |                           |
| Fair value at the beginning of the period                            | 8 265 475                 | 8 488 987                 |
| Transferred to non-current assets held for sale                      | -                         | (153 300)                 |
| Capitalised cost   | 21 057                    | 17 624                    |
| Fair value adjustments   | (80 079)                  | 1 821                     |
| <b>Closing balance at the end of the period</b>                      | <b>8 206 453</b>          | <b>8 355 132</b>          |
| <b>Non-current assets held for sale</b>                              |                           |                           |
| Fair value at the beginning of the period                            | 153 300                   | -                         |
| Transferred from investment property                                 | -                         | 153 300                   |
| <b>Closing balance at the end of the period</b>                      | <b>153 300</b>            | <b>153 300</b>            |

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

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 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 30 June 2022 range between 7.3% and 10.0% (30 June 2021: 6.8% and 10.0%).

The table below indicates the sensitivity of the aggregate market values for a 100 bps (30 June 2021: 100 bps) change in the exit capitalisation rate.

|  | Change in exit capitalisation rate |                  |                  |
|--|------------------------------------|------------------|------------------|
|  | Rm                                 | 100 bps increase | 100 bps decrease |
| <b>2022</b>  |                                    |                  |                  |
| Properties below 7.3% exit capitalisation rate           | 2 952                              | 2 689            | 3 303            |
| Properties between 7.3% - 8.5% exit capitalisation rate  | 4 830                              | 4 452            | 5 325            |
| Properties between 8.6% - 10.0% exit capitalisation rate | 578                                | 559              | 601              |
| <b>Total</b>   | <b>8 360</b>                       | <b>7 700</b>     | <b>9 229</b>     |
| <b>2021</b>  |                                    |                  |                  |
| Properties below 6.8% exit capitalisation rate           | -                                  | -                | -                |
| Properties between 6.8% - 8.5% exit capitalisation rate  | 7 977                              | 7 317            | 8 838            |
| Properties between 8.6% - 10.0% exit capitalisation rate | 531                                | 514              | 553              |
| <b>Total</b>   | <b>8 508</b>                       | <b>7 831</b>     | <b>9 391</b>     |

The table below indicates the sensitivity of the aggregate market values for a 100bps (30 June 2021: 100 bps) change in the discount rate.

|                          | Change in discount rate |                  |                  |
|--------------------------|-------------------------|------------------|------------------|
|                          | Rm                      | 100 bps increase | 100 bps decrease |
| <b>2022</b>              |                         |                  |                  |
| Total property portfolio | 8 360                   | 8 048            | 8 690            |
| <b>2021</b>              |                         |                  |                  |
| Total property portfolio | 8 508                   | 8 189            | 8 840            |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 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. Notably, 2 Degrees Properties (2DP), and the previous management company (SRFM), are all wholly-owned subsidiaries of L2D Limited.

### Transactions with related entities

#### Transactions with SBG

As at 30 June 2022, 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. (30 June 2021: R1.2 billion)

#### 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 six months ended 30 June 2022 was R9.2 million (30 June 2021: R8.6 million).

#### Transactions with Liberty Two Degrees: 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 (L2D CISIP)

As at 30 June 2022, R0 is receivable from L2D CISIP (30 June 2021: R192 474).

#### Transactions with LGL

##### *Liberty Centre Head Office Umhlanga Ridge*

LGL occupies 9 466 m<sup>2</sup> of office space in the Liberty Centre Head Office Umhlanga Ridge.

Rental income received by L2D group for the six months ended 30 June 2022 was R5.0 million (30 June 2021: R5.2 million).

##### *Eastgate Office Tower*

LGL occupies 2 824 m<sup>2</sup> of office space in the Eastgate Office Tower.

Rental income received by L2D group for the six months ended 30 June 2022 was R1.7 million (30 June 2021: R1.5 million).

##### *Liberty Midlands Lifestyle Centre*

LGL occupies 758 m<sup>2</sup> of office space in the Liberty Midlands Lifestyle centre.

Rental income received by L2D group for the six months ended 30 June 2022 was R317 850 (30 June 2021: R266 712)

##### *Liberty Promenade*

LGL took occupation at Liberty Promenade effective April 2021, and occupies 106 m<sup>2</sup> of office space.

Rental income received by L2D group for the six months ended 30 June 2022 was R82 365 (30 June 2021: R67 149).

##### *Development fee income*

Development fee income is earned on development management of projects in the Liberty Portfolio. Development fee income amounting to R450 152 was earned for the six months ended 30 June 2022 (30 June 2021: R1.1 million). L2D commenced work on the Liberty Centre Braamfontein development in 2021, development fee income earned for the six months ended 30 June 2022 was R149 287 (30 June 2021: R915 489) .

##### *Asset management fee income*

Management fees on assets under management amounting to R25.4 million was earned for the six months ended 30 June 2022 (30 June 2021: R25.6 million).

##### *Loan with LGL*

As at 30 June 2022, R131.8 million is owed by LGL for working capital (30 June 2021: R104.3 million). The loan is unsecured and there are no fixed terms of repayment, the loan attracts no interest.

R51.5 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 (30 June 2021: R53.2 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 INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2022

## 6. RELATED PARTY DISCLOSURE CONTINUED

### Transactions with other related entities

#### Operating lease payments

STANLIB Wealth Management Limited, as a lessee, paid an amount of R1.4 million (30 June 2021: R1.3 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

L2D's head office premises are located at Nelson Mandela Square and consist of 1 337 m<sup>2</sup> of office space. The effective lease commencement date was 9 April 2021. Rental paid for the six months ended 30 June 2022 was R970,327 (30 June 2021: R373,125).

#### JHI Retail Property Proprietary Limited ("JHI")

The property management function in respect of L2D group is undertaken predominantly by JHI. JHI manages the Sandton City Complex, the Eastgate Complex, Liberty Promenade Shopping Centre, Liberty Midlands Mall, Nelson Mandela Square, 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 six months ended 30 June 2022 amounted to R11.3 million (30 June 2021: R11.1 million).

#### Loan with STANLIB Asset Management Limited

As at 30 June 2022, R0 is owed to STANLIB Asset Management Limited (30 June 2021: R330).

#### Loan with STANLIB Wealth Management Limited

As at 30 June 2022, R0 is owed to STANLIB Wealth Management Limited (30 June 2021: R283,377).

#### Stanlib Corporate Money Market Fund

As at 30 June 2022, L2D Group had R50.2 million invested in the Stanlib Corporate Money Market Fund (30 June 2021: R50.4 million).

Interest earned for the six months ended 30 June 2022 amounted to R427 422 (30 June 2021: R1.1 million).

#### Intercompany transactions

As at 30 June 2022, The Liberty Two Degrees Restricted Share Plan Trust (Trust) obtained a capital contribution from 2DP of R104.9 million to acquire shares for the long-term incentive plan (30 June 2021: R91.5 million).

As at 30 June 2022, 2DP has a loan with SRFM of R6.1 million (30 June 2021: R6.2 million).

As at 30 June 2022, L2D Limited has a loan with 2DP of R125.8 million (30 June 2021: R124.9 million). This relates to a working capital loan.

As at 30 June 2022, L2D Limited has a loan payable to the Trust of R27.8 million relating to a contribution made to the trust to do good its losses (30 June 2021: R25.4 million).

# ANNEXURES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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.

|  | Unaudited<br>June<br>2022<br>R'000 | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
|--|------------------------------------|------------------------------------|--------------------------------------|
| SA REIT Funds from Operations (SA REIT FFO) per share                                      |                                    |                                    |                                      |
| Profit or loss per IFRS Statement of Comprehensive Income (SOI) attributable to the parent | 97 200                             | 174 409                            | 243 226                              |
| Adjusted for:  |                                    |                                    |                                      |
| <b>Accounting/specific adjustments:</b>  | <b>66 220</b>                      | <b>(23 343)</b>                    | <b>82 369</b>                        |
| Fair value adjustments to:   |                                    |                                    |                                      |
| – Investment property  | 80 079                             | (1 821)                            | 108 473                              |
| – Debt and equity instruments held at fair value through profit or loss                    | (18 482)                           | (29 156)                           | (41 888)                             |
| – Straight-lining operating lease adjustment   | (11 813)                           | (6 778)                            | (14 064)                             |
| Depreciation and amortisation of intangible assets   | 971                                | 126                                | 400                                  |
| Deferred tax movement recognised in profit or loss   | 3 652                              | 7 508                              | 15 384                               |
| Straight-lining operating lease adjustment   | 11 813                             | 6 778                              | 14 064                               |
| <b>Other adjustments:</b>  | <b>(7 115)</b>                     | <b>(3 551)</b>                     | <b>(10 612)</b>                      |
| Antecedent earnings adjustment   | (7 115)                            | (3 551)                            | (10 612)                             |
| <b>SA REIT FFO:</b>  | <b>156 305</b>                     | <b>147 515</b>                     | <b>314 983</b>                       |
| Number of shares outstanding at end of period (net of treasury shares)                     | 868 890                            | 887 087                            | 878 835                              |
| <b>SA REIT FFO per share: (cents)</b>  | <b>17.99</b>                       | <b>16.63</b>                       | <b>35.84</b>                         |
| Company-specific adjustments (per share)   | (0.51)                             | (0.84)                             | (1.74)                               |
| Depreciation/amortisation  | (0.11)                             | (0.01)                             | (0.05)                               |
| Deferred tax   | (0.42)                             | (0.85)                             | (1.75)                               |
| 2DP/trust earnings   | 0.02                               | 0.02                               | 0.06                                 |
| Dividends not distributed  | -                                  | -                                  | -                                    |
| <b>Dividend per share: (cents)</b>   | <b>17.48</b>                       | <b>15.79</b>                       | <b>34.10</b>                         |

# ANNEXURES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

|  | Unaudited<br>June<br>2022<br>R'000           | Unaudited<br>June<br>2021<br>R'000           | Audited<br>December<br>2021<br>R'000           |
|--|--|--|--|
| <b>Reconciliation of SA REIT funds from operations (SA REIT FFO) to cash generated from operations</b> |  |  |  |
| SA REIT FFO  | 156 305                                      | 147 515                                      | 314 983  |
| <b>Adjustments</b>   |  |  |  |
| Interest received  | (1 742)                                      | (1 534)                                      | (3 096)  |
| Interest expense   | 78 438                                       | 72 581                                       | 151 181  |
| Amortisation of tenant installation and letting commission   | 7 281  | 5 362  | 12 179   |
| Tax expense  | -  | -  | -  |
| Other non-cash items   | 8 562  | 6 640  | 4 863  |
| Antecedent earnings adjustment   | 7 115  | 3 551  | 10 612   |
| <i>Working capital changes</i>   |  |  |  |
| (Increase)/decrease in trade and other receivables   | 84 178                                       | (149)  | (33 719)                                       |
| (Increase)/decrease in amounts due from Group companies  | (33 268)                                     | (23 046)                                     | (17 620)                                       |
| Increase/(decrease) in employee benefits   | (12 643)                                     | (7 075)                                      | 8 866  |
| Increase/(decrease) in trade and other payables  | (54 565)                                     | (25 895)                                     | 52 375   |
| <b>Cash generated from operations</b>  | <b>239 661</b>                               | <b>177 950</b>                               | <b>500 624</b>                                 |
|  | <b>Unaudited<br/>June<br/>2022<br/>R'000</b> | <b>Unaudited<br/>June<br/>2021<br/>R'000</b> | <b>Audited<br/>December<br/>2021<br/>R'000</b> |
| <b>SA REIT Net Asset Value (SA REIT NAV)</b>   |  |  |  |
| Reported NAV attributable to the parent  | 6 542 696                                    | 6 755 689                                    | 6 643 277                                      |
| Adjustments:   |  |  |  |
| Dividend to be declared  | (151 884)                                    | (140 071)                                    | (299 714)                                      |
| Deferred tax   | (12 772)                                     | (24 300)                                     | (16 424)                                       |
| <b>SA REIT NAV</b>   | <b>6 378 040</b>                             | <b>6 591 318</b>                             | <b>6 327 139</b>                               |
| Shares outstanding   | A  |  |  |
| Number of shares in issue at period-end (net of treasury shares)                                       | 868 890                                      | 887 087                                      | 878 835  |
| Effect of dilutive instruments (options, convertibles and equity interests)                            | -  | -  | -  |
| <b>Dilutive number of shares in issue</b>  | <b>B</b>                                     | <b>887 087</b>                               | <b>878 835</b>                                 |
| <b>SA REIT NAV per share</b>   | <b>A/B</b>                                   | <b>7.34</b>                                  | <b>7.20</b>                                    |



# ANNEXURES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

|  |              | Unaudited<br>June<br>2022<br>R'000 | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
|--|--------------|------------------------------------|------------------------------------|--------------------------------------|
| <b>SA REIT cost-to-income ratio</b>  |              |                                    |                                    |                                      |
| <i>Expenses</i>  |              |                                    |                                    |                                      |
| Operating expenses per IFRS income statement (includes municipal expenses)   |              | 194 544                            | 198 062                            | 372 238                              |
| Administrative expenses per IFRS income statement  |              | 60 763                             | 53 622                             | 112 455                              |
| Exclude:   |              |                                    |                                    |                                      |
| Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets |              | (971)                              | (126)                              | (400)                                |
| Rental discounts granted   |              | (3 200)                            | (15 020)                           | (7 758)                              |
| ECL provision (COVID-19)   |              | -                                  | -                                  | -                                    |
| <b>Operating costs</b>   | <b>A</b>     | <b>251 136</b>                     | 236 538                            | 476 535                              |
| <i>Rental income</i>   |              |                                    |                                    |                                      |
| Contractual rental income per IFRS income statement (excluding straight-lining)  |              | 344 271                            | 327 119                            | 656 197                              |
| Utility and operating recoveries per IFRS income statement   |              | 123 116                            | 118 459                            | 233 981                              |
| <b>Gross rental income</b>   | <b>B</b>     | <b>467 387</b>                     | 445 578                            | 890 178                              |
| <b>SA REIT cost-to-income ratio <sup>(1)</sup></b>   | <b>(A/B)</b> | <b>53.7%</b>                       | 53.1%                              | 53.5%                                |

(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.

|   |              | Unaudited<br>June<br>2022<br>R'000 | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
|---|--------------|------------------------------------|------------------------------------|--------------------------------------|
| <b>SA REIT administrative cost-to-income ratio</b>                              |              |                                    |                                    |                                      |
| <i>Expenses</i>   |              |                                    |                                    |                                      |
| Administrative expenses as per IFRS income statement                            |              | 60 763                             | 53 622                             | 112 455                              |
| <b>Administrative costs</b>   | <b>A</b>     | <b>60 763</b>                      | 53 622                             | 112 455                              |
| <i>Rental income</i>  |              |                                    |                                    |                                      |
| Contractual rental income per IFRS income statement (excluding straight-lining) |              | 344 271                            | 327 119                            | 656 197                              |
| Utility and operating recoveries per IFRS income statement                      |              | 123 116                            | 118 459                            | 233 981                              |
| <b>Gross rental income</b>  | <b>B</b>     | <b>467 387</b>                     | 445 578                            | 890 178                              |
| <b>SA REIT administrative cost-to-income ratio</b>                              | <b>(A/B)</b> | <b>13.0%</b>                       | 12.0%                              | 12.6%                                |

# ANNEXURES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

|  |              | Unaudited<br>June<br>2022<br>R'000 | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
|--|--------------|------------------------------------|------------------------------------|--------------------------------------|
| <b>SA REIT GLA vacancy rate</b>                      |              |                                    |                                    |                                      |
| Gross lettable area of vacant space                  | A            | 66 963                             | 59 274                             | 59 685                               |
| Gross lettable area of total property portfolio      | B            | 946 318                            | 946 318                            | 946 318                              |
| <b>SA REIT GLA vacancy rate</b>                      | <b>(A/B)</b> | <b>7.1%</b>                        | 6.3%                               | 6.3%                                 |
| <b>Cost of debt</b>                                  |              |                                    |                                    |                                      |
| <i>Variable interest-rate borrowings</i>             |              |                                    |                                    |                                      |
| Floating reference rate plus weighted average margin |              | 5.9%                               | 4.9%                               | 5.3%                                 |
| <i>Fixed interest-rate borrowings</i>                |              |                                    |                                    |                                      |
| Weighted average fixed rate                          |              | 8.6%                               | 9.2%                               | 8.9%                                 |
| <b>Pre-adjusted weighted average cost of debt</b>    | <b>A</b>     | <b>6.4%</b>                        | 6.1%                               | 6.3%                                 |
| <i>Adjustments:</i>                                  |              |                                    |                                    |                                      |
| <b>Impact of interest rate derivatives</b>           | <b>B</b>     | <b>1.1%</b>                        | 2.1%                               | 1.9%                                 |
| <b>All-in weighted average cost of debt</b>          | <b>A+B</b>   | <b>7.5%</b>                        | 8.2%                               | 8.2%                                 |

# ANNEXURES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## A. ADOPTION OF BEST PRACTICE RECOMMENDATIONS CONTINUED

|   |            | Unaudited<br>June<br>2022<br>R'000           | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
|---|------------|--|------------------------------------|--------------------------------------|
| <b>SA REIT loan-to-value</b>  |            |  |                                    |                                      |
| Gross debt  |            | 2 059 891                                    | 2 002 891                          | 2 009 891                            |
| <i>Less:</i>  |            |  |                                    |                                      |
| Cash and cash equivalents   |            | (53 646)                                     | (29 345)                           | (102 715)                            |
| <i>Add/Less:</i>  |            |  |                                    |                                      |
| Derivative financial instruments  |            | 53   | 31 267                             | 18 535                               |
| <b>Net debt</b>   | <b>A</b>   | <b>2 006 298</b>                             | 2 004 813                          | 1 925 711                            |
| Total assets – per Statement of Financial Position  |            | <b>8 793 716</b>                             | 8 952 794                          | 8 929 254                            |
| <i>Less:</i>  |            |  |                                    |                                      |
| Cash and cash equivalents   |            | (53 646)                                     | (29 345)                           | (102 715)                            |
| Trade and other receivables   |            | (304 459)                                    | (327 509)                          | (355 897)                            |
| <b>Carrying amount of property-related assets</b>   | <b>B</b>   | <b>8 435 611</b>                             | 8 595 940                          | 8 470 642                            |
| <b>SA REIT loan-to-value (“SA REIT LTV”)</b>  | <b>A/B</b> | <b>23.8%</b>                                 | 23.3%                              | 22.7%                                |
|   |            |  |                                    |                                      |
|   |            | <b>Unaudited<br/>June<br/>2022<br/>R'000</b> | Unaudited<br>June<br>2021<br>R'000 | Audited<br>December<br>2021<br>R'000 |
| <b>Net initial yield</b>  |            |  |                                    |                                      |
| Investment property   |            | 8 359 753                                    | 8 508 432                          | 8 418 775                            |
| <i>Less:</i>  |            |  |                                    |                                      |
| Properties under development  |            | (27 706)                                     | (28 599)                           | (27 683)                             |
| <b>Grossed up property value</b>  | <b>A</b>   | <b>8 332 047</b>                             | 8 479 833                          | 8 391 092                            |
| <i>Property income</i>  |            |  |                                    |                                      |
| Contractual cash rentals  |            | 667 407                                      | 646 120                            | 655 077                              |
| <i>Less:</i>  |            |  |                                    |                                      |
| Non-recoverable property expenses   |            | (168 184)                                    | (106 131)                          | (158 158)                            |
| <i>Add:</i>   |            |  |                                    |                                      |
| Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives |            | 2 594  | 15 020                             | 5 189                                |
| <b>Annualised net rental</b>  | <b>B</b>   | <b>501 817</b>                               | 555 009                            | 502 108                              |
| Net initial yield   | <b>B/A</b> | <b>6.0%</b>                                  | 6.5%                               | 6.0%                                 |

# CORPORATE INFORMATION

Date of registration: 10 July 2018

## Liberty Two Degrees Limited

JSE code: L2D

ISIN: ZAE000260576

Registration number: 2018/388906/06

(Approved as a REIT by the JSE)

(Liberty Two Degrees or L2D)

## Company secretary

Ben Swanepoel

Liberty Two Degrees

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Corner of Maude and 5th Street

Sandton

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## Registered office

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