



two°degrees

Summarised group results

for the year ended 31 December 2019

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Highlights

3.6%⁽¹⁾

retail trading density growth
with Sandton City 9%

60.43⁽²⁾

cents per share full year
distribution in line with guidance

2.3%

retail vacancy

Sustainability

initiatives successfully delivered

Favourably refinanced
2019 debt expiry

⁽¹⁾ Trading density is based on a 12-month rolling period (excluding Melrose Arch and Lifestyle Centre).

⁽²⁾ 60.00 cents per share for the year ended 31 December 2018.

Commentary

Profile

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange (JSE) with a market capitalisation of R6.1 billion at 31 December 2019 (2018: R6.3 billion).

Performance

L2D Group (L2D) includes 2 Degrees Properties Proprietary Limited (the operating subsidiary), STANLIB REIT Fund Managers (RF) Proprietary Limited (the previous management company) and Liberty Two Degrees Restricted Share Plan Trust (Trust). At 31 December 2019, L2D's 100% South African property portfolio was valued at R10.27 billion (2018: R10.15 billion) and the net asset value per share increased by 2.1%. This includes the acquisition of an additional stake in Botshabelo Mall for R24 million. Following the sale of Century City offices, pending transfer, R123 million of property is now classified as held for sale. Overall property valuations remained flat in comparison to the prior year reflecting the weak fundamentals in the South African economy.

L2D reported net property income (NPI) of R693.6 million for the year ended 31 December 2019 (2018: R589.1 million) which includes a full year relating to the assets acquired on 1 November 2018. The NPI growth normalised for effective ownership is 5.36%. NPI growth was primarily driven by good underlying rental growth and retail space previously in fit-out that is now trading. This is supported by retail trading density growth of 3.6% achieved for the year. The trading density at Sandton City remains strong and grew by 9%. Good retail leasing initiatives resulted in leases covering 149 101m² being renewed in the year (2018: 49 472m²) and a further 37 031m² (2018: 52 557m²) in new tenant lease agreements were concluded across the portfolio, reflecting a healthy demand for rental space at the centres. The gross cost to income ratio for the year has improved to 31.8% (2018: 35.8%) as a result of good cost management initiatives. Profit from operations is up 15.12% from the prior year. As expected and as a result of the full year interest expense on the debt raised in 2018, profit before tax decreased to R534.7 million (2018: R646.8 million) and headline earnings per share decreased slightly to 57.76 cents (2018: 59.86 cents).

As at 31 December 2019, the investment in Edcon is carried at fair value at R17.5 million. L2D considers the carrying value appropriate given the current forecast and outlook.

On 25 July 2019, the Board declared an interim dividend of 29.31 cents per share for the six months ended 30 June 2019. Subsequent to year-end, on 20 February 2020, the Board declared a final dividend of 31.12 cents per share for the six months ended 31 December 2019, which will be paid on 23 March 2020. This brings the full year distribution to 60.43 (2018: 60.00) cents per share which is in line with L2D's guidance to the market.

Accounting treatment for the new hotels' agreement

The new hotel lease agreement with Reshub Proprietary Limited, a subsidiary of Tsogo Sun Hotels Limited, came into effect on 1 October 2019. Significant judgement has been applied to conclude that the agreement is a lease in terms of IFRS 16 Leases and that the hotels remain investment property in terms of IAS 40. This treatment has been consulted on and accepted by L2D's external auditors.

L2D's vision and strategy

L2D's vision is to be the leading South African precinct focused retail-centred REIT. This vision is supported by strategic value drivers that drive the financial outcome and distribution to shareholders as well as the greater good that we do which is embodied in:



Commentary continued

Changes in fair values

L2D's property portfolio was valued at R10.27 billion (2018: R10.14 billion) by external independent registered valuers on an open market value basis at 31 December 2019. Century City offices (R123.2 million) has been classified as non-current assets held for sale in terms of IFRS 5 pending transfer post signature of the sale agreement prior to the financial year end. In terms of IAS 40 and IFRS 13, investment properties are measured at fair value through profit or loss using valuation inputs which are categorised as level 3 on the fair value hierarchy.

Property portfolio

The portfolio vacancy rate increased during the year to 4.7% (2018: 3.4%).

Leases covering 149 101m² (2018: 49 472m²) were renewed during the year at an overall reversion rate of -11.8% (2018: 2.3%).

A further 37 031m² (2018: 52 557m²) in new tenant lease agreements were concluded across the portfolio during the period.

Arrears increased to 6.3% (2018: 5.2%) of the collectable book. The increase in arrears is attributed to the difficult economic environment, in particular the impact on smaller independent retailers.

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

	Gross lettable area (m ²) ⁽¹⁾	Gross monthly rental (R'000) ⁽²⁾
Sector composition by GLA		
Retail	523 135	54 423
Office	331 326	6 809
Specialised	113 405	3 517
Total	967 866	64 749

Note:

- Gross lettable area is at 100% of the measured size of the built asset, a portion of which is owned by L2D.
- Gross monthly rental consists of basic rental plus property expense recoveries.

%	2019	2018
Vacancy profile		
Total retail	2.3	1.2
Total office	10.2	8.0
Total specialised	—	—
Total	4.7	3.4

%	Vacant	Monthly	2020	2021	2022	2023	2024+
Lease expiry profile – gross lettable area							
Total retail	2.3	10.2	11.9	15.1	13.5	11.8	35.2
Total office	10.2	2.7	17.3	7.5	23.5	3.4	35.4
Total specialised	—	—	51.5	0.2	9.9	3.6	34.8
Total	4.7	6.3	18.7	10.6	16.5	7.9	35.3

Interest-bearing borrowings

L2D's interest-bearing borrowings (net of cash and cash equivalents and including the fair value of cash settled hedges) represented 16.1% (2018: 16.0%) of the value of its property portfolio. The average cost of funding as at 31 December 2019 (all Rand-denominated) is 8.95% (2018: 9.27%), interest rates are hedged on 74.45% (2018: 32.95%) of borrowings with an average expiry of 2.84 years (2018: 2.83).

The interest cover ratio is 4.68x (2018: 48.3x). L2D has the capacity to take on further debt and has a targeted long-term LTV of 35%.

Commentary continued

Commitments

Capital commitments outstanding amount to R330.6 million (2018: R433.1 million). Capital commitments will be funded from debt facilities.

Prospects

The South African economy remains challenging as evidenced by weak consumer demand. L2D's conservative gearing with LTV at 16% provides a buffer against the current economic climate. The balance sheet capacity and continued operational performance of L2D's defensive portfolio are key differentiators in a difficult trading environment. L2D's South African retail strategy has been validated by the good trading performance in the core retail portfolio evidenced by low retail vacancy rates and positive trading density growth.

Looking forward, L2D will continue to invest in its assets and execute on the experiential retail strategy whilst committing to achieving well defined sustainability targets. L2D uses distribution per share as a relevant measure of financial performance. As a result of the current economic conditions in South Africa, L2D's guidance for the 2020 full-year distribution is to be equivalent to 2019.

This guidance is reliant on the following key assumptions: forecasted net property income is based on contractual rental escalations and market-related renewals, appropriate allowances for vacancies have been incorporated into the forecast, no further dilutionary gearing is introduced and that no major tenant failures will occur. The forecast or any forward looking statements have not been reviewed or reported on by L2D's auditors.

Declaration of a cash distribution

The Board has approved and notice is hereby given of a distribution of 31.12 cents per share for the six months ended 31 December 2019 (the distribution).

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

	2020
Last date to trade <i>cum</i> dividend	Tuesday, 17 March
Shares trade <i>ex</i> dividend	Wednesday, 18 March
Record date	Friday, 20 March
Payment date	Monday, 23 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 March 2020 and Friday, 20 March 2020, both days inclusive.

Payment of the distribution will be made to shareholders on Monday, 23 March 2020. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Monday, 23 March 2020. Certificated shareholders' dividend payments will be posted on or about Monday, 23 March 2020.

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

L2D's income tax reference number: 9087144235.

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

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

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

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

Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder, the net dividend amount due to non-resident shareholders is 24.89600 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

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

Commentary continued

Events after reporting date

In line with IAS 10 Events after the Reporting Period, the declaration of the final dividend of 31.12 cents per share for the six months ended 31 December 2019 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

Restatement — Segmental reporting

L2D is disclosing its share of GLA excluding co-owners in line with the financial segment earnings.

Basis of preparation

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

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

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

The Board takes full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying financial statements.

By order of the Board of Directors

Angus Band
Chairman

Amelia Beattie
Chief executive

José Snyders
Financial director

24 February 2020

Statement of financial position

as at 31 December 2019

R'000	Group	
	2019	2018
Assets		
Non-current assets	10 163 254	10 145 122
Investment properties	10 112 155	10 111 609
Investment properties under development	32 768	32 768
Property, plant and equipment	836	745
Investment in subsidiaries	—	—
Financial assets – unlisted equity	17 495	—
Current assets	386 907	333 264
Trade and other receivables	253 241	277 963
IFRS 16 – lease asset	1 688	—
Amount due from Group companies	66 119	42 645
Financial assets	660	600
Current tax receivable	—	686
Cash and cash equivalents	65 199	11 370
Non-current asset held for sale	123 213	—
Total assets	10 673 374	10 478 386
Equity		
Stated capital	8 780 921	8 780 489
Treasury shares	(39 205)	—
Retained surplus	290 081	122 646
Share-based payment reserve	18 240	—
Mergers/capital reserve	(426 104)	(426 104)
Non-distributable reserve	93 073	106 865
Total equity	8 717 006	8 583 896
Liabilities		
Non-current liabilities		
Financial liabilities	1 695 000	1 000 000
Current liabilities	261 368	894 490
Trade and other payables	200 905	236 212
IFRS 16 – lease liability	1 995	—
Employee benefits	17 323	23 372
Amount due to Group companies	14	10
Current tax payable	74	—
Financial instruments	16 891	8 289
Financial liabilities	24 166	626 607
Total liabilities	1 956 368	1 894 490
Total equity and liabilities	10 673 374	10 478 386

Statement of comprehensive income

for the year ended 31 December 2019

R'000	Group	
	2019	2018
Property portfolio revenue	999 189	913 810
Rental and related income	1 023 891	915 069
Adjustment for the straight-lining of operating lease income	(24 702)	(1 259)
Net revenue from hotel operations	24 677	—
Property operating expenses	(325 585)	(327 157)
Change in expected credit losses on rental debtors	(4 729)	2 469
Net property income	693 552	589 122
Asset management fee income	61 490	63 753
Development fee income	6 747	162
Total net property income and revenue	761 789	653 037
Other income	181	4 049
Operating costs	(93 156)	(76 126)
Profit from operations excluding fair value adjustments	668 814	580 960
Interest expense	(148 530)	(25 282)
Interest received	3 482	12 462
Realised loss on sale of equity	—	(2 085)
Profit before fair value adjustments	523 766	566 055
Net fair value adjustments	10 910	80 762
Fair value adjustments on investment properties	2 054	89 860
Fair value adjustment on derivatives	(8 602)	(8 289)
Fair value adjustment on equity instrument	(7 244)	(2 068)
Adjustment for the straight-lining of operating lease income	24 702	1 259
Profit before taxation	534 676	646 817
Taxation	(185)	(6 082)
Total comprehensive income	534 491	640 735
Basic earnings per share (cents)	58.96	70.53
Fully diluted earnings per share (cents)	58.96	70.53

Statement of changes in equity

for the year ended 31 December 2019

	Group						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/capital reserve	Total
Balance at 1 January 2018	8 782 290	—	—	29 448	274 186	(92 459)	8 993 465
Total comprehensive income	—	—	—	—	640 735	—	640 735
Capitalised transaction costs	(1 801)	—	—	—	—	—	(1 801)
Capital reorganisation impact	—	—	—	—	—	(333 645)	(333 645)
Fair value adjustment on investment properties transferred to non-distributable reserve	—	—	—	89 860	(89 860)	—	—
Realised loss on sale of listed equity investment transferred to non-distributable reserve	—	—	—	(2 086)	2 086	—	—
Fair value adjustment on derivatives	—	—	—	(8 289)	8 289	—	—
Fair value adjustment on equity instrument	—	—	—	(2 068)	2 068	—	—
Distribution to shareholders	—	—	—	—	(695 232)	—	(695 232)
Distribution to Liberty Holdings Limited	—	—	—	—	(19 626)	—	(19 626)
Balance at 1 January 2019	8 780 489	—	—	106 865	122 646	(426 104)	8 583 896
Total comprehensive income	—	—	—	—	534 491	—	534 491
Treasury shares acquired by the Trust	—	(39 205)	—	—	—	—	(39 205)
Share-based payment transaction	—	—	18 240	—	698	—	18 938
Capitalised costs	432	—	—	—	—	—	432
Fair value adjustment on investment properties transferred to non-distributable reserve	—	—	—	2 054	(2 054)	—	—
Fair value adjustment on derivatives	—	—	—	(8 602)	8 602	—	—
Fair value adjustment on equity instrument	—	—	—	(7 244)	7 244	—	—
Distribution to shareholders	—	—	—	—	(381 546)	—	(381 546)
Balance at 31 December 2019	8 780 921	(39 205)	18 240	93 073	290 081	(426 104)	8 717 006

Statement of cash flows

for the year ended 31 December 2019

R'000	Group	
	2019	2018
Cash flows from operating activities	158 370	(495 176)
Cash generated by operations	682 775	241 233
Interest received on financial assets	60	4 665
Interest received	3 421	7 797
Interest paid	(146 915)	(2 586)
Taxation paid/(received)	575	(5 356)
Distribution to shareholders	(381 546)	(695 232)
Distribution to Liberty Holdings Limited	—	(45 697)
Cash flows from investing activities	(154 341)	(1 119 826)
Expenditure on investment properties capitalised	(104 336)	(185 805)
Expenditure on investment properties under development	—	(108)
Acquisition of investment properties	(24 643)	(1 196 457)
Acquisition of investment properties under development	—	(3 543)
Acquisition of property, plant and equipment	(563)	(661)
Investment in financial instruments – mutual funds	(60)	(557 074)
Proceeds from disposal of financial instruments – mutual funds	—	672 196
Investment in financial instruments – unlisted equity	(24 739)	—
Proceeds from disposal of financial instruments – equity instrument	—	151 626
Cash flows from financing activities	49 800	1 603 739
Treasury shares acquired	(39 205)	—
Finance lease liability repayments	(2 084)	—
Loan paid	(428 149)	(105 913)
Loans received	519 238	1 709 652
Net increase/(decrease) in cash and cash equivalents	53 829	(11 263)
Cash balance at beginning of the year	11 370	22 633
Cash and cash equivalents at the end of the year	65 199	11 370

Notes to the consolidated annual financial statements

for the year ended 31 December 2019

Segment information

The performance of net property income is assessed using the below metrics:

- Retail and offices: Vacancies, footfall, trading density, reversions and turnover growth; and
- Hotels: Occupance levels and revenue per room (RevPar).

	December 2019					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Unaudited GLA						
Total property GLA (m²)	523 135	331 326	113 405	—	—	967 866
L2D's share of total GLA (m²) ⁽²⁾	150 070	60 485	23 483	—	—	234 038
Segment earnings						
Property portfolio revenue	634 223	255 621	99 243	9 131	971	999 189
Rental and related income	650 062	262 005	101 722	9 131	971	1 023 891
Adjustment for the straight-lining of operating lease income	(15 839)	(6 384)	(2 479)	—	—	(24 702)
Net revenue from hotel operations	—	—	—	24 677	—	24 677
Property operating expenses	(205 568)	(82 853)	(32 167)	(2 750)	(2 247)	(325 585)
Change in expected credit loss on rental debtors	(3 032)	(1 222)	(475)	—	—	(4 729)
Net property income	425 623	171 546	66 601	31 058	(1 276)	693 552
Asset management fee income	—	—	—	—	61 490	61 490
Development fee income	—	—	—	—	6 747	6 747
Total net property income and revenue	425 623	171 546	66 601	31 058	66 961	761 789
Other income	—	—	—	—	181	181
Operating costs	—	—	—	—	(93 156)	(93 156)
Profit/(loss) from operations excluding fair value adjustments	425 623	171 546	66 601	31 058	(26 014)	668 814
Interest expense	—	—	—	—	(148 530)	(148 530)
Interest received	—	—	—	—	3 482	3 482
Profit before fair value adjustments	425 623	171 546	66 601	31 058	(171 062)	523 766
Net fair value adjustments on investment properties	10 794	4 350	1 689	9 923	—	26 756
Fair value adjustments	(5 045)	(2 034)	(790)	9 923	—	2 054
Adjustment for the straight-lining of operating lease income	15 839	6 384	2 479	—	—	24 702
Fair value adjustment on derivatives	—	—	—	—	(8 602)	(8 602)
Fair value adjustment on equity instrument	—	—	—	—	(7 244)	(7 244)
Profit before taxation	436 417	175 896	68 290	40 981	(186 908)	534 676
Taxation	—	—	—	—	(185)	(185)
Total comprehensive income	436 417	175 896	68 290	40 981	(187 093)	534 491

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

⁽²⁾ Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Segment information (continued)

	December 2019					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Segment assets and liabilities						
Investment property	6 275 827	2 529 452	982 047	357 597	—	10 144 923
Non-current asset held for sale	—	123 213	—	—	—	123 213
Property, plant and equipment	—	—	—	—	836	836
Amount due from Group companies	—	—	—	—	66 119	66 119
Trade and other receivables	117 596	47 396	18 401	57 036	12 812	253 241
Financial assets	—	—	—	—	660	660
Financial assets — unlisted equity	—	—	—	—	17 495	17 495
IFRS 16 — lease asset	—	—	—	—	1 688	1 688
Cash and cash equivalents	—	—	—	—	65 199	65 199
Total assets	6 393 423	2 700 061	1 000 448	414 633	164 809	10 673 374
Trade and other payables	(90 146)	(36 333)	(14 106)	(31 778)	(28 542)	(200 905)
Employee benefits	—	—	—	—	(17 323)	(17 323)
Amount due to Group companies	—	—	—	—	(14)	(14)
Current tax payable	—	—	—	—	(74)	(74)
Financial instruments	—	—	—	—	(16 891)	(16 891)
Financial liabilities	—	—	—	—	(1 719 166)	(1 719 166)
Lease liability	—	—	—	—	(1 995)	(1 995)
Net assets	6 303 277	2 663 728	986 342	382 855	(1 619 196)	8 717 006

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

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Segment information (continued)

L2D's share of total GLA for 2019 was correctly applied as per the new ownership percentages. As a result, 2018 has been recalculated on this basis. This has been restated with the changes effected below:

	December 2018 Published					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Unaudited GLA						
Total property GLA (m²)	523 135	331 326	113 405	—	—	967 866
L2D's share of total GLA (m²) ⁽²⁾	174 208	110 334	37 987	—	—	322 529

	December 2018 Restated					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Unaudited GLA						
Total property GLA (m²)	523 135	331 326	113 405	—	—	967 866
L2D's share of total GLA (m²) ⁽²⁾	147 998	60 485	23 483	—	—	231 966

Change in unaudited GLA

Total property GLA (m ²)	—	—	—	—	—	—
L2D's share of total GLA (m ²) ⁽²⁾	26 210	49 849	14 504	—	—	90 563

Segment earnings

Segment earnings		December 2018 Restated				
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Property portfolio revenue	564 533	230 719	89 575	28 641	342	913 810
Rental and related income	565 336	231 047	89 703	28 641	342	915 069
Adjustment for the straight-lining of operating lease income	(803)	(328)	(128)	—	—	(1 259)
Property operating expenses	(191 551)	(78 285)	(30 394)	(24 967)	(1 960)	(327 157)
Change in expected credit loss on rental debtors	1 575	644	250	—	—	2 469
Net property income	374 557	153 078	59 431	3 674	(1 618)	589 122
Asset management fee income	—	—	—	—	63 753	63 753
Development fee income	—	—	—	—	162	162
Total net property income and revenue	374 557	153 078	59 431	3 674	62 297	653 037
Other income	—	—	—	—	4 049	4 049
Operating costs	—	—	—	—	(76 126)	(76 126)
Profit/(loss) from operations excluding fair value adjustments	374 557	153 078	59 431	3 674	(9 780)	580 960
Interest expense	—	—	—	—	(25 282)	(25 282)
Interest received	—	—	—	—	12 462	12 462
Realised loss on sale of equity	—	—	—	—	(2 085)	(2 085)
Profit before fair value adjustments	374 557	153 078	59 431	3 674	(24 685)	566 055
Net fair value adjustments on investment properties	59 137	24 168	9 384	(1 570)	—	91 119
Fair value adjustments	58 334	23 840	9 256	(1 570)	—	89 860
Adjustment for the straight-lining of operating lease income	803	328	128	—	—	1 259
Fair value adjustment on derivatives	—	—	—	—	(8 289)	(8 289)
Fair value adjustment on equity instrument	—	—	—	—	(2 068)	(2 068)
Profit before taxation	433 694	177 246	68 815	2 104	(35 042)	646 817
Taxation	—	—	—	—	(6 082)	(6 082)
Total comprehensive income	433 694	177 246	68 815	2 104	(41 124)	640 735

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

⁽²⁾ Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Segment information (continued)

	December 2018 Restated					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other ⁽¹⁾	Total
Segment assets and liabilities						
Investment property	6 248 709	2 553 782	991 493	350 393	—	10 144 377
Property, plant and equipment	—	—	—	—	745	745
Amount due from Group companies	—	—	—	—	42 645	42 645
Trade and other receivables	124 048	50 697	19 683	55 672	27 863	277 963
Financial assets	—	—	—	—	600	600
Current tax receivable	—	—	—	—	686	686
Cash and cash equivalents	—	—	—	—	11 370	11 370
Total assets	6 372 757	2 604 479	1 011 176	406 065	83 909	10 478 386
Trade and other payables	(95 355)	(38 970)	(15 130)	(37 722)	(49 035)	(236 212)
Amount due from Group companies	—	—	—	—	(10)	(10)
Provisions	—	—	—	—	(23 372)	(23 372)
Financial instruments	—	—	—	—	(8 289)	(8 289)
Financial liabilities	—	—	—	—	(1 626 607)	(1 626 607)
Net assets	6 277 402	2 565 509	996 046	368 343	(1 623 404)	8 583 896

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

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Headline earnings, distributable income and earnings per share

R'000	Group	
	2019	2018
Reconciliation of total earnings to headline earnings and distributable income		
Total earnings (basic earnings)	534 491	640 735
Fair value adjustment to investment properties and financial investments	(10 910)	(80 762)
Loss on disposal of equity instruments	—	2 085
Capital reorganisation adjustment	—	(18 252)
Headline earnings	523 581	543 806
Trust distributions	698	—
Straight-lining of operating lease income	24 702	1 259
Distributable income (unaudited)	548 981	545 065
	Cents	Cents
Earnings per share		
Basic and diluted	58.96	70.53
Headline	57.76	59.68
Distributable income	60.43	60.00
	Rand	Rand
Net asset value per share (Unaudited)*	9.65	9.45
	000s	000s
Actual number of shares in issue ('000)	908 443	908 443
Weighted average number of share in issue*	906 471	908 443
Diluted weighted average number of shares in issue*	906 471	908 443

* Excludes 5 558 881 treasury shares purchased in the current year.

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

Headline earnings per share is a disclosure requirement in terms of the JSE Listings Requirements for companies listed on the JSE. Circular 1/2019, 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 annual financial statements continued

for the year ended 31 December 2019

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); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy for financial instruments and investment properties

R'000	Year ended 31 December 2019			
	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	10 112 155	–	–	10 112 155
Investment property under development	32 768	–	–	32 768
Non-current assets held for sale	123 213	–	–	123 213
Financial assets	18 155	–	18 155	–
	10 286 291	–	18 155	10 268 136
Liabilities				
Interest rate swap	16 891	–	16 891	–
	16 891	–	16 891	–

R'000	Year ended 31 December 2018			
	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	10 111 609	–	–	10 111 609
Investment property under development	32 768	–	–	32 768
Financial assets	600	–	600	–
	10 144 977	–	600	10 144 377
Liabilities				
Interest rate swap	8 289	–	8 289	–
	8 289	–	8 289	–

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

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 and investment property for the period under review.

Valuation techniques

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

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

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

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	Unlisted equity	Discounted cash flow	Discount rate
3	Investment properties	Discounted cash flow	Refer note 5 for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

Reconciliation of level 3 assets and liabilities

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

R'000	2019	2018
Investment property and investment property under development		
Fair value at the beginning of the year	10 144 377	8 708 712
Transferred from investment property	24 643	1 200 000
Transferred to non-current assets held for sale	(122 068)	—
Capitalised cost	96 996	145 805
Fair value adjustments (unrealised)	975	89 860
Closing balance at the end of the year	10 144 923	10 144 377
Non-current assets held for sale		
Fair value at the beginning of the year	—	—
Transferred from investment property	122 068	—
Capitalised cost	318	—
Amortisation	(251)	—
Fair value adjustments (unrealised)	1 078	—
Closing balance at the end of the year	123 213	—
Unlisted equity		
Fair value at the beginning of the year	—	—
Additions — unlisted equity acquired	24 739	—
Fair value adjustments (unrealised)	(7 244)	—
Closing balance at the end of the year	17 495	—

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

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair values were determined using the discounted cash flow methodology. The exit capitalisation rates applied at 31 December 2019 range between 6.5% and 10.0%.

The table below indicates the sensitivity of the aggregate market values for a 100bps (2018: 100bps) change in the exit capitalisation rate.

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Sensitivity analysis of level 3 assets (continued)

	Rm	Change in exit capitalisation rate	
		100bps increase	100bps decrease
2019			
Properties below 6.8% exit capitalisation rate	4 113	3 710	4 635
Properties between 6.8% – 8.5% exit capitalisation rate	5 428	4 935	5 992
Properties between 8.6% – 10.0% exit capitalisation rate	727	671	798
Total	10 268	9 316	11 425
2018			
Properties below 6.8% exit capitalisation rate	4 136	3 721	4 677
Properties between 6.8% – 8.5% exit capitalisation rate	5 264	4 797	5 886
Properties between 8.6% – 10.5% exit capitalisation rate	744	684	819
Total	10 144	9 202	11 382

The table below indicates the sensitivity of the aggregate market values for a 50bps (2018: 50bps) change in the discount rate (excludes hotel buildings).

	Rm	Change in discount rate	
		50bps increase	50bps decrease
2019			
Total property portfolio	9 911	9 680	10 052
2018			
Total property portfolio	9 794	9 601	9 969

Unlisted equity

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

The table below indicates the sensitivity of the aggregate market values for a 100bps (2018: N/A) change in the discount rate.

	Rm	Change in discount rate	
		100bps increase	100bps decrease
2019			
Unlisted equity	17 495	14 107	21 394
Total	17 495	14 107	21 394

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Changes in accounting policies

L2D has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board (IASB) which were effective for L2D from 1 January 2019. In particular, the following standards had an impact on L2D's consolidated annual financial statements:

IFRS 16 Leases

Impact on the consolidated annual financial statements

Lessee accounting

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. L2D elected to adopt IFRS 16 retrospectively from 1 January 2019 using the modified retrospective approach without restating comparative figures. There was no impact to opening retained earnings on adoption of IFRS 16. IFRS 16 replaces the existing lease standard and the related interpretations. In applying IFRS 16 for the first time, L2D used certain practical expedients permitted by the standard, namely a single discount rate for leases with reasonably similar characteristics. All leases that met the definition of a lease under IAS 17 were carried forward as a lease under IFRS 16. The liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The incremental borrowing rate applied to the lease liability on 1 January 2019 was 7.56%. This rate was obtained from STANLIB Wealth Management Limited who is the primary lessee of the leased asset. L2D will recognise a right-of-use asset and lease liability for its operating lease of property. The nature of expenses related to this lease will now change from an operating lease charge to a depreciation charge for the right-of-use asset and interest expense for the lease liability.

Lessor accounting

Lessor accounting remains substantially unchanged and L2D, as a lessor, has operating leases only.

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 — a full list can be obtained from the company secretary and details are contained in the published consolidated annual financial statements of LGL. Notably, 2 Degrees Properties (2DP), and the Manager, the previous management company (SRFM), are all wholly-owned subsidiaries of L2D.

Transactions with related entities

Transactions with SBG

As at 31 December 2019, R1 billion is owed to SBG for the purchase of properties as well as the purchase of SRFM business in 2018 (2018: R860 million).

Standard Bank Centre

The Standard Bank Centre is fully let to SBG on a seven-year lease. Rental income received by L2D for the year ended 31 December 2019 was R15.2 million (2018: R18.1 million).

Transactions with L2D CSIP

As at 31 December 2019, R144 242 is receivable from L2D CSIP (2018: Rnil).

Transactions with LGL

Liberty Centre Head Office Cape Town

83.1% of the property is let to LGL, the parent of L2D. Rental income received by L2D for the year ended 31 December 2019 was R14.5 million (2018: R11.7 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 71.1% of the property is let to LGL on a five-year lease.

Rental income received by L2D for the year ended 31 December 2019 was R8.8 million (2018: R9.3 million).

Eastgate Office Tower

LGL occupies 2 790m² of office space in the Eastgate Office Tower.

Rental income received by L2D for the year ended 31 December 2019 was R2.4 million (2018: R1.4 million).

Development fee income

Development fees income amounting to R6.7 million was earned during 2019 (2018: R162 000).

Asset management fee income

Management fees on assets under management amounting to R61.5 million was earned during 2019 (2018: R63.7 million).

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

Related party disclosure (continued)

Loan with LGL

As at 31 December 2019, R66.1 million is owed by LGL for working capital. (2018: R38.3 million).

R80.6 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 (2018: R63.6 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.

Transactions with other related entities

Operating lease payments

STANLIB Wealth Management Limited, as a lessee, paid an amount of R5.3 million (2018: R4.3 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

JHI Retail Property Proprietary Limited (JHI)

The property management function in respect of L2D 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.

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 L2D.

Property management service net fees paid by L2D to JHI Retail for the year ended 31 December 2019 amounted to R28.8 million (2018: R24.9 million).

Loan with STANLIB Asset Management Limited

As at 31 December 2019, R14 432 is owed to STANLIB Asset Management Limited (2018: R10 158).

Intercompany transactions

As at 31 December 2019, The Liberty Two Degrees Restricted Share Plan Trust (Trust) obtained a loan from 2DP of R39.1 million to acquire shares for the LTIP (2018: Rnil).

As at 31 December 2019, 2DP has a loan with SRFM of R6.3 million (2018: R15.1 million).

As at 31 December 2019, L2D Ltd has a loan with 2DP of R177.0 million. This includes a dividend receivable of R302.3 million and the remainder is a working capital loan (2018: (R112.3 million)).

As at 31 December 2019, L2D Ltd has a loan receivable from the Trust of R53 660 relating to surplus profits distributed to L2D Ltd (2018: Rnil).

Annexures to the consolidated annual financial statements

for the year ended 31 December 2019

Distributable earnings

R'000	2019		2018
	As per income statement	Distributable	Distributable
Rental and related income	1 023 891	1 023 891	915 069
Net revenue from hotel operations	24 677	24 677	—
Property operating expenses	(325 585)	(325 585)	(327 157)
Change in expected credit losses on rental debtors	(4 729)	(4 729)	2 469
Asset management fee	61 490	61 490	63 753
Development fee	6 747	6 747	162
Other income	181	181	4 049
Operating costs	(93 156)	(93 156)	(76 126)
Net interest paid	(145 048)	(145 048)	(12 820)
Interest paid	(148 530)	(148 530)	(25 282)
Interest received	3 482	3 482	12 462
Taxation	(185)	(185)	(6 082)
Dividend income	—	—	—
Trust distributions	—	698	—
Preacquisition adjustment	—	—	(18 252)
Total distribution	548 283	548 981	545 065
Less distribution to shareholder (payment 1)	—	266 265	266 265
Less distribution to shareholder (payment 2)	—	—	163 520
Available for distribution (payment 3)	—	282 716	115 280
Shares in issue	—	908 443	908 443
Dividend per share subsequent to year-end(cents)	—	31.12	12.69
Distribution for the year in cents	—	—	—
Dividend per share interim	—	29.31	29.31
Dividend per share clean out	—	—	18.00
Dividend per share — final (subsequent to year-end)	—	31.12	12.69
Total distribution	—	60.43	60.00

Distribution is taxable income in the hands of local residents and withholding tax will apply to non-residents and will be dependent on the double tax agreement with the applicable country.

R'000	2019	2018
	Distributable	Distributable
Distribution accounted for during the year		
Dividend per share — prior year final	12.69	29.22
Dividend per share — interim	29.31	29.31
Dividend per share — clean out	—	18.00
	42.00	76.53
Distribution to shareholders	(381 546)	(695 232)
Distribution to Liberty Holdings Limited	—	(19 626)
Effects of capital reorganisation (SRFM distribution)	—	(26 071)
Distribution on statement of change in equity	(381 546)	(740 929)

Corporate information

Date of registration: 10 July 2018

Liberty Two Degrees Limited

JSE code: L2D

ISIN: ZAE000260576

(Approved as a REIT by the JSE)

(Liberty Two Degrees or L2D)

A public company (Registration number 2018/388906/06)
duly incorporated in accordance with the laws of South Africa
and listed on the JSE.

Company secretary

Ben Swanepoel

Liberty Two Degrees

17 Melrose Arch

Johannesburg

Gauteng

2196

Registered office

17 Melrose Boulevard

Melrose Arch

Johannesburg

Gauteng

2196

(PO Box 202, Melrose Arch,
Johannesburg, 2076)

Contact information

Telephone: +27 11 448 5500

Email: info@liberty2degrees.co.za

www.liberty2degrees.co.za

(PO Box 202, Melrose Arch,
Johannesburg, 2076)

Auditors

PricewaterhouseCoopers Inc.

Waterfall City

4 Lisbon Lane

Jukskei View

Midrand

2090

(Private Bag X36, Sunninghill, 2157)

Sponsor

The Standard Bank of South Africa Limited

(Registration number 1962/000738/06)

30 Baker Street

Rosebank, 2196

(PO Box 61344, Marshalltown, 2017)

Tel: 011 721 6125



two°degrees

Address

17 Melrose Boulevard,
Melrose Arch. 2196

Contact number

+27 (0)11 448 5500

Liberty2degrees.co.za