

UNAUDITED SUMMARISED GROUP RESULTS AND CASH DISTRIBUTION

for the six months ended 30 June 2023



Experiential spaces that benefit generations today and for tomorrow.

2023

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HIGHLIGHTS

- 100% distribution pay-out of 18.77 cents per share (7.4% growth on HY22)
- Retail turnover up 6.8% on HY22
- Portfolio footcount up 9.1% on HY22
- Retail occupancy of 97.1%
- Retail reversions improved to -0.3% (FY22: -9.7%)
- Continued recovery in hotel occupancies
- Net asset value per share increased by 0.8% to R7.59

COMMENTARY

PROFILE

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange (JSE) with a market capitalisation of R3.4 billion at 30 June 2023 (30 June 2022: R3.4 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

L2D has generated a good operating performance for the first half of the 2023 financial year. The portfolio's operational and financial metrics have continued to improve notwithstanding the backdrop of a muted domestic economic and operating environment.

L2D's portfolio turnover and footcount are now well ahead of 2019 (pre-Covid) levels. The portfolio generated a 6.8% increase in turnover compared to HY22 and recorded a 9.1% growth in footcount compared to the same period. Higher demand for space has resulted in an improved portfolio occupancy rate of 93.6% due to stable and favourable retail occupancies and a higher office occupancy rate. Reversions on retail renewals have performed significantly better for the first half of the 2023 financial year tracking at -0.3% compared to -9.7% for the full year 2022.

Net property income, excluding the impact of lease straight lining, grew by 8.2% over the comparative period supported by the core retail portfolio and a recovery in the hospitality assets. Double digit increases in administered municipal and utility costs, and increased periods of loadshedding remain a concern. We continue to focus on cost optimisation across the portfolio and the strategic deployment of capital on sustainability projects.

Underpinned by a strong balance sheet with an LTV of 24.58%, we are pleased to report a 100% distribution pay-out for the 2023 interim period of 18.77 cents per share which is an increase of 7.4% over the comparable prior period.

Further to the above, shareholders' attention is drawn to the firm intention announcement published on SENS on 27 July 2023 in which it was announced that Liberty Group Limited would seek to acquire all the shares of Liberty Two Degrees held by minority shareholders through a scheme of arrangement.

RETAIL TRADING PERFORMANCE

The retail portfolio has delivered market leading trading performance over the period. The portfolio continues to show improved annual trading density, recording the highest densities to date in May 2023 at R51,664/m², or 13.0% growth compared to May 2022. In comparison, the Clur International Q1 2023 all centres benchmark was R39,355/m² with an annual growth of 10.1%. The portfolio's super regional centres carry 65.6% of the total portfolio turnover. Sandton (R78,800/m²) and Eastgate (R39,274/m²) carry a combined annual trading density of R59,891/m² ahead of the Q1 Clur super regional benchmark of R46,516/m².

All Centres within the L2D portfolio continue to trade ahead of prior year trading densities except for Midlands Mall and Lifestyle Centre which generated additional turnover in the comparative period due to the closure of neighbouring centres affected by the KZN riots. Midlands Mall is however, still trading ahead of pre-Covid densities. The moderation in turnover growth vs trading density growth in the first half of 2023 is largely due to the higher base in the comparative period post the removal of Covid restrictions as well as the temporary closure of a number of high turnover generating stores for refurbishments during the period.

	Turnover H1 2023 vs H1 2022	Annualised Trading Density May 2023 vs May 2022
Turnover growth		
Sandton City	10.2%	19.6%
Eastgate	7.2%	11.9%
Nelson Mandela Square	16.9%	19.6%
Midlands Mall	-9.7%	-3.7%
Midlands Lifestyle Centre	-16.3%	-4.7%
Promenade	8.4%	9.3%
Botshabelo Mall	6.6%	3.9%
Total portfolio (excl. MA)	6.6%	12.5%
Melrose Arch (MA)	10.9%	26.7%
Portfolio full	6.8%	13.0%

OCCUPANCY AND LEASING PERFORMANCE

The L2D portfolio occupancy level improved to 93.6% in June 2023 (December 2022: 93.5%). The retail occupancy is 97.1% (December 2022: 97.9%) due to Ster Kinekor vacating at Promenade. Opportunities to relet this space are being reviewed. While L2D's office portfolio represents only 26.2% of the total portfolio's GLA and therefore carries less weighting on the overall vacancy, we remain focused on office leasing and the office occupancy has improved to 82.1% at June 2023 (December 2022 80.0%).

	GLA composition to portfolio	Jun 2023	Dec 2022	Jun 2022
Retail	60.1%	97.1%	97.9%	97.2%
Office	26.2%	82.1%	80.0%	83.3% ¹
Specialised	13.7%	100.0%	100.0%	100.0%
Portfolio	100.0%	93.6%	93.5%	92.9%

¹ June 2022 included the Standard Bank office which was subsequently disposed of in September 2022.

COMMENTARY CONTINUED

Demand for retail space in the L2D portfolio remains strong, driven by the high-quality nature of the portfolio. 197 leases were concluded (renewals and new deals) in the first half of 2023, equating to 67,763m², composed of 31,983m² retail and 35,779m² office space.

The portfolio has improved the reversion trend in the first half of the 2023 financial year. Rental reversions across the portfolio were -5.3%, with retail renewals -0.3% and offices -20.4% which is a significant improvement to the negative reversions in 2022 (portfolio -10.4%, retail -9.7%, office: -25.5%).

FINANCIAL PERFORMANCE

	HY 2023 Contribution to NPI ² (R'm)	% Change in NPI HY 2023 vs HY 2022	NPI Sector composition HY 2023
Retail	R231.8m	3.3%	78.5%
Offices	R25.6m	66.8%	8.7%
Hospitality	R16.2m	33.4%	5.5%
Other	R21.6m	3.8%	7.3%
Total NPI²	R295.2m	8.2%	100.0%

² Total NPI excluding the adjustment for straight-lining of operating lease income.

Net property income, excluding lease straight-lining increased by 8.2% to R295.2 million compared to the prior comparative period, mainly attributable to increased turnover rental, a strong recovery in the hospitality assets and higher expected rates recoveries at Sandton City, Nelson Mandela Square and Eastgate.

Cost containment has been managed well, with property operating costs reflecting a 5% increase (excluding the hotels and the convention centre) and head office operating costs increasing by only 2% compared to the previous year. The ongoing electricity crisis has resulted in increased diesel costs, partially alleviated by improved diesel recoveries since the beginning of this year. Capital expenditure has been focused on sustainability projects across the portfolio to reduce the reliance on Eskom and diesel consuming generating capacity.

Net interest expense increased by 18.7%, due to higher interest rates post the refinancing and with higher hedge ratios. The increase in profit before tax includes the positive fair value adjustments of R34.4 million in respect of the property valuation in June 2023.

BALANCE SHEET AND PORTFOLIO VALUATION

We continue to maintain a strong balance sheet. The loan to value (LTV) is 24.58% (June 2022: 24.64%) with a healthy interest cover ratio at 2.89 times (June 2022: 3.18 times), both comfortably within banking covenant requirements. We are engaged in discussions on the refinancing of R500 million of term debt expiring in the second half of the year. Interest rate exposure is 80.3% hedged. As at 30 June 2023, the average cost of debt is 9.2% with access to total unutilised credit facilities of R308 million.

L2D's property portfolio was valued at R8.3 billion as at June 2023, a 1.2% increase on the June 2022 valuation and a 0.9% increase on the December 2022 valuation. Values are based on independent third-party property valuations as at 30 June 2023 which is in line with L2D's policy to have external independent valuations performed on the full portfolio bi-annually.

PROSPECTS

South Africa's macro-economic environment continues to be challenged in 2023. Consumers' disposable income continues to be faced with a number of headwinds while ongoing loadshedding dampens economic growth. Notwithstanding this challenging operating environment, leading indicators are positive. This, coupled with the L2D portfolio's improving trading densities, provides support to our efforts of delivering on the operational strategy of our iconic portfolio for the rest of the year.

SIGNIFICANT JUDGEMENTS APPLIED

Valuations and changes in fair value

In addition to income forecasting assumptions, our valuers have also applied valuation metrics including adjustments 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 2022 with the assumptions used for modelling having been updated for the current economic environment and our view of the sustainability of the tenant's operations. The default percentages have increased due to the weakened economic environment as well as the recategorisation of tenants to the high-risk category, which contains higher default rate percentages. The ECL provision has consequently increased to R16.0 million (31 December 2022: R13.1 million).

COMMENTARY CONTINUED

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 2021 to April 2023 (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 more than one will indicate a deteriorating environment. There was a forecasted decline in economic growth, along with forecasted growth in interest rates and inflation rates, with retail sales growth remaining flat. The product of these factors resulted in a deterioration of the economic market factor which consequently increased the default rate.

Gross arrears increased to R30.4 million (31 December 2022: R26.7 million). L2D is satisfied with the ECL provision raised with 52.5% of our tenant arrears balance of R30.4 million provided for as at 30 June 2023.

INTEREST-BEARING BORROWINGS

The group's interest-bearing borrowings represented 24.58% (30 June 2022: 24.64%) of the value of its property portfolio. Using the SA REIT methodology, the average cost of debt (all Rand-denominated) is 8.9% (30 June 2022: 7.5%), with interest rates hedged through fixed rate contracts on 80.3% (30 June 2022: 63.0%) of borrowings for an average period of 2.75 years (30 June 2022: 1.64 years). We are engaged in discussions on the refinancing of term debt, which expires in the second half of the year.

L2D'S COVENANT COMPLIANCE

	30 June 2023	30 June 2022	Covenant
Loan to value	24.58%	24.64%	40%
Interest cover ratio	2.9x	3.2x	1.9x

An unutilised revolving credit facility of R200 million is in place as at 30 June 2023. A further R108 million is available to draw on another term loan which brings the total unutilised bank facilities to R308 million. 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.

COMMENTARY CONTINUED

DEBT MATURITY PROFILE

Maturity periods	Term debt exposure	
	Loan amount	Expiry date
Less than one year	500 000 000	31 October 2023
Less than four years	600 000 000	31 October 2026
Less than five years	741 945 151	31 October 2027
Total	1 841 945 151	

Counter party	Fixed rate exposure	
	Fixed rate amount	Expiry date
Absa Bank	728 500 000	3 November 2025
Absa Bank	200 000 000	31 October 2024
Standard Bank	300 000 000	31 October 2026
Standard Bank	250 000 000	31 October 2027
Total	1 478 500 000	

COMMITMENTS

Capital commitments outstanding amount to R378.6 million (30 June 2022: R241.9 million) and relate to the potential acquisition of One on Whitely for R128.2 million, sustainability capital expenditure of R148.4 million and operational capital expenditure of R102.0 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 flows relating to funding and capital expenditure.

As at 30 June 2023, L2D had a net asset value of R7.59 per share and a stable liquidity position.

We have sufficient balance sheet capacity and liquidity to ensure the sustainability of our business, however management remain cautious considering the challenged macro-economic environment.

PROPERTY PORTFOLIO

Geographical profile

	Gross lettable area (m ²) ¹	Gross lettable area (%)
Gauteng	638 076	74.8
KwaZulu-Natal	121 319	14.2
Western Cape	73 392	8.6
Free State	20 743	2.4
Total	853 530	100.0

Sector composition by GLA

	Gross lettable area (m ²) ¹	Gross lettable area (%)
Retail	512 701	60.1
Office	223 223	26.1
Specialised	117 606	13.8
Total	853 530	100.0

¹ Gross lettable area is at 100% ownership share.

Occupancy rate (%)

	June 2023	December 2022
Total retail	97.1	97.9
Total office	82.1	80.0
Total specialised	100.0	100.0
Total portfolio occupancy rate	93.6	93.5

Lease expiry rate – gross lettable area (%)

	Vacant	Monthly	2023	2024	2025	2026	2027	2028 +
Total retail	2.9	13.9	8.6	20.2	13.5	16.2	6.2	18.5
Total office	17.9	9.8	4.8	8.5	13.7	9.6	14.7	21.0
Total specialised	–	9.6	6.9	0.3	20.7	5.0	–	57.5
Total portfolio lease expiry rate	6.4	12.5	7.4	15.4	14.1	13.5	8.0	22.7

COMMENTARY CONTINUED

DECLARATION OF A CASH DISTRIBUTION

The Board has approved, and notice is hereby given, of a distribution of 18.77 cents per share for the six months ended 30 June 2023 (the distribution).

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

	2023
Declaration (SENS)	Monday, 31 July
Last date to trade <i>cum</i> dividend	Tuesday, 22 August
Shares trade ex dividend	Wednesday, 23 August
Record date	Friday, 25 August
Payment date	Monday, 28 August

L2D uses distribution per share as a relevant measure of financial performance. Share certificates may not be dematerialised or rematerialised between Wednesday, 23 August 2023 and Friday, 25 August 2023, both days inclusive. Payment of the distribution will be made to shareholders on Monday, 28 August 2023. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Monday, 28 August 2023. Certificated shareholders' dividend payments will be posted on or about Monday, 28 August 2023.

Shares in issue at the date of declaration of this distribution: 908 443 334, inclusive of 42 755 988 treasury shares.

L2D's income tax reference number: 9178869237.

In accordance with L2D's status as a REIT, shareholders are advised that the distribution meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (Income Tax Act).

The distribution on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act. The distribution received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a distribution distributed by a REIT. This distribution is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

- a declaration that the distribution is exempt from dividends tax; and
- a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner 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 15.01600 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.

COMMENTARY CONTINUED

CHANGES IN EXECUTIVE DIRECTORS', BOARD AND BOARD SUB-COMMITTEES

The following changes in executive director functions were made in the period:

- José Snyders, the previous Financial Director, was promoted to Chief Commercial Officer with effect from 1 March 2023.
- Barbara Makhubedu was appointed as the Chief Financial Officer and has served as an executive director with effect from 1 March 2023.

Further to the above, the following changes were made to Board committees on 23 February 2023:

- Peter Nelson was appointed as the new Lead Independent Director.
- Barbara Makhubedu stepped down from all the committees on which she served, being the Audit and Risk, Related Party and Nomination and Remuneration Committees.
- Lynette Ntuli stepped down from the Nomination and Remuneration Committees.
- David Munro stepped down from the Nominations Committee.
- Philisiwe Mthethwa was appointed as a member of the Audit and Risk Committee.
- Nonhlanhla Mayisela and Itumeleng Dlamini were appointed as members of the Social, Ethics and Transformation Committee.
- Itumeleng Dlamini was appointed as a member of the Related Party Committee.

Events after reporting date

In line with IAS 10 Events after the Reporting Period, the declaration of the interim dividend of 18.77 cents per share for the six months ended 30 June 2023 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 including the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the notes to the consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, SA financial reporting requirements, 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. Barbara Makhubedu CA(SA), the Chief Financial Officer, 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

Barbara Makhubedu
Chief Financial Officer

31 July 2023

STATEMENT OF FINANCIAL POSITION

as at 30 June 2023

R'000	Unaudited June 2023	Unaudited June 2022	Audited December 2022
Assets			
Non-current assets	8 328 551	8 231 496	8 255 539
Investment properties	8 279 846	8 178 747	8 205 855
Investment properties under development	26 940	27 706	27 706
Property plant and equipment	8 197	10 379	9 428
IFRS 16 – lease asset	1 388	1 892	1 640
Deferred tax asset	12 180	12 772	10 910
Current assets	534 543	408 920	548 898
Trade and other receivables ⁽¹⁾	239 193	172 611	235 355
Amount due from group companies ⁽⁴⁾	186 694	131 848	126 617
Financial assets held at fair value through profit or loss	787	50 228	47 422
Current taxation receivable	-	587	-
Financial instruments ⁽³⁾	12 772	-	369
Cash and cash equivalents	95 097	53 646	139 135
Non-current asset held for sale	-	153 300	-
Total assets	8 863 094	8 793 716	8 804 437
Equity			
Stated capital	8 780 921	8 780 921	8 780 921
Treasury shares	(215 118)	(201 821)	(198 205)
Retained surplus	191 447	171 675	189 283
Share-based payment reserve	43 594	39 639	34 766
Mergers/capital reserve	(426 104)	(426 104)	(426 104)
Non-distributable reserve	(1 800 843)	(1 821 614)	(1 847 610)
Total equity	6 573 897	6 542 696	6 533 051

STATEMENT OF FINANCIAL POSITION CONTINUED

as at 30 June 2023

R'000	Unaudited June 2023	Unaudited June 2022	Audited December 2022
Liabilities			
Non-current liabilities	1 342 932	1 211 472	1 343 179
Financial liabilities	1 341 945	1 210 000	1 341 945
IFRS 16 – lease liability	987	1 472	1 234
Current liabilities	946 265	1 039 548	928 207
Trade and other payables	200 793	152 664	204 580
IFRS 16 – lease liability	603	572	590
Employee benefits	14 627	10 067	24 863
Amount due to group companies ⁽⁴⁾	398	-	81
Current taxation payable	-	-	32
Financial instruments ⁽³⁾	-	53	-
Financial liabilities ⁽²⁾	729 844	876 192	698 061
Total liabilities	2 289 197	2 251 020	2 271 386
Total equity and liabilities	8 863 094	8 793 716	8 804 437

⁽¹⁾ Trade and other receivables includes gross tenant arrears amounting to R30.4 million (30 June 2022: R61.3 million). Gross tenant arrears net of the ECL provision amounts to R14.4 million (30 June 2022: R25.4 million).

⁽²⁾ The current portion of financial liabilities includes R500.0 million of term debt due to expire in the second half of the financial year and is currently being refinanced (30 June 2022: R849.9 million).

⁽³⁾ Positive fair value adjustments on the interest rate swap amounted to R12.4 million (30 June 2022: R18.5 million).

⁽⁴⁾ Amounts due from Liberty Group Limited and amounts due to Liberty Group Limited and Stanlib.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2023

R'000	Unaudited June 2023	Unaudited June 2022	Audited December 2022
Property portfolio revenue	511 694	455 574	974 044
Rental and related income	511 029	467 387	988 586
Adjustment for the straight-lining of operating lease income	665	(11 813)	(14 542)
Property operating expenses	(212 864)	(190 172)	(448 830)
Change in expected credit loss on property debtors and rental relief ⁽¹⁾	(2 938)	(4 372)	28 863
Net property income	295 892	261 030	554 077
Asset management fee income	24 851	25 409	50 372
Development fee income	1 846	450	3 099
Total net property income and fee income	322 589	286 889	607 548
Other Income	219	1 206	2 073
Operating costs	(61 881)	(60 763)	(121 288)
Profit from operations excluding fair value adjustments	260 927	227 332	488 333
Finance costs	(95 954)	(78 438)	(172 036)
Interest income	4 895	1 742	5 989
Profit before fair value adjustments	169 868	150 636	322 286
Net fair value adjustments	46 102	(49 784)	(73 051)
Fair value adjustment on investment properties	34 364	(80 079)	(106 497)
Fair value adjustment on derivatives	12 403	18 482	18 904
Adjustment for the straight-lining of operating lease income	(665)	11 813	14 542
Profit before taxation	215 970	100 852	249 235
Taxation	1 269	(3 652)	(5 498)
Total comprehensive income	217 239	97 200	243 737
Basic earnings per share (cents)	25.06	11.14	27.99
Fully diluted earnings per share (cents)	25.06	11.14	27.99

⁽¹⁾ As at 30 June 2022, R3.2 million related to rental relief granted to tenants and was not subject to any enforcement activity (30 June 2023: R0 million).

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2023

R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/capital reserve	Total
Balance at 1 January 2022	8 780 921	(158 065)	31 077	(1 760 017)	175 465	(426 104)	6 643 277
Total comprehensive income	-	-	-	-	97 200	-	97 200
Treasury shares movement	-	(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)
Balance at 30 June 2022	8 780 921	(201 821)	39 639	(1 821 614)	171 675	(426 104)	6 542 696
Total comprehensive income	-	-	-	-	146 537	-	146 537
Treasury shares movement	-	3 616	-	-	-	-	3 616
Share-based payment transaction	-	-	(4 873)	-	-	-	(4 873)
Fair value adjustment on investment properties transferred to non-distributable reserve	-	-	-	(26 418)	26 418	-	-
Fair value adjustment on derivatives	-	-	-	422	(422)	-	-
Distribution to shareholders	-	-	-	-	(154 925)	-	(154 925)
Balance at 31 December 2022	8 780 921	(198 205)	34 766	(1 847 610)	189 283	(426 104)	6 533 051
Total comprehensive income	-	-	-	-	217 239	-	217 239
Treasury shares movement	-	(16 913)	-	-	-	-	(16 913)
Share-based payment transaction	-	-	8 828	-	-	-	8 828
Fair value adjustment on investment properties transferred to non-distributable reserve	-	-	-	34 364	(34 364)	-	-
Fair value adjustment on derivatives	-	-	-	12 403	(12 403)	-	-
Distribution to shareholders	-	-	-	-	(168 308)	-	(168 308)
Balance at 30 June 2023	8 780 921	(215 118)	43 594	(1 800 843)	191 447	(426 104)	6 573 897

STATEMENT OF CASH FLOWS

for the six months ended 30 June 2023

R'000	Unaudited June 2023	Unaudited June 2022	Audited December 2022
Cash flows from operating activities	(59 119)	1 621	36 804
Cash generated from operations	200 970	239 661	510 430
Interest received	3 422	1 472	5 989
Interest paid	(95 114)	(76 900)	(162 646)
Lease liability interest repayments	(57)	(71)	(136)
Taxation (paid)/received	(32)	46	679
Distribution to shareholders	(168 308)	(162 587)	(317 512)
Cash flows from investing activities	1 229	(56 728)	39 128
Expenditure on investment properties capitalised	(46 576)	(28 337)	(90 078)
Disposal of investment properties	-	-	153 300
Acquisition of property plant and equipment	(302)	(507)	(1 066)
Investment in financial instruments – mutual funds	-	(49 460)	(312 272)
Proceeds from disposal of financial instruments – mutual funds	48 107	21 576	289 244
Cash flows from financing activities	13 852	6 038	(39 512)
Treasury shares acquired	(17 930)	(49 898)	(50 455)
Treasury shares sold and vested	1 016	6 142	10 315
Lease liability capital repayments	(234)	(206)	(426)
Loans repaid	-	-	(107 946)
Loans received	31 000	50 000	109 000
Net (decrease)/increase in cash and cash equivalents	(44 038)	(49 069)	36 420
Cash and cash equivalents at the beginning of the period	139 135	102 715	102 715
Cash and cash equivalents at the end of the period	95 097	53 646	139 135

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2023

1. KEY JUDGEMENTS

1.1 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.

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

Valuer derived risk adjusted discount rates factor in liquidity and asset class risk. Refer to the investment properties note of the 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 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, the entity changed its name to Southern Sun Hotel Interests (SSHI) in 2022, 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 hotels.

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2023

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 SSHI 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. SSHI has sole use of the hotels and brand. In its capacity as principal, SSHI obtains substantially all of the economic benefits from the use of the hotels/hotel brand (being the turnover). SSHI, as the customer pays the lessors a percentage of EBITDAR generated by the hotel operations. The fact that SSHI pays a portion of the EBITDAR to the lessors does not preclude SSHI from having the right to obtain substantially all of the economic benefits in its capacity as principal, being the turnover of the operations.

SSHI 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 SSHI 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 SSHI 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);
- SSHI 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 SSHI has majority economic benefits, they control the operations and therefore the arrangement contains a lease. As a result, the hotels have been classified as investment property.

1.1.3.1 Accounting for the temporary hotel agreement

Effective from 27 March 2020, the current lease agreement between Liberty Group Limited, 2 Degrees Properties Proprietary Limited and Pareto Limited (the Consortium) and Reshub Proprietary Limited (Reshub), a subsidiary of SSHI, was amended to suspend certain provisions of the lease until such time that the lessee was able to conduct viable economic activity at the hotel premises, which date would be agreed by the parties to the addendum. This was referred to as the "closed period" and followed the hard lockdown and restricted travel period implemented in response to the pandemic. Partial opening for essential services and permitted travel whilst the country was still operating under various lockdown levels in order to achieve some revenue to contribute towards the costs of the hotels did 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2023

- 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 hotel remains classified as investment property.

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

The parties agreed that the leases would be reactivated in April 2023, after the reopening of all the hotels along with the determination that viable economic activity could be conducted at the hotel premises.

1.1.4 Accounting for the Sandton Convention Centre agreement

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

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

As a result of the transition management agreement, judgement is involved in the determination of whether the Convention Centre 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 investment property.

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

1.1.5 Deferred Tax asset

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

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

2. HEADLINE EARNINGS PER SHARE

R'000	Unaudited June 2023	Unaudited June 2022	Audited December 2022
Reconciliation between basic earnings and headline earnings			
Total earnings (basic earnings)	217 239	97 200	243 737
Fair value adjustment to investment properties and financial assets	(46 102)	49 784	73 051
Headline earnings	171 137	146 984	316 788
	Cents	Cents	Cents
Earnings per share			
Basic and diluted	25.06	11.14	27.99
Headline	19.74	16.84	36.37
	000's	000's	000's
Actual number of shares in issue	908 443	908 443	908 443
Weighted average number of share in issue*	866 981	872 787	870 931
Diluted weighted average number of shares in issue*	866 981	872 787	870 931

* Excludes 42 755 988 treasury shares as at 30 June 2023 (30 June 2022: 39 552 859, 31 December 2022: 38 744 474).

Basic earnings per share is calculated by dividing basic earnings attributable to shareholders by the weighted average number of shares (excluding the average 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 1/2023, 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

CONTINUED

for the six months ended 30 June 2023

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 Chief Financial Officer 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)

June 2023

Unaudited GLA	Retail	Office****	Other*** specialised	Hotels**	Administration/ Other*	Total
Total property GLA m ²	512 701	223 223	117 606	-	-	853 530
L2D's share of total GLA m ²	148 169	39 762	23 833	-	-	211 764

* 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 the Convention Centre, gym, venue, industrial (comprising a motor dealership and development land) and the hospital.

**** Change in office GLA in 2022 following the sale of Standard Bank Simmonds Street.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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for the six months ended 30 June 2023

Segment earnings – June 2023

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Property portfolio revenue	345 506	92 719	55 575	17 321	573	511 694
Rental and related income	345 041	92 594	55 500	17 321	573	511 029
Adjustment for the straight-lining of operating lease income	465	125	75	-	-	665
Property operating expenses	(146 270)	(39 252)	(23 527)	(3 650)	(165)	(212 864)
Change in expected credit loss on property debtors and rental relief	(2 055)	(552)	(331)	-	-	(2 938)
Net property income	197 181	52 915	31 717	13 671	408	295 892
Asset management fee income	-	-	-	-	24 851	24 851
Development fee income	-	-	-	-	1 846	1 846
Total net property income and fee income	197 181	52 915	31 717	13 671	27 105	322 589
Other Income	-	-	-	-	219	219
Operating costs	-	-	-	-	(61 881)	(61 881)
Profit/(loss) from operations excluding fair value adjustments	197 181	52 915	31 717	13 671	(34 557)	260 927
Finance costs	-	-	-	-	(95 954)	(95 954)
Interest income	-	-	-	-	4 895	4 895
Profit/(loss) before fair value adjustments	197 181	52 915	31 717	13 671	(125 616)	169 868
Net fair value adjustment on investment properties	16 583	4 450	2 667	9 999	-	33 699
Fair value adjustment on investment properties	17 048	4 575	2 742	9 999	-	34 364
Adjustment for the straight-lining of operating lease income	(465)	(125)	(75)	-	-	(665)
Fair value adjustment on derivatives	-	-	-	-	12 403	12 403
Profit/(loss) before taxation	213 764	57 365	34 384	23 670	(113 213)	215 970
Taxation	-	-	-	-	1 269	1 269
Total comprehensive income/(loss)	213 764	57 365	34 384	23 670	(111 944)	217 239

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

Segment assets and liabilities – June 2023

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Investment properties	5 551 964	1 489 906	893 030	371 886	-	8 306 786
Property plant and equipment	-	-	-	-	8 197	8 197
Amount due from group companies	-	-	-	-	186 694	186 694
Trade and other receivables	139 921	37 549	22 506	27 970	11 247	239 193
Financial assets held at fair value through profit or loss	-	-	-	-	787	787
Deferred tax asset	-	-	-	-	12 180	12 180
Financial instruments	-	-	-	-	12 772	12 772
IFRS 16 – lease asset****	-	-	-	-	1 388	1 388
Cash and cash equivalents	-	-	-	-	95 097	95 097
Total assets	5 691 885	1 527 455	915 536	399 856	328 362	8 863 094
Trade and other payables	(131 643)	(35 327)	(21 174)	(1 040)	(11 609)	(200 793)
Employee benefits	-	-	-	-	(14 627)	(14 627)
Amount due to group companies	-	-	-	-	(398)	(398)
IFRS 16 – lease liability****	-	-	-	-	(1 590)	(1 590)
Financial liabilities	-	-	-	-	(2 071 789)	(2 071 789)
Net assets	5 560 242	1 492 128	894 362	398 816	(1 771 651)	6 573 897

* Administration assets and liabilities includes the current account with Liberty Group Limited, 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 earnings from the Convention Centre, gym, venue, industrial (comprising a motor dealership and development land) and the hospital.

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2023

June 2022

Unaudited GLA	Retail	Office	Other*** specialised	Hotels**	Administration/ Other*	Total
Total property GLA m ²	512 701	316 011	117 606	-	-	946 318
L2D's share of total GLA m ²	148 169	55 211	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 the Convention Centre, gym, venue, industrial (comprising a motor dealership and development land) and the hospital.

Segment earnings – June 2022

R'000	Retail	Office	Other specialised***	Hotels**	Administration/ Other*	Total
Property portfolio revenue	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 loss on property debtors and rental relief	(2 851)	(1 062)	(459)	-	-	(4 372)
Net property income	163 260	60 837	26 260	10 735	(62)	261 030
Asset management fee income	-	-	-	-	25 409	25 409
Development fee income	-	-	-	-	450	450
Total net property income and fee income	163 260	60 837	26 260	10 735	25 797	286 889
Other Income	-	-	-	-	1 206	1 206
Operating costs	-	-	-	-	(60 763)	(60 763)
Profit/(loss) from operations excluding fair value adjustments	163 260	60 837	26 260	10 735	(33 760)	227 332
Finance costs	-	-	-	-	(78 438)	(78 438)
Interest income	-	-	-	-	1 742	1 742
Profit/(loss) before fair value adjustments	163 260	60 837	26 260	10 735	(110 456)	150 636
Net fair value adjustment on investment properties	(69 854)	(26 030)	(11 236)	38 854	-	(68 266)
Fair value adjustment 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
Profit/(loss) before taxation	93 406	34 807	15 024	49 589	(91 974)	100 852
Taxation	-	-	-	-	(3 652)	(3 652)
Total comprehensive income/(loss)	93 406	34 807	15 024	49 589	(95 626)	97 200

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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for the six months ended 30 June 2023

Segment assets and liabilities – June 2022

R'000	Retail	Office	Other*** specialised	Hotels**	Administration/ Other*	Total
Investment properties	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
Total assets	5 225 436	2 100 448	840 508	357 910	269 414	8 793 716
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)
Financial liabilities	-	-	-	-	(2 086 192)	(2 086 192)
IFRS 16 – lease liability*****	-	-	-	-	(2 044)	(2 044)
Net assets	5 136 235	2 067 210	826 160	357 572	(1 844 481)	6 542 696

* Administration assets and liabilities includes the current account with Liberty Group Limited, 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 earnings from the Convention Centre, gym, venue, industrial (comprising a motor dealership and development land) and the 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 337m² of office space at Nelson Mandela Square. L2D's ownership percentage of Nelson Mandela Square is 33.3007%. L2D recognised a right-of-use asset representing its right to use the underlying leased asset and depreciated this over the lease term. A lease liability representing its obligation to make lease payments was simultaneously recognised.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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for the six months ended 30 June 2023

4. INVESTMENT PROPERTIES

R'000	Notes	Unaudited June 2023	Unaudited June 2022
4.1 Summary			
Investment properties	4.2	8 279 846	8 178 747
Fair value net of straight-lining at the beginning of the period		8 205 855	8 237 792
Expenditure on investment properties capitalised during the period		38 861	20 972
Fair value adjustment		35 130	(80 017)
Investment properties under development	4.3	26 940	27 706
Fair value at the beginning of the period		27 706	27 683
Expenditure on investment properties under development capitalised during the period		-	85
Fair value adjustment		(766)	(62)
Total investment properties		8 306 786	8 206 453
4.2 Investment properties			
Fair value of investment properties at the beginning of the period		8 053 175	8 073 896
Net fair value adjustment for the period		34 465	(68 640)
Fair value adjustment		35 130	(80 017)
Net movement on straight-lining of operating lease income		(665)	11 377
Expenditure on investment properties capitalised during the period		38 861	20 972
Additions – capitalised subsequent expenditure		34 991	17 800
Capitalised tenant installations		5 778	3 516
Amortisation of tenant installations		(3 181)	(2 504)
Capitalised letting commission		5 807	6 936
Amortisation of letting commission		(4 534)	(4 776)
Investment properties at fair value		8 126 501	8 026 228
Operating leases accrued adjustment			
Straight-lining balance at the beginning of the year		152 680	163 896
Net movement on straight-lining of operating lease income		665	(11 377)
Straight-lining of operating lease income		153 345	152 519
Total investment properties		8 279 846	8 178 747

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for the six months ended 30 June 2023

	Notes	Unaudited June 2023	Unaudited June 2022
R'000			
4.3 Investment properties under development			
Fair value of investment properties under development at the beginning of the period		27 706	27 683
Net fair value adjustment for the period		(766)	(62)
Fair value adjustment		(766)	(62)
Expenditure on investment properties under development capitalised during the period		-	85
Additions – capitalised subsequent expenditure		-	85
Total investment properties under development		26 940	27 706
Total investment properties		8 306 786	8 206 453

Basis of valuation

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

Valuation process

L2D provided the valuer with the relevant information required in the valuation of the properties. Among other inputs, the independent valuer applied current market-related assumptions to risks in the rental streams of properties. Once the valuations were completed by the independent valuer, they were reviewed internally, signed off by the Chief Financial Officer and the Chief Executive, 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
Broll

R Long
S Crous

BSc, MRICS, MIV(SA), professional valuer
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 property portfolio was independently valued as at 30 June 2023 in line with the group's valuation policy.

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

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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

The unobservable inputs include:

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

Unobservable inputs:

	2023					2022				
	Exit cap rate (%)	Discount rate (%)	Structural vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Structural vacancy rate (%)	Rental growth (%)	Expense growth (%)
Office	8.50	14.25	1.00	Staggered growth rates applied for a period of 5 years which vary per property between 2.00 and 4.75	Constant growth rate applied over a period of 5 years of 6.5%	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
Retail – super regional and regional	7.00 - 7.50	12.00 - 13.25	1.00 - 5.00	Staggered growth rates applied for a period of 5 years which vary per property between 4.00 and 5.50	Constant growth rate applied over a period of 5 years of 6.5%	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
Retail – other	8.00	12.50	1.00 - 5.00	Staggered growth rates applied for a period of 5 years which vary per property between 4.00 and 5.50	Constant growth rate applied over a period of 5 years of 6.5%	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
Hotels**	9.75 - 10.00	14.25	-	-	-	9.25	14.00	-	-	-
Specialised: Sandton Convention Centre**	10.50	14.50	-	-	-	10.00	14.75	-	-	-

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

	2023					2022				
	Exit cap rate (%)	Discount rate (%)	Structural vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Structural vacancy rate (%)	Rental growth (%)	Expense growth (%)
Virgin Active and Parkade	10.50	14.50	-	Staggered growth rates applied for a period of 5 years which vary between 4.00 and 5.00	Constant growth rate applied over a period of 5 years of 6.5%	7.75	10.00	-	Staggered growth rates applied for a period of 5 years which vary between 1.00 and 4.00	6.00
John Ross Eco Junction*	8.75 - 9.50	14.25 - 14.50	-	Staggered growth rates applied for a period of 5 years which vary between 2.00 and 5.00	Constant growth rate applied over a period of 5 years of 6.5%	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
John Ross Eco Junction (land)	-	14.75	-	Staggered growth rates applied for a period of 5 years which vary between 0 and 2.50	Constant growth rate applied over a period of 5 years of 6.5%	-	14.50	-	Staggered growth rates applied for a period of 5 years which vary between 0 and 2.00	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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

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).

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).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

Valuation summary

Offices

Both Umhlanga Ridge Office Block and the Liberty Head Office Umhlanga Ridge are multi-tenanted offices. Umhlanga Ridge office block valuation has been negatively impacted by continued market pressure in the office sector as the sector continues to navigate a post-covid environment.

Retail

The retail category consists of super regional, regional, small regional and community shopping centres. On the prime retail portfolio, in most cases the discount rate has been adjusted upwards due to the perceived instance of risk applied by the valuers. We have continued to observe improvement in the footcount, collections and turnover growth figures, compared to the prior reporting period.

Super regional shopping centres

There has been an upward movement in the Sandton Complex valuations largely driven by improvement in the retail portion driven by improved trading density especially within the luxury category. The office component being Sandton Office Tower and Atrium on 5th has also improved due to an apportionment adjustment pertaining to rates and taxes in the complex. The Eastgate valuation has also improved due to lower vacancies and the expected benefit of sustainability linked projects.

Regional and small regional shopping centres

Liberty Promenade Shopping Centre, Nelson Mandela Square, Liberty Midlands Mall and Lifestyle Centre fall within this category. Midlands Mall, Lifestyle Centre and Nelson Mandela have been impacted by an increased discount rate assumption from June 2022. Liberty Promenade Shopping Centre has marginally increased since June 2022.

Community shopping centre

Botshabelo Mall's positive valuation movement since June 2022 is driven by the low vacancies in the mall and healthy tenant trading.

Other

Melrose Arch valuation has decreased primarily due to high vacancies within the precinct relating to offices and an adjustment to discount rate adjustments.

Hotels

The hotel valuations have seen significant positive movement due to modelled recovery of business travel as the travel industry recovers over the forecasted period.

Sandton Convention Centre

The Sandton Convention Centre valuation has seen a positive movement due to recovery in the events and conferencing industry.

Virgin Active and Parkade

The Virgin Active valuation has seen positive movement from June 2022 due to modelled recovery of activity in the Sandton node.

John Ross Eco Junction

The John Ross Eco Junction valuation as a whole has been negatively impacted by the downward valuation for the motor dealership Tangawizi whereas the Melomed valuation remained relatively flat year on year. The Tangawizi motor dealership has seen a negative valuation movement due to downward revised market rentals due to low economic activity in the node.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	June 2023 valuation R'000	June 2022 valuation R'000
1	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park lane, Umhlanga Ridge, KwaZulu-Natal	Office	75 559	79 488
2	Sandton City Complex (25.0%)	5 th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	3 032 036	2 952 232
3	Nelson Mandela Square Complex (33.3%)	5 th Street Sandton, Gauteng	Retail	421 320	453 290
4	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	2 181 174	2 117 991
5	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Retail* (<i>per unobservable input table</i>)	402 497	456 158
6	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	861 223	867 150
7	Liberty Promenade Shopping Centre (33.3%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	598 713	592 453
8	Botshabelo Mall (33.3%)	Portions 2 and 3 of ERF 1 Botshabelo-H, Free State	Retail	123 279	121 448
9	John Ross Eco-Junction Estate - Tangawizi (33.3%)	Eco-Junction Business Park, John Ross Highway, Richards Bay, KwaZulu-Natal	Specialised	19 814	20 347
10	John Ross Eco-Junction Estate - Melomed (23.3%)	John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	130 655	130 306
11	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	26 940	27 706
12	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	49 102	48 071
13	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	12 588	11 484
14	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Hotels	152 600	139 434
15	Sandton Sun and Intercontinental (25.0%)	Cnr 5 th and Maude Street, Sandton, Gauteng	Hotels	219 286	188 895
Total				8 306 786	8 206 453

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

Below is the vacancy profile per sector (%)

Vacancy profile (%)	Unaudited June 2023	Unaudited June 2022
Total retail	2.9	2.8
Total office	17.9	16.7
Total specialised	-	-
Total	6.4	7.1

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

5. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS, INVESTMENT PROPERTIES AND NON-CURRENT ASSETS HELD FOR SALE

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 2023			
	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	8 279 846	-	-	8 279 846
Investment property under development	26 940	-	-	26 940
Interest rate swap	12 772	-	12 772	-
Financial assets held at fair value through profit and loss	787	-	787	-
	8 320 345	-	13 559	8 306 786

(R'000)	Six months ended 30 June 2022			
	Fair value	Level 1	Level 2	Level 3
Assets				
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	-
	8 409 981	-	50 228	8 359 753
Liabilities				
Interest rate swap	53	-	53	-
	53	-	53	-

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

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 asset and liabilities	Quoted swap rates and inter-bank borrowing rates	Price-not applicable
3	Investment properties	Discounted cash flow methodology and profit methodology for Sandton Convention Centre and the Hotels	Refer to Note 4 for detail regarding assumptions
3	Investment properties under development	Fair value	Refer to Note 4 for detail regarding assumptions

Reconciliation of level 2 assets and liabilities

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

R'000	June 2023	June 2022
Financial assets held at fair value through profit or loss		
Fair value at the beginning of the period	47 422	22 075
Additions	-	49 460
Disposals	(48 107)	(21 576)
Interest earned on investment	1 472	269
Fair value at the end of the period	787	50 228

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

Reconciliation of level 2 assets and liabilities

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

R'000	June 2023	June 2022
Interest rate swap		
Fair value at the beginning of the period	369	(18 535)
Fair value adjustments	12 403	18 482
Fair value at the end of the period	12 772	(53)

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 2023, L2D group has a hedge ratio of 80.3%.

Reconciliation of level 3 assets

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

R'000	June 2023	June 2022
Investment property and investment property under development		
Fair value at the beginning of the period	8 233 561	8 265 475
Capitalised costs	38 861	21 057
Fair value adjustments	34 364	(80 079)
Fair value at the end of the period	8 306 786	8 206 453
Non-current assets held for sale		
Fair value at the beginning of the period	-	153 300
Transferred from investment property	-	-
Fair value at the end of the period	-	153 300

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

CONTINUED

for the six months ended 30 June 2023

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 2023 range between 7.3% and 10.5% (30 June 2022: 7.3% and 10.0%).

The table below indicates the sensitivity of the aggregate market values for a 100 bps (30 June 2022: 100 bps) change in the exit capitalisation rate.

	Change in exit capitalisation rate		
	Rm	100 bps increase	100 bps decrease
2023			
Properties below 7.3% exit capitalisation rate	5 213	4 725	5 771
Properties between 7.3% – 8.5% exit capitalisation rate	2 483	2 284	2 740
Properties between 8.6% – 10.5% exit capitalisation rate	611	588	639
Total	8 307	7 597	9 150
2022			
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
Total	8 360	7 700	9 229

The table below indicates the sensitivity of the aggregate market values for a 100bps (30 June 2022: 100 bps) change in the discount rate.

	Change in discount rate		
	Rm	100 bps increase	100 bps decrease
2023			
Total property portfolio	8 307	7 949	8 606
2022			
Total property portfolio	8 360	8 048	8 690

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

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), the Liberty Two Degrees Restricted Share Plan Trust (Trust) and the previous management company SRFM ('the Manager'), are all wholly-owned subsidiaries of L2D Limited.

Transactions with related entities

Transactions with SBG

As at 30 June 2023, R990.4 million 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 2022: R1.3 billion)

Standard Bank Centre

Prior to the effective transfer of the property on 15 September 2022, the Standard Bank Centre was 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.

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 2023, R23,391 is receivable from L2D CISIP (30 June 2022: R0).

Transactions with LGL

Liberty Centre Head Office Umhlanga Ridge

LGL occupies 7,680 m² of office space in the Liberty Centre Head Office Umhlanga Ridge (30 June 2022: 9,466 m²).

Rental income received by L2D group for the six months ended 30 June 2023 was R4.3 million (30 June 2022: R5.0 million).

Eastgate Office Tower

LGL occupies 2,791 m² of office space in the Eastgate Office Tower (30 June 2022: 2,824 m²).

Rental income received by L2D group for the six months ended 30 June 2023 was R1.6 million (30 June 2022: R1.7 million).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2023

Liberty Midlands Lifestyle Centre

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

Rental income received by L2D group for the six months ended 30 June 2023 was R333,985 (30 June 2022: R317,850).

Liberty Promenade

LGL occupies 106 m² of office space in Liberty Promenade.

Rental income received by L2D group for the six months ended 30 June 2023 was R115,734 (30 June 2022: R82,365).

Development fee income

Development fee income is earned on development management of projects in the Liberty Portfolio. Development fee income amounting to R1.8 million was earned for the six months ended 30 June 2023 (30 June 2022: R450,152). L2D commenced work on the Liberty Centre Braamfontein development in 2021, development fee income earned for the six months ended 30 June 2023 was R5,951 (30 June 2022: R149,287) .

Asset management fee income

Management fees on assets under management amounting to R24.9 million was earned for the six months ended 30 June 2023 (30 June 2022: R25.4 million).

Loan with LGL

As at 30 June 2023, R186.7 million is owed by LGL for working capital (30 June 2022: R131.8 million). The loan is unsecured and there are no fixed terms of repayment, the loan attracts no interest.

R57.2 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 2022: R51.5 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 R1.5 million (30 June 2022: R1.4 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 m² of office space. The effective lease commencement date was 9 April 2021. Rental paid for the six months ended 30 June 2023 was R1.1 million (30 June 2022: R970,327).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

for the six months ended 30 June 2023

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 2023 amounted to R11.8 million (30 June 2022: R11.3 million).

Loan with STANLIB

As at 30 June 2023, R179,219 is owed to STANLIB (30 June 2022: R0).

Stanlib Corporate Money Market Fund

As at 30 June 2023, L2D group had R787,434 invested in the Stanlib Corporate Money Market Fund (30 June 2022: R50.2 million).

Interest earned for the six months ended 30 June 2023 amounted to R1.2 million (30 June 2022: R427,422).

Intercompany transactions

As at 30 June 2023, The Liberty Two Degrees Restricted Share Plan Trust (Trust) obtained a capital contribution from 2DP of R120.8 million to acquire shares for the long-term incentive plan (30 June 2022: R104.9 million).

As at 30 June 2023, 2DP has a loan payable to SRFM of R5.9 million (30 June 2022: R6.1 million).

As at 30 June 2023, L2D Limited has a loan payable to 2DP of R238.6 million (30 June 2022: R125.8 million). This relates to a working capital loan.

As at 30 June 2023, L2D Limited has a loan payable to the Trust of R30.4 million relating to a contribution to the trust to make good its losses (30 June 2022: R27.8 million).

ANNEXURE TO THE SUMMARISED GROUP RESULTS

for the six months ended 30 June 2023

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 profit or loss and other comprehensive income presented and the accompanying notes to the consolidated interim financial statements.

	Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT Funds from Operations (SA REIT FFO) per share			
Profit per IFRS "Statement of profit or loss and other comprehensive Income" attributable to the parent	217 239	97 200	243 737
Adjusted for:			
Accounting/specific adjustments:	(48 036)	65 249	93 107
Fair value adjustments to:			
• Investment property	(34 364)	80 079	106 497
• Debt and equity instruments held at fair value through profit or loss	(12 403)	(18 482)	(18 904)
• Straight-lining of operating lease income adjustment	665	(11 813)	(14 542)
Deferred tax movement recognised in profit or loss	(1 269)	3 652	5 514
Straight-lining of operating lease income adjustment	(665)	11 813	14 542
Other adjustments:	(7 964)	(7 073)	(14 366)
Antecedent earnings adjustment	(7 964)	(7 073)	(14 366)
SA REIT FFO:	161 239	155 376	322 478
Number of shares outstanding at end of period (net of treasury shares)	865 687	868 890	869 699
SA REIT FFO per share: (cents)	18.63	17.88	37.08
Company-specific adjustments (per share)	0.14	(0.40)	(0.61)
Deferred tax	0.15	(0.42)	(0.64)
2DP/trust earnings	(0.01)	0.02	0.03
Dividend per share (cents)	18.77	17.48	36.47

ANNEXURE TO THE SUMMARISED GROUP RESULTS

CONTINUED

for the six months ended 30 June 2023

	Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
Reconciliation of SA REIT funds from operations (SA REIT FFO) to cash generated from operations			
SA REIT FFO	161 239	155 376	322 478
Adjustments			
Interest income	(4 895)	(1 742)	(5 989)
Interest expense	95 954	78 438	167 010
Amortisation of tenant installation and letting commission	7 715	7 281	15 495
Tax expense	-	-	(15)
Other non-cash items	10 614	9 533	4 103
Antecedent earnings adjustment	7 964	7 073	14 366
<i>Working capital changes</i>			
(Increase)/decrease in trade and other receivables	(3 838)	84 178	21 434
(Increase)/decrease in amounts due from group companies	(59 760)	(33 268)	(27 956)
Increase/(decrease) in employee benefits	(10 236)	(12 643)	2 153
Increase/(decrease) in trade and other payables	(3 787)	(54 565)	(2 649)
Cash generated from operations	200 970	239 661	510 430
	Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT Net Asset Value (SA REIT NAV)			
Reported NAV attributable to the parent	6 573 897	6 542 696	6 533 051
Adjustments:			
Dividend to be declared (net of 2DP and the trust)	(162 490)	(151 884)	(317 179)
Deferred tax	(12 180)	(12 772)	(10 910)
SA REIT NAV	6 399 227	6 378 040	6 204 962
Shares outstanding			
Number of shares in issue at period-end (net of treasury shares)	865 687	868 890	869 699
Effect of dilutive instruments (options, convertibles and equity interests)	-	-	-
Dilutive number of shares in issue	B	868 890	869 699
SA REIT NAV per share	A/B	7.34	7.13

ANNEXURE TO THE SUMMARISED GROUP RESULTS

CONTINUED

for the six months ended 30 June 2023

		Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT cost-to-income ratio				
<i>Expenses</i>				
Property operating expenses per IFRS "Statement of profit or loss and other comprehensive Income" (includes municipal expenses) ¹		215 802	194 544	419 967
Operating costs per IFRS "Statement of profit or loss and other comprehensive Income" ²		61 881	60 763	121 288
Exclude:				
Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets		(1 784)	(971)	(2 734)
Rental discounts granted		-	(3 200)	7 079
Operating costs	A	275 899	251 136	545 600
<i>Rental income</i>				
Contractual rental income per IFRS "Statement of profit or loss and other comprehensive Income" (excluding straight-lining)		366 418	344 271	705 927
Utility and operating recoveries per IFRS "Statement of profit or loss and other comprehensive Income"		144 611	123 116	282 659
Rental and related income "Gross rental income"	B	511 029	467 387	988 586
SA REIT cost-to-income ratio ⁽¹⁾	A/B	54.0%	53.7%	55.2%

(1) Property operating expenses include provisions for the Sandton City and Nelson Mandela Square Valuation Appeal Board (VAB) rates dispute and additional provisions for the Eastgate council revaluation.

(2) 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.

ANNEXURE TO THE SUMMARISED GROUP RESULTS

CONTINUED

for the six months ended 30 June 2023

		Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT administrative cost-to-income ratio				
<i>Expenses</i>				
Operating costs per IFRS "Statement of profit or loss and other comprehensive Income" ¹				
		61 881	60 763	121 288
Administrative costs	A	61 881	60 763	121 288
<i>Rental income</i>				
Contractual rental income per IFRS "Statement of profit or loss and other comprehensive Income" (excluding straight-lining)				
		366 418	344 271	705 927
Utility and operating recoveries per IFRS "Statement of profit or loss and other comprehensive Income"				
		144 611	123 116	282 659
Rental and related income "Gross rental income"	B	511 029	467 387	988 586
SA REIT administrative cost-to-income ratio	A/B	12.1%	13.0%	12.3%

(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 June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT GLA vacancy rate				
Gross lettable area of vacant space	A	54 786	66 963	55 189
Gross lettable area of total property portfolio*	B	853 529	946 318	853 529
SA REIT GLA vacancy rate	A/B	6.4%	7.1%	6.5%

* Change in GLA in 2022 results from the Sale of Standard Bank Simmonds Street.

ANNEXURE TO THE SUMMARISED GROUP RESULTS

CONTINUED

for the six months ended 30 June 2023

		Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
Cost of debt				
<i>Variable interest-rate borrowings</i>				
Floating reference rate plus weighted average margin		9.2%	5.9%	7.0%
<i>Fixed interest-rate borrowings</i>				
Weighted average fixed rate		8.6%	8.6%	8.6%
Pre-adjusted weighted average cost of debt	A	9.0%	6.4%	7.4%
<i>Adjustments:</i>				
Impact of interest rate derivatives	B	-0.1%	1.1%	1.1%
All-in weighted average cost of debt	A+B	8.9%	7.5%	8.5%
		Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
SA REIT loan-to-value				
Gross debt		2 041 945	2 059 891	2 010 945
<i>Less:</i>				
Cash and cash equivalents		(95 097)	(53 646)	(139 135)
<i>Add/Less:</i>				
Derivative financial instruments		(12 772)	53	(369)
Net debt	A	1 934 076	2 006 298	1 871 441
Total assets – per Statement of Financial Position		8 863 094	8 793 716	8 804 437
<i>Less:</i>				
Cash and cash equivalents		(95 097)	(53 646)	(139 135)
Trade and other receivables		(425 887)	(304 459)	(361 972)
Carrying amount of property-related assets	B	8 342 110	8 435 611	8 303 330
SA REIT loan-to-value (“SA REIT LTV”)	A/B	23.2%	23.8%	22.5%

ANNEXURE TO THE SUMMARISED GROUP RESULTS

CONTINUED

for the six months ended 30 June 2023

		Unaudited June 2023 R'000	Unaudited June 2022 R'000	Audited December 2022 R'000
Net initial yield				
Investment property		8 306 786	8 359 753	8 233 561
<i>Less:</i>				
Properties under development		(26 940)	(27 706)	(27 706)
Grossed up property value	A	8 279 846	8 332 047	8 205 855
<i>Property income</i>				
Contractual cash rentals		736 397	667 407	715 225
<i>Less:</i>				
Non-recoverable property expenses		(155 672)	(168 184)	(150 523)
<i>Add:</i>				
Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives		-	2 594	-
Annualised net rental	B	580 725	501 817	564 702
Net initial yield	B/A	7.0%	6.0%	6.9%

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

3rd Floor, West Office Block

Nelson Mandela Square

Corner of Maude and 5th Streets

Sandton

2196

Registered office

3rd Floor, West Office Block

Nelson Mandela Square

Corner of Maude and 5th Streets

Sandton

2196

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2090

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Sponsor

Merchantec Capital

(Registration number 2008/027362/07)

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