2020 SUMMARISED GROUP RESULTS

two°degrees

LIBERTY

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HIGHLIGHTS

DISTRIBUTION PAY-OUT OF

32.33 cents per share

(FY19: 60.43 cents per share)
AFTER MATERIAL COVID-19 IMPACT

BALANCE SHEET STRENGTH

Loan-to-value 20.5%

(FY19: 16.1%)

RETAIL OCCUPANCIES HIGH AT

95.3%

ABOVE TOLERANCE LEVEL OF 95%

SANDTON CITY RECEIVED A 6-STAR GREEN RATING

FIRST GREEN STAR RATED RETAIL PORTFOLIO IN SOUTH AFRICA

RECOVERY IN Q4 2020 IS ENCOURAGING

	Q1 2020	Q2 2020	Q3 2020	Q4 2020
FOOTCOUNT	-7%	-61%	-33%	-21%
TURNOVER	-6%	-54%	-22%	-9%

COMMENTARY

Profile

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange ("JSE") with a market capitalisation of R3.9 billion as at 31 December 2020 (31 December 2019: R6.1 billion). The L2D group includes 2 Degrees Properties Proprietary Limited (the operating subsidiary), STANLIB REIT Fund Managers (RF) Proprietary Limited (the previous management company) and the Liberty Two Degrees Restricted Share Plan Trust (trust).

Introduction

COVID-19 has undoubtedly changed many aspects of our lives permanently. In a year unlike any we have faced before, we are pleased to report that L2D was able to deliver value to stakeholders despite the challenging context. The strength of our balance sheet, the premium quality of our assets and the passion of our people are the ingredients that have helped us contain and mitigate the risks.

Good progresss was made on our long-term strategic commitment to value-accretive Environmental, Social and Governance (ESG) practices designed to support our recovery and growth, now and into the future.

In 2020, our portfolio turnover reflected the effects of the lockdowns, with good performance in January and February 2020, followed by minimal trading activity during the hard lockdown in the second quarter, and a gradual recovery in quarter three as the lockdown restrictions eased. Encouragingly, quarter four demonstrated a strong resurgence, with our portfolio turnover only 9% less than turnover recorded prior to COVID-19 (for the three months ended December 2019). Sandton City's turnover in December 2020 was down only 1.5% compared to the same period in 2019.

This highlights the relevance of quality super regional centres in optimal locations, complemented by an appropriate and diverse tenant mix addressing customer needs and supporting customer experience. It also illustrates that consumer spend was not only captured by neighbourhood centres as a shopping format. This was also further substantiated by the fact that although footfall for the year was down approximately 30%, the total amount spent by customers was down 20% which indicates the increased spend per customer.

The Board has approved a full year distribution of 32.33 cents per share (31 December 2019: 60.43 cents per share) despite the material impact of COVID-19 lockdown on revenue, in particular amongst our hospitality tenants, and rental relief and additional provisioning for expected credit losses.

Prospects

Our focus going forward will be on positioning L2D for a sustainable recovery through volatile circumstances. While it will take time to recover, we believe we are well positioned to leverage these opportunities with agility. In a challenging environment, we have quality fundamentals in place, with strong assets, sufficient liquidity and headroom in our loan-to-value (LTV) ratio.

Our robust portfolio has contributed to retail occupancies remaining high at 95.3%, in excess of the 95% tolerance level in pre-COVID-19 times. We are encouraged by the early signs of recovery in tenant turnover levels as lockdown restrictions eased. We remain focused on understanding the operating context and consumers' preferences, deftly adapting to change.

As we navigate the current crisis, we know that long-term investments that protect value must be maintained. We believe that our commitment to invest in our assets underpins and enables our financial and operational performance by ensuring our portfolio remains relevant. The business focus remains on the "new ABC of rebuilding for growth" elements which are agility, back to basics in building strong property fundamentals and continue to invest in the communities in which we operate.

COMMENTARY CONTINUED

Balance sheet strength

As at 31 December 2020, L2D remains well capitalised, with sufficient liquidity and well within bank covenants with an LTV of 20.5% (31 December 2019: 16.1%) reflecting our prudent approach towards capital management, and the underlying quality of our portfolio. Our interest cover ratio remains healthy at 3.9x, with 82% of debt effectively hedged. Furthermore, our average cost of debt remains low at 7.89%. The total unutilised revolving credit facilities amount to R509 million as at 31 December 2020.

Net interest expense is up in comparison to the prior year and was impacted by an additional R200 million of term debt introduced. Proceeds from the sale of the Century City offices had been applied toward our revolving credit facilities.

Safe spaces

In response to COVID-19 we have placed additional emphasis on occupational health and safety (OHS) and security (Safe Spaces) to ensure the well-being of our shoppers, service providers and tenants within our mall environments. Some of the initiatives implemented across our malls include increasing the frequency of cleaning and fogging common areas, providing hand sanitisers at the entrances, conducting temperature checks, providing personal protective equipment for all staff and implementing a "no mask, no entry" policy. In 2020, our malls achieved a COVID-19 Compliant certification, issued by the Safe Asset Group (a global recognition). The Safe Asset Group also assessed the Sandton City precinct and Eastgate Shopping Centre in terms of the International health and safety standard and both malls were awarded gold levels of excellence.

Tenant support

Throughout the crisis, our focus has remained on responding with empathy, balancing the need to support our tenants who have been severely affected by the crisis, with the need to protect the sustainability of our business. Our goal is to ensure our assets remain fully let and trading, while we do everything in our power to keep our spaces safe for our stakeholders. As such, rental relief has been provided on a pragmatic basis in line with the Property Industry Group guidelines.

The tenant arrears have increased to R96.4 million as at 31 December 2020 (31 December 2019: R30.8 million). Given the environment our default percentages for credit loss provisions have increased , coupled with larger arrears positions, the Expected Credit Loss (ECL) provision has increased to R57.5 million as at 31 December 2020 (31 December 2019: R9.8 million).

Positively, rental collections have progressively improved in the latter half of the year with gross collections, based on contractual monthly billings before rental relief, at 97% for November 2020 and 120% for December 2020. This is as a result of the collection of arrears due that were settled following the finalisation of rental relief agreements.

The approach to tenant support has allowed us to not only respond with agility in the short term, but to plan and respond to the longer term consequences of the pandemic, and its effects on consumer behaviour.

Operational performance

Footfall and parking performance remain two key indicators to understanding the behaviour of our customers. In reviewing the quarterly footfall experience at L2D malls, it is evident how the lockdown levels impacted the customer return rate. The overall footcount for 2020 was 30.2% down from 2019, with the last quarter improving from a 60.8% decrease in quarter two (when the most severe lockdown was in place) to a 21.4% decrease from 2019.

From the outset, our focus has remained on ensuring our malls remained safe and secure for our stakeholders – upholding the highest standards of hygiene, care and security. We have been awarded COVID-19 compliant ratings for all our malls by the SAFE asset group. In addition, all our malls received gold excellence status for overall operational performance, and Sandton City achieved a 93.8% rating for security, which is now the highest in the world. Following our commitment to have all our malls Green Star rated, we are pleased to confirm that Sandton City received a 6-star rating; with Eastgate Complex, Nelson Mandela Square, Promenade Shopping Centre and Midlands Mall receiving a 5-star rating, and Botshabelo Mall achieving a 4-star rating – the first retail portfolio in South Africa to achieve this.

L2D's reported revenue and net property income (NPI) decreased by 12.1% and 45.6% respectively in comparison to the prior year. The NPI of R377.2 million for the year ended 31 December 2020 (31 December 2019: R693.6 million) was significantly impacted by COVID-19 related rental relief of R112 million provided to tenants, the impact of the hotels and convention centre operations being suspended for a large part of the year, lower parking revenue and additional provisioning for an increase in tenant arrears as well as the expected non-recovery of certain debtor balances most notably related to Edcon.

Profit from operations decreased by 48.8%. Operating costs have increased by R2.6 million compared to the prior year due to an increase in professional fees and employee costs which was partially offset by a saving of R3.6 million in relation to staff shares that will not vest as a result of performance conditions not being met as well as a reduction in the bonus provision. The write-down in the property valuations as well as the negative mark to market adjustment on the interest rate swap of R43.5 million has resulted in the loss before taxation of R1.5 billion for the year ended 31 December 2020 (2019: profit before taxation of R534.7 million).

At 31 December 2020, L2D's 100% South African property portfolio was valued at R8.5 billion (2019: R10.1 billion) and the net asset value per share has decreased from R9.65 as at December 2019 to R7.71 as at December 2020. Our risk management remains strong, and we believe that we have the necessary management actions in place to continue to mitigate and manage our risks sufficiently. With regards to our property valuations, independent valuations were performed and write-downs of R1.7 billion were recognised in 2020, approximately 16.3% of our portfolio value, contributing to the 20.10% decrease in the net asset value. The property valuations have been negatively impacted by, *inter alia*, the negative effect of COVID-19 on current year rentals and growth assumptions for the forecasted period, higher vacancies, the likelihood of negative reversions for lease renewals and the expectation that letting currently vacant space will take a longer time period.

While our commitment to quality predates the pandemic, we have long maintained that the superiority of our assets and offering are key drivers in fostering customer loyalty, and is thus a determinant in whether customers will return to the malls.

Significant judgements applied including additional disclosure amidst uncertainty and risks related to COVID-19

Valuations and changes in fair value

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

Jones Lang LaSalle which values the majority of our portfolio have emphasised that the valuations disclosed are reported on "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty should be attached to the valuation.

Edcon Limited (Edcon) is still in the process of implementing the business rescue plan and has made progress with the sale of both Edgars and Jet. The Board elected to fully impair the fair value of the investment in Edcon to zero during the financial year.

Ster-Kinekor Theatres Proprietary Limited was placed in voluntary business rescue with effect from 27 January 2021. The size of the rentals does not have an impact on the property valuations as at 31 December 2020. Please refer to the subsequent events note.

Expected credit loss

The expected credit loss (ECL) model methodology has remained unchanged from 2019 with the assumptions used for modelling having been updated for the current environment. In addition to increases in default percentages as a consequence of deteriorating economic variables the assumptions used have considered the trend of rental relief offered on arrear positions and our view of the sustainability of the tenants operations. The ECL provision has consequently increased to R57.4 million (31 December 2019: R9.8 million).

In terms of IFRS 9, a prospective ECL provision is calculated by applying a pre-determined default percentage to the standard tenant arrear ageing buckets of current, 30 days, 60 days, 90 days and 120 plus days at a reporting period. The base line default percentage (historical loss rate) is derived from historical tenant arrear default trends. The historical data of April 2018 to October 2020 (31 months) was extracted and analysed to determine the base tenant billings for the 31 months and the actual losses incurred and potential non-recoverable amounts, relating to the same period and tenant billings. A 24-month historical tenant arrear default trend is typically used in the calculation of the base line default percentage, this was, however, extended to 31 months in the December 2020 calculation, to correct for anomalies experienced due to COVID-19, in the current year.

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 is the GDP growth, inflation and interest rate, and 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 a slight increase in interest rates and a slower growth in retail sales. The forecasted slower growth in the inflation rate assisted in reducing the former three factors.

L2D is satisfied with the ECL provision raised as more than half of our tenant arrears of R96.4 million has been provided for in the current year.

Interest-bearing borrowings

The group's interest-bearing borrowings (net of cash and cash equivalents and including the fair value of cash settled hedges) represented 20.5% (31 December 2019: 16.1%) of the value of its property portfolio. Using the SA REIT methodology, the average cost of debt (all Rand-denominated) is 8.72% (31 December 2019: 9.44%), interest rates are hedged through fixed rate contracts on 82.06% (31 December 2019: 74.45%) of borrowings for an average period of 2.11 years (31 December 2019: 2.84 years).

L2D's covenant compliance

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

The total unutilised revolving credit facilities amount to R400 million as at 31 December 2020. A further R109 million is available to redraw on a revolving credit facility which brings the total unutlised bank facilities to R509 million at year end. Our modeling 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. None of our existing debt facilities have been modified due to COVID-19.

Debt maturity profile

	Term debt exposure	
Maturity periods	Loan amount	Expiry
Less than one year	500 000 000	31 October 2021
Less than two years	740 891 288	31 October 2022
Less than three years	500 000 000	31 October 2023
Total	1 740 891 288	

	Fixed rate exposure	
Counter party	Fixed rate amount	Expiry date
Absa Bank	728 500 000	1 November 2022
Absa Bank	200 000 000	31 October 2024
Standard Bank	250 000 000	31 October 2021
Standard Bank	250 000 000	31 October 2023
Total	1 428 500 000	

Commitments

Capital commitments outstanding amount to R345.1 million (31 December 2019: R330.6 million). These include: One on Whitely (R128.2 million) property acquisition and Intercontinental Towers refurbishment (R43.7 million).

Going concern

Though we remain cautious it is our view that the operations of core tenants remain healthy and will recover as the pandemic subsides and that we have sufficient balance sheet capacity and liquidity to see us through this period and ensure the sustainability of our business.

COMMENTARY CONTINUED

Property portfolio

The portfolio vacancy rate increased during the year to 6.7% (31 December 2019: 4.7%). The retail vacancy increased to 4.7% (31 December 2019: 2.3%) and the office vacancy increased to 12.4% (31 December 2019: 10.2%).

Leases covering 125 276 m² (stated at 100% of asset GLA) (31 December 2019: 149 101 m²) were renewed during the year at an overall reversion rate of -30.6% (31 December 2019: -11.8%). The overall reversion rate was heavily impacted by reversions at the super-regional shopping centres as well as at Nelson Mandela Square.

A further 23 449 m² (stated at 100% of asset GLA) (31 December 2019: 37 031 m²) in new tenant lease agreements were concluded across the portfolio during the year.

Gross arrears before rental relief discounts increased to R96.4 million (31 December 2019: R30.8 million) of the amount due as at 31 December 2020. Of the current arrears, 65% is within 120 days overdue and largely coincides with the start of the COVID-19 lockdown period and restricted trade periods thereafter.
The rental relief package related to COVID-19 provided for in the year results equates to R112 million. As at 31 December 2020 71.7% of rental relief provided for has been concluded.

Geographical profile	Gross lettable area (m²)	Gross lettable area (%)
Gauteng	730 865	77.2
KwaZulu-Natal	121 319	12.8
Western Cape	73 392	7.8
Free State	20 743	2.2
Total	946318	100.0

Sector composition by GLA	Gross lettable area (m²)[1]	Gross lettable area (%)
Retail	512 701	54.2
Office	316 012	33.4
Specialised	117 606	12.4
Total	946 318	100.0

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

Vacancy profile (%)	December 2020	December 2019
Total retail	4.7	2.3
Total office	12.4	10.2
Total specialised	–	–
Total portfolio vacancy profile	6.7	4.7

Lease expiry profile – gross lettable area (%)	Vacant	Monthly	2021	2022	2023	2024	2025+
Total retail	4.7	8.0	16.8	13.4	15.9	15.2	26.1
Total office	12.4	3.8	9.6	20.3	6.1	33.1	14.8
Total specialised	0.0	2.0	0.4	54.8	3.6	0.0	39.2
Total portfolio lease expiry profile	6.7	5.8	12.3	20.9	11.1	19.3	23.9

Declaration of a cash distribution

The Board has approved and notice is hereby given of a distribution of 32.33 cents per share for the year ended 31 December 2020 (the distribution).

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

	2021
Last date to trade *cum* dividend	Tuesday, 16 March
Shares trade *ex* dividend	Wednesday, 17 March
Record date	Friday, 19 March
Payment date	Tuesday, 23 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 17 March 2021 and Friday, 19 March 2021, both days inclusive.

Payment of the distribution will be made to shareholders on Tuesday, 23 March 2021. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Tuesday, 23 March 2021. Certificated shareholders' dividend payments will be posted on or about Tuesday, 23 March 2021.

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

L2D's income tax reference number: 9178869237.

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

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

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

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

Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder, the net dividend amount due to non-resident shareholders is 25.8640 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

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

Changes in Board and Board sub-committees

Peter Nelson was appointed as an independent non-executive director to the board as well as a member of the Audit and Risk Committee, the Remuneration and Nominations Committee and the newly established Related Party Committee with effect from 26 May 2020. Peter Nelson was also appointed as Chairman of the Audit and Risk Committee as well as the Related Party Committee on 21 October 2020. Zaida Adams resigned as a non-executive director and Chairman of the Audit and Risk Committee and Related Party Committee on 13 August 2020. Dr Puleng Makhoalibe and Barbara Makhubedu were appointed as independent non-executive directors to the board of L2D on 21 October 2020. Puleng Makhoalibe is a member of the Social, Ethics and Transformation Committee and Barbara Makhubedu is a member of the Audit and Risk Committee as well as the Related Party Committee. Craig Ewin was appointed independent non-executive director to the board of L2D with effect from 1 January 2021. Craig Ewin has been appointed to the Audit and Risk Committee on 19 February 2021.

Events after reporting date

In line with IAS 10 Events after the Reporting Period, the declaration of the final dividend of 32.33 cents per share for the year ended 31 December 2020 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

After 31 December 2020 a further R8.9 million of rental relief negotiations were concluded. The majority of these agreements are not recognised as a lease modification.

Ster-Kinekor Theatres Proprietary Limited was placed in voluntary business rescue with effect from 27 January 2021. The size of the rentals does not have an impact on the property valuations as at 31 December 2020.

On 12 February 2021, the Public Investment Corporation SOC Limited disposed a beneficial interest in the securities of L2D, such that their entire beneficial interest has decreased from 8.631% to 3.129% of the total number of securities in issue.

Basis of preparation

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

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

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

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

By order of the Board of Directors

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

22 February 2021

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2020

R'000	GROUP 2020	GROUP 2019
Assets		
Non-current assets	8 521 511	10 163 254
Investment properties	8 458 913	10 112 155
Investment properties under development	30 074	32 768
Property plant and equipment	716	836
Deferred tax asset	31 808	–
Financial assets – unlisted equity	–	17 495
Current assets	378 501	386 907
Trade and other receivables	223 070	253 241
IFRS 16 – lease asset	–	1 688
Amount due from Group companies	80 993	66 119
Financial assets	768	660
Current taxation receivable	633	–
Cash and cash equivalents	73 037	65 199
Non-current asset held for sale	–	123 213
Total assets	8 900 012	10 673 374
Equity		
Stated capital	8 780 921	8 780 921
Treasury shares	(80 709)	(39 205)
Retained surplus/(loss)	301 075	290 081
Share-based payment reserve	26 212	18 240
Mergers/capital reserve	(426 104)	(426 104)
Non-distributable reserve	(1 693 432)	93 073
	6 907 963	8 717 006
Liabilities		
Non-current liabilities		
Financial liabilities	1 240 891	1 695 000
Current liabilities	751 158	261 368
Trade and other payables	154 854	200 905
IFRS 16 – lease liability	–	1 995
Employee benefits	13 844	17 323
Amount due to Group companies	33	14
Current taxation payable	–	74
Financial instruments	60 423	16 891
Financial liabilities	522 004	24 166
Total liabilities	1 992 049	1 956 368
Total equity and liabilities	8 900 012	10 673 374

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended December 2020

	GROUP	
R'000	2020	2019
Property portfolio revenue	878 769	999 189
Rental and related income	945 388	1 023 891
Adjustment for the straight-lining of operating lease income	(66 619)	(24 702)
Net revenue from hotel operations	–	24 677
Property operating expenses	(341 769)	(325 585)
Change in expected credit losses on rental debtors	(159 728)	(4 729)
Net property income	377 272	693 552
Asset management fee income	57 263	61 490
Development fee income	2 361	6 747
Total net property income and revenue	436 896	761 789
Other Income	1 228	181
Operating costs	(95 769)	(93 156)
Profit from operations excluding fair value adjustments	342 355	668 814
Interest expense	(149 307)	(148 530)
Interest received	2 398	3 482
Profit before fair value adjustments	195 446	523 766
Net fair value adjustments	(1 719 886)	10 910
Fair value adjustments on investment properties	(1 725 478)	2 054
Fair value adjustment on derivatives	(43 532)	(8 602)
Fair value adjustment on equity instrument	(17 495)	(7 244)
Adjustment for the straight-lining of operating lease income	66 619	24 702
(Loss)/profit before taxation	(1 524 440)	534 676
Taxation	31 637	(185)
Total comprehensive (loss)/income	(1 492 803)	534 491
Basic earnings per share (cents)	(164.59)	58.96
Fully diluted earnings per share (cents)	(164.59)	58.96

STATEMENT OF CHANGES IN EQUITY

for the year ended December 2020

	GROUP						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2019	8 780 489	–	–	106 865	122 646	(426 104)	8 583 896
Total comprehensive income	–	–	–	–	534 491	–	534 491
Treasury shares acquired by the Trust	–	(39 205)	–	–	–	–	(39 205)
Share-based payment transaction	–	–	18 240	–	698	–	18 938
Capitalised costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	2 054	(2 054)	–	–
Fair value adjustment on derivatives	–	–	–	(8 602)	8 602	–	–
Fair value adjustment on equity instrument	–	–	–	(7 244)	7 244	–	–
Distribution to shareholders	–	–	–	–	(381 546)	–	(381 546)
Balance at 1 January 2020	8 780 921	(39 205)	18 240	93 073	290 081	(426 104)	8 717 006
Total comprehensive loss	–	–	–	–	(1 492 803)	–	(1 492 803)
Treasury shares acquired by the Trust	–	(41 504)	–	–	–	–	(41 504)
Share-based payment transaction	–	–	7 972	–	–	–	7 972
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	(1 725 478)	1 725 478	–	–
Fair value adjustment on derivatives	–	–	–	(43 532)	43 532	–	–
Fair value adjustment on equity instrument	–	–	–	(17 495)	17 495	–	–
Distribution to shareholders	–	–	–	–	(282 708)	–	(282 708)
Balance at 31 December 2020	8 780 921	(80 709)	26 212	(1 693 432)	301 075	(426 104)	6 907 963

STATEMENTS OF CASH FLOWS

for the year ended December 2020

R'000	GROUP 2020	GROUP 2019
Cash flows from operating activities	(36 644)	158 370
Cash generated by operations	396 563	682 775
Interest received on financial assets	477	60
Interest received	1 920	3 421
Interest paid	(152 022)	(146 915)
Taxation (paid)/received	(874)	575
Distribution to shareholders	(282 708)	(381 546)
Cash flows from investing activities	41 540	(154 341)
Expenditure on investment properties capitalised	(79 424)	(104 336)
Disposal of investment properties	123 213	–
Expenditure on investment properties under development	(1 426)	–
Acquisition of investment properties	–	(24 643)
Acquisition of property plant and equipment	(716)	(563)
Investment in financial instruments – mutual funds	(113 050)	(60)
Proceeds from disposal of financial instruments – mutual funds	112 943	–
Investment in financial instruments – unlisted equity	–	(24 739)
Cash flows from financing activities	2 942	49 800
Treasury shares acquired	(41 504)	(39 205)
Lease liability repayments	(1 446)	(2 084)
Loan paid	(219 473)	(428 149)
Loans received	265 365	519 238
Net increase/(decrease) in cash and cash equivalents	7 838	53 829
Cash balance at beginning of the year	65 199	11 370
Cash and cash equivalents at the end of the year	73 037	65 199

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. Key judgements

Key areas of judgement and sources of uncertainty

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

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

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

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

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

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

1.2 Investment properties fair value measurement

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

The key assumptions in 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. Two 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. Please refer to the investment properties note of the group consolidated annual 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 number of management judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

1.3 Capital re-organisation

During the 2018 financial year and with effect from 1 November 2018, Liberty Two Degrees Limited (New L2D) converted to a corporate REIT in accordance with a transaction that involved the following inter-conditional steps as detailed in the circular that was issued to shareholders on 30 July 2018.

- the disposal by the Liberty Two Degrees Scheme (Old L2D) of all of its business assets and liabilities to 2 Degrees Properties Proprietary Limited (2DP), being a wholly-owned subsidiary of New L2D;
- the internalisation through New L2D purchasing the issued shares of the manager from Liberty Holdings Limited (LHL) following which the business of the Manager was transferred to 2DP; and
- the acquisition by 2DP of R1.2 billion of additional properties from Liberty Group Limited (LGL) and Liberty Propco Proprietary Limited (LibProp).

The conversion to a corporate REIT during 2018 was considered to be a common control transaction in that the ultimate parent company before and after the transaction was LHL. There is no guidance in IFRS on the accounting treatment for combinations among entities under common control and IAS 8 requires management to develop a policy that is relevant to the decision-making needs of users and that is reliable. Management are of the view that capital reorganisation accounting is considered to be the most appropriate treatment for this transaction. In this regard, a new entity was incorporated (New L2D) as the parent via the issue of shares and the businesses under common control that are combined in New L2D are considered to have single management and oversight and are treated as a capital reorganisation of the existing reporting entity.

1. Key judgements continued

1.3 Capital re-organisation continued

New L2D's consolidated annual financial statements included the entity's full results (including restated comparatives) as though the transaction had been effected at the start of the earliest period presented, even though the re-organisation was effective from 1 November 2018. The assets and liabilities of the existing entity were incorporated at their pre-combination carrying amounts without fair value uplift. Any premium on the purchase price over the carrying amounts of the assets and liabilities was recorded in equity as a merger reserve.

Costs related to the acquisition, other than those associated with the issue of debt or equity instruments that the group incurred in a capital reorganisation, were expensed as incurred. Costs that are incremental and directly attributable to the issue of equity are recorded directly in equity.

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

1.3.1 Transfer of investment in subsidiary

As a result of the capital re-organisation in 2018, SRFM's operations was transferred to 2DP. This included the transfer of the net asset value of SRFM to 2DP. The investment in subsidiaries at L2D company level was adjusted accordingly to transfer the effective cost of the investment in SRFM to the investment in 2DP as the economic benefit of the re-organisation now resides in 2DP. The transfer was done at a value that reflects the economic effect of the transaction, i.e. the value transferred based on the relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates the net asset value of the company.

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

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

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

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

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

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

1. Key judgements continued

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

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

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

The criteria management has assessed includes the following:

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

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

1.4.1 Accounting for the temporary hotel agreement

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

The terms of the temporary agreement are summarised as follows:

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

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

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

Given the uncertainty of when lockdown restrictions will be lifted and the complexity in estimating the lease income, L2D has elected not to recognise any rental income for the hotels. L2D continues to recognise the costs incurred as property expenses in the Statement of comprehensive income. The fair value of the hotels is disclosed as investment property in the statement of financial position.

1.5 Accounting for the Sandton Convention Centre agreement

On 31 August 2020, the current lease agreement between Liberty Group Limited, 2 Degrees Properties Proprietary Limited, Pareto Limited (the Consortium) and Tsogo Sun Hotels Limited (the tenant) related to the Sandton Convention Centre expired. In terms of that agreement, the tenant appointed Southern Sun Hotels Interests (SSHI) to operate and manage the business. Tsogo Sun Hotels Limited indicated that they will not be renewing the lease.

SSHI would like to enter into a lease agreement with the Consortium on the same terms and conditions as the lease entered into with Reshub Proprietary Limited in 2019 regarding the hotel agreements relating to certain properties.

However, on the date of the current lease expiry, the negotiations have not been finalised and the parties have agreed to enter into a transition management agreement between the Consortium and SSHI commencing 1 September 2020 until 31 August 2021.

1. Key judgements continued

1.5 Accounting for the Sandton Convention Centre agreement continued

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

IFRS accounting for Sandton Convention Centre from 1 September 2020
IAS 40 Investment Properties set out the principles of accounting for investment properties as defined under IFRS. Investment property is defined as property (land or building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rental or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business.

Owner-occupied property is property held (by the owner or by the lessee as a right-of use asset) for use in the production or supply of goods or services, or for administration purposes.

Both standards allow recognition and measurement at fair value, however under IAS 40 the fair value gains or losses are recognised in profit or loss, whereas under IAS 16 Property, Plant and Equipment they are recognised in other comprehensive income.

Classification under IFRS
IAS 40, Para 11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

Para 12 – In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner managed hotel is owner occupied property, rather than investment property.

Para 13 – It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day to day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

Para 14 – 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.

Management are of the opinion that the Sandton City Convention Centre still meets the definition of an investment property.

The Consortium are all part owners of the property and are responsible for all capital expenditure, and major repairs and maintenance. The property is also held for capital appreciation. The day-to-day operations such as running of the Convention Centre has been outsourced to SSHI in terms of the management agreement and Liberty and L2D are passive investors in this regard. Liberty and L2D themselves do not provide management services to the Convention Centre.

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

1.6 Accounting for rental relief discounts

During the first quarter of 2020 the South-African Government imposed a national lockdown and declared a state of disaster in response to the COVID-19 Pandemic. In line with government guidance our malls partially closed from 27 March 2020 with only essential tenants being allowed to trade through the "hard-lockdown" period. Gradual re-opening of the stores commenced as lockdown restrictions started easing with most of the portfolio able to trade by the third quarter of 2020 albeit under restricted trading conditions and within strict health and safety protocols. In addition to focusing on the well-being of our staff and operational sustainability of our business, the primary focus at the start of the lockdown period was on ensuring the properties remain safe and complied with issued guidelines from the applicable authorities and industry best practice protocols. We concurrently participated in various industry forums including the Property Industry Group which aimed to provide a platform for industry participants to discuss the impact of the pandemic on our industry and brainstorm potential measures for mitigation which included guidance or views on rental relief provided to tenants.

1. Key judgements continued

1.6 Accounting for rental relief discounts continued

Rental relief has been provided using the following categories:

- L2D provided a discount on rentals due, most of which was in arrears. At the date of the agreement the discounts offered related to previous months that had already been invoiced to tenants.
- For certain categories of tenants including restaurants, the rental relief offered was in the form of a rental determined on a turnover basis from July 2020 to January 2021, on a sliding scale basis. The revised rental relief methodology assumes that tenants will still be liable for certain property expenses and other obligations per the lease in full. Tenants will be liable for a minimum basic rental and property expense recoveries. This will increase based on turnover achieved as a percentage of historical turnover. At a certain level of historical turnover, a tenant will become liable for their full lease obligations including basic rental and property expense recoveries.

IFRS 16 defines a lease modification as 'a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)'
Per IFRS 16:87 – a lessor accounts for a modification to an operating lease as a new lease.

If a change in lease payments does not result from a lease modification for an operating lease, a lessor recognises the change in payments in income from leases.

Accounting for the changes in lease payments over the term of the lease is an area of judgement that depends on several factors and in this instance is compounded by circumstances not commonly observed. L2D's view for the rental relief contracted and provided for in category one above is that these were not lease modifications, all our leases are operating leases and consequentially the change in payment has been recognised as a reduction in income from leases.

If the change in lease payments was part of the original terms and conditions of the lease the change would not be considered a lease modification. It is an area of judgement on whether the express inclusion of a *force majeure* provision (either in contract or by interpretation of common law provisions) in the contract contemplates the kind of variable payment occasioned by the discount provided in response to COVID-19. Based on the legal advice received at the time our conclusion was that a clear answer was not apparent prior to a court process;

Rental relief that relates to the second category will be classified as a lease modification as the agreement relates to forward looking information. Furthermore, the scope of the agreement has changed to a turnover based rental as opposed to a fixed rental. As a result, these leases will be accounted for as a new lease from the effective date (the date when the agreement was concluded) of the modification.

Different categories of accounting for the rental relief
The rentals relief granted in category one will be accounted for as an impairment against the lease receivable in line with IFRS 9 requirements.

The rental relief granted in category two is subject to an accounting policy choice. L2D has elected to account for the arrears outstanding as an impairment in terms of IFRS 9 and for the forward looking rental to be treated as a lease modification.

1.7 Deferred tax asset

Deferred tax assets are recognised for taxable temporary differences as management considers that 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 over the next two years 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.

1. Key judgements continued

1.7 Deferred tax asset continued

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.

1.8 Restatement of segment reporting

The group is disclosing L2D's share of GLA excluding co-owners in line with the financial segment earnings. The portfolio underwent a GLA reconciliation at the end of 2020 to ensure alignment between reported GLA and the latest Architect's certificates.

1.9 Impairment in subsidiary

Given the current environment and the adverse effect of COVID-19 , 2DP has seen a decrease in net property income due to rebates, Expected Credit Loss provision, vacancies, devaluation of properties amongst many other factors. Signifcant judgement has been applied on the assumptions used in the value in use calculation. L2D Ltd has impaired its interest in subsidiaries in line with IAS 36 Impairment of Assets.

2. Segment information

Segmental performance, based on of net property income, is assessed using the below metrics at the Business Operations Oversight Committee as well as at the Finance and Risk Oversight Committee:

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

December 2020

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

*Administration and other includes 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. The hotels do not form part of the total GLA disclosed.

2. Segment information continued

2.1 Segment earnings - December 2020

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

2. Segment information continued

2.2 Segment assets and liabilities

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

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

2. Segment information continued

The group is disclosing L2D's share of GLA excluding co-owners in line with the financial segment earnings. The portfolio underwent a GLA reconciliation at the end of 2020 to ensure alignment between reported GLA and the latest Architect's certificates. The changes in GLA have been due to natural attrition and movement in GLA as a result of refurbishments and changes in tenant mix over time. As a result, 2019 has been recalculated on this basis. This has been restated with the change effected below:

December 2019 – Published	Retail	Office	Other specialised	Hotels	Administration/ Other*	Total
Unaudited GLA						
Total property GLA m²	523 135	331 326	113 405	–	–	967 866
L2Ds share of total GLA m²**	150 070	60 485	23 483	–	–	234 038

December 2019 – Restated	Retail	Office	Other specialised	Hotels	Administration/ Other*	Total
Unaudited GLA						
Total property GLA m²	512 701	334 255	117 606	–	–	964 562
L2Ds share of total GLA m²**	148 168	61 281	23 833	–	–	233 282
Change in unaudited GLA						
Total property GLA m²	10 434	(2 929)	(4 201)	–	–	3 304
L2Ds share of total GLA m²**	1 902	(796)	(350)	–	–	756

* *Administration and other includes 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. The hotels do not form part of the total GLA disclosed.*

2. Segment information continued

2.3 Segment earnings – Restated December 2019

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other*	Total
Property portfolio revenue	628 216	259 823	101 048	9 131	971	999 189
Rental and related income	643 905	266 312	103 572	9 131	971	1 023 891
Adjustment for the straight-lining of operating lease income	(15 689)	(6 489)	(2 524)	–	–	(24 702)
Net revenue from hotel operations	–	–	–	24 677	–	24 677
Property operating expenses	(203 621)	(84 215)	(32 752)	(2 750)	(2 247)	(325 585)
Change in expected credit loss on rental debtors	(3 004)	(1 242)	(483)	–	–	(4 729)
Net property (loss)/income	421 591	174 366	67 813	31 058	(1 276)	693 552
Asset management fee income	–	–	–	–	61 490	61 490
Development fee income	–	–	–	–	6 747	6 747
Total net property income and revenue	421 591	174 366	67 813	31 058	66 961	761 789
Other Income	–	–	–	–	181	181
Operating costs	–	–	–	–	(93 156)	(93 156)
(Loss)/profit from operations excluding fair value adjustments	421 591	174 366	67 813	31 058	(26 014)	668 814
Interest expense	–	–	–	–	(148 530)	(148 530)
Interest received	–	–	–	–	3 482	3 482
(Loss)/profit before fair value adjustments	421 591	174 366	67 813	31 058	(171 062)	523 766
Net fair value adjustments on investment properties	10 691	4 422	1 720	9 923	–	26 756
Fair value adjustments	(4 998)	(2 067)	(804)	9 923	–	2 054
Adjustment for the straight-lining of operating lease income	15 689	6 489	2 524	–	–	24 702
Fair value adjustment on derivatives	–	–	–	–	(8 602)	(8 602)
Fair value adjustment on equity instrument	–	–	–	–	(7 244)	(7 244)
(Loss)/profit before taxation	432 282	178 788	69 533	40 981	(186 908)	534 676
Taxation	–	–			(185)	(185)
Total comprehensive (loss)/income	432 282	178 788	69 533	40 981	(187 093)	534 491

2. Segment information continued

2.4 Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other*	Total
Investment property	6 216 389	2 571 033	999 904	357 597	–	10 144 923
Non-current asset held for sale	–	123 213	–	–	–	123 213
Property plant and equipment	–	–	–	–	836	836
Amount due from Group companies	–	–	–	–	66 119	66 119
Trade and other receivables	116 482	48 175	18 736	57 036	12 812	253 241
Financial assets	–	–	–	–	660	660
Financial assets – unlisted equity	–	–	–	–	17 495	17 495
IFRS 16 – lease asset	–	–	–	–	1 688	1 688
Cash and cash equivalents	–	–	–	–	65 199	65 199
Total assets	6 332 871	2 742 421	1 018 640	414 633	164 809	10 673 374
Trade and other payables	(89 292)	(36 930)	(14 363)	(31 778)	(28 542)	(200 905)
Employee benefits	–	–	–	–	(17 323)	(17 323)
Amount due from Group companies	–	–	–	–	(14)	(14)
Current taxation payable	–	–	–	–	(74)	(74)
Financial instruments	–	–	–	–	(16 891)	(16 891)
Financial liabilities	–	–	–	–	(1 719 166)	(1 719 166)
Lease liability	–	–	–	–	(1 995)	(1 995)
Net assets	6 243 579	2 705 491	1 004 277	382 855	(1 619 196)	8 717 006

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

3. Headline earnings per share

	GROUP	
R'000	2020	2019
Reconciliation between basic earnings and headline earnings		
Total (loss)/earnings (basic earnings)	(1 492 803)	534 491
Fair value adjustment to investment properties and financial assets	1 719 886	(1 091)
Headline earnings	227 083	523 581
	Cents	Cents
(Loss)/earnings per share		
Basic and diluted	(164.59)	58.96
Headline	25.04	57.76
	000's	000's
Actual number of shares in issue	908 443	908 443
Weighted average number of share in issue*	906 999	906 471
Diluted weighted average number of shares in issue*	906 999	906 471

* *Excludes 12 986 793 treasury shares as at 31 December 2020.*

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

Headline earnings per share is a disclosure requirement in terms of the JSE Listings Requirements for companies listed on the JSE. Circular 1/2019, issued by the South African Institute of Chartered Accountants at the request of the JSE, stipulates the requirements for the calculation of headline earnings.

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

4. Investment properties

R'000	Notes	GROUP 2020	GROUP 2019
4.1 Summary			
Investment properties	4.2	8 458 913	10 112 155
Fair value net of straight-lining at the beginning of the year		10 112 155	10 111 609
Additions – property acquired		–	24 643
Expenditure on investment properties capitalised during the period		67 560	96 996
Fair value adjustment		(1 720 802)	975
Transfer to assets held for sale		–	(122 068)
Reclassification from investment properties under development		–	–
Investment properties under development	4.3	30 074	32 768
Fair value at the beginning of the year		32 768	32 768
Additions – property acquired		–	–
Expenditure on investment properties under development during the year		1 426	–
Fair value adjustment		(4 120)	
Reclassification to investment properties		–	–
		8 488 987	10 144 923

4. Investment properties continued

R'000	Notes	GROUP 2020	GROUP 2019
4.2 Investment properties			
Fair value of investment properties at the beginning of the year		9 864 729	9 839 002
Additions – property acquired		–	23 595
Additions – property acquired for cash/in exchange for units issued		–	24 643
Impact of straight-lining of operating lease income on property acquired		–	(1 048)
Net fair value adjustment for the period		(1 654 661)	27 028
Fair value adjustment[1]		(1 720 802)	975
Net movement on straight-lining operating lease income		66 141	26 053
Expenditure on investment properties during the period		67 560	96 996
Additions – capitalised subsequent expenditure[2]		69 865	92 204
Capitalised tenant installations[2]		4 495	7 399
Amortisation of tenant installations		(4 464)	(3 770)
Capitalised letting commission[2]		4 160	7 674
Amortisation of letting commission		(6 496)	(6 511)
Transfer to assets held for sale		–	(121 892)
Transfer to assets held for sale		–	(122 068)
Impact of straight-lining of operating lease income on transfer of property		–	176
Reclassification from investment properties under development		–	–
Investment properties at fair value		8 277 628	9 864 729
Operating leases accrued adjustment			
Straight-lining balance at the beginning of the year		247 426	272 607
Straight-lining of operating lease income balance acquired		–	1 048
Straight-lining of operating lease income of transfer of property to assets held for sale		–	(176)
Net movement on straight-lining of operating lease income3		(66 141)	(26 053)
Straight-lining of operating lease income		181 285	247 426
		8 458 913	10 112 155

4. Investment properties continued

R'000	Notes	GROUP 2020	2019
4.3 Investment properties under development			
Fair value of investment properties under development at the beginning of the year		32 768	32 768
Additions – property acquired for cash/in exchange for units issued		–	–
Net fair value adjustment for the period		(4 120)	–
Fair value adjustment		(4 120)	–
Net movement on straight-lining operating lease income		–	–
Expenditure on investment properties under development during the period		1 426	–
Additions – capitalised subsequent expenditure		1 426	–
Reclassification (to) investment properties		–	–
Total investment properties under development		30 074	32 768
Total investment properties		8 488 987	10 144 923

[1] *Century City was classified as a non-current asset held for sale on 31 October 2019 and was effectively transferred on 9 July 2020. The fair value adjustment for the period is R0.5 million. This has been excluded above and included in the non current assets held for sale note.*
[2] *Expenditure on investment property capitalised relating to Century City is R0.9 million and has been excluded from the above and included in the non-current assets held for sale note.*
[3] *The impact of straight-lining operating lease income on Century City offices for the period 1 January 2020 to 9 July 2020 is R0.5 million. The total income statement movement for the year from straight-lining is R66.6 million (2019: R24.7 million). The impact of lease modifications due to forward looking rental relief granted resulted in the movement of the straight-lining operating lease asset from R188.2 million to R181.3 million, and the movement of the straight-lining operating lease income of R6.9 million*

Interest expense
Interest incurred during the 2020 financial year on debt incurred to acquire the additional undivided share of properties was R125 million (2019: R121 million).

Basis of valuation

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

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

4. Investment properties continued

4.3 Investment properties under development continued

Registered Valuers.

The independent valuers are as follows:

Broll	J Weiner	Dip Real Estate (P.V.), MIV(SA), professional valuer
Broll	J Karg	BSc, MRICS, MIV(SA), professional valuer
Jones Lang LaSalle	S Crous	BSc, MRICS, MIV(SA), professional valuer

The basis of value is 'fair value' which is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The full investment properties portfolio was independently valued as at 31 December 2020 in line with the group's valuation policy.

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

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

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

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

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

4. Investment properties continued

4.3 Investment properties under development continued

South African Property Owners Association (SAPOA).

Unobservable inputs:

	2020					2019				
	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)
Office (%)	8.25 – 9.75	13.25 – 14.00	0.5 – 1	Staggered growth rates applied for a period of 5 years which vary per property between 0 – 4.75	Staggered growth rates applied for a period of 5 years which vary per property between 5 – 6	8.3 – 9.50	12.5 – 13.8	0 – 2.5	4.0 – 5.0	6.5 – 7.0
Retail – super regional and regional (%)	6.5 – 7.75	10.5 – 11	0.5 – 2 5% for the offices in Sandton complex	Staggered growth rates applied for a period of 5 years which vary per property between (1) – 4	Staggered growth rates applied for a period of 5 years which vary per property between 5 – 6	6.50 – 7.0	12.0 – 12.25	0.5 – 2.5 5% for the offices in Sandton complex	4.0 – 5.5	6.5
Retail – other	7.75 – 8.25	11.75 – 13.25	1 – 1.5	Staggered growth rates applied for a period of 5 years which vary per property between (1) – 5	Staggered growth rates applied for a period of 5 years which vary per property between 5 – 6	7.25 – 8.25	12.5 – 12.75	1 – 1.5	5 – 5.5	6.5
Hotels (%)**	9.0	13.75 – 14.0	–	–	–	8.8	14.0	–	–	–

4. Investment properties continued

4.3 Investment properties under development continued

	2020					2019				
	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)	Exit cap rate (%)	Discount rate (%)	Vacancy rate (%)	Rental growth (%)	Expense growth (%)
Specialised Sandton Convention Centre (%)**	10.0	14.75	–	–	–	10.0	15.25	1	(1) – 3.0	5.5 – 6.0
Virgin Active and Parkade	8.5	13.5	–	Staggered growth rates applied for a period of 5 years (1) – 3.5	Staggered growth rates applied for a period of 5 years 5.5 – 6	8.5	13.0	0.5	(1) – 3.5	5.5 – 6.0
John Ross Eco Junction*	8.25 – 9.25	13.75 – 14.5	1	Staggered growth rates applied for a period of 5 years 0 – 4.75	Staggered growth rates applied for a period of 5 years 5 – 6	8.25 – 9.25	13.75 – 14.5	–	4.5 – 4.75	6.5
John Ross Eco Junction (land)	–	14.5	–	3.85	Staggered growth rates applied for a period of 5 years 5 – 6	–	15.0	–	3.85	7.0

* *Includes John Ross Eco Junction Tangawizi and Melomed.*
** *There are no growth rates/vacancy rates disclosed for the hotels and the Sandton Convention Centre as the method of valuation is a profits method based on business modelling forecasts.*

Understanding the unobservable inputs

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

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

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

4. Investment properties continued

4.3 Investment properties under development continued

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

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

Other inputs that impact the value less significantly are:

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

Conclusion on material uncertainty
In spite of the material valuation uncertainty noted by the independent valuers, L2D is satisfied with the property valuations as at 31 December 2020. The impact of COVID-19 and the associated impact on the property investment industry has resulted in changes to the inputs and assumptions into valuation techniques applied.

Valuation summary

Offices
The Standard Bank Centre and Umhlanga offices fall within this category for valuation purposes. The office properties are currently located in Johannesburg and KwaZulu-Natal (KZN). The KZN offices are multi-tenanted whilst the one Johannesburg office is a triple net lease with a single tenant. The offices have been negatively impacted by market pressure on rentals which are reflected in forecasted negative reversions, a rise in vacancies and less demand for traditional office space contracts over the short- to medium-term.

The Standard Bank Centre's valuation is affected by reduced market rental growth rate assumptions. The expenses escalation growth has also been staggered over the forecast period and is tracking ahead of inflation in the earlier part of the forecast. The exit cap rate and discount rate have remained consistent with the previous valuation.

Liberty Head office Umhlanga Ridge and Umhlanga Ridge Office Block's valuations are affected by reduced market rental growth rates assumptions. The expense escalation growth has also been staggered over the forecast period and is tracking ahead of inflation in the earlier part of the forecast. Market rentals have been static in the last 12 months with muted demand for space in the node. The discount rate has increased reflecting increased risk over the forecast period. Umhlanga Ridge Office Block experienced an increase in projected operating costs as a result of changing the property from single to multi tenanted usage.

Retail
The Retail category consists of super regional, regional, small regional and community shopping centres. The retail segment has been one of the most adversely impacted as a consequence of the COVID-19 pandemic. The valuations of the retail portfolio have been impacted by rental discounts implemented, the re-basing of certain tenant rentals based on trading sustainability criteria, expected negative rental reversions for certain categories of tenants on lease renewal and increased conservatism reflected in forecasted market rentals and valuation metrics. While the current conditions present a number of challenges to the portfolio, we have observed improvement in the latter half of the year in the foot count, collections, turnover growth since the start of the pandemic and lockdown level 5. We have also implemented additional health and safety measures at our retail centres. The experiential offerings created at Eastgate and Nelson Mandela Square have helped drive footcount to the malls. Although vacancies have increased in the portfolio, certain new tenants have been secured and the retail vacancy rate remains below the SAPOA retail vacancy rate. The collection rate has also improved from the levels seen during the lockdown level 5 period.

Super regional shopping centres
There has been a downward movement in the Sandton Complex which includes Sandton City, Sandton Office Tower, Atrium on 5th and the Sandton Parkade. The Sandton Parkade projected income has been severely impacted due to the lower vehicle count during the year. Atrium on 5th was additionally impacted negatively by an increase in the exit cap rate assumption. The assumption for office void periods in the forecast have also been extended impacting the valuations negatively which is further amplified by more conservative assumptions around

4. Investment properties continued

vacancy and let up periods. For Sandton City, the retail rentals forecasted on renewal have been impacted by expected negative reversions for certain categories of tenants with the valuation being additionally impacted by rebasing certain inforce leases. Furthermore at a complex level, the valuation accounts for significant reversion on expiry of leases in the forecast period. Discount rates used in the valuations have been adjusted downwards consistent with the low growth environment.

Eastgate has seen good escalation growth for in-force leases coupled with managed cost escalation growth. The rentals on vacancies and renewals have been forecasted conservatively as the asset takes cognisance of the effect of the pandemics and the positioning of the property in creating a sustainable base going forward. We expect the trading density and weighted average unexpired lease term to improve further within the short to medium term as vacancies are let, and the economy recovers.

Regional and small regional shopping centres
Liberty Promenade Shopping Centre, Nelson Mandela Square, Liberty Midlands Mall Midlands Mall and Lifestyle Centre fall within this category. The valuations in this category have been negatively impacted by rebates offered in the current year and expected negative reversions on lease renewals for certain categories of tenants over the forecast period. Additionally the valuations are impacted by increased vacancy assumption for the forecast period.

Community shopping Centre
Botshabelo Mall's valuation is driven by more conservative assumptions around market rental growth rates and an increase in budgeted capital expenditure.

Other
Melrose Arch valuation is driven by anticipated Net Property Income (NPI) growth which is offset by increased vacancy, longer void periods on expiry of leases and lower market rentals rates applied based on recent lettings.

Hotels
The Hotels ceased operating for large parts of the year under lockdown regulations. Although gradual easing of restrictions has allowed a small component to open to trade it is not yet feasible for the vast majority of the hotel operations to resume full trade. These factors and a forecasted reduction in the average daily rate over the forecast period in comparison to the prior year have negatively impacted the hotel valuations.

Sandton Convention Centre
As a result of lockdown restrictions and a restriction of international travel imposed in the first half of the year, many events had to be cancelled in 2020 causing severe pressure on the Sandton Convention Centre. Restrictions on gatherings have still not been lifted fully and this is expected to have a severe impact in the first quarter of 2021. The valuation has been impacted by a change in methodology from previous valuations given the expiry of the Convention Centre lease and the introduction of the interim management agreement. The methodology has changed to a profit's method valuation on expiry of the lease. This method accounts for the underlying fundamentals of the business where previously the property was valued based on the income method utilising the lease rental and reversion on expiry. We are in continued discussions with the lessee and will be in a position to conclude once greater clarity around travel and business tourism prevails.

Virgin Active and Parkade
Lockdown restrictions forced gyms to close down for a number of months. The net property income was negatively affected by the rebates that had to be given for this period of no trade. We are still in negotiations with Virgin Active regarding their arrear rental position. The valuation is impacted negatively by downward assumptions to the market rental growth rates over the period of the cashflow as well as an adjustment to the discount rate.

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

The valuers considered the land parcels to be in a prime location, and as soon as the pandemic as well as the development challenges facing the port and other local projects improve the demand for space is expected to increase. As such the valuers have applied land values in the sales projection cashflow for the property which are generally in line with the prices for development land in the more attractive areas of Richards Bay.

4. Investment properties continued

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2020 valuation R'000	December 2019 valuation R'000
1	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	147 356	171 565
2	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park lane, Umhlanga Ridge, KwaZulu-Natal	Office	102 100	113 122
3	Sandton City Complex (25.0%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	3 105 732	3 519 051
4	Nelson Mandela Square Complex (33.3%)	5th Street Sandton, Gauteng	Retail	405 436	594 184
5	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	2 389 292	2 940 485
6	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Retail* *(per unobservable input table)*	468 757	567 048
7	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	729 552	855 162
8	Liberty Promenade Shopping Centre (33.3.%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	536 141	600 944
9	Botshabelo Mall (33.3%)	Portions 2 and 3 of ERF 1 Botshabelo-H, Free State	Retail	93 275	100 968
10	John Ross Eco-Junction Estate – Tangawizi (33.3%)	Eco-Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	21 645	23 181
11	John Ross Eco-Junction Estate – Melomed (23.3%)	John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	126 010	113 349
12	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	30 074	32 468
13	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	48 980	142 460
14	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	11 862	13 337
15	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Hotels	114 037	169 535
16	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Hotels	158 738	188 062
Total				8 488 987	10 144 923

* *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 (%)	2020	2019
Total retail	4.7	2.3
Total office	12.4	10.2
Total specialised	0	0
Total	6.7	4.7

5. Fair value hierarchy for financial instruments and investment property

IFRS 13 requires that an entity discloses for each class of assets and liabilities measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements.

The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

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

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

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

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

5. Fair value hierarchy for financial instruments and investment property continued

Details of changes in valuation techniques
There have been no significant changes in valuation techniques in the period under review.

Significant transfers between level 1, level 2 and level 3
There have been no transfers between level 1, level 2 and level 3 financial assets, derivatives and investment property for the period under review.

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

LEVEL	INSTRUMENT	VALUATION BASIS	MAIN ASSUMPTIONS
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Price-not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Price-not applicable
3	Unlisted equity	Discounted cash flow	Discount rate
3	Investment properties	Discounted cash flow	Refer to Investment Properties Note for detail regarding assumptions
3	Investment properties under development	Fair value	Refer to Investment Properties Note for detail regarding assumptions

Reconciliation of level 2 liabilities
The table below analyses the movement of level 3 assets for the period under review.

R'000	2020	2019
Interest rate swap		
Fair value at the beginning of the year	(16 891)	(8 289)
Fair value adjustments	(43 532)	(8 602)
Closing balance at the end of the year	(60 423)	(16 891)

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

As at 31 December 2020, 82% of the group's term debt is at fixed rates.

5. Fair value hierarchy for financial instruments and investment property continued

Reconciliation of level 3 assets and liabilities

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

R'000	2020	2019
Investment property and investment property under development		
Fair value at the beginning of the year	10 144 923	10 144 377
Additions – property acquired	–	24 643
Transferred to non-current assets held for sale	–	(122 068)
Capitalised cost	68 986	96 996
Fair value adjustments	(1 724 922)	975
Closing balance at the end of the year	8 488 987	10 144 923
Non-current assets held for sale		
Fair value at the beginning of the year	123 213	–
Transferred from investment property	–	122 068
Capitalised cost	904	318
Amortisation	(347)	(251)
Disposal	(123 213)	
Fair value adjustments	(557)	1 078
Closing balance at the end of the year	–	123 213
Unlisted equity		
Fair value at the beginning of the year	17 495	–
Additions – unlisted equity acquired	–	24 739
Fair value adjustments	(17 495)	(7 244)
Closing balance at the end of the year	–	17 495

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

5. Fair value hierarchy for financial instruments and investment property continued

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair value were determined using the discounted cash flow methodology. The exit capitalisation rates applied at 31 December 2020 range between 6.5% and 10.0% (2019: 6.5% and 10.0%).

The table below indicates the sensitivity of the aggregate market values for a 100 bps (2019: 100 bps) change in the exit capitalisation rate.

		Change in exit capitalisation rate	
	Rm	100 bps increase	100 bps decrease
2020			
Properties below 7.3% exit capitalisation rate	4 047	3 679	4 545
Properties between 7.3% – 8.5% exit capitalisation rate	3 890	3 594	4 274
Properties between 8.6% – 10.0% exit capitalisation rate	552	523	587
Total	8 489	7 796	9 406
2019			
Properties below 6.8% exit capitalisation rate	4 113	3 710	4 635
Properties between 6.8% – 8.5% exit capitalisation rate	5 428	4 935	5 992
Properties between 8.6% – 10.0% exit capitalisation rate	727	671	798
Total	10 268	9 316	11 425

5. Fair value hierarchy for financial instruments and investment property continued

The table below indicates the sensitivity of the aggregate market values for a 50 bps (2019: 50 bps) change in the discount rate (excludes hotel buildings).

		Change in discount rate	
	Rm	50 bps increase	50 bps decrease
2020			
Total property portfolio	8 489	8 216	8 557
2019			
Total property portfolio	9 911	9 680	10 052

Unlisted equity

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

The table below indicates the sensitivity of the aggregate market values for a 100 bps (2019: 100 bps) change in the discount rate.

	Rm	100 bps increase	100 bps decrease
2020			
Unlisted equity	–	–	–
Total	–	–	–
2019			
Unlisted equity	17 495	14 107	21 394
Total	17 495	14 107	21 394

6. Related party disclosure

List of related parties as defined

Ultimate parent
Standard Bank Group Limited (SBG).

Parent
Liberty Group Limited (LGL).

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

Transactions with related entities

Transactions with SBG
As at 31 December 2020, R1.1 billion is owed to SBG for debt borrowed for the purchase of properties as well as the purchase of the SRFM business in 2018. (2019: R1 billion)

Standard Bank Centre
The Standard Bank Centre is fully let to SBG on a seven-year lease. Rental income received by L2D Group for the year ended 31 December 2020 was R16.1 million (2019: R15.2 million).

Transactions with L2D A portfolio established under the Liberty Two Degrees Scheme, a Collective Investment Scheme in Property established in terms of the Collective Investment Schemes Control Act, No 45 of 2002, as amended
As at 31 December 2020, R168 032 is receivable from L2D CSIP (2019: R144 242).

Transactions with LGL

Liberty Centre Head Office Cape Town
83.1% of the property was let to LGL, the parent of L2D Group. The property was effectively sold and transferred to Spear REIT Limited on 9 July 2020. Rental income received by L2D Group for the year ended 31 December 2020 was R7.4 million (2019: R14.5 million).

Liberty Centre Head Office Umhlanga Ridge
Approximately 74.2% of the property is let to LGL on a five-year lease.

Rental income received by L2D Group for the year ended 31 December 2020 was R10.7 million (2019: R8.8 million).

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

Rental income received by L2D Group for the year ended 31 December 2020 was R2.9 million (2019: R2.4 million).

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

Rental income received by L2D Group for the year ended 31 December 2020 was R460 085 (2019: R55 2013)

Development fee income
Development fee income amounting to R2.4 million was earned during 2020 (2019: R6.7 million).

Asset management fee income
Management fees on assets under management amounting to R57.3 million was earned during 2020 (2019: R61.5 million).

Loan with LGL
As at 31 December 2020, R81 million is owed by LGL for working capital (2019: R66.1 million).

R52.4 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 (2019: R80.6 million). A money market interest rate is earned on the amount outstanding and a portion of the interest earned is allocated to shopping centre merchants' associations for centre marketing.

Transactions with other related entities

Operating lease payments
STANLIB Wealth Management Limited, as a lessee, paid an amount of R3.2 million (2019: R5.3 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

L2D Group leased its head office premises from Stanlib Wealth Management up until 30 September 2020. L2D's new head office premises will be in Nelson Mandela Square, the effective beneficial occupation date is 7 December 2020.

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.

6. Related party disclosure continued

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

JHI Retail is 51% owned by JHI Properties Proprietary Limited and 49% by Liberty Holdings Limited (LHL). It is accounted for as a joint venture of the group.

Property management service net fees paid by L2D Group to JHI Retail for the year ended 31 December 2020 amounted to R20.6 million (2019: R28.8 million).

Loan with STANLIB Asset Management Limited
As at 31 December 2020, R32,789 is owed to STANLIB Asset Management Limited (2019: R14 432).

Intercompany transactions
As at 31 December 2020, The Liberty Two Degrees Restricted Share Plan Trust (Trust) obtained a capital contribution from 2DP of R75.1 million to acquire shares for the LTIP (2019: R39.1 million).

As at 31 December 2020, 2DP has a loan with SRFM of R6.3 million (2019: R6.3 million).

As at 31 December 2020, L2D Limited has a loan with 2DP of R186.3 million. This includes a dividend receivable of R287.9 million and the remainder is a working capital loan (2019: R177.0 million).

As at 31 December 2020, L2D Limited has a loan payable to the Trust of R24.2 million relating to a contribution made to the trust to do good its losses (2019: R53 660 loan recievable).

ANNEXURE

Adoption of best practice recommendations

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

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

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

SA REIT Funds from Operations (SA REIT FFO) per share	2020 R'000	2019 R'000
Profit or loss per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent	(1 492 803)	534 491
Adjusted for:		
Accounting/specific adjustments:	1 757 221	16 514
Fair value adjustments to:	1 719 886	(10 910)
– Investment property		
– Debt and equity instruments held at fair value through profit or loss		
Depreciation and amortisation of intangible assets	2 524	2 722
Deferred tax movement recognised in profit or loss	(31 808)	–
Straight-lining operating lease adjustment	66 619	24 702
Other adjustments:	(3 780)	(3 372)
Antecedent earnings adjustment	(3 780)	(3 372)
SA REIT FFO:	260 638	547 633
Number of shares outstanding at end of period (net of treasury shares)	895 457	902 884
SA REIT FFO per share: (cents)	29.11	60.65
Company-specific adjustments (per share)	3.22	(0.22)
Depreciation/amortisation	(0.28)	(0.30)
Deferred tax	3.55	–
trust distributions	–	0.08
2DP/trust earnings	(0.05)	–
Dividend per share: (cents)	32.33	60.43

CORPORATE INFORMATION

Date of registration: 10 July 2018

Liberty Two Degrees Limited

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

Company secretary

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