LIBERTY two°degrees

LIBERTY TWO DEGREES SUMMARISED GROUP RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2022 AND CASH DISTRIBUTION

ENHANCED CUSTOMER EXPERIENCE DRIVES DEMAND FOR RETAIL SPACE RESULTING IN POSITIVE MOMENTUM IN PERFORMANCE

SALIENT FEATURES

- 100% distribution pay-out of **36.47** cents per share with distribution growth of **6.95%**
- Distribution reduced by circa **2** cents per share as a result of unsuccessful outcome of Sandton City rates appeal
- Retail turnover up **21.9%** on FY21 (18.3% vs FY19)
- Portfolio footcount up **24.9%** on FY21 (9.9% vs FY19)
- Retail occupancy increased to **97.9%**
- Retail reversion improved to **-9.7%** (FY21: -26.0%)
- Notable recovery in average hotel occupancies
- Strong balance sheet with loan-to-value of **24.42%**
- Debt and hedge duration has increased to **3.42** and **3.25** years respectively
- Net asset value per share decreased marginally by 0.64% to **R7.51**

OVERVIEW

L2D continued a strong recovery in its operational and financial metrics during 2022. The year saw South Africa, in line with the rest of the world, lifting the last of its Covid-19 restrictions buoying consumer confidence, travel and tourism and general sentiment which supported the positive momentum in performance.

L2D's operational metrics have shown good growth in 2022 with the portfolio's turnover and footcount exceeding 2019 (pre-Covid) levels. The portfolio generated a 21.9% increase in turnover compared to 2021 (18.3% vs 2019) and recorded a 24.9% growth in footcount compared to 2021 (9.9% vs 2019). Higher demand for retail space resulted in improved retail occupancy rates and positive leasing outcomes, providing an enhanced customer experience. Although the office recovery has been muted, the office portfolio occupancy rate has improved on a like-for-like basis. Portfolio reversions, while still negative, have improved considerably to -10.4% from -25.9% in the prior period. Net property income, excluding the impact of lease straight lining, grew by 7.3% over the period supported by the core retail portfolio and a recovery in the hospitality assets.

However, continued double digit increases in administered municipal and utility costs, coupled with increased periods of loadshedding prevailed in 2022 and, remain a concern. Additionally, notification was received post year end that the Sandton City rates appeal has been unsuccessful. Consequently, provision for the arrear rates and interest has been made resulting in a net impact of approximately 2 cents per share on the distribution per share for the financial year ended 31 December 2022.

Supported by a strong balance sheet, we are pleased to report another 100% full year distribution pay-out for the 2022 annual period of 36.47 cents per share which is an increase of 6.95% over the prior period.

RETAIL TRADING PERFORMANCE

Turnover across L2D's retail portfolio was 21.9% higher than the comparative period and 18.3% higher than 2019. Trading gained momentum as the year progressed, with turnover in Q4 up 21.0% on Q4 2019. The portfolio experienced an exceptional December trading period, with Sandton City in particular generating R1.25 billion in turnover.

Turnover growth	Q1 2022 vs 2019	Q2 2022 vs 2019	Q3 2022 vs 2019	Q4 2022 vs 2019	2022 vs 2019	2022 vs 2021
Sandton City	29.4%	33.1%	37.0%	35.8%	34.0%	**27.7%**
Eastgate	(5.6%)	2.5%	0.5%	7.6%	1.8%	**15.6%**
Nelson Mandela Square	(7.8%)	(6.1%)	7.9%	9.1%	1.0%	**44.6%**
Midlands Mall	21.9%	25.5%	18.3%	20.6%	21.5%	**14.3%**
Midlands Lifestyle Centre	63.2%	80.8%	57.6%	47.0%	61.2%	**21.3%**
Promenade	(4.0%)	0.2%	(1.0%)	3.3%	0.0%	**11.2%**
Botshabelo Mall	40.6%	36.2%	28.4%	27.0%	32.2%	**9.4%**
Total portfolio (excl. MA)	**14.2%**	**19.2%**	**19.5%**	**21.3%**	**18.8%**	**21.1%**
Melrose Arch (MA)	1.9%	1.7%	14.9%	15.1%	8.6%	**42.3%**
Portfolio full	**13.6%**	**18.3%**	**19.3%**	**21.0%**	**18.3%**	**21.9%**

OCCUPANCY AND LEASING PERFORMANCE

The portfolio occupancy level improved to 93.5% in December 2022 with demand for both retail and office space increasing. Pleasingly, retail occupancy improved to 97.9% (June 2022: 97.2%, December 2021: 96.8%). While L2D's office portfolio represents only 26.2% of total portfolio GLA and therefore carries less weighting on the overall vacancy, we remain focused on office leasing with various strategic measures in place. The decline in the office occupancy to 80% at December 2022 (vs. June 2022 83.3%), was due to the sale of the fully let Standard Bank building. The occupancy level in the office portfolio, on a like-for-like basis, has improved since June 2022 due to increased leasing in Sandton Office Tower, Atrium on 5th and Nelson Mandela Square offices.

OCCUPANCY RATE

	GLA composition to portfolio	Occupancy (%)			
		Dec 22	June 22	Dec 21	June 21
Retail	60.1%	**97.9%**	97.2%	96.8%	96.7%
Office	26.2%	**80.0%**	83.3%	86.2%	86.6%
Specialised	13.7%	**100%**	100%	100%	100%
Portfolio	100.0%	**93.5%**	92.9%	93.7%	93.7%

FINANCIAL RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2022

R'000	Audited 31 December 2022	Audited 31 December 2021	% Change
Revenue	**974 044**	888 240	9.66
Net property income	**554 077**	516 002	7.38
Profit from operations	**488 333**	459 216	6.34
Net interest expense	**(166 047)**	(148 085)	12.13
Profit before fair value adjustments	**322 286**	311 131	3.59
Profit before tax	**249 235**	258 610	(3.63)
Headline earnings	**316 788**	295 747	7.11
Basic and diluted earnings per share (cents)	**27.99**	27.40	2.15
Headline earnings per share (cents)	**36.37**	33.32	9.15
Distribution per share (cents)	**36.47**	34.10	6.95
Net asset value per share (Rand)[1]	**7.51**	7.56	(0.64)

[1] *Calculated based on total equity divided by the number of shares in issue (908 443 334) excluding treasury shares of 38 744 474 in 2022 and 29 608 280 in 2021.*

Demand for retail space in the L2D portfolio remains strong. We concluded 344 leases (renewals and new deals) over the full year 2022, equating to 84 443m², composed of retail of 53 132m² and office of 31 311m².

Leasing initiatives over the last three years have resulted in rentals reset downwards to more sustainable levels. However, the Portfolio has made positive strides improving the reversion trend over the 2022 financial year. Rental reversions across the portfolio were -10.4%, with retail renewals -9.7% and offices -25.5% which is a significant improvement to the negative reversions achieved in 2021 (portfolio -25.9%, retail -26.0%, office: -24.8%).

FINANCIAL PERFORMANCE

	FY22 Contribution to NPI (R'm)	% Change in NPI FY22 vs FY21	% Change in NPI FY22 vs FY19
Retail	**R470.4m**	**0.3**	(18)
Offices	**R24.9m**	**(16)**	(35)
Hospitality	**R33.1m**	**544**	(42)
Other	**R40.2m**	**4**	(20)
Total NPI[1]	**R568.6m**	**7.3**	(21)

[1] *Total NPI excluding the adjustment for straight-lining of operating lease income.*

Net property income, excluding lease straight-lining increased by 7.3% to R568.6 million compared to the prior year, supported by lease income escalations and improved activity in the retail portfolio and hospitality assets. Included herein, utility costs increased due to higher consumption which was compounded by the increased cost associated with load shedding, municipal tariff hikes and provisions raised in respect of ongoing objections to municipal rates valuations. The increase in utility costs was partly negated by improved recoveries over the financial year. The hospitality sector has continued to show signs of recovery with increased occupancies at the Sandton Sun, Sandton Towers and Garden Court hotels. Net revenue from these assets was up R30.7 million from the prior year.

Head Office operating costs were 7.9% higher than the comparative 2021 year primarily driven by a combination of inflationary adjustments to the cost base, early retirements and depreciation upon completion of our office fit-out with the benefit of the reversal of share based incentive payments for shares due to vest in 2023 but forfeited as performance conditions will not be met.

Net interest expense increased by 12.13%, largely driven by refinanced debt at higher interest rates for longer duration in the debt maturity and interest hedging profile. Fair value adjustments on investment properties of R106 million, partially offset by a positive R18.9 million mark to market on the interest rate hedges are reflected in Profit before tax. The taxation expense of R5.5 million resulted from temporary differences on the deferred tax asset unwinding.

Subsequent to year end, notification was received that L2D's appeal to the Valuations Appeal Board (VAB), in respect of the latest municipal valuation for Sandton City, was unsuccessful. Whilst still reviewing the detail of the decision and considering what further steps are required, we have made the appropriate adjustments to provide for both the arrear rates and interest due to the City of Johannesburg based on the VAB outcome. The net impact thereof on the financial year ended 31 December 2022 equates to approximately 2 cents in distribution per share.

BALANCE SHEET AND PORTFOLIO VALUATION

The balance sheet remains robust. The loan to value (LTV) is 24.42% (2021: 23.87%), and interest cover ratio is healthy at 2.95 times, both well within banking covenant requirements. R850 million of term debt which expired in the second half of the year was refinanced and 80.27% of interest rate exposure is hedged. As at 31 December 2022 the average cost of debt is 9.23% with total unutilised credit facilities available of R339 million.

L2D's property portfolio was valued at R8.2 billion as at 31 December 2022, a marginal 0.33% increase on the June 2022 valuation and a 0.39% decrease on the December 2021 valuation (on a like-for-like basis). Values are based on independent third-party property valuations as at 31 December 2022 which is in line with L2D's policy to have external independent valuations performed at both the interim and final reporting date.

PROSPECTS

South Africa's economic prospects in 2023 remain challenged by several headwinds. High levels of inflation, rising interest rates, and high levels of unemployment weigh on disposable incomes. The inability of Eskom to provide consistent and adequate supply of electricity compounds the country's weak economic outlook and limited growth prospects.

Notwithstanding this challenging macro-economic environment, we remain steadfast in executing initiatives in support of our strategic value drivers. We have the benefit of world class retail assets that have shown resilience and which remain in high demand amongst our tenants and shoppers. Our strategy includes a focused drive on cost containment, extracting value from efficiencies and considered capital allocation, including investment in renewable energy, modernising our Heating, Ventilation and Airconditioning ("HVAC") systems and utilising rain water harvesting to defray continued excessive increases in utility costs. Improving on the muted office performance and recovery in the hospitality sector remains a focus. Overall, we believe the portfolio rentals and cost of operations for tenants in our portfolio have rebased to more sustainable levels boding well for rental growth in lease negotiations going forward. However, we continue to expect a lag between the improving operational metrics translating into rental income due to the contractual nature of leases and timing of renewals.

Given the level of uncertainty in our operating environment, providing distribution guidance remains difficult and needs to be considered in this context. Our guidance is reliant on the following key assumptions: forecasted net property income is based on contractual rental escalations and market-related renewals, appropriate allowance for vacancies have been included in the forecast and that no major tenant failures will occur.

Based on our current forecasts, and assuming that the board of directors of L2D (Board) continues to approve a 100% distribution pay-out ratio, we expect the 2023 full year distribution to be between 0% and 8% up on the prior year amount. This is dependent on no further significant negative changes in the intensity of loadshedding, cost of diesel or the municipal rates valuations of the portfolio. The forecast or any forward-looking statements have not been reviewed or reported on by L2D's external auditors.

DECLARATION OF CASH DISTRIBUTION

The Board has approved, and notice is hereby given, of a distribution of 18.99 cents per share for the six months ended 31 December 2022 (the distribution). In addition to the interim distribution of 17.48 cents per share, the full year distribution for 2022 amounts to 36.47 cents per share.

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

	2023
Declaration (SENS)	Monday, 27 February
Last date to trade *cum* dividend	Tuesday, 14 March
Shares trade *ex*-dividend	Wednesday, 15 March
Record date	Friday, 17 March
Payment date	Monday, 20 March

L2D uses distribution per share as a relevant measure of financial performance. Share certificates may not be dematerialised or rematerialised between Wednesday, 15 March 2023 and Friday, 17 March 2023, both days inclusive. Payment of the distribution will be made to shareholders on Monday, 20 March 2023. In respect of dematerialised shares, the distribution will be transferred to the Central Securities Depository Participant (CSDP) accounts/broker accounts on Monday, 20 March 2023. Certificated shareholders' dividend payments will be posted on or about Monday, 20 March 2023.

Shares in issue at the date of declaration of this distribution: 908 443 334, inclusive of 38 744 477 treasury shares.

L2D's income tax reference number: 9178869237.

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

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

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

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

Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (DTA) between South Africa and the country of residence of the shareholder, the net dividend amount due to non-resident shareholders is 15.19200 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

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

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

On behalf of the Board

Nick Criticos	**Amelia Beattie**	**José Snyders**
Chairman	*Chief Executive*	*Financial Director*

27 February 2023

The full long-form announcement is available at: https://senspdf.jse.co.za/documents/2023/jse/isse/l2de/YE22.pdf
The contents of this short-form announcement are the responsibility of the Board. This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decisions made by investors and/or shareholders should be based on the full announcement as a whole. Shareholders are encouraged to review the full announcement, which is available on SENS and on L2D's website: https://www.liberty2degrees.co.za/investors/sens/. It is also available, at no cost, on request at: investors@liberty2degrees.co.za or from the Sponsor at: sponsorteam@merchantec.com during normal business hours.

The financial results for the year ended 31 December 2022 were audited by the Group's auditor, PricewaterhouseCoopers Inc., who expressed an unqualified audit opinion thereon. The auditor's report is available on L2D's website at: https://www.liberty2degrees.co.za/investors/results-centre/.

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