INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

LIBERTY

two degrees

Creators of experiential spaces

CONTENT

ABOUT THIS REPORT

We are pleased to present this integrated report for the period ended 31 December 2018 which is addressed to all of our stakeholders. It illustrates how Liberty Two Degrees Limited (L2D) creates, delivers and safeguards value for all its stakeholders and how we deliver on our purpose of **creating experiential spaces that benefit generations.** We remain committed to reporting transparently and in a manner that presents a true reflection of our operations.

We would like to invite all users of this report to visit www.liberty2degrees.co.za for more information on L2D. We aim to provide clear and effective communication to all stakeholders and encourage engagement. Feedback or further requests for information can be directed to the investor relations team (investors@liberty2degrees.co.za), Investor Relations Executive Gareth Rees (gareth.rees@liberty2degrees.co.za) or Company Secretary Ben Swanepoel (ben.swanepoel@liberty2degrees.co.za) or telephonically on +27(0) 11 448 5500.

Scope and boundary

Our integrated report is published annually and presents L2D's performance and activities for the financial year ended 31 December 2018. The report covers the combined activities of L2D as a Collective Investment Scheme in Property (CISIP) and as a corporate Real Estate Investment Trust (REIT). Any material events up to the Board approval date on 21 February 2019 are included. L2D is a South African company and all of its operations are conducted in South Africa.

L2D is a subsidiary of the Liberty Group Limited (LGL) whose ultimate majority shareholder is Standard Bank Group Limited. As at 31 December 2018, LGL held 58.87% in L2D. L2D also manages the property portfolio of LGL, the Liberty Property Portfolio (LPP), for which L2D earns asset management and development fees.

This report reflects our commitment to sustainable value creation, ethical leadership, corporate citizenship, integrated strategic thinking and legitimate stakeholder interaction. It provides a broad view of the company's strategy, performance and enables stakeholders to assess our ability to create and sustain value. We regard this as a valuable opportunity to engage with our stakeholder groups.

The preparation of the Annual Financial Statements of L2D for the year ended 31 December 2018 was supervised by José Snyders CA(SA) in his capacity as Financial Director. The Annual Financial Statements (AFS) have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Companies Act and are available free of charge on request or on L2D's website.

Materiality

We consider a matter to be material if it is specific to L2D's operations and has, or may have, a material impact on our ability to create value in the short, medium and long term for our shareholders and key stakeholders. The material matters described on pages 32 of this report were informed by those matters discussed by the Board and its committees during the year. The material matters are linked to our strategic value drivers and investment proposition which are the focus of our strategy.

Frameworks

This report conforms with the requirements of the Companies Act No. 71 of 2008 and the JSE Limited (JSE) Listings Requirements. This report provides an entry point for other detailed information contained in the AFS.

L2D's management reporting processes are aligned with the King Code on Corporate Governance for South Africa 2016 (King IV™) reporting principles. Our integrated thinking, guided by the International Integrated Reporting Framework, is reflected in our targets and key performance indicators that cover L2D's financial and non-financial performance as well as strategy, risks and how we deliver value to stakeholders.

Assurance

L2D's combined assurance model is aligned to the roles and responsibilities as articulated in the three lines of defence risk governance model. For further information on the three lines of defence risk governance model, refer to page 68. Assurance of information contained in this report is provided by external and internal providers as indicated in the table below.

	Standards or codes	Assurance provider
AFS	International Financial Reporting Standards (IFRS)	PricewaterhouseCoopers Inc. (PwC)
Property valuations	Best Practice Valuation Policy	Jones Lang LaSalle Pty Ltd and Broll Property Group
Broad-Based Black Economic Empowerment (B-BBEE)	Property Sector Code	BDO South Africa Services (Pty) Ltd.
IT governance	Cobit and Itil	LGL and STANLIB
Property Management	Service Level Agreement	JHI Retail (Pty) Ltd (JHIR) and Amdec Group (Amdec)

For more information on Assurance, refer to the Risk Management Report on page 63.

Forward looking statements

This report may contain forward-looking statements with respect to L2D's future performance and prospects. While these statements represent our judgements and future expectations at the time of preparing this report, a number of risks, uncertainties and other important factors could cause actual results to differ materially from our expectations. These include factors that could adversely affect our business and financial performance.

Directors' approval

The Board acknowledges its responsibility to ensure L2D's 2018 integrated report and Annual Financial Statements support the integrity of information for internal decision-making and its external reports. The Board has applied its collective mind throughout the preparation of this report and was kept abreast of the reporting progress by the Audit and Risk Committee.

The Board unanimously approved this report and approved its release on 4 April 2019.

Angus Band
Chairman

Amelia Beattie
Chief Executive

Sandton City

HIGHLIGHTS FOR 2018

1. 29,31c declared for six months 30.06.2018 Old L2D | 18.00c declared four months 31.10.2018 Old L2D | 12.69c declared for two months 31.12.2018 New L2D
2. Trading density growth is based on a 12-month rolling period (excluding Melrose Arch and Lifestyle Centre)

Portfolio Key facts

	2018	2017
Number of properties	**17**	11
Total property gross lettable area (GLA) for combined L2D and LPP portfolios[1]	**967,866 m^2**	871,543 m^2
Rental and related income[2]	**R915.1 million**	R692.8 million
Market capitalisation	**R6.27 billion**	R7.59 billion
Total value of investment property[2]	**R10.1 billion**	R8.7 billion
Net asset value per share	**R9.45**	R9.90
Annualised trading density per m^2	**R42 476**	R41 279
Vacancies	**3.4%**	6.4%
Weighted average gross rental per m^2	**R299**	R317
• Retail	**R368**	R369
• Office	**R134**	R129
• Other	**R57**	R68
Undivided share of LPP	**33.3%**	31.0%
Share price on last trading day	**R6.91**	R8.35
LTV ratio	**16%**	0%
Historical yield	**8.14%**	6.82%

(1) L2D has an undivided share of the total.

(2) L2D acquired R1.2 billion worth of properties from LPP

VISION, PURPOSE AND VALUES

VISION

To be the LEADING South African PRECINCT FOCUSED, RETAIL-CENTRED REIT

LIBERTY two°degrees

PURPOSE

TO CONTINUE TO CREATE EXPERIENTIAL SPACES TO BENEFIT GENERATIONS

LIBERTY two°degrees

VALUES

PACE

Passion

Accountability

Care

EXCELLENCE

LIBERTY two°degrees

ENVIRONMENTAL OVERVIEW

ENVIRONMENTAL OVERVIEW

Macro-economic overview

The beginning of 2018 was filled with optimism on the back of a market-friendly result with regards to the ANC elective conference held in December 2017. The change in sentiment known as 'Ramaphoria' saw both business and consumer confidence indices move higher for the first quarter before reverting back in Q2. The first quarter also saw the minister of finance increase VAT by 1% to narrow the budget deficit.

Initial inflation forecasts were anchored to the downside early in 2018, and the South Africa Reverse Bank (SARB) cut the repurchase rate by 25 basis points to 6.5%. This action was later reversed in November 2018 due to rising oil prices, US monetary policy tightening and a weakening rand. In the third quarter, Statistics South Africa released the GDP figures showing a contraction of -0.7% for Q2, plunging the economy into the first technical recession since 2009. The decline in output was largely attributable to the 29.2% decline in agriculture production. Most of the volatility experienced during 2018 was largely driven by external factors including weaker commodity prices, which were driven by a stronger dollar and a worsening US and China trade dispute.

Understanding the performance of the REIT market

The 2018 performance of the Listed property sector was negatively affected by corporate governance issues as highlighted by a Viceroy Research report and subsequent short-selling by hedge funds to specific funds in the sector. Moreover, the deteriorating consumer and business macroeconomic environment has further driven the lack of confidence in specific property funds. Most Listed property companies have taken the opportunity to remove further once-offs from their distributable income through the re-basing of earnings. This resulted in most companies either forecasting single-digit dividend growth or significant negative growth.

As a consequence, the South African Listed property (SAPY) index declined by -25% on a total return basis and -31% on a capital return perspective for 2018.

Sector overview

Retail

South African retail fundamentals continued to come under some pressure in 2018, due to rising costs in petrol. In the retail sector, SAPOA released trading densities growth for Q3 2018, which came in at 1.4% (year-on-year), largely driven by a 2% sales growth and a 0.6% increase in the occupied space. While spend per head was up 7.7%, foot count has not increased in line with an increase in space. Trading densities in super-regional malls continue to show good numbers, with growth of 3.4% (year-on-year) in Q3 2018, from a low of –6.6% in July 2017.

L2D has shown a significant out performance for the period ending December 2018 with an annualised trading density growth of 2.9%, which excludes Melrose Arch (managed by Amdec) and Lifestyle Centre (no full year comparative). Retail vacancies remain low at 1.2% of GLA.

Office

The office GLA constitutes a small component of the L2D portfolio, being 11.9% of gross rental income. The office vacancy in the period decreased to 8.0% from 10.3% at 31 December 2017 (9.7% at 30 June 2018). Although this remains well below SAPOA's 11.1% benchmark, management continues to proactively target lower vacancy levels through committed office leasing initiatives. According to the SAPOA December 2018 report, vacancy rates improved in the B-grade, C-grade and prime grade segments, with A–grade softening slightly.

Tenant overview

Stuttafords

All the space related to Stuttafords was successfully re-let by mid-2018. What is more encouraging is that the new tenants have provided a positive impact to the overall trading of the portfolio.

Edcon

Shareholders of L2D are referred to the announcement released by the Edcon Group in relation to its recapitalisation and restructuring programme.

L2D continues to support the recapitalisation process and notes that Edcon currently occupies 5.3% of L2D's total portfolio GLA. This exposure is anticipated to reduce to 4.3% of total portfolio GLA by 31 December 2019 as part of a space rationalisation process as agreed with Edcon. Negotiations with Edcon continue to progress with the likelihood of driving the exposure further down in 2019.

L2D's position remains as disclosed in its recently published summarised group results for the year ended 31 December 2018 and a further update will be made once the suspensive conditions are met and agreements finalised.

LEADERSHIP REVIEW

LEADERSHIP REVIEW

Angus Band
Chairman

Amelia Beattie
Chief Executive

We are pleased to present our joint leadership review for the 2018 financial year. The year was noteworthy for L2D as we successfully completed the complex corporate restructure that culminated in the L2D corporate REIT and delivered on our targeted distribution of 60.00c per share in a challenging operating environment.

Operating environment

The local and global operating environment endured some volatile and unpredictable pressures and events, all of which had some impact on L2D's business.

Locally in the first quarter, the South African property sector saw a sell-off that had a spill-over effect on all listed property counters, including L2D. Some downward revisions to distributions per share led to more idiosyncratic sell-downs on listed properties counters. In addition, pressure on rentals and reversions mounted. This created a cautious approach to evaluating sustainable income across the property sector.

The ongoing Eskom crisis and rolling power outages as well as tariff increases will put further pressure on the local operating environment. This may also result in a further downgrade to South Africa's sovereign credit rating.

Despite the challenging operating environment, L2D achieved a positive financial performance and delivered the forecasted 60 cents distribution per share for the full year. In addition, although the property sector was down 25% on a total return basis, L2D's total return was down 8.6%, a relatively better performance than the sector. L2D's operational performance in the retail sector was positive with trading densities growing by 2.9% for the full year, dampened by continued pressure in the office rental sector.

Encouragingly, L2D maintained a low cost-to-income ratio of 35%, which affirms its ability to maintain costs and deliver operational excellence in a difficult environment.

Year in review

Restructuring transaction

We successfully concluded the restructuring of L2D from a trust REIT to a corporate REIT, effective 1 November 2018. This transaction entailed specific elements namely, internalising the asset manager, cancelling the Liberty put option and acquiring additional properties from the Liberty Property Portfolio for R1.2 billion (fully funded by debt). In addition, the L2D Board was reconstituted with the addition of two new independent non-executive members. This corporate structure aligns L2D with investors' preferences for internalised asset management.

The Board believes this restructure positions L2D for sustainable growth and took care to minimise any potential negative impact on L2D's distribution. We also introduced a conservative level of debt to L2D's capital structure, which will assist in reducing L2D's weighted average cost of capital over time. The Board approved a hedging policy to ensure interest rate risk attached to this debt is managed prudently.

Refreshed strategy

The Board approved L2D's refreshed strategy and is satisfied L2D will achieve its vision of being a leading South African precinct-focused, retail-centred REIT. This strategy includes a purpose statement, values and three strategic pillars and is discussed on page 15.

Key appointments

L2D relies on its people to execute its strategy – they are the heart of the business. The L2D management team was strengthened by various key appointments to ensure the business operates professionally and with passion, with the right management and asset management teams in place to further deepen L2D's talent pool.

Safety and security investments

The safety and security of our customers and employees remains paramount, as shopping centres globally have become a soft target for robberies, protests and acts of terrorism. To address this risk, L2D has invested in appropriate security and monitoring systems across all shopping centres and offices.

Business overview

L2D's property portfolio was valued at R10.15 billion at 31 December 2018, increasing from R8.71 billion at 31 December 2017. This increase was mainly due to the R1.2 billion additional assets acquired from the Liberty Property Portfolio.

Improved vacancies and trading densities

We experienced good leasing activity, which led to an improvement in vacancies and trading densities across the retail portfolio. Some exciting new stores were opened in the year such as Coach and LC Waikiki, improving the tenant mix and optimising trading at centres.

There was a marked improvement in retail vacancies from 4.3% in the prior period to 1.2%, well below the sector average of 4.2% reported by the South African Property Owners Association (SAPOA). Renewals concluded as at December 2018 amounted to 49,472m^2 and leasing within the retail sector provided a positive reversion of 4.9% and a portfolio reversion rate of 2.3%. A further 52,557m^2 in new tenant deals were concluded across the portfolio. Trading densities across the portfolio were 1.2% (2017: -1.7%), with Sandton City and Eastgate achieving trading densities of 3.9% (2017: -1%) and 2.9% (2017: -5%) respectively. Botshabelo achieved the best trading density growth in the portfolio of 9.6%.

Encouragingly, Sandton City achieved a zero vacancy and its trading density was well above other super-regional centres. A key differentiating factor for Sandton City is the additional international tenants, which have increased the total foot traffic by over 10% for the year and complemented the tenant mix.

The hangover from the closure of Stuttafords was positively addressed and all vacated space at both Sandton City and Eastgate has been let. Management is proactively engaging with Edcon to reduce L2D's exposure. Property valuations as at 31 December 2018 have considered the current Edcon re-structuring proposal that was announced to the market. We provide further details on the proposed way forward on Edcon on page 6.

Innovating to maintain relevance

We remain cautious of the pressures affecting the South African retail environment and the consumer, and continue to respond through innovation to remain at the forefront of retail and leisure trends. Our development activities aim to enhance our relevance to customers through creating world-class experiential places. During 2018, L2D completed various developments, including the Stuttafords reconfiguration at Eastgate and Sandton City, and the Sandton City Food Court refurbishment; all of which were completed on time and within budget. The Midlands Mall development now includes the Lifestyle Centre which was also completed during the year and expands the centre from 56,000m^2 to 78,000m^2.

One of the main ways in which we aim to stay relevant is by remaining cognisant of the risk of online shopping to our business, especially in trends evidenced by millennials. Even though online retail currently only accounts for c.2% of South Africa's total retail sales, we would be remiss to ignore this risk altogether. As part of L2D's strategic imperative to future-proof our assets, we continue to find innovative ways of generating experiences that keep attracting customers to our shopping precincts. Management continues to monitor the online shopping trend in overseas markets to try and predict its likely path in South Africa and we embrace using technology to integrate the physical and online platforms in enhancing our offering.

Ongoing pressure in the office sector

The office sector did not perform as well as the retail sector largely due to dampened South African growth, the competitive environment in the office sector and an oversupply of office space in the Sandton central business district. Considerable efforts are being made to attract the right calibre of new tenants and retain current tenants. L2D's overall office vacancy is 8.0% compared to 10.3% in the comparative period. This remains below the SAPOA benchmark of 11.1%. The continued pressure in the office sector has resulted in a negative reversion of 5.5% in this sector of the portfolio. Management continues to monitor the impact on the portfolio due to the negative reversions in the office sector as a whole.

Strengthening risk management

We continue to manage our risk universe and the Board is satisfied that L2D's major risks have been identified. Some key risks facing the business include business and strategy risk, market risk and operational risk including our exposure to Edcon. A new risk management control framework was approved in 2018 that will reinforce controls to manage and mitigate these risks. L2D also appointed a chief risk and compliance officer to strengthen the risk governance expertise and process.

Despite the significant municipal rates increases at Eastgate and Sandton City in the prior period, the portfolio was able to collect the same percentage of municipal fees in 2018 as in 2017. We have raised objections to these revaluations and are awaiting a decision from the municipalities as to whether the valuation will be reviewed.

Sustainability

To ensure that our malls remain competitive and relevant, and to increase dwell time, we continually look to add value to our tenants' businesses. We do this by increasing our investment in innovations that enhance customer experiences, making our malls an attractive and preferred destination. All mall redevelopments take account of trends such as free Wi-Fi connectivity and cashless and ticketless parking systems. The latter specifically was rolled out to Eastgate Mall, in addition to Sandton City and Nelson Mandela Square. In the prior period we installed a new foot-count system to capture data more comprehensively and assist with asset management and strategic planning. This has been instrumental in tracking relevant data at Sandton City, Nelson Mandela Square, Liberty Midlands Mall and recently at Eastgate. These technological developments are discussed in more detail on page 61.

As a good corporate citizen, we continue to explore sustainability initiatives that will assist in optimising our energy and water consumption. During the year, various sustainability policies were approved and our sustainability benchmarking has been improved. Targets for achieving a net zero sustainability position by 2030 were established and a photovoltaic plant was approved for Midlands Mall as discussed later in the document.

Ethical leadership

The Board and management embrace ethical leadership and we have a zero tolerance towards unethical conduct. In the current local operating environment, which has seen its fair share of corporate scandals, it is encouraging to note the various commissions in place in South Africa to address this. Within L2D, the code of conduct and values provide guidance to all employees and L2D strives to provide a working environment conducive to sound ethical conduct.

Governance and Board changes

The Board is committed to sound governance, diversity, transformation, and the delivery of its fiduciary responsibilities. L2D continues to comply with the principles and practices of King IV™. Following the restructure, the Chairman was no longer classified as independent, which led to the appointment of two additional Board members. Effective 1 August 2018, Brian Azizollahoff was appointed non-executive director and lead independent director and Zaida Adams as an independent non-executive director. We welcome both Brian and Zaida's appointments as they both bring excellent skills and experience that will be beneficial for L2D.

Maintaining the appropriate Board composition in respect of knowledge, skills, experience, diversity and independence remains a top priority. Currently, the Board is appropriately balanced with more than 40% of woman members and more than 40% are black. With the new appointments, the independence of the Board is further strengthened, and the Board's transformation and gender diversity targets were met. There will be a focus on succession planning at board level to ensure that we maintain the appropriate Board composition.

Following the restructure to a corporate REIT, L2D is required to meet all the B-BBEE requirements of the Property Sector Code. Management is focusing on embedding various policies and practices to ensure L2D meets these. The 2019 financial year will be our first full year of reporting against this sector requirement (as we previously reported through Liberty in the Financial Sector Charter) and we anticipate that it may take time for L2D to implement all the changes required.

Stakeholder relations

Stakeholder engagement is an ongoing process and in 2018 a great deal of our engagements were with investors around the restructure of L2D. Management has received mostly positive feedback following the listing of the new corporate structure. However, investors are still seeking clarity regarding the ongoing relationship with Liberty and the challenges around liquidity as L2D's free float remains limited because most shares are owned by Liberty. In addition to the other initiatives discussed herein, L2D's management team will be working with stakeholders on potential enhancements to the liquidity position in order to unlock value for all shareholders.

For more information, please refer to the stakeholder management section on page 54.

Prospects

L2D uses distribution per share as a relevant measure of financial performance. Given the current uncertainty (including the long-term success of Edcon's turnaround) as well as challenging economic conditions in South Africa, L2D's guidance for the 2019 full-year distribution is for growth of 0% to 2%. This guidance is reliant on the following key assumptions:

- forecasted net property income is based on contractual rental escalations and market-related renewals. While appropriate allowances for vacancies have been incorporated into the forecast, no major tenant failures have been allowed for;
- no further dilutionary gearing is introduced.

The forecast has not been reviewed or reported on by L2D's auditors.

Appreciation

On behalf of the Board, we commend the L2D team for its continued commitment and passion during a particularly demanding year as we embarked on our corporate journey. We also express our sincere appreciation to the Board for its support and wise council during a time of tumultuous changes. Finally we would like to thank our stakeholders for their continued support as we steer this business into the future.

Angus Band
Chairman

4 April 2019

Amelia Beattie
Chief Executive

4 April 2019

FINANCIAL DIRECTOR'S REVIEW

FINANCIAL DIRECTOR'S REVIEW

José Snyders
Financial Director

The 2018 financial year was significant for L2D. Despite a difficult economic environment the asset portfolio demonstrated the quality of its sustainable earnings base by producing enviable operational metrics and income growth whilst concurrently improving the tenant mix and customer experience at our core retail assets. The period will also be remembered for the successful restructuring of the business from a trust REIT into a corporate REIT creating a market aligned structure that provides the platform for continued growth and scale.

Corporate restructure

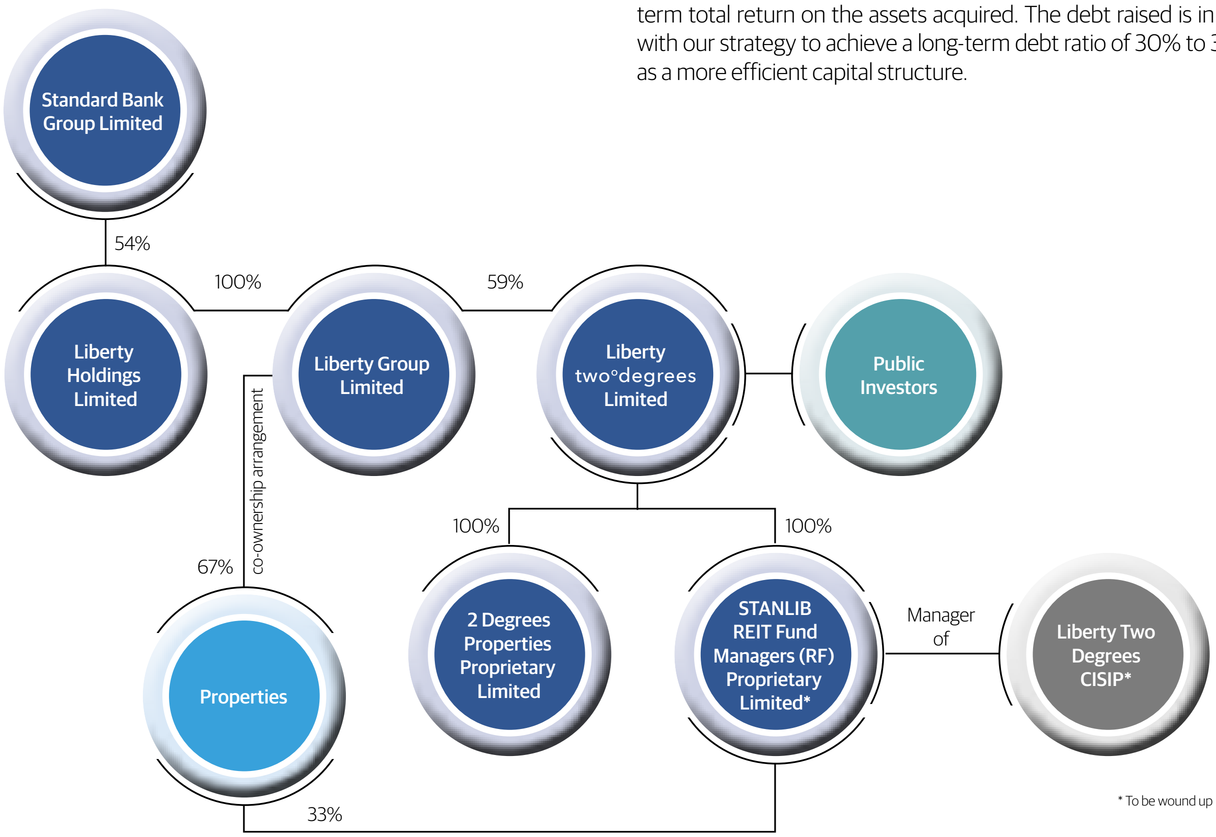
The conversion to a corporate REIT included internalising the management company for a purchase price of R300 million as well as acquiring R1.2 billion in assets from the Liberty Property Portfolio. In addition, L2D cancelled the Liberty put option and revised the participation rights for new opportunities.

The revised structure sees the asset management function and all operations housed within 2 Degrees Properties (Pty) Ltd, a wholly owned subsidiary of L2D. The intention is that SRFM (the previous manager) will be wound up concurrently with the Liberty Two Degrees CISIP once all the property assets have been transferred to 2 Degrees Properties and registration is confirmed at the deeds office. The total transaction costs related to the restructure was R17.8 million, R4 million of which was capitalised with the balance expensed. As detailed in the Annual Financial Statements, the restructure entailed the combination of businesses under common control as both before and after the implementation of the transactions all entities involved get consolidated to a common parent.

As a consequence, the transaction was accounted for as a capital reorganisation which entailed bringing the assets and liabilities onto the new group's balance sheet at their pre-combination values. Any excess over the purchase price was taken as an adjustment directly to equity and is referred to as a merger reserve. For comparative purposes, the prior year's information has been restated as though the group had always existed in its current form. No other adjustments have been made.

The individual entities involved in the restructure are separately taxed. The tax reflected in the consolidated financials primarily reflects the income tax paid in SRFM prior to it obtaining REIT status as part of the new L2D group.

To settle the purchase price for the acquisition of the manager and the additional property assets acquired, the group raised R1.5 billion in term debt. Distributions in the short term will be slightly reduced given the differential between the interest rate charged on the debt and the yield on the assets acquired. Management expects the impact of short-term dilution to be outweighed by the longer-term total return on the assets acquired. The debt raised is in line with our strategy to achieve a long-term debt ratio of 30% to 35% as a more efficient capital structure.



Income distributions paid

L2D paid three distributions during the 2018 financial year:

- The first distribution for 29.22 cents per unit was paid in March 2018 and related to profits earned in the CISIP for the six month period ended December 2017;
- The second distribution of 29.31 cents per unit was paid in August 2018 and related to profits in the CISIP for the six month period to 30 June 2018;
- The third distribution of 18 cents per unit (the 'cleanout' distribution) was paid in November 2018 and related to profits in the CISIP for the 4 month period ended 31 October 2018, prior to its delisting as a REIT;
- The final distribution of 12.69 cents per share relates to profits earned in the 2 month period ended 31 December 2018 in the new entity and was paid in March 2019; and
- Going forward L2D will revert to making distribution payments twice annually.

Legislative compliance and governance

Having changed from a trust REIT to a corporate REIT, the L2D business now complies with the corporate legislative requirements of the South African Companies Act 71 of 2008 for administering a company in addition to other regulatory requirements applicable to the REIT. L2D will continue to comply with King IV™ as tabled in L2D's King IV™ application register accessible on L2D's website.

Until it is wound up, SRFM and the L2D CISIP will continue to comply with the Collective Investment Schemes Act.

Governance in the listed REIT sector remains under scrutiny. In our view, this may have contributed to large capital outflows in the period and perceived regulatory delays in addressing the concerns exacerbate the negative investor sentiment in the broader property industry. As L2D is a relatively small listed counter, these developments and the related rebalancing of portfolio holdings may have a significant impact on our business.

Business review

During the period under review, the portfolio has posted good operational performance despite a tough economic environment. Factors worth noting include:

- Strong net property income growth in excess of 4% when normalised for ownership changes (additional LPP stake) during the period despite the impact of Stuttafords vacancy and a significant increase in operating costs. The cost to income ratio in 2018 is 29.5% mainly driven by increases in rates and utility costs (2017 was 26.4%);
- L2D remains concerned by the extent to which rates and utility costs increases exceed inflation and the consequential impact this has on the L2D comprehensive cost of occupation for tenants in our portfolio. Rates accounted for nearly 50% of our operational cost increases for the period under review. Excluding rates, the remaining costs increased by 5.4% for the period. We continue to engage authorities on our rates objections and our teams remain focused on finding efficiencies in managing operating costs as part of their core KPIs (key performance indicators);
- Credit collection at the end of the period was 94.8% (2017: 95.4%). L2D continues to monitor the performance of our tenants and engage management early for remedial actions when adverse indicators emerge. Management also actively monitors large exposures and concentration risk in the portfolio; and
- Management are currently engaging the Edcon Group on its restructure, the potential impact of which has been reported in our financial statements.

In our business, management remains focused on getting the basics right in driving the operational performance of the assets and ensuring we remain at the forefront of retail trends. This includes continually creating new customer experiences and offerings as well as driving innovation and the integration of online trading as an emerging opportunity. The company continues to look at ways of containing costs with a focus on embracing technology; L2D has the benefit of low gearing which provides the capacity to engage new opportunities as they emerge. L2D also aims to manage growth aspirations in a pragmatic manner and thereby not dilute the quality of the portfolio.

Appreciation

I would like to thank our Board and Chief Executive for their valued guidance during this significant year and the L2D team for its continued commitment to the success of the business. Also, thank you to our advisors for their guidance during L2D's restructure process and to our bankers for their financial assistance. This team effort enabled the success of L2D's restructure and sets the platform for our success going forward.

José Snyders
Financial Director

4 April 2019

STRATEGY

STRATEGY

Strategy overview

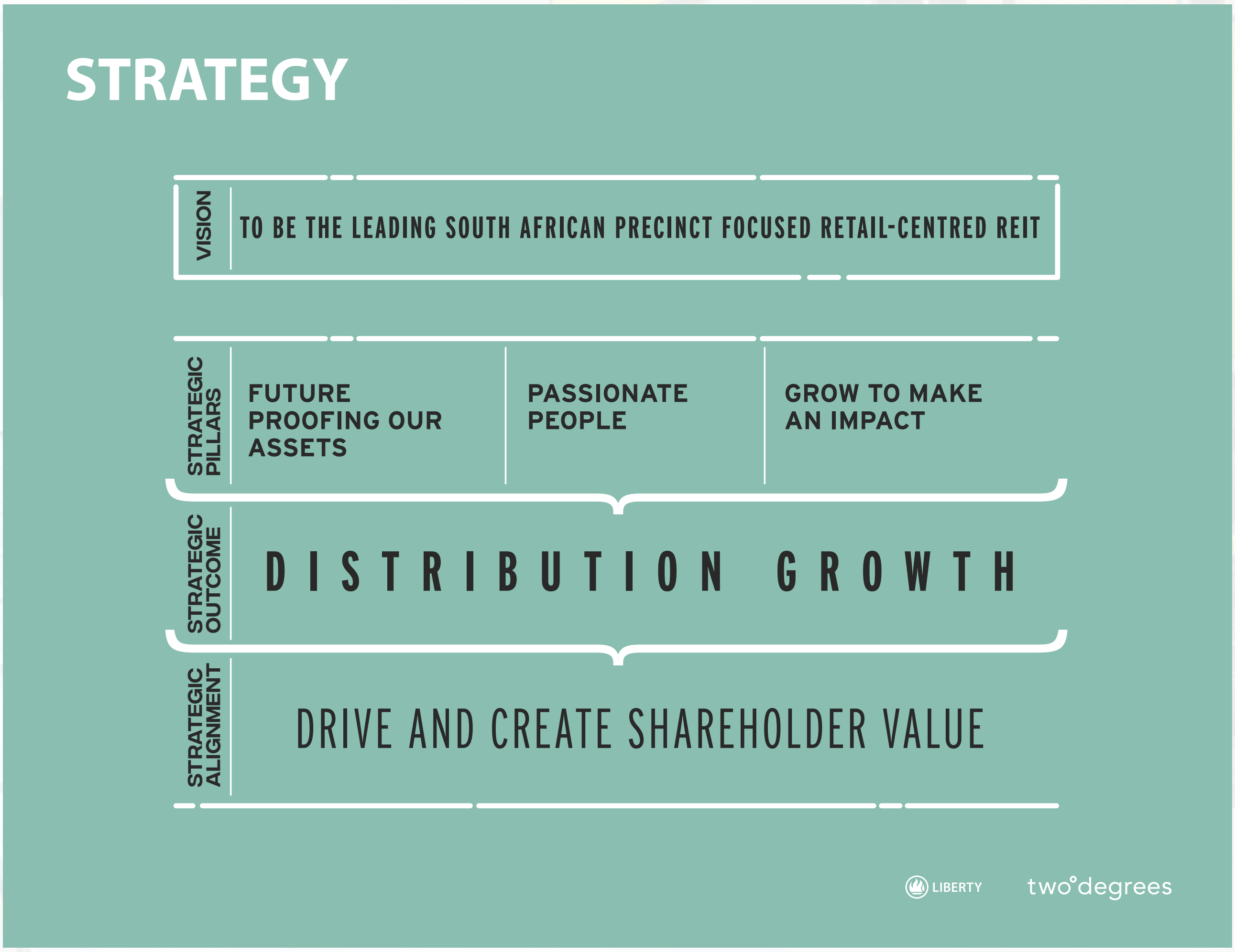
L2D is focused on delivering sustainable growth to our shareholders derived from a superior quality property portfolio. This strategic goal has been the cornerstone of L2D since the inception of our trading activities in 2016.

L2D continually re-assesses its strategic priorities to ensure its effectiveness and the sustainability of growth. The evaluation of our financial and non-financial performance indicators against benchmarks confirms that the current strategy is effective and assisted management in achieving the objectives set for 2018.

Purpose

L2D's **purpose** is to continue to create experiential spaces that benefit generations and our **vision** is to be the leading South African, precinct-focused, retail-centred REIT. Our energy and business model is focused on achieving outcomes that will support and drive the realisation of both our vision and purpose. The experience and expertise of our management team positions us well for delivering on our objectives.

To help us accomplish our goals, we have refreshed our strategy with a focus on implementing strategic pillars that are aligned to five building blocks to enable the delivery of sustainable and organic growth across our portfolio.



Strategic pillar: Driving to future proof our assets

We aim to create unique experiential spaces that people are proud to take ownership of and want to visit; spaces that provide a sense of community, not just an ordinary shopping experience. We recognise that 'business as usual' is not an option in the retail sector and that as consumers increase spend on experiences, it is imperative to shift our priorities to maintain relevance. Therefore, we have introduced elements into our environments that ensure our assets counter the normal retail trends. These include supplementing an experience, adding convenience to an experience, or ensuring our assets become an experience in and of themselves. In doing so we ensure that our retail centres do exceptionally well; Sandton City, for example, remains fully let. We also partner with our tenants to ensure their best-of-breed offerings are available within our centres.

We have identified five building blocks that have been embedded into this strategic pillar that will help us future-proof our assets. These building blocks ensure we create experiences that are unique and draw people to our assets to drive organic growth.

Strategic pillar: Passionate people

The core focus of our human capital philosophy is on employing the right people in the right roles, people that are passionate and individually accountable for outcomes aligned to the overall strategy. Refer to Our people section on page 59 for more on this pillar.

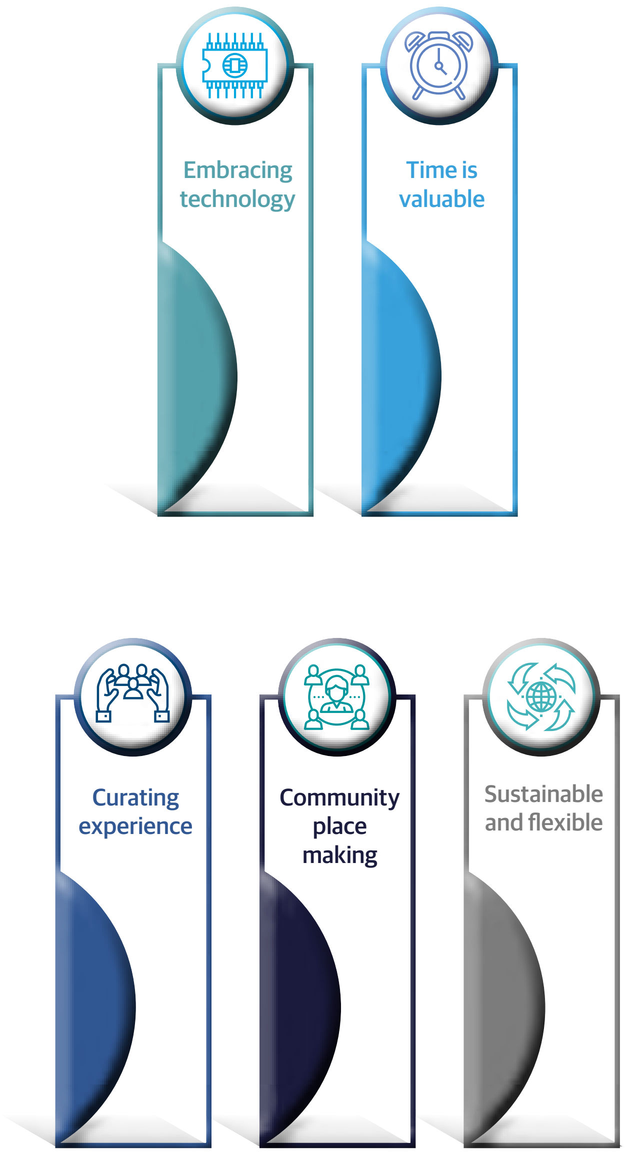
Strategic pillar: Grow to make an impact

L2D continues to seek opportunities to unlock value and improve share liquidity. The improved liquidity and spread of shareholders will unlock the underlying value in L2D and offers a simple route for investing in commercial property in South Africa. Furthermore, it will ensure that L2D benefits from positive investor sentiment.

The conversion to a corporate REIT introduced a conservative level of debt to L2D's capital structure, while retaining capacity to consider opportunities that may support our growth objectives. We remain focused firstly on extracting organic growth from the existing portfolio. Secondly, our aim is to supplement organic growth with appropriate additions that enhance sustainable earnings growth while not diluting the existing portfolio's income quality.

Any future acquisitions will need to meet the quality of our current portfolio assets.

Building blocks



The aim of the strategic pillars is to achieve distribution growth and unlock shareholder value.

Strategic priorities

The strategic priorities for L2D's financial and non-financial performance going forward are as follows:

- Sustaining the net property income growth of L2D's property portfolio;
- Achieving our forecast distribution growth of 0% to 2% for 2019;
- Delivering sustainable returns to shareholders;
- Stakeholder value creation;
- Future-proof our assets through the delivery of exceptional experiences in the spaces we create and manage;
- Create an environment for passionate people that delivers internal values of PACE (passion, accountability, care and excellence; and
- Driving transformation and diversity.

Nelson Mandela Square

2019 business performance targets

The 2019 business performance targets are centred on delivering on our strategic pillars as set out in the table below.

Strategic drivers	Goals	Deliverables	Strategic priority actions
(How we align to our strategy)	**(Material matters that we focus on)**	**(Outcomes we look for)**	**(What we need to do)**
Stakeholder value creation | Grow to make an impact	Alignment of corporate structure with market preference	Create relationships with stakeholders through exceptional transparency	Pursue and implement a transformational corporate transaction. Identify and take mitigating steps to overcome the barriers to improving our share liquidity.
	Transformation		Finalise transformation strategy and deliver 2019 implementation plan.
	Safety and security		Ensure all environments meet the highest standards of safety and security; high readiness levels.
Sustainable long-term performance	Sustainable distribution growth	Deliver a compelling investment proposition by maintaining core net property income (NPI) growth	Efficiently manage our capital structure to enhance returns and manage gearing risk. Effective risk management to ensure no significant audit items in any of our businesses. Recycle non-core assets (stand-alone offices).
Total Return	Performance of the property manager	Deliver growth and performance in our assets	Improve investment performance as measured by key industry accepted property metrics. Drive performance of property management delivery with quarterly key performance assessments.
	Tenant exposure and concentration		Carefully manage Edcon position to improve our overall risk and outcome. Implement specific strategies for all tenants with exposure to more than 5% of GLA and rental.
Future-proofing our assets	Counter effects of SA economy and property industry headwinds	Deliver exceptional experiences in the spaces we create and manage	Execute on five building blocks for each asset and identify new revenue streams. Finalise experience economy philosophy and execute implementation roadmap.
	Efficiency and management of resources		Define strategy for net zero implementation per asset and deliver sustainability targets. Keep focus on integration into group services that delivers value/where we can extract value.
Passionate people	Human capital	Create an environment for passionate people that deliver with PACE	Encourage inspired, passionate and empowered people that maintain a balanced life. Reward new ways of working together. Measure levels of engagement and professionalism including leadership capabilities.

BUSINESS MODEL

BUSINESS MODEL

Liberty Group Limited (LGL) is a controlling shareholder in L2D, holding 58.87% of its shares at 31 December 2018. Following the internalisation of the management company, L2D now holds 100% of SRFM, effectively making it a subsidiary. The business of SRFM was subsequently sold to 2 Degrees Properties; however it remains the manager of Old L2D until the trust is unwound. Internalising the management company provides the following benefits:

- L2D not paying management fees to a third party management company from 1 November 2018;
- The team is fully aligned and has a vested interest in the performance of the function in the same vehicle that owns the assets; and
- Improvement in cost management and alignment amongst stakeholders.

The operating entity, 2 Degrees Properties Pty Ltd, is 100% owned by L2D. 2 Degrees Properties also manages the unlisted portfolio of LPP.

We have outsourced the property management function for all properties owned by L2D (other than Melrose Arch) to JHIR. Melrose Arch is managed by Amdec. L2D appreciates the importance of the relationships with its service providers and has entered into service level agreements with the property managers to assist in administrative matters, including rental collection.

The main source of revenue for L2D is rental income received from its property portfolio. This income, combined with other non-capital income, is distributed to shareholders after the deduction of operating costs. Income is typically distributed to the shareholders bi-annually.

Financial capital

Inputs

Equity from institutional and non-institutional investors

Debt financing

Outputs

Raised R1.5 billion in debt

Paid R25.3 million in interest

Distributed R695.2 million in dividends (during the 2018 calendar year)

Opportunities

Manage gearing risk and interest rate exposure through hedging policy, acceptable gearing levels and maturity profile

Explore alternative forms of debt funding

Recycle non-core assets

Manufactured capital

Inputs

Investment in high quality properties

Identify new properties that are, or have the ability to become, iconic leisure and lifestyle destinations

Sustained value growth

Development and refurbishment of properties already owned

Outputs

Acquired R1.2 billion additional direct property assets

Grew total asset value to R10.15 billion

Total development expenditure of R145.8 million

Opportunities

Low LTV ratio provides capacity for future acquisitions and developments

Identify innovative non-GLA opportunities

Focus on growth in rental renewals.

Lower vacancies

Intellectual capital

Inputs

Iconic shopping centres

Skilled and experienced team

Property management by JHIR

Organisational culture and values

Outputs

Ability to attract local and international tenants

Escalations and rate per m^2 higher than average market rates

Improved tenant mix

Reduction of bad debts

Reduced vacancy rates

Motivated and committed team

Opportunities

Strengthen L2D brand awareness

Strive to future-proof our assets

Alignment of team and shareholders

Improve operational efficiency

We have entered into a corporate services agreement with Liberty for the provision of support services such as IT, payroll administration, tax advice and internal audit services.

L2D understands the importance of continuously enhancing the quality and value proposition of our properties. It is this focus that enables our properties to remain unique within their respective communities and consequentially attract more tenants and shoppers, thus increasing shareholder value. The ultimate result of providing a premium quality product to stakeholders in all our primary and interdependent business relationships is the trust earned. This is a major driver in ensuring sustainable returns for investors.

L2D prides itself on understanding and striving to meet the needs of all its stakeholders. The management team has the ability to adapt and to deliver on these expectations. L2D's business predominantly focuses on the high and medium income households located in premium business nodes as its ultimate customer. The geographical location and reputation of L2D's properties should ensure continued growth and sustainability that can withstand an array of economic factors such as urbanisation, income disparities and slower economic growth.

Property investment is associated with the capital growth of properties and L2D's approach is focused on long-term sustainable total returns. The longer business cycle associated with property investment should ensure a more stable and predictable income stream for the shareholders of L2D. L2D depends on the six capitals as defined in King IV™ for its success as inputs into its business model.

Manufactured capital

Inputs

- Monitoring of all consumption and relevant environmental factors
- Implementation of sustainability policies
- Increased spending on more efficient and environmentally-friendly infrastructure
- Expert sustainability consultants

Outputs

- Effective framework to continually improve environmental impacts
- Sustainable and long-term cost savings and a reduced carbon footprint
- Water management projects
- Carbon emissions report
- Approval of solar photovoltaic (PV) project

Opportunities

- Pursue further renewable sources of energy
- Optimise energy and water usage
- Set annual targets for reduction of carbon emissions
- Strategic planning to strive to net zero by 2030
- Green Star ratings for retail buildings

Human capital

Inputs

- Small team of passionate and skilled property and finance professionals
- Continuous training and development
- Fair and competitive remuneration
- Ethical employee conduct
- Safety and security

Outputs

- Improve returns and operating efficiencies
- Stable team with low employee turnover
- Reduced risk of reputational damage
- 4 learnership participants
- Safe and secure environments

Opportunities

- Participation of all employees in long-term incentive plan
- Continued focus on transformation agenda
- Employee development and succession planning
- Greater security analytics and use of advanced technology
- Greater collaboration with surrounding building owners

Intellectual capital

Inputs

- Stakeholder engagement
- Contribute to community development
- Committed to positive transformation
- New tenants

Outputs

- Good stakeholder relationships
- Continuous and sustainable community development projects
- Approved transformation and B-BBEE strategy
- Employment equity and gender diversity
- Improved tenant mix

Opportunities

- Conduct stakeholder engagement surveys
- Improve B-BBEE score
- Enterprise development
- Attract new international and national brands

L2D'S BUSINESS

Sector overview

Sectoral profile

The majority of properties managed by L2D are biased toward retail rental income. The remaining rental income comprises predominantly office space while a small portion can be attributed to specialised opportunities including hotels. L2D intends converting the hotel management agreements into lease agreements.

L2D evaluates the different sectors of rental income separately to ensure that we can respond to specific trends within these rental sectors.

Retail	
Rental income as percentage of total property portfolio	81.2%
Gross lettable area (m^2)	523,135
Vacancies	1.2%

L2D's portfolio operational performance resulted in solid property income growth. Going forward, we expect distribution growth to better track property income growth since the asset base is primarily property assets (post utilisation of cash raised at the initial listing). The retail portfolio comprises several iconic properties which are prime destination centres with high level market dominance. Each centre offers a tenant mix that meets the varying needs of consumers.

Office	
Rental income as percentage of total property portfolio	10.7%
Gross lettable area (m^2)	331,326
Vacancies	8.0%

L2D's office rental space can be separated into two different types. The first type is that which is part of a mixed-use property offering and dominated by retail. Examples include offices at Sandton City, Nelson Mandela Square, Eastgate and Melrose Arch. These office spaces are usually rented out to multiple tenants.

The second type is standalone office buildings that are leased either fully to one tenant or in sections to multiple tenants. The majority of properties are tenanted by Liberty Holdings Limited (majority shareholder of L2D) and Standard Bank, and the risk of vacancies is significantly lower than that of other office spaces.

Specialised	
Rental income as percentage of total property portfolio	4.8%*
Gross lettable area (m^2)	113,405
Vacancies	0%

** Relates to Tangawizi, Melomed, Virgin Active and Convention Centre*

The specialised rental space is primarily located within the Melrose Arch complex and at the John Ross Eco Junction. This includes industrial, gym space, hotels, car showrooms and catering venues.

The tenants occupying specialised space usually enter into long-term contracts and will occupy the entire specialised space. This mitigates year-on-year risk vacancies.

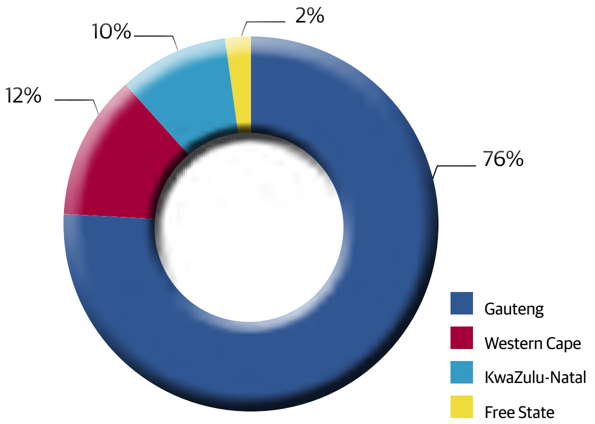
Hotels	
Rental income as percentage of total property portfolio	3.3%*
Rooms	1,001
Occupancy	55%**

** Relates to Garden Court and Sandton Sun and InterContinental contributions*

*** Weighted occupancy by number of rooms*

L2D owns a further portion of the Sandton node through its undivided share in Garden Court, Sandton Sun and InterContinental Towers. The hotel portfolio is geared to luxury grading with Garden Court graded as mid-scale.

Geographical spread of the property (GLA)



A significant portion of properties owned and managed by L2D is located within the Gauteng province. Gauteng is the hub of South Africa, with the Sandton node being the richest square mile in Africa.

Vacancy profile

Sector	Vacant space (m^2)	% of total GLA
Retail	6,504*	1.2
Offices	26,456*	8.0
Specialised	No vacant space	–
Total 2018	**32,960**	**3.4**

** Vacancy rates are not adjusted for any pre-lets deal concluded.*

The leasing activity within the portfolio during 2018 was encouraging, with the entire Stuttafords space fully let by national tenants. The tenants secured to replace Stuttafords include Dis-Chem, H&M, LC Waikiki, Pick 'n Pay Clothing and Ted Baker. The retail portfolio remains close to being fully let; however, we continue to ensure a balanced tenant mix.

The office vacancy rate at the beginning of 2018 was at 10.3%. By the end of 2018, vacancy levels of 8% were at lower levels than the SAPOA office rate for Q3 2018.

Lease profile

The current lease profile is tabled below and provides an analysis of when the leases will be terminated:

Period	Lettable Area GLA (m²)	%	Contractual Rental (R millions)	%
Monthly and expired	46,720	5	166	6
2019	110,683	12	430	15
2020	167,422	18	597	20
2021	97,574	11	466	16
2022	137,227	15	532	18
2023+	327,124	35	739	25

The ongoing evaluation of the tenant mix and continuous engagement with current and prospective tenants has enabled L2D to maintain a balanced lease expiry profile across the portfolio. In 2018, new deals and lease renewals concluded in the portfolio amounted to 102,029 m² in addition to re-letting Stuttafords space.

Maintaining the quality of properties and enhancing the attractiveness of the precincts in which they reside enables L2D to retain current tenants and attract new tenants to the portfolio.

Portfolio overview

The iconic nature of the L2D property portfolio continues to support the higher-than-average trading densities achieved.

L2D's approach to establishing iconic, lifestyle and leisure destinations ensures that its retail centres remain relevant despite the cyclical slowdown in consumer confidence and are poised to recapture growth as confidence returns.

Sandton City Complex

Ownership:	25%
Location:	Sandton, Gauteng
Sector:	Retail and office
Value of the Property (R):	14.0 billion
Average net rental per m² (R):	Retail 510 Office 141
GLA (m²):	199,140
Vacancy:	Retail 0.4% Office 26%
Trading density (R/m²):	54,247
Annual foot count:	20,4 million
Major retail tenants by GLA:	Checkers Hyper, Woolworths, Dis-Chem, H&M, Truworths
Number of tenants:	339

Sandton City is the market-leader among its peers in terms of trading density and retail offering. It boasts many 'retail firsts' including the Diamond Walk, Sandton's luxury brand offering, which remains unique and is a key differentiator. The Diamond Walk success has resulted in the expansion of the luxury offering in Sandton City which now includes Coach, Emporio Armani and Tiger of Sweden.

Due to the premier nature of Sandton City, the centre has attracted several new tenants following the closure of Stuttafords, quickly filling the vacancy and introducing new and diverse brands to the mall. The retail vacancy rate was 0.4% as at the end of December 2018 which demonstrates the resilience and strength of Sandton City.

The Food District modernisation was completed in November 2018. The artisanal upgrade introduced natural elements such as landscaping, green features, and sustainable design elements. Customers can access Sandton's free high-speed Wi-Fi, along with a state-of-the-art LED screen for the shoppers' experience, as well as smaller LED screens and electronic device charging stations for mobile phones and laptops.

Nelson Mandela Square

Ownership:	33%
Location:	Sandton, Gauteng
Sector:	Retail and office
Value of the Property (R):	1.9 billion
Average net rental per m² (R):	Retail 475 Office 108
GLA (m²):	38,795
Vacancy:	Retail 0.9% Office 32%
Trading density (R/m²):	54,961
Annual foot count:	10,5 million
Major retail tenants by GLA:	Forever 21, Hard Rock Café, The Butcher Shop and Grill, Trumps
Number of tenants:	96

Nelson Mandela Square is one of the most well-known open public squares in the country. The centre houses a six metre statue of Nelson Mandela, one of the most photographed across Africa. A large component of Nelson Mandela Square comprises a fine selection of restaurants. To strengthen the popular restaurant destination, new Halaal offerings were added to the upper level. The centre has managed to secure 'True Story' which is a Nelson Mandela Foundation retail initiative.

Nelson Mandela Square uses its square to entertain the restaurant guests and customers. Christmas carols on the square has become an annual event on Johannesburg's social calendar.

Eastgate Complex

Ownership:	33%
Location:	Bedfordview, Gauteng
Sector:	Retail and office
Value of the Property (R):	8.4 billion
Average net rental per m² (R):	368 (including offices)
GLA (m²):	145,240
Vacancy:	Retail 1.0% Office 2.7%
Trading density (R/m²):	37,089
Annual foot count:	13,9 million
Major retail tenants by GLA:	Woolworths, H&M, Checkers Hyper, Game, Mega Mica
Number of tenants:	264

Eastgate Shopping Centre is a super-regional centre which dominates the Bedfordview node. The centre underwent a major redevelopment to modernise both the retail and office components, which was completed in 2017. The redevelopment refreshed the tenant mix with the introduction of new brands. The retail vacancy rate as at 31 December 2018 was 1.0% and like Sandton City, Eastgate was able to fill the space vacated by Stuttafords with H&M, Dis-Chem and Mr Price, which has further enhanced Eastgate as a retail destination.

Liberty Midlands Mall

Ownership:	33%
Location:	Pietermaritzburg, KwaZulu-Natal
Sector:	Retail
Value of the Property (R):	2.4 billion
Average net rental per m² (R):	214 – Midlands Mall 165 – Lifestyle Centre
GLA (m²):	77,782
Vacancy:	3.36%
Trading density (R/m²):	35,121
Annual foot count:	6,8 million
Major retail tenants by GLA:	Game, Pick 'n Pay, Woolworths, Dis-Chem
Number of tenants:	189

Midlands Mall is the only regional shopping centre in Pietermaritzburg. This centre maintains a low vacancy rate of 1.9%, which equates to 1,046m² as at 31 December 2018. Midlands Mall created a new Lifestyle Centre which opened in March 2018. The Lifestyle Centre includes tenants such as Checkers, Planet Fitness and new food offerings. The extension also allowed Midlands Mall to expand its Woolworths offering. The Lifestyle Centre has a vacancy rate of 7.2%, which equates to 1,568 m². The mall is installing solar panels on the roof that will be completed in March 2019 and will generate approximately 1 MW of energy to the mall.

Liberty Promenade Shopping Centre

Ownership:	33%
Location:	Mitchells Plain, Western Cape
Sector:	Retail
Value of the Property (R):	1.7 billion
Average net rental per m² (R):	157
GLA (m²):	73,400
Vacancy:	0.7%
Trading density (R/m²):	40,399
Annual foot count:	14,3 million
Major retail tenants by GLA:	Pick 'n Pay, Game, Woolworths, Ster Kinekor
Number of tenants:	165

Liberty Promenade Shopping Centre experienced low vacancies (0.7% at 31 December 2018) and high footfall. The centre also saw strong trading density growth of 6.4% in 2017. Although 2018's growth was not as impressive as before, the previous growth allowed the centre to enhance its tenant mix and introduce new tenants.

Botshabelo Mall

Ownership:	23%
Location:	Botshabelo, Free State
Sector:	Retail
Value of the Property (R):	292.2 million
Average net rental per m² (R):	124
GLA (m²):	20,743
Vacancy:	5.8%
Trading density (R/m²):	29,335
Annual foot count:	4,3 million
Major retail tenants by GLA:	Shoprite, Pick 'n Pay, Woolworths, Cashbuild, Truworths
Number of tenants:	61

Botshabelo Mall enjoyed strong annual trading density growth of 9.7% as at 31 December 2018. Vacancy levels continued to improve from 8.5% in 2017 to 5.8% as at 31 December 2018. A positive trading performance and improved leasing enquiries bode well for the centre going forward.

Standard Bank Centre

Ownership:	17%
Location:	Johannesburg CBD, Gauteng
Sector:	Office
Value of the Property (R):	1.1 billion
Average net rental per m² (R):	97
GLA (m²):	92,789
Vacancy:	0%
Major Tenants:	Standard Bank
Number of tenants:	1

Standard Bank Centre, located in the Johannesburg CBD, is single tenanted and operates under a triple net lease. L2D acquired an additional portion of the asset on 1 November 2018 (increasing our holding from 15.5% to 16.7%). The lease has recently been renewed for a further five-year term.

Century City Offices

Ownership:	33%
Location:	Century City, Western Cape
Sector:	Office
Value of the Property (R):	394 million
Average net rental per m² (R):	177
GLA (m²):	18,224
Vacancy:	7.5%
Major Tenants:	Liberty Group Limited, Digital Outsource
Number of tenants:	2

The Century City property houses the Liberty Group Limited Head Office in Western Cape, in addition to other smaller tenants. The vacancy rate at 31 December 2018 was 7.5%.

Liberty Centre Head Office and Umhlanga Ridge Office Park

Ownership:	33%
Location:	Umhlanga Rocks, KwaZulu-Natal
Sector:	Office
Value of the Property (R):	368 million
Liberty Centre Head Office	245.6 million
Umhlanga Ridge Office Park	122.6 million
Average net rental per m² (R):	149.48
GLA (m²):	20,352 combined
Vacancy:	2.3%
Major Tenants:	Liberty Group Limited and Regus
Number of tenants:	3

The Umhlanga offices are predominantly occupied by the Liberty Group Limited Head Office and Regus, located in Durban. The property maintained a 3.4% vacancy rate as at 31 December 2018.

John Ross Eco Junction Estate

Ownership:	33% (Estate and Tangawizi Motors); 23% (Melomed Hospital)
Location:	Richards Bay, KwaZulu-Natal
Sector:	Specialised
Value of the Property (R):	604,7 million
Melomed Hospital	437,7 million
Estate	98,4 million
Tangawizi Motors	68.6 million

John Ross Eco Junction comprises three components: Melomed Hospital, Tangawizi Motors and the remaining estate. Melomed Hospital opened on 15 January 2018 and is the portfolio's first hospital development.

Sandton Specialised

Ownership:	25% Garden Court 25% Convention Centre 25% Sandton Sun and InterContinental Towers 25% Virgin Active
Location:	Sandton, Gauteng
Sector:	Specialised
Value of the Property (R):	2,08 billion
Virgin Active Sandton	78.0 million
Sandton Convention Centre	608.3 million
Garden Court Sandton City	812,9 million
Sandton Sun and InterContinental Towers	589,9 million

On 1 November 2018, L2D acquired a 24.98% undivided share in the Sandton Sun, InterContinental Towers, Sandton Garden Court, Sandton Convention Centre, the Virgin Active and Parkade. The Sandton Sun, InterContinental Towers, Sandton Garden Court are all managed by Tsogo Sun. Both the Sandton Sun and InterContinental Towers are five-star hotels consisting of 444 standard rooms in two separate towers, spread across nine floors. It also includes two restaurants, two boardroom facilities and a fitness centre. The Sandton Garden Court is a three-star hotel which offers 231 rooms ranging in size. It includes a restaurant, boardroom, Fitness Centre and Spa.

The Sandton Convention Centre, which measures 57 910m^2 in size is also managed by Tsogo and is one of South Africa's leading event venues, offering prestigious multi-use event spaces and venues in Johannesburg's the financial hub.

The Sandton Virgin Active Gym is a 3,406m^2 facility fronting Alice Lane.

Melrose Arch

Ownership:	8%
Location:	Melrose North, Gauteng
Sector:	Retail, office, specialised
Value of the Property (R):	7.9 billion
Average net rental per m² (R):	Retail 236 Office 195
GLA (m²):	199,216
Vacancy:	Retail 0.0% Office 4.4%
Trading density (R/m²):	26,417
Major retail tenants by GLA:	Woolworths, Truworths, @Home, JB's Corner, Starbucks
Number of tenants:	225

Melrose Arch is a mixed-use precinct with retail, office, hotel, residential and showroom. Melrose Arch epitomises the theme of live, work and play. A zero vacancy rate was achieved by the precinct as at the end of November 2018 due to a well-executed leasing strategy that has attracted international brands such as Jamie's Italian, Paul's Patisserie and Starbucks. Office vacancies increased due to the oversupply and competitive deals being offered in Rosebank. The 'One on Whiteley' development is scheduled to open later in 2019. The scheme comprises a Marriott Hotel and a retail component including showrooms and a private gym.

Our assets as the centres of excellence

We have made and continue to make considerable effort to create experiential spaces and support communities. We have received positive feedback from the South African Council of Shopping Centres (SACSC), which illustrates that we are making progress against this objective.

Our centres have been recognised for the following awards:

Sandton City:

- The Nutcracker's Winter Circus: Nominated for "Best Production for Children and Young Audiences" by The Naledi Theatre Awards
- Sandton City won the "Best Shopping Mall" of the year category by the Best of Joburg Awards

Footprint awards by the SACSC

- LipSync Battle: Sandton City – Silver
- The Great Easter Hunt: Sandton City – Bronze
- How Do I Look: Sandton City and Eastgate – Silver
- Oaky – Liberty Promenade – Bronze
- Superhero's Catwalk – Bronze
- Lego Christmas – Silver

Featured property: Sandton City

Sandton is South Africa's very own 'Fifth Avenue' and is the commercial and business capital of southern Africa. Sandton is one of the most exclusive areas in the Gauteng province. Sandton boasts the JSE Limited, and iconic corporates share the same address with world-class hotels.

Sandton City is 147,940m^2 of retail space and is home to 339 of the world's top brands – everything from Cartier to H&M, Armani to Ackermans. It has won multiple Best Shopping Mall awards across the continent. The centre is well located and within walking distance of the Gautrain, a rapid railway transport link which connects Sandton to the airport in 15 minutes.

For the year ending 2018, Sandton City achieved an annualised trading density of R54,247m^2 which is significantly above the MSCI real estate index super-regional benchmark of R37,517m^2. The shopping centre's annual trading density growth for December was 3.9% and its turnover growth was 6.1% year-on-year. Foot count grew by 2.2% in the same period with an average of 1.7 million customers per month. SAPOA's December 2018 Retail Trends Report recorded trading density growth of 3.4% for super-regional shopping centres and a -5.8% decline in foot count across all shopping centres. Sandton City managed to fill the Stuttafords vacancy. This has enabled the centre to increase the diversity of its offering by introducing Dis-Chem, Dion Wired and LC Waikiki, among others.

At 31 December 2018, the property had a vacancy rate of 0.4% (0.0% including pre-let deals) compared to the SAPOA super-regional centre vacancy rate of 6.3%.

The Diamond Walk is Sandton's luxury brand offering, a unique and key differentiator. The luxurious space is home to the world's most prestigious brands such as Louis Vuitton, Prada, Burberry, Gucci, Jimmy Choo, Giorgio Armani, Dolce & Gabbana, Billionaire Italian Couture, Ermenegildo Zegna, Bulgari, Mont Blanc and Cartier. The Diamond Walk continues to perform exceptionally well with regards to trading density growth; as at December 2018 the luxury brands category significantly influenced overall trading in Sandton with a trading density growth of 10.4%.

Several redevelopment projects aligned the centre with its strategy of being South Africa's leading retail destination, with the most recent project being the Food Court upgrade. The Food Court upgrade was completed in November 2018 and saw the area renamed to the Food District. Furthermore, Sandton City completed the Fun District in April 2018 which included a Hamley's World, Halaal Spur and an upgraded Ster Kinekor. The Ster Kinekor includes a children's theatre in line with the theme of the Fun District.

Sandton City's office buildings (Atrium on 5th and Sandton Office Tower) complement its retail offering. The Atrium on 5th and Office Tower are approximately 50,000m^2 in size and are two of the most iconic buildings in the city. The 10-storey Atrium on 5th was converted into a Green Star-rated building in 2015 and the 22-storey Office Tower has views of most of Johannesburg.

L2D acquired an undivided share in the Sandton Sun, Inter-Continental Towers, Sandton Garden Court, Sandton Convention Centre and the Virgin Active on 1 November 2018.

Sandton City's strategy is to continue being the number one shopping destination in Africa by creating spaces where people want to be, curating experiences and improving technology, comfort and convenience.

Sandton City fast facts

- Sandton City Mall opened in 1973
- Fully let with unparalleled tenant mix
- Approximately 300 tenants including new international tenants
- 147,940m^2 of retail and leisure space
- One of the five largest centres in South Africa in terms of gross lettable area

MATERIAL MATTERS FOR 2018

MATERIAL MATTERS FOR 2018

L2D regards material matters as any business aspect that might affect L2D's ability to extract value from its property portfolio or adversely impact the value of the business. Both positive and negative aspects are considered.

The material matters have been identified by management and approved by the Board, a process which took into consideration all the key aspects of L2D. These included the purpose statement, strategic objectives, stakeholder feedback, risks and property trends in South Africa, the sustainability of the economic and natural environments and the socio-economic effect on all L2D's stakeholders.

Key matters that influenced the L2D business in 2018

- Restructuring of L2D and subsequent relisting of the company as a corporate REIT on the main board of the JSE;
- The implementation of the L2D refreshed strategy;
- The declarations of distributions of 60.00 cents per share out of profits for the period ended 31 December 2018;
- The low business confidence in South Africa and its impact on the South African consumer;
- The filling of Stuttafords' vacancies;
- Municipal valuations appeals; and
- The impact of the Edcon restructuring and recapitalisation programme.

The following material matters were reported on in 2018:

South African economy and property industry headwinds

Related risk	Stakeholders affected
The subdued performance of the South African economy and the property sector can negatively impact the performance of L2D's property portfolio.	Shareholders, suppliers, tenants, shoppers and employees Property manager.

The listed property sector has endured the worst year in over a decade as a result of macro- and micro-specific factors, but there is a view that 2019 may be a recovery year. South Africa is currently experiencing various headwinds, particularly the risk of further downgrades by the credit rating agencies which could result from the ongoing Eskom crisis. In addition, the current political climate, including populist policies, is most likely to mute any signs of improvement in business and consumer confidence, which are key leading indicators to economic recovery.

The property sector fundamentals continue to be dictated to by the poor dynamics between demand and supply. Demand continues to come under pressure as a result of weak GDP growth and consumer spending, which puts tenant performance and rental growth under pressure. Tenant failure has heightened during 2018, and will continue to be on the radar of investors in listed property counters.

Sustainable distribution growth

Related risk	Stakeholders affected
If L2D cannot sustain distribution growth above the inflation rate this could lead to poor share price performance.	Shareholders, employees and the Board.

Shareholders have an expectation that the L2D dividend will continue to grow in excess of inflation going forward. Management is aware of this expectation and the related impact on the L2D share price. Therefore, the yield on existing and new assets is carefully considered along with the cost of debt in order to achieve the desired distribution target.

Tenant exposure and concentration

Related risk	Stakeholders affected
Large tenant failures can significantly impact on vacancies, rental revenue, cost recoveries and ultimately distributions declared to shareholders.	Tenants, shoppers and shareholders Property manager

L2D has exposure to several large retailers such as Edcon, Woolworths, Foshini and Truworths. Given the difficult economic environment in South Africa, the performance of the larger tenants is monitored on a centre, portfolio and group basis. Where there are concerns, discussions are held at a senior level to determine what can be done to increase turnover and trading densities.

As at the end of February 2019, Edcon occupied 5.3% of L2D's total portfolio GLA. We anticipate this will reduce to 4.3% by 31 December 2019, as part of a rationalisation process agreed with Edcon.

Performance of the property manager

Related risk	Stakeholders affected
Poor service delivery from JHIR can lead to reputational and financial losses for L2D.	Shareholders, tenants, shoppers and employees Property manager

JHIR is a reputable property management company with significant resources and specialities that adds value to L2D's portfolio. An improvement in the partnership between JHIR and L2D will enable L2D to increase the overall quality of its retail centres by providing better service and support to tenants and shoppers. This will lead to better efficiencies in cost management and will enable added value to shareholders' distributions. JHIR also enhances the attractiveness of the retail centres as a destination by creating shopper and entertainment experiences.

Safety and security

Related risk	Stakeholders affected
Serious incidents at shopping centres can lead to reputational damage.	Shareholders, tenants and shoppers Property manager

Safety and security at our shopping centres is closely monitored to ensure a safe environment at all our centres. The centres' security is outsourced to Excellerate Security Services (Enforce), with whom the asset management teams and JHIR (our property manager) engage with to mitigate threats on an ongoing basis. There is also regular reporting to management on the status of threats and plans in place. L2D adopted a "detect, deter and defend" philosophy that is implemented in the centres.

Compliance with the Occupational Health and Safety Act and other related regulations is considered non-negotiable.

Improved efficiency and management of natural resources

Related risk	Stakeholders affected
Financial and reputational damage due to non-implementation of efficiency measures.	Shareholders, employees, suppliers and tenants Property manager

The rising cost of utilities (water and electricity), is leading to significant increases in L2D's operational property portfolio costs. Coupled with a growing public consciousness around natural resource management, this could result in government imposing fines on non-compliant businesses, resulting in both financial and reputational damage to our portfolio.

L2D's management appreciates the importance of efficiently managing natural resources. We implemented a sustainability policy to guide all considerations that need to be factored into any future upgrades or new developments to ensure improved efficiencies within the property portfolio. L2D has appointed sustainability service providers to assist L2D in achieving a net zero carbon, energy, water and waste property portfolio by 2030.

Long-term tenant relationships

Related risk	Stakeholders affected
Loss in anchor tenants will lead to lower foot count and a decrease in the quality of L2D shopping centres.	Shareholders, Board, tenants and employees Property manager

L2D is committed to maintaining its premium property portfolio, attracting leading brands and offering a superior retail and leisure experience to consumers. This is achieved by ensuring a well-balanced portfolio tenant mix and securing exclusive rights to flagship stores. L2D has established long-term tenant partnerships by proactively adapting to their needs and that of their patrons as well as effectively addressing challenges. We aim to foster these long-term tenant partnerships by focusing on curating experiences at our centres in order to ensure that we attract and retain customers, and appeal to tenants.

Transformation

Related risk	Stakeholders affected
Large tenants prefer landlords that have an acceptable B-BBEE rating.	Shareholders, employees, Board members, suppliers and tenants

L2D acknowledges the importance of transformation within South Africa's unique socio-economic environment and we actively promote transformation within our long-term sustainable growth action plan. The increased legislative requirements instituted in recent years are placing greater emphasis on the importance of managing transformation effectively.

L2D has implemented several steps to ensure effective, sustainable transformation within the business. This includes the use of more B-BBEE suppliers and effective talent management of L2D employees. We anticipate that we will receive a level 5 B-BBEE rating for 2018.

Human capital

Related risk	Stakeholders affected
Employees with specialised knowledge and extensive industry experience could be headhunted resulting in a loss of talent.	Shareholders, employees and the Board

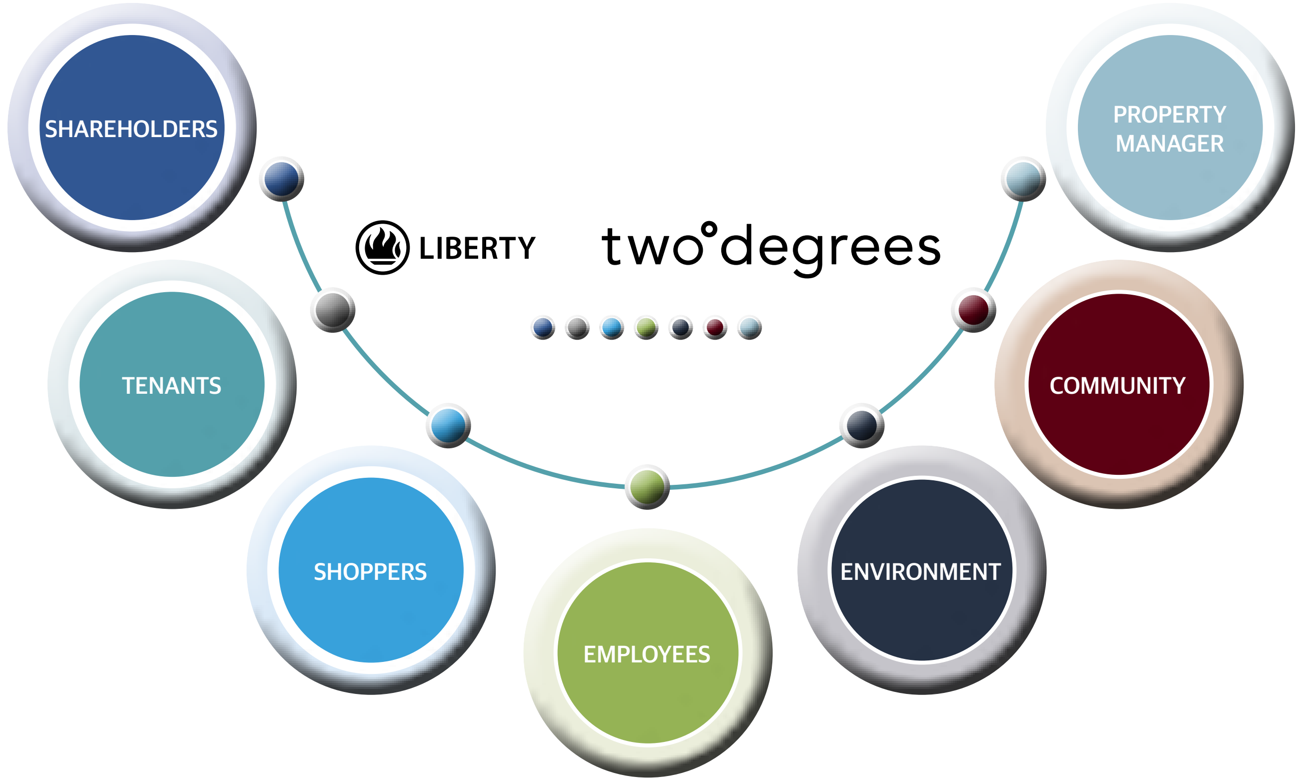
The specialised nature of the business requires an experienced and knowledgeable management team, the loss of which would have a material impact on L2D. Through continuous training and development, L2D employees are equipped with the appropriate industry knowledge. A strong skills base will assist employees in identifying new growth opportunities and will ensure an increase in the value creation for shareholders through improved return on investment.

To reduce the risk of employees being headhunted, an effective remuneration strategy, which is based on the employee's level of experience, was implemented and we continue to place significant emphasis on employee welfare. Salaries are benchmarked against the market and both short-term and long-term incentives are in place. Continuity is ensured through developing employees and by identifying key personnel geared for future progression.

VALUE CREATED IN 2018

VALUE CREATED IN 2018

L2D continuously seeks to unlock value for all stakeholders. The below graphic demonstrates how L2D did this in 2018.



SHAREHOLDERS

Delivering sustainable returns

Aligned L2D to investors:

- Converted to a corporate REIT
- Internalised Manco
- Cancelled the Liberty put option
- Acquired an additional stake in LPP

The portfolio continues to meet operational performance expectations despite challenging environment:

- Delivered 60.00c distribution in line with guidance
- Net asset value per share – R9.45
- Net property income (NPI) growth of 29% (this includes new assets developed and acquired)
- Improved vacancy rate

We continue to maintain transparency in disclosure levels of financial, non-financial and key operational metrics

TENANTS

Continued and increased tailored engagements

- Maintained excellent quality levels at our centres through refurbishments and redevelopments to enhance tenants' experience
- Maintained an excellent tenant mix to attract shoppers

Maintained the premium nature of our property portfolio.

Maintained and continuing to improve the safety levels of our shopping centres.

SHOPPERS

Created an inclusive environment to provide more experience – orientated offerings through additional products and service offerings.

Enhanced our operating environments to create a sophisticated and sustainable design, setting it apart from industry norms and taking fast-food experiences to new levels of comfort, convenience and interest.

Added tenants that cater to the shoppers' needs.

Curating experiences.

Maintained and continued to improve the safety levels of our shopping centres.

Wi-Fi, Syenap and Admyt

EMPLOYEES

Strategic appointments were made in the period. L2D is fully resourced to meet its strategic objectives.

Values were internally driven and refreshed to:

- Passion;
- Accountability;
- Care; and
- Excellence.

Key performance indicators (KPIs) linked to refreshed values and employees rewarded accordingly.

Driving transformation and diversity.

ENVIRONMENT

Ongoing sustainability campaigns at centres have created a centre of excellence where sustainability knowledge and information is shared.

Increased recycling efforts and reduced waste generation.

Ongoing interaction with tenants to increase water and power saving as well as other sustainability initiatives.

Partnered with an organisation that makes plastic-free bags.

COMMUNITY

Partnered with Read to Rise, a literacy programme that helps primary school learners read.

Partnered Bana Bags, an initiative that supports the Alexandra community by employing women to make plastic-free, environmentally-friendly bags.

Initially, these bags are sold to shoppers at Sandton City and Eastgate Mall and will be rolled out to other centres over time.

PROPERTY MANAGER

JHIR is the property manager for all properties other than from Melrose Arch which is managed by Amdec.

LEADERSHIP AND GOVERNANCE

LEADERSHIP AND GOVERNANCE

Leadership

Board of directors

With the conversion of L2D from a CISIP to a corporate REIT, the directors of STANLIB REIT Fund Managers (RF) (Pty) Ltd (the Manager) of the CISIP, were appointed to the Board of Liberty Two Degrees Limited, the new listed entity. To comply with the recommendations of King IV™, further strengthen the composition of the Board and committees, and to add diversity, two additional independent directors were appointed on 1 August 2018.

Non-executive directors

Angus Band (66)

B.A, B.Acc, CA(SA)

South African

Appointed as Chairman on 26 July 2017

- Non-executive Chairman
- Chairman of the Nominations Committee
- Member of the Remuneration Committee
- Member of the Social, Ethics and Transformation Committee

Angus brings extensive and diverse experience to the Board. He has worked across several sectors including manufacturing, telecommunications, fast moving consumer goods, construction and financial services. Some of his career highlights include: Commercial director at PGBison Limited; chief financial officer of Telkom Limited; Director at Vodacom; Financial Director, CEO and non-executive Chairman at Anglovaal Industries Limited (AVI), non-executive director on the board of the Aveng Group and lead independent director at Liberty Life.

Brian Azizollahoff (57)

BA Economics and History (Yeshiva University New York), MBA (Wits Business School)

South African

Appointed on 1 August 2018

- Lead independent director
- Member of the Audit and Risk Committee

Brian is a successful businessman having established Propertiq (Pty) Ltd and previously Capstone Property Group where he was a managing director, shareholder and active partner. He currently serves on the board of Dipula Property Fund Limited where he has been a director since 2006. Brian has extensive property industry experience spanning 31 years. He was previously an executive director at Redefine Properties Limited and CEO of Redefine Income Fund Limited. Prior to this, he was involved in the merger of Redefine, ApexHi and Madison Property Fund Managers. Brian has held various senior positions at Anglo American Properties, Investec Bank, JHI, Olympia and York Developments in Canada and Excel Computers in the US.

Wolf Cesman (76)

B.Com, CA(SA), H Dip Tax Law

South African and British

Appointed on 17 June 2016

- Independent non-executive director
- Chairman of the Audit and Risk Committee
- Chairman of the Remuneration Committee
- Member of the Nominations Committee;
- Member of the Social, Ethics and Transformation Committee

Wolf has 49 years' experience in South African property investment, development, and asset and property management. He spent 24 years with Liberty Properties (Pty) Ltd, serving as CEO for 17 years before retiring in 2000. From 2000 to 2010, Wolf was involved in the formation and growth of the following listed South African property funds, and served as a director of, Madison Property Fund Managers Limited, ApexHi Properties Limited, Hyprop Investments Limited and Redefine Properties Limited.

Lynette Ntuli (35)

B.Com in Financial Accounting, CSCM, ACSL, Business Leadership Fellowship Programme (Northwestern University, Chicago)

South African

Appointed on 26 July 2017

- Independent non-executive director
- Chairman of the Social, Ethics and Transformation Committee

Lynette is the CEO of Innate Investment Solutions. She previously held senior leadership positions within the commercial, development and investor spheres of the property, trade, and investment sectors. Sitting on various executive committees and working groups, Lynette brings valuable experience gained over more than ten years in industry. In 2018 she served as a board member of First National Bank Advisory, Maris Stella School and Lynette is a Choiseul 100 Africa Laureate.

Zaida Adams (40)

B,Com (Hons), CA(SA)

South African

Appointed on 1 August 2018

- Independent non-executive director
- Member of the Audit and Risk Committee

Zaida is finance executive at Oceana Group Limited, responsible for treasury, finance shared services and investor relations.

Prior to joining Oceana Zaida held the following positions: credit originator at LibFin, Liberty Group Limited; consultant at Chayton Africa (Pty) Ltd; portfolio manager at Chayton Africa (Pty) Ltd; finance director at SA Corporate Real Estate Fund; senior financial accountant at Old Mutual Properties; and financial manager at Allan Gray Property Trust.

Executive directors

Amelia Beattie (48)

B.Com, Certificate in Shopping Centre Management, Fellow of the Royal Institution of Chartered Surveyors

South African

Appointed on 17 June 2016

- Chief Executive
- Member of the Social, Ethics and Transformation Committee

Amelia has 20 years' experience in the property sector, initially established at Old Mutual Property in various positions before exiting her role as the Chief Operating Officer.

She joined STANLIB in 2012 to establish the STANLIB Direct Property Investment business, including property asset management and property development management. Apart from her role at STANLIB, Amelia served as President of the South African Property Association (SAPOA) from 2014 to 2015. She is also a past Chairperson of Women's Property Network and served as a trustee for the Education trusts of WPN and SAPOA until 2018.

Amelia assumed the role of Chief Executive of Liberty Two Degrees since its listing in December 2016.

José Snyders (40)

B.Com Hons in Financial Analysis and Portfolio Management,

B.Com Hons in Financial Accounting, CA(SA)

South African

Appointed on 23 March 2017

- Financial Director

José was previously a dealmaker in the real estate investment banking division of Rand Merchant Bank. He is responsible for financial risk management, investment analysis and the capital structure of the REIT as well as financial planning and balance sheet management. He has significant experience in initiating and implementing transactions in the property sector.

Director's skills and experience

CORPORATE GOVERNANCE REPORT

Commitment to the principles of King IV™

The Board is the custodian of corporate governance and leads the company ethically and effectively towards achieving the desired outcomes of an ethical leadership and culture, effective control, good performance and legitimacy.

We are committed to the principles of King IV™ with the Board ultimately responsible for ensuring the integrated and holistic implementation of these principles. The Board is satisfied with its level of compliance with these governance principles and that the company complies with all the corporate governance requirements applicable to listed entities as set out in paragraph 3.84 of the JSE Listings Requirements. We are determined to continually improve the Board's application of all the King Code of Governance Principles in the best interests of the company and its stakeholders. A King IV™ application register, setting out how the company has applied the principles of King IV™, is available on our website.

Corporate citizenship

The Board recognised its rights, obligations and responsibilities towards society, stakeholders and the environment. The Social, Ethics and Environmental Committee assists the Board in evaluating and monitoring measures and targets agreed with management in all areas. Further information on how we carry out our responsibilities is disclosed in the sustainability report on page 86.

Ethical leadership and culture

L2D's leadership is fully committed to the application of, and compliance to, the highest ethical standards. The Board firmly believes in leading by example and ensuring that the tone is set at the most senior level of the leadership structure. The code of ethics is strictly adhered to in the development and implementation of all business and growth strategies.

All decisions are made with due consideration to the code of ethics that is set out in the employee policies. Every L2D employee is required to familiarise themselves with, and adhere to, the code of ethical conduct to maintain the highest levels of integrity, honesty and transparency. The code is supported by various policies that employees have to comply with. It is further reinforced in the values of the company which are integrated into the performance management process and shape the way L2D behaves and conducts business.

L2D has a zero-tolerance policy on any issues relating to unethical conduct. The company does not, at any level, condone or tolerate any form of fraud, corruption, unlawfulness or other conduct that is irregular.

During the year, the following initiatives, programmes and policies were implemented to support the establishment of an ethical culture:

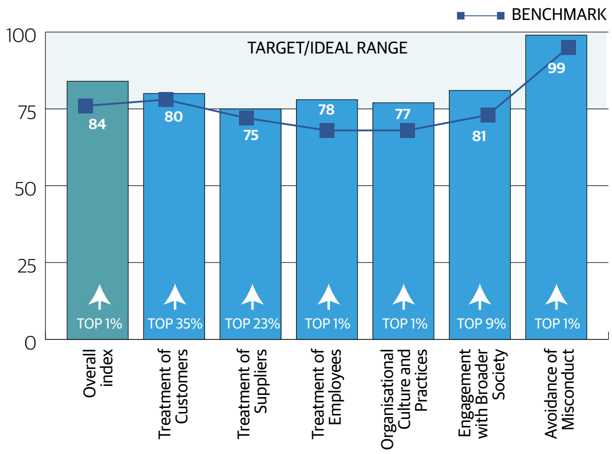
Refreshed company values

We have refreshed our company's values to focus on passion, accountability, care and excellence (PACE).

Assessment of ethical standards

We partnered with the Gordon Institute of Business Science (GIBS) to understand its perceptions about how ethical L2D is as a company. The goal of the survey is to drive a higher standard of ethics, align culture, implement effective risk approaches, improve stakeholder management and benchmark L2D against its peers. Over 7000 employees took part and the benchmark was been calculated as an average score across all participating organisations. L2D had ranked in the top 1% of peers for ethical fitness.

The results of the GIBS ethical survey is set out in the graph below.



Source: GIBS Ethics Barometer Report.

Whistle-blowing

L2D has partnered with its controlling shareholder, Liberty, in appointing the Vuvuzela Hotline as its new anonymous fraud and ethics hotline service provider. Directors, employees, suppliers and other parties are able to report irregular and unethical behaviour without fear of retribution or victimisation. Incident reports are tabled at the Finance and Risk Oversight Committee for discussion and reported at the Executive Management Committee (Manco). Serious matters are escalated to the Audit and Risk Committee for investigation and action as required.

Conflicts of interests

Members of the Board are required to timeously disclose any interests that conflict or potentially conflict with those of the company. These are then appropriately managed. To avoid conflict of interest and ensure compliance with Section 75 of the Companies Act, Board members must disclose their interest in material contracts involving L2D in writing. They must also recuse themselves from deliberation or decision-making processes relating to any matter in which they may have a vested financial interest.

No conflict of interest was disclosed by any of the directors appointed to the Board.

A new general conflicts of interest and an updated gift policy for employees was approved and adopted in 2018. Employees are required to make the appropriate disclosure of potential conflicts of interests at least twice a year.

Dealing in securities

During the year, a new information and share dealing policy was approved by the Board. A director may not deal in L2D shares during a prohibited period and must always obtain written clearance to trade from the Chairman, in consultation with the company secretary. Similarly employees may not deal in L2D shares without obtaining written approval from the Chief Executive.

Associates of directors can deal at any time but must, however notify the director immediately after they have dealt in L2D securities. Investment managers may not deal unless express consent in writing has been obtained from the directors. A closed period commences a month prior to the end of a reporting period end i.e. on 1 June and 1 December each year. Directors dealings are disclosed in accordance with the JSE Listings Requirements.

Directors' interests in shares are disclosed in the remuneration report on page 69.

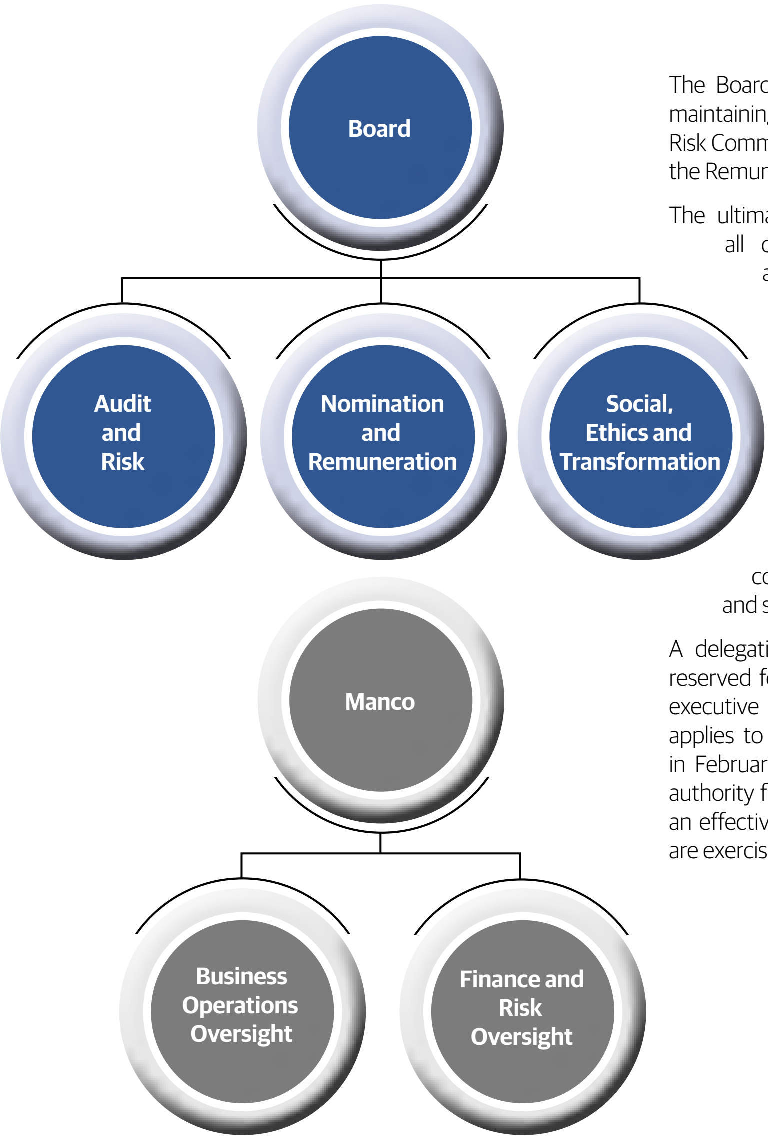
Effective control

The Board is tasked with the direction, administration and controlling of L2D's activities and must execute these roles while maintaining transparency, accountability, fairness and acknowledging its responsibility in all decisions made.

The Board is guided by a charter that sets out rules for its composition, frequency of meetings, the roles and responsibilities of the directors and the Board as a whole. The Board reviews its charter annually and in November 2018 the charter was amended following L2D's conversion to a corporate REIT and to align with King IV™. We have established an annual work plan to ensure that all of the Board's duties and responsibilities are covered by the agendas of the meetings.

Governance structures and delegation

The company's governance structures provide for delegation of authority to a number of committees while enabling the Board to retain effective control.



The Board has appointed several committees to support it in maintaining oversight of all of L2D's activities. These are, Audit and Risk Committee, Social, Ethics and Transformation Committee and the Remuneration and Nominations Committee.

The ultimate responsibility remains with the Board to whom all committees report. These committees have been appropriately constituted, in accordance with all legislative requirements and in line with a clearly documented mandate that sets out their scope, responsibilities, powers and authority. The mandates are reviewed annually. Annual work plans are prepared to ensure the committees cover all their duties and responsibilities in the year.

The Manco comprises the Chief Executive, Financial Director, chief operations officer and human capital executive. The Manco is assisted by two internal sub-committees whose members comprise other executives and senior subject matter employees.

A delegation of authority framework (DoA) sets out matters reserved for the Board and those delegated to committees, the executive directors and other roles in the business. The DoA applies to L2D including all subsidiaries. The DoA was updated in February 2019. The Board is satisfied that the delegation of authority framework contributes to role clarity and contributes to an effective arrangement by which authority and responsibilities are exercised.

Performance

Strategy, performance and reporting

The Board is responsible for approving the overall strategy, oversees its implementation and monitors L2D's performance against approved budgets, targets and KPIs. In November 2018, we held a strategic workshop where the Board's vision and the strategic pillars for achieving its strategic outcome were approved.

The Board, with the assistance of the Audit and Risk Committee, ensures that reports such as the Annual Financial Statements, integrated annual report, presentations, circulars, stock exchange news service (SENS) announcements, etc. are transparent, accurate and comply with legal requirements to meet the legitimate and reasonable information needs of its material stakeholders.

Induction and training

All directors are required to continually develop their skills and understanding of the operational environment and material matters that impact L2D to ensure that they are equipped to perform their duties to the best of their ability.

During the year, presentations and training sessions were conducted at Board meetings to ensure that all the members remain abreast of regulatory changes and legislative requirements that L2D must adhere to.

Performance evaluations

To ensure that the quality of the Board and committee continues to improve, we conduct an annual assessment of all members. Formal external evaluations are done every two years and self-evaluations every other year.

The evaluations are based on quantitative measures (such as Board meeting attendance and complying with various Board member requirements) as well as qualitative measures (including continuous development of their knowledge base, their understanding of risks and opportunities facing L2D and the effective implementation of strategies approved by the Board).

The company secretary facilitated the formal questionnaire-based evaluations which were done in December 2018. The evaluation reports were considered by the Nomination Committee and the Board. The overall outcome was that the Board and committees are functioning well and delivering on their mandates.

Legitimacy

Our legitimacy lies in the quality of our assets, our strong heritage and track record as property, and specifically retail, pioneers. This is evidenced by our ability to remain relevant to our customers and by being a sector benchmark in innovative property asset management capabilities. We have a strong licence to win as we constantly define and create spaces that benefit communities. We are part of the Liberty and Standard Bank Group which are credible and trustworthy brands and leaders in their respective markets.

Board composition

The nature of the Board ensures that it can add value in its decision making to all stakeholders of L2D. The Board is an efficient team of seven members consisting of one non-executive director, four independent non-executive directors (deemed independent in terms of the requirements set out in King IV™) and two executive directors (the Chief Executive and the Financial Director). The members have the necessary qualifications, knowledge and experience. There is a clear balance of power and authority at board level to ensure that no one director has unfettered powers of decision making.

Leadership roles and functions

The Chairman of the Board, Angus Band, is a non-executive director by virtue of him serving on the boards of Liberty Group Limited and Liberty Holdings Limited. Brian Azizollahoff was appointed as lead independent director on 1 August 2018. The roles and responsibilities of the Chief Executive and Chairman are separated and clearly defined. The Chairman is responsible for providing overall leadership to the Board and to ensure that the directors can perform effectively. The Chief Executive is responsible for the daily management of L2D's affairs and chairs the Manco. The Board is kept informed of all developments within the group, primarily through the executive directors. The role of the independent non-executive directors is to protect the shareholders' interests, especially those of minority shareholders. They are also there to ensure that all decisions made by the Board have been subjected to the appropriate oversight, challenge and scrutiny.

Chief Executive (CE)

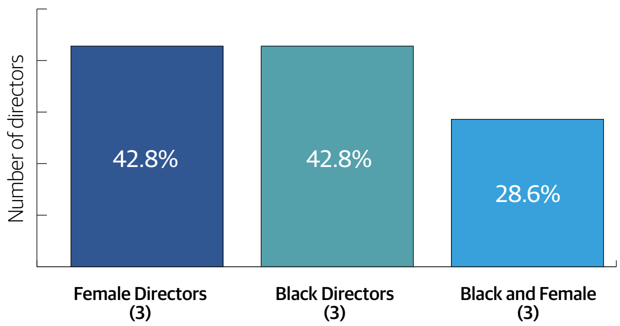
Amelia Beattie was appointed as full-time CE of the Manager of L2D with effect from 1 December 2016 and as the CE of Liberty Two Degrees Limited on 10 July 2018. She has a permanent contract with a three-month notice period that does not provide for balloon payments on termination. The CE does not have any other significant directorships on any governing bodies that will place pressures on her to execute her duties. L2D is committed to continuously developing our employees to ensure sufficient succession plans are in place upon the resignation of the current CE.

Diversity

The Board has adopted a gender and race diversity policy which provides for a target of 40% female representation and a target of 40% black representation on the Board. Both targets have been met: 43% of the Board is female and 43% are black members.

The Board has experience across various industries and sectors, with many years of experience in the management of property investment companies.

Directors: Race and Gender



Board and Committee changes

Brian Azizollahoff was appointed as lead independent director and Zaida Adams as independent non-executive director effective 1 August 2018. Following the conversion of L2D to a corporate REIT, the Board's committees were reconstituted as follows with effect from 1 November 2018:

- Audit and Risk Committee: Lynette Ntuli and Angus Band stepped down, and Zaida Adams and Brian Azizollahoff were appointed, with Wolf Cesman continuing to chair the committee;
- Social, Ethics and Transformation Committee: Amelia Beattie was appointed and serves on the committee with Angus Band, Wolf Cesman. Lynette Ntuli chairs the committee; and
- Remuneration and Nominations Committee: There were no changes. Angus Band chairs the Nomination Committee, Wolf Cesman chairs the Remuneration Committee and Lynette Ntuli is the other member.

Independence

- In line with the requirements of King IV™, the Board carries out an evaluation of the independence of its directors. An internal evaluation of the independence of the non-executive directors was undertaken by the Nomination Committee on a substance-over-form basis and the outcome was shared with the Board on 21 February 2019. All non-executive directors were confirmed to be independent with the exception of Angus Band. Independence of the Board is further assured by:
- The majority of the Board members are independent non-executive directors;
- A lead independent director has been appointed;
- The remuneration of non-executive directors is not linked to the performance of the group;
- Non-executive directors do not receive share options from the company;
- Individual directors may take independent professional advice at the company's expense; and
- All conflicts of interests are declared.

Appointment and re-election of directors

Appointments to the Board are made in a formal and transparent manner with due deliberation by the Nominations Committee and the Board, and after engagement with the controlling shareholder.

We undertake various procedures for new appointments including background and reference checks. Board members also need to be willing to devote a relevant portion of their time to L2D.

Appointments of new directors are approved by the shareholders at the first AGM following their appointment. In terms of the company's memorandum of incorporation (MOI), at least one-third of the non-executive directors are subject to retirement by rotation and re-election at each AGM. The compositions of the Board and the various Board-appointed committees are reviewed when directors change, or on an annual basis. Consideration is given to, amongst other criteria, skills, knowledge, qualifications, diversity, experience and balance of power.

All non-executive directors have appointment letters.

Succession planning

Given the recent two additional appointments, the Board is satisfied that the depth of skills among current directors meets succession requirements. The Nomination and Remunerations Committee considers succession planning for executive directors every year.

We are satisfied that the Board's composition reflects the appropriate mix of skills, knowledge, qualifications, diversity, experience and independence.

Attendance at Board meetings

The Board has committed to meet a minimum of four times a year in order to effectively execute its fiduciary role as the team charged with the governance of L2D. It may call additional ad hoc Board meetings should a need arise to address any matters relating to operational, financial, governance or any key business issues.

Scheduled quarterly meetings were held during 2018 as were two additional meetings. These dealt mainly with the conversion of L2D from a CISIP to a corporate REIT and covered the cancellation of the PUT option, internalisation of SRFM, advisory fees, structure and tax implications, the agreements to be executed, the circular and debt financing related to the transactions. On several occasions external consultants were invited to attend Board meetings to provide guidance and training to the members of the Board on tax legislation, the REIT conversion and JSE Listings Requirements. These external advisers were not regular attendees of Board meetings.

Director	Meetings attended	Comments on attendance
Angus Band (non-exec)	6/6	
Wolf Cesman (independent non-exec)	6/6	
Lynette Ntuli (independent non-exec)	6/6	
Amelia Beattie (CE)	6/6	
José Snyders (FD)	6/6	
Zaida Adams (independent non-exec)	1/1	Appointed 1 August 2018
Brian Azizollahoff (independent non-exec)	1/1	Appointed 1 August 2018

Significant matters discussed during the year

- Approval of the strategy and business plan
- Portfolio and business performance against budget, forecasts and benchmarks
- Future growth strategy and strategy execution
- Impact of external management company structure, put option and limited share liquidly on the share price
- The economic and operational environment, retail trends and impact of the municipal rate increases
- Updates on property developments and reconfigurations
- Approval of the property valuations
- Review of liquidity, solvency and capital adequacy requirements
- Approval of the going concern assumptions
- Approval of the interim and final results, Manco dividends and L2D distributions
- Approval of the Annual Financial Statements and integrated annual report
- Approval of SENS and press announcements
- Acquisition and development opportunities
- Appointment of new sponsor and compliance officer
- Shareholder expectations
- The underperformance of the share price relative to the net asset value (NAV) per share
- Discussion of the settlement of the put option, acquisition of R1.2 billion in property assets from Liberty, conversion of L2D to a corporate REIT and the internalisation of SRFM
- Tax update and compliance, particularly the tax ruling related to the restructuring transactions
- Approval of the restructuring transactions including the agreements, the circular, SENS announcements and re-listing of L2D
- Approval of term debt funding of R1.5 billion and a revolving credit facility
- Key risks impacting the delivery on strategy
- Exposure to the Edcon Group
- Employee resourcing, retention, talent management and well-being
- Compliance with the Collective Investment Schemes Control Act (CISCA), the Companies Act, JSE Listings Requirements and other legislation, regulations, codes and standards
- Appointment of two new directors and reconstitution of the committees
- Approval and adoption of various policies and frameworks
- Transformation
- Approval of new Board charter and committee mandates aligned to REITs and King IV™
- Revisit and refreshment of the company's vision, purpose statement, values and strategic pillars
- Discussion of the reports received from the chairmen of the three committees
- Operational matters raised at Manco meetings

Company Secretary

The Board is cognisant of the duties of the company secretary and the vital role she plays in ensuring that the Board procedures and relevant regulations are fully adhered to. The company secretary is not a director and the directors have unlimited access to her advice and services. The company secretary acts as secretary for the Board committees of the company and is responsible for the flow of information to the Board and to its sub-committees. She ensures that L2D complies with Section 88 of the Companies Act and is actively involved in assisting the Board in its governance initiatives.

Jill Parratt has more than 21 years' experience as company secretary. She has been registered with the Chartered Secretaries Southern Africa since 1999. The Board was satisfied that the company secretary is sufficiently skilled and experienced to effectively perform in her role.

Subsequent to the reporting period, Jill Parratt stepped down as company secretary and Ben Swanepoel was appointed on 25 February 2019. The Board thanks Jill Parratt for her contribution to L2D since its listing.

Information and technology governance

We appreciate that technology and information can create and unlock value in the business. Information and technology governance is the responsibility of the Board and this function is discharged through the Audit and Risk Committee. L2D has outsourced the IT function but understands the importance on the governance of IT within the control environment of L2D. STANLIB and Liberty IT, the service providers, provided a letter of assurance confirming that their IT environments are aligned to good industry practice as presented in the Cobit 5 Governance Framework and ITIL (IT Infrastructure Library) guidelines. These good practices are further supported by relevant industry standards such as ISO 27002 (Security) and ISO 38500 (IT Governance). Applicable technical standards and guidelines are applied at a technology level as recommended by suppliers and vendors.

The combined risk assessment includes IT risks within the control environment of L2D. L2D appreciates the importance of assessing the IT risks of JHIR, its main property manager and these are monitored on a regular basis by the Audit and Risk Committee.

Board Committees

The Board has created a number of standing committees to assist it with the execution of its responsibilities. Each committee has an agreed-upon mandate approved by the Board. The mandates were reviewed in November 2018. Although the Board delegates certain functions to the committees, it retains ultimate responsibility for all the committees' activities. The mandates set out the following for all the constituted Board committees:

- The composition of the committee;
- The committee's overall role, duties and responsibilities;
- The responsibility delegated by the Board to the committee;
- The scope of authority that is set out for each committee;
- The committee's access to resources and information;
- The meeting procedures to be followed; and
- The arrangements for evaluating the committee's performance.

All the committees are satisfied that they have fulfilled their responsibilities in accordance with the mandates for the reporting period.

Operations of each committee

Audit and Risk Committee

Wolf Cesman
Chairman

The Audit and Risk Committee has statutory duties in terms of section 94(7) of the Companies Act. It has an independent role with accountability to both the Board and stakeholders. Its responsibilities cover the following functions, processes, controls and assurances:

Financial reporting	Risk management
External audit	Compliance
Internal audit and controls	Combined assurance
Oversight of integrated reporting	IT governance

Committee membership

The members collectively have the appropriate financial and related qualifications, skills, financial expertise and experience to discharge their responsibilities.

Member	Appointment date	Meetings attended
Wolf Cesman (Chairman)	28 July 2017	4/4
Angus Band[1]	26 July 2017	4/4
Lynette Ntuli[1]	26 July 2017[1]	4/4
Brian Azizollahoff	1 November 2018	1/1
Zaida Adams	1 November 2018	1/1
Invitees		
Amelia Beattie (Chief Executive)		4/4
José Snyders (Financial Director)		4/4
Gareth Rees (Finance Executive)		4/4
Ben Swanepoel (Chief Risk and Compliance Officer)[2]		3/3
Internal auditors		4/4
External auditors		4/4

(1) Angus Band and Lynette Ntuli are no longer members as the committee was reconstituted effective 1 November 2018.
(2) Ben Swanepoel was appointed on 1 April 2018.
The skills and experience of the members are set out on pages 39 to 41.

Overview

The role of the Audit and Risk Committee (ARC) is to provide independent oversight of the effectiveness and quality of the financial and internal controls, assurance functions and services. The ARC is responsible for ensuring the integrity of financial and non-financial information published and for the implementation of effective risk management policy and management.

The ARC is satisfied:

- that the governance processes, risk management and system of internal controls are adequate and effective based on the reports received from the external and internal auditors for the 2018 year;
- that financial controls in place are suitable and form a sound basis for the preparation and reporting of reliable financial information; and
- that it has fulfilled its mandate, including its statutory duties, and that L2D has complied with the JSE Listings Requirements, Companies Act, REIT tax provisions and other regulatory requirements.

Matters discussed by the Audit and Risk Committee

The ARC's focus on financial reporting during 2018, in addition to its other duties and responsibilities, included the following:

- Consideration of the conversion of L2D to a corporate REIT, which involved extensive discussions and debates with management and advisors. The ARC also considered tax, accounting treatment, regulatory requirements, fairness opinion, the circular, full terms announcement, special distribution and various other matters relating to the conversion;
- Review of the terms of L2D's new debt facility;
- Review of financial performance and forecasts;
- Review of solvency and liquidity, capital adequacy and going concern assumption requirements;
- Approving the panel of valuers;
- Adoption of new accounting standards;
- Review and deliberation of L2D's property valuations for Board approval; and
- Recommendation of results, distributions, SENS announcements, Annual Financial Statements and investor presentations.

The ARC's focus on risk management and compliance during 2018, in addition to its other duties and responsibilities, included:

- Approval of a new risk management framework and review of the risk report and register as well as the controls and actions undertaken by management to mitigate and manage risks;
- Discussion on the impact of municipal valuations and rates increases;
- Evaluation of, and discussion on, L2D's exposure to Edcon;
- Consideration of material litigation risks facing L2D;
- Approval of new policies: conflict of interest, information and share dealing policy;
- Recommendation of an interest rate hedging policy to the Board for approval;
- Review and acceptance of letters of assurance provided by Liberty and STANLIB in respect of IT governance;
- Review and acceptance of letter of assurance provided by JHIR in respect of the outsourced property management function;
- Evaluated the independence, performance and conduct of the external auditors and are satisfied with the quality of the external auditors. Furthermore obtained the confirmations required in terms of Sections 3.84(g) and 22.15(h) of the JSE Listings Requirements; and
- Monitoring compliance with CISCA, JSE Listings Requirements, Companies Act and other applicable legislation, codes, regulations and standards.

The ARC's focus areas for 2019 are:

- Formalise the risk appetite;
- Review the risk management policy; and
- Monitor JHIR's performance in accordance with the service level agreement.

The ARC's statutory report from the committee, is included in the Annual Financial Statements.

Atrium on 5th

Social, Ethics and Transformation Committee

Lynette Ntuli

Chairman

The Social, Ethics and Transformation Committee continues to monitor L2D's activities pertaining to legislation and legal requirements as well as social, transformation, environmental and economic development. Additionally, this committee ensures L2D acts ethically, protecting the business's reputation and actively engaging with various stakeholders, acting in a manner becoming of a good corporate citizen.

Committee membership

Member	Appointment date	Meetings attended
Lynette Ntuli (Chairman)	26 July 2017	2/2
Angus Band	26 July 2017	2/2
Wolf Cesman	17 June 2016	2/2
Amelia Beattie	1 November 2018	1/1 1/1 (Invitee)
Invitees		
José Snyders (Financial Director)		2/2
Jonathan Sinden (Chief Operations Officer)		2/2
Steph Goodwin (Human Capital Executive)		2/2
Ben Swanepoel (Chief Risk and Compliance Officer)		2/2

The skills and experience of the members are set out on pages 39 to 41.

Overview

The Social, Ethics and Transformation Committee (SET) is mandated to guide and monitor the transformation, social, economic, environmental, ethics, consumer engagement and management activities in accordance with relevant legislation, codes and other legal requirements.

During the year, substantial progress was made in finalising various sustainability policies that will provide formalised guidance on L2D's commitment to sustainability initiatives and imperatives. Following L2D's conversion to a corporate REIT, the company will be required to report its transformation progress against the B-BBEE Property Sector Code. The SET will be closely monitoring L2D's progress against these requirements as transformation is a business imperative. The health and safety of our tenants and shoppers are of the utmost importance. The committee also reviewed the response to an ethical survey conducted by the Gordon Institute of Business Science, which showed that overall L2D had a sound ethical culture.

The SET is satisfied that it was fully compliant with its mandate requirements.

Matters discussed by the Social, Ethics and Transformation Committee

People

- Human capital practises and internal governance structures
- Skills development

Transformation

- Developing process and procedures that aligns with the requirements of the B-BBEE Property Sector Code
- BEE verification
- Employment equity and diversity
- Preferential procurement

Sustainability

- Approval of the material matters contained in the integrated report
- Sustainability initiatives including energy and water savings projects and Green Star certification
- Approval of a 1.1MW solar PV plant at Midlands Mall
- Approval of sustainability policies – water, waste, electricity, procurement
- Health and safety, particularly the shopping malls

Stakeholder engagement

- Investor and stakeholder management

Ethics and governance

- Ethical conduct
- Combating fraud and corruption

The SET focus areas for 2019 are:

- Green Building certifications for properties;
- Implement 2019 transformation strategy;
- Develop road map for the "net zero by 2030" vision;
- Safety and security at shopping malls; and
- Setting targets for a reduction in carbon emissions.

Nelson Mandela Square interior

Remuneration and Nominations Committee

Wolf Cesman
Chairman
Remuneration

Angus Band
Chairman
Nominations

The Remuneration and Nominations Committee continues to monitor the remuneration policies and their implementation. It also oversees the preparation of the remuneration report in the integrated report. The committee remains focused on the nomination of adequately experienced and skilled directors to serve on the Board.

Committee membership

Member	Appointment date	Meetings attended
Angus B Band (Chairman of Nominations Committee)	26 July 2017	2/2
Wolf Cesman (Chairman of Remuneration Committee)	17 June 2016	2/2
Lynette Ntuli	26 July 2017	2/2
Invitees		
Amelia Beattie (CE)		2/2

The skills and experience of the members are set out on pages 39 to 41.

Overview

Remuneration Committee

The Remuneration Committee (Remco) is tasked with assisting the Board in discharging its obligations in respect of governing remuneration, and developing and implementing a remuneration philosophy for disclosure in L2D's remuneration report. It also ensures that competitive reward strategies and programmes are in place to facilitate the attraction and retention of high-performance employees across the business in support of realising L2D's strategy. It aims to safeguard stakeholder interests, while at the same time ensuring that remuneration structures do not drive excessive risk taking.

Refer to the remuneration report on page 69 for further information.

Nominations Committee

The Nominations Committee is tasked with assisting the Board in ensuring that its composition has the appropriate balance of skills, knowledge, diversity and independence to effectively discharge its duties.

In anticipation of the restructure and the re-listing of L2D as a corporate REIT, the composition of the Board was reviewed. Following a formal and transparent process, two additional directors were appointed to the Board on 1 August 2018 to ensure alignment with legislative requirements, further strengthen the composition of the Board and committees, to provide for succession planning and add diversity. Brian Azizollahoff was appointed as the lead independent non-executive director and Zaida Adams was appointed as an independent non-executive director.

The Remuneration and Nominations Committee is satisfied that it was fully compliant with its mandate requirements.

Matters discussed by the Remuneration Committee

- Recommendation of non-executive director fees
- Approval of incentive percentages and annual increases, bonuses and long-term incentive plans (LTIPs)
- Review of the Chief Executive and Financial Director remuneration packages
- Appointment of two new trustees for the L2D Restricted Share Scheme
- Review of the remuneration and implementation report

Matters discussed by the Nominations Committee

- Nomination of new Board members
- Committee composition in terms of size, diversity and necessary skills required
- Board Race and Gender Diversity Policy
- Director evaluation process
- Approval of key management positions (human resources and governance and risk)

The Remuneration and Nominations Committee focus areas for 2019 are:

- Succession planning;
- External director evaluation;
- Review of employee benefits;
- Executive directors remuneration; and
- Benchmarking of employee remuneration and non-executive director fees.

Liberty Promenade

STAKEHOLDER MANAGEMENT

STAKEHOLDER MANAGEMENT

Value statement

To create value, we focus on more than financial results. Our value creation is premised on relationships with our stakeholders as well as our ability to deliver on strategic objectives. Value creation is managed through governance and management structures where material matters are constantly reviewed and responded to.

We aim to create sustained value for all our stakeholders through an internally driven values statement of passion, accountability, care and excellence (PACE). This focus also enables our ability to deliver on our strategy.

In line with our core values, we achieve this through providing timely, transparent, consistent and credible information on operational strategies, L2D's operating environment, trends, and financial performance for investors. As a listed entity and responsible corporate citizen, L2D prescribes to these appropriate principles and practices in order to act with integrity towards the regulatory bodies, the fund's shareholders, market analysts and investors.

Investor relations activities are aimed at enhancing the fund's visibility and management's credibility in the capital markets and the economic community at large. These activities include strategic and dedicated interaction with L2D's shareholders, investors, analysts and the broader financial markets. Furthermore, we aim to strategically attract investors resulting in a persistent increase in both the number of institutions holding shares as well as the percentages of institutional ownership in the listed equity.

L2D aims to maintain stakeholder relationships through the following approach

- Complying with the securities law to enable effective two-way communication between L2D, the financial community, and other constituencies;
- Ensuring a consistent and credible reporting of L2D's financial and operational performance;
- Improving fund disclosure;
- Acting with integrity towards all participants in the investment market; and
- Managing and executing an investor relations' programme that incorporates the following strategies in order to fully contribute to the stated objectives. This includes:

- Consistent communication and contact with the financial and investor community to:
  - Foster trust in the management of L2D, thereby ensuring goodwill;
  - Manage messaging to prevent and monitor unexpected or inconsistent messages;
  - Create a greater understanding of the company and industry with all stakeholders, minimising the threat of incorrect assumptions about performance.
- Maximising contact with all stakeholders in the financial community. This is managed through the shareholder register and effectively coordinated through planned structured events during the reporting year.
- Continuous monitoring of competitor information and timeous communication to executives and broader management in key business areas.
- Reputation management through vigilant awareness and insights cultivated through:
  - Open communication channels to ensure all issues are handled effectively with very little impact to L2D's reputation;
  - Nurturing close relationships with key shareholders and analysts in order to be sensitive and remain aware of any potential issues or threats to the reputation of management or L2D as a fund; and
  - Nurturing close relationships in the business to be aware of what is happening internally to effectively manage external messages and counter incorrect assumptions.

This approach contributes to improved and increased coverage, an objective fair-value analysis, and recommendations that correctly reflect the operational and financial aspects and metrics of the fund, resulting in an improved market valuation.

L2D's improved disclosure and regular management interaction has enhanced understanding within the market from both a shareholder and financial advisor perspective.

The table below sets out how L2D engages with its stakeholders.

Stakeholder	Stakeholder description	Methods of engagement	Stakeholder contribution to value creation
Investors			
L2D's management is responsible for investor engagement and is supported by skilled professionals in the investor relations function. Investor interaction is delivered through dedicated investor relations services, credible and transparent information, and a well-directed and comprehensive plan complemented by accessible channels of enquiry and timely responses. L2D's disclosure has been commended by investors, analysts and market commentators. L2D seeks to continuously improve disclosure levels in line with regulatory requirements. We have various investors which are discussed below.			
Institutional shareholders	These investors invest on behalf of others, namely individuals, mutual funds, retirement vehicles or medical aid schemes. The top 10 shareholders own approximately 99.25% of L2D shares at 31 December 2018. This aggregation of investors is particularly influential in determining our share price and indirectly the cost of raising debt and is a material focus of our investor engagement activities.	Engagements occur throughout the year with financial reporting the main driver of conversation. The engagements are subject to the bi-annual closed period where the level of information disclosed is limited to the company's ability to share certain information given regulatory requirements. Engagements focus on the financial aspect of the results as well as on the strategic outlook. Engagements are conducted on a one-on-one basis.	Providers of capital to facilitate growth of the business.
Liberty Real Estate Portfolio (LREP) investors	Liberty is the shareholder and LREP investors are policyholders in the fund that invests in L2D. LREP buys directly in L2D, therefore LREP's performance is directly linked to the share price movements of L2D.	LREP engagements take place in a group forum where information regarding the fund's performance and outlook are shared. These engagements take place on a bi-annual basis, and as and when required. The Chief Executive and Financial Director engage the financial advisors and Liberty business development managers via an interactive conference call. These meetings are conducted in collaboration with the LREP team.	
Retail shareholders	A retail investor is a non-professional investor who buys and sells securities, mutual funds or exchange-traded funds (ETFs) through traditional or online brokerage firms or savings accounts.	L2D engages with these shareholders through public communication channels such as financial media, SENS announcements and an interactive investor relations website.	

Stakeholder	Stakeholder description	Methods of engagement	Stakeholder contribution to value creation
Sector analysts	This group of stakeholders are instrumental in effectively communicating our investment proposition. Analysts have considerable influence on the flow of financial capital and constantly need to be informed on L2D's strategy, business model and financial metrics. Providing these stakeholders with timely and pertinent information is necessary to increase the pool of accessible financial capital.	During the financial reporting period, these engagements take place on a bi-annual basis and are technical in nature, where analysts research the technical aspect of the financial and operational results.	Analysts provide market intelligence on risk, opportunities and peer comparisons.
Regulators			
	JSE Sponsor Government South African Revenue Service (SARS)	L2D and its advisors engaged extensively with the Financial Services Conduct Authority (FSCA), the Prudential Authority, the CISIP's trustee, Rand Merchant Bank Trustee Services, the SARS and the JSE in the period leading up to L2D's conversion to a corporate REIT. L2D continues to engage with its other regulators as and when required.	Provide guidance on matters affecting the property industry and listed companies.
Industry bodies			
	MSCI SACSC SAPOA	Engagement is through attendance and participation at property industry conferences.	Provide guidance on matters affecting the property industry and sharing experiences. Joint lobbying on matters of mutual interests.
Lenders			
	In order to fund the acquisition of the management company and additional share of the LPP, L2D took on debt during the 2018 financial year. A number of banks and non-bank lending institutions were invited to submit proposals for the required debt. L2D evaluated all proposals received and a decision was taken to split the debt required between two banks: The Standard Bank of South Africa Limited and Absa Bank Limited.	L2D management has regular engagement with the representatives of both banks and enjoys a good relationship with its debt providers.	Provision of funding to facilitate business objectives.

Stakeholder	Stakeholder description	Methods of engagement	Stakeholder contribution to value creation
Tenants			
	Tenants are L2D's primary customers and we understand the importance of pre-empting and satisfying their needs.	We also regularly evaluate the administration management function between JHIR and our tenants to ensure that our tenants are effectively serviced.	Tenants rent available space enabling L2D to grow its business.
Shoppers			
	While shoppers are our secondary customers, they have a direct impact on the performance and quality of the tenants that rent space within our portfolio. Therefore, shopper satisfaction is important to ensure a sustainable rental income stream.	Market research including focussed groups, social media feedback, newsletters, mystery shopper and information kiosk.	Shoppers have a direct impact on the performance and quality of the tenants that rent space within our portfolio.
Suppliers and service providers			
	L2D depends on a few key suppliers. These include utility providers such as Eskom and local municipalities. JHIR is the property management company contracted to assist in managing the operations at our various properties. The significant interaction between this supplier and customers underpins the importance of having transparent communication channels.	Monthly meetings are held with executive management, asset managers and operations committees. Meetings also take place as and when required.	Drive effective and efficient operations through improved property management. Ensure the maintenance of properties is well planned and executed. Ensure the safety of the tenants, customers and employees.
Communities			
	We strive to be a responsible corporate citizen and seek to engage and support the communities in which we operate, in a responsible, sustainable, constructive and empowering manner.	We continue to focus on maintaining effective relationships with members of the communities. Measurable corporate citizenship programmes are developed and implemented across our property portfolio. More detail is provided on page 89.	Alignment of business community needs.

Our people

Our purpose is to provide human capital excellence at L2D and place people at the heart of everything we do. We aim to create an exceptional employee experience and partner with the business to drive and deliver on strategic initiatives.

Our leadership demonstrates its passion for people by taking care of the L2D team and considering people in the business decisions that are taken. In turn, each person on the team also works hard to ensure that they are contributing meaningfully and leading balanced lives, to the benefit of the business.

In 2018 we dedicated time and effort to refining our purpose and values, aligning and involving the team in these conversations and encouraging ownership.

Values explanation

Our strategic pillar, passionate people is underpinned by the following objectives:

- An environment geared towards learning and growth;
- Driving impactful change through transformation and sustainability;
- Inspired, passionate and empowered people that maintain a balanced life;
- World-class standards that align all stakeholders; and
- Self-disciplined and accountable teams with a hunger to win.

Talent acquisition, talent management and performance management

Through a strengthening of our brand perception, we have improved our ability to attract talent. During 2018 we made a number of new appointments to the L2D team, such that we now have a fully resourced team of 30 employees (29 permanent staff and 1 full time contractor). 69% of the team are women and 46% are black females, highlighting our ongoing commitment to diversity. The team consists predominantly of specialists, who can work and add value across several roles.

Diversity statistics

Employment equity										
	Male			Female						
Occupational level	A	C	W	A	C	I	W	Total	Black	Black Female
Senior management	–	1	1	–	–	–	2	4	1	–
	–	25%	25%	–	–	–	50%		25%	–
Middle management	1	–	4	1	–	6	4	16	8	7
	6.2%	–	25%	6.3%	–	37.5%	25%		50%	43.8%
Junior management	1	–	–	4	1	1	–	7	7	6
	14.3%	–	–	57.1%	14.3%	14.3%	–		100%	85.7%
Semi-skilled	–	–	–	1	–	–	–	1	1	1
	–	–	–	100%	–	–	–		100%	100%
Non-permanent	–	–	1	–	–	–	–	1	–	–
	–	–	100%	–	–	–	–		–	–
Grand total	**2**	**1**	**6**	**6**	**1**	**7**	**6**	**29**	**16**	**14**
	6.9%	**3.4%**	**20.7%**	**20.7%**	**3.4%**	**24.2%**	**20.7%**		**58.6%**	**48.3%**

Managing succession risk is key to the achievement of our strategy and business objectives. Our approach is centred on the strategic management of the attraction, acquisition and development of talent with career opportunities for all. At its core, our succession philosophy is about preparing an organisation for the future and how roles will look in the future.

Learning, growth and development

To foster the development of talent, we encourage individuals to take ownership of their learning. In the past year, this has resulted in five internal promotions.

In addition to formal learning, we promote internally-driven learning initiatives. These include workshops at which business specialists share their experience and industry knowledge and subject matter experts present to the team. We also provide individual leadership coaching to help leaders build confidence in managing a new and evolving team and develop the resilience to confront the many challenges facing leaders today. Our structured attendance at industry events and participation on the board of the Green Building Council as well as our regional committee representation on the SACSC, offers our employees further learning opportunities.

Training

We identify training needs during staff performance reviews. Employees are encouraged to attend training courses, seminars and workshops to improve their knowledge, expand their skills base, enhance their competencies and obtain further educational qualifications. L2D pays for, or reimburses employees for, studies towards recognised qualifications in their line of work. We also pay for relevant annual professional memberships.

Creating value for our customers

Against this backdrop, we are committed to driving the future-proofing of our assets through five building blocks to drive organic growth through unique and attractive experiences. Below are examples of how we intend to roll these building blocks out and in doing so, create value for our stakeholders.

Embracing technology

- We implemented a social media campaign (#52weeksofaction) across the portfolio that promotes different events, tailored to each mall.
- We use various systems to help us better understand, predict and impact customer activity. These include:
  1. Syenap: a camera-based foot count system. This has been rolled our across our portfolio and we continue to see positive foot count growth year-on-year. The system is due to be implemented at Botshabelo Mall in 2019.
  2. Wi-Fi: fast and free uncapped Wi-Fi connectivity.
  3. Admyt: licence plate recognition system.
- We are also engaging various data and analytics consultants to improve the mining of various data banks to extract trends to support our customer experience.

Curating experiences

Following the successful re-launch of Sandton City's new Food District, L2D is rolling out the name throughout the portfolio creating a 'golden thread' linking our malls. Sandton City is launching its first unique baby change room with seating, breast-feeding booths and a food warming facility. Similar facilities will then be implemented across the portfolio in time.

Time is valuable

L2D understands that our customers' time is precious and we continue to introduce different types of technology, creating convenience for our customers.

- Syenap provides data on our customer shopping patterns
- Free uncapped Wi-Fi (Botshabelo Mall to introduce this in 2019) provides a communication platform for customers
- Admyt creates a seamless parking experience, eliminating tickets and the need to pay at a machine prior to exiting
- During 2019, we will be introducing an in-mall app giving customers a completely new retail experience at our centres.

Furthermore, we plan to introduce dedicated taxi and e-haling zones at Sandton City and Eastgate Shopping Centre.

Community space-making

L2D's core retail assets create community spaces within the mall that are welcoming and meet the needs of our customers. For example, the Food District at Sandton City underwent a complete revamp to create an environment that is trendy, inviting and equipped with technology catering for a wide range of customers, from teenagers to business savvy individuals.

We also collaborated with an educational institution inviting customers to 'spend to learn', encouraging the broader community to upskill themselves.

Sustainable yet flexible

L2D is striving to achieve a net zero sustainability target by 2030. Part of our approach involves solar PV panels that will generate 1.1 MW of power at the Midlands Lifestyle Centre.

Our short-term focus is to eradicate single use plastics in our Food Districts. We will be introducing recycling drop-off booths to promote this, and we have started engaging with our tenants to drive 'naked' (plastic-free) shopping).

Creating new retail

L2D continues to innovate its retail offering by giving customers what they want. For example, we used the closure of Stuttafords at Sandton City and Eastgate Shopping Centre as an opportunity to bring in desirable retailers to meet customer demand. We also aim to create experiential type retail; for example, the new Mr Price combined store at Eastgate Shopping Centre. This store offers various forms of shopping where customers can choose their shopping preference: online with collection, online with delivery, self-payment or traditional cashier.

Some of our new tenants:

INTERNATIONAL

NEW OFFERINGS

CUSTOMER PREFERENCE

L2D's shopping centres, especially Sandton City, are the preferred entry point for top international brands into the South African markets. We innovate by encouraging our tenants to introduce new concept stores. We continue to introduce flagship retailers that meet our tenants needs and preferences.

Safety and security

There has been an alarming spike in crimes, occupations and threats of terrorism across shopping centres across the country, with criminals having become more brazen. In response to this, L2D has enhanced security across the portfolio by investing in technology and upgrading the calibre of guarding. New security and control room companies appointed 1 October 2018. With the uncertainty around the elections scheduled for 08 May 2019, the L2D portfolio has a security strategy in place to detect, defer and defend.

RISK MANAGEMENT REPORT

RISK MANAGEMENT REPORT

The Board carries the ultimate responsibility for the governance of risk. Together with the ARC, the Board has adopted an integrated risk management framework that guides the management of risk throughout the decision-making and business operations process. The identification, evaluation and management of risk is an ongoing process and is updated regularly at Board and management level.

The Board and executive management have compiled a detailed analysis of the operations of L2D, noting the most significant risks. The impact of these risks is evaluated and considered through financial performance, social and environmental effects.

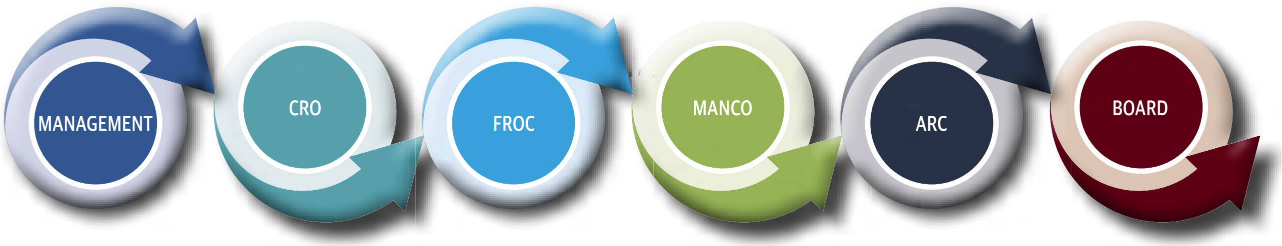
Executive management is responsible for the implementation, monitoring and reporting of an effective risk management plan. Each individual at L2D is responsible for the management of risks in the day-to-day decisions they make. Executive management is responsible for ensuring that risk management is embedded in the business processes and incentivisation structures. In April 2018, we appointed a chief risk and compliance officer (CRO).

In order to manage the risks and aid reporting, management maintains a detailed risk register which reflects the key risks the business is exposed to, the assessment of each risk, controls and mitigation actions that are being implemented. The operational risk register and summarised risk report is reviewed regularly by the Finance and Risk Oversight Committee (FROC). It then gets reported to the L2D Manco. The risk report is reviewed quarterly by ARC and the Board.

The control environment is implemented to mitigate the residual risks to acceptable levels. It is evaluated on a continuous basis to ensure relevance and effectiveness in mitigating identified operational risks.

All identified risks are assigned to a risk owner that is responsible for the daily monitoring and ensuring that the risk is effectively addressed. All changes within the risk environment are recorded in the combined assurance plan.

The risk management system is integrated into L2D's governance structure and decision making process. The risk and compliance oversight functions monitor and provide ongoing challenge in respect to the management of risk and compliance with the framework and associated policies.



Mitigation measures, controls and actions are in place to manage all identified risks to acceptable levels.

Risk management policy

While the risk management framework is principle based, the risk management policy sets out clear requirements to ensure effective risk management is in place. The ARC has monitored compliance with the risk management policy and L2D has, in all material aspects, complied with the policy during the year.

Risk tolerance and risk appetite

The Board is responsible for setting a level of risk tolerance (the maximum amount of risk that L2D is prepared to take) in the pursuit of its vision to create sustainable value and growth. The ARC is satisfied that the risks are managed within the approved limits.

Risk matrix

The risk matrix below sets out L2D's top 10 key risks that could impact the achievement of its strategic objectives.

Key risk	Probable effect	Strategic responses/mitigating actions	Inherent risk rating	Residual risk rating	Strategic objectives/ value creation
1.	Non-sustainable or inadequate distribution growth (in comparison to the listed property sector)		🔴	🔴	
	Poor investor returns Increased cost of capital Poor share price performance Reputational damage	Board approves strategy including investment strategy Board oversees execution of strategy Defensive, prime and iconic portfolio Property transactions and developments are approved by Board Post-acquisition and development reviews Approved risk tolerance levels Detailed viability and feasibility studies Portfolio performance reviews and forecasting Benchmarking against peers			Sustainable long-term distribution growth Grow to make an impact
2.	Poor share price performance		🔴	🟡	
	Shares trade at a discount to NAV Cannot raise capital by issuing shares at large discount to NAV Difficult to do transactions to improve distributions and growth High levels of share price volatility Potential take-over	Conversion to a corporate REIT to address market concerns Distribution growth will lead to an improvement in share price Initiatives to increase free-float			Sustainable long-term distribution growth Grow to make an impact
3.	Tenant covenant and concentration risk.		🔴	🟡	
	Large vacancies and rental loss Delayed occupancies Unrecovered operational expenses Tenant installation spend Lower distribution growth	Tenant diversification Ongoing monitoring of tenant performance and strength Due diligence on lessee entity Deposits, guarantees and sureties within policy with leasing managers Credit vetting policy for tenants Edcon store rationalisation and recapitalisation programme Development of contingency plans			Total return
4.	Significant increases in municipal valuation and rates charges		🔴	🟡	
	Municipal rates are a large component of the assets operating costs and though most of these are recovered from tenants the full amount of large increases cannot be passed entirely to tenants and also adversely impact the overall tenant occupation	Rates Watch has been appointed to deal with the objections and appeals A schedule detailing the municipal valuations for each property as well as the rate charges has been developed. This is updated for changes and monitored in order to have a portfolio view of the impact of changes in both the municipal valuations and rates charges levied by the different municipalities Costs are recovered from tenants on the basis of the rates amounts paid to the municipalities			Future-proofing assets

Key risk	Probable effect	Strategic responses/mitigating actions	Inherent risk rating	Residual risk rating	Strategic objectives/ value creation
5.	Performance of the outsourced property manager		🔴	🟡	
	Unsatisfactory performance in terms of: Tenant mix and retention Vacancy rates Collection and arrears Preventative and corrective maintenance Lease administration and recovery of utilities Turnover rental management Alternative income management Compliance with applicable laws and regulations Health and safety	Structured approvals framework and delegation to property manager roles Performance reporting to monthly Business Operations Oversight Committee, Manco, and Board Property management agreement (SLA) includes KPIs and allows for partial or complete cancellation in event of poor performance Quarterly reporting on property manager's KPIs Property manager's policies and procedures Approved business plan Budgeted and market rentals for all space Internal audit function at property managers and L2D internal audit ARC oversight of controls testing and assessment Management of expiry profiles Fraud reporting line L2D representation on governance committees			Total return
6.	Property market risks especially in a low GDP growth environment		🔴	🟡	
	Increased vacancies, reversions and arrears	Monthly reports on tenants' arrears Review of tenant trading densities Tenants' arrears over 60 days to be handed over to attorneys where appropriate Rehabilitation of tenants through payment plans Rigorous tenant approval process Arrears management Continuous engagement with tenants Exploring alternate solutions to address tenant arrears			Future-proofing assets
7.	Safety and security at shopping centres		🟡	🟡	
	Shoppers do not feel safe and shop elsewhere or online Incidents can lead to reputational damage Additional cost of security systems	New security and control room service providers appointed Visible security Ongoing training for armed response, bomb threats, evacuation drills, riot and protest, fire drills and suspicious parcel drills Tactical units are in place to counter the threat of terrorism			Grow to make an impact Future-proofing assets
8.	Investment strategy execution in an prolonged sluggish and poor growth environment		🟡	🟡	
	Actual investment executions result in acquisitions/disposals that do not meet portfolio objectives and distribution forecasts	Governance structures and authority limits Regular management meetings are held with report back on investment and development activities Employees regularly updated on strategy and market conditions Review of strategy execution at Board meetings			Grow to make an impact

Key risk	Probable effect	Strategic responses/mitigating actions	Inherent risk rating	Residual risk rating	Strategic objectives/ value creation
9.	Dependency on Eskom and excessive municipal charges		🔴	🟡	
	Increases cost of utility charges Negative impact of disruption of services to tenants and inconvenience to shoppers Reputational damage Higher potential for retail tenant default or cancellation of lease Decrease in tenant turnover	Measuring energy consumption Expense management Leases structured for expense recovery Approved energy savings strategy and energy and water savings initiatives Approved sustainability policies Property expense monitoring against benchmarks Monitor cost recovery ratios Back-up generators installed			Future-proofing assets
10.	Failure to meet BBBEE requirements		🟡	🟢	
	Tenants lose rental qualification for their BBBEE deductions, resulting in loss of tenants Stakeholder discontent Reputational damage Protests if communities believe that they are not being appointed as suppliers	BBBEE procurement is one of the property manager's KPIs Approved transformation strategy Monitoring by the Social, Ethics and Transformation Committee			Grow to make an impact

🔴 *High risk* 🟡 *Medium risk* 🟢 *Low risk*

The overall residual risk exposure is deemed to be medium with sufficient management actions and initiatives planned.

Compliance with laws, regulations, rules and standards

L2D as a listed REIT is required to comply with the JSE Listings Requirements, the Companies Act and rules specific to REITs in South Africa. Furthermore it is required to comply with other legislation, regulations, codes and standards.

The risks of non-compliance with statutory and regulatory requirements are monitored by the chief risk and compliance officer and reported on as part of risk reporting. During the year no fines were levied for non-compliance with statutory and regulatory requirements, and there were no censures. We were not party to any legal action for uncompetitive behaviour. No requests were received or denied for information in terms of the Promotion of Access to Information Act.

The external auditors confirmed in their audit report for the year ended 31 December 2018 that they did not become aware of any material instances of non-compliance with the relevant laws and regulations.

The ARC believes that the systems for monitoring compliance with laws and regulations are effective.

Assurances and internal controls

The company's property managers, JHIR and Amdec, provided positive written assurances in respect of internal controls, risk management and fraud detection and prevention that are in place.

The external auditors confirmed in their audit report for the year ended 31 December 2018 that they did not identify any risk of material misstatement of the financial statements due to fraud and that no reportable irregularity has taken place or is taking place.

The internal auditors' audit conclusion was that based on the internal audit work performed in 2018, no weaknesses were identified and that the governance processes, risk management and system of internal controls are adequate and effective.

Although some control weaknesses had been identified at JHIR, they were not material enough to impact the overall opinion on L2D.

Combined assurance

Combined assurance is the adoption of a co-ordinated approach to attaining assurance on the management of risk. Combined assurance is built on the adoption of a robust risk management process, in L2D's case the risk management process and the three lines of defence risk governance model. Combined assurance simply provides the board with comfort that the risk management and risk governance model are operating efficiently and effectively to manage risk within L2D.

L2D's combined assurance model is aligned to the roles and responsibilities as articulated in the three lines of defence risk governance model. There is regular communication between management, the CRO, governance structures, as well as independent assurance providers, including internal and external audit.

Assurance on the management of the key risks is provided to the Board on a regular basis, through the above assurance functions. Assurance is provided monthly, quarterly and annually depending on the provider of the assurance and together results in efficient and effective combined assurance.

	First line	**Second line**	**Third line**
Assurance providers	CE FD Asset managers Employees	CRO Committees especially FROC, Manco and ARC	Internal audit External audit JSE review Insurance Independent property valuations
Controls	Risk management framework Tone at the top Code of conduct Risk appetite and tolerance Management of risk Compliant and risk-aware operating practices Performance management	Clear and well-communicated risk policies Effective controls and monitoring systems	Independent assurance and oversight of the effectiveness of risk management

The ARC believes that the combined assurance received is appropriate to address all the significant risks facing the Company.

REMUNERATION REPORT

Remuneration

Background statement

L2D's approach to remuneration is to promote the achievement of the strategic objectives, while considering the management of people and retention risk. It is further to encourage individual performance through the setting and implementation of a policy that articulates and gives effect to fair, responsible and transparent remuneration that motivates people to deliver in the best interest of all stakeholders.

The Remuneration Committee (Remco) embraces the recommendations of King IV™ and in particular Principle 14. We strive to remunerate fairly and responsibly across the company and pay conditions for junior members of the team are given special focus.

During the year the committee comprised three non-executive directors, Wolf Cesman (chair), Angus Band and Lynette Ntuli. The Chief Executive attended meetings by invitation but was excluded from any deliberations pertaining to her own remuneration. The composition of the committee ensures that the remuneration of executives is set independently by directors who have no personal interest in the outcomes, and who will give due regard to the interest of all stakeholders of L2D.

L2D manages the LPP portfolio as well, which means that the assets base is R30 billion. The context of remuneration should be seen in this regard.

At the end of 2018, L2D employed 29 permanent staff. The property management function is outsourced; accordingly, these resources are paid by their respective companies.

In line with the recommendations of King IV™ and the JSE Listings Requirements, details of remuneration awarded or paid to directors are set out in the implementation report. This remuneration report complies with the provisions of King IV™.

Philosophy

L2D's approach is to align recognition, reward and remuneration to the achievement of both the short-term operational goals and the long-term strategic objectives set. In addition to this, an individual's level of influence and the complexity of their role, the financial and non-financial performance outcomes and the extent to which they drive the culture of the organisation in terms of the values of passion, accountability, care and excellence are considered.

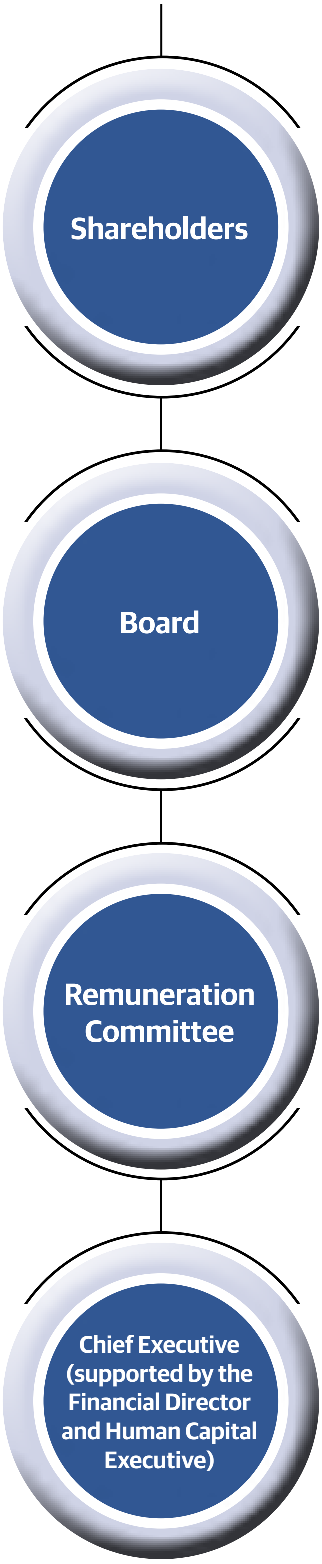
The remuneration structures are designed to attract and retain talent as part of the overall talent management strategy. Fixed and variable pay, long-term share awards and the profile of our employees are considered and transformation, which is also an important part of the remuneration philosophy, receives careful consideration.

We objectively assess individual performance according to the contribution made to the business's success taking into account the level of ownership, engagement and commitment. Every person has an annual performance contract that defines the objectives and outputs expected of them, which are aligned to the overall business objectives for financial and non-financial outcomes. These performance contracts identify and clarify deliverables and Key Performance Indicators (KPIs) against which performance is measured throughout the year. Formal reviews of individual performance regularly take place to ensure that there is ongoing performance feedback and conversations that recognise and encourage success, identify any development needs and to determine corrective action where necessary.

Governance of remuneration

The remuneration policy, structures and processes at L2D are set within an approved governance framework. The main levels of authority within this framework are set out below:

Governance structure



Shareholders – Role

Approves non-executive directors' fees and has a non-binding vote on the policy and implementation report

Board – Role

Approval of the remuneration policy

Remuneration Committee – Role

Recommends remuneration policy to Board for approval

Reviews and monitors the implementation of the remuneration policy and whether the set objectives are being obtained

Ensures the relevant benchmarking exercises take place

Chief Executive – Role

Recommends remuneration proposal to the Remuneration Committee

Reviews and oversees allocations to all levels in the organisation

Purpose and role of Remco

The primary purpose of the Remco is to ensure that the remuneration practices and policy support the delivery of the business strategy. The Remco implements its Board-approved mandate through interaction with Liberty as the majority shareholder, Board members, external consultants (where required) and management. Thorough independent external research on remuneration best practice, industry trends and role profile benchmarking assists the committee in formulating policy and remuneration structures at L2D. The committee members have unrestricted access to information to independently ensure compliance with the risk appetite, remuneration policy and regulatory requirements. There is ongoing communication with the Chief Executive to enable the management of people within the approved policy. The key objective is to appropriately link levels of remuneration to business performance and strategy implementation while operating within L2D's risk and governance framework.

Internal and external factors that influenced remuneration for 2018

Although 2018 was a challenging year, L2D performed well and our remuneration outcomes reflect a position where people were rewarded for delivery. L2D delivered 99.8% of its financial objectives and KPIs and therefore paid out incentives accordingly in terms of the scheme rules.

Total incentives for the year was R16.4 million up from R7.4 million in the previous year. The main driver for the increase was the improvement in the delivery of financial KPIs by 45.7% (99.8% in 2018 vs. 68.5% in 2017).

For the first time share awards were given to each and every employee to ensure alignment to shareholders interests and encourage share ownership. This is not a guarantee in the future and the allocations may not be made to all staff going forward.

The total value of shares awarded was R18.5 million compared to the R2.1 million in the previous year for the reasons set out above.

Independent remuneration consultants

During 2017, L2D benchmarked all roles within the organisation using the PwC Remchannel online platform in considering recruitment, promotions and in awarding annual increases. L2D did not repeat this exercise during 2018; however, we increased the benchmark for guaranteed pay by 6% in line with recommendations from the Remchannel survey. The Remco is therefore satisfied that the overall remuneration is market related and is a driver of L2D's people retention strategy.

Achievement of the objectives of the remuneration policy

The Remco believes that the policy encourages delivery of the strategy and creation of shareholder value in a responsible and sustainable manner.

Shareholder voting on remuneration issues

As L2D was previously a scheme established in terms of CISCA, no annual general meetings were held. Following our relisting as a corporate REIT in November 2018, the first annual general meeting will be held on 10 May 2019 where the remuneration policy and implementation report will be put to the shareholders for a non-binding advisory vote.

Overview of the remuneration policy

Summary of the remuneration policy

L2D's vision to be the leading South African precinct-focused, retail-centred REIT with the purpose of continuing to create experiential spaces to benefit generations. The remuneration policy is directly linked to the business strategy that supports this vision. Appropriate remuneration, which is fair to both the individual and to all stakeholders, is critical in attracting and retaining the best people.

Key principles of the L2D remuneration policy include:

- remuneration practices which encourage behaviour consistent with L2D's vision, purpose and values;
- remuneration practices which do not encourage excessive risk taking outside of L2D's risk profile;
- remuneration practices that are not based on race and gender discrimination, as well as internal and external parity;
- remuneration focus is on total remuneration which includes cost to company, short -term incentives and long-term share awards. It is referenced to "'like-for-like' market remuneration levels, adjusted for relative experience and responsibility levels;
- the total remuneration package is geared to meeting both short-term operational goals and long-term strategic objectives;
- fixed and variable pay is appropriately structured according to seniority and roles;
- a strong correlation exists between performance and total remuneration, allowing for upside opportunities for exceptional performance;
- individual rewards are determined according to both business and individual performance; and
- affordability to the business is an important consideration in the design of remuneration structures to ensure an efficient approach to remuneration.

Fair and responsible remuneration

L2D is committed to the principle of fair and responsible remuneration, and therefore considers the fairness of executive remuneration in the context of remuneration paid to all employees. The L2D reward philosophy allows for differentiation where it is fair, rational and explainable. L2D pays for performance and this remuneration must be externally competitive and internally equitable and is assessed with the principle of equal pay for work of equal value, to identify and address any unjustifiable remuneration disparities.

Investing in people initiatives through talent mapping, employee development and training courses create a work environment and work culture conducive to people's growth, to progress their careers and therefore their earning potential. The increase potential of lower level employees has been higher than that granted to management and executives, thereby narrowing pay gaps between the highest and lowest paid employees.

Responsible and fair remuneration is achieved through L2D's philosophy of linking value creation over the short, medium and long term alignment to shareholders as well as independent oversight and governance.

The Remco undertakes the following activities to ensure fair and responsible remuneration:

- Continuously improving transparency of remuneration reporting; and
- Continuous monitoring of pay gaps.

Remuneration structures

L2D's remuneration structures are designed to attract and retain talent at all staff levels, with an appropriate mix between fixed and variable pay. Remuneration packages are geared to the employee's level of influence and role complexity. The balance between guaranteed and variable pay is appropriately structured and does not reward risk-taking outside the Board-approved mandates.

All employees have some level of variable pay. Notice periods do not exceed three months.

L2D has various Board-approved incentive schemes to which each individual member of the team has been aligned: the management scheme, the specialist scheme and the general scheme. A further differentiation is made in the management and specialist scheme between senior and junior roles. In the senior roles, there is a distinction made to indicate a slightly more strategic resource that is key to business delivery.

Basic salary and benefits

L2D enhances the value created for individual employees by allowing package structuring to align with personal financial requirements, including the ability to increase life and disability cover, leave entitlement and contributions to retirement funds. This structuring must be within the total guaranteed remuneration package and be compliant with labour and taxation legislation. The benefits are administered by the Liberty Group.

There are three components to the salary being: (1) basic salary which is benchmarked to the market and adjusted annually on 1 April, (2) compulsory benefits that include Liberty's defined contribution fund, life and disability cover, as well as medical aid (unless medical aid is obtained through a spouse or partner's cover); and (3) optional benefits and qualifying allowances which include funeral cover and spouse's life cover.

Short term incentives

Short term incentive (STI) schemes have primarily two components – financial KPIs and non-financial KPIs which include a discretionary portion.

L2D measures individual performance and KPIs by offering different ratings (exceptional achievement, EA; fully achieved, FA; or partially achieved, PA), each of which attracts a different percentage relating to the non-financial KPIs.

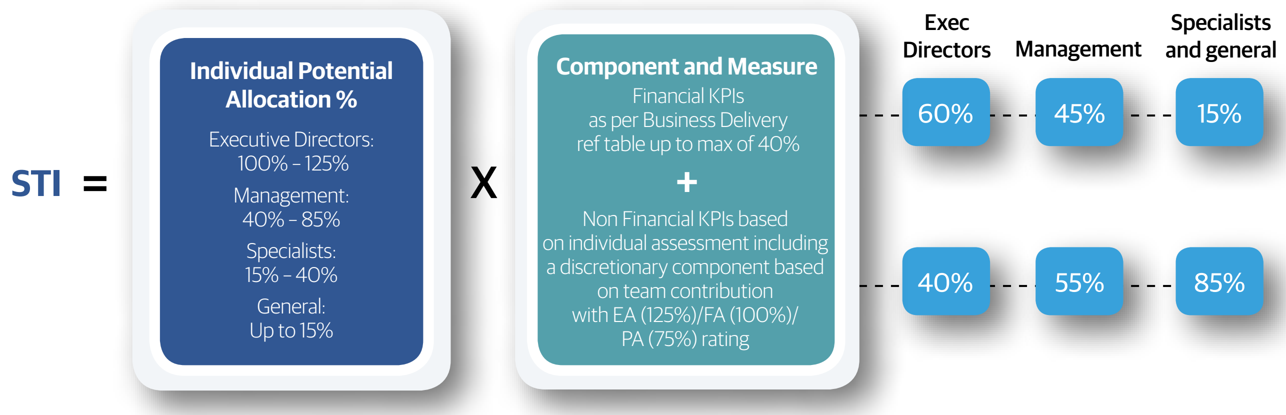
The level of allocation to the financial KPI section is determined by the individual's level in the organization – the more senior, the higher the % attributable to financial KPIs.

The non-financial KPIs are calculated based on set KPIs to allow management to recognize and reward performance in the business and focus specifically on the points below:

- contribution to the business;
- living the values;
- support for overall business objectives;
- being a team player; and
- contribution to strategic projects.

Each role has a % of annual salary allocated for available STI. The Individual Maximum Incentive Allocation factor applied is as per the proposal that is approved by the Remco annually. These percentages are benchmarked to the industry.

All STI's in excess of R500,000 have a compulsory portion that is deferred into shares in the Restricted Shares scheme as explained below.



The Board approved the following financial KPIs for 2018 and L2D achieved its objectives as set out in the table below:

Financial KPIs for 2018

Weighting	KPI	Gate 0%	90%	100% Target	120%	140%	Achieved	Final Outcome
50%	Distribution per share	R0.54	R0.58	R0.60	R0.62	R0.64	R0.60	50.0%
30%	Net property income growth	5%	6%	7%	8%	9%	6.93%	29.8%
20%	Management company				Delivery of SRFM objectives including internalisation		Completed	20.0%
100%	**Total**							**99.8%**

The deferred share plan

STI awards above R500 000 are subject to deferral; between R500 000 and R2 million – 20% of the excess over R500 000 is subject to deferral; between R2 million up to R5,5 million – 30% of the excess over R2 million is subject to deferral

Under the deferred plan, participants are awarded Restricted Shares that vest in three equal tranches 18, 30 and 42 months after the award date selected by Remco in respect of an award. Apart from being in the employ of the Company at vesting, and the forfeiture arrangements noted below, no further conditionality applies however appropriate clawback provisions are prescribed.

Long-term share incentive scheme

L2D has adopted a share-based incentive plan for employees, which is known as The Liberty Two Degrees Restricted Share Plan (Plan). The Plan was originally established by the Manager, SRFM, but all of the Manager's rights and obligations in connection with the Plan were assigned to L2D with effect from 30 June 2018.

The purpose of the LTIP is to drive a longer-term focus on the group's results, and to retain key employees in leadership and critical skill roles. It also provides alignment with shareholders in that long-term value creation is incentivised through settlement of these awards in shares/cash.

The key features and salient terms of the Plan are set out below.

The Liberty Two Degrees Restricted Share Plan Trust (Trust)

The Plan is administered through a Trust. The current trustees are the directors, Angus Band, Brian Azizollahoff and Zaida Adams. Trustees may not participate in the Plan and executive directors of the Company may not be trustees.

The Trust will purchase shares in order to satisfy the requirements of the Plan and no shares shall be issued for such purposes. Accordingly, the Plan is not dilutive and is not governed by Schedule 14 of the JSE Listings Requirements. The Trust shall hold one Share for each share (Restricted Share) that has been awarded to participants in terms of the Plan.

The LTIP method of participation

Awards under the LTIP are made when Remco determines it to be appropriate, but will normally be made in February or March.

Pending vesting, Restricted Shares are registered in the name of the Trust. As such, participants will not exercise the voting rights attached to Restricted Shares until after vesting. However, any distributions on Restricted Shares held by the Trust and allocated to a participant will vest in and be paid to that participant.

Performance conditions	• Awards granted are subject to vesting and/or performance conditions. The performance condition is for distribution growth in excess of the inflation rate over the life of a tranche. • A vesting scale for performance below target levels allows for proportionate vesting of long-term incentives. • Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the relevant awards will reduce or lapse in line with the vesting scale. • Unvested shares are forfeited on termination of employment. • No re-testing of performance conditions is permitted.
Vesting period	• 3, 4, 5-year anniversary performance condition on all vestings for LTIP
Other	• Applicable distributions are paid to participants. No voting rights are attached to the shares held in trust. • Shares need to be acquired in the market. • Share awards are based on the L2D share price 7 days prior to the last day to trade cum dividend on the JSE.

General provisions applicable to the Plan

Remco and the trustees may amend any provision of the Plan; provided that an amendment affecting the vested rights of a participant requires the consent of that participant.

Remuneration processes

Benchmarking

We generally benchmark our L2D employees to the 50th percentile as informed by market survey data. Where necessary, employees are paid closer to the upper quartile of the market to take cognisance of scarce skills.

Guaranteed bonuses

Guaranteed bonuses are made by exception in the context of hiring and only in relation to the first year.

Termination payments

We may be required to pay severance benefits which are determined by reference to prevailing labour legislation and any precedents.

Governance

There is an appropriate governance process in place to approve all types of remuneration payments listed above. This includes a delegation of authority to the Chief Executive for all employees other than direct reports of the Chief Executive where package proposals are being approved by the Chairman of the Remco or the full Remco when relevant.

Eastgate Shopping Center exterior

IMPLEMENTATION REPORT

Implementation report

This component of the report provides details of the remuneration paid to executive and non-executive directors. It also provides information on the overall implementation for all employees which includes details of all awards made under variable remuneration incentive schemes.

The extent to which employees have taken ownership of, and are passionate about and committed to the success of the organisation has been a key driver in the assessment of the achievement of the 2018 performance goals set.

Increases

Increases were awarded based on the guidelines that were approved by Remco in November 2018.

The aim was to make adjustments as part of our annual review process to ensure that key resources are in line with the national benchmarks set as part of our retention strategy within the constraints of the current economic climate.

Directors received a 0% increase and senior management a relatively low increase to reflect the difficult economic environment the business is operating in.

The performance ratings of individuals have also been taken into account in awarding the increases proposed. The overall increase outcome is detailed in the table below.

Increases awarded	%
Overall	**4.10**
Executive directors	0
Senior management and executives	2.20
Middle management	5.10
Specialists	4.62
General staff	5.95

Short term Incentives and share awards

28 people were recognised from performance through the STI scheme in 2018 compared to 17 people in 2017.

In accordance with the STI structure set out in the remuneration policy L2D paid out R18.5 million for 2018 performance. Of this R11.7 million was for people that were at L2D in 2017, R2.9 million for people that were promoted to new roles and R3.9 million for new people in 2018.

As part of the recognition and reward strategy, L2D seeks to align everyone in the organisation and have awarded an allocation of L2D shares to all employees in order to achieve this outcome. This was a discretionary allocation to general staff and will not necessarily be repeated for all employees in the following years.

For senior staff, the share awards also take into account the retention strategy, critical skills and transformation. The overall remuneration package of each individual has been considered to allow us to reach what we deem to be the correct outcomes. The share allocations awarded range from R50,000 for support staff to R4.5m for the Chief Executive. The total share awards issued in March 2019 was R18.5 million of which R9.5 million was for executive directors, R4.5 million for new staff members and the balance for rest of the team.

The total change in remuneration was based on the KPI performance delivery achieved in 2018 vs the 2017 performance. The 2018 delivery of 99.8% of KPIs represented a 45.7% increase on the achievement of 68.5% of KPIs in 2017.

Summary of incentive schemes at 31 December 2018

The table below sets out the total awards and the accounting thereof.

Description	Eligible participants	Number of participants[1] 2018	Number of participants[1] 2017	Award amounts[2] Rm 2018	Award amounts[2] Rm 2017	IFRS expense (see note below) Rm 2018	IFRS expense (see note below) Rm 2017	Number of rights and shares[3] 2018
Short-term		**28**	17	**16.4**	7.4	**15.6**	10.1	**0**
Management and specialists[4]	All employees	**28**	17	**16.4**	7.4	**15.6**	10.1	
Long-term				**20.6**	12.2	**2.4**	4.6	**2 777 305**
L2D restricted share plan (long-term)[5]	All employees	**29**	11	**18.5**	11.4	**2.1**	4.2	**2 593 044**
L2D restricted share plan (deferred)[5]	Management that receive awards in excess of thresholds	**7**	5	**2.1**	0.8	**0.3**	0.4	**184 261**
Total				**37.0**	19.6	**18**	14.7	**2 777 305**

1. Number of participants in respect of short-term schemes reflect the total number of individual awards granted for the reporting period and in respect of long-term schemes, participants that have outstanding awards at 31 December (either not vested or vested, but not exercised).
2. Award amounts reflect, in respect of short-term awards, the approved amounts relating to the financial performance for the past financial year and in respect of long-term awards the amounts awarded in relation to the financial performance for the past financial year and ad hoc awards awarded in the calendar year.
3. Number of rights and shares represent the outstanding awards not as yet vested or vested but not exercised.
4. Cash-settled.
5. Equity-settled.

IFRS expense:

Due to the timing of the award finalisation being post year end, the IFRS accruals for short-term awards are not fully aligned.

IFRS requires long-term awards to be amortised over the vesting period adjusted for the probability of performance being met. Therefore, the award and expense amounts are not directly comparable.

Executive directors and prescribed officers

Prescribed officers

The Companies Act and associated regulations introduced the concept of prescribed officers and related remuneration disclosure. The Remco assesses the prescribed officer definition annually from a L2D perspective. During 2018, Amelia Beattie and José Snyders were assessed as meeting the prescribed officer definition for L2D in line with the policy. Their remuneration details are detailed in this section.

Executive directors' remuneration

The remuneration of the two executive directors, Amelia Beattie (Chief Executive) and José Snyders (Financial Director) is in line with the remuneration policy of L2D.

The Remco sets executive director remuneration with due consideration to the performance, experience and responsibility of each director and is further informed by an extensive benchmarking of similar roles in companies comparable to L2D's size inclusive of the LPP portfolio (R30 billion), industry and risk profile.

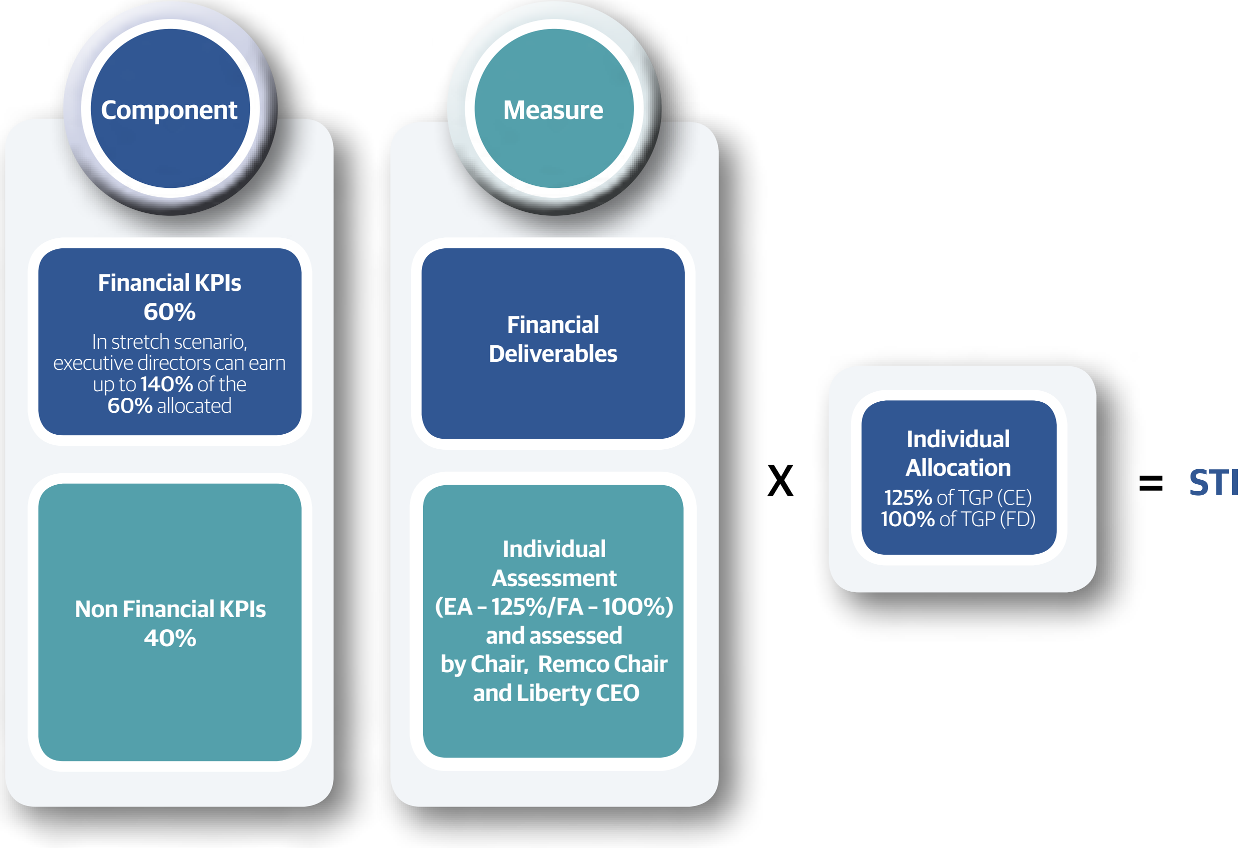
All members of the Board are informed about the predetermined performance indicators that executive directors are evaluated against and the remuneration of the executive directors is dependent on the completion of these financial and non-financial KPIs.

All executive directors are eligible for short and long-term incentive awards in line with the approved remuneration policy set out by the Remco.

Remuneration scenarios for prescribed officers

King IV™ requires disclosure of the potential consequences on the forward-looking total remuneration for executive directors and prescribed officers on a total single figure basis by applying the remuneration policy under minimum, on-target and stretch performance outcome. The following scenarios illustrate what these performance outcomes could deliver to the prescribed officers concerned.

Short term incentive components



Minimum reward scenario

- The short-term incentive is formula driven based on financial and non-financial deliverables. This scenario assumes that no performance targets are achieved.
- The long-term incentive award is discretionary at the Remco's discretion and assumes that no performance targets are achieved.

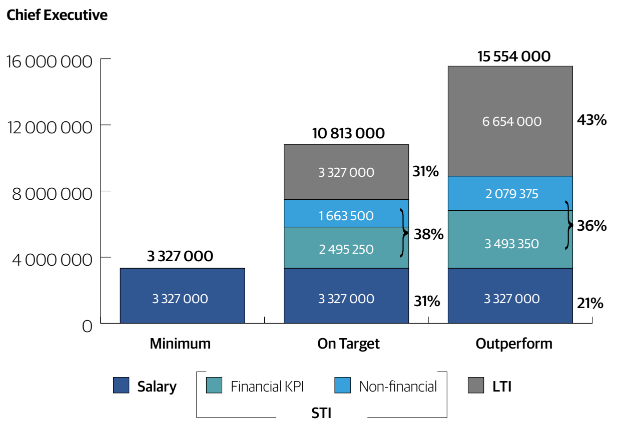
On-target reward scenario

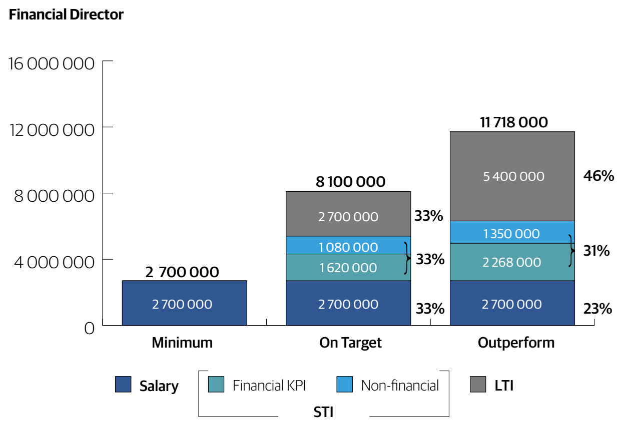
- This scenario assumes performance at 100% of the financial target range and full achievement of the non-financial component.
- The long-term incentives are awarded at the Remco's discretion and assumes that all financial and non-financial performance targets are met at target levels up to 1 times total guaranteed package.

Stretch reward scenario

- This scenario assumes performance up to 140% of the financial target and exceptional achievement of all non-financial KPIs up to a maximum of 125%.
- The long-term incentives are awarded at the Remco's discretion up to 2 times total guaranteed package.

Remuneration scenarios for prescribed officers





Executive directors short-term incentives

In summary short-term incentives for each executive director have two components. These are performance against set non-financial KPIs and scaled financial performance measured against board approved targets as explained in the table on page 74.

Non-financial key performance indicators

Chief Executive – Amelia Beattie

Her performance and expertise were assessed and found suitable for the role. Her KPIs for 2018 were assessed as exceptional achievement against the following deliverables:

- Restoring value in L2D by delivering on the Corporate Restructuring and internalisation of the management company.
- Refresh the vision, strategy, purpose and values of L2D.
- Deal with Rates objections with the municipalities and drive the best outcomes.
- Manage the exposure to large tenants (Edcon).
- Maintain focus on delivering on distribution target .
- Build a credible leadership team to ensure that L2D remains at the forefront of retail management.

Financial Director – José Snyders

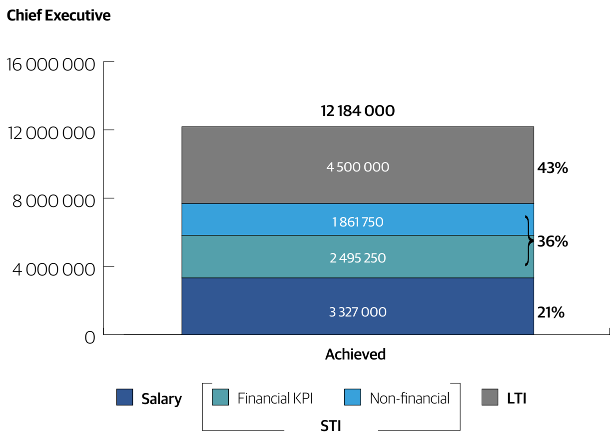
It was José Snyders' second year as Financial Director at L2D and his performance and expertise were assessed and found suitable in terms of the JSE Listings Requirements. His KPIs were assessed as fully delivered against the KPIs set out below and exceptional achievement of the restructuring transaction:

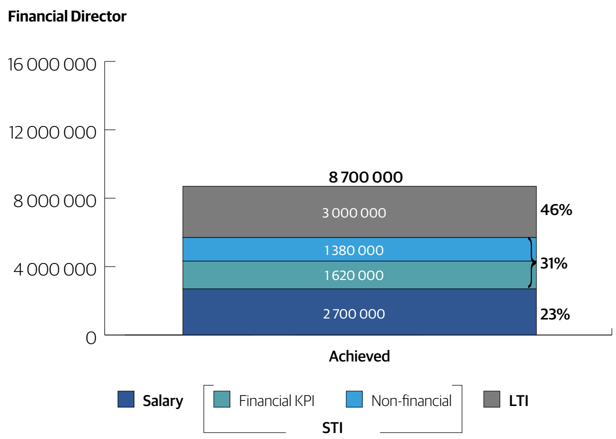
- Driving the commercial outcomes and accounting for the restructuring transaction.
- Implementation of capital reorganisation.
- Appraisal of shareholders and analysts.
- Negotiation of R1.5 billion of debt.
- Track and measure performance to deliver distribution.
- Lead finance, compliance, risk, legal and capital work streams in a strong control environment.

Executive directors – single figure disclosure in terms of King IV™

The presentation of the remuneration components below reflect the award values in relation to the performance period to which they relate. Single figure disclosure is in accordance with King IV™.

The Chief Executive was awarded STI of R4.4 million and an LTI of R4.5 million and the Financial Director STI of R3.0 million and LTI of R3.0 million, as indicated in the graph below.





Single total figure of remuneration

Amelia Beattie

	2018 R'000	2017 R'000	% change
Fixed remuneration[1]	**3 227**	2 806	15.0
Cash portion of package	**2 705**	2 347	
Other benefits	**122**	137	
Retirement contributions	**400**	322	
Annual variable awards	**4 357**	2 250	93.7
Cash[2]	**3 350**	1 875	
Restricted Share Plan (deferred plan)	**1 007**	375	
Long-term awards	**2 170**	278	681.3
Restricted Share Plan (deferred plan)[3]	**1 204**	–	
Distribution	**966**	278	
Total remuneration	**9 754**	5 334	82.9

José Snyders

	2018 R'000	2017 R'000	% change
Fixed remuneration[1]	**2 576**	2 066	24.6
Cash portion of package	**2 199**	1 768	
Other benefits	**102**	92	
Retirement contributions	**275**	206	
Annual variable awards	**3 000**	1 750	71.4
Cash[2]	**2 400**	1 500	
Restricted Share Plan (deferred plan)	**600**	250	
Long-term awards	**592**	2 566	(76.9)
Restricted Share Plan (deferred plan)	**-**	1 023	
Sign-on bonus	**-**	1 500	
Distribution	**592**	43	
Total remuneration	**6 168**	6 382	(3.4)

Executive directors – additional disclosure

Additional disclosure is provided for the purposes of completeness and comparability. We provide the executive directors' remuneration in a manner consistent with previous periods. The presentation of the remuneration components appropriately reflects the award values in respect of the performance period to which they relate. Not all components are immediately settled and are linked to the L2D share price as well as being contingent on performance and service periods.

Additional disclosure

Amelia Beattie

	2018 R'000	2017 R'000	% change
Fixed remuneration[1]	**3 227**	2 806	15.0
Cash portion of package	**2 705**	2 347	
Other benefits	**122**	137	
Retirement contributions	**400**	322	
Annual variable awards	**4 357**	2 250	93.7
Cash[2]	**3 350**	1 875	
Restricted Share Plan (deferred plan)	**1 007**	375	
Long-term awards	**4 500**	3 500	28.6
Restricted Share Plan (deferred plan)[4]	**4 500**	3 500	
Total remuneration	**12 084**	8 556	41.2

José Snyders

	2018 R'000	2017 R'000	% change
Fixed remuneration[1]	**2 576**	2 066	24.6
Cash portion of package	**2 199**	1 768	
Other benefits	**102**	92	
Retirement contributions	**275**	206	
Annual variable awards	**3 000**	1 750	71.4
Cash[2]	**2 400**	1 500	
Restricted Share Plan (deferred plan)	**600**	250	
Long-term awards	**3 000**	3 500	(14.3)
Restricted Share Plan (deferred plan)[4]	**3 000**	2 000	
Sign-on bonus	**-**	1 500	
Total remuneration	**8 576**	7 316	17.2

(1) Fixed remuneration was increased in April 2018 based on a benchmarking exercise undertaken by PwC. As L2D also manages LPP, the size of the fund considered for this exercise was that of an asset size of R30 billion. No increases have been awarded for the 2019 increase cycle to align with the challenging economic environment.

(2) The increase in annual variable awards are in line with the policy as set out and take into account that the business delivered 99.8% of its financial KPIs, the full achievement of non-financial KPIs and discretionary awards based on the delivery of the restructuring transaction of L2D in line with the policy for the stretch scenario.

(3) Awards relate to cash payments by Liberty Group in lieu of awards that related to employment at STANLIB and were transferred to the new entity at no cost to L2D. This was announced via SENS on 17 August 2018, 3 September 2018 and 3 April 2019.

(4) New long term shares were awarded as per the rules of the scheme and announced on 12 March 2019. These awards are long-term with 3, 4 and 5 year vesting periods linked to performance conditions as set by RemCo. Share awards to executive directors have historically been low during employment at SRFM, and current awards are to align executive director's interests with shareholders.

Fair value of shares issued to executive directors

The following table details the fair value of all shares issued to executive directors.

Amelia Beattie

Date granted	Price payable per share	Date fully vested	Shares/ Rights granted/ exercised/ (forfeited)	Shares/ Rights at the end of 2018	Value on grant date (R'000)	Value on settlement 2018[1] (R'000)	Fair value at year end 2018[2] (R'000)
LTIP			**500 000**	**921 053**	**8 000 004**	**-**	**6 364 476**
06-Dec-2016	R9,50	01-Mar-2020	–	140 351	1 333 335	–	969 825
06-Dec-2016	R9,50	01-Mar-2021	–	140 351	1 333 335	–	969 825
06-Dec-2016	R9,50	01-Mar-2022	–	140 351	1 333 335	–	969 825
01-Mar-2018	R8,00	01-Mar-2021	166 666	166 666	1 333 328	–	1 151 662
01-Mar-2018	R8,00	01-Mar-2022	166 666	166 666	1 333 328	–	1 151 662
01-Mar-2018	R8,00	01-Mar-2023	166 668	166 668	1 333 344	–	1 151 676
Deferred Restricted participatory interests			**(310 569)**	**112 171**	**1 374 998**	**244 941**	**775 102**
01-Mar-2017	R10,21	01-Sep-2018	(32 647)	–	333 326	244 941	–
01-Mar-2017	R10,21	01-Sep-2019	–	32 647	333 326	–	225 591
01-Mar-2017	R10,21	01-Sep-2020	–	32 649	333 346	–	225 605
01-Mar-2017	R9,50	01-Apr-2018	(119 572)	–	–	–	–
01-Mar-2017	R9,50	01-Apr-2019	(158 350)	–	–	–	–
01-Mar-2018	R8,00	01-Sep-2019	–	15 625	125 000	–	107 969
01-Mar-2018	R8,00	01-Sep-2020	–	15 625	125 000	–	107 969
01-Mar-2018	R8,00	01/09/20121	–	15 625	125 000	–	107 969
Phantom LTIP[3]			**(119 572)**	**158 350**	**2 640 259**	**958 967**	**1 094 199**
01-Mar-2017	R9,50	01-Apr-2018	(119 572)	–	1 135 934	958 967	–
01-Mar-2017	R9,50	01-Apr-2019	–	158 350	1 504 325	–	1 094 199
			69 859	**1 191 574**	**12 015 261**	**1 203 908**	**8 233 776**

(1) Value of cash flow is calculated by multiplying the vesting price by the total shares vesting and applying performance conditions where applicable.

(2) The fair value is calculated by multiplying the L2D share price as at 31 December 2018 of R6.91 by the total unvested participatory interests and applying performance conditions where applicable.

(3) Restricted shares were awarded in lieu of units held during employment at STANLIB which are referenced to the L2D share price. The last of the shares vest for cash in April 2019 and no performance conditions apply. The payment is made by Liberty Holdings and not L2D.

José Snyders

Date granted	Price payable per share	Date fully vested	Shares/ Rights granted/ exercised/ (forfeited)	Shares/ Rights at the end of 2018	Value on grant date (R'000)	Value on settlement 2018[1] (R'000)	Fair value at year end 2018[2] (R'000)
LTIP			**375 000**	**489 000**	**4 699 996**	**-**	**5 123 426**
01-Mar-2017	R10,20	01-Mar-2020	–	40 849	416 660	–	282 267
01-Mar-2017	R10,20	01-Mar-2021	–	40 849	416 660	–	282 267
01-Mar-2017	R10,20	01-Mar-2022	–	40 851	416 680	–	282 280
01-Sep-2017	R9,02	01-Sep-2020	–	81 300	733 326	–	561 783
01-Sep-2017	R9,02	01-Sep-2021	–	81 300	733 326	–	561 783
01-Sep-2017	R9,02	01-Sep-2022	–	81 302	733 344	–	561 797
01-Mar-2018	R8,00	01-Mar-2020	125 000	40 849	416 660	–	863 750
01-Mar-2018	R8,00	01-Mar-2021	125 000	40 849	416 660	–	863 750
01-Mar-2018	R8,00	01-Mar-2022	125 000	40 851	416 680	–	863 750
Deferred Restricted participatory interests			**31 250**	**31 250**	**250 000**	**-**	**215 938**
01-Mar-2018	R8,00	01-Sep-2019	10 416	10 416	83 328	–	71 975
01-Mar-2018	R8,00	01-Sep-2020	10 416	10 416	83 328	–	71 975
01-Mar-2018	R8,00	01-Sep-2021	10 418	10 418	83 344	–	71 988
			406 250	**520 250**	**4 949 996**	**-**	**5 339 364**

(1) Value of cash flow is calculated by multiplying the vesting price by the total participatory interests vesting and applying performance conditions where applicable.

(2) The fair value is calculated by multiplying the L2D share price as at 31 December 2018 of R6.91 by the total unvested participatory interests and applying performance conditions where applicable.

Total executive directors' interests in shares

The Directors' interests in shares as at 31 December 2018 and 31 December 2017 are detailed in the following table.

	2018		2017		
Director	**Direct**	**Indirect**	**Direct**	**Indirect**	**Share plan**
Amelia Beattie	**18 000**	**921 053**	–	421 053	LTIP
	-	**112 171**	–	375 865	DRS
	-	**158 350**	–	277 922	Phantom LTIP
	-	**2 421**	–	2 466	LREP policy
	18 000	**1 193 995**	–	1 077 306	
José Snyders	**-**	**741 933**	–	366 451	LTIP
	-	**31 250**	–	–	DRS
	-	**773 183**	–	366 451	
Total	**18 000**	**1 967 178**	**-**	**1 443 757**	

LTIP: Shares are awarded in terms of the Restricted Share Plan to the Executive Directors retain them and reward performance. These restricted shares vest in three equal tranches 3, 4 and 5 years after the award date. The Remuneration Committee may at the time of making the awards under the LTIP impose performance criteria for vesting. The directors receive distributions on these holdings.

DRS: A portion of short-term incentive remuneration over a certain threshold is deferred and converted into restricted shares. These restricted shares vest in three equal tranches 18, 30 and 42 months after the award date. No conditionality applies. The directors receive distributions on these holdings.

Phantom LTIP: Restricted Shares were awarded in lieu of units held during employment at STANLIB – they are referenced to L2D share price. The last of the shares vest for cash in April 2019 and no performance conditions apply. The payment was made by Liberty Holdings and not L2D effective 1 April 2019 as per the SENS announcement dated 3 April 2019.

LREP policy: LREP investors are policyholders in the fund that invests in L2D.

Subsequent to the 2018 financial year-end but before the date of issue of this report further share awards were made as announced via SENS on 12 March 2019. Amelia Beattie was awarded with 638 298 shares per the LTIP Share Plan and 142 880 shares per the DRS Share Plan. José Snyders was awarded with 425 532 shares per the LTIP Share Plan and 85 107 shares per the DRS Share Plan.

Non-executive directors

No short-term incentives are paid to any Non-Executive Director based on the performance of L2D or any other indicators that may be dependent on the directors and the decision-making process of the Board. This includes the absence of any long-term incentive schemes where assets accrue to the Non-Executive Directors based on L2D performance.

Non-Executive Directors are only remunerated based on their appointment to the Board and committees of L2D. Directors are paid a fixed yearly amount based on the roles that were held by each specific Non-Executive Director. The rates are based on a detailed benchmarking process incorporating the responsibility placed on the director, the market rates payable within the sector for similar directorship roles and experience of the director.

We have included a detailed analysis of the directors' remuneration in the table below:

Fees are fixed for the year and paid twice a year in July and December. These are aligned to the market and a 0% increase has been applied to the Directors fees for 2019 in line with the guidelines for Executive Directors. The table below reflects non-executive director's fees for 2018 and 2017. The increase in the fees for Angus Band relates to the fact that he was appointed as Chairman in 2018, a position that he did not hold in 2017. There are no contractual agreements to pay for loss of office.

Non-executive directors' remuneration – 2018

R	Directors of L2D	Other Liberty group(1)	Total remuneration
Director			
AWB Band	**787 500**	**1 669 325**	**2 456 825**
W Cesman(2)	**821 936**	**-**	**821 936**
L Ntuli	**493 500**	**-**	**493 500**
B Azizollahoff	**175 000**	**-**	**175 000**
Z Adams	**131 250**	**-**	**131 250**
Total	**2 409 186**	**1 669 325**	**4 078 511**

Non-executive directors' remuneration – 2017

R	Directors of L2D	Other Liberty group(1)	Total remuneration
Director			
AWB Band	312 500	1 590 050	1 902 550
MG Ilsley (3)	332 500	923 342	1 255 842
W Cesman(2)	793 587	–	793 587
MP Moyo (4)	187 500	258 550	446 050
L Ntuli	133 333	–	133 333
Total	1 759 420	2 771 942	4 531 362

(1) Other Liberty group is defined as Liberty Holdings Limited and its subsidiaries excluding Liberty Two Degrees. Mr AWB Band is a director of LHL.

(2) Mr W Cesman received a composite fee of £46 350 for the 2018 year (2017: £45 000).

(3) Resigned 31 July 2017.

(4) Resigned 3 April 2017.

SUSTAINABILITY REPORTING

L2D respects the value that sustainable businesses play in communities and in their economic segments. We continue to focus on understanding and improving relationships with stakeholders who are directly and indirectly involved in our trading activities. L2D has recently implemented a number of sustainability policies and is working closely with the Liberty Group to improve its sustainability efforts.

During the year under review, the Board determined several factors of significant importance to the sustainability of L2D and these are reported on below.

Delivering value through sustainable financial results

L2D remains committed to delivering sustainable and growing returns to its investors over the medium and long term. This goal is supported by the iconic and premium shopping-centre properties the company holds. These properties remain prime lifestyle and leisure destinations even during South Africa's unstable economic climate.

For a more detailed overview of the financial performance of L2D in the 2018 financial year, please refer to the AFS.

Distribution per share

Management bases L2D's performance assessment on its distribution to shareholders. All management decisions were assessed based on their effect on this metric, which is important for REIT investors. The goal is to maintain sustainable profitability from a quality and growing income stream.

All available earnings were distributed to shareholders of L2D, reflecting the profitability and sustainability of the business.

L2D met its guidance distribution of 60.00 cents per share for the 2018 financial year.

Rental income

Rental income has grown in line with our expectations on a like-for-like basis and reflects a significant increase when incorporating the new acquisitions effected in November 2018. L2D successfully re-let the Stuttafords space with an enhancement to the tenant mix and improvement in turnover for the same space. Furthermore, the rental growth during the period was supported by positive reversions on renewals, above inflation in-force escalations and impressive upside on new deals and relocations. L2D increased its exposure to international well-known brands in all the shopping malls and will continue to increase the retail space rented out to international brands as per the strategy agreed upon by the Board.

There is a clear strategy to monitor concentration risk for any group of tenants, with the aim to continue rationalising space for low density tenants. We appreciate the link between rental income from tenants and the financial performance of the tenants that occupy the properties. To ensure ongoing growth in rental income, we aim to continually improve the quality of our shopping centres and evaluate the needs of shoppers to ensure high trading densities and foot count.

Cost management

The nature of the underlying assets means that some costs are manageable while others, such as assessment rates and utilities, are dependent on certain service providers and suppliers. Assessment rate charges are driven by the municipality's view on the underlying property valuations; therefore, we cannot manage the volatility of the charge that is billed to us cannot within a reasonable timeframe. Large monthly expenses relating to electricity and water can only be procured from one supplier, for which there are no cost-effective alternatives. However, management has resolved to determine more cost effective measures to manage the consumption of water within our centres, such as smart toilets to reduce the amount of water used when flushing. We aim to improve methods to increase the recovery of costs from tenants without overburdening them and creating a negative trading environment.

Market value of the properties

Our properties are valued bi-annually, and when required, by independent third-party valuation service providers. Our valuation methodologies are kept consistent but also reviewed regularly to ensure values take cognisance of underlying market conditions, while appropriately reflecting asset management initiatives of value creation and value management.

The valuations also play a role in monitoring the portfolio and assisting management in evaluating performance and benchmarking returns against peers.

Caring for our environment

The property sector has a direct impact in meeting national and global sustainability goals. Therefore, it is important to embed sustainability values into the fabric of our organisation to deliver on the core sustainability essentials.

L2D actively protects the natural environment. Our environmental strategy focuses on reducing our environmental footprint, while influencing our development initiatives, partners, tenants and shoppers towards greater sustainability activities. Energy consumption, water consumption and waste-to-landfill are key components of this strategy.

Reflecting on 2018 priorities

- Water projects at our Cape Town assets included reduced consumption management, rainwater harvesting and water recycling plants.
- Approval of the solar project at Liberty Midlands Mall.
- Establishing baselines metrics against which improvement can be measured.

We continuously benchmark our energy, water and waste performance against global and local baselines for shopping centres. In addition, we have been installing smart metering and monitoring systems with live dashboard access to centre management. This enables us to proactively introduce interventions where necessary.

View from our Board

Natural capital is critical to the day-to-day functioning of the business. Creating sustained value for all our stakeholders is necessary for the preservation and protection of the environment.

Managing scarce resources is everybody's responsibility and this is integrated into the group's strategic thinking. Decisions which require financial capital today contribute to the long-term sustainability of the business and are key to driving growth.

Two examples of initiatives undertaken in 2018 to improve our environmental standing include banning single-use plastics from Sandton City and the re-design of the centre's Food District. The latter created breathable, wider and less congested spaces that feature tree-ringed courtyards and green areas, increase the ingress of daylight and overall enable people to use this space more comfortably.

Looking ahead, we have committed R53.2 million in 2019 relating to sustainability-related projects throughout the portfolio.

Statements of intent have been adopted by the L2D Board relating to energy efficiency, solid-waste management, water efficiency and sustainable procurement and purchasing. We have also started the process to achieve a minimum 4-star rating accreditation from the Green Building Council of South Africa for all assets. This has already been achieved for the Liberty Regional Head Office at Century City and the Liberty Regional Head Office at Umhlanga. Works have commenced on this process at Sandton City.

Water management projects

At both Liberty Promenade Mall in Mitchells Plain and the Liberty Regional Head Office in Century City, we have initiated projects to reduce the malls' potable water requirements. At the former, a rainwater harvesting, borehole collection and treatment plant for the delivery of water to bathroom flush fixtures has been installed. A treatment plant has been introduced at the latter to treat waste and water, and convert these elements to potable water.

A rainwater harvesting system has also been identified for Midlands Mall, subject to performance testing and feasibility analyses.

Renewable energy

L2D is installing of a 1.1 megawatt rooftop solar PV plant at the Midlands Mall Lifestyle Centre. The system will undergo testing in early 2019 and is planned to be operational by March 2019.

A solar PV plant has been budgeted for at Eastgate Shopping Centre in 2019.

Usage management

We are working with tenants to reduce energy consumption, which will positively impact overall demand for energy at all L2D facilities.

Smart metering has been installed at several centres (Eastgate Shopping Centre, Sandton City and Nelson Mandela Square), with a planned installation at both the Promenade and Midlands malls.

Detailed energy audits are being conducted at all assets to improve energy usage and further reduce consumption.

Carbon emissions

L2D reports on all emissions using the operational control approach. Its carbon footprint report for 2018 has been completed using the Greenhouse Gas (GHG) protocol. The report covers 165 full-time equivalent employees (29 L2D full-time employees and 136 JHIR employees) and 3 026 (m^2) of office space.

The following facilities are included in the operational boundaries:

- Facilities controlled and co-owned by L2D with operations managed by JHIR (17 buildings totalling 737 443m^2 gross leasable area (GLA) or 1 004 677m^2 gross floor area (GFA)), inclusive of 2 544m^2 JHI Retail-occupied space and 27 815m^2 of Liberty-occupied space; and
- L2D head office in the STANLIB building, Melrose Arch (482m^2).

The Greenhouse Gas (GHG) emissions for 2018 are set out below:

Scope	Activities	Metric tonnes of CO_2e	% of total
Scope 1 direct emissions	Stationary fuels	159.2	**1%**
Scope 2 indirect emissions	Purchased electricity	51 663.36	**26%**
Total scope 1 and 2 emissions		51 823.18	
Scope 3 indirect emissions	Office paper, waste and tenant electricity	146 594.78	**73%**
Total scope 1, 2 and 3 emissions		**198 417.96**	**100%**

Tenant electricity comprises 92% of scope 3 emissions. Total water consumption in 2018 was 804 898 kilolitres.

Although this is L2D's first year of carbon footprint reporting, its parent company, Liberty Holdings, has completed ten years of carbon footprint reporting, in which most of the current L2D facilities were included. Due to data granularity limitations in 2018, L2D does not have viable historical data on which to set a base year for future carbon footprint calculations. It therefore endeavour to improve the accuracy and reliability of the date collected in order to set a base year as soon as possible.

Priorities for 2019

- Commissioning a 1MW solar plant at Midlands Mall
- Implementing L2D's sustainability policies
- Road mapping the design for Net Zero 2030
- Rolling out smart metering water and electricity systems throughout the portfolio
- Rolling out the Green Star certification programme for retail assets

Our commitment to Net-Zero by 2030

Net Zero carbon energy, water and waste in the L2D portfolio by 2030.

The World Green Building Council has requested immediate action across the environment to move to Net Zero carbon energy, water, waste and ecology. This was adopted locally through the Green Building Council of South Africa, who support a net zero target by 2030.

To achieve net zero status by 2030, L2D will develop a roadmap to outline the incremental net zero strategies and associated costs and savings for each building as well as the portfolio as a whole.

Investing in our communities

L2D is serious about making a positive contribution to the communities we operate in. We have implemented several social development programmes (particularly in education) to help address the equality challenges inherent in the South African context. Our focus is mainly on the communities our shopping centres serve.

Our shopping centres currently serve the unique needs of their communities, making them relevant and integral to their specific markets. The management of L2D supports and encourages its employees as well as the property manager to drive social investment projects on a group level as well as at a centre level. L2D has an active community engagement strategy in place to ensure we achieve meaningful outcomes in terms of our social investment. We aim to facilitate local empowerment as best we can.

In the period, L2D contributed R2,3 million towards various initiatives across the centres notably:

- **Read to Rise** – an initiative run across the portfolio to encourage reading in poor communities.

- **Make a Difference Foundation** – We have sponsored a leg of the Make a Difference (MAD) Foundation's annual fundraiser, which is a unique event in which a group of selfless individuals run from Johannesburg to Cape Town covering a distance of 1,520km in just seven days. The MAD Foundation offers scholarships to academically talented young leaders and believes education to be the best way of improving one's standing in life.

- **Cycle Nation** – Sandton City sponsors the amateur cycling team and furthering cycling development in South Africa.

- **Bana Bags** – L2D has partnered with an organisation to introduce plastic free bags into the centres. This will ensure L2D continues to encourage sustainable and environmentally friendly ways of doing business across the portfolio.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONTENT

Preparation of Consolidated Annual Financial Statements

The preparation of the Consolidated Annual Financial Statements of Liberty Two Degrees Limited for the year ended 31 December 2018 was supervised by José Snyders CA(SA) in his capacity as Financial Director.

These Consolidated Annual Financial Statements have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Companies Act of South Africa, 2008 and are available free of charge on the request of an investor as well as on the Liberty Two Degrees website.

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are responsible for the preparation and fair presentation of the Consolidated Annual Financial Statements of Liberty Two Degrees Limited. These financial statements comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year ended then, as well as the accounting policies and the notes to the financial statements. These financial statement are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2008, as amended, and the JSE Listings Requirements. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal controls as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of L2D to continue as a going concern and have no reason to believe that the business will not be a going concern for the year ahead.

The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The consolidated financial statements of L2D, as identified in the first paragraph, were approved by the Board on 21 February 2019 and are signed by

AW Band
Chairman

24 February 2019

A Beattie
Chief Executive

CERTIFICATE BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act 2008, as amended, I declare that to the best of my knowledge, for the year ended 31 December 2018, Liberty Two Degrees Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.

J Parratt
Company secretary

24 February 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 December 2018

The audit and risk committee (ARC) is pleased to present its report for the financial year ended 31 December 2018, as required in terms of the Companies Act No.71 of 2008 of South Africa.

Composition and functions

The ARC is an independent statutory committee appointed by the shareholders and comprises three independent directors of the board of Liberty Two Degrees Limited (the company). The ARC operates under a board approved mandate covering its statutory responsibilities, as well as additional responsibilities delegated by the board.

Four scheduled ARC meetings were held during the year under review.

Discharge of responsibilities

The Chief Executive, Financial Director, finance executive and chief risk and compliance officer attend ARC meetings. The external and internal auditors attend ARC meetings by invitation. The external and internal auditors meet independently with the ARC when required. The ARC has operated in compliance with the terms of reference contained in its board approved mandate and has discharged its responsibilities accordingly. These terms of reference, including roles and responsibilities, are aligned with the requirements of King IV™, the Companies Act and other regulatory requirements. In instances where King IV™ principles and requirements have not been applied, these have been explained in the Governance section of the company's 2018 integrated report.

External audit

The ARC considered the performance of the external auditors for the 2018 year and concluded that the performance and extent of audit coverage was satisfactory. At the meeting held on 20 February 2019, the ARC recommended that PricewaterhouseCoopers Inc. (PwC) be re-appointed as external auditors for the 2019 year at the 2019 annual general meeting, and that Ms Julanie Basson be the designated auditor responsible for performing the function of auditor for the 2019 year.

PwC has been the auditor of the company for 3 years. The designated auditor responsible is rotated on a five yearly basis. The 2018 year is the first year of Ms Julanie Basson's five year term.

The ARC approved the external audit plan and fees for the 2018 year and satisfied itself that the auditors are independent of the company and are able to conduct their audit functions without any undue influence from the company. The ARC has approved a policy for the provision of non-audit services and reviewed compliance with this policy for the year under review.

Findings reported by the external auditors on the results of their independent audits were considered by the ARC in its overall assessment of the effectiveness of the company's internal financial controls.

Specifically, the key audit matters for the 2018 year, as reported in the independent auditor's report, were discussed by the ARC. After reviewing and considering input from management and the external auditors, the ARC was satisfied that these matters have been appropriately reflected in the Annual Financial Statements for the year ended 31 December 2018.

Internal audit

The ARC is responsible for ensuring and was satisfied that the internal audit control function is objective and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The head of internal audit has a functional reporting line to the ARC Chairman, and an operational reporting line to the group Financial Director.

The ARC Chairman provides input on the assessment of the performance of the internal audit function. The effectiveness of the internal audit control function was considered to be satisfactory by the ARC. Internal audit operates according to an ARC approved internal audit mandate. The ARC approved the internal audit plan and resourcing for the 2018 financial year.

Internal audit provides quarterly reports to the ARC. Reported findings and annual assurance statements provided by internal audit were considered by the ARC in its overall assessment of the effectiveness of the company's internal financial controls.

Internal financial controls

The ARC has approved a framework for the internal financial controls implemented by the company and its subsidiaries. Nothing has come to the attention of the ARC to indicate that there has been any material breakdown in the functioning of these controls, resulting in material unrecorded loss to the company, during the year and up to the date of this report. Accordingly, the ARC is satisfied that the internal financial reporting controls provide a reliable basis for the preparation of the Annual Financial Statements.

The above overall assessment of the effectiveness of internal financial controls is based on consideration of information and explanations provided by management, the findings reported by internal audit and their annual assurance statements, and discussions with the external auditors on the results of their independent audits.

The ARC received no material notifications of any concerns or complaints regarding:

- The accounting practices and internal audit of the company;
- The content or auditing of the company's financial statements;
- The internal financial controls of the company; or
- Any related matter.

Combined assurance

The combined assurance model is aligned to the roles and responsibilities as articulated in the three lines of defence risk governance model. There is regular communication between business unit management and independent assurance providers, including internal and external audit. Assurance on the management of key risks is provided monthly, quarterly and annually depending on the provider and as such, results in efficient and effective combined assurance.

Financial Director

The ARC has satisfied itself that the Financial Director has the appropriate expertise and experience required for the role.

Finance function

The ARC has satisfied itself as to the appropriateness of the expertise, resources and experience of the finance function.

Annual Financial Statements

The ARC has reviewed and recommended approval of the group and company Annual Financial Statements by the board.

Wolf Cesman

Chairman

Audit and risk committee

24 February 2019

To the shareholders of Liberty Two Degrees Limited

We have pleasure in presenting the Consolidated Annual Financial Statements of Liberty Two Degrees Limited (L2D) for the year ended 31 December 2018.

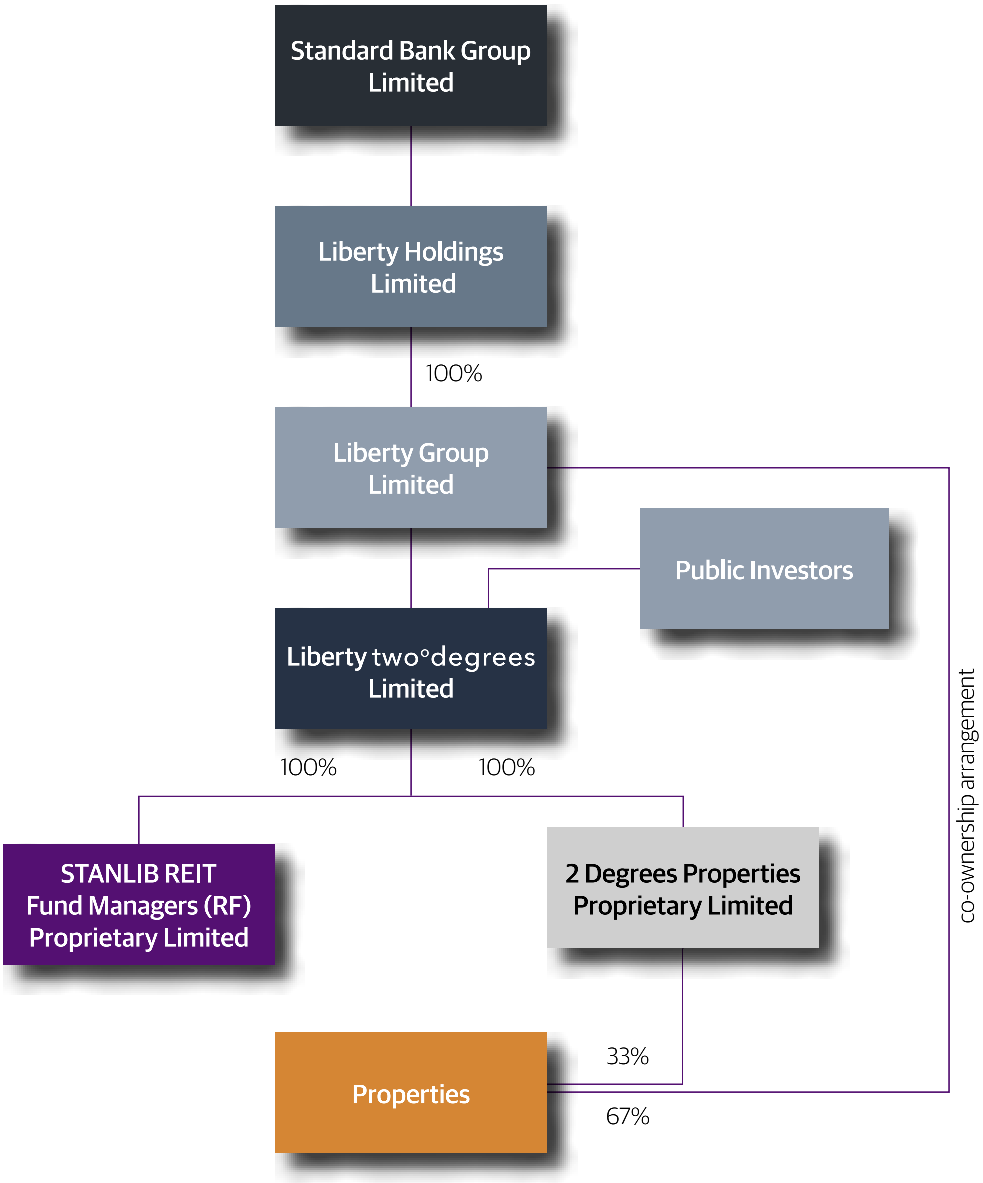
Corporate overview

During the 2018 financial year and with effect from 1 November 2018, L2D converted to a corporate Real Estate Investment Trust (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 (Old L2D) of all of its business assets and liabilities to 2 Degrees Properties Proprietary Limited (2DP), being a wholly-owned subsidiary of L2D
- the internalisation through L2D purchasing the issued shares of the manager from Liberty Holdings Limited (LHL) following which the business of the manager was transferred to Subco; and
- the Acquisition by 2DP of R1.2 Billion of additional properties from Liberty Group Limited (LGL) and Liberty Propco Proprietary Limited (LibProp).

L2D listed as a corporate REIT on the JSE on 1 November 2018 with a vision to be the leading South African precinct focused, retail-centred REIT.

L2D Group Structure Post REIT Conversion



Nature of the business

The group is engaged in property investment and operates principally in South Africa.

Financial results

The financial results for the year ended 31 December 2018 are set out in detail on pages 103 to 153 of these financial statements.

International financial reporting standards

The Consolidated Annual Financial Statements are prepared in terms of International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Stated capital

The company was incorporated on 10 July 2018 with an authorised stated capital of 5 000 000 000 ordinary shares of no par value.

At 31 December 2018, there were 908 443 335 shares in issue, all of which rank for the dividend declared on 21 February 2019.

Dividend distributions

On 16 February 2018, the board declared a final dividend of 29.22 cents in relation to the 12 months ended 31 December 2017, which was paid on 19 March 2018.

On 23 July 2018, the board declared an interim dividend of 29.31 cents for the six months ended 30 June 2018, which was paid on 27 August 2018.

On 15 October 2018, the board declared the Final CISIP dividend of 18.00 cents for the four months ended 31 October 2018, which was paid on 14 November 2018.

Subsequent to year end, on 21 February 2019, the board declared a final dividend of 12.69 cents for the two months ended 31 December 2018, which will be paid on 18 March 2019.

This brings the full year distribution to 60.00 (FY2017: 59.22) cents per share.

This dividend has been declared from distributable earnings and meets the requirement of a REIT "qualifying distribution" for purposes of section 25BB of the Income Tax Act, No 58 of 1962, as amended.

The group uses distribution per share as a relevant measure of results for trading statement purposes.

Directorate

With the conversion of L2D from a Collective Investments Scheme in Property (CISIP) to a Corporate REIT, the directors of STANLIB REIT Fund Managers (RF) Proprietary Limited (the Manager) of the CISIP, were appointed to the Board of Liberty Two Degrees Limited, the new listed entity. To comply with the recommendations of King IV™, further strengthen the composition of the Board and committees and to add diversity, two additional independent directors were appointed on 1 August 2018.

The directors of the company at the date of this report were:

Executive directors

- Amelia Beattie – Chief Executive officer *(Appointed: 10/07/2018)*
- José Snyders – Financial Director *(Appointed: 10/07/2018)*

Non-executive directors

- Angus Band – Chairman *(Appointed: 10/07/2018)*
- Brian Azizollahoff* – Lead independent director *(Appointed: 01/08/2018)*
- Wolf Cesman* *(Appointed: 19/07/2018)*
- Lynette Ntuli* *(Appointed: 19/07/2018)*
- Zaida Adams* *(Appointed: 01/08/2018)*

* Independent

Directors' emoluments and interests

Refer to note 21 to the financial statements for disclosure regarding directors' emoluments and directors' interests.

Service contracts

Executive directors retire from their positions and from the board (as executive directors) at the age of 65. Though normal retirement age is 65 years for executive directors, the company's retirement policy makes provision to extend the working relationship beyond the normal retirement age. The executive directors are subject to three calendar months' written notice under their existing employment contracts.

Shareholders' analysis

Refer to pages 152 to 153 in the Annual Financial Statements for disclosure regarding shareholders' analysis.

Subsequent events

In line with IAS 10 Events after the Reporting period, the declaration of the final dividend of 12.69 cents per share for the two months ended 31 December 2018 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these financial statements.

To the Shareholders of Liberty Two Degrees Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Liberty Two Degrees Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Liberty Two Degrees Limited's consolidated and separate financial statements set out on pages 103 to 146 comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

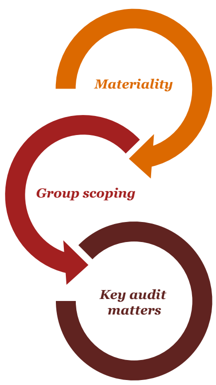
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview



Overall materiality

- R32,6 million, which represents 5% of the Group's adjusted consolidated profit before tax.

Group audit scope

The Group consists of two operating subsidiaries which was fully in scope for our audit. With the Group investing in undivided shares in investment property, we instructed component auditors to perform an audit of specific financial statement line items in relation to the Group's undivided share in the Melrose Arch Precinct. The Group engagement team performed specified procedures relating to the rental income contributed by Liberty Hotels.

Key audit matters

- Valuation of investment property at year-end of R10,1 billion
- Accounting for the internalisation of the manager as a capital reorganisation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R32,6 million
How we determined it	5% of the Group's adjusted consolidated profit before tax.
Rationale for the materiality benchmark applied	We chose adjusted consolidated profit before tax because, in our view, it is the benchmark which best represents the performance of the Group as commonly measured by users and is a generally accepted benchmark for profit oriented entities. The adjustment relates to the impact of an equity instrument disposed of during the year that is considered once-off. We chose 5% which is consistent with quantitative materiality thresholds used for widely held, public companies.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Company, through its wholly owned subsidiary holds a 8.3% and 25% undivided share in Melrose Arch Precinct and Liberty Hotels respectively, which was considered to be components for group scoping purposes. To enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's financial statements as a whole, we instructed component auditors to perform an audit of specific material line items of the statement of comprehensive income and statement of financial position in relation to the Melrose Arch Precinct. As the Group engagement team, we performed analytical procedures relating to the rental income earned in relation to the Liberty Hotels.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditors from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property at year-end of R10,1 billion **Refer to Notes 1.4.1, 2.2, 5, 10 and 20 to the Consolidated and Separate Financial Statements** **This key audit matter relates to the consolidated financial statements.** The majority of the Group's investment property is comprised of retail investment property. At 31 December 2018, the carrying value of the Group's total investment property portfolio was R10,1 billion representing a R1,5 billion increase compared to the prior year. The increase mainly relates to the acquisition of an additional undivided share in investment properties from the Group's fellow subsidiary, Liberty Group Limited and R43,8 million representing an increase in the fair value of the properties. The Group's accounting policy is to measure investment properties at fair value using either the discounted cash flow model or capitalisation of net income method or a combination of both . The measurement of fair value of investment properties is dependent on the valuation techniques applied and the inputs into the valuation model. The group has applied the discounted cash flow model to value its investment properties at year end. Inputs into the valuation model include, amongst others factors, existing tenant terms, location of the properties, vacancy levels and restrictions, if any on the sale or use of the property. Amongst others, the following key assumptions and inputs are made by management in determining the fair value of investment properties: • exit capitalisation rates; and • discount rates. This policy requires all properties to be externally valued by qualified real estate appraisers (the appraisers) on an annual basis. During December 2018, a tenant requested a rental holiday totalling 40.9% of total gross rental over a 24 month period. This impacts the potential future cash flow forecast used in the valuation of the investment property portfolio. We considered this potential impact on the discounted future cash flows to be a matter of most significance to our current year audit, due to the significant amount of management judgement involved in determining whether the event has a material impact on the valuation of the investment properties at year-end and the robustness of interactions we had with management of the impact in the current financial year. We considered the year-end valuation of investment properties as a matter of most significance to our current year audit due to: • the significant judgements required in determining the exit capitalisation rates and discount rates; • the magnitude of the investment property balances at year-end; and • increase in the investment property balance as a result of the additional undivided share acquired.	We obtained the latest independent property market reports to understand the prevailing market conditions in which the Group invests. We updated our understanding of and tested the relevant controls related to: • Entering and amending of leases in support of contractual rental income; • Setting and approval of budgets by the Group; • Detailed analysis of forecasts and trends against actual results that inform management of the business; • Review of external valuation reports by an internally appointed appraiser; and • Board approval of the valuations obtained. In respect of the external appraisers we: • considered their objectivity, independence and expertise by inspecting the external appraisers' valuation reports for a statement of independence and compliance with generally accepted valuation standards; and • confirming the external appraisers' affiliation with the relevant professional body. On a risk based sample basis, we independently tested the calculation of the fair values in the external appraisers' valuation reports by performing the following procedures, which included: • Utilising our internal property appraiser to assess the appropriateness of the valuation methodology; • Considered the applicability of minority discounts to fractional ownership; • Assessing the reasonableness of the cash flows, growth, exit capitalisation and discount rates against market related data for similar investment properties noting no exceptions; • Independent recalculation of the accuracy of the valuations; and • We inspected the final valuation reports and agreed the fair value to the Group's accounting records noting no exceptions. In respect of the specific retail tenant, we obtained an understanding of the various media reports and the term sheet signed by the group. With the assistance of our internal property appraiser, we challenged management and considered whether an adjustment to the year-end valuations is required based on the information available in the market. In addition, we • assessed management's rationale for not adjusting the year-end valuations of the properties impacted by the specific tenant, • considered various scenarios and management's justification and support for the chosen scenario, and • assessed the values against a range of potential outcomes and noted the valuations are still within a reasonable range even without adjusting.

Key audit matter	How our audit addressed the key audit matter
Accounting for the internalisation of the manager as a capital reorganisation **Refer to Note 1.2 to the Consolidated and Separate Financial Statements** **This key audit matter relates to the consolidated financial statements.** Project Banning resulted in the conversion of the Liberty Two Degrees fund (Old L2D), incorporated under the Collective Investment Schemes Control Act, to a company in terms of the Companies Act of South Africa effective 1 November 2018 (conversion to a corporate REIT) by acquiring the issued share capital of its manager, STANLIB REIT Fund Managers (RF) Proprietary Limited (SRFM). Liberty Two Degrees Limited (New L2D) was incorporated during the current financial year and management had to consider the accounting treatment of this transaction in the consolidated financial statements of the group, especially whether the financial statements would contain any comparative financial information. New L2D's consolidated financial results (including the restated comparatives) have been prepared as though the transaction has been effected at the start of the earliest period presented. The view adopted was that the transaction involved entities controlled by the same controlling party and should represent the period over which that party has had control. We considered the accounting for Project Banning as a capital reorganisation to be a matter of most significance to our current year audit due to : • there being no guidance in the International Financial Reporting Standards on the accounting treatment for combinations among entities under common control resulting in management developing an accounting policy relevant to the decision-making needs of users of the financial statements; • the transaction resulting in the listing of a new legal entity on the JSE without a change in ownership; • judgement applied in the recognition of deferred tax assets; and • the consolidated financial statements being prepared on the basis that the transaction was effective at the start of the earliest period presented.	We obtained an understanding of the relevant transaction agreements relating to the conversion and acquisition of SRFM. With the assistance of our technical accounting experts, we assessed the significant judgement applied by management in determining the classification of the transaction as a capital reorganisation against the contractual terms of the agreement between the Group, Liberty Holdings Limited and Liberty Group Limited. In respect of the restated comparative financial information, we: • recalculated the consolidation with reference to the previous audited financial statements of Old L2D and SRFM, • tested the intercompany elimination entries for asset management fees, • challenged management's rationale for the release of the deferred tax asset previously recognised by SRFM, finding this to be reasonable, and • recalculated the capital reorganisation/mergers reserve recognised in consolidated statement of changes in equity.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Consolidated Annual Financial Statements for the year ended 31 December 2018*, which includes the Directors' report, the Report by the audit and risk committee and the Certificate by the company secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the *Liberty Two Degrees Limited Integrated Annual Report and Annual Financial Statements for the year ended 31 December 2018*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Liberty Two Degrees Limited for 3 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: J Basson
Registered Auditor

Johannesburg

25 February 2019

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

R'000	Notes	GROUP 2018	GROUP Restated 2017	GROUP Restated 2016	COMPANY 2018
Assets					
Non-current assets		**10 145 122**	8 710 015	6 061 366	**9 199 236**
Investment properties	5.2	**10 111 609**	8 629 809	5 997 200	**-**
Investment properties under development	5.3	**32 768**	78 903	63 239	**-**
Property, plant and equipment	28	**745**	1 303	927	**-**
Investment in subsidiaries	34	**-**	–	–	**9 199 236**
Current assets		**333 264**	483 013	2 904 400	**1**
Trade and other receivables	6	**277 963**	189 925	104 320	**-**
Amount due from group companies	26	**42 645**	–	–	**-**
Financial investments	7	**600**	269 043	2 774 878	**-**
Current tax receivable	30	**686**	1 412	874	**-**
Cash and cash equivalents	8	**11 370**	22 633	24 328	**1**
Total assets		**10 478 386**	9 193 028	8 965 766	**9 199 237**
Equity			–	–	
Stated Capital	11	**8 780 489**	8 782 290	8 782 290	**8 780 489**
Retained surplus/(loss)		**122 646**	274 186	45 819	**(6 645)**
Mergers/capital reserve	27	**(426 104)**	(92 459)	(92 459)	**-**
Non-distributable reserve	12	**106 865**	29 448	52 502	**-**
Total Equity		**8 583 896**	8 993 465	8 788 152	**8 773 844**
Liabilities					
Non-current liabilities					
Financial liabilities	29	**1 000 000**	–	–	**150 000**
Current liabilities		**894 490**	199 563	177 614	**275 393**
Trade and other payables	9	**236 212**	166 688	173 536	**601**
Employee benefits	25	**23 372**	15 867	1 738	**-**
Amount due to group companies	26	**10**	17 008	2 340	**112 332**
Financial instruments	10	**8 289**	–	–	**-**
Financial liabilities	29	**626 607**	–	–	**162 460**
Total liabilities		**1 894 490**	199 563	177 614	**425 393**
Total Equity and Liabilities		**10 478 386**	9 193 028	8 965 766	**9 199 237**

STATEMENT OF COMPREHENSIVE INCOME

for the period ended December 2018

R'000	Notes	GROUP 2018	GROUP Restated 2017	COMPANY For the six months ended 2018
Property portfolio revenue		**913 810**	665 854	**-**
Rental and related income	13	**915 069**	692 835	**-**
Adjustment for the straight-lining of operating lease income	5	**(1 259)**	(26 981)	**-**
Property operating expenses	14	**(327 157)**	(236 709)	**-**
Change in expected credit losses on rental debtors	6.1	**2 469**	–	**-**
Net property income		**589 122**	429 145	**-**
Asset management fee income	16	**63 753**	66 274	**-**
Development fee income	16	**162**	–	**-**
Revenue		**653 037**	495 419	**-**
Other Income		**4 049**	5	**-**
Operating costs	15	**(76 126)**	(70 418)	**(610)**
Profit/(loss) from operations excluding fair value adjustments		**580 960**	425 006	**(610)**
Interest expense		**(25 282)**	(19 938)	**(6 035)**
Interest received		**12 462**	138 144	**-**
Realised loss on sale of equity		**(2 085)**	(460)	**-**
Dividend income		**-**	5 492	**-**
Profit before fair value adjustments		**566 055**	548 244	**(6 645)**
Net fair value adjustments		**80 762**	4 387	**-**
Fair value adjustments on investment properties	5	**89 860**	(24 662)	**-**
Fair value adjustment on derivatives	12	**(8 289)**	–	**-**
Fair value adjustment on equity instrument	7	**(2 068)**	2 068	**-**
Adjustment for the straight-lining of operating lease income	5	**1 259**	26 981	**-**
Profit before taxation		**646 817**	552 631	**(6 645)**
Taxation	30	**(6 082)**	(14 654)	**-**
Total comprehensive income		**640 735**	537 977	**(6 645)**
Basic earnings per share (cents)	3	**70,53**	59,22	**(0,73)**
Fully diluted earnings per share (cents)	3	**70,53**	59,22	**(0,73)**

STATEMENT OF CHANGES IN EQUITY

for the period ended December 2018

	GROUP				
R'000	**Capital**	**Non-distributable reserve**	**Retained surplus**	**Mergers/ capital reserve**	**Total**
Balance at 1 January 2017 Restated	8 782 290	52 502	45 819	(92 459)	8 788 152
Total comprehensive income	–	–	537 724	–	537 724
Fair value adjustment on investment properties transferred to non-distributable reserve	–	(24 662)	24 662	–	–
Fair value adjustment on listed equity investment transferred to non-distributable reserve	–	2 068	(2 068)	–	–
Loss on sale of listed equity investment transferred to non-distributable reserve	–	(460)	460	–	–
Distribution to shareholders (Note 32)	–	–	(316 597)	–	(316 597)
Distribution to Liberty Holdings Limited (Note 32)	–	–	(15 814)	–	(15 814)
Balance at 1 January 2018 Restated	**8 782 290**	**29 448**	**274 186**	**(92 459)**	**8 993 465**
Total comprehensive income	**–**	**–**	**640 735**	**–**	**640 735**
Capitalised transaction costs	**(1 801)**	**–**	**–**	**–**	**(1 801)**
Capital reorganisation impact (Note 27)	**–**	**–**	**–**	**(333 645)**	**(333 645)**
Fair value adjustment on investment properties transferred to non-distributable reserve	**–**	**89 860**	**(89 860)**	**–**	**–**
Realised loss on sale of listed equity investment transferred to non-distributable reserve	**–**	**(2 086)**	**2 086**	**–**	**–**
Fair value adjustment on derivatives	**–**	**(8 289)**	**8 289**	**–**	**–**
Fair value adjustment on equity instrument	**–**	**(2 068)**	**2 068**	**–**	**–**
Distribution to shareholders (Note 32)	**–**	**–**	**(695 232)**	**–**	**(695 232)**
Distribution to Liberty Holdings Limited (Note 32)	**–**	**–**	**(19 626)**	**–**	**(19 626)**
Balance at 31 December 2018	**8 780 489**	**106 865**	**122 646**	**(426 104)**	**8 583 896**

	COMPANY			
R'000	**Capital**	**Non-distributable reserve**	**Retained surplus**	**Total**
Balance at 1 January 2018	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**(6 645)**	**(6 645)**
Issue of ordinary shares	**8 780 489**	**–**	**–**	**8 780 489**
Balance at 31 December 2018	**8 780 489**	**–**	**(6 645)**	**8 773 844**

STATEMENT OF CASH FLOWS

for the period ended December 2018

R'OOO	Notes	GROUP 2018	GROUP Restated 2017	COMPANY 2018
Cash flows from operating activities		**(495 176)**	166 030	**1**
Cash generated by operations	19	**241 233**	398 570	**1**
Interest received on financial investment	7.2	**4 665**	133 801	**-**
Bank interest received		**7 797**	1 200	**-**
Interest paid	5.4	**(2 586)**	(19 938)	**-**
Taxation paid	30.1	**(5 356)**	(15 192)	**-**
Distribution to shareholders	32	**(695 232)**	(316 597)	**-**
Distribution to Liberty Holdings Limited	32	**(45 697)**	(15 814)	**-**
Cash flows from investing activities		**(1 119 826)**	(167 820)	**(307 946)**
Expenditure on investment properties capitalised	5.2	**(185 805)**	(121 205)	**-**
Expenditure on investment properties under development	5.3	**(108)**	(43 765)	**-**
Acquisition of investment properties	5.2	**(1 196 457)**	(2 476 555)	**-**
Acquisition of investment properties under development	5.3	**(3 543)**	(36 350)	**-**
Acquisition of property, plant and equipment	28	**(661)**	(623)	**-**
Investment in financial instruments – mutual funds	7.2	**(557 074)**	2 641 304	**-**
Proceeds from disposals of financial instruments – mutual funds	7.2	**672 196**	21 000	**-**
Acquisition of subsidiary	34	**-**	–	**(307 946)**
Investment in financial instruments – equity instrument	7.2	**-**	(182 725)	**-**
Proceeds from disposal of financial instruments– equity instrument	7.2	**151 626**	31 099	**-**
Cash flows from financing activities		**1 603 739**	95	**307 946**
Transaction costs reversal/(incurred) for issue of new shares		**-**	95	**-**
Loan paid	33	**(105 913)**	–	**-**
Loans received	33	**1 709 652**	–	**307 946**
Net decrease in cash and cash equivalents		**(11 263)**	(1 695)	**1**
Cash balance at beginning of the year		**22 633**	24 328	**-**
Cash and cash equivalents at the end of the period		**11 370**	22 633	**1**

The principal accounting policies applied in the preparation of these Annual Financial Statements are set out below.

1. Accounting policies

1.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the South African Companies Act. The group financial statements include the financial statements of Liberty Two Degrees Limited (L2D) and its subsidiary companies (together referred to as the group).

1.2 Basis of consolidation

Consolidated financial statements are prepared by the parent company, L2D, using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities in the group are eliminated on consolidation. The consolidated financial statements have been prepared on the historical cost basis modified for the fair value adjustment of investment property measured in terms of IAS 40 and financial assets and financial liabilities measured in terms of IFRS9. The financial statements are prepared on the going concern basis. These are presented in Rand which is L2D Group functional currency, and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

Changes from 2017 include the adoption of IFRS 9 and IFRS 15 (disclosed in note 30) as well as the implementation of capital reorganisation accounting in relation to the corporate restructure detailed in accounting policy 1.2.2)

1.2.1 Subsidiaries

Subsidiaries are entities over which the company exercises control. The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the subsidiaries. Consolidation of subsidiaries commences from the date the investor obtains control and ceases on the date on which the investor loses control.

An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns.

1.2.1.1 Interest in subsidiary

Interests in subsidiary companies in the company financial statements comprise shares (accounted for under IAS 27) and intergroup loans (accounted for under IFRS 9). Shares are measured at cost less any required impairment (there were no indicators of impairment in 2018). Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment. Under the IFRS 9 business model assessment, for 2018, intergroup loan balances are measured at amortised cost.

1.2.2 Capital reorganisation accounting

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).

The conversion to a corporate REIT during the year is considered to be a common control transaction in that the ultimate parent company before and after the transaction is Liberty Holdings Limited. 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.

New L2D's consolidated financial statements will include 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 reorganisation is effective from 1 November 2018. The comparative information is restated because the entity reports as if it had always existed in its current form. The assets and liabilities of the existing entity are incorporated at their pre-combination carrying amounts without fair value uplift and comparatives have been restated to ensure comparability. Any premium on the purchase price over the carrying amounts of the assets and liabilities is recorded in equity as a merger reserve. As part of the restatement of the comparatives, an adjustment has been made to reverse any deferred tax assets that were previously recorded to take into account the REIT status of the group with effect from 1 November 2018.

Costs related to the acquisition, other than those associated with the issue of debt or equity instruments that the group incurs 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.

Refer to Note 2.3 which details the significant judgement applied on the capital reorganisation transaction.

1.3 Reconciliation between earnings and distributable income – group

The group 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 and development profits net of property related expenditure, finance costs not capitalised and administrative costs.

As distributable earnings is a measure of sustainable income, the group has applied the following specific exclusions in the determination of this metric:

- capital or non-recurring items;
- fair value on investment property and financial assets;
- straight-lining adjustments determined in line with IFRS; and
- transactions with related parties which are not at arm's length.

These guidelines align with the best practice recommendations established by the SA REIT Association.

Dividend distributions are recognised as a liability in the statement of financial position in the period in which the dividends are declared.

1.4 Investment property

Investment property is property held to earn rental income or for capital appreciation or both, and that is not occupied by L2D Group. Investment property also includes property that is being constructed or developed for future use as investment property.

1.4.1 Investment property

Investment property is measured initially at its cost. The cost of investment property comprises the purchase price and directly attributable expenditure . Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition, investment property is measured at fair value, which takes into account characteristics that market participants would consider at the statement of financial position date. Fair values are determined annually by external independent registered valuers on the open market value basis, which is in line with the group's valuation policy. The valuers use either the discounted cash flow method or the capitalisation of net income method or a combination of both methods to determine fair value.

Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise. The unrealised gain or loss is transferred to or from non-distributable reserves.

Immediately prior to disposal of investment property, the investment property is revalued to the net sales proceeds and such revaluation is recognised in profit or loss in the period during which it occurs.

When L2D Group begins to redevelop an existing investment property, consideration is given to whether or not the property needs to be reclassified as investment property under development or should remain as investment property, which is measured based at the fair value model.

1.4.2 Investment property under development

Investment property under development is measured at fair value if the fair value is considered to be reliably determinable.

Investment property under development for which the fair value cannot be determined reliably, but for which L2D Group expects that the fair value of the property will be reliably determinable when development is completed, is measured at cost less impairment until the fair value becomes reliably determinable or construction is completed, whichever is earlier. Development cost comprises the cost of the land and development cost.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs, are capitalised.

1.5 Equity

Issued shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of shares are shown in equity as a deduction, net of tax, from the proceeds.

1.5.1 Distributions to shareholders

L2D Group has an obligation to distribute the net amount available for distribution, to its shareholders once the distributions are declared and authorised by the board of L2D Group.

Distributions payable are recognised as a liability once the amount for distribution has been determined and declared by the board.

1.5.2 Non-distributable reserves

All unrealised gains or losses arising from the movements in fair value of investment property, fair value adjustments on investment, derivatives, post-acquisition reserves from associates, gains and losses on the sale of investment property and investments, are transferred to or from non-distributable reserves and are not available for distribution.

Distributions exclude items arising as a result of:

- capital or non-recurring items;
- fair value on investment property and financial assets;
- straight-lining adjustments determined in line with IFRS; and
- transactions with related parties which are not at arm's length.

1.6 Financial instruments

L2D Group's financial instruments consist mainly of financial investments, trade and other receivables, trade and other payables, cash and borrowings. Financial instruments are initially measured at fair value.

Financial instruments:

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are recognised in the statement of financial position when the group becomes party to the contractual provisions of the instrument. Any gains or losses on these instruments do not affect distributable earnings. Financial assets and liabilities are initially measured at fair value plus any transaction costs (other than financial instruments that are classified at fair value through profit or loss where the transaction costs incurred are immediately expensed in profit or loss). Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets:

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

The business model of L2D is to collect contractual cash flows on the financial assets in which it invests, which includes working capital balances such as cash and receivables.

The financial assets of the group are classified as follows:

- Listed securities are classified at fair value through profit or loss. The underlying investment of the listed securities is investment property and is, therefore, treated in the same way as other property investments, i.e. at fair value through profit or loss.
- Trade and other receivables are classified at amortised cost, as they give rise to sole payments of principal and interest on the principal amount outstanding.
- Other financial assets are classified either at fair value through profit or loss, or amortised cost
- Derivative assets comprising interest rate swaps are classified at fair value through profit or loss

The group derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the group commits itself to purchase or sell the asset.

Financial liabilities:

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition. Financial liabilities at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss. These instruments are initially recorded at fair value with changes in fair value subsequently recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The financial liabilities of the group are classified as follows:

- Interest-bearing borrowings are classified at amortized cost
- Derivatives, comprising interest rate swaps are held-for-trading financial instruments measured at fair value through profit or loss
- Trade and other payables are classified as other financial liabilities
- Other financial liabilities are classified either as at fair value through profit or loss or as other financial liabilities in consideration of the nature of the transaction.

The group derecognises a financial liability when the group's obligations specified in the contract expire or are discharged or cancelled. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Impairment of financial instruments:

The group applies the IFRS 9 expected credit loss (ECL) impairment model which allows for more timely recognition of credit losses. This is applied to financial assets measured at amortized cost.

The ECL model separates the assessment for impairment requirements into 3 stages:

(1) On origination of the financial instrument, 12 month ECLs are recognised.

(2) If the credit risk increases significantly and resulting credit quality is not considered low risk, full lifetime ECLs are recognised.

(3) If the credit risk increases and the asset is considered impaired, full lifetime ECLs are recognised, as in stage 2.

An impairment loss is calculated as the difference between the asset's carrying value and the present value of the estimated future cash inflows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses have been recognised on inter-company liabilities as this is payable on demand with no interest.

1. Accounting policies (continued)

1.6 Financial instruments (continued)

Derivative financial instruments:

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange risks, including interest rate swaps and forward exchange options. Derivatives are recognised and measured as described above. Further detail on derivative financial instruments is disclosed in note 32, Financial risk management.

1.6.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term with an initial term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

1.7 Leases

Properties leased to third parties under operating leases are accounted for per IAS 17 and included in investment property in the statement of financial position.

Rental revenue from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the lease period. Turnover rentals are recognised on the accrual basis.

1.8 Revenue from contracts with customers

Revenue from contracts with customers arises from transactions not associated with financial instruments, or investment properties. Revenue is recognised either when the performance obligation has been satisfied ('point in time') or as control of the goods or service is transferred to the customer ('over time'). This requires an assessment of the group's performance obligations and of when control is transferred to the customer. Where revenue is recognised over time, performance obligation over time, the group applies a revenue recognition method that faithfully depicts the group's performance in transferring control of the service to the customer. Due to the nature of the group's business, the majority of its revenue from customers is considered to be recognised 'over time'. If performance obligations in a contract do not meet the over time criteria, the group recognises revenue at a point in time. Revenue from hotel operation sales is included in this category. This is in general due to the group performing and the customer simultaneously receiving and consuming the benefits over the life of the contract as services are rendered. For each, revenue is measured based on the consideration specified in contracts with customers. Such amounts are only included based on the expected value or most likely outcome method, and only to the extent that it is highly probable that no significant revenue reversal will occur. In assessing whether a significant reversal will occur, the group considers both the likelihood and the magnitude of the potential revenue reversal. Payment terms and conditions included in customer contracts are typically due in full within 30 days. The group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18, IAS 11 and related interpretations. The impact of changes has been disclosed in note 30.

Details related to the nature and measurement of revenue are set out below:

Revenue type	Description	Nature, timing of satisfaction of performance obligations and measurement
Fee revenue	Management fees on assets under management, and property development fees.	Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.
		Development fees are recognised over the period of the contract based on percentage of completion as obtained from Quantity Surveyors
Municipal recoveries	Recovering operating costs, such as utilities, from tenants.	Utility recoveries are recognised over the period for which the services are rendered. L2D Group acts as a principal on its own account when recovering operating costs, such as utilities, from tenants.

Rental income from lease agreements is not within the scope of IFRS 15 and has thus not been included in the table above.

1.8.1 Other income

Dividend income is recognised when the right to receive payment is established.

Finance income comprises interest received and is recognised as it accrues, taking into account the effective yield on the asset.

1.9 Property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

1. Accounting policies (continued)

1.10 Letting commissions

The cost of letting commissions is recognised as an expense over the lease term, on a straight line basis. Commission costs not yet expensed are capitalised as part of investment property.

1.11 Property, plant and equipment

The equipment purchased by the Company provides it with the necessary infrastructure to operate effectively. The property, plant and equipment principally comprise computer equipment and fixtures, furniture and fittings. The assets are depreciated on a straight-line basis to the residual value. The estimated useful life applied are as follows:

• Computer equipment	3 – 5 years
• Fixtures, furniture and fittings	5 – 10 years
• Leasehold improvements	Over the lease term (2 years)

The depreciation method, useful lives and residual values are reviewed at each reporting date. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

1.12 Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's chief operating decision maker to be allocated to the segment and assess its performance; and for which discrete financial information is available.

The operating segments are determined based on L2D Group management and internal reporting structure, determined by L2D Group management committee.

L2D Group has the following operating segments:

- retail;
- office;
- specialised;
- hotels; and
- administration/other.

L2D Group will, from time to time, invest in or divest from certain operating segments, in which case segmental reporting will be adjusted to reflect only the relevant operating segments.

Segments results include revenue and expenses directly attributable to a segment and the relevant portion of L2D Group revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

1.13 Earnings per share

L2D Group presents basic earnings per share and headline earnings per share.

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the year.

Headline earnings per share is calculated by dividing the headline earnings attributable to shareholders by the weighted average number of shares in issue during the year.

There are no dilutionary instruments in issue.

1.14 Taxation

Income tax on the comprehensive income for the periods presented comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable on taxable income, after deducting the qualifying distribution for the year of assessment, using tax rates that have been enacted or substantially enacted by the reporting date, and includes adjustments for tax payable in respect of previous years. In accordance with the REIT status, dividends declared are treated as a qualifying distribution in terms of Section 25BB of the Income Tax Act, No 58 of 1962 (as amended).

(b) Deferred tax

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised on the fair value of investment properties and of listed securities. These items will be realised through sale and, in accordance with the income tax requirements relating to the REIT status, capital gains tax is no longer applicable. Deferred tax is not recognised for temporary differences that will form part of future qualifying distributions.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income tax levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

1.15 Employee benefits

Leave pay – provision

The Company recognises a liability for the amount of accumulated leave if the Company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Incentive scheme

Incentive scheme bonuses are short-term bonuses which are recognised as an expense as incurred when the Company has a present or constructive obligation and the amount can be reliably measured.

1. Accounting policies (continued)

Cash-settled share-based payments

The Company operates a long-term incentive scheme that is considered a cash-settled scheme in terms of IFRS 2. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date. The fair value is re-measured at each reporting date and at date of settlement all changes in fair value of the liability are recognised in profit or loss for the period.

1.16 New IFRS standards and amendments

1.16.1 New standards not yet effective that may significantly impact on the results or disclosures

The following new standards have been issued by the IASB, however, are not yet effective for the current financial year. L2D Group will comply with the new standards from the effective date and has elected not to early adopt any at this stage.

Standard	Scope	Potential impact to L2D Group
IFRS 16 *Leases* Effective for years commencing 1 January 2019.	The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single, on-balance-sheet lease accounting model for lessees.	The financial impact to L2D Group on adoption of IFRS 16 is not significant as L2D Group is primarily a lessor.
	IFRS 16 replaces the existing leases standard and the related interpretations.	Enhanced disclosures are required for lessors to improve information disclosed about a lessor's risk exposure, particularly to residual value risk.
	Lessor accounting	
	Substantially, lessor accounting has remained unchanged. Accordingly, a lessor continues to classify its leases as operating or finance leases and to account for those two types of leases differently.	Lessees will be required to apply judgement in deciding upon the disclosures to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial information of lessees.
	Lessee accounting	
	IFRS 16 introduces a single lessee accounting model which requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.	The Group currently has an operating lease agreement in place for rental of premises and parking in Melrose Arch. The lease is for a 24 month period effective 1 October 2018. We have used the groups incremental borrowing rate, and have calculated the right-of-use asset and corresponding lease liability to be R2 294 767 for 2019.
	A lessee recognises depreciation on the right-of-use asset and interest on the lease liability. Cash repayments of the lease liability are classified as either principal or interest repayments.	

1.16.2 Amendments and improvements to standards

Annual improvements effective 1 January 2019 and not early adopted in the year ended 31 December 2018, and amendments and annual improvements to standards that are effective annual periods beginning on or after 1 January 2019, not early adopted in the current financial year, are not expected to have a significant impact on L2D Group reported assets and liabilities and disclosures.

2. Key judgments

Key areas of judgement and sources of uncertainty

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

2.1 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 for the benefit of the unitholders 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.

IFRS 11 Joint Arrangements provides guidance for the recognition of such assets and related income 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 shared assets.

2.2 Investment properties fair value measurement

Investment properties are measured at fair value taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. These include various inputs relating to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. Judgements are made regarding the unit of account, i.e. whether it should be valued as a standalone property or as a group of properties. Two groups of properties (Sandton City Complex and Nelson Mandela Square, and the Melrose Arch precinct) are valued as one unit account under IFRS 13 *Fair Value Measurement*. Determination of fair value for a non-financial asset 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. Management derived risk adjusted discount rate factors in liquidity and asset class risk.

Refer note 10 for details of capitalisation rates and for a sensitivity analysis on the fair value of these properties to a change in the capitalisation rate assumption respectively. Given the number of management judgements applied in the valuation, these assets are considered to be level three in the fair value hierarchy.

2.3 Capital reorganisation

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 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. The reorganisation does not have any economic substance, therefore the comparative information is restated because the entity reports 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 assets and liabilities.

2.4 Classification of Hotels as investment property

L2D Group owns an undivided share in the hotel buildings, but does not directly operate the hotel buildings in the Liberty Property Portfolio.

Judgement has thus been applied in assessing the significance of ancillary services provided.

As all day-to-day operations have been outsourced, L2D Group is considered a passive investor, and have classified the hotel buildings as investment property.

2.5 Classification of income earned from hotels operations under IAS 17

The income earned from hotel operations in comparison to the rental income received is considered immaterial, and therefore management has opted to classify it as rental income under IAS 17, as opposed revenue from contracts with customers in terms of IFRS 15.

2.6 Edcon

As a result of the significant uncertainty relating to Edcon at year-end and at the time of reporting, management has made an assessment of the sensitivity as set out in note 10.

3. Headline earnings, distributable income and earnings per share

	GROUP	
R'000	**2018**	**2017**
Reconciliation of total earnings to headline earnings and distributable income		
Total earnings (basic earnings)	**640 735**	537 977
Fair value adjustment to investment properties and financial investments	**(80 762)**	(4 387)
Loss on disposal of equity instruments	**2 085**	460
Capital reorganisation adjustment (Note 27)	**(18 252)**	(23 091)
Headline earnings	**543 806**	510 959
Straight-lining of operating lease income	**1 259**	26 981
Distributed income (Unaudited)	**545 065**	537 940
	Cents	**Cents**
Earnings per share		
Basic and diluted	**70,53**	59,22
Headline	**59,86**	56,29
Distributed income	**60,00**	59,22
	Rand	**Rand**
Net asset value per share (Unaudited)	**9,45**	9,90
	000's	**000's**
Number of shares in issue	**908 443**	908 443
Weighted average number of shares in issue	**908 443**	908 443

Basic earnings per share is basic earnings attributable to shareholders divided by the weighted average number of 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 2/2015, issued by the South African Institute of Chartered Accountants at the request of the JSE, it 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.

4. Segment information

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

4.1 Segment earnings

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other (1)	Total
Property portfolio revenue	477 922	302 690	104 214	28 641	343	913 810
Rental and related income	478 602	303 121	104 362	28 641	343	915 069
Adjustment for the straight-lining of operating lease income	(680)	(431)	(148)	-	-	(1 259)
Property operating expenses	(162 163)	(102 706)	(35 361)	(24 967)	(1 960)	(327 157)
Change in expected credit losses on rental debtors	1 334	845	290	-	-	2 469
Net property income	317 093	200 829	69 143	3 674	(1 617)	589 122
Asset management fee income	-	-	-	-	63 753	63 753
Development fee income	-	-	-	-	162	162
Revenue	317 093	200 829	69 143	3 674	62 298	653 037
Other Income	-	-	-	-	4 049	4 049
Operating costs	-	-	-	-	(76 126)	(76 126)
Profit/(loss) from operations excluding fair value adjustments	317 093	200 829	69 143	3 674	(9 779)	580 960
Interest expense	-	-	-	-	(25 282)	(25 282)
Interest received	-	-	-	-	12 462	12 462
Realised loss on sale of equity	-	-	-	-	(2 085)	(2 085)
Profit before fair value adjustments	317 093	200 829	69 143	3 674	(24 684)	566 055
Net fair value adjustments on investment properties	50 064	31 708	10 917	(1 570)	-	91 119
Fair value adjustments	49 384	31 277	10 769	(1 570)	-	89 860
Adjustment for the straight-lining of operating lease income	680	431	148	-	-	1 259
Fair value adjustment on derivatives	-	-	-	-	(8 289)	(8 289)
Fair value adjustment on equity instrument	-	-	-	-	(2 068)	(2 068)
Profit/(loss) before taxation	367 157	232 537	80 060	2 104	(35 041)	646 817
Taxation	-	-	-	-	(6 082)	(6 082)
Total comprehensive income	367 157	232 537	80 060	2 104	(41 123)	640 735

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

(2) Segment earnings, assets and liabilities have been allocated to segments based on L2D's GLA.

4. Segment information (continued)

4.2 Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Investment property	5 290 029	3 350 424	1 153 531	350 393	-	10 144 377
Property, plant and equipment	-	-	-	-	745	745
Amount due from group companies	-	-	-	-	42 645	42 645
Trade receivables	105 017	66 512	22 900	55 672	27 862	277 963
Financial investment	-	-	-	-	600	600
Current tax receivable	-	-	-	-	686	686
Cash and cash equivalents	-	-	-	-	11 370	11 370
Total assets	**5 395 046**	**3 416 936**	**1 176 431**	**406 065**	**83 908**	**10 478 386**
Trade payables and other	(80 725)	(51 127)	(17 603)	(37 722)	(49 035)	(236 212)
Employee benefits	-	-	-	-	(23 372)	(23 372)
Amount due to group companies	-	-	-	-	(10)	(10)
Financial Instruments	-	-	-	-	(8 289)	(8 289)
Financial liabilities	-	-	-	-	(1 626 607)	(1 626 607)
Net assets	**5 314 321**	**3 365 809**	**1 158 828**	**368 343**	**(1 623 405)**	**8 583 896**

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

4. Segment information

December 2017 Restated

Unaudited GLA	Retail	Office	Other specialised	Hotels	Administration/ Other [(1)]	Total
Total property GLA (m^2)	500 973	332 290	38 280	–	–	871 543
L2D's share of total GLA [(2)] (m^2)	155 325	103 026	11 869	–	–	270 220

4.1 Segment earnings

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [(1)]	Total
Property portfolio revenue	382 210	253 515	29 205	–	924	665 854
Rental and related income	397 719	263 802	30 390	–	924	692 835
Adjustment for the straight-lining of operating lease income	(15 509)	(10 287)	(1 185)	–	–	(26 981)
Property operating expenses	(135 131)	(89 631)	(10 325)	–	(1 622)	(236 709)
Change in expected credit losses on rental debtors	–	–	–	–	–	–
Net property income	247 079	163 884	18 880	–	(698)	429 145
Asset management fee income	–	–	–	–	66 274	66 274
Development fee income	–	–	–	–	–	–
Revenue	247 079	163 884	18 880	–	65 576	495 419
Other Income	–	–	–	–	5	5
Operating costs	–	–	–	–	(70 418)	(70 418)
Profit/(loss) from operations excluding fair value adjustments	247 079	163 884	18 880	–	(4 837)	425 006
Interest expense	–	–	–	–	(19 938)	(19 938)
Interest received	–	–	–	–	138 144	138 144
Realised loss on sale of equity	–	–	–	–	(460)	(460)
Dividend income	–	–	–	–	5 492	5 492
Profit before fair value adjustments	247 079	163 884	18 880	–	118 401	548 244
Net fair value adjustments on investment properties	1 333	884	102	–	–	2 319
Fair value adjustments	(14 176)	(9 403)	(1 083)	–	–	(24 662)
Adjustment for the straight-lining of operating lease income	15 509	10 287	1 185	–	–	26 981
Fair value adjustment on derivatives	–	–	–	–	–	–
Fair value adjustment on equity instrument	–	–	–	–	2 068	2 068
Profit before taxation	248 412	164 768	18 982	–	120 469	552 631
Taxation	–	–	–	–	(14 654)	(14 654)
Total comprehensive income	248 412	164 768	18 982	–	105 815	537 977

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

(2) Segment earnings, assets and liabilities have been allocated to segments based on L2D's GLA.

4. Segment information (continued)

4.2 Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [(1)]	Total
Investment property	5 005 868	3 320 339	382 505	–	–	8 708 712
Property, plant and equipment	–	–	–	–	1 303	1 303
Trade receivables	75 040	49 773	5 734	–	59 378	189 925
Financial investment	–	–	–	–	269 043	269 043
Current tax receivable	–	–	–	–	1 412	1 412
Cash and cash equivalents	–	–	–	–	22 633	22 633
Total assets	5 080 908	3 370 112	388 239	–	353 769	9 193 028
Trade payables and other	(81 555)	(54 094)	(6 232)	–	(24 807)	(166 688)
Amount due from group companies	–	–	–	–	(17 008)	(17 008)
Provisions	–	–	–	–	(15 867)	(15 867)
Net assets	4 999 353	3 316 018	382 007	–	296 087	8 993 465

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

5. Investment properties

5.1 Summary

R'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018
Investment properties	5.2	**10 111 609**	8 629 809	–
Fair value net of straight-lining at the beginning of the year		**8 629 809**	5 997 200	–
Additions – property acquired		**1 196 457**	2 476 555	–
Expenditure on investment properties capitalised during the period		**145 697**	116 265	–
Fair value adjustment		**89 860**	(24 662)	–
Reclassification from investment properties under development		**49 786**	64 451	–
Investment properties under development	5.3	**32 768**	78 903	–
Fair value at the beginning of the year		**78 903**	63 239	–
Additions – property acquired		**3 543**	36 350	–
Expenditure on investment properties under development during the year		**108**	43 765	–
Reclassification to investment properties		**(49 786)**	(64 451)	–
Total investment properties		**10 144 377**	8 708 712	–

5.2 Investment properties

R'000	GROUP 2018	GROUP 2017	COMPANY 2018
Fair value of investment properties at the beginning of the year	**8 393 613**	5 809 080	–
Additions – property acquired	**1 158 787**	2 401 498	–
Additions – property acquired for cash/in exchange for shares issued	**1 196 457**	2 476 555	–
Impact of straight-lining of operating lease income on property acquired	**(37 670)**	(75 057)	–
Net fair value adjustment for the period	**91 119**	2 319	–
Fair value adjustment	**89 860**	(24 662)	–
Net movement on straight-lining operating lease income	**1 259**	26 981	–
Expenditure on investment properties during the period	**145 697**	116 265	–
Additions – capitalised subsequent expenditure	**139 784**	102 717	–
Capitalised tenant installations	**5 436**	10 823	–
Amortisation of tenant installations	**(4 397)**	(2 950)	–
Capitalised letting commission	**10 009**	7 665	–
Amortisation of letting commission	**(5 135)**	(1 990)	–
Reclassification from investment properties under development	**49 786**	64 451	–
Investment properties at fair value	**9 839 002**	8 393 613	–
Operating leases accrued adjustment			
Straight-lining balance at the beginning of the year	**236 196**	188 120	–
Straight-lining of operating lease income balance acquired	**37 670**	75 057	–
Net movement on straight-lining of operating lease income	**(1 259)**	(26 981)	–
Straight-lining of operating lease income	**272 607**	236 196	–
Total investment properties	**10 111 609**	8 629 809	–

5. Investment properties (continued)

5.3 Investment properties under development

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Fair value of investment properties under development at the beginning of the year	**78 903**	63 239	-
Additions – property acquired for cash/in exchange for shares issued	**3 543**	36 350	-
Expenditure on investment properties under development during the period			
Additions – capitalised subsequent expenditure	**108**	43 765	-
Reclassification (to) investment properties	**(49 786)**	(64 451)	-
Total investment properties under development	**32 768**	78 903	-
Total investment properties	**10 144 377**	8 708 712	-
5.4 Interest Expense	**(19 737)[1]**	(19 938)[2]	-

(1) Interest incurred on loan obtained to acquire additional undivided share of property on 1 November 2018.

(2) Interest paid to LGL in relation to the period between the effective date of the exercise of the put option and the cash settlement date.

5.5 Basis of valuation

The full investment properties portfolio was independently valued as at 31 December 2018 in line with the group's valuation policy by professional valuers, namely Broll Valuation and Advisory Services and Jones Lang LaSalle Proprietary Limited, all of which are registered valuers in terms of the Property Valuers Professional Act, No 47 of 2000.

The valuation of the properties is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and in accordance with the Royal Institution of Chartered Red Book, adapted for South African law and conditions.

Key assumptions

- capitalisation rate
- discount rate

Other assumptions

- annual rental and operating escalation
- annual cost escalation

Commentary on capitalisation rates:

The capitalisation rate is best determined by referring to market transactions of comparable properties as it is based on information derived from market analysis. The capitalisation rate must take the prevailing interest rate into consideration. The higher the interest rate, the better return an investor will require. Similarly, risk is another factor that will influence the capitalisation rate. The higher the risk factor, the better the return an investor will require. The risk inherent to income producing properties is the degree of certainty that the income stream will be realised despite the uncertainty of the future.

Commentary on discount rates:

The discount rate is the minimum annual return requirement and is calculated by adding a risk premium to an estimated risk-free rate of return. The risk premium takes into account liquidity risk and property risk (risks of structural change or market failure).

Commentary on rental and operating expenses annual growth rates:

The annual growth escalations are based on current achievable rentals. Expenditures are based on information received from local authorities and experience with actual growth achieved and expectations as per market comparables of future increases based on budgets.

5. Investment properties (continued)

5.5 Basis of valuation (continued)

Valuation technique and significant unobservable inputs

Valuation techniques:

The basis of value is 'fair value' which is defined as an opinion of the best price (adopting the highest and best use principle) at which the sale of an interest in property, taking into account existing tenant lease terms, would have been completed unconditionally for a cash consideration on the date of valuation assuming:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as at the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the capitalisation rate is applied as at 31 December 2018. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2018. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow.

Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current South African long-term bond yield (R204 risk free rate) and the relative attractiveness that an investor may place on property as an asset class.

Significant unobservable input:

- exit capitalisation rate: 6.5% – 10.0% (2017: 6.5% – 9.0%)
- discount rate: 12.5% – 15.0% (2017: 12.5% – 14.5%)

Other inputs:

- annual growth escalation: 4.5% – 6.0% (2017: 5.0% –10.0%)
- vacancy: 0% – 2.5% (2017: 0.5% – 3.0%)

Inter-*relationship between key unobservable inputs and fair value measurements: The estimated fair value would increase/(decrease) if:*

- exit capitalisation rate was lower/(higher);
- annual growth escalation was higher/(lower); and
- vacancy and bad debt percentage escalation was lower/(higher).

6. Trade and other receivables

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Trade and other receivables include the following:			
Property debtors	**223 795**	171 933	**–**
Insurance claim outstanding	**55**	–	**–**
Municipal deposits	**1 439**	1 270	**–**
Loan with Liberty Group Limited	**63 619**	54 488	**–**
Trade debtors	**111 609**	44 141	**–**
Other receivables [(1)]	**10 143**	35 252	**–**
Tenant arrears	**30 863**	24 985	**–**
Profit distributions for current month	**3 795**	9 572	**–**
Melrose Arch rates clearance payment	**168**	–	**–**
Loan with Melrose Arch Property Owners Association	**2 105**	2 225	**–**
Accrued income	**2 307**	2 030	**–**
Prepayments:	**–**	–	**–**
– Insurance	**2 596**	1 937	**–**
– Other	**–**	25	**–**
Impairment of tenant arrears	**(6 407)**	(8 876)	**–**
Receivable from sale of listed investment	**–**	14 434	**–**
Hotel debtors	**55 672**	–	**–**
Value added tax receivable	**–**	8 442	**–**
Total trade and other receivables	**277 963**	189 925	**–**

6. Trade and other receivables (continued)

6.1 Impairment losses on trade and lease receivables

The group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

	GROUP								COMPANY			
R'000	2018				2017				2018			
	Hotel debtors	Fee income receivable	Accrued income	Trade debtors	Hotel debtors	Fee income receivable	Accrued income	Trade debtors	Hotel debtors	Fee income receivable	Accrued income	Trade debtors
Opening impairment loss allowance under IFRS 9	–	–	–	(8 876)	–	–	–	–	–	–	–	–
Increase/(Decrease) in loss allowance recognised in profit or loss during the period	–	–	–	2 469	–	–	–	(8 876)	–	–	–	–
Unused amount reversed												
Closing loss allowance	–	–	–	(6 407)	–	–	–	(8 876)	–	–	–	–

These balances were previously at amortised cost in terms of IAS 39, and have not changed under IFRS 9.

The group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

6.2 Other debtors

Rm	ECL rate %	Gross carrying amount	Impairment allowance	Net carrying amount
Current		193 455	–	193 455
1 – 30 days past due	1,28	12 354	(159)	12 195
31 – 60 days past due	12,68	5 060	(641)	4 419
61 – 90 days past due	26,80	1 812	(486)	1 326
More than 90 days past due	46,05	11 114	(5 121)	5 993
		223 795	(6 407)	217 388

6.3 Write-off policy for fee income receivable, accrued income, hotel, trade and inter-company debtors

Fee income receivable, accrued income, hotel, trade and inter-company debtors is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Hotel debtors are considered current debtors. The ECL calculation performed considered forward looking information and determined that the ECL adjustment is immaterial.

7. Financial assets held at fair value through profit and loss

7.1 Financial assets comprise:

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Financial assets at fair value through profit or loss (default)			
Equity instruments	**-**	153 693	**-**
Listed	**-**	153 693	**-**
Unlisted	**-**	–	**-**
Mutual funds	**600**	115 350	**-**
Listed	**-**	–	**-**
Unlisted	**600**	115 350	**-**
Total financial assets at fair value through profit and loss	**600**	269 043	**-**
Total financial assets	**600**	269 043	**-**

7.2 Movement analysis of financial assets:

	2018			2017		
	Fair value through profit or loss			Fair value through profit or loss		
R'000	**Mutual funds**	**Equity instruments**	**Total**	**Mutual funds**	**Equity instruments**	**Total**
Balance at the beginning of the year	**115 349**	**153 694**	**269 043**	**2 850 373**	**-**	**2 850 373**
Additions	**550 277**	**-**	**550 277**	**525 276**	**182 725**	**708 001**
Disposals	**(675 901)**	**(149 541)**	**(825 442)**	**(3 394 100)**	**(30 639)**	**(3 424 739)**
Interest earned on investment	**10 875**	**-**	**10 875**	**133 800**	**-**	**133 800**
Realised loss on sale of equity	**-**	**(2 085)**	**(2 085)**	**-**	**(460)**	**(460)**
Fair value adjustment – through profit and loss	**-**	**(2 068)**	**(2 068)**	**-**	**2 068**	**2 068**
Balance at the end of the year	**600**	**-**	**600**	**115 349**	**153 694**	**269 043**

8. Cash and cash equivalents

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Cash at bank and on hand	**11 370**	22 633	**1**

9. Trade and other payables

R'000	GROUP 2018	GROUP 2017	COMPANY 2018
Trade and other payables include the following:			
Trade creditors	**15 977**	4 457	**-**
Tenant deposits	**27 744**	25 558	**-**
Municipal charges	**42 928**	10 748	**-**
Unredeemed gift cards	**27 279**	23 734	**-**
Accruals:			
– Audit fees	**1 104**	983	**-**
– Printing and publishing costs	**223**	343	**-**
– Valuation costs	**850**	11	**-**
– Listing costs	**1 000**	1 000	**-**
– Capital calls	**10 442**	12 288	**-**
– Property sundry accruals	**13 473**	–	**-**
– Outsourced services	**332**	12 422	**-**
– Other	**18 773**	10 049	**601**
Sundry payables			
– Income received in advance	**24 838**	42 365	**-**
– Value added tax payable	**8 695**	–	**-**
– Merchant loan accounts	**-**	1 990	**-**
– Hotel sundry creditors	**24 889**	–	**-**
– Property sundry creditors	**17 615**	20 740	**-**
– Other	**50**	–	**-**
Total trade and other payables	**236 212**	166 688	**601**
Current	**236 212**	166 688	**601**
Non-current	**-**	–	**-**

10. 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).

10. Fair value hierarchy for financial instruments and investment property (continued)

Fair value hierarchy for financial instruments and investment properties

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

	Year ended 31 December 2017			
Assets (R'000)	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Investment properties	8 629 809	–	–	8 629 809
Investment property under development	78 903	–	–	78 903
Financial investments	269 043	–	269 043	–
	8 977 755	–	269 043	8 708 712

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.

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 investments 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
1	Listed equity	Listed price	Price-not applicable
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Price-not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Price-not applicable
3	Investment properties	Discounted cash flow	Refer note 5 for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

10. 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	2018	2017
Investment property and investment property under development		
Fair value at the beginning of the year	**8 708 712**	6 060 439
Additions – property acquired	**1 200 000**	2 512 905
Capitalised cost	**145 805**	160 030
Fair value adjustments (unrealised)	**89 860**	(24 662)
Closing balance at the end of the year	**10 144 377**	8 708 712

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

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair values were derived by determining sustainable net rental income, to which an appropriate capitalisation rate is applied. Capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

The capitalisation rates applied at 31 December 2018 range between 6,25% and 9,5%. This compares to the R186 government bond yield of 8,89%. The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate.

The table below indicates the sensitivity of the aggregate market values for a 100bps (2017: 100 bps) change in the capitalisation rate.

	Change in capitalisation rate		
2018	**Rm**	**100bps increase**	**100bps decrease**
Properties below 6,8% capitalisation rate	**8 957**	**7 752**	**10 605**
Properties between 6,8% – 8,5% capitalisation rate	**499**	**444**	**570**
Properties between 8,6% – 9,5% capitalisation rate	**688**	**620**	**77**
Total	**10 144**	**8 816**	**11 252**

	Change in capitalisation rate		
2017	**Rm**	**100bps increase**	**100bps decrease**
Properties below 6,8% capitalisation rate	6 980	6 035	8 275
Properties between 6,8% – 8,5% capitalisation rate	1 515	1 334	1 755
Properties between 8,6% – 10,5% capitalisation rate	214	196	237
Total	8 709	7 565	10 267

The table below indicates the sensitivity of the aggregate market values for a 50 bps (2017: 50 bps) change in the discount rate. (excludes hotel buildings).

	Change in discount rate		
2018	**Rm**	**50bps increase**	**50bps decrease**
Total property portfolio	**9 794**	**9 601**	**9 969**

	Change in discount rate		
2017	**Rm**	**50bps increase**	**50bps decrease**
Total property portfolio	8 678	8 494	8 845

10. Fair value hierarchy for financial instruments and investment property (continued)

Impact on valuations as a result of media reports relating to Edcon

During December 2018, Edcon requested a commercial contribution from its landlords over a 24 month period commencing 1 April 2019 in return for an equity subscription. The proposal further required contributions from its lender group as well as a new equity subscription from an institutional investor. At year-end, and at the time of reporting, significant uncertainty remains on whether the proposal will be accepted by all stakeholders as various conditions precedent have not been met. Based on the proposal and subsequent information provided by Edcon, L2D management believe that the restructure proposed is likely to be successful if all the conditions are met. At the time of approval of these financial statements the restructure had not been finally agreed.

Management has considered and evaluated two scenarios proposed by Edcon:

Scenario 1

- Base case with 40.9% rental reduction and receipt of equity for rental forfeited.
- Impact on property valuation – estimated at R32.5million decrease in portfolio valuation.
- Market value of equity received – to be determined.
- Impact on distribution – estimated at 1 to 1.5% decrease on forecasted distribution.
- L2D is unlikely to accept this scenario.

Scenario 2

- Equity subscription in Edcon with rental remaining at the current level.
- Impact on property valuation – no impact on portfolio valuation if equity subscription and rental agreement are not linked.
- Value of equity received and impact on distribution – dependent on the equity instrument and related measurement with potentially no impact on distributions.

Management is actively monitoring developments relating to Edcon and plans are in place to mitigate any potential adverse impact. Management concluded that no adjustment should be made to the year-end valuations in line with the second scenario which assumes that Edcon will remain a going concern.

11. Stated capital

	GROUP		COMPANY
R'000	**2018**	**2017 Restated**	**2018**
Authorised capital			
5 000 000 000 ordinary shares of no par value (2017: unlimited shares)	**-**	–	**-**
Issued capital			
908 443 335 ordinary shares of no par value (2017: 908 443 335 shares)	**8 782 290**	8 782 290	**8 782 290**
Transaction costs reversal for issue of new shares [(1)]	**(1 801)**	–	**(1 801)**
Balance at 31 December 2018	**8 780 489**	8 782 290	**8 780 489**

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Ordinary shares of no par value			
Balance at the beginning of the year	**908 443**	908 443	**908 443**
Capital reorganisation	**-**	–	**-**
Issued during the year	**-**	–	**-**
Balance at 31 December 2018	**908 443**	908 443	**908 443**

(1) Restated for effects of capital reorganisation

12. Non-distributable reserve

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Components of the non-distributable reserve			
Balance at the beginning of the period	**29 448**	52 502	**–**
Fair value adjustment on investment property	**89 860**	(24 662)	**–**
Fair value adjustment on derivatives	**(8 289)**	–	**–**
Fair value adjustment on equity instrument	**(2 068)**	2 068	**–**
Realised loss on disposal of equity instrument	**(2 085)**	(460)	**–**
Total non-distributable reserve	**106 866**	29 448	**–**

13. Rental and related income

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Property rental	**634 705**	480 567	**–**
Recoveries	**223 729**	166 075	**–**
Parking income	**36 893**	31 268	**–**
Interest Income	**3 210**	2 603	**–**
Fund level income	**341**	924	**–**
Marketing income – Tenant and alternative income	**16 191**	11 398	**–**
Total rental and related income	**915 069**	692 835	**–**

14. Property operating expenses

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Advertising and promotions	**(5 449)**	(2 935)	**–**
Cleaning	**(13 263)**	(10 765)	**–**
Amortisation on tenant installation and letting commission	**(9 532)**	(4 939)	**–**
Insurance	**(3 680)**	(2 712)	**–**
Legal fees	**(368)**	(720)	**–**
Municipal charges	**(190 884)**	(135 579)	**–**
Property management fees	**(24 909)**	(18 888)	**–**
Repairs and maintenance	**(18 122)**	(15 677)	**–**
Salaries	**(30 083)**	(16 663)	**–**
Security	**(19 473)**	(18 818)	**–**
Bad debt provision	**–**	(7 320)	**–**
Other	**(11 394)**	(1 693)	**–**
Total property operating expenses	**(327 157)**	(236 709)	**–**

15. Operating expenses

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Audit fee	**(1 173)**	(1 011)	**–**
Property valuation fees	**(843)**	(621)	**–**
Trustee fee	**(472)**	(561)	**–**
Printing and publishing costs	**(1 026)**	(435)	**–**
Legal costs	**(484)**	(804)	**–**
Annual listing cost	**(423)**	(13 225)	**–**
Employee costs	**(43 657)**	(37 080)	**–**
Office costs	**(22 584)**	(16 117)	**–**
Asset management fee	**(198)**	(196)	**–**
Other	**(5 266)**	(368)	**(610)**
Total operating expenses	**(76 126)**	(70 418)	**(610)**

16. Revenue from contracts with customers

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Fee revenue	**63 915**	66 274	**–**
Management fees on assets under management	**63 753**	66 274	**–**
Other fee revenue	**162**	–	**–**
Total fee income	**63 915**	66 274	**–**
Total revenue from contracts with customers (1)	**63 915**	66 274	**–**

(1) There are no performance obligations that aren't satisfied (or partially unsatisfied) as at the end of the reporting period.

17. Other income

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Other income	**4 049**	–	**–**
Recovery of Standard Bank success fee from Liberty Holdings Limited	**3 750**	–	**–**
Recovery of office costs from STANLIB Property Development (Pty) Ltd	**299**	–	**–**
Total fee income	**4 049**	–	**–**
Total other income	**4 049**	–	**–**

18. Capital commitments

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Equipment			
Under contracts	**393**	–	**–**
Authorised by the directors but not contracted	**3 231**	–	**–**
Investment properties			
Under contracts	**23 116**	6 016	**–**
Authorised by the directors but not contracted	**193 365**	138 727	**–**
Capital improvements on existing properties			
Under contracts	**204 117**	98 662	**–**
Authorised by the directors but not contracted	**8 906**	147 272	**–**
Closing balance	**433 128**	390 677	**–**
The capital commitments have been classified into the following categories:			
– within 12 months	**433 128**	390 677	**–**
– longer than 12 months	**–**	–	**–**

19. Cash generated from operations

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Total earnings	**646 818**	552 631	**(6 645)**
Adjusted for:	**–**	–	**–**
– Interest received	**(12 462)**	(138 144)	**–**
– Interest expense	**25 282**	19 938	**6 035**
– Amortisation of tenant installation and letting commission	**9 532**	4 939	**–**
- Transaction costs	**173**	–	**–**
– Depreciation	**1 219**	247	**–**
– Sundry income	**–**	(5)	**–**
– Fair value adjustment on investment properties	**(89 860)**	24 662	**–**
– Fair value adjustment on financial instrument	**8 289**	–	**–**
– Fair value adjustment on equity instrument	**2 068**	(2 068)	**–**
Working capital changes	**(349 826)**	(63 630)	**611**
(Increase)/Decrease in trade and other receivables	**(124 404)**	(75 343)	**–**
(Increase)/Decrease in amounts due from group companies	**(157 927)**	900	**10**
Increase/(Decrease) in employee benefits	**7 504**	14 130	**–**
Increase/(Decrease) in trade and other payables	**(74 999)**	(3 317)	**601**
Total cash generated from operations	**241 233**	398 570	**1**

20. Distribution to shareholders

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Amounts unpaid at the beginning of the year	**–**	–	**–**
Distribution declared to shareholders during the year	**(695 232)**	(332 411)	**–**
Distribution declared to Liberty Holdings Limited	**(19 628)**	–	**–**
Effects of capital reorganisation (SRFM distribution)	**(26 069)**	–	**–**
Amounts unpaid at the end of the year	**–**	–	**–**
Total distribution to shareholders	**(740 929)**	(332 411)	**–**

21. Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Limited.

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 Annual Financial Statements of LGL. Notably, STANLIB REIT Fund Managers (RF) Proprietary Limited and 2 Degrees Properties, are wholly-owned subsidiaries of L2D.

Transactions with related entities

Transactions with L2D CISIP

Liberty Two Degrees (Old L2D) sold of all of its business assets and liabilities (other than the liability in relation to the final distribution and assets necessary to settle the final distribution) to 2 Degrees Properties Proprietary Limited (2DP), being a wholly-owned subsidiary of New L2D.

Transactions with LGL

Acquisition of properties

LGL sold to L2D Group further undivided shares in the LPP properties (and letting businesses carried on thereon) that it co-owns to the value of R1,2 billion.

Liberty Centre Head Office Cape Town

83.1% of the property is let to LGL, a fellow subsidiary of L2D Group. Rental income received by L2D Group for the year ended 31 December 2018 was R11,7 million (2017: R11,6 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 76.1% of the property is let to LGL on a five-year lease.

Rental income received by L2D Group for the year ended 31 December 2019 was R9,3 million (2017: R6,0 million).

Eastgate Office Tower

LGL took occupation of 2 790 m^2 office space in the Eastgate Office Tower during the year. Rental income received by L2D Group for the year ended 31 December 2018 was R1,4 million.

STANLIB Property Development Proprietary Limited

Development fees amounting to R3,8 million was earned during 2018.

R3,1 million of the income earned was paid to STANLIB Property Development Proprietary Limited in 2018, and capitalised to the relevant development projects.

Mrs A Beattie was a director of STANLIB Property Development Proprietary Limited, but resigned effective 1 November 2018.

Loan with LGL

As at 31 December 2018, R38,3 million is owed by LGL (2017: R54,5 million).

This amount is the L2D Group proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits. 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 (STANLIB), as a lessee, paid an amount of R4,3 million (2017: R3,9 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

2DP sub-leases a portion of these offices from STANLIB.

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, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction, the Standard Bank Centre and Botshabelo Mall. Amdec continues to manage the Melrose Arch precinct. Amdec is not a related party of the group.

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

Mrs A Beattie was a director of both JHI (resigned effective 12 July 2018) and the Manager (STANLIB REIT Fund Managers (RF) Proprietary Limited) during the period. Property management service net fees paid by L2D Group to JHI Retail for the year ended 31 December 2018 amounted to R24,9 million (2017: R18,3 million).

Loan with STANLIB Asset Management Limited

As at 31 December 2018, R10,158 is owed to STANLIB Asset Management Limited (2017: R201,064).

Loan with Standard Bank

L2D Group entered into a revolving credit facility with Standard bank, effective 1 November 2018.

As at 31 December 2018, R861 million is owed to Standard Bank.

21. Related party disclosure (continued)

Consolidate unit trusts

The following STANLIB unit trusts, which are consolidated at LHL, have shares in L2D Group as follows:

2018 Fund name	Liberty economic holding in fund (%)	Number of L2D Group units ('000)	Market value of L2D Group units (R'000)
STANLIB Multi-Manager Property	**66**	**1 414**	**9 772**
STANLIB Multi-Manager Flexible Property	**48**	**550**	**3 801**
STANLIB Multi-Manager Defensive Balanced Fund	**95**	**100**	**690**
STANLIB Multi-Manager Equity Fund	**82**	**62**	**428**
STANLIB Quants Fund	**60**	**4**	**31**
STANLIB Capped Property Index Tracker Fund	**94**	**234**	**1 614**
STANLIB Property Income Fund	**35**	**12 662**	**87 494**
Total		**15 026**	**103 830**

2017 Fund name	Liberty economic holding in fund (%)	Number of L2D Group units ('000)	Market value of L2D Group units (R'000)
STANLIB Multi-Manager Property	68	1 992	16 635
STANLIB Institutional Property	54	8 793	73 422
STANLIB Multi-Manager Flexible Property	49	804	6 710
STANLIB Multi-Manager Defensive Balanced Fund	96	104	871
STANLIB Multi-Manager Equity Fund	83	53	444
STANLIB Quants Fund	52	4	32
Total		11 750	98 114

Transactions with Standard Bank

Standard Bank Centre

The Standard Bank Centre is fully let to Standard Bank on a seven-year lease. Rental income received by L2D Group for the year ended 31 December 2018 was R18,1 million (2017: R11,8 million).

21. Related party disclosure (continued)

Key management personnel

Directors remuneration

Non-executive directors' remuneration – 2018

R	Directors of L2D	Other Liberty group [(1)]	Total remuneration
Director			
AWB Band	**787 500**	**1 669 325**	**2 456 825**
W Cesman[(2)]	**821 936**	**-**	**821 936**
L Ntuli	**493 500**	**-**	**493 500**
B Azizollahoff	**175 000**	**-**	**175 000**
Z Adams	**131 250**	**-**	**131 250**
Total	**2 409 186**	**1 669 325**	**4 078 511**

Non-executive directors' remuneration – 2017

R	Directors of L2D	Other Liberty group [(1)]	Total remuneration
Director			
AWB Band	312 500	1 590 050	1 902 550
MG Ilsley[(3)]	332 500	923 342	1 255 842
W Cesman[(2)]	793 587	–	793 587
MP Moyo[(4)]	187 500	258 550	446 050
L Ntuli	133 333	–	133 333
Total	1 759 420	2 771 942	4 531 362

(1) Other Liberty group is defined as Liberty Holdings Limited and its subsidiaries excluding L2D.

(2) Mr W Cesman received a composite fee of £46 350 for the 2018 year (2017: £45 000)

(3) Resigned 31 July 2017

(4) Resigned 3 April 2017

Executive directors' remuneration

A Beattie (CE)	2018 R'000	2017 R'000	% change
Fixed remuneration	**3 227**	2 806	15.0
Cash portion of package	**2 705**	2 347	
Other benefits	**122**	137	
Retirement contributions	**400**	322	
Annual variable awards	**4 357**	2 250	93.7
Cash	**3 350**	1 875	
Restricted Share Plan (deferred plan)	**1 007**	375	
Long-term awards	**2 170**	278	681.3
Restricted Share Plan (deferred plan)	**1 204**	–	
Distribution	**966**	278	
Total remuneration	**9 754**	5 334	82.9

21. Related party disclosure (continued)

Directors remuneration (continued)

Executive directors' remuneration (continued)

J Snyders (FD)	2018 R'000	2017 R'000	% change
Fixed remuneration	**2 576**	2 066	24.6
Cash portion of package	**2 199**	1 768	
Other benefits	**102**	92	
Retirement contributions	**275**	206	
Annual variable awards	**3 000**	1 750	71.4
Cash	**2 400**	1 500	
Restricted Share Plan (deferred plan)	**600**	250	
Long-term awards	**592**	2 566	(76.9)
Restricted Share Plan (deferred plan)	**-**	1 023	
Sign-on bonus	**-**	1 500	
Distribution	**592**	43	
Total remuneration	**6 168**	6 382	(3.4)

J Sturgeon (Outgoing FD)	2018 R'000	2017 R'000	% change
Fixed remuneration	**-**	3 443	
Cash portion of package	**-**	2 936	
Other benefits	**-**	317	
Retirement contributions	**-**	190	
Annual variable awards	**-**	1 000	
Cash	**-**	900	
Restricted Share Plan (deferred plan)	**-**	100	
Long-term awards	**-**	573	
Restricted Share Plan (deferred plan)	**-**		
Distribution	**-**	573	
Total remuneration	**-**	5 016	

(1) Mr J Sturgeon served as the Financial Director until he was replaced by Mr J Snyders, effective 23 March 2017.

Includes salary from 1 January – 22 March 2017 in respect of the L2D Group, and for the period 23 March – 31 December 2017 in respect of services to Liberty Holdings Limited.

Share incentive scheme

L2D has adopted a bonus and incentive scheme for its employees.

At 31 December 2018, the L2D Group Restricted Share Plan Trust (L2D Group Trust) has been formalised and approved by the board of directors. However, the trust has yet to acquire the shares and in terms of IFRS 2 the share-based payments transactions are treated as cash-settled until the shares are purchased.

22. Financial risk management

L2D Group is exposed to market risk, liquidity risk and credit risk. While risk management is the responsibility of the Board of Directors, the board has delegated the responsibility for overseeing implementation of the board risk management policy to the audit and risk committee, which in addition hereto will also assist the board in developing the policy.

22.1 Property market risk

Market risk is the risk of adverse financial impacts due to changes in fair values of future cash flows, in particular for L2D Group, from fluctuations in property values and/or rental income. L2D Group is exposed to tenant default, depressed market rentals and unlet space affecting property values and rental income. The managed diversity of the property portfolio and the existence of multi-tenanted buildings specifically reduces the exposure to this risk. Refer to note 4 Segment information and note 5 Investment properties, for detail on concentration risk.

22.2 Liquidity risk

Liquidity risk is the risk that L2D Group is not able to meet its payment obligations as they fall due. Over 97% of L2D Group's assets are invested in illiquid assets.

Illiquid assets are those that are considered to be realisable in excess of six months. Liquidity is subject to a sale of investment property and related time frame.

The L2D Group made use of R1.5 billion of term facilities as part of the conversion transaction during the year.

The table below summarises the maturity profile of the financial instrument liabilities based on the remaining undiscounted liabilities.

Liquidity requirements are managed by monitoring forecasted cash flows and the maturity profile of financial liabilities.

Year ended 31 December 2018

Figures in R'000	Less than one year	One to five years	More than five years	Total
Financial liabilities				
Interest – bearing borrowings	**603 911**	**1 000 000**	**-**	**1 603 911**
Interest payable on interest borrowings	**139 737**	**565 525**	**-**	**705 262**
Interest rate swap	**8 289**	**-**	**-**	**8 289**
Other financial liabilities	**1 294**	**7 627**	**-**	**8 921**
Trade and other payables	**236 212**	**-**	**-**	**236 212**
	989 443	**1 573 152**	**-**	**2 562 595**

Year ended 31 December 2017

Figures in R'000 *Restated*	Less than one year	One to five years	More than five years	Total
Financial liabilities				
Interest – bearing borrowings	–	–	–	–
Interest accrual on interest borrowings	–	–	–	–
Other financial liabilities	4 491	–	–	4 491
Trade and other payables	166 688	–	–	166 688
	171 179	–	–	171 179

22.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. L2D Group is exposed to credit risk on its financial assets such as financial investments, trade and other receivables and cash and cash equivalents. The risk arises due to a change in credit rating of the counter party subsequent to L2D Group obtaining the financial assets. Refer to note 6 and note 10 for details of credit risk exposure. L2D has formal policies and procedures in place to ensure management of credit risk. A formal credit assessment is performed for all new tenants and lease contracts are entered into with tenants with an appropriate credit history. Credit risk is managed by requiring tenants to pay rentals in advance, plus the provision of a deposit of at least one month's rental. Outstanding tenants' receivables are regularly monitored. Sundry debtors are included in trade and other receivables and relate to normal tenant debtors. These are included as part of the ECL assessment and normal credit terms of debtors.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. There is no significant concentration of credit risk as exposure is spread over a large number of counterparties.

22. Financial risk management (continued)

The credit risk exposure to mutual funds and equity instruments is assessed on an ongoing basis with reference to the counterparties. L2D Group's only deposits cash with financial institutions that have high quality credit standings.

22.4 Market risk

Interest rate risk

The group is exposed to interest rate risk through its variable rate cash balances and interest-bearing borrowings.

The group reduces its exposure to changes in interest rates by fixing interest rates in respect of its borrowings.

This is achieved by entering into swap agreements to receive variable and pay fixed interest rates at year end. 33% of borrowings have been fixed through interest rate hedging.

23. Capital management

In terms of the Memorandum of Incorporation, L2D Group has limited borrowings to 60% of the consolidated asset value, determined on the last published valuation for L2D Group in the most recent audited financial statements of the group adjusted for any subsequent changes in the value of L2D Group in accordance with IFRS and taking into account the value of any property to be acquired using a loan. L2D Group's LTV target is 35%.

The group's property assets are made up of investment property

R'000	2018	2017
Property Assets	**10 144 377**	8 708 712
Interest bearing borrowings (net of cash on hand) including rolling credit facility	**1 615 237**	–
Loan to value (%)	**16%**	–

The board's policy is to maintain a strong capital base, comprising its shareholders' interest, so as to maintain investor, creditor and market confidence and to sustain future development of the business. It is the group's stated purpose to deliver long-term sustainable growth in dividends per share. The board of directors monitors the level of dividends to shareholders and ensures compliance with the Income Tax Act and the JSE Listings Requirements. There were no changes in the group's approach to capital management during the year.

SRFM is required to maintain a Capital Adequate Reserve of R600 000 which has not been breached.

24. Minimum lease payments receivable

R'000	2018
Minimum lease payments comprise contractual rental income and operating expense recoveries from investment property.	
The minimum lease payments receivable from tenants have been classified into the following categories:	
– Short term (up to one year)	**606 576**
– Medium term (greater than one year and up to five years)	**1 307 479**
– Long term (greater than five years)	**667 065**

25. Employee benefits liabilities

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Liabilities			
Leave pay	**752**	267	**-**
Staff incentive liability	**15 599**	11 000	**-**
Long term incentive	**7 021**	4 600	**-**
Total liability	**23 372**	15 867	**-**

25. Employee benefits liabilities (continued)

Analysis of employee benefits

	GROUP		COMPANY	GROUP		COMPANY	GROUP	
	Leave pay			Staff incentive			Long term incentive	
R'000	**2018**	**2017**	**2018**	**2018**	**2017**	**2018**	**2018**	**2017**
Balance at the beginning of the year	**267**	837	**-**	**11 000**	900	**-**	**4 600**	-
Additional provision raised	**1 513**	3 436	**-**	**28 599**	10 100	**-**	**2 421**	4 600
Utilised during the year	**(1 028)**	(4 006)	**-**	**(24 000)**	-	**-**	**-**	-
Balance at the end of the year	**752**	267	**-**	**15 599**	11 000	**-**	**7 021**	4 600

Leave pay

In terms of the Company policy, employees are entitled to accumulate a maximum of 20 days compulsory leave ad 20 discretionary leave. The compulsory leave has to be taken within 18 months of earning it, failing which it is forfeited. Only discretionary leave can be sold back to the company.

Staff incentive scheme (cash settled)

In terms of the Company remuneration policy, all permanent employees are eligible to receive incentives in terms of various board approved incentive schemes. These schemes recognise both individual and financial performance of the company.

Long-term incentive scheme

Awards are in the format of fully paid-up shares in L2D which are to be held in a trust subject to vesting conditions (service and performance) and will be forfeited if these conditions are not met during the performance measurement period. The vesting periods are on the 3, 4 and 5 year anniversary of the grant date. Applicable distributions are paid to participants as and when paid by L2D Group. No voting rights are attached to the shares held in the trust.

As 31 December 2018, the trust has been formalised and approved by the board of directors, however, the trust has yet to acquire the shares and in terms of IFRS 2 the share-based payment transactions are treated as cash-settled until the shares are purchased. The liability at year end was calculated based on the shares granted, the portion of the vesting period that has passed and the share price at 31 December 2018 ("intrinsic value").

The following table shows the shares granted and outstanding at the beginning and end of the reporting period:

	2018 Number of shares	**2017 Number of shares**
As at 1 January	**1 057 606**	576 315
Granted during the year	**1 719 699**	1 115 571
Vested during the year	**-**	-
Forfeited during the year	**-**	(634 280)
As at 31 December	**2 777 305**	1 057 606

26. Amounts due (to)/from group companies

26.1 Amounts due (to) group companies

	Group		Company
R'000	**2018**	**2017**	**2018**
STANLIB Asset Management Limited	**(10)**	(201)	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			
Liberty Holdings Limited	**-**	(4 290)	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			
Liberty Group Limited	**-**	(12 517)	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			
Total asset/(liability)	**(10)**	(17 008)	**-**

26.2 Amounts due from group companies

	Group		Company
R'000	**2018**	**2017**	**2018**
STANLIB Asset Management Limited	**-**	–	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			
Liberty Holdings Limited	**4 313**	–	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			**-**
Liberty Group Limited	**38 332**	–	**-**
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the Company is solvent.			
Total asset/(liability)	**42 645**	–	**-**

27. Mergers/capital reserve

All equity elements have been restated to include the manager and the impact of the conversion to a corporate REIT from the earliest period presented.

Since no cash was paid in 2016 for the transactions, a difference arises between the net assets acquired and the combined equity post the restructure.

The difference of R92 million is taken to the mergers/capital reserve in equity since no goodwill is recognised. This represents the change in net asset value since inception of old L2D and SRFM.

The mergers capital reserve account as at 31 December 2016 was calculated as follows:

	OLD L2D CISIP	STANLIB REIT Fund Managers (RF) Proprietary Limited	Total	Capital reorganisation reserve	Total Equity per Statement of Financial Position
Share capital	8 663 855	25 976	8 689 831	92 459	8 782 290
Non distributable reserve	52 502	–	52 502	–	52 502
Retained Earnings	44 063	1 756	45 819	–	45 819
Equity	8 760 420	27 732	8 788 152	92 459	8 880 611
Net assets and liabilities as at 31 December 2016					8 788 152
Mergers/Capital reserve as at 31 December 2016					(92 459)

There were no movements in the mergers/capital reserve in 2017. In 2018 cash of R307 million was paid for the purchase of the manager. However, since the capital reorganisation accounting occurred in the earliest period presented, the difference has been recognised in the mergers/capital reserve in equity. Furthermore, the manager declared a distribution of R26 million to Liberty Holdings Limited which was adjusted in 2018 under the mergers/capital reserve in equity since the initial equity of the manager was accounted for in this reserve. The total balance after taking the transaction mentioned above is R426 million.

28. Property, plant and equipment

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Computer Equipment			
Cost at the beginning of the year	**76**	103	**-**
Additions	**3**	–	**-**
Depreciation	**(52)**	(27)	**-**
Net carrying value at the end of the year	**28**	76	**-**
Furniture and fittings			
Cost at the beginning of the year	**1 110**	1283	**-**
Additions	**657**	–	**-**
Depreciation	**(1 114)**	(172)	**-**
Net carrying value at the end of the year	**654**	1110	**-**
Computer software			
Cost at the beginning of the year	**17**	25	**-**
Additions	**-**	–	**-**
Depreciation	**(17)**	(8)	**-**
Net carrying value at the end of the year	**-**	17	**-**
Office equipment			
Cost at the beginning of the year	**99**	114	**-**
Additions	**-**	–	**-**
Depreciation	**(36)**	(15)	**-**
Net carrying value at the end of the year	**63**	99	**-**
Total Property, plant and equipment	**745**	1 303	**-**

29. Financial liabilities

29.1 Financial liabilities measured at amortised cost

	Issue date	Maturity date	Coupon	Interest payable	Nominal value R'000	GROUP Carrying value 2018 R'000	GROUP Carrying value 2017 R'000	COMPANY Carrying value 2018 R'000
Absa Loan Facility	2018/11/01	2019/11/01	255 000	6 month JIBAR + MARGIN	255 000	**255 000**	–	–
		2021/11/01	250 000	6 month JIBAR + MARGIN	250 000	**250 000**	–	–
		2023/11/01	250 000	6 month JIBAR + MARGIN	250 000	**250 000**	–	–
Standard Bank Facility	2018/11/01	2019/11/01	250 000	6 month JIBAR + MARGIN	250 000	**250 000**	–	–
		2021/11/01	250 000	6 month JIBAR + MARGIN	250 000	**250 000**	–	–
		2023/11/01	250 000	6 month JIBAR + MARGIN	250 000	**250 000**	–	–
		2019/11/01	98 911	Prime less MARGIN	98 911	**98 911**	–	–
Total financial liabilities at amortised cost			1 603 911		1 603 911	**1 603 911**	–	–
Current						**603 911**	–	–
Non-current						**1 000 000**	–	–

29.2 Reconciliation of movement in financing activities disclosed in the statement of cash flows

	GROUP Financial liabilities measured at amortised cost 2018	GROUP Financial liabilities measured at amortised cost 2017	GROUP Total 2018	GROUP Total 2017	COMPANY Financial liabilities measured at amortised cost 2018	COMPANY Total 2018
Balance at the beginning of the year	**-**	–	**-**	–	**-**	**-**
Finance costs	**25 282**	–	**25 282**	–	**-**	**-**
Interest accrual	**22 696**	–	**22 696**	–	**4 514**	**4 514**
Repayments	**(1 555)**	–	**(1 555)**	–	**-**	**-**
Arising through new loans offered	**1 580 184**	–	**1 580 184**	–	**307 946**	**307 946**
Balance at the end of the year	**1 626 607**	–	**1 626 607**	–	**312 460**	**312 460**
Current	**-**	–	**626 607**	–	**-**	**4 514**
Non-current	**-**	–	**1 000 000**	–	**-**	**307 946**

30. Taxation

The taxation disclosed in this note has arisen solely due to profits earned in entity SRFM.

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
South African normal tax	**6 082**	14 654	**–**
Current year tax	**6 082**	14 654	**–**
Current deferred tax	**–**	–	**–**
Reconciliation between applicable tax rate and effective tax rate			
Profit before tax	**640 735**	537 977	**–**
Deduct actual employee costs paid	**(7 075)**	–	**–**
Add back provision	**26 095**	–	**–**
Accounting adjustments relating to employee costs	**(24 656)**	–	**–**
Prior year prepayments added back	**1**	–	**–**
Current year prepayments	**(4)**	–	**–**
S18A Donations	**104**	–	**–**
S25BB qualifying distribution	**(616 406)**	(500 603)	**–**
SA normal tax rate applied to profit before taxation (28% corporate tax rate)	**5 262**	10 465	**–**
Securities tax	**770**	–	**–**
Under provision of tax in respect of prior years	**50**	(13)	**–**
Deferred tax	**–**	4 202	**–**
Tax charge as per statement of comprehensive income	**6 082**	14 654	**–**

The group's reconciliation of the effective tax rate is based on the South African tax rate. (28% corporate tax rate)

The non-taxable income largely relates to employee benefits which were paid in the 2018 financial year.

30.1 Taxation paid

	GROUP		COMPANY
R'000	**2018**	**2017**	**2018**
Taxation at the beginning of the period	**1 412**	874	**–**
Charged to statement of comprehensive income during the year	**(6 082)**	(14 654)	**–**
Income tax receivable at the end of the period	**(686)**	(1 412)	**–**
Tax paid	**(5 356)**	(15 192)	**–**

31. Changes in Accounting policies

The group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board (IASB) which were effective for the group from 1 January 2018. In particular, the following standards had an impact on the group's financial statements:

31.1 IFRS 9 Financial Instruments

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy for financial instruments (application of IAS 39).

As a result of adoption of IFRS 9, the group adopted certain consequential amendments to IAS 1 Presentation of Financial Statements, which requires the disclosure of interest revenue on the effective interest rate method, as well as impairment losses on financial assets held at amortised cost. In addition the group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures, which were applied in the 2018 financial year. Comparative disclosures have not been restated.

Accounting policies applied from 1 January 2018 in respect of financial instruments

Financial assets

IFRS 9 applies two criteria to determine how financial assets should be classified and measured, namely:

(a) the entity's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, the group designated the significant majority of financial assets at fair value through profit or loss. The group has applied IFRS 9's classification and measurement requirements based on the facts and circumstances of the various business models at the date of adoption of IFRS 9 in determining the transition adjustment.

- IFRS 9 requires for financial assets to be measured at fair value through profit or loss, if they are not held within either a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Liberty Two Degrees Limited, thus measures all financial assets at fair value through profit or loss (default).
- Investment in mutual funds do not meet the criteria for amortised cost as they are not held within a business model to collect contractual cash flows that are solely payments of principal and interest. These instruments are thus classified at fair value through profit and loss.

Financial liabilities

Financial liabilities classification and measurement under IFRS 9 has not changed significantly from IAS 39. Financial liabilities are either held at fair value (either required or designated) or at amortised cost. A summary of changes from those adopted under IAS 39 are:

- The classification and measurement of subcomponents of "Other payables" are classified at amortised cost under IFRS 9, rather than as previously designated at fair value through profit or loss under IAS 39.
- Intercompany funding loans, previously designated at fair value through profit or loss under IAS 39, will be measured at amortised cost. The amalgamation contract specifically stated that the R600 000 CAR requirement needed to be invested in the money market account. If management had a choice, this amount would have been transferred to 2 Degrees Properties and held in a bank account along with the remaining cash that was held in SRFM. Even though the balance earns an immaterial amount of interest per month it fails to meet the criteria to be classified as amortised cost due to the first requirement not being met. The investment in money market will eventually be disposed once SRFM is wound down as a result of the amalgamation transaction. The objective of holding this investment is not to sell it but for it to be transferred to its holding company's bank account once the CAR requirement falls away. It is a legal requirement to have it transferred. Therefore it fails to meet the criteria to be classified as fair value through other comprehensive income. Since it failed to meet the two criteria above the default option is to classify the investment in the money market at fair value through profit and loss.

Effect on the classification of financial assets and financial liabilities on application of IFRS 9

The following table shows the original classification under IAS 39, and the new classification under IFRS 9 for each class of the group's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Equity instruments – Listed	Fair value through profit and loss	Fair value through profit and loss
Equity instruments – Unlisted	Fair value through profit and loss	Fair value through profit and loss
Mutual funds	Fair value through profit and loss	Fair value through profit and loss
Trade and other receivables	Amortised cost	Amortised cost
Cash and cash equivalents	Fair value through profit and loss	Fair value through profit and loss
Financial liabilities		
Interest rate swap	Fair value through profit and loss	Fair value through profit and loss
Loan facilities	Amortised cost	Amortised cost

31. Changes in Accounting policies (continued)

31.2 IFRS 15 Revenue from Customers with Contracts

IFRS 15 established a comprehensive framework for determining and reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It replaces all existing revenue standards and their related interpretations in IFRS and applies to all contracts with customers except for contracts that are within the scope of other standards on leases, insurance contracts and financial instruments and therefore does not impact the majority of the group's revenue.

The standard outlines the principles that must be applied to measure and recognise revenue with the core principle being that revenue should be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for fulfilling its performance obligations to a customer. The principles in IFRS 15 must be applied using the following 5 step model:

(i) Identify the contract(s) with a customer

(ii) Identify the performance obligations in the contract

(iii) Determine the transaction price

(iv) Allocate the transaction price to the performance obligations in the contract

(v) Recognise revenue when or as the entity satisfies its performance obligations

Furthermore, the transaction price is determined by including an assessment of any variable consideration where the entity's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (ie 1 January 2018). Accordingly, the information presented for 2017 has not been restated. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. Apart from providing more qualitative disclosures on the group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the group. As at the date of initial application, no adjustments were required to the group's performance or financial position.

Revenue streams within the scope of IFRS 15 include:

Revenue type	Description
Fee revenue	There has been no material impact on the recognition of the asset management fee and development fee as this is recognised over time, similar to how rendering of services was recognised in IAS 18.
Municipal recoveries	There has been no material impact on the recognition of municipal recoveries as this is recognised over time, similar to how rendering of services was recognised in IAS 18.

Refer to note 1.8 for the nature and measurement of each income stream upon adopting IFRS 15.

32. Distributable Earnings

R'000			2018	2017
	As per income statement	Effect of reorganisation	Distributable	Distributable
Rental and related income	915 069	–	**915 069**	692 835
Property operating expenses	(327 157)	–	**(327 157)**	(236 709)
Impairment losses on financial assets held at amortised cost	2 469	–	**2 469**	–
Asset management fee	63 753	–	**63 753**	–
Development fee	162	–	**162**	–
Other income	4 049	–	**4 049**	–
Operating costs	(76 126)	–	**(76 126)**	(38 741)
Net interest paid	(12 820)	–	**(12 820)**	115 063
Interest paid	(25 282)	–	**(25 282)**	(19 938)
Interest received	12 462	–	**12 462**	135 001
Taxation	(6 082)	–	**(6 082)**	–
Dividend income	–	–	**–**	5 492
Pre-acquisition adjustment	–	(18 252)	**(18 252)**	–
Total distribution	563 317	(18 252)	**545 065**	537 940
Less Distribution to shareholder (payment 1)			**266 265**	272 533
Less Distribution to shareholder (payment 2)			**163 520**	–
Available for distribution (payment 3)			**115 280**	265 407
Shares in issue			**908 443**	908 443
Dividend per share subsequent to year end (cents)			**12.69**	29.22
Distribution for the year in cents				
Dividend per share interim			**29.31**	30.00
Dividend per share clean out			**18.00**	0.00
Dividend per share – final (subsequent to year end)			**12.69**	29.22
Total distribution			**60.00**	59.22
Distribution is taxable income in the hands of local residents and withholding tax will apply to non-residents and will be dependent on the double tax agreement with the applicable country.				
Distribution accounted for during the year				
Dividend per share – prior year final			**29.22**	4.85
Dividend per share – interim			**29.31**	30.00
Dividend per share – clean out			**18.00**	–
			76.53	34.85
Distribution to shareholders before capital reorganisation			**695 232**	316 597
Distribution to Liberty Holdings Limited			**19 626**	15 814
Effects of capital reorganisation (SRFM distribution)			**26 071**	–
Distribution on Statement of Change in Equity			**740 929**	332 410

33. Net debt reconciliation

R'000	Cash flow receipts	Cash flow payments	Total
Opening balance	–	–	**-**
Loans obtained for working capital	90 000	–	**90 000**
Loans relating to working capital repaid	–	(90 000)	**(90 000)**
Transaction costs expensed and paid	–	(173)	**(173)**
Loans obtained for acquisition of subsidiary	307 946	–	**307 946**
Loans obtained for acquisition of properties and rolling facility	1 311 706	–	**1 311 706**
Capital portion of rolling credit facility paid	–	(15 740)	**(15 740)**
	1 709 652	(105 913)	**1 603 739**

34. Interest in subsidiaries

R'000	Amount of issued share capital Units	Effective interest %	Investment R	Intergroup balances R
Subsidiaries				
2 Degrees Properties (Pty) Ltd	908 443	100	8 891 290	112 331
STANLIB REIT Fund Managers (RF) Pty Ltd	0,2	100	307 946	-
Closing Balance			**9 199 236**	**112 331**

Supplemental information

35. Investment properties

Schedule of properties as at 31 December 2018

No	Property name and % interest in the undivided shares held by L2D	Physical address and province	Main Sector	Dec 2018 Valuation L2D Share	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
1	Sandton City Complex (25.0%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	3 498 222	462	49 736	199 140
			– Retail			36 949	147 940
			– Office			12 787	51 200
2	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail (Retail, Office)	2 816 740	444	48 366	145 240
			– Retail			45 219	135 790
			– Office			3 147	9 450
3	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Office	619 167	244	16 585	199 216
			– Retail			3 940	47 332
			– Office			10 045	120 664
			– Specialised			2 599	31 220
4	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	815 867	238	25 902	77 782
5	Nelson Mandela Square Complex (33.3%)	5th Street, Sandton, Gauteng	Retail	638 041	366	12 919	38 795
			– Retail			6 709	20 148
			– Office			6 210	18 647
6	Liberty Promenade Shopping Centre (33.3%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	568 576	177	24 443	73 400
7	Botshabelo Mall (23.3%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	68 200	149	4 835	20 743
8	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	186 118	98	15 450	92 789
9	Liberty Centre Head Office (Cape Town) (33.3%)	Montague Gardens, Century Boulevard, Century City, Western Cape	Office	131 371	162	6 069	18 224
10	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park Lane, Umhlanga Ridge, KwaZulu-Natal	Office	122 613	185	6 777	20 352
11	John Ross Eco Junction Estate – Tangawizi (33.3%)	Eco Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	22 851	63	2 351	7 060
12	John Ross Eco Junction Estate – Melomed (23.3%)	John Ross Eco Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	102 043	179	3 219	13 809
13	John Ross Eco Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	32 768	–	–	–

35. Investment properties (continued)

Schedule of properties as at 31 December 2018 (continued)

No	Property name and % interest in the undivided shares held by L2D	Physical address and province	Main Sector	Dec 2018 Valuation L2D Share	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
14	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	151 926	28	14 463	57 910
15	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	19 481	77	851	3 406
16	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Specialised	203 046	50	4 435	17 757
17	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Specialised	147 347	20	8 662	34 682
	Total			**10 144 377**	**299**	**231 966**	**967 866**

(1) Excludes the impact of straight-lining of operating lease income.

35. Investment properties (continued)

Schedule of properties as at 31 December 2017

No	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	Valuation[(1)] R'000	Average rental per m² (R)	L2D's gross lettable area (m²)	Total gross lettable area (m²)
1	Sandton City Complex (23,3%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	**3 101 462**	**454**	**46 307**	**199 140**
			– Retail			**34 401**	**147 940**
			– Office			**11 906**	**51 200**
2	Eastgate Complex (31,0%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	**2 616 642**	**412**	**45 031**	**145 240**
			– Retail			**42 101**	**135 790**
			– Office			**2 930**	**9 450**
3	Melrose Arch (7,8%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, 2076	Office	**604 747**	**264**	**15 442**	**199 216**
			– Office			**9 353**	**120 664**
			– Retail			**3 669**	**47 332**
			– Specialised			**2 420**	**31 220**
4	Liberty Midlands Mall (31,0%)	Sanctuary Road, Pietermaritzburg, 3201, KwaZulu-Natal	Retail	**696 552**	**278**	**17 354**	**55 973**
5	Nelson Mandela Square (31,0%)	5th Street, Sandton, Gauteng	Retail	**564 906**	**372**	**12 028**	**38 795**
			– Retail			**6 247**	**20 148**
			– Office			**5 781**	**18 647**
6	Liberty Promenade Shopping Centre (31,0%)	Corner of AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Cape Town, Western Cape	Retail	**474 372**	**176**	**22 757**	**73 400**
7	Botshabelo Mall (21,7%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	**63 426**	**104**	**4 425**	**20 390**
8	John Ross Eco Junction – varying serviced stands (31,0%)	Portion 16 and Portion 17, Erf 11451, Richards Bay, KwaZulu-Natal	Specialised	**177 076**	**62**	**2 189**	**7 060**
9	Liberty Centre Head Office (Cape Town) (31,0%)	Montague Gardens, Century Boulevard, Century City, Cape Town, Western Cape	Office	**118 147**	**169**	**5 949**	**19 188**
10	Liberty Centre Head Office (Umhlanga Ridge) (31,0%)	21 Aurora Drive and 2 Park Lane, Umhlanga Ridge, KwaZulu-Natal	Office	**126 933**	**165**	**6 310**	**20 352**
11	Standard Bank Centre (15,5%)	5 Simmonds Street, Johannesburg, Gauteng	Office	**164 449**	**97**	**14 384**	**92 789**
	Total			**8 708 712**	**317**	**192 178**	**871 543**

(1) *Excludes the impact of straight-lining of operating lease income.*

35. Investment properties (continued)

Portfolio information

Geographic profile	Gross lettable area[1] (m²)	Gross lettable area (%)	Gross monthly rental (R'000)
Gauteng	736 496	76.1%	50 433
Western Cape	119 003	12.3%	7 262
KwaZulu-Natal	91 624	9.5%	5 112
Free State	20 743	2.1%	588
Total	**967 866**	**100.0%**	**63 396**

Hotels not included in GLA as numbers provided are beds available.

Note: Midlands Mall, Melomed and Botshabelo Mall final GLA pending architect certificates.

Sectoral profile	Gross lettable area (m²)	Gross monthly rental (R'000)	Gross monthly rental (%)
Retail	523 135	52 709	83.1
Office	331 326	7 558	11.9
Specialised	113 405	3 129	4.9
Portfolio	**967 866**	**63 396**	**100.0**

Gross monthly rent is at L2D's ownership share

Gross lettable area is at 100% of asset

	Gross lettable area		
Tenant profile (m²)	**A**	**B**	**C**
Retail	104 705	20 706	16 155
Office	35 270	9 502	8 283
Specialised	16 404	178	5 586
Total	**156 379**	**30 386**	**30 024**
Note: Tenant category based on existing tenants at L2D ownership share			**216 789**

Key

A Large international and national tenants, large listed tenants and government or smaller tenants in respect of which rental guarantees are issued. These include, inter alia, Shoprite, Pick n Pay, Woolworths, MTN, Vodacom, Foschini, Truworths and Bidvest.

B Smaller international and national tenants, smaller listed tenants, major franchisees and medium to large professional firms. These include, inter alia, Anglorand, African Alliance, Cash Crusaders, Doppio Zero, Sorbet and Specsavers.

C Other local tenants and sole proprietors. These comprise over 500 tenants.

35. Investment properties (continued)

Portfolio information (continued)

Vacancy profile (%)	Gross lettable area 2018	Gross lettable area 2017
Office	**1.2**	4.3
Retail	**8.0**	10.3
Specialised	**0.0**	0.0
Total	**3.4**	**6.4**

	Lease expiry profile – gross letteable area						
(%)	**Vacant**	**Monthly**	**2019**	**2020**	**2021**	**2022**	**2023+**
Retail	**1.2**	**7.7**	**16.9**	11.1	14.2	13.5	33.5
Office	**8.0**	**2.2**	**7.4**	16.2	7.7	21.5	37.4
Specialised	**0.0**	**0.3**	**0.4**	61.0	0.2	0.0	38.0
Total	**3.4**	**5.0**	**11.9**	18.1	10.5	14.8	35.3

Note: Vacancy % varies to stats due to JHI GLA amendments

	Lease expiry profile – revenue						
R'000	**Vacant**	**Monthly**	**2019**	**2020**	**2021**	**2022**	**2023+**
Total retail	**–**	**8 785**	**168 669**	197 238	146 866	194 372	303 278
Total office	**–**	**1 164**	**28 705**	54 710	28 570	112 188	112 943
Total specialised	**–**	**109**	**397**	38 909	2 770	–	34 430
Total	**–**	**10 058**	**197 770**	290 858	178 206	306 559	450 652

Total Loss of income expiring each year

	Office	Retail	Specialised	Portfolio
Weighted average rental per m² by rentable area	**134**	**368**	**57**	**299**
Weighted average rental escalation (%)	**7.9**	**7.8**	**7.9**	**7.9**

%	Average annualised property yield
Portfolio	**6.23**

36. Analysis of shareholders as at 31 December 2018

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	**330**	25.88	**143 919**	0.02
1 001 – 10 000	**532**	41.73	**2 308 580**	0.25
10 001 – 100 000	**256**	20.08	**9 271 381**	1.02
100 001 – 1 000 000	**112**	8.78	**35 675 963**	3.93
Over 1 000 000	**45**	3.53	**861 043 491**	94.78
Total	**1 275**	100.00	**908 443 334**	100.00

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance companies	**25**	1.96	**534 028 927**	58.79
Close corporations	**11**	0.86	**209 967**	0.02
Collective investment schemes	**142**	11.14	**153 559 791**	16.90
Control accounts	**1**	0.08	**1**	0.00
Custodians	**1**	0.08	**1 500**	0.00
Foundations and charitable funds	**21**	1.65	**3 851 619**	0.42
Hedge funds	**3**	0.24	**1 172 966**	0.13
Insurance companies	**3**	0.24	**322 417**	0.04
Investment partnerships	**8**	0.63	**127 840**	0.01
Managed funds	**14**	1.10	**2 871 739**	0.32
Medical aid funds	**8**	0.63	**773 930**	0.09
Organs of state	**5**	0.39	**156 574 788**	17.24
Private companies	**38**	2.98	**648 674**	0.07
Public companies	**6**	0.47	**4 770 462**	0.53
Public entities	**3**	0.24	**225 170**	0.02
Retail shareholders	**810**	63.53	**6 779 919**	0.75
Retirement benefit funds	**93**	7.29	**40 216 559**	4.43
Scrip lending	**2**	0.16	**774 685**	0.09
Stockbrokers and nominees	**9**	0.71	**91 152**	0.01
Trusts	**72**	5.65	**1 441 228**	0.16
Total	**1 275**	100.00	**908 443 334**	100.00

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	**4**	0.31	**681 216 543**	74.99
Directors and associates	**2**	0.16	**20 466**	0.00
Beneficial holders > 10% – Liberty Group	**1**	0.08	**531 196 077**	58.47
Beneficial holders > 10% – Government Employee Pension Fund	**1**	0.08	**150 000 000**	16.51
Public shareholders	**1 271**	99.69	**227 226 791**	25.01
Total	**1 275**	100.00	**908 443 334**	100.00

36. Analysis of shareholders as at 31 December 2018 (continued)

Fund managers with a holding greater than 3% of the issued shares	Number of shares	% of issued capital
STANLIB Asset Management	**560 573 473**	61.71
Public Investment Corporation	**155 629 200**	17.13
Coronation Fund Managers	**112 555 891**	12.39
Total	**828 758 564**	91.23

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Beneficial shareholders with a holding greater than 3% of the issued shares			**Number of shares**	**% of issued capital**
Liberty Group			**534 797 779**	58.87
Government Employees Pension Fund			**150 945 588**	16.62
Coronation Fund Managers			**87 141 765**	9.59
Total			**772 885 132**	85.08
Total number of shareholdings	**1 275**			
Total number of shares in issue	**908 443 334**			

Share price performance

Opening Price 02 January 2018	**R8,30**
Closing Price 31 December 2018	**R6,91**
Closing High for period	**R8,65**
Closing low for period	**R6,60**
Number of shares in issue	**908 443 334**
Volume traded during period	**133 594 614**
Ratio of volume traded to shares issued (%)	**14.71**
Rand value traded during the period	**R1 042 051 750**
Price/earnings ratio as at 31 December 2018	**12,44**
Earnings yield as at 31 December 2018	**8,04**
Dividend yield as at 31 December 2018	**-**
Market capitalization at 31 December 2018	**R6 277 343 438**

LIBERTY TWO DEGREES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 2018/388906/06)
JSE share code: L2D ISIN: ZAE000260576
Registered as a REIT
("L2D" or "the Company")

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the First Annual General Meeting ("the meeting") of the shareholders of the Company will be held on Friday, 10 May 2019 at 12h00 at the L2D Offices, Fahrenheit Boardroom, STANLIB Building, Ground Floor, 17 Melrose Boulevard, Melrose Arch, Johannesburg, 2196.

Electronic participation

Shareholders or their proxies may participate in the meeting by way of telephone conference call and, if they wish to do so:

- must contact the company secretary (by email at the address ben.swanepoel@liberty2degrees.co.za) by no later than 16:00 on Wednesday, 8 May 2019 in order to obtain a PIN number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

Shareholders participating by way of teleconference will not be able to vote electronically. Shareholders must submit their voting proxies to the Transfer Secretaries and must follow the standard voting arrangements indicated below.

This notice includes the attached form of proxy.

Record dates, proxies and voting

Record date to receive the notice	Friday, 29 March 2019
Last date to trade to be eligible to vote	Monday, 29 April 2019
Record date to be eligible to vote	Friday, 3 May 2019
Last date for lodging forms of proxy	Thursday, 9 May 2019 by 09h00
General meeting	Friday, 10 May 2019 at 12h00

Accordingly, the record date for shareholders to be entitled to participate in and vote at the Annual General Meeting is Friday, 3 May 2019.

Annual Financial Statements and Integrated Annual Report

The Annual Financial Statements and Integrated Annual Report of the Company for the year ended 31 December 2018 are available on www.liberty2degrees.co.za or on request during normal business hours at L2D's registered address, 17 Melrose Boulevard, Melrose Arch, Johannesburg, 2196 from the Company Secretary, Ben Swanepoel.

The Company and its subsidiaries together comprise the Group.

Purpose of the meeting

The purpose of the meeting is to:

- Present the Group audited Annual Financial Statements of the Company for the year ended 31 December 2018, together with the reports of the directors and the auditor thereon and the Audit Committee report for the year ended 31 December 2018.
- Consider any matters raised by shareholders; and
- Consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out below.

ORDINARY RESOLUTIONS

The ordinary resolutions set out below, require the support of a simple majority (50% + 1) of the votes exercised by shareholders present or represented by proxy at this meeting in order to be adopted save for ordinary resolution number 8, which in terms of the JSE Limited ("JSE") Listings Requirements, requires the support of at least 75% of the votes exercised.

Ordinary Resolution Number 1

Annual Financial Statements

To adopt the Audited Annual Financial Statements of the Company and Group for the year ended 31 December 2018.

Ordinary Resolution Number 2.1 to 2.2

Election of directors appointed by the Board

In accordance with the Memorandum of Incorporation ("MOI") of the Company, to confirm and approve by way of separate resolutions, the appointment of the following two directors appointed by the Board on 1 August 2018, who retire and being eligible offer themselves for re-election.

2.1 Mr B Azizollahoff

2.2 Ms Z Adams

The Board has evaluated the performance and contribution of each director standing for re-election and has recommended the re-election of each of the directors. The brief curricula vitae of the directors standing for re-election are provided on page 160 of this notice.

Ordinary Resolution Number 3.1 to 3.3

Election of Audit and Risk Committee Members

To elect by individual resolutions, the following independent non-executive directors as members of the Audit Committee of the Company and the Group.

The Board unanimously recommends their re-election.

3.1 *Mr W Cesman*

3.2 *Mr B Azizollahoff* (subject to his re-election in terms of ordinary resolution 2.1)

3.3 *Ms Z Adams* (subject to her re-election in terms of ordinary resolution 2.2)

Ordinary Resolution Number 3

Appointment of auditor

To re-appoint, on recommendation of the Audit and Risk Committee, PwC Inc. as the independent registered auditor of the Group for the ensuing financial year, and to note that the individual registered auditor who will undertake the audit during the financial year ending 31 December 2019 is Ms J Basson.

The Audit and Risk Committee and the Board are satisfied that PwC Inc. meets the provisions of the Companies Act and have complied with the JSE Listings Requirements.

Ordinary Resolution Number 5 (non-binding advisory vote)

Approval of Remuneration Policy

To approve, as recommended by King IV™, L2D's remuneration policy by way of a non-binding advisory vote, as set out in the Remuneration Report contained in the Integrated Annual Report.

The passing of this ordinary resolution is by way of a non-binding advisory vote. If 25% or more of the voting rights exercised by shareholders are cast against this resolution, the Company will, in its voting results announcement, extend an invitation to dissenting shareholders to engage with the Company to discuss the reasons for their dissenting votes.

Ordinary Resolution Number 6 (non-binding advisory vote)

Approval of remuneration implementation report

To approve, as recommended by King IV™, L2D's implementation report on the remuneration policy by way of a non-binding advisory vote, as set out in the Remuneration Report contained in the Integrated Annual Report.

The passing of this ordinary resolution is by way of a non-binding advisory vote. If 25% or more of the voting rights exercised by shareholders are cast against this resolution, the Company will, in its voting results announcement, extend an invitation to dissenting shareholders to engage with the Company to discuss the reasons for their dissenting votes.

Ordinary Resolution Number 7

To place the unissued authorised ordinary shares under the control of the directors

To place the unissued authorised ordinary shares of no par value in the Company under the control of the directors of the Company who are authorised to allot and issue any such shares at their discretion, subject at all times to the provisions of the Companies Act, 2008, as amended ("the Companies Act"), the Company's MOI and the JSE Listings Requirements, provided that the number of ordinary shares issued hereunder in aggregate in any one financial year, is limited to 10% (ten percent) of the number of shares in issue at 31 December 2018 being 90 844 333 (Ninety Million Eight Hundred and Forty Four Thousand Three Hundred and Thirty Three shares), and is subject to a maximum discount of 5% (five percent) of the volume weighted average traded price on the JSE of those shares over the 30 business days prior to the allotment, issue or disposal as the case may be.

Additional information

In terms of the Company's MOI, shareholders must approve the placement of the unissued authorised ordinary shares under the control of the directors. The authority will be subject at all times to the Companies Act, the JSE Listings Requirements and the restrictions imposed by the Company's MOI. This approval is sought to ensure that the Company has maximum flexibility in managing its capital resources.

For avoidance of doubt it is highlighted that the 10% referred to above includes any shares issued under the general authority to issue shares for cash as set out in ordinary resolution number 8 below. The general authority to repurchase shares will be governed by Special Resolution number 3.

Ordinary Resolution Number 8

General authority to issue shares for cash

To grant the directors the general authority, to issue shares in the Company for cash as and when they in their discretion deem fit, subject to the Companies Act, the JSE Listings Requirements, the Company's MOI, where applicable, and the following limitations, namely that:

- the shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
- any such issue will be made only to "public shareholders" as defined in the JSE Listings Requirements and not related parties;
- the number of shares issued for cash shall not in the aggregate in any one financial year exceed 5% (five percent) of the Company's issued share capital, being an equivalent of 45 422 166 [Forty Five Million Four Hundred and Twenty Two Thousand One Hundred and Sixty Six] shares as at the date of the notice of this meeting, being 29 March 2019;
- any shares issued in terms of this general authority must be deducted from the initial number of shares available under this general authority;

- in the event of a sub-division or consolidation of issued shares during the period of this general authority, the general authority must be adjusted accordingly to represent the same allocation ratio;
- this authority be valid until the Company's next Annual General Meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- a paid press announcement giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 business days prior to the date that the issue is agreed in writing and an explanation of the intended use of funds, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to the issue; and
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 5% (five percent) of the volume weighted average traded price on the JSE of the shares, adjusted for any cum distribution portion, if applicable over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the Board.

In accordance with the JSE Listings Requirements, in order for ordinary resolution number 8 to be passed, the support of at least 75% of the total number of votes exercised by shareholders, present in person or by proxy, is required.

SPECIAL RESOLUTIONS

The special resolutions set out below, require the support of at least 75% of votes exercised by shareholders present or represented by proxy at this meeting in order to be adopted.

Special Resolution Number 1

Non-executive directors remuneration 2019

To grant the Company authority, by separate vote in respect of each item, to make payment of remuneration to the non-executive directors for their services as directors and/or pay any fees related thereto provided that the authority shall be valid from 1 January 2019 until the next Annual General Meeting, as follows:

		2019	2018
	Board	**Excl VAT**	Excl VAT
1.1	Chairman[1]	**R785 500**	R785 500
1.2	Lead Independent Director	**R315 000**	R315 000
1.3	Member	**R210 000**	R210 000
1.4	International Member[1]	**£46 350**	£46 350
	Committees		
1.5	Audit and Risk Chairman	**R210 000**	R210 000
1.6	Audit and Risk Member	**R105 000**	R105 000
1.7	Social, Ethics & Transformation Chairman	**R105 000**	R105 000
1.8	Social, Ethics and Transformation Member	**R52 500**	R52 500
1.9	Remuneration and Nomination Chairman	**R105 000**	R105 000
1.10	Remuneration and Nomination Member	**R52 500**	R52 500
1.11	Other committee meetings Member	**R21 000**	R21 000

(1) Composite fee inclusive of serving on committees.

The approval of the non-executive directors' remuneration is exclusive of VAT. No increases are proposed for 2019.

Reason and Effect

The reason for special resolutions number 1.1 to 1.11 is to grant the Company the authority to pay remuneration to its directors for their services as directors in terms of the requirements of section 66(9) of the Companies Act.

The effect of the special resolutions number 1.1 to 1.11 is that the Company will be able to pay its non-executive directors for the services they render to the Company as directors without requiring further shareholder approval until the next Annual General Meeting.

Special Resolution Number 2

Financial assistance to related and inter-related parties

To authorise the directors, in terms of and subject to the provisions of sections 44 and 45 of the Companies Act, to cause the Company to provide any direct or indirect financial assistance to or for the benefit of:

- any company or corporation which is related or inter-related to the company by way of loans, guarantees, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or corporation that is, or becomes related or inter-related (as defined in the Companies Act) to the Company for any purpose or in connection with any matter, such authority to endure for a period of not more than two years; and
- any employee, director, prescribed officer or other person or any trust established for their benefit, in terms of the Liberty Two Degrees Restricted Share Plan described in the Company's remuneration report,

for such amounts and on such terms and conditions as the Board of the Company may determine.

Reason and effect:

The reason for and effect of special resolution number 2 is to grant the directors of the Company the authority to cause the Company to provide financial assistance to any company or corporation which is related or inter-related to the company, or any employee, director, prescribed officer or other person or any trust established for their benefit, in terms of the Liberty Two Degrees Restricted Share Plan.

The financial assistance will be provided as part of the day to day operations of the Company in the normal course of its business and in accordance with its MOI and the provisions of the Companies Act.

The directors will, in accordance with sections 44(3)(b) and 45(3)(b) of the Companies Act, ensure that financial assistance is only provided if the requirements of that section are satisfied, inter alia, that immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test set out in section 4 of the Companies Act.

Special Resolution Number 3

General authority to repurchase shares

To authorise the Company or any of its subsidiaries, by way of general authority, to acquire ordinary shares issued by the Company upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the Companies Act and the JSE Listings Requirements, being that:

(a) any such acquisition of shares be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;

(b) the Company is duly authorised by its MOI to acquire shares it has issued;

(c) the general authority shall be valid only until the Company's next Annual General Meeting or for 15 months from the date of this special resolution, whichever period is shorter;

(d) in determining the price at which the shares are acquired in terms of this general authority the maximum premium at which such shares may be acquired shall be 10% of the volume weighted average of the market price at which such shares are traded on the JSE, as determined over the five business days immediately preceding the date of the repurchase of such shares;

(e) in any one financial year the general authority to repurchase will be limited to a maximum of 10% of the Company's ordinary issued shares as at the date of this special resolution;

(f) an announcement is made as soon as shares have been acquired, on a cumulative basis, of more than 3% of the number of shares in issue at the date of the Annual General Meeting at which this special resolution is approved, and for each 3% in aggregate acquired thereafter;

(g) the Company only appoints one independent third party agent to effect any repurchase(s) on its behalf;

(h) repurchases may not be made during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless the Company has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed to the JSE prior to the commencement of the prohibited period;

(i) the Company and the Group will be in a position to repay its debts in the ordinary course of business for a period of twelve months after the date of the notice of the Annual General Meeting;

(j) the consolidated assets of the Company and the Group, being fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the Company and the Group for a period of twelve months after the date of the notice of the Annual General Meeting;

(k) the capital, reserves and working capital of the Company and the Group will be adequate for a period of twelve months after the date of the notice of the Annual General Meeting; and

(l) a resolution has been passed by the directors confirming that the Board has approved the general repurchase and that the Company will satisfy the solvency and liquidity test as set out in the Companies Act and that since the last test was performed, there has been no material changes to the financial position of the Group.

The JSE Listings Requirements require the following additional disclosures for purposes of this general authority, which are disclosed in the Integrated Annual Financial Statements namely:

- Major shareholders – page 153.
- Share capital of the Company – page 128.

Material change

There have been no material changes in the affairs or financial position of the Company and its subsidiaries since the date of signature of the Annual Financial Statements for the year ended 31 December 2018 and the date of this notice of the Annual General Meeting.

Directors' responsibility statement

The directors, whose names are given on pages 39 to 41 of the Integrated Annual Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to Special Resolution Number 3 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

Reason and effect:

The reason for and effect of special resolution number 3 is to grant the Company a general authority to facilitate the acquisition of the Company's own shares, which general authority shall be valid until the earlier of the next Annual General Meeting the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that this general authority shall not extend beyond 15 months from the date of adoption of special resolution number 3. Such general authority will provide the directors with flexibility to effect a repurchase of the Company's shares, should it be in the interest of the Company to do so at any time while the general authority is in force.

The utilisation of this authority is also to buy back shares in the market to settle the obligations in relation to employee share incentive schemes. At the present time the directors have no other specific intention with regard to the utilisation of this authority, which will only be used if the circumstances are appropriate.

By order of the Board

Liberty Two Degrees Limited

Ben Swanepoel
Company secretary

Johannesburg
29 March 2019

NOTES TO NOTICE OF ANNUAL GENERAL MEETING

1. A quorum for the purposes of considering the resolutions above shall consist of three shareholders of the Company personally present or represented by proxy (and if the shareholder is a body corporate, the representative of the body corporate) and entitled to vote at the Annual General Meeting. In addition, a quorum shall comprise 25% of all voting rights entitled to be exercised by shareholders in respect of the resolutions above.
2. A L2D shareholder (own name dematerialised shareholder) entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend, speak and vote, and on a poll, in his/her stead. Such proxy need not be a shareholder of the Company.

   A form of proxy is attached hereto for the convenience of shareholders who have dematerialised their L2D shares with own-name registration and cannot attend the Annual General Meeting, but wish to be represented thereat. Duly completed forms of proxy must be lodged at or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, at the addresses below to reach them by no later than 09h00 on Thursday, 9 May 2019. Alternatively, the form of proxy may be handed to the Chairman of the Annual General Meeting at any time prior to the commencement of the Annual General Meeting.

   L2D shareholders who have dematerialised their L2D shares and have not selected own-name registration must advise their Central Securities Depository Participant ("CSDP") or broker of their voting instructions should they be unable to attend the Annual General Meeting but wish to be represented thereat. Dematerialised L2D shareholders without own-name registration should contact their CSDP or broker with regard to the cut-off time for their voting instructions.

   If, however, such members wish to attend the Annual General Meeting in person, then they will need to request their CSDP or broker to provide them with the necessary letter of representation to attend in terms of their custody agreement.
3. In terms of section 63(1) of the Companies Act, meeting participants will be required to provide identification to the reasonable satisfaction of the Chairman of the Annual General Meeting and the Chairman must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as a proxy for a shareholder) has been reasonably satisfied.

Registered office

17 Melrose Boulevard
Melrose Arch
Johannesburg
2196

Postal

PO Box 202
Melrose Arch
2076
Tel.: +27 11 448 5500
Email: investors@liberty2degrees.co.za

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
2196

Postal

PO Box 61051
Marshalltown
2107
Tel.: +27 11 370 5000
Fax.: +27 11 688 5218

DIRECTORS STANDING FOR RE-ELECTION

Brian Azizollahoff (57)

Lead Independent Non-exucutive Director
Member of the Audit and Risk Committee
BA Economics & History (Yeshiva University New York),
MBA (Wits Business School)
South African

Appointed on 1 August 2018

Brian is a successful businessman having established Propertiq Proprietary Limited and previously Capstone Property Group where he was a managing director, shareholder and active partner. He previously served on the board of Dipula Property Fund Limited where he has been a director since 2006. Brian has extensive property industry experience spanning 31 years. He was previously an executive director at Redefine Properties Limited and CEO of Redefine Income Fund Limited. Prior to this he was involved in the merger of Redefine, ApexHi and Madison Property Fund Managers. Brian has held various senior positions at:

- Anglo American Properties
- Investec Bank,
- JHI,
- Olympia & York Developments in Canada and
- Excel Computers in the USA.

Zaida Adams (40)

Independent Non-Executive Director
Member of the Audit and Risk Committee
B,Com (Hons), CA(SA)
South African

Appointed on 1 August 2018

Zaida is finance executive at Oceana Group Limited, responsible for treasury, finance shared services and investor relations. Prior to joining Oceana she held the following positions:

- Credit originator at LibFin, Liberty Group Limited;
- Consultant at Chayton Africa (Pty) Ltd;
- Portfolio manager at Chayton Africa (Pty) Ltd;
- Finance director at SA Corporate Real Estate Fund;
- Senior financial accountant at Old Mutual Properties; and
- Financial manager at Allan Gray Property Trust.

PROXY FORM

LIBERTY TWO DEGREES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 2018/388906/06)
JSE share code: L2D ISIN: ZAE000260576
Registered as a REIT
("L2D" or "the Company")

This form of proxy is for the use by L2D shareholders who are registered as own-name in dematerialised form, ("own-name dematerialised L2D shareholders") only. L2D shareholders who have dematerialised their L2D shares, other than with own-name registration, are requested to contact their CSDP for a full understanding of the action required by them.

For use by own-name dematerialised L2D shareholders only at the Annual General Meeting of L2D shareholders to be held at the L2D Offices, Fahrenheit Boardroom, STANLIB Building, Ground Floor, 17 Melrose Boulevard, Melrose Arch, Johannesburg, 2196 on Friday, 10 May 2019 at 12h00, or at any adjournment thereof.

L2D shareholders who have dematerialised their L2D shares, other than with own-name registration, are requested to contact their CSDP for a full understanding of the action required by them.

I/We____(NAME/S IN BLOCK LETTERS)

of____(Address)

Telephone number____________________email address____________________

being the registered holder/s of ______________________________ L2D shares hereby appoint:

1. ____or failing him/her,
2. ____or failing him/her,
3. the chairperson of the annual general meeting,

as my/our Proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting and at any adjournment thereof.

Unless otherwise instructed, my/our Proxy will vote or abstain as he/she thinks fit.

Ordinary Resolutions		**Shares**		
		For	**Against**	**Abstain**
1.	To adopt the Audited Annual Financial Statements for the year ended 31 December 2018			
2.	To re-elect the following non-executive directors(1)			
2.1	Mr B Azizollahoff			
2.2	Ms Z Adams			
3.	To re-elect the following audit and risk committee members:			
3.1	Mr W Cesman			
3.2	Mr B Azizollahoff			
3.3	Ms Z Adams			
4.	Reappointment of PwC Inc. as the auditors and note that Ms J Basson will be the individual registered auditor			
5.	Approval on an advisory, non-binding basis, the remuneration policy			
6.	Approval on an advisory, non-binding basis, the remuneration and implementation report			
7.	Placing 10% of the unissued shares under the control of the directors			
8.	General, authority to issue shares for cash			

(1) See the directors standing for re-election provided on page 160 of this notice and proxy.

PROXY FORM (CONTINUED)

Special Resolutions		Shares		
		For	Against	Abstain
1.	Fees payable to non-executive directors:			
1.1	Board – Chairman			
1.2	Board – Lead Independent Director			
1.3	Board – Member			
1.4	Board – International Member			
1.5	Audit and Risk Committee – Chairman			
1.6	Audit and Risk Committee – Member			
1.7	Social, Ethics and Transformation Committee – Chairman			
1.8	Social, Ethics and Transformation Committee – Member			
1.9	Remuneration and Nomination Committee – Chairman			
1.10	Remuneration Nomination Committee – Member			
1.11	Other Committees meetings– Member			
2.	Financial assistance to related and inter-related parties			
3.	General authority to repurchase shares			

Signed at on this ________________________ day of ________________________ 2019

Full Names ____ (in block letters)

Signature(s) ________________________

Assisted by (Guardian) ________________________ date ________________________ 2019

A shareholder entitled to attend and vote is entitled to appoint a Proxy to attend, speak, vote, and on a poll, vote in his stead, and such Proxy need not be a shareholder of L2D.

Registered Office Details

Postal:	PO Box 202 Melrose Arch 2076	17 Melrose Boulevard Melrose Arch Johannesburg 2196	Tel. +27 11 4485500

TRANSFER SECRETARIES

Postal:	PO Box 61051 Marshalltown 2107	Computershare Investor Services Proprietary Limited Rosebank Towers 15 Biermann Avenue Rosebank 2196	Tel. +27 11 370 5000 Fax. +27 11 688 5218

Please refer to notes on the next page hereof.

NOTES OF PROXY FORM

Instructions on signing and lodging the proxy form

1. This form of proxy must only be used by own name dematerialised L2D shareholders.
2. If shareholders have dematerialised their shares with a CSDP or broker, other than own name dematerialised shareholders, they must arrange with the CSDP or broker concerned to provide them with the necessary authorisation to attend the Annual General Meeting and vote thereat or the shareholder concerned must instruct their CSDP or broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned.
3. A L2D shareholder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting". A proxy need not be a shareholder of the Company. The person whose name stands first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A L2D shareholder is entitled to one vote on a show of hands and on a poll the L2D shareholder is entitled to one vote for each L2D share held. A L2D shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the L2D shareholder in the appropriate box. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the L2D shareholders' votes.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the Annual General Meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the L2D shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries, not less than 24 hours before the commencement of the Annual General Meeting.
6. If a L2D shareholder does not indicate on this form of proxy that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the Annual General Meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
7. The Chairman of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received, other than in compliance with these notes.
8. The completion and lodging of this form of proxy will not preclude the relevant L2D shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such L2D shareholder wish to do so, subject to the conditions stated herein.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Company or unless this requirement is waived by the Chairman of the Annual General Meeting.
10. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the Company.
11. Where there are joint holders of L2D shares:
    a. any one holder may sign this form of proxy;
    b. the vote(s) of the senior shareholder (for that purpose seniority will be determined by the order in which the names of L2D shareholders appear in the Company's register of L2D shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint L2D shareholder(s).
12. Forms of proxy should be lodged with or mailed to the transfer secretaries to be received by no later than 09h00 on Thursday 9 May 2019 (or 24 hours before any adjournment of the meeting which date, if necessary, will be notified in the press and on the Stock Exchange News Service). Alternatively, the form of proxy may be handed to the Chairman of the Annual General Meeting at any time prior to the commencement of the Annual General Meeting.
13. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

DEFINITIONS AND ABBREVIATIONS

BOOC	Business Operations Oversight Committee – A subcommittee of Manco
CISCA	Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), as amended
CISIP	Collective Investment Scheme in Property as contemplated in CISCA
Companies Act	the Companies Act, 2008 (Act No. 71 of 2008), as amended
FSCA	Financial Services Conduct Authority
FROC	Financial and Risk Oversight Committee – a subcommittee of Manco
GLA	Gross lettable area (being the total area of a property that can be leased to a tenant)
JHIR	JHI Retail offers retail management and related services to L2D
JSE	Johannesburg Stock Exchange being the exchange operated by the JSE Limited (Registration number 2005/022939/06), licensed as an exchange under the Financial Markets Act (Act No. 19 of 2012), as amended and a public company registered and incorporated in accordance the laws of South Africa
L2D comprehensive cost of occupation	The L2D comprehensive cost of occupation ratio captures the true costs of the rental agreement between a retailer and a landlord and includes rent, property expense recovery, rates recovered and utilities recovered
Liberty Group Limited (LGL)	Liberty Group Limited (Registration number 1957/002788/06), a public company registered and incorporated in accordance with the laws of South Africa, being a registered long-term insurer
Liberty or the group	Liberty Holdings and its subsidiaries from time to time
Liberty Holdings Limited (LHL)	Liberty Holdings Limited (Registration number 1968/002095/06), a public company registered and incorporated in accordance with the laws of South Africa and which shares are listed on the JSE
Liberty Property Portfolio (LPP)	Collectively, the properties set out on pages 24 to 29, excluding the Melrose Arch precinct
Liberty Two Degrees Limited (L2D)	Liberty Two Degrees portfolio, (Registration number 2018/388906/06), a public company registered and incorporated in accordance with the laws of South Africa and which shares are listed on the JSEw
Liberty Two Degrees Scheme (the Scheme)	Liberty Two Degrees, a trust in a CISIP registered as such in terms of CISCA and managed by STANLIB REIT Fund Managers
Liberty PropCo Proprietary Limited (PropCo)	Liberty PropCo Proprietary Limited (Registration number 2014/121142/07), a private company registered and incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Liberty Group Limited and the vehicle through which Liberty Group Limited holds its stake in Melrose Arch
Manco	Executive Management Committee
Melrose Arch	25% undivided share in Melrose Arch held through PropCo
Net Zero	Net Zero buildings produce more energy and water than they consume, either on-site or off-site, and send zero waste to landfill.
STANLIB REIT Fund Managers (the Manager) or SRFM	STANLIB REIT Fund Managers (RF) (Pty) Ltd (Registration number 2007/029492/07), a ring-fenced private company registered and incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Liberty Holdings and a manager approved by the Registrar as the Manager of Liberty Two Degrees
REIT or Real Estate Investment Trust	an entity which receives REIT status in terms of the Listings Requirements
STANLIB	STANLIB Asset Management Limited (Registration number 1969/002753/07), a public company registered and incorporated in accordance with the laws of South Africa
Trust Deed	The Trust Deed entered into between the Manager and the Trustee to establish the Liberty Two Degrees Scheme and the terms under which it is administered, which was registered by the Registrar on 28 October 2016
Undivided shares	Undivided shares in the ownership of the Liberty Property Portfolio
Units	refers to the participatory units in L2D

CORPORATE INFORMATION

Date of registration: **10 July 2018**

Liberty Two Degrees

JSE code: L2D
ISIN: ZAE000260576
(Approved as a REIT by the JSE)
(Liberty Two Degrees or L2D)

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

Company Secretary

Ben Swanepoel
Liberty Two Degrees
17 Melrose Boulevard
Melrose Arch
Johannesburg
Gauteng
2196

Registered office

17 Melrose Boulevard
Melrose Arch
Johannesburg
Gauteng
2196

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

Contact information

Telephone: +27 11 448 5500
Email: info@liberty2degrees.co.za
www.liberty2degrees.co.za

Auditors

PricewaterhouseCoopers Inc.
Waterfall City
4 Lisbon Lane
Jukskei View
Midrand
2090
(Private Bag X36, Sunninghill, 2157)

Sponsor

The Standard Bank of South Africa Limited
(Registration number 1962/000738/06)
30 Baker Street
Rosebank, 2196
(PO Box 61344, Marshalltown, 2017)
Tel: 011 721 6125

ELDRÉ
DTP SERVICES

www.liberty2degrees.co.za