LIBERTY

two degrees

Integrated report and annual financial statements

for the year ended 31 December 2019

Highlights for 2019

Customer experience

3.6%[1]

retail trading density growth

9%

at Sandton City

Capital and risk management

Favourably

refinanced 2019 debt expiry

Tenant experience

2.3%

retail vacancy

Financial outcome

60.43[2]

cents per share delivered on full year distribution in line with guidance

Employee experience

Leadership

team strengthened

The good we do

Sustainability

initiatives successfully delivered.

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

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

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Capital and risk management

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The good we do

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Further information
www.liberty2degrees.co.za

About this report

We are pleased to present our integrated report for the year ended 31 December 2019, which is addressed to all stakeholders. This report illustrates how Liberty Two Degrees Limited (L2D) creates and safeguards value for all our stakeholders and how we deliver on our purpose of creating experiential spaces that benefit generations. We are committed to reporting transparently and in a manner that presents a true reflection of our operations.

We invite all users of this report to visit www.liberty2degrees.co.za for more information on L2D. Our aim is 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 2019. Any material events up to the Board approval date on 17 April 2020 are included. L2D is a South African company and all of its operations are conducted in South Africa.

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 and performance and enables stakeholders to assess our ability to create sustainable value. We consider this a valuable opportunity to engage with our stakeholder groups.

The preparation of the Annual Financial Statements (AFS) of L2D for the year ended 31 December 2019 was supervised by José Snyders CA(SA) in his capacity as Financial Director. The 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.

Related parties

L2D is a subsidiary of Liberty Holdings Limited (LHL) whose ultimate majority shareholder is Standard Bank Group Limited (SBG). As at 31 December 2019, Liberty Group Limited (LGL) held 57.8% of the shares in L2D. L2D also manages the unlisted Liberty Property Portfolio (LPP), LGL's property portfolio for which L2D earns an asset management fee.

As at 31 December 2019, R1 billion is owed to SBG in respect of term debt raised on commercial terms.

LGL provides a number of support services to L2D, namely Human Resources, Information Technology, Internal Audit and Taxation.

L2D utilises a small Developments team to oversee the work around maintaining and refurbishing the asset portfolio. The team is employed by 2 Degrees Properties (Pty) Ltd (2DP) and charges development fees to the external third-party co-owners being Liberty and Pareto.

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 for our stakeholders in the short, medium and long term. The material matters set out on pages 24 to 25 of this report were informed by those matters discussed by the Board and its committees during the year. The material matters are aligned to our strategic value drivers and strategic priorities which are the focus of our business activities.

Subsequent to the year-end, the spread of the COVID-19 pandemic has become a material matter which will have a substantial but currently unquantifiable impact on distributions and property valuations in the medium term. This report and the AFS have been prepared prior to the impact of the pandemic. Refer to the Leadership review for more detail.

	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	Control objectives for information technologies (Cobit) Information technology infrastructure library (Itil)	Liberty Holdings Limited (LHL) and STANLIB
Property management	Service Level Agreements	JHI Retail (Pty) Ltd (JHIR) and Amdec Group (Amdec)

For more information on Assurance, refer to the Risk Management Report commencing on page 72.

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 77. Assurance of information contained in this report is provided by external and internal providers as indicated in the table above.

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 2019 integrated report and Annual Financial Statements support the integrity of information for internal decision-making and 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 on 17 April 2020 and approved its release on 17 April 2020.

Angus Band
Chairman

Amelia Beattie
Chief Executive

About L2D

Background

L2D has a quality, iconic property portfolio of South African assets and was first listed as a Collective Investment Scheme in Property (CISIP) on the Johannesburg Stock Exchange in December 2016. With effect from 1 November 2018, L2D was reconstituted as a corporate REIT named as Liberty Two Degrees Limited (L2D). This better positions L2D for sustainable growth whilst unlocking shareholder value.

Who we are

We are a South African precinct focused, retail-centred REIT. We are focused on continuously improving the quality of our assets, and introducing innovative and unique experiences that attract tenants, shoppers and visitors to our spaces. We do this in order to create sustainable value for our stakeholders.

We are passionate about operational excellence and staying abreast of property and leisure trends to cater to the ever-changing needs of customers which makes our assets dominant in their precincts.

We care about our surrounding communities, society, and minimising our impact on the environment, which we address through a number of meaningful and innovative initiatives.

L2D has investments in the following assets:

- Johannesburg:
  - Sandton City Complex;
  - Eastgate Complex;
  - Nelson Mandela Square;
  - Sandton Sun Hotel, the InterContinental;
  - Sandton Towers and the Garden Court;
  - Sandton City;
  - Standard Bank Centre offices; and
  - Melrose Arch precinct.
- Cape Town:
  - Liberty Promenade Shopping Centre; and
  - Century City Offices.
- KwaZulu-Natal:
  - Liberty Centre Head Office;
  - Umhlanga Ridge Office Park;
  - Liberty Midlands Mall; and
  - John Ross Eco-Junction Estate.
- Bloemfontein
  - Botshabelo Mall.

Refer to Tenant experience on pages 32 to 43 for more information.

About L2D continued

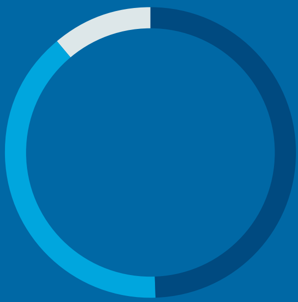
Portfolio overview

Value

R10.3bn

GLA[1]

967 866m²



Retail	54
Office	34
Specialised	12

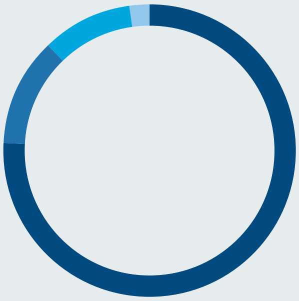
[1] GLA statistics are reflected at a 100% property level

Number of assets

17

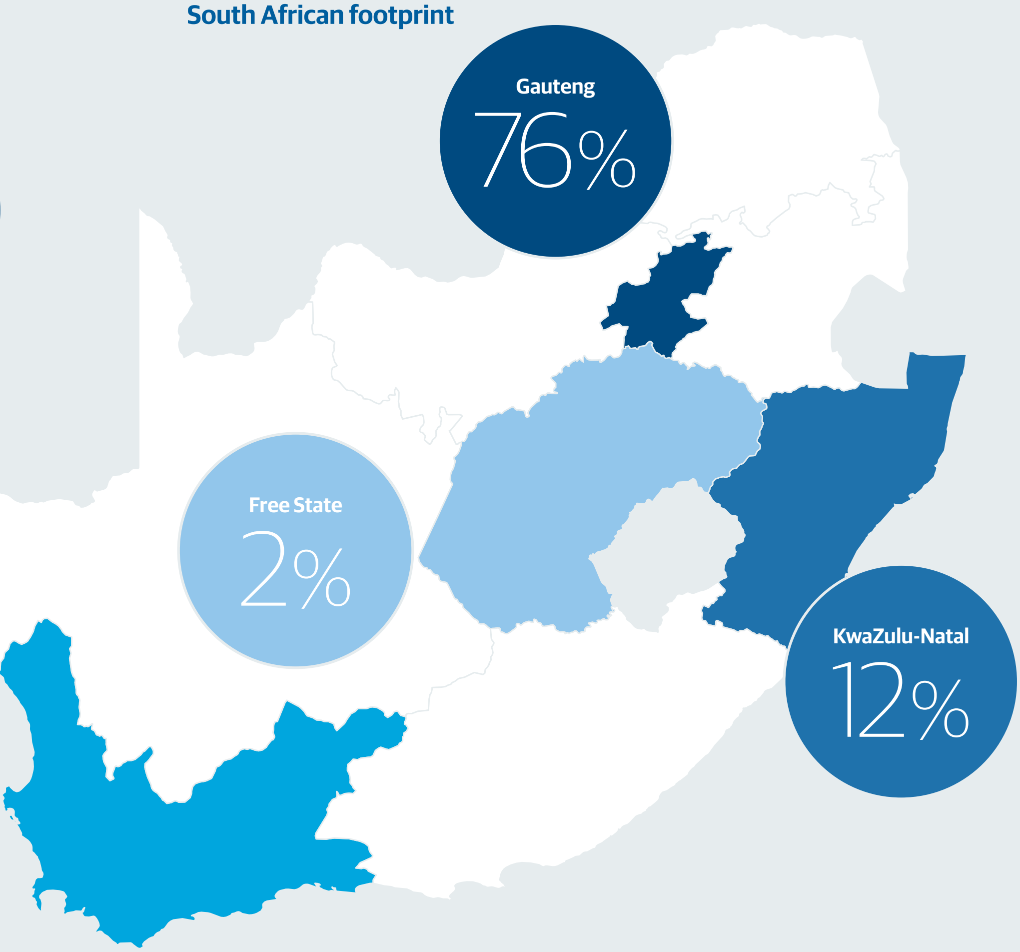
Retail	7
Office	3
Hotels	3
Other	4

Gross lettable area (%)



Gauteng	76
KwaZulu-Natal	12
Western Cape	10
Free State	2

South African footprint



About L2D continued

Our vision, purpose and values

Our business model is focused on achieving positive outcomes that support and drive the realisation of our vision and purpose. For information on how we drive the execution of our strategy, refer to our strategy section, which commences on page 16.

Vision

TO BE THE LEADING SOUTH AFRICAN PRECINCT FOCUSED, RETAIL-CENTRED REIT

Purpose

TO CONTINUE TO CREATE EXPERIENTIAL SPACES TO BENEFIT GENERATIONS

Values

P ASSION
A CCOUNTABILITY
C ARE
E XCELLENCE

Environmental overview

Macro-economic overview

2019 began with an upswing in sentiment across most asset classes following a slump in most of December 2018. However, this positive trend was short lived as investors were inclined to focus on the domestic economic issues South Africa continues to face, which includes uncertainty around the sustainability of state-owned enterprises. Most notably, Eskom's ability to consistently deliver energy to the country was once again brought into question. The unwelcome return of planned and unplanned power outages looks set to continue while crucial maintenance is performed. This disruption to the economic production capacity of the country has, and will likely continue to have, a detrimental impact on business confidence levels and therefore economic activity.

Towards the end of the first quarter in 2019, there was some relief as Moody's chose not to downgrade South Africa's debt to junk status, buying the country time to deliver on key fiscal reforms. Later in the year, however, the ratings agency lowered its outlook on sovereign debt to negative, as did Fitch, following the finance minister's announcement that further taxpayer funds were going to be used to assist Eskom's financial position. We anticipate that the additional strain in the country's fiscus may well prove a precursor to the loss of the country's investment grade rating from Moody's.

In terms of economic growth, we saw poor economic performance of -3.2% quarter on quarter (q/q) in the first quarter, with a rebound to 3.3% q/q in the second quarter.

This was followed by two quarters of negative readings of -0.8% and -1.4% respectively, which pushed the country into technical recession once again. This resulted in the South African economy growing by 0.2% in 2019 the lowest level of annual growth since 2009 when the economy contracted by 1.5%. Household spending remained constrained throughout the year due to a lack of growth in disposable income, rising unemployment levels and weakening consumer confidence which reached a two-year low in the fourth quarter of 2019. South African economic growth is expected to remain subdued in 2020, with limited potential for much in the way of fiscal or monetary stimulus measures. There is, however, potential upside should Eskom mitigate the extent of load shedding.

SA REIT market performance

The listed property sector underperformed the equity, bond and cash indices. As at 31 December 2019, the All Property Index (ALPI) delivered an annual total return of -0.40%, compared to +7.29% for cash, +10.32% for bonds and +12.05% for equities. Given the muted economic backdrop, investors maintained a cautious view of the property sector and put a greater emphasis on the sustainability and quality of distributions. During the year, investors paid close attention to rising loan to value (LTV) levels, the introduction of reduced pay-out ratio policies, potentially aggressive property valuations and deepening discounts to net asset value (NAV).

Concerns around levels of debt in the sector surfaced as the average published LTV for SA-listed property counters rose to c.37% which may become a problem especially in the context of some market views that property valuations may be too high.

Retail sector

In the retail property sector, the MSCI South Africa Quarterly Retail Trading Index which measures the trading performance of South African shopping centres posted a trading density growth of 6.1% year-on-year to December 2019, up from 4.3% recorded in September 2019. This was a function of sales growth of 6.9% and a 0.8% growth in trading space and was driven by smaller retail formats which are recovering off a depressed base. A further breakdown of trading performance shows super-regional trading density growth at 2.8% with regional formats at 0.7%. Vacancy rates for the sector at December 2019 came in at 4.6% which is above the long-term SAPOA average of 2.9% and the December 2019 vacancy rate of 2.3% for L2D.

2019 proved a challenging environment for South African retailers in light of significant downward pressure on consumer spending. South African retail sales growth for the year, as measured by Stats SA, reduced to 1.2%, the lowest level of growth in a decade. December retail sales dropped by 0.4% y/y, following a 2.6% rise in November 2019, which was likely buoyed by Black Friday trade. Black Friday has become increasingly popular over the last three years, resulting in a partial shift of sales from December to November. The main categories driving retail sales growth over the year were general dealers, textiles and clothing as well as the all other retail category which represents smaller categories such as jewellery, stationary, sporting goods, etc.

Office sector

An oversupply of new office developments, particularly in Sandton and Rosebank, has seen an abundance of premium grade offices being available to market with large vacancies reported across all categories as a consequence. Many corporates have also responded to the tough economy by consolidating their offices and reducing their space requirements to cut overhead costs. Within this increasingly competitive office sector, L2D remains focused on servicing and retaining our current tenants whilst exploring initiatives to attract new tenants into our vacant space.

According to the SAPOA survey as at the fourth quarter of 2019, the national office vacancy rate was recorded at 11.0%, marginally up on the quarter before. Vacancy rates softened in the prime and B-grade segments but improved in the A- and C-grade segments. The latter experienced the largest improvement in vacancy rates, driven by residential conversions. Within this increasingly competitive office sector, L2D remains focused on servicing and retaining our current tenants whilst exploring initiatives to attract new tenants into our vacant space.

Leadership review

Solid capital structure positions L2D for sustainable performance

As the Chairman and Chief Executive (CE) of L2D, we jointly provide a leadership review for 2019, where we report and reflect on matters that were most significant to L2D during the year and provide references to the relevant sections of the integrated report for further reading.

Amelia Beattie
Chief Executive

Angus Band
Chairman

We achieved a solid performance by maintaining a focus on key deliverables. During the year, our high-quality assets in our iconic portfolio, a key differentiator, counteracted the effects of the challenging environment on our business, tenants and customers, and enabled our positive results. We expect the operating environment to remain tough going forward as ongoing financial strain on customers is likely to affect our tenants' businesses. With this in mind, one of management's key roles is to create experiential environments in which tenants can thrive as customers make our malls their destination of choice. Please refer to the **customer experience** section for further detail. In addition, our healthy capital structure with an LTV of 16.1% provides a buffer in these difficult trading conditions.

Creating sustainable value with strategic value drivers

To enable sustainable value creation and reduce the effects of the challenging environment, a main focus for the year was on executing initiatives that align to our strategic value drivers. These are articulated as **customer experience**, **tenant experience**, **employee experience**, and **capital and risk management**, which translate into our **financial outcomes**, and are underpinned by **the good we do**.

Our strategic value drivers measure our performance against key metrics that enable the creation of stakeholder value. Furthermore, the strategic value drivers have significantly informed the structure and commentary of this integrated annual report as they demonstrate how we think about our business.

Refining our strategy

L2D's vision to be the leading South African, precinct focused, retail-centred REIT is realised through the purpose-driven execution of our strategy. Our strategy sets out the elements that guide our long-term direction and thinking and provides purpose and clarity when determining L2D's priorities.

To better navigate the challenging operating environment and to create sustainable value, we have closely aligned our material matters to support our strategy.

We progressed well on the execution of our strategy during the year. We also adjusted the naming of each of our building blocks to better capture their purpose and enable an improved alignment to overall strategy. This allows us to achieve greater focus and enhance the customer experience. For a full discussion, refer to the **Customer experience** section.

In 2019, customers under financial strain affected our tenants' businesses, which is likely to have an impact on the operating environment in the years ahead. With this in mind, a key role of our management is to create experiential environments in which tenants can thrive, as customers make our malls their destination of choice. Please refer to the **Environmental overview** where we discuss the operating environment and the economic conditions facing L2D.

In order to continue creating experiential spaces, we have placed an emphasis on understanding the evolving real estate industry, keeping customers at the centre of what we offer in our spaces, enhancing the relationship with tenants for shared value and seeking differentiation through effective omnichannel engagement. Furthermore, there are ongoing engagements in urban and master planning activities to ensure that our precincts remain relevant and positioned to deliver for the portfolio.

Risk management

While there were no material changes to the key risks facing our business during the year, a low-growth economy and a sluggish retail environment remain key contributors to the elevated pressure faced by tenants and customers. We continue to work closely with, and monitor our exposure to, major tenants within our portfolio to mitigate this risk. The increased uncertainty around Eskom's loadshedding continues to affect our business and remains a major reason behind low business and consumer confidence. The rolling blackouts are likely to continue into the foreseeable future.

A material new risk is the Coronavirus (COVID-19) which is having a rapidly growing impact on the global economy, with financial markets taking strain globally. This has led to the pandemic being declared a national disaster with a three week national lockdown being instituted by President Cyril Ramaphosa with effect from 27 March 2020, impacting businesses across the country. Having done everything reasonably possible, in partnership with our tenants and employees, to minimise the impact of the virus in our environments, there is no doubt that this pandemic will have significant consequences on our portfolio's trading performance.

L2D management have engaged with its valuers for views in assessing the potential impact of the COVID-19 pandemic on valuation metrics and forecast assumptions.

We emphasise that formal valuations have not been called for, but management has performed an analysis of the current position and potential stresses on the individual assets. Having reviewed these indicative outcomes, should the current conditions be sustained into the second half of 2020, we believe that L2D will remain within our covenants notwithstanding the potential negative impact on the portfolio valuation. Despite the impact on the financial markets, L2D remains well capitalised, with a strong balance sheet to withstand the financial impact of the virus.

Given the current uncertainty in estimating the impact on net property income, L2D issued a SENS announcement on 30 March 2020 to provide notice that it has withdrawn its distribution guidance for the 31 December 2020 financial year.

Ethical leadership

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™. Maintaining the appropriate Board composition in respect of knowledge, skills, experience, diversity and independence remains a top priority.

Building a better tomorrow

We strive to make a positive impact on communities and the environment in which we operate by implementing various sustainability initiatives, which underpin our strategy and business activities. As a responsible corporate citizen, we continue to actively engage our local communities through social initiatives that seek to achieve meaningful outcomes.

We are committed to doing our part to address the inequality that still persists in South Africa. To this end, we endeavour to cultivate an inclusive workplace and improve our B-BBEE performance in terms of transformation and employment equity.

We enable the creation of sustainable value by nurturing impactful, mutually beneficial relationships with our various stakeholders. Our close interactions with stakeholders helps to keep us informed and in touch with trends in the market and changes in demand. These diverse relationships each play an important role in maintaining our relevance and safeguarding our future success.

Prospects and outlook

We anticipate that the South African economy will remain challenging as evidenced by weak consumer demand. With an LTV of 16.1%, our conservative gearing provides a buffer against the effects of the current economic climate. This balance sheet capacity and continued operational performance of our defensive portfolio are key differentiators in a difficult trading environment. As noted earlier the previously issued distribution guidance for the 31 December 2020 financial year to be equivalent to 2019 has been withdrawn.

Key metrics

R10.3bn
property portfolio value

967 866m^2
total GLA

R9.65
net asset value per share

R44 583
annualised trading density per m^2

4.7%
vacancies

Directors

Brian Azizollahoff resigned as a director with effect from 2 August 2019 and we thank him for his service. David Munro, the Chief Executive Officer of Liberty Holdings Limited, was appointed as a director on 29 July 2019.

Appreciation

On behalf of the Board, we extend our sincere appreciation to the L2D team for their dedication to the delivery of our performance and adherence to our values of passion, accountability, care and excellence. We thank the Board for providing their invaluable wisdom and oversight in navigating a difficult year. We are also grateful to our valued stakeholders, tenants and bankers for their continued support and the important roles they play in the ongoing success of our business.

Angus Band
Chairman

Amelia Beattie
Chief Executive

17 April 2020

Financial Director's review

> "We achieved solid operational metrics as a result of the defensive nature and quality of the retail portfolio's income stream. This helped us meet our distribution guidance."
>
> **José Snyders**
> Financial Director

L2D delivered a credible set of results in 2019 in a difficult environment.

The office market remained under pressure given the market's oversupply, particularly in the Sandton precinct which houses most of our office portfolio vacancies. With limited economic growth the prospects going forward for the office market remain subdued. On the retail side, we have seen large SA retailers restructuring their operations (including downsizing and closing retail footprints) and increasingly focusing on cost-cutting as margins remain under pressure.

Furthermore, we have seen signs that international retailers already present in the country are re-evaluating the business rationale for remaining here in context of the challenges faced. In our retail portfolio this is reflected by the reversions we achieved in 2019 and is putting pressure on what we can expect to realise in 2020.

Despite these headwinds, we achieved solid operational metrics as a result of the defensive nature and quality of the retail portfolio's income stream. This helped us meet our distribution guidance. We are pleased that the property assets acquired during 2018 (including exposure to hospitality assets in the Sandton precinct) performed in line with expectations for the year under review.

We have also successfully refinanced a tranche of our term debt facilities which expired during the course of the year while reducing our overall funding rates.

Looking forward, leading indicators imply that the environment will remain constrained with the expected difficulties compounded by the emergence of the COVID-19 pandemic early in 2020. At the time of writing it is too early to fully assess the impact of the virus but we are comforted that L2D's balance sheet capacity and measured governance provides a significant buffer to the expected volatility and increased requirement for liquidity in the short to medium term. We are confident that our contingency plans will adequately protect our staff, tenants and asset portfolio during this difficult time and position us for recovery when normality returns.

Business review

The portfolio's operational performance over the period was good. Noteworthy factors include:

- Net property income (NPI) growth of 17.7% (5.36% when normalised for ownership changes during the period). This was driven by good underlying rental growth and by the coming on-stream of retail space that was previously in fit-out or reconfiguration. This was supported by healthy trading density growth of 3.6% in the retail portfolio.
- An improvement in the gross cost-to-income ratio for the year to 31.8% (2018: 35.8%) as a result of cost management initiatives (this includes the benefit of resolving the Eastgate rates objection relating to the 2017 valuation roll). We remain concerned by the extent to which rates and utility cost increases exceed inflation and the consequential impact this has on the comprehensive cost of occupation ratio for tenants in our portfolio.

- NAV increased by 2.1% at 31 December 2019. This includes the impact of the clean out dividend paid in 2018 as part of the corporate restructure, and a marginal increase in property values which reflects the subdued valuation metrics that are a result of the current environment. The purchase of shares by the Restricted Share Plan Trust (as part of the staff share incentive scheme) during the year are treated as treasury shares and the accounting for the scheme is now recorded on an equity-settled basis as opposed to the cash-settled basis we employed in prior periods.
- L2D's interest-bearing borrowings remain at conservative levels with a year-end loan-to-value (LTV) ratio of 16.1% (2018: 16.0%). The average cost of funding for the year ended 31 December 2019 was 8.95% (2018: 9.27%). As at that date, our interest rate exposure was hedged at 75% (2018: 33%) of term borrowings with an average hedge expiry of 2.84 years (2018: 2.83). With an interest cover ratio of 4.68x, we have the capacity to take on further debt and have a targeted long-term LTV of 35%. The debt raised as part of the corporate restructure in November 2018 contributed to an interest charge of R145 million for the period (2018: R12.8 million) which reduced profit before tax to R534.7 million after the profit from operations had increased by 15% to R668.8million.
- Credit collection at the end of the period remained healthy at 93.8% (2018: 94.8%). We continue to monitor our tenants' performance and engage in remedial action early when adverse indicators emerge. L2D's management also actively monitors large exposures and concentration risk in the portfolio.
- We elected to invest in Edcon as part of Edcon's restructuring. As at 31 December 2019, the investment in Edcon was carried at a fair value of R17.5 million which we believe is appropriate given the forecast and outlook as at that date.

Our low gearing is particularly beneficial in the current environment and provides a buffer for expected short- to medium-term volatility. Going forward, it also provides the capacity to engage new opportunities as they emerge. We continue to allocate capital towards initiatives that offer the appropriate level of return within acceptable risk tolerance levels and which pragmatically manage our growth aspirations while not diluting the quality of the existing portfolio.

Distribution

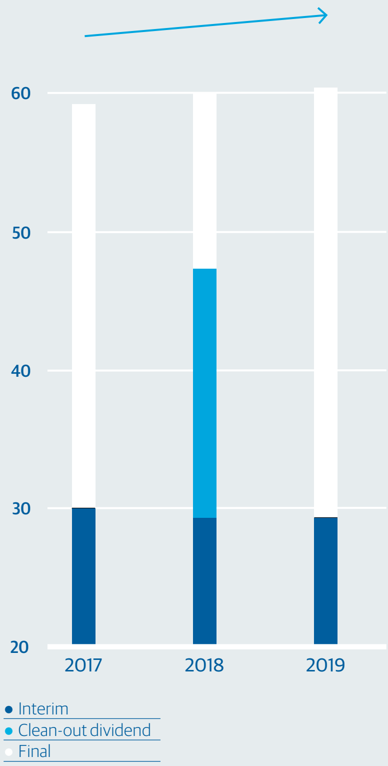
The distributable income per share for the full-year was 60.43 cents (2018: 60.00 cents), resulting in year-on-year growth of 0.7%. This is in line with our guidance to the market.

We paid two distributions during the 2019 financial year:

- The first distribution of 12.69 cents per share relates to profits earned in the two month period ended 31 December 2018 in the new group, post the restructure, and was paid in March 2019; and
- The second distribution of 29.31 cents per share was paid in August 2019 and relates to profits earned in the six-month period ended 30 June 2019.

The final distribution of 31.12 cents per share relates to the profits earned in the six-month period ended 31 December 2019 and was paid in March 2020.

Distributable income per share growth (cps)



Distributions backed by property rentals

Reconciliation of cash from operations to distributable earnings:

R'000	2019
Cash generated by operations	**682 775**
Adjusted for:	**(133 794)**
(Decrease)/increase in receivables	**(24 722)**
Decrease/(increase) in payables	**35 307**
(Decrease)/increase in amounts due from Group companies	**23 038**
Decrease/(increase) in in employee benefits	**6 049**
Depreciation and amortisation	**(13 254)**
Non-cash distributions to employees from the restricted share trust	**698**
Interest received	**3 482**
Interest paid	**(148 530)**
Other non-cash items	**(15 677)**
Taxation expense	**(185)**
Distributable earnings	**548 981**

Financial Director's review continued

Debt profile

Debt maturity

30%
Within 2 years

40%
Within 3 years

30%
Within 4 years

Loan to value (LTV)

16.1% 2018: 16%
Group loan to value

Hedge ratio

75%
Hedged currently

Hedge maturity

2.84 years
average hedge expiry

Cap rate and discount rate ranges

%	Exit cap rate	Discount rate
Office	**8.3 - 9.5**	**12.5 - 13.8**
Retail	**6.50 - 8.0**	**12.0 - 12.8**
Specialised	**8.3 - 10.0**	**13.0 - 15.3**
Hotels	**8.8**	**14.0**

The dividend has been declared from distributable earnings and meets the requirements 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. This remains unchanged from prior years.

Legislative compliance and governance

Our business complies with the corporate legislative requirements of the South African Companies Act, No. 71 of 2008 in addition to other regulatory requirements applicable to the REIT. We will continue to comply with King IV as tabled in our King IV application register, which is accessible on the L2D website.

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

José Snyders
Financial Director

17 April 2020

Business model

Liberty Group Limited (LGL) is the controlling shareholder in L2D, holding 57.8% of its shares at 31 December 2019. The operating entity, 2DP, is 100% owned by L2D. 2DP 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.

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.

At L2D, we understand how important it is to continuously enhance the quality and value proposition of our properties. Our business model is therefore centred on ensuring that our buildings and centres are exceptionally well run and are unique and relevant to their surrounding communities. This focus attracts tenants and shoppers to our centres and increases shareholder value, which is an imperative for the ongoing success of L2D. To create value for all of our stakeholders and ensure that L2D stays at the forefront of an ever-changing retail environment, we are in the process of developing a fully integrated engagement platform that delivers an extraordinary customer, tenant and service experience.

We earn the trust of our stakeholders by consistently delivering premium quality assets and this in turn drives sustainable returns for our investors. We pride ourselves on first gaining an understanding of all our stakeholders, and then striving to meet their ever-changing needs. To read about how we manage our relationships with various stakeholders, please see pages 78 to 83.

We measure the effectiveness of our business model by tracking the progress of our strategic value drivers, which are discussed on pages 19 to 23. These form the basis of our approach to doing business and help to determine how we connect with our stakeholders.

Our approach to property investment is focused on achieving long-term sustainable total returns. As property investments follow a longer business cycle, L2D's shareholders should stand to benefit from a stable and predictable income stream. As defined in King IV™ the six capitals help to illustrate our business model in terms of our inputs, business activities, outputs and opportunities, which is set out on pages 14 to 15.

Business model continued

L2D six capitals

1 Financial capital

Inputs
- Equity from institutional and non-institutional investors
- Debt financing

Outputs
- Refinanced R505 million of debt
- Paid R148.5 million in interest
- Distributed R381.5 million in dividends (during the 2019 calendar year) with R115.2 million relating to the final dividend for the 2018 year and R266.3 relating to the interim dividend for the 2019 year
- Recycled capital through sale of Century City Offices that raised R123 million of proceeds
- See the Financial Director's review from page 10 for more information

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

2 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
- Grew total asset value to R10.7 billion
- Total maintenance expenditure for the year of R92.2 million
- R12 million Investment in solar PV project at Midlands Mall
- See Tenant experience from page 32 for more information.

Opportunities
- Low LTV ratio provides capacity for future acquisitions and developments
- Identify innovative non-GLA opportunities
- Focus on growth in rental renewals
- Lower vacancies

3 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
- Improved returns and operating efficiencies
- Stable team with low employee turnover
- All critical employee vacancies have been filled
- Reduced risk of reputational damage
- 4 learnership participants
- Safe and secure environments
- See Our people from page 48 for more information

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

4

Social and relationship 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
- See Stakeholder management from page 78 for more information

Opportunities
- Conduct stakeholder engagement surveys
- Improve B-BBEE score
- Enterprise development
- Greater collaboration with surrounding building owners

5

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 m² higher than average market rates
- Improved tenant mix
- Reduction of bad debts
- Reduced vacancy rates
- Motivated and committed team
- See Our people from page 48 for more information

Opportunities
- Strengthen L2D brand awareness
- Strive to future-proof our assets
- Alignment of team and shareholders
- Improve operational efficiency
- Attract new international and national brands

6

Natural 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 net zero targets
- See the Sustainability report from page 100

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 specific net zero targets by 2020, 2025 and 2030
- Green Star ratings for retail buildings

Our strategy

Strategy

Vision

TO BE THE LEADING SOUTH AFRICAN PRECINCT FOCUSED, RETAIL-CENTRED REIT

Strategic pillars

1. **DRIVING TO FUTUREPROOF OUR ASSETS**
2. **PASSIONATE PEOPLE**
3. **GROW TO MAKE AN IMPACT**

Strategic outcome

DISTRIBUTION GROWTH

Strategic alignment

DRIVE AND CREATE SHAREHOLDER VALUE

Overview

L2D aims to deliver sustainable returns to shareholders through a quality property portfolio as well as our experienced leadership and management teams. Achieving this strategic goal has been our driving force since L2D's inception in 2016.

The main focus of our 2019 strategy was the execution of our three strategic pillars:

- Driving the futureproofing of our assets;
- Creating a team of passionate people; and
- Delivering growth.

Our purpose and vision guide our strategy

Our 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 purpose and vision guide our strategy and underpin our everyday business activities. We combine our energy with our business model to fulfil our vision and purpose.

Leveraging the experience and expertise of our management team ensures that we are well positioned to achieve our objectives.

Our three strategic pillars

1

Driving to futureproof our assets

Our aim is to create unique experiential spaces that people are proud to take ownership of and want to visit — spaces that provide a sense of community and go beyond the ordinary shopping experience. In the retail sector, we understand that 'business as usual' is not an option. With consumers increasing their spend on experiences, it is vital to adjust our priorities to remain relevant in a competitive market.

To this end, we have introduced new enhancements and elements into our environments that ensure our assets stand above and counter the conventional retail trends. These improvements include supplementing an experience, adding convenience to an experience, or enabling our assets to become an experience in and of themselves. We do this to ensure that our retail centres perform exceptionally well, as evidenced by our vacancies which are well below the benchmark of national vacancy averages. In addition, we partner with our tenants to ensure their best-of-breed offerings are available within our centres, where many brands' flagship stores are located.

The five building blocks

To help futureproof our assets and truly set them apart in the market, we identified five building blocks, which sharpen the focus of our efforts and business activities. Implementing our building blocks ensures that we create unique experiences in our environments, which then attract customers to our assets, driving organic growth.

During the year under review, we gained good traction in executing the strategic building blocks. For detail on the many successful initiatives we implemented in 2019 for each of the building blocks, refer to the section on **creating value for our customers**, commencing on page 28.

2

Passionate people

In order to make the most of our superior quality assets, we require a team of skilled and experienced people. Therefore, the core focus of our human capital philosophy is on employing the right people in the right roles. This means attracting and retaining passionate people who hold themselves individually accountable to help us achieve the outcomes that are aligned to our overall strategy. For more information on this pillar, refer to the our people section, which commences on page 48.

The five building blocks

Smart Spaces

Embracing technology

Creating smart environments by integrating technology to enhance customer's and retailer's experiences, securing our position at the forefront of innovative thinking.

On-demand Spaces

Time is valuable

Creating customer convenience because time is a valuable resource that cannot be bought, borrowed or saved.

Good Spaces

Sustainable and flexible

Ensuring minimal impact on the environment by adopting a flexible sustainability strategy.

Inclusive Spaces

Community place making

Creating a feeling of common ownership through sharing of social values and promoting health, happiness and well-being.

Immersive Spaces

Curating experience

Creating lively, human centric spaces, which bring together customers and experiences to create memorable stories.

3

Grow to make an impact

We continue to seek out opportunities in the market, with the aim of unlocking L2D's value and improving share liquidity. An improved liquidity and spread of shareholders will boost L2D's underlying value and offer a simple route to invest in commercial property in South Africa. In turn, L2D stands to benefit from positive investor sentiment.

Our primary focus is on extracting organic growth from the existing portfolio. A secondary goal is to supplement organic growth with appropriate growth opportunities. Our low LTV provides us with the capacity to consider attractive market opportunities that support our growth objectives. To preserve and enhance the superior nature of our current portfolio of assets, any future acquisitions will have to align with the levels of quality that underpin L2D.

Our strategy continued

Aligning strategy with material matters

Going forward, we have aligned our **material matters** to our **strategic value drivers**, as outlined in the table below:

Strategic value drivers	Material matters
Customer experience	SA economy and property industry headwinds including the management of our resource
Tenant experience	Tenant exposure and long-term, sustainable relationships
Employee experience	Human capital | Passionate People
Capital and risk management	Manage a strong balance sheet that supports sustainable distribution growth
Financial outcome	Portfolio performance through the management of the property manager
The good we do	Safety, transformation and climate change commitments

Executing our strategy in 2019

Our strategic value drivers

To fulfil our purpose and vision, we use the strategic value driver model. These drivers are aligned to our vision and enable us to execute our strategic pillars and building blocks. They also help to focus our business activities in order to deliver sustainable value for our stakeholders.

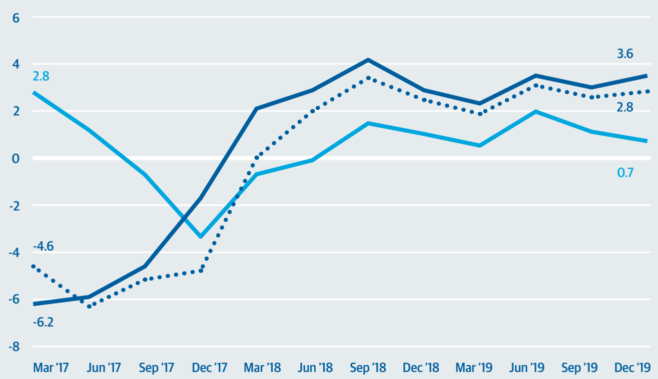
Our strategic value drivers provide an effective means to set strategic goals, monitor progress and measure our performance through metrics against industry benchmarks and peers. For the year under review, our performance per strategic value driver is set out in this section.

How we measured up in 2019

Customer and tenant experience

1

Annualised trading density growth (%)

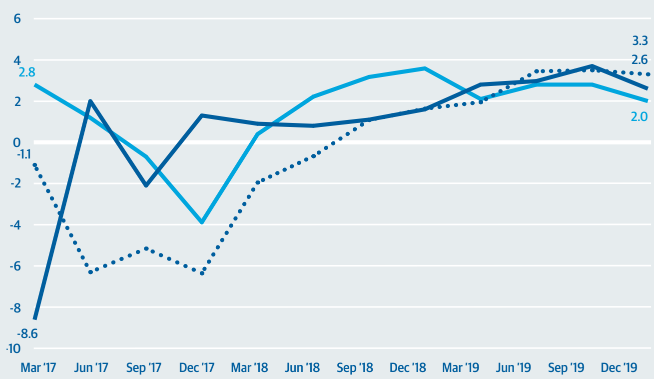


- L2D annualised trading density growth
- Regional MSCI*
- Super regional MSCI*

Customer and tenant experience

2

Annualised turnover growth (%)



- L2D annualised turnover growth
- Regional MSCI*
- Super regional MSCI*

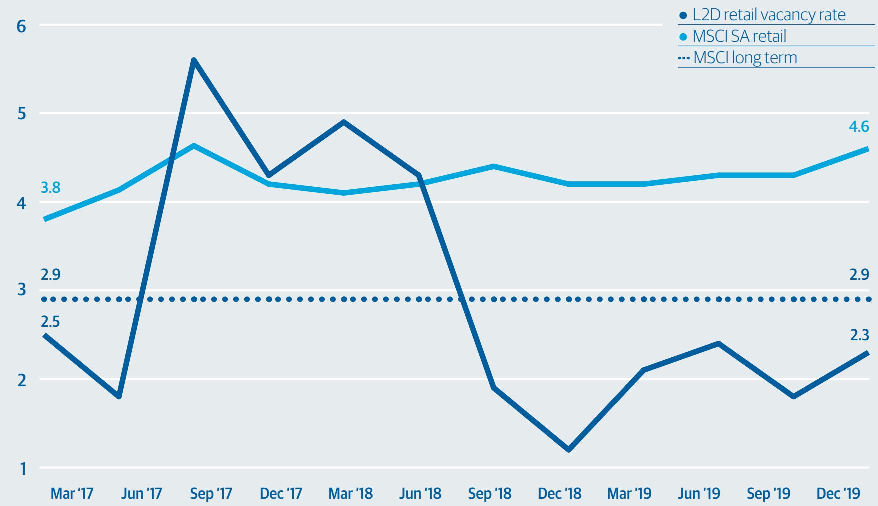
* MSCI turnover growth relates to the annual growth in average turnover per store in Super regional and Regional categories.

Executing our strategy in 2019 continued

Customer and tenant experience

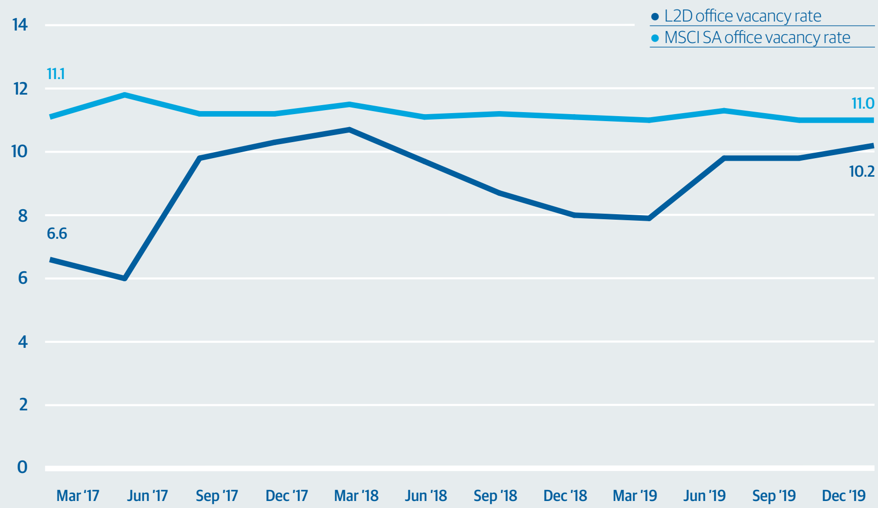
3

Retail vacancy trend (%)



4

Office vacancy trend (%)



From a trading perspective, the L2D retail portfolio has outperformed the sector as evidenced by an annualised trading density growth of 3.6% as at December 2019 above that of the MSCI super regional and regional benchmarks. From a turnover growth perspective, the portfolio tracked fairly in line with the average sales growth of the MSCI super regional and regional sub categories during the year.

While the portfolio's retail and office vacancies increased in comparison to the previous year, both rates remain below that of the sector benchmark vacancy rates.

We continue to benefit from our employee experience strategy which enables us to provide human capital excellence.

Our employee feedback as well as our low employee turnover rate is testament to this. We remain committed to continued gender diversity and transformation.

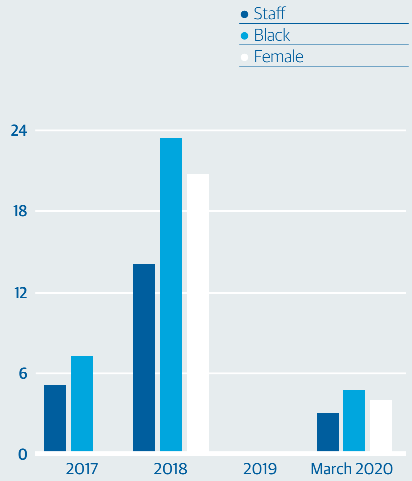
Employee transformation

	Male				Female								
Occupational level	A	C	I	W	A	C	I	W	**Total**	**No. Black**	**No. Black Female**	**% Black Target**	**% Black Female Target**
Top management	0	1	0	0	0	0	0	1	2	1	0	50	0
Senior management	**2**	**0**	**0**	**5**	**6**	**2**	**7**	**6**	**28**	**17**	**15**	**61** **61**	**54** **54**
Middle management	0	0	0	0	1	0	0	0	1	1	1	100	100
Junior management	0	0	0	0	1	0	0	0	1	1	1	100	100
Total	2	1	0	5	8	2	7	7	32	20	17	63	53
Non-permanent	2	0	0	1	2	0	0	0	5	4	2	80 75	40 25
Grand total	**4**	**1**	**0**	**6**	**10**	**2**	**7**	**7**	**37**	**24**	**19**	**65** **64**	**51** **50**

Employee experience

1

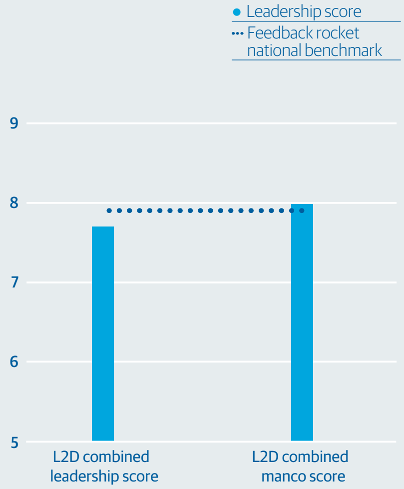
Overall staff turnover (%)



Employee experience

2

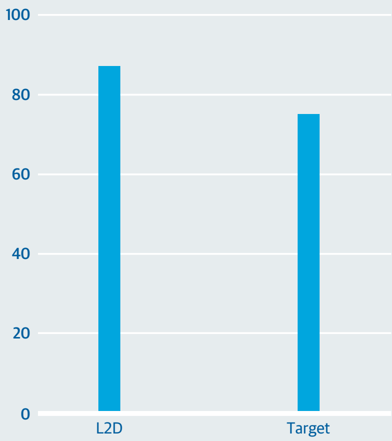
L2D 360 degree feedback



Employee experience

3

L2D 360 degree feedback participation rate (%)

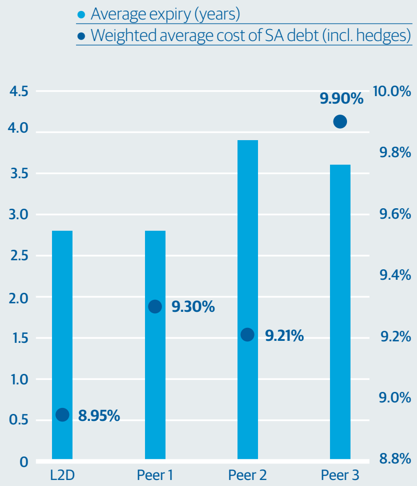


Executing our strategy in 2019 continued

Capital and risk management

1

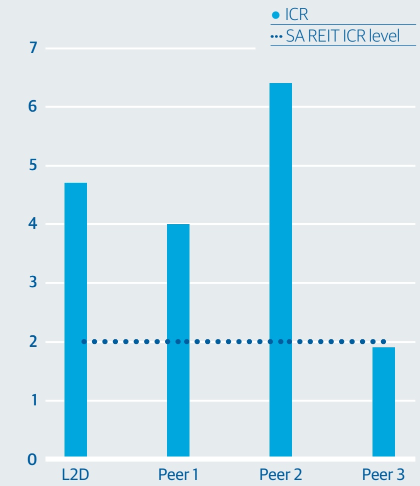
Debt expiry vs cost of SA term debt (%)



Capital and risk management

2

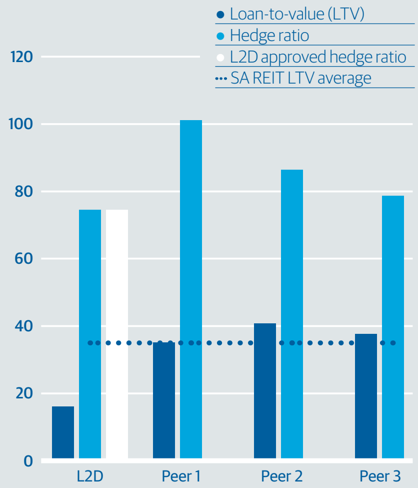
Group interest cover ratio (ICR)



Capital and risk management

3

LTV vs hedge ratio (%)

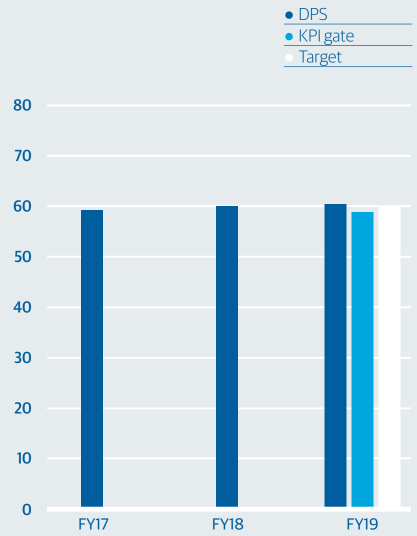


L2D has relatively low levels of debt and reported a loan-to-value (LTV) ratio of 16.1% at 31 December 2019 with an interest cover ratio of 4.68 times. These are well within our current LTV and interest cover ratio covenants with our lenders and provides headroom to extend debt facilities should this become necessary.

Financial outcome

1

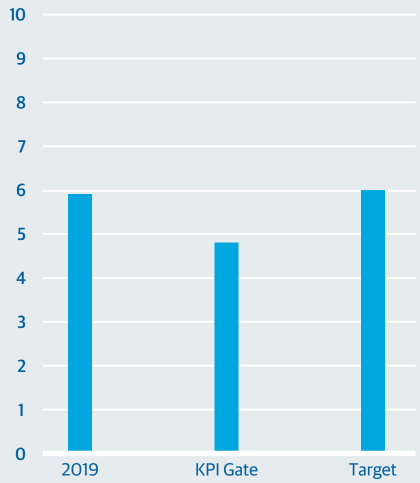
Distribution per share (DPS)



Financial outcome

2

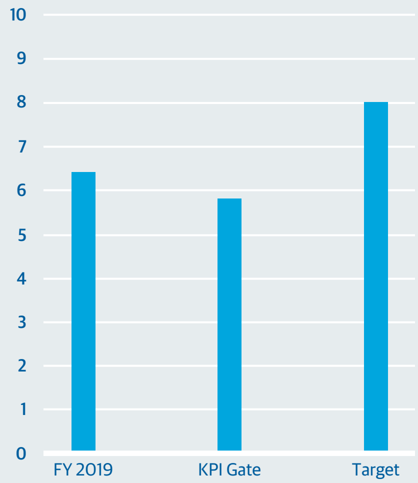
NPI growth (%)



Financial outcome

3

Total return (%)

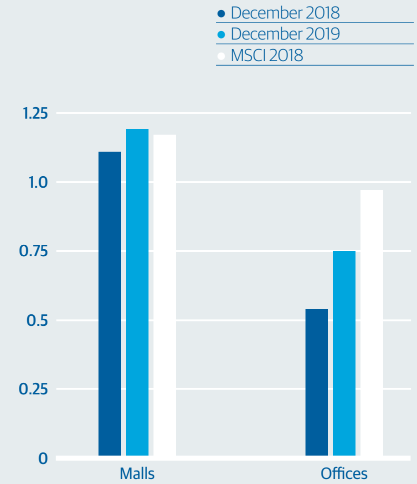


L2D delivered a distribution per share of 60.43 cents above the guidance of 60 cents per share. NPI growth of 5.86% was generated at a direct property level which was marginally below the target of 6%. This resulted in a total return generated by the portfolio for the 2019 financial year of 6.4%.

The good we do

1

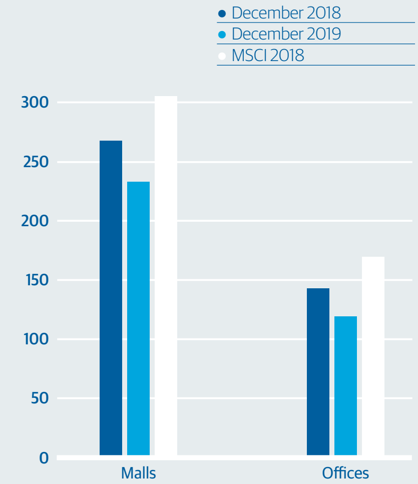
Water performance — portfolio average (kL/m² per annum)



The good we do

2

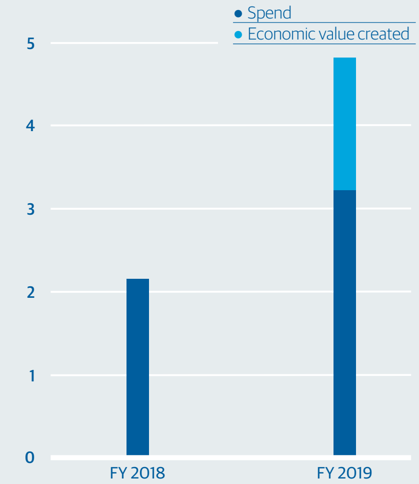
Electricity performance — portfolio average (kWh/m² per annum)



The good we do

3

CSI spend and economic value created (Rm)



As part of the Good the we do, L2D successfully delivered key sustainability and bold market-leading initiatives in the period. We remain committed to reducing the impact of our operations on the natural environment.

We are pleased to have invested R3.2 million in social initiatives with R1.6 million direct economic value created.

Material matters

At L2D, we define our material matters as issues that affect our ability to deliver on our purpose, strategy and primary objectives. We see material matters as being any business aspect that has the potential to affect our ability to extract value from the property portfolio, or to impact the value of the business, whether in a positive or negative way.

Our materiality process

Management identifies material matters by considering the impact a matter may have on all of the key aspects of the business, including our purpose statement and strategic objectives. We take stakeholder feedback into consideration, as well as risks and property trends in South Africa, the sustainability of the economic and natural environments, and the socio-economic effect of the matter on all our stakeholders.

Material matters are approved by the Board once they have been identified.

What influenced our business in 2019?

- Implementation of our refreshed strategy;
- Low business confidence in South Africa and its impact on the South African consumer;
- New municipal valuation objections in Johannesburg and the successful conclusion of the Eastgate municipal valuation objection;
- Impact of the Edcon restructuring and recapitalisation programme; and
- R1.5bn of debt taken on as part of the restructure transaction and the accompanying interest charge.

Our material matters in 2019

1. Tenant exposure and long-term, sustainable relationships
2. SA economy and property industry headwinds including the management of our resources
3. Human capital | Passionate People
4. Management of a strong balance sheet that supports sustainable distribution growth
5. Portfolio performance through the management of the property manager
6. Safety, transformation and climate change commitments

We have aligned our material matters to our strategic value drivers, as set out in the table on page 18.

1. Tenant exposure and long-term, sustainable relationships

Related risks	Stakeholders affected
Large tenant failures can significantly impact on vacancies, rental revenue, cost recoveries and ultimately distributions declared to shareholders. Loss in anchor tenants will lead to lower foot count and a decrease in the quality of our shopping centres.	Tenants, shoppers, shareholders, Board and employees Property manager

To ensure the active risk management of our tenant exposure and mitigate against potential tenant failures, we employ the following tools:

- JHIR and L2D leasing forum to drive proactive leasing decisions;
- Regular trading review of retailers including tenant and category performance against various metrics including turnover, trading density growth, rent to sales, comprehensive cost of occupation ratio and Altman Z-score; and
- A formalised retailer roadshow will be rolled out twice a year in 2020 to create long-term relationships and a shared value platform.

2. SA economy and property industry headwinds including the management of our resources

Related risks	Stakeholders affected
The subdued performance of the South African economy and the property sector can negatively impact the performance of L2D's property portfolio. Financial and reputational damage due to non-implementation of efficiency measures.	Shareholders, suppliers, tenants, shoppers and employees Property manager

From a macroeconomic standpoint, 2019 was a challenging year for South Africa, as we discussed on page 07. Looking forward, economic and political uncertainty and the ramifications of COVID-19 will likely create a cautious outlook for commercial property.

3. Human capital | Passionate People

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 that we have an experienced and knowledgeable management team, the loss of which would materially impact on L2D. Through continuous training and development, our employees are equipped with the appropriate industry knowledge. Having a strong skills base helps employees identify new growth opportunities and facilitates an increase in the value creation for shareholders through improved return on investment.

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

4. Management of a strong balance sheet that supports 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 our dividend will grow in excess of inflation going forward. We are aware of this expectation and the related impact on our share price. As a result, we carefully consider the yield on existing and new assets together with managing the cost of debt and our expense base in order to achieve the desired distribution target.

5. Portfolio performance through the management of the property manager

Related risk	Stakeholders affected
Poor service delivery from JHIR could 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 add value to our portfolio.

As part of our tenant management initiatives, the delivery of the property manager is key. This was the focus area of a specific project which was successfully concluded during the year. Issues that were identified in each work stream are now being rolled out across the portfolio with a view to create an improved property management function that aligns to our vision and purpose.

6. Safety, transformation and climate change commitments

Related risk	Stakeholders affected
Serious incidents at shopping centres that threaten people's safety can lead to reputational damage.	Shareholders, tenants and shoppers Property manager
Large tenants prefer landlords that have an acceptable B-BBEE rating.	Shareholders, employees, Board members, suppliers and tenants

Safety and security at all our shopping centres is closely monitored and underpinned by our "detect, deter and defend" philosophy. We have outsourced the security of our centres to Excellerate Security Services (Enforce), and the asset management teams and JHIR regularly engage with them to mitigate threats. There is also regular reporting to management on the status of threats and plans in place. Compliance with the Occupational Health and Safety Act and other related regulations is considered non-negotiable.

We are firm believers in the need to transform South Africa's unique socio-economic environment; it is actively promoted within our long-term sustainable growth action plan. We have implemented several steps to ensure effective, sustainable transformation within the business. This includes the use of additional B-BBEE suppliers, investment in enterprise and supplier development and effective talent management of our employees.

We have committed to ambitious sustainability targets of: net zero waste in 2020; net zero water by 2025; and net zero energy by 2030. R25 million was spent on sustainability projects in the portfolio in 2019. At Liberty Midlands Mall, we commissioned our first solar photovoltaic (PV) plant in the portfolio. Industrial scale composting systems were introduced at Eastgate and Sandton City. At Liberty Promenade in Cape Town, a rainwater harvesting system became operational in 2019. Most notable was the call to action to the industry to ban plastic bags from 1 January 2020. While work remains to be done, this has triggered significant change in the overall environment.

Customer experience

Customer experience

Creating value for our customers

As we move forward, our aim is to create spaces that enable personal, memorable human engagements and seamless interactions between retailers and consumers. Our brand's purpose will also continually drive authentic encounters through community-driven engagements and a strong focus on sustainable and ethical practices. We have articulated these initiatives and other aspirations through our strategic building blocks.

What does the experience economy mean for our iconic retail portfolio?

The evolution of the retail sector means that we are focused on leveraging experience as a competitive advantage. We do this through our commitment to our strategic pillars. Driving to futureproof our assets, and the five building blocks that stem from it: Smart Spaces, On-demand Spaces, Good Spaces, Inclusive Spaces, and Immersive Spaces. Our strategy follows international best practice; to create iconic playground experiences to entertain, educate and inspire people to shop.

We have consistently responded to the current low growth economic environment by seizing opportunities to keep our customers engaged, maintain our position at the forefront of retail and leisure trends, and deliver operational excellence at our centres. This has enabled us to:

- Create good relationships with tenants while driving them to enhance the customer experience; and
- Attract and introduce new concepts to the South African retail market.

Smart Spaces

We aim to secure and sustain our lead position in the market by remaining at the forefront of innovative design thinking. The creation of smart environments that integrate technology to enhance the customer and retailer experience is a key initiative in this strategic growth area.

2019 initiatives

Syenap, a camera-based foot count system, has been rolled out across the entire L2D portfolio. The system provides management with a better understanding of customer activity and movement, which enhances our leasing and marketing strategies.

On-demand Spaces

We truly appreciate and understand that time is valuable to customers. We have introduced a number of initiatives that create seamless convenience for shoppers.

2019 initiatives

My Sandton City Stop provides convenience and safety to shoppers on the move. Sandton City customers can now wait to be collected in a stylish, safe and secure location, regardless of their chosen mode of transport. The My Sandton City Stop has transformed the public transport experience from sideroad-waiting, to a valet style travel experience.

In partnership with Zeelo, L2D has introduced a personalised shared iconic mall shuttle service between Sandton City and Eastgate Shopping Centre. The luxury shuttle service is equipped with complimentary Wi-Fi for passengers. Please refer to page 35 of this report for more information about this initiative.

We also introduced additional service tenants (banks, utility service centres, etc.) across the retail portfolio to provide a 360° offering to our shoppers.

Good Spaces

Our shopping malls are ecosystems that provide trading and experiential environments for some of the world's most iconic brands as well as brands in high demand. With this in mind, we understand the importance of partnering with our stakeholders to accelerate our positive impact on the climate and our natural environment.

At L2D, we remain bold in driving our net zero commitments, which is evident at a number of our business operations and sites. We continue to reduce carbon emissions, water use and waste generation as we move towards achieving our net zero sustainability target by 2030. We plan to achieve net zero waste by the end of 2020; supportive initiatives have already been implemented to help us realise this goal.

2019 initiatives

- Best in class waste management facilities were installed at Sandton City.
- Smart water and electricity meters have been installed across the portfolio.
- A solar PV array was installed at Liberty Midlands Mall during the year.
- In October 2019, reverse vending machines were installed at Sandton City, offering an opportunity for customers to recycle waste and earn money. This enables customers to make recycling a part of their daily routine.
- In November 2019, Eastgate Shopping Centre launched the rooftop Aquaponics Farm District in partnership with Ichthys. For more details on this initiative, refer to the featured property write-up on page 42.
- November 2019 also saw the launch of the "Be the Change" campaign. This initiative aims to educate and inspire people to improve their attitude to making a meaningful and sustainable difference to preserve the environment. The campaign has been rolled out across all of our co-owned malls, complemented by an extensive set of initiatives to educate the public.

In 2020 we will fully execute a campaign with a programme of sustainability events and other marketing and operational-related features. We have also introduced a policy banning single-use plastic bags, straws and balloons across all L2D malls from January 2020.

Immersive Spaces

We understand that immersive experiences play an important role when it comes to reaching and connecting with the people who visit our centres. In this strategic building block, the initiatives we have implemented have helped to create spaces that provide relatable, memorable experiences for our customers.

2019 initiatives

- To create a more immersive experience from the life and culture of Nelson Mandela, we introduced a number of touch points at the Square relating to the life and times of the iconic leader. The touch points include relevant sayings, stories and products.
- Unique, interactive digital experiences were introduced, such as the digital aquarium at Sandton City.
- We enabled "social" moments through family-focused activities, as well as collaborations with the art and fashion industries through SA Fashion Week and Latitudes Art Fair.
- We created hospitality shopping packages with our partners in the Sandton Sun and Garden Court for travel shopping experiences aimed at our regional and international shoppers.

Inclusive Spaces

Our Inclusive Spaces building block addresses how accessible our spaces are to shoppers and visitors at our centres. This includes accessibility in physical or social terms, as well as to activities, events and information.

The core retail assets in our property portfolio are inclusive, warm and welcoming community spaces that create a feeling of common ownership through shared social values. They promote happiness, health and wellbeing while meeting the needs of customers.

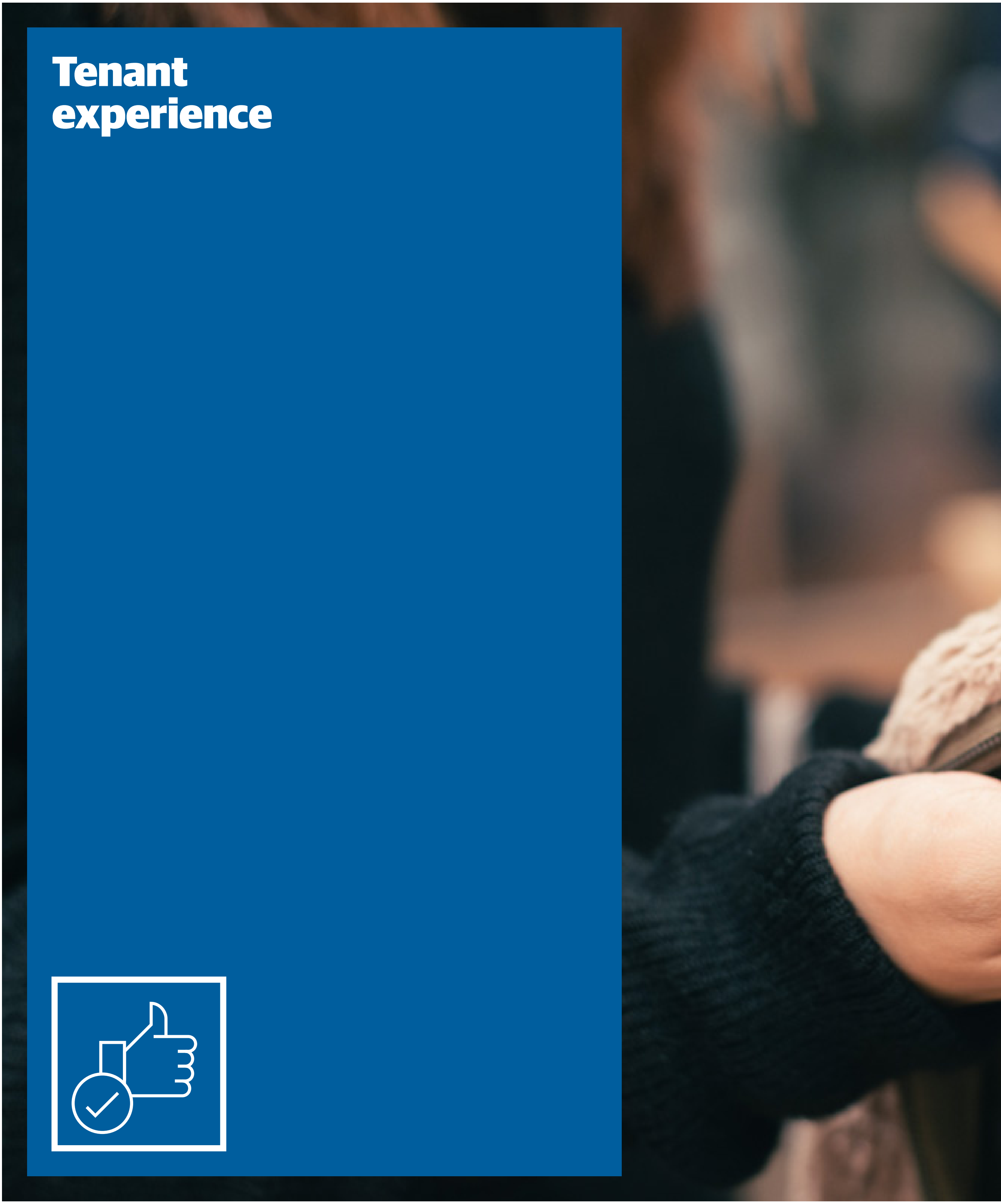
Our rooftop and outdoor activations add another dimension and a sense of balance for shoppers in the way they engage and experience our spaces. Rooftop and outdoor activities offer endless opportunities, and potential initiatives at our centres include pilates and yoga, running, cycling, cancer awareness campaigns, blood drives and wellness testing.

Improving accessibility also means easing congestion in areas surrounding our centres and creating inclusive spaces for people to walk and interact. While traditional mall design offers few entry and exit points, mainly for vehicle access, we are working to offer better access for pedestrians and public transport.

2019 initiatives

- We launched the Baby Care Lounge at Sandton City, which offers a safe environment for shoppers with babies and toddlers. It offers a food preparation area and a tailored soft play area and is fully equipped for people to feed and change their little ones in comfort.
- We also introduced the Kohinoor Lounge at Sandton City, which offers a VIP lounge experience in the heart of Africa's richest square mile. The construction works were completed in 2019, with the official opening taking place in 2020.
- Another successful fashion show was held at Sandton City during the year.
- We also held a number of outdoor and rooftop activities and events including the Christmas Market at Sandton City, and the Christmas Carnival, rooftop running track and car show at Eastgate.
- The Eastgate improvement district, tasked to, improve security, the overall surrounding environment and create a sense of community within the precinct, was established during the year.
- Phone charging points have been rolled out and are available in all of our malls. Charging stations and lockers for cell phones have been added to the Sandton food district. Pause areas incorporating charging points on the Eastgate Piazza as well as the Nelson Mandela Square activation corner projects are in progress.
- At Nelson Mandela Square, customers can scan QR codes on special floor tiles to read quotes from the centre's famous namesake or listen to extracts of his speeches on audio pods.
- We have encouraged the availability of vegan and vegetarian food and beverage options with in all retail malls.

Tenant experience



Tenant experience

Portfolio key facts

	2019	2018
Total property gross lettable area (GLA) for combined L2D and LPP portfolios[1]	967 866m^2	967 866m^2
Rental and related income	R1 023.9m	R915.1m
Total value of investment property	R10.3bn	R10.1bn
Annualised trading density[2]	R44 583/m^2	R42 639/m^2
Vacancies	4.7%	3.4%
Weighted average gross rental	R331/m^2	R299/m^2
Retail	R395/m^2	R368/m^2
Office	R136/m^2	R134/m^2
Other	R183/m^2	R57/m^2
Undivided share of LPP	33.3%	33.3%
Historical yield	8.96%	8.14%

1 L2D has an undivided share of the total.
2 Annualised trading density per m^2 excludes Lifestyle Centre.

Our business

Sectoral profile

Our portfolio consists of high quality, high value properties in the retail, office and specialised sectors. The retail component generates the majority of our gross rental income, followed by office space and the specialised sector, which includes hotels, a hospital, a motor vehicle dealership and a gym. During the year under review, we concluded the process of converting the hotel management agreements into a hybrid lease structure of 50% rental and 50% turnover.

On the following pages, we evaluate the different sectors to which our rental income is exposed to separately, to ensure that we can respond with agility to trends. The gross lettable areas (GLA) referenced in the following sections refers to all properties at a 100% level.

Retail

Basic rental income as percentage of total property portfolio (%)	79.9
Gross lettable area (m²)	523 135
Vacancies (%)	2.3

Our retail portfolio features several iconic properties that are prime destination centres with high level market dominance. Each centre offers a dynamic tenant mix that is designed to meet the varying and ever-changing needs of consumers. The retail portfolio continues to show strong year-on-year trading density growth and has generated steady net property income growth.

Office

Basic rental income as percentage of total property portfolio (%)	11.5
Gross lettable area (m²)	331 326
Vacancies (%)	10.2

The office component of the portfolio consists of offices that are attached to retail property within a mixed-used precinct, as well as standalone offices. Our mixed-use precinct offices include Sandton City, Nelson Mandela Square, Eastgate and Melrose Arch. For the most part, these spaces are rented out to multiple tenants.

In our standalone office buildings, we have single tenant leases in place as well as sections with multiple tenants. The majority of our standalone offices are tenanted by Liberty Holdings Limited and Standard Bank.

Specialised

Basic rental income as percentage of total property portfolio (%)	4.9
Gross lettable area (m²)	113 405
Vacancies (%)	0

The specialised element of the portfolio consists of prime rental space that is mostly located within the Melrose Arch complex, Sandton Convention Centre, Virgin Active Sandton, Melomed hospital and automotive showrooms located in Richards Bay.

The tenants that operate from our specialised spaces usually enter into long-term leases, which has a mitigating effect on vacancies in this sector and is beneficial for the portfolio.

Hotels

Rental income as percentage of total property portfolio (%)	3.8
Rooms	1 001
Occupancy (%)	68*

* Weighted occupancy by number of rooms.

Our hotel portfolio includes Garden Court Sandton, Sandton Sun and InterContinental Towers. The hotel portfolio is geared to luxury grading with Garden Court graded as a mid-tier offering.

Vacancy profile

Sector	Vacant space (m²)	% of total GLA*
Retail	11 773	2.3
Offices	33 765	10.2
Specialised	–	–
Total 2019	**45 538**	**4.7**

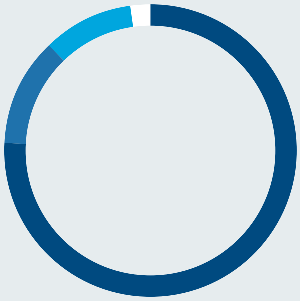
* Vacancy rates are not adjusted for any pre-let deals concluded.

Office

The overall portfolio vacancy rate was 4.7% at year-end, rising from 4.6% in June 2019 and 3.4% in December 2018. When adjusted for pre-let deals, the portfolio vacancy rate improves to 4.3%. The increase to 4.7% was largely driven by the oversupplied and underperforming office sector, where the vacancy rate sits at 10.2% (FY2018: 8.0%). Office fundamentals have been weaker in recent years, which has led to higher levels of vacancies coupled with softer rental reversions on deals concluded. That said, the office component of our portfolio has shown resilience under tough economic conditions, remaining below the SAPOA Q4 national office vacancy rate of 11.0%.

Geographical split of the portfolio by GLA

Gross lettable area (%)



Gauteng	76
KwaZulu-Natal	12
Western Cape	10
Free State	2

GLA split based on 100% of property portfolio GLA.

By GLA, about three quarters of the properties we own and manage are located in Gauteng province, followed by KwaZulu Natal, which accounts for about 12% of lettable space. This split is a reflection of our strategy to target the Gauteng area as the province is the hub of South Africa, and the home to the prestigious Sandton node (also known as Africa's richest square mile).

The Sandton office node continues to be under pressure due to the increased supply of offices in Sandton and Rosebank. We have implemented office-specific initiatives to reduce vacancies.

Retail

The retail vacancy rate is half the overall portfolio vacancy rate: a commendable 2.3%. As a result, our retail portfolio continues to outperform its peers. If pre-let deals were taken into account, the retail vacancy rate would reduce further to 2.2%. SAPOA's Q4 2019 retail vacancy benchmark is (4.6%).

Tenant experience continued

Trading performance

At the end of December 2019, the overall trading density growth of the portfolio excluding Melrose Arch and Midlands Lifestyle Centre improved to 3.6% (FY2018: 3.0%). With Melrose Arch included this rose to 4.6% at the end of December 2019. The performance improvement of Melrose Arch in terms of trading density growth is largely attributed to the vacating of the poor performing Edgars store as well as the inclusion of high density trading new tenants. Sandton City continues to improve its trading density growth mainly as a result of space optimisation and improved tenant mix. Eastgate's performance is expected to improve post the re-tenanting of the Edgars upper level.

SAPOA reported annualised trading density growth as at December 2019 of 6.1%. Growth in the retail sector has been driven mainly by the smaller retail formats, in particular the neighbourhood retail segment. The super-regional and regional retail categories, which compare to our centres, recorded lower growth of 2.8% and 0.7% respectively.

For further information and metrics on our individual properties, please refer to pages 35 to 43 of this report.

Lease expiry profile

We are able to maintain a balanced lease expiry profile across the portfolio by continuously evaluating the tenant mix and engaging with current and prospective tenants on a regular basis. For details on how we engage with our key stakeholders, please see pages 78 to 83 of this report. The current lease profile is tabled below and provides an analysis of when the leases will be terminated:

Leasing and renewals

With Sandton City almost fully let during the year under review, we were encouraged by the leasing activity within the portfolio. The Checkers refurbishment at Sandton City was completed in Q4, with the retail giant opening a new world-class flagship store. Lease agreements with Sportscene, Wimpy, Capitec and My Cotton Tree accounted for the balance of the space that was redeveloped during the refurbishment at the centre. Midlands Mall ended the year with no vacancies highlighting its appeal to tenants and consumers alike. Eastgate successfully retenanted the area relinquished by Edgars during the year thus enhancing its tenant mix.

New leases

We took on a number of noteworthy new tenants during 2019 including international brands Lush and Cole Haan. In terms of new offerings, we also signed leases with Yuppiechef, IQOS, Hydraulics, Daniel Wellington, Hydraulics Avant Garde and A2. Customer preference leases included Paloma Boutique, My Cotton Tree, Rockets Man, Kingsley Heath, DMF, Kryolan, Sneaker Factory and Capitec Bank. We let pop-up stores to Freddy, Gugu Intimates, Off-White and Ed Sheeran. New stores due to open in 2020 include Chanel Cosmetics, Desigual and Mango.

Expiries and tenant retention

In terms of GLA, lease expiries for 2019 amounted to approximately 195 000m², representing 22.8% of the portfolio. Of these expiries, 79.7% of tenants renewed their leases with a number of renewals under negotiation.

At L2D, we strive to maintain and enhance the quality of our properties, as well as improve the precincts in which they operate to keep them relevant and make them more appealing. This is key to both retaining current tenants and attracting new tenants and forms an important part of our strategy.

Rent reversions

Overall, the portfolio reversion rate on lease renewals was -11.8%, with the office portfolio recording -19.9% and the retail portfolio -8.7%. The negative retail reversion rate was mainly due to Sandton City, Melrose Arch and Eastgate Shopping Centre. This rebasing of retail tenants to lower, more sustainable market rentals upon renewal of their leases, aligns with our strategy to futureproof our assets and income stream.

The office reversion rate was also negative, owing largely to Standard Bank's 2019 renewal. This negative reversion to market was based on an external valuation report to meet governance requirements. We also saw negative reversions at Sandton City Office Tower, Atrium on 5th, Nelson Mandela Square Offices and Melrose Arch Offices.

Average net rental

The average net rental (R/m²) per asset as calculated below = total rent divided by total leased GLA. Total rent is the sum of basic rent and turnover rent. Total leased GLA is the total building GLA less vacancies, over the 12-month period.

Period	Lettable area (GLA, m²)	%	Contractual monthly rental (R)	%
Monthly and expired	60 193	6.3	20 954 693	8.5
2020	177 711	18.7	52 281 916	21.3
2021	100 697	10.6	41 508 191	16.9
2022	156 735	16.5	52 580 842	21.4
2023	75 183	7.9	22 661 745	9.2
2024+	324 824	35.3	55 915 576	22.7

The percentage lease expiry is calculated based on total GLA including vacancies.

Property portfolio overview

We operate in an ever-changing retail and property environment, where consumers base their purchase decisions on a dynamic set of factors. By implementing our focused strategy, we are able to remain at the forefront of retail and leisure trends while maintaining operational excellence at our assets.

In order to engage with customers in a way that creates a memorable experience, we implemented a number of initiatives during the year which have translated into positive trading metrics for the portfolio. For more about our customer-facing initiatives and how we keep our properties at the leading edge of the market, refer to pages 28 to 29 of this report.

A Sandton City Complex

In terms of trading density and retail offering, Sandton City is South Africa's market leader in its peer group of super-regional shopping centres. From a consumer perspective, Sandton City stands apart with its unique tenant mix and experiential offering. The centre's Diamond Walk luxury section outperforms competitor offerings and remains the key differentiator for Sandton City. Its success has led to the expansion of the centre's luxury offering, which includes Coach, Emporio Armani and Tiger of Sweden.

The centre's retail vacancy rate was 0.4% at year-end, testament to the robust nature of Sandton City despite a tough economy. Due to the Edcon space rationalisation, we anticipate that Sandton may experience some churn during 2020. To mitigate this, we have an effective tenant leasing strategy in place to fill the resulting spaces.

As part of our strategy to futureproof the portfolio, we have introduced a number of initiatives at Sandton City to improve the shopper experience. These include the launch of the Baby Care Lounge, My Sandton City Stop, reverse vending machines, Iconic Mall Shuttle service in partnership with Zeelo, and the introduction of additional service tenants such as banks and utility service centres. For information about these initiatives and how we create value for our customers, please refer to pages 28 to 29 of this report.

Ownership	25%
Location	Gauteng
Sector	Retail and office
Property value	R14bn
Retail average net rental	R542/m²
Office average net rental	R152/m²
GLA	199 140m²
Retail vacancy	0.4%
Office vacancy	27.1%
Trading density	R59 052/m²
Annual foot count	20.7m
Major retail tenants by GLA	Checkers Hyper, Woolworths, Dis-Chem, H&M and Truworths
Number of tenants	467

B Nelson Mandela Square

One of the most well-known open public squares in the country, Nelson Mandela Square features a six-metre statue of the iconic statesman, which is one of Africa's most photographed attractions. A selection of fine restaurants forms a significant component of lettable space at Nelson Mandela Square, and the addition of new Halaal offerings to the upper level has enhanced the appeal of the popular restaurant destination.

In order to create a more immersive experience for customers to relate to the life, times and culture of Nelson Mandela, we have introduced various touch points of sayings, storytelling and products at the Square. Our customer initiatives at Nelson Mandela Square and others are discussed further on page 29 of this report.

Ownership 33%	
Location Gauteng	Sector Retail and office
Property value R1.7bn	
Retail average net rental R516/m²	Office average net rental R107/m²
GLA 38 795m²	
Retail vacancy 9.0%	Office vacancy 40.7%
Trading density R58 077/m²	
Major retail tenants by GLA Hard Rock Café, The Butcher Shop and Grill, and Trumps	
Number of tenants 110	Annual foot count 10m

C Liberty Midlands Mall

Located in KwaZulu-Natal, Midlands Mall has the notable advantage of being Pietermaritzburg's only regional shopping centre. The Lifestyle Centre includes tenants such as Checkers, Planet Fitness and a variety of new food offerings. After completing the mall's extension, we were able to expand the Woolworths offering. Rooftop PV solar panels were installed during the year and will generate approximately 1MW of the mall's energy requirements.

Ownership 33%	
Location KwaZulu-Natal	Sector Retail
Property value R2.5bn	
Mall average net rental R219/m²	Lifestyle Centre average net rental R163/m²
GLA 77 782m²	
Mall vacancy 0%	Lifestyle Centre vacancy 1.3%
Mall trading density R37 719/m²	Lifestyle Centre trading density R17 474/m²
Major retail tenants by GLA Game, Pick n Pay, Woolworths, Checkers, and Dis-Chem	
Number of tenants 201	Annual foot count 6.9m

D Liberty Promenade Shopping Centre

In the Western Cape, the Liberty Promenade Shopping Centre experienced high footfalls and low vacancies ending the year with a vacancy rate of 0.5% (2018: 0.7%). The centre also reported trading density growth of 1.7% at 31 December 2019. We have been enhancing the tenant mix and introducing new tenants, which will assist in attracting new customers and retaining existing customers.

E Botshabelo Mall

Located in the Free State, Botshabelo Mall experienced strong annual trading density growth of 12.7% at 31 December 2019 (2018: 9.7%). Vacancy levels continued to improve to 5.2% at 31 December 2019 (2018: 5.8%). Once again, we were encouraged by the mall's positive trading performance and leasing activity, which positions it well for another year of strong support from customers in the surrounding communities.

Ownership
33%

Location
Western Cape

Sector
Retail

Property value
R1.8bn

Average net rental
R165/m²

GLA
73 400m²

Vacancy
0.5%

Trading density
R41 289/m²

Major retail tenants by GLA
Pick n Pay, Game, Woolworths, and Ster Kinekor

Number of tenants
167

Annual foot count
14.1m

Ownership
33%

Location
Free State

Sector
Retail

Property value
R299.2m

Average net rental
R132/m²

GLA
20 743m²

Vacancy
5.2%

Trading density
R32 858/m²

Major retail tenants by GLA
Shoprite, Pick n Pay, Woolworths, Cashbuild, and Truworths

Number of tenants
61

F Standard Bank Centre

The Standard Bank Centre is a single-tenant building located in the heart of the Johannesburg CBD with easy access from the M1 highway. This landmark building operates under a triple net lease, meaning the tenant is responsible for the rent and all property expenses, including maintenance, tax and insurance. A single-tenant arrangement is ideal for the property as Standard Bank has a strong tenant profile and is currently leased until 2024.

G Century City Offices

Located in the Western Cape, the Century City office property is home to the Liberty Group Limited, Digital Outsource and Standard Bank. On 1 November 2019, we advised our stakeholders of our intention and agreement to sell Century City via a SENS announcement, which is available on the Investors section of our company website.

	Standard Bank Centre	Century City Offices
Ownership	17%	33%
Location	Gauteng	Western Cape
Sector	Office	Office
Property value	R1.0bn	R370m
Average net rental	R78/m²	R163/m²
GLA	92 789m²	18 224m²
Vacancy	0%	0%
Major retail tenants by GLA	Standard Bank	Liberty Group Limited and Digital Outsource
Number of tenants	1	2

H Liberty Centre Head Office and Umhlanga Ridge Office Park

Located in Umhlanga Rocks, KwaZulu-Natal, the Liberty Centre Head Office and Umhlanga Ridge Office Park is a purpose-built, five-storey building in one of the country's best-known mixed-use development nodes. This office property is predominantly tenanted by the Liberty Group Limited Head Office and Regus.

I John Ross Eco-Junction Estate

The John Ross Eco-Junction Estate is located in Richard's Bay and comprises three components: Melomed Hospital, Tangawizi Motors and the remaining estate. The 200-bed Melomed Hospital facility opened in January 2018 and represents our first private hospital development. The property is a mixed-use commercial and industrial development and offers a convenient location, with good accessibility, security and infrastructure to meet the healthcare services needs of the local community and surrounding areas.

Ownership
33%

Location
KwaZulu-Natal

Sector
Office

Property value
R339.7m

Liberty Centre head office
R236.5m

Umhlanga Ridge Office Park
R103.2m

Average net rental
R128/m²

GLA (combined)
20 352m²

Vacancy
2.3%

Major retail tenants by GLA
Liberty Group Limited and Regus

Number of tenants
9

Ownership: Estate and Tangawizi Motors
33%

Ownership: Melomed Hospital
23%

Location
KwaZulu-Natal

Sector
Specialised

Property value
R653.3m

Property value: Melomed Hospital
R486.2m

Property value: Remaining estate
R97.5m

Property value: Tangawizi Motors
R69.6m

J Sandton Specialised

Located in Africa's richest mile, the Sandton Sun, InterContinental Towers and Sandton Garden Court are managed by Tsogo Sun. The Sandton Sun and InterContinental Towers are both five-star hotels, consisting of 326 and 231 standard rooms respectively and are located in two separate towers, spanning nine floors. Included are two restaurants, two boardroom facilities and a fitness centre. The Sandton Garden Court is a three-star hotel offering 444 rooms that vary in size, as well as a restaurant, boardroom, fitness centre and spa.

With a GLA measuring 57 910m², the Sandton Convention Centre is one of South Africa's leading exhibition, conference and events destinations. The centre is also managed by Tsogo Sun and delivers premium, multi-use event spaces and venues to local and international patrons. Conveniently located in Johannesburg's financial hub, the centre offers visitors easy access to a number of leading hotels, shopping centres of distinction, entertainment complexes, as well as the Gautrain and OR Tambo International Airport.

Virgin Active Sandton is a 3 406m² facility fronting Alice Lane that offers customers a luxury gym experience. The upmarket gym features state of the art facilities, equipment and a personalised health and wellness experience in the heart of Sandton.

Ownership: Garden Court Centre 25%	Ownership: Convention Centre 25%
Ownership: Sandton Sun and InterContinental Towers 25%	Ownership: Virgin Active 25%
Location Gauteng	Sector Specialised

Property value
R2.05bn

Property value: Virgin Active Sandton
R53.4m

Property value: Sandton Convention Centre
R570.4m

Property value: Garden Court Sandton City
R678.8m

Property value: Sandton Sun and InterContinental Towers
R752.9m

Melrose Arch

Conveniently located between the Corlett Drive and Athol Oaklands M1 highway ramps, Melrose Arch is a mixed-use precinct with retail, office, hotel, residential and showroom components. As a result, Melrose Arch attracts a variety of visitors and epitomises the theme of live, work and play.

A number of exciting new tenants have been introduced to improve customer dwell-time in the precinct, including Tigers Milk, Daytona Direct and Mr George. The One on Whiteley development is now open and has almost sold out. It comprises a Marriott Hotel and a retail component including showrooms and a private gym.

Due to an oversupply in the market and competitive deals on offer in Rosebank, office vacancies in the precinct increased during the year.

Ownership
8%

Location
Gauteng

Sector
Retail, office and specialised

Property value
R7.2bn

Retail average net rental
R226/m^2

Office average net rental
R214/m^2

GLA
199 216m^2

Retail vacancy
5.7%

Office vacancy
6.5%

Trading density
R29 722/m^2

Major retail tenants by GLA
Woolworths, Truworths, @Home, Tigers Milk, and Starbucks

Number of tenants
221

Our retail assets are centres of excellence

Once again during the year, we made a concerted effort to create experiential spaces for customers and support the communities that surround our properties. As evidence of the progress we have made to reach this objective, we are pleased to have received positive feedback from the South African Council of Shopping Centres (SACSC).

With over 170 entries in the SACSC's Footprint Marketing Awards, the efforts of our centres were recognised and awarded with the following:

Bronze Winners

- Liberty Midlands Mall, The Grinch Loves Midlands, Advertising Category
- Nelson Mandela Square, Mandela Day, Public Relations Category
- Liberty Promenade, Next Generation, Public Relations Category
- Sandton City, Night With The Stars, Community Relations Category

Silver Winners

- Sandton City, Italian Retrospective, Visual Merchandising Category
- Liberty Promenade, Next Generation, Community Relations Category
- Eastgate, Since 1979, Sales Promotions and Events Category
- Eastgate, Since 1979, Public Relations Category
- Eastgate, Since 1979, Visual Merchandising Category

Gold Winners

- Sandton City, Nutcracker, Sales Promotion and Events Category
- Sandton City, SA Fashion Week, PR Category

The Spectrum Award

- Sandton City, Nutcracker, Sales Promotion and Events Category

Featured property:
Eastgate Shopping Centre

Ownership
33%

GLA
145 240m²

Location
Gauteng

Retail vacancy
3.7%

Office vacancy
2.7%

Sector
Retail and office

Trading density
R37 334/m²

Annual foot count
14.4m

Property value
R8.8bn

Major retail tenants by GLA
Woolworths, H&M, Checkers Hyper, Game and Mega Mica

Average net rental (including offices)
R374/m²

Number of tenants
251

L Eastgate Shopping Centre

Dominating the retail landscape in the east of Johannesburg is Eastgate Shopping Centre, a long-established super-regional centre with significant customer support.

Since 1979

Upon its completion in 1979, Eastgate boasted an unprecedented GLA of 90 000m² and became the first super-regional shopping centre in Johannesburg. It was also the largest shopping centre in South Africa and the southern hemisphere. Today, the retail component of the Eastgate Complex spans nearly 137 000m², with an office component of about 8 000m².

Being accessible to large numbers of customers is crucial for a super-regional shopping centre to be successful and sustainable. The centre is conveniently located in close proximity to the Gillooly's interchange connecting the N3 eastern bypass and the R24 airport freeway, between the Johannesburg CBD and OR Tambo International Airport. The centre owes much of its success and longevity to having this prime location and high accessibility.

In 2017, we successfully completed a major redevelopment at the centre which saw the modernisation of both the retail and office components and grew the total GLA to 145 240m². The tenant mix was also refreshed with the introduction of new brands. This significant project revived the centre's look and feel, offering customers an improved and diverse mix of 251 tenants, including Woolworths, H&M, Checkers Hyper, Cotton On, Mr Price Weekend and Mega Mica.

Strong performance

In 2019, re-letting space that was previously Edgars on Eastgate's upper level allowed for the introduction of four new tenants: Mr Price Home, Rage, Cotton On, and Pick n Pay Clothing. These new stores were seamlessly integrated and provide customers with a rich variety of offerings based on range and pricing.

Eastgate experienced good footfall growth on Black Friday and for December of 11.1% and 7.6% respectively. We are currently upgrading and modernizing the centre's Piazza area which will enhance the experience of both customers and tenants.

The shopping centre achieved a respectable annualised trading density of R37 334/m² during the year. While this is below the MSCI Real Estate Index super-regional benchmark of R38 812/m², if Sandton City and Nelson Mandela Square are excluded, the benchmark falls to R36 017/m².

At year-end, Eastgate reported a vacancy rate of 3.6% for its retail component and 2.7% for office space. When compared to SAPOA's super-regional centre vacancy rate of 6.3%, Eastgate's performance is truly commendable. In addition, when taking pre-let deals into account, the centre's retail vacancy improves further to 3.1%.

The shopping centre experienced turnover growth of 1.8% year-on-year, while annual trading density growth reduced marginally by -0.5%. Positively, the centre's foot count grew by 3.3% for the year, reporting an average of 1.2 million customers per month.

Eastgate celebrated its 40th birthday in 2019 and ran a full-year campaign that was well received and won a number of Footprint Marketing Awards, as listed on page 41 of this report.

Looking after tomorrow

In a first for shopping centres, we have partnered Eastgate with Ichthys Aquaponics to address food and water security. Using the latest technology, plants and fish are grown together in one integrated system, significantly reducing the water required and waste generated. The centre's rooftop aquaponics farm district will offer customers and tenants the opportunity to buy sustainable foods such as fresh fish, tomatoes, lettuce, cucumbers, herbs, peppers and spinach. This exciting initiative is discussed further on page 107 of this report.

We have also partnered with transport service Zeelo to launch a luxury shuttle between Eastgate and Sandton City. Customers can choose between four morning time slots departing from Eastgate and four afternoon slots returning from Sandton. The shuttle service offers highly competitive rates and includes free parking. The service reduces pollution, vehicles on the road and passengers can use the opportunity to relax or use the free Wi-Fi during the trip.

Forty years after it first opened to the public, Eastgate Shopping Centre is still one of the largest, best loved shopping centres in South Africa. It has more than stood the test of time by significantly growing in size and stature and undergoing a number of evolutionary upgrades to meet the ever-changing needs of customers and surrounding communities.

Employee experience

Our leadership

Our leadership comprises individuals who possess the skills and experience to help fulfil our vision and purpose and achieve our strategic objectives in order to deliver sustainable value for our stakeholders. We have a unitary board structure consisting of seven directors at the date of this report. The directors are drawn from diverse backgrounds and bring a wide range of experience, insight and professional skills to the Board. These are set out on page 46 of this report.

Amelia Beattie and José Snyders are directors of 2DP, which is the operating subsidiary of L2D.

Executive directors

1

Amelia Beattie (49)
Chief Executive
B.Com, Certificate in Shopping Centre Management, Fellow of the Royal Institution of Chartered Surveyors

Appointment date
to previous Manager 17 June 2016

Appointment date
to L2D 10 July 2018

L2D Board committee memberships

- Member of the Social, Ethics and Transformation Committee

Skills and experience
Amelia has over 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 has held the role of chief executive of Liberty Two Degrees since its listing in December 2016.

2

José Snyders (41)
Financial Director
B.Com (Hons) in Financial Analysis and Portfolio Management, B. Com (Hons) in Financial Accounting, CA(SA)

Appointment date
to previous Manager 23 March 2017

Appointment date
to L2D 10 July 2018

L2D Board committee memberships
None

External board committee memberships
Only directorships in personally held entities

Skills and experience
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.

Non-executive directors

③

Angus Band (67)
Non-executive Chairman
B.A. B.Acc. CA(SA)

Appointment date
to the previous Manager 26 July 2017

Appointment date
to L2D 10 July 2018

L2D Board committee memberships
- Chairman of the Nominations Committee
- Member of the Remunerations Committee
- Member of the Social, Ethics and Transformation Committee

External board committee memberships
Liberty Holdings Limited and Liberty Group Limited

Skills and experience
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.

④

Wolf Cesman (77)
Lead independent director
B.Com CA(SA) H. Dip. Tax Law

Appointment date
to the previous Manager 17 June 2016

Appointment date
to L2D 19 July 2018

L2D Board committee memberships
- Chairman of the Remuneration Committee
- Member of the Nominations Committee
- Member of the Audit and Risk Committee
- Member of the Social, Ethics and Transformation Committee

External board committee memberships
None

Skills and experience
Wolf has 50 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.

⑤

Lynette Ntuli (36)
Independent non-executive director
B.Com in Financial Accounting, CSCM, ACSL, Business Leadership Fellowship Programme (Northwestern University, Chicago)

Appointment date
to the previous Manager 26 July 2017

Appointment date
to L2D 10 July 2018

L2D Board committee memberships
- Chairman of the Social, Ethics and Transformation Committee
- Member of the Remunerations and Nominations Committee
- Member of the Audit and Risk Committee

External board committee memberships
Innate Investment Solutions (Pty) Ltd, IgniteSA (Pty) Ltd, TUTEH (Pty) Ltd and the Durban Convention Centre.

Skills and experience
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.

⑥

Zaida Adams (41)
Independent non-executive director
B.Com (Hons) CA(SA)

Appointment date
1 August 2018

L2D Board committee memberships
- Chairman of the Audit and Risk Committee

External board committee memberships
None

Skills and experience
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.

⑦

David Munro (49)
Non-executive director
B. Com, PGDip Accounting (UCT), CA (SA), AMP (Harvard)

Appointment date
29 July 2019

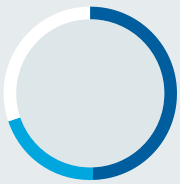
L2D Board committee memberships
None

External board committee memberships
Liberty Holdings Limited, Liberty Group Limited and Stanlib Limited

Skills and experience
David Munro joined the Standard Bank group in 1996. In 2003, he was appointed deputy chief executive, CIB South Africa and in 2006 was appointed to Chief Executive, CIB South Africa. In 2011, he was appointed chief executive CIB which position he held until 30 May 2017 when he was appointed Chief Executive of Liberty Holdings Limited.

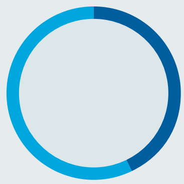
Board diversity

① **Composition** (%)



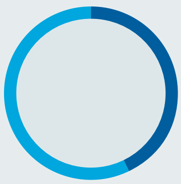
Non-executive	71
Executive	29
Independent	43

② **Gender diversity** (%)



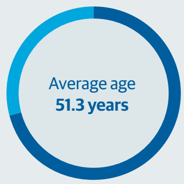
Female	43
Male	57

③ **Racial diversity** (%)



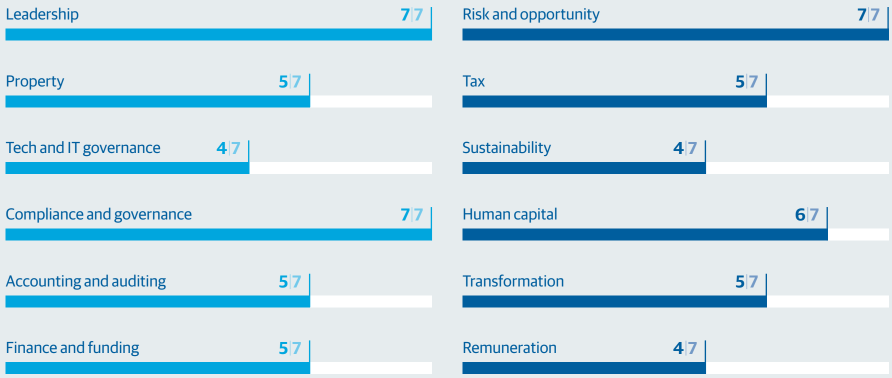
Black	43
White	57

④ **Age diversity** (%)



<60 years	71
>60 years	29

Skills and experience



Our people

At L2D, we aim to provide human capital excellence; people are at the heart of everything we do. Our people play a fundamental role in the delivery of our strategy and the ongoing growth of the business.

Our strategic pillar relating to Passionate People is underpinned by an environment geared towards learning and growth; driving impact 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.

We reward our people for finding new ways of working efficiently and promote a culture of innovation. We measure levels of engagement and professionalism in our people, which includes their leadership capabilities in delivering our vision and purpose and achieving our business objectives.

Our people plan — L2D strategy and our people go hand in hand

Having a people plan that is aligned to our overall purpose and strategy has been a key focus over the year. Our approach can be summarised as follows:

- **Talent acquisition** — to attract, recruit and on-board top talent, ensuring an exceptional new hire experience;
- **Performance management** — continuous employee engagement that drives a high-performance culture;
- **Talent development** — grow capabilities through ongoing learning and development ensuring talent retention and leadership excellence;
- **Recognition, compensation and benefits** — ensure fair and competitive compensation and benefits with ongoing recognition of exceptional contribution; and
- **Culture and engagement** — create an environment for passionate people that deliver with passion, accountability, care and excellence (PACE).

We have enhanced our brand perception and improved our ability to attract and retain talent. We made several key appointments so that our team now consists of 37 people of which 32 are permanent and five are full-time contractors. The team is largely constituted of specialists. We remain committed to diversity and transformation and to the achievement of the B-BBEE targets set.

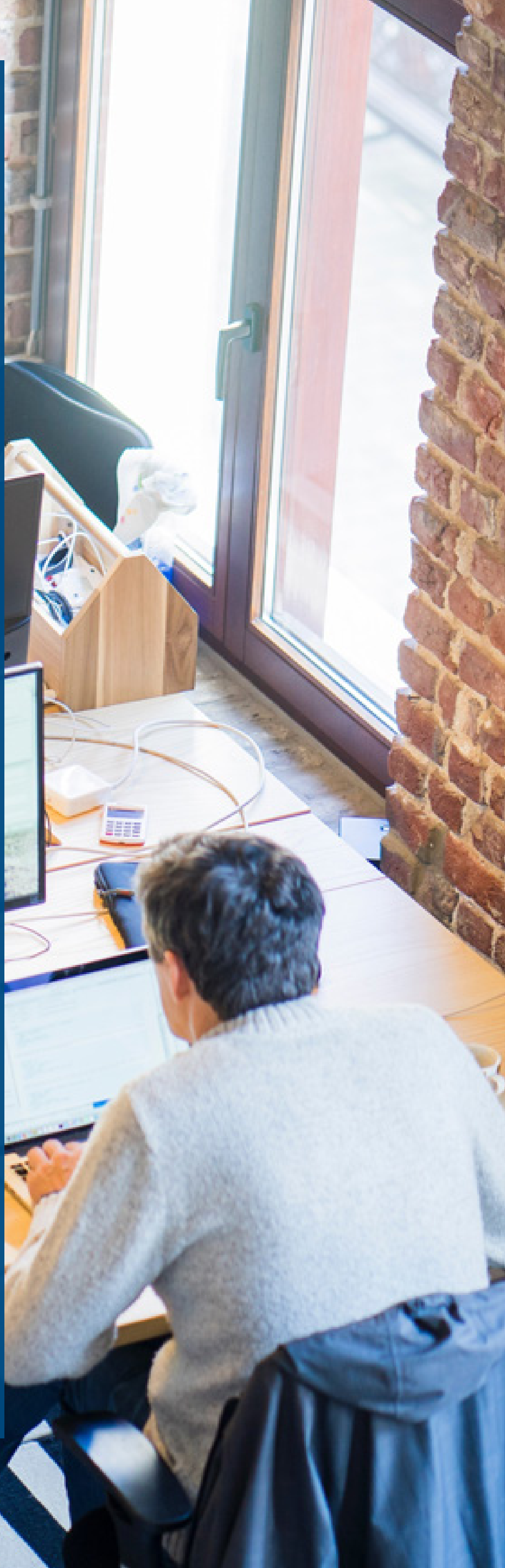
To get the best out of our team, we believe in recognising and rewarding good performance. We encourage our people to hold themselves accountable and take ownership of their work and the manner in which they do their work. We constantly evaluate our people, invite feedback and look to improve our ways of working, efficiency and delivery.

We hold ourselves accountable for meeting the key performance indicator (KPI) targets as they measure the appropriate activity for each area of the business and delivering on what we set out to do. We value being honest, transparent and having integrity in the workplace.

We encourage feedback from all our people through the regular employee engagement surveys, 360-leadership feedback assessment as well as informally in meetings and one-one one conversation.

Transformation

We are committed to employing a diverse workforce. To this end, 70% of the team are women and 53% of permanent employees are black females (51% when including non-permanent employees). The following table sets out the detail of our employment equity performance.



Diversity statistics

	Male				Female					
Occupational level	African	Coloured	Indian	White	African	Coloured	Indian	White	Black	Black Female
Executive directors	0%	50%	0%	0%	0%	0%	0%	50%	50%	0%
Senior management	7%	0%	0%	18%	21%	7%	25%	21%	61%	54%
Middle management	0%	0%	0%	0%	100%	0%	0%	0%	100%	100%
Junior management	0%	0%	0%	0%	100%	0%	0%	0%	100%	100%
Semi-skilled	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unskilled	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**6%**	**3%**	**0%**	**16%**	**25%**	**6%**	**22%**	**22%**	**63%**	**53%**
Non-permanent	40%	0%	0%	20%	40%	0%	0%	0%	80%	40%
Grand total	**11%**	**3%**	**0%**	**16%**	**27%**	**5%**	**19%**	**19%**	**65%**	**51%**

Succession

Our succession plan is aligned with our intention to implement our transformation strategy, grow talent internally and to create an exceptional people experience and consider the retention of key skills/people; the extent to which people are challenged and our commitment to our people. It mitigates our succession risk and is instrumental in achieving our strategy and business objectives. Our approach focuses on strategic management of the attraction, acquisition and development of talent with career opportunities for all.

Our succession philosophy is about preparing L2D for the future, considers understanding the key capabilities that enable strategy and gearing the workforce to meet the short- and long-term effort initiatives and is aligned to our culture and organisational design as the business evolves and grows.

Learning, growth and development

To build and grow our key capabilities and provide the necessary level of challenge, we encourage individuals to take ownership of their learning and development. We identify our people's learning and development requirements during performance conversations where the KPIs are set and throughout the review process. We encourage employees to attend industry related conferences, formal training courses, seminars and workshops to improve their knowledge and skills, enhance their competencies and obtain further formal educational qualifications.

Many workshops are provided by the business specialists who share their experience and industry knowledge, and where subject matter experts present to the team.

Individual leadership coaching is provided to help leaders gain the confidence to manage a new and evolving team and overcome the challenges facing today's leaders. We offer our employees further learning opportunities through our structured attendance at industry events, our participation on the board of the Green Building Council, as well as our regional committee representation on the SACSC and subcommittees of the SA REIT Association.

People highlights of 2019

- Our people continue to live our internal values;
- Our level of ownership by every person on the team continues to increase;
- Zero employee turnover;
- The focus remains keeping employees challenged and engaged;
- Continued commitment to gender diversity and transformation, with strategic appointments made to strengthen the leadership team and deepen the talent pool;
- Conducted a 360-leadership feedback survey which produced a positive result with quality feedback; and
- Internal communication plans in place to drive quality conversation.

Remuneration report

Background statement

L2D's approach to remuneration is to promote the achievement of the strategic objectives and alignment with investors while considering the management of people, succession and retention risk. It is also 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 Remco comprised three non-executive directors, Wolf Cesman (Chair), Angus Band, and Lynette Ntuli. The chief executive (CE) attended meetings by invitation but was excluded from any deliberations pertaining to her own remuneration. The Financial Director (FD) and human capital executive were invited to attend the meeting for certain agenda items that required their input. 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.

The Liberty Property Portfolio (LPP) is also managed by L2D which means that the assets under management of R30 billion should be considered for the context of remuneration of the business.

At the end of 2019 L2D had a workforce of 32 permanent staff and five full-time contractors of which four are learnerships. The property management function is outsourced to JHI Retail Proprietary Limited (JHIR) and fees are paid in accordance with the property management agreements. This report accordingly excludes JHIR staff.

Factors that influenced remuneration for 2019

In a challenging economic environment that put pressure on the achievement of KPIs set, L2D maintained a solid performance. L2D achieved the distribution target of 60.43c, net property income (NPI) growth of 5.83% and a total return (yield plus capital growth) of 6.4% which resulted in a 94% achievement of the financial objectives for the short-term incentive scheme.

The non-financial KPI is based on individual assessment including a discretionary component based on team contributions.

The total short-term incentives for the year have increased by 8.65% from the previous year. The main driver of the increase is the overall number of staff that were eligible and received short-term incentives (STIs) in 2019 compared to 2018. The total value of share awards has increased by 14.54% compared to the previous year due to the new staff that joined in 2019 and the increase in shares awarded to existing employees in terms of market benchmarking.

The long-term award considers both the annual performance and the need to incentivise staff over the medium and long term.

Remuneration disclosure

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

Feedback from Remuneration Road Show

During Q2 of 2019 members of L2D's remuneration committee engaged with key stakeholders regarding the 2018 remuneration policy and implementation report in line with the requirements of King IV™.

At that stage, the 2019 KPIs for the business had already been set as is presented in this report. The key considerations raised in these engagements primarily focused on five areas:

- greater weighting on distribution targets;
- the inclusion of additional vesting criteria for the LTI scheme;
- consideration of forfeiture and clawback provisions;
- individually weighting the sub-categories of the non-financial KPIs; and
- the benchmarking of non-executive remuneration.

The 2019 policy coincidentally adjusted the weightings to provide a higher allocation for distribution targets as is presented in the 2019 implementation report. The remaining considerations are intended to be implemented in 2020.

Shareholders have favourably endorsed the 2019 remuneration policy and the implementation report with positive votes totaling 83.85% and 84.38% respectively.

The remuneration policy and implementation report will be presented to shareholders for non-binding advisory votes at the next AGM on 20 May 2020. In the event that more than 25% of shareholders vote against either of these resolutions, the Remco will engage with them to understand their objections and concerns.

Focus areas for the Remco for 2020

- Ongoing benchmarking against peers and alignment to the property industry.
- Implementation of forfeiture and clawback provisions pertaining to all incentives.
- Additional performance conditions for LTIs awarded from 1 March 2020.
- Ongoing benchmarking of non-executive directors' fees and adjustments where necessary.

The objective of the remuneration policy at L2D is to align recognition, reward and remuneration to the achievement of both the short-term operational goals and the long-term strategic objectives set and the support of sustainable value creation. 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 align with the company values and drive the workplace culture of the organisation are also considered.

The remuneration structures are designed to attract, motivate and retain talent as part of the overall talent management strategy. The ability to maintain a high level of challenge and accountability and achieve the performance standards set is a key objective of the policy. In addition, the focus is on retaining and developing the small diverse team of carefully selected specialists.

The company uses both short and long-term incentives in support of its remuneration for all staff.

Each person has an annual performance contract that clearly defines the objectives and outputs expected of them, aligned to the overall business objectives for both 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 and informal reviews of individual performance take place on an ongoing basis to ensure that there is feedback and conversations that recognise and encourage success, identify any development needs and determine corrective action where necessary.

We objectively assess individual performance according to the contribution made to the business's success considering the level of ownership, engagement and commitment.

Key principles of the remuneration policy

L2D's vision is to be the leading South African precinct focused, retail-centered 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.

The guiding 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 any discrimination;
- Remuneration focus is on total remuneration which includes guaranteed cost to company, short-term incentives and long-term share awards. It is referenced to like-for-like market remuneration levels and 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;
- Affordability to the business is an important consideration in the design of remuneration structures to ensure an efficient approach to remuneration;
- Adherence to the principles of good corporate governance and regulatory frameworks;
- Remuneration policies and practices that are aligned with the overall commercial business strategy, business objectives and values of the company;
- Remuneration strategy and philosophy that is informed by the company risk framework and appetite, human capital strategy, stakeholder dialogue and comparative industry practices;

- Remuneration policies and practices that encourage and reward both the positive performance and behaviour of all staff;
- Equal pay for work of equal value i.e. employees performing similar job requirements at the same or similar level of performance in the organisation receive the same or similar levels of remuneration ('horizontal fairness');
- 'Vertical fairness' principles i.e. the difference in total remuneration between different job levels can be explained and justified on a consistent basis;
- Consideration of the pay gap between the highest and lowest earners in the company and consideration of these pay ratios when determining annual salary increments;
- Performance metrics that are fair, sustainable and challenging and apply to all aspects of the business;
- That the company attracts and retains highly talented, capable and experienced people who can add value across the whole business;
- Promotes responsible corporate citizenship and an ethical culture;
- That non-executive director's fees are fair, reasonable and transparent; and
- That the executive directors and executive management's remuneration is fair and responsible in the context of the overall company remuneration.

Remuneration report continued

Governance

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:

Shareholders	**Role** Approves the non-executive directors' fees and has a non-binding vote on the remuneration policy and implementation report.
Board	**Role** Approval of the remuneration policy and executive remuneration. Recommends non-executive fees to shareholders.
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 achieved. Ensures the relevant benchmarking exercises take place.
Chief Executive (supported by the Financial Director and Human Capital Executive)	**Role** Recommends remuneration proposal to the Remuneration Committee. Reviews and oversees allocations to all levels in the organisation. Moderates the remuneration process.

The Remuneration Committee

Purpose

The key 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 relating to remuneration for non-executive directors, executive directors, executive management and other staff. The Board (as advised by the committee) will:

- Ensure that stakeholders can make an objective and informed assessment of governance processes and reward practices.
- Ensure that remuneration practices are compliant with all applicable laws and regulatory codes.
- Take account of remuneration best practice, industry trends, risk appetite and role benchmarking.
- Review annually the remuneration structures to ensure that they are performance based, linked to strategic and business objectives and support long-term sustainable growth.

Incentive scheme forfeiture, clawback and performance provisions

L2D will incorporate forfeiture and clawback provisions in respect of all variable pay incentives made to executives, prescribed officers and appropriate members of the oversight and governance committees at L2D with effect from 1 March 2020. These provisions enable the non-award, reduction or cancellation of unvested share awards (LTIs) or deferred bonus payments (malus) and the recovery of variable compensation (STIs) already paid out (clawback) if certain trigger events occur, as well as any distributions related to this.

Independent remuneration consultants

During 2019, L2D benchmarked all roles within the organisation using the PwC Remchannel online platform in considering recruitment, promotions and in awarding annual increases. The Remco is therefore satisfied that the overall remuneration is market-related and is a driver of L2D's people strategy.

In 2019 L2D also engaged BMC, remuneration and benefits specialists, to assist with several pieces of work. They provided comprehensive input on non-executive director benchmarking, a comparison to peer remuneration reports, recommendations on best practice and suggested improvements on disclosures and a benefit analysis.

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.

Remuneration policy

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.

The strategic talent management process strives to align and target initiatives that will enable individual development. In addition, learning forums are used to create a culture and work environment that stimulates individual ownership of learning and development. This is to enable staff to progress their careers and thereby their earnings potential.

We continue to monitor the pay gap between high and low paid employees and to apply salary increases to narrow this gap.

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

Remuneration structures

L2D's remuneration structures are designed to attract, motivate 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. Employment contracts do not contain restraint of trade clauses.

L2D has various Board-approved incentive schemes to which each individual member of the team has been aligned: the senior management scheme, the specialist scheme and the general scheme. A further differentiation is made in between levels of management and levels of specialists.

Element	Policy	Structure	Participation
Base salary	Provide a market-related level of base pay with due regard for the responsibilities of the position. Benchmarked against industry norms and adjusted based on an employee's experience, qualifications, and the level of responsibility.	Review annually with increases effective from 1 April.	All employees
Short-term incentive	Short-term incentives paid in cash based on performance: – Financial deliverables – Non-financial KPIs	Three defined participation schemes: – Senior management – Specialist – General staff – Performance measured against set criteria. » Cash portion paid in March » Deferred portion converted into shares for incentives over R500 000	All employees
Long-term incentive scheme	Long-term incentives granted to attract, motivate and retain people at RemCo discretion.	Shares allocated per Remco discretion subject to performance conditions upon vesting.	Senior management as per policy and Remco's discretion for remaining employees.

Remuneration report continued

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: (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.

Annual basic salary increases consider:

- Inflation;
- Market adjustment and/or parity increases that seek to address internal pay gaps, particularly in terms of pay scales;
- The degree to which market-related pay levels have moved since the last review and other external considerations;
- Affordability and business strategy considerations; and
- The outcome of each employee's annual review.

Benchmarking

We generally benchmark our 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 paid 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. There are no contractual arrangements to pay non-executive directors for loss of office.

Appropriate governance is in place to approve any payments relating to guaranteed bonuses and termination payments.

Short-term incentives

STI schemes have primarily two components – financial deliverables and non-financial KPIs which include a discretionary portion.

The financial targets are as set out in the key performance areas of the business with a gate at 80% of target and an upper limit of 145% for over delivery.

For non-financial KPIs, an overall assessment is completed for each individual in the categories relating to their individual performances and behavioural competencies. The ratings are moderated and adjustments are made if necessary.

The level of allocation to incentives is determined by the individual's level in the organisation – the more senior, the higher the percentage attributable to financial KPIs.

The weighting for both the CE and the FD has been changed to address the previous concern that it was not in line with the market. The weightings for the non-financial KPIs for the CE are 30% with 90% for on target delivery for financial deliverables and for the FD is 30% for non-financial KPIs and 70% for on target delivery for financial deliverables.

As noted above, the financial KPI can be scaled up for outperformance up to 145%. This would translate to a maximum STI of 160.5% of guaranteed remuneration for the CE and 131.5% for the FD.

The table on the next page shows the three different schemes for the awarding of STIs at L2D for 2019 and includes the total percentage of participation for the achievement of targets for each category. Should the set targets be achieved for 2019, the on-target range is detailed as well as the potential earning after scaling the financial targets to a maximum potential of 145%. All STIs in excess of R500 000 have a compulsory portion that is deferred into shares.

Short-term incentive calculation

Guaranteed remuneration × (**Financial target achievement %** + **Non-financial achievement %**) = **Annual incentive**

Senior management incentive scheme	Specialist incentive scheme	General staff incentive scheme
Eligibility		
Executives Senior managers	Technical specialists	All general staff
How it works		
Incentive pay-outs are conditional on two sets of performance measures and targets: Company financial target (15% to 90%) that can be scaled up to 145% + Individual non-financial target (15% to 30%) of guaranteed remuneration. These are measured against performance metrics and targets.	Incentive pay-outs are conditional on two sets of performance measures and targets: Company financial target (5% to 10%) that can be scaled up to 145% + Individual non-financial target (15% to 35%) of guaranteed remuneration. These are measured against performance metrics and targets.	The scheme is completely discretionary. It serves to reward operational staff based on individual and company performance. This scheme includes awards of between 0% to 15% of annual guaranteed remuneration. Employees must be in service on the date that the payment is made in order to be eligible for the payment.

The Board approved the following financial KPIs for 2019 and L2D achieved its objectives as set out in the table below:

Financial KPIs for 2019

Weighting	KPI	Strategic action	Target 100%	Final	Score
30%	Distribution growth for 2019	Deliver distribution growth off 60c base	60c (Flat)	60.4c	30%
40%	Net property income growth	Deliver net property income growth (at 100% portfolio level)	6.0%	5.83%	39%
30%	Total return*	Deliver total return	8.0%	6.4%	25%
100%					94%

* Total return is defined as distribution plus the change in the capital value of the asset base (2019 vs 2018).

Non-financial KPI categories for 2019

These KPIs have been aligned to the material matters as defined on pages 24 and 25 of the integrated report.

Strategic drivers (how we align to our strategy)	#	Goals (material matters that we focus on)	#	Strategic priority actions (what we need to do)
Stakeholder value creation | Grow to make an impact	1	Drive sustainable distribution	1a	Pursue and implement **activities to drive distribution**
			1b	Identify barriers to and take mitigating steps to **improve our share liquidity**
	2	Transformation	2	Finalise **transformation strategy** and deliver 2019 implementation plan
	3	Safety and security	3	Ensure all environments have **safety and security of the highest standards**; high readiness levels
Sustainable long-term growth	4	Sustainable growth	4a	Efficiently manage our **capital structure** to enhance returns and manage gearing risk
			4b	Risk management | **no significant audit items** in any of our businesses
			4c	Recycle **non-core assets** (stand-alone offices)

Remuneration report continued

Strategic drivers (how we align to our strategy)	#	Goals (material matters that we focus on)	#	Strategic priority actions (what we need to do)
Total return	5	Performance of the property manager	5a	Improve investment performance as measured by key industry accepted **property metrics**
			5b	Drive performance of property management delivery with **quarterly key performance** assessments
	6	Tenant exposure and concentration	6a	Carefully manage **Edcon** position to improve our overall risk and outcome
			6b	Have specific strategies in place for all tenants with **exposure to more than 5%** of GLA and rental
Future proofing our assets	7	SA economy and property industry headwinds		Execute on **five building blocks** for each asset and identify new revenue streams
				Finalise **experience economy philosophy** and execute implementation roadmap
	8	Efficiency and management of resources	8a	Define strategy for net zero implementation per asset and deliver **sustainability targets**
			8b	Keep focus on integration into Group **services that delivers value**/where we can extract value
Passionate People	9	Human capital	9a	Encourage **inspired, passionate and empowered people** that maintain a balanced life
			9b	Reward **new ways** of working together
			9c	Measure **levels of engagement** and professionalism; including leadership capabilities

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 or having retired from the company at vesting, and the forfeiture arrangements noted below, no performance conditions or further conditionality apply; 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 purpose of the long-term incentive plan (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 Liberty Two Degrees Restricted Share Plan is a long-term incentive scheme whereby employees are awarded shares subject to vesting criteria determined by the Board of L2D. Prior to vesting, the shares are held in a trust that is funded by the company. The trust is consolidated in the group's financial statements. The trustees are all non-executive directors of L2D and are not participants in the scheme. The vesting criteria are as recommended by the remuneration committee and approved by the Board at the time of award. The vesting criteria are disclosed in the remuneration policy and implementation report section of the integrated report for the period affected. Participants are not required to make any contribution in respect of awards made.

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 conditions are relevant to the full award (all three tranches). – Performance conditions will be tested at the date of vesting. Linear vesting will apply to the extent that the performance conditions are met. – 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 seven days prior to the last day to trade cum dividend on the JSE.

The current long-term incentive scheme vesting conditions are as follows but will be amended for all issuances from March 2020 as below. Refer to the 2020 Remuneration Targets – Long term incentives (page 60) for the vesting conditions.

Weighting	Vesting criteria	Strategic action	100% target
100%	Distribution growth for 2019	Distribution growth in excess of inflation over the life of the tranche in a linear annual measurement	Consumer Price Index (CPI)

To the extent that the L2D Performance Conditions or Performance Criteria are partially met (but without detracting from Remco's general discretion to waive L2D Performance Conditions or Performance Criteria in whole or in part), pro-rating of awards will apply on a linear scale. i.e. shares will be awarded based on the percentage of the target achieved.

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 and the consent of the JSE where applicable.

Non-executive directors' fees

The strategic purpose of non-executive directors' (NED) remuneration is to attract and retain non-executives of suitable expertise to constructively challenge the executives in delivering the group's strategy. NEDs' remuneration is an annual fee without a performance fee. The chairman of the board is paid a composite fee which includes serving on and attending committee meetings. The lead independent director is similarly paid a composite fee. Different fee levels are paid for the different subcommittees to reflect the complexity, risk and amount of preparation required.

Our policy is to pay competitively for the role, while recognising the required time commitment. For this reason, and to ensure fairness, fees are benchmarked against a suitable peer group of JSE-listed companies which this year included Hyprop, Vukile and Attacq.

In line with the provisions of King IV™, NEDs do not participate in any performance-related remuneration and they do not receive any benefits, nor do they participate in any LTI plans. NEDs do not receive remuneration other than the fees but are entitled to be paid all reasonable travelling, hotel and other expenses properly incurred in attending meetings of the Board, its committees, general meetings or otherwise in connection with the business of the group.

Remuneration report continued

Remco reviews NEDs' fees annually based on benchmarking provided by external service providers. These recommendations are made to the Board, which in turn proposes fees for approval by shareholders at the AGM.

An overall increase of 7% is being recommended by the board for approval by shareholders at the AGM for all NEDs for 2020 with adjustments for roles that didn't meet the benchmark. The fees are split equally between a retainer and attendance fees as from 2020 and are as follows:

R	2019 fee	New 2020 fee proposed	Total % increase including adjustment
Role			
Chair *	786 000	**837 000**	**6.5**
Lead independent director	315 000	**325 000**	**3.2**
Directors	210 000	**225 000**	**7.0**
ARC chair	210 000	**230 000**	**9.4**
ARC member	105 000	**120 000**	**14.1**
Rem and Nom chair	105 000	**120 000**	**14.1**
Rem and Nom member	52 000	**75 000**	**45.0**
Other committee chair	105 000	**112 000**	**6.5**
Other committee member	52 000	**70 000**	**35.3**
International director (£) **	46 350	**47 050**	**1.5**

* Includes all committees.
** Includes all committees.

2020 Remuneration Targets

The following has been approved by the L2D Board for 2020.

Short-term incentives

The proposed financial targets are as follows:

Weighting	KPI	Strategic action	Gate (80%)	90%	Target 100%	120%	145%
35%	Distribution growth per share (DPS) for 2020	Deliver distribution growth off 60cps base	59.29cps (-2%)	59.90cps (-1%)	60.5cps	61.71cps (+2%)	Remco discretion
35%	Net property income growth (like-for-like)	Deliver net property income growth (at 100% portfolio level)	<3%	3.5%	4.0%	5%	8%
10%	Capital management	Maintain interest rate and debt exposure within Board-approved limits			Interest rate hedge ratio above 75%, interest cover ratio above 2x		
20%	Operational performance	Trading density growth (40%) and vacancies (60%) measured against MSCI* benchmark for regionals and super regionals (largest asset exposures) weighted by the value of the properties	60% of benchmark achieved	80% of benchmark achieved	Meets or exceeds benchmark data	120% of bench mark achieved	145% of benchmark achieved
100%							

* The MSCI South Africa Quarterly Retail Trading Density Index (MSCI Index) measures the trading performance of directly held shopping centres across South Africa. The index is widely used as an industry benchmark in South Africa. The SAPOA Retail Trends Report details the South African shopping centre trading performance as measured by the MSCI South Africa Quarterly Retail Trading Density Index.

As at the end of December 2019, the MSCI retail sample consisted of 102 shopping centres, with a combined gross lettable area of 4.9 million m², across all geographies and centre types owned by listed real estate investment trusts, life and pension funds as well as private property funds. The full quarterly results from 2003 onwards are available for 24 merchandise categories across five retail formats, from super-regional down to neighbourhood centres.

Shopping centre definition type	m² range	L2D centres
Super-regional shopping centre	>100 000m²	Sandton City, Eastgate
Regional shopping centre	50 000 – 100 000m²	Midlands Mall, Promenade
Small regional shopping centre	25 000 – 50 000m²	Melrose Arch
Community shopping centre	12 000 – 25 000m²	Botshabelo Mall
Neighbourhood shopping centre	5 000 – 12 000m²	None

Remuneration report continued

The non-financial KPI categories are as follows and have been aligned to material matters as set out on pages 24 to 25 in the integrated report:

Strategic value drivers	Weighting proposed	Material matters	#	Strategic priority actions (what we need to do)
Tenant experience	20%	Tenant exposure and long-term, sustainable relationships	1	Drive strategies to reduce exposure for all tenants with more than 5% of GLA and rental tenants
			2	Institutionalise a retailer roadshow twice a year to create long-term relationships to create a shared value platform
Customer experience	25%	SA economy and property industry headwinds including the management of our resources	1	Through Smart Spaces develop an engagement platform for our customers, and stakeholders alike
			2	Execute on five building blocks for each asset as per the roadmaps and monetise revenue streams
			3	Implement experience economy roadmap to remain relevant in retail
Employee experience	15%	Human capital | Passionate People	1	Encourage inspired, passionate and empowered people that maintain a balanced life (culture enhancement)
			2	Measure levels of engagement and professionalism; including leadership capabilities (feedback and growth initiatives)
Capital allocation and risk management	15%	Manage a strong balance sheet that supports sustainable distribution growth	1	Identify barriers to, and take mitigating steps to, improve our share liquidity
			2	Efficiently manage our capital structure by driving debt cost down, and deploy capital prudently
			3	Risk management to ensure no significant audit items and clean audit reports.
The good we do	25%	Safety, transformation and climate change commitments	1	Drive net zero 2030 target by implementing net zero waste in 2020
			2	Ensure all environments have safety and security of the highest standards; secure SAFE rating
			3	Deliver on transformation strategy

Long-term incentives

For shares issued in 2020, the LTI vesting criteria will have an additional metric: a comparison to the MSCI total return benchmark for the regionals and super-regionals measured on a three-year rolling basis. The weightings for the LTI vesting are as follows:

Weighting	Vesting criteria	Strategic action	100% target
60%	Distribution growth	Distribution growth in excess of inflation for the life time of the tranche	Absolute measure — CPI
25%	Total return for regionals and super-regionals	Total return for our assets meets or exceeds MSCI benchmark measured on a three-year rolling basis to vesting date*	Relative measure — meets or exceeds MSCI benchmark
15%	Strategic component	Determined by the remuneration committee	
100%			

* As the most widely recognised "bottom line" figure, total (investment) return is the most important measure of overall investment performance used to compare different assets across time periods. It incorporates both capital and income elements and is calculated as the percentage value change plus net income accrual, relative to the capital employed. It is recognized by GIPS (the Global Investment Performance Standard set out by the Chartered Financial Analyst Institute) as the standard composite measure of investment performance.

With respect to a single month, total return is defined as:

$$TRt = \frac{CVt - CVt - 1 - CExpt + CRptt + NIt}{CVt - 1 + CExpt} \times 100$$

TRt	is the total return in month t
CVt	is the capital value at the end of month t
CExpt	is the total capital expenditure (includes purchases and developments) in month t
CRptt	is the total capital receipts (includes sales) in month t
NIt	is the rent receivable during month t, net of property management costs, ground rent and other irrecoverable expenditure, except for the MSCI UK Monthly Property Index, where operating expenditure is not included in index calculation

Implementation report

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

Basic salaries

The annual basic salary increases took into consideration the following:

- Inflation;
- Market adjustment and/or parity increases that seek to address internal pay gaps, particularly in terms of pay scales;
- The degree to which market-related pay levels have moved since the last review and other external considerations;
- Affordability and business strategy considerations; and
- The outcome of each employee's annual review.

The increases effective 1 April 2020 were approved by the Remco in February 2020.

As part of our annual review process, basic salary increases considered the outcome of each employee's annual review; affordability and business strategy; current economic climate; national benchmarks based on the PWC remchannel report as well as adjustments that were made to align to the market.

The performance ratings of individuals have also been considered in awarding the increases proposed.

Adjustments have been made where the Remco believed that an employee's salary was not market-related and in line with benchmarks. The overall increase outcome is detailed in the table below:

	Increases %	Adjustments %	Overall increase %
Senior and middle management	5.8	1.7	7.5
General staff	9.5	2.9	12.4
Overall	5.9	1.7	7.6
Mandate given by the Board of directors	**6.0**	An additional discretionary amount was allowed for adjustments to bring salaries in line with the market related benchmark	

Short-term incentives (STI) and share awards

32 people were recognised for performance through the STI scheme in 2019 compared to 28 people in 2018.

In accordance with the STI structure set out in the remuneration policy, we paid out R18.1 million for 2019 incentives. Of this R14.7 million was for people that were at L2D in 2018, R2.0 million for people that were promoted to new roles and R1.4 million for new people in 2019.

The total short-term incentives for the year have increased by 8.65% from the previous year. The main driver of the increase is the overall number of staff that were eligible and received STIs in 2019 compared to 2018.

As part of our overall recognition, retention and reward strategy we seek to align and retain top talent in the organisation and have allocated L2D shares to all employees to drive a high performing culture.

We have considered the overall remuneration package of each individual to allow us to reach what is deemed to be the correct outcomes. The share allocations in terms of the long-term incentive scheme awarded range from R25 000 for support staff to R5.0 million for the CE.

The total share awards issued as at 1 March 2020 was R23.1 million (4 million shares) of which R9.6 million (1.7 million shares) was for executive directors, R600 000 (103 626 shares) for new staff members and the balance for the rest of the team.

The total value of share awards has increased by 14.54% compared to the previous year due to the new staff that joined in 2019 and the increase in shares awarded to existing employees in terms of market benchmarking.

Implementation report continued

Summary of incentive scheme at 31 December 2019

		Number of participants[1]		Awards amounts (Rm)[2]		IFRS expense See note below (Rm)		Number of rights and shares issued
Description	**Eligible participants**	**2019**	2018	**2019**	2018	**2019**	2018	**2019[3]**
Short-term	All employees	**32**	28	**16.1**	14.3	**16.3**	15.6	**–**
Long -term	All employees	**32**	29	**21.1**	18.5	**9.7**	2.1	**5 145 308**
L2D STI (deferred)[4]	Management that receive awards in excess of the threshold	**12**	7	**2.0**	2.1	**2.2**	0.3	**413 573**
Total				**39.2**	34.9	**28.2**	18.0	**5 558 881**

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 Equity-settled, because the award finalisation happened after 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 an L2D perspective. During 2019, 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 (CE) and José Snyders (FD) 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 (R31b), 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 calculation

Guaranteed remuneration × **Financial target achievement %** + **Non-financial achievement %** = **Annual incentive**

Minimum reward scenario

- The short-term incentive is formula-driven and based on financial and non-financial deliverables. This scenario assumes that no financial performance targets and no key performance indicators are achieved.
- The long-term incentive award is given 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 without any additional discretion by Remco.
- 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.

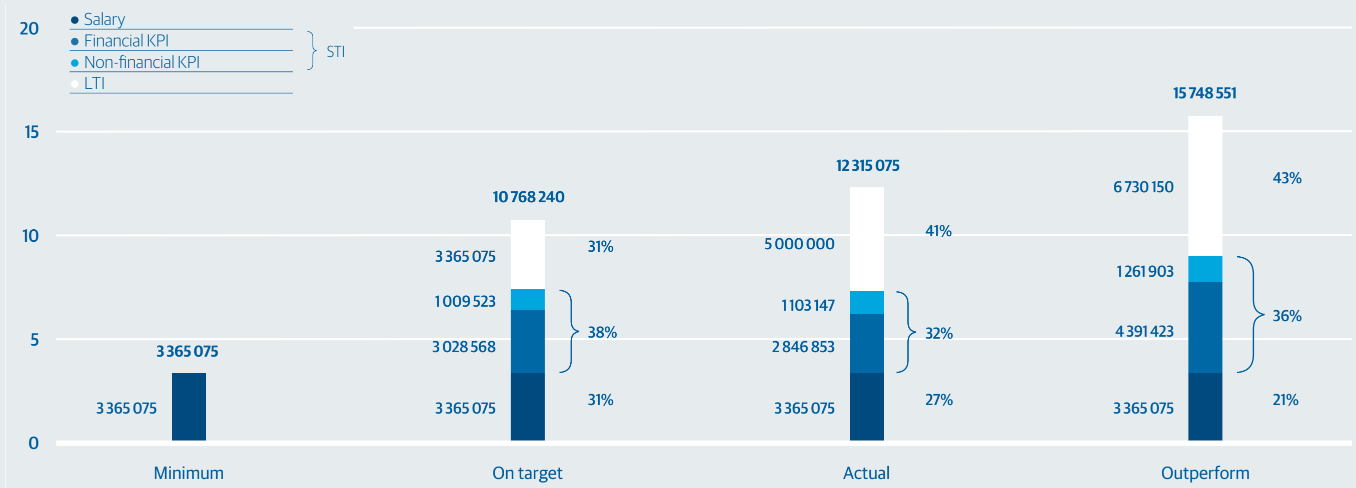
Stretch reward scenario

- This scenario assumes performance up to 145% 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.

2019 Remuneration scenarios for prescribed officers

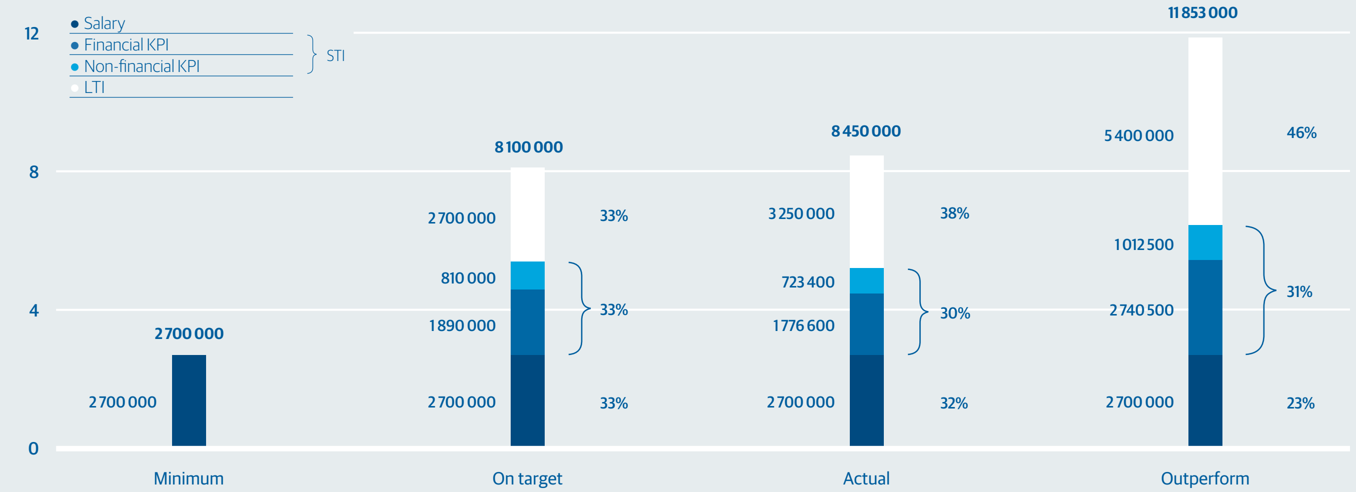
1

Chief Executive (R)



2

Financial Director (R)



Implementation report continued

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 remuneration policy.

Chief Executive Amelia Beattie

Financial KPI calculation

	Guaranteed remuneration R	Participation %	L2D's performance %	Final R
Actual	3 365 075	90	94	2 846 853

Non-financial key performance indicators

It was Amelia's third year as CE at L2D. Amelia's performance and expertise were assessed and found suitable for the role. Her KPIs for 2019 were assessed as fully achieved against the following deliverables and the Board awarded an additional 10% discretionary award.

Goals (material matters that we focus on)	Strategic priority actions (what we need to do)
Transformation	Finalise **transformation strategy** and deliver 2019 implementation plan
Safety and security	Ensure all environments have **safety and security of the highest standards**; high readiness levels
Performance of the property manager	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
SA economy and property industry headwinds	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**
Human capital	Encourage **inspired, passionate and empowered people** that maintain a balanced life

Financial Director José Snyders

Financial KPI calculation

	Guaranteed remuneration R	Participation %	L2D's performance %	Final R
Actual	2 700 000	70	94	1 776 600

Non-financial key performance indicators

It was José's third year as FD 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:

Goals (material matters that we focus on)	Strategic priority actions (what we need to do)
Drive sustainable distribution	Pursue and implement activities to drive distribution
	Identify barriers to and take mitigating steps to improve our share liquidity
Sustainable growth	Efficiently manage our capital structure to enhance returns and manage gearing risk (including the restructuring of the debt)
	Risk management | no significant audit items in any of our businesses

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

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 CE was awarded an STI of R3.95 million and an LTI of R5 million, and the FD an STI of R2.50 million and an LTI of R3.25 million.

Single total figure of remuneration

Amelia Beattie (CE)

R'000	2019	2018	% Change
Fixed remuneration[1]	**3 372**	3 227	4.5
Cash portion of package	**2 773**	2 705	
Other benefits	**137**	122	
Retirement contributions	**462**	400	
Annual variable awards	**3 950**	4 357	(9.3)
Cash[2]	**3 065**	3 350	
Restricted share plan (deferred plan)	**885**	1 007	
Long-term awards	**1 835**	2 170	(15.4)
Restricted share plan (long-term plan)[3]	**1 053**	1 204	
Distribution	**782**	966	
Total remuneration	**9 157**	9 754	(6.1)

José Snyders (FD)

R'000	2019	2018	% Change
Fixed remuneration[1]	**2 761**	2 576	7.2
Cash portion of package	**2 300**	2 199	
Other benefits	**173**	102	
Retirement contributions	**288**	275	
Annual variable awards	**2 500**	3 000	(16.7)
Cash[2]	**2 050**	2 400	
Restricted share plan (deferred plan)	**450**	600	
Long-term awards	**539**	592	(9.0)
Restricted share plan (long-term plan)[3]	**–**	–	
Distribution	**539**	592	
Total remuneration	**5 800**	6 168	(6.0)

1 Fixed remuneration was not increased in April 2019 based on the challenging economic environment. An increase of 7% and 11% has been awarded for the 2020 cycle to the CE and FD respectively.

2 The decrease in annual variable awards is in line with the policy as set out and considers that the business delivered 94% of its financial KPIs compared to 99.8% in the previous year.

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.

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 remuneration components appropriately reflect 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.

Implementation report continued

Additional disclosure

Amelia Beattie (CE)

R'000	2019	2018	% Change
Fixed remuneration[1]	**3 372**	3 227	4.5
Cash portion of package	**2 773**	2 705	
Other benefits	**137**	122	
Retirement contributions	**462**	400	
Annual variable awards	**3 950**	4 357	(9.3)
Cash[2]	**3 065**	3 350	
Restricted share plan (deferred plan)	**885**	1 007	
Long-term awards	**5 000**	4 500	11.1
Restricted share plan (long-term plan)[3]	**5 000**	4 500	
Total remuneration	**12 322**	12 084	2.0

José Snyders (FD)

R'000	2019	2018	% Change
Fixed remuneration[1]	**2 761**	2 576	7.2
Cash portion of package	**2 300**	2 199	
Other benefits	**173**	102	
Retirement contributions	**288**	275	
Annual variable awards	**2 500**	3 000	(16.7)
Cash[2]	**2 050**	2 400	
Restricted share plan (deferred plan)	**450**	600	
Long-term awards	**3 250**	3 000	8.3
Restricted share plan (long-term plan)[3]	**3 250**	3 000	
Total remuneration	**8 511**	8 576	0.8

1 Fixed remuneration was not increased in April 2019 based on the challenging economic environment. An increase of 7% and 11% has been awarded for the 2020 cycle to the CE and FD respectively.

2 The decrease in annual variable awards is in line with the policy as set out and considers that the business delivered 94% of its financial KPIs compared to 99.8% in the previous year.

3 New long-term shares were awarded as per the rules of the scheme and announced on 11 March 2020. These awards are long-term with 3, 4 and 5-year vesting periods linked to performance conditions as set by the RemCo. Share awards to executive directors have historically been low during employment at SRFM, and current awards are to align executive directors' 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 (CE)

Date granted	Price payable per share	Date fully vested	Shares/ rights granted/ exercised/ (forfeited)	Shares/ rights at the end of 2019	Value on grant date (R'000)	Value on settlement 2019[1] (R'000)	Fair value at year end 2019[2] (R'000)
LTIP			**497 947**	**1 419 000**	**12 500 005**	**757 895**	**9 581 785**
6 Dec 2016	R9.50	1 Mar 2020	(140 351)	–	1 333 335	757 895	–
6 Dec 2016	R9.50	1 Mar 2021	–	140 351	1 333 335	–	940 352
6 Dec 2016	R9.50	1 Mar 2022	–	140 351	1 333 335	–	940 352
1 Mar 2016	R8.00	1 Mar 2021	–	166 666	1 333 328	–	1 116 662
1 Mar 2018	R8.00	1 Mar 2022	–	166 666	1 333 328	–	1 116 662
1 Mar 2018	R8.00	1 Mar 2023	–	166 668	1 333 344	–	1 116 676
1 Mar 2019	R7.05	1 Mar 2022	212 744	212 744	1 499 845	–	1 425 385
1 Mar 2019	R7.05	1 Mar 2023	212 744	212 744	1 499 845	–	1 425 385
1 Mar 2019	R7.05	1 Mar 2024	212 810	212 810	1 500 310	–	1 500 311
Deferred restricted participatory interests			**(80 919)**	**206 779**	**2 382 282**	**582 845**	**1 385 421**
1 Mar 2017	R10.21	1 Sep 2018	(32 647)	–	333 326	244 941	–
1 Mar 2017	R10.21	1 Sep 2019	(32 647)	–	333 326	228 529	–
1 Mar 2017	R10.21	1 Sep 2020	–	32 649	333 326	–	218 748
1 Mar 2017	R9.50	1 Apr 2018	–	–	–	–	–
1 Mar 2017	R9.50	1 Apr 2019	–	–	–	–	–
1 Mar 2018	R8.00	1 Sep 2019	(15 625)	–	125 000	109 375	–
1 Mar 2018	R8.00	1 Sep 2020	–	15 625	125 000	–	104 688
1 Mar 2018	R8.00	1 Sep 2021	–	15 625	125 000	–	104 688
1 Mar 2019	R7.05	1 Sep 2020	–	47 621	335 728	–	319 061
1 Mar 2019	R7.05	1 Sep 2021	–	47 621	335 728	–	319 061
1 Mar 2019	R7.05	1 Sep 2022	–	47 638	335 848	–	319 175
Phantom LTIP[3]			**(277 922)**	**–**	**2 640 259**	**2 067 417**	**–**
1 Mar 2017	R9.50	1 Apr 2018	(119 572)	–	1 135 934	958 967	–
1 Mar 2017	R9.50	1 Apr 2019	(158 350)	–	1 504 325	1 108 450	–
Total			**139 106**	**1 625 779**	**17 522 546**	**3 408 157**	**10 967 206**

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 2019 of R6.70 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 vested for cash in April 2019 and no performance conditions apply. The payment was made by Liberty Holdings and not L2D.

Implementation report continued

José Snyders (FD)

Date granted	Price payable per share	Date fully vested	Shares/ rights granted/ exercised/ (forfeited)	Shares/ rights at the end of 2019	Value on grant date (R'000)	Value on settlement 2019[1] (R'000)	Fair value at year end 2019[2] (R'000)
LTIP			**384 683**	**1 126 675**	**9 449 987**	**220 585**	**7 548 723**
1 Mar 2017	R10.20	1 Mar 2020	(40 849)	–	416 660	220 585	–
1 Mar 2017	R10.20	1 Mar 2021	–	40 849	416 660	–	273 688
1 Mar 2017	R10.20	1 Mar 2022	–	40 851	416 680	–	273 702
1 Sep 2017	R9.00	1 Sep 2020	–	81 481	733 329	–	545 923
1 Sep 2017	R9.00	1 Sep 2021	–	81 481	733 329	–	545 923
1 Sep 2017	R9.00	1 Sep 2022	–	81 481	733 329	–	545 923
1 Mar 2018	R8.00	1 Mar 2021	–	125 000	1 000 000	–	837 500
1 Mar 2018	R8.00	1 Mar 2022	–	125 000	1 000 000	–	837 500
1 Mar 2018	R8.00	1 Mar 2023	–	125 000	1 000 000		837 500
1 Mar 2019	R7.05	1 Mar 2022	141 829	141 829	999 894	–	950 254
1 Mar 2019	R7.05	1 Mar 2023	141 829	141 829	999 894	–	950 254
1 Mar 2019	R7.05	1 Mar 2024	141 874	141 874	1 000 212	–	950 556
Deferred restricted participatory interests			**74 691**	**105 942**	**850 012**	**72 912**	**709 812**
1 Mar 2018	R8.00	1 Sep 2019	(10 416)	–	83 328	72 912	–
1 Mar 2018	R8.00	1 Sep 2020		10 415	83 320	–	69 781
1 Mar 2018	R8.00	1 Sep 2021		10 420	83 360	–	69 814
1 Mar 2019	R7.05	1 Sep 2020	28 366	28 366	199 980	–	190 052
1 Mar 2019	R7.05	1 Sep 2021	28 366	28 366	199 980	–	190 052
1 Mar 2019	R7.05	1 Sep 2022	28 375	28 375	200 044	–	190 113
Total			**459 374**	**1 232 617**	**10 299 999**	**293 497**	**8 258 535**

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 2019 of R6.70 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 2019 and 31 December 2018 are detailed in the following table.

	2019		2018		
	Direct	**Indirect**	Direct	Indirect	Share plan
Director					
Amelia Beattie	**140 351**	**1 419 000**	18 000	921 053	LTIP
	44 460	**206 779**	–	112 171	DRS
	–	**–**	–	158 350	Phantom LTIP
	2 376	**–**	–	2 421	LREP
Total	**187 187**	**1 625 779**	18 000	1 193 995	
José Snyders	**40 849**	**1 126 675**	–	741 933	LTIP
	10 415	**105 942**	–	31 250	DRS
Total	**51 264**	**1 232 617**	–	1 967 178	

LTIP: Shares are awarded in terms of the Restricted Share Plan to the executive directors to 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 vested 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 2019 financial year-end but before the date of issue of this report, further share awards were made as announced via SENS on 11 March 2020. Amelia Beattie was awarded with 863 558 shares per the LTIP Share Plan and 152 850 shares per the DRS Share Plan. José Snyders was awarded with 561 313 shares per the LTIP Share Plan and 77 720 shares per the DRS Share Plan.

Non-executive directors

No short-term incentives are paid from L2D to any independent 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 an overall 7% increase has been applied to the directors' fees for 2020 in line with the guidelines for executive directors. Further adjustments have been made to the fees pertaining to the members of the Remuneration and Audit and Risk Committees.

Non-executive directors' remuneration – 2019

R	Directors of L2D	Other Liberty group[1]	Total remuneration
Director			
Angus Band[3]	**903 325**	**1 565 325**	**2 468 650**
Wolf Cesman[2]	**1 128 129**	**–**	**1 128 129**
Lynette Ntuli	**411 250**	**–**	**411 250**
Brian Azizollahoff	**305 900**	**–**	**305 900**
Zaida Adams	**358 750**	**–**	**358 750**
David Munro[4]	**–**	**18 834 000**	**18 834 000**
Total	**3 107 354**	**20 399 325**	**23 506 679**

1 Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
2 Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
3 Angus Band is the lead independent director at LHL.
4 David Munro is the chief executive of LHL.

Non-executive directors' remuneration – 2018

R	Directors of L2D	Other Liberty group[1]	Total remuneration
Director			
Angus Band[3]	787 500	1 669 325	2 456 825
Wolf Cesman[2]	821 936	–	821 936
Lynette Ntuli	493 500	–	493 500
Brian Azizollahoff	175 000	–	175 000
Zaida Adams	131 250	–	131 250
Total	2 409 186	1 669 325	4 078 511

1 Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
2 Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
3 Angus Band is the lead independent director at LHL.

Capital and risk management

Risk management

The important role of risk management

In the execution of our strategy, we take on certain risks, including making investments and capitalising on opportunities to enhance the portfolio. We therefore appreciate that effective risk management plays a crucial role in our pursuit of financial stability and delivering superior value for our stakeholders.

Effective internal risk reporting forms a key component of the risk management system, which ensures that management, the Audit and Risk Committee (ARC) and the Board:

- Receive relevant, accurate and timely information regarding the level of risk within the organisation;
- Receive assurance that the business is operating within acceptable levels of risk;
- Are informed of emerging risks; and
- Are made aware of adverse events that require management's intervention.

Roles of the Board and executive management

The Board is ultimately responsible for the governance of risk. Identifying, evaluating and managing risk is an ongoing process and the Board and management are regularly updated.

All of our employees are responsible for managing risk in their day-to-day decisions. Executive management is responsible for implementing, monitoring and reporting on an effective risk management plan. It also falls to them to ensure that risk management is embedded in our business processes and incentive structures.

Our integrated risk management system

At L2D, our risk management system is an integrated part of our overall governance, management, reporting processes, policies and culture. It is defined by a risk management framework and is supported by policies, processes and activities that relate to taking, managing and reporting risk.

The risk management system is applied across the business, which ensures that we conduct business appropriately and manage our financial resources responsibly to safeguard the interests of our investors and other stakeholders. Crucially, the risk management system assists the Board and senior management in their respective roles, to achieve the ultimate goal of creating sustainable value for our stakeholders.

In order to manage and report on risk, management maintains a detailed risk register. The register sets out our key risks and the assessment of each risk, as well as the controls and mitigating actions that are being implemented. The chief risk and compliance officer (CRO) prepares the operational risk register and summarised risk report, which is reviewed regularly by the Finance and Risk Oversight Committee (FROC) and thereafter reported to the Management Committee (Manco). The ARC and the Board review the risk report on a quarterly basis.

Management implements the risk management system and the control environment that stems from it to keep our residual risks at acceptable levels. The system is evaluated on a continuous basis to ensure that it stays relevant and effective in mitigating our operational risks. Mitigation measures, controls and actions are in place to manage each of our risks.

All identified risks are assigned to risk owners who are responsible for monitoring and ensuring that each risk is effectively addressed on a daily basis. All changes that occur within the risk environment are recorded in the combined assurance model, which is discussed on pages 76 to 77 of this report.

Risk management reporting structure

The risk management system is integrated into our governance structure and decision-making process. The risk and compliance oversight functions monitor our risk management practices, ensuring compliance with the framework and associated policies.

Risk management policy

The risk management policy sets out clear requirements to ensure that our risk management practices are effective. The ARC monitors compliance with the risk management policy and found that L2D complied with the policy in all material aspects during the year under review.

Risk tolerance and risk appetite

Our level of risk tolerance is the maximum amount of risk we are prepared to take as a business in pursuit of our aim to create sustainable value and growth. Our strategic plans are informed by the trade-off between risk and reward.

The level of L2D's overall residual risk exposure is deemed to be medium with sufficient management actions and initiatives planned.

For the year under review, the Board was satisfied that the risks facing the business were managed within acceptable limits.

The material risks that faced L2D in 2019 are set out in the table below. We are exposed to risks that are pervasive in the South African property industry.

Focus areas for 2020

- Dealing with the impact of COVID-19;
- Resolving municipal property valuation disputes;
- Driving the property manager's performance through the service level agreement;
- Driving energy savings and sustainability initiatives to reduce the dependence on Eskom; and
- Improving our B-BBEE contributor level.

Rating	Key risk and probable effects	Strategic responses/ mitigating actions	Inherent risk rating	Residual risk rating	2018 Rating	Strategic value driver	Material matter
1	**Non-sustainable or inadequate distribution growth (in comparison to the listed property sector)**				1		Portfolio performance through the management of the property manager Manage a strong balance sheet that supports sustainable distribution growth
	– 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 the Board – Post-acquisition and development reviews – Risk tolerance and appetite levels – Detailed viability and feasibility studies – Portfolio performance reviews and forecasting – Benchmarking against peers					
2	**Significant increases in municipal valuation and rates charges**				4		SA economy and property industry headwinds including the management of our resources
	– 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 adversely impact the overall tenant occupation – Objections have been submitted for Nelson Mandela Square, Sandton City and the Promenade	– Rates Watch (Pty) Ltd has been appointed to deal with the objections and appeals – We have developed a schedule detailing the municipal valuations for each property as well as the rate charges. 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					

Risk key

- High risk
- Medium risk

SVD key

- Customer experience
- Employee experience
- Financial outcome
- Tenant experience
- Capital and risk management
- The good we do

Risk management continued

Rating	Key risk and probable effects	Strategic responses/ mitigating actions	Inherent risk rating	Residual risk rating	2018 Rating	Strategic value driver	Material matter
3	**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 best practices – Business continuity and disaster recovery at properties	– Structured approvals framework and delegation to property manager roles – Performance reporting to monthly Business Operations Oversight Committee, Manco, and Board – Property management agreement (service level 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 – Strategic alignment project			5		Tenant exposure and long-term, sustainable relationships SA economy and property industry headwinds including the management of our resources Portfolio performance through the management of the property manager Human capital | Passionate People
4	**Poor share price performance** – Shares trade at a discount to net asset value (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	– Distribution growth will lead to an improvement in share price – Initiatives to increase free float – Explore strategic opportunities			2		Portfolio performance through the management of the property manager Manage a strong balance sheet that supports sustainable distribution growth
5	**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 recapitalisation and reduction in exposure to below 4% of GLA – Strategies are in place for all tenants with exposure of more than 5% of GLA and/or rental			3		Tenant exposure and long-term, sustainable relationships

Risk key

- High risk
- Medium risk

SVD key

- Customer experience
- Tenant experience
- Employee experience
- Capital and risk management
- Financial outcome
- The good we do

Rating	Key risk and probable effects	Strategic responses/ mitigating actions	Inherent risk rating	Residual risk rating	2018 Rating	Strategic value driver	Material matter
6	**Dependency on Eskom and excessive utility charges**		High risk	Medium risk	9	The good we do; Financial outcome	Safety, transformation and climate change commitments Portfolio performance through the management of the property manager
	– 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 sustainability policies – Property expense monitoring against benchmarks – Monitor cost recovery ratios – Back-up generators – Energy, water and waste audits – Solar PV installations and water harvesting systems – Zero to landfill by 2020, zero water by 2025 and net zero emission by 2030 strategies and roadmaps					
7	**Property market risks especially in a low GDP growth environment**		High risk	Medium risk	6	Customer experience; Financial outcome	SA economy and property industry headwinds including the management of our resources Portfolio performance through the management of the property manager
	– Increased vacancies, reversions and arrears	– Monthly reports on tenants' arrears – Review of tenant trading densities – Tenant 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 – Exploring use of new technology to engage with shoppers – JHIR strategic alignment project					
8	**Safety and security at shopping centres**		Medium risk	Medium risk	7	The good we do	Safety, transformation and climate change commitments
	– 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, active attacks, evacuation drills, riot and protest, fire drills and suspicious parcel drills – Tactical units are in place to counter the threat of terrorism – Safety and risk impact assessments – Security forum deals with operational safety and security matters across the portfolio – Occupational Health and Safety (OHS) Act, regulations and best practise audits					

Risk management continued

Rating	Key risk and probable effects	Strategic responses/ mitigating actions	Inherent risk rating	Residual risk rating	2018 Rating	Strategic value driver	Material matter
9	**Failure to improve B-BBEE level**				10		Safety, transformation and climate change commitments
	— Tenants lose rental qualification for their B-BBEE deductions, resulting in loss of tenants — Stakeholder discontent — Reputational damage — Protests if communities believe that they are not being appointed as suppliers	— B-BBEE procurement is one of the property manager's KPIs — Approved transformation strategy — Monitoring by the Social, Ethics and Transformation Committee					
10	**Investment strategy execution in a prolonged sluggish and poor growth environment**				8		Manage a strong balance sheet that supports sustainable distribution growth Portfolio performance through the management of the property manager
	— Actual investment executions result in acquisitions or 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 — Due diligences					

Risk key

- High risk
- Medium risk

SVD key

- Customer experience
- Tenant experience
- Employee experience
- Capital and risk management
- Financial outcome
- The good we do

Compliance with laws, regulations, rules and standards

As a responsible corporate citizen and listed REIT, we are required to comply with the JSE Listings Requirements, the Companies Act, specific rules that apply to REITs in South Africa, as well as other legislation, regulations, codes and standards.

The chief risk and compliance officer monitors and reports on the risks of non-compliance with statutory and regulatory requirements. During the year under review, no fines were levied for non-compliance with statutory and regulatory requirements, and there were no censures. In addition, we were not party to any legal action for uncompetitive behaviour. Furthermore, no requests for information were received or denied in terms of the Promotion of Access to Information Act.

In their audit report for the year ended 31 December 2019, the external auditors confirmed 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

As our property manager, JHIR has provided positive written assurances in respect of the internal controls, risk management, and fraud detection and prevention measures that we have in place.

The external auditors confirmed in their audit report for the year ended 31 December 2019 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 2019, no weaknesses were identified and that the governance processes, risk management and system of internal controls are adequate and effective.

Our combined assurance model

Combined assurance means adopting a coordinated approach to attaining assurance on the management of risk. At L2D, combined assurance is underpinned by a robust risk management process as well as the three lines of defence risk governance model, as set out below. Put simply, combined assurance informs the Board that the risk management and risk governance model are operating efficiently and effectively to manage L2D's risks.

Our combined assurance model aligns with the roles and responsibilities that are articulated in the three lines of defence risk governance model. Regular communication takes place between management, the CRO, governance structures, as well as independent assurance providers, including internal and external audit.

The Board receives assurance on the management of key risks on a regular basis, by way of the assurance functions discussed above. Depending on the provider, assurance is received either monthly, quarterly or annually, which collectively results in efficient and effective combined assurance. The ARC believes that the combined assurance received is appropriate to address all the significant risks facing the company.

Three lines of defence risk governance model

	1 First line	2 Second line	3 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

Risk management objectives for 2020

Four objectives

1

Ensure there are robust business continuity plans in place

2

Review the risk management plan

3

Review our risk appetite and tolerance levels

4

Ensure the alignment of JHIR risk reporting on the portfolio

Stakeholder management

View from our Board

L2D is part of a greater socio-economic ecosystem and we recognise that we are dependent on robust relationships with all our stakeholders. We appreciate the important roles they play and remain committed to nurturing impactful, mutually beneficial relationships that combine to create sustainable value.

Value statement

Our operating environment, much like the world we live in, is changing at a rapid pace. To stay relevant and ahead of competitors, we continue to drive the future proofing of our assets and create a business that thrives in a challenging operating environment. To do this, we continue to look ahead and make it our business to understand the various trends and forces that will shape our business into the future.

Following this approach provides us with a roadmap to guide our actions. This ensures that we:

- Implement initiatives that contribute to engaging **customers** in a way that creates a memorable experience;
- Provide superior spaces to **tenants** to ensure our malls remain competitive, relevant and conducive to an increase in customer dwell time to add value to our tenants' businesses;
- Create an environment that enables **employees** who are engaged, passionate and able to thrive;
- Partner with the right **suppliers** that contribute to L2D's corporate procurement and enterprise supplier development;
- Deliver sustainable returns and provide timely, transparent, consistent and credible information to **shareholders**; and
- Create societal value and preserve our **natural capital**.

How we engage with our stakeholders

Stakeholder engagement is an important, continuous process that helps management assess the risks facing the business and determine the material matters that inform our strategy. Our various methods of stakeholder engagement take place at all levels of the business. By addressing the outcomes of our stakeholder engagements, we enhance our ability to create sustainable value for our stakeholders.

With this in mind, we actively seek to engage our stakeholders across all available channels, while ensuring that our communications remain true, transparent, timeous and appropriate to varying stakeholder needs. In their decision-making process, the Board and executive management remain cognisant of the legitimate interests and expectations of all our stakeholders. Read more about our strategy on pages 16 to 18 our risk management on pages 72 to 77, and our material matters on pages 24 to 25 of this report.

The following table sets out our various stakeholders, how we engage with them and the outcomes that result from our interactions.

Stakeholder	Description	Methods of engagement	Outcomes of engagement
1.1 Institutional shareholders	L2D's top 10 shareholders own approximately 96.75% of the company's shares at 31 December 2019.	We engage 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. Our 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. The remuneration policy, in particular executive remuneration incentives, has been updated to address investor concerns. This policy will be presented at the AGM in May 2020.	We have continued our approach of regular, transparent and proactive engagement with our shareholder base. In addition to the mandatory interim and final results announcements, management has ongoing voluntary communication with shareholders on operational performance and thought leadership. We provide bi-annual operational updates, and management hosted both a site visit and thought leadership day during the 2019 financial year.
1.2 Liberty Real Estate Portfolio (LREP) investors	LREP investors are policyholders in the fund that invests in L2D. LREP's performance is directly linked to the share price movements of L2D.	We engage with LREP 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.	Both LREP investors and retail investors have full access to information available on the JSE and are able to make contact with our investor relations team with specific information requests.
1.3 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.	We engage with these shareholders through public communication channels such as financial media, SENS announcements and an interactive investor relations website.	Retail shareholders are regularly updated by way of public information as well as regular updates provided on the website.
1.4 Sector analysts	This group of stakeholders is instrumental in effectively communicating our investment proposition. Analysts have considerable influence on the flow of financial capital and need to constantly be kept informed on our 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; analysts research the technical aspect of the financial and operational results.	Our investor relations team as well as the chief executive and financial director have regular engagements with the analysts which include meetings and lunches to discuss sector and industry trends.

Stakeholder management continued

Stakeholder	Description	Methods of engagement	Outcomes of engagement
2. Our people	We rely on our people to execute our strategy – they are the heart of the business. The core focus of our human capital strategy is on encouraging inspired, passionate and empowered people through our people practices. These align individual performance outcomes to the overall business strategy, and reward and recognise performance.	Engagement surveys, including 360-leadership survey, GIBS ethics survey, Chief Executive Business Connect Forums. Regular engagements, including team meetings, one-on-one interaction, performance conversations and workshops. Annual strategy engagement and sharing sessions. Quarterly people forum, covering succession planning, learning and development discussions.	Feedback from 360-leadership survey: An overall score of 7.7 was achieved, with the feedback Rocket benchmark at 7.9. The top leadership qualities were honesty, trustworthiness, integrity, passion about achieving success, skill, competence, respect and commitment to diversity in the team. Areas for improvement included conflict resolution, adaptability to change, openness to challenge and receiving constructive criticism, being clear upfront and delegation. Strengthening of executive management team: Manco has been bolstered with appointments of the marketing executive and the head of analysis.
3. Regulators	JSE Sponsor	We consult regularly with our JSE sponsor in order to ensure compliance with the JSE Listings Requirements.	In November 2019 the sponsor updated the Board on the new JSE Listings Requirements.
4. Industry bodies	Morgan Stanley Capital International (MSCI) South Africa Council of Shopping Centres (SACSC) South African Property Owners Association (SAPOA) South African Real Estate Investment Trust Association (SA REIT) Green Building Council of South Africa (GBCSA)	Engagement takes place by way of our attendance and participation at property industry conferences. We are represented on various industry bodies through the appointment of our staff members to boards and committees.	Ongoing engagement and active involvement with various industry bodies in terms of sharing information and expertise in order to advance the property industry. Asset management executive on board of SACSC. Asset management executive on board of GBCSA. Appointments of four senior employees to various sub-committees of SA REIT Association.
5. Lenders	R505 million of term debt was due on 31 October 2019.	Our management team has regular engagement with representatives from our lenders and enjoys a good relationship with debt providers.	Our treasury team successfully completed the refinancing of term debt due during the year and used the opportunity to introduce a third lender that has provided a revolving credit facility (RCF) facility. The refinancing was completed at good margins which has slightly lowered the all-in cost of debt. Our team continues to build on the good relationship we have with our lenders.

Stakeholder	Description	Methods of engagement	Outcomes of engagement
6. Tenants	Tenants are our primary customers and we understand the importance of pre-empting and satisfying their needs.	We regularly evaluate the administration management function between our property manager JHIR and our tenants to ensure that our tenants are effectively serviced. We engage annually with our top 10 tenants in the portfolio. We have monthly owners' meetings to track the performance of each asset.	Most tenants are finding it difficult to trade in the economic environment and absorb cost increases, especially the electricity and municipal rates and taxes. The tenant engagement log is up to date. In total 23 engagements took place with retailers' CEOs/executive management. At monthly owners' meetings for each asset, asset managers are appointed to track and report on the performance of each asset. Quarterly operations meetings are held with JHIR, where they report on KPIs, which we use to evaluate their performance. JHIR are audited on an annual basis. Management liaised extensively with Edcon to reduce our exposure and conclude the agreements in respect of their recapitalisation.
7. 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.	We engage with shoppers through market research including focus groups, as well as social media feedback, newsletters, mystery shopper and information kiosk personnel.	We receive daily Market IQ reports where all L2D-related correspondence is consolidated for review. We have appointed Excellerate Brand Management (EBM), a marketing company that monitors and responds to social media messages from our customers as well as any centre-specific media queries that are first reviewed by L2D. In 2019, we introduced a weekly newsletter to our tenants as well as a quarterly emailer to our customers. The emailer database is generated from the Wi-Fi network and from events held previously at the malls. We conduct market research at our centres every two to three years. Sandton City will be carrying out market research as part of the master planning exercise. We recently signed an agreement with JC Decaux, which will be responsible for the digital strategy. As part of their appointment, new I Vision touch screens will be introduced at our malls to help customers navigate through our spaces. Trained kiosk personnel are present at all our malls to address customer queries.

Stakeholder management continued

Stakeholder	Description	Methods of engagement	Outcomes of engagement
8. Suppliers and service providers	We depend on a few key suppliers. These include utility providers such as Eskom and local municipalities. JHIR is our property manager, contracted to assist in managing the operations at our various properties. The interaction between this supplier and customers is significant and underpins the importance of having transparent communication channels.	We hold monthly meetings with executive management, asset managers and operations committees. Meetings can also take place as and when required.	Service providers are appointed in line with our procurement policy. The standard of performance is monitored by our property manager JHIR and issues are addressed at the monthly owners' meetings which are attended by our asset managers. During the year, a new procurement policy including sustainability requirements was approved. JHIR are responsible for implementing the policy for procurement activities in terms of the portfolio.
9. Communities	We strive to be a responsible corporate citizen. We aim 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.	We have made great efforts to combat fraud and corruption. No fraud cases have been reported against L2D. We have spent R3.2 million towards CSI initiatives with R1.6 million in economic value created.
10. Government	South African Revenue Service (SARS) Local government Provincial government National government	Any engagement with SARS is facilitated by the Liberty Group Tax team.	We have achieved full compliance with all relevant South African laws and regulatory requirements, including tax, occupational health and safety, employment equity and skills development. Management is in regular contact with the Liberty Group Tax team and provides input where necessary and prepares certain tax returns. We have engaged the Mayor of Johannesburg on municipal valuations. We attended a summit hosted by the premier of Gauteng at Economic Forum Day. We attended the president's investment forum.

Stakeholder value created in 2019

We remain committed to creating sustainable value for all our stakeholders, as demonstrated in the graphic below.

Employees

R70m paid for salaries

Leadership team strengthened

Key roles filled

Employment equity targets met

Shareholders

60.43cps full year distribution

Total R549m distributed

Tenants

3.6% retail trading density growth

2.3% retail vacancy

Enhanced safety

Property managers

R28.8m paid for services

Robust relationship

L2D

R999m
revenue

R10.27bn
iconic portfolio

R9.65
NAV per share

Shoppers

R108m invested in improving our centres

New tenant offerings

Curating experiences

Enhanced safety

Community

R25m CSI spend

R1.6m economic value created

Approximately 800 jobs created

Environment

R25m invested in sustainability

Net zero targets

Single use plastics ban

Solar power

Corporate governance report

Commitment to good governance and the principles of King IV™

The Board is L2D's corporate governance custodian leading the company to embed an ethical culture and ensure that there is effective control, solid performance and legitimacy.

At the heart of any successful business is the practice of good corporate governance. It is unfortunate that the well-publicised instances of governance shortfalls at many state-owned enterprises, as well as at a number of large private and public companies, have had a devastating effect on the South African economy, investors and society at large.

While it is essential for the company to achieve its objectives and drive improvement, it is also crucial to maintain a sound legal and ethical standing in the eyes of shareholders, regulators and the wider community. Furthermore, practicing good governance helps to build a positive reputation and underpins a healthy culture within the company.

L2D is committed to the principles of King IV™ and the Board is ultimately responsible for ensuring the integrated and holistic implementation of these principles. The Board is satisfied with its level of compliance with the King IV™ governance principles. The Board is also satisfied 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.

In the best interests of L2D and its stakeholders, the company is determined to continually improve the Board's application of all the King Code of Governance Principles. A King IV™ application register, which sets out how L2D has applied the principles of King IV™, is available on the company's website.

How corporate governance creates value

Within the company's ethical environment, effective corporate governance practices create and preserve value for all stakeholders. L2D's governance structures and processes create value for all its stakeholders by:

- Enhancing the company's understanding of risks;
- Balancing return opportunities with the cost of risk;
- Allocating capital and resources to activities that create value;
- Allocating responsibility and being accountable;
- Building legitimacy through ethical leadership;
- Protecting the L2D brand through responsible behaviour; and
- Adopting an inclusive approach to business.

Corporate citizenship

The Board understands that good corporate citizenship is a measure of the company's social responsibility and its adherence to legal, environmental, ethical and other responsibilities to its stakeholders. In today's world, corporate citizenship is becoming increasingly important to investors, customers, employees and society as a whole.

To this end, the Board recognises 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 the company carries out its responsibilities is disclosed in the sustainability report on page 100.

Corporate governance themes in 2019

During the year under review, the Board took the following approach to ultimately drive sustainable value for stakeholders:

- Safeguarding L2D's culture of ethical leadership to maintain high levels of compliance and standards;
- Overseeing the strategic alignment of the property management function with L2D's vision and purpose;
- Establishing operational sub-committees to drive specific outcomes for the business;
- Developing road maps for net zero waste by 2020, net zero water by 2025 and net zero carbon by 2030; and
- Driving innovation initiatives to keep L2D ahead of competitors and improve its offering in the market.

Ethical leadership and culture

The company's leadership is fully committed to the application of, and compliance with, 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 by the company's leadership with due consideration to the code of ethics as set out in L2D's employee policies. To maintain the highest levels of integrity, honesty and transparency, the company's employees are all required to familiarise themselves with, and adhere to, the code of ethical conduct. In addition, employees are required to comply with the various policies that support the code of conduct. Furthermore, underpinning the code of conduct are the company's values, which are integrated into the performance management process and shape the way L2D behaves and conducts business.

Assessment of ethical standards

360° on-line manager reviews facilitated by FeedbackRocket were conducted.

The strongest combined competency was that the managers display honesty, trustworthiness and integrity.

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

To support the establishment of an ethical culture at L2D, the following initiatives, programmes and policies were implemented during the year:

Ethics office established

To strengthen L2D's governance practices further, an ethics office was established by the Board in July 2019. Leading the company's initiative is the chief executive, who is the ethics champion and the chief risk and compliance officer, who is the ethics officer. The role and responsibilities of the ethics office are in the process of being refined. During the year under review, the ethics office met three times to discuss ethics in the workplace.

To capitalise on its available resources, L2D will leverage off the Liberty Group's Ethics Forum and its updated code of ethics. In 2020, an awareness training programme will be rolled out for L2D employees to participate in.

Whistleblowing

Vuvuzela Hotline is the independent fraud and ethics hotline service provider to L2D and the Liberty Group. Directors, employees, suppliers and other parties are able to report, without fear of reprisal or victimisation, any instances of fraud, corruption, misconduct, illegal activities, or unethical behaviour.

The company's property manager JHIR provides incident reports regarding L2D and its portfolio, which are then tabled for discussion at the Finance and Risk Oversight Committee and reported on at the Executive Management Committee (Manco). Any matters of a serious nature that may arise are then escalated to the Audit and Risk Committee for investigation and action, as required. There were eight incidents reported to L2D by JHIR in respect of the portfolio, with none involving L2D directly. At the time of reporting, five of these incidents were finalised and closed. None of the reported incidents were significant. The company adopted a new whistleblowing policy in October 2019.

Conflicts of interest

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

During the year under review, no conflict of interest was disclosed by any of the directors appointed to the Board.

The company's employees are required to make the appropriate disclosure of potential conflicts of interests in terms of the general conflicts of interest policy at least twice a year. Gifts received by employees must be disclosed in terms of the gift policy and recorded in a gift register.

Dealing in securities

An information and share dealing policy governs the way in which employees, directors, insiders and other affected persons deal in L2D securities or disseminate price sensitive information. During a prohibited period, a director, company secretary or prescribed officer is not permitted to deal in L2D shares 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 first obtaining written approval from the CE.

While associates of directors may deal in L2D securities at any time, they must notify the director immediately after their dealings. 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, and in L2D's case, this period commences 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 68.

Corporate governance report continued

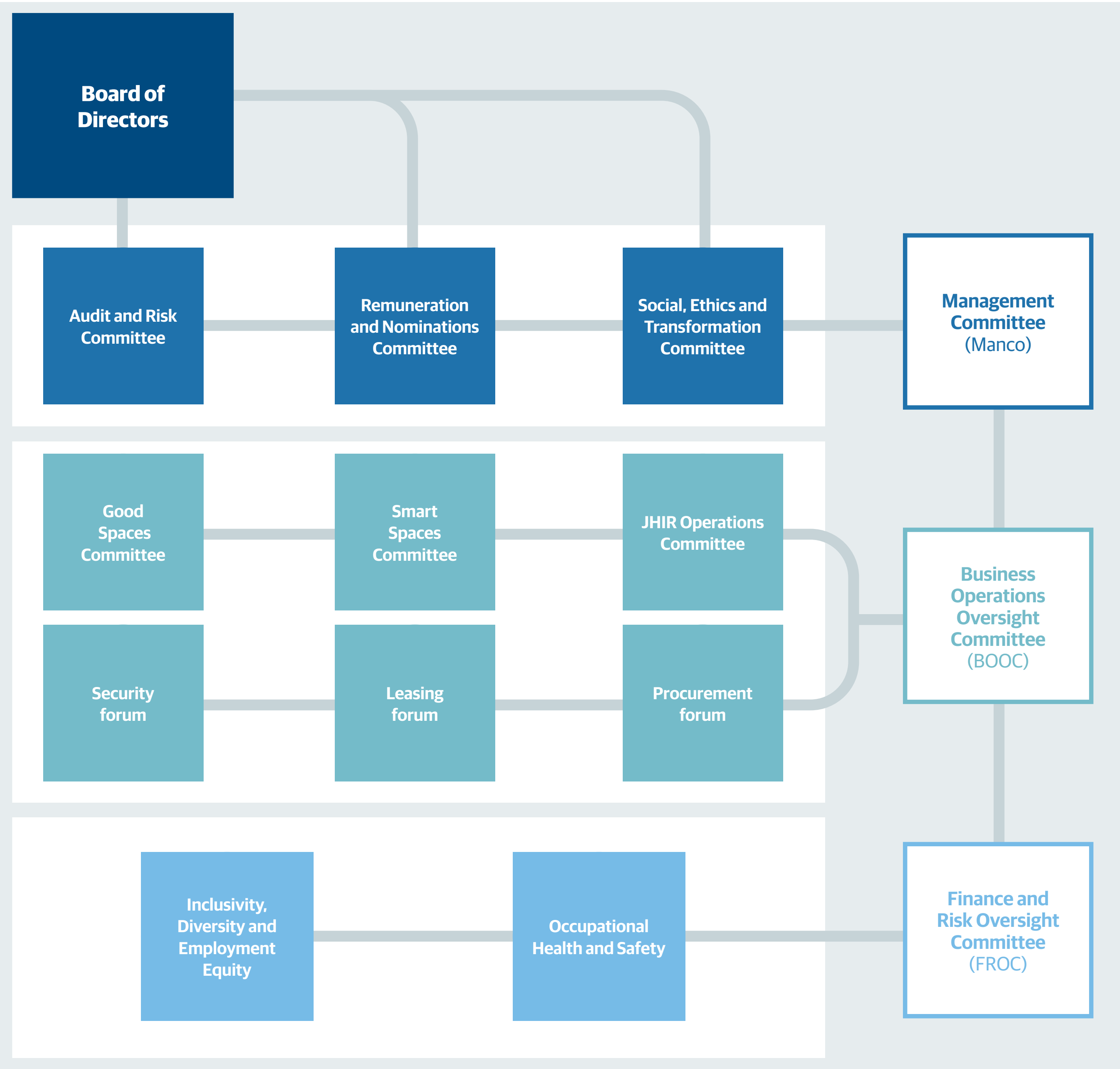
Effective control

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

Guiding the Board is a charter that sets out the rules for its composition, the frequency of its meetings, as well as the roles and responsibilities of the directors and the Board as a whole. The Board reviews its charter annually. An annual work plan has been established to ensure that meeting agendas cover all of the Board's duties and responsibilities.

Governance structures and delegation

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



The Board has appointed several committees to support it in maintaining oversight of all of L2D's activities, namely the Audit and Risk Committee, the Social, Ethics and Transformation Committee, and the Remuneration and Nominations Committee. Notwithstanding, the ultimate responsibility still rests with the Board, to whom all committees report.

Each of the Board 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 and annual work plans are prepared to ensure the committees cover all their duties and responsibilities during the year.

The Manco comprises the chief executive, financial director, chief operations officer, human capital executive, marketing and communications executive and head of analysis. The Manco is assisted by two internal sub-committees, namely the Finance and Risk Oversight Committee, and the Business Operations Oversight Committee (BOOC), whose members comprise other executives and senior subject matter employees.

Driving the execution of two of the company's five building blocks are two sub-committees, namely Good Spaces, which deals with sustainability, and Smart Spaces, which deals with technology. The Smart Spaces sub-committee is responsible for executing Project Pear, the aim of which is to deliver the "smartest shopping centre in the world", and the first priority is to create an extraordinary client experience.

The company has a delegation of authority framework (DoA), which 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 and its subsidiaries and is reviewed annually. The Board is satisfied that the delegation of authority framework contributes both to role clarity and an effective arrangement by which authority and responsibilities are exercised.

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 two non-executive directors, three 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. L2D intends to appoint two additional independent non-executive directors by 29 May 2020.

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. Wolf Cesman was appointed as lead independent director on 5 August 2019 following the resignation of Brian Azizollahoff. The roles and responsibilities of the chairman and the chief executive are separated and clearly defined. The chairman's responsibility is to provide 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 operations 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. Independent non-executive directors also ensure that all decisions made by the Board have been subjected to the appropriate oversight, challenge and scrutiny.

Chief Executive

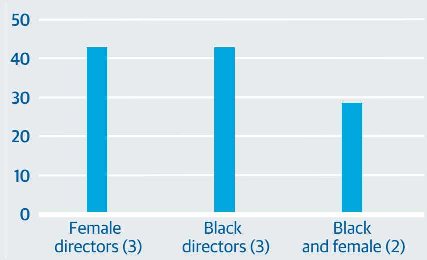
Amelia Beattie was appointed as full-time chief executive of the Manager of L2D with effect from 1 December 2016 and as the CE of Liberty Two Degrees Limited on 10 July 2018. She has a permanent contract with a three-month notice period that does not provide for balloon payments on termination. She does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

Diversity

L2D understands that the diversity of the Board, and the company in general, is key to the ongoing success of the business. To this end, the Board has adopted a diversity policy, which provides targets for the promotion of diversity in terms of race and gender. These targets have been substantially met, with 43% of Board members being black and 43% being female.

The Board has experience across various industries and sectors, with many years of experience in the management of property investment companies. For further information, refer to page 47 of this report.

Directors: race and gender (%)



Board and committee changes

The Board

David Munro was appointed to the Board as a non-executive director on 29 July 2019. Brian Azizollahoff resigned as a director and lead independent director on 2 August 2019 and Wolf Cesman was appointed in this role on 5 August 2019.

Audit and Risk Committee

Wolf Cesman stepped down as chairman and Zaida Adams was appointed in his place on 29 July 2019. Brian Azizollahoff resigned on 2 August 2019 and Lynette Ntuli was appointed in his place on 5 August 2019.

Social, Ethics and Transformation Committee

No changes during the year.

Remuneration and Nominations Committee

No changes during the year.

Independence

The Board carries out an evaluation of the independence of its directors in line with the King IV™ requirements. An internal evaluation of the independence of the non-executive directors was undertaken by the Nominations Committee on a substance-over-form basis and the outcome was shared with the Board on 20 February 2020. With the exception of Angus Band and David Munro, all non-executive directors were confirmed to be independent.

Corporate governance report continued

Independence of the Board is further assured by the following:

- The majority of the Board members are non-executive directors, of which most are independent;
- 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.

The company undertakes various procedures for new appointments, which include 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, among other criteria: skills, knowledge, qualifications, diversity, experience and balance of power.

All non-executive directors have appointment letters.

Succession planning

The Board intends to appoint two additional independent non-executive directors in 2020. With these anticipated 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 and other senior executives every year.

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

Zaida Adams was appointed as chair of the Audit and Risk Committee on 29 July 2019.

Company Secretary

The Board is cognisant of the duties of the company secretary and the vital role he 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 his 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. He ensures that L2D complies with section 88 of the Companies Act and is actively involved in assisting the Board in its governance initiatives.

Ben Swanepoel has more than 10 years' experience as company secretary in the listed environment. He has been registered with the Chartered Secretaries Southern Africa since 2002. The Board is satisfied that the company secretary is sufficiently skilled and experienced to effectively perform in his role.

Significant matters discussed during the year

- Approval of the company's strategy and business plan;
- Portfolio and business performance against budget, forecasts and benchmarks;
- Future growth strategy and strategy execution;
- The economic and operational environment, retail trends and the impact of 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 and distributions;
- Approval of the annual financial statements and integrated annual report;
- Approval of stock exchange news service (SENS) and press announcements;
- Acquisition and disposal opportunities;
- Appointment of a new company secretary;
- Shareholder concerns and expectations;
- The future of retail and retail trends presentation;
- The listed property sector presentation;
- Climate change presentation;
- The underperformance of the share price relative to the net asset value (NAV) per share;
- Approval of debt funding;
- Key risks impacting the delivery on strategy;
- Reduction in exposure to the Edcon Group and participation in their recapitalisation;
- Employee resourcing, retention, succession planning, talent management and wellbeing;
- Compliance with the Collective Investment Schemes Control Act (CISCA), the Companies Act, JSE Listings Requirements and other legislation, regulations, codes and standards;
- Approval and adoption of various policies;
- Transformation;
- Review of the Board charter and committee mandates;
- Discussion of the reports received from the chairs of the three committees; and
- Operational matters raised at Manco meetings.

Information and technology governance

By operating in a modern environment, the company appreciates that technology and information can create and unlock value in the business. The Board is responsible for information and technology (IT) governance and it discharges this function through the Audit and Risk Committee.

Although the IT function has been outsourced, the company understands the importance of IT governance within the control environment of L2D. The service providers are STANLIB and Liberty IT, which have provided letters of assurance confirming that their IT environments have been aligned with 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). As recommended by suppliers and vendors, the necessary technical standards and guidelines are applied at a technology level.

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

L2D is developing an integrated data platform to develop strategic insights into its operations, customer and tenant behaviours.

Board performance

Strategy, performance and reporting

It is the Board's responsibility to approve the company's overall strategy, oversee its implementation, and monitor L2D's performance against approved budgets, targets and KPIs. The Board continuously revisits and refines the company's strategy to ensure it remains relevant.

The Board is assisted by the Audit and Risk Committee to ensure that the company's reports – including the annual financial statements, integrated annual report, presentations, circulars and SENS announcements – are transparent, accurate and comply with legal requirements in order to meet the legitimate and reasonable information needs of its material stakeholders.

Induction and training

It is a requirement for all directors to continually develop their skills as well as their understanding of the operational environment. Directors are also required to stay informed and understand the material matters that impact the company in order to ensure that they are equipped to perform their duties to the best of their ability.

During the year under review, presentations and training sessions were held at Board meetings, to ensure that directors stay abreast of the regulatory changes, legislative requirements and industry trends.

Performance evaluations

The company conducts an annual assessment of all directors to ensure the continued improvement of the quality of the Board and its committees. Formal external evaluations are performed every two years and self-evaluations in the years between.

Directors' evaluations are based on both quantitative and qualitative measures. Quantitative measures include directors' attendance at Board and committee meetings and their compliance with the Board member requirements. Qualitative measures include the 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 conducted in February 2020. Following that, the evaluation reports were considered by the Nominations Committee and the Board. The overall outcome was that the Board and committees are functioning well and delivering on their mandates. Formal external evaluations will be conducted later in 2020.

The performance of the Chairman was discussed and the feedback from the directors were very positive.

Legitimacy

L2D's legitimacy resides in the quality of its assets, with a strong heritage and a track record of being property pioneers, particularly in the retail sector. This is evidenced by the company's ability to remain relevant to its customers and being known as a sector benchmark in innovative property asset management capabilities.

The company has a strong licence to win, by constantly defining and creating spaces that benefit its various stakeholders.

L2D is part of the Liberty and Standard Bank Group, both of which are credible and trusted brands, and leaders in their respective markets.

Attendance at Board meetings

The Board is responsible for the company's governance function. To effectively execute its fiduciary role, the Board has committed to meet a minimum of four times a year. It may call additional ad hoc Board meetings should the need arise to address any matters relating to operational, financial, governance or any other key business issues.

During the year under review, scheduled quarterly meetings were held as well as one additional meeting to discuss an investment opportunity. For the details of attendance at Board and committee meetings during the year, refer to the table on page 90.

Corporate governance report continued

Board and committee meeting attendance

Member	Board	ARC	SET	Nominations and Remco
Chairs	Angus Band	Zaida Adams	Lynette Ntuli	Wolf Cesman (Remuneration) Angus Band (Nominations)
Number of meetings	5	4	4	4
Angus Band Non-executive Chairman	5/5	3/4*	4/4	4/4
Zaida Adams Independent Non-executive Director	5/5	4/4	n/a	n/a
Brian Azizollahoff Independent Non-executive Director	4/4**	3/3**	n/a	n/a
Wolf Cesman Lead Independent Non-executive Director	5/5	4/4	4/4	4/4
Lynette Ntuli Independent Non-executive Director	5/5	0/1^^	4/4	4/4
David Munro Non-executive Director	1/1^	n/a	n/a	n/a
Amelia Beattie Chief Executive	5/5	4/4*	4/4	4/4*
José Snyders Finance Director	5/5	4/4*	3/4*	n/a
Steph Goodwin Human Capital Executive	n/a	n/a	2/4*	1/4*
Gareth Rees Finance Executive	n/a	3/4*	n/a	n/a
Jonathan Sinden Chief Operations Officer	n/a	n/a	3/4*	n/a
Ben Swanepoel Company Secretary, Chief Risk and Compliance Officer	4/4#*	4/4#*	4/4#*	3/3#*

* By invitation.
** Resigned 2 August 2019.
^ Appointed 29 July 2019.
\# Appointed Company Secretary 25 February 2019.
^^ Appointed 5 August 2019.

The internal auditors and external auditors attended all ARC meetings by invitation.

The skills and experience of the members are set out on pages 46 to 47.

Board committees

The company has a number of standing committees, which were created to assist the Board with the execution of its responsibilities. While certain functions are delegated to the committees, the Board retains ultimate responsibility for all of the committees' activities. Each committee has an agreed-upon mandate, approved by the Board.

The committee mandates were reviewed in November 2019 and set out the following for each constituted committee:

- 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.

For the year under review, all committees were satisfied that they fulfilled their responsibilities in accordance with their mandates.

Operations of each committee

1 Audit and Risk Committee

Zaida Adams (Chairman)

The ARC has statutory duties in terms of section 94(7) of the Companies Act. It has an independent role and is accountable to both the Board and the company's stakeholders. The committee is responsible for 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

Collectively, the committee members are equipped with the appropriate financial and related qualifications, skills, financial expertise and experience to discharge their responsibilities.

	Appointed
Zaida Adams (Chairman)	1 November 2018
Wolf Cesman	28 July 2017
Lynette Ntuli	5 August 2019

	Resigned
Brian Azizollahoff	2 August 2019

Committee invitees

Amelia Beattie (Chief Executive)
José Snyders (Financial Director)
Gareth Rees (Finance Executive)
Ben Swanepoel (CRO and Company Secretary)
External auditors
Internal Auditors
Representatives of Liberty's Audit Committee*
Chairman of the Board
Tax consultants

* The results of L2D are consolidated into Liberty's, hence their attendance.

Overview

The ARC's role is to provide independent oversight of the effectiveness and quality of the company's financial and internal controls, assurance functions and services. It is the ARC's responsibility to ensure the integrity of L2D's published financial and non-financial information, and to implement 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 2019 year;
- The financial controls in place are suitable and form a sound basis for the preparation and reporting of reliable financial information; and
- It has fulfilled its mandate, including its statutory duties, and that the company has complied with the JSE Listings Requirements, Companies Act, REIT tax provisions and other regulatory requirements.

Matters discussed by the ARC

The committee's focus on financial reporting during the year under review, in addition to its other duties and responsibilities, included the following:

- Review of the terms of debt facilities and recommendations to the Board;
- Review of financial performance and forecasts;
- Review of solvency and liquidity, capital adequacy and going concern assumption requirements;
- Adoption of new accounting standards;
- Approval of accounting treatment of Edcon upfront equity contribution;
- Review and deliberation of property valuations for Board approval; and
- Recommendation of results, distributions, SENS announcements, annual financial statements and investor presentations.

In addition to its other duties and responsibilities, the ARC's focus on governance, risk management and compliance included the following during the year under review:

- Review of the risk report and register as well as the controls and actions undertaken by management to mitigate and manage risks;
- Review of combined assurance assessment report;
- Review of compliance dashboard;
- Review of taxation matters;
- Increased focus on JHIR compliance, risk management and reporting thereon;
- Discussion on the impact of municipal valuations and rates increases;
- Considered the legal, accounting and taxation treatment which informed the election to make an upfront equity contribution to Edcon in respect of its recapitalisation;
- Agreed on the valuation of the unlisted Edcon investment and on the accounting treatment in respect of distributions;
- Considered the material litigation risks facing L2D;
- Discussed the effective use of technology and information in the business;
- Approval of the valuations policy and non-audit services policy;
- Monitor compliance with loan covenants and interest rate hedging policy;
- Reviewed the portfolio and company insurance cover;
- 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;
- Reviewed the external auditor suitability assessments;
- Review of the effectiveness of the internal audit function;
- Evaluated the independence, performance and conduct of the external auditors. Satisfied itself 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;
- Recommended that PricewaterhouseCoopers Inc. be re-appointed at the AGM; and
- Monitoring compliance with CISCA, JSE Listings Requirements, Companies Act and other applicable legislation, codes, regulations and standards.

The ARC's statutory report from the committee is included in the annual financial statements.

The ARC's focus areas for 2020

- Review the company's risk appetite and tolerance levels;
- Review the risk management policy;
- Technology and information governance;
- Compliance with the Protection of Access to Personal Information Act (POPI); and
- The impact of COVID-19 on the business.

Corporate governance report continued

2 Social, Ethics and Transformation Committee

Lynette Ntuli (Chairman)

The Social, Ethics and Transformation Committee (SET) continuously monitors L2D's activities that pertain to legislation and legal requirements as well as social, transformation, environmental and economic development. In addition, the committee ensures that L2D acts ethically, to protect the company's reputation and actively engages with various stakeholders, while acting in a manner that befits a good corporate citizen.

Committee membership

	Appointed
Lynette Ntuli (Chairman)	26 July 2017
Angus Band	26 July 2017
Wolf Cesman	17 June 2016
Amelia Beattie	1 November 2018

Committee invitees

José Snyders (Financial Director)
Jonathan Sinden (Chief Operating Officer)
Ben Swanepoel (CRO and Company Secretary)
Steph Goodwin (Human Capital Executive)
Other subject specialist and champions of the building blocks

Overview

The SET has a mandate to guide and monitor the company's transformation, social, economic, environmental, ethics, consumer engagement and management activities in accordance with the relevant legislation, codes and other legal requirements.

The SET is satisfied that it was fully compliant with its mandate requirements during the year under review.

Matters discussed by the SET

People

- L2D's human capital practices and internal governance structures;
- Talent development within the company; and
- The results of a 360-degree leadership survey.

Transformation

- Approval of a new procurement policy which includes sustainability requirements;
- The company's BEE verification;
- The implementation of L2D's transformation strategy and scoring against property sector scorecard;
- Employment equity and diversity;
- Proposed changes to the Amended Property Sector Code and impact on L2D's B-BBEE score;
- Supplier and enterprise development; and
- The company's socio-economic development initiatives.

Sustainability

- Establishment of the Good Spaces sub-committee;
- The company's carbon emissions during the year;
- Energy, water and waste audits for the portfolio;
- Development of the roadmap for "net zero" carbon emissions by 2030;
- Development of the roadmap for "net zero" water by 2025;
- Development of the "net zero" by 2020 waste to landfill roadmap;
- Banning plastic bags at retail centres in the portfolio from 2020;
- Selection of five Sustainable Development Goals (SDGs) as defined by the United Nations;
- Approval of the company's material matters, as set out in this integrated report;
- Sustainability initiatives including energy and water resource saving projects; and
- Submission of Green Star certification applications.

Health, safety and security

- OHS Act and regulations audits;
- Security forum established with monthly incident report system;
- Risk impact analysis;
- Tactical response, simulation training for potential bomb threats, armed robberies, protest action and evacuation drills;
- Stakeholder engagement;
- Investor and stakeholder management updates; and
- Approval of investor relations strategy.

Good corporate citizenship

- The company's compliance with constitution, laws, rules, regulations, codes and policies;
- Establishment of an ethics office;
- Outcome of the GIBS ethics barometer;
- Ethical conduct within L2D; and
- Combating fraud and corruption.

The SET Committee's focus areas for 2020

- Security enhancements at properties in the portfolio;
- Targeting "SAFE mall" international accreditation;
- Implementing the 2020 transformation strategy;
- Setting targets for reduced carbon emissions; and
- Ensuring the wellbeing, safety and security of our shoppers, tenants and employees in limited the impact of COVID-19.

3 Remuneration and Nominations Committee

Wolf Cesman	Angus Band
Chairman	Chairman
Remuneration	Nominations

The Remuneration and Nominations Committee continues to monitor the company's remuneration policies and their implementation. The committee 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

	Appointed
Wolf Cesman (Chairman of Remuneration Committee)	17 June 2016
Angus Band (Chairman of Nominations Committee)	26 July 2017
Lynette Ntuli	26 July 2017

Committee invitees

Amelia Beattie (Chief Executive)
José Snyders (Financial Director)
Steph Goodwin (Human Capital Executive)
Ben Swanepoel (CRO and Company Secretary)

Overview

Remuneration Committee

The role of the Remuneration Committee (Remco) is to assist the Board in discharging its duties in terms of governing remuneration and developing and implementing a remuneration philosophy to publish in the company's remuneration report. Remco also ensures that the company has competitive reward strategies and programmes in place, which it does to attract and retain high performance employees in order to achieve the company's strategic objectives. The committee seeks to safeguard stakeholder interests, by ensuring that remuneration structures do not drive excessive risk taking.

For further information, refer to the remuneration report, which commences on page 50 of this integrated report.

Nominations Committee

The role of the Nominations Committee is to assist the Board by ensuring that its composition has the appropriate balance of skills, knowledge, diversity and independence to effectively discharge its duties.

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

Matters discussed by the Remuneration Committee

- Benchmarking of employee remuneration and non-executive directors' fees;
- Recommendation of non-executive directors' fees;
- Approval of incentive percentages and annual increases, bonuses and share awards, and long-term incentive plans (LTIPs);
- Approval of vesting of share awards (no performance conditions applied);
- Review of the chief executive and financial director's remuneration packages;
- Appointment of a new trustee for the L2D Restricted Share Scheme;
- Review of the company's employee benefits;
- Engagement with key investors on the 2018 remuneration and implementation reports;
- LTIP forfeiture, incentive clawback conditions and changes to the remuneration policy; and
- Review of the remuneration and implementation report.

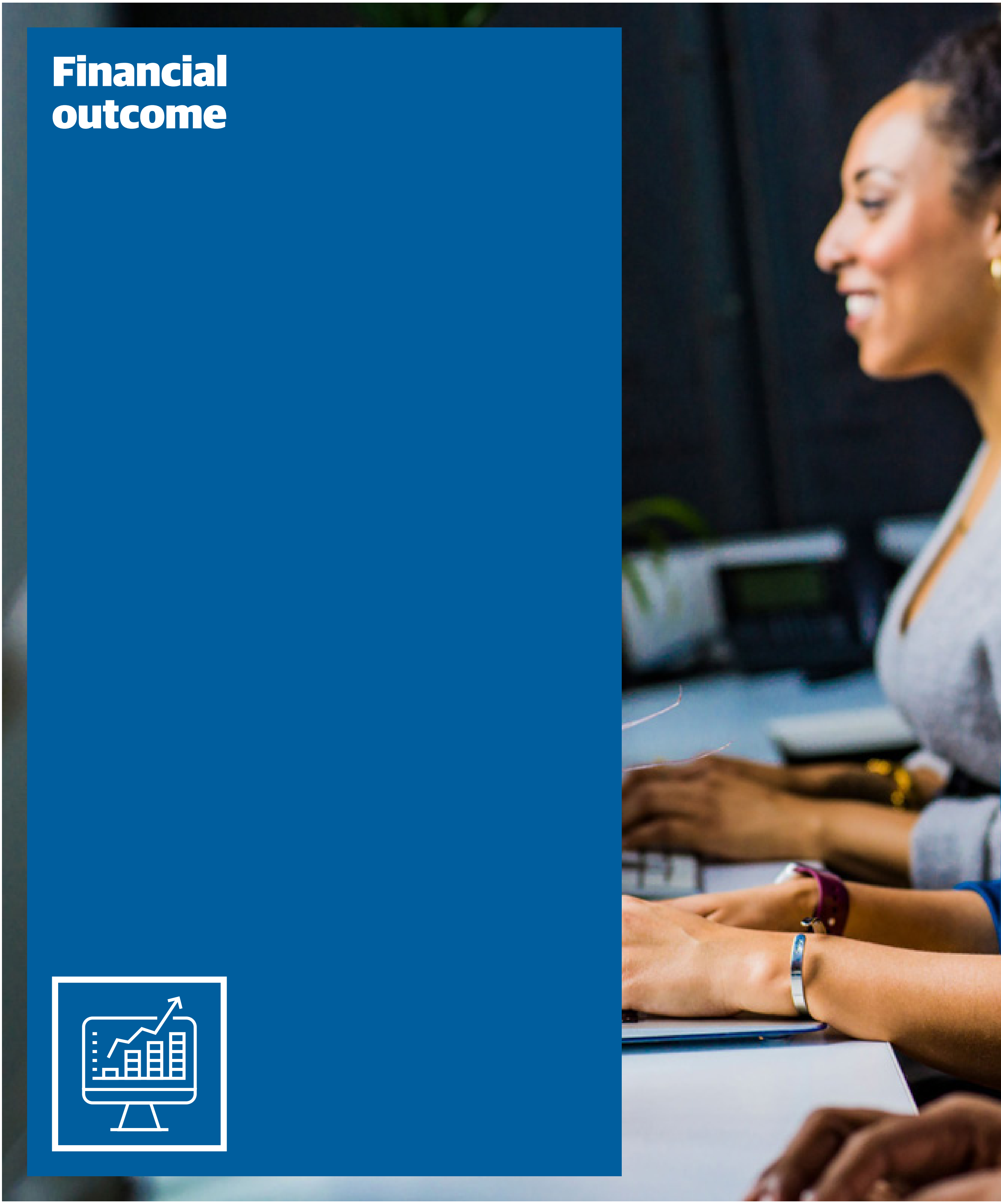
Matters discussed by the Nominations Committee

- Nomination of new Board members;
- Confirmation of directors' independence;
- Committee composition in terms of size, diversity and the necessary skills required;
- Board evaluations;
- Succession planning and talent management for key resources;
- Chairman and director succession; and
- Approval of key management positions i.e. the marketing and communications executive.

The Remuneration and Nominations Committee focus areas for 2020

- External director evaluations;
- Enhance awareness and optimise the utilisation of staff benefits offered by the company;
- Approval of the updated remuneration policy to include changes to LTIP performance condition and include malus and clawback conditions at the AGM to be held in May 2020; and
- Appointment of additional independent non-executive directors.

Financial outcome



Creating value for our shareholders

At L2D, we know that creating value requires a focus on more than just our financial results. It is also about building strong relationships with our stakeholders and by our ability to deliver on our strategic objectives.

We create value through our ability to:

- Increase net asset value, grow investor returns and ensure sustainable distributions;
- Maintain a strong balance sheet through a disciplined capital allocation to protect against downside risk; and
- Evaluate a number of investment opportunities and make capital investments required in our current portfolio to position us well once economic growth returns to the South African economy.

Our value chain is enhanced by robust management structures, good governance and by keeping our material matters relevant to our business in a rapidly changing world.

We provide investors with timely, transparent, consistent and credible information that covers our operational strategies, operating environment, trends, and financial performance. As a listed entity and responsible corporate citizen, we live by our values, principles and practices to act with integrity towards regulatory bodies, shareholders, market analysts and investors.

We aim to enhance our visibility and credibility in the capital markets and the greater economic community with our investor relations activities. This includes meaningful, strategic and dedicated interactions with our shareholders, investors, analysts and the broader financial markets. Our goal is to attract and retain investors, in order to increase the number of institutions holding our shares and grow the percentage of institutional ownership in L2D.

We take care of our shareholder relationships by:

- Complying with the JSE Listings Requirements and the Financial Markets Act to facilitate effective two-way communication between L2D, the financial community, and other parties;
- Ensuring consistent and credible reporting of our financial and operational performance;
- Improving our levels of disclosure;
- Acting with integrity towards all participants in the investment market; and
- Managing and executing a strategic investor relations programme.

We have a robust investor relations programme which includes:

1. Consistent communication and contact with the financial and investor community to:

- Build trust in our management and ensure goodwill;
- Manage our messaging to prevent and monitor unexpected or inconsistent messages; and
- Provide our stakeholders with a better understanding of our business and industry, reducing the threat of incorrect assumptions about performance.

2. Maximising contact with all stakeholders in the financial community. We do this by using the shareholder register and coordinate contact via planned, structured events.

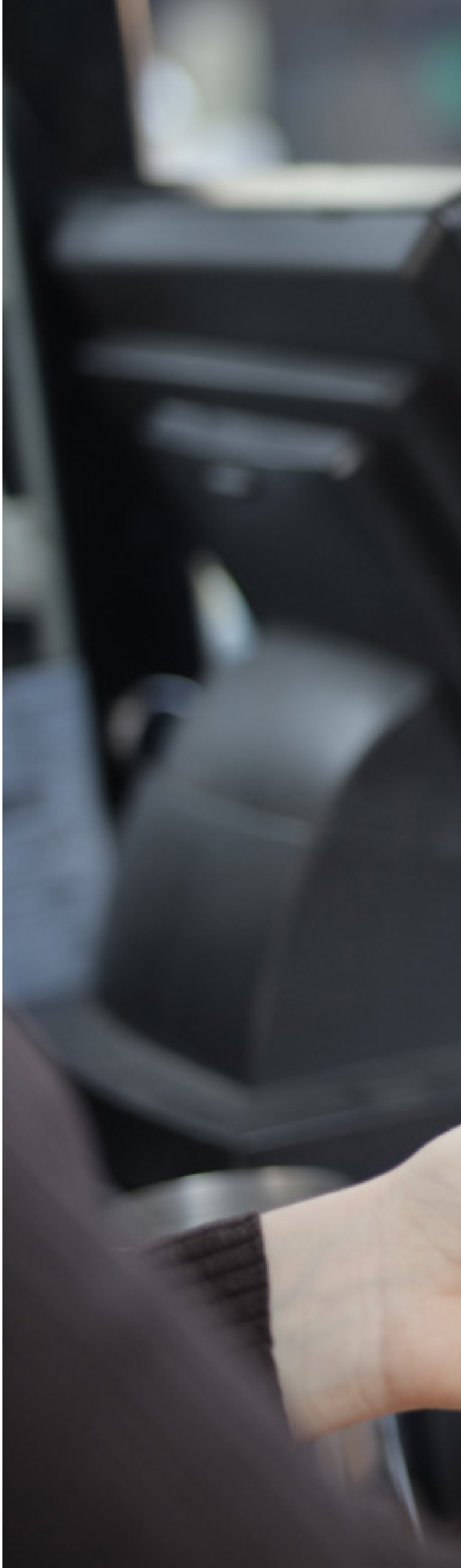
3. Continuous monitoring of competitor information and timeous communication to executives and broader management in key business areas.

4. Reputation management through vigilant awareness and insights that are cultivated by:

- Open communication channels to ensure all issues are handled effectively with minimal or no reputational impact;
- Nurturing close relationships with key shareholders and analysts in order to remain sensitive and aware of any potential issues or threats to our reputation as a business; and
- Cultivating close relationships internally, within our business, to effectively manage external messages and counter incorrect assumptions.

Following this approach helps to improve L2D's market valuation via increased coverage, an objective fair-value analysis and recommendations that give an accurate reflection of the company's metrics, operational and financial outcomes.

From a shareholder and financial advisor perspective, our improved levels of disclosure and management's regular interactions has enhanced the market's understanding of our business.

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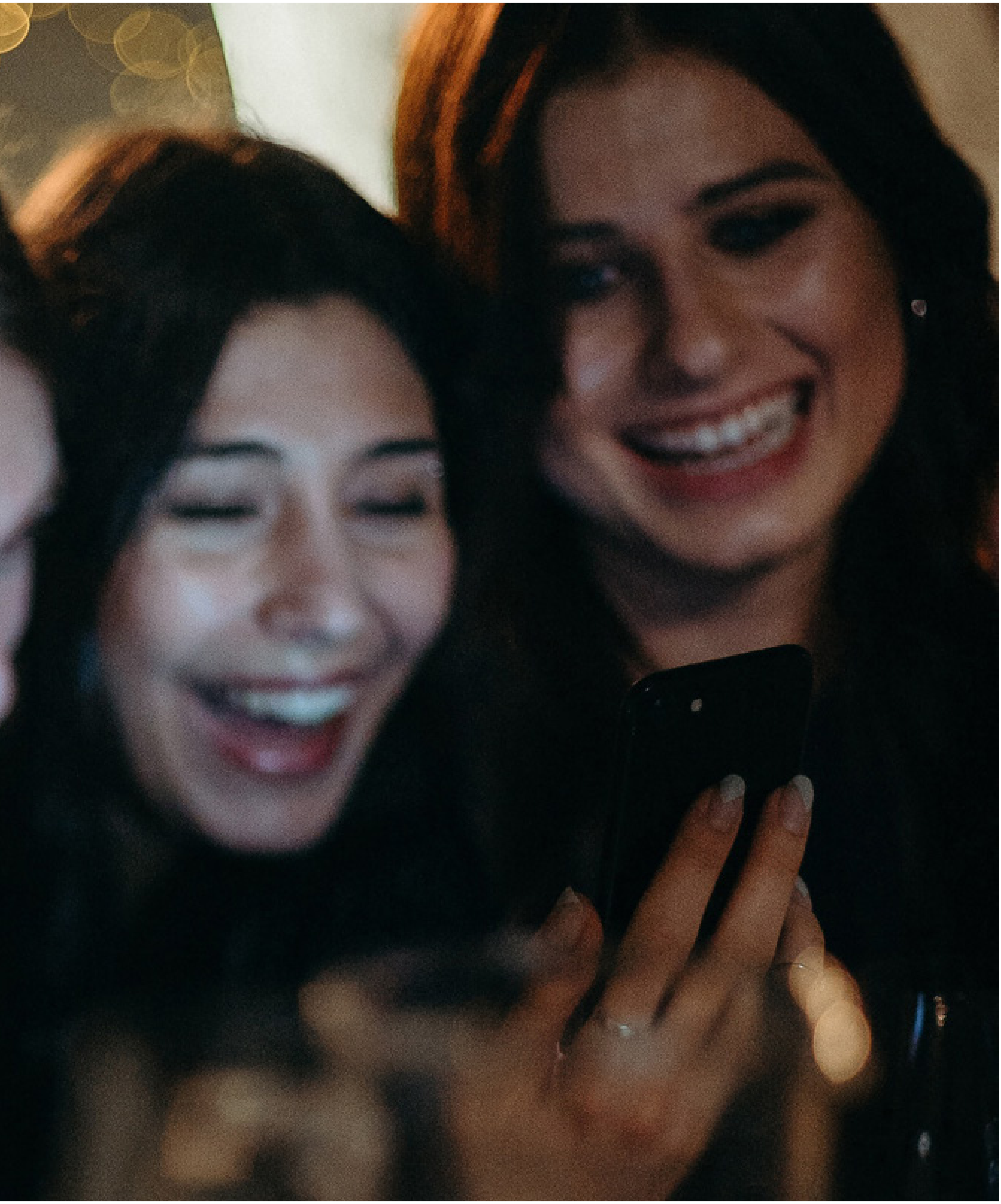
The good we do



Sustainability report

The importance of sustainable business practices

At L2D, we know that sustainable businesses have a valuable role to play in communities and their economic segments. As a result, we are focused on understanding and improving stakeholder relationships, which we discuss on pages 78 to 83 of this report. We have implemented a number of sustainability policies and work closely with the Liberty Group to progress our sustainability efforts.

We have committed to net zero carbon, water and waste before 2030 and believe this is fundamental to remaining relevant and robust as a business into the future. We are also looking to create net zero malls, where we can create enabling environments for tenants and shoppers to reach their business and personal climate change goals. Furthermore, our aim is to reduce the consumption of utilities in our buildings and responsibly decrease our portfolio's reliance on municipal services. We also understand that the construction sector faces risks owing to its exposure to climate shocks, and how this has a knock-on effect on the property industry in which we operate.

In this section of the report we look at matters that were determined by the Board during the year under review to be of significant importance to the sustainability of the business.

Sustainability policies

In support of improving our sustainable business practices, the following policies are being implemented across our portfolio:

- Energy efficiency;
- Water efficiency;
- Waste management;
- Advanced monitoring and metering;
- Green cleaning;
- Indoor air quality management;
- Legionella risk management;
- Gradual replacement of refrigerants;
- Green landscape management;
- Integrated pest management; and
- Sustainable hardscape management.

Delivering sustainable financial results

We remain committed to creating sustainable value for our stakeholders by delivering sustainable and growing returns to our investors over the medium and long term. We continue to achieve operational growth, overcoming the difficult local economic conditions that have impacted on the property sector.

Responding to an ever-changing environment is the focus of our strategy and our daily work. Following this approach, we endeavour to keep the portfolio at the forefront of retail and leisure trends and maintain operational excellence at our precinct assets.

For a more detailed overview of the financial performance of L2D in the 2019 financial year, please refer to the Financial Director's review and the AFS, commencing on pages 10 and 124 respectively.

Distribution per share

We use distribution per share as a relevant measure of our financial performance. All available earnings were distributed to L2D shareholders, which reflects the profitability and sustainability of the business. We met our guidance distribution of 60.43 cents per share for the 2019 financial year.

Rental income

For the year ended 31 December 2019, rental income increased compared with the prior year and includes a full year regarding assets acquired on 1 November 2018. The growth was primarily driven by good underlying rental growth and retail space that is now trading after being fitted out. Trading density growth was strongest at Sandton City, which grew by 9%. In addition, good retail leasing initiatives reflected a healthy demand for rental space at the centres.

Cost management

Due to the nature of the underlying assets, certain costs are manageable while others are dependent on specific service providers and suppliers, such as assessment rates and utilities. As assessment rate charges are driven by the municipality's view of the underlying property valuations, inconsistencies in these charges are not within our control. During the year, we successfully appealed Eastgate's municipal valuation, which resulted in costs being credited by the council and lower rates being payable.

There are currently no cost-effective alternatives for large monthly expenses that relate to electricity and water, which can only be procured from one supplier. With this in mind, we have committed to cost-effective sustainability initiatives in order to manage the electricity, water and waste consumption at the centres. Our aim is to find better ways to increase the recovery of costs from tenants without impacting on their sustainability and creating a negative trading environment. As a result of good cost management initiatives, the gross cost to income ratio for the year improved to 31.8% from 35.8%.

Market value of the properties

Our properties are valued bi-annually, and when required, by independent third-party valuation service providers. We keep our valuation methodologies consistent, but these are also regularly reviewed. This approach ensures that values take market conditions into account and reflects our asset management initiatives of value creation and value management. Valuations also assist management in monitoring the portfolio, evaluating performance and benchmarking returns against our peers.

Our sustainability focus areas in 2019

Sustainable Development Goals

The United Nations developed 17 internationally recognised Sustainable Development Goals (SDGs), with "the aim [being] to achieve these 17 goals by 2030 with a view towards ending all forms of poverty, fighting inequalities and tackling climate change while ensuring that no one is left behind".

We have aligned ourselves to five of these SDGs that fit the profile of our business. Our aim is to create robust assets that can benefit generations in a flexible manner, allowing for agile and adaptable environments that align to our sustainability goals.

Opposite are the five SDGs that are the most relevant to us and to which we aim to make a meaningful contribution:

SUSTAINABLE DEVELOPMENT GOALS

Goal 6
Clean water and sanitation:
Ensure availability and sustainable management of water and sanitation for all.

Goal 7
Affordable and clean energy:
Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 11
Sustainable Cities and Communities:
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12
Responsible consumption and production:
Take urgent action to combat climate change and its impacts.

Goal 13
Climate Action:
Ensure sustainable consumption and production patterns.

Sustainability report continued

To help achieve our sustainability goals, the focus areas during the year under review were as follows:

- Aligned to five UN Sustainable Development Goals for L2D Energy audits conducted across the portfolio;
- Smart metering installations for water and energy;
- Midlands PV solar project commissioned
- Completed the design of Midlands rainwater harvesting system;
- Eastgate and Botshabelo solar systems investigations;
- Waste stream audits conducted across portfolio;
- Commitment to net zero waste by the end of 2020;
- Policy to ban single-use plastic bags at all retail facilities in 2020;
- Composting facilities at Eastgate and Sandton City commissioned in 2020;
- Sustainability practices incorporated into procurement policies;
- Preparation of Green Star rating submissions to Green Building Council of South Africa;
- Appointed new utility management company that also provides advisory services;
- Reverse vending machines for recyclables launched at Sandton City;
- Aquaponics farm installed at Eastgate; and
- Provided Mitchell's Plain community with solar lamps as part of Earth Hour initiative.

2019 sustainability highlights

Capex invested in environmental initiatives

R23.7m

Total number of environmental initiatives (completed/ongoing)

25 projects in 2020

Reduced carbon footprint

4.37%

Energy produced by solar/PV installations 899 522kWh and saving about

R936 596

Waste recycled

2 551t

Organic waste diverted from total waste

2.5%

Amount invested in social initiatives (with R1.6 million direct economic value created)

R3.2m

Good Spaces — in-depth focus

Caring for our environment

"We need to stop acting as though the earth is a bottomless pit of resources, or that we will wait for someone else to do it — we need to start acting like what we do matters. That's the importance of grassroots actions. It's not that our composting will empty landfills of food waste, it is more about the changed minds and hearts that may influence others, so that we could speedily and meaningfully make a difference."

Amelia Beattie
Chief Executive

Sir Donald Gordon, founder of the Liberty Group, once said **"Business is about being bold and courageous"** and to honour his legacy, we continue to make bold commitments. These include supporting accelerated and positive changes to reduce carbon emissions, water use and waste generation at our business operations and malls across the country.

Our bold commitments

While we have committed to a net zero 2030 target for all our carbon, water and waste emissions on our existing portfolio, we are making great strides towards meeting the target significantly ahead of schedule.

Our first major milestone is to move our entire portfolio to a net zero waste status by the end of 2020. Our next targets are to achieve a net zero water status by 2025 and a net zero energy status by 2030.

We are also implementing a policy to remove all single-use plastic bags from our shopping malls, which started on 1 January 2020. To increase our chance of success, we have partnered with our tenants to gain their full support. This will be followed by bans on plastic straws and balloons.

Internally, we have committed to printing less paper and increasing our efforts to recycle more. In addition, we are incorporating sustainability thinking into our procurement and purchasing policies.

In terms of capital expenditure, R23.7 million was invested in sustainability-related projects during 2019.

We expect to obtain Green Star ratings for the entire retail portfolio by Q2 2020. We have already achieved Green Star ratings at three of our buildings: Liberty regional offices at Century City and Umhlanga have each been recognised with a 4-Star certification under the Existing Building Performance category and Atrium on Fifth at Sandton City has been awarded a 4-Star Office Design and a 4-Star As Built rating.

We deliver more easily on our commitments when we have the support of our tenants and shoppers to adopt these practices in their everyday lives for the benefit of the country and ultimately the planet.

View from our Board

Natural capital is critical to the day-to-day functioning of our business and forms part of our strategic thinking.

It is therefore imperative that we action our sustainability commitments in order to protect and preserve our natural environment, thus creating sustained value for all our stakeholders.

Our bold commitments as well as the hard decisions taken, which may cost more today, contribute to the long-term sustainability of the business and are therefore key to driving growth.

Water management projects

As South Africa is a country with scarce water resources, we try to alleviate the demands of our buildings on the local water supply where possible. To this end, we have a number of installations at buildings in our portfolio, some complete and operational while others are still in progress. These are discussed below.

At Liberty Promenade in Mitchell's Plain, a rainwater harvesting and borehole collection and treatment plant has been operational since December 2018. This plant reduces the mall's potable water requirements and delivers water to bathroom flush fixtures.

At the Liberty Regional Office in Century City, a treatment plant has been installed to convert reclaimed water from Potsdam into potable water of the highest standard. The system is due to be activated once the City of Cape Town has signed an agreement for usage.

At Midlands Mall, we are currently installing a rainwater harvesting system that will supply non-potable water to the centre's ablution facilities and be used for irrigation purposes around the property.

At Sandton City, we have commissioned condensation harvesting systems from the centre's air-conditioning system. The water that is retrieved is integrated into the centre's car wash facilities, where it is used to provide a service to customers and creates job opportunities, but at a lower cost to the environment.

Sustainability report continued

Waste management

> "We can no longer save the world by playing by the rules – the rules have to change. We need a system change, rather than just individual change – but we can't do the one without the other."
>
> **Greta Thunberg**

We have installed smart water meters at all retail facilities throughout the portfolio, with the exception of Eastgate Shopping Centre, which will see its project completed by Q1 2020.

We are currently investigating grey water system opportunities for Sandton City and Eastgate Shopping Centre.

Dealing with energy supply issues

In South Africa, we face the reality that the national power utility is currently unable to supply electricity consistently and without interruption. Eskom's energy availability factor decreased to 67% for 2019, compared with 72% in 2018 and 79% in 2017.

Load shedding refers to the utility's schedule of cutting power from the national grid to mitigate a shortfall in supply and carry out crucial, long overdue maintenance. Based on the current outlook for the short to medium term, load shedding and unreliable electricity supply will remain key challenges to business continuity.

This has necessitated our investment in onsite back-up diesel generators to mitigate risk and ensure business continuity for tenants and our properties. We are also taking decisive and strategic steps to reduce the electricity consumption at our retail properties and have begun supplementing the demand for energy by way of rooftop solar PV installations.

We are developing a net zero carbon 2030 strategy for the portfolio. This will be achieved through improved energy efficiency, retrofitting buildings, implementing renewable energy projects and offsetting any remaining carbon emissions in the long term.

Rise of renewable energy

South Africa's has seen renewable energy being widely adopted. Aligning with our sustainability strategy and SDGs, solar power is clean energy and does not produce harmful emissions.

At the Midlands Mall Lifestyle Centre in KwaZulu-Natal, we commissioned a 1MW rooftop solar PV plant in March 2019. This project marks our first renewable energy system in the portfolio. We anticipate being at advanced stages of a solar PV plant installation by the end of 2010 at Eastgate Shopping Centre.

Managing energy usage

We are cognisant that rising electricity costs impact on tenant affordability, which ultimately matters to our business and stakeholders. To monitor usage and to enhance the capabilities of our property managers, we have installed smart energy metering at Sandton City, Nelson Mandela Square, Promenade, Midlands Mall and Eastgate.

During the year under review, detailed energy usage audits were completed at all of our properties. These audits assist in the setting of energy usage reduction targets and benchmarks in specific locations. In addition, the data provides a way to engage meaningfully with tenants on managing their utility consumption and thereby benefiting from reduced costs.

Another way in which we are playing our part in protecting the environment is by reducing the impact of our operations on the natural world, particularly by better managing waste. We are committed to net zero waste before the end of 2020.

In order to gain a better understanding of waste management, we conducted waste stream audits at all the buildings in our retail portfolio. During the coming year, the new insights and knowledge gained from these activities will help us deliver improved waste management performance going forward.

At Sandton City, a state-of-the-art recycling facility was completed during the year under review, and a new waste area was commissioned and is fully operational. We are currently exploring a variable waste tariff system, which would provide better pricing to tenants that cooperate by sorting their waste at the source.

We have installed organic composting facilities at both Sandton City and Eastgate Shopping Centre. The Sandton City facility also handles the compostable waste that comes from Nelson Mandela Square and currently generates about 20 tonnes of compost per month.

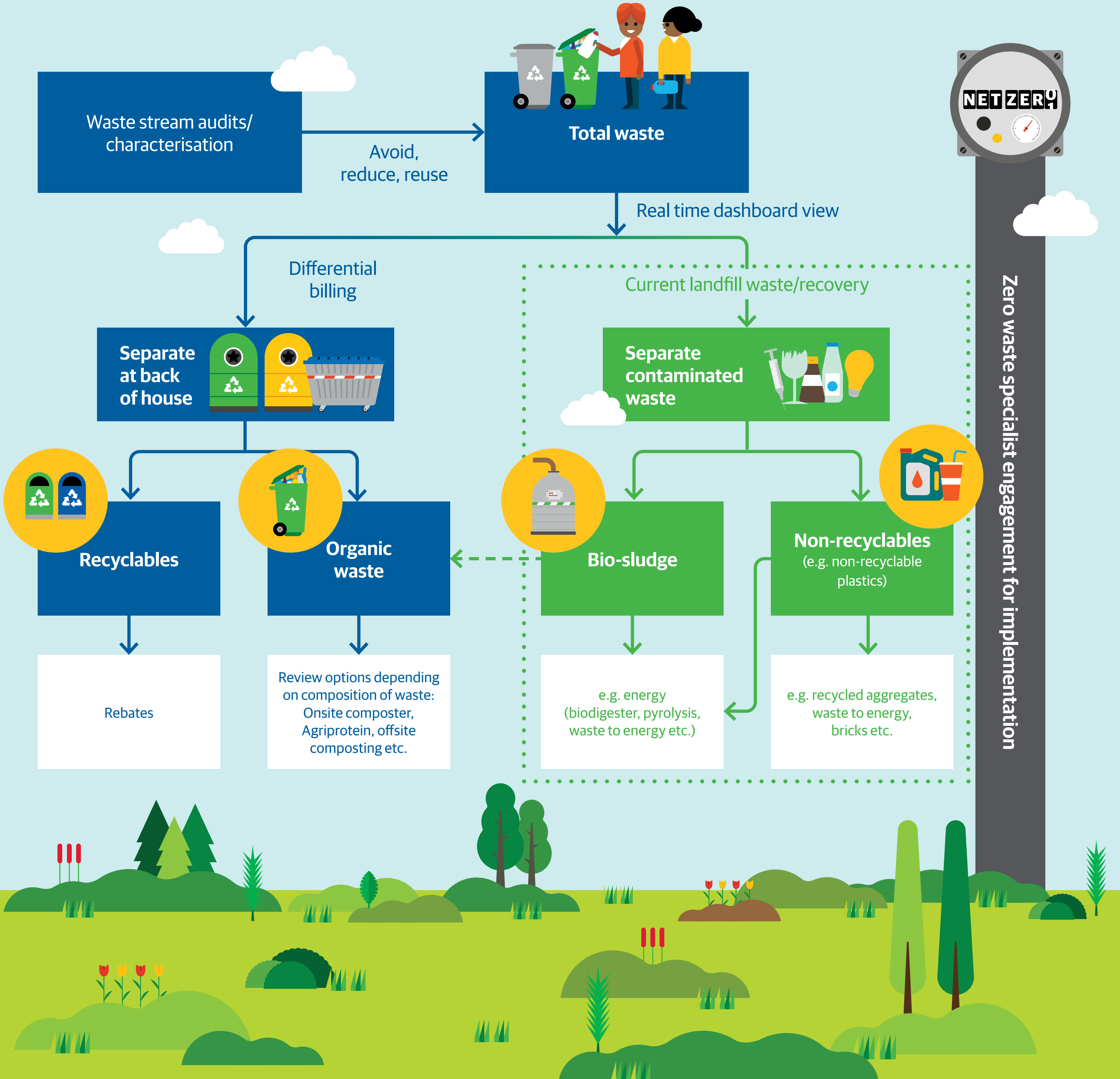
We have also begun to eliminate all single-use plastic bags; paper bags have been sourced as an alternative. We are working together with tenants to achieve this.

Reverse vending machines

At Sandton City, we have installed four reverse vending machines for shoppers to dispose of their recyclable waste while earning rewards. Once users have downloaded the Imagined Earth app, they can feed their empty recyclable products into a machine.

The technology used in reverse vending machines focuses on identifying packaging through barcodes and shape recognition. These user-friendly, innovative machines provide an efficient and hygienic means for shoppers to recycle waste. In addition, the machines generate helpful statistics by cross-referencing the waste received to a remote packaging database.

Net zero waste to landfill Road map



Eastgate aquaponics — sustainable rooftop farming

In December 2019, Eastgate Shopping Centre launched the rooftop Aquaponic Farm District in partnership with Ichthys, who are one of the first and most influential aquaponic companies in the world.

Eastgate's Aquaponic Farm District is the first of its kind in African shopping centres.

Unlike conventional farming, this initiative reduces the impact on humans and the natural environment by avoiding the use of chemicals and synthetic fertilisers while reducing water consumption, carbon emissions and packaging requirements.

The aquaponics farm district offers customers and tenants the opportunity to buy sustainable foods such as organic and fresh fish, tomatoes, lettuce, cucumbers, herbs, peppers and spinach.

This initiative aligns to four of L2D's five strategic building blocks of Good Spaces (sustainability), On-Demand Spaces (convenience), Immersive Spaces (curating experiences) and inclusive experiences (community placemaking).

For more information on our strategic pillars and building blocks, refer to pages 16 to 17 of this report.

Sustainability report continued

Rooftop solar PV array at Midlands Mall.

Below is a table of the 2019 consumption of various resources across our property portfolio.

	2019
Indicator	
Electricity consumption at owned properties (MWh)	**172 212MWh**
Total portfolio water consumption (kilolitres)	**794 480kL**
Tonnage of waste to landfill: shopping centres	**4 738t**

Priorities for 2020

- Green Star certification of retail assets, as well as certification of certain office assets located within retail assets
- Net zero waste by end of 2020
- Net zero water 2025 strategy
- Net zero carbon 2030 strategy
- Eradication of plastic shopping bags across the entire retail portfolio
- Commissioning of rainwater harvesting system at Midlands Mall
- Solar plant at Eastgate

Carbon emissions

We report on all emissions using the operational control approach. Our carbon footprint report for 2019 has been completed using the Greenhouse Gas (GHG) protocol. The report covers 214 full-time equivalent employees (32 L2D full-time employees and 182 JHIR employees and contractors) and 3 093m² of L2D and JHIR office space and 273 696m² common area.

The following facilities are included in the operational boundaries:

- Facilities controlled and co-owned by L2D with operations managed by JHIR on behalf of L2D (13 properties totalling 594 134m² by GLA or 867 830m² gross floor area (GFA)), inclusive of 3 093m² JHIR retail-occupied space and 28 072m² of Liberty-occupied space; and
- L2D head office in the STANLIB building, Melrose Arch measuring 482m².

L2D's GHG emissions for 2019 are set out below:

		2019
Company metrics		
Total full-time L2D employees (FTE)		**32**
Total full-time equivalent L2D employees (FTEE)		**214**[1]
Total square metreage of floor area – occupied and common areas (m^2)		**276 789**[2]
Total square metreage of floor area – full portfolio (m^2)		**867 830**
Scope 1 Direct emissions		**Metric tonnes of CO_2e**
Stationary fuel emissions – Stationary fuel used in equipment owned and controlled (e.g. generators)		**508.82**
Fugitive emissions from air-conditioning and refrigeration refills		**1 312.52**
On-site renewable energy generation		**–**
Total scope 1 emissions		**1 821.34**
Scope 2 Indirect emissions		
Purchased electricity – market-based		**26 074.40**
Total scope 2 emissions		**26 074.40**
Total scope 1 and 2 emissions		**27 895.74**
Scope 3 Indirect emissions		
Fuel- and energy-related activities	Electricity transmission and distribution losses	**2 529.22**
Waste generated in operations	Waste to landfill	**5 721.53**
	Hazardous waste	**289.09**
	Recycling and compost	**55.37**
		6 065.99[3]
Business travel	Air travel	**53.83**
Downstream leased assets	Tenant electricity	**153 203.41**[4]
Total scope 3 emissions		**161 852.45**
Outside of Scopes:		
Non-Kyoto Protocol GHG emissions		**425.21**
Total scope 1, 2 and 3 emissions		**189 748.19**
Intensity metrics:		
Scope 1 and 2 emissions per full-time employee (tCO_2e/FTE)		**871.74**
Scope 1 and 2 emissions per full-time equivalent employee (tCO_2e/FTEE)		**130.354**
Scope 1 and 2 emissions per square metre of occupied and common area (tCO_2e/m^2)		**0.101**
Scope 1 and 2 emissions per square metre of portfolio area (tCO_2e/m^2)		**0.032**
Scope 1 and 2 emissions per revenue (tCO_2e/ZARm)		**3.662**

1 L2D's FTEE includes 4 L2D contractors and 178 JHIR employees.
2 Reported area includes 273 696m² of common area in 2019.
3 Waste for L2D in STANLIB is included in Liberty's Melrose Arch facility and thus excluded from L2D's waste emissions.
4 Tenant electricity includes 3 700 229 kWh of electricity consumed by Liberty in L2D-controlled facilities, since Liberty would effectively operate as tenants within such facilities.

Sustainability report continued

In 2019, tenant electricity comprised 95% of scope 3 emissions. Total water consumption in 2019 was 794 744.38 kilolitres.

	2019	2018	Improvement year on year (%)
Indicator			
Scope 1, 2 and 3 emissions	**189 748.19**	198 417.95	-4.37
Total water consumption	**794 744.38**	860 545.00	-7.65

Reporting on improved data — critical considerations for our 2019 report

This is the first year that we have had reliable data to report on. We therefore cannot comparable this year's data with data sets we have previously reported on. Going forward, our 2019 data will be used as a baseline and allows us to begin tracking performance towards the realisation of our net zero goals.

We have significantly improved the granularity or detail of our data across all data sets, namely GLA and common areas, energy and refrigerants (fugitive emissions), water and waste, as well as the assurance of our data by PwC as part of the Liberty Holdings assurance process (please refer to Liberty's Report to Society for details).

We are pleased to report that we have achieved a reduction in emissions between 2018 and 2019. Notably, we are seeing the early results of our interventions resulting from energy audit recommendations and solar PV coming on stream.

Furthermore, we are tracking and reporting our fugitive emissions. This is critically important for us as part of our 2030 net zero carbon journey and is articulated in the refrigerant management policy that we have in place at all centres. By reporting on this indicator for the first time, our decrease in overall emissions is even more significant.

Investing in our communities

We are committed to investing in the communities where our businesses operate and where the portfolio is socially active. To focus our efforts, we partner with like-minded organisations to address inequality challenges that persist in South Africa and improve the quality of life of our society's most needy.

With the support of management, our employees and the property manager are encouraged to drive social investment projects, at group level and at the individual shopping centres. We have an active community engagement strategy in place to ensure that our social investment impact is meaningful. Wherever practical or possible, we aim to facilitate socio-economic empowerment within our communities.

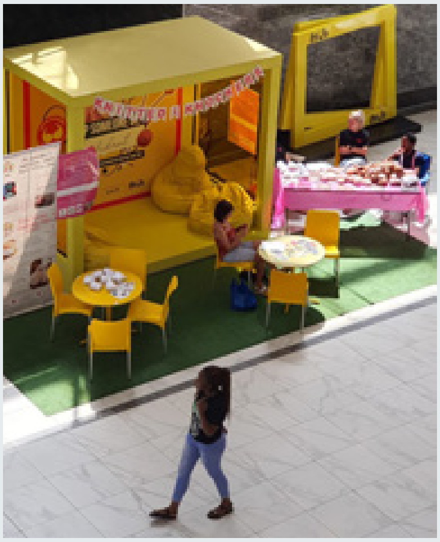
We are proud to have been involved in the following projects:

During the year under review, we contributed an improved R3.2 million (2018: R2.3 million) through various initiatives from across our centres, with an estimated R1.6 million economic impact created through job creation, sponsorships and donations.

Our impact

R3.2m
invested in social initiatives

R1.6m
in direct economic value



Investing in our communities continued

Notable social initiatives in 2019

We partnered with the Breast Health Foundation to give confidence back to breast cancer survivors and raise awareness further. We have made a positive impact and changed the lives of 40 women.

We gave our support to MAD2Adventures for their MAD2RUN event, an annual fundraiser where individuals ran from Johannesburg to Cape Town in just seven days.

We supported the 67 Blankets for Nelson Mandela Day donation drive, which organises contributions of handmade knitted blankets for donation to the needy.

We assisted Rays of Hope, which raises funds to make a positive impact on the lives of orphaned and vulnerable children living in Alexandra, near Sandton.

In South Africa, education and literacy in disadvantaged communities is in dire need of support. In partnership with Read to Rise, a non-profit organization, L2D supported under-resourced schools by bringing learners to Sandton and Eastgate for a day of interactive learning and supplied them with books to take home to promote youth literacy and learning.

We addressed the needs of the some of the country's less fortunate through one of our hotels, by donating linen and equipment that was earmarked for replacement.

We gave our support to the Alexandra Township clean-up and community upliftment projects, which form part of a wider campaign by the City of Johannesburg.

Safety and security

As we create memorable experiences in our spaces, it is important that we prioritise the safety of our customers, tenants, employees and communities. The purpose of our security strategy is to detect, defer and defend.

With criminals becoming more brazen, there has been a significant increase in crime, occupations and threats of terrorism, affecting society in general and shopping centres across the country. In response to this, we have bolstered our levels of security across the portfolio by investing in technology and upgrading the calibre of guarding.

In 2019, the following progress was made to improve safety and security:

- Completed simulation training at our centres;
- Introduced tactical response security at Sandton City and Eastgate;
- Created a Safe Spaces forum;
- Included safety enhancements in our 2020 capital spending budget;
- Finalised standard operating procedures; and
- Reduced e-hailing incidents.

Focus for 2020

Our safety and security focus area for 2020 is to obtain SAFE retail accreditation. SAFE offers the world's only internationally accredited safety programme for shopping centres.

Consolidated annual financial statements

Contents

Preparation of consolidated annual financial statements

for the year ended 31 December 2019

The preparation of the consolidated annual financial statements of Liberty Two Degrees Limited for the year ended 31 December 2019 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 consolidated annual financial statements comprise the statements of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the accounting policies and the notes to the consolidated annual financial statements. These financial statements 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 the consolidated annual 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 consolidated annual financial statements.

The directors have made an assessment of the ability of Liberty Two Degrees Limited and its subsidiaries 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 annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the consolidated annual financial statements

The consolidated annual financial statements of Liberty Two Degrees Limited and its subsidiaries, as identified in the first paragraph, were approved by the Board on 20 February 2020 and are signed by:

Angus Band
Chairman

Amelia Beattie
Chief executive

24 February 2020

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 2019, 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.

Ben Swanepoel
Company secretary

24 February 2020

Report of the audit and risk committee

for the year ended 31 December 2019

The audit and risk committee (ARC) is pleased to present its report for the financial year ended 31 December 2019, 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 are explained in the Governance section of the company's 2019 integrated report.

External audit

The ARC considered the performance of the external auditors for the 2019 year and concluded that the performance and extent of audit coverage was satisfactory. At the meeting held on 18 February 2020, the ARC recommended that PricewaterhouseCoopers Inc. (PwC) be reappointed as external auditors for the 2020 year at the 2020 annual general meeting, and that Ms Julanie Basson be the designated auditor responsible for performing the function of auditor for the 2020 year.

PwC has been the auditor of the company for 4 years. The designated auditor responsible is rotated on a five yearly basis. The 2019 year is the second year of Ms Julanie Basson's five-year term.

The ARC approved the external audit plan and fees for the 2019 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 2019 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 consolidated annual financial statements for the year ended 31 December 2019.

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 chairperson 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 2019 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.

Report of the audit and risk committee continued

for the year ended 31 December 2019

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 consolidated 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 consolidated annual 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.

Consolidated annual financial statements

The ARC has reviewed and recommended approval of the group and company consolidated annual financial statements by the board.

Zaida Adams
Chairperson

Audit and risk committee

24 February 2020

Directors' report

for the year ended 31 December 2019

To the shareholders of Liberty Two Degrees Limited

Nature of the business

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

Financial results

The financial results for the year ended 31 December 2019 are set out in detail on pages 125 to 173 of these consolidated annual 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 2019, there were 908 443 335 shares in issue, all of which rank for the dividend declared on 20 February 2020.

Dividend distributions

On 25 July 2019, the Board declared an interim dividend of 29.31 cents per share for the six months ended 30 June 2019.

Subsequent to year-end, on 20 February 2020, the Board declared a final dividend of 31.12 cents per share for the six months ended 31 December 2019, which will be paid on 23 March 2020.

This brings the full year distribution to 60.43 (2018: 60.00) cents per share.

Both dividends amounting to 60.43 cents per share in aggregate have been determined with reference to the financial results of the company for the year ended 31 December 2019.

Both dividends amounting to 60.43 cents per share in aggregate have been declared from distributable earnings and meet 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

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

Executive directors

- Amelia Beattie — Chief executive (Appointed: 10 July 2018); and
- José Snyders —Financial director (Appointed: 10 July 2018).

Non-executive directors

- Angus Band — Chairman (Appointed: 10 July 2018);
- Wolf Cesman* — Lead independent director (Appointed: 19 July 2018);
- Lynette Ntuli* (Appointed: 19 July 2018);
- Zaida Adams* (Appointed: 1 August 2018);
- David Munro (Appointed: 29 July 2019); and
- Brian Azizollahoff (Resigned as a director of the company with effect from 2 August 2019).

* Independent.

Directors' report continued

for the year ended 31 December 2019

Directors' emoluments and interests

Refer to note 20 of the consolidated annual 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 180 to 182 of the consolidated 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 31.12 cents per share for the six months ended 31 December 2019 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

Independent auditor's report

for the year ended 31 December 2019

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 2019, 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 125 to 173 comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- 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 consolidated and separate 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview

Overall group materiality
- *R26.7 million, which represents 5% of the Group's consolidated profit before taxation.*

Group audit scope
- *The Group consists of seven components. Full scope audits were performed on all components within the Group.*

Key audit matters
- *Valuation of investment property at year-end; and*
- *Accounting for the hotel lease agreements.*

Independent auditor's report continued

for the year ended 31 December 2019

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 group materiality	*R26.7 million*
How we determined it	*5% of the Group's consolidated profit before taxation.*
Rationale for the materiality benchmark applied	*We chose consolidated profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. 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 Group's financial statements is a consolidation of the Company, its three subsidiaries, and a restricted employee share plan trust. The Group through its wholly owned subsidiary, 2 Degrees Properties Proprietary Limited, holds an 8.3% and 25% undivided share in Melrose Arch precinct and Liberty Hotels respectively. Full scope audits were performed on all the components.

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 judgement, 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.

Consolidated financial statements

Key audit matter	***How our audit addressed the key audit matter***
Valuation of investment properties at year-end ***Refer to notes 1.4, 2.2, 5 and 10 to the Consolidated Financial Statements.*** *The majority of the Group's investment properties comprises retail investment properties. At 31 December 2019, the carrying value of the Group's total investment properties portfolio was R10.3 billion representing a R0.2 billion increase compared to the prior year.* *The Group's accounting policy is to measure investment properties at fair value using the discounted cash flow model. The fair value is dependent on the inputs and assumptions into valuation techniques applied and the inputs into the valuation model.* *The inputs made by management in determining the fair value of the investment properties are set out in note 2.2 to the consolidated financial statements and include amongst others the key assumptions relating to exit capitalisation rates and discount rates.* *The accounting policy requires all properties to be valued annually. Management engage an external independent valuer (the external valuers) on a bi-annual basis to carry out a valuation of all investment properties.* *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; and* – *the magnitude of the investment properties balances at year-end.*	*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;* – *Consideration of external valuation reports by an internally appointed appraiser; and* – *Board approval of the valuations obtained.* *In respect of the external valuers we:* – *Considered their objectivity, independence and expertise by inspecting the external valuers' valuation reports for a statement of independence and compliance with generally accepted valuation standards; and* – *Confirmed the external valuers' affiliation with the relevant professional body.* *On a risk-based sample basis, we assessed the calculation of the fair values in the external valuers' valuation reports by performing the following procedures:* – *Utilised our internal valuation expertise to assess the appropriateness of the valuation methodology;* – *Considered the applicability of minority discounts to fractional ownership;* – *Assessed the reasonableness of the cash flows, growth, exit capitalisation and discount rates against market related data for similar investment properties and based on our work performed, we accepted management's assumptions;* – *Recalculated acceptable ranges for the valuations of a sample of properties based on industry benchmarks noting that the valuations fell within these ranges; and* – *Inspected the final valuation reports and agreed the fair value to the Group's accounting records noting no material exceptions.*

Independent auditor's report continued

for the year ended 31 December 2019

Key audit matter	*How our audit addressed the key audit matter*
Accounting for hotel lease agreements ***Refer to note 2.4 to the consolidated financial statements for the critical judgements applied by management.*** *The Group, through 2 Degrees Properties Proprietary Limited owns undivided shares in three hotels. Effective 1 November 2019, the Group entered into new agreements with Tsogo Sun Hotels Limited regarding the day-to-day operations of the hotel activities.* *Significant judgement was applied on the classification of the agreement as a lease agreement versus a management agreement and management concluded that it met the definition of a lease. This impacted the classification of revenue as rental income in terms of International Financial Reporting Standards (IFRS) 16 — Leases and the property classification as investment property in terms of International Accounting Standards (IAS) 40 — Investment Property.* *These significant judgements are set out in the key judgements note 2.4 of the consolidated financial statements.* *We considered the accounting for hotel lease agreements to be a matter of most significance to our current year audit due to the significant judgement applied and the material impact of the agreement on the Group's results.*	*We obtained and read the signed lease agreements to understand the key terms.* *Making use of our accounting expertise, we obtained an understanding of the significant judgements made by management in interpreting the application of IFRS 16 and IAS 40 to the lease agreements. Based on the results of our work performed, we accepted management's judgements.* *We assessed the appropriateness of management's conclusions reached with regards to the Group's right to obtain a substantial portion of the economic benefits emanating from the hotels and it's right to direct the relevant activities or use of the hotel operations as follows:* — *We assessed the appropriateness of management's application of paragraph B23 of IFRS 16 in concluding that the right to obtain a substantial portion of the economic benefits from the hotel operations rests with the hotels operator. Based on our work performed, we accepted management's assessment that substantially all of the economic benefits from the use of the hotels rests with the hotels operator;* — *Making use of our accounting expertise, we considered management's interpretation of the relevant activities of the hotel operations as stated in the lease agreement and their conclusion that such relevant activities are directed by the hotels operator. Based on our reading of the lease agreements, we accepted management's interpretations; and* — *Through inspection of the hotel operation budgets we accepted management's assessment that the significance of ancillary services provided and exposure to cash flows were of such a nature to support the passive investor consideration and justify classification of the hotels as investment properties.*
Separate financial statements *We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.*	

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled '*Liberty Two Degrees Consolidated Annual Financial Statements for the year ended 31 December 2019*', which includes the Directors' Report, the Report of the audit and risk committee and the Certificate by 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 other sections of the document titled '*Liberty Two Degrees Limited Integrated Annual Report and Annual Financial Statements for the year ended 31 December 2019*', which is expected to be made available to us after that date. The other information does not include the consolidated or the 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 IFRS 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 4 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: J Basson
Registered auditor

Johannesburg

24 February 2020

Statements of financial position

as at 31 December 2019

R'000	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Assets					
Non-current assets		**10 163 254**	10 145 122	**9 199 236**	9 199 236
Investment properties	5.2	**10 112 155**	10 111 609	**–**	–
Investment properties under development	5.3	**32 768**	32 768	**–**	–
Property, plant and equipment	28	**836**	745	**–**	–
Investment in subsidiaries	34	**–**	–	**9 199 236**	9 199 236
Financial assets – unlisted equity	7	**17 495**	–	**–**	–
Current assets		**386 907**	333 264	**177 283**	1
Trade and other receivables	6	**253 241**	277 963	**–**	–
IFRS 16 – lease asset	29	**1 688**	–	**–**	–
Amount due from Group companies	27	**66 119**	42 645	**177 047**	–
Financial assets	7	**660**	600	**–**	–
Current tax receivable	32	**–**	686	**–**	–
Cash and cash equivalents	8	**65 199**	11 370	**236**	1
Non-current asset held for sale	35	**123 213**	–	**–**	–
Total assets		**10 673 374**	10 478 386	**9 376 519**	9 199 237
Equity					
Stated capital	11	**8 780 921**	8 780 489	**8 780 921**	8 780 489
Treasury shares	11	**(39 205)**	–	**–**	–
Retained surplus/(loss)		**290 081**	122 646	**265 573**	(6 645)
Share-based payment reserve	26	**18 240**	–	**17 258**	–
Mergers/capital reserve		**(426 104)**	(426 104)	**–**	–
Non-distributable reserve	12	**93 073**	106 865	**–**	–
Total equity		**8 717 006**	8 583 896	**9 063 752**	8 773 844
Liabilities					
Non-current liabilities					
Financial liabilities	31	**1 695 000**	1 000 000	**307 946**	150 000
Current liabilities		**261 368**	894 490	**4 821**	275 393
Trade and other payables	9	**200 905**	236 212	**330**	601
IFRS 16 – lease liability	30	**1 995**	–	**–**	–
Employee benefits	25	**17 323**	23 372	**–**	–
Amount due to Group companies	27	**14**	10	**–**	112 332
Current tax payable	32	**74**	–	**–**	
Financial instruments	10	**16 891**	8 289	**–**	–
Financial liabilities	31	**24 166**	626 607	**4 491**	162 460
Total liabilities		**1 956 368**	1 894 490	**312 767**	425 393
Total equity and liabilities		**10 673 374**	10 478 386	**9 376 519**	9 199 237

Statements of comprehensive income

for the year ended 31 December 2019

R'000	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Property portfolio revenue		**999 189**	913 810	**–**	–
Rental and related income	13	**1 023 891**	915 069	**–**	–
Adjustment for the straight-lining of operating lease income	5.2	**(24 702)**	(1 259)	**–**	–
Net revenue from hotel operations	16	**24 677**	–	**–**	–
Property operating expenses	14	**(325 585)**	(327 157)	**–**	–
Change in expected credit losses on rental debtors	6.1	**(4 729)**	2 469	**–**	–
Net property income		**693 552**	589 122	**–**	–
Asset management fee income	16	**61 490**	63 753	**–**	–
Development fee income	16	**6 747**	162	**–**	–
Total net property income and revenue		**761 789**	653 037	**–**	–
Other income	17	**181**	4 049	**166**	–
Operating costs	15	**(93 156)**	(76 126)	**(22 728)**	(610)
Profit/(loss) from operations excluding fair value adjustments		**668 814**	580 960	**(22 562)**	(610)
Interest expense		**(148 530)**	(25 282)	**(36 569)**	(6 035)
Interest received		**3 482**	12 462	**680**	–
Realised loss on sale of equity		**–**	(2 085)	**–**	–
Dividend income		**–**	–	**710 536**	–
Profit before fair value adjustments		**523 766**	566 055	**652 085**	(6 645)
Net fair value adjustments		**10 910**	80 762	**–**	–
Fair value adjustments on investment properties	5.2	**2 054**	89 860	**–**	–
Fair value adjustment on derivatives	12	**(8 602)**	(8 289)	**–**	–
Fair value adjustment on equity instrument	7	**(7 244)**	(2 068)	**–**	–
Adjustment for the straight-lining of operating lease income	5.2	**24 702**	1 259	**–**	–
Profit before taxation		**534 676**	646 817	**652 085**	(6 645)
Taxation	32	**(185)**	(6 082)	**–**	–
Total comprehensive income		**534 491**	640 735	**652 085**	(6 645)
Basic earnings per share (cents)	3	**58.96**	70.53	**0.07**	(0.73)
Fully diluted earnings per share (cents)	3	**58.96**	70.53	**0.07**	(0.73)

Statements of changes in equity

for the year ended 31 December 2019

	Group						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2018	8 782 290	–	–	29 448	274 186	(92 459)	8 993 465
Total comprehensive income	–		–	–	640 735	–	640 735
Capitalised transaction costs	(1 801)	–	–	–	–	–	(1 801)
Capital reorganisation impact	–	–	–	–	–	(333 645)	(333 645)
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	89 860	(89 860)	–	–
Realised loss on sale of listed equity investment transferred to non-distributable reserve	–	–	–	(2 086)	2 086	–	–
Fair value adjustment on derivatives	–	–	–	(8 289)	8 289	–	–
Fair value adjustment on equity instrument	–	–	–	(2 068)	2 068	–	–
Distribution to shareholders	–	–	–	–	(695 232)	–	(695 232)
Distribution to Liberty Holdings Limited	–	–	–	–	(19 626)	–	(19 626)
Balance at 1 January 2019	8 780 489	–	–	106 865	122 646	(426 104)	8 583 896
Total comprehensive income	–	–	–	–	534 491	–	534 491
Treasury shares acquired by the Trust (note 11)	–	(39 205)	–	–	–	–	(39 205)
Share-based payment transaction (note 26)	–	–	18 240	–	698	–	18 938
Capitalised costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	2 054	(2 054)	–	–
Fair value adjustment on derivatives	–	–	–	(8 602)	8 602	–	–
Fair value adjustment on equity instrument	–	–	–	(7 244)	7 244	–	–
Distribution to shareholders	–	–	–	–	(381 546)	–	(381 546)
Balance at 31 December 2019	**8 780 921**	**(39 205)**	**18 240**	**93 073**	**290 081**	**(426 104)**	**8 717 006**

Statements of changes in equity continued

for the year ended 31 December 2019

	Company						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2018	–	–	–	–	–	–	–
Total comprehensive income	–		–	–	(6 645)	–	(6 645)
Capitalised transaction costs	–	–	–	–	–	–	–
Capital reorganisation impact	8 780 489	–	–	–	–	–	8 780 489
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	–	–	–	–
Realised loss on sale of listed equity investment transferred to non-distributable reserve	–	–	–	–	–	–	–
Fair value adjustment on derivatives	–	–	–	–	–	–	–
Fair value adjustment on equity instrument	–	–	–	–	–	–	–
Distribution to shareholders	–	–	–	–	–	–	–
Distribution to Liberty Holdings Limited	–	–	–	–	–	–	–
Balance at 1 January 2019	8 780 489	–	–	–	(6 645)	–	8 773 844
Total comprehensive income	–	–	–	–	652 085	–	652 085
Share-based payment transaction (note 26)	–	–	17 258	–	1 679	–	18 937
Capitalised costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	–	–	–	–
Fair value adjustment on derivatives	–	–	–	–	–	–	–
Fair value adjustment on equity instrument	–	–	–	–	–	–	–
Distribution to shareholders	–	–	–	–	(381 546)	–	(381 546)
Balance at 31 December 2019	**8 780 921**	**–**	**17 258**	**–**	**265 573**	**–**	**9 063 752**

Statements of cash flows

for the year ended 31 December 2019

		Group		Company	
R'000	Notes	2019	2018	2019	2018
Cash flows from operating activities		**158 370**	(495 176)	**235**	1
Cash generated by operations	19	**682 775**	241 233	**408 490**	1
Interest received on financial assets	7.2	**60**	4 665	**–**	–
Interest received		**3 421**	7 797	**680**	–
Interest paid	31.2	**(146 915)**	(2 586)	**(27 389)**	–
Taxation (paid)/received	32.1	**575**	(5 356)	**–**	–
Distribution to shareholders	21	**(381 546)**	(695 232)	**(381 546)**	–
Distribution to Liberty Holdings Limited	21	**–**	(45 697)	**–**	–
Cash flows from investing activities		**(154 341)**	(1 119 826)	**–**	(307 946)
Expenditure on investment properties capitalised	5.2	**(104 336)**	(185 805)	**–**	–
Expenditure on investment properties under development	5.3	**–**	(108)	**–**	–
Acquisition of investment properties	5.2	**(24 643)**	(1 196 457)	**–**	–
Acquisition of investment properties under development	5.3	**–**	(3 543)	**–**	–
Acquisition of property, plant and equipment	28	**(563)**	(661)	**–**	–
Investment in financial instruments – mutual funds	7.2	**(60)**	(557 074)	**–**	–
Proceeds from disposal of financial instruments – mutual funds	7.2	**–**	672 196	**–**	–
Acquisition of subsidiary	34	**–**	–	**–**	(307 946)
Investment in financial instruments – unlisted equity	7.2	**(24 739)**	–	**–**	–
Proceeds from disposal of financial instruments – equity instrument	7.2	**–**	151 626	**–**	–
Cash flows from financing activities		**49 800**	1 603 739	**–**	307 946
Treasury shares acquired	11	**(39 205)**	–	**–**	–
Finance lease liability repayments	30.2	**(2 084)**	–	**–**	–
Loan paid	31.2	**(428 149)**	(105 913)	**–**	–
Loans received	31.2	**519 238**	1 709 652	**–**	307 946
Net increase/(decrease) in cash and cash equivalents		**53 829**	(11 263)	**235**	1
Cash balance at beginning of the year	8	**11 370**	22 633	**1**	–
Cash and cash equivalents at the end of the year		**65 199**	11 370	**236**	1

Notes to the consolidated and separate annual financial statements

for the year ended 31 December 2019

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below.

1. Accounting policies

1.1 Statement of compliance

The consolidated and separate annual 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 Companies Act of South Africa. The group's consolidated annual financial statements include the annual financial statements of Liberty Two Degrees Limited (referred to as L2D, L2D Ltd or the company) and its subsidiary companies (together referred to as the group or L2D Group).

1.2 Basis of consolidation

Consolidated annual financial statements are prepared by the parent company, L2D, using uniform accounting policies for like transactions and other events in similar circumstances. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities in the group are eliminated on consolidation. The consolidated annual 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 IFRS 9. The consolidated annual 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.

1.2.1 Subsidiaries

Subsidiaries are entities over which the company exercises control. The consolidated annual 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; and
- 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's annual 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 2019). 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 2019, intergroup loan balances are measured at amortised cost.

1.2.2 Merger reserve

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

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

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

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

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

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

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, financial assets and derivatives;
- 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.

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 statements of financial position date. Fair values are determined bi-annually by external independent registered valuers on the open market value basis. The valuers use the discounted cash flow method 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 fair value gain or loss is transferred to or from non-distributable reserves.

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. On completion of development, these properties are classified as investment property.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

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 Treasury shares

Where a subsidiary company (or Trust) holds shares in the holding company, the consideration paid to acquire these shares is deducted from stated capital as treasury shares, but disclosed separately in the statements of changes in equity. When these shares are sold or re-issued, any consideration received is included in stated capital.

1.5.2 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.

1.5.3 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 arms length.

1.6 Financial instruments

L2D Group's financial instruments consist mainly of financial assets, 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 statements 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

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; and 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:

- Other financial assets are classified 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; and
- Derivative assets comprising interest rate swaps are classified at fair value through profit or loss.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

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 amortised 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 at amortised cost; and
- Other financial liabilities are classified at amortised cost.

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 amortised cost.

The measurement basis of the ECL of a financial asset includes assessing whether there has been significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward -looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: – default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default; – significant financial difficulty of borrower and/or modification; – probability of bankruptcy or financial reorganisation; and – disappearance of an active market due to financial difficulties.

ECL are recognised as a deduction from the gross carrying amount of the asset. Therefore financial assets that are subject to ECLs are disclosed on a net basis in the statements of financial position. The gross ECL disclosure are disclosed in the note.

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (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 22, Financial risk management.

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

During 2018, properties leased to third parties under operating leases were accounted for per IAS 17 and included in investment property in the statements of financial position.

Effective 1 January 2019, the group has applied IFRS 16, and the accounting treatment has been disclosed below:

As a lessor

Lessor accounting remains substantially unchanged and the group as a lessor has operating leases only.

As a lessee

The group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract the group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right then the asset is not identified.

The group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and the group has the right to direct the use of the asset. The group has this right when it has the decision-making rights that are relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the assets use is determined, the group has the right to direct the use of the asset either:

- The group has the right to operate the asset; or
- The group designed the asset in a way that predetermines how and for what purpose it will be used for.

This policy is applied to contracts entered into, or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-lining method from commencement date to the earlier of the end of the useful life of the right-of-use asset or at the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition the right-of-use asset is periodically reduced by impairment losses if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the groups incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right to use asset.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

Short-term leases and leases of low value assets

The group has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets, including IT equipment. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.8 Revenue

1.8.1 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 for the period 1 January 2019 to 31 October 2019 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.

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.
Hotel operations revenue	Revenue from hotel operations for the period 1 January 2019 to 31 October 2019.	Revenue from hotel operations for the period 1 January 2019 to 31 October 2019 is recognised over the period of the contract.

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

1.8.2 Rental and related income

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.

Municipal 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.

1.8.3 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.

1.10 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.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

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; and
– 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 net of treasury shares.

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, net of treasury shares.

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.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

1.14.1 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).

1.14.2 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. 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 group recognises a liability for the amount of accumulated leave if the group 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 group has a present or constructive obligation and the amount can be reliably measured.

1.16 Share-based payments

Long-term incentive plan (LTIP)

In terms of the Liberty Two Degrees Restricted Share Plan, a conditional right to shares is awarded to employees subject to performance and vesting conditions. The scheme is accounted for as an equity-settled share-based payment. The fair value of services received in return for the restricted shares has been determined as follows: the number of shares expected to vest multiplied by the share price at the date of award.

The grant-date fair value of the scheme is recognised as an expense, with a corresponding increase in equity, over the vesting period. The amount recognised as an expense is adjusted for changes in management's estimate of the number of shares expected to vest, such that the amount ultimately recognised is based on the number of awards that vest.

1.17 Non-current assets held for sale

A non-current asset or a disposal group comprising assets and liabilities is classified as held-for-sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use. It is available for immediate sale and the sale is highly probable to occur within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

Where the group is committed to a sale plan, it classifies the asset as held-for-sale when the criteria set out above and detailed in IFRS 5 Non-current Assets Held-for-Sale are met.

Non-current assets held-for-sale are measured at the lower of their carrying amount, and fair value less costs of disposal, with any impairment losses recognised in profit or loss. However, investment property which is measured in accordance with the fair value model, continue to be measured in accordance with the group's accounting policies.

Non-current assets held-for-sale are presented separately from other assets and liabilities on the statements of financial position. Prior periods are not reclassified.

1. Accounting policies (continued)

1.18 New IFRS standards and amendments

1.18.1 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
Definition of material amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: — that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and — the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The amendments are effective for annual periods beginning on or after 1 January 2020.	The group is currently assessing the impact of these amendments.
Revised conceptual framework for financial reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: — increasing the prominence of stewardship in the objective of financial reporting; — reinstating prudence as a component of neutrality; — defining a reporting entity, which may be a legal entity or a portion of an entity; — revising the definitions of an asset and a liability; — removing the probability threshold for recognition and adding guidance on derecognition; — adding guidance on different measurement basis; and — stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.	The group is currently assessing the impact of these amendments.

1.18.2 Amendments and improvements to standards

Annual improvements effective 1 January 2020 and not early adopted in the year ended 31 December 2019, and amendments and annual improvements to standards that are effective annual periods beginning on or after 1 January 2020, 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.

IFRIC 23 Uncertainty over income tax treatments

The interpretation gives clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

The amendments are effective retrospectively for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The group has determined that its accounting for tax treatment is in line with the relevant tax authorities.

This includes the amendment issued by the IASB on IFRIC 23 Uncertainty over income tax treatments, the impact of which is not significant on the group's financial results, disclosures or comparative information.

2. Key judgements

Key areas of judgement and sources of uncertainty

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

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

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 undivided shares for the benefit of the shareholders in L2D Group. L2D Group is responsible for letting activities on behalf of and for the benefit of co-owners in these investment properties.

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

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

2.2 Investment properties fair value measurement

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

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

Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer to note 5 of the group consolidated annual financial statements for specific details and note 10 for the valuation techniques and assumptions and a sensitivity analysis on the fair value of these properties to a change in the exit capitalisation and discount rate assumptions. Given the number of management judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

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 the assets and liabilities.

2. Key judgements (continued)

2.3.1 Transfer of investment in subsidiary

As a result of the capital reorganisation in the prior year, SRFM's operations was transferred to 2DP. This included the transfer of the net asset value of SRFM to 2DP. The investment in subsidiaries at L2D company level was adjusted accordingly to transfer the effective cost of the investment in SRFM to the investment in 2DP as the economic benefit of the reorganisation now resides in 2DP. The transfer was done at a value that reflects the economic effect of the transaction, i.e. the value transferred based on the relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates the net asset value of the company. Refer to note 34 for the revised values of investment in subsidiaries.

2.4 Classification of hotels as investment property and income earned from hotel operations

During the year under review L2D entered into a new arrangement effective 1 November 2019 with Tsogo Sun Hotels Ltd (Tsogo) regarding the day-to-day operations of the hotel activities relating to certain properties. There is significant judgement applied regarding the assessment of economic benefits between the different parties, and control over the relevant activities, being the day-to-day operations of the hotel.

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

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

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

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

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

IAS40 paragraph 14 states that judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7 – 13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

The criteria management has assessed has been the following:

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

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

2.5 Restatement of segment reporting

The group is disclosing L2D's share of GLA excluding co owners in line with the financial segment earnings.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

3. Headline earnings, distributable income and earnings per share

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

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

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

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

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

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

4. Segment information

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

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

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

1 Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments.
2 Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

4. Segment information (continued)

4.2 Segment assets and liabilities

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

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

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

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

R'000	December 2018 Restated Retail	Office	Other specialised	Hotels	Administration/ Other[1]	Total
Unaudited GLA						
Total property GLA (m^2)	523 135	331 326	113 405	–	–	967 866
L2D's share of total GLA (m^2)[2]	147 998	60 485	23 483	–	–	231 966
Change in unaudited GLA						
Total property GLA (m^2)	–	–	–	–	–	–
L2D's share of total GLA (m^2)[2]	26 210	49 849	14 504	–	–	90 563

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

4. Segment information (continued)

4.1 Segment earnings

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

1 Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments.
2 Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated and separate annual financial statements continued

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4. Segment information (continued)

4.2 Segment assets and liabilities

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

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

5. Investment properties

5.1 Summary

R'000	Notes	Group **2019**	Group 2018	Company **2019**	Company 2018
Investment properties	5.2	**10 112 155**	10 111 609	**–**	–
Fair value net of straight-lining at the beginning of the year		**10 111 609**	8 629 809	**–**	–
Additions – property acquired		**24 643**	1 196 457	**–**	–
Expenditure on investment properties capitalised during the period		**96 996**	145 697	**–**	–
Fair value adjustment		**975**	89 860	**–**	–
Transfer to assets held for sale		**(122 068)**	–	**–**	–
Reclassification from investment properties under development		**–**	49 786	**–**	–
Investment properties under development	5.3	**32 768**	32 768	**–**	–
Fair value at the beginning of the year		**32 768**	78 903	**–**	–
Additions – property acquired		**–**	3 543	**–**	–
Expenditure on investment properties under development during the year		**–**	108	**–**	–
Reclassification to investment properties		**–**	(49 785)	**–**	–
Total investment properties		**10 144 923**	10 144 377	**–**	–

5. Investment properties (continued)

5.2 Investment properties

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fair value of investment properties at the beginning of the year	**9 839 002**	8 393 613	**–**	–
Additions – property acquired	**23 595**	1 158 787	**–**	–
Additions – property acquired for cash/in exchange for units issued	**24 643**	1 196 457	**–**	–
Impact of straight-lining of operating lease income on property acquired	**(1 048)** [3]	(37 670)	**–**	–
Net fair value adjustment for the period	**27 028**	91 119	**–**	–
Fair value adjustment	**975** [2]	89 860	**–**	–
Net movement on straight-lining operating lease income	**26 053** [3]	1 259	**–**	–
Expenditure on investment properties during the period	**96 996**	145 697	**–**	–
Additions – capitalised subsequent expenditure	**92 204** [4]	139 784	**–**	–
Capitalised tenant installations	**7 399** [4]	5 436	**–**	–
Amortisation of tenant installations	**(3 770)**	(4 397)	**–**	–
Capitalised letting commission	**7 674** [4]	10 009	**–**	–
Amortisation of letting commission	**(6 511)**	(5 135)	**–**	–
Transfer to assets held for sale	**(121 892)**	–	**–**	–
Transfer to assets held for sale	**(122 068)**	–	**–**	–
Impact of straight-lining of operating lease income on transfer of property	**176**	–	**–**	
Reclassification from investment properties under development	**–**	49 786	**–**	–
Investment properties at fair value	**9 864 729**	9 839 002	**–**	–
Operating leases accrued adjustment				
Straight-lining balance at the beginning of the year	**272 607**	236 196	**–**	–
Straight-lining of operating lease income balance acquired	**1 048**	37 670	**–**	–
Straight-lining of operating lease income of transfer of property to assets held for sale	**(176)**	–	**–**	–
Net movement on straight-lining of operating lease income	**(26 053)**	(1 259)	**–**	–
Straight-lining of operating lease income	**247 426**	272 607	**–**	–
Total investment properties	**10 112 155**	10 111 609	**–**	–

5.3 Investment properties under development

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fair value of investment properties under development at the beginning of the year	**32 768**	78 903	**–**	–
Additions – property acquired for cash/in exchange for units issued	**–**	3 543	**–**	–
Expenditure on investment properties under development during the period	**–**	–	**–**	–
Additions – capitalised subsequent expenditure	**–**	108	**–**	–
Reclassification (to) investment properties	**–**	(49 786)	**–**	–
Total investment properties under development	**32 768** [1]	32 768	**–**	–
Total investment properties	**10 144 923**	10 144 377	**–**	–

1 The John Ross Eco-Junction Estate site has had no additions or capitalisations during 2019.

2 As at 31 December 2019, the fair value adjustment on Century City offices which has been reclassified as a non-current asset held for sale on 31 October 2019 is R1.1 million.

3 The impact of straight-lining operating lease income on Century City offices for the period September 2019 to December 2019 is R303 000. The movement for the year is R24.7 million.

4 Expenditure on investment property capitalised relating to Century City offices is R318 000. Of the total R108 million capitalised, R104 million was paid in the current year.

Notes to the consolidated and separate annual financial statements continued

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5. Investment properties (continued)

5.4 Interest expense

Interest incurred during the 2019 financial year on loan obtained to acquire additional undivided share of properties on 1 November 2018 was R121 020 360.

5.5 Basis of valuation

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

The basis of value is 'fair value' which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The full investment properties portfolio was independently valued as at 31 December 2019 in line with the group's valuation policy.

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

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

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

Valuers may use any reasonable method for developing an appropriate discount rate with consideration being given to:

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

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

Unobservable inputs:

	2019					2018				
%	**Exit cap rate**	**Discount rate**	**Vacancy rate**	**Rental growth**	**Expense growth**	Exit cap rate	Discount rate	Vacancy rate	Rental growth	Expense growth
Office	**8.3 – 9.5**	**12.5 – 13.8**	**0 – 2.5**	**4.0 – 5.0**	**6.5 – 7.0**	8.3 – 9.0	12.5 – 13.8	0 – 2.5	4.5 – 6.0	6.5
Retail	**6.50 – 8.0**	**12.0 – 12.8**	**0.5 – 2.5**	**5.0 – 5.5**	**6.5**	6.5 – 8.0	12.3 – 12.8	0.5 – 2.5	5.0 – 6.0	6.5
Specialised	**8.3 – 10.0**	**13.0 – 15.3**	**0 – 2.5**	**4.5 – 5.5**	**6.5**	8.3 – 10.0	13.3 – 15.0	0 – 2.5	4.5 – 6.0	6.5
Hotels	**8.8**	**14.0**				8.8	13.8			

Inter-relationship between key unobservable inputs and fair value measurements:

The estimated fair value would increase/(decrease) if:

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

6. Trade and other receivables

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Trade and other receivables include the following:				
Property debtors	**220 546**	223 795	**–**	–
Insurance claim outstanding	**289**	55	**–**	–
Municipal deposits	**3 840**	1 439	**–**	–
Loan with LGL	**80 579**	63 619	**–**	–
Trade debtors	**87 542**	111 609	**–**	–
Other receivables	**9 274**	10 143	**–**	–
Tenant arrears	**30 834**	30 863	**–**	–
Marketing fund loan account	**3 085**	–	**–**	–
Profit distributions for current month	**3 448**	3 795	**–**	–
Melrose Arch rates clearance payment	**–**	168	**–**	–
Loan with Melrose Arch Property Owners Association	**1 655**	2 105	**–**	–
Accrued income	**–**	2 307	**–**	–
Prepayments:				
– Insurance	**2 699**	2 596	**–**	–
– Other	**112**	–	**–**	–
Impairment of property debtors	**(9 843)**	(6 407)	**–**	–
Hotel debtors	**39 727**	55 672	**–**	–
Total trade and other receivables	**253 241**	277 963	**–**	–

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		
	2019			2019		
R'000	Hotel debtors	Accrued income	Property debtors	Hotel debtors	Accrued income	Property debtors
Opening impairment loss allowance under IFRS 9	–	–	(6 407)[1]	–	–	–
Increase/(decrease) in loss allowance recognised in profit or loss during the period	–	–	(3 436)	–	–	–
Closing loss allowance	–	–	(9 843)	–	–	–

1 The 2019 opening impairment loss allowance includes Raphael apartments in Nelson Mandela Square for dispute assessment rates currently in arbitration of R1 293 096. The debtor has been removed and therefore, the impairment loss relating to it has been adjusted for under 'change in expected credit losses on rental debtors' in the statement of comprehensive income.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

6. Trade and other receivables (continued)

	Group			Company		
	2018			2018		
R'000	Hotel debtors	Accrued income	Property debtors	Hotel debtors	Accrued income	Property 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	–	–	–
Closing loss allowance	–	–	(6 407)	–	–	–

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 Property debtors net of impairment loss

Rm	ECL rate %	Gross carrying amount	Impairment allowance	Net carrying amount
Current [1]	**–**	**186 790**	**–**	**186 790**
Current (ECL)	**1.79**	**3 089**	**(55)**	**3 034**
1 – 30 days past due	**9.79**	**3 492**	**(342)**	**3 150**
31 – 60 days past due	**27.27**	**1 617**	**(441)**	**1 176**
61 – 90 days past due	**19.00**	**2 400**	**(456)**	**1 944**
More than 90 days past due	**36.91**	**23 158**	**(8 549)**	**14 609**
		220 546	**(9 843)**	**210 703**

1 Current debtors includes fee income receivable, accrued income, hotel debtors and inter-company debtors. The ECL calculation performed considered forward-looking information and determined that the ECL adjustment is immaterial.

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

Fee income receivable,accrued income, hotel 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

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Financial assets at fair value through profit or loss (default)				
Equity instruments	**17 495**	–	**–**	–
Listed	**–**	–	**–**	–
Unlisted	**17 495** [1]	–	**–**	–
Mutual funds	**660**	600	**–**	–
Listed	**–**	–	**–**	–
Unlisted	**660**	600	**–**	–
Total financial assets at fair value through profit and loss	**18 155**	600	**–**	–
Total financial assets	**18 155**	600	**–**	–
Current	**660**	600	**–**	–
Non-current	**17 495**	–	**–**	–

1 L2D elected to become an investor in Edcon as part of Edcon's restructuring. The investment is carried at fair value. Please refer to note 10 for valuation basis.

7.2 Movement analysis of financial assets

	2019			2018		
	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	**600**	**–**	**600**	115 349	153 694	269 043
Additions	**–**	**24 739**	**24 739**	550 277	–	550 277
Disposals	**–**	**–**	**–**	(675 901)	(149 541)	(825 442)
Interest earned on investment	**60**	**–**	**60**	10 875	–	10 875
Realised loss on sale of equity	**–**	**–**	**–**	–	(2 085)	(2 085)
Fair value adjustments – through profit or loss	**–**	**(7 244)**	**(7 244)**	–	(2 068)	(2 068)
Balance at the end of the year	**660**	**17 495**	**18 155**	600	–	600

8. Cash and cash equivalents

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Cash at bank and on hand	**65 199**	11 370	**236**	1

Notes to the consolidated and separate annual financial statements continued

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9. Trade and other payables

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Trade and other payables include the following:				
Trade creditors	**3 954**	15 977	**–**	–
Tenant deposits	**27 961**	27 744	**–**	–
Municipal charges	**19 395**	42 928	**–**	–
Unredeemed gift cards	**19 802**	27 279	**–**	–
Accruals:	**23 411**	46 197	**330**	601
– Audit fees	**1 046**	1 104	**–**	–
– Printing and publishing costs	**97**	223	**–**	–
– Valuation costs	**284**	850	**–**	–
– Listing costs	**328**	1 000	**–**	–
– Capital calls	**–**	10 442	**–**	–
– Property sundry accruals	**20 351**	13 473	**–**	–
– Outsourced services	**326**	332	**–**	–
– Other	**979**	18 773	**330**	601
Sundry payables	**106 382**	76 087	**–**	–
– Income received in advance	**18 959**	24 838	**–**	–
– Value added tax payable	**21 008**	8 695	**–**	–
– Hotel sundry creditors	**10 895**	24 889	**–**	–
– Property sundry creditors	**55 517**	17 615	**–**	–
– Other	**3**	50	**–**	–
Total trade and other payables	**200 905**	236 212	**330**	601
Current	**200 905**	236 212	**330**	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); and
- 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 2019			
R'000	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investment properties	**10 112 155**	**–**	**–**	**10 112 155**
Investment property under development	**32 768**	**–**	**–**	**32 768**
Non-current assets held for sale	**123 213**	**–**	**–**	**123 213**
Financial assets	**18 155**	**–**	**18 155**	**–**
	10 286 291	**–**	**18 155**	**10 268 136**
Liabilities				**–**
Interest rate swap	**16 891**	**–**	**16 891**	**–**
	16 891	**–**	**16 891**	**–**

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

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

Valuation techniques

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

Level	Instrument	Valuation basis	Main assumptions
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Price – not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Price – not applicable
3	Unlisted equity	Discounted cash flow	Discount rate
3	Investment properties	Discounted cash flow	Refer note 5 for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

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

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

Sensitivity analysis of level 3 assets

Investment property

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

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

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

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10. Fair value hierarchy for financial instruments and investment property (continued)

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

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

Unlisted equity

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

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

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

11. Stated capital and treasury shares

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Authorised capital				
5 000 000 000 ordinary shares of no par value (2018: 5 000 000 000)				
Issued capital				
908 443 335 ordinary shares of no par value (2018: 908 443 335)				
Ordinary shares	**8 780 921**	8 780 489	**8 780 921**	8 780 489
Balance at the beginning of the year	**8 780 489**	8 782 290	**8 780 489**	8 782 290
Issued during the year	**–**	–	**–**	–
Transaction costs reversal for issue of new shares	**432**	(1 801)	**432**	(1 801)
Treasury shares	**(39 205)**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Purchased during the year[1]	**(39 903)**	–	**–**	–
Vested during the year	**698**	–	**–**	–
Balance at 31 December 2019	**8 741 716**	8 780 489	**8 780 921**	8 780 489

1 Purchased (at an average price of R7.05 per share) during the year by the Liberty Two Degrees Restricted Share Plan Trust and held as treasury shares to fulfil the obligation to deliver shares to employees who participate in the LTIP.

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11. Stated capital and treasury shares (continued)

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Ordinary shares of no par value	**908 443**	908 443	**908 443**	908 443
Balance at the beginning of the year	**908 443**	908 443	**908 443**	908 443
Issued during the year	**–**	–	**–**	–
Treasury shares	**(5 558)**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Purchase during the year[1]	**(5 634)**	–	**–**	–
Vested during the year	**76**	–	**–**	–
Balance at 31 December 2019	**902 885**	908 443	**908 443**	908 443

1 Purchased (at an average price of R7.05 per share) during the year by the Liberty Two Degrees Restricted Share Plan Trust and held as treasury shares to fulfil the obligation to deliver shares to employees who participate in the LTIP.

12. Non-distributable reserve

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Components of the non-distributable reserve				
Balance at the beginning of the year	**106 865**	29 448	**–**	–
Fair value adjustment on investment property	**2 054**	89 860	**–**	–
Fair value adjustment on derivatives	**(8 602)**	(8 289)	**–**	–
Fair value adjustment on equity instrument	**(7 244)**	(2 068)	**–**	–
Realised loss on disposal of equity instrument	**–**	(2 086)	**–**	–
Total non-distributable reserve	**93 073**	106 865	**–**	–

13. Rental and related income

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Property rental	**714 117**	634 705	**–**	–
Recoveries	**241 033**	223 729	**–**	–
Parking income	**40 538**	36 893	**–**	–
Interest income	**8 042**	3 210	**–**	–
Fund level income	**971**	341	**–**	–
Marketing income — tenant and alternative income	**19 190**	16 191	**–**	–
Total rental and related income	**1 023 891**	915 069	**–**	–

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14. Property operating expenses

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Advertising and promotions	**(4 579)**	(5 449)	**–**	–
Cleaning	**(14 544)**	(13 263)	**–**	–
Amortisation on tenant installation and letting commission	**(10 532)**	(9 532)	**–**	–
Insurance	**(4 182)**	(3 680)	**–**	–
Legal fees	**(776)**	(368)	**–**	–
Municipal charges	**(196 789)**	(190 884)	**–**	–
Property management fees	**(28 837)**	(24 909)	**–**	–
Repairs and maintenance	**(17 337)**	(18 122)	**–**	–
Salaries	**(20 840)**	(30 083)	**–**	–
Security	**(19 944)**	(19 473)	**–**	–
Other	**(7 225)**	(11 394)	**–**	–
Total property operating expenses	**(325 585)**	(327 157)	**–**	–

15. Operating costs

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Audit fee	**(2 518)**	(1 173)	**(190)**	–
Property valuation fees	**(103)**	(843)	**–**	–
Trustee fee	**(36)**	(472)	**–**	–
Printing and publishing costs	**(988)**	(1 026)	**–**	–
Legal costs	**(1 520)**	(484)	**–**	–
Annual listing cost	**(344)**	(423)	**(344)**	–
Employee costs	**(69 949)**	(43 657)	**(19 050)**	–
Office costs	**(15 332)**	(22 584)	**(3 144)**	–
Asset management fee	**–**	(198)	**–**	–
Other	**(2 366)**	(5 266)	**–**	(610)
Total operating expenses	**(93 156)**	(76 126)	**(22 728)**	(610)

16. Revenue from contracts with customers

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fee revenue	**68 237**	63 915	**–**	–
Management fees on assets under management	**61 490**	63 753	**–**	–
Other fee revenue	**6 747**	162	**–**	–
Net revenue from hotel operations[2]	**24 677**	–	**–**	–
Total revenue from contracts with customers[1]	**92 914**	63 915	**–**	–

1 There are no performance obligations that aren't satisfied (or partially unsatisfied) as at the end of the reporting period.
2 Net revenue from hotel operations as accounted for prior to new lease agreements.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

17. Other income

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Other income	**181**	4 049	**166**	–
Recovery of Standard Bank success fee from LHL	**–**	3 750	**–**	–
Recovery of office costs from STANLIB Property Development Proprietary Ltd	**–**	299	**–**	–
Sundry income	**181**	–	**166**	–
Total other income	**181**	4 049	**166**	–

18. Capital commitments

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Equipment				
Under contracts	**3 279**	393	**–**	–
Authorised by the directors but not contracted	**–**	3 231	**–**	–
Investment properties				
Under contracts	**34 828**	23 116	**–**	–
Authorised by the directors but not contracted	**106 956**	193 365	**–**	–
Capital improvements on existing properties				
Under contracts	**156 641**	204 117	**–**	–
Authorised by the directors but not contracted	**28 895**	8 906	**–**	–
Closing balance	**330 599**	433 128	**–**	–
The capital commitments have been classified into the following categories				
– within 12 months	**330 599**	433 128	**–**	–
– longer than 12 months	**–**	–	**–**	–

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

19. Cash generated from operations

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Total earnings	**534 676**	646 818	**652 085**	(6 645)
Adjusted for:				
– Interest received	**(3 482)**	(12 462)	**(680)**	–
– Interest expense	**148 530**	25 282	**27 365**	6 035
– Amortisation of tenant installation and letting commission	**10 532**	9 532	**–**	–
– Transaction costs	**–**	173	**–**	–
– Depreciation and IFRS 16 amortisation	**2 722**	1 219	**–**	–
– Dividend income	**–**	–	**–**	–
– Other non-cash items	**15 677**	–	**18 939**	–
– Fair value adjustment on investment properties	**(2 054)**	(89 860)	**–**	–
– Fair value adjustment on financial instrument	**8 602**	8 289	**–**	–
– Fair value adjustment on equity instrument	**7 244**	2 068	**–**	–
Working capital changes	**(39 672)**	(349 826)	**(289 220)**	611
(Increase)/decrease in trade and other receivables	**24 722**	(124 404)	**–**	–
(Increase)/decrease in amounts due from Group companies	**(23 038)**	(157 927)	**(288 948)**	10
Increase/(decrease) in employee benefits	**(6 049)**	7 504	**–**	–
Increase/(decrease) in trade and other payables	**(35 307)**	(74 999)	**(271)**	601
Total cash generated from operations	**682 775**	241 233	**408 490**	1

20. Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Ltd (SBG).

Parent

Liberty Group Limited (LGL).

Fellow subsidiaries

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

Transactions with related entities

Transactions with SBG

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

Standard Bank Centre

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

Transactions with L2D CSIP

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

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Transactions with LGL

Liberty Centre Head Office Cape Town

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

Liberty Centre Head Office Umhlanga Ridge

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

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

Eastgate Office Tower

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

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

Development fee income

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

Asset management fee income

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

Loan with LGL

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

R80.6 million is owed by LGL for the proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits (2018: R63.6 million). A money market interest rate is earned on the amount outstanding and a portion of the interest earned is allocated to shopping centre merchants' associations for centre marketing.

Transactions with other related entities

Operating lease payments

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

JHI Retail Property Proprietary Ltd (JHIR)

The property management function in respect of L2D Group is undertaken predominantly by JHIR. JHIR manages the Sandton City Complex, the Eastgate Complex, Liberty Promenade Shopping Centre, Liberty Midlands Mall, Nelson Mandela Square, Botshabelo Mall, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction and the Standard Bank Centre.

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

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

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

Loan with STANLIB Asset Management Limited

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

Intercompany transactions

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

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

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

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

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Consolidated unit trusts

The following STANLIB unit trusts, which are consolidated at LHL, have shares in L2D Group as follows:

	Liberty economic holding in fund (%)	Number of L2D Group shares (000)	Market value of L2D Group shares (R'000)
Fund name – 2019			
STANLIB Multi-Manager Property	**67**	**161**	**1 081**
STANLIB Multi-Manager Flexible Property	**46**	**507**	**3 396**
STANLIB Multi-Manager Defensive Balanced Fund	**97**	**100**	**669**
STANLIB Multi-Manager Equity Fund	**80**	**834**	**5 588**
STANLIB Capped Property Index Tracker Fund	**61**	**623**	**4 175**
STANLIB Property Income Fund	**38**	**–**	**–**
STANLIB Multi-Manager Real Return Fund	**61**	**26**	**174**
STANLIB Multi-Manager Balanced Fund	**92**	**145**	**970**
1NVEST SA Property ETF	**56**	**239**	**1 600**
Total	**–**	**2 635**	**17 653**
Fund name – 2018			
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

Key management personnel

Directors' remuneration

Non-executive directors' remuneration – 2019

	Directors of L2D	Other Liberty Group[1]	Total remuneration
Director			
Angus Band[3]	**903 325**	**1 565 325**	**2 468 650**
Wolf Cesman[2]	**1 128 129**	**–**	**1 128 129**
Lynette Ntuli	**411 250**	**–**	**411 250**
Brian Azizollahoff	**305 900**	**–**	**305 900**
Zaida Adams	**358 750**	**–**	**358 750**
David Munro[4]	**–**	**18 834 000**	**18 834 000**
Total	**3 107 354**	**20 399 325**	**23 506 679**

1 Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
2 Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
3 Angus Band is the lead independent director at LHL.
4 David Munro is the Chief executive of LHL.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Non-executive directors' remuneration — 2018

	Directors of L2D	Other Liberty Group [1]	Total remuneration
Director			
Angus Band[3]	787 500	1 669 325	2 456 825
Wolf Cesman[2]	821 936	–	821 936
Lynette Ntuli	493 500	–	493 500
Brian Azizollahoff	175 000	–	175 000
Zaida Adams	131 250	–	131 250
Total	2 409 186	1 669 325	4 078 511

1 Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
2 Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
3 Angus Band is the lead independent director at LHL.

Executive directors' remuneration

R'000	2019	2018	% change
Amelia Beattie (Chief executive)			
Fixed remuneration	**3 372**	3 227	4.5
Cash portion of package	**2 773**	2 705	–
Other benefits	**137**	122	–
Retirement contributions	**462**	400	–
Annual variable awards	**3 950**	4 357	(9.3)
Cash	**3 065**	3 350	–
Restricted share plan (deferred plan)	**885**	1 007	–
Long-term awards	**1 835**	2 170	(15.4)
Restricted share plan (long-term plan)	**1 053**	1 204	–
Distribution	**782**	966	–
Total remuneration	**9 157**	9 754	(6.1)
José Snyders (Financial director)			
Fixed remuneration	**2 761**	2 576	7.2
Cash portion of package	**2 300**	2 199	–
Other benefits	**173**	102	–
Retirement contributions	**288**	275	–
Annual variable awards	**2 500**	3 000	(16.7)
Cash	**2 050**	2 400	–
Restricted share plan (deferred plan)	**450**	600	–
Long-term awards	**539**	592	(9.0)
Restricted share plan (long-term plan)	**–**	–	–
Sign-on bonus	**–**	–	–
Distribution	**539**	592	–
Total remuneration	**5 800**	6 168	(6.0)

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Long-term incentive plan

L2D has adopted a bonus and incentive scheme for its employees.

The L2D Group Restricted Share Plan Trust (L2D Group Trust) has been formalised and approved by the Board of Directors.

During 2019, the L2D Group Trust acquired L2D treasury shares and this resulted in a change in accounting treatment from cash-settled to equity-settled in line with IFRS 2.

21. Distribution to shareholders

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Amounts unpaid at the beginning of the year	**–**	–	**–**	–
Distribution declared to shareholders during the year	**(381 546)**	(695 232)	**(381 546)**	–
Distribution declared to LHL during the year	**–**	(19 628)	**–**	–
Effects of capital reorganisation (SRFM distribution)	**–**	(26 069)	**–**	–
Amounts unpaid at the end of the year	**–**	–	**–**	–
Total distribution to shareholders	**(381 546)**	(740 929)	**(381 546)**	–

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 risk 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 96% 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 R1.7 billion of term facilities to date.

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 2019			
R'000	Less than one year	One to five years	More than five years	Total
Financial liabilities				
Interest – bearing borrowings	**–**	**1 695 000**	**–**	**1 695 000**
Interest payable on interest borrowings	**147 858**	**299 023**	**–**	**446 881**
Interest rate swap	**16 891**	**–**	**–**	**16 891**
Other financial liabilities	**5 145**	**5 155**	**–**	**10 300**
Trade and other payables	**160 938**	**–**	**–**	**160 938**
	330 832	**1 999 178**	**–**	**2 330 010**

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

22. Financial risk management (continued)

R'000	Year ended 31 December 2018 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

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 instruments such as financial assets, 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 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.

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. 74% of borrowings have been hedged through fixed rate contracts.

Cash flow sensitivity analysis for variable rate instruments:

A change of 50 basis points in the interest rates for the year would have increased/(decreased) equity by:

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Effect on equity and profit or loss				
50 basis points increase	**(5 412)**	(1 340)	**(1 012)**	(255)
50 basis points decrease	**5 412**	1 340	**1 012**	255

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 consolidated annual 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 Loan to Value (LTV) target is 35%.

The group's property assets are made up of investment property.

R'000	2019	2018
Property assets including non-current assets held for sale	**10 268 136**	10 144 377
Interest-bearing borrowings (net of cash on hand)	**1 653 967**	1 615 237
Loan to value (%)	**16**	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	2019	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)	**636 317**	606 576
– Medium-term (greater than one year and up to five years)	**1 381 981**	1 307 479
– Long-term (greater than five years)	**719 260**	667 065

25. Employee benefits liabilities

	Group		Company	
R'000	2019	2018	2019	2018
Liabilities				
Leave pay	**668**	752	**–**	–
Short-term incentive	**16 655**	15 599	**–**	–
Long-term incentive[1]	**–**	7 021	**–**	–
Total liability	**17 323**	23 372	**–**	–

1 Long-term incentives have been converted into equity settled from a cash settled scheme and is disclosed under share-based payments note 26.

Analysis of employee benefits

	Leave pay				Short-term incentive				Long-term incentive			
	Group		Company		Group		Company		Group		Company	
R'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Balance at the beginning of the year	**752**	267	**–**	–	**15 599**	11 000	**–**	–	**–**	4 600	**–**	–
Additional provision raised	**893**	1 513	**–**	–	**16 655**	28 599	**–**	–	**–**	2 421	**–**	–
Utilised during the year	**(977)**	(1 028)	**–**	–	**(15 599)**	(24 000)	**–**	–	**–**	–	**–**	–
Balance at the end of the year	**668**	752	**–**	–	**16 655**	15 599	**–**	–	**–**	7 021	**–**	–

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25. Employee benefits liabilities (continued)

Leave pay

In terms of the company policy, employees are entitled to accumulate a maximum of 20 days compulsory leave and 20 days 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.

Short-term 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.

26. Share-based payments

	Group		Company	
R'000	2019	2018	2019	2018
Reconciliation of reserve				
Long-term incentive plan	18 240	–	17 258	–
Total share-based payments reserves	18 240	–	17 258	–
Movement for the year	18 240	–	17 258	–
Transfer from long-term incentive scheme from previous year	7 021	–	–	–
Per profit or loss cash settled schemes	6 916	–	–	–
Per profit or loss equity settled schemes	5 001	–	18 937	–
Transfer of vested rights to retained surplus	(698)	–	(698)	–
Transfer of vested rights to retained surplus (dividends)	–	–	9	–
Payment of L2D Ltd dividend to restricted share plan participants	–	–	(990)	–

26.1 Long-term incentive plan

L2D has adopted a share-based incentive plan for employees, which is known as The Liberty Two Degrees Restricted Share Plan (Plan or LTIP). 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, Zaida Adams and Lynette Ntuli. 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.

26. Share-based payments (continued)

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.

Linear vesting is applied i.e. shares will be awarded based on percentage of the target achieved.

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.

Summary of movements under restricted share plans

Liberty Two Degrees restricted share plan (long-term incentive plan)

	2019		2018	
	Price range	**Number**	Price range	Number
Movement summary				
Shares outstanding at the beginning of the year	**–**	**–**	–	–
Granted	**R7.05 – R10.21**	**5 634**	–	–
Exercised	**R8.00 – R10.21**	**(76)**	–	–
Cancellations	**–**	**–**	–	–
Shares outstanding at the end of the year	**–**	**5 558**	–	–
Share-based payment expense	**–**	**–**	–	–

Linear vesting is applied.

Notes to the consolidated and separate annual financial statements continued

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27. Amounts due (to)/from Group companies

27.1. Amounts due (to) Group companies

R'000	Group 2019	Group 2018	Company 2019	Company 2018
STANLIB Asset Management Limited	**(14)**	(10)	**–**	–
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.				
2 Degrees Properties Proprietary Limited	**–**	–	**–**	(112 332)
The current account with a 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)	**(14)**	(10)	**–**	(112 332)

27.2 Amounts due from Group companies

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Liberty Holdings Limited	**–**	4 313	**–**	–
The current account with the parent company 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 Two Degrees Limited Share Incentive Scheme	**–**	–	**54**	–
The current account with a 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.				
2 Degrees Properties Proprietary Limited	**–**	–	**176 993**	–
The current account with a 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	**66 119**	38 332	**–**	–
The current account with the parent company 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)	**66 119**	42 645	**177 047**	–

28. Property, plant and equipment

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Computer equipment				
Cost at the beginning of the year	**28**	76	**–**	–
Additions	**–**	3	**–**	–
Depreciation	**(24)**	(52)	**–**	–
Net carrying value at the end of the year	**4**	28	**–**	–
Furniture and fittings				
Cost at the beginning of the year	**654**	1 110	**–**	–
Additions	**493**	657	**–**	–
Depreciation	**(426)**	(1 114)	**–**	–
Net carrying value at the end of the year	**721**	654	**–**	–
Computer software				
Cost at the beginning of the year	**–**	17	**–**	–
Additions	**–**	–	**–**	–
Depreciation	**–**	(17)	**–**	–
Net carrying value at the end of the year	**–**	–	**–**	–
Office equipment				
Cost at the beginning of the year	**63**	99	**–**	–
Additions	**70**	–	**–**	–
Depreciation	**(22)**	(36)	**–**	–
Net carrying value at the end of the year	**111**	63	**–**	–
Total property, plant and equipment	**836**	745	**–**	–

29. Right-of-use assets

29.1 Summary

R'000	Notes	Group 2019	Company 2019
Right-of-use asset		**1 688**	**–**
Cost	29.2	**3 938**	**–**
Accumulated depreciation	29.3	**(2 250)**	**–**

29.2 Right-of-use asset — cost

R'000	2019 Balance at the beginning of the year	Additions	Disposals	Balance at the end of the year
Cost — movement	–	–	–	–
Right-of-use asset	–	3 938	–	3 938
Total cost	–	3 938	–	3 938

29. Right-of-use assets (continued)

29.3 Right-of-use asset — accumulated depreciation

R'000	2019 Balance at the beginning of the year	Depreciation	Balance at the end of the year
Accumulated depreciation — movement			
Right-of-use asset	–	(2 250)	(2 250)
Total accumulated depreciation	–	(2 250)	(2 250)

L2D Group leases its head office premises from STANLIB Wealth Management.

A Right-of-use asset and corresponding lease liability has been recognised in accordance with IFRS 16, effective for years commencing 1 January 2019.

L2D recognised a right-of-use asset representing its right to use the underlying leased asset and depreciated this over the lease term. A lease liability representing its obligation to make lease payments has simultaneously been recognised.

Refer to note 30 for disclosure on the lease liability.

30. Lease liability

30.1 Summary

R'000	Note	Group 2019	Company 2019
Total lease liabilities		1 995	–
Finance lease liabilities — measured at amortised cost	30.2	1 995	–

30.2 Finance lease liabilities — measured at amortised cost

R'000	2019 Finance lease liabilities — measured at amortised cost	Total
Lease liability		
Balance at the beginning of the year	–	–
Additions	3 938	3 938
Finance costs	141	141
Repayments	(2 084)	(2 084)
Total cost	1 995	1 995

30. Lease liability (continued)

	R'000
Maturity analysis — contractual undiscounted cash flows	
Up to 1 year	2 001
Between 1 and 5 years	–
Over 5 years	–
Total undiscounted lease liabilities at the end of the year	2 001

31. Financial liabilities

31.1 Financial liabilities measured at amortised cost

						Group		Company	
						Carrying value		Carrying value	
R'000	Issue date	Maturity date	Interest payable	Amount	Fair value	2019	2018	2019	2018
ABSA loan facility	2018/11/01	2022/10/31	6-month JIBAR + margin	150 000	155 325	**150 000**	255 000	**57 946**	57 946
		2021/11/01	6-month JIBAR + margin	250 000	258 875	**250 000**	250 000	**50 000**	50 000
		2023/11/01	6-month JIBAR + margin	250 000	258 875	**250 000**	250 000	**50 000**	50 000
Standard Bank facility	2018/11/01	2022/10/01	6-month JIBAR + margin	500 000	490 115	**500 000**	250 000	**50 000**	50 000
		2021/11/01	6-month JIBAR + margin	250 000	245 058	**250 000**	250 000	**50 000**	50 000
		2023/11/01	6-month JIBAR + margin	250 000	245 058	**250 000**	250 000	**50 000**	50 000
			Prime less margin	–	–	**–**	98 911	**–**	–
Nedbank facility		2023/12/13	6-month JIBAR + margin	45 000	30 352	**45 000**	–	**–**	–
Total financial liabilities at amortised cost				1 695 000	1 683 658	**1 695 000**	1 603 911	**307 946**	307 946
Current				–	–	**–**[1]	603 911	**–**[2]	157 946
Non-current				–	–	**1 695 000**	1 000 000	**307 946**	150 000

1 Excludes interest of R24 million reflected as a current liability.
2 Excludes interest of R4.5 million reflected as a current liability.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

31. Financial liabilities (continued)

31.2 Reconciliation of movement in financing activities disclosed in the statements of cash flows

	Group		Company	
	Financial liabilities measured at amortised cost		Financial liabilities measured at amortised cost	
R'000	**2019**	2018	**2019**	2018
Balance at the beginning of the year	**1 626 607**	–	**312 460**	–
Finance costs	**124 219**	25 282	**22 875**	–
Interest accrual	**24 166**	22 696	**4 491**	4 514
Repayments interest	**(146 915)**	(1 555)	**(27 389)**	–
Repayments – capital	**(428 149)**	–	**–**	–
Arising through new loans offered	**519 238**	1 580 184	**–**	307 946
Balance at the end of the year	**1 719 166**	1 626 607	**312 437**	312 460
Current	**24 166**	626 607	**4 491**	162 460
Non-current	**1 695 000**	1 000 000	**307 946**	150 000

32. Taxation

	Group		Company	
R'000	**2019**	2018	**2019**	2018
South African normal tax	**185**	6 082	**–**	–
Current year tax	**185**	6 082	**–**	–
Current deferred tax	**–**	–	**–**	–
Reconciliation between applicable tax rate and effective tax rate	**–**	–	**–**	–
Profit before tax	**534 676**	640 735	**–**	–
Deduct actual employee costs paid	**–**	(7 075)	**–**	–
Add back provision	**–**	26 095	**–**	–
Accounting adjustment relating to employee costs	**–**	(24 656)	**–**	–
Prior year prepayment added back	**–**	1	**–**	–
Current year prepayments	**–**	(4)	**–**	–
Add: Non-deductible expenses not incurred in the production of income	**–**	–	**–**	–
S18A donations	**–**	104	**–**	–
S25BB qualifying distribution	**(534 676)**	(616 406)	**–**	–
SA normal tax rate applied to profit before taxation (28% corporate tax rate)	**–**	5 262	**–**	–
Securities tax	**–**	770	**–**	–
Under provision of tax in respect of prior years	**185**	50	**–**	–
Deferred tax	**–**	–	**–**	–
Tax charge as per statements of comprehensive income	**185**	6 082	**–**	–

The group's reconciliation of the effective tax rate is based on the South Africa tax rate (28% corporate tax rate).

32. Taxation (continued)

32.1 Taxation (paid)/received

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Taxation at the beginning of the period	**686**	1 412	**–**	–
Charged to statements of comprehensive income during the year	**(185)**	(6 082)	**–**	–
Income tax (receivable)/payable at the end of the period	**74**	(686)	**–**	–
Tax (paid)/received	**575**	(5 356)	**–**	–

33. 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 2019. In particular, the following standards had an impact on the group's consolidated annual financial statements:

33.1 IFRS 16 Leases

Impact on the consolidated annual financial statements

Lessee accounting

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

Lessor accounting

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

34. Interest in subsidiaries

R'000	2019 Amount of issued share capital (units)	2019 Effective interest (%)	2019 Investment	2019 Intergroup balances
Subsidiaries				
2 Degrees Properties Proprietary Limited	**908 443**	**100**	**9 191 928**	**176 993**
STANLIB REIT Fund Managers (RF) (Pty) Ltd	**0.2**	**100**	**7 308**	**–**
Closing balance			**9 199 236**	**176 993**

R'000	2018 Restated Amount of issued share capital (units)	2018 Restated Effective interest (%)	2018 Restated Investment	2018 Restated Intergroup balances
Subsidiaries				
2 Degrees Properties Proprietary Limited	908 443	100	9 191 928	112 331
STANLIB REIT Fund Managers (RF) (Pty) Ltd	0.2	100	7 308	–
Closing balance			9 199 236	112 331

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

35. Non-current assets held for sale

R'000	2019	2018
Century City offices	**123 213**	–
Balance at the beginning of the year	**–**	–
Transfer from investment property	**122 068**	–
Additions	**318**	–
Amortisation	**(251)**	
Change in fair value	**1 078**	–
Balance at the end of the year	**123 213**	–

The investment properties reclassified as held-for-sale are properties that the directors have decided will be recovered through sale rather than through continuing use.

Liberty Centre Head Office Cape Town (Century City offices) was reclassified from investment properties to a non-current asset held for sale effective 31 October 2019, when the sale agreement was signed with Spear REIT Ltd.

The effect of operating lease straight-lining up to 31 December 2019 is R478 103.

36. Subsequent events

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

Annexures to the consolidated and separate annual financial statements

for the year ended 31 December 2019

Supplemental information

A. Distributable earnings

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

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

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

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties

Schedule of properties as at 31 December 2019

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2019 valuation L2D share (R'000)	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	3 519 051	527	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)	2 940 485	442	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	567 048	260	16 584	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	855 162	273	25 902	77 782
			– Retail (Phase 1)				
			– Retail (Lifestyle centre)				
5	Nelson Mandela Square Complex (33.3%)	5th Street, Sandton, Gauteng	Retail	594 184	398	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	600 944	200	24 443	73 400
7	Botshabelo Mall (23.3%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	100 968	165	6 908	20 743
8	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	171 565	84	15 450	92 789
9	Liberty Centre Head Office (Cape Town) (33.3%)	Montague Gardens, Century Boulevard, Century City, Western Cape	Office	123 213	192	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	113 122	144	6 777	20 352
11	John Ross Eco-Junction Estate – Tangawizi (33.3%)	Eco-Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	23 181	72	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	113 349	225	3 219	13 809
13	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	32 468	–	–	–
14	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	142 460	173	14 463	57 910
15	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	13 337	487	851	3 406

B. Investment properties (continued)

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2019 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
16	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Specialised	**169 535**	**246**	**4 435**	**17 757**
17	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Specialised	**188 062**	**92**	**8 662**	**34 682**
Total				**10 268 136**	**3 980**	**234 038**	**967 866**

Hotels not included in GLA as numbers provided are beds available and therefore excluded from average rental.

Schedule of properties as at 31 December 2018

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2018 valuation L2D share (R'000)	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

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2018 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
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	–	–	–
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

Hotels not included in GLA as numbers provided are beds available.

Portfolio information

	Gross lettable area (m²)	Gross lettable area (%)	Gross monthly rental (R'000)
Geographic profile			
Gauteng	736 496	76.1	50 839
KwaZulu-Natal	119 003	12.3	7 555
Western Cape	91 624	9.5	5 477
Free State	20 743	2.1	890
Total	**967 866**	**100.0**	**64 761**

Note:
1 Gross monthly rent is at L2D's ownership share.
2 Gross lettable area is at 100%.

	Gross lettable area (m²)[1]	Gross monthly rental (R'000)[2]	Gross monthly rental (%)
Sector composition by GLA			
Retail	523 135	54 423	84.1
Office	331 326	6 809	10.5
Specialised	113 405	3 517	5.4
Total	**967 866**	**64 749**	**100.0**

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

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

	A (%)	B (%)	C (%)
Tenant profile (m²)			
Retail	45.0	12.0	8.0
Office	17.0	3.0	4.0
Specialised	8.0	–	3.0
Total	**70.0**	**15.0**	**15.0**

Note: Tenant category based on existing tenants at L2D ownership share 100%.

	2019	2018
Vacancy profile (%)		
Total retail	**2.3**	1.2
Total office	**10.2**	8.0
Total specialised	**–**	–
Total	**4.7**	3.4

	Vacant	Monthly	2020	2021	2022	2023	2024+
Lease expiry profile – gross lettable area (%)							
Total retail	2.3	10.2	11.9	15.1	13.5	11.8	35.2
Total office	10.2	2.7	17.3	7.5	23.5	3.4	35.4
Total specialised	–	–	51.5	0.2	9.9	3.6	34.8
Total	**4.7**	**6.3**	**18.7**	**10.6**	**16.5**	**7.9**	**35.3**
Lease expiry profile – revenue (%)							
Total retail	–	10.3	16.4	19.4	19.5	10.4	24.0
Total office	–	3.5	26.9	11.4	36.7	5.3	16.2
Total specialised	–	–	66.1	0.2	3.8	4.7	25.2
Total	**–**	**8.5**	**21.3**	**16.9**	**21.4**	**9.2**	**22.7**

	Office	Retail	Specialised	Portfolio
Geographic profile by				
Weighted average rental per m² by rentable area	136	395	183	331
Weighted average rental escalation (%)	7.8	7.6	7.8	7.6

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

Hotels

Statistics

	12 months		Change
	2019	2018	%
Garden Court Sandton			
Number of rooms	**444**	444	–
Occupancy (%)	**73**	69	(12.9)
Average room rate (R)	**1 014**	1 034	7.3
RevPar (R)	**737**	711	(6.1)
Intercontinental Towers Sandton			
Number of rooms	**231**	231	–
Occupancy (%)	**67**	68	(3.3)
Average room rate (R)	**1 889**	1 930	(14.1)
RevPar (R)	**1 261**	1 303	(16.4)
Sandton Sun			
Number of rooms	**326**	326	–
Occupancy (%)	**63**	67	(20.8)
Average room rate (R)	**1 677**	1 662	(3.8)
RevPar (R)	**1 060**	1 110	(24.5)

Note:
Figures applied above based on a 12 month average.

%	Average annualised property yield
Portfolio	7.0

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000	338	26.6	132 553	0.0
1 001 – 10 000	505	39.8	2 295 391	0.3
10 001 – 100 000	253	19.9	9 302 634	1.0
100 001 – 1 000 000	133	10.5	46 150 444	5.1
Over 1 000 000	41	3.2	850 562 312	93.6
Total	**1 270**	**100.0**	**908 443 334**	**100.0**
Distribution of shareholders				
Assurance companies	22	1.7	527 457 678	58.1
Close corporations	12	0.9	281 794	0.0
Collective investment schemes	138	10.9	175 525 804	19.2
Control accounts	1	0.1	1	0.0
Custodians	2	0.2	13 404	0.0
Foundations and charitable funds	19	1.5	4 341 873	0.5
Insurance companies	3	0.2	1 048 127	0.1
Investment partnerships	5	0.4	122 374	0.0
Managed funds	14	1.1	3 772 027	0.4
Medical aid funds	8	0.6	989 314	0.1
Organs of state	5	0.4	121 390 696	13.4
Private companies	39	3.1	702 910	0.1
Public companies	3	0.2	7 721 530	0.9
Public entities	2	0.2	284 006	0.0
Retail shareholders	780	61.4	6 871 143	0.8
Retirement benefit funds	124	9.8	47 956 175	5.3
Scrip lending	3	0.2	1 388 218	0.2
Share schemes	1	0.1	5 558 881	0.6
Stockbrokers and nominees	13	1.0	904 616	0.1
Trusts	76	6.0	2 112 763	0.2
Total	**1 270**	**100.0**	**908 443 334**	**100.0**
Non-public shareholders	5	0.5	645 663 993	71.1
Directors and associates	2	0.2	54 875	0.0
Beneficial holders > 10% – Liberty Group	1	0.1	525 104 883	57.8
Beneficial holders > 10% – GEPF	1	0.1	114 945 354	12.7
Share schemes	1	0.1	5 558 881	0.6
Public shareholders	1 265	99.5	262 779 341	28.9
Total	**1 270**	**100.0**	**908 443 334**	**100.0**

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019 (continued)

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Fund managers with a holding greater than 3% of the issued shares				
STANLIB Asset Management	–	–	527 439 298	58.1
Coronation Fund Managers	–	–	183 048 838	20.2
Public Investment Corporation	–	–	120 574 554	13.2
Total	**–**	**–**	**831 062 690**	**91.5**
Beneficial shareholders with a holding greater than 3% of the issued shares				
Liberty Group	–	–	531 601 126	58.5
Coronation Fund Managers	–	–	125 473 044	13.8
Government Employees Pension Fund	–	–	115 761 496	12.7
Total	**–**	**–**	**772 835 666**	**85.0**
Total number of shareholdings	1 270	–	–	–
Total number of shares in issue	908 443 334	–	–	–

Share price performance

Opening price 2 January 2019	R6.9
Closing price 31 December 2019	R6.7
Closing high for period	R7.7
Closing low for period	R6.4
Number of shares in issue	908 443 334
Volume traded during period	117 546 685
Ratio of volume traded to shares issued (%)	12.9
Rand value traded during the period	R820 384 991
Price/earnings ratio as at 31 December 2019	11.3
Earnings yield as at 31 December 2019	8.9
Dividend yield as at 31 December 2019	9.0
Market capitalisation at 31 December 2019	R6 086 570 338

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019 (continued)

			Number of shareholdings
Non-public breakdown		31 December 2019	908 443 334
— Directors of the company or any of its subsidiaries			
Beneficial holders > 10%	**Count**	**Holding**	**%**
Liberty Group	1	525 104 883	57.8
	2	**525 104 883**	**57.8**
Government Employees Pension Fund			
Government Employees Pension Fund	1	114 945 354	12.7
	1	**114 945 354**	**12.7**
Share schemes			
L2D Restricted Share Plan Trust	1	5 558 881	0.6
	1	**5 558 881**	**0.6**
Directors			
Amelia Beattie — direct	1	44 460	–
José Snyders	1	10 415	–
	2	**54 875**	**–**
Total		**645 663 993**	

Notice of annual general meeting

to be held on 20 May 2020

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 Second Annual General Meeting (the meeting) of the shareholders of the Company will be held on Wednesday, 20 May 2020 at 10:00.

Electronic participation

President Ramaphosa declared the COVID-19 pandemic (Coronavirus) a national disaster on Sunday, 15 March 2020. On Monday, 23 March 2020 a nation-wide lockdown was announced for 21 days with effect from midnight on Thursday, 26 March 2020 which was subsequently extended to the end of April 2020. Given the potential devastating effects of this virus and the need to contain its spread, physical attendance will not be possible and the meeting will only be held by way of electronic participation. This is in line with the need for social distancing and the limitations placed on the gathering of people.

Electronic participation is permitted by the JSE Limited, the Companies Act 71 of 2008, as amended, and the Company's Memorandum of Incorporation.

Shareholders wishing to participate in the meeting via electronic communication are requested to deliver written notice by email to investors@liberty2degrees.co.za (attention Ben Swanepoel, Company Secretary) by not later than 10:00 on Thursday, 14 May 2020. For the notice to be valid, it must contain the following details:

(a) if the shareholder is an individual, a certified copy of his/her identity document and/or passport; or

(b) if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution. The resolution must provide the particulars of the person authorised to represent the relevant entity at the meeting via electronic communication; and

(c) a valid email address.

Shareholders participating via electronic communication will still need to submit completed proxy forms in advance of the meeting in order for their votes to be counted. The details for proxy form submission are contained on the proxy form.

By no later than 10:00 on Friday, 15 May 2020, the Company shall, by reply email notify a shareholder, who has delivered a valid notice as indicated above, of the relevant details through which the shareholder can participate electronically.

We request that shareholders deliver their proxies (preferably via email to proxy@computershare.co.za) no later than 24 hours before the commencement time of the meeting to allow time for completion of the administrative processes relating to the meeting.

Proxy forms submitted on the day of the meeting must be emailed simultaneously to the transfer secretaries (proxy@computershare.co.za) and the L2D Company Secretary (ben.swanepoel@liberty2degrees.co.za), before any proxy seeks to exercise any right granted to it.

This notice includes the attached form of proxy.

Record dates, proxies and voting

Record date to receive the notice:
Thursday, 9 April 2020

Last date to trade to be eligible to vote:
Tuesday, 12 May 2020

Record date to be eligible to vote:
Friday, 15 May 2020

Last date for lodging forms of proxy:
Tuesday, 19 May 2020 by 10:00

General Meeting:
Wednesday, 20 May 2020 at 10:00

Accordingly, the record date for shareholders to be entitled to participate in and vote at the Annual General Meeting is Friday, 15 May 2020.

Annual Financial Statements and Integrated Annual Report

The Annual Financial Statements and Integrated Annual Report of the Company for the year ended 31 December 2019 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 2019, together with the reports of the directors and the auditor thereon and the Audit Committee report for the year ended 31 December 2019;
- 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 resolutions number 8 and 10, which in terms of the JSE Limited (JSE) Listings Requirements, requires the support of at least 75% of the votes exercised.

1. Ordinary resolution number 1

Annual financial statements

To adopt the Annual Financial Statements of the Company and Group for the year ended 31 December 2019.

2. Ordinary resolution number 2.1

Confirmation of non-executive director appointed by the Board

In accordance with the Memorandum of Incorporation (MOI) of the Company, to confirm and approve the appointment of Mr D Munro who was appointed by the Board on 29 July 2019.

Notice of annual general meeting continued

to be held on 20 May 2020

Ordinary resolutions continued

3. Ordinary resolution number 3.1 to 3.2

Re-election of non-executive directors

In accordance with the Memorandum of Incorporation (MOI) of the Company, to re-elect, by individual resolutions the following two directors who retire by rotation and have offered themselves for re-election.

3.1 Mr A Band

3.2 Ms L Ntuli

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 election and re-election are provided on page 192 of this notice.

4. Ordinary resolution number 4.1 to 4.3

Election of audit and risk committee members

To elect by individual resolutions, the following independent non-executive directors as members of the Audit and Risk Committee of the Company and the Group.

The Board unanimously recommends their re-election.

4.1 Ms Z Adams

4.2 Mr W Cesman

4.3 Ms L Ntuli (subject to her re-election in terms of ordinary resolution 3.2)

5. Ordinary resolution number 5

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 2020 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.

6. Ordinary resolution number 6 (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.

7. Ordinary resolution number 7 (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.

8. Ordinary resolution number 8

Approval of new L2D restricted share plan

The new Liberty Two Degrees Restricted Share Plan Scheme 2020 document was approved by the Board and is available for inspection by shareholders. The new document does not change the essence of the plan but amends various parts of the existing plan document as a new document was more convenient than specifying a number of amendments. A summary of the main amendments contained in the new document is contained in Annexure A.

In order for this ordinary resolution number 8 to be adopted, the support of 75% (seventy-five percent) of votes cast by shareholders present or represented by proxy at this meeting is required.

9. Ordinary resolution number 9

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 2019 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 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 10 below. The general authority to repurchase shares will be governed by Special Resolution number 3.

10. Ordinary resolution number 10

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;

Notice of annual general meeting continued

to be held on 20 May 2020

- 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 Monday, 20 April 2020;
- 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 (thirty) 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
- n 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 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 and the party subscribing for the securities.

In accordance with the JSE Listing Requirements, in order for ordinary resolution number 10 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.

11. Special resolution number 1

Non-executive directors remuneration 2020

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 2020 until the next Annual General Meeting, as follows:

		2020 Excl. VAT	2019 Excl. VAT
Board			
1.1	Chairman[1]	**R837 000**	R785 500
1.2	Lead Independent Director	**R325 000**	R315 000
1.3	Member	**R225 000**	R210 000
1.4	International Member[1]	**£47 050**	£46 350
Committees			
1.5	Audit and Risk Chairman	**R230 000**	R210 000
1.6	Audit and Risk Member	**R120 000**	R105 000
1.7	Social, Ethics and Transformation Chairman	**R112 000**	R105 000
1.8	Social, Ethics and Transformation Member	**R70 000**	R52 500
1.9	Remuneration and Nomination Chairman	**R120 000**	R105 000
1.10	Remuneration and Nomination Member	**R75 000**	R52 500
1.11	Other committee meetings	**R21 000**	R21 000

Notes

1 Composite fee inclusive of serving on committees.

Notes

Fees were benchmarked and adjusted.

Fees are split equally between retainers and attendance-based fees.

The approval of the non-executive directors' remuneration is exclusive of VAT.

Notice of annual general meeting continued

to be held on 20 May 2020

Special resolutions continued

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.

12. 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.

13. 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 weighted average of the market price at which such shares are traded on the JSE, as determined over the five trading 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 20% 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 12 months from the Company first acquiring securities under this general approval;

(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 from the Company first acquiring securities under this general approval;

(k) the capital, reserves and working capital of the Company and the Group will be adequate for a period of 12 months from the Company first acquiring securities under this general approval; 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, and that since the test was performed, there will be no material changes to the financial position of the Group as set out in the Companies Act.

Notice of annual general meeting continued

to be held on 20 May 2020

The JSE Listings Requirements require the following additional disclosures for purposes of this general authority, which are disclosed in the Integrated Annual Report namely:

- Major shareholders – page 181
- Share capital of the Company – page 181

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 4. 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.

Material change

There have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice of the Annual General Meeting, save for the financial impact of the COVID-19 pandemic on L2D which is uncertain at this time.

Directors' statement of intent

The directors intend, should the proposed authority be granted to them under this resolution, to use the such authority to continue, at appropriate times, to repurchase shares in the open market and thereby to more efficiently utilise cash on hand.

The directors are of the opinion that it would be in the best interests of the Company to renew such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase or purchase, as the case may be, the shares issued by the Company through the order book of the JSE, should the market conditions and the price justify such action.

Directors' responsibility statement

The directors, whose names are given on pages 46 to 47 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.

By order of the Board

Liberty Two Degrees Limited

Ben Swanepoel
Company Secretary

Johannesburg

20 April 2020

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 10:00 on Tuesday, 19 May 2020. 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

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 on Wednesday, 20 May 2020 at 10:00, or at any adjournment thereof.

Due to the COVID-19 (Coronavirus) pandemic, electronic participation at the meeting, rather than physical attendance is required. Shareholders are required to submit completed proxy forms as provided for in the Notice of Annual General Meeting in order for their votes to be counted. Shareholders are encouraged to vote in advance of the meeting to reduce unnecessary complexity and complications.

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 ______________________ shares in L2D hereby appoint:

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her

3. The chairman 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		**For**	**Against**	**Abstain**
1.	To adopt the Annual Financial Statements for the year ended 31 December 2019			
2.	Confirmation of director appointed by the Board: Mr D Munro			
3.	To re-elect[1] the following non-executive directors:			
3.1	Mr A Band			
3.2	Ms L Ntuli			
4.	To re-elect the following audit and risk committee members:			
4.1	Ms Z Adams			
4.2	Mr W Cesman			
4.3	M L Ntuli			
5.	Reappointment of PwC Inc. as the auditors and note that Ms J Basson will be the individual registered auditor			
6.	Approval on an advisory, non-binding basis, the remuneration policy			
7.	Approval on an advisory, non-binding basis, the implementation report			
8.	Approval of the new Liberty Two Degrees Restricted Share Plan			
9.	Placing 10% of the unissued shares under the control of the directors			
10.	General, but restricted authority to issue shares for cash			

1 See the directors standing for re-election provided on page 192 of this notice and proxy.

Proxy form continued

Special resolutions		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 — Chair			
1.10	Remuneration and Nomination Committee — Member			
1.11	Other Committees meetings			
2.	Financial assistance to related and inter-related parties			
3.	General authority to repurchase shares			

Signed at ______________________________ on this day ______________________ of 2020

Full names ____ (in block letters)

Signature(s) ____

Assisted by (Guardian) ______________________________ Date ______________________ 2020

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 Boulevard
2076

Tel. +27 11 448 5500

17 Melrose Arch
Melrose Arch
Johannesburg
2196

Transfer secretaries

Postal

PO Box 61051
Computershare Investor Services
2107

Marshalltown Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
2196

Tel. +27 11 370 5000
Fax. +27 11 688 5218

Notes to the 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 48 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 10:00 on Tuesday, 19 May 2020 (or 48 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.

Directors standing for election and re-election

David Munro (49)

Non-executive director

B. Com, PGDip. Accounting (UCT), CA (SA), AMP (Harvard)

South African

Appointed: 29 July 2019

David Munro joined the Standard Bank group in 1996. In 2003, he was appointed deputy chief executive, CIB South Africa and in 2006 was appointed to Chief Executive, CIB South Africa. In 2011, he was appointed chief executive CIB which position he held until 30 May 2017 when he was appointed Chief Executive of Liberty Holdings Limited.

Angus Band (67)

Non-executive Chairman

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

South African

Appointed 10 July 2018

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.

Lynette Ntuli (36)

Independent non-executive director

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

South African

Appointed on 19 July 2018

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.

Annexure A

Summary of the principal amendments to the Liberty Two Degrees Restricted Share Plan (RSP)

Introduction

The Board is recommending to shareholders the adoption of a new RSP document which contains amendments to the RSP in order to modernise the RSP. The RSP's purpose is to incentivise and retain employees and align their interests with those of shareholders by providing for employees to receive awards of shares which are held by a trust in terms of either the deferred plan (which defers a portion of incentive remuneration earned in terms of the short-term incentive scheme for eighteen to forty-two months) or the LTIP (which is a long term incentive scheme providing for shares to be held for three to five years).

The main amendments that are proposed will, with effect from 1 March 2020:

- provide for awards in terms of the RSP to be subject to forfeiture (if a trigger event becomes known prior to their vesting date) or claw-back (if a trigger event only becomes known after the vesting date and the Remuneration Committee determined at the time of making the award that the award would be subject to the rules on claw-back), and the procedure to be followed in the event that the forfeiture or claw-back of awards is contemplated. Any of the following events will be a trigger event in relation to an employee's award:
  - a material misstatement or inaccuracy in the audited accounts or financial results which are relevant to the award or the assessment of criteria applicable to that award;
  - the award or the assessment of any criteria applicable to the award was based on an error or information which is inaccurate or misleading in any material respect;
  - any act or omission of the employee which has contributed to any inaccuracy, error or misleading information which is relevant to the award or the assessment of criteria applicable to the award;
  - any act or omission of the employee which has contributed to events that have led to the censure of a group company by a regulatory authority or have had a detrimental impact on the reputation of any group company;
  - the employee has committed a breach of any risk limitation or mitigation policy or any compliance policy of the group; or
  - gross misconduct by the employee;
- clarify how special distributions received by the trust in respect of shares held for an employee will be held or reinvested for the benefit of the employee until the vesting of those shares;
- provide for amendments to the RSP to be subject to the approval of the JSE and, in certain circumstances, the approval of shareholders; and
- require annual reporting on the RSP in the company's Annual Financial Statements.

The claw-back period commences on the Vesting Date and ends on the third anniversary of the Vesting Date. This period may be extended if there is an on-going investigation.

The new RSP document is available for inspection at the office of Liberty Two Degrees' Company Secretary at 17 Melrose Boulevard, Melrose Arch, Johannesburg, 2196, from 20 April 2020.

Definitions and abbreviations

AFS	Annual Financial Statements
ARC	Audit and Risk Committee – a committee of the Board
B-BBEE	Broad-based black economic empowerment
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
DoA	Delegation of authority framework
DPS	Distribution per share
ECL	Expected credit loss
FROC	Financial and Risk Oversight Committee – a subcommittee of Manco
GBCSA	Green Building Council of South Africa
GFA	Gross floor area
GHG	Greenhouse Gas
GLA	Gross Lettable Area (being the total area of a property that can be leased to a tenant)
IFRS	International Financial Reporting Standards
JHIR	JHI Retail Property Proprietary Ltd (provide 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
KPI	Key performance indicator
King IV ™	King Code on Corporate Governance for South Africa 2016
L2D	Liberty Two Degrees Limited, (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 JSE
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
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
LibProp	Liberty Propco Proprietary Limited
Liberty or the group	Liberty Holdings and its subsidiaries from time to time
LPP	Liberty Property Portfolio, collectively, the properties set out on pages 175 to 179, excluding the Melrose Arch precinct
LREP	Liberty Real Estate Portfolio
LTV	Loan to value
LTIP	Long-term incentive plan
Manco	Executive Management Committee
Melrose Arch	25% undivided share in Melrose Arch

Definitions and abbreviations continued

NAV	Net asset value
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.
NPI	Net property income
RCF	Revolving credit facility
REIT or Real Estate Investment Trust	An entity which receives REIT status in terms of the Listings Requirements
Remco	Remuneration Committee – a committee of the Board
RevPar	Revenue per room
SACSC	South African Council of Shopping Centres
SAPOA	South African Property Owners Association
SBG	Standard Bank Group Ltd
SDGs	Sustainable Development Goals
SET	Social, Ethics and Transformation Committee – a committee of the Board
STANLIB	STANLIB Asset Management Limited (Registration number 1969/002753/07), a public company registered and incorporated in accordance with the laws of South Africa
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 the previous manager of L2D CISIP
STIs	Short-term incentives
Trust or L2D Group Trust	Liberty Two Degrees Restricted Share Plan Trust
Undivided shares	Undivided shares in the ownership of the Liberty Property Portfolio

Corporate information

Date of registration: 10 July 2018

Liberty Two Degrees Limited

JSE code: L2D
ISIN: ZAE000260576
(Approved as a REIT by the JSE)
(Liberty Two Degrees or L2D)

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

Company secretary

Ben Swanepoel
Liberty Two Degrees
17 Melrose Arch
Johannesburg
Gauteng
2196

Registered office

17 Melrose Boulevard
Melrose Arch
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Gauteng
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(PO Box 202, Melrose Arch, Johannesburg, 2076)

Contact information

Telephone: +27 11 448 5500
Email: investors@liberty2degrees.co.za
www.liberty2degrees.co.za

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

Auditors

PricewaterhouseCoopers Inc.
Waterfall City
4 Lisbon Lane
Jukskei View
Midrand
2090

(Private Bag X36, Sunninghill, 2157)

Sponsor

The Standard Bank of South Africa Ltd
(Registration number 1962/000738/06)
30 Baker Street
Rosebank, 2196

(PO Box 61344, Marshalltown, 2017)

Tel: +27 11 721 6125

SIGIL DESIGN BUREAU

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