

# Invest to inspire



**LIBERTY** two°degrees

Summarised results  
for the period ended

31 December

# 2016



## Highlights

Premier  
retail real estate  
portfolio

Distribution of  
**4,85c** per unit

NAV per unit  
increased by

**1,3%**  
to R9,64

**R2,8bn**  
cash available for  
acquisitions

Ungearred balance sheet

Final listing costs  
**R27 mn**  
below PLS forecast

### STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

R'000	2016
<b>ASSETS</b>	
<b>Non-current assets</b>	6 060 439
Investment properties	5 997 200
Investment properties under development	63 239
<b>Current assets</b>	2 868 431
Trade and other receivables	91 871
Financial investments	2 774 878
Cash and cash equivalents	1 682
<b>Total assets</b>	8 928 870
<b>LIABILITIES</b>	
<b>Current liabilities</b>	168 449
Trade and other payables	168 449
<b>Total liabilities</b>	168 449
<b>Participatory unitholders' capital and reserves</b>	
Capital	8 663 855
Retained surplus	44 063
Non-distributable reserve	52 503
<b>Total unitholders' funds</b>	8 760 421
<b>Total unitholders' funds and liabilities</b>	8 928 870
<b>Supplementary information:</b>	
Number of units in issue ('000)	908 443
Net asset value per unit (R)	9,64

### STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 December 2016

R'000	2016 <sup>(1)</sup>
<b>Property portfolio revenue</b>	43 924
Rental and related income	46 665
Adjustment for straight-lining of operating lease income	(2 741)
Property operating expenses	(14 391)
<b>Net rental and related income</b>	29 533
Administration expenses	(887)
<b>Net property income</b>	28 646
Asset management fee	(2 202)
<b>Profit from operations</b>	26 444
Interest received	14 878
<b>Profit before fair value adjustments</b>	41 322
Net fair value adjustments	55 244
Fair value adjustments	52 503
Adjustment for straight-lining of operating lease income	2 741
<b>Total earnings</b>	96 566
<b>Basic and diluted earnings per unit</b>	
Basic earnings per unit (cents)	11,21
Fully diluted earnings per unit (cents)	11,21

<sup>(1)</sup> L2D acquired its undivided shares in the Liberty Property Portfolio effective 1 December 2016 and commenced its business operations with effect from that date. The statement of comprehensive income therefore reflects one month's operations.


**STATEMENT OF CHANGES IN PARTICIPATORY UNITHOLDERS' CAPITAL AND RESERVES**  
 for the period ended 31 December 2016

R'000	Capital	Non-distributable reserves	Retained earnings	Total
Units issued in exchange for the undivided share in property	6 000 000			6 000 000
Units issued for cash upon listing	2 780 212			2 780 212
Costs relating to common control transaction and issue of new units	(116 357)			(116 357)
Total earnings for the period			96 566	96 566
Fair value adjustment on investment properties transferred to non-distributable reserve		52 503	(52 503)	
<b>Balance at 31 December 2016</b>	<b>8 663 855</b>	<b>52 503</b>	<b>44 063</b>	<b>8 760 421</b>

**STATEMENT OF CASH FLOWS**  
 for the period ended 31 December 2016

R'000	2016
<b>Cash flows from operating activities</b>	<b>120 809</b>
Cash generated by operations	105 931
Interest received	14 878
<b>Cash flows from investing activities</b>	<b>(2 782 947)</b>
Expenditure on investment properties	(8 069)
Purchase of financial investments	(2 774 878)
<b>Cash flows from financing activities</b>	<b>2 663 820</b>
Units issued for cash on listing	2 780 212
Transaction costs for issue of new units	(116 392)
<b>Net increase in cash and cash equivalents</b>	<b>1 682</b>
<b>Cash and cash equivalents at 31 December 2016</b>	<b>1 682</b>

**HEADLINE EARNINGS, DISTRIBUTABLE INCOME AND EARNINGS PER UNIT**

R'000	2016
<i>Reconciliation of total earnings to headline earnings and distributable income:</i>	
Total earnings (basic earnings)	96 566
Fair value adjustments to investment properties	(55 244)
<b>Headline earnings</b>	<b>41 322</b>
Adjustment for straight-lining of operating lease income	2 741
<b>Distributable income</b>	<b>44 063</b>
	<b>Cents</b>
<b>Earnings per unit</b>	
Basic and diluted	11,21
Headline and diluted	4,80
Distributable income	4,85
	<b>'000</b>
Number of units in issue	908 443
Weighted average number of units in issue	861 422

**SEGMENT INFORMATION**

R'000	Retail	Office	Specialised	Administration/ other <sup>(1)</sup>	Total
Total property GLA	522 652	318 620	7 060		848 332
L2D's share of total GLA <sup>(2)</sup>	102 732	29 925	1 553		134 210

**Segment earnings**

R'000	Retail	Office	Specialised	Administration/ other <sup>(1)</sup>	Total
<b>Property portfolio revenue</b>	33 525	9 765	507	127	43 924
Rental and related income	35 623	10 376	539	127	46 665
Adjustment for straight-lining of operating lease income	(2 098)	(611)	(32)		(2 741)
Property operating expenses	(11 016)	(3 209)	(166)		(14 391)
<b>Net rental and related income</b>	22 509	6 556	341	127	29 533
Administration expenses				(887)	(887)
<b>Net property income</b>	22 509	6 556	341	(760)	28 646
Asset management fee				(2 202)	(2 202)
<b>Profit from operations</b>	22 509	6 556	341	(2 962)	26 444
Interest received				14 878	14 878
<b>Profit before fair value adjustments</b>	22 509	6 556	341	11 916	41 322
Net fair value adjustments	42 287	12 318	639		55 244
Fair value adjustments	40 189	11 707	607		52 503
Adjustment for straight-lining of operating lease income	2 098	611	32		2 741
<b>Total earnings</b>	64 796	18 874	980	11 916	96 566

**Segment assets and liabilities**

R'000	Retail	Office	Specialised	Administration/ other <sup>(1)</sup>	Total
Investment property	4 639 006	1 351 305	70 128		6 060 439
Trade and other receivables	57 429	16 729	868	16 845	91 871
Financial investments				2 774 878	2 774 878
Cash and cash equivalents				1 682	1 682
<b>Total assets</b>	4 696 435	1 368 034	70 996	2 793 405	8 928 870
Total liabilities – Trade payables	(47 274)	(13 770)	(715)	(106 690)	(168 449)
<b>Net assets</b>	4 649 161	1 354 264	70 281	2 686 715	8 760 421

<sup>(1)</sup> Administration and other includes administration expenses, asset management fees and investment income that cannot be allocated specifically to the main operating segments.

Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals for listing costs, audit and printing fees and asset management fees.

<sup>(2)</sup> Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of L2D's share of total GLA.

**INTRODUCTION**

This is the first set of financial statements prepared following the successful listing of Liberty Two Degrees (L2D) as a REIT on the JSE on 6 December 2016. L2D is required by the Collective Investments Schemes Control Act, 2002 to be structured as a JSE-listed portfolio within a trust with an external independent trustee and an external management company. RMB Trustee Services are the appointed Trustee and STANLIB REIT Fund Managers (RF) Proprietary Limited (SRFM) is the appointed Manager to L2D.

L2D acquired its undivided shares in the Liberty Property Portfolio effective 1 December 2016 and commenced its business operation with effect from that date. The following commentary is therefore provided in relation to the one-month period ended 31 December 2016.

- The results presented are substantially in line with the forecast provided in the Pre-listing Statement (PLS).
- The net asset value increased by 12c per unit, totalling R9.64 at the period end.
- The distribution is declared at 4,85c per participatory unit for the period.
- The share price at 31 December 2016 compared favourably to the listing price of R10 and translates to a premium of approximately 8,9% to NAV.



## VALUATIONS

## Schedule of properties as at 31 December 2016

No	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	Initial purchase price <sup>(1)</sup> R'000	Valuation <sup>(1)</sup> R'000	Weighted average rental per m <sup>2</sup> (R)	L2D Gross lettable area (m <sup>2</sup> )	Total gross lettable area (m <sup>2</sup> )
1	Sandton City Complex (16,5%)	5th Street, Alice Lane and Sandton Drive, Sandton, Johannesburg, Gauteng	Retail	2 158 335	2 168 402	454	32 720	198 304
			Retail				24 272	147 104
			Office				8 448	51 200
2	Eastgate Complex (22,0%) <sup>(2)</sup>	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	1 904 510	1 926 515	436	29 874	135 790
3	Melrose Arch (5,5%) <sup>(1)</sup>	60 Atholl Oaklands Road & Melrose Blvd, Melrose North, Johannesburg	Office	421 704	423 514	267	11 020	186 291
			Office				7 228	122 187
			Retail				2 777	46 948
			Specialised				1 015	17 156
4	Liberty Midlands Mall (22,0%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	414 129	419 630	317	12 314	55 973
5	Nelson Mandela Square (22,0%)	5th Street, Sandton, Johannesburg, Gauteng	Retail	387 283	393 885	341	8 535	38 795
			Retail				4 433	20 148
			Office				4 102	18 647
6	Liberty Promenade Shopping Centre (22,0%)	Corner of AZ Berman Drive, Mogenster Road and 11 <sup>th</sup> Avenue, Mitchells Plain, Cape Town, Western Cape	Retail	304 326	306 966	157	16 148	73 400
7	Botshabelo Mall (15,4%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	49 657	49 793	88	3 140	20 390
8	John Ross Eco Junction – varying serviced stands (22,0%)	Portion 16 and Portion 17, Erf 11451, Richards Bay, KwaZulu-Natal	Specialised	75 819	85 316	62	1 553	7 060
9	Liberty Centre Head Office (Cape Town) (22,0%)	Montague Gardens, Century Boulevard, Century City, Cape Town, Western Cape	Office	78 975	78 979	203	4 221	19 188
10	Liberty Centre Head Office (Umhlanga Ridge) (22,0%)	21 Aurora Drive and 2 Park Lane, Umhlanga Ridge, KwaZulu-Natal	Office	88 526	90 550	161	4 478	20 352
11	Standard Bank Centre (11,0%)	5 Simmonds Street, Johannesburg, Gauteng	Office	116 736	116 889	90	10 207	92 789
<b>Total</b>				<b>6 000 000</b>	<b>6 060 439</b>	<b>321</b>	<b>134 210</b>	<b>848 332</b>

<sup>(1)</sup> Excludes the impact of straight-lining of operating lease income.

<sup>(2)</sup> Eastgate office tower currently under construction.

## DEVELOPMENTS

Property	Approved Development Cost (R'm)	Project Start Date	Project Completion Date	Commentary
Eastgate Office Tower	L2D R32,1 million (Total cost: R146,0 million)	January 2016	March 2017	Virgin Active took beneficial occupation at the end of January 2017 and will commence operation during March 2017. The Office Tower is scheduled for completion in April 2017, to date 84% has been leased.
Melomed Phase I & II	L2D R70,0 million (Total cost: R318,0 million)	August 2015	June 2017	The contractor is on track to meet the beneficial occupation date of June 2017.
Midlands Phase III	L2D R99,2 million (Total cost: R451,0 million)	November 2016	March 2018	The earthworks commenced towards the end of the fourth quarter of 2016 and are currently on track. The leasing is progressing well and it is anticipated that the space will be fully leased by completion.

## Net asset value

The net asset value (NAV) per share increased by 12c to R9,64 at 31 December 2016.

## Borrowings

L2D currently has no term debt and at market accepted gearing levels for REITs would be able to raise a further c. R3 billion.

## Prospects

The scale and presence, quality and location of the retail assets, continue to position L2D as one of the premier real estate investment opportunities in South Africa. The historic capital expenditure incurred to maintain the high quality of the properties, provides a platform for good growth without incurring significant amounts of new capital to refresh the environments.

In the short term, L2D will focus its growth strategy in South Africa. Growth is expected from carefully identified quality acquisition targets, as well as the current development pipeline in respect of Liberty Midlands Mall, the Eastgate Complex and Melomed Hospital.

Looking at the year ahead, management is confident that the strategic approach of investing in high-quality assets that remain resilient and defensive during tough economic times, positions L2D for sustainable growth. L2D's objective is to deliver on the forecast distribution in its PLS of 65c per unit for the year ending 31 December 2017.

Given the nature of the business, L2D uses distribution per unit as its key performance measure as it is considered a more relevant performance measure than earnings or headline earnings per unit.

## Distribution timetable and tax implications

The board of the manager has approved and notice is hereby given of a maiden distribution of 4.85047 cents per unit for the period to 31 December 2016 ("the distribution")

The distribution is payable to Liberty Two Degrees' unitholders in accordance with the timetable set out below:

2017	
Last date to trade <i>cum</i> dividend:	Tuesday, 14 March
Units trade <i>ex</i> dividend:	Wednesday, 15 March
Record date:	Friday, 17 March
Payment date:	Monday, 20 March

Unit certificates may not be dematerialised or rematerialised between Wednesday, 15 March 2017 and Friday, 17 March 2017, both days inclusive.

Payment of the distribution will be made to unitholders on Monday, 20 March 2017. In respect of dematerialised units, the distribution will be transferred to the CSDP accounts/broker accounts on Monday, 20 March 2017. Certificated unitholders' distribution payments will be posted on or about Monday, 20 March 2017.

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

Liberty Two Degrees' income tax reference number: 9087144235

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

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

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

both in the form prescribed by the Commissioner for the South African Revenue Service.

Resident unitholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Distributions received by non-resident unitholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. However, a distribution received by a non-resident will be subject to dividends tax at 15%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the unitholder. Assuming dividends tax will be withheld at a rate of 15%, the net dividend amount due to non-resident unitholders is 4.12290 cents per unit. A reduced dividends tax rate in terms of the applicable DTA may only be relied on if the non-resident unitholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated units, or the company, in respect of certificated units:

- a) a declaration that the distribution is subject to a reduced rate as a result of the application of a DTA; and
- b) a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident unitholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

## Common control transaction

In terms of an exchange agreement the Liberty Group Limited (LGL) disposed of 22% of its share in investment properties in exchange for units issued by L2D. L2D acquired a 22% undivided share of the wholly-owned LGL properties and a lesser undivided share of properties that were not wholly owned.

The transaction resulted in the same ultimate control before and after the transaction and was classified as a common control transaction. Predecessor accounting has been applied in accounting for the common control transaction.

## BASIS OF PREPARATION

The summary financial statements contained in this summary report are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act applicable to summary financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA *Financial Reporting Guides* as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary financial statements are derived are in terms of IFRS and are consistent with those applied in the Pre-listing Statement.

The summarised financial statements have been prepared under the supervision of John Sturgeon CA(SA).

This summarised report is extracted from the audited information, but is not itself audited. The financial statements are audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. Participatory unitholders are advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying audited financial statements, both of which are available for inspection at L2D's registered office. The directors of STANLIB REIT Fund Managers (RF) Proprietary Limited take full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying financial statements.

On behalf of the Board

### MP Moyo

Chairman

16 February 2017

### Sponsor

Java Capital

### A Beattie

Chief executive officer

## LIBERTY TWO DEGREES

JSE share code: L2D ISIN: ZAE000230553

(Approved as a REIT by the JSE)

("Liberty Two Degrees")

a portfolio established under the Liberty Two Degrees Scheme, a Collective Investment Scheme in Property established in terms of the Collective Investment Schemes Control Act, No 45 of 2002, as amended,

and managed by STANLIB REIT Fund Managers (RF) Proprietary Limited

("the Manager" or "STANLIB REIT Fund Managers")

(Registration number: 2007/029492/07)