SUMMARISED ANNUAL RESULTS

FOR THE YEAR ENDED
31 DECEMBER 2017

LIBERTY

two degrees

Contents

Highlights

FULL YEAR DISTRIBUTION OF

59.22 cents

PER UNIT

NET ASSET VALUE PER UNIT INCREASED TO

▲

R9.86

ARREARS DECREASED TO

▼

4.6%

CAPITAL DEPLOYED INTO 95% DIRECT PROPERTY INVESTMENTS. BALANCE SHEET HAS SIGNIFICANT GEARING CAPACITY.

Commentary

Profile

Liberty Two Degrees ("L2D"), a subsidiary of Liberty Holdings Limited, is a portfolio established under the Liberty Two Degrees Scheme ("the Scheme") in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ("CISCA"), as amended, to afford investors growth in income and capital by investing at fair prices in a balanced spread of immovable properties and related assets as permitted by the L2D Trust Deed. L2D is required by CISCA to be structured as a JSE-listed portfolio within a trust with an external independent trustee and an external management company. The Scheme is managed by STANLIB REIT Fund Managers (RF) Proprietary Limited ("the Manager"), and the appointed external independent trustee is FirstRand Bank Limited acting through its RMB Trustee Services Division. The Manager has also been appointed as the asset manager of Liberty Group Limited ("LGL")'s interest in the Liberty Property Portfolio ("LPP").

At 31 December 2017, L2D's defensive and 100% South African direct property portfolio was valued at R8.71 billion (FY2016: R6.06 billion) following the acquisition of a further 9% of the co-owned LPP for an amount of R2.51 billion, pursuant to LGL exercising its put option ("Put Transaction"), with effect from 1 July 2017 (as previously announced on SENS on 26 July 2017).

L2D is listed on the Johannesburg Stock Exchange ("JSE") with a market capitalisation of R7.6 billion at 31 December 2017 (FY2016: R9.5 billion) and is included in the South African Listed Property index ("SAPY").

L2D's portfolio strategy

L2D's strategy remains anchored on:

- an iconic retail focused, precinct driven real estate portfolio with a mix of defensive anchor assets which are supplemented by growth from selected developments;
- focusing on enhancing growth opportunities in South Africa;
- maintaining industry leading operational metrics and prudent balance sheet management to support future returns; and
- evolution and growth of the portfolio by the management team whilst benefiting from a proven track record, industry expertise and familiarity with portfolio assets.

Financial results

L2D reported net property income of R429.1 million for the year ended 31 December 2017 after taking into account the additional 9% of the co-owned LPP assets. Including interest income and fair value adjustments total earnings came to R514.8 million. Interest income accounted for c. 16% of gross income versus the pre-listing forecast of c. 27%. The decrease is largely attributable to the switch from interest income to property income as result of the mid-year acquisition. Despite the adverse economic climate the arrears decreased to 4.6% (FY2016: 4.8%) and management are starting to see slightly improved trading data. L2D's board of directors of the Manager ("the Board") has declared a full year distribution of 59.22 cents per participatory unit ("unit"). An interim distribution of 30.00 cents per unit was declared and paid in respect of the six months ended 30 June 2017. A final distribution of 29.22 cents per unit for the six months ended 31 December 2017 has been declared. The full year distribution is lower than the pre-listing statement forecast mainly due to the interest differential on the Put Transaction, the impact of the Stuttafords closure as well as the unexpectedly high Eastgate municipal valuation and its consequential impact on rates.

L2D currently has no interest-bearing debt and will be able to take on debt (in line with its trust deed and considering market norms) to fund future acquisitions, as appropriate.

Changes in fair values

L2D's property portfolio was valued at R8.71 billion by external independent registered valuers on an open market value basis at 31 December 2017. In total, investment properties increased by R2.65 billion as a result of the acquisition of a further R2.51 billion of the LPP, as well as capitalised development and maintenance capital expenditure. The overall fair value adjustment resulted in a net decrease of R25 million. In terms of IAS 40 and IFRS 13, L2D's investment properties are measured at fair value through profit or loss using valuation inputs which are categorised as level 3 on the fair value hierarchy. There were no transfers between levels 1, 2 and 3 during the period.

Property portfolio

The portfolio vacancy rate increased during the year to 6.4% (FY2016: 4.6%). The Stuttafords space has been mostly let.

Leases covering 67 631m^2 were renewed during the year at an overall reversion rate of 2.7%. A further 41 078m^2 in new tenant deals were concluded across the portfolio during the period.

Commentary (continued)

Arrears decreased to 4.6% (FY2016: 4.8%) of the collectable book debt. The marginal decrease in arrears is encouraging given the tough economic environment.

Geographic profile	Gross lettable area[1] (m^2)	Gross lettable area (%)
Gauteng	675 180	77.5%
Western Cape	92 588	10.6%
KwaZulu-Natal	83 385	9.6%
Free State	20 390	2.3%
Portfolio	**871 543**	**100.0%**

Sectoral profile	Gross lettable area[1] (m^2)	Gross lettable area (%)
Retail	500 973	57.5%
Office	332 290	38.1%
Specialised	38 280	4.4%
Portfolio	**871 543**	**100.0%**

[1] *L2D owns a 31% undivided share of the properties as at 31 December 2017.*

	Gross lettable area – 2017			
Vacancy profile %	**Portfolio excluding Stuttafords**	**Portfolio including pre-lets**	**Portfolio 2017[1]**	**Gross lettable area 2016[1]**
Office	10.3	9.7	10.3	9.6
Retail	1.2	3.7	4.3	2.5
Portfolio	4.6	5.8	6.4	4.6

[1] *Vacancy excludes pre-let deals.*

Lease expiry profile – gross lettable area %	Vacant	Monthly[1]	2018	2019	2020	2021	2021+
Office	10.3	5.7	9.5	36.3	10.6	6.6	21.0
Retail	4.3	4.9	11.5	18.0	11.7	14.3	35.2
Specialised	–	–	2.8	15.8	4.8	11.2	65.4
Portfolio	6.4	5.0	10.4	24.9	11.0	11.2	31.1

[1] *Month to month expiries consist primarily of leases that have expired, with new leases currently being negotiated, and commitments obtained on a monthly basis in the interim.*

Commitments

Capital development commitments outstanding amount to R390.7 million (FY2016: R293.1 million). Capital commitments will be funded from existing resources.

Prospects

The performance of the L2D assets is underpinned by the quality of the portfolio. In spite of the tough economic environment and the resultant impact on the consumer, the portfolio remains robust with strong underlying property income growth. As a consequence of the mid-year acquisition L2D has foregone higher yielding interest income in exchange for sustainable property income. The short term dilutionary impact is outweighed by the benefit of sustainable growth which better positions the portfolio going forward. The L2D balance sheet is ungeared with significant capacity to make complementary acquisitions. L2D uses distribution per unit as a relevant measure of financial performance. Management forecasts a full year distribution of approximately 60 cents per participatory unit for the 2018 financial year of which property income constitutes 99% in comparison to 62% forecasted at listing. This guidance is based on the following key assumptions:

- Forecast investment net property income is based on contractual rental escalations and market-related renewals;
- Appropriate allowances for vacancies have been incorporated into the forecast;
- No dilutionary gearing is introduced;
- No major corporate and tenant failures will occur; and
- L2D maintains a 31% share of the assets that it co-owns in the LPP.

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

Declaration of a cash distribution

The Manager has approved and notice is hereby given of a final distribution of 29.22000 cents per unit for the six months ended 31 December 2017 ("the distribution").

The timetable for L2D's 2017 final distribution will be as follows:

	2018
Last date to trade *cum* dividend:	Tuesday, 13 March
Units trade *ex* dividend:	Wednesday, 14 March
Record date:	Friday, 16 March
Payment date:	Monday, 19 March

Unit certificates may not be dematerialised or rematerialised between Wednesday, 14 March 2018 and Friday, 16 March 2018, both days inclusive.

Payment of the distribution will be made to unitholders on Monday, 19 March 2018. In respect of dematerialised units, the distribution will be transferred to the Central Securities Depository Participant ("CSDP") accounts/broker accounts on Monday, 19 March 2018. Certificated unitholders' distribution payments will be posted on or about Monday, 19 March 2018.

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 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 a distribution distributed by a REIT. This distribution is, however, exempt from dividend withholding tax in the hands of South African tax resident unitholders, provided that the South African resident unitholders provide 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 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. 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.

Commentary (continued)

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. On 22 February 2017, the dividends withholding tax rate was increased from 15% to 20% and accordingly, any dividend received by a non-resident from a REIT will be subject to distributions withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the unitholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident unitholders is 23.37600 cents per unit. A reduced dividend withholding 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.

Events after reporting date

In line with IAS 10 Events after the Reporting Period, the declaration of the distribution occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these financial statements.

Changes in directors of the Manager

The Scheme as a trust has no directors of its own. L2D is managed by the Manager in terms of CISCA and the Trust Deed.

The following changes in the Board of the Manager took place during the period:

- Mr José Snyders was appointed as financial director replacing Mr John Sturgeon, effective 23 March 2017. Mr Sturgeon remained on the Board as a non-executive director and subsequently resigned from the board on 16 December 2017;
- Mr Peter Moyo resigned on 3 April 2017 and was replaced by a fellow independent non-executive director, Mr Michael Ilsley, who was appointed as the interim chairman. Mr Ilsley resigned on 31 July 2017;
- Mr Angus Band was appointed as an independent non-executive director and chairman of the Board, effective 26 July 2017; and
- Ms Lynette Ntuli was appointed as an independent non-executive director of the Board, also effective 26 July 2017.

The composition of the Board of the Manager remains compliant in terms of the requirements of the King IV Report on Corporate Governance as well as the JSE Listings Requirements.

Basis of preparation

The summary consolidated financial statements are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act, 71 of 2008, 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 L2D's annual financial statements for the period ended 31 December 2016. The summarised financial statements have been prepared under the supervision of Mr José Snyders CA(SA).

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

By order of the Board

16 February 2018

Statement of financial position

for the year ended 31 December 2017

R'000	2017	2016
ASSETS		
Non-current assets	**8 708 712**	6 060 439
Investment properties	**8 629 809**	5 997 200
Investment properties under development	**78 903**	63 239
Current assets	**396 888**	2 868 431
Trade and other receivables	**168 793**	91 871
Financial investments	**211 772**	2 774 878
Cash and cash equivalents	**16 323**	1 682
Total assets	**9 105 600**	8 928 870
LIABILITIES		
Current liabilities		
Trade and other payables	**146 796**	168 449
Total liabilities	**146 796**	168 449
Participatory unitholders' capital and reserves		
Capital	**8 663 950**	8 663 855
Retained surplus	**265 406**	44 063
Non-distributable reserve	**29 448**	52 503
Total unitholders' funds	**8 958 804**	8 760 421
Total unitholders' funds and liabilities	**9 105 600**	8 928 870

Statement of comprehensive income

for the year ended 31 December 2017

R'000	2017	2016[1]
Property portfolio revenue	**665 854**	43 924
Rental and related income	**692 835**	46 665
Adjustment for the straight-lining of operating lease income	**(26 981)**	(2 741)
Property operating expenses	**(236 709)**	(14 391)
Net rental and related income	**429 145**	29 533
Administration expenses	**(4 142)**	(887)
Net property income	**425 003**	28 646
Asset management fee	**(34 599)**	(2 202)
Profit from operations	**390 404**	26 444
Net interest	**115 063**	14 878
Interest income	**135 001**	14 878
Interest expense	**(19 938)**	–
Dividends received on financial instrument	**5 492**	–
Loss on disposal of financial instrument	**(460)**	–
Profit before fair value adjustments	**510 499**	41 322
Net fair value adjustments on investment properties	**2 319**	55 244
Fair value adjustments on investment properties	**(24 662)**	52 503
Adjustment for straight-lining of operating lease income	**26 981**	2 741
Fair value adjustments on equity instrument	**2 067**	–
Total earnings	**514 885**	96 566
Basic and diluted earnings per unit		
Basic earnings per unit (cents)	**56.68**	11.21
Fully diluted earnings per unit (cents)	**56.68**	11.21

[1] *L2D listed on the JSE on 6 December 2016. The statement of comprehensive income reflects one month's operations.*

Statement of changes in participatory unitholders' capital and reserves

for the year ended 31 December 2017

	Capital R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
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
Transaction costs for issue of new units	(116 357)			(116 357)
Total earnings for the period			96 566	96 566
Fair value adjustment on financial investment properties transferred to non-distributable reserve		52 503	(52 503)	–
Distribution to unitholders			–	–
Balance at 31 December 2016	8 663 855	52 503	44 063	8 760 421
Reversal of transaction costs for issue of new units	**95**			**95**
Total earnings for the period			**514 885**	**514 885**
Fair value adjustments on investment properties transferred to non-distributable reserve		**(24 662)**	**24 662**	**–**
Fair value adjustment on financial investment transferred to non-distributable reserve		**2 067**	**(2 067)**	**–**
Loss on disposal of financial investment transferred to non-distributable reserve		**(460)**	**460**	**–**
Distribution to unitholders			**(316 597)**	**(316 597)**
Balance at 31 December 2017	**8 663 950**	**29 448**	**265 406**	**8 958 804**

Statement of cash flows

for the year ended 31 December 2017

R'000	2017	2016
Cash flows from operating activities	**127 248**	120 809
Cash generated by operations	**328 782**	105 931
Interest received on financial investment	**133 801**	14 878
Bank interest received	**1 200**	–
Interest paid	**(19 938)**	–
Distribution to unitholders	**(316 597)**	–
Cash flows from investing activities	**(112 702)**	(2 782 947)
Expenditure on investment properties	**(121 205)**	(8 069)
Expenditure on investment properties under development	**(43 765)**	–
Acquisition of investment properties	**(2 476 555)**	–
Acquisition of investment properties under development	**(36 350)**	–
Investment in financial instruments – mutual funds	**2 716 799**	(2 774 878)
Investment in financial instruments – equity instrument	**(151 626)**	–
Cash flows from financing activities	**95**	2 663 820
Units issued for cash on listing	**–**	2 780 212
Transaction costs reversal/(incurred) for issue of new units	**95**	(116 392)
Net increase in cash and cash equivalents	**14 641**	1 682
Cash and cash equivalents at the beginning of the year	**1 682**	–
Cash and cash equivalents at the end of the year	**16 323**	1 682

1. Segment earnings

December 2017	Retail R'000	Office R'000	Specialised R'000	Administration/ Other [1] R'000	Total R'000
Total property GLA	500 973	332 290	38 280		871 543
L2D's share of total GLA[2]	155 325	103 026	11 869		270 219
Segment earnings					
Property portfolio revenue	382 210	253 515	29 205	924	665 854
Rental and related income	397 719	263 802	30 390	924	692 835
Adjustment for the straight-lining of operating lease income	(15 509)	(10 287)	(1 185)	–	(26 981)
Property operating expenses	(135 131)	(89 631)	(10 325)	(1 622)	(236 709)
Net rental and related income	247 079	163 884	18 880	(698)	429 145
Administration expenses				(4 142)	(4 142)
Net property income	247 079	163 884	18 880	(4 840)	425 003
Asset management fee				(34 599)	(34 599)
Profit from operations	247 079	163 884	18 880	(39 439)	390 404
Net interest				115 063	115 063
Interest received				135 001	135 001
Interest paid				(19 938)	(19 938)
Income from investment				5 492	5 492
Capital item				(460)	(460)
Profit before fair value adjustments	247 079	163 884	18 880	80 656	510 499
Net fair value adjustments on investment properties	1 333	884	102	–	2 319
Fair value adjustments	(14 176)	(9 403)	(1 083)	–	(24 662)
Adjustment for the straight-lining of operating lease income	15 509	10 287	1 185	–	26 981
Fair value adjustments on equity instrument	–	–	–	2 067	2 067
Total earnings	248 412	164 768	18 982	82 723	514 885
Segment assets and liabilities					
Investment property	5 005 868	3 320 339	382 505	–	8 708 712
Trade receivables	75 040	49 773	5 734	38 246	168 793
Financial investments				211 772	211 772
Cash and cash equivalents				16 323	16 323
Total assets	5 080 908	3 370 112	388 239	266 341	9 105 600
Trade payables and other	(81 555)	(54 094)	(6 232)	(4 915)	(146 796)
Net assets	4 999 353	3 316 018	382 007	261 426	8 958 804

[1] *Administration and other includes administration expenses, asset management fees and investment income that cannot be allocated specifically to the operating segments revenue.*
Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals, audit and printing fees and asset management fees.

[2] *Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.*

1. Segment earnings (continued)

December 2016

	Retail R'000	Office R'000	Specialised R'000	Administration/ Other [(1)] R'000	Total R'000
Total property GLA	522 652	318 620	7 060		848 332
L2D's share of total GLA[(2)]	102 732	29 925	1 553		134 210
Segment earnings					
Property portfolio revenue	33 525	9 765	507	127	43 924
Rental and related income	35 623	10 376	539	127	46 665
Adjustment for the straight-lining of operating lease income	(2 098)	(611)	(32)		(2 741)
Property operating expenses	(11 016)	(3 209)	(166)		(14 391)
Net rental and related income	22 509	6 556	341	127	29 533
Administration expenses				(887)	(887)
Net property income	22 509	6 556	341	(760)	28 646
Asset management fee				(2 202)	(2 202)
Profit from operations	22 509	6 556	341	(2 962)	26 444
Interest received				14 878	14 878
Profit before fair value adjustments	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 the straight-lining of operating lease income	2 098	611	32		2 741
Total earnings	64 796	18 874	980	11 916	96 566
Segment assets and liabilities					
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
Total assets	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)
Net assets	4 649 161	1 354 264	70 281	2 686 715	8 760 421

(1) *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.

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

Headline earnings, distributable income and earnings per unit

	2017 R'000	2016 R'000
Reconciliation of total earnings to headline earnings and distributable income		
Total earnings (basic earnings)	**514 885**	96 566
Fair value adjustments to investment properties and financial investment	**(4 386)**	(55 244)
Loss on disposal of equity instrument	**460**	
Headline earnings	**510 959**	41 322
Adjustments for straight-lining of operating lease income	**26 981**	2 741
Distributable income	**537 940**	44 063

	Cents	Cents
Earnings per unit		
Basic and diluted	**56.68**	11.21
Headline	**56.25**	4.80
Distributable income	**59.22**	4.85

	000's	000's
Number of units in issue	**908 443**	908 443
Weighted average number of units in issue	**908 443**	861 422

2. Fair value hierarchy for financial instruments and investment property

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

The fair value hierarchy has the following levels:

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

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

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

Fair value hierarchy for financial instruments and properties

		Audited 31 December 2017		
Assets (R'000)	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Investment properties	**8 629 809**			**8 629 809**
Investment properties under development	**78 903**			**78 903**
Financial investments	**211 772**	**153 693**	**58 079**	
	8 920 484	**153 693**	**58 079**	**8 708 712**

		Audited 31 December 2016		
Assets (R'000)	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Investment properties	5 997 200			5 997 200
Investment properties under development	63 239			63 239
Financial investments	2 774 878		2 774 878	
	8 835 317		2 774 878	6 060 439

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

Details of changes in valuation techniques

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

Significant transfers between level 1, level 2 and level 3

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

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

Level	Instrument	Valuation basis	Main assumptions
1	Listed equity	Listed price	**Not applicable**
2	Mutual funds	Quoted put (exit) price provided by the fund manager	**Not applicable**
3	Investment properties	Discounted cash flow	**Exit capitalisation rate, discount rate, annual rental and operating escalation, annual cost escalation and vacancy.**
3	Investment properties under development	Fair value	**Not applicable**

Investment properties – basis of valuation

The investment properties were independently valued as at 31 December 2017 by professional valuers, namely Rode & Associates Proprietary Limited, Mills Fitchet Magnus Penny & Wolffs t/a Magnus Penny Associates CC and Jones Lang LaSalle Proprietary Limited, all of which are registered valuers in terms of the Property Valuers Professional Act, No. 47 of 2000.

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

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the capitalisation rate is applied as at 31 December 2017. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2017. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current South African long-term bond yield (R204 risk-free rate) and the relative attractiveness that an investor may place on property as an asset class.

On the basis that turnover or profit rental income has a greater degree of uncertainty and risk than the contractual base rental, a risk premium of between 1% and 6% has been added to the discount rate and to the market capitalisation rate, to reflect the greater investment risk associated with the variable rental element on a property by property basis.

Reconciliation of level 3 assets

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

R'000	2017	2016
Investment property and investment property under development		
Opening balance	**6 060 439**	–
Additions – property acquired	**2 512 905**	6 000 000
Capitalised cost	**160 030**	7 936
Fair value adjustments (unrealised)	**(24 662)**	52 503
Closing balance	**8 708 712**	6 060 439

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

Sensitivity analysis of level 3 assets

Investment property

Investment properties fair values were derived by determining sustainable net rental income, to which an appropriate capitalisation rate is applied. Capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

The capitalisation rates applied at 31 December 2017 range between 6,25% and 9,00%. This compares to the R186 government bond yield of 9,45%. The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate.

The table below indicates the sensitivity of the aggregate market values for a 100bps (2016: 50 bps) change in the capitalisation rate.

		Change in capitalisation rate	
2017	Rm	100bps increase	100bps decrease
Properties below 6,8% capitalisation rate	**6 980**	**6 035**	**8 275**
Properties between 6,8% – 8,5% capitalisation rate	**1 515**	**1 334**	**1 755**
Properties between 8,6% – 9,0% capitalisation rate	**214**	**196**	**237**
Total	**8 709**	**7 565**	**10 267**

2. Fair value hierarchy for financial instruments and investment property (continued)

2016	Rm	Change in capitalisation rate 50 bps increase	50 bps decrease
Properties below 6,8% capitalisation rate	5 326	4 941	5 776
Properties between 6,8% – 8,5% capitalisation rate	568	532	608
Properties between 8,6% – 10,5% capitalisation rate	166	158	176
Total	6 060	5 631	6 560

The table below indicates the sensitivity of the aggregate market values for a 50 bps (2016: 50 bps) change in the discount rate.

2017	Rm	Change in discount rate 50 bps increase	50 bps decrease
Total property portfolio	8 678	8 494	8 845

2016	Rm	Change in discount rate 50 bps increase	50 bps decrease
Total property portfolio	6 060	5 940	6 186

3. Related party disclosure

Ultimate parent

Standard Bank Group Limited ("Standard Bank")

Parent

Liberty Holdings Limited ("LHL")

Transactions with related entities

In terms of the Relationship Agreement entered into between L2D and LGL, L2D granted LGL a put option ("Put Option") in terms of which LGL may sell further portions of its undivided shares in the properties that it co-owns with L2D to L2D from time to time.

On 26 July 2017 LGL exercised its Put Option to sell to L2D a further R2.5 billion worth of undivided shares in the properties that it co-owns with L2D.

At 31 December 2017 there is a R54.5 million (FY2016: R36.1 million) loan due from LGL to L2D in respect of money market deposits for gift card funds and tenant deposits.

Liberty Centre Head Office Cape Town

78% of the property is let to LGL, a fellow subsidiary of L2D. Rental income received by L2D for the year was R11.6 million (FY2016: R0.9 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 80% of the property is let to LGL on a five-year lease. Rental income received by L2D for the year was R6.0 million (FY2016: R0.4 million).

Eastgate Office Tower

LGL took occupation of 2 617m^2 of office space in the Eastgate Office Tower during the year.

Rental income received by L2D for the year ended 31 December 2017 was R892 074.

Transactions with the Manager

R34.6 million of management fees were paid to the Manager for the year ended 31 December 2017 (FY2016: R2.2 million) in respect of management and administration of the collective investment scheme.

Transactions with other related entities

STANLIB Wealth Management Limited, as a lessee, paid an amount of R3.9 million (FY2016: R0.7 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

JHI Retail Property Proprietary Limited ("JHI Retail")

The property management function in respect of L2D is undertaken predominantly by JHI Retail. JHI Retail manages the Sandton City Complex, the Eastgate Complex, Liberty Promenade Shopping Centre, Liberty Midlands Mall, Nelson Mandela Square, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction and the Standard Bank Centre.

A consortium comprising JHI Retail and Epsidex Proprietary Limited ("Epsidex") is managing the Botshabelo Mall. Amdec Investments Proprietary Limited ("Amdec") continues to manage the Melrose Arch precinct. Neither Amdec nor Epsidex are related parties of L2D.

JHI Retail is 51% owned by JHI Properties Proprietary Limited and 49% by LHL. It is accounted for as a joint venture of the group. Mrs A Beattie is a director of both JHI Retail and the Manager. Property management service net fees paid by L2D to JHI Retail for the period 1 January 2017 to 31 December 2017 amounted to R18.3 million (FY2016: R1.4 million).

STANLIB Property Development Proprietary Limited

Development fees amounting to R1.8 million were paid to STANLIB Property Development Proprietary Limited and were capitalised to the relevant development projects.

Transactions with Standard Bank

Standard Bank Centre

The Standard Bank Centre is fully let to Standard Bank on a seven-year lease. Rental income received by L2D for the period 1 January 2017 to 31 December 2017 was R11.8 million (FY2016: R0.9 million).

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
(Registration number: 2007/029492/07)
("**the Manager**")

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Company Secretary

JM Parratt

Sponsor

Java Capital

19 February 2018

Webcast details

Webcast url:
http://www.corpcam.com/LibertyTwoDegrees19022018

Conference call details:

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