Invest to inspire

LIBERTY

two°degrees

Annual report 2016

for the period ended 31 December

Liberty Two Degrees

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Preparation of financial statements

The financial statements of Liberty Two Degrees for the period ended 31 December 2016 were:

Prepared by: Melanie Natsas CA(SA)
Nadia Boyce BCom (Hons Fin Management)

Supervised by: John Sturgeon CA(SA) – Chief Financial Officer

These financial statements have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Collective Investment Schemes Control Act of 2002 and are available free of charge on the request of an investor. Copies of the audited financial statements of STANLIB REIT Fund Managers (RF) Proprietary Limited are available free of charge on the request of an investor.

Liberty Two Degrees
Corporate information

Date of registration: **28 October 2016**

Liberty Two Degrees
JSE 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.

Company secretary of the Manager
Jill Parratt
Liberty Life Centre
1 Ameshoff Street
Braamfontein
Johannesburg, 2001
(PO Box 10499, Johannesburg, 2000)

Registered office
Liberty Life Centre
1 Ameshoff Street
Braamfontein
Johannesburg, 2001
(PO Box 10499, Johannesburg, 2000)

Auditors
PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill
2157
(Private Bag X36, Sunninghill, 2157)

Manager
STANLIB REIT Fund Managers (RF) (Pty) Ltd
(Registration number 2007/029492/07)
Liberty Life Centre
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Braamfontein
Johannesburg, 2001
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Contact information
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Trustee
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(Registration number 1929/001225/06)
Mezzanine Floor
No 3 First Place
Bank City
Cnr Jeppe and Simmonds Street
Johannesburg, 2001
(PO Box 786273, Sandton, 2146)

Sponsor
Java Capital Trustees and Sponsors Proprietary Limited
(Registration number 2006/005780/07)
6A Sandown Valley Crescent
Sandown
Sandton, 2196
(PO Box 2087, Parklands, 2121)

Liberty Two Degrees
Profile

Nature of the business

Liberty Two Degrees (L2D) is a portfolio established under the Liberty Two Degrees Scheme (the Scheme) in terms of 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 permitted by the Trust Deed. L2D is required by Collective Investment Schemes Control Act to be structured as a JSE-listed portfolio within a trust with an external independent trustee and an external management company.

The Scheme was registered by the Registrar of Collective Investment Schemes on 28 October 2016 and is managed by STANLIB REIT Fund Managers (RF) Proprietary Limited (the Manager). The Manager has also been appointed as the asset manager of Liberty Group Limited (LGL)'s interest in the Liberty Property Portfolio (LPP).

L2D acquired its undivided shares (and other interests) in the LPP effective 1 December 2016 and commenced its business operations with effect from that date.

L2D was listed on the JSE on 6 December 2016.

History of L2D

L2D is one of South Africa's leading retail property portfolios with undivided shares in assets such as the Sandton City Complex, the Eastgate Complex and Melrose Arch.

The portfolio predominantly comprises retail real-estate assets in South Africa. In Johannesburg, the retail assets are an interest in the Sandton City Complex, the Eastgate Complex and Nelson Mandela Square. Other retail assets are two regional shopping centres, being Liberty Midlands Mall in KwaZulu-Natal and Liberty Promenade Mitchells Plain in the Western Cape, an interest in the mixed-use precinct of Melrose Arch in Johannesburg and the newly developed Botshabelo Mall in the Free State.

The Sandton City Complex is situated in the economic heartland of the country and showcases some of the most prestigious international and domestic retailers. The attraction of its long-established presence and overall quality make it irreplaceable and confers brand-value and recognition on the portfolio. Similarly, the Eastgate Complex, with its strong history and recent upgrade, is located in a large catchment area with main thoroughfare and arterial road accessibility. Nelson Mandela Square is a destination centre with good entertainment offerings complementing the neighbouring Sandton City Complex. Melrose Arch's office and retail component supports its status as one of the leading mixed use precincts in Johannesburg's high end Northern Suburbs.

Liberty Midlands and Liberty Promenade Malls are large high-quality centres within regional catchment areas positioned for growth.

In addition to the offices included in the main retail complexes, the portfolio includes select office properties located in key business nodes with blue-chip anchor tenants. These properties include the Standard Bank Centre in Johannesburg, the Liberty Centre in Century City Office Park in Cape Town and Liberty Centre in Umhlanga Ridge in Durban.

The portfolio also includes the John Ross Eco-Junction in KwaZulu-Natal, where the Melomed Hospital and other development opportunities will provide diversification opportunities.

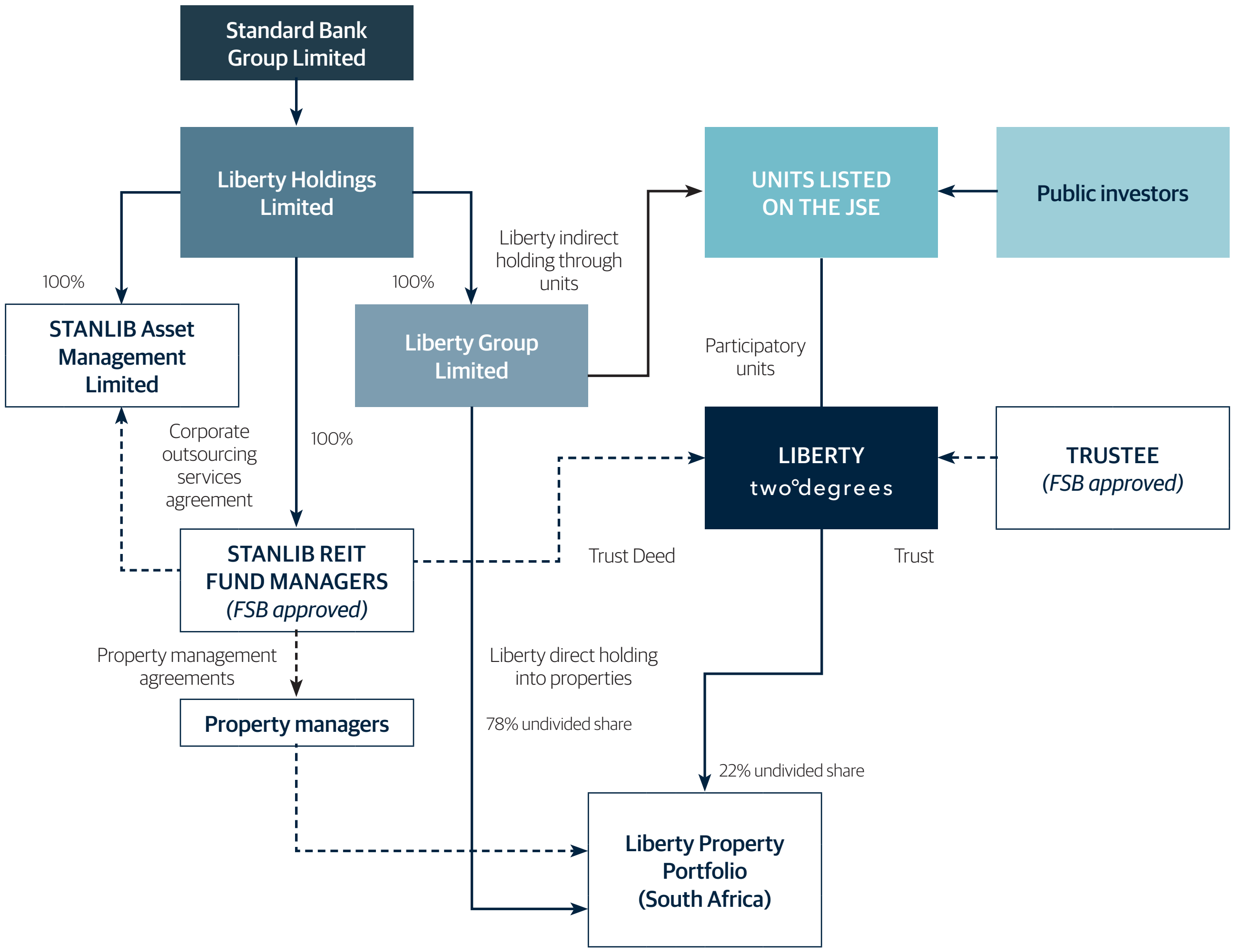
The structure of L2D allows for the continuity of the management team that has been managing the LPP portfolio for a number of years. L2D benefits from Liberty and STANLIB's property development and asset management expertise and history, together with a track record of innovation and successful re-developments. The management structure and team preserve institutional oversight, governance and expertise, while leaving room for management talent.

Summary of the investment policy

The investment policy of L2D is aimed at achieving the primary objective of affording investors growth in income and capital by investing at fair prices in a balanced spread of the following assets:

- immovable property in the Republic of South Africa (including undivided shares or other interests therein or leasehold in respect thereof);
- securities of holding companies or fixed property companies, which will indirectly or directly own immovable properties;
- liquid assets and other qualifying assets determined by the Registrar in terms of section 47(2) of the CISCA; or
- immovable property in a foreign country and property shares or participatory interests in a collective investment scheme in property in a foreign country, in accordance with the provisions of section 49 of the CISCA.

The Liberty Two Degrees group structure is illustrated below:



Details regarding the formation of Liberty Two Degrees

LGL entered into an exchange agreement which provided for L2D's initial investment in the LPP which was implemented immediately prior to listing. In terms of the exchange agreement, LGL and Liberty PropCo Proprietary Limited (PropCo) disposed of 22% of the LPP in exchange for units issued by L2D. This was achieved by L2D acquiring an undivided share of each property (and letting business carried on thereon) which was equal to 22% of LGL's and PropCo's share of that property prior to the acquisition by L2D.

Consequently, where the properties were wholly-owned by LGL, L2D acquired a 22% undivided share of the properties, but where LGL owns only an undivided share of the properties, L2D acquired a lesser undivided share which is equal to 22% of LGL's share prior to the acquisition by L2D.

Prior to the implementation of the exchange agreement, LGL held the LPP in its policyholders' funds and in its shareholders' funds. LGL concluded an exchange agreement in order to transfer undivided shares in the LPP to L2D to the extent elected by LGL's policyholders and to an extent determined by LGL in dealing with its shareholders' funds.

In addition to enabling its policyholders to switch their interests in the LPP to units in L2D, LGL also enabled its policyholders to invest new funds in L2D. Policyholders provided in excess of R780 million for this purpose, which funds LGL used to subscribe for participatory units on the listing of L2D.

Liberty Two Degrees
Directors

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 board of the Manager is made up of five directors, three of whom are independent non-executives. The positions of chairman of the board and that of chief executive officer (CEO) are separate, with the chairman being an independent non-executive director. The chairman oversees the board's functioning, and the CEO leads the executive team and attends to the day-to-day functions of the business.

Details of the board of directors of the Manager are outlined below. All of the directors are South African nationals.

Amelia Beattie *(Amelia) (46)*

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

CEO

Amelia joined STANLIB in 2012 to establish the STANLIB Direct Property Investment business including property asset management and property development management. Amelia's 17 years' experience in the property sector was established at Old Mutual Property, in various senior positions spanning more than a decade, before exiting as Chief Operating Officer to join STANLIB.

Since joining STANLIB, Amelia has piloted the listing of Liberty's first Real Estate Investment Trust in Kenya, a first for East Africa. She spearheaded the launch of STANLIB's Africa Direct Property Development fund, securing developments projects in Kenya, Uganda, Ghana and Nigeria. She strategically led and implemented the joint venture transaction with JHI Retail Proprietary Limited (JHI Retail) for property management services for the LPP.

Apart from her role at STANLIB, Amelia served as President for the South African Property Association (SAPOA) from 2014 to 2015.

Amelia was appointed as a director of the Manager on 17 June 2016 and assumed the full time role of CEO on 1 December 2016, following the approval of the Manager by the Financial Services Board (FSB) on 28 October 2016.

John Sturgeon *(John) (64)*

CTA, CA(SA), CMA, Hdip Tax

CFO

John joined Liberty as the Group Executive Corporate Finance in August 2004, responsible for and not limited to the oversight and management of all corporate action relating to Liberty's expansion initiatives in South Africa and the rest of Africa. Together with John's strategic guidance, due diligence expertise and mergers and acquisitions experience, Liberty expanded the groups reach and penetration on the continent.

Prior to joining Liberty, John consulted to the Standard Bank Equity Fund division on Management Buyouts and Private Equity Investments between 2000 – 2004. John's early career in the 1970's started as an article clerk with Peat Marwick Mitchell, progressed to the Dorbyl Group of companies where he was able to establish and grow his financial expertise by occupying various positions and eventually become the Group Financial Manager for Calan Limited. His financial career advanced to that of Group Financial Director/ Company Secretary for Natyre Limited/Calan Group in May of 1982.

John has held various positions as the financial director for companies such as the Premier Group Limited in 1994 – 1999 and Argus Holdings Limited in 1993 – 1994.

John was appointed as a director of the Manager on 26 May 2015 and assumed the full time role of CFO on 1 December 2016, following the approval of the Manager by the FSB on 28 October 2016.

Directors (continued)

Mthandazo Peter Moyo *(Peter) (54)*

B Compt, B Compt (Hons), CA(SA), CA(Z), Hdip Tax, AMP

Chairman, independent non-executive director

Peter is currently a shareholder and chief executive of NMT Capital. Peter serves on a number of boards, notably Willis SA Proprietary Limited and CSC SA Proprietary Limited, where he is also chairman. Peter is currently chairman of Vodacom and serves on the boards of Liberty Holdings Limited and Liberty Group Limited. He is also the chairman of the audit committee of the Auditor General's Office and a member of the Right to Care board. Peter is a previous Group CEO of Alexander Forbes, Deputy Managing Director of Old Mutual and Partner at Ernst and Young, and served on the boards of Telkom and Transnet.

Peter was appointed as a director of the Manager on 17 June 2016.

Wolf Eli Cesman *(Wolf) (74)*

B Com, CA(SA), Hdip Tax

Independent non-executive director

Wolf has 48 years' experience in South African property investment, development and asset and property management. He spent 24 years with Liberty Properties Proprietary Limited, the last 17 of which as CEO, from which he retired in 2000. From 2000 to 2010, Wolf was involved in the formation and/or growth, and served as a director of the following listed South African property funds: Madison Property Fund Managers Limited, ApexHi Properties Limited, Hyprop Investments Limited and Redefine Properties Limited.

Wolf was appointed as a director of the Manager on 17 June 2016.

Michael Gerald Ilsley *(Mike) (55)*

B Com, B Acc, CA(SA)

Independent non-executive director

Mike is a former audit partner of PricewaterhouseCoopers and left the profession in 1999 to take up the position of group finance director of Alexander Forbes Limited until 2007. He is currently a business consultant and professional independent director, serving on the boards, and chairing the audit committees, of various regulated entities. He was appointed to the boards of Liberty Holdings Limited and Liberty Group Limited in November 2014.

Mike was appointed as a director of the Manager on 17 June 2016.

Manager's report

Main business activities

L2D is a REIT invested in South African direct property investments. The objective of the Manager is to protect and grow the real wealth of investors by providing sustainable growth in net asset value and delivering a consistent income stream that has potential to grow.

As disclosed in the Pre-Listing Statement (PLS), L2D is forecast to have a 12 month forward yield of 6.5% on an ungeared basis for the 2017 financial year. The defensive nature of the portfolio is expected to drive performance in a challenging economic environment. However, it should be noted, that the past performance of the LPP is not indicative of the future performance of L2D.

L2D is ungeared post listing and will be able to take on debt (in line with gearing levels in the sector) to fund future quality acquisitions, as appropriate.

In the short term, L2D will focus its growth strategy in South Africa. Growth is expected to come from identified high quality acquisition targets, as well as from L2D's current development pipeline including the Liberty Midlands Mall, Eastgate Complex and John Ross Eco-Junction – Melomed Hospital.

Review of results

L2D was successfully listed as a REIT on the JSE on 6 December 2016. Following the listing L2D held an undivided share in an iconic property portfolio of R6 billion that was acquired from Liberty Group Limited in exchange for listed participatory units in L2D. In addition R2,78 billion of funds were raised in the private placement.

The market value uplift on the portfolio contributed to a net asset value per unit of R9,64 at the year end. The closing share price at 31 December 2016 of R10,50 compared favourably to the listing price of R10,00.

The manager has approved a distribution of 4,85 cents per participatory unit for the one month period ended 31 December 2016. This is substantially in line with the forecast distribution of 4,93 cents per unit disclosed in the PLS.

L2D uses distribution per unit as a relevant measure of financial performance.

L2D has sufficient capital to hand to enable it to progress discussions to acquire further investments aligned with its investment strategy.

Accounting policies

The financial statements have been prepared in accordance with and containing information required by 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 Listings Requirements of the JSE Limited. The accounting policies applied in the preparation of the 2016 financial statements are as detailed in note 1.

Property management

Property management is outsourced to external service providers. The amount paid to JHI Retail (who perform the majority of the property management functions) during the period was R1 367 653. Amdec Investments Proprietary Limited (Amdec) were paid R38 674 in respect of the management of the Melrose Arch precinct.

Asset management fee

The asset management fee is calculated as a monthly management fee of $^{1}/_{12}$ of 0,4% of the enterprise value of L2D (being the sum of the market capitalisation of the Scheme and all debt in the Scheme). The amount paid to the Manager for the one month ended 31 December 2016 was R2 201 813.

Participatory units in issue (units)

As at 31 December 2016 the number of units in issue was 908 443 335.

An analysis of participatory unitholders as at 31 December 2016 is presented on pages 51 and 52.

Shareholding in STANLIB REIT Fund Managers (RF) (Pty) Ltd

The Manager is 100% owned by Liberty Holdings Limited (LHL).

Directors' interests

DIRECTOR	BENEFICIAL UNITS DIRECT	BENEFICIAL UNITS INDIRECT
John Sturgeon	**60 000**	**30 000**
Amelia Beattie		**2 541**

There have been no changes to the interests of directors, including their families, in the units of L2D as disclosed above to the date of approval of the financial statements, namely 15 February 2017.

Manager's report (continued)

Litigation

The central square in the Nelson Mandela Square property is dependent on vehicular access to the nearest public road, West Street, via two neighbouring properties. Both properties were owned by the local authority when it approved the development of the Nelson Mandela Square property on the basis of a site development plan that provided for access over the neighbouring properties especially for health and safety purposes. The local authority then allowed access over its properties, which has continued uninterrupted since 1994. During 2013 the local authority transferred one of the neighbouring properties to a new owner, who, since 2015, has sought to limit access over its property to the Nelson Mandela Square property and who has, since September 2016, denied access. Liberty Group Limited, as the previous 100% owner of the Nelson Mandela Square property, instituted action for a right of way so that vehicles and pedestrians may continue to access the Nelson Mandela Square property via the neighbouring properties. There is no alternative route which would be suitable for vehicular access, which is necessary for compliance with health and safety requirements.

Save for the above, there are no legal or arbitration proceedings, including any proceedings that are pending or threatened, of which L2D is aware, that may have or have had in the recent past, being the previous 12 months, a material effect on L2D's financial position.

Borrowing powers

The Trust Deed authorises L2D to borrow funds but provides that the total consolidated liabilities of L2D shall not, if measured when any new borrowings are incurred, exceed an amount equal to 60% of the total consolidated asset value of L2D, determined on the last published valuation for L2D in the most recent audited financial statements of L2D, adjusted for any subsequent changes in the value of L2D in accordance with IFRS and taking into account the value of any property to be acquired using a loan.

Events after reporting date

Liberty Two Degrees declared a distribution of R44 063 756 on 16 February 2017 (4,85 cents per participatory unit) in respect of the period from listing to 31 December 2016. These distributions have been declared from distributable earnings and meet the requirements of a REIT "qualifying distribution" for purposes of section 25BB of the Income Tax Act, No 58 of 1962, as amended. In line with IFRS, the declaration of the distribution resulted in a non-adjusting event that is not recognised in the financial statements.

No significant events occurred after the reporting date, being 31 December 2016, to the date of approval of the audited financial statements, namely 15 February 2017.

Corporate governance

Statement of commitment

The Manager's board (the "board") considers sound corporate governance practices to be a critical element in delivering sustainable growth for the benefit of all unitholders. In conducting the affairs of L2D, the board endorses the principles of fairness, responsibility, transparency and accountability as advocated by the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance (King III).

The King Committee published the King IV Report on Corporate Governance for South Africa 2016 (King IV) on 1 November 2016. King IV will replace King III in its entirety and will become effective in respect of financial years commencing on or after 1 April 2017. The board are mindful of the changes that King IV will introduce and will prepare for the integration of the King IV recommendations during 2017. A register of all 75 King III principles and information concerning the extent of compliance therewith is available on the L2D website at **www.liberty2degrees.co.za**. The main areas of non-compliance with King III as well as an explanation of the reasons therefore are set out below.

	PRINCIPLE	PRINCIPLE DESCRIPTION	EXPLANATION
1	Principle 2.16	**The board should elect a chairman of the board who is an independent non-executive director.**	The chairman complies with King III independence criteria. However the code further recommends that the chairman should not be a member of the audit committee. Owing to the small size of the board, the chairman is currently by necessity also a member of the audit committee. This position will be addressed with the planned appointment of additional independent directors.
2	Principle 2.25.4	**Non-executive fees should comprise a base fee as well as an attendance fee per meeting.**	The chairman is paid a composite annual fee which includes his committee membership. Board members are paid a fixed annual fee in respect of their board membership and an additional fixed fee in respect of each committee membership. The fee reflects the responsibilities of the directors that extend beyond attendance at meetings and the requirement to be available between scheduled meetings. The directors track record of attendance at meetings indicates that it is not necessary to introduce an attendance component of fees.
3	Principle 2.27	**The shareholders have approved the company's remuneration policy.**	A detailed remuneration report will be included in L2D's 2017 integrated report and the Chairman of the Remuneration Committee will be available (through the office of the company secretary) to engage with investors to the extent that they voice any concerns in relation to the Manager's remuneration policies and practices. This is considered to be more meaningful than putting the remuneration policy to a non-binding advisory vote.
4	Principle 3.4	**The audit committee oversees integrated reporting**	No integrated report has been presented for the 2016 year for the following reasons: • Effective 1 December 2016, L2D acquired its property interests and accordingly, only conducted operations for one month up to 31 December 2016; and • The pre-listing statement (PLS) issued in respect of L2D's listing on the JSE on 6 December 2016 provides relevant information concerning L2D's strategy, structure, business model and risks. There have been no material changes therein up to the date of this report. Stakeholders are referred to the PLS document available on L2D's website at **www.liberty2degrees.co.za**.
5	Principle 9.1	**The board should ensure the integrity of the company's integrated report.**	

Corporate governance (continued)

	PRINCIPLE	PRINCIPLE DESCRIPTION	EXPLANATION
6	Principle 9.2	**Sustainability reporting and disclosure should be integrated with the company's financial reporting.**	As noted above, an integrated report including sustainability reporting has not been prepared for the first reporting period ended 31 December 2016. Management intend to prepare a full integrated report for the financial year ending 31 December 2017.
7	Principle 9.3	**Sustainability reporting and disclosure should be independently assured.**	

In reviewing L2D's governance structures, the board exercises and ensures effective and ethical leadership, always acting in the best interests of L2D while at the same time concerning itself with the sustainability of its business operations.

Board of directors

The board of directors consists of two executive directors and three non-executive directors, all of whom are considered independent. The chairman, Peter Moyo, is an independent non-executive director, whose role is separate from that of the CEO, Amelia Beattie.

The two executive directors, being Amelia Beattie and John Sturgeon, exercise general executive control over and oversee the management of the business and activities of L2D. There are no other prescribed officers.

The non-executive directors are considered to be individuals of a high calibre and credibility and have the necessary skills and experience to provide judgment that is independent of management on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

The current board's diversity of professional expertise and demographics makes it a highly effective board with regards to L2D's current strategies. The remuneration and nominations committee shall ensure that, in appointing further directors, the board as a whole will continue to reflect, whenever possible, a diverse set of professional and personal backgrounds, ensuring a clear balance of power and authority, so that no one director has unfettered powers of decision making. The information needs of the board will be reviewed periodically and directors have unrestricted access to all L2D information, records and documents, to enable them to conduct their responsibilities sufficiently.

Board meetings will be held at least quarterly, with additional meetings convened when circumstances necessitate. The board sets the strategic objectives of L2D and determines L2D's investment and performance criteria as well as being responsible for its sustainability, proper management, control, compliance and ethical behaviour of the businesses under its direction. The board has established specific committees to give detailed attention to certain of its responsibilities and which will operate within defined, written terms of reference which are capable of amendment by the board from time to time as the need arises.

The board will establish a formal orientation programme to familiarise incoming directors with L2D's operations, senior management and its business environment, and to induct them in their fiduciary duties and responsibilities. New directors with no or limited board experience will receive development and education to inform them of their duties, responsibilities, powers and potential liabilities.

Directors will ensure that they have a working understanding of applicable laws. The board will provide oversight on L2D's compliance with applicable laws and regulations.

The board will review the chairperson's performance and ability to add value on an annual or such other basis as the board may determine. The remuneration and nominations committee will appraise the performance of the CEO and other senior executives, at least annually.

Board of directors (continued)

The board as a whole, as well as individual directors, will have their overall performance periodically reviewed in order to identify areas for improvement in the discharge of their functions. This review will be undertaken by the chairperson and, if so determined by the board, an independent service provider. An overview of the process, results and action plans will be disclosed in L2D's integrated annual reports. Nominations for the re-appointment of a director will only occur after the evaluation of the performance and attendance of the director.

The board will determine a policy for detailing the procedures for appointments to the board. Such appointments are to be formal and transparent and a matter for the board as a whole, assisted where appropriate by the remuneration and nominations committee.

The board has approved a charter setting out its responsibilities for the adoption of strategic plans, monitoring of operational performance and management, determination of policies and processes to ensure the integrity of L2D's risk management and internal controls, communication policy and director selection, orientation and evaluation.

Board committees

The board has delegated certain functions to the audit and risk committee, the remuneration and nominations committee and the transformation, social and ethics committee. The board is conscious of the fact that such delegation of duties is not an abdication of the board members' responsibilities.

These committees will operate in accordance with written mandates stipulated by the board. There have been three board meetings since the registration of the L2D Scheme on 28 October 2016. The audit and risk committee, investment committee and the remuneration and nominations committee each held 1 meeting up to the date of this report. The transformation, social and ethics committee will be holding its first meeting in the next quarterly board cycle.

Details of these committees are set out below.

Company secretary

The board of directors have direct access to the company secretary, Jill Parratt, who provides guidance and assistance in-line with the requirements outlined in the Companies Act, King III and the JSE Listings Requirements.

The company secretary will be subjected to an annual evaluation by the board wherein the board will satisfy itself as to the competence, qualifications and experience of the company secretary.

In compliance with section 3.84(j) of the JSE Listings Requirements the board of directors has considered and has satisfied itself that the company secretary, Jill Parratt, is competent, appropriately qualified and experienced to fulfil her role as company secretary of the Manager. She has no personal relationship with any members of the board, nor is she a director on the board, or any other company related to the Manager. This ensures that she has an arms-length relationship with the board, whereby each party engages professionally and independently from each other, on an equal footing, even though the parties may have shared interests, thus ensuring that the parties' conduct towards each other is without influence or undue pressure. She is independent from management and does not have extensive executive duties and responsibilities. The company secretary's relationship with the board has been assessed and is considered to be at arm's length.

Diversity policy statement

L2D recognises and embraces the benefits of having a diverse board, and sees increasing diversity at board level as an essential element in maintaining a competitive advantage. A truly diverse board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between directors. These differences will be considered in determining the optimum composition of the board and where possible will be balanced appropriately. All board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the board as a whole requires to be effective.

The remuneration and nominations committee reviews and assesses board composition and recommends to the board the appointment of new directors. The committee will also oversee the annual review of board effectiveness.

In reviewing the board composition, the committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to enable it to discharge its duties and responsibilities effectively.

In identifying suitable candidates for appointment to the board, the committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the board. Furthermore, in accordance with section 3.85(k) of the Listings Requirements, which requires that boards of listed entities have a policy on the promotion of gender diversity at board level, in 2017 the board will approve such a policy which will include an appropriate gender diversity target against which the board will track progress and report on annually in the integrated report.

As part of the annual performance evaluation of the effectiveness of the board, board committees and individual directors, the committee will consider the balance of skills, experience, independence and knowledge of the directors of the board and the diversity representation of the board, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

Diversity policy statement (continued)

The committee will discuss and annually recommend that the board approve all measurable objectives for achieving diversity on the board and recommend that the objectives be adopted. At any given time the board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The committee will report annually, in the corporate governance section of L2D's integrated report, on the process it has used in relation to board appointments. Such report will include a summary of this policy, the measurable objectives set for implementing the policy and progress made towards achieving those objectives.

The board will review the policy annually, which will include an assessment of the effectiveness of the policy. The board will discuss any revisions that may be required and agree to adopt any such revisions.

Remuneration and nominations committee

The remuneration and nominations committee comprises Wolf Cesman (chairman), Peter Moyo and Mike Ilsley, all of whom are independent non-executive directors. Due to the combined nature of this committee and in order to ensure compliance with the JSE Listings Requirements and the principles of King III, the chairman of the remuneration component of the committee is Wolf Cesman (an independent non-executive director) while the chairman of the nomination component is Peter Moyo (the chairman of the board).

The remuneration and nominations committee is responsible for reviewing the L2D board structures and to make recommendations in respect of these matters as well as to determine an appropriate split between executive and non-executive directors and independent directors. This committee also assists in the identification and nomination of new directors for approval by the board. It considers and approves the classification of directors as independent, oversees induction and training of directors and conducts annual performance reviews of the board and various board committees. The remuneration and nominations committee is also responsible for ensuring the proper and effective functioning of the L2D board and assists the chairman in this regard.

The remuneration and nominations committee further has the responsibility and authority to consider and make recommendations to the board on, inter alia, the Manager's remuneration policy, the payment of performance bonuses, executive remuneration, short, medium and long-term incentive schemes and employee retention schemes.

The remuneration and nominations committee uses external market surveys and benchmarks to determine executive directors' remuneration and benefits as well as non-executive directors' base fees. The board's remuneration philosophy is to structure packages in such a way that long and short-term incentives are primarily aimed at achieving L2D's business objectives and the delivery of unitholder value.

The CEO and CFO attend meetings by invitation.

The remuneration and nominations committee's duties and responsibilities will be governed by a board-approved mandate. The committee will report annually, in the corporate governance section of L2D's integrated report, on the execution of its responsibilities under this mandate.

Transformation, social and ethics committee

The committee comprises Mike Ilsley (chairman), Amelia Beattie and Wolf Cesman.

Attendance at committee meetings may include persons from the legal and marketing disciplines within L2D. The mandate of the committee includes the following:

- monitoring the impact of legislation and compliance with the relevant Acts;
- monitoring L2D's activities with regards to matters relating to corruption;
- monitoring L2D's activities to promote and adhere to the B-BBEE Act;
- monitoring employment equity and fair labour practices;
- monitoring the contribution to development of the communities;
- reviewing the ethical standard of the board;
- monitoring customer relationships, including the compliance with the consumer laws; and
- monitoring the impact on the environment of L2D's building developments.

Investment committee

The committee comprises Wolf Cesman (chairman), Peter Moyo, Mike Ilsley, Amelia Beattie and John Sturgeon.

All acquisitions, disposals and capital expenditure are considered by the investment committee. The investment committee approves acquisitions, disposals and capital expenditure up to pre-set limits.

The investment committee's duties and responsibilities will be governed by a board-approved mandate. The committee will report annually, in the corporate governance section of L2D's integrated report, on the execution of its responsibilities under this mandate.

Audit and risk committee

The audit and risk committee comprises Mike Ilsley (chairperson), Peter Moyo, and Wolf Cesman, who are all independent non-executive directors. All of the members are financially literate. Owing to the current small size of the board, Mr Moyo is currently both the board chairman and a member of the audit and risk committee. King III recommends that the board chairman should not be a member of the audit committee and the board will rectify this position when new board appointments are made in the year ahead.

The audit and risk committee will meet at least quarterly. Executive directors and managers responsible for finance as well as the internal and external auditors will be attendees at all committee meetings.

The committee's responsibilities include voluntary compliance with the statutory duties prescribed by the Companies Act, activities recommended by King III, as well as additional responsibilities assigned by the board.

Directors' responsibilities and approval

The directors are responsible for the preparation and fair presentation of the financial statements of L2D. These financial statements comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in participatory unitholders' capital and reserves and cash flows for the period ended, the accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Collective Investment Schemes Control Act of 2002. In addition, the directors are responsible for preparing the directors' report.

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

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

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

Approval of the financial statements

The financial statements of L2D, as identified in the first paragraph, were approved by the Board of Directors on 15 February 2017 and are signed by

MP Moyo
Chairman

A Beattie
Chief executive officer

15 February 2017

Liberty Two Degrees

Report of the audit and risk committee

for the period ended 31 December 2016

The audit and risk committee is a sub-committee of the board of directors of STANLIB REIT Fund Managers (RF) Proprietary Limited, the Manager of Liberty Two Degrees Trust Scheme (Liberty Two Degrees), and under its mandate has responsibility for the audit committee function of Liberty Two Degrees. Notwithstanding the unincorporated status of Liberty Two Degrees, the audit and risk committee's mandate includes voluntary compliance with the relevant provisions of the Companies Act applicable to audit committees, as well as adherence to the recommendations of King III regarding the responsibilities of audit and risk committees.

Liberty Two Degrees was registered under the Collective Investment Schemes Control Act (CISC Act) on 28 October 2016, acquired its property interests effective 1 December 2016 and listed on the JSE on 6 December 2016. Consequently, the audit and risk committee has only held one meeting up to the date of this report. All members were in attendance at this meeting, at which the committee:

- confirmed its terms of reference;
- approved a policy placing restrictions on the use of the external auditors for non-audit services;
- confirmed the adoption and implementation of a risk management policy, which includes a provision specifically prohibiting Liberty Two Degrees from entering into any derivative transactions that are not in the normal course of its business for the ensuing financial year;
- approved the engagement terms of the outsourced internal audit services and the internal audit work plan for the 2017 financial year;
- approved the engagement terms and proposed fees of the external auditors for the period ended 31 December 2016;
- satisfied itself regarding the independence of the external audit firm and the appointment of the lead audit partner;
- considered a report from the external auditors on the findings of their audit for the period ended 31 December 2016;
- considered a report from the chief financial officer on Liberty Two Degrees' results for the month ended 31 December 2016 and its financial position at that date, including confirmation of Liberty Two Degrees' compliance with the JSE Listings Requirements and CISC Act;
- satisfied itself regarding the going concern assumption underlying the preparation of Liberty Two Degrees' financial statements for the period ended 31 December 2016;
- reviewed and recommended for board approval the financial statements and accompanying annual report of Liberty Two Degrees for the period ended 31 December 2016;
- reviewed and recommended for board approval the Liberty Two Degrees' final distribution to unitholders for the period ended 31 December 2016;
- agreed procedures for the committee's pre-issuance review of Liberty Two Degrees' results announcement and related investor presentation;
- satisfied itself regarding the expertise, resources and experience of the Manager's finance function and the suitability of the expertise and experience of the chief financial officer.

The committee plans to meet at least quarterly in the 2017 financial year and has established a quarterly work plan to ensure that it executes on all of its audit and risk responsibilities during the course of the year.

On behalf of the audit and risk committee

MG Ilsley
Chairman of the audit and risk committee
15 February 2017

Trustee's report to participatory interest holders

for the period ended 31 December 2016

As Trustees to the Liberty Two Degrees Scheme (the Scheme), we are required in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) (the Act) to report to participatory interest holders on the administration of the Scheme during each annual accounting period.

We advise that for the period ended 31 December 2016, we reasonably believe that the Manager, STANLIB REIT Fund Managers (RF) Proprietary Limited, has administered the Scheme in accordance with:

(i) the limitations imposed on the investment and borrowing powers of the manager by the Act; and

(ii) the provisions of the Act and the relevant deeds.

We confirm that, according to the records available to us, there were no material instances of compliance contraventions and therefore no consequent losses incurred by the Liberty Two Degrees (L2D) portfolio in the year.

Yours faithfully

Nelia De Beer **Marian Rutters**

On behalf of RMB Trustee Services, a division of FirstRand Bank Limited

Johannesburg

15 February 2017

Liberty Two Degrees

Independent auditors report

for the period ended 31 December 2016

To the participatory interest holders of Liberty Two Degrees

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Liberty Two Degrees (the Fund) as at 31 December 2016, and its financial performance and its cash flows for the period 28 October 2016 to 31 December 2016 in accordance with International Financial Reporting Standards and the requirements of the Collective Investment Schemes Control Act of South Africa.

What we have audited

Liberty Two Degrees financial statements set out on pages 21 to 52 comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the period 28 October 2016 to 31 December 2016;
- the statement of changes in participatory unitholders' capital and reserves for that period;
- the statement of cash flows for that period; and
- the notes to the financial statements, including the 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 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 Fund in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview

Overall materiality

- Overall materiality: R44,6 million, which represents 0,5% of total assets.

Audit scope

The audit was performed by us with the assistance of other auditors under our instruction that performed specified procedures on certain financial statement line items in relation to the undivided share in Melrose Arch.

Key Audit Matters

- Acquisition of undivided shares in investment property
- Valuation of investment property as at 31 December 2016

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors of STANLIB REIT Fund Managers (RF) Proprietary Limited, the Manager of the Fund, made subjective judgements; for example, in respect of significant accounting estimates based on assumptions and future considerations and 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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.

Independent auditors report (continued)

for the period ended 31 December 2016

OVERALL MATERIALITY	R44,6 million
How we determined it	0,5% of total assets
Rationale for the materiality benchmark applied	We chose total assets as an appropriate benchmark to base our materiality on as this is a start-up entity and, in our view, it is the benchmark against which performance is measured by the users of the financial statements. We considered a rule of thumb of 0.5% to be appropriate owing to the wide distribution of financial statements and sensitivity of the benchmark based on our understanding of the interests of the financial statements users.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates. The Fund holds a 5.5% undivided share in Melrose Arch, to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Fund's financial statements as a whole, we instructed other auditors to performed specified procedures on statement of comprehensive income line items 'Rental and related income' and 'Property operating expenses' in relation to Melrose Arch.

Key audit matters

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Acquisition of undivided shares in investment property The Fund acquired undivided shares in investment properties to the value of R6 billion on 1 December 2016 (the acquisition date). This acquisition was considered a matter of most significance during the current period audit as the quantum of the transaction represented 100% of the Fund's total assets at the acquisition date. Management also applied significant judgement in determining the future rental values, discount rates, exit capitalisation rates and the application of minority discounts to fractional ownership in certain instances used as inputs into the fair valuation of the undivided shares in investment properties acquired. Refer to notes 2.2 and 18 to the financial statements for disclosure on the transaction.	The properties were revalued to their fair value on the acquisition date. Management engaged independent, qualified real estate appraisers (the appraisers) to calculate the fair values of the investment properties which we relied on during the course of the audit. We considered the objectivity, independence and expertise of the appraisers. Our procedures included, amongst others: • Inspecting the appraisers' valuation reports for a statement of independence and compliance with valuation standards such as the Royal Institution of Chartered Surveyors or IVSC International Valuation Standards; • Confirming the appraisers affiliation with the relevant professional body, being, the South African Council for the Property Valuers Profession; and • Agreeing the at acquisition date fair values of a representative sample of properties to the external valuation reports. Our internal property valuation expert assessed the valuation methodology and assumptions used in the valuations of management. They specifically benchmarked the discount and exit capitalisation rates against Rode's Report and/or SAPOA's Cap & Discount Rate Report (industry benchmarks) and management's rates were considered to be in the range for properties of the specific type.

Independent auditors report (continued)

for the period ended 31 December 2016

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of investment property as at 31 December 2016 The valuation of investment properties amounting to R6,1 billion and the corresponding fair value adjustment recognised in the statement of comprehensive income of R55 million was considered a matter of most significance to our current period audit due to the magnitude of the movement and balance in relation to the financial statements. Management also applied significant judgement and assumptions in determining the fair value of the investment properties. The significant judgement and assumptions includes future rental values, discount rates, exit capitalisation rates and the application of minority discounts to fractional ownership in certain instances. Refer to notes 5.5 and 10 where the assumptions impacting fair value of investment properties are fully described.	We obtained an 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; • Detailed analysis of forecast and trends against actual results that informs management of the business; and • Approval of the external valuations obtained. For the period-end valuations, management again engaged appraisers to value their properties. We assessed the appraisers as outlined in the above Key Audit Matter. Using our internal property valuation experts, we assessed the appropriateness of the valuation methodology and assumptions including, amongst others, market related rents, discount and exit capitalisation rates by agreeing the assumptions to industry benchmarks. In addition, we calculated our own independent range for the fair value of a representative sample of properties and compared these to management's values. Whilst our fair value itself includes subjective assumptions, we considered management's fair value to fall in an acceptable range for properties of the specific type.

Other information

The directors of STANLIB REIT Fund Managers (RF) Proprietary Limited are responsible for the other information. The other information comprises the Annual report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the 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 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 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 of STANLIB REIT Fund Managers (RF) Proprietary Limited for the financial statements

The directors of STANLIB REIT Fund Managers (RF) Proprietary Limited are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Collective Investment Schemes Control Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of STANLIB REIT Fund Managers (RF) Proprietary Limited are responsible for assessing the Fund'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 of STANLIB REIT Fund Managers (RF) Proprietary Limited either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Independent auditors report (continued)

for the period ended 31 December 2016

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 controls.

- Obtain an understanding of internal controls 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of STANLIB REIT Fund Managers (RF) Proprietary Limited.

- Conclude on the appropriateness of the directors' of STANLIB REIT Fund Managers (RF) Proprietary Limited 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 Fund'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 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 Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 business activities within the Fund to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors of STANLIB REIT Fund Managers (RF) Proprietary Limited 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 of STANLIB REIT Fund Managers (RF) Proprietary Limited 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 of STANLIB REIT Fund Managers (RF) Proprietary Limited, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: V Muguto
Registered Auditor
Sunninghill

15 February 2017

Liberty Two Degrees

Statement of financial position

as at 31 December 2016

R'000	Notes	2016
Assets		
Non-current assets		**6 060 439**
Investment properties	5.2	**5 997 200**
Investment properties under development	5.3	**63 239**
Current assets		**2 868 431**
Trade and other receivables	6	**91 871**
Financial investments	7	**2 774 878**
Cash and cash equivalents	8	**1 682**
Total assets		**8 928 870**
Liabilities		
Current liabilities		
Trade and other payables	9	**168 449**
Total liabilities		**168 449**
Participatory unitholders capital and reserves		
Capital	11	**8 663 855**
Retained surplus		**44 063**
Non-distributable reserve		**52 503**
Total unitholders' funds		**8 760 421**
Total unitholders' funds and liabilities		**8 928 870**
Supplementary information:		
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	Notes	2016[1]
Property portfolio revenue		43 924
Rental and related income	12	46 665
Adjustment for the straight-lining of operating lease income	5	(2 741)
Property operating expenses	13	(14 391)
Net rental and related income		29 533
Administration expenses	14	(887)
Net property income		28 646
Asset management fee	15	(2 202)
Profit from operations		26 444
Interest received		14 878
Profit before fair value adjustments		41 322
Net fair value adjustments	5	55 244
Fair value adjustments	5	52 503
Adjustment for straight-lining of operating lease income	5	2 741
Total earnings		96 566
Basic and diluted earnings per unit		
Basic earnings per unit (cents)	3	11,21
Fully diluted earnings per unit (cents)	3	11,21

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

Liberty Two Degrees

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)	
Balance at 31 December 2016	8 663 855	52 503	44 063	8 760 421

Liberty Two Degrees

Statement of cash flows

for the period ended 31 December 2016

R'000	Notes	2016
Cash flows from operating activities		**120 809**
Cash generated by operations	17	**105 931**
Interest received	7.2	**14 878**
Cash flows from investing activities		**(2 782 947)**
Expenditure on investment properties	5.2	**(8 069)**
Purchase of financial investments		**(2 774 878)**
Cash flows from financing activities		**2 663 820**
Units issued for cash on listing		**2 780 212**
Transaction costs for issue of new units		**(116 392)**
Net increase in cash and cash equivalents		**1 682**
Cash and cash equivalents at 31 December 2016	8	**1 682**

Notes to the financial statements

for the period ended 31 December 2016

L2D has operated from the date of listing on the JSE, being 6 December 2016, to 31 December 2016.

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

1 Accounting policies

1.1 *Statement of compliance*

L2D's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, interpretations issued by the IFRS Interpretations Committee (IFRS IC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Collective Investment Schemes Control Act of 2002 and the Listings Requirements of the JSE Limited.

1.2 *Basis of preparation*

The L2D 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 IAS 39. The financial statements are prepared on the going concern basis. These are presented in Rand which is L2D's functional currency, and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

1.3 *Acquisition of assets under common control*

Transactions in which assets or businesses are ultimately controlled by the same party before and after the transaction and where that control is not transitory, are referred to as common control transactions. Where a transaction meets the definition of a common control transaction, predecessor accounting is applied. Any costs directly attributable to the acquisition are written-off to reserves.

Predecessor accounting values assets and liabilities using the existing carrying value on the effective date with no goodwill or bargain purchase price being recognised. Any excess/deficit of the purchase price over the pre-combination recorded ultimate holding company's carrying values is adjusted directly to equity.

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. 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 including borrowing costs. Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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

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

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

When L2D 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.

1 Accounting policies (continued)

1.4 *Investment property* (continued)

1.4.2 Investment property under development (continued)

Investment property under development for which the fair value cannot be determined reliably, but for which L2D 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, including borrowing costs.

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.

Borrowing costs are capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the asset is substantially ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of development cost financed out of general borrowings, the applicable capitalisation rate is the weighted average cost of borrowings.

1.5 *Equity*

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

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

1.5.1 Distributions to participatory interest holders

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

Distributions payable are recognised as a liability once the amount for distribution has been determined and declared by the board. Distributions exclude items arising as a result of:

- the realised and unrealised fair value adjustments to investment properties;
- the unrealised gains and losses in respect of the fair valuing of financial assets through profit and loss;
- the straight-lining of lease income; and
- the amortising of upfront lease costs over the period of the leases to which they relate.

1.5.2 Non-distributable reserves

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

1.6 *Financial instruments*

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

Financial assets:

L2D's classifies its financial assets at initial recognition into categories, namely:

- Held at fair value through profit or loss; and
- Loans and receivables.

The classification depends on the purpose for which the asset was acquired. In general, financial assets are designated as at fair value through profit or loss, in line with managements' strategy that actively measures performance on a fair value basis.

Subsequent to initial recognition these instruments are measured as set out below:

- Financial assets carried at fair value through profit or loss – subsequent to initial recognition, the fair value is remeasured at each reporting period.
- Loans and receivables – non-derivative financial assets, with fixed or determinable payment dates that are not quoted in an active market other than those that are originated with the intention of sale immediately or in the short-term or that have been designated at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method less any required impairment.

Financial liabilities:

Financial liabilities that are categorised and designated at initial recognition as being at fair value through profit or loss are recognised at fair value. Transaction costs, which are directly attributable to the acquisition or on issue of these financial liabilities, are recognised immediately in profit or loss. Financial liabilities that are not carried at fair value are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liabilities. Non-derivative financial liabilities not at fair value through profit and loss are recognised at amortised cost using the effective interest rate method.

1 Accounting policies (continued)

1.6 *Financial instruments* (continued)

Financial liabilities: (continued)

For all financial instruments carried at amortised cost, where the financial effect of the time value of money is not considered to be material, discounting is not applied as the fair values of these instruments approximate their carrying values.

1.6.1 Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where the contractual rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

1.6.2 Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when L2D has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6.3 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 *Impairment of financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined had no impairment loss initially been recognised. An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

1.8 *Revenue*

Revenue comprises gross rental revenue including all recoveries from tenants, excluding VAT. Rental revenue from investment property is recognised in profit or loss 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.

When L2D provides incentives to its tenants, the cost of incentives is recognised as an expense over the lease term, on a straight-line basis. Tenant installation costs not yet expensed are capitalised as part of investment property.

L2D acts as a principal on its own account when recovering operating costs, such as utilities, from tenants.

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.

1.11 *Income tax*

No income taxation is accounted for in L2D as all income is distributed to unitholders and is taxable in their hands, as a result L2D is tax exempt. Likewise, no capital gains tax is accounted for in L2D as these gains vest with the unitholders on disposal of their interests.

L2D is not liable for capital gains on the sale of directly held investment properties and accordingly no deferred taxation is provided on the revaluation of the properties.

1 Accounting policies (continued)

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's management and internal reporting structure, determined by the L2D's executive committee.

L2D has the following operating segments:

- retail;
- office;
- specialised; and
- other.

L2D 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 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 participatory unit*

L2D presents basic earnings per participatory unit and headline earnings per participatory unit.

Basic earnings per participatory unit is calculated by dividing the profit attributable to unitholders by the weighted average number of units in issue during the year.

Headline earnings per participatory unit is calculated by dividing the headline earnings attributable to unitholders by the weighted average number of units in issue during the year.

There are no dilutionary instruments in issue.

1.14 *Changes to standards and amendments not yet effective*

There are various changes to standards and amendments that are not yet effective, as set out below:

1.14.1 IFRS 16 *Leases*

IFRS 16 *Leases* is effective retrospectively from annual periods commencing 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 replaces the existing leases standard and the related interpretations.

Lessor accounting

Substantially, lessor accounting has remained unchanged. Accordingly, a lessor continues to classify its leases as operating or finance leases and to account for those two types of leases differently.

Lessee accounting

IFRS 16 introduces a single lessee accounting model and requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee recognises depreciation on the right-of-use asset and interest on the lease liability. Cash repayments of the lease liability are classified as either principal or interest repayments.

Lessees will be required to apply judgement in deciding upon the disclosures to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial information of lessees.

The impact to L2D has not yet been fully assessed however it is unlikely that there will be a significant financial impact on adoption of IFRS 16 as L2D is primarily a lessor. Enhanced disclosures are required for lessors to improve information disclosed about a lessor.

1 Accounting policies (continued)

1.14 *Changes to standards and amendments not yet effective* (continued)

1.14.2 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* is effective for periods commencing 1 January 2018, with an option for either retrospective or prospective application. The standard establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will replace the existing revenue standards and their related interpretations. The core principle is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. More quantitative disclosures are required under the new standard in respect of disaggregation of revenue into appropriate categories, the remaining performance obligations and the amount of the transaction price that is allocated to the remaining obligations in a contract, and the changes in contract asset, liabilities and costs.

There is unlikely to be a significant impact to L2D on adoption of IFRS 15.

1.14.3 IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* is effective for years commencing 1 January 2018 with various transition approaches allowed. All recognised financial assets that were within the scope of IAS 39 will be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Due to the nature of its operations, there is unlikely to be a significant impact on L2D's results from adoption of IFRS 9.

There are various other new standards or amendments that are not currently relevant to L2D's operations.

Notes to the financial statements (continued)

for the period ended 31 December 2016

2. Key judgements

2.1 *Key areas of judgement and sources of uncertainty*

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

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

2.2 *Acquisition of undivided shares in investment properties*

The acquisition of R6 billion of undivided shares in investment properties from the Liberty group was the most significant transaction for L2D as it represents the significant majority of L2D's total assets. IFRS 3 Business Combinations did not apply, as the transaction was regarded as a common control transaction. There is no IFRS standard on common control however the Liberty group has an accounting policy which was adopted by L2D. Predecessor accounting was applied, from the acquisition date, which meant that the proportional carrying value of the investment properties acquired from Liberty, including the related straight-line lease accrual, was recognised as an asset in L2D.

In addition, the complicated nature of the transaction has to meet the definition of 'property' as defined in the JSE Listings Requirements in order to qualify as a Real Estate Investment Trust (REIT). 'Property' is defined as freehold- or leasehold property. At least 75% of the revenue of L2D has to be generated by 'property' as required by Section 25BB of the Income Tax Act.

The acquisition of the undivided shares in properties met the definition of property. However, not all the title deeds had been updated to reflect this at the reporting period end date, to represent the registration of the undivided shares with the deeds office. Usufructs have been registered for the benefit of L2D on those properties where the undivided shares had not yet been registered by the deeds office.

2.3 *Accounting for undivided shares in investment properties and related letting activities*

L2D owns various undivided shares in investment properties. L2D, through their appointed asset manager (the Manager) has joint decision-making rights regarding all capital decisions relating to L2D's undivided shares for the benefit of the unitholders in L2D. The Manager is also responsible for letting activities on behalf of and for the benefit of co-owners in these investment properties, L2D has unrestricted rights regarding the relevant yield activities of the investment properties. L2D and the other co-owner entity (LGL) are subsidiaries of LHL.

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

IFRS 11 *Joint Arrangements* provides guidance for the recognition of such assets and related income activities. L2D therefore 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 has an ownership interest in shared assets.

2.4 *Investment properties fair value measurement*

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

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

Notes to the financial statements (continued)

for the period ended 31 December 2016

3 Headline earnings, distributable income and earnings per unit

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

Definitions

Basic earnings per unit is basic earnings attributable to unitholders divided by the weighted average number of units in issue during the year.

Headline earnings per unit is a disclosure requirement in terms of Johannesburg Stock Exchange's (JSE) Listings Requirements for companies listed on the JSE, Circular 2/2015, issued by the South African Institute of Chartered Accountants at the request of the JSE, stipulates the requirements for the calculation of headline earnings.

Headline earnings per unit is calculated by dividing the headline earnings by the weighted average number of units in issue during the period.

4 Segment information

L2D's operating segments are determined based on managements' reporting structure.

L2D operates in the following segments:

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

L2D 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 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.

Notes to the financial statements (continued)

for the period ended 31 December 2016

4 Segment information (continued)

R'000	Retail	Office	Specialised	Administration/other[1]	Total
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

4.1 *Segment earnings*

R'000	Retail	Office	Specialised	Administration/other[1]	Total
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

4.2 *Segment assets and liabilities*

R'000	Retail	Office	Specialised	Administration/other[1]	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
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.*

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties

L2D has undivided shares in various investment properties, which are recorded in registers or registered as usufructs, and may be inspected by unitholders or their duly authorised agents, at the registered office.

R'000	Notes	2016
5.1 Summary		
Investment properties	5.2	5 997 200
Additions – property acquired		5 936 760
Expenditure on investment properties during the period		7 937
Fair value adjustment		52 503
Investment properties under development	5.3	63 239
Additions – property acquired		63 239
Total investment properties at 31 December 2016		**6 060 439**
5.2 Investment properties		
Additions - property acquired		5 745 899
Additions – property acquired in exchange for units issued		5 936 760
Impact of straight-lining of operating lease income on property acquired		(190 861)
Net fair value adjustment for the period		55 244
Fair value adjustment		52 503
Net movement on straight-lining operating lease income		2 741
Expenditure on investment properties during the period		7 937
Additions – capitalised subsequent expenditure		4 637
Capitalised tenant installations		3 018
Amortisation of tenant installations		(86)
Capitalised letting commission		414
Amortisation of letting commission		(46)
Investment properties at fair value at 31 December 2016		**5 809 080**
Operating leases accrued adjustment		
Straight-lining of operating lease income balance acquired		190 861
Net movement on straight-lining of operating lease income		(2 741)
Straight-lining of operating lease income at 31 December 2016		**188 120**
Total investment properties		**5 997 200**
5.3 Investment properties under development		
Additions – property acquired		63 239
Total investment properties under development at 31 December 2016		**63 239**
Total investment properties at 31 December 2016		**6 060 439**

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties (continued)

5.4 *Change of accounting policy for recognition of depreciation regarding building appurtenances*

L2D acquired its undivided shares in the investment properties from LGL under a common control transaction using predecessor accounting principles. Accordingly on the date of acquisition of the properties, L2D accounted for the acquisition in line with Liberty Holdings Limited's accounting policies. The cost and associated accumulated depreciation on appurtenances was included (on a line by line basis) as part of the investment properties, together with accumulated fair value gains on investment properties. The total fair value of the investment properties on acquisition was R6 billion.

A review of industry practice for property unit trusts has indicated that in general depreciation is not provided for on building appurtenances. The appurtenances are included in the total value of the investment properties and not separated for disclosure purposes.

Management are of the opinion that it would provide users of these financial statements with more relevant information should depreciation on building appurtenances not be provided for. The impact of this would be to adjust the accumulated fair value gains, with no impact to the net fair value of the investment properties.

The table below shows the disclosure on a line by line basis with the change in accounting policy, effectively applied from listing date of Liberty Two Degrees:

		At acquisition date	Disclosure after the change in accounting policy
Investment properties	5.2	**5 936 761**	**5 936 761**
Historical cost		**1 935 142**	**2 288 965**
Accumulated fair value surplus		**3 878 381**	**3 647 796**
Appurtenances		**353 823**	
Accumulated depreciation		**(230 585)**	
Investment properties under development	5.3	**63 239**	**63 239**
Total investment properties at acquisition date		**6 000 000**	**6 000 000**

5.5 *Basis of valuation*

The investment properties were independently valued as at 31 December 2016 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.

Key assumption

- exit capitalisation rate
- discount rate

Other assumptions

- annual rental and operating escalation
- annual cost escalation

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties (continued)

5.5 *Basis of valuation* (continued)

Commentary on capitalisation rates:

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

Commentary on discount rates:

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

Commentary on rental and operating expenses annual growth rates:

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

Valuation technique and significant unobservable inputs

Valuation techniques:

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

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

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the capitalisation rate is applied as at 31 December 2016. 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 2016. 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.

Significant unobservable input:

- exit capitalisation rate: (6.25% – 9.00%)
- discount rate: (12,50% – 14,50%)

Other inputs:

- annual growth escalation: (5.00% – 10.00%)
- vacancy: (0.50% – 3.00%)

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

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

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties (continued)

5.6 *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 R'000[1]	Valuation[1] R'000	Average rental per m² (R)	L2D's gross lettable area (m²)	Total gross lettable area (m²)
1	Sandton City Complex (16,5%)	5th Street, Alice Lane and Sandton Drive, Sandton, 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[2] (22,0%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail	**1 904 510**	**1 926 515**	**436**	**29 874**	**135 790**
3	Melrose Arch (5,5%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, 2076	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, 3201, KwaZulu-Natal	Retail	**414 129**	**419 630**	**317**	**12 314**	**55 973**
5	Nelson Mandela Square (22,0%)	5th Street, Sandton, 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, Morgenster Road and 11th 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**
	Total			**6 000 000**	**6 060 439**	**321**	**134 210**	**848 332**

[1] *Excludes the impact of straight-lining of operating lease income.*

[2] *Eastgate office tower is currently under construction.*

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties (continued)

5.7 Portfolio information

Geographic profile	Gross lettable area[1] (m²)	Gross lettable area (%)	Gross monthly rental (R'000)
Gauteng	**92 356**	**68,8%**	**34 644**
Western Cape	**20 369**	**15,2%**	**3 385**
Kwazulu-Natal	**18 345**	**13,7%**	**4 713**
Free State	**3 140**	**2,3%**	**276**
Portfolio	**134 210**	**100,0%**	**43 018**

Sectoral profile	Gross lettable area[1] (m²)	Gross monthly rental (R'000)	Gross monthly rental (%)
Retail	**102 732**	**37 477**	**87,1%**
Office	**29 925**	**5 445**	**12,7%**
Specialised	**1 553**	**96**	**0,2%**
Portfolio	**134 210**	**43 018**	**100,0%**

Tenant profile (m²)	Gross lettable area[1]		
	A	B	C
Office	**22 277**	**3 919**	**2 502**
Retail	**73 488**	**8 841**	**13 532**
Specialised		**1 553**	
Portfolio	**95 765**	**14 313**	**16 034**

[1] *Gross lettable area is L2D's share of the total GLA.*

Key

A *Large international and national tenants, large listed tenants and government or smaller tenants in respect of which rental guarantees are issued. These include, inter alia, Shoprite, Pick n Pay, Woolworths, MTN, Vodacom, Foschini, Truworths and Bidvest.*

B *Smaller international and national tenants, smaller listed tenants, major franchisees and medium to large professional firms. These include, inter alia, Anglorand, African Alliance, Cash Crusaders, Doppio Zero, Sorbet and Specsavers.*

C *Other local tenants and sole proprietors. These comprise over 500 tenants.*

Vacancy profile (%)	Gross lettable area
Office	**9,6**
Retail	**2,5**
Portfolio	**4,6**

Notes to the financial statements (continued)

for the period ended 31 December 2016

5 Investment properties (continued)

5.7 *Portfolio information* (continued)

Lease expiry profile – gross lettable area

%	Vacant	Monthly[1]	2017	2018	2019	2020	2021	2020+
Office	**12,1**	**1,1**	**22,5**	5,1	35,5	8,1	4,8	10,8
Retail	**2,9**	**2,4**	**20,4**	11,8	19,3	10,7	10,1	22,4
Specialised	**0,0**	**0,0**	**0,0**	10,1	0,0	0,0	0,0	89,9
Portfolio	**5,6**	**2,0**	**20,4**	9,8	23,3	9,7	8,3	20,9

Lease expiry profile – revenue

R'000	Vacant	Monthly[1]	2017	2018	2019	2020	2021	2020+
Office		**2 876**	**61 279**	13 884	96 812	22 158	13 232	31 081
Retail		**38 619**	**324 328**	186 996	307 532	170 469	160 498	355 754
Specialised				1 020				6 335
Portfolio		**41 495**	**385 607**	201 900	404 344	192 627	173 730	393 170

	Office	Retail	Specialised	Portfolio
Weighted average rental per m^2 by rentable area	**181,95**	**364,81**	**61,52**	**320,52**
Weighted average rental escalation (%)	**7,5**	**6,9**	**8,0**	**7,1**

%	Average annualised property yield
Portfolio	**6,8**

[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.*

Notes to the financial statements (continued)

for the period ended 31 December 2016

6 Trade and other receivables

R'000	2016
Trade and other receivables	
Trade and other receivables include the following:	
Sundry receivables for alternate income	**11 716**
Development project costs to be capitalised	**14 180**
Municipal deposits	**506**
Accrued income	**784**
Loan with Liberty Group Limited	**36 121**
Other receivables[1]	**27 387**
Prepayments:	
Other	**1 177**
Total trade and other receivables	**91 871**

[1] *Includes R14,4 million rental received by LGL on an agency basis*

7 Financial investments

7.1 *Financial investments comprise:*

Financial assets

Quoted in an active market and unlisted	
Mutual funds – money market	**2 774 878**

7.2 *Movement analysis*

Additions	**2 780 000**
Disposals	**(20 000)**
Interest received	**14 878**
Balance at the end of the year	**2 774 878**

Held in a STANLIB money market account. The balance attracts a daily floating rate of interest.

Underlying investments are with South African banks, all with a F1+ Fitch National Short-Term Rating, and with one international bank, having a AA- Fitch International Long- Term Rating.

8 Cash and cash equivalents

Cash at bank and on hand	**1 682**

Bank balances are with the Standard Bank of South Africa which has a Fitch F1+ National Short-Term Rating.

Notes to the financial statements (continued)

for the period ended 31 December 2016

9 Trade and other payables

R'000	2016
Trade and other payables include the following:	
Creditors control	**3 194**
Tenant deposits	**15 532**
Municipal charges	**7 847**
Accruals	
Audit fee	**339**
Printing and publishing costs	**300**
Valuation costs	**598**
Listing costs[1]	**97 010**
Asset management fee	**2 202**
Other	**2 616**
Sundry payables	
Rent received in advance	**4 465**
VAT payable	**8 133**
Merchant loan accounts	**15 922**
Other	**10 291**
Total trade and other payables	**168 449**
Current	**168 449**

[1] *Included in the accrual for listing costs is the accrual for audit fee services provided in the amount of R2.2 million*

10 Fair value hierarchy for financial instruments and investment property

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

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy for financial instruments and properties

Period ended 31 December 2016

Assets (R'000)	Fair value	Level 1	Level 2	Level 3
Investment properties	**5 997 200**			**5 997 200**
Investment property 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, 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

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
3	Investment properties	Discounted cash flow	Refer note 5 for detail regarding assumptions
3	Investment properties under development	Cost	Not applicable

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

Reconciliation of level 3 assets and liabilities

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

R'000	2016
Investment property and investment property under development	
Acquisitions under common control	**6 000 000**
Capitalised cost	**7 936**
Fair value adjustments (unrealised)	**52 503**
Closing balance	**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 2016 range between 6,25% and 9,00%. This compares to the ten-year government yield of 8,93%. 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 0,5% change in the capitalisation rate.

	Change in capitalisation rate		
2016	Rm	0,5% increase	0,5% decrease
Properties below 6,8% capitalisation rate	**5 326 006**	**4 940 860**	**5 776 332**
Properties between 6,8% – 8,5% capitalisation rate	**567 751**	**532 602**	**607 915**
Properties between 8,6% – 10,5% capitalisation rate	**166 682**	**157 838**	**176 576**
Total	**6 060 439**	**5 631 300**	**6 560 823**

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

	Change in discount rate		
2016	Rm	50 bps increase	50 bps decrease
Total property portfolio	**6 060 439**	**5 940 159**	**6 186 473**

Notes to the financial statements (continued)

for the period ended 31 December 2016

11 Capital

R'000		2016
Authorised capital		
Unlimited participatory interest units		
Units movement analysis:	**Number of units ('000) 2016**	**Capital R'000 2016**
Units		
Subscription for units – acquisition of portfolio assets	626 316	6 000 000
Subscription for units – private placement	282 127	2 780 212
Balance at 31 December 2016	908 443	8 780 212
Transaction costs for issue of new units		(116 357)
Capital		8 663 855

12 Rental and related income

R'000	2016
Rental and related income	
Property rental	42 785
Recoveries	3 880
Total rental and related income	46 665

13 Property operating expenses

Property operating expenses	
Advertising and promotions	(286)
Cleaning	(596)
Amortisation of tenant installations and letting commission	(132)
Insurance	(183)
Legal fees	(43)
Municipal charges	(8 029)
Property management fees	(1 406)
Repairs and maintenance	(704)
Salaries	(572)
Security	(1 203)
Other	(1 237)
Total property operating expenses	(14 391)

Notes to the financial statements (continued)

for the period ended 31 December 2016

14 Administration expenses

R'000	2016
Audit fee	(339)
Property valuation fees	(155)
Trustee fee	(45)
Printing and publishing costs	(300)
Other	(48)
Total administration expenses	**(887)**

15 Asset management fee

The asset management fee is calculated as a monthly management fee of $^{1}/_{12}$ of 0,4% of the enterprise value of L2D (being the sum of the market capitalisation of the Scheme and all debt in the Scheme). The market capitalisation is based on the average daily closing price of the units as quoted on the Main Board of the JSE of South Africa.

16 Capital commitments

R'000	2016
Investment properties	
Under contracts	9 074
Authorised but not contracted	53 689
Capital improvements on existing properties	
Under contracts	112 051
Authorised but not contracted	118 251
	293 065

The above capital commitments will be funded from existing resources.

Notes to the financial statements (continued)

for the period ended 31 December 2016

17 Cash generated from operations

R'000	2016
Cash generated from operations	
Total earnings	**96 566**
Adjusted for:	
Interest received	**(14 878)**
Amortisation of tenant installations and letting commission	**132**
Annual listing costs	**36**
Fair value adjustments on investment properties	**(52 503)**
Working capital changes	**76 578**
Increase in trade and other receivables	**(91 871)**
Increase in trade and other payables	**168 449**
Total cash generated from operations	**105 931**

18 Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Limited.

Parent

Liberty Holdings Limited (LHL).

Fellow subsidiaries

All subsidiaries of LHL are fellow subsidiaries of L2D – a full list can be obtained from the company secretary and details are contained in the published annual financial statements of LHL. Notably, LGL and the Manager, the fund manager of L2D, are both wholly-owned subsidiaries of LHL.

Transactions with related entities

Transactions with LGL and PropCo

Acquisition of properties and related letting businesses from Liberty Group Limited

In terms of an exchange agreement with L2D, LGL and PropCo (a 100% held subsidiary of LGL, which owned the 25% undivided shares in the Melrose Arch precinct) disposed of 22% of their share in investment properties in exchange for units issued by L2D. Where properties were wholly-owned by LGL, L2D acquired a 22% undivided share of the properties, but where LGL and PropCo owned only an undivided share of the properties, L2D acquired a lesser undivided share.

The number of units issued to LGL and PropCo was calculated by dividing the aggregate value of the undivided shares in the properties being transferred to L2D (less the value of the units sold in terms of the private placement which were priced at the full listing price) by an amount equal to 95% of the price per unit which was payable by external investors who subscribed for units immediately prior to the listing. Consequently, LGL and PropCo exchanged investment properties fair valued at R5,6 billion and R422 million respectively in exchange for 581 925 856 and 44 389 933 participatory units respectively on listing.

The registration of transfer for all the properties did not occur before listing date, and LGL registered a usufruct over the relevant properties in terms of which L2D is entitled to receive all rental income in respect of the properties as if registration had occurred. The usufructs constitute property for the purposes of the Listing Requirements and constitute immovable property for the purposes of CISCA. Each co-owner is entitled to borrow amounts from third parties for its own account and secure its debts by registering a mortgage bond over its undivided share.

When LGL received the units in exchange for disposing of its undivided shares, it allocated these units to the funds out of which those undivided shares were transferred. In addition LGL enabled policyholders to invest funds in L2D and received R780 million from policyholders for this purpose. R3 billion of shareholder's funds were also invested in L2D units. The units issued to LGL (excepting those that were sold in terms of the private placement which were priced at the full listing price) and PropCo were issued at preferential terms at R9,50 per unit, which equated to a 5% discount to the subscription price. In terms of IFRS, the bargain purchase price of R101 million is accounted for as a transaction between owners and was recognised in equity.

Subsequent to listing, PropCo disposed of 2 631 500 participatory units to Lexshell 615 Proprietary Limited (a wholly-owned subsidiary of LHL) for R25 million which are held for the future share incentive scheme.

18 Related party disclosure (continued)

Transactions with related entities (continued)

Separate co-owners agreements cover the governance regarding the letting activities and capital decisions relating to each investment property.

LGL and L2D have entered into co-owners' agreements in respect of each property which they co-own.

Put option

L2D has granted LGL a continuing put option to sell further portions of its undivided shares in the existing properties (and letting businesses carried on thereon) to L2D from time to time. This enables L2D to increase its stake in the LPP and enables LGL to reduce its stake as and when required taking into account policyholder changes and exits.

The put option remains in place for so long as LGL and L2D are co-owners of any properties, and relates to the original properties which they co-own on listing date. The put option does not apply to other properties which may be purchased by LGL and L2D as co-owners after listing.

In terms of the put option, Liberty may elect to sell all (or portions having an aggregate value of at least R200 million) of its undivided shares in the existing properties to L2D, but when doing so Liberty must sell the same proportion of its undivided shares in all of the existing properties.

The put option presents an opportunity for L2D to gain further exposure to the LPP. L2D can elect to settle the consideration payable in either units or cash, whichever is the most optimal at the time. The ability to settle in cash provides an opportunity for L2D to utilise any excess cash it may have, or to consider raising gearing to acquire new properties if yields and cost of debt are supportive. Alternatively, the ability to settle in units means L2D can reserve its cash and debt capacity for other uses and at the same time increase the market capitalisation and free float of L2D. The put option will be settled at the higher of the clean volume weighted average price or net asset value per unit.

LGL is exchanging the properties on a like-for-like basis in terms of fair value and consequently this put option is measured at nil value in both LGL and L2D as there is no inherent value in the option for accounting purposes.

Liberty Centre Head Office Cape Town

The property is fully let to Liberty Health and LGL, fellow subsidiaries of L2D. Lease periods are for five and eight years respectively. Rental income received by L2D for the one month 1 December to 31 December 2016 was R857 240.

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 month 1 December to 31 December 2016 was R406 158.

Loan with LGL

Included in accounts receivable is an amount of R36 million which is owing by LGL at 31 December 2016. This amount is the L2D proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits. A money market interest rate is earned on the amount outstanding and a portion of the interest earned is allocated to shopping centre merchants associations for centre marketing.

Transactions with STANLIB REIT Fund Managers (the Manager)

Management fees

R2,2 million fees were paid to the Manager for the period 6 December to 31 December 2016 in respect of administration of the collective investment scheme.

Transactions with other related entities

Operating lease payments

STANLIB Limited, as a lessee, paid an amount of R749 132 as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

JHI Retail Property Proprietary Limited (JHI)

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

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

JHI is 51% owned by JHI Properties Proprietary Limited and 49% by LHL. It is accounted for as a joint venture of the group. Mr J Sturgeon is a director of both JHI and the Manager. Property management service net fees paid by L2D to JHI from 6 December to 31 December 2016 amounted to R1,4 million.

Notes to the financial statements (continued)

for the period ended 31 December 2016

18 Related party disclosure (continued)

Transactions with related entities (continued)

Transactions with other related entities (continued)

Consolidated unit trusts

The following STANLIB unit trusts, which are consolidated at LHL, have participatory units in L2D as at 31 December 2016 as follows:

Fund name	Liberty economic holding in fund	Number of L2D units ('000)	Market value of L2D units (R'000)
STANLIB Multi-Manager Property	**69%**	**1 868**	**19 613**
STANLIB Institutional Property	**59%**	**7 855**	**82 477**
STANLIB Multi-Manager Flexible Property	**49%**	**275**	**2 883**
STANLIB Multi-Manager Defensive Balanced Fund	**97%**	**118**	**1 235**
Total		**10 116**	**106 208**

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 month 1 December to 31 December 2016 was R923 416.

Advisory fees in respect of listing

R27,5 million has been accrued for services by Standard Bank in respect of placement and advisory fees for the year ended 31 December 2016.

Notes to the financial statements (continued)

for the period ended 31 December 2016

18 Related party disclosure (continued)

Key management personnel

Directors remuneration

Details of the directors of the Manager are included on page 5 to 6. Below are details of 2016 remuneration of the Manager's directors. The remuneration paid to the directors is borne and paid by the Manager in relation to services for the manager. Other remuneration is in respect of services rendered prior to 1 December 2016 and was not paid by the Manager.

Non-executive directors' remuneration[1]

R	Directors of the Manager[1]	Other Liberty group[2]	Total remuneration
Director			
MG Ilsley	**130 000**	**1 597 900**	**1 727 900**
MP Moyo	**187 500**	**1 288 400**	**1 475 900**
W Cesman[3]	**176 248**		**176 248**
Total	**493 748**	**2 886 300**	**3 380 048**

[1] *Non-executive directors were appointed to the board of directors of the Manager on 17 June 2016. The remuneration is based on an annual fee and was paid for three months' service during 2016. Liberty Two Degrees was listed on 6 December 2016. Approximately ⅓ of the fees was for services rendered for Liberty Two Degrees.*

[2] *Other Liberty group is defined as Liberty Holdings Limited and its subsidiaries excluding Liberty Two Degrees. The amount reflects the total fees for the full 2016 year.*

[3] *Mr W Cesman is an international director and received a composite fee of £10 012 as a member of the board for 2016 for the three months ended 31 December 2016.*

Executive directors' remuneration

R	Remuneration received from the Manager	Remuneration received from STANLIB Limited	Remuneration received from Liberty Holdings Limited	Total
Director				
A Beattie (CEO)[1]	**398 794**	**1 992 580**		**2 391 374**
J Sturgeon (CFO)[2]	**375 630**		**4 141 726**	**4 517 356**
Total	**774 424**	**1 992 580**	**4 141 726**	**6 908 730**

R	A Beattie[1]	J Sturgeon[2]
Fixed remuneration[3]	**1 306 442**	**3 014 356**
Cash portion of package	**1 107 921**	**2 645 266**
Other benefits	**58 811**	**78 587**
Retirement contributions	**139 710**	**290 503**
Variable remuneration awards	**1 084 932**	**1 503 000**
Cash	**542 466**	**1 302 400**
Deferred	**542 466**	**200 600**
Total	**2 391 374**	**4 517 356**

[1] *Mrs A Beattie was appointed as a director of the Manager on 17 June 2016 and assumed the full time role of CEO of L2D on 1 December 2016. Includes salary for 1 month in respect of the Manager and L2D, and for the period 17 June – 30 November 2016, received in respect of services to STANLIB Limited.*

[2] *Mr J Sturgeon was a director of the Manager for the full 2016 year. He was seconded from Liberty to the Manager to fulfill the role as full time CFO from 1 December 2016. Includes salary for 1 month in respect of the Manager and L2D, and for the period 1 January – 30 November 2016 in respect of services to Liberty Holdings Limited.*

[3] *Fixed remuneration includes all guaranteed amounts and value of benefits granted only conditional to services rendered to Liberty, STANLIB or the Manager. Generally fixed remuneration is adjusted annually for inflation and market conditions effective 1 April.*

Notes to the financial statements (continued)

for the period ended 31 December 2016

18 Related party disclosure (continued)

Share incentive scheme

The Manager intends to adopt, as soon as possible in 2017, a bonus and incentive scheme for its employees. Lexshell 615 Proprietary Limited, a wholly-owned subsidiary of LHL has purchased 2 631 500 participatory units at an issue price of R9.50 a unit which are held for the trust that will be formed in terms of the rules of the future incentive scheme. In terms of the pre-listing statement, once the share incentive scheme is in operation, long-term incentive awards will be awarded to Mrs A Beattie (R4 million) and to Mr J Sturgeon (R3 million).

Key management indirect beneficial interests in L2D

Aggregate details of transactions between L2D, any subsidiary, associate or joint venture and key management personnel, their families (as defined under IAS 24) and entities significantly influenced or controlled by key management:

R'000	Premiums received	Surrender value
Insurance products	**307**	**351**
Direct units	**600**	**630**
	907	**981**

19 Financial risk management

L2D is exposed to market risk, liquidity risk and credit risk. While risk management is the responsibility of the board of directors of the Manager, 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.

19.1 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, from fluctuations in property values and / or rental income.

L2D 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.

19.2 Liquidity risk

Liquidity risk is the risk that L2D is not able to meet its payment obligations as they fall due. Over 65% of L2D'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 table below summarises the maturity profile of the financial instrument liabilities based on the remaining undiscounted contractual obligations. L2D has sufficient cash resources to cover the following liabilities.

Financial liabilities

As at 31 December 2016

R'000	Within 3 months	Variable[1]	Total
Trade and other payables	**152 917**	**15 532**	**168 449**

[1] *Variable includes rental deposits refundable to lessees on lease expiry.*

19 Financial risk management (continued)

19.3 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 is exposed to credit risk on its financial assets such as financial investments, trade and other receivables and cash and cash equivalents. The risk arises due to a change in credit rating of the counter party subsequent to L2D obtaining the financial assets.

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. 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. There are no trade receivables that were past due and not impaired as at 31 December 2016.

L2D only deposits cash with financial institutions that have high quality credit standings.

20 Capital management

L2D raised R2.8 billion on listing which is currently invested in a money market account. The intention is to utilise the cash on a high quality acquisition and to fund the current development pipeline.

L2D was ungeared on listing date however is able to take on debt to fund appropriate quality acquisitions, and to sustain the future growth of the business.

The capital available to L2D is sufficient for L2D's capital requirements for at least the next 12 months. It is L2D's intention to deliver distributions that will reflect the sustainable growth in the high quality portfolio.

Refer to the borrowing powers in the Manager's report for more detail.

Notes to the financial statements (continued)

for the period ended 31 December 2016

21 Analysis of participatory unitholders as at 31 December 2016

	Number of unitholders	% of total unitholders	Number of units	% of issued units
Unitholder spread				
1 - 1 000	**247**	23,71	**157 767**	0,02
1 001 - 10 000	**464**	44,53	**1 934 664**	0,21
10 001 - 100 000	**189**	18,14	**7 848 950**	0,86
100 001 - 1 000 000	**101**	9,69	**29 618 715**	3,26
Over 1 000 000	**41**	3,93	**868 883 239**	95,65
Total	**1 042**	100,00	**908 443 335**	100,00
Distribution of unitholders				
Licenced financial institutions	**40**	3,84	**567 924 099**	62,52
Companies and corporations	**50**	4,80	**53 830 083**	5,93
Collective investment schemes and managed funds	**72**	6,91	**83 576 021**	9,20
Nominees and trusts	**67**	6,43	**3 069 769**	0,34
State owned enterprises	**2**	0,19	**151 625 227**	16,69
Retirement vehicles and medical aid schemes	**107**	10,27	**42 539 098**	4,68
Individuals	**704**	67,56	**5 879 038**	0,64
Total	**1 042**	100,00	**908 443 335**	100,00
Unitholder type				
Non-public unitholders	**27**	2,59	**608 535 876**	66,99
Directors and associates	**3**	0,29	**92 541**	0,01
Beneficial holders > 10% - Liberty group	**24**	2,30	**608 443 335**	66,98
Public unitholders	**1 015**	97,41	**299 907 459**	33,01
Total	**1 042**	100,00	**908 443 335**	100,00

Notes to the financial statements (continued)

for the period ended 31 December 2016

21 Analysis of participatory unitholders as at 31 December 2016 (continued)

	Number of units	% of issued units
Fund managers with a holding greater than 5% of the issued units		
STANLIB Asset Management	**608 013 320**	66,93
Public Investment Corporation	**150 000 000**	16,51
Coronation Fund Managers	**46 693 538**	5,14
Total	**804 706 858**	88,58
Beneficial unitholders with a holding greater than 3% of the issued units		
Liberty group	**608 443 335**	66,98
Government Employees Pension Fund	**153 651 510**	16,91
Coronation Fund Managers	**34 816 542**	3,83
Various STANLIB collective investment schemes	**28 211 629**	3,11
Total	**825 123 016**	90,83

Unit price performance	
Opening price 6 December 2016	**R12,00**
Closing price 30 December 2016	**R10,50**
Closing high for period	**R10,80**
Closing low for period	**R9,90**
Number of shares in issue	**908 443 335**
Volume traded during period	**4 101 616**
Ratio of volume traded to shares issued (%)	**0,45**
Rand value traded during the period (R)	**41 391 384**
Market capitalisation at 30 December 2016 (R)	**9 538 655 018**

Liberty Two Degrees
Definitions and abbreviations

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
FSB	Financial Services Board
GLA	gross lettable area being the total area of a property that can be leased to a tenant
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
Liberty Group Limited (LGL)	Liberty Group Limited (Registration number 1957/002788/06), a public company registered and incorporated in accordance with the laws of South Africa, being a registered long-term insurer
Liberty or the group	Liberty Holdings and its subsidiaries from time to time
Liberty Holdings Limited (LHL)	Liberty Holdings Limited (Registration number 1968/002095/06), a public company registered and incorporated in accordance with the laws of South Africa and which shares are listed on the JSE
Liberty Property Portfolio (LPP)	Collectively, the properties set out on page 36, excluding the Melrose Arch precinct
Liberty Two Degrees (L2D)	Liberty Two Degrees portfolio, a portfolio established under the Liberty Two Degrees Scheme, the units of which will be listed on the JSE
Liberty Two Degrees Scheme (the Scheme)	Liberty Two Degrees, a trust in a CISIP registered as such in terms of CISCA and managed by STANLIB REIT Fund Managers
Liberty PropCo Proprietary Limited (PropCo)	Liberty PropCo Proprietary Limited (Registration number 2014/121142/07), a private company registered and incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Liberty Group Limited and the vehicle through which Liberty Group Limited holds its stake in Melrose Arch
Melrose Arch	25% undivided share in Melrose Arch held through PropCo
STANLIB REIT Fund Managers (the Manager)	STANLIB REIT Fund Managers (RF) (Pty) Ltd (Registration number 2007/029492/07), a ring-fenced private company registered and incorporated in accordance with the laws of South Africa, being a wholly-owned subsidiary of Liberty Holdings and a manager approved by the Registrar as the manager of Liberty Two Degrees
REIT *or* Real-Estate Investment Trust	an entity which receives REIT status in terms of the Listings Requirements
STANLIB	STANLIB Asset Management Limited (Registration number 1969/002753/07), a public company registered and incorporated in accordance with the laws of South Africa
Trust Deed	the Trust Deed entered into between the Manager and the Trustee to establish the Liberty Two Degrees Scheme and the terms under which it is administered, which was registered by the Registrar on 28 October 2016
undivided shares	undivided shares in the ownership of the Liberty Property Portfolio
units	refers to the participatory units in L2D