

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, and managed by STANLIB REIT Fund Managers (RF) Proprietary Limited
 (Registration number: 2007/029492/07)
 ("the Manager")

UNAUDITED SUMMARISED INTERIM RESULTS
 FOR THE SIX MONTHS ENDED 30 JUNE 2018

Commentary

Profile

Liberty Two Degrees ("L2D") is a portfolio established under the Liberty Two Degrees Scheme ("the Scheme") in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ("CISCA"), as amended, to afford investors growth in income and capital by investing at fair prices in a balanced spread of immovable properties and related assets as permitted by the Trust Deed. L2D is required by CISCA to be structured as a JSE-listed portfolio within a trust with an external independent trustee and an external management company. The Scheme 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") and the appointed external independent trustee is FirstRand Bank Limited acting through its RMB Trustee Services Division. The Manager has also been appointed as the asset manager of Liberty Group Limited ("LGL")'s interest in the Liberty Property Portfolio ("LPP"). 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 is listed on the Johannesburg Stock Exchange ("JSE") with a market capitalisation of R6.8 billion at 30 June 2018 (30 June 2017: R8.6 billion) and is included in the South African Listed Property index ("SAPY").

At 30 June 2018, L2D's iconic, 100% South African direct property portfolio was valued at R8.7 billion (30 June 2017: R6.1 billion) with cash of R132.8 million (30 June 2017: R2.9 billion) invested. L2D currently has no interest-bearing debt.

Financial results

L2D reported net property income of R272.8 million (30 June 2017: R179.5 million) for the six months ended 30 June 2018 after taking into account the additional 9% of the co-owned LPP assets pursuant to LGL exercising its put option with effect from 1 July 2017. Profit from operations (before interest income and fair value adjustments) amounted to R255.2 million (30 June 2017: R158.8 million). Interest income has reduced significantly to R6.1 million (30 June 2017: R109.1 million) as a result of the acquisition of the additional 9% of the co-owned LPP assets. The impact has been to substitute the interest income previously earned for net property income as a consequence of the acquisition of an undivided share of the LPP assets.

The board of directors of the Manager has declared a distribution of 29.31 cents per unit for the six months ended 30 June 2018 (30 June 2017: 30.00 cents per unit).

Changes in fair values

L2D's property portfolio was valued by external independent registered valuers on an open market value basis at 30 June 2018 resulting in a net decrease of 0.77% amounting to R67.3 million (30 June 2017: net increase of R41.0 million). This marginal decline is primarily due to a weakened economic outlook impacting on discount rates and other valuation metrics. In total investment properties decreased by R3.5 million after capitalised development and maintenance capital expenditure. In terms of IAS 40 and IFRS 13, L2D's investment properties are measured at fair value through profit or loss using valuation inputs which are categorised as level 3 on the fair value hierarchy. There were no transfers between levels 1, 2 and 3 during the period.

Property portfolio

The portfolio achieved comparable net property income growth of 7.0% and the vacancy rate decreased during the period to 6.0% (31 December 2017: 6.4%).

Leases covering 15 022m² (30 June 2017: 34 166m²) were renewed during the period at a retail reversion rate of 2% and an office reversion rate of -11% which resulted in an average rental reversion of -0.3% (30 June 2017: 5.4%). An additional 23 401m² (30 June 2017: 15 633m²) of new tenant deals were concluded across the portfolio during the period.

Arrears increased to 6.23% (30 June 2017: 5.33%) of the collectable book debt. The increase in arrears is principally a result of financial pressure on tenants.

Sectoral profile

	Gross lettable area(1) (m ²)	Gross lettable area (%)
Retail	523 107	57.7
Office	332 290	36.6
Specialised	52 089	5.7
Total	907 486	100.0

Geographic profile

	Gross lettable area(1) (m ²)	Gross lettable area (%)
Gauteng	675 180	74.4
KwaZulu-Natal	118 975	13.1
Western Cape	92 588	10.2
Free State	20 743	2.3
Total	907 486	100.0

(1) The gross lettable area is for 100% of the assets and L2D owns a 31% undivided share of the LPP properties as at 30 June 2018. This data includes Melomed hospital and Midlands Lifestyle Centre.

Vacancy profile - Gross lettable area (%)			30 June 2018	31 December 2017	30 June 2017
Retail			4.3	4.3	1.8
Office			9.7	10.3	6.0
Specialised			-	-	-
Total			6.0	6.4	3.3

Lease expiry profile - Gross lettable area (%)	Vacant	Monthly	2018	2019	2020	2021	2022+
Total retail	5.6	1.2	8.5	17.3	11.1	14.1	42.2
Total office	10.2	4.6	6.0	36.3	10.7	6.2	26.0
Total specialised	-	-	2.1	11.7	3.5	8.2	74.5
Total	7.0	2.4	7.2	23.9	10.5	10.9	38.1

Note: Vacancies include storerooms, management offices and excludes pre-let deals.

L2D's portfolio strategy

L2D's strategy remains anchored on:

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

Commitments

Capital development commitments outstanding amount to R392.8 million (30 June 2017: R241.0 million). Capital commitments will be funded from existing resources and borrowings.

Prospects

L2D is in the process of implementing the restructuring transactions as announced in the cautionary announcement dated 18 May 2018. This includes the conversion of the business to a corporate REIT, the internalization of the manager, the cancellation of the Liberty PUT option and the acquisition of an additional R1.2 billion of the property portfolio from Liberty. These assets include an undivided share of the hospitality assets forming part of the Sandton precinct. These transactions remain subject to regulatory approval with the unitholder vote scheduled for 28 August 2018. The Manager, on behalf of L2D, is entering into finance agreements in order to fund the total value of the proposed transaction and costs (R1.5 billion), as well as for a revolving credit facility of R100 million. The conservative amount of borrowings introduced as a consequence hereof will support an enhanced equity return going forward.

The series of transactions proposed enhances the commercial structure in which the business operates and aligns it to REIT industry best practice. It also affords the business an improved platform from which to engage in value adding commercial opportunities and, in time, will contribute to aligning the unit trading price to the net asset value.

The proposed transactions are expected to contribute to an enhanced distribution growth in the future which remains a primary measure of L2D's financial performance.

In spite of the current weak economic environment and tough trading conditions retail sales are recovering, however, the Board remains cautious that a recovery is sustainable.

The forecast statements contained herein have not been reviewed or reported on by L2D's external auditors.

Declaration of a cash distribution

The Manager has approved and notice is hereby given of a distribution of 29.31 cents per unit for the six months ended 30 June 2018 ("the distribution").

The distribution is payable to L2D unitholders in accordance with the timetable set out below:

2018

Last date to trade cum dividend:	Tuesday, 21 August
Units trade ex dividend:	Wednesday, 22 August
Record date:	Friday, 24 August
Payment date:	Monday, 27 August

Unit certificates may not be dematerialised or rematerialised between Wednesday, 22 August 2018 and Friday, 24 August 2018, both days inclusive.

Payment of the distribution will be made to unitholders on Monday, 27 August 2018. In respect of dematerialised units, the distribution will be transferred to the Central Securities Depository Participant ("CSDP") accounts/broker accounts on Monday, 27 August 2018. Certificated unitholders' dividend payments will be posted on or about Monday, 27 August 2018.

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

L2D's income tax reference number: 9087144235

In accordance with L2D's status as a REIT, unitholders are advised that the distribution meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The distribution on the units will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

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

(a) a declaration that the distribution is exempt from dividends tax; and

(b) a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Unitholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Distributions received by non-resident unitholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act.

Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the unitholder, the net dividend amount due to non-resident unitholders is 23.448 cents per unit. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident unitholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated units, or the company, in respect of certificated units:

- (a) a declaration that the distribution is subject to a reduced rate as a result of the application of a DTA; and
 (b) a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident unitholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Events after reporting date

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

Basis of preparation

The summarised unaudited interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous financial statements. Jose Snyders CA(SA), the Manager's financial director, was responsible for supervising the preparation of these summarised interim financial statements. These summarised interim financial statements have not been reviewed or audited by L2D's independent external auditors.

By order of the Board of Directors

23 July 2018

Statement of financial position

	Unaudited 30 Jun 2018 R'000	Unaudited 30 Jun 2017 R'000	Audited 31 Dec 2017 R'000
Assets			
Non-current assets	8 705 235	6 143 980	8 708 712
Investment properties	8 656 908	6 073 167	8 629 809
Investment properties under development	48 327	70 813	78 903
Current assets	299 234	3 000 102	396 888
Trade and other receivables	163 408	80 286	168 793
Financial investments	132 831	2 919 705	211 772
Cash and cash equivalents	2 995	111	16 323
Total assets	9 004 469	9 144 082	9 105 600
Liabilities			
Current liabilities			
Trade and other payables	116 378	114 321	146 796
Total liabilities	116 378	114 321	146 796
Participatory units' capital and reserves			
Capital	8 663 950	8 663 658	8 663 950
Retained surplus	266 188	272 540	265 406
Non-distributable reserve	(42 047)	93 563	29 448
Total unitholders' funds	8 888 091	9 029 761	8 958 804
Total unitholders' funds and liabilities	9 004 469	9 144 082	9 105 600

Statement of comprehensive income

	Six months Unaudited 30 Jun 2018 R'000	Six months Unaudited 30 Jun 2017 R'000	Twelve months Audited 31 Dec 2017 R'000
Property portfolio revenue	417 213	259 578	665 854
Rental and related income	422 056	264 186	692 835
Adjustment for the straight-lining of operating lease income	(4 843)	(4 608)	(26 981)
Property operating expenses	(144 425)	(80 052)	(236 709)
Net rental and related income	272 788	179 526	429 145
Administration expenses	(2 985)	(1 968)	(4 142)
Net property income	269 803	177 558	425 003
Asset management fee	(14 565)	(18 771)	(34 599)
Profit from operations	255 238	158 787	390 404
Net interest	6 148	109 144	115 063
Interest income	6 148	109 144	135 001
Interest expense	-	-	(19 938)
Dividends received on financial instrument	-	-	5 492
Loss on disposal of financial instrument	(4 153)	-	(460)
Profit before fair value adjustments	257 233	267 931	510 499

Net fair value adjustments on investment properties	(62 499)	45 669	2 319
Fair value adjustments	(67 342)	41 061	(24 662)
Adjustment for the straight-lining of operating lease income	4 843	4 608	26 981
Fair value adjustments on equity instrument	-	-	2 067
Total earnings	194 734	313 600	514 885
Basic and diluted earnings per unit			
Basic earnings per unit (cents)	21.44	34.52	56.68
Fully diluted earnings per unit (cents)	21.44	34.52	56.68

Statement of changes in participatory unitholders' capital and reserves

	Unaudited 30 Jun 2018 R'000	Unaudited 30 Jun 2017 R'000	Audited 31 Dec 2017 R'000
Balance at beginning of period/year	8 958 804	8 760 421	8 760 421
Transaction costs for issue of new units	-	(197)	95
Total earnings for the period/year	194 734	313 600	514 885
Distribution to unitholders	(265 447)	(44 063)	(316 597)
Balance at end of period/year	8 888 091	9 029 761	8 958 804

Statement of cash flows

	Six months Unaudited 30 Jun 2018 R'000	Six months Unaudited 30 Jun 2017 R'000	Twelve months Audited 31 Dec 2017 R'000
Cash flows from operating activities	8 647	187 524	127 248
Cash generated by operations	267 946	122 443	328 782
Interest received on financial investment	5 752	109 144	133 801
Bank interest received	396	-	1 200
Interest paid	-	-	(19 938)
Distribution to unitholders	(265 447)	(44 063)	(316 597)
Cash flows from investing activities	(21 975)	(188 898)	(112 702)
Expenditure on investment properties	(98 849)	(44 071)	(121 205)
Expenditure on investment properties under development	-	-	(43 765)
Acquisition of investment properties	-	-	(2 476 555)
Acquisition of investment properties under development	-	-	(36 350)
Investment in financial instruments - mutual funds	(74 752)	(144 827)	2 716 799
Investment in financial instruments - equity instrument	-	-	(182 725)
Disposal of financial instruments - equity instrument	151 626	-	31 099
Cash flows from financing activities	-	(197)	95
Units issued for cash on listing	-	-	-
Transaction costs (incurred)/reversal for issue of new units	-	(197)	95
Net (decrease)/increase in cash and cash equivalents	(13 328)	(1 571)	14 641
Cash balance at the beginning of the period/year	16 323	1 682	1 682
Cash and cash equivalents at the end of the period/year	2 995	111	16 323

Headline earnings, distributable income and earnings per unit

	Unaudited 30 Jun 2018 R'000	Unaudited 30 Jun 2017 R'000	Audited 31 Dec 2017 R'000
Reconciliation of total earnings to headline earnings and distributable income			
Total earnings (basic earnings)	194 734	313 600	514 885
Fair value adjustment to investment properties and financial investment	62 499	(45 668)	(4 386)
Loss on disposal of equity instrument	4 153	-	460
Headline earnings	261 386	267 932	510 959
Adjustment for straight-lining of operating lease income	4 843	4 608	26 981
Distributable income	266 229	272 540	537 940
Earnings per unit			
Basic and diluted	21.44	34.52	56.68
Headline	28.77	29.49	56.25
Distributable income	29.31	30.00	59.22
Net asset value per unit	9.78	9.94	9.86
Number of units in issue	908 443	908 443	908 443
Weighted average number of units in issue	908 443	908 443	908 443

Segmental analysis

Segment information	Retail R'000	Office R'000	Specialised R'000	Administra- tion/other(1) R'000	Total R'000
30 June 2018					
Total property GLA (m2)	523 107	332 290	52 089	-	907 486
L2D's share of total GLA (m2)(2)	137 785	56 614	7 606	-	202 005
Segment earnings					
Property portfolio revenue	284 346	116 834	15 696	337	417 213
Rental and related income	287 650	118 191	15 878	337	422 056
Adjustment for the straight-lining of operating lease income	(3 304)	(1 357)	(182)	-	(4 843)
Property operating expenses	(97 915)	(40 231)	(5 405)	(874)	(144 425)
Net rental and related income	186 431	76 603	10 291	(537)	272 788

Administration expenses	-	-	-	(2 985)	(2 985)
Net property income	186 431	76 603	10 291	(3 522)	269 803
Asset management fee	-	-	-	(14 565)	(14 565)
Profit from operations	186 431	76 603	10 291	(18 087)	255 238
Net interest	-	-	-	6 148	6 148
Interest income	-	-	-	6 148	6 148
Interest expense	-	-	-	-	-
Dividends received on financial instrument	-	-	-	-	-
Loss on disposal of financial instrument	-	-	-	(4 153)	(4 153)
Profit before fair value adjustments	186 431	76 603	10 291	(16 092)	257 233
Net fair value adjustments on investment properties	(42 629)	(17 516)	(2 354)	-	(62 499)
Fair value adjustments	(45 933)	(18 873)	(2 536)	-	(67 342)
Adjustment for the straight-lining of operating lease income	3 304	1 357	182	-	4 843
Total earnings	143 802	59 087	7 937	(16 092)	194 734
Segment assets and liabilities					
Investment property	5 937 737	2 439 729	327 769	-	8 705 235
Trade receivables	91 932	37 773	5 075	28 628	163 408
Financial investment	-	-	-	132 831	132 831
Cash and cash equivalents	-	-	-	2 995	2 995
Total assets	6 029 669	2 477 502	332 844	164 454	9 004 469
Trade payables and other	(72 659)	(29 855)	(4 011)	(9 853)	(116 378)
Net assets	5 957 010	2 447 647	328 833	154 601	8 888 091

(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.

(2) Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

	Retail	Office	Specialised	Administra- tion/other(1)	Total
	R'000	R'000	R'000	R'000	R'000
30 June 2017					
Total property GLA (m2)(2)	500 973	332 290	38 280	-	871 543
L2D's share of total property GLA (m2)(3)	110 238	73 119	8 423	-	191 780
Segment earnings					
Property portfolio revenue	148 979	98 817	11 384	398	259 578
Rental and related income	151 628	100 574	11 586	398	264 186
Adjustment for the straight-lining of operating lease income	(2 649)	(1 757)	(202)	-	(4 608)
Property operating expenses	(45 729)	(30 331)	(3 494)	(498)	(80 052)
Net rental and related income	103 250	68 486	7 890	(100)	179 526
Administration expenses	-	-	-	(1 968)	(1 968)
Net property income	103 250	68 486	7 890	(2 068)	177 558
Asset management fee	-	-	-	(18 771)	(18 771)
Profit from operations	103 250	68 486	7 890	(20 839)	158 787
Interest received	-	-	-	109 144	109 144
Profit before fair value adjustments	103 250	68 486	7 890	88 305	267 931
Net fair value adjustments	26 252	17 412	2 005	-	45 669
Fair value adjustments	23 603	15 655	1 803	-	41 061
Adjustment for the straight-lining of operating lease income	2 649	1 757	202	-	4 608
Total earnings	129 502	85 898	9 895	88 305	313 600
Segment assets and liabilities					
Investment property	3 531 631	2 342 493	269 856	-	6 143 980
Trade receivables	43 034	28 544	3 288	5 420	80 286
Financial investment	-	-	-	2 919 705	2 919 705
Cash and cash equivalents	-	-	-	111	111
Total assets	3 574 665	2 371 037	273 144	2 925 236	9 144 082
Trade payables and other	(61 477)	(40 777)	(4 698)	(7 369)	(114 321)
Net assets	3 513 188	2 330 260	268 446	2 917 867	9 029 761

(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.

(2) The total property GLA allocation was revised to accurately split the precincts GLA between retail, office and specialised.

(3) Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

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

Assets (R'000)	Fair value	Unaudited 30 June 2018		
		Level 1	Level 2	Level 3
Investment properties	8 656 908	-	-	8 656 908
Investment properties under development	48 327	-	-	48 327
Financial investments - mutual funds	132 831	-	132 831	-

8 838 066 - 132 831 8 705 235

Assets (R'000)	Fair value	Unaudited 30 June 2017		Level 3
		Level 1	Level 2	
Investment properties	6 073 167	-	-	6 073 167
Investment properties under development	70 813	-	-	70 813
Financial investments - mutual funds	2 919 705	-	2 919 705	-
	9 063 685	-	2 919 705	6 143 980

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

Details of changes in valuation techniques

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

Significant transfers between level 1, level 2 and level 3

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

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

LEVEL	INSTRUMENT	VALUATION BASIS	MAIN ASSUMPTIONS
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable
3	Investment properties	Discounted cash flow	Exit capitalisation rate, discount rate, annual rental and operating escalation, annual cost escalation and vacancy.
3	Investment properties under development	Fair value	Not applicable

Investment properties - basis of valuation

The investment properties were independently valued as at 30 June 2018 by professional valuers, namely Rode and Associates Proprietary Limited and Jones Lang LaSalle Proprietary Limited, both of which are registered valuers in terms of the Property Valuers Professional Act, No. 47 of 2000.

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

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the capitalisation rate is applied as at 30 June 2018. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 30 June 2018. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

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

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

Reconciliation of level 3 assets

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

	June 2018 R'000	June 2017 R'000
Investment property and investment property under development		
Opening balance	8 708 712	6 060 439
Capitalised cost	63 865	42 480
Fair value adjustments (unrealised)	(67 342)	41 061
Closing balance	8 705 235	6 143 980

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 benefits of recent alterations. The capitalisation rates applied at 30 June 2018 range between 6.25% and 9.00% (30 June 2017: 6.25% - 9.00%).

Inter-relationship between key unobservable inputs and fair value measurements

The estimated fair value would increase/(decrease) if:

- capitalisation rate was lower/(higher)
- market rental growth was higher/(lower)
- expense growth was lower/(higher)
- vacancies were lower/(higher)
- occupancy rate was higher/(lower)
- rent-free periods were shorter/(longer)
- discount rate was lower/(higher)
- reversionary capitalisation rate was lower/(higher).

Related party disclosure

Ultimate parent

Standard Bank Group Limited ("Standard Bank")

Parent

Liberty Holdings Limited ("LHL")

Transactions with related entities

At 30 June 2018 there is a R54.8 million (30 June 2017: R39.3 million) loan due from LGL to L2D.

Liberty Centre Head Office Cape Town

The property is fully let to LGL with a lease period of five years. Rental income received by L2D for the six-month period was R5.2 million (30 June 2017: R5.6 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 80% of the property is let to LGL on a five-year lease. Rental income received by L2D for the six-month period was R3.6 million (30 June 2017: R2.3 million).

Transactions with STANLIB REIT Fund Managers (RF) Proprietary Limited

R14.6 million of management fees were paid to the Manager for the period 1 January 2018 to 30 June 2018 (30 June 2017: R18.8 million) in respect of management and administration of the collective investment scheme.

Transactions with other related entities

JHI Retail Property Proprietary Limited ("JHI")

The property management function in respect of L2D 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 Investments Proprietary Limited ("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. Mrs A Beattie is a director of both JHI (resigned effective 12 July 2018) and the Manager. Property management service net fees paid by L2D to JHI for the period 1 January 2018 to 30 June 2018 amounted to R11.9 million (30 June 2017: R7.8 million).

STANLIB Property Development Proprietary Limited

Development fees amounting to R0.6 million (30 June 2017: R0.2 million) were paid to STANLIB Property Development Proprietary Limited and were capitalised to the relevant development projects.

Transactions with Standard Bank

Standard Bank Centre

The Standard Bank Centre is fully let to Standard Bank on a seven-year lease. Rental income received by L2D for the period 1 January 2018 to 30 June 2018 was R8.9 million (30 June 2017: R5.9 million).

Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on L2D's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

Impact on the financial statements

L2D elected to adopt both standards prospectively from 1 January 2018 with no restatement to comparatives in line with the transition choices.

The initial adoption of IFRS 9 and IFRS 15 does not have an impact on the financial statements of L2D.

Accounting policies adopted from 1 January 2018

IFRS 9 Financial Instruments

Investments and other financial assets

Classification

From 1 January 2018, L2D classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (FVPL); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss.

Measurement

At initial measurement, the entity measures a financial asset at its fair value and transaction costs are expensed in profit or loss.

Equity instruments

L2D subsequently measures all equity instruments at fair value. Dividends from such investments continue to be recognised in profit or loss as other income when L2D's rights to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

Impairment

For trade receivables, L2D applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Non-derivative financial liabilities: Borrowings

Non-derivative financial liabilities, comprising long-term interest-bearing loans, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings as part of the borrowing costs.

Creditors are measured at amortised cost.

IFRS 15 Revenue from Contracts with Customers

The impact is considered to be immaterial as the majority of revenue is in the scope of IAS 17 Leases.

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

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

Registered office

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

Manager

STANLIB REIT Fund Managers (RF) (Pty) Ltd
(Registration number 2007/029492/07)
Liberty Life Centre
1 Ameshoff Street
Braamfontein
Johannesburg, 2001
(PO Box 10499, Johannesburg, 2000)

Trustee

RMB Trustee Services, a division of FirstRand Bank Limited
(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)

Company secretary of the Manager

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

Contact information

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Email: info@liberty2degrees.co.za
www.liberty2degrees.co.za

Auditors

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Juskei View
2090

Sponsor

The Standard Bank of South Africa Ltd
(Registration number 1962/000738/06)
30 Baker Street
Rosebank, 2196
(PO Box 61344, Marshalltown, 2017)
Tel: 011 721 6125

23 July 2018

Presentation starts: 09:00am Tuesday 24 July 2018

Webcast:
<https://www.corpcam.com/LibertyTwoDegrees24072018>

Conference call details:

Participant telephone numbers (Assisted)

Johannesburg (Neotel)	011 535 3600
Johannesburg (Telkom)	010 201 6800
USA and Canada	1 508 924 4326
UK	0 333 300 1418
Australia (Toll Free)	1 800 350 100

Please ask to be joined into the Liberty Two Degrees call.

Conference replay

South Africa:	010 500 4108
UK:	0 203 608 8021
Australia:	073 911 1378
USA:	1 412 317 0088
International:	+27 10 500 4108
Replay Access Code:	15427

End Date: July 30, 2018