abacus property group

Level 34 Australia Square
264-278 George Street
Sydney NSW 2000
T 02 9253 8600
F 02 9253 8616
www.abacusproperty.com.au

Abacus Group Holdings Limited
ACN 080 064 619
Abacus Group Projects Limited
ACN 104 066 104
Abacus Funds Management Limited
ACN 007 415 590
Abacus Property Services Pty Limited
ACN 050 739 001

## ASX release

# Abacus 2010 Half Year Results

**Key financial highlights**

- Underlying profit* $30.8 million
- Underlying earnings per security 2.01 cents
- AIFRS statutory profit attributed to securityholders of $21.3 million
- HY10 distribution of 1.50 cents per security
- Group Gearing 23%

Abacus Property Group Managing Director Frank Wolf said: "Abacus has delivered a solid result and this, with our recent operating successes, is evidence of managements commitment to its core strategies.

The Group has a strong focus on enhancing value through the active management of its existing portfolio and on looking for acquisition opportunities that complement the core plus nature of our diversified portfolio. We also took advantage of market conditions to restructure a number of our joint venture and lending relationships in order to participate more directly in overall project profitability.

Successful leasing strategies approximately 28,500m$^2$ of new leases increased occupancy to 96% from 90%. We have also, following year-end, signed up high-end retailer Burberry to a 15-year lease over 2,000m$^2$ of retail and office space at 343 George Street in the Sydney CBD. The new lease commencing in mid 2010 substantially increases passing income and validates our decision to buy the property. It should underpin a significant enhancement in the asset value.

The Group continued to strengthen its financial position during the period providing capacity for further growth acquisitions and organic development opportunities."

**Underlying profit of $30.8 million for HY10**

Abacus Property Group today announced a $30.8 million underlying profit for the half-year ended 31 December 2009.

The underlying profit achieved, was underpinned primarily by recurring income from Abacus' property portfolio, property finance and funds management businesses. However, after taking into account non-

* Underlying profit and earnings per security have been calculated in accordance with the AICD / Finsia principles

cash fair value adjustments on the valuation of Abacus' investment properties and non recurring items, Abacus recorded an after tax statutory profit excluding minorities for the half-year of $21.3 million.

The Group generated strong underlying cash flows of $29.8 million from operating activities, which adequately covered HY10 distributions of $22.8 million.

| Summary Profit and Loss Statement | 31 December 2009 |
|---|---|
| **Statutory net profit attributed to securityholders** | **$21.3m** |
| Plus fair value adjustments on investment properties | $10.8m |
| Less fair value movement in derivatives | ($6.2m) |
| Plus loan write down as part of ADIF II restructure | $4.9m |
| **Underlying profit** | **$30.8m** |
| Underlying earnings per security | 2.01cps |
| Distribution per security | 1.50cps |

As at 31 December 2009, Abacus had net assets of $1,099.4 million, with net tangible assets per security of $0.60.

| Summary Balance Sheet | 31 December 2009 |
|---|---|
| Total Assets | $1,508.1m |
| Interest Bearing Debt | $358.9m |
| Other Liabilities | $49.8m |
| **Net Assets** | **$1,099.4m** |
| NTA per security | $0.60 |
| Gearing[1] | 22.8% |
| Covenant Gearing[2] | 28.0% |

*1. Gearing is calculated as Net Debt/Total Assets less Cash*

*2. Covenant Gearing is calculated as Total Liabilities/Total Tangible Assets*

## Capital management

Abacus continued to strengthen its financial position during the period:

- raising $91.4m via placement to new and existing institutional securityholders;
- selling an additional $54m of non-core assets that no longer meet investment objectives; and
- our weighted average debt maturity of 1.3 years provides us with sufficient time to re-negotiate our facilities.

Consequently, Group Gearing was further reduced to 22.8% and Covenant Gearing to 28.0% at 31 December 2009. Abacus now has the opportunity to progressively move towards our target Group Gearing range of 30-35% as we take advantage of further acquisition opportunities over the medium term.

We have commenced discussions with our bankers on the Group's refinancing requirements, as facilities approach maturity.

## Operational review

### Investment property portfolio

- Direct property investments of $830 million
- Portfolio cap rate: 8.53%
- Occupancy 96%
- Annualised like for like rental growth 3.2%
- Weighted lease expiry profile 4.3 years.

The investment property portfolio delivered gross revenue of $39.9 million and an EBITDA contribution of $30 million. During the period Abacus has entered into new or renewed leases of approximately 33,000m$^2$ of space, while maintaining rental rates on new leases. This helped occupancy rise to 96% from 90% at 30 June 2009.

30% of the investment portfolio was independently re-valued at 31 December 2009, with values falling 1.5% ($12m). The weighted average portfolio cap rate remained unchanged at 8.53%. Abacus ensures all assets are independently revalued every 12 months.

Abacus continues in its efforts to re-weight the portfolio to larger higher quality assets through recycling smaller non-core assets into the market with approximately $54 million of assets sold in the six months to 31 December.

### Funds management

Abacus has external assets under management of $943 million. The funds management business contributed $4 million to the Group's results, or $8.9 million excluding non recurring $4.9 million ADIFII loan write-down.

Abacus has made good progress on a number of its restructuring strategies:

- ADIF II product restructured and new PDS issued; and
- sale of two hotels in AHF and well progressed on the divestment of other assets.

Abacus continues to work on its various re-financing strategies. We:

- have successfully refinanced $54m of debt for the ADIF II fund;
- are well advanced on finalising the refinance and extension of $134m of debt due in CY10 in the Storage Fund; and
- have repaid a number of AHF facilities with asset sale proceeds.

**Joint ventures and projects**

- $118m invested in 12 diverse joint venture projects
- $71m deployed across a number of co-investments.

Abacus took advantage of market conditions to restructure a number of our joint venture and lending relationships, in order to ensure we receive equity type returns from our involvement in specific projects.

The joint ventures and projects business generated $4 million in EBITDA during the period. JV projects are progressing well with a number of projects due for realisation over the next 12 months:

- Cardinia Road, Pakenham Victoria, a 54ha suburban development outside Melbourne: sales have commenced with strong interest;
- Bay Street, Brighton Victoria, a 5,400m$^2$ suburban development within the Melbourne Bayside: conditional sale of retail stratum for $36m;
- Edgecliff on the Beach, Hampton Victoria, a luxury four level apartment development in a unique waterfront location has achieved pre-sales of over 50% with construction due to be completed August 2010; and
- 4 lots have been sold at the Colemans Road industrial development with the remaining 5 lots targeted for sale by the end of the year.

**Property finance**

- Loan book 11 loans totalling $109.2 million
- Majority of loans secured by first mortgages

As at 31 December 2009, property finance assets reduced to $109 million from $146 million at 30 June 2009. Abacus has taken advantage of the current environment to restructure a number of loans during the half, to increase our participation in the project's and our share of the net profits.

Abacus is actively seeking to reduce the size of its property finance book with expectations that circa 35% of the book will be repaid within 12 months.

There were no impairments during the period. The loan book is tested for impairment every six months.

**Strategy and outlook**

Abacus has a domestic core plus, asset-centric business model where the properties are the Group's main profit drivers. Abacus believes it's not the quantity of assets that is important, but rather the nature of the assets we control and the opportunities they present. Abacus looks to actively manage its portfolio to reposition assets, address tenancy flaws and extract value from redevelopment.

Abacus remains focused on delivering securityholder returns via its core strategies

- Actively manage our existing portfolio of core plus assets, in which we will look to secure recurring income and capitalise on as market conditions improve
- Recycle assets that no longer meet investment objectives into new acquisitions that will provide the next generation of value add opportunities

- Enhance recurring earnings through selective acquisitions to underpin future distribution growth

Abacus and all its business areas are well positioned to deliver returns as the economic recovery progresses.

**Securityholder distributions**

Abacus is very pleased to announce a 10% increase in its targeted distribution for the six months to 30 June 2010 to 1.65cps. This will take the full year targeted distribution to 3.15c, representing a 5% increase for FY10.

**Further information**

Further information on Abacus' half-year results and an update on current operations are provided in the financial report and investor presentation.

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Ellis Varejes
Company Secretary
(02) 9253 8600

Neil Summerfield
Investor Relations
(02) 9253 8640
0423 273 074