
ANNOUNCEMENT

Strategic update

Executive Summary

- The Directors of Abacus Property Group in consultation with the Group's auditors have elected to early adopt AASB10, 11 and 12 as at 31 December 2011.
- The impact of early adopting these new accounting standards will result in the consolidation of:
 - Abacus Diversified Income Fund II;
 - Abacus Hospitality Fund;
 - Abacus Storage Fund; and
 - Abacus Miller Street Fund.
- The consolidation of these funds will result in a net reduction of the Group's retained earnings of approximately \$93 million or \$0.26 cents per security.
- This accounting adjustment has no effect on the Group's underlying earnings, cashflows, banking arrangements or operations or any effect on the underlying position of the investors in the relevant funds.
- We also provide an update on strategies for each of the Group's unlisted retail funds including a proposal to merge Abacus Property Group and Abacus Storage Fund

Strategic Update

At our recent 2011 annual results presentation in August 2011, Abacus announced that it would undertake a strategic review of our unlisted retail funds management platform. We indicated that we would conclude this review on or before 30 June 2012.

The Funds Management strategic review has been driven in equal part by the continued deterioration in the demand from the retail market for unlisted real estate investment product and the success Abacus has had with its wholesale and sophisticated third party capital initiatives. Our objective during the conduct of this review was to release, where possible, capital that Abacus had invested in this part of the business and to assist with the Group's commitment to building a balance sheet more reflective of our 70/30 private equity style investment strategy.

We had previously indicated that the strategic review would need to assess any potential impact of the new accounting standard AASB10 (*Consolidated Financial Statements*) that comes into effect in January 2013 (unless adopted earlier). The new standard requires consideration of a very broad range of assumptions and factors to determine whether fund managers control the funds (as defined in this standard) that they manage and hence whether they will need to consolidate them on the balance sheet in future.

It was unclear at that time the precise impact the new standard would have on Abacus and its unlisted retail funds platform. Therefore as part of the strategic review we have investigated how the new standard will affect Abacus and each of the unlisted retail property funds we manage. We have now reached a point where we can update the market on the estimated impact of the application of AASB10 on the Group and the likely action we will take with each of our unlisted retail funds as a result of the strategic review.

Application of AASB10

The standard introduces a new definition for control that considers both the power and returns that a manager has over a particular fund. When assessing control the following three elements have to be considered:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

The relationship between Abacus and its funds has been reviewed on the basis of the new standard and definition of control. This significant project was undertaken in consultation with our auditors, Ernst & Young.

As a result of the review we have determined that the application of AASB10 would lead to the consolidation of the following unlisted retail funds:

- Abacus Diversified Income Fund II;
- Abacus Hospitality Fund;
- Abacus Storage Fund; and
- Abacus Miller Street Fund

This is due to the combination of Abacus's role as responsible entity, variable returns arising from its collective equity and loan investments in these funds, and certain guarantees.

The impact of consolidating the above entities would result in a material adjustment to the Group's net asset position, however there is no impact on cashflows or underlying earnings. Were AASB10 not adopted early and its impacts reasonably estimable, then the estimated impact would be disclosed in a note to the accounts in accordance with AASB108. This level of disclosure would be less comprehensive than early adoption of the standard and may result in securityholders and other financial statement users not being as fully informed.

After due consideration and analysis the Group's Directors have resolved to early adopt AASB10, as at 31 December 2011. This will give securityholders the most accurate account of the Group's affairs under the changed requirements of the consolidation standard.

AASB10 consolidation impacts

- **Abacus Diversified Income Fund II (ADIF II):** The consolidation of ADIF II assumes the underwritten capital return guarantee is crystallised immediately upon consolidation and does not take into account any opportunity for the guarantee amount to be reduced by asset growth over the period to the maturity of the capital guarantee of which 20% is actually payable in 2013 and 80% in 2016/17. This will cause an approximate \$48 million (equivalent to \$0.13 per ABP security) reduction to the Group's 1 July 2010 retained earnings.

- **Abacus Hospitality Fund (AHF):** The consolidation of AHF assumes the conversion of the Abacus working capital facility into equity at the deemed control date rather than its anticipated recoverable value based on a 2016 maturity date. This will cause an approximate \$47 million (equivalent to \$0.13 per ABP security) reduction to the Group's 1 July 2010 retained earnings.
- **Abacus Storage Fund (ASF):** The consolidation of ASF will result in an approximate \$2 million increase to the Group's 1 July 2010 retained earnings.
- **Abacus Miller Street Fund (AMSF):** The consolidation of AMSF will result in a negligible increase to the Group's 1 July 2010 retained earnings.
- The total impact on the Group's 1 July 2010 retained earnings is a net reduction of approximately \$93 million or \$0.26 per ABP security. This will be reflected in the prior year comparative balances of the Group's financial statements for the six month period ending 31 December 2011. Further, the Group's balance sheets and income statements for both the 31 December 2011 and 31 December 2010 period ends will reflect the consolidation of AHF, ADIF II, AMSF and ASF.
- While this will impact the Group's NTA per security there will be no impact to the Group's underlying earnings or cashflows.
- Group's banking covenants are also unaffected following the recent refinancing and extending of ABP's banking facilities as announced on 6 December 2011. The accounting consolidations arising under AASB10 are excluded from ABP's Total Gearing and Group ICR covenants (as these covenants only include assets and liabilities owned by ABP).
- The consolidation of the funds and the accounting treatment of consolidation in the accounts of Abacus Property Group has no impact on the financial position of individual investors in our managed funds.

The Group will, at this time, also early adopt AASB11 and AASB12 that relate to interests in joint ventures and jointly controlled entities and disclosures relating to an entity's interest in subsidiaries, joint arrangement associates and structured entities. The adoption of these additional standards does not have a significant impact to the Group's underlying earnings or cashflows.

Funds Management Strategic Review

While the strategic review remains on-going we are in a position to update the market on its progress at this time. With the recent refinancings and extension of a number of banking facilities within our managed funds, we are provided with sufficient time to implement the preferred strategies of all stakeholders.

Continued focus on third party capital strategy

ABP has furthered its third party capital strategy of investing with wholesale partners. This is proving to be a successful strategy as reflected in the fact we have acquired \$469 million of property in this form of joint ventures since early 2010.

This ability to source wholesale third party capital is strategically important to ABP as it:

- leverages ABP's existing capital;
- drives ABP's return on equity;
- validates ABP's core plus track record, buy side expertise and total return investment style; and
- provides substantial capital for growth.

Abacus Storage Fund

Following the strategic review, the Boards of both Abacus Property Group and of Abacus Storage Fund are close to finalising a proposal to merge the two Groups based on their respective NTA's. If approved

by securityholders it will successfully reweight the portfolio to ABP's desired balance sheet allocation of 70% to directly held core plus property investments.

An explanatory memorandum will be released to all securityholders in the near future.

Abacus Diversified Income Fund II

The current structure of ADIF II was established after the GFC in an effort to facilitate its capital raising potential in a particularly difficult environment for retail investors. The restructured product provided for a capital and income guarantee to unitholders of the fund. Under AASB10, the consolidation of ADIF II results in the capital guarantee being accounted for as if it was substantially due and payable today. As a result, Abacus has decided to close the ADIF II capital raising under the current PDS now resulting in Abacus placing a cap on its underwritten capital guarantee of approximately \$55 million. Under AASB10, this guarantee is accounted for as a non-current liability. Any actual guarantee exposure will be determined in 2013 (20% of total exposure) and between 2016 and 2017 (80% of total exposure). We will continue to manage the portfolio over this period to maximise its income and capital value for our unitholders, which is consistent with managing the guarantee liability for Abacus.

Abacus Hospitality Fund

Abacus has undertaken to hold an AHF securityholders meeting by March 2012 at which Abacus will outline to unitholders the various strategic options available and make a recommendation in relation to the optimal strategies for the fund. The GFC coupled with a rising \$A have adversely impacted hospitality assets in Australia.

Abacus Miller Street Fund

The property is majority leased to NAB with approximately 6 years remaining on the lease. Abacus will look to sell the property and release capital over the medium term subject to unitholder approval.

Abacus Wodonga Land Fund

This is a long term urban residential and commercial development in Wodonga, Victoria with residential stock expected to be constructed and sold over the next 10 years. Abacus will continue to manage this development through the life of the fund to maximise value for investors.

Abacus Jigsaw Trust

The fund owns a 50% interest in the Jigsaw Childcare Group, a corporate childcare operator. Abacus holds a 40% interest in the Fund and will look to release its capital over the medium term subject to unitholder approval.

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