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## ANNOUNCEMENT

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### Updated merger presentation

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Attached is the recently released merger presentation with an updated timetable.

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16 January 2012

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Company Secretary

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PROPOSED MERGER  
OF ABACUS PROPERTY  
GROUP AND ABACUS  
STORAGE FUND

16 January 2012

# Disclaimer

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# Agenda

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- Executive summary
- Key Merger terms
- ABP NTA reconciliation
- Rationale for the Merger – ASF
- Rationale for the Merger – ABP
- Impact of the Merger
- Alternatives to the Merger
- Recommendation to securityholders
- Timetable and conditions
- Appendices

# Executive summary

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- The Directors of Abacus Property Group (*ABP*) and Abacus Storage Fund (*ASF*) have lodged with Australian Securities and Investments Commission an Explanatory Memorandum recommending the Merger of the two Groups into a single listed A-REIT
- The merger proposal (*Merger*) has the support of the Independent Directors of both ABP and ASF, who recommend that ABP and ASF securityholders vote in favour of the proposal in the absence of a superior proposal
- The Merger enables ABP to gain exposure to \$332 million of self storage assets through the issuance of ABP scrip at pro forma NTA
  - Supplemented with \$11 million of cash
- Commercially the combined consideration of ABP scrip and cash is consistent with the economics of a property transaction at current market capitalisation rates
- The ASF portfolio is one of Australasia's largest portfolio's of self storage assets with a current portfolio cap rate of 9.2%
  - The storage portfolio has delivered strong cashflow performance during and since the GFC

# Executive summary

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- The Merger is proposed to be implemented by way of stapling ASF securities and ABP securities
  - Each ABP securityholder will hold one new stapled security for every pre-merger ABP security they hold;
  - Each ASF securityholder will receive 0.538 new stapled security and \$0.14 merger distribution for every pre-merger ASF security they hold; and
  - ABP will not participate in the Merger in respect of its 19.95% holding in ASF
  
- The Merger delivers a number of strategic benefits to ABP securityholders including:
  - Access to one of the largest premium self storage portfolios in Australasia valued at \$332 million; and
  - Reweights the balance sheet allocation to targeted 70% directly held core plus property investments
  
- The Merger delivers a number of strategic benefits to ASF securityholders including:
  - Provides an exit strategy and liquidity event at fair value;
  - Delivers a cash payment; and
  - Removes the constraints of the ASF capital structure and enables securityholders the option to stay invested in the storage portfolio (although in a diluted form)
  
- The independent expert has concluded that the Merger is:
  - fair, reasonable and in the best interest of ABP securityholders; and
  - not fair but reasonable and in the best interest of ASF securityholders

# Key Merger terms

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- ASF securityholders<sup>1</sup> will receive a merger consideration valued by the independent expert of between \$1.16 to \$1.22
  - Based on an assumed ABP trading price range of \$1.90 to \$2.00
  
- ASF securityholders will receive 0.538 new stapled security for every pre-merger ASF security they own based upon the Merger Ratio and an additional \$0.14 in cash
  - The Merger Ratio is based on the relative pro forma NTA per security of ABP and ASF of \$2.407 and \$1.295 respectively
  - The 14 cent merger distribution is made of a 8.7 cent fully franked dividend and a 5.3 cent capital distribution
  
- ABP securityholders will receive one new stapled security for every pre-merger ABP security they own
  
- All new stapled securities will be entitled to the full six month distribution for the period ending 30 June 2012

1. Other than those securityholders with a registered address outside of Australia and New Zealand

# Key Merger terms

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- A sale facility will be available to all ASF securityholders who do not wish to hold their new stapled securities received under the Merger
  - All ABP and ASF foreign securityholders are unable to participate in the Merger and will automatically participate in the sale facility
- The Merger is proposed to be implemented by way of stapling ASF securities to ABP securities so that they will be traded together as an expanded ABP stapled security
- The Merger is subject to a number of conditions, including the approval of both ABP and ASF securityholders
- Further details of the Merger is contained in the Explanatory Memorandum

# ABP NTA reconciliation

- The pro forma NTA for ABP for the purpose of determining the Merger ratio is \$2.407, which is based on the 30 June 2011 audited accounts
- The NTA has subsequently been amended by provisions for distributions, external non-controlling interests and the early adoption of AASB10 as disclosed in December 2011
- AASB 10 recognises an immediate write down of the loan from ABP to AHF (which may be recoverable in full) and immediate recognition of the guarantee to ADIF II unitholders (even though the guarantee may not be called and any potential exposure is some years away)

|                                                               | NTA per security |
|---------------------------------------------------------------|------------------|
| <b>ABP NTA at 30 June 2011</b>                                | <b>\$2.76</b>    |
| Provision for ABP 30 June 2011 distribution <sup>1</sup>      | (\$0.10)         |
| Equity attributable to non-controlling interests <sup>2</sup> | (\$0.03)         |
| <b>ABP pro forma excluding non-controlling interests</b>      | <b>\$2.63</b>    |
| AASB10 consolidation of ADIF II                               | (\$0.12)         |
| AASB10 consolidation of Abacus Hospitality Fund (AHF)         | (\$0.10)         |
| AASB10 consolidation of Abacus Miller St Fund                 | -                |
| <b>Pro forma ABP NTA pre-merger as at 30 June 2011</b>        | <b>\$2.41</b>    |

1. The distribution was 8.25 cents per security. Dilution as a result of issuing securities under the DRP causes the overall impact on NTA per security to be 10 cents.

2. Non-controlling interests relating to minority ownerships in the Metcash and Jigsaw investments

# Rationale for the Merger - ASF

*Cleveland storage facility, Cleveland QLD*



# Exit strategy and liquidity

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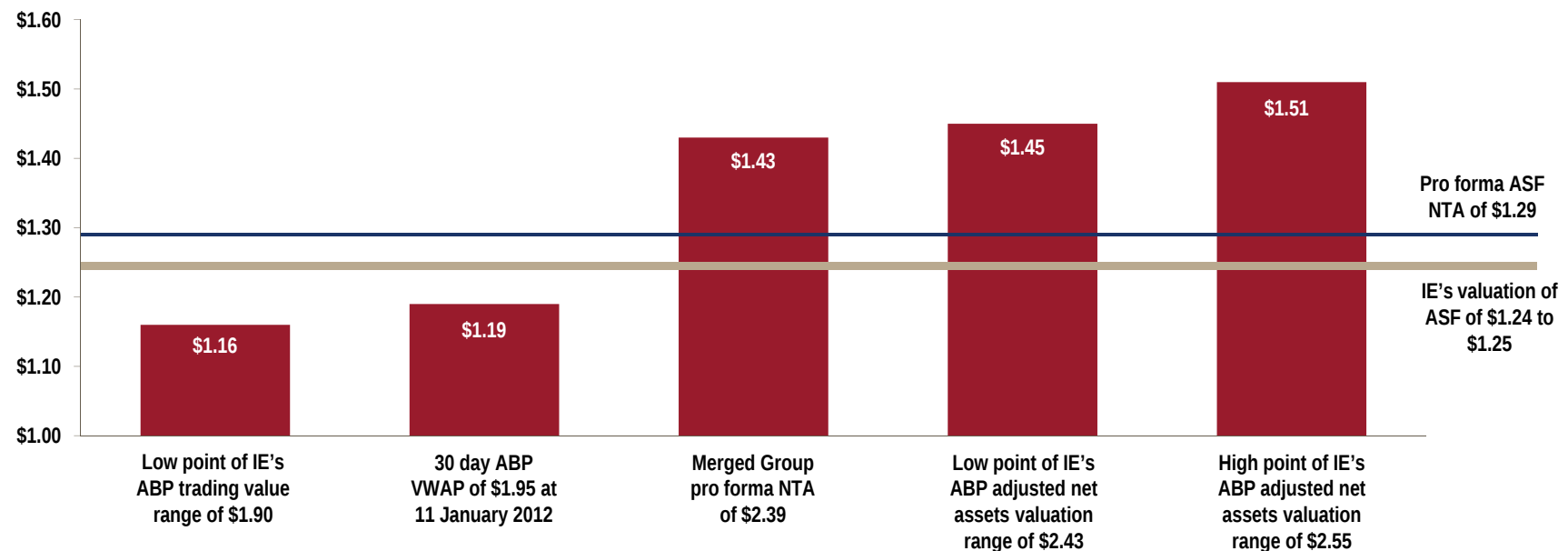
## Rationale for the Merger - ASF securityholders

- The Merger provides an exit strategy and liquidity event for ASF securityholders, while also providing a cash payment to all ASF securityholders
  - The merged group will be listed on the ASX, providing an opportunity to liquidate all or part of their holding
- The Merger also provides a solution to the funds high gearing and onerous banking covenants that might require additional equity
  - This may result in a dilution to existing ASF securityholders and an adverse impact to distributions
- ASF securityholders will become part of a broader, larger and more diversified property portfolio through the Merged Group's \$2.1 billion of total assets
- ASF securityholders will benefit from the increased size and strength of the merged group which should enhance its financial capacity to pursue storage fund growth opportunities and reduce funding costs
  - The Merger enables ABP to reduce ASF's aggregate cost of debt in excess of 1.25% on an annual basis
- ASF securityholders will continue to have exposure to the storage portfolio, although in a diluted form
- The Merger will result in fees paid by ASF to ABP to be internalised such that there will be no fee leakage out of ASF
  - If the merger does not proceed and alternative strategies are pursued, fees payable by ASF to third parties (including ABP) may be significant

# Upside in value of Merger consideration

## Rationale for the Merger - ASF securityholders

- Eligible ASF securityholders will receive a merger consideration valued at between \$1.16 to \$1.22, which compares favourably to the independent expert's valuation of ASF securities of between \$1.24 and \$1.25
  - based on the independent experts determination of fair market value of ABP securities of \$1.90 to \$2.00
- Based on the ABP 30 day VWAP to 11 January 2012 of \$1.95 values merger consideration per ASF security at \$1.19
- Based on the merged group's pro-forma NTA per security of \$2.39 the Merger values the merger consideration per ASF security at \$1.43 (\$1.29 NTA plus \$0.14 merger distribution)
- Based on the independent experts determination of fair value of ABP, based on its adjusted net assets, of \$2.43 to \$2.55 values the merger consideration per ASF security at \$1.45 to \$1.51

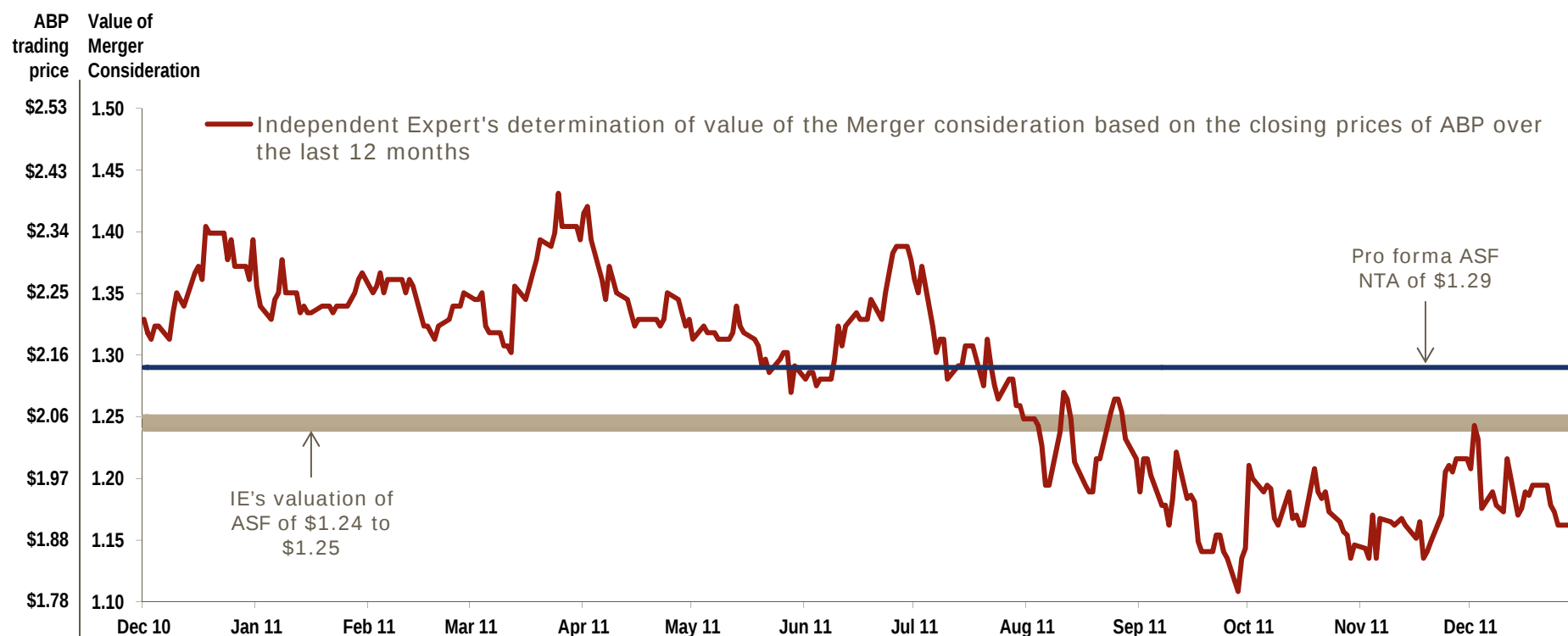


# Upside in value of Merger consideration

## Rationale for the Merger - ASF securityholders

- Sensitivity of merger consideration to the ABP security price

| ABP security price                    | \$1.80 | \$1.90 | \$2.00 | \$2.10 | \$2.20 |
|---------------------------------------|--------|--------|--------|--------|--------|
| Value of merger consideration for ASF | \$0.97 | \$1.02 | \$1.08 | \$1.13 | \$1.18 |
| Merger distribution                   | \$0.14 | \$0.14 | \$0.14 | \$0.14 | \$0.14 |
| Value of total merger consideration   | \$1.11 | \$1.16 | \$1.22 | \$1.27 | \$1.32 |



# Rationale for the Merger - ABP

*Remuera Self Storage Facility, New Zealand*



# Exposure to portfolio with attractive characteristics

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## Rationale for the Merger - ABP securityholders

- The Merger will give ABP exposure to one of Australasia's largest portfolio's of self storage assets valued at over \$332 million
  - 41 assets located throughout Australia and New Zealand, with a current portfolio cap rate of 9.2%
- The portfolio will add to the scale and diversification of ABP's balance sheet and should bolster ABP's recurrent earnings
  - Defensive features evidenced by the strong portfolio cashflow performance during and since the GFC
  - Reduces the risk associated with holding any single property (single asset risks such as market fluctuations, leasing and tenant)
- The portfolio has attractive characteristics that is capable of further low cost organic growth
  - Relatively low capital expenditure requirements
  - Scalable costs structure and
  - Developable net lettable area where surplus land and demand exists
- The Merger increases the size and capitalisation of the merged group creating potential to pursue storage fund growth opportunities

# Reweights portfolio to targeted 70%

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## Rationale for the Merger - ABP securityholders

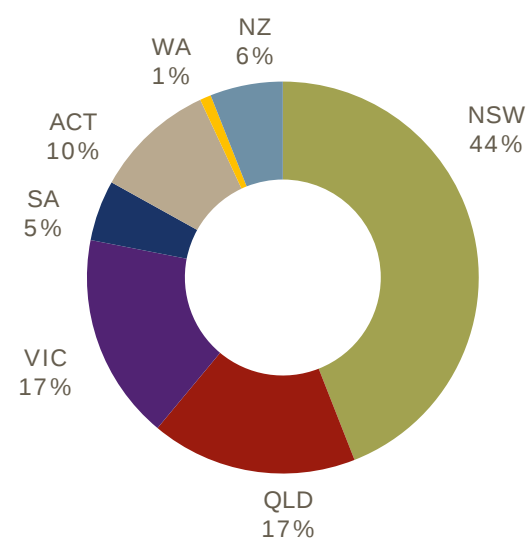
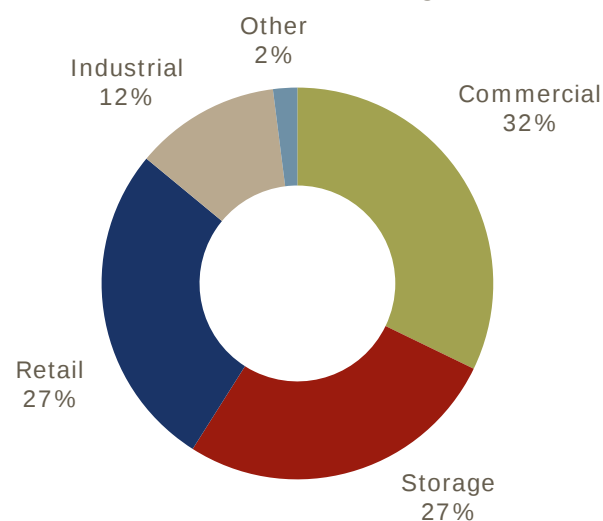
- The Merger is implemented by an effective issue of ABP securities at pro forma NTA of \$2.41 (after adopting AASB10)
  - Supplemented with \$11 million of cash which is less than what would be necessary to acquire the properties directly
  - \$1 million of which relates to transaction costs
  
- Exposure to the storage portfolio will reweight ABP's balance sheet to its targeted asset allocation of approximately 70% of core plus directly owned assets
  - Grows net assets from over \$1 billion to over \$1.3 billion
  
- The Merger begins the process of extracting invested capital out from the unlisted retail funds management platform
  - Indicative of the commitment we have to recover invested capital with minimal dilution of securityholder capital

# Impact of the Merger

- The merged group will be a well capitalised listed A-REIT with total assets of \$2.1 billion (on a pro forma basis) as at 30 June 2011

|                            | ABP   | ASF  | Merged Group | AHF  | ADIF II | AMSF | AASB10 Group |
|----------------------------|-------|------|--------------|------|---------|------|--------------|
| Total assets (\$m)         | 1,588 |      | 1,856        |      |         |      | 2,064        |
| Property value (\$m)       | 971   | 332  | 1,303        | 156  | 178     | 63   | 1,700        |
| Cap rate                   | 8.5%  | 9.2% | 8.7%         | 8.9% | 9.0%    | 8.3% | 8.7%         |
| % of directly owned assets | 61.1% |      | 70.2%        |      |         |      | 82.4%        |

- The merged group will be diversified across retail, industrial, commercial, self storage, car parking and leisure assets and located throughout the major Australian states and New Zealand



# Impact of the Merger

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- The merger will result in ABP issuing 37.6 million new stapled securities
  - ABP securityholders will hold 91.1% and ASF securityholders 8.9 % of the merged group
  
- The merged group's pro forma gearing will increase by approximately 6% to 32.7% but within the group's target gearing range of 30% to 35%
  
- Similarly, covenant gearing will increase by 6% to approximately 38%, well within the 50% ratio required by the group's debt facilities (both of which are not affected by the impacts of adopting AASB10).
  
- The Merger is expected to deliver a nominal reduction in pro forma net tangible assets as a result of the \$11 million cash used as part of the transaction from \$2.41 to \$2.39
  
- In addition, based on the merged group's pro forma financial statements as at 30 June 2011, there will be a nominal reduction in underlying earnings in part due to tax payable by ASF because a small number of self storage assets are held by a company
  - Merged group distributions to ABP and ASF securityholders are unaffected on this basis

# Alternatives to the Merger

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- The ASF Directors have considered a Merger with ABP to be most attractive to ASF securityholders after reviewing a number of alternatives to the Merger including:
  - An immediate sale of the ASF portfolio;
  - A stand alone listing of ASF;
  - A deferred sale of the ASF portfolio;
  - A recapitalisation or third party Merger of ASF; and
  - Individual asset sales
- Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio
- The approach is incomplete, subject to the conduct of due diligence and uncertain
  - However the ASF Directors has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the meeting date
- If the ASF Directors receive a sufficiently certain offer which is more attractive than the Merger, it may adjourn or discontinue the Merger meeting
- The ASF Directors understands there are likely to be adverse tax consequences which would significantly impact the viability of the Merger if the meeting does not proceed as planned and the Kirsh Group subsequently increases its holding in the ABP group from its current holding of 39.2% to more than 40%

# Recommendation to securityholders

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- Both ABP and ASF Independent Directors unanimously recommend that the ABP and ASF securityholders vote in favour of the Merger
  - Believe it is in the best interests of securityholders in the absence of a superior proposal
  
- The Directors of ABP and ASF commissioned an independent expert to assess the proposed Merger on the behalf of both ABP and ASF securityholders to address any potential conflict of interest
  - A potential conflict arises because the majority of ABP Directors are also ASF Directors
  
- The independent expert has concluded that the Merger is fair, reasonable and in the best interest of ABP securityholders
  - As a result of the independent experts fair value assessment of the merger consideration being paid to ASF securityholders being less than its assessment of fair value of an ASF security
  
- The independent expert has concluded that the Merger is not fair but reasonable and in the best interest of ASF securityholders
  - As a result of the independent experts fair value assessment of the merger consideration being paid to ASF securityholders being less than its assessment of fair value of an ASF security

# Timetable and conditions

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|                                                                 |                  |
|-----------------------------------------------------------------|------------------|
| Announcement of transaction                                     | 13 January 2012  |
| Distribution of Explanatory Memorandum to securityholders       | 24 January 2012  |
| Last date to lodge proxy forms and sale facility election forms | 22 February 2012 |
| ABP and ASF securityholder meetings                             | 24 February 2012 |
| ABP 2012 half year results presentation                         | 29 February 2012 |
| Stapling record date                                            | 5 March 2012     |
| Implementation date                                             | 6 March 2012     |
| Payment of Merger distribution                                  | 9 March 2012     |
| Payment of ABP 31 December 2011 distribution                    | 13 March 2012    |
| Normal trading in new ABP stapled securities                    | 14 March 2012    |

- These dates are indicative only and are subject to change
  
- The Merger proposal is conditional upon a number of items including:
  - Both ABP and ASF securityholders approval required
  - Certain regulatory approvals and conditions required
  - No material adverse changes in the business or financial condition of the other entity or its ability to implement the Merger

# Appendices

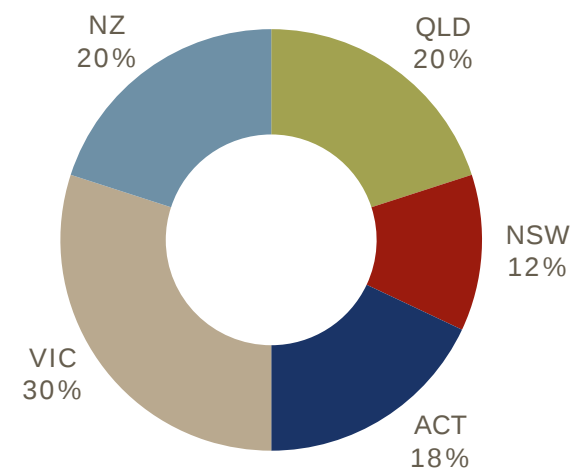
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# Abacus Storage Fund

- The fund was launched in November 2005 with a portfolio of 16 self storage assets
- The fund now comprises 41 self storage assets valued at \$332 million located in Australia and New Zealand
  - Comprising total land holdings of approximately 360,000m<sup>2</sup> with almost 200,000m<sup>2</sup> of NLA
- Portfolio facilitates storage for over 17,000 users and operates on an average occupancy of 85%

## Storage portfolio top 5 assets

| Property  | State | Valuation | Cap Rate |
|-----------|-------|-----------|----------|
| Belconnen | ACT   | \$22.3m   | 8.75%    |
| Kambah    | ACT   | \$18.4m   | 9.00%    |
| Fyshwick  | ACT   | \$17.4m   | 9.00%    |
| Burwood   | VIC   | \$16.0m   | 9.00%    |
| Cleveland | QLD   | \$13.1m   | 9.25%    |



# Pro forma Balance Sheet

|                                                                     | ABP<br>30 June 2011<br>\$'000 | ABP post distribution<br>Pro forma<br>30 June 2011<br>\$'000 | ABP AASB 10 excluding ASF<br>Pro forma<br>30 June 2011<br>\$'000 | ASF<br>30 June 2011<br>\$'000 | Pro forma<br>Adjustments<br>30 June 2011<br>\$'000 | Merged Group<br>Pro forma<br>30 June 2011<br>\$'000 |
|---------------------------------------------------------------------|-------------------------------|--------------------------------------------------------------|------------------------------------------------------------------|-------------------------------|----------------------------------------------------|-----------------------------------------------------|
| <b>Assets</b>                                                       |                               |                                                              |                                                                  |                               |                                                    |                                                     |
| Cash                                                                | 45,504                        | 31,438                                                       | 44,998                                                           | 3,982                         | (11,812)                                           | 37,168                                              |
| Property loans and other financial assets                           | 415,096                       | 415,096                                                      | 206,364                                                          | -                             | (37,878)                                           | 168,486                                             |
| Inventory                                                           | 80,478                        | 80,478                                                       | 80,977                                                           | -                             | -                                                  | 80,977                                              |
| Investment and other properties, plant and equipment                | 863,583                       | 863,583                                                      | 1,260,540                                                        | 331,943                       | -                                                  | 1,592,483                                           |
| Equity accounted investments                                        | 127,287                       | 127,287                                                      | 124,572                                                          | -                             | (18,515)                                           | 106,057                                             |
| Intangible and deferred tax assets                                  | 47,654                        | 47,654                                                       | 51,151                                                           | -                             | -                                                  | 51,151                                              |
| Other assets                                                        | 22,020                        | 22,020                                                       | 26,357                                                           | 978                           | -                                                  | 27,335                                              |
| <b>Total assets</b>                                                 | <b>1,601,622</b>              | <b>1,587,556</b>                                             | <b>1,794,959</b>                                                 | <b>336,903</b>                | <b>(68,205)</b>                                    | <b>2,063,657</b>                                    |
| <b>Liabilities</b>                                                  |                               |                                                              |                                                                  |                               |                                                    |                                                     |
| Interest-bearing loans and borrowings                               | 446,565                       | 446,565                                                      | 639,901                                                          | 176,012                       | -                                                  | 815,913                                             |
| Interest-bearing loans and borrowings owed to related parties       | -                             | -                                                            | -                                                                | 33,589                        | (33,589)                                           | -                                                   |
| Derivatives at fair value                                           | 27,360                        | 27,360                                                       | 27,713                                                           | 931                           | (931)                                              | 27,713                                              |
| Deferred tax liabilities                                            | -                             | -                                                            | 4,471                                                            | 4,329                         | -                                                  | 8,800                                               |
| Other liabilities                                                   | 34,379                        | 34,379                                                       | 96,900                                                           | 6,524                         | -                                                  | 103,424                                             |
| <b>Total liabilities</b>                                            | <b>508,304</b>                | <b>508,304</b>                                               | <b>768,985</b>                                                   | <b>221,385</b>                | <b>(34,520)</b>                                    | <b>955,850</b>                                      |
| <b>Net assets</b>                                                   | <b>1,093,318</b>              | <b>1,079,252</b>                                             | <b>1,025,974</b>                                                 | <b>115,518</b>                | <b>(33,685)</b>                                    | <b>1,107,807</b>                                    |
| <b>Equity</b>                                                       |                               |                                                              |                                                                  |                               |                                                    |                                                     |
| Net contributed capital                                             | 1,143,253                     | 1,160,412                                                    | 1,160,412                                                        | 82,977                        | (10,797)                                           | 1,232,592                                           |
| Reserves                                                            | 2,656                         | 2,656                                                        | 2,656                                                            | (2,543)                       | 2,543                                              | 2,656                                               |
| Adjustments to retained earnings arising from consolidation         | -                             | -                                                            | (83,433)                                                         | -                             | 9,653                                              | (73,780)                                            |
| Retained earnings                                                   | (66,346)                      | (97,571)                                                     | (97,571)                                                         | 35,084                        | (35,084)                                           | (97,571)                                            |
| Equity attributable to ABP securityholders                          | 1,079,563                     | 1,065,497                                                    | 982,064                                                          | 115,518                       | (33,685)                                           | 1,063,897                                           |
| External non-controlling interests                                  | 13,755                        | 13,755                                                       | 43,910                                                           | -                             | -                                                  | 43,910                                              |
| <b>Total equity</b>                                                 | <b>1,093,318</b>              | <b>1,079,252</b>                                             | <b>1,025,974</b>                                                 | <b>115,518</b>                | <b>(33,685)</b>                                    | <b>1,107,807</b>                                    |
| <b>Key balance sheet metrics</b>                                    |                               |                                                              |                                                                  |                               |                                                    |                                                     |
| Net asset backing per security attributable to securityholders (\$) | 2.85                          | 2.75                                                         | 2.54                                                             |                               |                                                    | 2.51                                                |
| ABP securities ('000)                                               | 378,484                       | 386,752                                                      | 386,752                                                          |                               | 37,579                                             | 424,331                                             |
| NTA per security attributable to securityholders (\$)               | 2.73                          | 2.63                                                         | 2.407                                                            |                               |                                                    | 2.39                                                |
| Group gearing (%)                                                   | 25.8%                         | 26.7%                                                        | 26.7%                                                            |                               |                                                    | 32.7%                                               |
| Covenant gearing (%)                                                | 30.7%                         | 31.6%                                                        | 31.6%                                                            |                               |                                                    | 37.6%                                               |