abacus property group

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ASX release

Abacus Property Group 2012 Half Year Results

These are the first results which account for the effect of the adoption of AASB10 by the Group. Comparison with prior period results needs to take into account the consolidation of the funds into the 31 December 2011 results both for the half year and the comparative period.

The Group's HY12 statutory profit for the six months to 31 December 2011 is down on the previous period substantially due to swap mark to market movements of $35 million. Of this charge, $21 million relates to Abacus' interest rate swaps liability, and the remaining $14 million relates to the swap books of the funds[1] Abacus consolidates. These charges are non-cash and do not impact the Group's distributions. Since the balance date the value of the Group's interest rate swaps liability has reduced by approximately $10 million.

Key financial highlights

- The Group's consolidated AIFRS statutory profit after fair value charges relating to the swaps liability is $2.4 million ($14.9 million in HY11)
- For comparative purposes, if Abacus had not adopted AASB10 then the Group's statutory profit would have been $13.5 million ($10.2 million in HY11)
- Underlying profit[2] $39.8 million ($46.3 million in HY11)
- Underlying earnings per security[2] 10.35 cents (12.56 cents in HY11)
- HY12 distribution of 8.25 cents per security (8.25 cents in HY11)
- Cashflow from operating activities of $34.1 million excluding funds consolidated under AASB10
- Net tangible assets attributable to Abacus securityholders of $2.43 per security
- Group gearing of 25.7%[3]

[1] The ASF, AHF, ADIF II and Miller St funds are consolidated as a result of Abacus' adoption of AASB10

[2] Underlying profits and earnings per security are a non-IFRS measure which the Group uses to assess performance and distribution levels. It is calculated in accordance with AICD/Finsia principles

[3] Net debt (debt minus cash) divided by total assets minus cash, excluding impact of AASB10

Securing distributions and a strong balance sheet well positioned for growth

Abacus has actively pursued its operational objectives set out in August 2011. The successful vote to merge Abacus with the Abacus Storage Fund is a significant part of the Group's overall strategy. The merger aligns Abacus with its 70/30 strategy, where 70% of the group's balance sheet is exposed to directly held core plus property investments. The $333 million portfolio of self storage assets will also bolster the Group's recurring earnings and help secure future distributions.

Abacus has also been active expanding its third party capital strategy with the acquisition of $137 million of core plus assets with new and existing partners. The two assets acquired represent outstanding core plus opportunities in the commercial office sector:

- 309 George Street, Sydney for $69 million. The property is located in the heart of one of Sydney's busiest retail strips and transport hubs. It is anticipated that the area will undergo significant regeneration in the short to medium term; and
- 484 St Kilda Road, Melbourne for $68 million. Acquired at a very low rate per square metre of $3,300, the property provides high quality accommodation as one of the best commercial office buildings in this precinct. St Kilda is experiencing tightening vacancy levels and strong re-locations from the CBD.

Abacus' third party capital strategy remains a core aim to drive long term securityholder value. These properties strengthen the Group's investment portfolio and support its strategy of seeking to maximise returns over the course of the property cycle.

Our property venture's business remains well positioned, despite softer residential market conditions slowing the realisation of capital. Abacus still expects that a number of projects will be realised during FY12.

The merger with the Abacus Storage Fund was the first result from the strategic review of the retail funds management business that was announced in August 2011. Abacus is continuing with the review of the remaining unlisted funds. Individual strategies will be put to fund investors and, if approved, executed over the short to medium term.

Operational review

Investment property portfolio

- Direct property investments of $964 million
- Portfolio capitalisation rate: 8.43%
- Occupancy: 92.1%
- Annualised like for like rental growth of 3.2%
- Weighted average lease expiry (WALE) profile of 4.1 years.

The investment property portfolio delivered an EBITDA contribution of $34 million. Both the investment portfolio and occupancy reduced slightly over period as $35 million of smaller non-core assets were sold. Like for like rental growth increased to 3.2% from 3.0% over the same six month period and the portfolio WALE remained constant at around 4 years.

Property ventures business

The division generated $17 million in EBITDA during the period following the realisation of a number of projects.

Funds management business

The funds management business contributed $10 million to the Group's EBITDA. The merger with the Storage Fund reduces assets under management to approximately $500 million and is a significant first step in the implementation of the strategic review of this business. The remaining funds continue to perform in line with expectations with no adverse movements in valuations or cap rates.

Capital management

Abacus has a strong and secure balance sheet. As at 31 December 2011, the consolidated Group had net assets of $1,116 million.

The Group proactively capitalised on the strength of both its property portfolio and its banking relationships to successfully improve the duration, terms and costs of its banking facilities during the period. Abacus considers its recent capital management activities to be particularly prudent in the current economic climate.

The Group finalised terms with its lenders for the refinancing of existing debt facilities totalling:

- $604 million of facilities for Abacus; and
- $88 million of facilities for its managed funds.

Overall, these refinancings have delivered improved debt maturities, a reduced cost of funds and better debt covenants. Abacus has also taken advantage of recent pronounced falls in $A interest rates to increase its fixed rate hedging cover from 58% to 93% so as to further reduce Abacus' overall cost of bank funding. All covenants have been appropriately amended to cater for any unintended consequences that will arise from the application of AASB10.

Abacus has minimal debt maturing until FY15 and enjoys an average term to maturity of over 3 years. Our undrawn aggregate capacity (across all facilities) is over $170 million and available liquidity[4] is in excess of $100 million. Group gearing at 31 December 2011 remained stable at 25.7% and is comfortably within our target gearing of 35%.

Outlook

Abacus has delivered a strong first half result. The current share price performance does not appear to reflect the fundamentals of the business. We continue to focus on the fundamentals – efficiently managing the Group's business and unlocking the core plus returns embedded in our property assets. This should help maintain the security of the Group's distributions and its future growth, which we are confident will be the driver of our securityholder returns.

The merger with the Abacus Storage Fund, additional third party capital acquisitions and the refinancing of the Group's banking facilities have assisted in the de-risking of future earnings while securing the balance sheet. They are significant highlights of the half year.

[4] Facilities able to be drawn against existing security at current valuations as at 31 December 2011.

We remain confident that our focus on building our balance sheet is the best strategy to drive long term securityholder value. We are sure that the Abacus business is stronger, more resilient and provides better total return opportunities than it was 12 months ago.

With a strong and expanding third party capital business and resilient and flexible banking facilities, Abacus is well positioned to take advantage of opportunities as they present themselves.

Abacus is on track to deliver a targeted distribution for FY12 of 16.5cps.

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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29 February 2012

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