

Appendix 4E

Abacus Property Group

(comprising Abacus Group Holdings Limited and its controlled entities, Abacus Trust and its controlled entities, Abacus Income Trust and its controlled entities, Abacus Group Projects Limited and its controlled entities, Abacus Storage Property Trust and its controlled entities and Abacus Storage Operations Limited and its controlled entities)

ABN: 31 080 604 619

Annual Financial Report

For the year ended 30 June 2018

Results for announcement to the market

(corresponding period: year ended 30 June 2017)

Total revenues and other income	up	2%	to	\$473.7m
Net profit after income tax expense attributable to stapled security holders	down	15%	to	\$243.7m
Funds from operations ("FFO") ⁽¹⁾	up	9%	to	\$169.8m

- (1) FFO has been determined with reference to the updated Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare many different AREITs. FFO is calculated by adding back tenant incentive amortisation, depreciation on owner occupied property, plant & equipment (PP&E), change in fair value of investment properties derecognised, impairment of inventory and non-FFO tax benefit/expense to underlying profit..

	30 June 2018 \$'000	30 June 2017 \$'000
Consolidated statutory net profit after tax attributable to members of the Group	243,709	285,097
add back: consolidated profits relating to managed funds (these profits are excluded as the profits of the managed funds cannot and do not form part of the assessable and distributable income of Abacus)	1,169	(27,165)
Net profit attributable to ABP securityholders	244,878	257,932
Certain significant items:		
Net change in fair value of investment properties held at balance date	(60,724)	(74,773)
Net change in fair value of investments and financial instruments held at balance date	6,363	10,677
Net change in fair value of derivatives	(730)	(4,317)
Net change in fair value of property, plant and equipment, inventory and investment properties included in equity accounted investments	(4,635)	(718)
Net tax benefit on significant items	(1,831)	(1,999)
Underlying profit attributable to ABP securityholders	183,321	186,802
Funds from operations ("FFO")	169,790	156,440
Basic earnings per security (cents)	42.18	49.91
Basic underlying earnings per security^ (cents)	31.73	32.71
Basic funds from operations per security^ (cents)	29.39	27.39
Distribution per security (cents - including proposed distribution)	18.00	17.50
Weighted average securities on issue (million)	577.8	571.2
^Abacus		

Distributions	per stapled security
June 2018 half year	9.00 cents
This distribution was declared on 21 June 2018 and will be paid on 31 August 2018.	
Record date for determining entitlement to the distributions	29 June 2018

Refer to the attached announcement for a detailed discussion of the Abacus Property Group's results and the above figures for the year ended 30 June 2018.

Details of individual and total distribution payments		per stapled security	Total
Half December 2017 distribution	paid 28 February 2018	9.00	\$52.0m
The distribution was paid in full by Abacus Trust which does not pay tax, hence there were no franking credits attached.			
Net tangible assets per security ⁽²⁾		30 June 2018	30 June 2017
		\$3.18	\$2.93

(2) Net tangible assets per security excludes the external non-controlling interest and is adjusted for the recognition of the June 2018 and 2017 distributions.

Details of associates and joint venture entities				
	Ownership Interest		Share of net profit/(loss)	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	%	%	\$'000	\$'000
Australian Aggregation Head Trust	25	25	12,821	8,565
Fordtrans Pty Ltd (Virginia Park)	50	50	8,659	(2,253)
Merivale JV Unit Trust	49	49	18,228	(883)
St Leonards JV Unit Trust	50	50	19,883	5,257
Other	25-50	25-50	14,158	43,587
			73,749	54,273
The equity accounted profits/losses includes a fair value gain of \$4.6 million				

Distribution Reinvestment Plan (DRP)

The Abacus Property Group DRP allows securityholders to reinvest their distributions into ABP securities. Information on the terms of the DRP is available from our website www.abacusproperty.com.au.

Securityholders wishing to participate in the DRP may lodge their election notice at any time. The record date for determining entitlements to each distribution is also the record date for participation in the DRP for that distribution.

Abacus Property Group

ABN 31 080 604 619

Financial Report

For the year ended 30 June 2018

ANNUAL FINANCIAL REPORT

30 June 2018

Directory

Abacus Group Holdings Limited

ABN: 31 080 604 619

Abacus Group Projects Limited

ABN: 11 104 066 104

Abacus Storage Operations Limited

ABN: 37 112 457 075

Abacus Funds Management Limited

ABN: 66 007 415 590

Abacus Storage Funds Management Limited

ABN: 41 109 324 834

Registered Office

Level 34, Australia Square
264-278 George Street
SYDNEY NSW 2000
Tel: (02) 9253 8600
Fax: (02) 9253 8616
Website: www.abacusproperty.com.au

Custodian:

Perpetual Trustee Company Limited
Level 12 Angel Place
123 Pitt Street
SYDNEY NSW 2000

Directors of Responsible Entities and

Abacus Group Holdings Limited:

John Thame, Chairman
Steven Sewell, Managing Director
William Bartlett
Jingmin Qian
Myra Salkinder
Peter Spira

Company Secretary:

Robert Baulderstone

Auditor (Financial and Compliance Plan):

Ernst & Young
200 George Street
SYDNEY NSW 2000

Share Registry:

Boardroom Pty Ltd
Level 12, 225 George St
SYDNEY NSW 2000
Tel: 1300 737 760
Fax: 1300 653 459

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It is recommended that this Annual Financial Report should be read in conjunction with the Annual Financial Report of Abacus Trust, Abacus Group Projects Limited, Abacus Income Trust, Abacus Storage Property Trust and Abacus Storage Operations Limited as at 30 June 2018. It is also recommended that the report be considered together with any public announcements made by the Abacus Property Group in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

DIRECTORS' REPORT

30 June 2018

The Directors of Abacus Group Holdings Limited ("AGHL"), Abacus Funds Management Limited ("AFML") – the Responsible entity of Abacus Trust ("AT") and Abacus Income Trust ("AIT"), Abacus Group Projects Limited ("AGPL"), Abacus Storage Funds Management Limited ("ASFML") – the Responsible Entity of Abacus Storage Property Trust ("ASPT") and Abacus Storage Operations Limited ("ASOL") present their report for the year ended 30 June 2018.

IN MEMORIAM

In April 2018, Dr Frank Wolf, Abacus Property Group's co-founder and Managing Director for the last 12 years died following a short battle with cancer. Abacus Property Group, led by Frank, became well known as a strong Value Add/Core Plus investor in real estate. Frank's expertise over 30 years of experience was able to see the value in assets that most could not or were unable to extract. The Group was known for delivering strategies to unlock and crystallise capital growth over the short, medium and long periods of time and was often an early mover into sectors or geographies of the real estate market, uncovering value in asset classes as they became more institutionalised including retirement, aged care and particularly self-storage.

Early in his career, Frank graduated from The University of British Columbia, with a doctorate in accounting whilst considering a life in academia. Frank ultimately entered the corporate world becoming a partner of Touche Ross & Co and later senior management roles throughout the insurance and financial advisory industries. During this time Frank had been instrumental in over \$5 billion of property related and corporate acquisitions and divestments within the retail, commercial, industrial and hospitality sectors in Australia, New Zealand and the United States.

Outside of his professional life, Frank was meaningfully involved in multiple philanthropic activities, particularly as a major donor and strong advocate of the Jewish community. Frank was heavily involved in multiple charities, most notably with the Jewish Community Appeal where, since 2005, he chaired a number of important committees and was an integral member of the charities executive team.

Frank brought to Abacus his incredible work-ethic, energy and a willingness to give anyone with an idea an opportunity to succeed. He had a wicked sense of humour. Frank was extremely humble yet very generous. He was 64 years of age when he died.

MANAGING DIRECTOR SUCCESSION

As announced by the Group in January 2018, Mr Steven Sewell was appointed Managing Director elect. Mr Sewell was appointed to the role of Managing Director and to the Board upon Dr Wolf's passing in April 2018.

PRINCIPAL ACTIVITIES

The principal activities of Abacus Property Group are investment in self-storage, office, retail and industrial properties, participation in property and residential developments and property funds management. The retail funds management activities continued to be substantially reduced during the year as the Abacus Hospitality Fund and the Abacus Wodonga Land Fund are managed through to wind up in the short to medium term.

OPERATING AND FINANCIAL REVIEW

The operating and financial review is intended to convey the Directors' perspective of Abacus Property Group and its operational and financial performance. It sets out information to assist securityholders to understand and interpret the financial statements prepared in accordance with Australian International Financial Reporting Standards ("AIFRS") included in this report. It should be read in conjunction with the financial statements and accompanying notes.

Listed Structure / Entities

The listed Abacus Property Group is a diversified property group that operates predominantly in Australia. It comprises AGHL, AT, AGPL, AIT, ASPT and ASOL (collectively "Abacus") and its securities trade on the Australian Securities Exchange ("ASX") as ABP. Abacus was listed on the ASX in November 2002 and its market capitalisation was over \$2.18 billion at 30 June 2018.

Shares in AGHL, AGPL and ASOL and units in AT, AIT and ASPT have been stapled together so that none can be dealt without the others and are traded together on the ASX as Abacus securities. An Abacus security consists of one share in AGHL, one unit in AT, one share in AGPL, one unit in AIT, one share in ASOL and one

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

unit in ASPT. A transfer, issue or reorganisation of a share or unit in any of the component parts requires, while they continue to be stapled, a corresponding transfer, issue or reorganisation of a share or unit in each of the other component parts.

AGHL, AGPL and ASOL are companies that are incorporated and domiciled in Australia. AT, AIT and ASPT are Australian registered managed investment schemes. AFML is the Responsible Entity of AT and AIT and ASFML is the Responsible Entity of ASPT. Both AFML and ASFML are incorporated and domiciled in Australia and are wholly-owned subsidiaries of AGHL.

Abacus Property Group Consolidation

The application of AASB10 by Abacus results in the consolidation of Abacus Hospitality Fund and Abacus Wodonga Land Fund (the "Group"). This is due to the combination of Abacus' role as responsible entity, variable returns arising from its collective equity and loan investments in these funds.

AGHL has been identified as the parent entity of the Group. The financial reports of the Group for the year ended 30 June 2018 comprise the consolidated financial reports of AGHL and its controlled entities, AT and its controlled entities, AGPL and its controlled entities, AIT and its controlled entities, ASOL and its controlled entities, ASPT and its controlled entities, Abacus Hospitality Fund and its controlled entities and Abacus Wodonga Land Fund.

The principal activities of Abacus that contributed to its earnings during the year ended 30 June 2018 included:

- investment in self-storage, office, retail and industrial properties to derive rental and management and other fee income; and
- participation in property and residential developments to derive interest income and development profits.

These activities are reported in the segment information note.

Abacus is included in the S&P/ASX 200 A-REIT index (ASX:XPJ), a sub-index of the S&P/ASX 200 index that contains the listed vehicles classified as A-REITs.

OUR STRATEGY

Abacus' overarching strategy has been to invest our capital in assets with value add opportunities that are forecast to drive long term total returns and maximise securityholder value. Our investment objective is to provide our investors with reliable and increasing returns. We look for property assets that can provide strong and stable cash-backed distributions from a diversified portfolio that provides genuine potential for enhanced capital and income growth as a result of our diligent active management. Abacus does this through the acquisition, development and active management of property assets. In particular:

- We take advantage of our specialised knowledge, track record and market positioning.
- We invest in core and core plus property investments that are expected to yield an appropriate risk adjusted return over time.
- We drive value through active management of the asset portfolio.

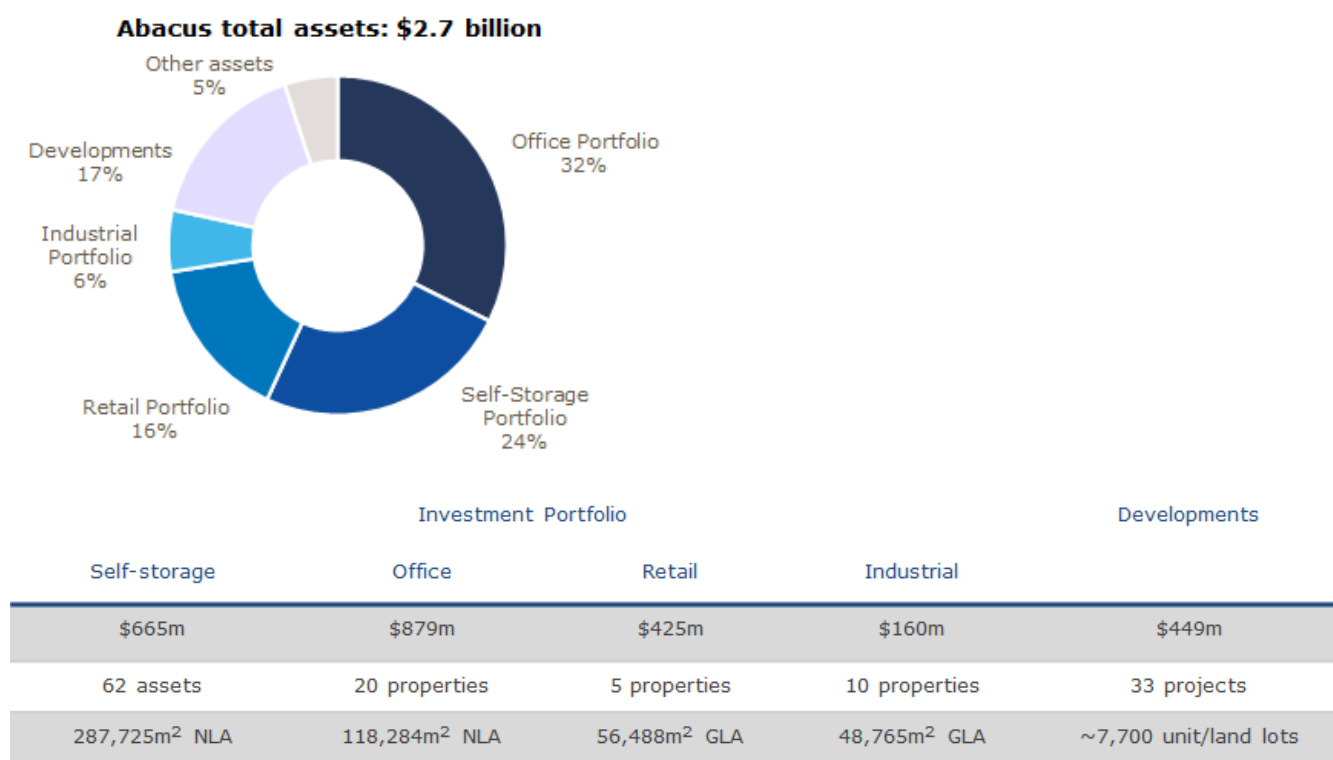
We have a successful track record of acquiring property based assets and actively managing those assets to enhance income and capital growth. Our track record has facilitated joint ventures with a number of sophisticated local and global third party capital providers. Our assets are mostly in major city centres or suburban areas, typically on the eastern seaboard of Australia.

Our experience has shown that strict adherence to our fundamental investment criteria enables us to buy assets well and provide opportunities for outperformance while minimising downside risk to equity.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)



GROUP RESULTS SUMMARY

The Board monitors a range of financial information and operating performance indicators to measure performance over time. We use several measures to monitor the financial success of our overall strategy. The key measure is underlying profit.

	2018	2017
Revenue (\$ million)	307.9	251.6
Total income (\$ million)	473.7	463.4
Statutory net profit excluding non-controlling interests (\$ million)	243.7	285.1
Underlying profit [^] (\$ million)	183.3	186.8
Underlying profit per security [^] (c)	31.73	32.71
Cashflow from operating activities (\$ million)	194.3	116.2
Cashflow from operating activities per security (c)	33.53	20.35
Distributions per security [^] (c)	18.00	17.50
Interest cover ratio	8.7x	7.4x
Weighted securities on issue [^] (million)	577.8	571.2

[^] Abacus

The Group earned a statutory net profit excluding non-controlling interests of \$243.7 million for the year ended 30 June 2018 (2017: \$285.1 million). This profit has been calculated in accordance with Australian Accounting Standards. It includes certain significant items that need adjustment to enable securityholders to obtain an understanding of Abacus' underlying profit of \$183.3 million, a 2% decrease on the 2017 underlying profit of \$186.8 million.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)**GROUP RESULTS SUMMARY (continued)**

The underlying profit reflects the statutory profit as adjusted to present a figure which reflects the Directors' assessment of the result for the ongoing business activities of Abacus, in accordance with the AICD / Finsia principles for reporting underlying profit. The consolidated profits / (losses) which belong to the securityholders of Abacus Hospitality Fund and Abacus Wodonga Land Fund are excluded as these profits cannot and do not form part of the distributable income of Abacus. The calculation of underlying profit excludes items such as unrealised fair value gains / losses on investment properties, unrealised provision gains / losses, adjustments arising from the effect of revaluing assets / liabilities carried at fair value (such as derivatives, financial instruments and investments), the consolidated profits / (losses) of managed funds which do not form part of the assessable or distributable profits of Abacus and other adjustments in the determination of underlying profit including transactions that occur infrequently and those that are outside the scope of Abacus' core ongoing business activities. Underlying profit is the basis on which distributions are determined.

The reconciliation between the Group's statutory profit excluding non-controlling interests and Abacus' underlying profit is below. This reconciliation and the underlying profit have not been reviewed or audited by the Group's auditor.

	2018	2017
	\$'000	\$'000
Consolidated statutory net profit after tax attributable to members of the Group	243,709	285,097
add back: Consolidated profits relating to the managed funds (these profits are excluded as the profits of the managed funds cannot and do not form part of the assessable and distributable income of Abacus)	1,169	(27,165)
Net profit attributable to Abacus securityholders	244,878	257,932
Certain significant items:		
Net change in fair value of investment properties held at balance date	(60,724)	(74,773)
Net change in fair value of investments and financial instruments held at balance date	6,363	10,677
Net change in fair value of derivatives	(730)	(4,317)
Net change in fair value of property, plant and equipment and investment properties included in equity accounted investments	(4,635)	(718)
Net tax benefit on significant items	(1,831)	(1,999)
Underlying profit attributable to Abacus securityholders	183,321	186,802
	2018	2017
Basic earnings per security (cents)	42.18	49.91
Basic underlying earnings per security^ (cents)	31.73	32.71
Distribution per security^ (cents - including proposed distribution)	18.00	17.50
Weighted average securities on issue (million)	577.8	571.2

^Abacus

During the 12 months to 30 June 2018 the real estate markets across Australia continued to see historically low interest rates as the RBA maintained the cash rate at 1.5% while the forward guidance is for an ultimate increase in the cash rate. This outlook continues to support Australia as an appealing real estate market to global capital seeking high quality assets with attractive yields in a global low yield environment. These conditions saw further cap rate compression across the majority of sectors of the market from traditional asset classes lead by the highest quality of office, retail and industrial through to alternative asset classes of self-storage, healthcare facilities, manufactured homes and hotels/pubs. A strong leasing market, particularly in Sydney and Melbourne office markets and general industrial markets during the year also contributed to the attractiveness of real estate assets to domestic and global investors. Increased merger and acquisition activity in the listed real estate markets has also intensified valuations and interest in direct real estate markets. The strength of the market continues despite a backdrop of economic uncertainty and disparate economic activity throughout Australian States.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)**GROUP RESULTS SUMMARY (continued)**

The office markets across the eastern seaboard, in particular Sydney and Melbourne have remained very strong delivering exceptional growth in net effective rents and strong valuation growth. The strong markets in Sydney are anticipated to continue as supply continues to remain limited for the next few years. The Melbourne office market is expected to see an elevated level of supply over this same time period however absorption is also expected to remain strong keeping vacancy rates low and provide upward pressure of rents. The Abacus office portfolio is approximately 64% located within these markets.

The self-storage markets across Australia and New Zealand continue to experience the impacts from several attempts to consolidate the sector. Following the recent institutionalisation of the market as investors increased their awareness of self-storage as a viable asset class resulted in several participants investing heavily into the sector looking to increase their market share of the self-storage sector. This increased transactional activity and heightened interest has continued to deliver strong capitalisation rate compression across the sector. It is anticipated this strong market will continue as this alternative asset class benefits from higher passing yields than high quality assets in more traditional sectors.

Australian retail sales grew modestly during the year with the eastern states leading the way as employment growth continues to be stimulated by government and infrastructure investment across these states. A bifurcation in the retail environment is occurring with high quality assets continuing to be well bid for by the investment market keeping valuations strong in these classes. Super regional assets providing a full experiential shopping offer that dominate their region remain sought after by domestic and international listed and unlisted institutions. Neighbourhood and select sub-regional assets that offer a strong food and service-based tenant offering with limited exposure to tenants exposed to discretionary spending remain in favour with high net worth and listed investors.

The investment market for institutional grade industrial product has been strong over the past few years, with landmark assets and portfolios transacting at yields firmer than at previous market peaks. Despite a modest growth outlook and increasing supply side issues, assets with strong covenants and long weighted lease expiries have been well sought after. The medium-term outlook is for a stabilisation of yields as this investment activity tapers off, while rents are likely to remain stable.

During FY18 Abacus continued to focus our investment capital on acquisitions across the self-storage and office sectors in line with our capital allocation strategy as we believed they represented the best risk adjusted returns over the investment period. This activity was and will continue to be funded via reduction in retail investment and the realisation of our residential developments over the coming years. This strategy is focussed on growing the contribution to recurring earnings to fund the Group's targeted distribution growth of 2-3% pa.

Abacus had an active year in FY18 adding assets to the office portfolio, largely on the back of our city fringe investment thematic that focuses on assets in the fringes of the CBD. As a result, we acquired a number of assets including 187 Todd Road in Port Melbourne for \$43.5m, 452 Johnston Street in Abbotsford for \$93.5m, a 50% interest in 464 St Kilda Road in St Kilda for \$47.7m all within the Melbourne city fringe. We also acquired two CBD fringe assets in Sydney - 11 Bowden Street in Alexandria for \$48.9m and 63 Ann Street in Surry Hills for \$27.5m. All these assets illustrate strong long-term growth prospects, providing access to stable and growing cash flows from high quality tenants and improving rental rate outlook as inner suburban areas continue to undergo gentrification and elevated levels of infrastructure spend.

Abacus continued to utilise our third party capital platform with the introduction of a new investment partner, Wing Tai on the 464 St Kilda Road acquisition (50/50 respective ownership percentages as tenants in common). Abacus also acquired two self-storage and industrial assets for \$10 million which we intend to convert into self-storage facilities.

The residential markets in Australia also encountered strong bifurcation of markets with Melbourne and Sydney markets weathering some of the impacts that have slowed other residential markets around Australia. Pockets of oversupply in Brisbane combined with a reduction in the availability of financing for investors, particularly offshore investors, has slowed settlement and sales rates, increased settlement timeframes and in some cases increased the number of defaults. During the 12 months to 30 June 2018, even in spite of Abacus' experiences matching those of the general market, the Group has managed to deliver several good results across its residential developments business. The decrease in the Group's statutory net profit excluding non-controlling interests was principally due to lower net change in fair value of investment properties and lower fair value derecognised from divestments in the commercial property investment portfolio.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)**GROUP RESULTS SUMMARY (continued)**

The reconciliation between the Group's statutory profit excluding non-controlling interests, Abacus' underlying profit and funds from operation ("FFO") is below. This reconciliation and the FFO has not been reviewed or audited by the Group's auditor.

	2018	2017
	\$'000	\$'000
Abacus funds from operations ("FFO")	169,790	156,440
Adjust for:		
Net change in fair value of investment properties derecognised	15,265	36,775
Reversal of impairment of inventory	2,660	(3,000)
Depreciation on owner occupied property, plant and equipment	(1,090)	(667)
Amortisation of rent abatement incentives	(1,981)	(1,335)
Amortisation of other tenant incentives	(1,646)	(1,611)
Tax benefit on Non-FFO Items	323	200
Underlying profit attributable to Abacus securityholders	183,321	186,802
Net change in fair value of investment properties held at balance date	60,724	74,773
Net change in fair value of investments and financial instruments held at balance date	(6,363)	(10,677)
Net change in fair value of derivatives	730	4,317
Net change in fair value of property, plant and equipment and investment properties included in equity accounted investments	4,635	718
Net tax expense on significant items	1,831	1,999
Consolidated profits relating to the managed funds (these profits are excluded as the profits of the managed funds cannot and do not form part of the assessable and distributable income of Abacus)	(1,169)	27,165
Consolidated statutory net profit after tax attributable to members of the Group	243,709	285,097

FFO has been determined with reference to the updated Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare many different AREITs. FFO is calculated by adding back tenant incentive amortisation, depreciation on owner occupied property, plant & equipment (PP&E), change in fair value of investment properties derecognised, impairment of inventory and non-FFO tax benefit/expense to underlying profit.

The impact of both year-end fair value adjustments and the Group's performance on its financial position were as follows:

	2018	2017
Total assets (\$ million)	2,795.6	2,436.7
Gearing[^] (%)	23.3	20.5
Net assets* (\$ million)	1,870.1	1,766.1
Net tangible assets* (\$ million)	1,841.7	1,737.1
NTA per security[#] (\$)	3.18	2.93

[^] Abacus - gearing calculated as debt minus cash divided by total assets minus cash

* Excluding external non-controlling interests of \$46.6 million (2017: \$48.5 million)

[#] Following recognition of June 2018 and 2017 distributions

The increase in net assets of the Group by 6% reflects the increase in fair value of investments and undistributed share of equity accounted income during the year.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

GROUP RESULTS SUMMARY (continued)

Capital management

The Abacus balance sheet remains strong with gearing levels conservative at 23.3%, well within our target gearing limit of 35%. At 30 June 2018, Abacus had \$135 million of available liquidity that provides capacity for use for up to \$211 million of accretive acquisitions. Post year end several asset settlements occurred further adding to the Group's liquidity balances providing significant opportunity to prudently invest and up weight our exposure to office and self-storage markets throughout select Australian markets. We view low gearing and high liquidity levels positively as we extend through, what we consider to be the top of the property markets, with the ability to take advantage should opportunities arise. We anticipate Abacus' weighted average interest rate will remain relatively stable as current capacity is utilised and anticipate it should be no greater than 5.0% over the next year.

CORE SEGMENT RESULTS SUMMARY

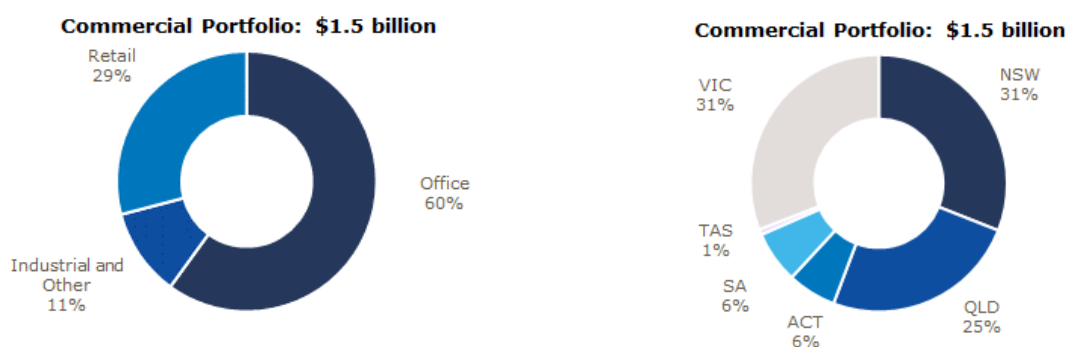
Business activities that specifically contributed to the Abacus' operating performance and financial condition for the financial year were:

Property Investment

Commercial Portfolio

Abacus' commercial portfolio delivered a segment result of \$119.8 million for the year ended 30 June 2018 which was 35.2% lower than the previous period (2017: \$184.9 million) largely due to a reduction in the value of fair value increases from the investment property portfolio. The commercial portfolio consists of 35 assets (2017: 34 assets) and had a total value of \$1.5 billion at year end (2017: \$1.2 billion).

Pursuant to the 2018 portfolio valuation process, 13 out of 31 of the commercial properties (excluding equity accounted properties) or 53% by value were independently valued during the year to 30 June 2018. The remaining properties were subject to internal review and, where appropriate, their values were adjusted. The valuation process resulted in a net full year revaluation gain of \$18.4 million (2017: \$47.4 million gain) or 1.2% of commercial portfolio.



Commercial portfolio (office, retail, industrial and other)

	Portfolio	Office	Retail	Industrial
Portfolio value	\$1,464.2 million	\$879.2 million	\$425.2 million	\$159.8 million
No. of assets	35	20	5	10
Occupancy (% by area)	91.3%	86.9%	92.9%	100.0%
WALE (yrs by income)	4.1yrs	3.6yrs	5.1yrs	2.6yrs
WACR ¹	6.2%	6.2%	5.8%	8.3%
Rental growth ²	3.6%	3.1%	4.6%	1.0%

1. WACR: Weighted Average Capitalisation Rate

2. Like for like rental growth.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

CORE SEGMENT RESULTS SUMMARY (continued)

During the year Abacus was able to secure several high profile quality commercial properties that met our investment criteria, including:

- 187 Todd Road, Port Melbourne VIC for \$43.5 million (Abacus interest 100%), settled November 2017
- 452 Johnston Street, Abbotsford VIC for \$93.5 million (Abacus interest 100%), settled March 2018
- 464 St Kilda Road, Melbourne VIC for \$47.7 million (Abacus interest 50%), settled May 2018
- 11 Bowden Street, Alexandria NSW for \$48.9 million (Abacus interest 100%), settled March 2018; and
- 63 Ann Street, Surry Hills NSW for \$27.5 million (Abacus interest 100%), settled April 2018

Abacus and its partners divested several properties at various stages during the year which delivered some strong returns to the group and included:

- 50% interest in 201 Pacific Highway, St Leonards NSW for \$85.8 million, settled May 2018; and
- 169 Australis Drive, Derrimut VIC for \$34.0 million, settled June 2018

As a result of changes in the portfolio from acquisitions and divestments and a mixed leasing environment across regions the portfolio occupancy increased from 90.5% at 30 June 2017 to 91.3% at 30 June 2018. Pleasingly, like for like rental growth remained strong across our existing and stabilised portfolio to deliver growth of 3.6%. This was largely due to the performance of the Group's property management team, leasing of developed assets and in-built annual rental increases.

We believe Abacus' portfolio is suited to the current conditions. The majority of the office portfolio has limited exposure to full floor or multi-floor tenants and is configured more for multi-tenanted floors. We have found the potential cost (financial and time) of relocating to another property in the same location often outweighs the benefit of a cheaper rent. Our tenants are also strongly connected to the property's location, which is traditionally the reason they initially leased the property and results in a positive predisposition to remain. Due to the multi-tenanted floor structure, we also have the ability to work proactively with our tenants to contract or expand and adjust their space requirements. Alongside the market, Abacus has also been a beneficiary of the stronger leasing environment with the strong re-leasing spreads across new and renewing leases, particularly in the Sydney CBD. As a result of current market conditions and a shift in future expectations in the office sector, Abacus has targeted assets that offer more stabilised income streams with longer dated value enhancing strategies. This capital allocation strategy supports our drive to improve recurring earnings to support our distribution policy to securityholders.

Abacus' retail portfolio is currently development focused as all assets are at some stage of redevelopment to support our retail thematic of "super convenience retail". The thematic supports assets that incorporate up to three national brand supermarkets with a heavy focus on food, services and minimal exposure to discretionary retail tenancies that enable centres to control their catchment and limit the impact from shifting trends in shoppers activities highlighted by an increase in online shopping for discretionary retail. Assets that are considered non-core to this strategic thesis have and will be sold. Abacus has formed joint venture / capital partnership relationships with likeminded institutions that share our vision of super convenience retail assets with existing portfolio assets or new opportunities within the sector.

Abacus remains focused on maintaining revenue and cashflows to support securityholder distributions but nevertheless being conscious of the market's leasing requirements and competitive offerings.

Contribution from Third Party Capital

Abacus' third party capital joint ventures remain an integral strategic investment platform for the Group. As previously mentioned, we have expanded the platform with a new joint venture with Wing Tai, out of Hong Kong to acquire 464 St Kilda Road in Melbourne for \$95.4 million (100% asset value). Abacus and its joint venture partner Heitman completed its investment fund during the year. Abacus currently has \$1.8 billion of assets under management including Abacus' \$693 million ownership share. Abacus typically invests 25% to 50% of the required equity with our capital partners investing the balance. Management of the property typically remains with Abacus and as a result we are able to leverage our capital to gain greater exposure to a higher number of high quality assets. This leads to greater earnings from fees and rental income. We will focus on driving our third party strategy to expand our capital base.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

CORE SEGMENT RESULTS SUMMARY (continued)

Self-storage

Abacus' self-storage portfolio delivered a segment result of \$97.7 million for the year ended 30 June 2018. This represents a 38% increase on the FY17's result of \$70.7 million and can be attributed to strong increases in self-storage EBITDA, gains on the sale of a non-core portfolio of regional assets and higher fair value increases in the self-storage portfolio. Portfolio assets totalled \$666 million across a total portfolio of 62 assets, an overall net reduction of three facilities during the period.

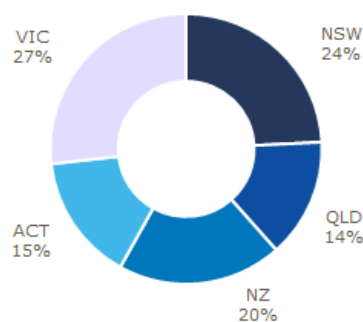
Pursuant to the 2018 valuation process 39 self-storage facilities out of 62 or 66% by value were independently valued during the year to 30 June 2018. The remaining facilities were subject to internal review and, where appropriate, their values were adjusted. The valuation process resulted in a net full year revaluation gain of \$42.4 million (2017: \$27.3 million gain) or 6.8% of investment properties.

The self-storage portfolio is well diversified in Australia and New Zealand.

Self-storage

Portfolio value	\$666.3 million
No. of assets	62
Occupancy ¹ (% by area)	89.4%
WACR ^{1,2}	7.5%
RevPAM ^{1,3}	\$247 psqm
Average rate ^{1,4}	\$276 psqm

Self Storage Portfolio: \$666 million



1. Stabilised portfolio
2. WACR: Weighted Average Capitalisation Rate
3. Revenue per available square metre
4. Average over last 12 months (by area)

The Group has continued with its stated strategy of allocating investment capital to growing exposure to the self-storage sector. Abacus remains committed to growing the asset base while ensuring the portfolio is operating as efficiently and profitably as possible. With this in mind, an evaluation of the portfolio occurred during the year and as a result it highlighted a portfolio of five assets as non-core due to regional concerns and limitations to future occupancy and rental growth. This portfolio was divested in May 2018 for \$26.5 million. The Group also acquired two development sites during the year in Robina and Stafford in QLD for development into self-storage facilities that should begin to deliver returns to the portfolio in the next few years. We remain committed to growing our presence in metropolitan areas on Australia's eastern seaboard that will deliver higher average rental rates than the current portfolio average to drive portfolio returns.

The storage portfolio's stabilised assets are the key contributor to underlying growth across the portfolio. They continue to deliver improved operating performances across Australian and New Zealand markets. Despite the portfolio's reduction to 62 assets, the stabilised portfolio grew occupancy to 89.4% from 89.2% and average rental rate increased to \$276/m² from \$262/m². The increased rental and occupancy improved portfolio revenue per available metre (RevPAM) to \$247/m² from \$234/m² in 2017, a 5.6% increase assuming a stabilised New Zealand exchange rate. RevPAM measures the profitability and efficiency of the portfolio.

The portfolio's development pipeline of non-self-storage or non-stabilised assets currently numbers 9 assets valued at \$51 million. These assets are at various stages of development or occupancy/rate stabilisation and are anticipated to be delivered to the stabilised portfolio over the next few years as they reach established occupancy levels. We anticipate these assets to enhance the average rental rate and RevPAM across the stabilised portfolio at this time.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

CORE SEGMENT RESULTS SUMMARY (continued)

Developments - residential

The residential developments business delivered an increased segment result of \$85.6 million (2017: \$55.0 million). The business invests in projects and provides finance solutions that focus on select residential and commercial development opportunities in core locations directly on balance sheet and with experienced local joint venture partners. Abacus has total assets of \$449 million invested across a number of residential developments in capital city markets across the eastern seaboard of Australia. Abacus controls approximately 7,700 apartment units or land lots which equates to approximately \$58,000 cost base per unit/land lot. This low average price provides evidence that the developments business has prospects for strong returns.

Abacus completed four residential joint venture development projects during the last 12 months. As at 30 June 2018:

- The Eminence, Melbourne VIC delivered 193 apartments in the inner city suburb of Carlton. The project is a 50/25/25 joint venture with the Crema and Lechte Groups. All apartments but one have settled.
- Ashfield Central, Sydney NSW delivered 101 apartments in the inner-city suburb of Ashfield. The project is 100% owned by Abacus. Settlements began in June 2018 with 81 apartments settled, and we remain confident of settling the remainder in early FY19.
- Ivy and Eve, Brisbane QLD delivered 476 apartments across two buildings in the inner-city suburb of South Brisbane. The project is a joint venture with City Developments Limited, a Singaporean developer and Kilcor Properties. Settlements began in early 2018 with 365 apartments settled and while we are experiencing a number of defaults and an elongation to settlement time frames we are confident of settling the majority of apartments in FY19 with the delivery of anticipated project returns.
- One A, Erskineville Sydney NSW delivered 175 apartments in the inner-city suburb of Sydney. The project is a joint venture with the Linear Group. Settlements began in June 2018 with 146 apartments settled, and we remain confident of settling the remainder in early FY19.

Further, Abacus also has a number of ventures that own land sites, across the Metropolitan Sydney area, undergoing residential rezoning. The timeframe to work through the rezoning of non-residential zoned land is uncertain and complex. This is the reason it is possible to derive higher risk adjusted returns through projects of this type. Timeframes can be disrupted through unpredictable changes in local council and state governments and can affect Abacus' ability to correctly forecast when projects will be realised.

In the period, Abacus has sought to sell several parcels of this land, with good demand from developers of residential and especially for industrial zoned properties.

NON CORE SEGMENT RESULTS SUMMARY

As a result of AASB10, the managed funds are consolidated into the Group financial statements and the Group's statutory profit includes the financial performance of these funds. These funds are treated as non-core segments as the assets of the funds are not directly owned by Abacus securityholders and do not contribute directly to Abacus' underlying profit and distributable income.

An overview of the financial performance of each of the funds for the year ended 30 June 2018 is as follows:

Abacus Hospitality Fund (AHF)

The remaining hotel in the fund, Twin Waters on the Sunshine Coast QLD, reported total income of \$30.2m in the year to 30 June 2018 with an average occupancy of 69%, compared to total income of \$27.3m and occupancy of 64% in the prior year. The hotel has traded strongly for both room revenue and food and beverage revenue, driven by solid conference and leisure traveller demand.

Abacus Wodonga Land Fund (AWLF)

AWLF owns the residential estate known as White Box Rise located in Wodonga, Victoria. During the year 87 residential lots were settled for combined proceeds of \$12.8 million. This takes the total number of lots settled to 920 since the start of the project. There are approximately 153 lots left to sell in the estate, and these are expected to be sold over the next 1-2 years.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)**FUTURE PROSPECTS AND RISKS**

Following a review of current market conditions, project status and outlook, Abacus has refined its strategic direction giving prominence to sectors where we have a clear competitive advantage. Abacus' future capital allocation framework will focus heavily upon increasing our exposure to the self-storage and office markets while reducing our exposure to retail and residential markets at this point in the cycle. This strategy will target longer dated core plus office assets that we can develop into core assets that Abacus is happy to hold for the longer term. Increasing exposure to these asset classes will enhance our ability to grow recurring revenue sources to maintain the Group's targeted distribution growth of 2-3% pa.

This investment strategy will continue to be funded via the realisation of our residential developments over the coming years and reducing our exposure to retail based assets at this point in the cycle. Abacus has had a successful start to this strategy through project and asset realisations and acquisitions that have delivered its strong results through FY18.

Abacus held elevated levels of acquisition capacity at 30 June 2018 that were substantially increased following a number of post balance date settlements increasing the Group's capacity to over \$600 million. This provides excellent opportunity to take advantage of prospects in the self-storage and office markets as markets move into the next stage of the cycle. This capacity can be further leveraged to invest in a larger number of projects through joint venture arrangements.

Recurring underlying earnings should continue to increase over the coming year as the Group sources additional acquisitions and an increased level of rental income as assets currently under development come on line. Growth in revenue through further acquisitions will be driven or limited by our ability to access new opportunities that deliver our required equity returns in markets that are continuing to show signs of strong pricing. The different characteristics of each leasing market, particularly office sectors across different states, have the potential to increase volatility in rental revenue. Any sales of investment properties will also have a negative influence of recurring revenue growth.

A number of legacy residential construction projects were completed in FY18 and while the sector continues to face substantial headwinds including reduced access to finance for purchasers and several pockets of oversupply, it is likely that Abacus will be able to achieve forecast returns on its projects, and also review and possibly reduce its commitment to future residential projects at this stage. In our land mortgages business, Abacus has a portfolio of joint ventures and loans to developers, covering land to be rezoned and developed into residential. Abacus is actively exploring opportunities to realise a number of these projects in the near term to reduce our exposure to residential markets. The contribution to earnings from finance income is directly correlated to the levels of loans extended to borrowers, and this has potential to reduce as the current pipeline of assets is realised.

Abacus is likely to reduce its exposure to transactional returns from the realisation of investment properties as it looks to invest in assets to be held over a longer term. A reduced level of gains from the sale of assets will have a negative effect on underlying profit, although the group will benefit from growing recurring earnings as these strong income producing assets are held for longer.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

FUTURE PROSPECTS AND RISKS (continued)

There are a number of risk factors associated with property-related businesses that may have an impact on the financial prospects of Abacus. Some of the key risks are outlined below. This outline is not exhaustive, and performance may be affected adversely by any of these risk and other factors.

- **Returns from investment** – Returns from investment in real property and other related property exposures depend largely on the amount of rental income that can be generated from the property, the expenses incurred in operations, including the management and maintenance of the property, as well as changes in the market value of the property. Factors which may adversely impact these returns include:
 - the overall conditions in the national and local economy, such as changes in gross domestic product, employment trends, inflation and interest rates;
 - local real estate conditions, such as the level of demand for and supply of retail, commercial and industrial space;
 - the perception of prospective tenants of the attractiveness, practicality and convenience of the rental space;
 - changes in tenancy laws and planning approval requirements;
 - external factors including major world events such as war, terrorist attacks or force majeure events;
 - unforeseen capital expenditures;
 - supply of new property and other investment assets;
 - cost of property outgoings and recoverability from tenants; and
 - investor demand/liquidity in investment markets.
- **Development** – Abacus is involved in the development of real estate. Generally, property development projects have a number of risks including:
 - The risk that planning consents and regulatory approvals are not obtained or, if obtained, are received later than expected, or are adverse to Abacus' interests, or are not properly adhered to;
 - The escalation of development costs beyond those originally expected;
 - Project delays;
 - Anticipated sales prices or timing on sales not being achieved;
 - Defaults on pre-sales contracts;
 - Non-performance/breach of contract by a contractor, sub-contractor or joint venture partner; and
 - Competing development projects adversely affecting the overall return achieved by Abacus developments.

A sustained downturn in property markets caused by any deterioration in the economic climate could result in reduced development profits through reduced selling prices or delays in achieving sales.

Increases in supply or falls in demand in any of the sectors of the property market in which Abacus operates or invests could influence the acquisition of sites, the timing and value of sales and carrying value of projects. The residential property market in particular may be adversely affected by declining consumer sentiment and increasing interest rates. In the short term this may affect, for example, project enquiry levels or rates of sale.

In the medium-term factors such as the oversupply or undersupply of various markets may materially impact Abacus' development operations.

A number of factors affect the earnings, cashflows and valuations of Abacus' commercial property development, including construction costs, scheduled completion dates, estimated rental income and occupancy levels and the ability of tenants to meet rental and other contractual obligations.

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

FUTURE PROSPECTS AND RISKS (continued)

- **Leasing terms and tenant defaults** – The future financial performance of Abacus will depend, in part, on its ability to continue to lease existing retail, office, industrial and self-storage space that is vacant or becomes vacant on economically favourable terms. In addition, its ability to lease new asset space in line with expected terms will impact on the financial performance of Abacus.

The ability of major tenants to meet their rental and other contractual commitments to Abacus (such as in situations of insolvency or closure of their businesses) may have an adverse impact on the income from properties, which may result in an adverse impact on the financial performance of Abacus.

This risk is managed through active asset management including ongoing liaison with tenants, regular maintenance and refurbishment of properties to attract tenants, timely marketing programs for vacant space and due diligence on the financial strength of prospective tenants prior to entering into leases.

- **Funding** – The property investment and development sector is highly capital intensive. The ability of Abacus to raise funds (equity and debt) on acceptable terms will depend on a number of factors including capital market conditions, general economic and political conditions, Abacus' performance, and credit availability. Changes in the cost of current and future borrowings and equity raisings may impact the earnings of Abacus, and impact the availability of funding for new acquisitions and projects, or increase refinancing risk as debt facilities mature.

Abacus uses debt funding provided by major banks. Any downgrade of Abacus' bank credit assessment may increase overall debt funding costs and adversely affect Abacus' access to debt funding and the terms on which that funding is offered. Abacus staggers the debt maturity profile to reduce the concentration of refinancing risks at any point in time and obtains funding through different banks to reduce credit and counterparty risks.

- **Insurance** – While Abacus carries property insurance, there are types of losses (such as against floods and earthquakes) that are generally not insured at full replacement cost or that are insured subject to larger deductibles or insurance may not be able to be obtained. Additionally, Abacus will face risks associated with the financial strength of its insurers to meet their indemnity obligations when called upon which could lead to an adverse effect on earnings.

Abacus mitigates this risk through the use of insurance brokers to seek to place cover with well rated insurers and ensure that this insurance risk is diversified across various insurers. The diversification of the property portfolio across geographical regions reduces the impact of any potential losses to Abacus.

- **Environmental** – Abacus may from time to time be exposed to a range of environmental risks including those resulting from soil and water contamination, construction, cultural heritage and flora and fauna (for example, native vegetation). In addition, there is a risk that property owned by or projects undertaken by Abacus from time to time may be contaminated by materials harmful to human health (such as asbestos or other hazardous materials). Also, returns may be adversely impacted by changes to sustainability and environmental requirements and potentially costs associated with the carbon pricing or the introduction of new regulations referable to the property industry. In these circumstances, Abacus may be required to undertake remedial works on contaminated sites. Additional expenses may result from changes in environmental regulations across the industry. Abacus as part of the property acquisition due diligence engages experts to advise on any potential environmental risks and factors these into the acquisition price of the property. Abacus also constantly monitors for any potential exposure in changes in environmental regulations to manage any costs and impacts associated with these risks.
- **Treasury risk** – Abacus manages its exposure to financial market risks by way of a formal treasury policy encompassing among other things interest rate, funding, liquidity and credit risk management. Risk management is undertaken over multiple timeframes with risk management activity reviewed on a regular basis by our Treasury Management Committee, a formally documented senior management committee. The overarching treasury policy parameters for interest rate and funding risk management reflect the objective of balancing a desired level of certainty for interest expense against retaining an appropriate level of

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

FUTURE PROSPECTS AND RISKS (continued)

flexibility to respond to external developments within not only domestic and global financial markets but also the wider domestic and global economies. The Treasury Policy is reviewed on a regular basis by senior management and the Board. This is enhanced by utilising the in-depth market knowledge of Abacus' external independent treasury adviser.

With high levels of uncertainty not only in domestic financial markets but also in the Australasian residential and commercial property sectors and the wider global economy, Abacus has focused its interest rate risk management activity over the last financial year on the near-term, albeit within the overall interest rate risk management hedging requirements of our Treasury Policy. Funding risk management has focused on the timely renegotiation of maturing facilities and where possible seeks to increase the overall maturity profile.

- **Workplace Health and Safety (WH&S)** – Abacus manages its exposure to WH&S by way of a documented WH&S program including policies and procedures for managing safety. The management system ensures compliance by stakeholders including site contractors and employees through training and education. The management system protects from the risk of incidents, causing financial or physical impact arising from an accident or event at an asset owned or managed by Abacus.
- **Talent retention** – The inability to attract, retain and develop talented people can frustrate the execution of the strategy, limiting the ability to deliver the business' objectives. Abacus is committed to ensuring our workplace, market standing and strategic objectives remain relevant and attract the most appropriately skilled and diverse workforce for the organisation to deliver on its goals

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)

DIRECTORS AND SECRETARY

The qualifications, experience and special responsibilities of the Directors and Company Secretary are as follows:

John Thame AIBF, FCPA

Chairman (non-executive)

Mr Thame has over 30 years' experience in the retail financial services industry in senior management positions. His 26-year career with Advance Bank included 10 years as Managing Director until the Bank's merger with St George Bank Limited in 1997. Mr Thame was Chairman (2004 to 2008) and a director (1997 to 2008) of St George Bank Limited and St George Life Limited.

Mr Thame is a member of the Audit & Risk, Nomination & Remuneration and Compliance Committees.

Tenure: 15 years (All as Chairman)

Steven Sewell BSc

Managing Director

Mr Sewell joined Abacus in October 2017 bringing over 17 years' experience in real estate funds management, asset management, equity and debt capital markets and M&A transactions. Steven joined Abacus from the Macquarie Group where he was an Executive Director of Macquarie Infrastructure and Real Assets. Previously Steven was CEO and Managing Director of Federation Centres Ltd (now renamed Vicinity Centres), Charter Hall Retail REIT (previously known as Macquarie Countrywide Trust). Steven's prior career experience is across various real estate sectors, and importantly provides a valuable insight and connection to institutional investors, the whole Group's business and investment strategies, capital allocation and developing third party capital relationships. Steven was appointed Managing Director elect in January 2018, and appointed to the role permanently in April 2018.

William J Bartlett FCA, FCPA, FCMA, CA(SA), FAICD

Mr Bartlett is a Non-Executive Director. As a partner at Ernst & Young for 23 years, he held the roles of Chairman of Worldwide Insurance Practice, National Director of Australian Financial Services Practice and Chairman of the Client Service Board. Mr Bartlett is a director of Reinsurance Group of America Inc. and RGA Reinsurance Company of Australia Limited. He is Chairman of the Cerebral Palsy Foundation of Australia.

Mr Bartlett is Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee.

Tenure: 11 years

Jingmin Qian CFA, MBA, FAICD

Ms Qian is a Non-Executive Director and has significant expertise in the property, infrastructure and resource sectors as well as rich experience in Asia. Ms Qian is a director of Jing Meridian and specialises in advising boards and senior management on investment, strategic management and cross-cultural management. Ms Qian has served as a member of the business liaison program of the Reserve Bank of Australia. Ms Qian is a trustee of Club Plus Super, a member of Macquarie University Council, a director of the Chartered Financial Analyst Society of Sydney and a director of the Australia China Business Council.

Ms Qian is Chairperson of the Compliance Committee and a member of the Audit & Risk Committee.

Tenure: 1 year

Myra Salkinder MBA, BA

Mrs Salkinder is a Non-Executive Director and is a senior executive of the Kirsh Group. She has been integrally involved over many years with the continued expansion of the Kirsh Group's property and other investments, both in South Africa, Australia and internationally. Mrs Salkinder is a director of various companies associated with the Kirsh Group worldwide.

Mrs Salkinder is a member of the Nomination & Remuneration and Compliance Committees.

Tenure: 7 years

DIRECTORS' REPORT

30 June 2018

OPERATING AND FINANCIAL REVIEW (continued)**DIRECTORS AND SECRETARY (continued)****Peter Spira** AM, B Arch

Mr Spira is a Non-Executive Director. He has over 36 years' experience in the Australian real estate sector with Meriton Group, Australia's largest residential apartment developer. He was responsible for Meriton Group's development projects while also leading the Meriton team in researching and developing new construction and remediation systems. Mr Spira was a director of Meriton Group from 1995 until 2015. In 2006 he received the Order of Australia (AM) for services to the development industry. He is a director of Retire Australia.

Mr Spira is Chairman of the Nomination & Remuneration Committee.

Tenure: 3 years

Robert Baulderstone BA, CA, FCIS Company Secretary and Chief Financial Officer

Mr Baulderstone has been the Company Secretary since February 2017. He has been a chartered accountant for over 25 years.

As at the date of this report, the relevant interests of the directors in the stapled securities of ABP Group were as follows:

Directors	ABP securities held
J Thame	84,590
W Bartlett	33,125

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) of AGHL, AFML (the Responsible Entity of AT and AIT), AGPL, ASFML (the Responsible Entity of ASPT) and ASOL, held during the year and the number of meetings attended by each director were as follows:

	Board		Audit & Risk Committee		Remuneration & Nomination Committee		Compliance Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
J Thame	12	12	5	5	4	4	2	2
F Wolf (deceased)	8	8						
S Sewell	4	4						
W Bartlett	12	12	5	5	4	3		
M Irving	5	5	1	1			2	2
J Qian	10	10	4	4			2	2
M Salkinder	12	12			4	4	4	4
P Spira	12	12			1	1		

Indemnification and Insurance of Directors and Officers

The Group has paid an insurance premium in respect of a contract insuring all directors, full time executive officers and the secretary. The terms of this policy prohibit disclosure of the nature of the risks insured or the premium paid.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) – except for any loss in respect of any matters which are finally determined to have resulted from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

DIRECTORS' REPORT**30 June 2018****ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Group is subject to significant environmental regulation in respect of its property activities. Adequate systems are in place for the management of the Group's environmental responsibilities and compliance with the various licence requirements and regulations. No material breaches of requirements or any environmental issues have been identified during the year. The Group is a core plus investor, not a builder of new buildings. The Group endeavours to choose sustainable options whenever that is a cost-effective outcome.

AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young, and such declaration is shown on page 34.

NOTIFICATION OF AUDITOR ROTATION REQUIREMENTS

On 24 April 2018 the board of directors approved the extension of the Lead Audit Partner rotation period for one year in accordance with section 324DAB of the Corporations Act 2001 and of the Corporations Legislative Amendment (Audit Enhancement) Act 2012. The decision was based on the directors determining that the extension provided consistency in the audit process during the change in the Group's Managing Director. The directors believe that this enhanced the overall quality of the Group's audit and the extension does not give rise to a conflict of interest.

ROUNDING

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the group under ASIC Corporations Instrument 2016/191. The group is an entity to which the instrument applies.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited)

This Remuneration Report describes Abacus' remuneration arrangements for directors and executives in accordance with the requirements of the Corporations Act and Regulations. Key terms used in this report are defined in the glossary at Table 15.

This report contains details of the remuneration of the following key management personnel (**KMPs**)

(i) *Non-executive Directors*

J. Thame	Chairman
W. Bartlett	Director
M. Irving	Director (retired on 14 November 2017)
J. Qian	Director (appointed on 26 September 2017)
M. Salkinder	Director
P. Spira	Director

(ii) *Executive Director*

S. Sewell	Managing Director (appointed as KMP on 3 October 2017 and Managing Director on 18 April 2018)
F. Wolf	Managing Director (died on 18 April 2018)

(iii) *Executives*

R. Baulderstone	Chief Financial Officer
C. Laird	Director Property Development
P. Strain	Director Property Investments

Board oversight of remuneration

Nomination & Remuneration Committee

The Nomination & Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for the non-executive directors and executives. Further details about the Committee's membership and functions are contained in the Corporate Governance Report.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)**Executive remuneration*****Snapshot***

Abacus is a high conviction investor and manager of real estate assets in the Australian and New Zealand markets.

Abacus' primary focus is to acquire long dated assets in the core sectors of self-storage and office sectors that contribute to and drive recurring earnings growth to fulfil our distribution policy. In addition, core investment opportunities in the retail and industrial sectors will also be considered at appropriate times in the property cycle.

Abacus will continue on a limited scale, to invest in core plus/opportunistic investments across higher risk return projects in residential development, office, retail and industrial depending upon the nature of the opportunity, the property cycle and capital availability. The preferred funding sources for this type of investment will be within Abacus' third party capital platform in order to achieve a higher level of investment returns.

Remuneration incentives have been set up to ensure executives are not encouraged to take undue risks.

Short and long dated variable remunerations are structured in such a way that different contributions by each executive can be appropriated rewarded.

Long dated variable remuneration, which is subject to clawback, is linked to Abacus' security price that reflects the market assessment of the business's longer term ability to deliver sustainable distributions and growth.

Objective

The remuneration policy for executives supports the Group's overall objective of producing sustainable earnings and continuing growth in security value.

Total remuneration levels are positioned at market median, with higher rewards possible if justified by performance. The policy framework is designed to align the interests of executives and securityholders through the use of variable remuneration linked to an underlying profit gateway range and to the Abacus security price over the vesting period for deferred remuneration. The variable remuneration strategy is designed to drive sustainable and growing underlying profit that covers the distribution level implicit in the Abacus security price.

Abacus' performance over the last 5 years is illustrated below.

Table 1: 5 year performance

	2014	2015	2016	2017	2018
Underlying earnings per security (cents)*	20.83	24.53	22.36	32.71	31.73
Distributions paid and proposed (cents)	16.75	17.00	17.00	17.50	18.00
Closing security price (30 June)	\$2.50	\$2.92	\$3.15	\$3.24	\$3.77
Net tangible assets per security**	\$2.38	\$2.49	\$2.66	\$2.93	\$3.18
Weighted average securities on issue	486.1m	524.4m	554.7m	571.2m	577.8m

* Underlying earnings are unaudited.

** Net tangible assets per security include the impact of the fair value movements and are adjusted for the recognition of the June distribution in the respective financial years.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)

Structure

The table below sets out the structure of Abacus' executive remuneration arrangements. Each element is discussed in further detail in the sections that follow.

Table 2: Summary of ABP's remuneration structure

Remuneration component	Method	Purpose	Link to performance
Fixed remuneration	Paid mainly as cash salary - comprises base salary, superannuation contributions and other non-monetary benefits (car parking and associated fringe benefits tax).	Set with reference to role, market, experience and skill-set.	Indirect link to performance. Periodic increases are linked to market movements, changes in roles and responsibilities, and incumbent experience.
Current variable component (capped at 75% of fixed remuneration for the Managing Director and at 60% for other executives)	Paid in cash in September.	To drive achievement of the underlying profit target range as set by the Board.	Underlying profit is a key financial gateway for a current variable award. Individual performance is then tested against KPIs, key effectiveness indicators and other internal financial and performance measures.
Deferred variable component (capped at 75% of fixed remuneration for the Managing Director and at 60% for other executives)	Awards are made in the form of security acquisition rights.	To reward executives for achieving sustainable underlying profit growth over the short to medium term and to reduce excessive risk taking associated with short term performance assessment models.	Directly linked to the increase in the Abacus security price over the vesting period, and the maintenance of distributions. Claw back of prior grants is considered if performance is not sustained.

Abacus aims to ensure that the split of fixed and variable remuneration for executives is appropriate for the type of business it operates, namely, a cyclical, established business that seeks to provide stable distributions to securityholders. Volatile outcomes are not valued by long-term investors, and therefore remuneration is not highly incentive leveraged. The result is a higher proportion of fixed remuneration for executives compared to other A-REITs and a lower proportion of variable remuneration, with the variable remuneration designed to reward consistency of sustainable distributions and steady improvement to the underlying financial strength of the business. This strategy aligns with the Board's desired positioning of the group within the A-REIT industry.

Accordingly, the Board considers it appropriate that for the key management personnel the proportion of fixed to the potential maximum variable pay (the *remuneration ratio*) is 40:60 for the Managing Director and 45:55 for the other executives, with half of the variable component generally allocated to current variable remuneration and the other half to deferred variable remuneration. There may be variations from the ratio based on personal performance, but each executive's total current and deferred variable remuneration is generally capped at 150% for the Managing Director and 120% for the other executives of their fixed remuneration.

To assist the Committee in determining remuneration, Abacus subscribes to an independent property salary and remuneration survey recommended to it by EY. Abacus also reviews the published remuneration of the members of the S&P ASX 200 Index and the S&P/ASX 300 A-REIT Index. This information is used by the Committee for benchmarking purposes.

Fixed Remuneration

Abacus aims to set a fair base salary. Base salary is set by reference to each executive's position, performance and experience, and the Committee has regard to independent benchmarking information. The Committee has authority to engage independent advisers to assist it in its role. No external adviser provided any remuneration recommendations in relation to any member of the KMP during the year.

Fixed remuneration is benchmarked against data for the property industry as well as data from the stock market to determine an appropriate market-competitive level of pay. Stock market data covers listed industry companies of comparable size and, within that, A-REITs of comparable size.

Base salaries paid to executives increased by an average of 2.0% in the year ended 30 June 2018.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)*Current variable remuneration***Table 3: Summary of the current variable remuneration plan**

What is current variable remuneration?	A cash incentive plan linked to specific annual targets.													
What were the outcomes for executives this year and last year?	For the 2018 financial year current variable remuneration awards of \$1,760,000 have been accrued and will be paid in September 2018. The awards made to each executive and their achievements against the maximum potential payment are set out in table 6.													
What is the purpose of current variable remuneration?	To link the achievement of Abacus' operational targets to the remuneration received by all the executives charged with meeting those targets. This is designed to encourage the executives to work as a team to achieve the underlying profit target range.													
What are the performance conditions?	For each financial year, the Board specifies an underlying profit target range. The lower end of the target range operates as a gateway that must be passed if current variable remuneration awards are to be generally payable. The profit target range for the 2018 financial year was \$128m to \$135m. If the gateway is passed, the value of the award for each executive is determined having regard to achievement against pre-determined key performance indicators or KPIs. The target levels of performance set by the Board are challenging, and 100% payments require a high level of consistent performance. The KPIs for the year ended 30 June 2018 are set out below: <table border="1"> <thead> <tr> <th>KPI</th><th colspan="2">Proportion of current variable remuneration award measure applies to</th></tr> <tr> <th></th><th>Managing Director</th><th>Other executives</th></tr> </thead> <tbody> <tr> <td> Financial measure: - Contribution to Abacus underlying profit - Contribution to sustainability of distribution - Contributions to projects expected to grow security value </td><td>60%</td><td>20-80% (dependent on role)</td></tr> <tr> <td> Non-financial measures: - Quality of analysis and recommendations - Transaction and project management - Key growth activities - Risk management - Other performance measures focused on achieving business imperatives </td><td>40%</td><td>20-80%</td></tr> </tbody> </table> Account is also taken of qualitative indicators of effectiveness, performance and behaviour.		KPI	Proportion of current variable remuneration award measure applies to			Managing Director	Other executives	Financial measure: - Contribution to Abacus underlying profit - Contribution to sustainability of distribution - Contributions to projects expected to grow security value	60%	20-80% (dependent on role)	Non-financial measures: - Quality of analysis and recommendations - Transaction and project management - Key growth activities - Risk management - Other performance measures focused on achieving business imperatives	40%	20-80%
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Non-financial measures: - Quality of analysis and recommendations - Transaction and project management - Key growth activities - Risk management - Other performance measures focused on achieving business imperatives	40%	20-80%												

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)***Current variable remuneration (continued)*****Table 3: Summary of the current variable remuneration plan (continued)**

Why were these measures chosen?	An underlying profit target range was chosen because, of several financial performance measures considered by the Board, underlying profit demonstrated the closest correlation to security-holder value creation (measured by total security-holder return). Underlying profit reflects the statutory profit as adjusted in order to present a figure that reflects the Directors' assessment of the result for the ongoing business activities of Abacus, in accordance with the AICD/Finsia principles for reporting underlying profit. The other financial and non-financial KPIs were chosen as they represent the key drivers for the short-term success of the business and provide a framework for long term securityholder value.
How is the total current variable remuneration pool determined?	The current variable remuneration pool is linked directly to, and contingent on, the achievement of the underlying profit gateway for the assessment year.
How is performance assessed?	The Nomination & Remuneration Committee considers the performance of the executives against their KPIs and other applicable measures and has regard to independent benchmarking information. The Committee then recommends current variable remuneration payments, if any, to the Board for its approval.
What discretions does the Board have?	If the underlying profit gateway is missed, the Board retains the discretion to make the current variable remuneration pool, or a reduced pool, generally available if it determines the circumstances warrant such action. If performance has been exceptionally strong the Board may increase the total pool size to provide additional current variable remuneration awards reflective of the above target performance. If the underlying profit gateway is missed, the Board also retains the discretion to pay current variable remuneration awards to selected individuals to reward them for their personal above target performance. When approving awards for individual executives, the Board has the discretion to consider each executive's total contribution to the group in addition to the specific KPIs selected for the relevant year. The board will disclose the exercise of any of these discretions. No discretions have been exercised in respect of the reporting year.
What happens on cessation of employment?	An executive will generally not be entitled to be paid a current variable remuneration award if they resign or if their employment is terminated with cause.

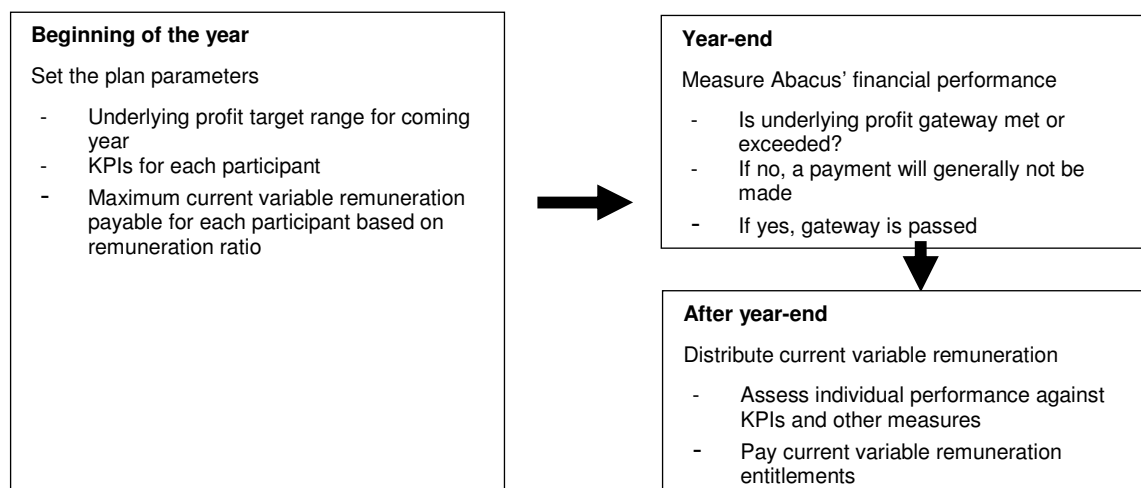
DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)

Table 4: Summary of the pooling and assessment process

The process for determining an individual's current variable remuneration award is as follows:



Current variable remuneration outcome for the Managing Director

The following table sets out the performance of the Managing Director against his KPI targets for the year ended 30 June 2018 (scorecard) which are reviewed by the Nomination & Remuneration Committee and the Board. These KPIs are intended to provide a link between remuneration outcomes and the key drivers of long term securityholder value:

Table 5: Managing Director's performance against KPIs

Category	Weighting	Result	Performance Detail
Financial performance – measured by underlying profit	40%	Above target	Abacus delivered an underlying profit of \$183.3m which is 43% higher than the variable remuneration gateway.
Sustainable distribution – measured by payment of the target amount	20%	Above target	Abacus has paid a distribution of 18.0 c per security which is 3% higher than the target distribution of 17.5c per security.
Growth – measured by revenue growth, funds under management, acquisitions, capital partners and expanded activities	15%	Above target	Abacus achieved a 24% increase in revenue and continued to grow the property portfolio. Abacus also entered into joint ventures with new capital partners which led to an increase in funds and properties under management
Business management – measured by debt management, rent and leasing management, operating costs and delivery of business plans	15%	Above target	Abacus has a strong capital position and sound controls that have supported its performance in maintaining occupancy levels above 90%, comparable WALE and the delivery of operational improvements and efficiencies
People – measured by leadership performance, employee engagement, retention and development	10%	At target	An independent survey on leadership was undertaken with senior staff during the year and the overall results were very positive. The average tenure of all employees in Abacus is greater than 6 years.

The scorecards for other executives are similar to that of the Managing Director, but with different weightings and with KPIs applicable to their individual roles.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)***Current variable remuneration awards***

Application of the KPIs against the scorecards resulted in no executive achieving the maximum possible variable remuneration. The following table sets out the awards made to each executive based on their performance during the year ended 30 June 2018.

Table 6: Current variable awards

		Maximum STI as per the plan	Current variable remuneration award	% of maximum possible current award earned
	Fixed salary			
S Sewell *	650,685	488,014	480,000	98%
F Wolf *	1,140,082	855,062	480,000	56%
R Boulderstone	510,000	306,000	300,000	98%
C Laird	510,000	306,000	250,000	82%
P Strain	510,000	306,000	250,000	82%

* part-period

Deferred variable remuneration**Table 7: Summary of the deferred variable remuneration plan**

What is deferred variable remuneration?	Deferred variable remuneration is delivered in the form of an annual grant of security acquisition right (SARs) under the deferred security acquisition rights plan (SARs Plan). SARs allocated to an executive as their deferred variable remuneration for a financial year will vest in four equal annual tranches on the first, second, third and fourth anniversaries of the allocation date. Executives are entitled before any tranche of SARs vests, to extend the vesting date for that tranche by 12 months.
What is the purpose of deferred variable remuneration?	The objective of the deferred variable remuneration plan is to reward executives for sustaining underlying profit that covers the distribution level implicit in the Abacus security price and for the sustainability of distributions over a four year period. The structure of the plan recognises that long-term value is the product of a string of sustained short-term outcomes and seeks to discourage volatile earnings and distributions. Reward is accordingly contingent on both current performance and the maintenance of that performance in succeeding years. The two are not considered independent, and the reward structure intentionally does not allow for separate short term and long term measures.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)***Deferred variable remuneration (continued)*****Table 7: Summary of the deferred variable remuneration plan (continued)**

How is the value of the deferred variable remuneration determined?	A deferred variable remuneration award is available to an executive who satisfies the KPIs outlined in the current variable remuneration section. As a starting point, the deferred variable remuneration award for a financial year will match the value of the current variable remuneration award paid for that year. The matching allocations may then be adjusted to take into account other factors that the Board considers specifically relevant to the purpose of providing deferred variable remuneration awards. Adjustments may be needed, for example, to take into account exceptional individual performance, the potential of an executive, or their future employment plans and aspirations. Once the grant value is determined by the Board, the number of SARs to be awarded is calculated based on the face value of Abacus' securities. The face value is calculated using a 10 day volume weighted average price (VWAP) for the period commencing on the second trading day after the full year results announcement.
Can deferred variable remuneration be forfeited?	Deferred variable remuneration will usually be forfeited if an executive resigns or is summarily dismissed prior to the vesting date (see the 'Cessation of employment section' below for more detail). The Board has the discretion to forfeit unvested SARs tranches of an allocation of SARs if ABP distributions fall by more than the annualised distribution rate per ABP security set at the time of the relevant allocation. The rate set for the reporting year was \$0.17. No forfeitures of SARs for unsustainable performance occurred in the reporting period. Further, if the Board determines that an executive is responsible for misconduct resulting in material non-compliance with financial reporting requirements or for excessive risk taking, the executive will forfeit all unvested SARs entitlements.
Do executives receive distributions on their unvested deferred variable remuneration?	No. However, to achieve a closer alignment of the interests of securityholders and senior executives, when a tranche of SARs vests, the holder will receive an additional number of ABP securities equivalent in value to the distributions the executive would have received over the vesting period if their SARs had been ABP securities.
What discretions does the Board have?	The Board has the discretion to award SARs in excess of the deferred remuneration cap in the case of exceptional performance. The board will disclose the exercise of any of these discretions. No discretions have been exercised in respect of the reporting year.
What happens on cessation of employment?	To receive the deferred remuneration award the executive must remain employed by Abacus, unless they are considered a good leaver (that is, through disability, termination without cause, genuine retirement, death or some other circumstance considered acceptable by the board in its discretion).

Further details about deferred variable remuneration grants are set out in tables 10 to 13 and the terms of prior year grants are set out in earlier remuneration reports.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)

Deferred variable remuneration (continued)

Employment contracts and termination entitlements

The Managing Director, Mr Sewell, is employed under a contract dated 15 February 2018 and may be terminated by either party giving 9 months written notice or in the case of Abacus by providing payment in lieu of notice.

The previous Managing Director, Dr Wolf, was employed under a rolling contract which commenced on 10 October 2002. Under the terms of the contract:

- Dr Wolf was able to resign from his position by giving 6 months written notice; and
- Abacus was able to terminate the employment agreement by providing 12 months written notice or providing payment in lieu of notice.

Dr Wolf died on 18 April 2018 and the following amounts were paid in accordance with the terms of his employment contract:

- The 800,044 SARs held by Dr Wolf that vested at the date of his death;
- Accrued leave entitlements; and
- Dr Wolf's estate will receive his current variable remuneration award for the year ended 30 June 2018.

The other executives are employed on an ongoing basis under letter agreements until one month's notice is given by either party. Abacus may terminate an executive's service at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to remuneration up to the date of termination. Deferred variable remuneration allocations vest according to the SARs Plan rules.

Non-executive director remuneration

Objective

The Committee assesses the appropriateness of the nature and amount of remuneration of non-executive directors on a periodic basis by reference to market rates with the overall objective of attracting and retaining Board members with an appropriate combination of industry and specialist functional knowledge and experience.

Structure

Abacus' constituent documents and the ASX Listing Rules specify that the maximum aggregate remuneration of non-executive directors must be approved by securityholders. The last determination was at the annual general meeting held on 14 November 2017 when securityholders approved an aggregate remuneration limit of \$1,000,000 per year. (This is a limit on non-executive directors' total fees. The actual fees paid to non-executive directors are in Table 8.)

The aggregate remuneration limit and the fee structure are reviewed annually and fees were last increased in July 2017.

Fees payable, inclusive of superannuation, to non-executive directors are as follows:

Table 8: Non-Executive Director fee levels

Board/Committee	Role	Fee
Board	Chairman*	\$232,050
Board	Member	\$105,000
Audit & Risk Committee	Chairman	\$27,300
Audit & Risk Committee	Member	\$10,500
Compliance Committee	Chairman	\$14,700
Compliance Committee	Member	\$10,500
Nomination & Remuneration Committee	Chairman	\$15,750
Nomination & Remuneration Committee	Member	\$10,500

* The Chairman is an ex-officio member of all Board committees but does not receive any committee membership fees.

The non-executive directors do not receive retirement benefits. Nor do they participate in any incentive programs.

DIRECTORS' REPORT

30 June 2018

Table 9: Remuneration of Key Management Personnel

2018	Short-term benefits			Post employment	Long-term benefits	Security-based payment	Total	Performance related
	Salary & fees	Current variable incentive	Non-monetary benefits	Total cash payments and short term benefits	Superannuation	Long service leave*	Security acquisition rights (SARs)*	
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
J Thame - Chairman	212,001	-	-	212,001	20,049	-	-	232,050
W Bartlett	126,495	-	-	126,495	12,017	-	-	138,512
M Irving **	53,393	-	-	53,393	5,072	-	-	58,465
J Qian #	87,719	-	-	87,719	8,333	-	-	96,052
M Salkinder	115,068	-	-	115,068	10,931	-	-	125,999
P Spira	104,934	-	-	104,934	9,968	-	-	114,902
Sub-total non-executive directors	699,610	-	-	699,610	66,370	-	-	765,980
Executive Directors								
S Sew ell - Managing Director ##	636,323	480,000	-	1,116,323	15,036	-	-	1,131,359
F Wolf - Managing Director ###	1,129,127	480,000	6,467	1,615,594	13,603	27,982	1,352,246	3,009,425
Other key management personnel								
R Baulderstone - Chief Financial Officer	485,000	300,000	-	785,000	25,000	10,390	152,579	972,969
C Laird - Director Property Developments	485,000	250,000	6,467	741,467	25,000	9,640	178,215	954,322
P Strain - Director Property Investments	485,000	250,000	6,467	741,467	25,000	10,550	159,085	936,102
Sub-total executive KMP	3,220,450	1,760,000	19,401	4,999,851	103,639	58,562	1,842,125	7,004,177
Total	3,920,060	1,760,000	19,401	5,699,461	170,009	58,562	1,842,125	7,770,157

*Accrued but not presently entitled except F Wolf

** Retired on 14 November 2017

Appointed on 26 September 2017

Commenced on 3 October 2017 and appointed Managing Director on 18 April 2018

Died on 18 April 2018 which resulted in the vesting of all entitlements to SARs

DIRECTORS' REPORT

30 June 2018

Table 9: Remuneration of Key Management Personnel

2017	Short-term benefits			Post employment	Long-term benefits	Security-based payment	Total	Performance related
	Salary & fees	Current variable incentive	Non-monetary benefits	Total cash payments and short term benefits Superannuation	Long service leave*	Security acquisition rights (SARs)*		
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
J Thame - Chairman	201,828	-	-	201,828	19,172	-	221,000	-
W Bartlett	114,155	-	-	114,155	10,845	-	125,000	-
M Irving	140,028	-	-	140,028	9,828	-	149,856	-
M Salkinder	109,589	-	-	109,589	10,411	-	120,000	-
P Spira	91,324	-	-	91,324	8,676	-	100,000	-
Sub-total non-executive directors	656,924	-	-	656,924	58,932	-	715,856	
Executive Directors								
F Wolf - Managing Director	1,375,411	900,000	6,673	2,282,084	24,589	27,621	2,904,181	51%
Other key management personnel								
E Varejes - Chief Operating Officer #	252,333	-	3,336	255,669	15,167	4,273	339,579	19%
R Baulderstone - Chief Financial Officer	465,000	270,000	-	735,000	35,000	10,122	919,032	44%
C Laird - Director Property Developments	465,000	270,000	6,673	741,673	35,000	9,362	951,470	46%
P Strain - Director Property Investments	465,000	270,000	6,673	741,673	35,000	10,284	938,536	45%
Sub-total executive KMP	3,022,744	1,710,000	23,355	4,756,099	144,756	61,662	6,052,798	
Total	3,679,668	1,710,000	23,355	5,413,023	203,688	61,662	6,768,654	

*Accrued but not presently entitled

Ceased to meet the definition of a key management person in December 2016

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)**Table 10: Grants under the Deferred Security Acquisition Rights Plan**

The table below discloses unvested SARs held by key management personnel as well as the number of SARs that vested or lapsed during the year.

	Year	Grant date	SARs granted	Fair value per right at grant date	Vesting date	No. vested during the year	No. lapsed during the year
Director							
F Wolf	2018	14/11/2017	216,420	\$3.566	18/04/2018	216,420	-
	2017	14/11/2016			13/09/2017	57,565	-
	2017	14/11/2016			18/04/2018	172,695	-
	2016	21/11/2015			13/09/2017	58,294	-
	2016	21/11/2015			18/04/2018	116,588	-
	2015	21/11/2014			13/09/2017	54,565	-
	2015	21/11/2014			18/04/2018	54,565	-
	2014	29/11/2013			13/09/2017	69,352	-
Executives							
R Baulderstone	2018	14/11/2017	48,868	\$3.566	over 4 years	-	-
	2017	14/11/2016			13/09/2017	14,391	-
	2016	21/11/2015			13/09/2017	13,324	-
	2015	21/11/2014			13/09/2017	14,550	-
	2014	29/11/2013			13/09/2017	16,644	-
C Laird	2018	14/11/2017	55,852	\$3.566	over 4 years	-	-
	2017	14/11/2016			13/09/2017	16,447	-
	2016	21/11/2015			13/09/2017	16,655	-
	2015	21/11/2014			13/09/2017	18,188	-
	2014	29/11/2013			13/09/2017	16,644	-
P Strain	2018	14/11/2017	48,868	\$3.566	over 4 years	-	-
	2017	14/11/2016			13/09/2017	14,391	-
	2016	21/11/2015			13/09/2017	16,655	-
	2015	21/11/2014			13/09/2017	14,550	-
	2014	29/11/2013			13/09/2017	16,644	-

Table 11: The value of SARs granted, exercised and lapsed during the year

	Value of SARs granted during the year	Value of SARs exercised during the year	Value of SARs lapsed during the year
	\$	\$	\$
F Wolf	771,754	3,168,963	-
R Baulderstone	174,263	255,356	-
C Laird	199,168	293,668	-
P Strain	174,263	269,368	-

Refer to Note 20 for details on the valuation the SARs, including models and assumptions used.

There were no alterations to the terms and conditions of the SARs since their grant date.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)**Table 12: Securities acquired on exercise of options**

	Securities acquired No.	Paid per security \$
F Wolf	272,442	3.80
R Boulderstone	66,939	3.80
C Laird	76,982	3.80
P Strain	70,612	3.80

The number of securities acquired is based on the SARs that vested in the year and the distributions that would have been paid on that number of securities from the grant date to the allocation date.

Dr Wolf held 603,303 SARs at the date of his death. Ordinarily, the rights are satisfied with the purchase of Abacus securities. The Board exercised its discretion as provided in the plan and instead paid the estate of the late Dr Wolf the cash amount of \$2,129,658.

Table 13: Movements in SARs holdings of key management personnel during the year

	Balance 1 July 2017	Granted as remuneration	SARs exercised	Balance 30 June 2018	Vested 30 June 2018
Director					
F Wolf	583,624	216,420	(800,044)	-	-
Executives					
R Boulderstone	143,280	48,868	(58,909)	133,239	-
C Laird	168,773	55,852	(67,934)	156,691	-
P Strain	153,273	48,868	(62,240)	139,901	-
Total	1,048,950	370,008	(989,127)	429,831	-

Table 14: Securityholdings of key management personnel

	Balance 1 July 2017	Vesting of SARs	Purchases/ (sales)	Balance 30 June 2018
Directors				
J Thame	84,590	-	-	84,590
W Bartlett	33,125	-	-	33,125
Executives				
R Boulderstone	191,202	66,939	-	258,141
C Laird	165,514	76,982	(33,000)	209,496
P Strain	255,004	70,612	16,213	341,829
Total	729,435	214,533	(16,787)	927,181

All equity transactions with key management personnel other than those arising from the vesting of the security acquisition rights have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Loans to key management personnel

There were no loans to key management personnel and their related parties at any time in 2018 or in the prior year.

DIRECTORS' REPORT

30 June 2018

REMUNERATION REPORT (audited) (continued)

Other transactions with key management personnel

During the year, transactions occurred between the Group and key management personnel which are within normal employee and investor relationships.

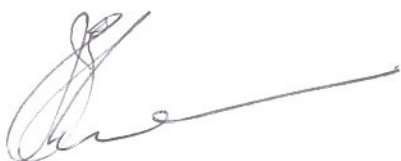
Table 15: Glossary of terms used in the Remuneration Report

Term	Definition
allocation date for an award of SARS	the first business day after a period of 10 trading days on ASX starting from the second trading day after the full year results announcement for the Group for the previous financial year has elapsed
Executives	the Managing Director and the other senior executives of Abacus who are members of the KMP
Key Management Personnel or KMP	those executives who for the purposes of the accounting standards are considered to have authority and responsibility for planning, directing and controlling the major activities of Abacus, and includes the directors
Security acquisition rights or SARs	SARs are awarded under the deferred security acquisition rights plan. If a SAR vests, it will convert into ABP security on a one for one basis or (exceptionally, subject to the discretion of the Board where an executive already has a significant holding of ABP securities) a cash amount equal to the face value of an ABP security at around the time of vesting

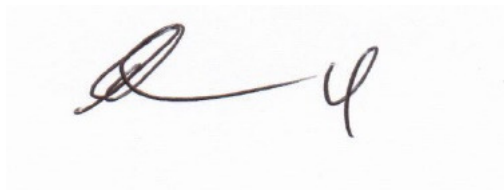
DIRECTORS' REPORT

30 June 2018

Signed in accordance with a resolution of the directors.
Abacus Group Holdings Limited (ABN 31 080 604 619)

A handwritten signature in dark ink, appearing to be 'John Thame', with a long horizontal stroke extending to the right.

John Thame
Chairman
Sydney, 17 August 2018

A handwritten signature in dark ink, appearing to be 'Steven Sewell', with a stylized 'S' and 'W' and a long horizontal stroke.

Steven Sewell
Managing Director

Auditor's Independence Declaration to the Directors of Abacus Group Holdings Limited

As lead auditor for the audit of Abacus Group Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Abacus Group Holdings Limited and the entities it controlled during the financial year.



Ernst & Young



Kathy Parsons
Partner
17 August 2018

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
REVENUE			
Rental income		152,444	150,634
Hotel income		26,211	30,968
Finance income	1	48,405	44,637
Management and other fee income		4,282	5,470
Sale of inventory		76,575	16,192
Total Revenue		307,917	247,901
OTHER INCOME			
Net change in fair value of investment properties derecognised		15,265	45,267
Net change in fair value of investments and financial instruments derecognised		9,004	7,167
Net profit on sale of property, plant and equipment		2,039	11,762
Net change in fair value of investment properties and property, plant & equipment held at balance date		60,724	84,948
Net change in fair value of derivatives		730	4,458
Share of profit from equity accounted investments	8(a)	73,749	54,273
Other income		4,279	7,656
Total Revenue and Other Income		473,707	463,432
Property expenses and outgoings		(46,766)	(43,477)
Hotel expenses		(20,491)	(23,415)
Depreciation and amortisation expenses	3(a)	(5,179)	(2,481)
Cost of inventory sales		(55,941)	(10,968)
Net change in fair value of investments held at balance date	3(b)	(6,363)	(15,554)
Finance costs	3(c)	(31,258)	(35,826)
Administrative and other expenses	3(d)	(31,938)	(29,483)
PROFIT BEFORE TAX		275,771	302,228
Income tax expense	4(a)	(28,813)	(10,140)
NET PROFIT AFTER TAX		246,958	292,088
PROFIT ATTRIBUTABLE TO:			
Equity holders of the parent entity (AGHL)		54,135	66,005
<i>Equity holders of other stapled entities</i>			
AT members		108,865	157,181
AGPL members		4,937	5,189
AIT members		3,263	3,391
ASPT members		25,188	13,395
ASOL members		47,321	39,936
Stapled security holders		243,709	285,097
Net profit attributable to external non-controlling interests		3,249	6,991
NET PROFIT		246,958	292,088

Basic and diluted earnings per stapled security (cents)	2	42.18	49.91
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2018

	2018 \$'000	2017 \$'000
NET PROFIT AFTER TAX	246,958	292,088
OTHER COMPREHENSIVE INCOME		
<i>Items that will not be reclassified subsequently to the income statement</i>		
Revaluation of assets, nil tax effect	10,053	10,565
<i>Items that may be reclassified subsequently to the income statement</i>		
Foreign exchange translation adjustments, net of tax	(2,022)	(42)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	254,989	302,611
Total comprehensive income attributable to:		
Members of the APG Group	247,733	291,414
External non-controlling interests	7,256	11,197
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	254,989	302,611
Total comprehensive income attributable to members of the Group analysed by amounts attributable to:		
AGHL members	60,181	72,364
AT members	108,865	157,181
AGPL members	4,937	5,189
AIT members	3,263	3,391
ASPT members	23,208	13,353
ASOL members	47,279	39,936
TOTAL COMPREHENSIVE INCOME AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE GROUP	247,733	291,414

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
CURRENT ASSETS			
Investment properties held for sale	5	209,606	8,000
Inventory	6(a)	28,548	8,474
Property loans	7(a)	212,509	72,597
Cash and cash equivalents	9	103,256	56,267
Property, plant and equipment held for sale	16	88,500	-
Trade and other receivables		21,145	18,457
Derivatives at fair value		-	1,667
Other		3,413	3,263
TOTAL CURRENT ASSETS		666,977	168,725
NON-CURRENT ASSETS			
Investment properties	5	1,726,394	1,563,523
Inventory	6(b)	76,157	96,479
Property loans	7(b)	117,782	274,070
Equity accounted investments	8	154,890	167,248
Deferred tax assets	4(c)	8,236	6,954
Property, plant and equipment	16	4,800	84,734
Other financial assets	7(c)	7,987	42,543
Intangible assets and goodwill	21	32,394	32,394
TOTAL NON-CURRENT ASSETS		2,128,640	2,267,945
TOTAL ASSETS		2,795,617	2,436,670
CURRENT LIABILITIES			
Trade and other payables		88,568	27,865
Interest-bearing loans and borrowings	11(a)	38,765	-
Derivatives at fair value		61	5,469
Income tax payable		20,906	740
Other		8,108	6,910
TOTAL CURRENT LIABILITIES		156,408	40,984
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	11(b)	693,742	549,184
Derivatives at fair value		12,847	16,814
Deferred tax liabilities	4(c)	12,218	10,358
Other		3,700	4,709
TOTAL NON-CURRENT LIABILITIES		722,507	581,065
TOTAL LIABILITIES		878,915	622,049
NET ASSETS		1,916,702	1,814,621
TOTAL EQUITY		1,916,702	1,814,621

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AS AT 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Equity attributable to members of AGHL:			
Contributed equity		348,331	344,284
Reserves		21,940	18,373
Retained earnings		127,033	72,899
Total equity attributable to members of AGHL:		497,304	435,556
Equity attributable to unitholders of AT:			
Contributed equity		942,690	935,977
Accumulated losses		(40,062)	(23,340)
Total equity attributable to unitholders of AT:		902,628	912,637
Equity attributable to members of AGPL:			
Contributed equity		27,413	27,150
Retained earnings		21,567	16,630
Total equity attributable to members of AGPL:		48,980	43,780
Equity attributable to unitholders of AIT:			
Contributed equity		131,300	130,556
Accumulated losses		(91,631)	(80,300)
Total equity attributable to unitholders of AIT:		39,669	50,256
Equity attributable to members of ASPT:			
Contributed equity		124,167	122,535
Reserves		170	2,148
Retained earnings / (accumulated losses)		8,150	(2,100)
Total equity attributable to members of ASPT:		132,487	122,583
Equity attributable to members of ASOL:			
Contributed equity		21,087	20,654
Reserves		130	174
Retained earnings		227,780	180,459
Total equity attributable to members of ASOL:		248,997	201,287
Equity attributable to external non-controlling interest:			
Contributed equity		61,139	68,809
Reserves		11,854	7,847
Accumulated losses		(26,356)	(28,134)
Total equity attributable to external non-controlling interest:		46,637	48,522
TOTAL EQUITY		1,916,702	1,814,621
Contributed equity	13	1,594,988	1,581,156
Reserves		22,240	20,695
Retained earnings		252,837	164,248
Total stapled security holders' interest in equity		1,870,065	1,766,099
Total external non-controlling interest		46,637	48,522
TOTAL EQUITY		1,916,702	1,814,621

CONSOLIDATED STATEMENT OF CASH FLOW **YEAR ENDED 30 JUNE 2018**

		2018	2017
	Notes	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income receipts		390,428	289,763
Interest received		939	1,329
Income tax paid		(8,067)	(2,944)
Finance costs paid		(28,571)	(35,409)
Operating payments		(107,465)	(102,757)
Payments for inventory costs		(52,998)	(33,772)
NET CASH FLOWS FROM OPERATING ACTIVITIES	9	194,266	116,210
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments and funds advanced		(65,727)	(92,770)
Proceeds from sale and settlement of investments and funds repaid		126,590	153,354
Purchase of property, plant and equipment		(2,105)	(1,100)
Disposal of property, plant and equipment		2,089	72,698
Purchase of investment properties		(346,821)	(141,049)
Disposal of investment properties		58,050	182,070
Payment for other investments		(3,860)	(2,124)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		(231,784)	171,079
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of stapled securities		-	17,550
Return of capital		(42)	(4,213)
Payment of issue / finance costs		(1,734)	(1,436)
Repayment of borrowings		(63,685)	(260,130)
Proceeds from borrowings		243,794	37,152
Distributions paid		(93,745)	(63,767)
NET CASH FLOWS (USED IN) / FROM FINANCING ACTIVITIES		84,588	(274,844)
NET INCREASE IN CASH AND CASH EQUIVALENTS		47,070	12,445
Net foreign exchange differences		(81)	30
Cash and cash equivalents at beginning of year		56,267	43,792
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	103,256	56,267

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2018

	Attributable to the stapled security holder					External	
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Employee equity benefits \$'000	Retained earnings \$'000	Non- controlling interest \$'000	Total Equity \$'000
CONSOLIDATED							
At 1 July 2017	1,581,156	11,880	2,322	6,493	164,248	48,522	1,814,621
Other comprehensive income	-	6,046	(2,022)	-	-	4,007	8,031
Net income for the year	-	-	-	-	243,709	3,249	246,958
Total comprehensive income for the year	-	6,046	(2,022)	-	243,709	7,256	254,989
Return of capital	-	-	-	-	-	(7,670)	(7,670)
Distribution reinvestment plan	13,831	-	-	-	-	-	13,831
Security acquisition rights	-	-	-	(2,479)	-	-	(2,479)
Acquisition of units in subsidiary	-	-	-	-	(476)	-	(476)
Distribution to security holders	-	-	-	-	(154,643)	(1,471)	(156,114)
At 30 June 2018	1,594,987	17,926	300	4,014	252,838	46,637	1,916,702

	Attributable to the stapled security holder					External	
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Employee equity benefits \$'000	Retained earnings \$'000	Non- controlling interest \$'000	Total Equity \$'000
CONSOLIDATED							
At 1 July 2016	1,523,878	5,521	2,364	7,273	(23,054)	43,295	1,559,277
Other comprehensive income	-	6,359	(42)	-	-	4,206	10,523
Net income for the year	-	-	-	-	285,097	6,991	292,088
Total comprehensive income for the year	-	6,359	(42)	-	285,097	11,197	302,611
Equity raisings	17,347	-	-	-	-	203	17,550
Return of capital	-	-	-	-	-	(4,213)	(4,213)
Issue costs	(104)	-	-	-	-	-	(104)
Distribution reinvestment plan	40,035	-	-	-	-	-	40,035
Security acquisition rights	-	-	-	(780)	-	-	(780)
Distribution to security holders	-	-	-	-	(97,795)	(1,960)	(99,755)
At 30 June 2017	1,581,156	11,880	2,322	6,493	164,248	48,522	1,814,621

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30 JUNE 2018

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NOTES TO THE FINANCIAL STATEMENTS – About this Report

30 JUNE 2018

Abacus Property Group (“APG” or the “Group”) is comprised of Abacus Group Holdings Limited (“AGHL”) (the nominated parent entity), Abacus Trust (“AT”), Abacus Group Projects Limited (“AGPL”), Abacus Income Trust (“AIT”), Abacus Storage Property Trust (“ASPT”) and Abacus Storage Operations Limited (“ASOL”). Shares in AGHL, AGPL and ASOL and units in AT, AIT and ASPT have been stapled together so that neither can be dealt with without the other. The securities trade as one security on the Australian Securities Exchange (the “ASX”) under the code ABP.

The financial report of the Group for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 17 August 2018.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group’s accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current set of circumstances available to management. Actual results may differ from these judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(a) Significant accounting judgements

Accounting policy – financial assets and liabilities at fair value through profit and loss

A financial asset or financial liability is designated by the entity as being at fair value through profit or loss upon initial recognition. The Group uses this designation where doing so results in more relevant information, because it is a group of financial assets and liabilities which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management and investment strategy, and information about the instruments is provided internally on that basis to the entity’s key management personnel and the Board.

Control and significant influence

In determining whether the Group has control over an entity, the Group assesses its exposure or rights to variable returns from its involvement with the entity and whether it has the ability to affect those returns through its power over the investee. The Group may have significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the entity but is not in control or joint control of those policies.

(b) Significant accounting estimates and assumptions

Valuation of investment properties and property, plant and equipment held at fair value

The Group makes judgements in respect of the fair value of investment properties and property, plant and equipment (Note 22(n)). The fair value of these properties are reviewed regularly by management with reference to external independent property valuations and market conditions existing at reporting date, using generally accepted market practices. The assumptions underlying estimated fair values are those relating to the receipt of contractual rents, expected future market rentals, maintenance requirements, capitalisation rates and discount rates that reflect current market conditions and current or recent property investment prices. If there is any material change in these assumptions or regional, national or international economic conditions, the fair value of investment properties and property, plant and equipment may differ and may need to be re-estimated.

Impairment of property loans and financial assets

In considering the impairment of property loans and financial assets, the Group undertakes a market analysis of the secured property development and other securities being utilised to support the underlying loan and financial assets and identifies if a deficiency of security exists and the extent of that deficiency, if any. If there is an indicator of impairment, fair value calculations of expected future cashflows are determined and if there are any differences to the carrying value of the loan, an impairment is recognised.

NOTES TO THE FINANCIAL STATEMENTS – About this Report (continued)**30 JUNE 2018***Net realisable value of inventory*

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The key assumptions that require the use of management judgment are reviewed half-yearly and these assumptions include the number of lots/units sold per year and the average selling price per lot/unit. If the net realisable value is less than the carrying value of inventory, an impairment loss is recognised in the income statement.

Fair value of derivatives

The fair value of derivatives is determined using closing quoted market prices (where there is an active market) or a suitable pricing model based on discounted cash flow analysis using assumptions supported by observable market rates. Where derivatives are not quoted in an active market their fair value has been determined using (where available) quoted market inputs and other data relevant to assessing the value of the financial instrument, including financial guarantees granted by the Group, estimates of the probability of exercise.

Fair value of financial assets

The Group holds investments in unlisted securities and enters into loans and receivables with associated options that provide for a variety of outcomes including repayment of principal and interest, satisfaction through obtaining interests in equity or property or combinations thereof.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. For goodwill this involves value in use calculations which incorporate a number of key estimates and assumptions around cash flows and fair value of investment properties upon which these determine the revenue / cash flows. The assumptions used in the estimations of the recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS – Segment Information**30 JUNE 2018**

The Group predominately operates in Australia. Following are the Group's operating segments, which are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources allocation and to assess performance:

- (a) Property Investments: the segment is responsible for the investment in and ownership of commercial, retail, industrial properties and self-storage facilities. This segment also includes the equity accounting of co-investments in property entities not engaged in development and construction projects; and
- (b) Property Development: provides secured lending and related property financing solutions and is also responsible for the Group's investment in joint venture developments and construction projects, which includes revenue from debt and equity investments in joint ventures.

Segment result includes transactions between operating segments which are then eliminated.

The Group has consolidated the Abacus Hospitality Fund and Abacus Wodonga Land Fund. The performances of these entities which are operated as externally managed investment schemes are considered to be non-core segments and are reviewed separately to that of the performance of the Group's business segments.

* The operating segments reported by the Group have changed from the prior year. Accordingly, prior year comparatives have been restated to reflect the change.

NOTES TO THE FINANCIAL STATEMENTS – Segment Information (continued)

30 JUNE 2018

	Core Segments					Non Core Segments		Consolidated
	Property Investments Commercial	Storage	Property Developments	Unallocated	Total Core Segments	Other	Eliminations	
Year ended 30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Rental income	78,607	73,825	-	-	152,432	12	-	152,444
Hotel income	-	-	-	-	-	26,211	-	26,211
Finance income	-	-	47,460	-	47,460	5	-	47,465
Management and other fee income	7,888	-	-	-	7,888	-	(3,606)	4,282
Sale of inventory	-	-	63,821	-	63,821	12,754	-	76,575
Net change in fair value of investment properties derecognised	8,300	6,965	-	-	15,265	-	-	15,265
Net change in fair value of investments and financial instruments derecognised	2,318	-	6,686	-	9,004	-	-	9,004
Net gain on sale of property, plant & equipment	-	2,039	-	-	2,039	-	-	2,039
Net change in investment properties and property, plant & equipment held at balance date	18,410	42,314	-	-	60,724	-	-	60,724
Net change in fair value of derivatives	-	-	-	730	730	-	-	730
Share of profit from equity accounted investments ^	42,849	-	30,900	-	73,749	-	-	73,749
Other income	4,111	-	136	-	4,247	32	-	4,279
Other unallocated revenue	-	-	-	295	295	645	-	940
Total consolidated revenue	162,483	125,143	149,003	1,025	437,654	39,659	(3,606)	473,707
Property expenses and outgoings	(19,568)	(26,976)	-	-	(46,544)	(222)	-	(46,766)
Hotel expenses	-	-	-	-	-	(20,491)	-	(20,491)
Depreciation and amortisation expense	(2,312)	(424)	-	-	(2,736)	(2,443)	-	(5,179)
Cost of inventory sales	-	-	(50,388)	-	(50,388)	(9,977)	1,764	(58,601)
Net change in fair value of investments held at balance date	284	(42)	(6,605)	-	(6,363)	-	-	(6,363)
Impairment charges (reversal)	-	-	2,660	-	2,660	-	-	2,660
Administrative and other expenses	(21,091)	-	(9,040)	-	(30,131)	(1,365)	(442)	(31,938)
Segment result	119,796	97,701	85,630	1,025	304,152	5,161	(2,284)	307,029
Finance costs					(30,473)	(2,884)	2,099	(31,258)
Profit before tax					273,679	2,277	(185)	275,771
Income tax expense					(28,813)	-	-	(28,813)
Net profit for the year					244,866	2,277	(185)	246,958
Less non-controlling interest					12	(3,261)	-	(3,249)
Net profit for the year attributable to members of the Group					244,878	(984)	(185)	243,709

^ includes fair value gain of \$4.6 million

NOTES TO THE FINANCIAL STATEMENTS – Segment Information (continued)

30 JUNE 2018

	Core Segments					Non Core Segments		Consolidated
	Property Investments Commercial	Storage	Property Developments	Unallocated	Total Core Segments	Other	Eliminations	
Year ended 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Rental income	71,634	69,687	-	-	141,321	9,313	-	150,634
Hotel income	-	-	-	-	-	30,968	-	30,968
Finance income	-	-	43,891	-	43,891	4	-	43,895
Management and other fee income	12,620	-	-	-	12,620	-	(7,150)	5,470
Sale of inventory	-	-	-	-	-	16,192	-	16,192
Net change in fair value of investment properties derecognised	36,775	-	-	-	36,775	8,492	-	45,267
Net change in fair value of investments and financial instruments derecognised	11,534	-	-	-	11,534	493	(4,860)	7,167
Net gain on sale of property, plant & equipment	-	-	-	-	-	11,077	685	11,762
Net change in investment properties and property, plant & equipment held at balance date	47,440	27,333	-	-	74,773	10,175	-	84,948
Net change in fair value of derivatives	-	-	-	4,317	4,317	141	-	4,458
Share of profit from equity accounted investments ^	33,557	-	20,716	-	54,273	-	-	54,273
Other income	6,102	-	1,057	-	7,159	825	(328)	7,656
Other unallocated revenue	-	-	-	365	365	377	-	742
Total consolidated revenue	219,662	97,020	65,664	4,682	387,028	88,057	(11,653)	463,432
Property expenses and outgoings	(15,174)	(25,939)	-	-	(41,113)	(2,665)	301	(43,477)
Hotel expenses	-	-	-	-	-	(23,415)	-	(23,415)
Depreciation and amortisation expense	(1,872)	(406)	-	-	(2,278)	(203)	-	(2,481)
Cost of inventory sales	-	-	-	-	-	(13,490)	2,522	(10,968)
Impairment charges	-	-	(3,000)	-	(3,000)	3,000	-	-
Administrative and other expenses	(17,754)	-	(7,609)	-	(25,363)	(1,549)	(2,571)	(29,483)
Segment result	184,862	70,675	55,055	4,682	315,274	49,735	(11,401)	353,608
Net change in fair value of investments held at balance date					(15,537)	(28,015)	27,998	(15,554)
Finance costs					(32,898)	(7,183)	4,255	(35,826)
Profit before tax					266,839	14,537	20,852	302,228
Income tax expense					(7,863)	(2,277)	-	(10,140)
Net profit for the year					258,976	12,260	20,852	292,088
less non-controlling interest					(1,044)	(5,947)	-	(6,991)
Net profit for the year attributable to members of the Group					257,932	6,313	20,852	285,097

^ includes fair value gain of \$0.7 million

NOTES TO THE FINANCIAL STATEMENTS – Segment Information (continued)

30 JUNE 2018

	Core Segments				Non Core Segments		
	Property Investment	Property Development	Unallocated	Total	Other	Eliminations	Consolidated
As at 30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets	250,106	232,410	96,673	579,189	128,298	(40,510)	666,977
Non-current assets	1,880,362	217,025	41,529	2,138,916	620	(10,896)	2,128,640
Total assets	2,130,468	449,435	138,202	2,718,105	128,918	(51,406)	2,795,617
Current liabilities	25,160	11,468	85,644	122,272	104,170	(70,034)	156,408
Non-current liabilities	942	404	702,218	703,564	7,265	11,678	722,507
Total liabilities	26,102	11,872	787,862	825,836	111,435	(58,356)	878,915
Net assets	2,104,366	437,563	(649,660)	1,892,269	17,483	6,950	1,916,702
Total facilities - bank loans				891,000	-		891,000
Facilities used at reporting date - bank loans				(694,970)	-		(694,970)
Facilities unused at reporting date - bank loans				196,030	-		196,030
As at 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets	8,000	72,596	49,925	130,521	38,204	-	168,725
Non-current assets	1,823,107	375,686	39,825	2,238,618	87,757	(58,430)	2,267,945
Total assets	1,831,107	448,282	89,750	2,369,139	125,961	(58,430)	2,436,670
Current liabilities	19,354	8,486	6,494	34,334	6,650	-	40,984
Non-current liabilities	1,423	481	552,074	553,978	91,123	(64,036)	581,065
Total liabilities	20,777	8,967	558,568	588,312	97,773	(64,036)	622,049
Net assets	1,810,330	439,315	(468,818)	1,780,827	28,188	5,606	1,814,621
Total facilities - bank loans				873,000	-		873,000
Facilities used at reporting date - bank loans				(513,691)	-		(513,691)
Facilities unused at reporting date - bank loans				359,309	-		359,309

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

1. REVENUE

	2018	2017
	\$'000	\$'000
Finance income		
Interest and fee income on secured loans	47,465	43,895
Bank interest	940	742
Total finance income	48,405	44,637

2. EARNINGS PER STAPLED SECURITY

	2018	2017
Basic and diluted earnings per stapled security (cents)	42.18	49.91
Reconciliation of earnings used in calculating earnings per stapled security		
<i>Basic and diluted earnings per stapled security</i>		
Net profit (\$'000)	243,709	285,097
Weighted average number of shares:		
Weighted average number of stapled securities for basic earning per security ('000)	577,806	571,204

3. EXPENSES

	2018	2017
	\$'000	\$'000
(a) Depreciation and amortisation expenses		
Depreciation and amortisation of property, plant and equipment and software	3,533	670
Amortisation - leasing costs	1,646	1,811
Total depreciation and amortisation expenses	5,179	2,481
(b) Net change in fair value of investments held at balance date		
Net change in fair value of property securities held at balance date	29	708
Net change in fair value of options held at balance date	-	22,774
Net change in fair value of other investments held at balance date	6,334	(7,928)
Total change in fair value of investments held at balance date	6,363	15,554
(c) Finance costs		
Interest on loans	28,819	33,951
Amortisation of finance costs	2,439	1,875
Total finance costs	31,258	35,826
(d) Administrative and other expenses		
Wages and salaries	18,052	16,818
Contributions to defined contribution plans	1,054	1,059
Other expenses	12,832	11,606
Total administrative and other expenses	31,938	29,483

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. INCOME TAX

	2018	2017
	\$'000	\$'000
(a) Income tax expense		
The major components of income tax expense are:		
Income Statement		
<i>Current income tax</i>		
Current income tax charge	26,989	10,851
Adjustments in respect of current income tax of previous years	1,271	1,209
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	553	(1,920)
Income tax expense reported in the income statement	28,813	10,140

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Profit before income tax expense	275,771	302,228
Prima facie income tax expense calculated at 30% (AU)	81,775	89,176
Prima facie income tax expense calculated at 28% (NZ)	893	833
Less prima facie income tax expense on profit from Trusts	(56,327)	(80,187)
Prima Facie income tax of entities subject to income tax	26,340	9,822
Adjustment of prior year tax applied	1,271	1,209
Unrecognised tax losses brought to account	7	(400)
Other items (net)	1,195	(491)
Income tax expense reported in the income statement	28,813	10,140

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. INCOME TAX (continued)

	2018	2017
	\$'000	\$'000
(c) Recognised deferred tax assets and liabilities		
Deferred income tax relates to the following:		
Deferred tax liabilities		
Revaluation of investment properties at fair value	10,675	8,540
Capital allowances	1,976	1,080
Other	2,209	4,948
Gross deferred income tax liabilities	14,860	14,568
Set off against deferred tax assets	(2,642)	(4,210)
Net deferred income tax liabilities	12,218	10,358
Deferred tax assets		
Revaluation of investments and financial instruments at fair value	6,024	6,451
Provisions - other	1,500	1,500
Provisions - employee entitlements	2,272	2,929
Derecognition of deferred tax asset (losses - AHF)	(607)	(600)
Losses available for offset against future taxable income	655	682
Other	1,034	202
Gross deferred income tax assets	10,878	11,164
Set off of deferred tax liabilities	(2,642)	(4,210)
Net deferred income tax assets	8,236	6,954

Tax consolidation

AGHL and its 100% owned Australian resident subsidiaries, ASOL and its 100% owned Australian resident subsidiaries and AHL and its 100% owned Australian resident subsidiaries have formed separate tax consolidated groups. AGHL, ASOL and AHL are the head entity of their respective tax consolidated groups. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These amounts are measured in a manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreements are discussed further below.

Nature of the tax funding agreement

Members of the respective tax consolidated groups have entered into tax funding agreements. The tax funding agreements require payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount allocated under the tax funding agreement and the allocation under UIG 1052, the head entity accounts for these as equity transactions.

The amounts receivable or payable under the tax funding agreements are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

5. INVESTMENT PROPERTIES

	2018	2017
	\$'000	\$'000
Leasehold investment properties ¹	12,690	13,592
Freehold investment properties	1,923,310	1,557,931
Total investment properties	1,936,000	1,571,523

1. The carrying amount of the leasehold property is presented gross of the finance liability of \$2.7 million (2017: \$2.3 million).

	2018	2017
	\$'000	\$'000
Investment properties held for sale		
Retail	209,606	-
Office	-	8,000
Total investment properties held for sale	209,606	8,000

Investment properties		
Retail	190,427	377,500
Office	809,284	487,200
Industrial	44,400	55,100
Storage	661,953	625,232
Other	20,330	18,491
Total investment properties	1,726,394	1,563,523

Total investment properties including held for sale	1,936,000	1,571,523
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Reconciliation

A reconciliation of the carrying amount of investment properties at the beginning and end of the year is as follows. All investment properties are classified as Level 3 in accordance with the fair value hierarchy outlined in Note 12(d):

	Non-current	
	2018	2017
	\$'000	\$'000
Leasehold investment properties		
Carrying amount at beginning of the financial year	13,592	11,092
Net change in fair value as at balance date	(902)	2,500
Carrying amount at end of the year	12,690	13,592

	Held for sale		Non-current	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Freehold investment properties				
Carrying amount at beginning of the financial year	8,000	186,550	1,549,931	1,323,977
Additions	-	-	297,000	116,951
Capital expenditure	-	890	54,126	24,945
Net change in fair value as at balance date	-	224	61,627	82,223
Net change in fair value derecognised	-	41,929	15,265	3,337
Disposals	-	(206,672)	(57,956)	(5,603)
Effect of movements in foreign exchange	-	-	(4,683)	(164)
Transfer to inventory	-	-	-	(10,656)
Properties transferred to / from held for sale	201,606	(14,921)	(201,606)	14,921
Carrying amount at end of the year	209,606	8,000	1,713,704	1,549,931

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

5. INVESTMENT PROPERTIES (continued)

Investment properties are carried at the Directors' determination of fair value. The determination of fair value includes reference to the original acquisition cost together with capital expenditure since acquisition and either the latest full independent valuation, latest independent update or directors' valuation. Total acquisition costs include incidental costs of acquisition such as property taxes on acquisition, legal and professional fees and other acquisition related costs.

Sensitivity Information

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Adopted capitalisation rate	Decrease	Increase
Optimal occupancy	Increase	Decrease
Adopted discount rate	Decrease	Increase

The adopted capitalisation rate forms part of the income capitalisation approach.

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

The adopted discount rate of a discounted cashflow has a strong interrelationship in deriving at a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

External valuations are conducted by qualified independent valuers who are appointed by the Director of Property who is also responsible for the Group's internal valuation process. He is assisted by an in-house certified professional valuer who is experienced in valuing the types of properties in the applicable locations.

Investment properties are independently valued on a staggered basis every two years unless the underlying financing requires a different valuation cycle.

The majority of the investment properties are used as security for secured bank debt outlined in Note 11.

Abacus*

The weighted average capitalisation rate for Abacus is 6.62% (2017: 7.13%) and for each significant category above is as follows:

- Retail – 5.76% (2017: 6.22%)
- Office – 6.29% (2017: 6.99%)
- Industrial – 8.44% (2017: 8.42%)
- Storage – 7.45% (2017: 7.72%)

The optimal occupancy rate utilised in the valuation process ranged from 80.0% to 95.0% (2017: 80.0% to 100.0%). The current occupancy rate for the principal portfolio excluding development and self-storage assets is 91.3% (2017: 90.5%). The current occupancy rate for self-storage assets is 89.4% (2017: 89.2%).

During the year ended 30 June 2018, 56% (2017: 44%) of the number of investment properties in the portfolio were subject to external valuations, the remaining 44% (2017: 56%) were subject to internal valuation.

* Excludes Abacus Hospitality Fund.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

6. INVENTORY

	2018	2017
	\$'000	\$'000
(a) Current		
Hotel supplies	237	214
Property developments ¹		
- purchase consideration	50,112	876
- development costs	19,161	7,384
- provision	(40,962)	-
	28,548	8,474
(b) Non-current		
Property developments ¹		
- purchase consideration	72,803	117,418
- development costs	3,354	22,783
- provision	-	(43,722)
	76,157	96,479
Total inventory	104,705	104,953

1. Inventories are held at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

7. PROPERTY LOANS AND OTHER FINANCIAL ASSETS

	2018	2017
	\$'000	\$'000
(a) Current property loans		
Secured loans - amortised cost ¹	154,701	65,034
Interest receivable on secured loans - amortised cost	57,808	7,563
	212,509	72,597
(b) Non-current property loans		
Secured loans - amortised cost ¹	110,484	219,379
Interest receivable on secured loans - amortised cost	7,298	54,691
	117,782	274,070
(c) Non-current other financial assets		
Investment in securities and options - unlisted - fair value	1,329	6,792
Investments in debt instruments - unlisted - amortised cost ²	-	22,488
Derivatives - property developments - fair value	6,658	13,263
	7,987	42,543

1. Mortgages are secured by real property assets. The current facilities are scheduled to mature and are expected to be realised on or before 30 June 2019 and the non-current facilities will mature between 1 July 2019 and 27 January 2021.
2. Abacus had a 50% investment in a joint venture St Leonards JV Unit Trust held via preference shares which were realised during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Extract from joint ventures' profit and loss statements

	Fordtrans Pty Ltd*		Merivale Pty Ltd		Other Joint Ventures		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	23,722	9,646	192,389	20	557,993	478,570	774,104	488,236
Expenses	(10,699)	(14,152)	(161,082)	(1,751)	(482,296)	(350,060)	(654,077)	(365,963)
Net profit / (loss)	13,023	(4,506)	31,307	(1,731)	75,697	128,510	120,027	122,273
Share of net profit / (loss)	8,659	(2,253)	15,403	(852)	49,687	57,378	73,749	54,273

* Included in the net profit of Fordtrans Pty Ltd for the year ended 30 June 2018: interest income \$1.4 million (2017: \$1.9 million) and interest expense \$2.9 million (2017: \$2.8 million).

(b) Extract from joint ventures' balance sheets

	Fordtrans Pty Ltd*		Merivale Pty Ltd		Other Joint Ventures		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets	1,073	15,436	95,677	1,085	70,800	100,316	167,550	116,837
Non-current assets	215,214	183,031	-	119,359	243,328	547,362	458,542	849,752
	216,287	198,467	95,677	120,444	314,128	647,678	626,092	966,589
Current liabilities	(18,128)	(3,265)	(1,745)	(157)	(156,147)	(83,010)	(176,020)	(86,432)
Non-current liabilities	(64,800)	(64,800)	-	(59,401)	(22,372)	(347,411)	(87,172)	(471,612)
Net assets	133,359	130,402	93,932	60,886	135,609	217,257	362,900	408,545
Share of net assets	66,679	65,201	45,625	27,490	42,586	74,557	154,890	167,248

* Included in the net assets of Fordtrans Pty Ltd as at 30 June 2018: cash and cash equivalents \$0.3 million (2017: \$0.7 million), current interest bearing loans and borrowings \$Nil (2017: \$Nil) and non-current interest bearing loans and borrowings \$64.8 million (2017: \$64.8 million).

There were no impairment losses or contingent liabilities relating to the investment in the joint ventures.

1. Fordtrans Pty Ltd (Virginia Park) ("VP")

Abacus has a 50% interest in the ownership and voting rights of Fordtrans Pty Ltd. VP's principal place of business is in Bentleigh East, Victoria.

VP owns a sizeable Business Park providing a mixture of industrial and office buildings as well as supporting facilities including gymnasium, swim centre, child care centre, children's play centre and cafe. Abacus jointly controls the venture with the other partner under the terms of Unitholders Agreement and requires unanimous consent for all major decisions over the relevant activities.

Abacus' share of distributions (including capital distributions) for the year ended 30 June 2018 was \$7.2 million (2017: \$2.0 million).

2. Merivale Pty Ltd (Ivy & Eve)

Abacus has a 49.2% interest in the ownership and voting rights of Merivale Pty Ltd. Merivale's principal place of business is in South Brisbane.

Merivale Pty Ltd owns a residential development in Merivale Street, South Brisbane, Queensland. The development consists of two 30 storey residential towers, Ivy and Eve accommodating 472 one, two and three bedroom apartments overlooking the Brisbane River and CBD. Abacus jointly controls the venture with the other partners under the terms of Unitholders Agreement and requires major consent for all major decisions over the relevant activities.

Abacus did not receive any distributions during the year ended 30 June 2018 (2017: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

9. CASH AND CASH EQUIVALENTS

	2018	2017
	\$'000	\$'000
Reconciliation to Statement of Cash Flow		
For the purposes of the Statement of Cash Flow, cash and cash equivalents comprise the following at 30 June 2018		
Cash at bank and in hand ¹	103,256	56,267

1. Cash at bank earns interest at floating rates. The carrying amounts of cash and cash equivalents represent fair value.

Net profit	246,958	292,088
Adjustments for:		
Depreciation and amortisation of non-current assets	5,179	2,481
Net change in fair value of derivatives	(730)	(4,458)
Net change in fair value of investment properties held at balance date	(60,724)	(84,948)
Net change in fair value of investments held at balance date	6,363	15,554
Net change in fair value of investment properties derecognised	(15,265)	(45,267)
Net change in fair value of investment and financial instruments derecognised	(9,004)	(7,167)
Net (gain) / loss on disposal of property, plant and equipment	(2,039)	(11,762)
Share of profit from equity accounted investments	(73,749)	(54,273)
Increase / (decrease) in payables	23,476	15,617
(Increase) / decrease in inventories	1,524	(22,043)
(Increase) / decrease in receivables and other assets	72,277	20,388
Net cash from operating activities	194,266	116,210

(a) Disclosure of financing facilities

Refer to Note 11.

(b) Disclosure of non-cash financing facilities

Non-cash financing activities include capital raised pursuant to the Abacus distribution reinvestment plan. During the year 3.79 million (2017: 13.35 million) stapled securities were issued with a cash equivalent of \$12.1 million (2017: \$40.0 million).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

10. CAPITAL MANAGEMENT

Abacus

Abacus seeks to manage its capital requirements through a mix of debt and equity funding. It also ensures that Group entities comply with capital and distribution requirements of their constitutions and/or trust deeds, the capital requirements of relevant regulatory authorities and continue to operate as a going concern. Abacus also protects its equity in assets by taking out insurance.

Abacus assesses the adequacy of its capital requirements, cost of capital and gearing (i.e. debt/equity mix) as part of its broader strategic plan. In addition to tracking actual against budgeted performance, Abacus reviews its capital structure to ensure sufficient funds and financing facilities (on a cost effective basis) are available to implement its strategy, that adequate financing facilities are maintained and distributions to members are made within the stated distribution guidance (i.e. paid out of underlying profits).

The following strategies are available to the Group to manage its capital: issuing new stapled securities, its distribution reinvestment plan, electing to have the distribution reinvestment plan underwritten, adjusting the amount of distributions paid to members, activating a security buyback program, divesting assets, active management of its fixed rate swaps and collars, directly purchasing assets in managed funds and joint ventures, or (where practical) recalibrating the timing of transactions and capital expenditure so as to avoid a concentration of net cash outflows.

Abacus has a total gearing covenant as a condition of the current \$480m Syndicated facility and the \$11m Bilateral facility. The total gearing covenant requires Abacus to have total liabilities (net of cash) to be less than or equal to 50% of total tangible assets (net of cash). As at date of reporting period, Abacus was compliant in meeting all its debt covenants.

Consolidated Funds

The Capital Management approach and strategies employed by the Group are also deployed for the funds Abacus manages and which are consolidated in these accounts – AHF and AWLF (or the Consolidated Funds).

Points unique to the capital management of these respective funds are:

- The Consolidated Funds via their responsible entities comply with capital and distribution requirements of their constitutions and/or deeds, the capital requirements of relevant regulatory authorities and continue to operate as going concerns; and
- There is currently no Distribution Reinvestment Plan for any of the Funds.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

11. INTEREST BEARING LOANS AND BORROWINGS

	2018	2017
	\$'000	\$'000
Other		
Current		
Other loans - A\$	38,765	-
(a) Total current	38,765	-

	2018	2017
	\$'000	\$'000
Abacus*		
Non-current		
Bank loans - A\$	624,636	440,657
Bank loans - A\$ value of NZ\$ denominated loan	70,334	73,033
Other loans - A\$	-	37,426
Less: Unamortised borrowing costs	(1,228)	(1,932)
(b) Total non-current	693,742	549,184

* Excludes Abacus Hospitality Fund and Abacus Wodonga Land Fund.

	2018	2017
	\$'000	\$'000
(c) Maturity profile of current and non-current interest bearing loans		
Due within one year	38,765	-
Due between one and five years	413,742	419,184
Due after five years	280,000	130,000
	732,507	549,184

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

11. INTEREST BEARING LOANS AND BORROWINGS (continued)

Abacus*

Abacus maintains a range of interest-bearing loans and borrowings. The sources of funding are spread over a number of counterparties and the terms of the instruments are negotiated to achieve a balance between capital availability and cost of debt.

Bank loans are \$A and \$NZ denominated and are provided by several banks at interest rates which are set periodically on a floating basis. The loans term to maturity varies from July 2019 to July 2024. The bank loans are secured by charges over the investment properties, certain inventory and certain property, plant and equipment.

Approximately 41.7% (2017: 48.6%) of bank debt drawn was subject to fixed rate hedges with a weighted average term to maturity of 3.8 years (2017: 3.4 years). Hedge cover as a percentage of available facilities at 30 June 2018 is 32.6% (2017: 28.6%).

Abacus' weighted average interest rate as at 30 June 2018 was 4.27% (2017: 5.23%). Line fees on undrawn facilities contributed to 0.40% of the weighted average interest rate at 30 June 2018 (2017: 0.36%). Abacus' weighted average interest rate excluding the undrawn facilities line fees as at 30 June 2018 was 3.87% (2017: 4.87%).

* Excludes Abacus Hospitality Fund.

(d) Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	2018	2017
	\$'000	\$'000
Current		
<i>First mortgage</i>		
Investment properties held for sale	162,948	8,000
Total current assets pledged as security	162,948	8,000
Non-current		
<i>First mortgage</i>		
Inventory	12,481	36,231
Investment properties	1,636,334	1,524,431
Total non-current assets pledged as security	1,648,815	1,560,662
Total assets pledged as security	1,811,763	1,568,662

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS

Financial Risk Management

The risks arising from the use of the Group's financial instruments are credit risk, liquidity risk and market risk (interest rate risk, price risk and foreign currency risk).

The Group's financial risk management focuses on mitigating the unpredictability of the financial markets and its impact on the financial performance of the Group. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Primary responsibility for identification and control of financial risks rests with the Treasury Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of interest rate risks and cash flow forecast projections.

The main purpose of the financial instruments used by the Group is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions principally interest rate derivatives. The purpose is to manage the interest rate exposure arising from the Group's operations and its sources of finance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in the section about this report and Note 22 to the financial statements.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, investment in securities and options, secured property loans and interest bearing loans and derivatives with banks.

The Group manages its exposure to risk by:

- derivative counterparties and cash transactions are limited to high credit quality financial institutions;
- policy which limits the amount of credit exposure to any one financial institution;
- providing loans as an investment into joint ventures, associates, related parties and third parties where it is satisfied with the underlying property exposure within that entity;
- regularly monitoring loans and receivables balances on an ongoing basis;
- regularly monitoring the performance of its associates, joint ventures, related parties and third parties on an ongoing basis; and
- obtaining collateral as security (where required or appropriate).

The Group's credit risk is predominately driven by its Property Developments business which provides loans to third parties, those using the funds for property development and / or investment. The Group mitigates the exposure to this risk by evaluation of the application before acceptance. The analysis will specifically focus on:

- the Loan Valuation Ratio (LVR) at drawdown;
- mortgage ranking;
- background of the developer (borrower) including previous developments;
- background of the owner (borrower) including previous investment track record;
- that the terms and conditions of higher ranking mortgages are acceptable to the Group;
- appropriate property insurances are in place with a copy provided to the Group; and
- market analysis of the completed development being used to service drawdown.

The Group also mitigates this risk by ensuring adequate security is obtained and timely monitoring of the financial instrument to identify any potential adverse changes in the credit quality.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)**(a) Credit risk (continued)****Credit risk exposures**

The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2018	2017
	\$'000	\$'000
Receivables	21,145	18,457
Secured property loans	330,291	346,667
Other financial assets	7,987	42,543
Cash and cash equivalents	103,256	56,267
	462,679	463,934

As at 30 June 2018, the Group had the following concentrations of credit risk:

- Secured property loans: cross-collateralised loans which were secured by two large developments at Riverlands and Camellia and other small developments collectively represent 56% (2017: 48%) of the portfolio.

Secured property loans

The Group has a total investment of \$330.3 million in secured property loans as at 30 June 2018 (2017: \$346.7 million). Of these loans \$76.0 million has been renewed / extended beyond the original term on commercial terms (2017 \$64.5 million).

There was no movement in the allowance for impairment in respect of secured property loans and receivables during the year where no loans are past due and not impaired.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate and diverse amount of committed credit facilities, the ability to close out market positions and the flexibility to raise funds through the issue of new stapled securities or the distribution reinvestment plan.

The Group's policy is to maintain an available loan facility with banks sufficient to meet expected operational expenses and to finance investment acquisitions for a period of 90 days, including the servicing of financial obligations. Current loan facilities are assessed and extended for a maximum period based on the Group's expectations of future interest and market conditions.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Group's assessment of liquidity risk.

	Carrying Amount	Contractual cash flows	1 Year or less	Over 1 year to 5 years	Over 5 years
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities					
Trade and other payables	88,568	88,568	88,568	-	-
Interest bearing loans and borrowings incl derivatives#	745,415	863,123	73,285	503,225	286,613
Total liabilities	833,983	951,691	161,853	503,225	286,613

	Carrying Amount	Contractual cash flows	1 Year or less	Over 1 year to 5 years	Over 5 years
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities					
Trade and other payables	27,865	27,865	27,865	-	-
Interest bearing loans and borrowings incl derivatives#	571,467	655,906	32,704	493,132	130,070
Total liabilities	599,332	683,771	60,569	493,132	130,070

Carrying amount includes fair value of derivative liabilities. Contractual cash flows includes contracted debt and net swap payments using prevailing forward rates

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk / Fair value interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its long-term bank debt obligations which are based on floating interest rates. The Group has a policy to maintain a mix of floating exposure and fixed interest rate hedging with fixed rate cover highest in years 1 to 5.

The Group hedges to minimise interest rate risk by entering variable to fixed interest rate swaps which also helps deliver interest covenant compliance and positive carry (net rental income in excess of interest expense) on the property portfolio. Interest rate swaps have the economic effect of converting borrowings from variable rates to fixed rates. Under the interest rate swaps, the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to the agreed notional principal amounts. At 30 June 2018, after taking into account the effect of interest rate swaps, approximately 41.7% (2017: 48.6%) of the Group's drawn debt is subject to fixed rate hedges. Hedge cover as a percentage of available facilities at 30 June 2018 is 32.6% (2017: 28.6%). As the Group holds interest rate swaps against its variable rate debt there is a risk that the economic value of a financial instrument will fluctuate because of changes in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)

(c) Market Risk (continued)

Interest rate risk / Fair value interest rate risk (continued)

The Group's exposure to interest rate risk and the effective weighted average interest rates for each class of financial asset and financial liability are:

Abacus[^]

	Floating interest rate	Fixed interest less than 1 year	Fixed interest 1 to 5 years	Fixed interest over 5 years	Non interest bearing	Total
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Cash and cash equivalents	73,262	-	-	-	-	73,262
Receivables	-	-	-	-	20,133	20,133
Secured loans	-	262,976	67,537	-	-	330,513
Total financial assets	73,262	262,976	67,537	-	20,133	423,908
Weighted average interest rate*	1.60%	10.91%	9.96%			
Financial liabilities						
Interest bearing liabilities - bank	694,970	-	-	-	-	694,970
Interest bearing liabilities - other	-	12,078	-	-	-	12,078
Derivatives	-	-	-	-	12,908	12,908
Payables	-	-	-	-	82,099	82,099
Total financial liabilities	694,970	12,078	-	-	95,007	802,055
Notional principal swap balance maturities*	-	110,000	180,000	-	-	290,000
Weighted average interest rate on drawn bank debt*	4.27%					
	Floating interest rate	Fixed interest less than 1 year	Fixed interest 1 to 5 years	Fixed interest over 5 years	Non interest bearing	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Cash and cash equivalents	27,638	-	-	-	-	27,638
Receivables	-	-	-	-	17,531	17,531
Secured loans	-	93,148	253,518	-	-	346,666
Derivatives	-	-	-	-	1,667	1,667
Total financial assets	27,638	93,148	253,518	-	19,198	393,502
Weighted average interest rate*	1.60%	8.41%	11.27%			
Financial liabilities						
Interest bearing liabilities - bank	513,691	-	-	-	-	513,691
Interest bearing liabilities - other	-	-	11,525	-	-	11,525
Derivatives	-	-	-	-	22,283	22,283
Payables	-	-	-	-	21,653	21,653
Total financial liabilities	513,691	-	11,525	-	43,936	569,152
Notional principal swap balance maturities*	-	130,000	119,500	-	-	249,500
Weighted average interest rate on drawn bank debt*	5.23%					

* calculated at 30 June

[^] excludes Abacus Hospitality Fund and Abacus Wodonga Land Fund

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)

(c) Market Risk (continued)

Interest rate risk / Fair value interest rate risk (continued)

Other^

	Floating interest rate	Fixed interest less than 1 year	Fixed interest 1 to 5 years	Fixed interest over 5 years	Non interest bearing	Total
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Cash and cash equivalents	29,994	-	-	-	-	29,994
Receivables	-	-	-	-	1,012	1,012
Total financial assets	29,994	-	-	-	1,012	31,006

Weighted average interest rate* 1.60%

Financial liabilities

Payables	-	-	-	-	6,469	6,469
Total financial liabilities	-	-	-	-	6,469	6,469

	Floating interest rate	Fixed interest less than 1 year	Fixed interest 1 to 5 years	Fixed interest over 5 years	Non interest bearing	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Cash and cash equivalents	28,650	-	-	-	-	28,650
Receivables	-	-	-	-	926	926
Total financial assets	28,650	-	-	-	926	29,576

Weighted average interest rate* 1.60%

Financial liabilities

Payables	-	-	-	-	6,212	6,212
Total financial liabilities	-	-	-	-	6,212	6,212

* calculated at 30 June

^ Includes Abacus Hospitality Fund and Abacus Wodonga Land Fund

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2018****12. FINANCIAL INSTRUMENTS (continued)****(c) Market Risk (continued)***Interest rate risk / Fair value interest rate risk (continued)*

The following table is a summary of the interest rate sensitivity analysis:

	Carrying amount	AUD			
		-1%		+1%	
	Floating	Profit	Equity	Profit	Equity
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets	103,256	(1,033)	-	1,033	-
Financial liabilities	719,956	(1,400)	-	1,294	-

	Carrying amount	AUD			
		-1%		+1%	
	Floating	Profit	Equity	Profit	Equity
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets	56,267	(562)	-	562	-
Financial liabilities	547,499	(3,828)	-	3,558	-

The analysis for the interest rate sensitivity of financial liabilities includes derivatives.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)

(d) Fair values

The fair value of the Group's financial assets and liabilities are approximately equal to that of their carrying values.

Class of assets / liabilities	Fair value hierarchy	Valuation technique	Inputs used to measure fair value
Investment properties	Level 3	Discounted Cash Flow ("DCF") and Income capitalisation method	Adopted capitalisation rate Optimal occupancy Adopted discount rate
Property, plant and equipment	Level 3	Income capitalisation method	Net market EBITDA Optimal occupancy Adopted capitalisation rate
Derivative - project entitlement	Level 3	Residual cash flow analysis	Project cash flow forecast Project payment priorities
Securities and options - unlisted	Level 3	Pricing models	Security price Underlying net asset Property valuations
Derivative - financial instruments	Level 2	DCF (adjusted for counterparty credit worthiness)	Interest rates Consumer Price Index ("CPI") Volatility

Level 1 Quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 Inputs for the asset or liability that are not based on observable market data.

There were no transfers between Levels 1, 2 and 3 during the period.

Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Discounted cash flow method	Under the DCF method, the fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the assets' or liabilities' life including an exit or terminal value. The DCF method involves the projection of a series of cash flows from the assets or liabilities. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash flow stream associated with the assets or liabilities.
Residual cash flow analysis	The analysis takes into account the time value of money in a more detailed way than simply a developer's profit margin as it considers the timing of all costs and income associated with the project.
Pricing models – unlisted securities	The fair value is determined by reference to the net assets which approximates fair value of the underlying entities.
Pricing models – options	The fair value is determined using generally accepted pricing models including Black-Scholes and adjusted for specific features of the options including share price, underlying net assets and property valuations and prevailing exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. FINANCIAL INSTRUMENTS (continued)

(d) Fair values (continued)

The following table is a reconciliation of the movements in derivatives (property developments), unlisted securities and options classified as Level 3 for the year ended 30 June 2018.

	Derivatives - property developments	Unlisted securities/ options	Total
	\$'000	\$'000	\$'000
Opening balance as at 30 June 2017	13,263	6,792	20,055
Fair value movement through the income statement	(6,605)	(29)	(6,634)
Disposals	-	(5,434)	(5,434)
Closing balance as at 30 June 2018	6,658	1,329	7,987

	Derivatives - property developments	Unlisted securities/ options	Total
	\$'000	\$'000	\$'000
Opening balance as at 30 June 2016	4,007	22,774	26,781
Fair value movement through the income statement	9,256	(23,482)	(14,226)
Additions	-	7,500	7,500
Closing balance as at 30 June 2017	13,263	6,792	20,055

Sensitivity of Level 3 – derivatives - property developments

The potential effect of using reasonable possible alternative assumptions based on a change in the underlying property developments' returns by 5% would have the effect of reducing the fair value by up to \$0.3 million (2017: \$0.7 million) or increase the fair value by \$0.3 million (2017: \$0.7 million).

Sensitivity of Level 3 – unlisted securities and options

The potential effect of using reasonable possible alternative assumptions based on a change in the property valuations by 5% would have the effect of reducing the fair value by up to \$0.1 million (2017: \$0.8 million) or increase the fair value by \$0.1 million (2017: \$0.8 million).

13. CONTRIBUTED EQUITY

	2018	2017
	\$'000	\$'000
(a) Issued stapled securities		
Stapled securities	1,635,046	1,622,897
Issue costs	(40,058)	(41,741)
Total contributed equity	1,594,988	1,581,156

	Stapled securities	
	Number	Number
	'000	'000
(b) Movement in stapled securities on issue		
At beginning of financial year	575,570	556,577
- equity raisings	-	5,642
- distribution reinvestment plan	3,793	13,351
Securities on issue at end of financial year	579,363	575,570

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

14. DISTRIBUTIONS PAID AND PROPOSED

	2018	2017
Abacus	\$'000	\$'000
(a) Distributions paid during the year		
June 2017 half: 8.75 cents per stapled security (2016: 8.50 cents)	50,362	47,309
December 2017 half: 9.00 cents per stapled security (2016: 8.75 cents)	51,975	50,486
(b) Distributions proposed and recognised as a liability[^]		
June 2018 half: 9.00 cents per stapled security (2017: 8.75 cents)	52,143	50,362

Distributions were paid from Abacus Trust, Abacus Income Trust and Abacus Storage Property Trust (which do not pay tax provided they distribute all their taxable income) hence, there were no franking credits attached.

[^] The final distribution of 9.00 cents per stapled security was declared on 21 June 2018. The distribution being paid on or around 31 August 2018 will be approximately \$52.1 million.

	2018	2017
Non-core funds	\$'000	\$'000
(a) Distributions paid during the year		
Abacus Hospitality Fund	1,471	1,349
Abacus Diversified Income Fund II	-	5,052
	1,471	6,401
(b) Distributions proposed		
Abacus Hospitality Fund - not recognised	368	368

The total amount of franking credits available for the subsequent financial years including franking credits that will arise from the payment of income tax payable at the end of the financial year, based on a tax rate of 30 per cent, is \$62 million (2017: \$35 million).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

15. PARENT ENTITY FINANCIAL INFORMATION

	2018	2017
	\$'000	\$'000
Results of the parent entity		
Profit / (Loss) for the year	6,388	(9,871)
Total comprehensive expense for the year	6,388	(9,871)
Financial position of the parent entity at year end		
Current assets	35,551	1,512
Total assets	353,113	336,195
Current liabilities	29,931	146
Total liabilities	74,256	62,566
Net assets	278,857	273,629
Total equity of the parent entity comprising of:		
Issued capital	348,331	347,011
Accumulated losses	(73,488)	(79,875)
Employee options reserve	4,014	6,493
Total equity	278,857	273,629

(a) Parent entity contingencies

As at 30 June 2018, the parent entity has entered into, or still bound by, the following agreements:

- Act as guarantor for borrowings for certain joint venture arrangements to a guarantee limit of \$3.5 million (30 June 2017: \$18.5 million). No property security has been provided by the parent.

(b) Parent entity capital commitments

There are no capital commitments of the parent entity as at 30 June 2018 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

16. PROPERTY, PLANT AND EQUIPMENT

The following table is a reconciliation of the movements of property, plant and equipment for the year ended 30 June 2018.

	2018 \$'000	2017 \$'000
Property, plant and equipment held for sale		
Current		
Hotel property	88,500	-
Total current property, plant and equipment held for sale	88,500	-
Non-current		
Hotel property	-	80,000
Storage properties	3,848	4,226
Office equipment / furniture and fittings	952	508
Total non-current property, plant and equipment	4,800	84,734
Total property, plant and equipment including held for sale	93,300	84,734

The hotel property held for sale is measured at the lower of their carrying amount and fair value less costs to sell.

	2018 \$'000	2017 \$'000
Land and buildings		
At the beginning of the year net of accumulated depreciation	71,828	121,411
Additions	109	99
Fair value movement through comprehensive income	10,052	12,282
Disposal	-	(61,964)
Depreciation charge for the year	(921)	-
At the end of the year net of accumulated depreciation	81,068	71,828
Gross value	91,300	81,139
Accumulated depreciation	(10,232)	(9,311)
Net carrying amount at end of the year	81,068	71,828
Plant and equipment		
Gross value	33,155	31,546
Accumulated depreciation	(20,923)	(18,640)
Net carrying amount at end of the year	12,232	12,906
Total	93,300	84,734

If property, plant and equipment was carried under the cost model, the carrying amount would be \$63.5 million (2017: \$62.7 million).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

17. COMMITMENTS AND CONTINGENCIES

Abacus

(a) Operating lease commitments – Group as lessee

The Group has entered into a commercial lease on its offices. The lease has a term of five years with an option to renew for another five years.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2018 are as follows:

	2018	2017
	\$'000	\$'000
Within one year	1,034	1,030
After one year but not more than five years	3,357	3,227
More than five years	-	1,163
	4,391	5,420

(b) Operating lease commitments – Group as lessor

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2018 are as follows:

	2018	2017
	\$'000	\$'000
Within one year	65,911	72,465
After one year but not more than five years	163,353	163,080
More than five years	62,749	76,649
	292,013	312,194

These amounts do not include contingent rentals which may become receivable under certain leases on the basis of retail sales in excess of stipulated minimums and, in addition, do not include recovery of outgoings.

(c) Capital and other commitments

At 30 June 2018 the Group had numerous commitments and contingent liabilities which principally related to property acquisition settlements, loan facility guarantees for the Group's interest in the jointly controlled property developments and funds management vehicles, commitments relating to property refurbishing costs and unused mortgage loan facilities to third parties.

Commitments planned and/or contracted at reporting date but not recognised as liabilities are as follows:

	2018	2017
	\$'000	\$'000
Within one year		
- gross settlement of property acquisitions	15,750	-
- property refurbishment costs	6,574	15,136
- property development costs	19,546	11,176
- unused portion of loan facilities to outside parties	35,694	28,087
	77,564	54,399
Contingent liabilities:		
Within one year		
- corporate guarantee	3,520	18,712
	3,520	18,712

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

18. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of the following entities:

Entity	equity interest	
	2018 %	2017 %
<i>Abacus Group Holdings Limited and its subsidiaries</i>		
Abacus Castle Hill Trust	100	100
Abacus Cobar Trust	100	100
Abacus Finance Pty Limited	100	100
Abacus Funds Management Limited	100	100
Abacus Griffith Avenue Trust	100	100
Abacus Hampstead Trust	100	-
Abacus Investment Pty Ltd	100	100
Abacus Mortgage Fund	100	100
Abacus Mount Druitt Trust	100	100
Abacus Musswellbrook Pty Ltd	100	100
Abacus Nominee Services Pty Limited	100	100
Abacus Nominees (No 5) Pty Limited	100	100
Abacus Nominees (No 7) Pty Limited	100	100
Abacus Nominees (No 9) Pty Limited	100	100
Abacus Nominees (No 11) Pty Limited	100	-
Abacus Note Facilities Pty Ltd	100	100
Abacus Property Services Pty Ltd	100	100
Abacus SP Note Facility Pty Ltd	100	100
Abacus Storage Funds Management Limited	100	100
Abacus Wodonga Land Commercial Trust	100	100
Amiga Pty Limited	75	75
Fitzroy Street Pty Ltd	100	-
Oasis Staffing Pty Ltd	100	100
Yarradale Developments Trust	100	100
Abacus Hobart Growth Trust	100	100
Abacus Melbat Trust	100	100
Hurstbat Pty Limited	100	100
Villemel Pty Limited	100	100
<i>Abacus Group Projects Limited and its subsidiaries</i>		
Abacus Property Pty Ltd	100	100
Abacus Allara Street Trust*	50	50
Abacus Repository Trust*	50	50
Abacus Ventures Trust*	51	51

* These entities are wholly owned by Abacus

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

18. RELATED PARTY DISCLOSURES (continued)

(a) Subsidiaries (continued)

Entity	equity interest	
	2018	2017
	%	%
<i>Abacus Trust and its subsidiaries:</i>		
Abacus 1769 Hume Highway Trust	100	100
Abacus Abbotsford Trust	100	-
Abacus AGIT Trust	100	100
Abacus Alderley Trust	100	100
Abacus Ann Street Trust	100	-
Abacus Ashfield Mall Property Trust	100	100
Abacus Australian Aggregation Holding Trust	100	100
Abacus Australis Drive Trust	100	100
Abacus Bacchus Marsh Trust	100	100
Abacus Birkenhead Point Trust	-	100
Abacus Bowden Street Trust	100	-
Abacus Browns Road Trust	100	100
Abacus Campbell Property Trust	-	100
Abacus Jetstream Trust	100	100
Abacus Liverpool Plaza Trust	100	100
Abacus Lutwyche Trust	100	100
Abacus Macquarie Street Trust	100	100
Abacus Moore Street Trust	100	100
Abacus Northshore Trust 1*	25	25
Abacus Northshore Trust 2*	25	25
Abacus Oasis Trust	100	100
Abacus Premier Parking Trust	100	100
Abacus Sanctuary Holdings Pty Limited*	-	24
Abacus Shopping Centre Trust	100	100
Abacus Short Street Trust	100	100
Abacus SP Fund	100	100
Abacus St Leonards Trust	100	100
Abacus Varsity Lakes Trust	100	100
Abacus Virginia Trust	100	100
Abacus Westpac House Trust	100	100
Abacus Westpac House No. 2 Trust	100	100
Abacus WTC Trust	100	100
Abacus 14 Martin Place Trust	100	100
Abacus 324 Queen Street Trust	100	100
Abacus 33 Queen Street Trust	100	100
Abacus 37 Epping Road Trust	-	100
Abacus 464 St Kilda Road Trust	100	-
Abacus 710 Collins Street Trust	100	100
444 Queen Street Trust	100	100
Lutwyche City Shopping Centre Unit Trust	100	75
<i>Abacus Income Trust and its subsidiaries:</i>		
Abacus Brendale Trust	100	-
Abacus Eagle Farm Trust	100	100
Abacus Grant Street Trust	100	100
Abacus Independent Retail Property Trust	-	75
Abacus Retail Property Trust	100	100
Abacus Todd Road Trust	100	-

* These entities are wholly owned by Abacus

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

18. RELATED PARTY DISCLOSURES (continued)

(a) Subsidiaries (continued)

Entity	equity interest	
	2018	2017
	%	%
<i>Abacus Storage Operations Limited and its subsidiaries:</i>		
Abacus Storage NZ Operations Pty Limited	100	100
Abacus Storage Solutions Pty Limited	100	100
Abacus Storage Solutions NZ Pty Limited	100	100
Abacus USI C Trust	100	100
Abacus U Stow It A1 Trust	100	100
Abacus U Stow It B1 Trust	100	100
Abacus U Stow It A2 Trust	100	100
Abacus U Stow It B2 Trust	100	100
U Stow It Holdings Limited	100	100
U Stow It Pty Limited	100	100
Abacus SK Pty Limited	100	-
<i>Abacus Storage Property Trust and its subsidiary:</i>		
Abacus Storage NZ Property Trust	100	100
Abacus Hospitality Fund	10	10
Abacus Wodonga Land Fund	15	15

Subsidiaries controlled by the Group with material non-controlling interest

	Principal place of business	% held by NCI	(Profit)/loss allocated to NCI \$'000	Accumulated NCI \$'000
30 June 2018				
Abacus Hospitality Fund	Australia	90	(5,017)	44,536
Abacus Wodonga Land Fund	Australia	85	(2,101)	2,101
30 June 2017				
Abacus Hospitality Fund	Australia	90	(7,821)	40,840

(b) Ultimate parent

AGHL has been designated as the parent entity of the Group.

(c) Key management personnel

Details of payments are disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

18. RELATED PARTY DISCLOSURES (continued)

(d) Transactions with related parties

	2018	2017
	\$'000	\$'000
Transactions with related parties other than associates and joint ventures		
Revenues		
Property management fees received / receivable	206	196
Transactions with associates and joint ventures		
Revenues		
Management fees received / receivable from joint ventures	3,510	4,316
Revenue received / receivable from joint ventures	82,743	61,186
Other transactions		
Loan advanced to joint ventures	(13,158)	(12,019)
Loan repayments from joint ventures	48,735	18,161
Loan advanced from joint ventures	785	762

Terms and conditions of transactions

Sales and fees to and purchases and fees charged from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

No provision for doubtful debts has been recognised or bad debts incurred with respect to amounts payable or receivable from related parties during the year.

Entity with significant influence

Calculator Australia Pty Ltd ("Kirsh") is a significant securityholder in the Group with a holding of approximately 49% of the ordinary securities of the Group (2017: 49%).

During the year, Abacus Property Services Pty Ltd was engaged to manage the following properties:

Property	Relationship with Kirsh	Charge per annum	2018	2017
			\$	\$
14 Martin Place	Tenants-in-common	3% of gross rental	181,422	195,782
4 Martin Place	100% owned by Kirsh	3% of gross rental	206,237	177,492

Mrs Myra Salkinder is a non-executive director of the Group and is a senior executive of Kirsh.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

19. KEY MANAGEMENT PERSONNEL**(a) Compensation for key management personnel**

	2018	2017
	\$	\$
Short-term employee benefits	5,699,461	5,413,023
Post-employment benefits	170,009	203,688
Other long-term benefits	58,562	61,662
Security-based payments	1,842,125	1,090,281
	7,770,157	6,768,654

(b) Loans to key management personnel

There were no loans to key management personnel and their related parties at any time in 2018 or in the prior year.

(c) Other transactions and balances with key management personnel and their related parties

During the financial year, transactions occurred between the Group and Key Management Personnel which are within normal employee and investor relationships.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

20. SECURITY BASED PAYMENTS

(a) Recognised security payment expenses

The expense recognised for employee services received during the year is as follows:

	2018	2017
	\$'000	\$'000
Expense arising from equity-settled payment transactions	3,296	2,062

(b) Type of security – based payment plan

Security Acquisition Rights (SARs)

The deferred variable incentive plan has been designed to align the interests of executives with those of securityholders by providing for a significant portion of the remuneration of participating executives to be linked to the delivery of sustainable underlying profit that covers the distribution level implicit in the Group's security price.

Key executives have been allocated SARs in the current financial year generally equal to the last current variable incentive paid. Allocations were based on the performance assessment completed in determining current variable incentive awards for the prior financial year, adjusted to take into account other factors that the Board considers specifically relevant to the purpose of providing deferred variable incentives.

The SARs granted during the year vest as follows:

Vesting date	Amount Vested*	Potential number to vest
September 2018	One quarter of the initial issue	128,456
September 2019	One quarter of the initial issue	128,456
September 2020	One quarter of the initial issue	128,456
September 2021	One quarter of the initial issue	128,456

* The Board is able to claw back unvested SARs if the distribution level falls by more than 10% below the sustainable annual distribution rate

For valuation purposes the SARs are equivalent to European call options (in that they may be "exercised" only at their maturity (i.e. vesting date)). The fair value of the SARs granted is estimated at the date of the grant using a trinomial tree model (using 500 steps) cross checked by a modified Black-Scholes model. The trinomial tree model and the Black-Scholes model generally produce the same values for an option over a non-dividend paying share, or where the option is entitled to the same distributions as are paid on the underlying security, as is assumed in this case, and if the time to exercise is the same, (i.e. at the end of the term).

When SARs vest they will convert into ABP securities on a one for one basis or at the Board's discretion a cash equivalent amount will be paid.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

20. SECURITY BASED PAYMENTS (continued)**(c) Summary of SARs granted**

The following table illustrates movements in SARs during this year:

	2018	2017
	No.	No.
Opening balance	2,098,316	2,111,757
Granted during the year	730,244	865,092
Forfeited during the year	-	(13,519)
Vested during the year	(1,404,023)	(865,014)
Outstanding at the end of the year	1,424,537	2,098,316
Exercisable at the end of the year	-	-

The weighted average remaining life of the instrument at 30 June 2018 was 1.2 years (2017: 1.2 years) and the weighted average fair value of the SARs granted during the year was \$3.57 (2017: \$2.38).

The following table lists the inputs to the model used for the SARs plan for the years ended 30 June 2018 and 30 June 2017:

	2018	2017
Expected volatility (%)	19	18
Risk-free interest rate (%)	1.53 - 2.04	1.41 - 1.68
Life of instrument (years)	0.8 - 3.8	0.8 - 3.8
Model used	Trinomial	Trinomial

The expected life of the SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the SARs is indicative of future trends, which may not necessarily be the actual outcome.

NOTES TO THE FINANCIAL STATEMENTS

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21. INTANGIBLE ASSETS AND GOODWILL

Description of the Group's intangible assets

	2018	2017
	\$'000	\$'000
Goodwill		
Balance at 1 July	32,394	32,394
Balance at 30 June	32,394	32,394

Impairment tests for goodwill with indefinite useful lives

(i) Description of the cash generating units and other relevant information

Goodwill acquired through business combinations for the purposes of impairment testing is allocated to one of the Group's property / asset management business or a cash generating unit relating to one of the Group's segment. The recoverable amount of the unit has been determined based on a fair value less costs to sell calculation using cash flow projections as at 30 June 2018 covering a five-year period.

(ii) Key assumptions used in valuation calculations

Goodwill – the calculation of fair value less costs to sell is most sensitive to the following assumptions:

- Management and other fee income: based on actual income and funds under management within the financial year.
- Discount rates: reflects management's estimate of the time value of money and the risks specific to each unit that are not reflected in the cash flows
- Property values of the funds/properties under management: based on the fair value of properties
- Selling costs: management's estimate of costs to sell the funds/properties under management
- A pre-tax discount rate of 9.40% (2017: 9.40%) and a terminal growth rate of 2.7% (2017: 2.7%) have been applied to the cash flow projections

(iii) Sensitivity to changes in assumptions

Significant and prolonged property value falls and market influences which could increase discount rates could cause goodwill to be impaired in the future, however, the goodwill valuation as at 30 June 2018 has significant head room thus no reasonable changes in the assumptions would cause or give rise to an impairment.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value, interests in joint ventures and associates which are accounted for using the equity method, and certain investments and financial assets measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Group under ASIC Corporations Instrument 2017/191. The Group is an entity to which the class order applies.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the AASB and IASB respectively.

(c) New accounting standards and interpretations

(i) *Changes in accounting policy and disclosures*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of 1 July 2017.

The Group has adopted the following new or amended standards which became applicable on 1 July 2017:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

The adoption of these amended standards has no material impact on the financial statements of the Group.

(ii) *Accounting Standards and Interpretation issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2018. The significant new standards or amendments are outlined below:

- AASB 9 Financial Instruments (effective 1 January 2018 / applicable for Group 1 July 2018)

This standard includes requirement to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139 Financial Instruments: Recognition and Measurement. The Standard contains requirements in the areas of classification, measurement, hedge accounting and derecognition.

The most significant change for the adoption of AASB 9 will be the introduction of the new impairment model relating to the Group's property loans. The Group is currently finalising its quantification of the impairment that will be recognised on initial application of the accounting standard. As the year ending 30 June 2019 will be the first time application of the Standard, the Group has elected to adjust the retained earnings of the Group as at 1 July 2018 as opposed to restating the previous year amounts.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) New accounting standards and interpretations (continued)

- Revenue from Contracts with Customers (effective 1 January 2018 / applicable for Group 1 July 2018)

AASB15 replaces the current revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations.

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Early adoption of this Standard is permitted.

The Group has undertaken an analysis to scope out its revenue streams to identify specific impacts of the Standard. The revenue streams identified are:

- Rental / hotel income
- Finance income
- Management and other fee income
- Sale of inventory

The majority of the Group's revenue streams have application under other relevant standards and therefore, application of AASB 15 does not apply (rental income, finance income). Where the Standard does apply, the Group has assessed that there will likely be no change to the recognition or measurement of revenue upon application of the Standard or has considered that the impact to the Group's results to be immaterial.

- Leases (effective 1 January 2019 / applicable for Group 1 July 2019)

AASB 16 supersedes: AASB 117 Leases and associated interpretations.

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset of low value
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease
- AASB 16 contains disclosure requirements for lessees

Lessor accounting

- AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk

Early adoption is permitted, provided the new revenue standard, AASB15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.

The Group has reviewed terms of its lease agreement and has considered that the impact to the Group's results to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) New accounting standards and interpretations (continued)

AASB 2014-10, AASB 2016-5, AASB 2017-1, AASB 2017-2, AASB 2017-5 and AASB Interpretation 23 are applicable to the Group, however will have no significant impact on the Group.

AASB 2016-6, AASB 2017-3, AASB 2017-4, AASB 2017-6 AASB 2018-1, AASB 2018-2, AASB Interpretation 22, AASB 2017-8 and AASB 17 will have no application to the Group.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of AGHL and its subsidiaries, AT and its subsidiaries, AGPL and its subsidiaries, AIT and its subsidiaries, ASPT and its subsidiaries and ASOL and its subsidiaries collectively referred to as the Group.

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

The adoption of AASB 10 resulted in the consolidation of Abacus Hospitality Fund and Abacus Wodonga Land Fund. This is due to the combination of the Group's role as responsible entity and its exposure to variable returns arising from its collective equity and loan investments in these funds and certain guarantees.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies with adjustments made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits from intra-group transactions, have been eliminated in full and subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Group has control.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Non-controlling interests are allocated their share of net profit after tax in the consolidated income statement and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Non-controlling interests represent those equity interests in Abacus Hospitality Fund, Abacus Wodonga Land Fund, Abacus Jigsaw Trust, Lutwyche City Shopping Centre Unit Trust and Abacus Independent Retail Property Trust that are not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of the Group are in Australian dollars. Each entity in the Group determines its own functional currency and items are included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings on translation of foreign operations that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

At reporting date the assets and liabilities of foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at balance date and the financial performance is translated at the average exchange rate prevailing during the reporting period. The exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity.

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

Hotel income

Revenue from rooms is recognised and accrued on the provision of rooms or on the date which rooms are to be provided in accordance with the terms and conditions of the bookings. Advance deposits from customers received are not recognised as revenue until such time when the rooms have been provided or when the customers forfeit the deposits due to failure of attendance.

Finance income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Management and other fee income

Revenue from rendering of services is recognised in accordance with the terms and conditions of the service agreements and the accounting standards.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Revenue recognition (continued)

Dividends and distributions

Revenue is recognised when the Group's right to receive the payment is established.

Net change in fair value of investments and financial instruments derecognised during the year

Revenue from sale of investments is recognised on settlement when the significant risks and rewards of the ownership of the investments have been transferred to the buyer. Risks and rewards are generally considered to have passed to the buyer at the time of settlement of the sale. Financial instruments are derecognised when the right to receive or pay cash flows from the financial derivative has expired or when the entity transfers substantially all the risks and rewards of the financial derivative through termination. Gains or losses due to derecognition are recognised in the statement of comprehensive income.

Net change in fair value of investments held at balance date

Changes in market value of investments are recognised as revenue or expense in determining the net profit for the period.

Sale of inventory

Revenue from property development sales is recognised when the significant risks, rewards of ownership and effective control has been transferred to the purchaser which has been determined to occur upon settlement and after contractual duties are completed.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return or there is continuing management involvement to the degree usually associated with ownership.

(g) Expenses

Expenses including rates, taxes and other outgoings, are brought to account on an accrual basis and any related payables are carried at cost.

(h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flow, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised at amortised cost, which in the case of the Group, is the original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

(j) Derivative financial instruments and hedging

The Group utilises derivative financial instruments, both foreign exchange and interest rate derivatives to manage the risk associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognised at fair value.

The Group has set defined policies and implemented hedging policies to manage interest and exchange rate risks. Derivative instruments are transacted in line with these policies to achieve the economic outcomes in line with the Group's treasury and hedging policy. They are not transacted for speculative purposes.

The Group does not employ hedge accounting and as such derivatives are recorded at fair value with gains or losses arising from the movement in fair values recorded in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(k) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given.

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. At 30 June the Group's investments in listed and unlisted securities have been classified as financial assets at fair value through profit or loss and property loans are classified as loans and receivables.

Recognition and derecognition

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the assets. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

After initial recognition, investments, which are classified as held for trading, are measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on investments held for trading are recognised in the income statement.

For investments where there is no quoted market or unit price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Financial assets at fair value through profit or loss

A financial asset or financial liability at fair value is designated by the entity at fair value through the profit and loss upon initial recognition. APG uses this designation where doing so results in more relevant information. This group of financial assets and liabilities are managed and their performance evaluated on a fair value basis, in accordance with APG's documented risk management and investment strategy which outlines that these assets and liabilities are managed on a total rate of return basis, and information about the instruments is provided internally on that basis to the entity's key management personnel and the Board.

APG holds investments in unlisted securities and enters into loans and receivables with associated options that provide for a variety of outcomes including repayment of principal and interest, satisfaction through obtaining interests in equity or property or combinations thereof.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Subsidiaries

Investment in subsidiaries are held at lower of cost or recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(l) Interest in joint arrangements

The Group's interest in joint venture entities is accounted for under the equity method of accounting in the consolidated financial statements. The investment in the joint venture entities is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint ventures, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the joint ventures.

Investments in joint ventures are held at the lower of cost or recoverable amount in the investing entities.

The Group's interest in joint operations that give the parties a right to the underlying assets and obligations themselves is accounted for by recognising the Group's share of those assets and obligations.

(m) Property, plant and equipment

Hotel property, plant and equipment

Property (including land and buildings), plant and equipment represent owner-occupied properties and are initially measured at cost including transaction costs and acquisition costs. Subsequent to initial recognition, properties are measured at fair value less accumulated depreciation and any impairment in value after the date of revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings – 50 years Plant and equipment – 3 to 20 years

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss except to the extent that it offsets a previous revaluation increase for the same asset in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Hotel property, plant and equipment are independently valued on an annual basis unless the underlying financing requires a more frequent independent valuation cycle.

Other property, plant and equipment

Land and buildings are measured at fair value, based on periodic valuations by external independent valuers, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings – 40 years Plant and equipment – over 5 to 15 years

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(m) Property, plant and equipment (continued)

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property (including land and buildings), plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Impairment losses are recognised in the income statement.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Other property, plant and equipment are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle.

(n) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time that the cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market and property specific conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Investment properties under construction are carried at fair value. Fair value is calculated based on estimated fair value on completion after allowing for the remaining expected costs of completion plus an appropriate risk adjusted development margin.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

For a transfer from investment property to inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Land and buildings that meet the definition of investment property are considered to have the function of an investment and are therefore regarded as a composite asset, the overall value of which is influenced by many factors, the most prominent being income yield, rather than diminution in value of the building content due to the passing of time. Accordingly, the buildings and all components thereof, including integral plant and equipment, are not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(n) Investment properties (continued)

Investment properties are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle. In determining fair value, the capitalisation of net income method and the discounting of future cashflows to their present value have been used.

Lease incentives provided by the Group to lessees, and rental guarantees which may be received by the Group from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property. Leasing costs and incentives are included in the carrying value of investment property and are amortised over the respective lease period, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

Under AASB 140, investment properties, including any plant and equipment, are not subject to depreciation. However, depreciation allowances in respect of certain buildings, plant and equipment are currently available to investors for taxation purposes.

(o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as lessee

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the lease assets are classified as operating leases.

(p) Goodwill and intangibles

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(q) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(r) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) Provisions and employee leave benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(t) Distributions and dividends

Trusts generally distribute their distributable assessable income to their unitholders. Such distributions are determined by reference to the taxable income of the respective trusts. Distributable income may include capital gains arising from the disposal of investments and tax-deferred income. Unrealised gains and losses on investments that are recognised as income are usually retained and are generally not assessable or distributable until realised. Capital losses are not distributed to security holders but are retained to be offset against any future realised capital gains.

A liability for dividend or distribution is recognised in the Balance Sheet if the dividend or distribution has been declared, determined or publicly recommended prior to balance date.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid in the establishment of loan facilities are included as part of the carrying amount of loans and borrowings.

Borrowings are classified as non-current liabilities where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred unless they relate to a qualifying asset or to upfront borrowing establishment and arrangement costs, which are deferred and amortised as an expense over the life of the facility. A qualifying asset is an asset that generally takes more than 12 months to get ready for its intended use or sale. In these circumstances, the financing costs are capitalised into the cost of the asset. Where funds are borrowed by the Group for the acquisition or construction of a qualifying asset, the amount of the borrowing costs capitalised are those incurred in relation to the borrowing.

(v) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Stapled securities are classified as equity. Incremental costs directly attributable to the issue of new securities are shown in equity as a deduction, net of tax, from the proceeds.

(w) Non-current assets held for sale

Before classification as held for sale the measurement of the assets is updated. Upon classification as held for sale, assets are recognised at the lower of carrying amount and fair value less costs to sell with the exception of investment properties which are valued in accordance with Note 22(n).

Gains and losses from revaluations on initial classification and subsequent re-measurement are recognised in the income statement.

(x) Inventories

Property Development

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of sales in the ordinary course of business. Expenses of marketing, selling and distribution to customers are estimated and deducted to establish net realisable value. Where the net realisable value of inventory is less than cost, an impairment expense is recognised in the consolidated income statement. Reversals of previously recognised impairment charges are recognised in the consolidated income statement such that the inventory is always carried at the lower of cost and net realisable value. Cost includes the purchase consideration, development costs and holding costs such as borrowing costs, rates and taxes.

Hotel

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(y) Taxation

The Group comprises taxable and non-taxable entities. A liability for current and deferred tax and tax expense is only recognised in respect of taxable entities that are subject to income tax and potential capital gains tax as detailed below.

Trust income tax

Under current Australian income tax legislation AT, AIT, ASPT, AHT and ADIFII are not liable to Australian income tax provided security holders are presently entitled to the taxable income of the trusts and the trusts generally distribute their taxable income.

Company income tax

AGHL and its Australian resident wholly-owned subsidiaries, ASOL and its Australian resident wholly-owned subsidiaries and AHL and its Australian resident wholly-owned subsidiaries have formed separate tax consolidation groups. AGHL, ASOL and AHL have entered into tax funding agreements with their Australian resident wholly-owned subsidiaries, so that each subsidiary agrees to pay or receive its share of the allocated tax at the current tax rate.

The head tax entity and the controlled entities in each tax consolidated group continue to account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, the head tax entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(y) Taxation (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

New Zealand

The trusts that operate in New Zealand ("NZ") are treated as a company for NZ income tax purposes and are taxed at the corporate tax rate of 28% (2017: 28%). NZ income tax paid by the Trusts can be claimed as foreign tax credits to offset against foreign income and distributable to security holders. NZ tax losses are carried forward provided the continuity test of ownership is satisfied. Interest expense from the Trusts are fully deductible subject to thin capitalisation considerations. Property revaluation gains or losses are to be excluded from taxable income, with no deferred tax implications as capital gains are not taxed in NZ.

Income derived by companies which are incorporated in Australia and registered in NZ as overseas companies is exempt from tax in Australia where the income has been taxed in NZ. This income is regarded as non-assessable non-exempt income. As such, income tax is calculated on the companies' NZ taxable income and taxed at the NZ corporate rate of 28% (2017: 28%).

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

22. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(z) Earnings per stapled security (EPSS)

Basic EPSS is calculated as net profit attributable to stapled security holders, adjusted to exclude costs of servicing equity (other than distributions) divided by the weighted average number of stapled securities on issue during the period under review.

Diluted EPSS is calculated as net profit attributable to stapled security holders, adjusted for:

- costs of servicing equity (other than distributions);
- the after tax effect of dividends and interest associated with dilutive potential stapled securities that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential stapled securities;

divided by the weighted average number of stapled securities and dilutive potential stapled securities, adjusted for any bonus element.

(za) Security based payment plans

Executives of the Group receive remuneration in the form of security based payments, whereby Executives render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made, using an appropriate valuation model and is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 20).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting conditions are satisfied, provided that all other performance and / or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the security based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

23. AUDITOR'S REMUNERATION

	2018	2017
	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:		
- An audit of the financial report of the entity and any other entity in the consolidated group	1,037,571	1,104,110
- Other services in relation to the entity and any other entity in the consolidated group		
- assurance services	95,895	116,420
- compliance services	38,200	37,150
	1,171,666	1,257,680

24. EVENTS AFTER BALANCE SHEET DATE

Other than as disclosed in this report, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may affect, the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

DIRECTORS' DECLARATION

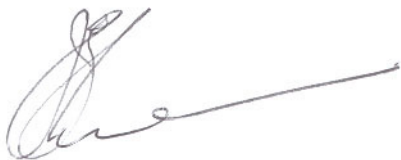
In accordance with a resolution of the Directors of Abacus Group Holdings Limited, we state that:

In the opinion of the directors:

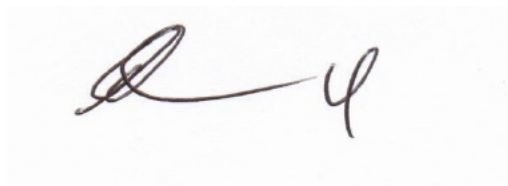
- a. the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2018 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 22(b); and
- c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board



John Thame
Chairman
Sydney, 17 August 2018



Steven Sewell
Managing Director

Independent Auditor's Report to the Members of Abacus Group Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Abacus Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Investment Properties

Why significant

The Group's total assets include investment properties either held directly or via interests in Joint Ventures. These assets are carried at fair value, which is assessed by the directors with reference to either external independent property valuations or internal valuations, and are based on market conditions existing at the reporting date.

This was considered a key audit matter due to the number of judgments required in determining fair value. These judgments include assessing the capitalisation rate, discount rate, market rent, re-leasing costs and forecast occupancy levels.

Disclosure of investment properties and significant judgments are included in Note 5 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- We assessed the effectiveness of relevant controls over the leasing process and associated tenancy reports which are used as source data in the property valuations by testing a sample of the relevant controls.
- For a sample of internal and external valuations, we evaluated the key assumptions and tested key inputs to tenancy schedules. These assumptions and inputs included market and contractual rent, occupancy rates including forecast occupancy levels, lease terms, re-leasing costs, operating expenditure and future capital expenditure.
- For a sample of internal valuations we tested the mathematical accuracy of the valuation.
- For selected properties we involved our real estate specialists to assist with the assessment of the valuation.
- Where relevant we evaluated the movement in the capitalisation rates across the portfolio based on our knowledge of the property portfolio, published industry reports and comparable external valuations.
- Where relevant we assessed the reasonableness of comparable transactions utilised in the valuation process.
- We evaluated the suitability of the valuation methodology across the portfolio based on the type of asset; and
- We assessed the qualifications, competence and objectivity of the valuers.

Property Loans

Why significant

The Group provides mortgage loans to external parties for which the underlying security is primarily development property assets.

This was considered a key audit matter as the assessment of the recoverability of the loans, including any capitalised interest, is subject to significant judgment as to the value of underlying security or performance of the underlying development. Changes in feasibility assumptions impacting project cashflows may give rise to an impairment of the loans.

Some of the loan arrangements include a profit share component that entitles the Group to additional returns, depending on the outcome of the underlying development. There are complex accounting judgments relating to the amount and timing of revenue recognition for these participation rights.

Disclosure of property loans is included in note 7 of the financial report.

Disclosure of revenue recognition policies is included in Note 22(f) of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- We considered the Group's assessment of recoverability of the loans.
- We evaluated the adequacy of the security on a sample of loans by assessing the feasibilities of the underlying development asset. For this sample we assessed the feasibility by performing procedures consistent with those performed on Inventories as set out in the inventories key audit matter below.
- For a sample of properties, where a valuation was obtained as part of the recoverability assessment performed by the Group, we assessed the valuation by performing procedures consistent with those performed on Investment property valuations referred to in the preceding key audit matter.
- We assessed the qualifications, competence and objectivity of the valuers, the assumptions used in the valuations and evaluated the suitability of the valuation methodology for valuations obtained.
- We evaluated the classification of loans and the status of the underlying property supporting recoverability based on the expected timing of settlement and the status of the underlying developments.
- We assessed the Group's framework for recognising additional revenue for loans with profit share arrangements and re-performed the Group's calculations based on the underlying development financial information.

Inventories

Why significant

The Group's total assets include development property assets either held directly or via interests in Joint Ventures. Development assets are carried at the lower of cost or net realisable value. The net realisable value is determined through a feasibility model for each project that estimates the revenue and costs of the development over the life of the project.

This was considered a key audit matter as the determination of net realisable value is affected by subjective elements within the estimated costs and projected revenues over an assumed development life. These values are sensitive to changes in the underlying assumptions.

Disclosure of inventories is included in Note 6 of the financial report.

Disclosure of revenue recognition policies is included in Note 22(f) of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- We interviewed Project Managers employed by the Group, to understand the status and progress of the developments
- We assessed the historical accuracy of previous forecast development outcomes
- We assessed the feasibility models prepared by the Group for a sample of developments currently in progress
- Where applicable we evaluated the assumptions adopted in light of current market evidence by:
 - comparing the sales revenue assumed to the most recent historical or comparable sales;
 - corroborating the costs projected to signed contracts, recent or actual costs incurred for current or comparable projects; and
 - assessed contingency estimates for remaining development risks.
- Where relevant, we performed sensitivity analyses in relation to the key forward looking assumptions including sales price achieved, finance costs, time to completion, and escalation rates.
- We tested the mathematical accuracy of the feasibilities.

Equity Accounted Investments

Why significant

The Group has entered into a number of joint venture arrangements which are involved in property investment or property development. The application of the equity method of accounting for the joint venture investments is predicated on the Group having joint control with the other party(ies) under the arrangements.

We have focused on this area as a key audit matter due to the judgment involved in assessing whether the entities are controlled or joint ventures. Some joint arrangements include the potential to earn variable returns subject to reaching certain performance thresholds. The determination of the variable returns is based on a calculation that is specified under the relevant joint venture agreement.

Disclosure of equity accounted investments is included in Note 8 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- For new joint ventures entered into during the year we assessed the joint venture agreements to understand the ownership interest and rights of each joint venture party. We considered the Group's assessment of joint control and the determination of applying equity accounting to the investment.
- For existing joint ventures we confirmed with the Group that there had been no changes to the joint arrangements with respect to decision making power and entitlement to profits nor in the underlying operation and performance of the arrangement, which would amend the conclusion from prior periods.
- We assessed the Group's variable return calculation against the provisions of the joint venture agreement and tested the calculation methodology.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report, other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

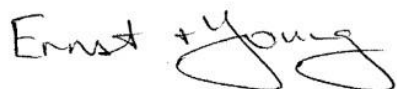
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 32 of the Directors' Report for the year ended 30 June 2018.

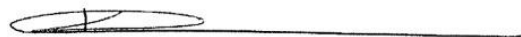
In our opinion, the Remuneration Report of Abacus Group Holdings Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Kathy Parsons
Partner
Sydney
17 August 2018