

# FOLKESTONE

## FY18 – Results

22 August 2018

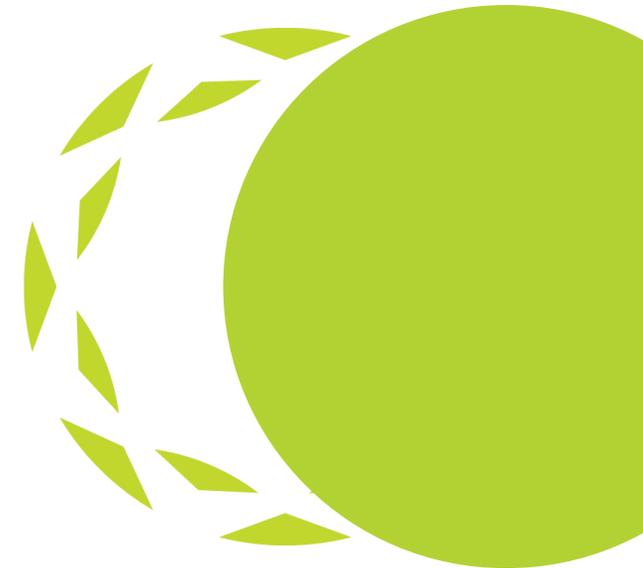
ASX:FLK



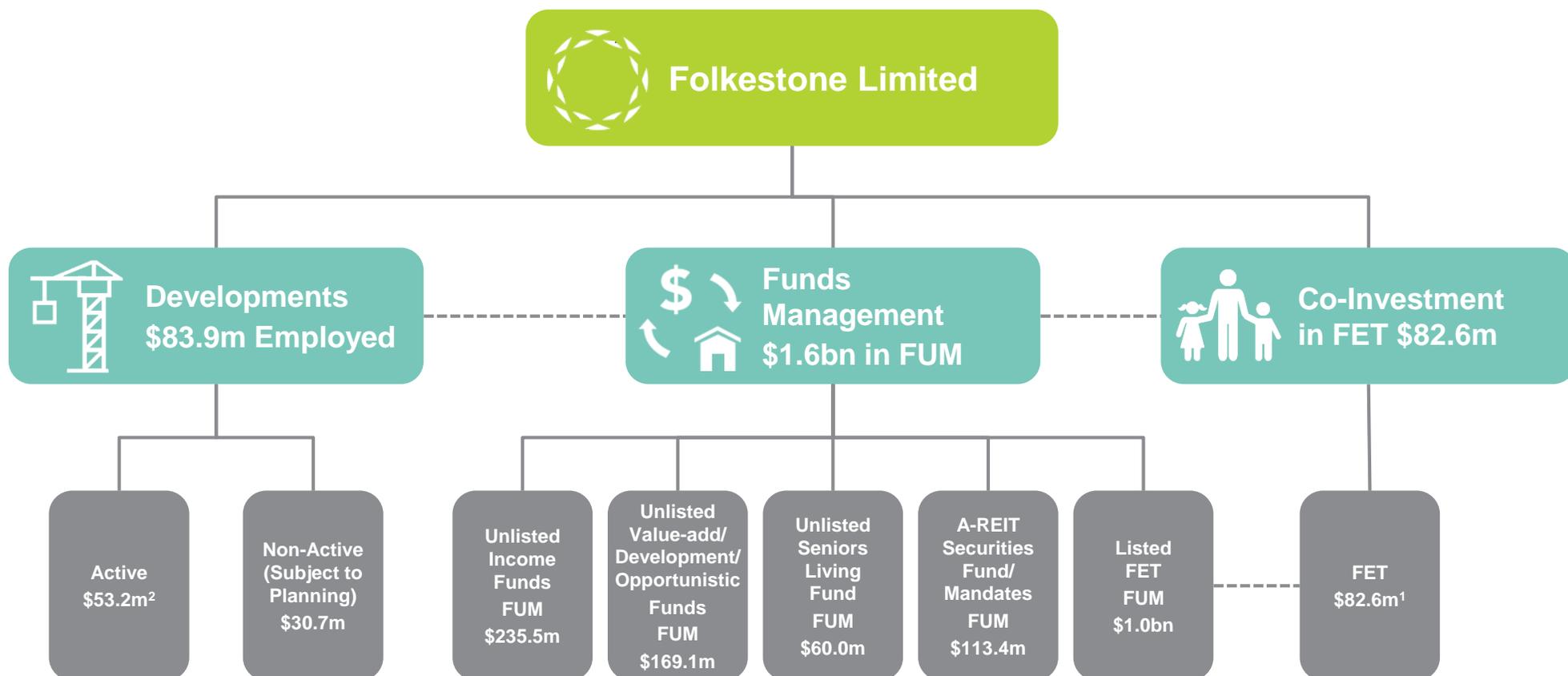
Folkestone

# CONTENTS

Overview	3	Appendix 1 - Financials	31
Proposed Acquisition of Folkestone by Charter Hall	5	Appendix 2 - Developments	34
FY18 Performance	10		
Funds Management	16		
Development	25		



Folkestone is an ASX listed real estate funds manager and developer providing real estate wealth solutions for private clients and select institutions



1. Based on Folkestone Education Trust's (ASX:FET) Unit price of \$2.69 at 30 June 2018. Excludes interest in FET held by Folkestone Maxim A-REIT Securities Fund/Mandates.

2. Includes FLK's co-investments in the Folkestone Seniors Living Fund No.1, Folkestone Truganina Development Fund, Folkestone Wollert Development Fund and Folkestone Plumpton Development Fund.



## Capital Structure

Share Price <sup>1</sup> (cents)	1.11
Fully Paid Ordinary Shares (m)	148.1
Market Capitalisation <sup>1</sup> (\$m)	164.4
Look Through Gearing (%)	16.3

## Major Shareholders<sup>3</sup>

Phoenix Portfolios	10.37%
Paramor, Greg	9.19%
FDC Construction & Fitout	7.11%
Kaplan Funds Management	5.57%
Top 20 Shareholders	59.22%

## Share Price<sup>2</sup>: 1 July 2012 – 21 August 2018



## Directors & Senior Management

Garry Sladden	Non-Executive Chairman
Mark Baillie	Deputy Chairman
Ross Strang	Non-Executive Director
Greg Paramor AO	Managing Director
Ben Dodwell	Head of Real Estate
Adrian Harrington	Head of Funds Management
Nick Anagnostou	CEO - FET
Stuart Nicolson	CEO - Seniors Living
Scott Martin	CFO & Company Secretary

1. As at 21 August 2018.

2. Share price has been restated to account for the 1:5 share consolidation completed in November 2015.

3. Based on substantial shareholder notices lodged with the ASX.





# PROPOSED ACQUISITION BY CHARTER HALL



# PROPOSED ACQUISITION BY CHARTER HALL



- If approved, Charter Hall Group (ASX: CHC) will acquire 100% of FLK via a Scheme of Arrangement (Scheme)
- FLK shareholders will receive \$1.39 cash per share<sup>1</sup> (Scheme Consideration), comprising:
  - a Charter Hall cash consideration of \$1.354 per share<sup>1</sup>; and
  - a Special Dividend<sup>2</sup> of \$0.036 per share<sup>1</sup> (Special Dividend)
- Scheme Consideration represents:
  - 25.2% premium to the previous closing price;
  - 25.6% premium to 30 day VWAP; and
  - 25.6% premium to the 3-month VWAP
- The Folkestone Board has commissioned Lonergan Edwards & Associates as an Independent Expert to prepare an Independent Expert's Report in respect of the Scheme
- The implementation of the Scheme is subject to customary conditions including:
  - FLK shareholder approval by the requisite majorities (being a majority in number of Shareholders who vote and at least 75% of the total number of shares voted);
  - no regulatory objections or interventions;
  - Independent Expert's recommendation that scheme is in the best interests of Folkestone shareholders; and
  - Court approval of the Scheme
- A break fee of 1.00% of the Scheme Consideration is payable by Folkestone to Charter Hall in certain circumstances

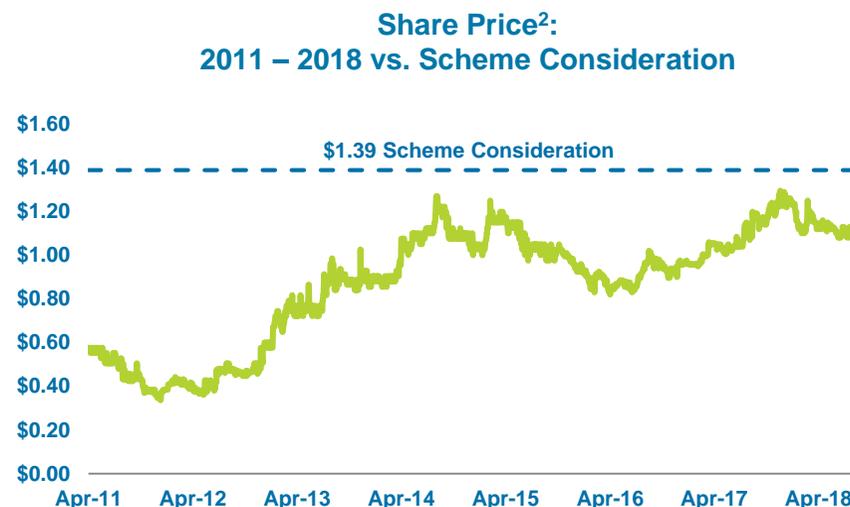
1. As at the date of this announcement, there are 148,099,564 shares on issue and 3,268,128 unvested employee performance rights. In accordance with the terms of Executive Incentive Plan, the Board has determined that these performance rights will vest and as a result will receive the Scheme Consideration.

2. Folkestone is applying to the ATO for a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits for the Special Dividend.



# COMPELLING PROPOSAL FOR FLK SHAREHOLDERS

- ✓ the Scheme Consideration represents a significant premium to recent trading performance of FLK Shares
- ✓ the Scheme Consideration exceeds all historical trading prices of Folkestone since 2011
- ✓ the Scheme Consideration is all cash which delivers certainty and immediate value for FLK Shareholders
- ✓ FLK Shareholders will receive a Special Dividend of \$0.036 per FLK Share. The Special Dividend is expected to be 100% franked subject to ATO ruling<sup>1</sup>
- ✓ If the Scheme does not proceed, and no Superior Proposal emerges, the price of FLK shares is unlikely in the short-term to trade at the price of the Scheme Consideration



1. Folkestone is applying to the ATO for a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits for the Special Dividend.  
 2. Share price has been restated to account for the 1:5 share consolidation completed in November 2015.



# DIRECTORS UNANIMOUSLY RECOMMEND THE SCHEME



- **FLK's Board of Directors unanimously recommend that FLK shareholders vote in favour of the Scheme, in the absence of any superior proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of Folkestone shareholders**
- The FLK Board has been considering a range of strategic options to maximise shareholder value, including maintaining the status quo, or the sale of selected assets
- After receiving and evaluating the proposed Scheme, FLK's Board has unanimously concluded that the sale of FLK at a significant premium to market is the most certain value proposition for all FLK Shareholders
- Each FLK Director intends to vote all FLK shares they own or control in favour of the Scheme, in the absence of a Superior Proposal



# TIMETABLE AND CONDITIONS

- Shareholders do not need to take any action at present
- A Scheme Booklet containing information relating to the Scheme, an independent expert's report on whether the Scheme is in the best interests of FLK shareholders, the reasons for the Board's recommendation in favour of the Scheme, and details of the Scheme meeting is expected to be sent to Folkestone shareholders shortly
- It is anticipated that FLK Shareholders will have the opportunity to vote on the proposal at a meeting to be held in October 2018
- Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in early November 2018

Event	Date
<b>Date of this Announcement</b>	<b>Wednesday, 22 August, 2018</b>
First Court Hearing	Mid September 2018
Scheme Booklet Despatched to FLK Shareholders	Mid September 2018
Shareholder Meeting to Approve Scheme	Mid October 2018
Second Court Hearing	Mid/late October 2018
Effective Date	Mid/late October 2018
Record Date	Late October 2018
Implementation Date	Early November 2018





# FY18 PERFORMANCE



## Active FY18 Across The Platform



### FUNDS MANAGEMENT

FUM up 26.1% to \$1.6bn

4 new unlisted Funds launched generating \$3.3m<sup>1</sup> in acquisition fees

1 Fund wound-up and 1 Fund extended generating \$5.1m in performance fees

Winner of 2 fund manager of the year awards for A-REIT Securities



### DEVELOPMENT

Strong margins across development pipeline

Strong sales across land and enterprise parks

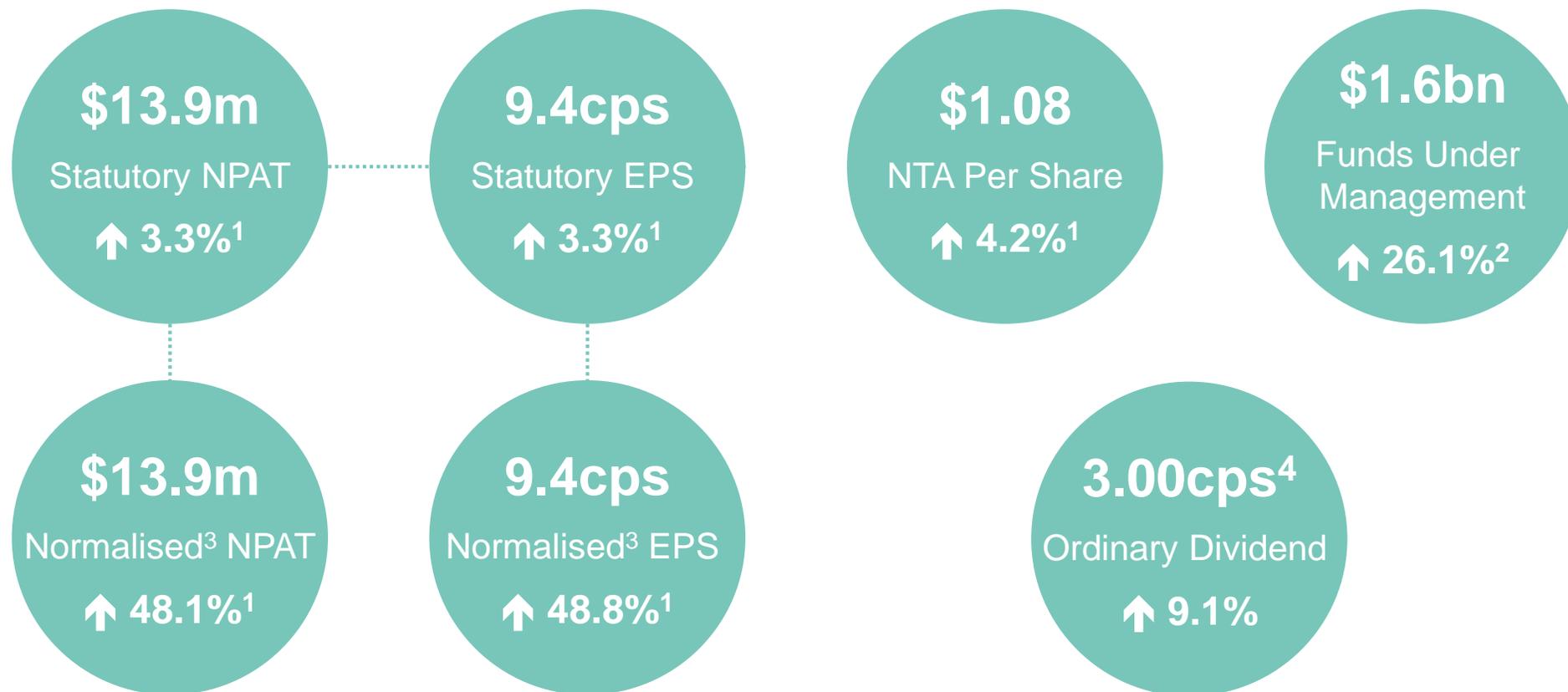
Expanded into townhouse development

Developing Green Square Hotel on a fund through basis to an FLK unlisted fund

1. Excludes Acquisition Fee for the Folkestone Plumpton Development Fund, which will be recognised in HY19.



The strong financial results in FY18 reflect the positive contributions from our funds management platform and our on-balance sheet development activities



1. Compared to FY17. NTA per share is calculated using assets less liabilities, net of intangible assets and deferred tax liabilities.

2. 12 months to 30 June 2018.

3. The normalised NPAT and EPS are non-statutory amounts and in Folkestone's view, better reflect the underlying operating performance of the business. The normalised figure excludes significant one-off items. In FY17, \$5.8 million before tax (\$4.06 million after tax) of the Wollert rezoning fee was recognised as a one off, given the \$8.8 million was \$5.8 million above the budgeted \$3.0 million fee. The normalised NPAT was \$9.4 million.

4. The FY18 ordinary dividend is fully franked. It is 9.1% up on the FY17 ordinary dividend of 2.75 cents per share. FLK also paid a special dividend of 0.5 cents per share in FY17.



# FY18 RESULTS – PROFIT & LOSS

## Profit & Loss Attributable to Folkestone

\$9.5m in management fees/cost recoveries, \$1.5m CIB leasing fee, \$0.6m in development management fees, \$1.2m in property management fees, \$4.6m in FET trust distributions, \$5.1m in performance fees, \$3.3m in acquisition fees

\$5.0m in share of project profits, \$1.5m in preferred equity interest, (\$0.8m) in provisions, \$0.5m in reversal of prior period impairment

	FY17 (\$m)	FY18 (\$m)	% Change
<b>Revenue</b>			
Funds Management	17.00	26.82	57.7
Development (Net)	16.66	6.48	(61.1)
Other	0.14	0.15	12.6
<b>Total Revenue</b>	<b>33.80</b>	<b>33.45</b>	<b>(1.0)</b>
<b>Expenses</b>			
Employee	(10.47)	(10.35)	1.2
Administration	(2.69)	(2.54)	5.5
Due Diligence	(0.63)	(0.16)	73.7
Rental	(0.30)	(0.35)	(17.2)
<b>Total Expenses</b>	<b>(14.09)</b>	<b>(13.41)</b>	<b>4.8</b>
<b>EBITDA (Statutory)</b>	<b>19.71</b>	<b>20.05</b>	<b>1.7</b>
Finance Costs	(0.58)	(0.49)	15.0
Depreciation & Amortisation	(0.12)	(0.15)	(19.0)
<b>Net Profit Before Tax (Statutory)</b>	<b>19.00</b>	<b>19.41</b>	<b>2.1</b>
<b>Tax Expense</b>	<b>(5.59)</b>	<b>(5.54)</b>	<b>(0.8)</b>
<b>Net Profit After Tax (Statutory)</b>	<b>13.42</b>	<b>13.86</b>	<b>3.3</b>
<b>Adjustment For One-Off Items (Net of Tax)</b>			
Wollert Rezoning Fee Item For FY17	(4.06)	-	(100)
<b>Net Profit After Tax (Normalised)<sup>1</sup></b>	<b>9.36</b>	<b>13.86</b>	<b>48.1</b>
<b>Statutory EPS (Cents Per Share)</b>	<b>9.1</b>	<b>9.4</b>	<b>3.3</b>
<b>Normalised EPS (Cents Per Share)<sup>1</sup></b>	<b>6.3</b>	<b>9.4</b>	<b>48.8</b>

1. The normalised NPAT and EPS are non-statutory amounts and in Folkestone's view, better reflect the underlying operating performance of the business. The normalised figure excludes significant one-off items.



# FY18 RESULTS – BALANCE SHEET

Strong balance sheet provides the financial flexibility to take advantage of new investment opportunities

## Balance Sheet Attributable to Folkestone

	30 Jun 2017 (\$m)	30 Jun 2018 (\$m)	% Change	
<b>Current Assets</b>				
Includes \$6.0m regulatory capital	Cash	21.9	12.2	(44.0)
\$11.3m relating to project related loans, \$3.7m relating to funds management activities	Trade & Other Receivables	4.9	15.0	209.3
Includes Altona North land (\$13.4m), interest in joint venture \$5.6m	Developments/Co-investments	13.8	19.0	37.5
	Other Current Assets	0.4	0.7	75.6
	<b>Total Current Assets</b>	<b>40.9</b>	<b>46.9</b>	<b>14.6</b>
<b>Non-Current Assets</b>				
Includes interest in joint ventures, co-investments in FLK funds and other project related loans	Developments/Co-investments	45.9	60.6	32.1
12.0% Unitholding in FET	FET Units	85.6	82.6	7.1
Management rights and goodwill	Intangible Assets	16.2	16.2	26.6
	Other Non-Current Assets	0.6	0.5	(14.0)
	<b>Total Non-Current Assets</b>	<b>148.3</b>	<b>159.9</b>	<b>7.8</b>
	<b>Total Assets</b>	<b>189.2</b>	<b>206.8</b>	<b>9.3</b>
<b>Current Liabilities</b>				
Relating to operating costs	Trade & Other Payables	4.1	2.8	31.5
Debt on Altona Stage 3 land (\$1.0m senior debt, \$5.9m project loan)	Borrowings	2.7	7.0	(157.2)
\$5.7m provision for income tax and \$1.3m employee provision	Provisions	5.1	7.0	(37.2)
	<b>Total Current Liabilities</b>	<b>11.9</b>	<b>16.8</b>	<b>(40.7)</b>
<b>Non-Current Liabilities</b>				
Drawn amount of ANZ corporate debt facility	Borrowings	7.4	13.5	(81.2)
Includes DTL (\$9.8m) and employee provisions (\$0.1m)	Provisions	7.7	9.8	(27.4)
	<b>Total Non-Current Liabilities</b>	<b>15.2</b>	<b>23.3</b>	<b>(53.8)</b>
	<b>Total Liabilities</b>	<b>27.1</b>	<b>40.1</b>	<b>(48.0)</b>
	<b>Net Assets</b>	<b>158.74</b>	<b>166.70</b>	<b>5.0</b>
	<b>NAV (\$ per share)<sup>1</sup></b>	<b>1.08</b>	<b>1.13</b>	<b>4.8</b>
	<b>NTA (\$ per share)<sup>2</sup></b>	<b>1.04</b>	<b>1.08</b>	<b>4.2</b>

1. Net Asset Value (NAV) per share is calculated using total assets less total liabilities.

2. Net Tangible Asset (NTA) per share is calculated using assets less liabilities, net of intangible assets and deferred tax liabilities.

- Corporate facility provides additional debt capacity:
  - ANZ facility expiry date is December 2019
  - temporary facility limit increases to be negotiated on an as needs basis to assist with securing opportunities for the funds management platform
  - facility secured by FLK's unitholding in FET
- Drawn debt of \$13.5m at 30 June 2018:
  - LVR against security pool of 16.4% (on drawn funds) and 30.3% on total facility limit
  - all LVR and ICR covenants have significant headroom
- Balance sheet gearing of 7.0%
- Look through gearing of 16.3%

	30 Jun 2018 (\$m)
Total Facility	25.0
Debt Drawn	13.5
Available Debt	11.5





# FUNDS MANAGEMENT



# FUNDS MANAGEMENT – RESULTS OVERVIEW

- Total revenue of \$26.8m up 57.7% on FY17:
  - recurring fees/cost recoveries up 25.1% due to 3 new funds and growth in existing fund FUM
  - transaction fees up 100.5% to \$6.3m due to acquisition fees for 3 new funds and leasing fees for CIB Fund
  - \$5.1m in performance fees on sale of Wollongong office building and extension of Sydney Olympic Park Income Fund
- FLK manages Folkestone Education Trust (ASX: FET) and owns 12.0% of Units on issue:
  - \$8.4m in fees to FLK – up 9.8% on FY17
  - \$4.6m in distributions to FLK – up 6.3% on FY17
  - \$24.3m unrealised gain on units held at 30 June 2018<sup>1</sup>

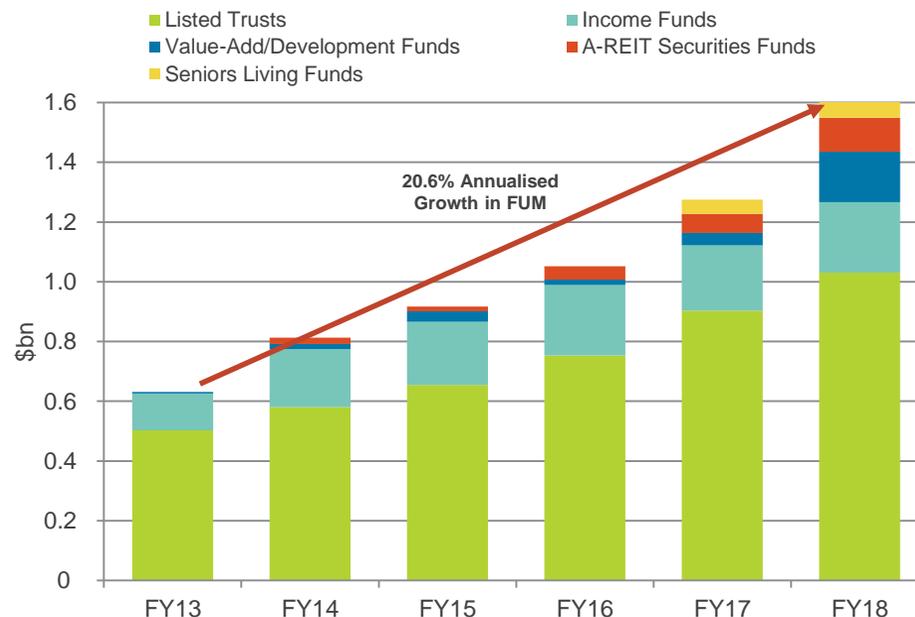
	FY17 (\$m)	FY18 (\$m)	% Change
Management Fees/Cost Recoveries	7.60	9.51	25.1
Transaction Fees	3.15	6.32	100.5
Performance Fees	0.90	5.14	471.2
Property Management Fees	0.82	1.21	48.1
Distributions (FET)	4.36	4.63	6.3
Other	0.18	-	(100)
<b>Total Revenue</b>	<b>17.01</b>	<b>26.82</b>	<b>57.7</b>

1. Comprises \$27.4m unrealised gain recognised to 30 June 2017 and a \$3.1m unrealised loss in FY18. Unrealised Gains/Losses are recognised as other Comprehensive Income in the Consolidated Financial Statements of the Group.



- More than 9,800 investors across the platform
- \$1.6bn in FUM – up 26.1% since FY17 & 155.0% since FY13
- 4 new funds in FY18 - all closed significantly oversubscribed:
  - Folkestone SOP Opportunity Fund – \$24.7m equity raising completed in July 2017
  - Folkestone Sydney Airport Hotel Fund – \$50.0m equity raising completed in December 2017
  - Folkestone Green Square Hotel Fund – \$23.2m equity raising completed in November 2017
  - Plumpton Development Fund - \$16.5m equity raising launched in June and completed in July 2018

## Growth in Funds Under Management: FY13 – FY18



### Folkestone Maxim Wins Industry Leadership Award

In December 2017, Folkestone Maxim won the inaugural Financial Standard Investment Leadership Award for Australian Listed Property.

The Financial Standard award recognises "investment strategies that showcase all the qualities investors - whether they be advised or self directed - are looking for in a manager".



**Folkestone Maxim Wins the Lonsac Money Management Fund Manager of the Year Award in the category of Australian Property Securities**

# FUNDS MANAGEMENT – FUND OVERVIEWS

	Type	FUM (\$m)	FLK Co-Invest (\$m) <sup>6</sup>	Base Fees (p.a.)	Other Fees	No. of Properties	Total Return in FY18 (%)	Benchmark (%)
<b>Folkestone Education Trust</b>	Listed	1,030	82.6	0.5% of Gross Assets	Debt Arrange/ Dev Mgt/ Leasing	410 <sup>7</sup>	19.5	6.5 <sup>1</sup>
<b>CIB Fund</b>	Unlisted Income	131.3	-	0.25% of Gross Assets	Leasing	11	41.6	12.0 <sup>4</sup>
<b>Sydney Olympic Park Income Fund</b>	Unlisted Income	44.5	-	1.3% of Net Assets	Acquisition/ Performance	1	18.96	10.0 <sup>2</sup>
<b>Altona North Income Fund</b>	Unlisted Income	47.5	-	1.1% of Net Assets	Acquisition/ Performance	1	18.15	10.0 <sup>2</sup>
<b>Green Square Hotel Fund</b>	Unlisted Income	43.5 <sup>9</sup>	-	1.3% of Net Assets	Acquisition/ Performance	1	n/a <sup>5</sup>	12.0 <sup>2</sup>
<b>Sydney Airport Hotel Fund</b>	Unlisted Value-add	80.0	-	1.3% of Net Assets	Acquisition/ Performance	1	n/a <sup>5</sup>	14.4 <sup>2</sup>
<b>SOP Opportunity Fund</b>	Unlisted Opportunistic	35.0 <sup>9</sup>	-	1.28% of Net Assets	Acquisition/ Performance	1	n/a <sup>5</sup>	14.0 <sup>2</sup>
<b>Truganina Development Fund</b>	Land Development	12.2	2.8	400,000	Underwriting/ Acquisition/ Performance	1	21.0 <sup>8</sup>	18.0 <sup>3</sup>
<b>Wollert Development Fund</b>	Land Development	25.4	6.1	450,000	Acquisition/ Performance	1	24.5 <sup>8</sup>	17.0 <sup>3</sup>
<b>Plumpton Development Fund</b>	Land Development	16.5	3.3	450,000	Acquisition/ Performance	1	n/a <sup>5</sup>	16.0
<b>FLK Seniors Living Fund No. 1</b>	Seniors Living	61.8	2.7	0.7% of Net Assets	Acquisition/ Performance	1	11.0 <sup>8</sup>	15.0 <sup>3</sup>
<b>Folkestone Maxim A-REIT Securities</b>	A-REIT Securities	113.4	-	0.4% to 0.95% of Gross Assets	-	n/a	12.47	13.2 <sup>1</sup>

1. S&P/ASX300 A-REIT Accumulation Index.  
 2. Annualised total return forecast over life of Fund.  
 3. Equity IRR (post fees, pre tax) forecast over life of Fund.

4. Mercer/IPD Australian Monthly Property Fund Index.  
 5. Fund was launched during FY18.  
 6. Reflects current Unit price value.

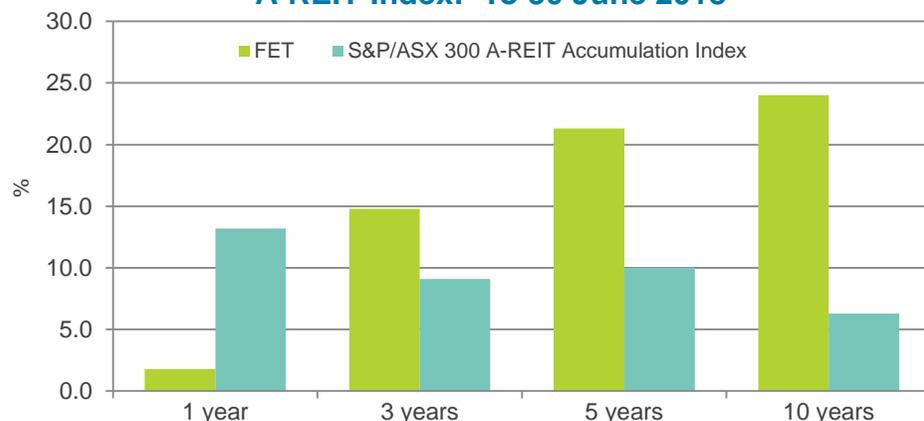
7. Includes 23 development sites that have settled.  
 8. Forecast equity IRR (post-fees, pre-tax) as at 30 June 2018.  
 9. Forecast completion valuation.



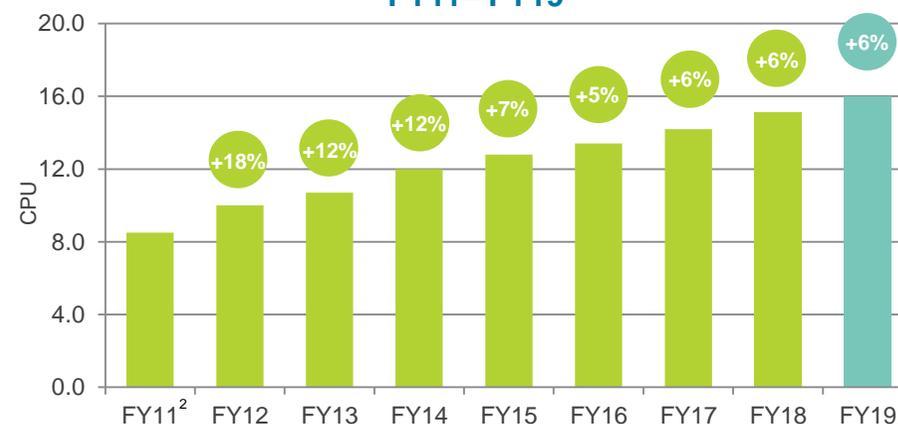
- Continued strong performance driven by execution of a clear strategy of focusing on childcare centres
- Australia's largest owner of childcare properties
- Significantly outperformed the S&P/ASX 300 A-REIT Accumulation Index over 3,5 and 10 years
- Strong contribution to FLK in FY18:
  - \$8.35m in fees to FLK – up 9.8%
  - \$4.63m in distributions to FLK – up 6.3%
  - \$24.3m unrealised gain on Units held at 30 June 2018<sup>1</sup>

	30 June 2017 (\$m)	30 June 2018 (\$m)	% Change
Gross Assets	902.4	1,029.4	14.1
FLK Co-investment in FET	85.6	82.6	(3.5)
Fees Paid to FLK	7.61	8.35	9.8
Distribution Paid to FLK	4.36	4.63	6.3

**FET Total Return Performance vs S&P/ASX 300 A-REIT Index: To 30 June 2018**



**Distribution Growth CPU: FY11– FY19**



1. Comprises \$27.4m unrealised gain recognised to 30 June 2017 and a \$3.1m unrealised loss in FY18. Unrealised Gains/Losses are recognised as other Comprehensive Income in the Consolidated Financial Statements of the Group.

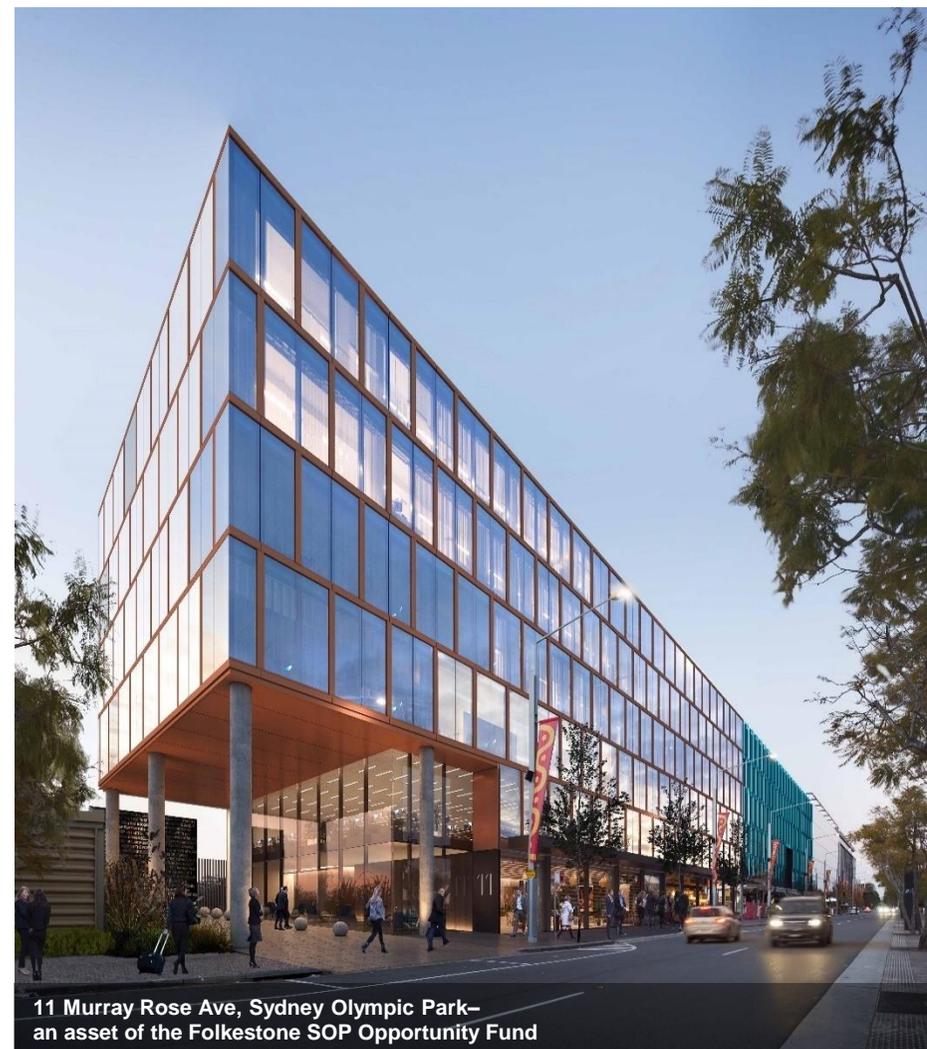
2. Annualised.

3. Forecast FY19 Distribution.



## Folkestone SOP Opportunity Fund

- 11 Murray Rose Ave, Sydney Olympic Park
- 5,810sqm comprising five levels of office with ground floor retail and basement car parking completed in March 2018
- Fund is taking leasing, valuation, financing and market risk, but did not planning or construction risk
- \$24.7m committed from HNWs and family offices in July 2017
- Target fund return - equity IRR 14.0% p.a. (post fees, pre-tax)<sup>1</sup>
- FLK generated an acquisition fee of \$0.72m in FY18 and will generate fund management fees and a potential performance fee over the 2 year life of the Fund<sup>2</sup>



1. Base case feasibility. FLK's performance fee hurdle is an equity IRR of 14.0% p.a. (post-fees, pre-tax).

2. Two years from Practical Completion. The Fund term may be extended or shortened subject to a Unitholder vote.



## Folkestone Sydney Airport Hotel Fund

- 271 room, 4 star hotel
- Located in the Sydney International Airport precinct
- Operated by Mercure (Accor Hotels) – agreement expires in December 2018
- Fund raised \$50.0m – closed significantly oversubscribed in November 2017
- Exposure to strong Sydney hotel market
- Increase revenue/occupancy and value via:
  - refurbishment/repositioning strategy including refurbishing 40% of hotel rooms, all function and restaurant/bar areas and upgrading the façade and external areas and key plant and equipment
- Target fund return - equity IRR 14.4% p.a. (post-fees, pre-tax)
- FLK generated an acquisition fee of \$1.72m in FY18 and will generate fund management fees and a potential performance fee over the life of the Fund



Mercure Hotel, Sydney International Airport –  
an asset of the Folkestone Sydney Airport Hotel Fund



## Green Square Hotel Fund

- Fund the development on a fund through basis and own long term a 144 room hotel
- O’Riordan St, Alexandria, Sydney
  - within the \$13bn, 278 hectare Green Square Urban Regeneration Area
  - 120 metres from Green Square Station
  - 2 stops from Domestic Airport Station to the south and 1 stop to Central Station to the north
- Fund raised \$23.2m – closed significantly oversubscribed in December 2017
- FLK and Furnished Property will act as Developer to develop the hotel on behalf of the Fund
- Furnished Property will operate the hotel under their VERIU Hotels & Suites brand on a 10 year lease with options
- FLK generated an acquisition fee of \$0.9m in FY18 and will earn profits from the development, fund management fees and a potential performance fee over the life of the Fund (June 2024)



Schematic of Veriu Hotel, Green Square –  
an asset of the Folkestone Green Square Hotel Fund



## Plumpton Development Fund

- Circa 251 lot residential land subdivision in Plumpton, 30kms north-west of Melbourne CBD
- Undertaken in a 5050 JV with ID\_Land (fifth JV with ID\_Land)
- Target fund return - equity IRR 16.0% p.a. (pre-tax, net of fees)
- Fund equity - \$16.5m closed significantly oversubscribed, with final allotments of units in July 2018
- Land is zoned and construction commenced in July 2018
- FLK has a 20 per cent co-investment in the Fund
- FLK received an acquisition fee of \$0.4m in September 2018 quarter and will generate management fees and a potential performance fee over the life of the Fund



Schematic of Plumpton masterplan –  
an asset of the Folkestone Plumpton Development Fund





# DEVELOPMENTS



# DEVELOPMENTS – RESULTS OVERVIEW

- Total net Development Division returns of \$6.5m in FY18 down 61.1%<sup>1</sup>
- Key contributions:
  - \$3.6m from FLK's share of development profit from Industria project at Knoxfield, VIC
  - \$1.3m from FLK's share of development profit from Millers Junction Business project at Altona North, VIC
  - \$0.8m from FLK's share of development profit from the Elements residential land project at Truganina, VIC<sup>2</sup>
  - \$0.4m from FLK's share of development profit from the Northside residential land project at Officer, VIC
  - \$1.5m preferred equity interest – Hadfield, Wollert, Hornsby, Gisborne, South Dural, Green Square and other sundry loans
  - (\$1.7m) expensing of development costs and impairments in relation to South Dural, NSW project

	FY17 (\$m)	FY18 (\$m)	% Change
Net Development Profit	6.24	5.00	(19.9)
Development Fees	8.91	-	(100.0)
Preferred Equity Income	2.15	1.47	(31.8)
Reversals of Prior Period Impairment	0.24	0.49	106.5
Impairment Provisions	(0.65)	(0.83)	27.7
Rental Expense on Operating Leases	(0.24)	-	(100.0)
Other Fees	-	0.35	100.0
<b>Total Net Development Division Returns</b>	<b>16.65<sup>1</sup></b>	<b>6.48</b>	<b>(61.1)</b>

1. FY17 was boosted by a \$8.8m rezoning fee from the Wollert residential land project.

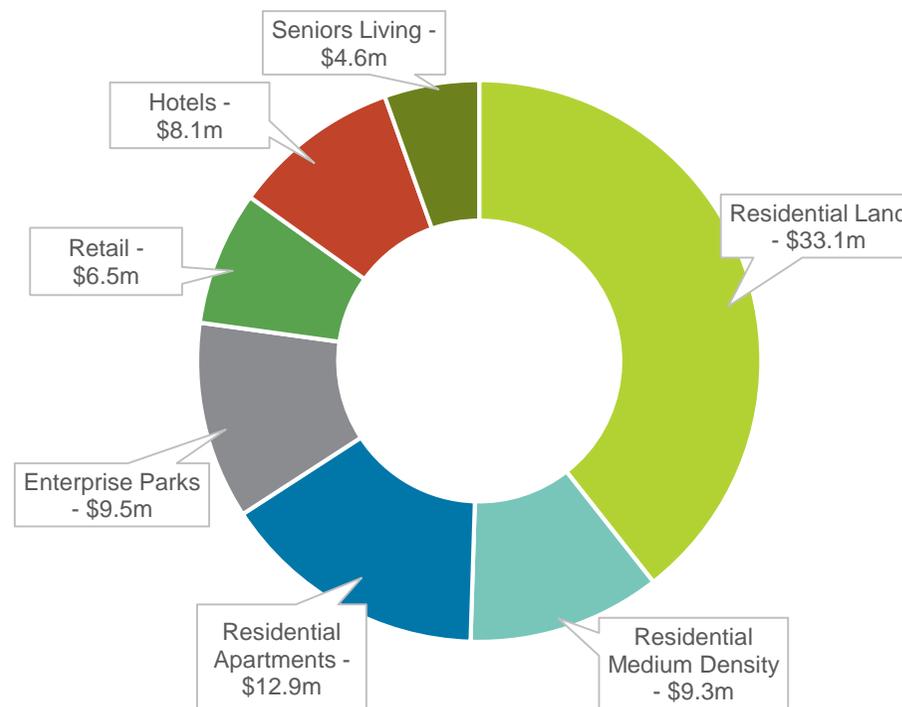
2. FLK owns 18.76% of units in the Folkestone Truganina Development Fund.



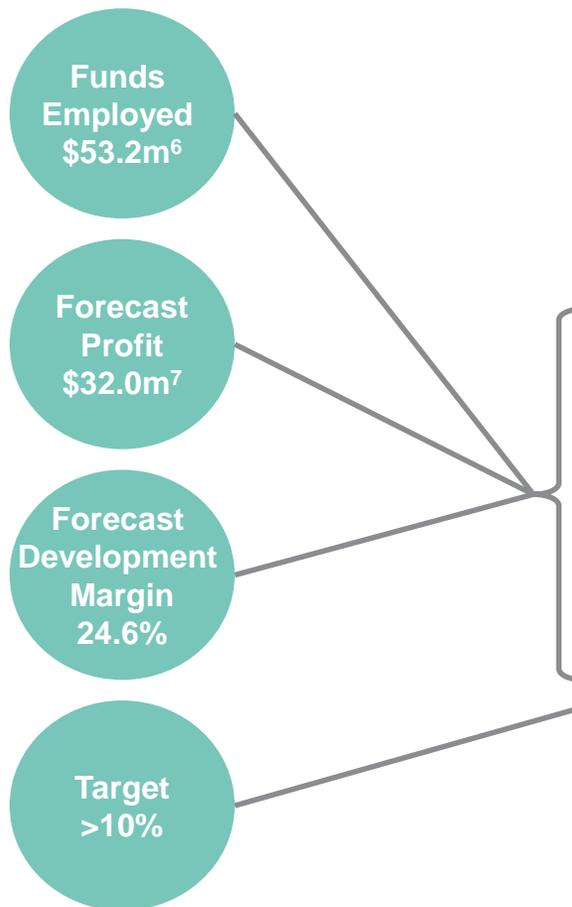
# DEVELOPMENTS - OVERVIEW

- Total funds employed - \$83.9m
  - active projects - \$53.2m
  - non-active (subject to planning etc.) - \$30.7m
- Disciplined acquisition strategy
- Use of capital efficient structures (i.e. deferred settlement, JV's, options)
- Quality JV partners
  - ID\_Land – Melbourne residential land & medium density
  - Wilmac – Melbourne industrial units/mews
  - Lyon Group – Sydney mixed use TOD & residential land
  - Furnished Property – Sydney hotel
- Development pipeline diversified across:
  - location - Sydney and Melbourne
  - sector - residential land and apartments, retail, enterprise parks, hotels, and seniors living

**Funds Employed (Active and Non-Active Projects)  
By Sector: June 2018**



## FLK Development Book – Forecast Settlements



Financial Year	Sector	Status	FY 18	FY19		FY20		FY 21+
			2nd HY	1st HY	2nd HY	1st HY	2nd HY	
<b>Completed Projects</b>								
Millers Junction Bus <sup>9</sup>	Enterprise Park	Complete						
<b>Active Projects</b>								
Millers Junction Bus 2 <sup>1</sup>	Enterprise Park	Construction						
Knoxfield	Enterprise Park	Construction						
Nunawading	Enterprise Park	Construction						
Truganina <sup>2</sup>	Res Land	Construction						
Potters Northside	Res Land	Construction						
Wollert <sup>2</sup>	Res Land	Construction						
Hadfield	Res Townhouse	Construction						
Green Square <sup>3</sup>	Hotel	Construction						
Castle Cove <sup>8</sup>	Seniors Living	Construction						
Plumpton <sup>8</sup>	Res Land	Construction						
Millers Junction Retail <sup>8</sup>	Retail	Pre-Construction						
<b>Non-Active Projects (Subject to Planning Approval STPA)</b>								
Chatswood <sup>4</sup>	Seniors Living	STPA						
Truganina NAC Retail	Retail	STPA						
Hornsby <sup>5</sup>	Res Apartments	STPA						
Gisborne <sup>10</sup>	Res Land	STPA						

■ Active projects - Forecast project duration as at 31 December 2017  
■ Non-active projects – Subject to planning approval and/or being marketed

- 2.2ha of Altona North Stage 3 to be developed as an Enterprise Park.
- Held in FLK fund which FLK invests in.
- FLK is developing on a fund through basis in JV with Furnished Property for a FLK managed fund.
- Assumes sale into FLK fund in first half FY20 and development completed in first half FY21.
- It is assumed that the land is sold in 2<sup>nd</sup> Half FY20 as a DA approved site. FLK may decide to develop this in JV with the Lyon Group or bring in other third party capital.

- Includes preferred equity loans.
- Forecast development profits and interest on preferred equity loans yet to be received.
- Added since HY18.
- Completed since HY18.
- Assumes sale into FLK fund in first half FY20 and development completed in first half FY25.



# DEVELOPMENTS - OVERVIEW

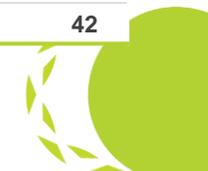
- Strong sales and settlements at active projects:
  - Truganina, Melbourne – residential land
  - Wollert, Melbourne – residential land
  - Millers Junction Business, Melbourne – enterprise park
  - Knoxfield, Melbourne – enterprise park
  - Nunawading, Melbourne – enterprise park
- Potters Northside, Melbourne – remaining settlements to be completed by August 2018
- Core development sectors continue to perform well – especially enterprise parks and residential land
- Key Melbourne markets are a priority to take advantage of strong population growth and improving economy

Project	No. Units / Lots	Sales in FY18	Sales in FY18 as % of Total Project	Settlements in FY18	Settlements in FY18 as % of Total Project	Total Sales to 30 June 2018	Sales to 30 June 2018 as % of Total Project	Total Settlements to 30 June 2018	Settlements to 30 June 2018 as % of Total Project
Northside, Officer	146	0	0	20	14	146	100	138	95
Elements, Truganina <sup>1</sup>	718	50	7	238	33	707	98	570	79
Amber, Wollert <sup>2</sup>	563	156	28	0	0	345	61	0	0
Rosewood, Plumpton <sup>3</sup>	251	21	8	0	0	21	8	0	0
<b>Total Residential Land</b>	<b>1,678</b>	<b>227</b>	<b>14</b>	<b>258</b>	<b>15</b>	<b>1,219</b>	<b>73</b>	<b>708</b>	<b>42</b>
The Walter, Hadfield	64	45	70	0	0	45	70	0	0
<b>Total Townhouses</b>	<b>64</b>	<b>45</b>	<b>70</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>70</b>	<b>0</b>	<b>0</b>
Millers Junction Business, Altona North	70	1	1	9	13	70	100	70	100
Millers Junction Business 2, Altona North	76	34	45	0	0	34	45	0	0
Industria, Knoxfield	89	25	28	44	49	85	96	64	72
Industria, Nunawading	81	11	14	0	0	81	100	0	0
<b>Total Enterprise Parks</b>	<b>316</b>	<b>71</b>	<b>22</b>	<b>53</b>	<b>17</b>	<b>270</b>	<b>85</b>	<b>134</b>	<b>42</b>

1. Truganina is in 80/20 JV between the Folkestone Truganina Development Fund and ID\_Land of which FLK owns 18.8% of the units in the Fund.

2. Wollert is in 80/20 JV between Folkestone Wollert Development Fund and ID\_Land of which FLK owns 25% of the units in the Fund.

3. Plumpton is in 50/50 JV between Folkestone Plumpton Development Fund and ID\_Land of which FLK owns 20% of the units in the Fund.



## The Walter, Hadfield - Melbourne

- 5<sup>th</sup> JV with ID\_Land
- Develop 64 townhouses in Hadfield, 14 kilometres north of the Melbourne CBD
- 45 pre-sales in FY18
- Construction commenced in November 2017

## Green Square Hotel - Sydney

- 50/50 JV with Furnished Property
- Pre-sold to the Folkestone Green Square Hotel Fund in December 2017
- Develop a 144 room hotel at Green Square, Sydney that is funded on a fund through basis by the Fund
- Construction commenced in June 2018 with completion in September 2019 quarter

## Plumpton

- 50/50 JV with ID\_Land
- Develop a circa 251 lot residential land subdivision at Plumpton, Melbourne, 30km north-west of Melbourne CBD
- 21 pre-sales in FY18
- Construction commenced in August 2018 with completion forecast for September 2021 quarter



Schematic of The Walter, Hadfield- a development JV between Folkestone and ID\_Land





# APPENDIX 1 - FINANCIALS



# PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME – CONSOLIDATED GROUP



	30 June 2017 (\$m)	30 June 2018 (\$m)	Variance (%)	Key Items At 30 June 2018
<b>Revenue</b>				
Funds Management	17.00	26.82	57.7	Includes \$9.5m management fees & cost recoveries, \$1.9m leasing fees and \$0.6m development management fees (FET), \$1.2m property management fees (FET/CIB), \$4.6m in FET trust distributions and \$3.3m in acquisition fees (SOP Opportunity Fund \$0.7m, Sydney Airport Hotel Fund \$1.7m, Green Square Hotel Fund \$0.9m) and \$5.1m in performance fees (Wollongong \$2.9m, SOP Fund \$2.2m)
Development (Net)	16.66	6.48	(61.1)	Includes share of project profits (Millers Junction Business \$1.3m, Potters Northside \$0.3m, Knoxfield \$3.6m, Truganina \$0.8m) \$1.5m preferred equity interest, \$1.7m expensing of South Dural development costs and impairments
Other	0.14	0.15	12.6	Interest on cash reserves
<b>Total Revenue</b>	<b>33.80</b>	<b>33.45</b>	<b>(1.0)</b>	
<b>Expenses</b>				
Employee Expenses	(10.47)	(10.35)	1.2	
Administration	(2.69)	(2.54)	5.5	
Due Diligence	(0.63)	(0.16)	73.7	
Finance	(0.58)	(0.49)	15.0	
Rental	(0.30)	(0.35)	(17.2)	
Depreciation & Amortisation	(0.12)	(0.15)	(19.0)	
<b>Total Expenses</b>	<b>(14.79)</b>	<b>(14.04)</b>	<b>5.0</b>	
<b>Net Profit before Tax</b>	<b>19.00</b>	<b>19.41</b>	<b>2.1</b>	
Income Tax Expense	(5.59)	(5.54)	(0.8)	
<b>Net Profit after Tax</b>	<b>13.42</b>	<b>13.86</b>	<b>3.3</b>	
Other Comprehensive Income (Net of Tax)	2.58	(2.15)	(183.3)	Unrealised gain/(loss) on FET units
<b>Total Comprehensive Income</b>	<b>2.58</b>	<b>(2.15)</b>	<b>(183.3)</b>	
Total Comprehensive Income Attributable to FLK	16.00	11.72	(26.8)	
Total Comprehensive Income Attributable to NCI	-	-	-	
<b>Total Comprehensive Income</b>	<b>16.00</b>	<b>11.72</b>	<b>(26.8)</b>	



# BALANCE SHEET – CONSOLIDATED GROUP

	30 June 2017 (\$m)	30 June 2018 (\$m)	Variance (%)	Key Items At 30 June 2018
Total Current Assets	40.9	46.9	14.6	Principally comprises cash reserves (\$12.2m), Altona North land (\$13.4m), trade and other receivables (\$15.0m – inclusive of \$12.7m of project loans)
Total Non-Current Assets	144.9	159.9	10.3	Principally comprises FET units (\$82.6m), non-current JV investments (\$14.6m), management rights/goodwill (\$16.2m), non-current trade and other receivables including project related loans (\$31.1m), units in Truganina Development Fund (\$2.8m), Wollert Development Fund (\$6.1m), Plumpton Development Fund (\$3.3m), and units in FSLF No.1 (\$2.7m)
<b>Total Assets</b>	<b>185.8</b>	<b>206.8</b>	<b>11.3</b>	
Total Current Liabilities	11.9	16.8	(40.7)	Altona Stage 3 debt facility (\$1.1m) and MJB2 JV loan (\$5.9m), trade and other payables (\$2.8m), provision for income tax (\$5.7m)
Total Non-Current Liabilities	15.2	23.3	(53.5)	ANZ loan drawn to \$13.5m at 30 June 2018 and secured against FET units, deferred tax liability of \$9.8m principally relating to unrealised gain on FET units
<b>Total Liabilities</b>	<b>27.1</b>	<b>40.1</b>	<b>(47.8)</b>	
<b>Net Assets</b>	<b>158.74</b>	<b>166.70</b>	<b>5.0</b>	
- FLK Interest	158.74	166.70	5.0	
- Non-Controlling Interest	-	-	-	
<b>Total Net Assets</b>	<b>158.74</b>	<b>166.70</b>	<b>5.0</b>	

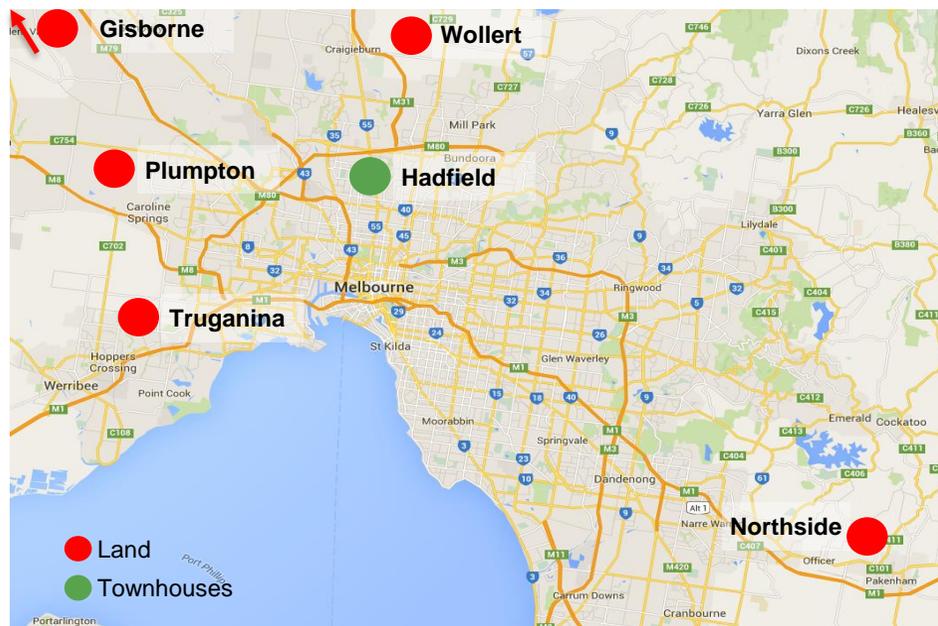




## APPENDIX 2 - DEVELOPMENTS



# MELBOURNE RESIDENTIAL DEVELOPMENTS



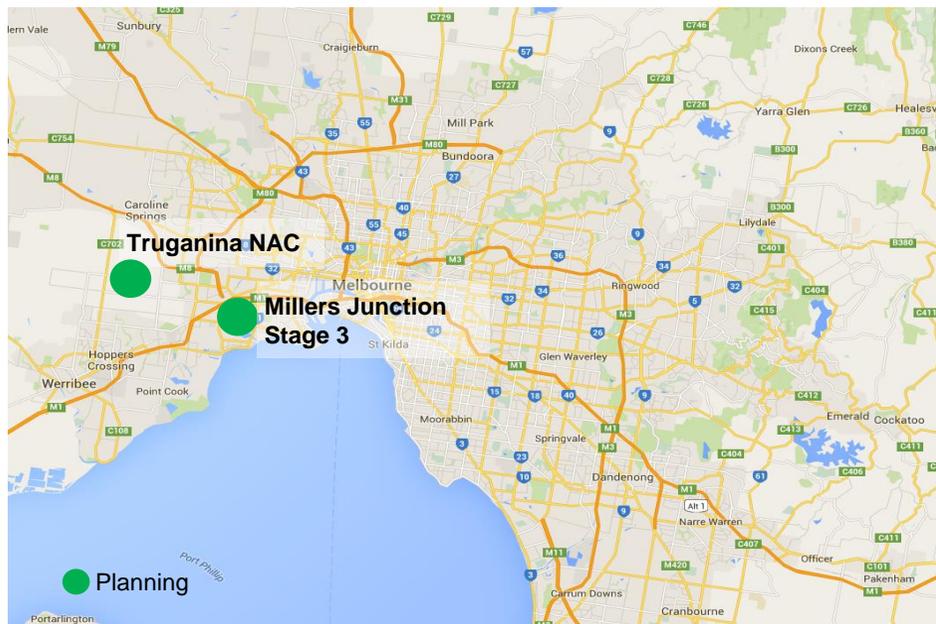
Project	Construction Commence Date	Forecast Completion	Total Lots	Total Sold as at 30 June 2018	% Sold	FLK Share (%)	FLK Funds Employed (\$m) <sup>1</sup>
Truganina	May 2015	Mid 2019	718	707	98	15 <sup>3</sup>	2.8
Potters Northside	Aug 2015	Late 2018	146	146	100	50	0.6
Wollert	Oct 2017	Mid 2021	563	345	61	20 <sup>4</sup>	7.0
Plumpton	August 2018	May 2020	251	21	8	10 <sup>5</sup>	9.7 <sup>6</sup>
Gisborne	-	-	-	-	-	-	5.0 <sup>7</sup>
<b>TOTAL</b>			<b>1,678</b>	<b>1,219</b>	<b>73</b>		<b>25.1</b>
Hadfield	Nov 2017	July 2019	64	45	70	50	9.3
<b>TOTAL TOWNHOUSES</b>			<b>64</b>	<b>45</b>	<b>70</b>		<b>9.3</b>

- Projects in JV with ID\_Land
- Land acquired on deferred settlement terms
- Exposure in three key growth corridors of Melbourne
- Victoria recorded Australia's fastest population growth in year to December 2017 – 2.3%<sup>2</sup> and is forecast for further strong population growth in the coming years
- Sales volumes at active projects ahead of budget

1. As at 30 June 2018.
2. ABS 3101.0 - Australian Demographic Statistics - December 2017.
3. FLK holds 18.8% in the Truganina Development Fund (effective 15.0% interest in the project).
4. FLK holds 25.0% in the Wollert Development Fund (effective 20.0% interest in the project).
5. FLK holds 20% in the Plumpton Development Fund (effective 10% interest in the project).
6. FLK had provided a short term interest free loan to the Fund to enable it to secure the interest in the project prior to completion of the third party capital raising in July. The amount outstanding on the loan at 30 June 2018 was \$6.4m and this was fully repaid on 19 July 2018.
7. In May 2018, FLK provided a short term loan to ID\_Land to fund 80% of a deposit payment for a 75 ha parcel of land in Gisborne. On 22 August 2018, FLK announced that it has acquired a 50% equity interest in this project



# MELBOURNE RETAIL DEVELOPMENTS



Project	Construction Commence Date	Forecast Project Completion	Sqm	% Pre-Committed	% Sold	FLK Share (%)	FLK Funds Employed (\$m) <sup>1</sup>
<b>Millers Junction Stage 3</b>	Late 2018	Early 2020	13,500	n/a	n/a	100	6.5
<b>Truganina NAC</b>	Mid 2019	Mid 2020	7,500	n/a	n/a	50 <sup>2</sup>	-
<b>TOTAL</b>			<b>21,000</b>				<b>6.5</b>

- Strategic sites in key western growth corridor
- Sites sit within existing FLK projects – Altona North and Truganina
- Millers Junction, Altona North Stage 3 – supermarket/ neighbourhood centre:
  - Development consent received
  - Agreement for Lease (AFL) executed with Woolworths
- Truganina – Neighbourhood Activity Centre (NAC):
  - Zoned for retail development – planning permit pending
  - Agreement for Lease (AFL) executed with a major supermarket operator
  - Construction commencement subject to reaching a target population in the catchment area

1. As at 30 June 2018.

2. FLK holds 18.8% in the Truganina Development Fund (effective 15.0% interest in the project). However, FLK and ID\_Land propose to acquire the NAC land from the Fund and develop the NAC retail centre in a 50/50 JV.



# MELBOURNE ENTERPRISE PARKS DEVELOPMENTS



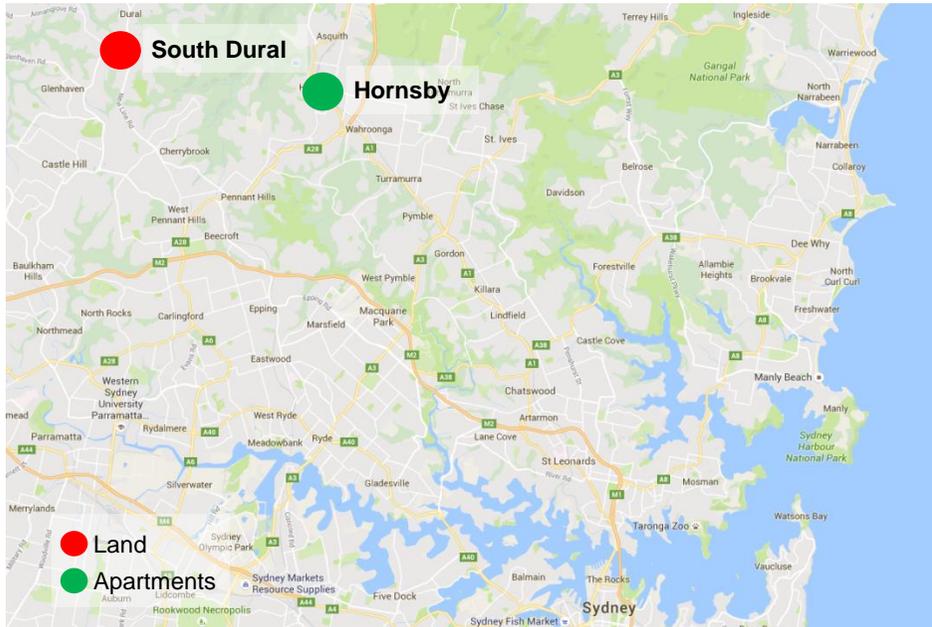
Project	Construction Commence Date	Forecast Project Completion	Total Units/ Cafe	Total Sold as at 30 June 2018	% Sold	FLK Share (%)	FLK Funds Employed (\$m) <sup>1</sup>
<b>Millers Junction Business 1</b>	Sept 2015	Completed	70	70	100	51	-
<b>Millers Junction Business 2</b>	June 2018	Mid 2020	76	38	50	50	4.9
<b>Knoxfield</b>	June 2016	Late 2018	89	85	96	50	1.8
<b>Nunawading</b>	March 2017	Late 2018	81	81	100	50	2.9
<b>TOTAL</b>			<b>316</b>	<b>270</b>	<b>85</b>		<b>9.6</b>

- Projects in JV with Wilmac Properties
- Flexible uses through a mix of office/warehouse/retail units
- Industria brand used for Knoxfield and Nunawading
- Well located in established areas near major industrial and large format retail nodes
- Target purchasers – owner-occupiers and investors

1. As at 30 June 2018.



# SYDNEY RESIDENTIAL DEVELOPMENTS



Project	Construction Commence Date	Forecast Project Completion	Size	% Pre-Committed	% Sold	FLK Share (%)	FLK Funds Employed (\$m) <sup>1</sup>
Hornsby	Planning	Mid 2020	~ 600 Apartments	n/a	n/a	50	12.6
South Dural	Pre-Planning	June 2019	n/a	n/a	n/a	50	8.0
<b>TOTAL</b>			<b>~600 Lots/ Apartments</b>				<b>20.6</b>

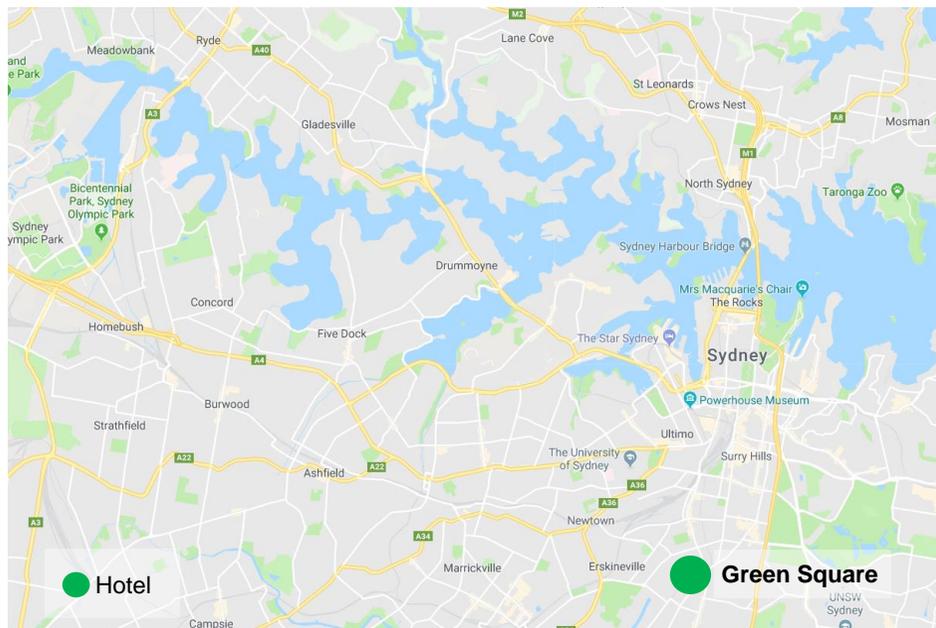
- Projects in JV with Lyon Group
- Located in Sydney's fast growing north-west sector
- South Dural:
  - Divestment underway (reported in HY18 results)

- Hornsby:
  - strategic site of circa 3,200 sqm opposite Hornsby rail station and adjacent to Westfield Hornsby
  - medium term opportunity for substantial mixed use development consisting of apartments and commercial
  - once DA has been secured, FLK may decide to develop in JV with the Lyon Group, introduce 3rd party capital and sell down, or sell its interest

1. As at 30 June 2018.



# SYDNEY HOTEL DEVELOPMENTS



Project	Construction Commence Date	Forecast Project Completion	Rooms	% Pre-Committed Lease	FLK Share (%)	FLK Funds Employed (\$m) <sup>1</sup>
<b>Green Square</b>	July 2018	August 2019	144	100	50	5.1
<b>TOTAL</b>			<b>144</b>	<b>100</b>		<b>5.1</b>

- Project in JV with Furnished Property
- Located at Green Square – Australia’s largest urban regeneration precinct
- Folkestone Green Square Hotel Fund raised third party capital in November 2017
- FLK and Furnished Property will earn development profit on delivering the hotel for the Fund

1. As at 30 June 2018.



# DIRECTORY

## FOLKESTONE

ASX Code: FLK

Website: [www.folkestone.com.au](http://www.folkestone.com.au)

ABN: 21 004 715 226

Level 14, 357 Collins Street  
Melbourne VIC 3000  
T: +61 3 9046 9900

Level 10, 60 Carrington Street  
Sydney, NSW 2000  
T: +61 2 8667 2800

## INDEPENDENT BOARD OF DIRECTORS

Garry Sladden  
Non-Executive Chairman  
Mark Baillie  
Non-Executive Deputy Chairman

Greg Paramor AO  
Managing Director

Ross Strang  
Non-Executive Director

## COMPANY SECRETARY

Scott Martin  
Telephone: +61 3 9046 9910

## INVESTOR RELATIONS

Lula Lioffi  
Telephone: +61 3 9046 9946  
[llioffi@folkestone.com.au](mailto:llioffi@folkestone.com.au)

## REGISTRY

Boardroom Pty Limited  
P.O. Box R67, Royal Exchange NSW 1223  
Telephone: 1300 737 760 or +61 2 9290 9600  
[enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)  
[www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

## DISCLAIMER:

This presentation has been published for information purposes only. The information contained in this presentation is of a general nature only and does not constitute financial product advice. This presentation has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on this presentation, consider its appropriateness, having regard to their own objectives, financial situation and needs. You should consult a professional investment adviser before making any decision regarding a financial product.

In preparing this presentation the author has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which has otherwise been reviewed in preparation of the presentation. The information contained in this presentation is current as at the date of this presentation and is subject to change without notice. Past performance is not an indicator of future performance.

Neither Folkestone Limited, nor any of their associates, related entities or directors, give any warranty as to the accuracy, reliability or completeness of the information contained in this presentation. Except insofar as liability under any statute cannot be excluded, Folkestone Limited and its associates, related entities, directors, employees and consultants do not accept any liability for any loss or damage (whether direct, indirect, consequential or otherwise) arising from the use of this presentation.

If a product managed by Folkestone Limited or its associates is acquired, Folkestone Limited or its associates and related entities may receive fees and other benefits. The author of this presentation does not receive commissions or remuneration from transactions involving the financial products mentioned in this presentation.

