
FOLKESTONE'S FULL YEAR RESULTS – 30 JUNE 2017

- Statutory net profit after tax of \$13.4 million, up 146.1% on FY16
- Statutory earnings per share of 9.1 cps, up 145.6%
- Normalised net profit after tax¹ of \$9.4 million, up 86.7%
- Normalised earnings per share¹ of 6.3 cps, up 86.3%
- Net asset value (NAV) per share of \$1.08, up 8.7%
- Gearing of 5.2%, up from 4.2% (look through gearing 8.8%)
- Funds under management of \$1.3 billion, up 21.3%
- All funds outperformed their relevant investment benchmark
- \$3.7 million unrealised gain (\$2.6 million net of tax) generated from FLK's co-investment in Folkestone Education Trust (ASX: FET)
- Launched two new funds for a Sydney seniors living community and a Melbourne land subdivision
- \$8.8 million rezoning fee received from the Wollert residential project
- Strong sales across active development projects
- Added three new development projects to the pipeline – Millers Junction Business 2, Green Square and Chatswood Golf Club
- FLK to pay a fully franked dividend of 3.25 cps – comprising a 2.75 cps ordinary and a 0.5 cps special dividend

FULL YEAR RESULT

Folkestone (ASX:FLK) today announced a statutory net profit after tax for the 12 months ended 30 June 2017 of \$13.4 million, an increase of 146.1 per cent over FY16. Normalised net profit after tax¹ was \$9.4 million, an 86.7 per cent increase over FY16.

Statutory earnings per share is 9.1 cents compared to 3.7 cents for FY16. Normalised earnings per share is 6.3 cents compared to 3.4 cents for FY16.

Folkestone's Managing Director Mr Greg Paramor said "the strong result for FY17 reflects positive contributions from both our funds management platform through growth in FUM and the launch of two new funds, together with profits and fees from our on-balance sheet development activities."

¹ The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax is arrived at after adjusting the Group's statutory NPAT in FY17 for the classification of \$5.8 million of the Wollert rezoning fee as a one-off as the \$8.8 million was \$5.8 million above the budgeted fee of \$3.0 million. In respect of FY16 normalised net profit after tax was calculated by classifying \$0.8 million in due diligence costs associated with transactions not proceeding and \$1.44 million in realised gains from the sale of units in Folkestone Education Trust and units that seeded a new Folkestone Maxim A-REIT Securities Managed Investment Account as significant one-off items.

“It also reflects our strategy where we use our balance sheet to warehouse opportunities for our funds management platform as we did for the Amber, Wollert residential land subdivision which generated an \$8.8 million rezoning fee at the time of the sell down to the Folkestone Wollert Development Fund” said Mr Paramor.

Reconciliation of Statutory NPAT and Normalised NPAT Attributable to Folkestone

Year Ending 30 June	2017	2016
Statutory NPAT (\$m)	13.4	5.5
Adjustments		
Wollert Rezoning Fee Outperformance (\$m)	(5.8)	-
Due Diligence costs on transactions not proceeding (\$m)	-	0.8
Realised Gain on Investments (\$m)	-	(1.4)
Tax impact of the above (\$m)	1.7	0.2
Normalised NPAT (\$m)	9.4	5.0

Note: numbers may not add up due to rounding

Folkestone’s strong operating result was also reflected in the return to shareholders, with Folkestone delivering a total shareholder return of 30.3 per cent in the year ending 30 June 2017, outperforming the S&P/ASX300 Accumulation Index which returned 13.8 per cent. Over the five years to 30 June 2017, Folkestone has delivered a total return of 27.6 per cent per annum versus the Index of 11.6 per cent per annum

ASSET BACKING

Folkestone’s net asset value (NAV) was \$1.08 per share at 30 June 2017, up from 98.9 cents per share at 30 June 2016. Net tangible asset (NTA) backing was \$1.04 per share at 30 June 2017 compared with 93.6 cents per share at 30 June 2016.

BALANCE SHEET

Folkestone’s balance sheet is in excellent shape with more than \$21 million in cash reserves and \$17.5 million in an undrawn facility providing the Company with financial flexibility to take advantage of new investment opportunities when they arise.

Gearing at 30 June 2017 remains low at 5.2 per cent, up from 4.2 per cent 12 months earlier.

FY17 DIVIDEND

Consistent with the announcement made on 25 July 2017, the Board is pleased to confirm that it has resolved to pay a final ordinary dividend in respect of the year ended 30 June 2017 of 2.75 cents per share fully franked at the rate of 30 per cent. In addition to the ordinary dividend, the Board has resolved to pay a special dividend of 0.5 cents per share fully franked in recognition of the larger than forecast rezoning fee received in respect of the Wollert development project.

The ex-date for the dividend will be 8 September 2017, the record date will be 11 September 2017 and the payment date will be 27 September 2017.

FUNDS MANAGEMENT

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During the reporting period, Folkestone increased its funds under management from \$1.1 billion to \$1.3 billion.

Total funds management revenue was \$17.0 million, up 7.3 per cent on FY16.

Key features of the FY17 result are:

- 20.2 per cent increase in recurring fee income and cost recoveries to \$7.6 million;
- 44.5 per cent increase in transaction fees to \$3.2 million inclusive of a \$0.6 million acquisition fee in respect of the Folkestone Seniors Living Fund No.1 and a \$0.9 million acquisition fee in respect of the Folkestone Wollert Development Fund;
- a \$0.8 million performance fee in respect of the Oxley fund upon sale of the property; and
- 3.7 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$4.4 million.

All Folkestone's listed, unlisted and A-REIT securities funds outperformed their respective investment performance benchmark in FY17.

Folkestone Education Trust

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust (FET), with gross assets of approximately \$903 million, continued its outperformance in recent years with a total return of 10.1 per cent in FY17 outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned -5.6 per cent. Over five years, FET has returned 30.7 per cent per annum compared to the Index return of 14.2 per cent per annum.

During FY17, Folkestone generated \$15.7 million before tax from its 12.2 per cent investment in FET comprising:

- \$4.4 million in trust distributions received;
- \$7.6 million in fees and cost recoveries; and
- an unrealised gain of \$3.7 million on its unitholding in FET as at 30 June 2017 which has been recognised as Other Comprehensive Income.

Folkestone Seniors Living Fund No 1

In July 2016, Folkestone announced that it had established the Folkestone Seniors Living Fund No.1 to acquire Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore.

The acquisition of Watermark Castle Cove comprised a 100 per cent interest in 50 existing independent living units (ILUs) and 8 ILUs that were under construction (now completed). Also, the Fund acquired a 100 per cent interest in adjacent land for development of up to 21 ILUs (Stage 3) on terms whereby part of the consideration is contingent on completion and sale of the ILUs and the development is undertaken in a 50/50 joint venture with the Watermark Partnership. The development of Stage 3 commenced in the March 2017 quarter.



Folkestone underwrote \$19.7 million of the initial \$25.7 million Fund Offer with the capital raising closing oversubscribed in September 2016. Folkestone also co-invested \$2.5 million (10.0 per cent) in the Fund. The Fund has a target fund raising of up to \$60 million to enable it to acquire further assets consistent with the investment mandate of the Fund. The Fund has a target forecast equity IRR of 15.0 per cent per annum (pre-tax, net of fees) on drawn equity over the life of the Fund.

Folkestone Wollert Development Fund

In March 2017, Folkestone announced it had successfully completed the equity raising for the Folkestone Wollert Development Fund which has an 80 per cent interest in a circa 42.2 hectare residential land subdivision project known as Amber in Wollert, Victoria. Amber is located within the Wollert Precinct Structure Plan (“PSP”) approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda. The Fund is developing, in joint venture with ID_Land (20 per cent of the Project), approximately 560 residential lots providing a selection of lot sizes and price points to suite a range of buyers.

Folkestone underwrote the \$25.4 million Fund Offer which closed significantly oversubscribed one week after opening. Folkestone co-invested \$6.4 million (25.0 per cent) in the Fund. The Fund has a target forecast equity IRR of 17.0 per cent per annum (pre-tax, net of fees) on drawn equity over the life of the Fund.

On the successful completion of the equity raising, Folkestone received a rezoning fee of \$8.8 million paid by the Project and a \$0.9 million acquisition fee paid by the Fund.

Amber has experienced strong pre-sale activity with 189 sales, representing approximately 34 per cent of total lots at 30 June 2017.

DIRECT INVESTMENTS - DEVELOPMENT

Folkestone’s development division generated a net return of \$16.7 million, up 364.0 per cent on FY16.

Key features of the FY17 results are:

- \$8.8 million rezoning fee received from the Amber residential land project at Wollert, Victoria;
- \$4.3 million share of development profits from the Millers Junction Business project at Altona North, Victoria;
- \$1.8 million share of development profits from the Northside residential land project at Officer, Victoria;
- \$1.4 million share of development profits from the Industria project at Knoxfield, Victoria;
- \$2.2 million in preferred equity interest in FY17, up 99.0 per cent on FY16 from five projects (Officer Northside, South Dural, Hornsby, Wollert and Green Square);
- (\$1.0) million share of the expensing of development costs in respect of the South Dural project in New South Wales
- (\$0.6) million impairment provision against the Company's investment in the Karratha project;



- continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne; and
- completion of the Potter's Grove, Officer residential land subdivision project.

Mr Paramor said "we continue to secure strong pre-sales across our developments. Our residential land and commercial developments in Melbourne are in the key growth corridors and are performing strongly. During the year, we expanded our enterprise park business with the addition of a fourth joint venture with Wilmac, which will develop a further 2.2 hectares of land at our Altona North project."

The following is a brief update on Folkestone's key direct investments during the reporting period.

Residential Land - Funds Employed as at 30 June 2017: \$18.1m

Folkestone's residential land projects (Potters Grove and Potters Northside in Officer, south-east Melbourne, Elements in Truganina², western Melbourne and Amber in Wollert³, northern Melbourne) are all in joint venture with ID_Land. All three corridors continue to experience favourable trading conditions. During FY17, 394 lots were sold and 293 lots settled across the four projects.

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID_Land to develop a 240 lot land sub-division. During FY17, the last remaining lot settled.

Potters Northside, Officer is a 146 lot land subdivision in a 50/50 joint venture with ID_Land. All 146 lots have been pre-sold, with a total of 114 lots across Stages 1-3 settling in FY17. Construction of the final stages (Stages 4 & 5) commenced in the June 2017 quarter with the project completion anticipated to occur in mid-2018. In FY17, Folkestone recognised a \$1.8 million share of development profits and \$0.1 million preferred equity interest income in respect of this project.

Folkestone's strategy to buy land on flexible, deferred terms and introduce investors through our unlisted funds platform, enhances our capital structure and reduces debt generating capital efficient, staged profit delivery. In December 2015, Folkestone and ID_Land secured a 42.2 hectare site at Wollert, in the northern corridor of Melbourne, on deferred settlement terms in a 50/50 joint venture. Folkestone and ID_Land sought a rezoning, which was obtained in February 2017. Folkestone and ID_Land sold down part of their positions in the Project in April 2017 so that the Folkestone Wollert Development Fund has an 80 per cent interest in the Project and ID_Land a 20 per cent interest in the Project. In return for taking the rezoning risk, establishing the Amber estate brand and achieving 115 pre-sales, representing 20.5 per cent of total forecast lots at the time of the sell down to the Fund, Folkestone received a rezoning fee of \$8.8 million.

Enterprise Parks - Funds Employed as at 30 June 2017: \$11.7m

In September 2014, Folkestone entered into a 50/50 joint venture with Wilmac Properties to develop 69 strata style office/warehouse units and a café at Millers Junction Business 1 at

² Folkestone holds an 18.8 per cent interest in the Folkestone Truganina Development Fund

³ Folkestone holds a 25.0 per cent interest in the Folkestone Wollert Development Fund

Folkestone's Altona North project. As at 30 June 2017, all but 8 of the 69 units had been completed and settled. Of the remaining 8 units, 6 units have settled as at 24 August 2017 with the remaining 2 units forecast to settle in the September 2017 quarter. During FY17, Folkestone recognised a \$4.3 million share of development profits in respect of this project.

In June 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail units and a café in Knoxfield, Victoria with an anticipated end value of \$39.3 million. As at 30 June 2017, all 20 units in Stage 1 had been completed and have settled. Construction of the 24 units in Stage 2 commenced in the March 2017 quarter and as at 30 June 2017, 22 of these had been pre-sold. A further 18 of the 34 in Stages 3 and 4 had been pre-sold. During FY17, Folkestone recognised a \$1.4 million share of development profits in respect of this project.

In May 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop an enterprise business park in Nunawading, Victoria with an anticipated end value of \$42.4 million. The land was acquired on deferred terms and settlement of the land occurred in September 2016. Planning consent for the development was received in the December 2016 quarter, including a modification to the original design by allowing for a three storey office building with 9 strata office spaces in addition to 71 units and a café. As at 30 June 2017, a total of 60 of 71 units have been pre-sold plus the café and the proposed three storey office building. Construction of Stage 1 commenced in the March 2017 quarter.

In June 2017, Folkestone entered into its fourth joint venture with Wilmac Properties ("Wilmac") to expand its exposure to enterprise park developments. Folkestone and Wilmac will develop a further 2.2 hectares of Folkestone's land at Altona North into 76 office/warehouse units with an end value of circa \$28 million ("Millers Junction Business 2"). Millers Junction Business 2 is immediately adjacent to the proposed Millers Junction Retail and directly opposite Folkestone and Wilmac's first enterprise park development, Millers Junction Business 1, which comprises 69 office/warehouse units and a cafe. Construction of Miller Junction Business 2 is expected to commence in early 2018.

Hotels - Funds Employed at 30 June 2017: \$10.2m

The Ranges Karratha, which Folkestone has a 30 per cent interest, has being unfavourably impacted by the downturn in the resources sector resulting in a further \$0.6 million impairment on its holding in FY17. In May 2017, a food and beverage facility opened which will make The Ranges more appealing to customers, particularly business travellers to the Pilbara.

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a circa 144 room hotel at Green Square, Sydney. The site, at 18 O'Riordan Street, Alexandria, is located within the \$13 billion, 278 hectare Green Square Urban Regeneration Area ('GSURA') and is strategically located approximately 100 metres from the Green Square Train Station. The Sydney Airport Domestic and International Terminals are two and three stops respectively to the south with Central Station, one stop to the north. Green Square is one of the most significant urban transformation programs under construction in Australia, revitalising the industrial edge of Sydney's inner south into a vibrant global village. Folkestone and Furnished Property have been working through a Section 96 planning application to modify part of the hotel design. Once Council approval has been secured, Folkestone intends to launch the Folkestone Green Square Hotel Fund to raise circa \$22.75 million of third party capital, which together with construction finance, will fund

the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. The Fund will own the hotel long-term.

Residential Apartments - Funds Employed at 30 June 2017: \$10.1m

In December 2014, Folkestone announced that it had entered into a 50/50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite Hornsby railway station in Sydney's north-west. Following the settlement of two further properties in FY17, the joint venture has now acquired three sites totalling 1,297 square metres which are currently under short term lease agreements whilst the joint venture progresses its master planning activities. A further option agreement over a commercial building is in place (a site comprising 1,929 square metres) and is due for settlement in the December 2017 quarter after which time the joint venture will have amalgamated a total landholding exceeding 3,200 square metres.

Retail - Funds Employed at 30 June 2017: \$4.8m

In June 2017, Folkestone announced it had entered into agreements with BWP Trust to acquire 1.0 hectares of land and a new call option to acquire an adjoining further 2.4 hectares of land at Millers Road, Altona North, to undertake Stage 3 of its successful Millers Junction project.

The 3.4 hectares of BWP Trust land will be amalgamated with approximately 2.2 hectares of Folkestone's existing land holding, immediately to the rear of the BWP Trust land, to create Millers Junction Retail, a 13,330 square metre neighbourhood and large format retail centre anchored by Woolworths. The masterplan has secured unanimous support from Hobsons Bay Council and is now subject to final approval by Victorian Government.

Seniors Living – Funds Employed at 30 June 2017: \$1.3m

In May 2017 Folkestone announced that it had entered into an agreement with Watermark Retirement Living to develop a seniors living community in partnership with the Chatswood Golf Club. The proposed development includes a new clubhouse, associated parking and seniors living community on circa 14,000 square metres of golf course land currently utilised for the clubhouse and car park. Folkestone, Watermark and the Chatswood Golf Club are working towards submitting the first stage of the planning process with the Department of Planning. Following planning approval, it is expected that the project will be a suitable acquisition for the Folkestone Seniors Living Fund No.1, alongside Watermark Castle Cove.

OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions and to continue to deliver long-term value to our shareholders and investors in our funds.

The year ahead is one shaping up as an environment where we expect global geo-political issues to continue to dominate. In the absence of any major geo-political event, on a relative basis the Australian economy should perform well. Interest rates should remain low and there will continue to be an abundance of capital searching for opportunities across the real estate sector despite yields in most sectors and markets reaching historic lows. In such an environment, we will remain disciplined in the implementation of our strategy.

Already we have started FY18 on a strong footing with continued sales in our residential and enterprise park developments. We also recently launched a new fund to acquire a 5,810 square metre office and retail building under construction in Sydney Olympic Park. A total of \$24.7 million was committed by a small number of high net worth investors and family offices. Folkestone, as noted above, expects to launch the Folkestone Green Square Hotel Fund in the second half of 2017. In addition, Folkestone is in due diligence on a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds or acquired directly by new funds established by Folkestone.

Folkestone will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners and held in Folkestone managed funds.

Mr Paramor said “Folkestone’s low gearing, its cash on hand and the recycling of capital from projects that are earmarked to be sold down to funds or are nearing completion provides the Group with significant flexibility to continue to execute on its strategy.”

Folkestone confirms that its current intention is to pay a fully franked dividend of 3.0 cents per share in respect of FY18, an increase of 9.1 per cent on the FY17 ordinary dividend of 2.75 cents per share assuming no material change in market conditions.

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone’s funds management platform, with \$1.3 billion under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au