



22 February 2017

OPERATING EARNINGS¹ UP 97% TO \$3.7 MILLION FOR THE PERIOD ENDED 31 DECEMBER 2016

Highlights

- Operating Earnings¹ of \$3.7 million versus \$1.9 million² in the prior comparative period (pcp)
- Pro-forma³ Operating Earnings¹ per share of 1.22 cents (0.55 cents per share (cps) on statutory basis)
- Funds under Management⁴ (FuM) up \$215 million or 10% to \$2.4 billion
- Statutory net profit after tax of \$3.0 million (0.31 cps) versus \$16.0 million (pcp includes Healthcare Operations)
- \$106 million APN Retail Property Fund successfully launched
- Strong and flexible balance sheet with net assets of \$107.7 million, including cash of \$27.5 million
- Interim dividend steady at 1.25 cps, fully franked
- Operating Earnings¹ guidance on a statutory basis confirmed at 1.60 – 2.00 cps

APN Property Group Limited (ASX: APD) (APN or the Group) today reported a statutory net profit for the half year ended 31 December 2016 of \$3.0 million. This compares to the prior comparative period result of \$16.0 million which benefited from the inclusion of \$11.2 million from the Healthcare Operations (divested on 27 June 2016) and favourable mark-to-market adjustments on APN's co-investment stakes.

Pro-forma Operating Earnings per share (adjusting for the impact of the 10.0 cent special dividend paid 18 October 2016) was 1.22 cents. On a statutory basis, Operating Earnings per share was 0.55 cents. The directors have declared a fully franked interim dividend of 1.25 cents per share, to be paid on 17 March 2017 to all investors registered as at 1 March 2017.

APN's Chief Executive Officer, Mr Tim Slattery, said "I'm pleased to report a very solid set of first half results for APN. We have delivered underlying profits of \$3.7 million for the six months and a 10% increase in APN's funds under management since June. In particular, successful capital raisings and new acquisitions undertaken by Industria REIT and our direct funds, with a new partnership with Puma Energy, were key achievements. These transactions were completed in a competitive market environment and demonstrate the breadth of APN's business and its future growth potential."

"Despite some increased market volatility and a modest decline in the AREIT sector over the half, our income-oriented commercial property investments remain relevant to a very large group of current and potential investors.

¹: Operating Earnings is an unaudited after tax measurement used by management as the key performance measurement of the underlying performance of the Group. Where necessary, restatements of prior comparative period results have occurred to reclassify the Healthcare Operations as a discontinued operation. It also makes adjustments for certain non-operating items recorded in the income statement including minority interests, discontinued operations (Europe), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

²: Restated to classify Healthcare Operations as a discontinued operation following this segment's divestment on 27 June 2016.

³: Pro-forma Operating Earnings represents Operating Earnings per share adjusted to exclude the impact of the 10 cps special dividend paid on 18 October 2016.

⁴: From continuing operations, on a like for like basis excluding FuM attributable to the Healthcare Operations (Generation Healthcare REIT).

"We're in a very strong position to capitalise on opportunities which may emerge with over \$27 million in cash. While we are actively looking for opportunities, our team is prepared to be patient and take a long term view on creating value for clients and our shareholders," Mr Slattery added.

Financial Results

Operating earnings¹ for the half totalled \$3.7 million with the following factors contributing to this result compared to the pcp:

- A 21% increase in net management fees to \$6.4 million, reflecting increased average FuM balances attributable to Industria REIT's acquisition of WesTrac Newcastle, the successful launch of the APN Retail Property Fund and emerging margin improvement for funds that operate under management expense ratio caps as their scale continues to improve;
- Increased co-investment holdings in Industria REIT and the new APN Retail Property Fund, combined with rental income from investment property assets, contributed to co-investment income & rental income increasing to \$3.2 million; and
- Operating costs increased \$0.2 million to \$6.3 million compared to the pcp. Modest employment cost growth, including the establishment of a new share based long term incentive plan, continued investment in sales and marketing initiatives, partially mitigated by discontinued Healthcare Operation cost offsets have all been contained within this increase.

The Group's statutory profit after tax of \$3.0 million for the half includes unrealised mark-to-market losses on co-investments of \$1.1 million, realised gains on sale of investment properties (7-Eleven Eagleby and Service Centre South Nowra) totalling \$0.9 million and a loss of \$0.4 million attributable to discontinued operations.

APN's balance sheet remains strong and flexible. Net assets totalled \$107.7 million at 31 December 2016, including over \$27.0 million in cash. Borrowings of \$10.4 million remain limited in recourse to the one remaining investment property at South Nowra, independently valued at \$24.2 million. This balance sheet flexibility provided the opportunity for the Group to secure and launch the APN Retail Property Fund in the period.

Funds under Management

FuM from continuing operations increased 10% for the half to \$2.4 billion.

▪ Real Estate Securities

Real Estate Securities (RES) FuM was steady at \$1.5 billion. Net inflows of over \$70 million were received into APN's open funds for the half, despite volatile equity markets and increases to longer term interest rate expectations. Mark-to-market adjustments arising from the AREIT sector reduced FuM by \$80 million. Both the APN AREIT Fund and APN Asian REIT Fund maintained their major research house ratings throughout the period and the number of platforms / wraps that these products are available on continuing to expand.

▪ Industria REIT

Industria REIT's (IDR) \$158.6 million acquisition of WesTrac Newcastle in September 2016 contributed to a 32% increase in FuM to \$558 million for the period. This acquisition delivered a 'best-in-class' facility to IDR's property portfolio, improving all property metrics and resulted in accretion to both earnings and distributions per security for investors. As at 31 December 2016 occupancy remains solid at 96% and, with a WALE of 7.8 years and a simple and transparent investment proposition, IDR is well positioned for investors look for strong risk adjusted returns with a relatively high income yield.

▪ Direct Funds

FuM increased 56% to \$320 million at period end, following the successful launch of the APN Retail Property Fund. This fund has acquired a \$106 million portfolio of petrol stations and builds on APN's significant experience in this sector. Discussions are continuing regarding a number of additional properties which may be included with this fund at a future point in time to establish a portfolio of approximately \$350 million (including approximately \$80 million of assets currently managed by APN in the APN Property Plus Portfolio). A potential future ASX listing of this portfolio is also under consideration.

Strategy and capital management

APN's objective of building and delivering value for its shareholders and its strategy remains unchanged. The Group continues to focus on sustainably increasing its scale and profitability, leveraging the company's track record and commercial property investment expertise.

The Group's strong and flexible balance sheet is available to secure new opportunities for existing and new investment products. A number of new growth initiatives and acquisition opportunities continue to be evaluated, with substantial fundamental investment analysis to support decision-making in an environment which has experienced significant liquidity and asset price increases.

Earnings and dividend guidance

FY2017 Operating Earnings guidance on a statutory basis of 1.60 to 2.00 cps has been reaffirmed, albeit toward the lower end of this range as current market conditions stand. In accordance with previous practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance. Guidance therefore does not include any new initiatives or opportunities that the Group may pursue over the remainder of FY17. FY17 dividend guidance of 1.75 cents per share (fully franked) is reaffirmed, which includes the 1.25 cents per share interim dividend (fully franked) declared today.

ENDS

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About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager. Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutional and retail investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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