



23 February 2015

The Manager
Company Announcements Office
ASX Limited
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APN PROPERTY GROUP LIMITED REPORTS STRONG FIRST HALF RESULT AND UPGRADES FULL YEAR EARNINGS AND DIVIDEND GUIDANCE

First Half Highlights

- Statutory net profit of \$8.5 million, up 101% from \$4.2 million in the prior comparative period (pcp)
- Operating earnings (before tax)¹ up \$0.2 million to \$5.4 million or 2.55 cents per share
- Diluted earnings per share (after tax) up 1.46 cents to 4.03 cents
- Funds Under Management² (FUM) at \$2.1 billion, up 19% from 31 December 2013
- Upgraded full year operating earnings¹ guidance to 3.30 – 3.60 cents per share
- Fully franked interim dividend of 1.25 cents per share
- Forecast reinstatement of fully franked final dividend of 0.25 cents per share

APN Property Group Limited (ASX: APD) is pleased to announce a statutory net profit attributable to equity holders of \$8.5 million for the half-year ended 31 December 2014, up from \$4.2 million in the prior comparative period (pcp). Statutory earnings per share increased 57% to 4.03 cents per share from 2.57 cents per share (pcp).

Mr Tim Slattery, Executive Director said “We have upgraded our full year earnings guidance as a result of the strength of our first half result and the positive start we have made in the 2015 calendar year. The results, including increases in our recurring earnings, are beginning to demonstrate the benefits of scale from growth in funds under management, coupled with disciplined management of our costs.”

Financial Results

Operating earnings (before tax)¹ increased \$0.2 million to \$5.4 million for the period ended 31 December 2014. Contributing to this result was:

- Continued growth in FUM, delivering a 20% increase in funds management fee income to \$5.9 million;
- Co-investment income of \$1.5 million from the Group's substantial co-investment portfolio, including its core investments in Industria REIT and Generation Healthcare REIT;
- Performance and transaction fees of \$3.7 million compared to \$6.2 million in the pcp, reflecting lower performance fees from Generation Healthcare REIT and the absence of the \$1.8 million retirement fee from the APN National Storage Property Trust in the pcp; and
- An increase in asset and project management fees of \$0.3 million following recent expansion of the direct real estate portfolio managed by the Group.

¹: Operating earnings is an unaudited measurement used by management as the key performance measurement of underlying performance of the Group. It excludes certain items recorded in the income statement including income tax, discontinued operations (Europe) and the fair value movements on the Group's co-investments.

²: Attributable to continuing operations.

Statutory profit after tax increased 101% compared to the period ended 31 December 2013 to \$8.5 million, reflecting strong co-investment mark to market gains of \$4.7 million and reduced net income tax expense following the recognition of previously unrecognised tax losses.

APN's balance sheet remains strong with net assets totalling \$64.8 million, including cash of \$11.1 million and co-investments in the Group's managed funds of \$48.6 million. APN's \$5.0 million debt facility, maturing in August 2015, has provided important balance sheet flexibility to pursue growth initiatives, including the establishment of new managed funds and the acquisition of co-investment stakes.

Funds Under Management

FUM from continuing operations totalled \$2.1 billion at 31 December 2014, up 5% and 19% from 30 June 2014 and 31 December 2013 respectively. The highlights for the period included:

- **Real estate securities**

Real estate securities FUM grew 10% to \$1.15 billion at 31 December 2014, led by the continued strong performance of the APN AREIT Fund and a strong AREIT market performance generally. Net inflows for the APN AREIT Fund averaged approximately \$20 million per month, partially offset by redemptions from our Property for Income Funds reflecting the availability of daily applications and redemptions from 1 July 2014.

- **Generation Healthcare REIT**

Generation Healthcare REIT delivered investors a strong financial result, increasing underlying net operating income by 78% to \$8.4 million over the pcp and achieving a total investor return (unit price movements, assuming reinvestment of distributions) of 18.7%, again outperforming the S&P/ASX 300 A-REIT Accumulation Index performance benchmark. FUM increased to \$341 million with an additional \$45 million in committed projects and an identified work in progress pipeline (Casey Stage 2) of approximately \$50 million.

- **Industria REIT**

Industria REIT FUM was stable at \$405 million as at 31 December 2014. Over the period, Management has focused on active property management, successfully maintaining occupancy at 93% and increasing the portfolio WALE to 5.1 years. Industria REIT reported an increase in its net tangible asset backing per security to \$2.01 and declared a first half distribution of 8.36 cents per security.

- **Direct Funds**

FUM totalled \$231 million at period end compared with \$252 million at 30 June 2014. The sale of 541 St Kilda Road successfully settled during the period, delivering investors a 29% return since the Fund's establishment in August 2013. New product activity continued with the successful launch of the \$18.9 million APN Coburg North Retail Fund, a neighbourhood shopping centre anchored by Woolworths Limited with a WALE of 13.9 years (which settled post balance date).

Dividends

The Board has declared an interim dividend of 1.25 cents per share (fully franked), equal to the 2014 interim dividend. The dividend will be paid on 14 April 2015 to shareholders registered as at 27 March 2015.

Newmark APN Auburn Property Fund

As announced on 20 February 2015, APN Funds Management Limited, the responsible entity of the Newmark APN Auburn Property Fund (APF) has executed a conditional contract of sale and development agreement for The Marketplace, Auburn. APF retains the responsibility for completing the redevelopment works in accordance with an agreed timeframe and budget.

The APF fund was launched in June 2014 in conjunction with Newmark Property Group and successfully raised \$25.0 million to acquire and redevelop The Marketplace, Auburn to create a new super sub-regional shopping centre in Western Sydney which is expected to be completed in the middle of calendar year 2015.

Subject to the completion of the redevelopment works on time and budget, APF investor returns are forecast to be 50% - 60% on their initial investment. APN holds a 5.4% co-investment stake in APF and is also entitled to a performance fee, based on the projects actual gross profit on completion in FY2016, currently estimated at approximately \$1.1 – \$1.2 million before tax (~\$0.8 million after tax).

Operational strategy update

We have continued to implement our strategy to focus on our existing business divisions to build scale and operating efficiencies to deliver earnings growth and shareholder value.

In the 6 months to 31 December, APN continued to leverage its listed and unlisted capital raising capabilities, including accessing securing investment commitments from new and existing retail and sophisticated investors to establish the APN Coburn North Retail Fund.

By co-investing in the funds we manage, including incremental investments where we see long-term value, reinforces our alignment with our clients and we are pleased to report APN earned \$4.7 million in the period from mark to market gains on its co-investments.

Being able to apply our disciplined investment approach to source new property investment opportunities, informed by insights and feedback from our existing investor base, ensures that APN is well placed to continue to launch new products and grow our business.

Outlook

Subject to a continuation of current market conditions, operating earnings before tax guidance has been upgraded to a forecast of 3.30 to 3.60 cents per share for FY2015 following the continued strength in the underlying businesses and completion of a number of successful transactions.

Subject to the continuation of the current market conditions, APN is forecasting the re-instatement of a final dividend of 0.25 cents per share, fully franked.

“In the current low-inflation, low-growth economic environment, APN continues to be very well placed to deliver value to our clients and our shareholders through carefully selected commercial property investments with reliable rental income streams and appropriate levels of debt”, Mr Slattery said.

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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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