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Aspen Group 2009 Half Year Results

Aspen Group (ASX:APZ) today announced an underlying net profit after tax of \$17.1 million for the half year period ended 31 December 2008.

Aspen Group Managing Director Angelo Del Borrello, commenting on the underlying profit performance, said, "Aspen's half year underlying profit is a strong result in difficult market conditions".

"Aspen's quality asset base and recurring income streams have proved to be resilient to the significant downturn in the property sector".

Key financial results include:

- Underlying revenue of \$34.9 million
- Underlying profit after tax of \$17.1 million
- Statutory loss after tax of \$42.8 million
- Underlying earnings of 6.73 cents per security
- Distributions of 5.92 cents per security
- Renegotiated senior debt facility extending maturity date to February 2012
- 98% of investment property portfolio independently revalued at 31 December 2008
- Net Tangible Assets of \$1.15 per stapled security

Consistent with prior announcements, underlying profit after tax excludes significant non-cash items such as revaluation and fair value adjustments that fluctuate from year to year and in the opinion of the directors do not accurately reflect the operational earnings of the Group. These items impact the Group's net asset values but do not have an impact on the underlying earnings or cashflow of the Group. These significant items are summarised below:

Underlying profit after tax	\$17.1 m
Revaluation of investment properties	(\$10.6 m)
Revaluation of inventories/available for sale investments	(\$12.2 m)
Fair value of equity investments	(\$24.8 m)
Fair value interest rate swaps	(\$10.4 m)
Fair value of employee options/other	(\$1.9 m)
Net loss after tax as per Financial Report	\$42.8 m

Earnings and Distribution

Net rental income from investment properties increased 25% on the previous period underpinned by a high weighted average occupancy rate of 97% and a strong tenancy profile. Recurring fees from funds management entities were also 32% higher with only establishment fees lower on the prior corresponding period (\$1.3 million in H1 09 vs \$6.7 million in H1 08).

Mr Del Borrello commented, "while we have been pleased with the growth in recurring income, the Group has not been immune from the current market turmoil which has restricted the outlook for transactional fee income for the foreseeable future".

In light of the revised market outlook, Aspen announced in December 2008 a reduction in the annualised distribution rate from 15.5 cents per security to 10.0 cents per security.

Net Tangible Assets

In response to the significant softening in capitalisation rates across the property sector a comprehensive review of the Group's asset valuations was undertaken in December 2008 and January 2009. The resulting adjustment to book values has seen a revised net tangible asset position of \$1.15 per security at 31 December 2008.

Capital Management

- Gearing (Total Debt/Total Assets) of 38% within stated range of 30%-40% (post sale of Gardentown)
- Renegotiated senior debt facility extending maturity date from October 2011 to February 2012
- 51% of debt hedged for a further 2 years, providing the ability to benefit from low interest rate environment
- December 2008 DRP partially underwritten

Gearing increased toward the top end of Aspen's desired long term range during the half, impacted by marginally lower assets values and an increase in debt to fund the Karratha Village development. While the current debt level is manageable, the Group believes it is

prudent in the current environment to reduce the level of gearing and to this end is in the process of executing a range of capital management strategies.

One such strategy has been a review of senior debt facilities to ensure Aspen retains sufficient capital flexibility. Subsequent to 31 December 2008, the Group has unconditionally secured, subject to formal documentation, a new facility with its existing primary financier, National Australia Bank. The key terms of the new facility, which incorporates three tranches, are described below:

Tranche A - \$224 million senior facility

- LVR (on investment property portfolio) covenant of 60% to 31 December 2010 reducing to 55% from 1 January 2011
- interest coverage ratio covenant of 1.5 times investment property rental income
- an extended three year term out to 28 February 2012

Tranche B - \$40 million working capital facility

- step down facility with a maturity date of 31 December 2009
- replaces the previous Tranche B facility which had a 180 day repayment date on debt drawn down

Tranche C - \$24 million

- Project specific facility for the Karratha Accommodation Village
- This facility is amortised at \$250,000 per month commencing January 2009
- Maturity date December 2013

All tranches are secured over the Group's investment property portfolio and the current total cost of debt based on the new facility for the Group inclusive of margin is 7.33%.

Additional capital management strategies are also under consideration including:

- Strategic review to consider limited asset disposals, where such assets are deemed to be non-core or non income producing; and
- Review of planned capital expenditure programmes including a freeze on discretionary capital expenditure.

Property and Investment Portfolio

Property Portfolio

- 25% uplift in rental revenues
- Downward revaluation to investment property portfolio of \$12.5 million or 3.1%
- New weighted average capitalisation rate up 200 points to 9.8%
- Weighted average lease expiry (WALE) of 4.1 years
- Weighted average occupancy 97%

Solid performances from all assets in the portfolio and a strong focus on active property management have resulted in an outstanding 25% growth in rental income. Performance highlights included:

- The Group's major commercial office properties, Septimus Roe and Currie Street continue to benefit from strong demand and low vacancy rates in the Perth and Adelaide markets;

- The St Kilda Road asset recognised its first 6 months of rental contribution from the 10 year lease to L'Oreal; and
- The Karratha Accommodation Village was completed and formally handed over to Woodside in December 2008. The asset contributed the equivalent of 3 months rent to the portfolio result.

As noted in our Chairman's address to the Annual General Meeting in November 2008, the Board and the executive management team have focused on ensuring that the carrying values of our property assets remain appropriate given the back drop of a rapidly changing economic environment.

As a result, updated independent valuations were obtained in December 2008 and January 2009 for 98% of the Group's directly owned investment property portfolio. These independent valuations reflected an average expansion of capitalisation rates by 25%. This would normally lead to a corresponding decrease in asset values, however strong rental growth throughout Aspen's portfolio, together with the successful completion of the Karratha Village development resulted in only a 3.1% downward revision to the portfolio value, or 5.8% excluding the Karratha Village.

Mr Del Borrello said, "The portfolio review has produced a sound result given that the independent valuations reflect the significant softening in capitalisation rates which occurred in the second half of calendar 2008 and in particular the last quarter. The portfolio's weighted average capitalisation rate of 9.8%, an increase of 200 points since June 2008, is in our view a conservative result reflecting the general uncertainty in values across the property market".

The successful completion of the Karratha Accommodation Village resulted in a total uplift in the value of this asset by \$12 million to \$41 million. This strong uplift was offset by reductions in the book values of Septimus Roe (down \$6.1 million) and Currie Street (down \$10.3 million). Rental growth between valuations was on average 21%, which was the major factor protecting the portfolio from the significant expansion of capitalisation rates.

Going forward the portfolio remains well positioned to deliver secure long term revenues to the Group with a healthy WALE of 4.1 years and 97% weighted average occupancy. Major tenants, comprising government and major corporations, account for approximately 75% of the portfolio's income.

Investment Portfolio

- Write-down of equity accounted investments of \$24.8 million
- Write-down of inventories of \$10.5 million

Aspen's cornerstone investment positions in its funds management entities were valued at \$53.8 million at period end. As part of our asset carrying value assessment a comprehensive review was conducted on asset values at a fund level. The result was a downward revaluation of assets at a fund level leading to a \$24.8 million write-down of Aspen's ownership share on an equity accounted basis.

The key contributors to the write down were Aspen Diversified Property Fund (\$8.8 million) due to softening capitalisation rates and Aspen Living Syndicates (\$14.7 million) due to the current depressed state of the residential land and housing sector.

Funds Management

- Recurring funds management revenue increased 32% to \$8.6 million
- Establishment fees decreased 81% to \$1.3 million
- Reduced level of development activity across funds

The Funds Management division enjoyed mixed results for the half year. Recurring management fees were up 32% on the previous corresponding period, highlighting the steady and reliable nature of this income to the Group. Fees from establishment fees decreased \$5.4 million on the previous period reflecting the reduced appetite for acquisitions in the current economic climate.

Aspen Parks was a significant contributor continuing to provide a sound level of underlying income from its maturing and well diversified asset base.

The write-down in value of Aspen Diversified investment properties and the sale of the Abernethy Park asset in 2008 has reduced the Fund's asset base and accordingly Aspen's management fee by \$0.2 million on an annualised basis. Efforts continue to reduce the Fund's gearing, including selected asset sales and further equity contributions.

Aspen Living experienced difficult trading conditions during the period with weak residential markets inhibiting lot sales and consequently fee income. In addition the negative impact on cashflow increased pressure on the capital position of two syndicates. To alleviate this Aspen undertook, and participated in, rights issues for both syndicates to provide additional working capital. Furthermore, as part of the Group's review of banking facilities, terms have been agreed for debt facilities to be extended for 18 months for the three syndicates with maturing facilities.

On a positive note the recent cut in interest rates and the government's first home owner's grant are starting to flow through to higher activity levels at the more affordable end of the market. This provides some optimism that the second half and more particularly the 2010 financial period will see improved operating results from Aspen Living.

The multi-project Aspen Development Fund No.1 has seen significant progress in the construction of the \$140 million Norwest Private Hospital, which is scheduled for completion in June 2009. Approvals were secured for the 29,000 sqm Tower 8 office building in Adelaide CBD and the Currambine retirement village in Perth. Tower 8 is currently in the pre-leasing stage, with both projects subject to future finance facilities. More difficult trading conditions have seen a more conservative approach to capital expenditure which has resulted in the deferral of some projects impacting transactional fee income during the period.

Expected contributions from the Aspen Villages and Aspen Communities Funds did not materialise due to the reduced appetite for illiquid property funds and tighter credit markets.

Cost Structures

With a strong focus on generating cost efficiencies, management undertook a detailed review of the Group's overhead cost structure during the first quarter of FY09. The result was the implementation in the second quarter of a number of cost saving initiatives including:

- Reviewing organisational structures resulting in a reduction in head count of over 20%
- Reduction in executive director remuneration by 10%

- Reducing other key overheads including discretionary spend
- Reducing all non executive director fees by 10%

The full effect of these savings will be recognised in the second half of the financial year and in future periods.

Summary and Outlook

Aspen has continued to deliver strong underlying profit results despite extremely challenging operating conditions in the first half of the year. The result is a reflection of a fundamentally sound business model, underpinned by a robust property portfolio and maturing funds management division, which have combined to produce a growing level of recurring income.

Mr Del Borrello said, "The result reaffirms the quality of our assets and the strength of our balance sheet to weather the difficult market conditions, leaving the Group well placed to endure the current downturn".

The investment property portfolio in particular maintains high occupancy levels, a strong tenancy mix and a long term weighted average lease expiry, placing the Group in a good position to continue to deliver strong returns from the portfolio. While the Group has established assets under management of \$1.0 billion in its funds management division, transactional earnings may be constrained in the foreseeable future due to restrictive credit markets, and general investor nervousness.

The Board has sought to address investor confidence in the Group through the extensive revaluation of all property assets in December, providing greater clarity in the carrying value of the asset portfolio and the validity of Aspen's NTA, which reflects a 320 % premium to the current security price.

The financial position of Aspen and its managed entities continue to be closely monitored to ensure adequate capital and funding is maintained. The Board remains mindful however of the uncertainty remaining within the property sector. Specifically credit remains tight which together with continued pressure on asset values will limit growth and development opportunities in the short to medium term. Notwithstanding these issues, Aspen anticipates a stronger second half financial performance supported by:

- Full six months contribution from Karratha Village
- Benefits from cost savings initiatives implemented in the first half
- The completion of development projects in Aspen Development Fund No. 1

Aspen re-affirms its distribution outlook and payout ratio of 70% to 80% of its expected underlying earnings per security.

End

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About Aspen Group

Aspen Group is an ASX listed property investment and funds management group, focused on acquiring quality property assets and creating and managing innovative property funds and syndicates.

Formed in 2001, Aspen has progressed rapidly and is now a member of the S&P/ASX 300 index with assets under management in excess of \$1.3 billion.

Aspen's core strength lies within the Group's broad expertise across property acquisition, development and management enabling the Group to provide leading edge property solutions.

Aspen directly owns and manages a well diversified portfolio of commercial property assets Australia-wide. The portfolio is spread across the office, industrial and retail sectors and has grown through acquisitions and portfolio revaluations of existing properties driven by a strong property management focus.

Aspen also has developed an outstanding reputation for creating unique and successful funds management products and related services. These managed funds have provided investment opportunities across a broad spectrum of property sectors including tourist parks, residential land subdivisions, CBD office developments, private hospital developments and retirement and accommodation villages.

Aspen continues to source acquisition opportunities for both balance sheet and syndication purposes in order to achieve further growth in both assets and earnings for securityholders.