



1 June 2009

The Manager  
Company Announcements Office  
ASX Limited  
Level 4, Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sir/Madam

**APN European Retail Property Group (ASX code: AEZ)  
Market update**

APN Funds Management Limited (APN), as Responsible Entity for the APN European Retail Property Group (AEZ) provides the following information in this announcement:

1. Operational Update for the period ending 31 March 2009.
2. Changes to the classification of liabilities.
3. Future distribution guidance and update on banking discussions and strategic review.

All figures are in Australian dollars except as otherwise indicated.

**1 Operational update**

**Portfolio performance**

Despite the challenging operating conditions, the property portfolio continues to maintain relatively high occupancy levels (currently 90.7% by income, compared with 91.9% at 31 December 2008) although there has been a decline in operating income at some properties.

Festival Park and Cuadernillos in Spain, City Gate (Greece) and City Mall (Romania) have been the main contributors to a 5.1% reduction in annual net operating income since December 2008. This result reflects lower turnover rents, higher doubtful debts charges and selected rent discounts required to maintain the tenancy base.

This is a reasonable result when measured against the continually deteriorating economies of Europe where 2009 Gross Domestic Product growth forecasts have been revised downwards from -0.9% to -2.4% and retail sales are declining by 0.6%.<sup>1</sup>

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<sup>1</sup> Sources: Economist Intelligence Unit and Eurostat, respectively.

## **Capital management**

APN remains focused on the efficient management of AEZ's capital. Cash is being accumulated in the vehicle while discussions with the Group's banks continue (see below). APN intends to apply available accumulated cash to reduce debt under the Group's Working Capital Facility.

In addition, APN has continued to aggressively market a number of assets for sale, although there have been no transactions agreed to date. APN is being assisted by CB Richard Ellis Ltd through the targeted asset sale process and will continue to pursue this strategy. However, very weak continental European real estate market conditions present a significant ongoing challenge to realising value from the portfolio on acceptable terms.

## **Financial Performance – key metrics**

As at 31 March 2009 the AEZ Group's unaudited look-through gearing was at 65.0% and Group Interest Cover remains at 1.75 times (31 December 2008: 64.8% and 1.81 times).

Unaudited net tangible asset backing per security (AIFRS basis after providing for deferred tax) (NTA) is \$0.45 as at 31 March 2009 (31 December 2008 \$0.47). NTA has remained at approximately the same level to 31 March 2009 as the positive impact from the reduction in the fair value liability of AEZ's hedging contracts (see below) has been offset primarily by a reduction in the Australian dollar carrying value of AEZ's Euro-denominated assets as a result of the exchange rate movements.

## **Currency hedging contracts – movement in fair value**

The value of AEZ's currency hedging contracts depends on the relevant AUD:EUR exchange rates. Since 31 December 2008, the spot AUD:EUR exchange rate has strengthened from 1:0.4900 to 1:0.5176 as at 31 March 2009, which in combination with the initiatives outlined below has reduced the liability associated with open currency hedging contracts from \$74.5 million to \$58.1 million.

The movement in the AUD:EUR exchange rate to 31 March 2009 has been factored in to the net tangible asset backing per security figure set out above.

Since 31 March 2009, the AUD:EUR exchange rate has continued to strengthen, and at a spot exchange rate of 1:0.5630 the estimated hedging contract liability is \$34.6 million. As a guide, a  $\pm 1\%$  change in this exchange rate will give rise to a  $\pm \$2.8$  million change in the value of the outstanding currency hedging contracts.

## **Currency hedging contracts – restructure**

With the agreement of its financiers, APN has taken advantage of the recent strength of the AUD to close out approximately 51.5% of the Group's currency hedging contracts, at an average AUD:EUR spot exchange rate of 1:0.5532.

The resultant amount payable of €5.9 million is required to be paid in semi-annual instalments, commencing February 2010, in accordance with the original maturity dates of the currency hedging contracts that have been closed out.

APN has initiated the restructuring of the currency hedging contracts to:

- Remove income hedging contracts which are unlikely to be utilised for the repatriation of profits into Australian dollars in the foreseeable future; and
- Reduce the overall exposure of AEZ to fluctuating mark-to-market values from its hedge book and provide greater certainty over the amount of the Group's liabilities.

## **2 Changes to the classification of liabilities**

As a result of further analysis of the interaction of certain cross default provisions under derivative and senior debt facility agreements in place between AEZ (and its controlled entities) and the bank counterparty and the covenant breach under the Group's Working Capital Facility, the classification of certain assets and liabilities as 'non-current' in the 31 December 2008 condensed consolidated balance sheet has been changed to 'current'.

The changes relate solely to the requirement of the Accounting Standards to disclose a liability as current if AEZ does not have an unconditional right to defer its settlement for at least twelve months. These liabilities have not been called nor are due for repayment within twelve months and no notice of a default, potential event of default or reservation of rights has been received from the counterparty in respect of these liabilities. However, APN has determined that it is appropriate to make the classification change because, as a consequence of the financial covenant breach under the Working Capital Facility, the right to defer settlement of these liabilities may not be unconditional.

Appendix A sets out the information that was presented in the 31 December 2008 consolidated balance sheet and the adjustments to be made to the classification of liabilities (including related notes) and the consolidated balance sheet position as at 31 March 2009.

APN emphasises that no further breaches of financial covenants have occurred since those announced to the market on 17 February 2009.

## **3 Update on discussions with banks, future distribution guidance and strategic review**

APN's discussions with the Royal Bank of Scotland plc and Deutsche Bank AG with respect to financial covenant breaches are continuing. The discussions remain productive and AEZ retains the in-principle support of its financiers. A summary of the Group's financial covenants which have exceeded required covenant levels is included as Appendix B to this announcement.

It is a likely condition of any debt restructure or waiver of financial covenants that distributions to investors would not be paid for the foreseeable future to allow operational cash flow and the proceeds of asset sales to reduce debt to satisfy current financial covenant limits.

APN is progressing with the previously announced review of AEZ's capital structure. This review is exploring all options available to the Group which may restore capital value to investors including:

- Asset sales
- Debt re-negotiation or refinancing
- De-listing / privatisation
- Capital restructure
- Merger or acquisition
- Combinations of the above

The outcome of this strategic review will be announced on completion.

## Enquiries

For further information, please contact:

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Yours sincerely  
APN Funds Management Limited

A handwritten signature in black ink, appearing to be 'JF', with a large loop at the end.

John Freemantle  
Company Secretary

## Appendix A – Adjusted Balance Sheet

	As at 31 Dec 2008		Adjusted Balance \$'000	31 Mar 2009
	Original Balance \$'000	Adjustment \$'000		Unaudited \$'000
<b>Assets</b>				
Cash and cash equivalents	29,391	-	<b>29,391</b>	25,853
Trade and other receivables	30,243	-	<b>30,243</b>	17,866
Other financial assets	1,154	3,516	<b>4,670</b>	6,195
Total current assets	60,788	3,516	<b>64,304</b>	49,914
Trade and other receivables	3,625	-	<b>3,625</b>	9,394
Other financial assets	16,307	(3,516)	<b>12,791</b>	12,479
Deferred tax assets	1,982	-	<b>1,982</b>	3,244
Property, plant and equipment	844	-	<b>844</b>	793
Investment properties	1,281,443	-	<b>1,281,443</b>	1,213,279
Total non-current assets	1,304,201	(3,516)	<b>1,300,685</b>	1,239,189
Total assets	1,364,989	-	<b>1,364,989</b>	1,289,103
<b>Liabilities</b>				
Bank overdraft	3	-	<b>3</b>	3
Trade and other payables	32,751	-	<b>32,751</b>	20,113
Provisions	6,541	-	<b>6,541</b>	8,618
Interest bearing liabilities	541,813	68,602	<b>610,415</b>	575,118
Current tax liabilities	4,228	-	<b>4,228</b>	3,913
Other financial liabilities	31,852	66,857	<b>98,709</b>	98,926
Total current liabilities	617,188	135,459	<b>752,647</b>	706,691
Trade and other payables	9,906	-	<b>9,906</b>	8,888
Provisions	78	-	<b>78</b>	74
Other financial liabilities	66,857	(66,857)	-	-
Interest bearing liabilities	314,672	(68,602)	<b>246,070</b>	235,036
Deferred tax liabilities	61,230	-	<b>61,230</b>	56,508
Minority interest	27,411	-	<b>27,411</b>	26,652
Total non-current liabilities	480,154	(135,459)	<b>344,695</b>	327,158
<b>Total liabilities (excluding liabilities attributable to members)</b>	<b>1,097,342</b>	-	<b>1,097,342</b>	<b>1,033,849</b>
<b>Net assets attributable to members</b>	<b>267,647</b>	-	<b>267,647</b>	<b>255,254</b>

### Adjustments to notes:

As a result of the above, the following adjustments are to be made to the notes to the AEZ condensed consolidated financial statements:

Note 1(e) – Going Concern: adjust the Group's net current liabilities to \$688.3 million.

Note 6 – Interest bearing liabilities: adjust Current Bank loans, secured to \$610,263,000 and Non-current Bank loans, secured to \$242,661,000 and adjust the total amount of loans classified as current with the potential to default if the security granted under the Working Capital Facility was enforced to \$220,236,187.

Note 7 – Other financial liabilities: adjust current forward exchange contracts and interest rate swaps to \$76,005,000 and \$22,703,000 respectively and adjust non-current forward exchange contracts and interest rate swaps \$Nil and \$Nil respectively.

## Appendix B – Financial Covenants

The financial covenants in excess of limits as at 31 March 2009 are summarised as follows:

Facility	Bank	Amount outstanding (A\$ m)	Covenant	Calculated covenant level	Required covenant level	Next test date	Specific remedy regime	Current status
Spanish senior debt facility	RBS	236.7	Spanish Portfolio Loan to Valuation Ratio	83.2%	68.0%	31 Aug 2009	Yes	Uncured
Roller (Germany) senior debt facility	RBS	94.9 <sup>2</sup>	Roller Loan to Valuation Ratio	60.4%	60.0%	31 Aug 2009	Yes	Cured
Working Capital Facility	RBS	45.5	AEZ Fund Net Equity Amount	€135.2m	€225.0m	28 Sep 2009	No	Uncured
			AEZ Assets to Liabilities Ratio	79.7%	75.0%			
Hedging Agreements	Deutsche Bank	Not Applicable <sup>3</sup>	AEZ Debt to Total Assets Ratio	63.7%	57.5% <sup>4</sup>	14 Aug 2009	Not Applicable	Uncured

### Notes

- 1 31 March 2009 exchange rate of 1 Euro = 1.9320 Australian dollars used.
- 2 This figure excludes €320,000 (\$618,240) paid into an escrow account to cure the loan to value breach at 31 December 2008. This amount is intended to be applied to the loan at the next interest payment date on 29 July 2009.
- 3 As at 31 March 2009 the total mark to market value under hedging agreements subject to these covenants was a liability of \$30.8 million.
- 4 Required covenant level reduced to 55% on 1 April 2009.