APN | Euro Property Fund

ARSN 123 172 930

APN Euro Property Fund

- APN Poland Retail Fund
- APN Vienna Retail Fund
- APN Champion Retail Fund

Background

The Fund was established in August 2007 with the objective of investing in a diversified range of property funds with underlying investments in European commercial property. The Fund currently has investments in the APN Poland Retail Fund, the APN Vienna Retail Fund and the APN Champion Retail Fund.

Fund update

Key points

- Fund unit price $0.0477
- Fund reported a loss of $870,000 for the six months ended 31 December 2012
- Distributions remain suspended

Market conditions in Europe remained difficult throughout 2012 with Greece in particular suffering from further deterioration in its economic situation.

The results for the six months ending 31 December 2012 show a loss of $870,000 (compared to a loss in the six months to 31 December 2011 of $136,000). The loss is principally due to the reduction in the value of the investment in the Vienna Retail Fund where the net tangible asset value has reduced to $0.2578 per unit. The investments in the Champion Retail Fund and the Poland Retail Fund remain at nil value.

Valuations

The valuation results for the underlying property portfolio as at 31 December 2012 show a 10.7% decrease for Shopping Centre Nord (Vienna Retail Fund – down from €99.4m) and the Manhattan Shopping Centre (Poland Fund - down 14.3% to €25.2m) compared to the June 2012 valuations. The valuation of the Champion portfolio fell by 55.8% to €16.3m as at 31 December 2012, compared to a value of €36.9 recorded at 30 June 2012. The reduction in value of the Champion portfolio reflects the assumption that a sale will be required within 12 months due to the pending loan maturity in October 2013. Unfortunately there are no signs to indicate that there will be any improvement in market conditions, at least in the foreseeable future, given the effective collapse in the Greek real estate market.

Distributions

As previously reported the Poland Retail Fund and the Champion Retail Fund have suspended distributions as both of these Funds are currently required to apply any surplus cash generated to amortise their senior debt positions with their respective lenders. The same now applies to the Vienna Retail Fund. The Shopping Centre Nord asset in Vienna is currently being marketed for sale with offers from interested parties being sought by the end of April.

Loan facilities

Following the breach of the Champion Retail Fund's loan to value covenant of the Fund's senior debt position since June 2012, the Royal Bank of Scotland (RBS) in its capacity as servicing agent to the Bond Loan has been reviewing the options available in terms of an exit strategy. RBS are finalising their analysis and it is expected the options will be presented to the Bond Loan Noteholders within the coming months. The Bond Loan matures in October 2013 and the prospect of achieving a sale at a price that would enable the loan to be repaid in full prior to the debt maturity is not realistic given the current market conditions.

The senior debt facility in the Poland Retail Fund was extended for a two year period to October 2014 on flexible amortization terms in order to allow more time for the market conditions for secondary assets in Poland to improve before the asset is sold. The bank preferred to extend the loan rather than force the sale of the asset in the current economic climate which is likely result in pricing well below the level of the senior debt.

Occupancy levels across all of the underlying properties in which the Fund is indirectly invested remain in excess of 95% and weighted average lease expiry metrics ranging from 3.5 to 9.9 years.

The future performance of the Fund will continue to depend on the performance of its investments, which in turn are dependent on European real estate markets and the trading performance of the underlying property portfolio. The value of the Fund's investments in both the Poland Retail Fund and the Champion Retail Fund are recorded at nil value as both underlying funds have negative net worth. The substantial reduction in the value of their respective properties has resulted in amounts owing now exceeding realisable assets. The recoverable value of these properties would need to increase significantly, to enable all liabilities to be cleared before there would be a return to investors. Further information is provided overleaf on the performance of the Fund's investments to December 2012.

It is currently expected that the assets of the Vienna Retail Fund will be realised by the end of 2013 in line with the scheduled fund expiry date, at which point the Fund will be dissolved.

Market update

The euro zone sovereign debt crisis has continued to dominate headlines throughout 2012 and into 2013.

Poland

Despite some slowing in the economy, Poland has continued to outperform its peers in the European Union, reporting enviable growth of 2.2% in the year to December 2012. Having reached a peak in May 2012 of 4.75%, interest rates have been incrementally reduced through the second half of the year and closed at 4.25% in an effort to kick-start the economy and arrest flagging retail sales and rising unemployment. At €4 billion, Foreign Direct Investment for 2012 was only one-third of the level recorded in 2011, yet the Warsaw Stock Exchange witnessed another banner year and led the European markets in terms of IPO debuts - more than London and Frankfurt combined. These apparent inconsistencies in performance make it difficult to assess whether Poland's underlying fundamentals are sound or whether it is simply benefitting (perhaps temporarily) by comparison to the Euro zone. Given continued weakness in rental markets and investors' (almost absolute) focus on Warsaw, it would suggest the latter

Greece

Market conditions deteriorated further in the second half of 2012 with the profound weakness in the Greek economy persisting. Over the past three years Greek GDP has contracted by more than 25%, the turbulence is expected to continue throughout 2013 as the country enters its sixth year of recession. Unemployment has reached record levels at 26.4% in December 2012, with youth unemployment at a staggering 59.4%. Public debt is not expected to return to sustainable levels until at least 2020 and any meaningful supply side initiatives to stimulate the economy have yet to be delivered. As the draconian austerity measures bite and stifle occupier demand the vacancy rates for all real estate asset classes continue to rise, even in prime areas. As a result rents remain under pressure and are expected to decline further, this coupled with the ongoing scarcity of debt and almost non-existent investor appetite continues to drive down asset values.

Austria

The Austrian market was stagnant through 2012 with a modest 0.8% increase in GDP as exports to the Euro zone suffered and unemployment began to rise. Growth in 2013 and beyond will be increasingly reliant on domestic demand, which is feasible given Austria's relatively low levels of household and corporate debt, but consumer confidence remains fragile and much will depend on the fortunes of the wider Euro zone.

Asset allocation

100% European real estate

Key information at 31 December2012

Financial information	APN Poland Retail Fund	APN Vienna Retail Fund	APN Champion Retail Fund
Investment allocation (by value)	0%	100%	0%
Fund gross assets	A$33.5m	A$122.3m	€21.5m
NTA per unit (A$)	0.0000	0.2578	0.0000
Senior debt ratios			
LVR (actual)	96.2%	73.0%	231.3%
LVR (covenant)	100.0%	75.75%	80.0%
ICR (actual) (times)	2.1	1.63	1.9
ICR (covenant) (times)	1.1	1.20	1.75
Fund scheduled end date	Dec 2016	Sep 2013	Oct 2013
Property Information			
Properties	1	1	16
Size (Gross Lettable Area)	24,629m²	36,088m²	51,615m²
Car spaces	360	1500	–
Tenants	123	97	1
Key tenants	Supermarket – Piotr & Pawel Fashion – H&M, C&A	Supermarket – Merkur Markt Fashion – H&M	Carrefour Marinopoulos
Weighted average lease expiry	5.1 years	3.5 years	9.9 years
Occupancy (by income)	96.5%	95.3%	100.0%
Net operating income (full-year)	€1.2 million	€3.3 million	€1.9 million
Property valuation	€25.2 million	€88.8 million	€16.3 million
Average rent	€10.7/m²/month	€15.2/m²/month	€7.7/m²/month
Website	www.gchmanhattan.pl	www.scn.at	

Contact details for investors

Please contact your financial adviser or alternatively, the **APN Investor Services Hotline** on 1800 996 456.

Contact details for advisers

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