June 2011 investor update

APN | Champion Retail Fund

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Background

The APN Champion Retail Fund (the Fund) is a fixed-term unlisted property fund that was established in 2008 to invest in a portfolio of 16 supermarkets across Greece. The portfolio's single tenant is Carrefour Marinopoulos SA, a leading operator in the Greek market and part of the Carrefour Group, one of the world's largest retailers with sales of over €101 billion in 2010. The Fund is designed to provide investors with a regular income stream and capital growth from its investment in the Carrefour Marinopoulos supermarket portfolio. The Fund is scheduled to operate until October 2013.

Fund update

The Fund's FY2011 results have now been completed and include the following (comparisons are to FY2010):

- Occupancy (by income) unchanged at 100%
- Net operating income ↑ 7% to €5.5 million
- Property valuation stable €68.0 million (vs €68.1 million at June 2010)
- Unit price steady at $0.5904 (vs $0.5982 at June 2010)

The Fund's strong net operating income results reflect the portfolio's lease structure (annual CPI rental increases subject to a 2% minimum / 5% maximum) which generated a 4.3% increase in base rent at December 2010.

The Carrefour Portfolio has been independently valued by Cushman and Wakefield at €68.0m as at 30 June 2011. Although sentiment towards the region as an investment market has deteriorated further, the valuation is relatively stable over the year reflecting the portfolio's key characteristics: a strong lease covenant, inflation-proofed rent indexation and a non-discretionary product. Accordingly, there has been little movement in the Fund's unit price over the course of the 2011 financial year.

The Fund continues to generate cash from its operations however the limited headroom under the Fund's loan to valuation ratio covenant continues to be closely monitored. For this reason, the decision has been made to pay a relatively modest distribution of 0.3916 cents per unit and to defer the payment of a greater distribution under a conservative capital management policy. The payment of this distribution in August 2011 is to ensure the Fund does not incur a tax liability. APN recognises the importance of distributions to the Fund's investors however the retention of cash in the Fund is required to ensure any unforeseen future developments in this volatile Greek market can be managed as effectively as possible.

Key points

- **Strong underlying performance in FY2011 with 7% operating income growth**
- **Distribution of 0.3916 cents per security paid**
- **Greek economic and financial stability issues remain**
- **Portfolio valuation remains stable**

Market update

Within the Eurozone, the Greek economy has been a high-profile drama throughout 2010 and 2011. The aid that Europe and the International Monetary Fund have provided to Greece has proved insufficient and the markets continue to expect a default be it via a debt restructure or some other form. The initial rescue funding assumed that the crisis would end quickly and that Greece would be able to return to the capital markets within two years to raise funds. However, the funding gap remains as Greece is still not considered creditworthy. Greece's national debt is equal to 127% of its national output and increasing rapidly as a result of annual budget deficits.

The Greek government will have to approve additional austerity measures to obtain further funding from the EU and the IMF. The latest agreement includes a commitment from Europe's leaders to support Athens until it is able to return to financial markets – a potentially unlimited guarantee that could see Euro-zone taxpayers funding Greece for years. The proposal calls on private bondholders to participate for the first time, contributing an estimated €37 billion over the life of the program.

Greece remains in an economic recession, with GDP declining by 4.7% over the year to March 2011.

Due primarily to the current recessionary state of the economy and the outlook in Greece, occupier interest remains extremely weak, with retailers seeking to cut costs and very few planning to expand. Consumer spending and overall confidence has been severely undermined by the raft of austerity measures which the Greek government has been compelled to implement in return for debt funding. Inspections of the leading shopping centres, including those in Athens, reveal growing vacancy and anecdotally, owners are reporting increasing tenant delinquency and escalating rental arrears.

Finance for larger scale property transactions is extremely difficult if not impossible to source and a changing tax environment means the Greek commercial real estate investment market remains very subdued.

Key economic indicators at 30 June 2011	
Greece	
Currency	Euro
Exchange rate	1A$ = €0.7282
GDP growth (annual change to March 2011)	(4.8%)
Unemployment	15.0%
Inflation (annual)	3.1%
Retail trade volume growth (annual)	(10.9%)

Source: Eurostat

Key information at 30 June 2011	
Financial information	
Fund gross assets	€72.2 million
Unit price	$0.5904
Senior debt ratios	
Loan to valuation ratio	59.3% (vs limit of 60.00%)
Interest cover ratio (times)	3.1 (vs limit of 2.0)
Currency hedging	Nil
Property information	
Properties	16
Size (Gross Lettable Area)	51,615m²
Tenants	1
Weighted average lease expiry	6.5 years
Occupancy (by income)	100.0%
Net operating income	€5.5 million
Property valuation	€68.0 million
Valuer	Cushman & Wakefield
Average rent	€9.9/m²/month

Management team

David Blight – Group Managing Director
Michael Groth – Corporate Finance Manager
Paul Anderson – Chief Executive Officer, Europe
Simon Mesquita – Chief Operating Officer, Europe
David Simmonds – Chief Financial Officer, Europe
Nikos Ypsilantis – Asset Manager, Greece

Contact details for investors

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

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