



December 2011 update

## APN | Champion Retail Fund

ARSN 127 948 127

### Background

The APN Champion Retail Fund (the Fund) is a fixed term unlisted property fund established in 2008. The Fund invests 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 €91 billion in 2011 (€101.5 billion in 2010). The Fund is scheduled to operate until October 2013.

### Fund Update

#### Key points

- Leases restructured to market rents and lease terms extended
- Distributions suspended for the foreseeable future
- Debt facility covenants relaxed and cash sweep of surplus cash imposed by lender to amortise loan facility
- Greek market remains very challenging
- Portfolio valuation of €56m as at 31 December 2011

Greece's economic and political situation has continued to deteriorate. The implementation of tough austerity measures has significantly impacted the retail sector with occupier demand, consumer confidence and retail sales all suffering as a result of substantially lower consumer spending and higher unemployment.

The Fund's unaudited results for the six months to 31 December 2011 include the following:

- Occupancy unchanged at 100%
- Net operating income ↓ 5.8% to €2.5 million
- Property valuation ↓ 17.7% to €56.0 million (€68.0 million at June 2011)
- Unit price ↓ to \$0.3791 (\$0.5904 at June 2011).

As communicated in the investor update issued on 27 January 2012, the lease amendments negotiated with Carrefour became effective from 1 December 2011. The key terms of the amendments include:

- Overall annual rent reduced by €1.5 million to €4.65 million subject to annual indexation (minimum 2%, no cap)
- Removal of 2017 break options, all leases run for an effective 11 year term to December 2022
- Security package with Carrefour includes right to demand full payment from Carrefour of any residual rent (to the expiry of the leases in December 2022) in the event that Carrefour seeks to terminate any of the leases.



As a result, the Champion portfolio has been independently valued by Cushman and Wakefield at €56 million as at 31 December 2011. This compares with a valuation of €68 million recorded at 30 June 2011. In order to avoid breaching the existing 60% loan to value (LTV) threshold under the terms of the loan facility, APN has negotiated the following amendments to the loan agreement:

- increase LTV threshold from 60% to 80%;
- reduce minimum interest cover required from 2.0 times to 1.75 times;
- quarterly fixed amortisation of €150,000, payable on each interest payment date until maturity;
- additional amortisation to be agreed on a quarterly basis limited to the extent that surplus cash is available; and
- any proceeds claimed and paid via the performance bond will be held in favour of the Lender.

### Fund strategy

As a consequence of the lease and debt facility amendments distributions have been suspended.

Notwithstanding the Fund's October 2013 termination date, given the deteriorating market in Greece and the suspension of distributions, the manager is preparing the portfolio for sale and assessing the optimum time to commence marketing the sale. No formal decision has yet been made.



### Market update

Structural weaknesses within the Greek economy are continuing to create a sense of economic free fall. Weak domestic demand, rising unemployment and severe austerity measures continue to weigh heavily on the economy. Fiscal policies are still proving insufficient to bring government finances towards a sustainable position. These weaknesses will continue to impact the economy in 2012.

Activity in the retail occupier market continued to slow in Q4, with only a few major international retailers actively looking for new space and the majority of occupiers focused on renegotiating their leases. Supply exceeds demand and vacancy is increasing even in the most prestigious retail locations.

Prime rents came under further downward pressure over the quarter. Modern shopping centre provision in Greece is very low by European standards and development activity has come to a virtual standstill, with no projects scheduled for completion in 2012 or 2013.

The economic outlook is highly uncertain and consumer confidence is likely to suffer as a result of further austerity measures. Occupier and investor demand will be subdued for the foreseeable future.

### Key information at 31 December 2011

Financial information	
Fund gross assets	€61.1 million
Unit price	\$0.3791
Senior debt ratios	
Loan to valuation ratio	72% (vs limit of 80%)
Interest cover ratio (times)	2.6 (vs limit of 1.75)
Currency hedging	Nil
Property Information	
Properties	16
Size (Gross Lettable Area)	51,615m <sup>2</sup>
Tenants	1
Weighted average lease expiry	10.9 years
Occupancy (by income)	100%
Net operating income (six months to to Dec 2011)	€2.5 million
Independent property valuation	€56.0 million
Valuer	Cushman & Wakefield
Average rent	€7.5/m <sup>2</sup> /month

### Key economic indicators at 31 December 2011

Greece	
Currency	Euro
Exchange rate	1A\$ = €0.7859
GDP growth (annual change to March 2011)	(7.0%)
Unemployment	19.2% (15% as at June 2011)
Inflation (annual)	2.2%
Retail trade volume growth (annual)	(8.9%)

Source: Eurostat

### 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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