

APN European Retail Property Group

Consolidated financial report for the
half-year ended 31 December 2008

Directors' report

The directors of APN Funds Management Limited ('Responsible Entity'), the responsible entity of APN European Retail Property Group and its controlled entities ('the Group'), present their report together with the financial report of the Group, for the half-year ended 31 December 2008.

The names of the directors of the Responsible Entity who held office during or since the end of the half-year are:

Executive directors

David Blight
Christopher Aylward
Clive Appleton
Howard Brenchley

Non-executive directors

Andrew Cruickshank
Michael Butler
John Harvey

David Blight was appointed as Managing Director of APN Funds Management Limited with effect from 24 November 2008.

Change of name

On 11 November 2008 the name of the Group was changed from the APN|UKA European Retail Property Group to the APN European Retail Property Group and the names of the trusts comprising the Group were also changed accordingly.

Review of operations

Summary of Results

Profit from operations after tax was \$7.7 million (2007: \$14.1 million) which is a decrease of \$6.4 million period on period. Of this, \$6.1 million was due to an increase in net finance costs in the period mainly resulting from accelerated amortisation of borrowing costs (\$4.4 million compared with \$1.9 million for the 6 months ended 31 December 2007) and margin increases on property loans and the Group's working capital facility. Such increases have been unavoidable in the current economic climate however the underlying performance of the Group's properties remains strong and interest payments are well covered with an interest cover ratio of 1.82 times (30 June 2008: 1.86 times).

Notwithstanding the solid operating result, this has been a challenging period for the Group which has required significant unrealised (non-cash) charges to profit to mark the value of the Group's property portfolio and derivatives to market value. After these charges, AEZ recorded a loss after tax of \$276.5 million (2007: \$27.5 million).

The Group's tangible net assets (excluding deferred tax on properties) at 31 December were \$330.4 million compared with \$527.5 million at 30 June and tangible net asset backing per stapled security excluding deferred tax was \$0.61 (June 2008: \$0.94). In line with many other A-REITs, AEZ has been heavily discounted by the market even though the underlying operating cashflows and net asset position remains strong. As at 31 December 2008, with the price per security of 6.4 cents, AEZ had a market capitalisation of \$34.9 million.

Review of operations (continued)

Profit from operations

Net property income increased (in Australian dollar terms) to \$34.7 million compared with \$31.4 million for the six months ended 31 December 2007. A large portion of this increase was attributable to the strengthening of the Euro against the Australian dollar. In Euro terms, net property income remained relatively stable at €19.3 million compared with €19.2 million at December 2007.

The majority of the properties performed in line with expectations and prior year net income. Festival Park in Spain operated without the rental guarantees from which it benefitted in the period to December 2007 and Cuadernillos had an increase in vacant units and rent reductions. City Gate in Greece underperformed due to a significant write off of bad debts and the implementation of this asset's turnaround plan has commenced. Following the installation of a new credit control policy and the successful re-negotiation of lease terms with several tenants it is expected that bad debts will decline in future. Offsetting these reductions in net property income is the inclusion of Traisenpark for the full six month period. Traisenpark was acquired in December 2007. Like-for-like net operating income (excluding assets in repositioning programs) was within 5% of that for the prior corresponding period.

While the majority of assets in the portfolio continue to perform to expectations and occupancy levels remain high at 91.9% (by income excluding rent guarantees) (June 2008: 94.6%), deteriorating operating conditions present an ongoing risk to rental income through the balance of FY2009.

Profit from operations after tax was \$7.7 million (2007: \$14.1 million) - a decrease of \$6.4 million on the previous corresponding period. Of this, \$6.1 million was due to an increase in net finance costs mainly resulting from accelerated amortisation of capitalised borrowing costs required under AIFRS accounting rules and interest rate margin increases on several property-level loans and the Group's working capital facility.

Loss from Non-operating Activities

Non-operating activities contributed to a loss after tax of \$297.0 million, compared with a \$41.3 million loss recorded in the prior comparative period. This loss is unrealised and does not directly affect the Group's cashflow. The loss reflects a number of significant factors:

- Write downs in the carrying value of investment properties of \$195.6 million plus a share of write down in fair value of the Group's investments in property syndicates of \$8.4 million.

All properties were independently valued at balance date and carrying values were adjusted to reflect these valuations. Real estate values across Europe have shown a marked downward trend and this resulted in a decrease of 14.3% (excluding the effect of foreign exchange) on the portfolio. The decreases primarily resulted from increases in capitalisation rates due to current market conditions and greater discounting of revenue streams due to perceived risk, particularly for tenants in the leisure sector (e.g. cinema operators). The average capitalisation rate increased from 6.7% at 30 June 2008 to 7.5%.

In particular, significant write downs have been made to the values of the Spanish portfolio (cap rate softening and reductions in sustainable rental levels) and more particularly the Cuadernillos Retail and Leisure Park (41.5% decline over the period). City Mall (Romania) has been written down by 32.3% due to a higher discount rate applied (100 bps higher) and higher non-recoverable costs from service charge shortfalls and property taxes as well as reductions in assumed market rental levels.

It is expected that substantial elements of the unrealised losses from property revaluations will be recovered over time as a result of improved investment market conditions and the completion of implementation of asset management plans.

Review of operations (continued)

- Revaluation losses on derivatives of \$117.0 million (2007: \$30.1 million)

The Accounting Standards require derivatives to be marked to market at reporting date. For AEZ this requires the revaluation of all interest rate swap contracts used to fix its cost of borrowing, and forward exchange contracts used to fix the exchange rate on cash to be returned to Australia to pay distributions, and to a limited extent, to ultimately return capital. Although the transactions are undertaken solely to hedge AEZ's exposure to interest rate and exchange rate movements, these derivatives do not qualify for hedge accounting treatment and so cause volatility in AEZ's profit and loss account through timing differences. Interest rate swaps held to maturity will return to a zero value, and to the extent that they are effective hedges these changes in fair value will cause no impact on profit or cash over the full term of the swap. As forward exchange contracts fix the exchange rate at which Euro denominated earnings are converted to Australian Dollars, a cash effect will only arise if AEZ is unable to fulfil its settlement obligations.

Management Profit and Loss Statement

	Period to 31 Dec 2008		Period to 31 Dec 2007	
	AUD '000	EUR '000	AUD '000	EUR '000
Profit from Operations				
Property Ownership Income	59,586	32,242	48,340	29,604
Property Expenses	24,861	12,896	16,958	10,385
Net Property Income	34,725	19,346	31,382	19,219
Other Income	120	65	1,585	971
Other Expenses	3,767	2,052	3,503	2,147
Profit from Operations before Interest & Tax	31,078	17,359	29,464	18,043
Net Interest Expense	21,464	11,691	15,417	9,442
Profit from Operations before Tax	9,614	5,668	14,047	8,601
Current Tax Expense/(benefit)	1,899	1,034	(38)	(24)
Profit from Operations after Tax	7,715	4,634	14,085	8,625
Loss from Non-Operating Activities				
Net fair value (loss)/gain on investment property	(204,045)	(111,142)	(26,768)	(15,946)
Net fair value (loss)/gain on derivative instruments	(116,987)	(63,722)	(30,146)	(18,461)
Foreign Exchange (loss)/gain - unrealised	(17,288)	(9,417)	(17,723)	(10,854)
Foreign Exchange (loss)/gain - realised	990	539	7,405	4,535
Loss from Non-Operating Activities before Tax	(337,330)	(183,742)	(67,232)	(40,726)
Deferred Tax Benefit	40,305	21,955	25,939	15,885
Loss from Non-Operating Activities after Tax	(297,025)	(161,787)	(41,293)	(24,841)
Loss before Minority Interests	(289,310)	(157,153)	(27,208)	(16,216)
Minority Interests	12,853	7,001	(285)	(176)
Loss attributable to Unitholders	(276,457)	(150,152)	(27,493)	(16,392)
Reconciliation to Distributions paid/payable:				
Profit from Operations after Tax	7,715		14,085	
Add back:				
Amortised borrowing costs (non-cash)	4,430		1,946	
Foreign Exchange gains – realised	990		7,405	
Transfer (to)/from Capital Reserve	(13,135)		4,256	
Distributions paid/payable	-		27,692	
Distribution per fully paid security (DPS)	-		5.11	

Review of Finance Facilities

At 31 December 2008, the Group has exceeded certain of its loan covenants as a result of declining property valuations for the period. A description of loans that have exceeded their covenants at reporting date is provided in Note 6 to the financial statements. At 31 December 2008, the Group had also exceeded the covenants of several forward foreign exchange and interest rate swap contracts for the same reason. These are set out in Note 7 to the financial statements. The Responsible Entity is currently holding negotiations with Royal Bank of Scotland plc and Deutsche Bank AG, the counterparties to the agreements subject to the previously mentioned covenants, to agree on a restructure of these facilities.

Going Concern

As a result of the covenant breaches identified above, and the presently unresolved outcome of negotiations with the lenders, the Directors have considered whether the Group remains a going concern. This is discussed further in note 1(e) to the financial statements. Directors have formed the view that there will be an outcome that will ensure the Group is able to continue as a going concern.

However Directors advise that there is significant uncertainty as to the Group continuing as a going concern and note that it remains reliant on the support of its lenders through their waiver of certain loan covenant breaches.

Economic outlook

The economic outlook for the European economies in which AEZ operates is challenging, as it is in the majority of the developed world at the current time.

The global financial crisis has already significantly affected the European and Australian capital, debt and commercial real estate markets relevant to AEZ's performance and the A-REIT sector more widely. Until relatively recently, the effects have been limited to financial markets with declining property values and higher financing costs reflecting a re-pricing of risk across the world. Liquidity has diminished in European retail property investment markets (e.g. transaction volume down by 65% over 2008 in Germany) and debt markets with minimal levels of issuance of commercial mortgage backed securities and bank lending being sharply reduced. Asset values across the real estate and equities sectors have declined significantly as a result, with the FTSE Euro 100 stock market index declining by 49% and prime property values falling by up to 20% over the year to December.

In addition, over the last 6 months the follow-on effects of the financial crisis have started to be felt in the 'real' economy in the form of decreased consumer confidence (and spending levels) and rising unemployment. These trends threaten the sustainability of AEZ's retail tenants' businesses, timeframes for replacing non-performing tenants and filling vacant spaces and market rental levels. While these factors remain risks, the operating performance of the portfolio's assets remains sound, with like-for-like net operating income (excluding assets in repositioning programs) within 5% of the prior corresponding period.

There are a number of factors which insulate and differentiate AEZ's portfolio from other property trusts in Europe. First, AEZ's portfolio comprises 99% of retail property assets (a significant portion of which are supported by non-discretionary retail operators such as supermarkets and discounters). Retail property is generally accepted as being a more resilient asset class in periods of economic downturn and the recent performance of the portfolio supports this conclusion. Second, AEZ's portfolio is geographically diversified. Whereas across Europe retail sales fell 1.6% over the year to December (all figures from Eurostat), declines in Germany, Austria and Romania were less than 0.3% which demonstrates the benefits of exposure to several different markets.

Further, unprecedented steps and coordinated global action which is being taken to confront the economic downturn is expected to have a positive impact in due course. Recently we have seen the European Central Bank make successive cuts in its benchmark interest rate from 4.25% pa to 2.00% pa and the governments of

Economic outlook (continued)

Europe inject billions of Euros of liquidity into the financial system as well as providing significant assistance to banks and initiating numerous changes to government spending and fundraising such as tax cuts and implementing infrastructure and job creation programs. Assuming the determination exhibited by central banks and governments to address the problems of the current crisis continues, the primary question is how long markets will require to respond to the measures. We believe that a requirement of the banking system recapitalisations and assistance will be to ensure that Europe's financial institutions maintain a supply of credit to their economies to support and grow economic activity. The yield spread between Eurozone interest rates and AEZ's property portfolio is now 5.5% which is a substantial premium compared with recent years.

Finally, at an operating level, the European consumer is characterised as owing significantly lower levels of personal debt than their counterparts in the UK and the US. This suggests that consumer spending will not be impacted to the same extent in Europe as in other developed countries.

Future strategy

As a result of loan covenant breaches at balance date, liabilities totalling \$574.6 million in respect of loans and derivatives have been classified as current in accordance with the requirements of accounting standards. The Responsible Entity is currently holding discussions with Royal Bank of Scotland plc and Deutsche Bank AG (the counterparties to agreements which have experienced covenant breaches) to restructure relevant covenant tests in order that the Group has adequate time to undertake the strategic review announced on 17 February 2009 (see below). At the date of this report these discussions were ongoing and while it is likely the result will involve additional conditions affecting the operation of the business, the Responsible Entity has reason to believe the outcome will be positive for the Group.

The Responsible Entity has, over the past 12 months, undertaken a number of capital management initiatives which are designed to strengthen the Group's balance sheet through the reduction of debt. These initiatives include:

- revision of the Group's distribution policy to exclude distributions from capital;
- cancellation of the December 2008 half distribution;
- deferral of non-essential capital expenditure;
- reduction in group debt by \$24.3 million over the period;
- implementation of an aggressive, selective asset sale program; and
- settlement of the Cuadernillos purchase price dispute.

The Responsible Entity wishes to reiterate that currently, AEZ has the support of its bankers and is not a forced seller of any asset.

In addition, on 17 February 2009 a strategic review of AEZ's capital structure was announced to the Australian Securities Exchange. This review follows a continuing period in which AEZ's securities have traded at a large discount to net tangible asset backing. This review has been implemented to examine a range of options which may be available to AEZ to address difficulties with its current capital structure. It is expected that this review will be completed by the end of April 2009.

Distributions

A distribution of 1.00 cent per stapled security was paid on 29 August 2008 in respect of the year ended 30 June 2008. On 28 November 2008 it was announced that no distribution would be made in respect of the December 2008 half year.

As a result of the extraordinary economic environment and in line with AEZ's capital management strategy to strengthen its balance sheet as much as possible. The Responsible Entity advises that future distributions will be suspended until further notice.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 8 and forms part of the directors' report for the half-year ended 31 December 2008.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.



David Blight
Managing Director
Melbourne, 25th day of February 2009

The Board of Directors
APN Funds Management Limited
101 Collins St
MELBOURNE VIC 3000

Dear Sirs

INDEPENDENCE DECLARATION – APN EUROPEAN RETAIL PROPERTY GROUP

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the half-year financial report for APN European Retail Property Group.

As lead audit partner for the review of the financial statements of APN European Retail Property Group for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 February 2009

Independent Auditor's Review Report to the Unitholders of APN European Retail Property Group

We have reviewed the accompanying half-year financial report of the APN European Retail Property Group (the "Group"), which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the Group and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 11 to 24.

Directors' Responsibility for the Half-Year Financial Report

The directors of APN Funds Management Limited, as the Responsible Entity of the Group, are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the APN European Retail Property Group's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the APN European Retail Property Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the APN European Retail Property Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the Group incurred a net loss attributable to unitholders of \$276.5 million during the half-year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by \$556.4 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



DELOITTE TOUCHE TOHMATSU



Peter Caldwell
Partner
Chartered Accountants
Melbourne, 25 February 2009

**Condensed consolidated income statement
For the half-year ended 31 December 2008**

	Note	Half-year ended 31 December 2008	Half-year ended 31 December 2007
		\$'000	\$'000
Revenue			
Rental income from investment properties		59,706	47,611
Investment income		-	729
Interest income		938	884
Other income		12,837	1,585
		73,481	50,809
Expenses			
Property expenses		(15,786)	(10,931)
Management expenses		(5,853)	(4,125)
Other operating expenses	3	(105,317)	(41,714)
Investment devaluations		(8,432)	(2,659)
Property devaluations		(195,613)	(19,113)
Finance expenses	4	(70,197)	(20,457)
Impairment on acquisition of controlled entities		-	(4,995)
		(401,198)	(103,994)
Loss before income tax expense and minority interests		(327,717)	(53,185)
Income tax benefit		38,408	25,977
Loss after income tax expense for the period		(289,309)	(27,208)
Less: Net (profit)/loss attributable to minority interest			
- External		13,204	(336)
- APN European Retail Property Management Trust security holders (AEZM)		(352)	51
Net loss attributable to members of APN European Retail Property Holding Trust (AEZH)		(276,457)	(27,493)
Finance costs attributable to unit holders of the parent trust			
(Increase)/decrease in net assets attributable to security holders	9	178,306	31,802
Distribution to security holders		-	(27,692)
Net loss		(98,151)	(23,383)
Net profit/(loss) to members of the Group analysed by amounts attributable to:			
- AEZH security holders		(276,457)	(27,493)
- AEZM security holders		352	(51)
Net profit/(loss) attributable to members of the Group		(276,105)	(27,544)
Basic and diluted earnings/(loss) per security (cents per unit)		(50.76)	(5.21)

Notes to the financial statements are included on pages 15 to 24.

**Condensed consolidated balance sheet
As at 31 December 2008**

	Note	31 December 2008 \$'000	30 June 2008 \$'000
Assets			
Cash and cash equivalents		29,391	43,804
Trade and other receivables		30,243	25,975
Other financial assets		1,154	4,001
Total current assets		60,788	73,780
Trade and other receivables		3,625	5,132
Other financial assets		16,307	53,255
Deferred tax assets		1,982	6,672
Property, plant and equipment		844	441
Investment properties	5	1,281,443	1,203,141
Total non-current assets		1,304,201	1,268,641
Total assets		1,364,989	1,342,421
Liabilities			
Bank overdraft		3	70
Trade and other payables		32,751	38,549
Provisions		6,541	4,640
Interest bearing liabilities	6	541,813	159,962
Current tax liabilities		4,228	2,410
Other financial liabilities	7	31,852	363
Total current liabilities		617,188	205,994
Trade and other payables		9,906	9,523
Provisions		78	1,007
Other financial liabilities	7	66,857	12,559
Interest bearing liabilities	6	314,672	576,543
Deferred tax liabilities		61,230	87,671
Minority interest	8	27,411	3,819
Total non-current liabilities		480,154	691,122
Total liabilities (excluding liabilities attributable to members)		1,097,342	897,116
Net assets attributable to members		267,647	445,305
Liabilities attributable to members	9	267,647	445,305
Net assets		-	-
Net assets attributable to members of the Group comprises:			
Foreign currency translation reserve	10	105,015	9,866
Cash flow hedge reserve	11	4,286	5,616
Other reserve	12	4,332	-
Retained profits/(losses)	13	(113,633)	(15,482)

Notes to the financial statements are included on pages 15 to 24.

Condensed consolidated statement of recognised income and expense
For the half-year ended 31 December 2008

	Half-year ended 31 December 2008 \$'000	Half-year ended 31 December 2007 \$'000
Loss for the period	(98,151)	(23,383)
Total recognised income and expense for the period	(98,151)	(23,383)

Notes to the financial statements are included on pages 15 to 24.

**Condensed consolidated cash flow statement
For the half-year ended 31 December 2008**

	Note	Half-year ended 31 December 2008	Half-year ended 31 December 2007
		\$'000	\$'000
Cash flows from/(used in) operating activities			
Cash receipts from customers		46,274	48,583
Cash paid to suppliers and employees		(24,662)	(11,953)
Income taxes paid		(473)	(700)
Net cash flows from/(used in) operating activities		21,139	35,930
Cash flows from/(used in) investing activities			
Acquisition of businesses/subsidiaries, net of cash acquired		-	(61,979)
Payments associated with investment properties		(1,882)	(1,153)
Payments associated with plant and equipment		(428)	(135)
Payments associated with construction in progress		-	(1,278)
Distributions from investments		712	1,000
Net cash flows from/(used) in investing activities		(1,598)	(63,545)
Cash flows from/(used in) financing activities			
Payments associated with capital raising		(138)	(414)
Proceeds from borrowings		-	116,354
Repayment of borrowings		(22,622)	(48,579)
Finance costs paid		(18,530)	(16,146)
Interest received		901	2,741
Advances/loans (to)/from related parties		(2,054)	847
Distributions paid		(4,633)	(16,728)
Proceeds from termination of financial instruments		990	4,850
Net cash flows from/(used in) financing activities		(46,086)	42,925
Net (decrease)/increase in cash and cash equivalents		(26,545)	15,310
Cash and cash equivalents at opening		43,734	51,682
Effect of foreign exchange rate fluctuations on cash held		12,199	2,661
Cash and cash equivalents at 31 December		29,388	69,653
Cash and cash equivalents disclosed as:			
Cash and cash equivalents		29,391	65,001
Bank overdraft		(3)	-
Assets of disposal group held for sale		-	4,652
		29,388	69,653

Notes to the financial statements are included on pages 15 to 24.

1. Significant accounting policies

(a) Statement of compliance

The consolidated half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The consolidated half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

(b) Change of name

On 11 November 2008 the name of the Group was changed from the APN|UKA European Retail Property Group to the APN European Retail Property Group and the names of the trusts comprising the Group were also changed accordingly.

(c) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Trust is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the consolidated half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the consolidated half-year financial report are consistent with those adopted and disclosed in the Group's 2008 annual financial report for the financial year ended 30 June 2008.

(d) Comparative information

Where applicable, certain comparative figures are restated in order to comply with the current period's presentation of the financial statements.

(e) Going concern

This financial report has been prepared on a going concern basis.

For the reasons discussed below, significant uncertainty exists in relation to the Group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. For the period ended 31 December 2008, the Group had losses of \$276.5 million largely as a result of falling property valuations and as a result exceeded certain of its loan covenants. Because such loans are required by the accounting standards to be classified as current, the Group had net current liabilities of \$556.4 million. A description of loans that have exceeded their covenants at reporting date is provided in Note 6 to the financial statements. At 31 December the Group had also exceeded the covenants of several forward foreign exchange and interest rate swap contracts for the same reason. These are set out in Note 7 to the financial statements. The Responsible Entity is currently holding negotiations with RBS and Deutsche Bank, the counterparties to the agreements subject to the previously mentioned covenants, to agree on a set of requirements going forward.

The Group remains reliant on the support of its lenders through their waiver of certain loan covenants. No commitment has yet been given by the lenders to do this. After taking into account all available information, the Directors have concluded that there are reasonable grounds to believe:

- The covenant breaches will be waived;
- The Group will be able to pay its debts as and when they fall due; and
- The basis of preparation of the financial report on a going concern basis is appropriate.

1. Significant accounting policies (continued)

(e) Going concern (continued)

The directors have formed this view based on a number of factors including:

- The Group's net asset position attributable to members of \$267.6 million;
- The underlying performance of the Group's investment portfolio and services business;
- That there have been no defaults on payments of interest or principal and none is forecast; and
- The Responsible Entity's expectations from preliminary discussion with lenders on renegotiating financing facilities including waivers in respect of existing covenant breaches and amendments to covenants going forward.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

2. Segment reporting

The Group both operates and manages a portfolio of rental property assets in the European Union. Therefore, it has two business segments and one geographical segment. The Group comprises the following main business segments:

Operational: Acquires and holds property assets with the objective of capital growth and deriving rental income.

Managerial: Provision of property and asset management services to the European fixed term property funds operated by APN Funds Management and other European properties and property management services in relation to properties owned by the Group.

As the provision of property and asset management services (the Managerial segment) remains under development, this segment is not currently material to the Stapled Group.

3. Other operating expenses

	Half-year ended 31 December 2008 \$'000	Half-year ended 31 December 2007 \$'000
Fair value losses on forward foreign exchange contracts	67,036	21,140
Foreign exchange losses	31,091	15,168
Other operating expenses	7,190	5,406
	105,317	41,714

4. Finance expenses

	Half-year ended 31 December 2008 \$'000	Half-year ended 31 December 2007 \$'000
Interest expense	17,470	14,163
Fair value loss on interest rate swap	48,202	4,156
Amortisation of borrowing costs	4,430	1,946
Banking and facility fees	95	192
	70,197	20,457

5. Investment properties

	31 December 2008 \$'000	30 June 2008 \$'000
Opening balance	1,203,141	1,156,012
Additions	1,882	4,541
Acquisitions through business combinations	-	106,725
Transfers from property, plant and equipment (including property under development)	-	22,340
Fair value adjustments	(195,613)	(100,875)
Effects of movements in foreign exchange ¹	272,033	14,398
Balance at end of period	1,281,443	1,203,141

1: Effects of movements in foreign exchange is reflected in the movement of net assets attributable to unit holders.

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

6. Interest bearing liabilities

	31 December 2008 \$'000	30 June 2008 \$'000
Current – at amortised cost		
Finance lease liabilities	152	106
Other loans from related parties, unsecured	-	29,244
Bank loans, secured	541,661	90,512
Bank loans, unsecured	-	40,100
	541,813	159,962
Non-current – at amortised cost		
Finance lease liabilities	3,409	2,809
Bank loans, secured	311,263	573,734
	314,672	576,543
Reconciliation of interest bearing liabilities:		
Amounts borrowed	868,555	747,770
Less: capitalised transaction costs	(12,070)	(11,265)
	856,485	736,505

At 31 December, the Group was in breach of certain of its loan covenants on debt totalling \$398.3 million as a result of falling property valuations for the period. Such loans are required to be classified as current and be described in the financial report. A description of loans in breach or default of their covenants at reporting date is provided below:

Spain portfolio \$250,003,785 (€122,502,835), Royal Bank of Scotland

At 31 December 2008 the loan to valuation ratio covenant on this Spanish portfolio loan exceeded the required 68% mainly as a result of the significant reduction in the value of the Cuadernillos property in Madrid. As a result this loan has been classified as a current liability.

6. Interest bearing liabilities, continued

Roller, Germany \$100,203,280 (€49,100,000), Royal Bank of Scotland

At 31 December 2008 the loan to valuation ratio covenant on this loan was slightly over the required 60% and as a result this loan has been classified as a current liability.

Working Capital Facility \$48,050,725 (€23,545,044), Royal Bank of Scotland

At 31 December 2008 several of the covenants on this loan had been breached due to revaluation losses on the property portfolio as a whole. As a result this loan is in default and has been classified as a current liability.

AASB 101 'Presentation of Financial Statements' requires that where an entity does not have an unconditional right to defer its settlement for at least twelve months, a loan must be classified as a current liability. The Group has therefore classified as current, loans where although the loan is not at call or due for repayment within twelve months it has been determined that this right to defer may not be unconditional. While the Directors do not believe that such loans will be called in the next twelve months they have decided that classification as a current liability is required by AASB 101. Also classified as current is a loan that has the potential to default if security granted under the Working Capital Facility was enforced. The total amount of these loans is \$150,644,907 (€73,816,595).

7. Other financial liabilities

	31 December 2008 \$'000	30 June 2008 \$'000
Financial Instruments - current		
Forward exchange contracts	27,348	156
Interest rate swaps	4,504	-
Other	-	207
	31,852	363
Financial Instruments - non current		
Forward exchange contracts	48,659	2,173
Interest rate swaps	18,198	10,386
	66,857	12,559

At 31 December, the Group was in breach of a covenant on hedging facilities totalling \$25.8 million as a result of falling property valuations for the period. Such facilities are required to be classified as current and be described in the financial report. A description of facilities in breach or default of their covenants at reporting date is provided below:

Deutsche Bank hedging facilities \$25,823,815

At 31 December 2008 the Tangible Net Worth of APN European Retail Property Holding Trust fell below the amount required by the covenant. As a result these facilities, comprising \$22.5 million of Forward Foreign Exchange contracts and \$3.3 million of Interest Rate Swaps, have been classified as current liabilities.

8. Minority interests

	31 December 2008 \$'000	30 June 2008 \$'000
External		
Opening balance	4,025	3,503
Acquisitions through business combinations	35,472	-
Entitlement to profit/(loss)	(13,204)	407
Other changes in net assets	976	115
	27,269	4,025
AEZM		
Opening balance	(206)	-
Capital distribution to establish AEZM	-	147
Entitlement to profit/(loss)	352	(68)
Other changes in net assets	(4)	(285)
	142	(206)
	27,411	3,819

9. Net assets attributable to unit holders of the parent entity

Classified as liability

	Half-year ended 31 December 2008 Units'000	Year ended 30 June 2008 Units'000
<i>Units on Issue</i>		
On issue at beginning of the period	541,911	529,397
Issue of fully paid units	3,000	12,514
On issue at end of period	544,911	541,911

	Half-year ended 31 December 2008 \$'000	Year ended 30 June 2008 \$'000
<i>Movements in Net Assets Attributable to Unit holders</i>		
At beginning of the period	445,305	511,650
Units issued	786	15,373
Capital raising costs incurred	(138)	(140)
Capital distribution to establish AEZM	-	(147)
Increase/(decrease) in net assets attributable to unit holders	(178,306)	(81,431)
Net assets attributable to unit holders	267,647	445,305

The unit holders in the Trust are entitled to receive distributions as declared from time to time in accordance with the extent to which each unit is paid up. Under the Trusts' constitution, each unit, to the extent paid up, represents a right to the underlying assets of the Trust.

The unit holders are entitled to one vote per unit at meetings of the Trust.

10. Foreign currency translation reserve

	31 December 2008 \$'000	30 June 2008 \$'000
Opening balance	9,866	(3,416)
Effects of movement in foreign exchange	38,717	5,546
Effects of net investment	56,432	7,736
	105,015	9,866

Exchange differences relating to the translation from the functional currencies of the Group's foreign operations into Australian dollars, together with the currency translation of long term payable and receivables that are considered part of the Group's net investment in foreign operations, are brought to account directly in the foreign currency translation reserve.

11. Cash flow hedging reserve

	31 December 2008 \$'000	30 June 2008 \$'000
Opening balance	5,616	7,361
Recognised in interest income	(1,772)	(3,056)
Deferred tax effect	442	1,311
	4,286	5,616

Hedging gains and losses on the effective portion of interest rate hedging relationships are recognised in the cash flow hedging reserve while a designated effective hedging relationship exists. Hedging relationships were de-designated in 2007, and the cumulative balance is being systematically recognised in the income statement over the period of the forecast transaction.

12. Other reserve

	31 December 2008 \$'000	30 June 2008 \$'000
Opening balance	-	-
Profit on partial disposal of a controlled entity	4,332	-
	4,332	-

The uneliminated profit on the partial disposal of the Champion – Marinopoulos property portfolio is recognised in the other reserve (see Note 16). This balance will be recognised in the income statement when control is lost of the controlled entity.

13. Retained earnings

	31 December 2008 \$'000	30 June 2008 \$'000
Opening balance	(15,482)	(3,945)
Profit/(loss) after tax and minority interests	(98,151)	(11,537)
	(113,633)	(15,482)

14. Distributions paid/payable to unit holders of the parent entity

	31 December 2008		31 December 2007	
	Cent per unit	\$'000	Cents per unit	\$'000
Final distribution paid				
Fully paid units	-	-	5.11	27,052
	-	-		27,052
Interim distribution payable				
Fully paid units	-	-	5.11	27,692
	-	-		27,692

15. Net tangible asset backing

	31 December 2008	30 June 2008
	Cents per security	Cents per security
Net tangible asset backing per security	46.90	80.09
Net tangible asset backing per security excluding deferred tax associated with Investment Property	60.64	93.86

Net tangible asset backing per security is calculated by the dividing net assets attributable to security holders (adjusted to exclude the intangible assets and capitalised borrowing transaction costs of the Group) by the number of securities on issue.

Net tangible asset backing per security excluding deferred tax associated with Investment Property is calculated by dividing net assets attributable to security holders (adjusted to exclude intangible assets, capitalised borrowing transaction costs and deferred tax arising from Investment Property of the Group) by the number of securities on issue.

The number of securities used in the calculation of the Groups net tangible asset backing is 544,911,000 (June 2008: 541,911,000).

16. Part disposal of controlling interest

Champion Retail Fund Syndication

On the 19 August 2008 the Group completed the disposal of its portfolio of 16 supermarkets located in Greece (Champion – Marinopoulos portfolio) to the APN Champion Retail Fund ('Champion'). The transaction has been settled by exchanging the unsecured loans from related parties amounting to \$29.2 million for an equity investment in Champion. On completion of this transaction the Group holds a 55.8% interest and therefore Champion will continued to be a controlled entity. The uneliminated minority interest profit on disposal of \$4,332,000 from the settlement of this transaction has been recognised in equity in accordance with AASB 127 (see Note 12).

17. Contingencies

The Responsible Entity is of the opinion that provisions are not required in respect of the following matters, as it is not probable that an outflow of resources will be required, or that the amount is not capable of reliable measurement.

Contingent Liabilities

Litigation

For the fiscal years ending 31 December 2003 and 31 December 2004, Zenon Real Estate S.A ("Zenon"), a controlled entity, was subject to a Greek income tax audit. The outcome of this audit was that additional tax and penalties of €1.6 million (\$3.3 million) have been levied under the tax assessments acts.

Legal advice has been obtained that indicates that is should be possible to successfully challenge the audit findings in the courts. It is estimated that court proceedings will not commence until at least 2010.

17. Contingencies, continued

Contingent liabilities (continued)

Guarantees

Guarantees amounting \$21.0 million/€10.3 million (June 2008: \$16.9 million/€10.3 million) remain outstanding as at 31 December 2008 in respect of the City Mall (Romania) financing facilities with Unicredit Group. A default event which would trigger the bank guarantee being recognised as a borrowing with the bank is not considered likely to occur.

Certain entities within the Group have obtained bank guarantees to secure the obligations under forward purchase agreements relating to the acquisition / development of investment property and debt facilities.

Guarantees amounting to \$0.6 million/€0.3 million (June 2008: \$0.5 million/€0.3 million) remain outstanding as at 31 December 2008 in respect to obligations associated with the acquisition/development of investment property.

Certain entities within the Group have entered into cross guarantee arrangements such that they guarantee the performance of obligations to third party financiers arising under derivative contracts and borrowing facilities held by the Group.

The Parent entity has entered into corporate guarantees and collateralisation arrangements with related parties under which it has provided financial support to secure 50.1% of their financing obligations (finance facilities totalling \$154.6 million/€75.75 million (June 2008: \$185.2 million/€112.8 million). In return, the Parent entity has received a deed of charge over the units of the related party. At the date of this report, the Responsible Entity is of the opinion that an event which would trigger the corporate guarantees and collateralisation arrangements being recognised as a liability by the Parent entity is not likely to occur.

Litigation

From time to time, in the course of normal operations, the Group is subject to disputes with tenants in regards to contract terms (for additional information refer Note 20). As of period end, the Responsible Entity believes that the ultimate outcome of such claims will not materially affect the results of operations or the financial position of the Group.

Contingent assets

The Group has received a corporate guarantee amounting to \$10.2 million/€5.0 million (June 2008: \$8.2 million/€5.0 million) in relation to any losses that may arise out of, or relating to, a land title claims on an Investment Property acquired during a previous period. The guarantee received is valid until December 2011.

At the date of this report, the Group is not aware of any title claims against the Investment Property.

18. Commitments for expenditure

As at 31 December 2008, the consolidated Group has committed capital expenditure amounting to \$Nil (2007: \$Nil).

19. Consolidated entities

Name of Entity	Note	Country of incorporation	Ownerships interest and voting rights	
			2008	2007
Parent entity				
APN European Retail Property Holding Trust	(b)			
APN European Retail Property Management Trust				
Controlled entities				
APN Champion Retail Fund	(a)	Australia	44.9%	-
APN Champion Sub Trust	(a)	Australia	19.8%	-
APN Traisenpark Sub Trust		Australia	100%	100%
AEZ Finance Company Pty Ltd		Australia	100%	100%
AEZ CB (No.1) Pty Ltd		Australia	100%	100%

19. Consolidated entities, continued

AEZ CF Finance Pty Ltd	(a)	Australia	55.8%	-
APN CF (No.3) Pty Ltd	(a)	Australia	55.8%	100%
APN (UK) Limited		UK	100%	100%
APN Portfolio Management Limited		UK	100%	100%
Traisenpark 16 GmbH		Austria	100%	100%
Traisenpark 17 GmbH		Austria	100%	100%
Traisenpark 18 Vermeidungs GmbH		Austria	100%	100%
APN Property Holdings (No.3) BV		Netherlands	100%	100%
APN Property Holdings (No.6) BV		Netherlands	100%	100%
APN Property Holdings (No.7) BV		Netherlands	100%	100%
APN Property Holdings (No.8) BV		Netherlands	100%	100%
APN Property Holdings (No.9) BV	(a)	Netherlands	55.8%	100%
APN Property Holdings (No.14) BV		Netherlands	100%	100%
APN Property Holdings (No.15) BV		Netherlands	100%	100%
APN Dutch Finance Company BV		Netherlands	100%	100%
Desuco BV		Netherlands	100%	100%
Festival Park Es Mirall Holdings BV		Netherlands	100%	100%
APN Finance Company Sarl		Luxembourg	100%	100%
APN Property Holdings (No.1) Sarl		Luxembourg	100%	100%
APN Property Holdings (No.2) Sarl		Luxembourg	100%	100%
APN Property Holdings (No.5) Sarl		Luxembourg	100%	100%
Commercial Investment Alcobendas Sarl		Luxembourg	100%	100%
APN CF (No.1) Sicav	(a)	Luxembourg	55.8%	-
APN CF (No.2) Sarl	(a)	Luxembourg	55.8%	-
Zenon Real Estate SA	(a)	Greece	55.8%	100%
City Gate SA		Greece	100%	100%
San Guiliano Holdings Srl		Italy	100%	100%
Investimenti Commerciali San Guiliano Srl		Italy	100%	100%
Gallarate Holdings Srl		Italy	100%	100%
Investimenti Commerciali Gallarte Srl		Italy	100%	100%
Es Mirall Developments SA		Spain	100%	100%
Parque Comercial Luz de Castilla SL		Spain	100%	100%
Comercial Inversora Alcobendas SL		Spain	100%	100%
Parque Commercial Los Cuadernillos SL		Spain	100%	100%
APN Property Holdings (No.4)		Germany	100%	100%
APN Property Holdings (No.10)		Germany	94.8%	94.8%
APN Property Holdings (No.11)		Germany	94.8%	94.8%
IFB Verwaltungs GmbH		Germany	99.7%	99.7%
Peppel GmbH and Co		Germany	94.9%	94.9%
Stadtteilzentrum Halle-Neustadt GmbH & Co		Germany	94.8%	94.8%
Leipzig Lowencenter GmbH & Co KG		Germany	94.9%	94.9%
Porolis Expert SA		Romania	100%	100%
SC Victoria Holdings SA		Romania	100%	100%

(a): Acquired during the period ended 31 December 2008 (see Note 16)

(b): APN European Retail Property Holding Trust is the parent entity of the APN European Retail Property Group and for accounting purposes has been deemed the acquirer of APN European Retail Property Management Trust.

20. Subsequent events

Subsequent to 31 December 2008, the Group completed negotiations with the vendor of the Cuadernillos Group (Tobalini) in relation to the purchase price dispute which had been referred for arbitration. In return for cancelling the arbitration proceedings, the Group has accepted a settlement amounting to €2,994,609 that has been applied against amounts recorded as receivable as at 31 December 2008. There is no financial impact on the Group as a result of the settlement of this transaction.

20. Subsequent events (continued)

In February 2009, a ruling has been received against Es Mirall Developments SA ('Festival Park') in relation to a contractual dispute over the termination of a tenancy for an amount of \$2.2 million (€1.1 million). An appeal is in the process of being prepared. The financial effect of the above has not been included in the financial statements.

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Directors' declaration

The directors of the Responsible Entity declare that:

- (a) In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- (b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

The directors note however, that there is significant uncertainty as to the Group continuing as a going concern (refer note 1(e)). Specifically, the Group remains reliant on the support of its lenders through their waiver of certain loan covenant breaches to remain a going concern.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



David Blight
Managing Director of APN Funds Management Limited
Melbourne, 25th day of February 2009