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APN | Funds Management

26 August 2009

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

Dear Sir/Madam

APN European Retail Property Group (ASX code: AEZ)
Financial Results for the Year Ended 30 June 2009

APN Funds Management Limited (APN), the Responsible Entity of the APN European Retail Property Group (AEZ) is pleased to report AEZ's financial results for the year ended 30 June 2009.

Summary of results

AEZ has recorded an underlying profit from operations after tax of $23.8 million compared with $30.8 million for the same period last year. The difficult economic and operating conditions in Europe continued to impact on the performance of the portfolio, particularly for assets in Spain, Romania and Greece.

Fair value adjustments to the carrying value of properties, derivative contracts and other non-operating items resulting in a loss of $345.9 million after tax have contributed to a total net loss after tax and minority interests of $309.4 million for the year.

Net Tangible Assets (NTA) as at 30 June 2009 is now 32.68 cents per security (cps). This includes a liability for tax payable if all properties were sold at their current book value. As the structure of the Group allows for properties to be disposed of through the sale of their holding companies, it may be possible to defer the payment of tax indefinitely. NTA, excluding this tax liability, is 42.09 cps.

As previously announced, no distribution will be paid.

Underlying profit from operations

Underlying profit from operations after tax decreased 23% to $23.8 million compared with last year. This reflects the following significant factors:

- 29 of the portfolio's 34 properties recorded increased income as a result of inflation-linked rent reviews and a reduction in operating costs (among other factors).

- The Roller portfolio (Germany) and Traisenpark (Austria) reported solid income growth for the year of 3.0% and 3.3%[1] respectively.

- Cuadernillos, Spain (down 26%) and Festival Park, Spain (down 19%), reflect increased vacancies, higher provisions for doubtful debts and selected rent concessions provided to improve the sustainability of the current tenancy mix and protect occupancy levels.

- City Mall (Romania) reported a fall in income of 43%, reflecting the micro economic conditions of the Romanian economy, including an increase in retailers' operating costs as a result of a devaluation of the Romanian Lei versus the Euro. The expiry of a rental guarantee received on the acquisition of the property also contributed to the difference.

- City Gate (Greece) reported a 28.2% decrease in income, though a significant proportion of this difference is attributable to the repositioning strategy being undertaken for this asset. The successful leasing of the second anchor store to H&M, signed in July 2009, is expected to provide the traction necessary to renegotiate terms with existing tenants and attract new offers to the centre.

- Underlying net interest expense increased compared with 2008 reflecting the renewal of the working capital facility at a significantly increased margin, and higher interest costs associated with owning Traisenpark for the full financial year.

Loss from Non-operating Activities

Non-operating activities contributed a loss after tax of $345.9 million. This includes:

- Write downs in the carrying value of investment properties ($240.9 million, before tax)

  All properties were independently valued at balance date and carrying values were adjusted accordingly. The decline of 18.3% reflects the trend for real estate values across Europe during this time. The average capitalisation rate increased 107 bps from 6.75% at 30 June 2008 to 7.82%[2].

  The current valuation of the portfolio represents a 29.6% decline in value from the peak in June 2007.

  Significant write-downs have occurred to the values of the Spanish portfolio (cap rate softening and reductions in assumed sustainable rental levels). City Mall (Romania) has been written down by 41.5% due to a higher discount rate and higher non-recoverable costs from service charge shortfalls and property taxes as well as reductions in market rental levels.

  Income growth at a number of properties served to offset the impact of capitalisation rate increases.

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1. *Annualised comparative figure used.*
2. *Due to terminology differences, and changes in valuation approach (capitalisation of earnings method to discounted cash flow) certain individual cap rates at 30 June 2009 refer to discounted cash flow exit yields.*

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

These write downs are unrealised and do not affect the trading performance of the properties themselves.

- Revaluation of financial derivatives ($92.9 million loss before tax)

  The carrying value of all derivative contracts have been adjusted at balance date to reflect their payout value if they were terminated on that date. This includes all interest rate swap contracts used to fix the 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 repatriate capital.

Going Concern

As a result of the substantial decline in the value of the property portfolio, AEZ has breached a number of finance facility covenants and these are the subject of ongoing discussion with the lenders. Though indications are encouraging, no agreement has been reached and Directors have therefore considered whether the Group remains a going concern. The outcome of these deliberations is summarised as follows:

After taking into account all the currently available information, the Directors have concluded that there are reasonable grounds to believe that:

- *an accommodation is likely to be reached with financiers, albeit this accommodation may result in a dilution of security holders interests; and*
- *the basis of preparation of the financial report on a going concern basis is appropriate.*

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

- *The Group has net assets attributable to members of $181 million;*
- *Progress made to date in discussions with the financiers to agree on a set of requirements going forward.*
- *Non-enforcement by financiers of their rights under the existing events of default to demand immediate repayment to the date of this report;*
- *Management has requested a conditional waiver from key financiers and is continuing to work with them to agree the terms;*
- *There have been no defaults on payments of interest or principal;*
- *Managements' pursuit of a number of strategies to deal with the inherent material uncertainty, including:*
  - *Strengthening the Balance Sheet by suspending distribution;*
  - *Ongoing strategic review of the capital structure to explore options available.*

The financial statements for the year ended 30 June 2009 have been prepared on a going concern basis. There is significant uncertainty around the ability of the Group to continue as a going concern. If the support of the financiers does not continue and the strategic review does not result in a successful outcome, the Group may not be able to realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Portfolio Management

Despite the difficult economic conditions prevailing, a number of important achievements have resulted during the year.

Significant management effort has been dedicated to protecting the revenues at Festival Park and Cuadernillos in Spain, City Gate (Greece) and City Mall (Romania) which continue to experience challenging market conditions and higher tenant defaults. Some rental concessions were given, but the occupancy levels have been preserved. The remainder of the portfolio has performed in line with expectations.

Key aspects of the property portfolio for the year ended 30 June 2009 are as follows:

- 30 leasing deals completed for 4,200 sq m
- Portfolio occupancy level is 90.2% by income
- Weighted average lease expiry (WALE) for anchor tenants is currently 5.0 years
- City Gate (Greece) repositioning and tenant re-mixing is continuing with a new lease signed by H&M subsequent to 30 June for the second anchor store of 1,300 sq m.
- Outline planning permission granted for 22,000 sq m extension at Festival Park (Spain)
- Re-letting of cinema to The Light, introducing 3D technology at Halle (Germany)

Economic Outlook

The outlook for Europe remains challenging in the short term, however the medium term prospects are more encouraging, with some signs of stabilisation emerging.

France and Germany both reported gross domestic product growth in the second quarter of calendar year 2009 and a number of sentiment indicators showing improvement over the past six months. While a recovery is expected to be slow, Europe as a whole is expected to return to a growth phase in calendar year 2010, with the Western European economies leading the Central and Eastern European economies.

Future Strategy: Capital Restructure Proposal

APN has completed its initial strategic review for AEZ and has identified a number of options which are being progressed. APN is developing a capital restructure proposal with the involvement of key lenders. This process is expected to require a further three to six months to finalise.

Resolving the AEZ Group's capital structure issues remains APN's top priority.

APN Funds Management Limited

John Freemantle
Company Secretary

APN European Retail Property Group and its controlled entities ("AEZ")
Appendix 4E - Preliminary final report for the year ended 30 June 2009

Details of the reporting period and the previous corresponding period

Reporting period:	Year ended 30 June 2009
Previous corresponding period:	Year ended 30 June 2008

Results for announcement to the market

	Financial year ended 30 June 2009 $'000	Financial year ended 30 June 2008 $'000	Movement $'000	Movement %
Revenue from continuing operations	120,337	114,457	5,880	5.14
Revenue from discontinued operations	-	-		
Revenue from ordinary activities	120,337	114,457	5,880	5.14
Profit/(loss) from continuing operations after tax attributable to members	(309,430)	(59,857)	(249,573)	(416.95)
Profit/(loss) from discontinued operations after tax attributable to members	-	-		
Profit from ordinary activities after tax attributable to members	(309,430)	(59,857)	(249,573)	(416.95)
Net profit attributable to members	(309,430)	(59,857)	(249,573)	(416.95)
Basic earnings per share	(56.84) cents	(11.10) cents		
Diluted earnings per share	(56.84) cents	(11.10) cents		
Net tangible assets backing	32.68 cents	80.09 cents		

Distribution - Ordinary Securities	**Amount per security**	**Franked amount**
Current year		
Final Distribution	-	N/A
Interim Distribution	-	N/A
	-	
Previous corresponding period		
Final Distribution	1.00	N/A
Interim Distribution	5.11	N/A
	6.11	

APN European Retail Property Group and its controlled entities

The results detailed in this Appendix 4E represent the consolidated financial results for APN European Retail Property Group and its controlled entities for the year ended 30 June 2009. The consolidated net loss attributable to members after income tax for the year ended 30 June 2009 was $309,430,000.

Trends in Performance

Please refer to the media release and investor presentation

Commentary on results

Please refer to the media release and investor presentation

APN European Retail Property Group and its controlled entities
Income statement
for the financial year ended 30 June 2009

	Consolidated 2009 $'000's	2008 $'000's
Revenue		
Rental income from investment properties	115,168	102,482
Investment income	-	1,442
Interest income	1,921	2,021
Fair value gain on interest rate swaps	-	6,740
Other income	3,248	1,772
	120,337	**114,457**
Expenses		
Property expenses	(31,691)	(24,627)
Management expenses	(8,260)	(8,182)
Other operating expenses	(26,489)	(20,525)
Investment devaluations	(11,067)	(2,091)
Property devaluations	(240,894)	(100,875)
Foreign exchange losses	(22,137)	(18,246)
Fair value loss on interest rate swaps	(60,792)	-
Fair value loss on forward exchange contracts	(32,120)	(4,984)
Finance expenses	(49,864)	(36,335)
	(483,314)	**(215,865)**
Loss before income tax expense and minority interests	**(362,977)**	**(101,408)**
Income tax benefit	40,871	41,890
Loss after income tax expense	**(322,106)**	**(59,518)**
Less: Net profit/(loss) attributable minority interests		
- External	(13,257)	407
- APN European Retail Property Management Trust security holders (AEZM)	581	(68)
Net loss attributable to security holders of APN European Retail Property Holding Trust (AEZH)	**(309,430)**	**(59,857)**
Finance costs attributable to security holders of the parent trust		
Decrease in net assets attributable to security holders	265,055	81,431
Distributions to security holders	-	(33,111)
Net loss	**(44,375)**	**(11,537)**

APN European Retail Property Group and its controlled entities
Statement of recognised income and expense
for the financial year ended 30 June 2009

	Consolidated 2009 $'000	2008 $'000
Changes in foreign currency translation reserve	42,297	13,282
Changes in cash flow hedging reserve	(2,254)	(1,745)
Changes in other reserves	4,332	-
Net income/(expense) recognised directly in equity	**44,375**	**11,537**
Loss for the year	(44,375)	(11,537)
Total recognised income and expense for the year	**-**	**-**

APN European Retail Property Group and its controlled entities
Balance sheets
As at 30 June 2009

	Consolidated 2009 $'000's	2008 $'000's
Assets		
Cash and cash equivalents	28,932	43,804
Trade and other receivables	16,286	25,975
Other financial assets	175	4,001
Total current assets	45,393	73,780
Trade and other receivables	2,334	5,132
Other financial assets	8,556	53,255
Deferred tax assets	10,080	6,672
Property, plant and equipment	1,173	441
Investment properties	1,044,449	1,203,141
Total non-current assets	1,066,592	1,268,641
Total assets	1,111,985	1,342,421
Liabilities		
Bank overdraft	69	70
Trade and other payables	24,646	38,549
Provisions	8,102	4,640
Interest-bearing liabilities	651,252	159,962
Current tax liabilities	4,313	2,410
Other financial liabilities	64,409	363
Total current liabilities	752,791	205,994
Trade and other payables	7,638	9,523
Provisions	152	1,007
Other financial liabilities	-	12,559
Interest-bearing liabilities	85,290	576,543
Deferred tax liabilities	58,408	87,671
External Minority interest	26,808	3,819
Total non-current liabilities	178,296	691,122
Total liabilities (excluding liabilities attributable to security holders)	931,087	897,116
Net assets attributable to security holders	180,898	445,305
Liabilities attributable to security holders	**180,898**	**445,305**
Net Assets	**-**	**-**
Net assets attributable to security holders of the Group comprises:		
Foreign currency translation reserve	(52,163)	(9,866)
Cash flow hedge reserve	(3,362)	(5,616)
Other reserve	(4,332)	-
Retained (profits)/losses	59,857	15,482
	-	-

APN European Retail Property Group and its controlled entities
Statements of cash flows
For the year ended 30 June 2009

	Consolidated 2009 $'000's	2008 $'000's
Cash flows from operating activities		
Cash receipts from customers	119,632	108,686
Cash paid to suppliers and employees	(58,370)	(41,535)
Income taxes paid	(742)	(1,197)
Net cash flows from operating activities	60,520	65,954
Cash flows used in investing activities		
Acquisition of businesses/subsidiaries, net of cash acquired	-	(65,933)
Payments associated with investment properties	(2,846)	(8,456)
Payments associated with plant and equipment	(284)	(482)
Distributions from investments	-	2,884
Net cash flows used in investing activities	(3,130)	(71,987)
Cash flows used in financing activities		
Payments associated with capital raising	(138)	(140)
Proceeds from borrowings	-	134,347
Repayment of borrowings	(31,656)	(94,892)
Payment of finance lease liabilities	(64)	(97)
Finance costs paid	(35,779)	(34,107)
Interest received	1,321	1,334
(Payments)/proceeds from income hedges	(8,030)	9,796
Advances/loans to related parties	1,785	24,811
Distributions paid	(4,632)	(44,419)
Net cash flows used in financing activities	(77,193)	(3,367)
Net decrease in cash and cash equivalents	(19,803)	(9,400)
Cash and cash equivalents at opening	43,734	51,682
Effect of foreign exchange rate fluctuations on cash held	4,932	1,452
Cash and cash equivalents at 30 June	**28,863**	**43,734**
Cash and cash equivalents disclosed as:		
Cash and cash equivalents	28,932	43,804
Bank overdraft	(69)	(70)
	28,863	**43,734**

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

1. Reporting entity

APN European Retail Property Group (the 'Group'), comprising the APN European Retail Property Holding Trust ('Parent Entity') and its controlling entities, is a registered managed investment scheme under the Corporations Act 2001 and was established on 17 May 2005. The address of the Group's registered office is Level 30, 101 Collins Street, Melbourne VIC 3000.

Change of name

On 11 November 2008 name of the Parent Entity was changed from APN|UKA European Retail Property Holding Trust to APN European Retail Property Holding Trust. The name of the Group was also changed from the APN|UKA European Retail Property Group to the APN European Retail Property Group. In addition the names of trusts comprising the Group were also changed accordingly.

2. Basis of preparation

(a) Statement of Compliance

The financial report has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001 and the requirements of the Parent entities constitution.

The financial report includes the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

(b) Going concern

The Group has reported losses of $322 million and the Parent losses of $282 million for the year ended 30 June 2009. The losses are largely attributable to falling property valuations, and fair value decrements on derivatives and investments in subsidiaries. As a result certain loan and derivative covenants have been breached. The classification of loans and derivative liabilities as current means the Group and Parent have net current liabilities of $707 million and $61 million respectively. A description of loans that have exceeded their covenants at reporting date is provided in Note 12. The forward foreign exchange and interest rate swap contracts in breach at 30 June 2009 are set out in Note 13. The Group and Parent remain reliant on the ongoing support of their lenders through the provision of waivers, the non-enforcement of termination events, re-negotiation of facilities and consent to any proposed restructures. No commitment has been received from the lenders to provide this support and there is no assurance that such commitments will be forthcoming.

The ongoing deterioration of economic conditions in Europe continues to place pressure on the Group's operating results and cash flows. The Group is forecast to have sufficient cash to fund budgeted operating payments, existing scheduled debt repayments and capital expenditure for the twelve month period from the date of these financial statements. However, this results in a significant reduction in existing cash reserves and any further deterioration in the economic conditions will adversely impact forecast operating results and cashflows.

The factors outlined above represent significant uncertainties surrounding the ability of the Group and Parent to continue as going concerns. After taking into account all the currently available information, the Directors have concluded that there are reasonable grounds to believe that:

- an accommodation is likely to be reached with financiers, albeit this accommodation may result in a dilution of security holders interests; and
- the basis of preparation of the financial report on a going concern basis is appropriate.

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

- The Group and Parent have net assets attributable to members of $181 million and $167 million respectively;
- Progress made to date in discussions with the Group and Parent's financiers to agree on a set of requirements going forward. These discussions have resulted in forward foreign exchange contract exposure being restructured, providing increased certainty over the Group and Parent's liabilities, repayment of debt amounting to $31.6 million and implementation of a cash sweep over certain property cashflows;

2. Basis of preparation (continued)

(b) Going concern (continued)

- Non-enforcement by financiers of their rights under the existing events of default to demand immediate repayment to the date of this report;
- Management has requested a letter from one of the Group's major financiers and is continuing to work with the financier to agree the terms. At the date of this report, the financier has not provided any documented agreement and its provision remains subject to the financier's review and approval processes;
- There have been no defaults on payments of interest or principal;
- Managements' pursuit of a number of strategies to deal with the inherent material uncertainty, including:
  - Strengthening the Balance Sheet by suspending distributions,
  - Ongoing strategic review of AEZ's capital structure to explore all options available to the Group and Parent to strengthen their underlying operations, manage the re-financing requirements of loans due to expire and existing and potential covenant breaches, that 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 financial statements of the Group and the Parent for the year ended 30 June 2009 have been prepared on a going concern basis. There is significant uncertainty around the ability of the Group and Parent to continue as going concerns. In the event the support of the financiers does not continue and the strategic review does not result in a successful outcome, the Group and Parent may not be able to realise their assets and settle their liabilities and commitments in the normal course of business and at the amounts stated in the financial report. 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 or Parent not be able to continue as a going concern.

(c) Basis of measurement

The financial report has been prepared on the historical cost basis except for the following, which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial assets
- investment property

The methods used to measure fair values are discussed further in note 3.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Equivalents to International Financial Reporting Standards (AIFRS) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

- income tax expense
- valuation of investment property; and provisions.

2. Basis of preparation (continued)

(e) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Parent entity's functional currency.

The group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all group entities.

(a) Accounting for the Stapling

The Group was established in July 2007 by the stapling of securities of the parent entity and the APN/UKA European Property Management Trust (AEZM). The securities trade as one security on The Australian Stock Exchange ('ASX') under the code AEZ. As a result of the stapling, the parent entity, for accounting purposes, was deemed the acquirer, and has consolidated AEZM from 10 July 2007.

Accordingly, this transaction is accounted for as a business combination by consolidating the fair value of the net assets of AEZM on acquisition and reflecting the net assets attributable to AEZM as a minority interest. The security holders of AEZM are also holders of AEZH by virtue of the stapling arrangement.

This financial report has been prepared based upon a business combination by the Parent entity of AEZM and in recognition of the fact that the securities issued by the Parent entity, and AEZM have been stapled and cannot be traded separately.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and all gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

3. Significant accounting policies (continued)

(iii) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date.

Negative goodwill (discount on acquisition) is recognised directly in the income statement when control is achieved.

Acquisitions on or after 1 January 2003

For acquisitions on or after 1 January 2003, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(c) Foreign currency translation

(i) Translation of foreign currency balances

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian Dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value though profit or loss and derivative financial instruments are included in gains and losses on investments and net gain/(loss) on derivatives, respectively. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the income statement.

(ii) Translation of accounts of foreign operations

The Group is predominately comprised of operations that are located in the European Union. The balance sheets of these foreign subsidiaries are translated at the exchange rates ruling as at balance date and the profit or loss statements of foreign subsidiaries are translated at average exchange rates for the year. Exchange differences arising on translation of foreign operations are taken directly to Net assets attributable to security holders. On consolidation, exchange differences and the related tax effect on loans denominated in foreign currencies, which hedge net investments in foreign operations are accounted for in accordance with note 3(p).

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(d) Revenue recognition

(i) Rental income

Rental income (including rental guarantee income) from investment properties is recognised on a straight-line basis over the lease term. Rental income not received at a balance date is reflected in the balance sheets as a receivable or if paid in advance, as deferred rental income. Lease incentives granted by the Group to lessees are recognised over the lease term on a straight-line basis as a reduction of lease income.

Contingent rents, based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases are only recognised when contractually due.

(ii) Interest income

Interest income and expense is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(iii) Distribution and dividend income

Revenue from distributions and dividends is recognised by the Group when the entitlement to receive the payment has been established.

(e) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance expenses

Finance expenses comprise interest payable on borrowings calculated using the effective interest method. Financing costs exclude borrowing costs capitalised to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are capitalised as part of that asset.

Capitalisation of borrowing costs ceases during extended periods in which active development is interrupted. When a development is complete and ceases to be a qualifying asset, borrowing costs are expensed as incurred.

(f) Income and deferred tax

Under current legislation the Parent entity is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the security holders.

Income tax on the profit or loss for the year for controlled entities comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in net assets attributable to security holders.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(f) Income and deferred tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the payment of distributions or dividends are recognised at the same time as the liability to pay the related dividend.

Distribution and taxation

The Parent entity fully distributes its taxable income, calculated in accordance with the Parent entities constitution and applicable taxation legislation, to the security holders who are presently entitled to the income under the constitution.

Assets held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Parent entity is not subject to capital gains tax.

Realised capital losses are not distributed to security holders but are retained in the Parent entity to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to security holders.

(g) Goods and services tax

Management fees, auditors' fees, legal fees and other expenses are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office ('ATO') as a reduced input tax credit ('RITC').

Payables and receivables are stated with the amount of GST included.

The net amount of GST recoverable from the ATO is included in trade and other receivables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

(h) Distributions to security holders

Distributions to security holders are recognised as a liability in the period in which the security holders are presently entitled.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(j) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy 3(l)).

(k) Property, plant and equipment

Property, plant and equipment not integral to earning rental income is stated at cost less accumulated depreciation and impairment losses (see accounting policy 3(l)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value.

Instalment payments made for property that is being constructed or developed by third parties for future use as an investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which point in time it is transferred to investment property.

Any difference arising at the date of transfer between the completed construction carrying amount and its fair value is recognised in the income statement. After construction has been completed, such properties are accounted for in accordance with the accounting policy for Investment properties (see accounting policy 3(m)).

Property under development is not depreciated.

3. Significant accounting policies (continued)

(l) Impairment

The carrying amounts of the Group's assets, other than investment properties (see accounting policy 3(m)) and deferred tax assets (see accounting policy 3(f)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds it recoverable amount.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of non-significant receivables is performed by collating receivables into portfolios of similar risk profiles and undertaking a collective assessment of impairment based on objective evidence from historical experience, adjusted for any effects of conditions existing at reporting date.

The carrying amount of impaired receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. The Group derecognises a receivable only when the contractual rights to the cash flows from the asset expire.

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties, comprising freehold land and buildings, are initially recognised at cost plus acquisition costs directly associated with the purchase, unless the properties are acquired as part of a business combination, in which case they are initially recognised at fair value on acquisition date. Subsequent to initial recognition, investment properties are stated at fair value. The Group has an internal valuation process for determining the fair value at each reporting date. An external, independent valuation expert, having an appropriate recognised qualification and recent experience in the location and category of property being valued, values the portfolio at intervals of not more than two years on a rotational basis, or on a more regular basis if considered appropriate and as determined by management in accordance with the Board approved valuation policy.

These external valuations are taken into consideration when determining the fair value of investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The valuations are prepared by considering the aggregate of the net annual rents receivable (including any allowance for rental guarantee income receivable from third parties) from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time. Any gain or loss arising from a change in fair value is recognised in the income statement.

3. Significant accounting policies (continued)

(n) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to its fair value or, if lower, at the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

(o) Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives which do not qualify for hedge accounting, or are not in a designated hedge accounting relationship, are classified and accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and are remeasured to fair value at each reporting date. The derivatives are marked to market by discounting the contractual cash flows using a market rate for a similar instrument as at balance date. The valuations are provided by the financial instrument provider and this represents a quote in an active market. The resultant gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. However, where derivatives qualify for hedge accounting and are in a designated hedge relationship, recognition of any resulting gain or loss depends on the nature of the item being hedged (refer accounting policy 3(p)).

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

(p) Hedging

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will asses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged items fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cashflows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they are designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised or the hedging relationship is revoked, then hedge accounting is discontinued prospectively. Where cashflow hedge accounting is revoked prospectively, the cumulative gain or loss previously recognised in net assets attributable to security holders remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in net assets attributable to security holders is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in net assets attributable to security holders is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(i) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

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3. Significant accounting policies (continued)

(p) Hedging (continued)

(ii) Hedge of net investment in foreign operations

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in net assets attributable to security holders. The ineffective portion is recognised immediately in the income statement.

(q) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms requires delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

(ii) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets are designated at fair value through profit or loss upon initial recognition where the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis.

Financial assets at fair value through profit or loss are stated at fair value, being the underlying net asset value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial instrument.

(r) Trade and other payables

Trade and other payables are stated at their amortised cost

Trade and other payables are non-interest bearing and are normally settled on 60-day terms.

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the life of the borrowings on an effective interest basis.

(t) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(u) Financial instruments issued by the Group

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Security holder funds are defined as liabilities and are therefore classified and disclosed as such in the balance sheet, being referred to as “Net assets attributable to security holders”.

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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(u) Financial instruments issued by the Group (continued)

(ii) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in accounting policy note 3(d).

(v) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(w) Change in net assets attributable to security holders

Non-distributable income, which may comprise unrealised changes in the fair value of investments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses are reflected in the income statement as changes in net assets attributable to security holders.

These items are included in the determination of distributable income in the year for which they are assessable for taxation purposes.

(x) Equity issuance costs

Transaction costs incurred in issuing securities are accounted for as a deduction from net assets attributable to security holders.

(y) Earnings per security

(i) Basic earnings per security

Basic earnings per security is calculated as net profit attributable to security holders of AEZH for the year divided by the weighted average number of ordinary securities outstanding during the year, adjusted for bonus elements in ordinary securities issued during the year.

(ii) Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

(z) Employee entitlements

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

4. Segment Reporting

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 of 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.

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Group's headquarters) and head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, Investment Property and intangible assets other than goodwill.

The requirement for the Group to prepare segment reporting disclosures commenced during this year. 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.

5. Revenue

	Consolidated	
	2009	**2008**
	$'000's	**$'000's**
Investment income/(expense)		
Investment devaluations		
Financial assets designated at fair value through profit and loss:		
Fair value loss on revaluation of investments	(11,067)	(2,091)
	(11,067)	**(2,091)**
Investment income/(expenses)		
Distributions from investments	-	1,442
	-	**1,442**

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6. Other Income

	Consolidated 2009 $'000's	2008 $'000's
Other income		
Net gain on disposal of plant and equipment	17	-
Fair value gain on other financial instruments at fair value through profit and loss	206	-
Sundry income	3,025	1,772
	3,248	**1,772**

7. Other expenses

	Consolidated 2009 $'000's	2008 $'000's
Other operating expenses		
Loans and receivables:		
Bad debt expense	494	396
Write-off of other receivables - related parties	2,969	-
Impairment of trade receivables - external	7,352	4,662
Impairment of loans receivable – related parties	3,024	-
Financial liabilities classified at fair value through profit and loss:		
Fair value loss on other financial instruments	-	206
Other expenses:		
Cost of services	12,650	7,510
Impairment of goodwill	-	2,741
Provision for transfer tax	-	3,482
Abortive acquisition costs	-	1,528
	26,489	**20,525**

8. Financing Income and Expenses

	Consolidated 2009 $'000's	2008 $'000's
Financing income/(expense)		
Interest income – external	567	1,812
Interest income – related parties	1,354	209
	1,921	**2,021**
Financial assets classified at fair value through profit and loss:		
Net fair value (loss)/gain on interest rate swaps	(60,792)	6,740
	(60,792)	**6,740**
Interest expense – external	(37,007)	(31,700)
Interest expense – related parties	(65)	(1,034)
Amortisation of banking costs[1]	(12,540)	(3,160)
Banking and facility fees	(252)	(441)
Finance expenses	**(49,864)**	**(36,355)**
Net Financing costs	**(108,735)**	**(27,574)**

[1] At 30 June 2009, the Group was in breach of certain of its loan covenants (refer to note 12 for further detail). As a result, certain loan balances have been classified as current at 30 June 2009. The borrowing costs associated with these debt balances have been written-off in the current year.

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9. Earnings per security

The following reflects the income and security information used in the calculation of basic and diluted earnings per security.

	Consolidated	
	2009	**2008**
In cents		
Basic and diluted earnings per security	(56.84)	(11.10)
In thousands of AUD		
Basic and diluted earnings		
Net profit/(loss) attributable to AEZH security holders	(309,430)	(59,857)
Weighted average number of ordinary securities (basic and diluted)		
Opening balance	541,911,232	529,396,347
Effect of securities issued on 31 August 2007	-	7,091,905
Effect of securities issued on 25 October 2007	-	2,705,395
Effect of securities issued on 29 August 2008	2,506,371	-
Closing balance	**544,417,603**	**539,193,647**

10. Cash and cash equivalents

	Consolidated	
	2009	**2008**
	$'000's	**$'000's**
Cash on hand	19,391	34,605
Deposits with banks	9,541	9,199
Bank overdraft	(69)	(70)
	28,863	**43,734**

Included in the balance of cash and cash equivalents is an amount of $10,907,000 (2007: $7,104,000) concerning amounts that have been provided to banks as security for bank guarantees, derivative financial instruments and other transactions.

11. Investment Property

	Consolidated	
	2009	**2008**
	$'000's	**$'000's**
Investment property		
Opening balance	1,203,141	1,156,012
Additions from subsequent expenditure	2,198	4,541
Transfers from property under development	-	22,340
Acquisitions through business combinations	-	106,725
Fair value adjustments	(240,894)	(100,875)
Effects of movements in foreign exchange	80,004	14,398
	1,044,449	**1,203,141**

APN European Retail Property Group and its controlled entities
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12. Interest bearing liabilities

	Consolidated 2009 $'000's	2008 $'000's
Interest bearing liabilities		
Current – amortised cost		
Finance lease liabilities	130	106
Other loans from related parties, unsecured	1,784	29,244
Bank loans, secured	649,338	90,512
Bank loans, unsecured	-	40,100
	651,252	**159,962**
Non-current – at amortised cost		
Finance lease liabilities	2,856	2,809
Bank loans, secured	82,434	573,734
	85,290	**576,543**
Reconciliation of Interest bearing liabilities:		
Amounts borrowed	739,344	747,770
Less: Capitalised transaction costs	2,802	11,265
	736,542	**736,505**

At 30 June 2009, the Group was in breach of certain of its loan covenants on debt totalling $650.3 million largely as a result of falling property valuations for the period. 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 a loan where although the loan is not at call or has a rescheduled repayment date within twelve months, it has been determined that this right to defer may not be unconditional. While the Directors do not believe that the loan will necessarily be called in the next twelve months they have decided that classification as a current liability is required by AASB 101. A description of loans in breach or default of their covenants at reporting date is provided below:

Spain portfolio $213,829,000 (€122,503,000), Royal Bank of Scotland
At 30 June 2009 the loan to valuation ratio covenant on this Spanish portfolio loan was over the required 68% primarily 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.

Champion Retail Fund ('CRF'), Greece $64,194,000 (€36,777,000), Bond Loan
At 30 June 2009 there has been a technical breach of a non-financial covenant. This breach is expected to be remedied by performing a number of procedural tasks. As a result this loan has been classified as a current liability.

Working Capital Facility $39,274,000 (€22,500,000), Royal Bank of Scotland
At 30 June 2009 two 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.

At 30 June 2009, other loans amounting to $270,638,000 were in cross default breach with the Working Capital Facility. There is a further facility in the amount of $62,314,000 that has a potential breach dependent on the interpretation of the underlying agreement. These liabilities have not been called and no notice of default, potential default or reservation of rights has been received from the counterparty in respect of these liabilities.

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13. Other financial liabilities

	Consolidated 2009 $'000's	2008 $'000's
Other financial liabilities		
Current at fair value		
Finance liabilities held for trading		
Forward exchange contacts	31,151	157
Interest rate swaps	33,258	-
Other financial instruments	-	206
	64,409	**363**
Non-Current at fair value		
Finance liabilities held for trading		
Forward exchange contacts	-	10,386
Interest rate swaps	-	2,173
	-	**12,559**

At 30 June 2009, the Group was in breach of covenants on hedging facilities totalling $64.2 million primarily as a result of falling property valuations for the year. 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 the covenants at reporting date is provided below:

Deutsche Bank hedging facilities $6,486,000
At 30 June 2009, a cross default clause with the Champion Retail Fund term debt facility has resulted in a breach of the Champion Retail Fund hedge facility covenants. As a result these facilities have been classified as current liabilities.

Royal Bank of Scotland hedging facilities $57,579,000
At 30 June 2009, the RBS hedging facilities are in breach due to a cross default clause with the Working Capital Facility. As a result, these facilities have been classified as current liabilities.

Bank of Austria, Unicredit Romania hedging facilities $2,736,000
At 30 June 2009, the Romanian hedging facilities are in breach due to a cross default clause with the City Mall term debt. As a result, these facilities have been classified as current liabilities.

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14. Distributions paid / payable to security holders

	Consolidated – 2009	
	Cents per security	**$'000's**
Distributions paid/payable		
Interim distributions paid		
December		
Fully paid stapled security	-	-
Final distribution payable		
June		
Fully paid stapled security	-	-
	-	-

15. Net assets attributable to security holders

	Consolidated	
	2009 Securities	**2008 Securities**
Net assets attributable to security holders	**000's**	**000's**
Classified as a liability		
Securities on Issue		
On issue at beginning of the period	**541,911**	**529,397**
Issue of fully paid securities in accordance with the Distribution Reinvestment Plan – 31 Aug 2007	-	8,538
Issue of fully paid securities in satisfaction of the 2007 Asset Management fee – 25 Oct 2007	-	3,976
Issue of fully paid securities in accordance with the Distribution Reinvestment Plan – 29 August 2008	3,000	-
	544,911	**541,911**

	Consolidated	
	2009	**2008**
	$'000's	**$'000's**
Opening balance	**445,305**	**511,650**
Issue of securities:		
Issue of fully paid securities in accordance with the Distribution Reinvestment Plan – 31 Aug 2007	-	10,324
Issue of fully paid securities in satisfaction of the 2007 Asset Management fee – 25 Oct 2007	-	5,049
Capital distribution to security holders to establish AEZM	-	(147)
Issue of fully paid securities in accordance with the Distribution Reinvestment Plan – 29 Aug 2008	786	-
Capital raising costs	(138)	(140)
Increase/(decrease) in net assets attributable to security holders	(265,055)	(81,431)
Closing balance	**180,898**	**445,305**

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16. Retained Earnings

	Consolidated 2009 $'000's	2008 $'000's
Retained earnings		
Opening balance	(15,482)	(3,945)
Profit/(loss) after tax and minority interests	(44,375)	(11,537)
	(59,857)	**(15,482)**

17. Subsidiaries

Consolidated entities

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights % 2009	2008
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 Chamption Sub Trust	*(a)*	Australia	19.8	-
APN Traisenpark Sub Trust		Australia	100.0	100.0
AEZ Finance Company Pty Ltd		Australia	100.0	100.0
AEZ CB (No. 1) Pty Ltd	*(a)*	Australia	55.8	-
APN CF (No. 3) Pty Ltd		Australia	55.8	100.0
APN (UK) Limited		UK	100.0	100.0
APN Portfolio Management Limited		UK	100.0	100.0
Traisenpark 16 GmbH		Austria	100.0	100.0
Traisenpark 17 GmbH		Austria	100.0	100.0
Traisenpark 18 Vermeitungs GmbH		Austria	100.0	100.0
APN Property Holdings (No. 3) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 6) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 7) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 8) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 9) BV		Netherlands	55.8	100.0
APN Property Holdings (No. 14) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 15) BV		Netherlands	100.0	100.0
APN Dutch Finance Company BV		Netherlands	100.0	100.0
Desuco BV		Netherlands	100.0	100.0
Festival Park Es Mirall Holdidngs BV		Netherlands	100.0	100.0
APN Finance Company Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No. 1) Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No. 2) Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No. 5) Sarl		Luxembourg	100.0	100.0
Commercial Investment Alcobendas Sarl		Luxembourg	100.0	100.0
APN CF (No 1) Sicav	*(a)*	Luxembourg	55.8	-
APN CF (No 2) Sarl	*(a)*	Luxembourg	55.8	-
Zenon Real Estate SA		Greece	55.8	100.0
City Gate SA		Greece	100.0	100.0
San Giuliano Holdings Srl		Italy	100.0	100.0
Investmenti Commerciali San Giuliano Srl		Italy	100.0	100.0
Gallarate Holdings Srl		Italy	100.0	100.0
Investmenti Commerciali Gallarte Srl		Italy	100.0	100.0

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17. Subsidiaries (continued)

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
Es Mirall Developments SA		Spain	100.0	100.0
Parque Comercial Luz de Castilla SL		Spain	100.0	100.0
Comercial Inversora Alcobendas SL		Spain	100.0	100.0
Parque Commercial Los Cuadernillos SL		Spain	100.0	100.0
APN Property Holdings (No. 4)		Germany	100.0	100.0
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	100.0	100.0
SC Victoria Holdings SA		Romania	100.0	100.0

(a) Acquired during the year ended 30 June 2009 (refer note 19)

(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.

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

18. Reconciliation of cash flows from operating activities

	Consolidated 2009 $'000's	2008 $'000's
Notes to the cash flow statement		
Reconciliation of cash flows from operating activities		
Net loss	**(44,375)**	**(11,537)**
Net Finance costs attributable to security holders	(265,055)	(48,320)
Net loss attributable to members of AEZH	**(309,430)**	**(59,857)**
Net profit/(loss) attributable to minority interests	(12,676)	339
Loss after income tax expense	**(322,106)**	**(59,518)**
Adjustments for non cash items and items classified as investing or financing activities:		
Net finance costs	47,060	33,975
Change in fair value of investments	11,067	2,091
Impairment of goodwill	-	2,741
Change in fair value of investment properties	240,894	100,875
Change in fair value of derivative instruments	92,912	8,246
Gain on disposal of plant and equipment	(17)	-
Distribution from investments	-	(1,442)
Income tax (benefit)	(41,613)	(42,961)
Depreciation and amortisation expense	143	67
Loss / (gain) on income hedges	8,030	(9,796)
Net foreign exchange losses/(gains)	21,255	18,246
Net cash provided by/(used in) operating activities before changes in assets and liabilities	**57,625**	**52,524**
Change in assets and liabilities during the financial year		
Decrease in trade and other receivables	7,650	1,553
Increase/(decrease) in trade and other payables	(7,759)	9,506
Increase in provisions	3,004	2,371
Net cash flows provided by/(used in) operating activities	**60,520**	**65,954**

19. Disposal of a business

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% interest and therefore Champion continues to be a controlled entity. The uneliminated minority interest profit on disposal of $4,332,000 from the settlement of this transaction has been recgonised in equity in accordance with AASB 127.

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

20. Net tangible asset backing

	Consolidated	
	2009	2008
	Cents per security	Cents per security
Net tangible asset backing per security	32.68	80.09
Net tangible asset backing per security excluding deferred tax associated with Investment Property	42.09	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 Group net tangible asset backing is 544,910,660 (2008: 541,911,232).

21. Subsequent events

Post balance date the Group has negotiated a draft Heads of Terms ('HoT') for the sale of the Champion Portfolio. The sale is conditional on the execution of this document, successful completion of a due diligence process and necessary approvals. The indicative sale price is based on a property valuation of €71,000,000 ($123,931,000), which is equal to the carrying value at 30 June 2009.

22. 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 ($2.8 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.

From time to time, in the course of normal operations, the Group is subject to disputes with tenants in regards to contract terms. As of year 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.

Guarantees

The Group 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 $132.2 million/€75.8 million (2008: $185.2 million/€112.8 million). In return, the Group 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 a default event, which would trigger the corporate guarantees and collateralisation arrangements being recognised as a liability by the Group is not 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.

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.

22. Contingencies (continued)

Contingent assets

The Group has received a corporate guarantee amounting to $8.8 million/€5.0 million (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.

Compliance Statement

1. This report has been prepared in accordance with AASB Standards, the Corporations Act 2001 and Corporations Regulations 2001 and other standards acceptable to ASX.
2. This report and the accounts upon which the report is based use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. The report is based on accounts that are in the process of being audited.

Sign here: Date: 26 August 2009

David Blight
Director

Commentary on results for the period and trends in performance

Refer to accompanying documents