



MULTIPLEX EUROPEAN PROPERTY FUND

ARSN 124 527 206

Interim Report 2014

Responsible Entity
Brookfield Capital
Management Limited
ACN 094 936 866
AFSL 223809

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Message from the Chairman

On behalf of the Board of Brookfield Capital Management Limited (BCML), enclosed is the Multiplex European Property Fund (Fund) report for the half year period to 31 December 2013.

FINANCIAL RESULTS

The Fund reported a net profit after tax of \$5.9 million for the half year to 31 December 2013.

Key financial results as at 31 December 2013 include:

- net cash held in Australia of approximately \$7.4 million
- Fund net assets of \$11.4 million or \$0.05 per unit
- property portfolio valued at \$344.1 million

STATUS OF FUND

As at 31 December 2013, the Fund's property portfolio value was €223 million and the Loan to Value Ratio (LVR) was 103.7%. As a result of the LVR continuing to exceed 95%, the Fund's debt facility requires cash and cashflow be subject to lock up and cannot be repatriated or disbursed without consent of the financier. Approximately €17.0 million is retained in the German partnerships owned by the Fund and cash has been used to fund ongoing requirements of the property portfolio.

DEBT FACILITY

The debt facility is due to expire in April 2014 and discussions with the financier continue. A conditional offer from the financier for an initial six month extension of the facility was received in December 2013 and continues to be reviewed by BCML. Even in circumstances where a refinancing of the debt is achieved, market conditions and other factors may adversely affect the Fund and returns to investors.

GERMAN TAX AUDIT

The tax audit of the German partnerships continues. To date, no response has been received from the German tax authority regarding an objection lodged for the assessment of approximately €2 million raised for the 2004 to 2006 income years. An audit of the 2007 to 2010 income years is ongoing and no findings have been received from the German tax authorities in respect of those income years.

CASH AND DISTRIBUTIONS

The Fund currently retains available cash balances of approximately \$7.4 million (3 cents per unit) in Australia. Cash held in Australia is not provided as security for the debt facility and is held outside of the German partnerships and its partners.

Future distributions remain subject to BCML's assessment of operating and/or market conditions in Germany and Australia, ongoing discussions with the financier and taxation requirements including the outcome of the appeal process arising from German tax assessments. Further information will be provided to investors when available.

On behalf of the Board, thank you for your ongoing support.



F. Allan McDonald
Independent Chairman



Half Year Review

Brookfield Capital Management Limited (BCML) the Responsible Entity of Multiplex European Property Fund (the Fund) provides a review of the half year ended 31 December 2013.

FINANCIAL RESULTS

When measured in euro the Fund experienced a decline in underlying operational performance against the comparable 2012 period. The decline is largely as a result of increased property maintenance works, costs associated with the tax audit and debt extension, and the continued impact of economic conditions on leasing activities.

In the half year to 31 December 2013, the property portfolio value decreased by 0.2% or €0.4 million. Due to appreciation of the euro against the Australian dollar, on conversion to Australian dollars, the property portfolio shows an increase in value of \$28.0 million. The overall movement in net assets of the Fund was an increase of \$5.8 million over the period.

Key results for the half year ended 31 December 2013 are as follows:

- property portfolio valued at \$344.1 million (30 June 2013: \$316.1 million);

- net profit after tax of \$5.9 million (31 December 2012: net loss after tax of \$1.7 million);
- earnings per unit of 2.37 cents (31 December 2012: (0.68) cents);
- net assets of \$11.4 million or 5 cents per unit (30 June 2013: \$5.5 million or 2 cents per unit);
- portfolio occupancy of 91% (30 June 2013: 90.2%);
- weighted average lease expiry (WALE) by income of 7.3 years (30 June 2013: 7.5 years); and
- there were no distributions declared to investors.

DISTRIBUTIONS

The Fund retains the balance of cash held in Australia to meet ongoing obligations for cross currency forward rate agreements, costs associated with management of the Fund and to retain commercial flexibility for discussions with the financier.

Future distributions remain subject to BCML's assessment of operating and/or market conditions in Germany and Australia, ongoing discussions with the financier and taxation requirements including the outcome of the appeal process arising from German tax assessments.

VALUATION SUMMARY

| SECTOR | 30 JUNE 2012 VALUATION (€M) | 31 DECEMBER 2012 VALUATION (€M) | 30 JUNE 2013 VALUATION (€M) | 31 DECEMBER 2013 VALUATION (€M) | % CHANGE JUNE–DECEMBER 2013 |
|---------------|--------------------------------|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| Retail | 127.4 | 123.1 | 121.9 | 122.0 | 0.1 |
| Nursing homes | 56.9 | 57.0 | 56.4 | 56.3 | -0.2 |
| Logistics | 19.0 | 18.7 | 18.6 | 17.9 | -3.8 |
| Office | 26.9 | 26.6 | 26.5 | 26.8 | 1.1 |
| Total | 230.2 | 225.4 | 223.4 | 223.0 | -0.2 |

ASSET MANAGEMENT

The Fund's property portfolio comprises 67 properties: 55 retail properties, six nursing homes, three logistic properties and three office properties.

The properties were independently valued by Jones Lang LaSalle GmbH (JLL) in Frankfurt as at 31 December 2013. Market value of the portfolio was €223.0 million which represents a small decline of 0.2% from the 30 June 2013 value of €223.4 million. Market value was assessed using the discounted cashflow calculation methodology.

As at 31 December 2013, portfolio occupancy was 91% (by area) with a WALE of 7.3 years (by income). The occupancy rate remains impacted by an office asset in Düsseldorf which is only 14% occupied and two vacant discount supermarkets at Rabenau and Clenze.

RETAIL SECTOR

The Fund has 55 retail properties including supermarkets, discounts, retail parks, DIY and hypermarkets. Large national and multi-national tenants including Aldi, Edeka, Lidl and Netto are represented across a number of the assets.

Edeka contributes more than 14% of portfolio net income over seven assets. Hornbach, the DIY operator, provides 6% of the portfolio net income.

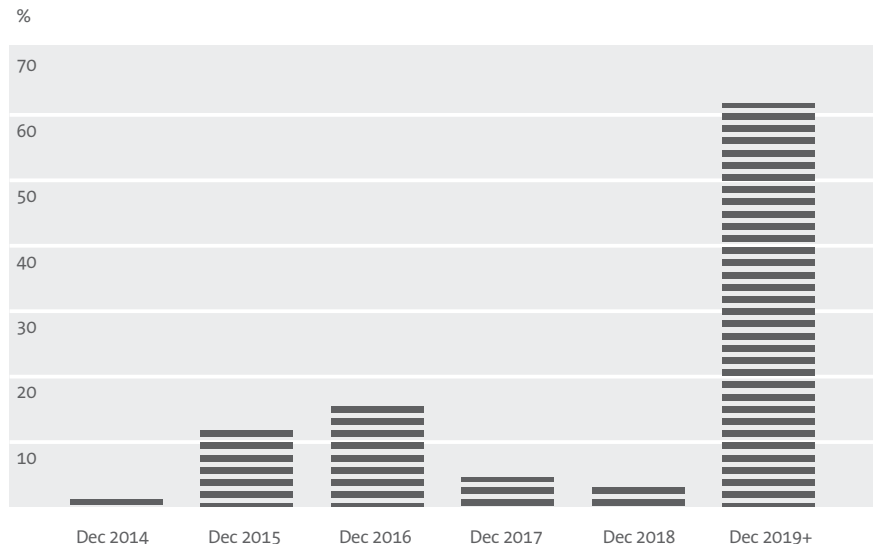
The Fund's retail portfolio value has increased slightly from €121.9 million at 30 June 2013 to €122.0 million as at 31 December 2013. The increase reflects a number of new leases entered into at the end of 2013 and an increase of 521 sqm in the lettable area in Lörrach Meeraner platz 1 shopping centre.

SECTOR ALLOCATION

- 55% Retail/Other
- 25% Nursing homes
- 12% Office
- 8% Logistics



LEASE EXPIRY PROFILE (by income)



* Calculated on the value of properties as at 31 December 2013.

Half Year Review

NURSING HOMES

Nursing homes provide 25% of the Fund's asset value. Discussions continue with the nursing homes lessees to extend existing lease terms, targeting a 15 year WALE.

LOGISTICS SECTOR

The portfolio comprises three logistics sector assets which make up 8% of the Fund's portfolio value.

The two larger logistics properties are fully occupied. The Gera property vacated in 2012, although discussions continue with potential tenants.

OFFICE SECTOR

The office portfolio accounts for 12% of the total portfolio value. The property portfolio values remained fairly constant at €26.8 million. The Frankfurt am Main property increased slightly benefiting from an increase in prime rent rates in the city of Frankfurt am Main in 2013.

CALL OPTION

A subsidiary of the Fund has exercised the call option over the 5.1% interest in the German partnerships not owned by the Fund. The option was due to expire on 2 January 2014.

Reflecting the current financial position of German partnerships, the 5.1% interest is considered to have nominal value. If the 5.1% interest value cannot be agreed between the parties, it will ultimately be determined by an independent valuer.

BCML considers that exercising the option will expedite decision making in the German partnerships regarding any strategy to be adopted for the properties. It is not anticipated that exercising the option will have a material impact on the Fund's net asset position.

OCCUPANCY AND WEIGHTED AVERAGE LEASE EXPIRY (WALE)

| DESCRIPTION | OCCUPANCY % | MAJOR TENANTS | YEARS (BY INCOME) |
|--|-------------|--|-------------------|
| 55 retail properties comprising: – discount supermarkets – full supply supermarkets – DIY markets | 94 | EDEKA, Hornbach, Netto, Rewe | 6.87 |
| 6 nursing homes | 100 | Kursana, Phoenix | 11.48 |
| 3 logistic/warehouses | 88 | Spicers, TNT | 2.71 |
| 3 offices (including data centre) | 65 | Telecity Group Germany ABB AG Division Energietechnik | 13.05 |
| Total portfolio | 91 | | 7.32 |

DEBT AND HEDGING

Debt

As the LVR ratio continues to exceed 95%, terms of the debt facility provide that cash and cashflow within the partnerships be retained within those entities, and not repatriated or disbursed without consent of the financier.

Approximately €17 million is retained and cash has been used to fund the ongoing requirements of the property portfolio.

Discussions have continued with the financier regarding an extension to the debt facility. Such an extension remains important in supporting the solvency of a number of European subsidiaries of the Fund.

Correspondence was received from the financier in December 2013 detailing terms and conditions on which the financier is, in principle, prepared to extend the facility beyond the current expiry on 15 April 2014.

The financier is proposing an initial six month extension of the facility to 15 October 2014 with a further extension to 31 December 2014 to be 'favourably considered'. Any extension beyond 15 October 2014 is at the discretion of the financier.

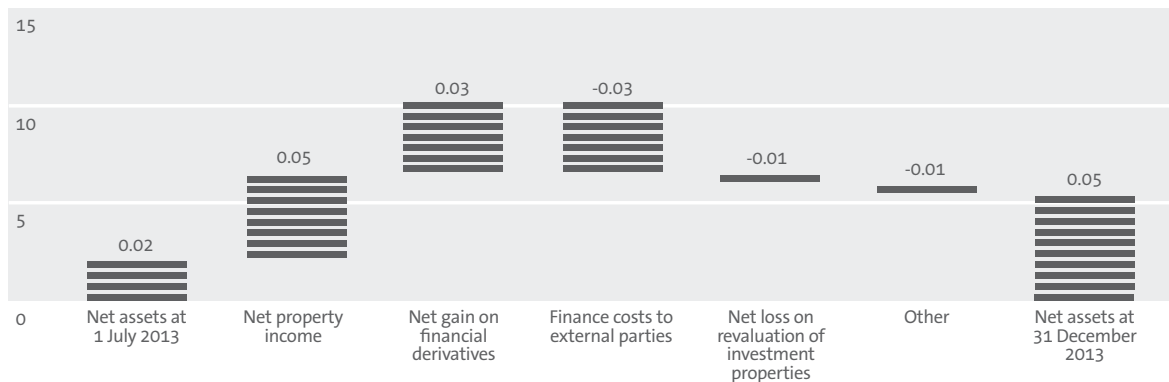
Proposed conditions to be satisfied for the initial facility extension to 15 October 2014 include:

- extension of the asset and property management agreement with the existing manager, Corpus Sireo Asset Management GmbH (Corpus Sireo), to at least 31 December 2014;
- provision of a business plan to the financier for the period 1 January 2014 to 31 December 2016 setting out the sale of the Fund's properties over that period;
- execution of a mandate with Corpus Sireo or other sales agent to sell the properties;
- execution of a standstill agreement with the financier containing various provisions including those governing the use of sales proceeds from selling the properties; and
- no default occurs under the facility nor is there any change in circumstances which detrimentally affects the financier's position against the borrowers under the debt facility.

At this time BCML has made no determination to accept the conditions proposed by the financier and extend the debt facility past the expiry of 15 April 2014. BCML continues to review the proposed terms with its advisers.

NTA MOVEMENT (per unit)

cents



Half Year Review

Hedging

Other than forward quarterly foreign exchange contracts discussed below, the net equity position of the Fund's investment in the property portfolio is not hedged. Therefore, the Fund may be impacted by movements between the Australian dollar and the Euro.

An interest rate swap remains in place in the Fund's German partnerships with the effective interest rate fixed at 4.48% (carrying value as at 31 December 2013 of (\$3.6) million).

Forward quarterly foreign exchange contracts remain in place until April 2014 outside the Fund's German partnerships whereby Euro is exchanged for Australian dollars on a quarterly basis (carrying value as at 31 December 2013 of \$0.8 million). In October 2013 a subsidiary of the Fund entered into new derivative contracts to lock in cashflow from the remaining foreign exchange contracts and remove the risk of any fall in the Australian dollar against the euro over the remaining period of the forward contracts.

CASHFLOW CONSIDERATIONS

The Fund currently has net cash balances of approximately \$7.4 million (3 cents per unit) in Australia. Cash held in Australia is not provided as security for the debt facility and is not affected by the lock up of cash in the Fund's German partnerships. In the event that a cash lock-up continues, costs to manage the Fund (estimated to be approximately \$2.3 million per annum) will be met from cash reserves, earnings on such reserves or net proceeds from forward quarterly foreign exchange contracts which remain in place until April 2014.

TAX AUDIT

No response has been received from the German tax authority regarding the objection lodged for the assessment raised against the German partnerships for German trade tax for the 2004 to 2006 income years of approximately €2 million including interest and penalties.

FUND SNAPSHOT (as at 31 December 2013)

| | |
|---|--|
| Listing date | 3 July 2007 |
| Market capitalisation ¹ | \$8.6 million |
| Total assets | \$381 million |
| Net assets per unit | \$0.05 |
| Portfolio occupancy | 91% |
| Portfolio weighted average lease expiry (by income) | 7.3 years |
| Fund gearing (interest bearing loans/total assets at Fund level) | 93.7% |
| Loan to value ratio (interest bearing loans/property assets) ² | 103.7% |
| Management fee ³ (excluding GST) | 0.41% of gross asset value |
| Performance fee (excluding GST) | 5% to 15% of benchmark ⁴ outperformance |

Notes:

- 1 Market capitalisation as at close of trading on 31 December 2013.
- 2 Calculated using 31 December 2013 valuations.
- 3 Subject to the arrangements outlined in the Chairman's letter dated 14 June 2007.
- 4 S&P/ASX 300 A-REIT Accumulation Index.

The German tax audit continues for the 2007 to 2010 income years. Whilst each year is considered separately by the tax authorities, if they were to apply the same approach to all partnerships for the 2007 to 2010 period as was applied to 2004 to 2006, the current estimate of potential trade tax payable would be approximately €27.9 million (including approximately €6.3 million in interest and penalties calculated as at 31 December 2013).

If a tax liability arises following completion of the audit, such liability would be payable by the respective German partnership and ultimately its partners, being a number of the Fund's European subsidiaries. If an assessment arose for the 2007 to 2010 income years the German tax authorities may require immediate payment of the assessment or provision of collateral. The assets of the partnerships and their partners are limited to the value of interests held in the partnership's German property portfolio, related operating cashflows and nominal capital of the partners. As the partnerships

are in cash lock-up, cash reserves and net operating cashflow cannot be repatriated or disbursed without consent of the financier. If an assessment becomes due and payable, discussions with the financier and the German tax authority would be required regarding payment of part or all of any such liability. If no deferral of the liability is achieved, or in circumstances where the financier does not consent to use of the reserves, this may give rise to solvency considerations in those entities and/ or an event of default under the debt facility.

Consistent with prior reporting periods, having obtained independent advice, BCML's view remains that, in the event that the tax matter was pursued through to court appeal, the relevant entities are more likely than not to successfully defend their position and no trade tax would ultimately be payable. No liability has been recognised in the 31 December 2013 consolidated financial statements for the potentially outstanding amounts.

RECONCILIATION OF NORMALISED PROFIT

| | |
|---|-----------------|
| Net profit after tax | \$5.9 million |
| Adjustments: | |
| – net loss on revaluation of investment property | \$2.6 million |
| – net unrealised gain on revaluation of financial derivatives | (\$6.1 million) |
| – deferred income tax expense | \$1.0 million |
| – amortisation of borrowing costs | \$0.1 million |
| Normalised net profit | \$3.5 million |
| Normalised earnings per unit (cents per unit) | 1.42 cents |
| Distributions (cents per unit) | 0.0 cents |

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2013

| | CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2013 \$'000 | CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2012 \$'000 |
|---|---|---|
| Revenue and other income | | |
| Property rental income | 16,582 | 14,931 |
| Interest income | 155 | 698 |
| Net realised gain on financial derivatives | 830 | 1,263 |
| Net unrealised gain on revaluation of financial derivatives | 6,104 | 1,929 |
| Total revenue and other income | 23,671 | 18,821 |
| Expenses | | |
| Property expenses | 4,108 | 2,155 |
| Finance costs to external parties | 7,921 | 6,668 |
| Management fees | 763 | 693 |
| Net loss on revaluation of investment properties | 2,583 | 7,402 |
| Other expenses | 1,332 | 700 |
| Total expenses | 16,707 | 17,618 |
| Profit before income tax | 6,964 | 1,203 |
| Income tax expense | (1,113) | (2,884) |
| Net profit/(loss) after tax | 5,851 | (1,681) |
| Other comprehensive income, net of income tax | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Changes in foreign currency translation reserve | (20) | (92) |
| Other comprehensive loss for the period, net of income tax | (20) | (92) |
| Total comprehensive income/(loss) for the period | 5,831 | (1,773) |
| Net profit/(loss) attributable to ordinary unitholders | 5,851 | (1,681) |
| Total comprehensive income/(loss) attributable to ordinary unitholders | 5,831 | (1,773) |
| Earnings per unit | | |
| Basic and diluted earnings/(loss) per ordinary unit (cents) | 2.37 | (0.68) |

The Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at www.au.brookfield.com.

Condensed Consolidated Interim Statement of Financial Position

As at 31 December 2013

| | CONSOLIDATED 31 DECEMBER 2013 \$'000 | CONSOLIDATED 30 JUNE 2013 \$'000 |
|--|--|--|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 34,321 | 54,310 |
| Trade and other receivables | 1,102 | 1,352 |
| Fair value of foreign currency financial derivatives | 793 | 1,677 |
| Total current assets | 36,216 | 57,339 |
| Non-current assets | | |
| Investment properties | 344,144 | 316,129 |
| Deferred tax asset | 575 | 1,453 |
| Total non-current assets | 344,719 | 317,582 |
| Total assets | 380,935 | 374,921 |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 7,467 | 6,492 |
| Return of capital payable | – | 24,695 |
| Interest bearing liabilities | 356,952 | 327,204 |
| Fair value of interest rate financial derivative | 3,633 | 9,180 |
| Non-controlling interest payable | 926 | 1,415 |
| Total current liabilities | 368,978 | 368,986 |
| Non-current liabilities | | |
| Trade and other payables | 589 | 398 |
| Total non-current liabilities | 589 | 398 |
| Total liabilities | 369,567 | 369,384 |
| Net assets | 11,368 | 5,537 |
| Equity | | |
| Units on issue | 202,533 | 202,533 |
| Reserves | (920) | (900) |
| Undistributed losses | (190,245) | (196,096) |
| Total equity | 11,368 | 5,537 |

The Condensed Consolidated Interim Statement of Financial Position should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at www.au.brookfield.com.

Corporate Directory

RESPONSIBLE ENTITY

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F. Allan McDonald
Barbara Ward
Brian Motteram
Russell Proutt
Shane Ross

COMPANY SECRETARY

Neil Olofsson

REGISTERED OFFICE

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CUSTODIAN

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STOCK EXCHANGE

The Fund is listed on the Australian Securities Exchange (ASX Code: MUE).
The Home Exchange is Sydney.

AUDITOR

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www.au.brookfield.com