

**EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED
(FORMERLY MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED)**

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

CONTENTS

	Page
Chairman's Statement	3-4
Investment Manager's Report	5-9
Board of Directors	10
Directors' Report	11-13
Corporate Governance	14-15
Independent Auditor's Report	16
Financial Statements	17-20
Notes to the Financial Statements	21-49
Company Information	50
Information for Shareholders	51

CHAIRMAN'S STATEMENT

The Company has made progress during the year, despite the continuation of challenging markets in continental Europe.

The transfer of the Company's management to Schroder Property Investment Management Limited ("Schroders") with effect from 5 September 2012 was carried through seamlessly. Furthermore the Extraordinary General Meeting held on 10 October 2012 confirmed the change in the name of the company to 'European Real Estate Investment Trust Limited' with effect from that date.

Market conditions have not been favourable and sentiment in the eurozone hit new lows in the second half of 2012. This has made progress on disposals difficult. Investors remained risk averse, sales negotiations are often protracted and markets continue to be capital constrained.

Three properties at a book cost of €48.8 million were sold at prices on average 1.8% below valuation. However execution risk on transactions is high and the timetable for further sales is uncertain.

The Manager has also completed lease extensions at a number of properties which, after asset management improvements, are now being actively marketed for sale. There is buyer interest in these investments but progress is slow.

Strategy

As disclosed in the half-year report, since the Directors declared a strategy to return all capital to shareholders of the Company they have not prepared the Financial Statements on a going concern basis. To date this has not had any impact on the carrying value of the Group's assets or liabilities.

The Company's stated objective is to maximise shareholder value through an orderly realisation of the portfolio, as approved at the 5 August 2011 EGM. Despite sales of properties with a book cost of €48.8 million during the year, prevailing market conditions lead the Board to conclude that it will not be possible to dispose of all remaining properties by the end of 2013 at prices which are in the best interests of shareholders. Some assets in the portfolio cannot yet be marketed as a result of continuing asset management initiatives and sales processes are being delayed.

In parallel with actively pursuing the sales strategy, the group is also engaged in discussions with its current lender, Lloyds Banking Group, and other potential banks to explore a possible refinancing beyond the expiry of the current facility. There is however no certainty that refinancing will be secured. The Board is therefore also considering alternatives, in addition to a debt extension, refinancing and other strategic options, to protect shareholders' value and achieve greater balance sheet stability. Should the Group be unsuccessful in realising the portfolio by January 2014 and not secure a refinancing solution, the valuation of the property portfolio would be at risk of a material reduction to that reported at 31 December 2012.

Performance

The Company's Net Asset Value ("NAV") as at 31 December 2012 was £64.1 million or 193 pence per share ("pps"), compared with £82.2 million or 238 pps as at 31 December 2011, reflecting a decline of 45pps over the year. The Company's NAV continues to be adversely impacted by property sales and reducing property valuations.

During the period, capital of £3.5million (equivalent to 10p per share) was returned to shareholders which reduced total NAV but was neutral to NAV per share.

The value of the Group's property portfolio fell 6.7% (in euro terms on a like-for-like basis) over the course of the year to €292.5 million (31 December 2011: €313.4 million). This decline reflects the continued nervousness in European financial and property markets as a result of concerns over weakening economic growth. Although economic commentators are forecasting no growth in the eurozone in 2013, capital market sentiment improved in the final months of 2012 as fears of a break-up of the currency area eased. There is however likely to be a continuing North-South divide in continental Europe with Northern economies faring better than those in the South.

In sterling terms the existing portfolio declined in value, over and above falls in property values, by an additional £7.6 million due to changes in currency over the course of the year, from £263.1 million as at 31 December 2011 to £238.5 million. This change is reconciled in the table below:

Property Value as at 31 December 2011	€362.2m	£303.2m
Disposals (book value)	(€48.8m)	(£40.1m)
	€313.4m	£263.1m
Capital expenditure	€1.5m	£1.2m
Valuation change	(€25.5m)	(£20.6m)
Tenant incentives	€3.1m	£2.4m
Currency Translation	-	(£7.6m)
Property Value as at 31 December 2012	€292.5m	£238.5m

Reported in the financial statements as:

Investment property portfolio	£87.6m
Properties held for sale	£145.9m
Subtotal (refer to note 17)	£233.5m
Tenant incentives (refer to note 21)	£5.0m
	£238.5m

Financing & Derivatives

The reduction in the sterling value of the property portfolio was substantially offset by declines in the sterling value of the Group's debt. Exchange rate differences of £5.3 million and loan repayments of £30.2 million caused the debt (and associated fees) to decrease to £164.6 million at 31 December 2012. This change is reconciled in the section below:

Debt as at 31 December 2011	€236.3m	£197.9m
Loan repayments	(€37.2m)	(£30.2m)
Amortisation of finance costs	€2.1m	£1.6m
Deferred arrangement fees	€0.7m	£0.6m
Currency Translation	-	(£5.3m)
Debt as at 31 December 2012	€201.9m	£164.6m

Stripping out accounting adjustments the outstanding debt to LBG as at 31 December 2012 was £163.9 million.

Currency and interest swaps

The cross-currency swap liability decreased by £10.6 million over the course of the period to £15.0 million (£25.6 million at 31 December 2011). However, with further weakening of sterling post year end, the cross-currency swap liability has increased to £20.2 million as at 14 March 2013.

CHAIRMAN'S STATEMENT

As stated in the interim accounts, the Board has continued to reduce the capital elements of the liability and £4.4 million was used for this purpose during the period.

This change is reconciled in the table below:

FX hedge as at 31 December 2011	€30.6m	£25.6m
Capital repayments	(€5.4m)	(£4.4m)
Fair value movement	(€6.7m)	(£5.5m)
Currency Translation	-	(£0.7m)
FX hedge as at 31 December 2012	€18.5m	£15.0m

The liability from the Group's interest rate swaps has decreased by 37% over the period to £4.3 million at 31 December 2012 (31 December 2011: £6.8 million). The Group had an aggregate mark-to-market liability of both foreign exchange and interest rate hedging contracts of £19.3 million (31 December 2011: £32.4 million).

Loan-to-value ratio

The Group had a gross loan-to-value ("LTV") ratio at the reporting date of 68.7% and circa £7.4 million of free cash resources. The net LTV on this basis is 65.6%. The gross LTV exceeded the 65% threshold above which operational income is applied to meet third party bank debt requirements, the "cash sweep".

Under the terms of this covenant, €1.1 million of debt has been paid down since 20 September 2012.

Outlook

Our property portfolio continues to generate a good cash flow from a wide range of tenants with relatively strong financial covenants. Over a third of the rental income from the portfolio was the subject of renegotiation by the Manager during the year and the Group now benefits from a weighted average lease length of 8.7 years. The strong income characteristics of the Group provide positive cash flow and help mitigate the additional time taken to complete sales.

We are operating in a very challenging environment in which it is proving difficult to realise shareholder value as quickly as had been anticipated. The near term market outlook shows little prospect for improvement and hence the Board does not believe all properties will be able to be sold by the end of 2013 at prices which are in the best interests of shareholders.

The Manager continues to focus on executing further asset management initiatives to maintain and enhance property values. We are considering all possible options for the portfolio in order to maximise shareholder value.

Crispian Collins

Chairman

INVESTMENT MANAGER'S REPORT

Forward Looking Statement

This report has been prepared solely to provide additional information to enable shareholders to assess the Group's strategies and the potential for these strategies to succeed. The report should not be relied on by any other party or for any other purpose.

This Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements are made in good faith based on the information available to the Investment Manager up to the time of its approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Group is exposed. Nothing in this report should be construed as a profit forecast.

Performance

The NAV as at 31 December 2012 was £64.1 million, reflecting a decline of £18.1 million or 22%. The table below provides an analysis of the decline in NAV over the year.

	£m
NAV attributable to equity shareholders as at 31 Dec 2011	82.2
Valuation change on investment property	(20.6)
Realised loss on disposal of investment property	(1.2)
Fair value movement in hedging contracts	6.7
Net revenue	0.5
Capital redemptions	(3.5)
NAV attributable to equity shareholders as at 31 Dec 2012	<u>64.1</u>

The reduction in NAV is largely due to decrease in property values offset by reduction in swap liabilities. These are described in some detail in the Chairman's Statement.

Three properties (Lyon, Leiden and Celle) were sold during the year at an average of 1.8% below 31 December 2011 valuation.

Investment Objective

The Company's investment objectives reflect the intention to dispose of all of the Group's assets.

The assets of the Group will be realised in an orderly manner, that is, with a view to achieving a balance between (i) returning cash to Shareholders at such times and in such manner as the Board may (in its absolute discretion) determine; (ii) reducing the Group's existing liabilities; and (iii) maximising the disposal value of the Group's assets. The Group may not make new acquisitions of real estate assets except where required to preserve and/or enhance the disposal value of its existing assets.

The Group will adopt a policy of progressively reducing its gearing and swap liabilities throughout the disposal programme.

Market Outlook

The short term economic outlook remains weak but now appears more stable across the larger and stronger European markets. Fears about the break-up of the eurozone eased in September following the ECB's announcement that it will buy the bonds of any government which applies for a bailout. This was followed in December by an EU agreement on a new system for supervising eurozone banks and by proposals for tighter controls over eurozone government budgets.

Government austerity will limit growth in southern Europe as well as some core markets. Consumers in most countries are under pressure from rising unemployment and falling real wages, as inflation outstrips earnings. As a result, Schroders expects to continue to see a three-speed Europe in 2013, with modest growth in export-led countries such as Germany, Sweden and Switzerland, little or no growth in France and the Netherlands and further falls in southern Europe.

Many European cities currently have high supplies of office accommodation, leading landlords to rely on incentives to retain and attract tenants. The one consolation is that vacancy rates in northern Europe have generally been fairly stable over the last 18 months (source: CBRE). This is partly due to low levels of new building activity and partly to positive net take-up, even in cities such as Paris where employment has been flat.

Some retail formats in northern Europe have continued to do well, despite the overall weakness of consumer spending and growing online competition. In France and Germany, dominant shopping centres over 40,000 sq m still have low vacancy rates of 2-5% (source: PMA). Furthermore, while retailers may be closing stores in smaller towns, they continue to want a presence in the big cities to promote their brand and retail offering. Accordingly, prime retail rents in Cologne, Dusseldorf, Frankfurt and Munich rose by 2-4% in 2012 (source: JLL).

INVESTMENT MANAGER'S REPORT

Although logistics operators have generally become more hesitant in 2012 as the economic outlook deteriorated, the extent to which demand has fallen varies from country to country. Demand in Belgium, Germany and the Netherlands held up reasonably well in 2012. However, companies in France appear to have retrenched and vacancy rates in Ile-de-France and some regional markets have started to rise again as tenants handed back surplus space. Demand has also been weak in Italy and Spain, although the logistics market there only saw a limited revival in 2011.

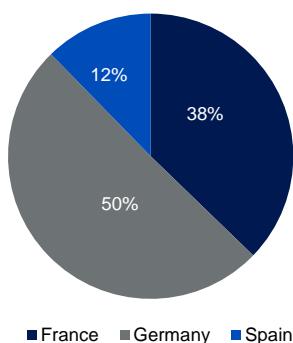
Investment transactions in continental Europe totalled €62 billion in the first nine months of 2012, 14% below the corresponding period of 2011 (source: Real Capital Analytics). While southern Europe predictably saw the sharpest fall in deals (-56%), the value of transactions also declined in France and Germany, reflecting slightly greater caution among domestic institutions and REITs. The limited availability of debt also affected some investors, although the largest REITs have had no trouble raising capital from public markets.

Schroders' central view is that the second half of 2013 will see the start of a steady recovery in some eurozone economies. If correct, prime capital values in most of northern Europe should hold steady over the next 12 months. We do however expect capital values in southern Europe to continue to fall.

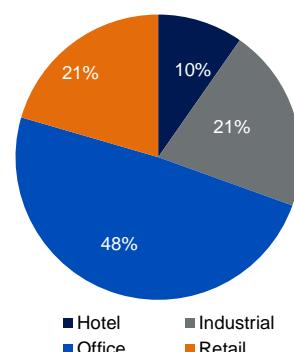
Portfolio Overview

The Company owns a diversified portfolio of retail, office, hotel and industrial properties in Germany, France and Spain.

Country*



Sector allocation*



* Based on contracted rent

The independent valuation of the property portfolio undertaken in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards as at 31 December 2012 was £238.5 million (€292.5 million). This represents a like-for-like fall over the period of 6.7% in euro terms from the 31 December 2011 value of £303.2 million (€362.2 million) and 2.1% in the half year since 30 June 2012. Valuations are produced by the independent Valuer and show the "Market Value" assuming an asset sale of each property.

INVESTMENT MANAGER'S REPORT

Distribution of values

Country	Property	Sector	€ 0- € 25m	€ 25m- € 50m	>€ 50m
France	St Etienne	Office			◆
France	Nice	Office	◆		
Germany	Frankfurt	Industrial			◆
Germany	Düren	Retail			◆
Germany	Düsseldorf	Hotel		◆	
Germany	Kaiserslautern	Retail		◆	
Spain	Valladolid	Industrial	◆		
Spain	Madrid	Industrial	◆		
Spain	Cordoba	Industrial	◆		
Spain	Murcia	Industrial	◆		

The portfolio produces a current annual rental income of £24.6 million (€30.2 million) including turnover rent from Düren reflecting an initial yield on the current valuation of 8.8% net.

The portfolio is let to around 100 tenants. As at 31 December 2012 the portfolio had a weighted average lease length of 8.7 years (8.0 years until first break) which is relatively long by continental European standards where occupational leases are generally shorter than those in the UK.

The top ten tenants represent a significant proportion of the total annual income generated by the portfolio and, as can be seen from the table below, represent a wide range of national and international occupiers from different industry segments. Top tenants have no more than low to medium default risk, with the exception of Panrico for which a 12 month cash guarantee is being held.

Rank	Tenant	Location	Risk band ⁴	31 Dec 2012 annual rent ⁵ (£ million)	Proportion of annual contracted rent	Weighted lease term (until first break/expiry)
1	Casino	St Etienne	Low	5.9	24.2%	9.5
2	IBM	Nice	Low	3.2	13.1%	2.2
3	Panrico ¹	Spain	High	3.0	12.3%	18.3
4	NH Hoteles	Düsseldorf	Low-Medium	2.4	9.7%	15.8
5	Schenker Deutschland	Frankfurt	Low-Medium	1.7	7.2%	2.7
6	Hennes & Mauritz ²	Kaiserslautern, Düren	Low-Medium	0.8	3.3%	9.0
7	Peek & Cloppenburg	Kaiserslautern	Low-Medium	0.6	2.5%	10.0
8	LSG Sky Chefs	Frankfurt	Low/High ³	0.6	2.5%	2.2
9	Federal Express Europe Inc.	Frankfurt	Negligible	0.6	2.4%	1.5
10	APCOA Autoparking	Düren	Negligible	0.5	1.9%	2.0
				19.3	79.1%	9.2

1 Cash guarantee for 12-months held.

2 Swedish parent company guarantee

3 Tenants are two LSG Sky Chefs subsidiaries of LSG

Lufthansa (81% LSG Sky Chefs Catering Logistics / 19% LSG Sky Chefs Culinary Service)

5 Contracted rents excluding turnover rents

4 IPD risk band based on D&B failure score

INVESTMENT MANAGER'S REPORT

Strategy Update

During the last 12 months the Company has disposed of €48.8 million of assets and currently has €178.9 million (£145.9 million) of properties classified as held for sale in the year end accounts. Investment demand in the European property markets is polarised towards prime properties with long leases, reflecting the risk-averse climate and uncertain economic outlook in the eurozone. The environment in which to dispose of anything other than prime assets is therefore very challenging and negotiations with potential purchasers are protracted and, in some cases, frustrated due to buyers withdrawing as a result of financing not being available for potential transactions.

Preparing assets for sale to meet the risk averse criteria of the investment market, such as through lease extensions or new lettings, is an important feature of our asset management activities. The uncertain economic environment means that such negotiations are taking time to complete. This means that a number of properties in the portfolio are not yet ready for sale and hence are not classified as held for sale in these accounts. However, a number of key occupational leases have been extended during the last financial year which will have a positive impact on the saleability of these properties.

Given such challenging markets, sales of all properties are unlikely to be completed by the end of 2013. In its capacity of Investment manager, Schroders are therefore investigating on behalf of the Board a number of alternative strategies in order to maximize shareholder value. This could involve creating greater stability in the Company's balance sheet.

Debt Facilities and Financial Covenants

The Group has a single debt facility with Lloyds Banking Group ("LBG") which matures on 5 January 2014. At 31 December 2012 the Group had £164.6 million (€201.9 million) of debt outstanding. This has reduced from £197.9 million (€236.3 million) as at 31 December 2011 following sales and amortisation through cash sweep.

The loan has a maximum LTV covenant of 75%, which is tested each quarterly interest payment date using the independent valuations produced for the Company at the most recent valuation date. The loan covenant will next be tested on the interest payment date of 20 March 2013 using property valuations at 31 December 2012. Other loan covenants include:

In the event that the LTV is in excess of 65%, operational income is used to amortise one of the individual asset's loans selected from the three highest LTV percentages, at the discretion of LBG ("cash sweep").

When properties are sold the debt pay-down required is equal to 120% of the allocated loan for the property sold and the Foreign Exchange liability will be reduced in proportion to the property value.

The loan is subject to an interest cover ratio (ICR) of 1.30x.

The loan carries a margin of 2.75%, reducing to 2.25% if the LTV is below 60%.

As at 31 December 2012 the Group had an overall LTV ratio of 68.7%, compared to an LTV covenant of 75%, and circa £7.4 million of free cash. This LTV exceeded the 65% threshold above which income is required to amortise debt. Under the terms of this covenant, the Group has amortised €1.1 million of debt since 20 September 2012. There is valuation headroom of circa 8.3% based on 31 December 2012 values before the 75% LTV covenant is breached.

The Group remained in compliance with the financial covenants associated with its bank facilities and foreign exchange contract.

The Company is in regular dialogue with LBG and other lending banks concerning the progress of our sales programme and potential options for refinancing beyond the maturity date of the facility in January 2014. Given such challenging markets, sales of all properties are unlikely to be completed by the end of 2013. Without adequate financing in place beyond January 2014 the valuation of the Group's property portfolio would be at risk of a material reduction from the level reported as at 31 December 2012. The refinancing of the Group's existing debt facility is considered a priority by the Investment Manager and the Board.

Interest Rate Hedging

The Group utilises interest rate swaps to provide fixed rate financing on its portfolio. These swaps are with LBG and mature in January 2014. The average swap rate is 2.67% which, together with a current loan margin of 2.75%, provides total financing costs of 5.42%.

At 31 December 2012 the Group held €201.0 million (£163.9 million) (31 December 2011: €231.1 million (£193.5million)) of interest rate swaps with an associated liability of €5.3 million (£4.3 million) (31 December 2011: €8.2 million (£6.8 million)).

Foreign exchange contracts and covenants

The Group has a single Cross Currency Swap ("CCS") contract with LBG to mitigate the effect of movements in exchange rates between euros and sterling which matures in June 2014. It consists of two elements:

- a cash-flow hedge whereby €5.0 million is exchanged for £3.7 million on a quarterly basis until June 2014; and
- a fair-value hedge for €86.7 million to be exchanged for £58.5 million due in June 2014.

INVESTMENT MANAGER'S REPORT

Over the course of 2012, £4.4 million was used to reduce the liability associated with this contract and the capital element has been amended from an exchange of €116.3 million for £78.5 million in June 2014 (as at 31 December 2011) to €86.7 million for £58.5 million in June 2014 at the year end. The liability under the contract as at 31 December 2012 was £15.0 million.

The foreign exchange derivative contract is subject to several financial covenants. These are:

- the net asset value ("NAV") of the Group (excluding the value of the foreign exchange swap contract) to be greater than twice the liability under the foreign exchange swap contract; and
- the NAV to be at least €43.4 million.

As at 31 December 2012 the adjusted NAV for this purpose was €98.4 million. The Company is therefore in compliance with the above covenants.

Additionally, as is standard, there exists a cross default clause, such that a breach of covenant within the debt facilities of the Group is an event of default under the CCS.

If there were to be a breach of any of the above covenants then LBG, the counter-indemnity party, could call for the foreign exchange hedging contract to be settled in cash. This would trigger the payment of the value of the contract, which at 31 December 2012 was a liability of £15.0 million. The cost of this potential liability will vary as exchange rates change and Note 5 (b) considers this.

Asset Management

In challenging markets an active asset management strategy is essential to maximise investment performance and, in the case of the Group's strategy, to reposition assets for sale. There has been significant activity during the last 12 months and lease agreements for a total of over 66,000 sq m and contracted rents of €10.2 million pa were signed or extended. This asset management discipline has improved income security across the portfolio which, as at 31 December 2012, has a weighted average lease length of 8.7 years until expiry.

With the exception of Europort there is minimal void in the portfolio. The vacancy level in Europort has fallen during the year but remains at a stubbornly high 23%. Our asset management strategy for this property is to focus on leasing vacant units, consolidating tenants where possible and extending existing leases with key tenants to maximise income security. During the year over 20,000 sq m of accommodation at Europort has been the subject of a lease renegotiation and we are currently in negotiations with a number of other tenants.

Other key leasing activity included the re-letting of the office property in St Etienne, France to Casino on a lease providing ten year income security in July 2012 and the extension of two major leases at the property in Kaiserslautern, Germany with Peek & Cloppenburg and Ernsting's Family, also for periods of ten years.

The Group's other main multi-leased property, a large shopping centre in Düren, Germany, continues to trade well. Turnover is 1% ahead of last year and the property remains fully occupied. We are also in negotiations with key tenants in this property to maximise income security prior to disposal.

Schroder Property Investment Management Limited

Investment Manager

18 March 2013

BOARD OF DIRECTORS

Crispian Collins, aged 65, Non-executive Director, Chairman

Mr Collins has 30 years' experience of managing investments for institutional clients in the public and private sectors. He is currently Chairman of ING Global Real Estate Securities Limited.

Mr Collins was formerly Vice Chairman of UBS Global Asset Management and a member of the Group Managing Board of UBS AG. He was also previously Chief Executive and Executive Chairman of Phillips & Drew, London, and a founding director of the Phillips & Drew (Triton) property team.

Stephen Coe, aged 47, Non-executive Director, Chairman of Audit Committee

Mr Coe qualified as a Chartered Accountant with Price Waterhouse in 1990 and remained in audit practice, specialising in financial services, until 1997. From 1997 to 2003 he was a director of the Bachmann Group of fiduciary companies and Managing Director of Bachmann Fund Administration Limited, a specialist third party fund administration company. From 2003 until 2007, Mr Coe was a director with Investec in Guernsey and formerly Managing Director of Investec Trust (Guernsey) Limited and Investec Administration Services Limited prior to becoming self-employed.

He is a director of a number of listed and unlisted investment funds and offshore companies including Raven Russia Limited, Trinity Capital Limited and Kolar Gold Limited for which he is the Chairman of the Audit Committees. He has been involved with offshore investment funds and investment managers since 1990 with exposure to emerging markets, property and private equity investment.

Jan van der Vlist, aged 58, Non-executive Director

Mr van der Vlist is currently Principal of Klockensteijn B.V. a Dutch consultancy company. The company has received mandates from European Real Estate Investment Trust Limited and NIBC Bank N.V., amongst others.

Until 1 January 2012, he was Managing Director of NIBC Bank N.V. and head of Investment Management, a business unit of the bank that focuses on Private Equity, Real Estate, Infrastructure and Leveraged Loans.

Previously Mr van der Vlist was Director of Structured Investments of PGGM. Prior to that he was Director of Real Estate, as well as Deputy Director of Real Estate and head of investments in real estate funds, of PGGM and also served PGGM as Chief Financial Officer of Investments. Before joining PGGM in 1982, Mr van der Vlist headed the accounting department and real estate management department of a subsidiary of Verenigde Bedrijven Bredero N.V., which was a major international real estate development and construction company.

His former board positions and membership of Advisory Committees include a board seat with Equity Office Properties Trust, the largest US office REIT, a board seat with Societe Fonciere des Pimonts, a French office fund, a board seat with Amvest, a Dutch private real estate company, a membership of the managing board of the European Public Real Estate Association (EPRA) and a membership of the Advisory Board of Real Estate Publishers.

Wessel Hamman, aged 40, Non-executive Director

Mr Hamman is the founder and Chief Executive of Clearance Capital LLP, which specialises in the management of real estate securities funds. Prior to this, Mr Hamman was Chief Financial Officer of Equities Division and Head of Corporate Arbitrage business unit at Rand Merchant Bank, a division of FirstRand Bank Limited.

He is also a director of the following listed companies: Karoo Investment Fund S.C.A. SICAV-SIF, Karoo Investment Fund II S.C.A. SICAV-SIF, Clearance Real Estate Equity Fund and Sirius Real Estate Limited.

Roger Phillips, aged 47, Non-executive Director

Mr Phillips is an independent Non-Executive Director of listed and unlisted investment and management companies domiciled in Guernsey and Dublin. Prior to this, Mr Phillips was a Director of Kleinwort Benson (Guernsey) Trustees Limited and acted as Company Secretary to a number of closed-ended funds.

He is also a director of the following listed companies: Collins Stewart Investment Funds Plc, Kleinwort Benson Elite PCC Limited, Prosperity Russia Domestic Fund Limited, Prosperity Voskhod Fund Limited, Stratton Street PCC Limited and The Collins Stewart PCC Limited.

DIRECTORS' REPORT

The Directors present their report and audited Financial Statements of the Company and the Group for the year ended 31 December 2012.

Business Review

Business of the Group

The Company was incorporated on 21 December 2005 as an open-ended collective investment scheme and on 8 May 2006, an unlimited number of participating redeemable preference shares of no par value were admitted to the Official List of The Channel Islands Stock Exchange, LBG ("CISX"). The Company was converted to a closed-ended Guernsey registered investment company with limited liability on 25 April 2007. Subsequently, the shares were also admitted to the Official List of the United Kingdom Listing Authority ("UKLA") on 4 June 2007 and are now traded on the London Stock Exchange.

A review of the business during the year is contained in the Chairman's Statement and the Investment Manager's Report.

Prior to 5 August 2011, the Group's underlying objective was to provide Shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European Property.

At an Extraordinary General Meeting held on 5 August 2011, shareholders approved a change in investment policy to enable the Group to effect an orderly disposal programme and return surplus capital to shareholders.

At an Extraordinary General Meeting held on 10 October 2012, shareholders approved the change of name from Matrix European Real Estate Investment Trust Limited to European Real Estate Investment Trust Limited effective from 10 October 2012.

Investment Manager

On 5 September 2012, Schroder Property Investment Management Limited (the "Investment Manager") was appointed to manage the Group. Under the terms of an Investment Management Agreement, the Investment Manager is responsible for advising the Group on the overall management of the Group's investments and for managing those investments in accordance with the Group's investment objective and policy, subject to the overall supervision of the Directors.

Results, dividend and return of capital

The results for the year are set out in the Financial Statements.

No dividends were paid in the 2012 calendar year (2011: £3.6m).

On 13 April 2012, the Group returned capital of £3.5m (2011: £3.6m) to shareholders via the redemption of 1,406,627 of the Company's issued share capital.

Directors

The Directors of the Company are detailed below:

	Appointed
Crispian Collins	26.04.07
Stephen Coe	21.12.05
Jan van der Vlist	26.02.08
Wessel Hamman	16.11.11
Roger Phillips	16.11.11

At each annual general meeting of the Company, any Director who was elected or last re-elected a Director at or before the annual general meeting held in the third calendar year before the current year shall retire by rotation. A retiring director shall be eligible for reappointment.

Wessel Hamman and Roger Phillips were appointed as Directors of the Board on 16 November 2011 and were re-elected at the Annual General Meeting held 28 May 2012.

Crispian Collins and Stephen Coe are due for re-election this year. Both have chosen to stand for re-election at this year's Annual General Meeting.

No director shall be required to vacate his office at any time by reason of the fact that he has attained any specific age.

Directors' interests

The beneficial interest held by the Directors, who held office as at 31 December 2012, in the shares of the Group is detailed below:

	31 December 2012	31 December 2011
Crispian Collins	23,062	24,038
Stephen Coe	4,801	5,004
Jan van der Vlist	23,062	24,038
Wessel Hamman	-	-
Roger Phillips	-	-

There have been no changes to the Directors' shareholdings since 31 December 2012.

Wessel Hamman is also director of Karoo Investment Fund S.C.A. SICAV-SIF and Karoo Investment Fund II S.C.A. SICAV-SIF which hold 17.5% of the Group's shares through a nominee company, The Bank of New York (Nominees) Limited.

DIRECTORS' REPORT

Directors' remuneration

During the year the Directors received the following emoluments in the form of fees from the Group:

	31 December 2012 £'000	31 December 2011 £'000
Crispian Collins	50.0	50.0
Stephen Coe*	99.3	85.9
Jan van der Vlist**	40.0	40.0
Wessel Hamman	-	-
Roger Phillips	25.0	3.2
	214.3	179.1
	—	—

* Included within this amount is a one-off additional payment of £25,000 for work undertaken in relation to the change of Investment Manager.

** In October 2011 the Group engaged Klockensteijn B.V, a company of which Jan van der Vlist is the beneficial owner, to provide consultancy services. During the year the Group paid Klockensteijn £328,514 (2011: £24,987). Further details regarding this engagement are given in note 30.

Substantial shareholding

Shareholders with holdings of more than 3 per cent of the issued shares of the company as at 22 February 2013 were as follows:

Name of Investor	No. of shares	% held
The Bank of New York (Nominees) Limited*	10,563,373	31.9%
Vidacos Nominees Limited*	2,651,676	7.8%
Transact Nominees Limited	1,925,313	5.8%
LR Nominees Limited	1,287,313	3.9%

* These holdings are for various different beneficial owners.

Going Concern

As the Directors intend to return all capital to shareholders of the Company they have not prepared the Financial Statements on a going concern basis. This has not had any impact on the carrying value of the Group's assets or liabilities. The Board does not believe it will be possible to dispose of all properties by the end of 2013 at prices which are in the best interests of shareholders. On this basis and should ongoing finance not be available beyond January 2014, then adjustment could be required to the carrying amounts of the group's assets and liabilities.

Directors' responsibilities statement

Company law requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group at the end of the year and of the profit and loss of the Company and Group for that period. In preparing those Financial Statements, the Directors are required to:

- (1) select suitable accounting policies and then apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- (4) prepare the Financial Statements on the going concern basis unless it is appropriate to assume that the Group will not continue in business (as detailed in the Going Concern paragraph above, and also Note 2 of the Financial Statements, these Financial Statements have not been prepared on a going concern basis).

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group and enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. The Directors are also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

Each of the Directors, whose names and functions are listed on page 10, confirms that to the best of each person's knowledge and belief:

- (1) the Financial Statements, prepared in accordance with the International Financial Reporting Standards, as adopted by the EU ("IFRS") in accordance with the requirements of the London Stock Exchange ("LSE"), give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company; and
- (2) the Investment Manager's Report includes a fair review of the development and performance of the business and the position of the Group and Company together with a description of the principal risks and uncertainties they face.

In common with many other externally managed funds of similar size and nature to EREIT, the Group depends substantially on the external functions provided by Schroder Property Investment Management Limited ("Schroders"), Martin Greene Ravden LLP ("MGR"), Praxis Fund Services Limited ("Praxis") and Saltgate S.A ("Saltgate"), amongst others in the provision of effective systems of internal controls and procedures.

All of the current Directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

DIRECTORS' REPORT

Auditor

BDO Limited have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Stephen Coe

Director

18 March 2013

CORPORATE GOVERNANCE

As a Guernsey registered company with a standard listing, the Company is not required to comply with the Revised UK Corporate Governance Code. However, the Directors will take appropriate measures to ensure that it complies with the Revised UK Corporate Governance Code to the extent appropriate and taking into account its size and the nature of its business. Furthermore, the Company complies with the Code of Corporate Governance issued by the Guernsey Financial Services Commission which became effective on 1 January 2012.

Board

The Board, which consists entirely of non-executive directors, has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Group:

- Review the overall objectives of the Group and the strategy for fulfilling those objectives;
- The capital structure of the Group and;
- The appointment of the Investment Manager, Administrators and other appropriately skilled service providers and monitor their effectiveness through regular reports and meetings.

The Board meets no less than quarterly and as required from time to time to consider specific issues reserved for the Board. During the financial year it met on five occasions.

At each annual general meeting of the Company, any Director who was elected or last re-elected a Director at or before the annual general meeting held in the third calendar year before the current year shall retire by rotation. A retiring director shall be eligible for reappointment.

The Board has not established a Nominations Committee as it does not consider it to be appropriate for the size and nature of the Group.

Audit Committee

The Audit Committee, which is chaired by Stephen Coe, meets a minimum of two times a year and consists of non-executive directors. During the financial year it met on two occasions.

The Audit Committee is responsible for:

- Monitoring the integrity of the Financial Statements of the Group, including reviewing significant financial reporting issues and judgements which they contain;
- Reviewing the effectiveness of the Group's internal controls and risk management systems, and any statements included in the annual report concerning internal controls and risk management;
- Considering and making recommendations to the Board in relation to appointment, re-appointment and removal of the Group's external auditor; and
- Overseeing the relationship with the external auditors, including approval of their remuneration, terms of engagement, audit plan, reviewing the findings of the audit and assessing annually the effectiveness of the audit process.

The table below shows the attendance at Board and Audit Committee meetings for the year to 31 December 2012.

	Board	Audit Committee
Crispian Collins	3	2
Stephen Coe	5	2
Jan van der Vlist	5	1
Wessel Hamman	4	1
Roger Phillips	4	-

Following the engagement in October 2011 of Klockensteijn B.V to provide consultancy services, Jan van der Vlist, the beneficial owner of Klockensteijn, resigned from the Audit Committee and was replaced by Wessel Hamman with effect from the conclusion of the audit committee meeting held on 14 March 2012.

Administrator

On 2 May 2006 the Company entered into an Administration agreement with Investec Administration Services Limited ("Investec") for the provision of administrative and secretarial services.

Following the sale of Investec to the Praxis Group in March 2009, Investec changed its name to Praxis Property Fund Services Limited. On May 1 2011 Praxis Property Fund Services Limited merged with Praxis Fund Services Limited.

The Administration Agreement may be terminated by either party giving not less than 90 day's written notice.

Relations with Shareholders

The Board places great importance on communication with shareholders and the representatives of the Board make themselves available at all reasonable times to meet with key shareholders and sector analysts.

The Board is also kept apprised of market commentary on the Group by the Investment Manager and other professional advisors.

The Chairman and the Investment Manager will ordinarily be available at the Annual General Meeting to answer any questions that shareholders attending may wish to raise.

Valuer

The Group gives the valuer and external auditor access to each other. These advisers have a dialogue and exchange of information which is entirely independent of the Group.

In line with the Carsberg Committee report the Group has a fixed fee arrangement with the valuer CBRE Limited. The proportion of total fees paid by the Group to total fee income of the valuer was less than 5%.

CORPORATE GOVERNANCE

Audit and internal controls

The Group depends substantially on the systems and controls of its key service providers: Schroders, MGR, Praxis and Saltgate. The Board discusses with these service providers the results of their own audits and regulatory inspections to determine if there are any matters arising from those audits and inspections that are relevant to the activities of the Group. Additionally the Group takes comfort from its own auditors who consider the internal control system and perform walkthroughs of the system to ensure their understanding of systems and controls is correct.

The Board has not established an Internal Audit function as it does not consider it to be appropriate for the size and nature of the Group, as an externally managed property fund.

External Auditor

The Group has policies and procedures in place to monitor and maintain the objectivity and independence of the external auditor, BDO Limited. The policy requires regular review by the Audit Committee of all non-audit services provided by BDO Limited.

The external auditor reported to the Audit Committee that they remained independent and had maintained internal safeguards to ensure their objectivity.

Creditor payment policy

It is the Group's policy to ensure settlement of supplier invoices in accordance with stated terms.

INDEPENDENT AUDITOR'S REPORT**To the members of European Real Estate Investment Trust Limited (formerly Matrix European Real Estate Investment Trust Limited)**

We have audited the financial statements of European Real Estate Investment Trust Limited for the year ended 31 December 2012 which comprise the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work is undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the Parent Company's affairs as at 31 December 2012 and of the group and the Parent Company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Emphasis of matter - going concern and bank facilities

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which explains that the financial statements have not been prepared on a going concern basis. In addition, the group's bank facilities expire in January 2014 and should the asset disposal programme not be completed by that time then the group would require continued bank facilities to continue its orderly disposal programme beyond that date. The Financial Statements do not contain any adjustments that would be required if the group was unable to obtain continued bank facilities or refinancing.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Justin Marc Hallett FCA

For and on behalf of BDO Limited
Chartered Accountants and Recognised Auditor

Place du Pré, Rue du Pré
St Peter Port
Guernsey

Date: 18 March 2013

**EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED
STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

PAGE 17

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-current assets					
Investment property portfolio	17	87,578	203,261	-	-
Goodwill	18	1,408	1,625	-	-
Investments in subsidiary undertakings	19	-	-	69,093	98,014
Total non-current assets		<u>88,986</u>	<u>204,886</u>	<u>69,093</u>	<u>98,014</u>
Current assets					
Properties held for sale	17	145,883	94,980	-	-
Trade and other receivables	21	10,660	11,080	3,579	1,254
Cash and cash equivalents	23	12,337	12,380	5,642	6,527
Total current assets		<u>168,880</u>	<u>118,440</u>	<u>9,221</u>	<u>7,781</u>
Total assets		<u>257,866</u>	<u>323,326</u>	<u>78,314</u>	<u>105,795</u>
Current liabilities					
Trade and other payables	24	6,811	6,834	2,576	226
Interest-rate derivative contracts	22	4,335	3,015	-	-
Exchange-rate derivative contracts	22	1,535	1,711	1,535	1,711
Total current liabilities		<u>12,681</u>	<u>11,560</u>	<u>4,111</u>	<u>1,937</u>
Non-current liabilities					
Bank loans	25	164,633	197,850	-	-
Exchange-rate derivative contracts	22	13,510	23,907	13,510	23,907
Interest-rate derivative contracts	22	-	3,830	-	-
Deferred tax	26	2,973	3,949	-	-
Total non-current liabilities		<u>181,116</u>	<u>229,536</u>	<u>13,510</u>	<u>23,907</u>
Total liabilities		<u>193,797</u>	<u>241,096</u>	<u>17,621</u>	<u>25,844</u>
Net assets		<u>64,069</u>	<u>82,230</u>	<u>60,693</u>	<u>79,951</u>
Equity attributable to owners of the parent					
Share capital	27	-	-	-	-
Special reserve		213,847	217,307	213,847	217,307
Translation reserve		19,359	28,872	47,985	50,109
Revenue reserve		(169,211)	(164,230)	(201,139)	(187,465)
Total equity attributable to owners of the parent		<u>63,995</u>	<u>81,949</u>	<u>60,693</u>	<u>79,951</u>
Non-controlling interests		<u>74</u>	<u>281</u>	<u>-</u>	<u>-</u>
Total equity		<u>64,069</u>	<u>82,230</u>	<u>60,693</u>	<u>79,951</u>
Net asset value per share (basic) (pence)	16	193	238		

The Financial Statements have been authorised for issue and approved by the Board on 18 March 2013 and were signed on its behalf by:

Stephen Coe
Director

EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED
 STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2012

PAGE 18

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Revenue					
Rental income		29,299	34,077	-	-
Property operating expenditure		(6,257)	(7,736)	-	-
Net rental income	7	23,042	26,341	-	-
Management fee within the group		-	-	2,376	3,091
Loss on disposal of property		(1,158)	-	-	-
Other income	8	3	2,728	3	2,624
Total income		21,887	29,069	2,379	5,715
Administrative expenses	11	(5,326)	(5,456)	(3,215)	(3,435)
Administrative expenses - change of Investment Manager	11	(682)	-	(588)	-
Impairment of goodwill	18	(174)	(678)	-	-
Exchange rate differences		(1,355)	(2,252)	(1,352)	(2,251)
Impairment of investments in subsidiaries	19	-	-	(16,322)	(8,056)
Total administrative expenses		(7,537)	(8,386)	(21,477)	(13,742)
Exchange gains realised on liquidation of subsidiaries		7,334	-	-	-
Net deficit on revaluation of investment properties	17	(20,635)	(20,765)	-	-
Operating profit (loss)		1,049	(82)	(19,098)	(8,027)
Finance income	12	18	45	5	7
Finance expense	12	(11,958)	(13,931)	(47)	(153)
Movement in fair value of interest rate swap contracts	12	1,228	(526)	-	-
Movement in fair value of exchange-rate derivative contracts	12	5,466	4,602	5,466	4,602
Loss before tax		(4,197)	(9,892)	(13,674)	(3,571)
Tax	13	(991)	1,502	-	-
LOSS FOR THE YEAR FROM CONTINUING ACTIVITIES		(5,188)	(8,390)	(13,674)	(3,571)
Other comprehensive income:					
Exchange differences on translation of foreign operations		(2,179)	(2,668)	(2,124)	(2,352)
Exchange gains realised on liquidation of subsidiaries		(7,334)	-	-	-
Other comprehensive loss for the period, net of tax		(9,513)	(2,668)	(2,124)	(2,352)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(14,701)	(11,058)	(15,798)	(5,923)
Loss attributable to:					
Owners of the parent		(4,981)	(8,389)	(13,674)	(3,571)
Non-controlling interests		(207)	(1)	-	-
Total comprehensive loss attributable to:		(5,188)	(8,390)	(13,674)	(3,571)
Owners of the parent		(14,494)	(11,057)	(15,798)	(5,923)
Non-controlling interests		(207)	(1)	-	-
Loss per share (basic and diluted) pence	15	(15)	(23)		

**EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

PAGE 19

Group	Share	Special	Translation	Revenue	Sub Total	Non-	Total Equity
	capital	reserve	reserve	reserve	£'000	controlling	£'000
	£'000	£'000	£'000	£'000	£'000	interest	£'000
At 31 December 2010	-	224,501	31,540	(155,841)	100,200	282	100,482
Dividends	-	(3,595)	-	-	(3,595)	-	(3,595)
Return of capital	-	(3,599)	-	-	(3,599)	-	(3,599)
Loss for the year	-	-	-	(8,389)	(8,389)	(1)	(8,390)
Other comprehensive loss	-	-	(2,668)	-	(2,668)	-	(2,668)
At 31 December 2011	-	217,307	28,872	(164,230)	81,949	281	82,230
Return of capital	-	(3,460)	-	-	(3,460)	-	(3,460)
Loss for the year	-	-	-	(4,981)	(4,981)	(207)	(5,188)
Other comprehensive loss	-	-	(9,513)	-	(9,513)	-	(9,513)
At 31 December 2012	-	213,847	19,359	(169,211)	63,995	74	64,069
Company	Share	Special	Translation	Revenue	Total Equity		
	capital	reserve	reserve	reserve	£'000		
	£'000	£'000	£'000	£'000	£'000		
At 31 December 2010	-	224,501	52,461	(183,894)	93,068		
Dividends	-	(3,595)	-	-	(3,595)		
Return of capital	-	(3,599)	-	-	(3,599)		
Loss for the year	-	-	-	(3,571)	(3,571)		
Other comprehensive loss	-	-	(2,352)	-	(2,352)		
At 31 December 2011	-	217,307	50,109	(187,465)	79,951		
Return of capital	-	(3,460)	-	-	(3,460)		
Loss for the year	-	-	-	(13,674)	(13,674)		
Other comprehensive loss	-	-	(2,124)	-	(2,124)		
At 31 December 2012	-	213,847	47,985	(201,139)	60,693		

A description of the nature and purpose of each reserve is included within note 27.

**EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

PAGE 20

	Group 2012	Group 2011	Company 2012	Company 2011
Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	28 13,363	25,937	8,500	9,636
Cash flows from investing activities				
Payments to enhance properties	(1,212)	(1,230)	-	-
Cash proceeds from sale of properties	38,402	-	-	-
Net cash inflow/ (outflow) from investing activities	37,190	(1,230)	-	-
Cash flows from financing activities				
Return of capital	(3,460)	(3,599)	(3,460)	(3,599)
Bank loans repaid	(30,177)	(1,483)	-	-
Bank interest received	18	45	5	7
Repayment of foreign exchange derivative contract	(4,391)	(6,000)	(4,391)	(6,000)
Repayment of interest rate swap contracts	(1,092)	-	-	-
Finance costs paid	(9,852)	(11,728)	(47)	(153)
Dividends paid	-	(3,595)	-	(3,595)
Net cash outflow from financing activities	(48,954)	(26,360)	(7,893)	(13,340)
Net increase/ (decrease) in cash and cash equivalents	1,599	(1,653)	607	(3,704)
Opening cash and cash equivalents	12,380	16,879	6,527	12,788
Effects of exchange rate changes on cash and cash equivalents	(1,642)	(2,846)	(1,492)	(2,557)
Closing cash and cash equivalents	12,337	12,380	5,642	6,527

Included within the Group's closing cash and cash equivalents is £2.4m (2011: £nil) held as rent guarantees against future rental receipts, which are refundable to tenants. The corresponding creditor is shown within trade and other payables in Note 24.

1. General information

European Real Estate Investment Trust Limited ("EREIT" or the "Company") is a company incorporated and registered in Guernsey. The consolidated and Company Financial Statements for the year ended 31 December 2012 were approved and authorised for issue by the Board of Directors on 18 March 2013.

2. Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC"), interpretations as endorsed by the European Union ("EU") and with those parts of the Companies (Guernsey) Law, 2008 applicable to companies reporting under IFRS. The Financial Statements have been rounded to the nearest thousand and prepared in sterling, which is the presentational currency of EREIT and all its subsidiaries (the "Group"). The subsidiary entities of the Group use a different functional currency, being the currency in the primary economic environment in which the entity operates.

The Financial Statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, available for sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through the profit or loss.

Note 3 sets out a description of the significant accounting policies of the Group. The accounting policies are consistent with those applied in the year ended 31 December 2011, as amended to reflect the adoption of the new standards, amendments to standards or interpretations which are mandatory for the first time for the financial year ended 31 December 2012.

Going Concern

Following the Extraordinary General Meeting held on 5 August 2011, the Group's investment policy was revised to effect an orderly disposal programme and return surplus capital to shareholders.

As the Directors intend to return all capital to shareholders of the Company they have not prepared the Financial Statements on a going concern basis. This has not had any impact on the carrying value of the Group's assets or liabilities.

The Board does not believe it will be possible to dispose of all properties by the end of 2013 at prices which are in the best interests of shareholders. On this basis and should on-going finance not be available beyond January 2014, then adjustment could be required to the carrying amounts of the group's assets and liabilities.

(a) Standards, interpretations and amendments to published standards effective in 2012 but which are not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012 but are currently not relevant to the Group's operations:

- Amendments to IFRIC 14 & IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2011).

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2013 or later periods and which the Group has decided not to adopt early. These are:

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2015 –still to be endorsed).
- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2014).
- IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2014).
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2014)
- IFRS 13 Fair Value Measurement (effective for periods beginning on or after 1 January 2014).

3. Significant accounting policies

(a) Basis of consolidation

The Group's consolidated Financial Statements for the year ended 31 December 2012 incorporates the Financial Statements of the Company and its subsidiaries. The Group's subsidiaries are those entities which it controls. The Group controls entities when it has the power, directly or indirectly, to govern the financial and operating policies of an 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 and until the date control ceases.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Financial Statements of the Group.

(b) Acquisitions and business combinations

Where properties were acquired through corporate acquisition and there were no significant assets or liabilities other than property, the acquisition was treated as an asset acquisition. In all other cases the acquisition was accounted for as a business combination, in which case, the assets and liabilities of a subsidiary were measured at their estimated fair value at the date of acquisition. The cost of acquisition was measured as the fair value of the consideration given together with any liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill is reviewed every six months for impairment or more frequently if there are indications that impairment may have occurred. During the year there has been a reduction in the value of the Düren property which has been taken as a devaluation. As such the goodwill and deferred tax liabilities recognised on acquisition of the subsidiary have been reduced and charged to the Statement of Comprehensive Income.

(c) Investment properties

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost, including directly attributable costs of acquisition. After initial recognition at cost, investment properties are carried at their fair value based on professional valuation at each reporting date. Properties are treated as acquired at the point when the Group assumes the significant risk and returns of ownership and as disposed when these are transferred to the buyer.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the Statement of Comprehensive Income as a valuation gain or loss. When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

(d) Properties held for sale

Properties are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition; management must be committed to and have initiated a plan to sell the asset (and such a plan is unlikely to have significant changes made to it or be withdrawn); an active programme to locate a buyer has been initiated; the asset is being marketed at a reasonable price in relation to its fair value, and the asset is expected to sell within twelve months. Property assets that are classified as held for sale are not depreciated and are measured at fair value.

(e) Investments in subsidiary undertakings in the Company Financial Statements

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. An allowance for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(h) Trade and other payables

Trade and other payables are stated initially at fair value and subsequently at amortised cost.

(i) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowing costs are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

(j) Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds.

(k) Revenue

The Group recognises revenue on an accruals basis, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue comprises rental income, service charges and other recoveries from tenants of the Group's investment properties.

Rental income from investment property leased out under an operating lease is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property and are therefore recognised on the same, straight-line basis.

Where revenue is obtained by the sale of assets, it is recognised when the significant risks and returns have been transferred to the buyer. In the case of sales of properties, this is on completion.

Sales of investment and other non-current properties, which are not included in revenue, are recognised on the same basis.

(l) Impairment

The carrying amounts of the Group's non-financial assets, other than investment properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Any impairment loss is recognised in the Statement of Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows.

Goodwill is tested for impairment at each reporting date, or more frequently if there are indicators that the goodwill might be impaired. For this purpose goodwill is allocated to units or groups of units which represent the lowest level at which the goodwill is monitored for internal management purposes.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(m) Derivative financial instruments ("derivatives")

The Group uses interest rate swaps to help manage its interest rate risk, and foreign exchange swaps to manage its currency risk.

In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The gains or losses on derivatives, which are not designated as a hedging instrument, are recognised in the Statement of Comprehensive Income immediately.

(n) Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustments in respect of previous years. Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

No provision is made for temporary differences arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will reverse in the foreseeable future.

(o) Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders, except that interim dividends are recognised when paid.

(p) Foreign currency translation

The functional currency of all the entities in the Group is the euro, as this is the currency in which the majority of investment takes place and in which the majority of income and expenses are incurred. The Financial Statements are presented in sterling (the "presentation currency") as the shares of the Company are sterling denominated and are listed on the full list of the London Stock Exchange.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Income and expenses are translated into the presentation currency at an average rate for the period. Assets and liabilities held at the end of the reporting period are translated to the presentation currency at the exchange rate prevailing at that date. Foreign exchange differences arising on translation to the presentation currency are recognised in the other comprehensive income.

4. Significant judgments, key assumptions and estimates

The Group's significant accounting policies are stated in note 3 above. Not all of these significant accounting policies required the Group to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies that the Group considers critical because of the level of complexity, judgment or estimation involved in their application and their impact on the Financial Statements. These judgments involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

(a) Investment property valuation

The Group normally uses the valuation performed by external valuers as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

(b) Goodwill

Where goodwill on a business combination arises due to the recognition of deferred tax arising from the fair valuation of property or real estate transfer tax savings, the Directors believe that there is no impairment to goodwill at date of acquisition where the ultimate intention is to sell the property acquired through the sale of the corporate vehicle in which the property is held. The goodwill after initial recognition is then subject to an annual impairment review as detailed in note 3(l).

(c) Income and deferred taxes

The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required in determining the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

(d) Fair value currency and interest rate swaps

The Group estimates fair values of swaps by reference to current market conditions compared to the terms of the swap agreements using the results of an external appraisal process carried out by Lloyds Banking Group ("LBG").

(e) Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts.

(f) Properties held for sale

Properties held for sale are measured at fair valuation less costs to sell based on valuations performed by external valuers. The Board determines that an investment property is held for sale if it is available for immediate sale in its present condition; there is a plan to sell the asset; an active programme to locate a buyer has been initiated; the asset is being marketed at a reasonable price in relation to its fair value, and the asset is expected to sell within twelve months.

5. Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate risk, currency risk, credit risk, liquidity risk and capital risk management. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's revenues and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. It is the Group's policy to hedge interest rate risk through the use of interest rate swaps. Such interest rate swaps have had the economic effect of converting borrowings from floating rates to fixed rates.

The Group has raised long-term borrowings at floating rates and substantially swapped them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. As at 31 December 2012, the Group's borrowings were 100% hedged (2011: 97% hedged).

The interest rate swap liability reflects the fact that market interest rates are at a level lower than the amount of the fixed rate interest terms. Should the Euribor increase by 1% the interest rate swap liability would decrease to £3.0m (2011: £3.2m). Conversely should the Euribor fall by 1% the Group's

interest rate swap liability would increase to £4.6m (2011: £10.1m) from a closing value at reporting date of £4.4m (2011: £6.8m). The downward variance assumes that rates do not become negative.

As the Company has no borrowings, it is not subject to significant interest rate risk.

(b) Currency risk

Whilst the Group's investments will typically be made in currencies other than sterling and generate non-sterling revenue, any distributions will be payable to Shareholders in sterling and the Net Asset Value will be stated in sterling. As a consequence, the Group will be exposed to currency fluctuations between the Group's presentation currency and other currencies (the euro). Movements in the exchange rate between sterling and any currencies in which the Group transacts may have an unfavourable effect on the Group's returns. These movements in the exchange rate may be influenced by factors such as trade imbalances, levels of short term interest rates, differences in relative values of similar assets in different currencies, long term opportunities for investment and capital appreciation and political developments.

The Group intends to hedge its foreign exchange rate exposure at levels which the Directors consider appropriate from time to time. As at the reporting date the Group has in place an income hedge of £3.7m per quarter and a capital hedge of approximately 89% (2011: 90%) of its Net Asset Value against euro/sterling fluctuations.

There is no guarantee that the proportion of income and Net Asset Value exposure which will be hedged will remain at these levels or that it will be possible to secure hedges in the future on acceptable commercial terms. In addition, the unhedged amount of income and Net Asset Value will remain exposed to currency fluctuations.

The intention of the Group's foreign exchange hedging strategy is to protect it from unfavourable movements in exchange rates and to provide a more stable income and value profile. However changes in the fair value of the Group's currency hedges may introduce volatility or negatively impact the Financial Statements of the Group.

The table below demonstrates the sensitivity of the foreign exchange swap to currency fluctuations. The table represents the euro to sterling conversion.

Exchange €:£	Year end closing rate					
	1.08	1.13	1.18	1.22633	1.28	1.33
	£'000	£'000	£'000	£'000	£'000	£'000
Periodic	5,865	4,603	3,447	2,347	1,408	493
Final	22,669	19,052	15,740	12,698	9,893	7,352
Exchange rate derivative value	28,534	23,655	19,187	15,045	11,301	7,845

Periodic - refers to value of the €5m quarterly foreign exchange swap

Final - refers to the value of the €86.7m foreign exchange swap due in June 2014

As the Group's policy is for group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency, the Group's exposure to foreign exchange risk in this regard is insignificant. Where group entities have liabilities in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already in that currency will, where possible, be transferred from elsewhere within the Group.

The functional currency of all entities in the Group is the euro. The table below details the Group's exposure to foreign currencies at the year end date:

Net assets	Group	Group	Company	Company
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Euros	58,623	77,224	55,247	74,945
Sterling	5,446	5,006	5,446	5,006
	64,069	82,230	60,693	79,951

The table below shows the effect on the net assets of the Group and Company at 31 December 2012 if the euro had strengthened or weakened against sterling by various amounts, with all other variables held constant.

	Group £'000	Company £'000
	Net assets	Net assets
Sterling to euro exchange rate		
Exchange rate: £1:€1.08	61,969	58,141
Exchange rate: £1:€1.13	62,747	59,088
Exchange rate: £1:€1.18	63,460	59,955
Year-end closing rate: £1:€1.2263	64,069	60,693
Exchange rate: £1:€1.28	64,717	61,486
Exchange rate: £1:€1.33	65,233	62,123

(c) Credit risk

The Group is exposed to credit risk from cash and cash equivalents, derivative financial instruments held with LBG for foreign exchange ("CCS") and interest rate swaps, deposits with banks and financial institutions, as well as credit exposure to tenants.

The credit risk on cash and cash equivalents is limited due to the high proportion of funds being held with high rated banking institutions. The table below shows the balance of cash and cash equivalents held with various financial institutions at the end of the reporting period.

Bank	Group		Company		Group		Company		
	Ratings at 31/12/2012	balance at 31/12/2012	Ratings at 31/12/2011	balance at 31/12/2012	balance at 31/12/2011	£'000	£'000	£'000	£'000
		£'000		£'000					
Barclays Bank	A	10,463	A	5,642	A	10,267	6,527		
Dexia	A+	1,827	A+	-	A+	1,242	-		
ABN Amro	A+	47	A+	-	A+	871	-		
		<u>12,337</u>		<u>5,642</u>		<u>12,380</u>			<u>6,527</u>

NB: These ratings are obtained from Fitch Ratings

The Group is exposed to loss of rental income and increase in costs, such as legal fees, if tenants fail to meet their payment obligations under their leases. The Group seeks to mitigate default risk by assessing the credit worthiness of potential and current tenants based on ratings assigned by independent credit rating agencies such as Dun & Bradstreet, and by diversifying its tenant base to include multinational corporations and local enterprises in different sectors and Continental European markets.

The Group may also require deposits or guarantees from banks, parent companies or tenants where there is a perceived credit risk or in accordance with prevailing market practice. During the year the Group enforced rental guarantees of £2.4m (2011: £Nil) against future rental receipts from one of its tenants. The amount has been included within cash and cash equivalents. As the amounts are deemed refundable to the tenant a corresponding creditor has been shown in trade and other payables.

The Manager reviews reports prepared by an independent credit rating agent, or other sources, to assess the credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

However, there is no guarantee that credit risk management procedures will be able to limit potential loss of revenues and income from tenants who default on their lease obligations. If any or all of the Group's tenants are unable to pay against their receivable accounts, the Group's revenues and profitability will be adversely affected.

The tables below detail the Group's ten largest tenants representing greater than 79% (2011: 76%) of total contracted rent at 31 December 2012 and 31 December 2011. All of the Group's major tenants have paid their rental obligations.

At 31 December 2012

Tenant	Location	Country	31/12/2012		31/12/2012 debtor balance
			annual rent £m	Proportion of annual contracted rent %	
1. Casino	St Etienne	France	5.9	24%	-
2. IBM	Nice	France	3.2	13%	-
3. Panrico	Spain	Spain	3.0	12%	-
4. NH Hoteles	Düsseldorf	Germany	2.4	10%	-
5. Schenker Deutschland	Frankfurt	Germany	1.7	7%	-
6. Hennes & Mauritz	Kaiserslautern, Düren	Germany	0.8	3%	-
7. Peek & Cloppenburg	Kaiserslautern	Germany	0.6	3%	-
8. LSG Sky Chefs	Frankfurt	Germany	0.6	3%	-
9. Federal Express Europe Inc.	Kaiserslautern	Germany	0.6	2%	-
10. APCOA Autoparking	Düren	Germany	0.5	2%	-

At 31 December 2011

Tenant	Location	Country	31/12/2011		31/12/2011 debtor balance
			annual rent £m	Proportion of annual contracted rent %	
1. Casino	St Etienne	France	5.7	20%	-
2. IBM	Nice	France	3.0	11%	-
3. Panrico	Spain	Spain	3.0	11%	-
4. NH Hoteles	Düsseldorf	Germany	2.4	8%	-
5. Schenker Deutschland	Frankfurt	Germany	2.3	8%	0.1
6. Jacobs Nederland B.V.	Leiden	Netherlands	1.7	6%	-
7. La Poste	Lyon	France	1.6	6%	-
8. Peek & Cloppenburg	Kaiserslautern	Germany	0.7	2%	-
9. Hennes & Mauritz	Kaiserslautern, Düren	Germany	0.7	2%	-
10. Real SB-Warenhaus GmbH	Celle	Germany	0.7	2%	-

(d) Liquidity risk

Liquidity risk is the risk that the Group or Company will be unable to meet its financial commitments.

There is additional risk that during 2013, with the possibility of further falls in property values through Europe, the Group could breach the LTV covenants with its banks. The table shows the quantum of cash needed to pay down existing debt to ensure no breaches of LTV covenants if the asset values within the portfolio continue to fall.

Portfolio valuation fall from 31 December 2012	0% £'000	5% £'000	10% £'000	15% £'000	20% £'000	25% £'000
Required amount of LBG debt to be repaid due to breach of covenants on fall of LTV	-	-	2,937	11,880	20,823	29,767

The CCS financial covenant requires the Net Asset Value (as defined under the CCS contract) of the Group to remain above €75m based on the capital element being €150m (reducing proportionately as the contract is reduced), and to be at least twice the value of the foreign exchange swaps.

The tables below analyse the Group's and Company's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Board has assumed the financial covenants will not be breached.

Group	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2012				
Borrowings (including interest to maturity)	9,007	165,028	-	-
Derivative financial instruments*	5,870	13,510	-	-
Trade and other payables	4,895	-	-	-
	_____	_____	_____	_____
Company	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2012				
Derivative financial instruments*	1,535	13,510	-	-
Trade and other payables	2,576	-	-	-
	_____	_____	_____	_____

* The Group had an aggregate mark-to-market liability in respect of CCS hedging contracts of £15.0m (2011: £25.6m). This becomes payable should any of the CCS covenants detailed above be breached.

Group	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2011				
Borrowings (including interest to maturity)	11,061	11,030	198,334	-
Derivative financial instruments*	4,726	5,279	22,458	-
Trade and other payables	1,675	-	-	-

Company	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2011				
Derivative financial instruments*	1,711	1,827	22,080	-
Trade and other payables	226	-	-	-

The Company has no bank borrowings. The table below shows the credit balance of the main counterparties in relation to the Group's bank borrowings at the end of the reporting period.

	Fitch Ratings	2012 £'000	2011 £'000
Lloyds Banking Group	AA-	164,633	197,850
		164,633	197,850

(e) Capital risk management

Prior to 5 August 2011, the Group's underlying objective was to provide Shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European property.

At an Extraordinary General Meeting held on 5 August 2011, shareholders approved a change in investment policy to enable the Group to effect an orderly disposal programme and return surplus capital to shareholders.

Consistent with industry practice, the Group monitors capital on the basis of the LTV ratio quoted in the Chairman's Statement and Investment Manager's Report. The LTV ratio is defined as outstanding third party debt divided by the Group's Property Value.

6. Segmental reporting

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Board of Directors) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Board of Directors contain financial information at a Group level and there are no reconciling items between the results contained in these reports and the amounts reported in the Financial Statements.

The Group's investment property portfolio is comprised of properties in Germany, France and Spain. In prior periods, information was provided to the Board of Directors showing gross rental income and investment property valuation by individual property. For the purposes of IFRS 8, each individual property was considered to be a separate operating segment in that its performance was monitored individually. The Board of Directors considered it appropriate to aggregate these individual operating segments into geographical reportable segments, as properties within each of these geographical segments demonstrated similar long-term financial performance and economic characteristics.

However, at the Extraordinary General Meeting, the Group's investment policy was revised to effect an orderly disposal programme. As a result of this decision, the Group's internal reporting is more focused on the progress of the disposal programme and the returning of funds to shareholders as opposed to individual property valuation and rental income as was the case in the prior periods. As a consequence, the Board of Directors consider that the Group now has a single operating segment.

All of the Group's investment property is held, and rental income generated, in Western Europe.

Disclosure regarding the Group's major customers is given in note 5 (c). Three (2011: three) customers individually contributed more than ten percent to the Group's revenue.

7. Net rental income

	2012 £'000	2011 £'000
Tenant rents	24,898	28,936
Service charge income	4,401	5,141
Rental income	29,299	34,077
Property operating expenditure	(6,257)	(7,736)
Net rental income	23,042	26,341
Service charge income	4,401	5,141
Property operating expenditure	(6,257)	(7,736)
Non-recoverable property operating expenditure	(1,856)	(2,595)

8. Other income

Other income in the prior period included £2.7 million relating to a settlement with a former shareholder, the terms of which are confidential.

9. Employee costs

The Group has no employees (2011: nil).

10. Directors' emoluments

	2012 £'000	2011 £'000
Aggregate emoluments (Directors' fees)	214	179

The Group had five Directors as at 31 December 2012 (2011: five Directors).

The Directors are the key management of the Group, whose emoluments represent only short-term employee benefits.

11. Administrative expenses

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Management fee (note 30)	1,257	1,846	1,257	1,846
Legal, consultancy and tax services	1,883	1,718	787	765
Accountancy and administration	1,135	1,072	385	358
Audit fees	146	159	130	147
Other	905	661	656	319
	<u>5,326</u>	<u>5,456</u>	<u>3,215</u>	<u>3,435</u>

Other administrative expenses include Directors' fees, office rental, valuation, registrar and regulatory fees and sundry costs.

During the year the Group obtained the following services from the Group's auditors at costs as detailed below:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Audit fees in respect of the accounts of the Company	130	147	130	147
Audit fees in respect of the audit of Group subsidiary undertakings	16	12	-	-
	<u>146</u>	<u>159</u>	<u>130</u>	<u>147</u>

Administrative expenses - change of Investment Manager

Group

One-off transaction costs of £0.68 million were incurred in the year due to the change of Investment Manager, comprising a £0.25 million termination fee paid to Matrix Property Fund Management (Guernsey) Limited, a £0.09 million transition fee paid to Schroders and £0.34 million of professional fees and other costs.

Company

The Company costs were the same with the exception of professional fees and other costs which were £0.09 million.

12. Net finance costs

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Finance income:				
Short-term deposits	18	45	5	7
Finance expense:				
Bank borrowings	(9,732)	(11,545)	(9)	(69)
Loan fee amortisation	(1,646)	(1,605)	(38)	(84)
Bank loan deferred arrangement fee	(580)	(781)	-	-
	<u>(11,958)</u>	<u>(13,931)</u>	<u>(47)</u>	<u>(153)</u>
Movement in fair value of derivative contracts:				
Interest-rate swaps	1,228	(526)	-	-
Exchange-rate derivative contracts	5,466	4,602	5,466	4,602
	<u>6,694</u>	<u>4,076</u>	<u>5,466</u>	<u>4,602</u>
Net finance costs	<u>(5,246)</u>	<u>(9,810)</u>	<u>5,424</u>	<u>4,456</u>

13. Income tax expense

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Current tax					
Deferred tax eliminated on disposal of property	26	(1,063)	-	-	-
Deferred tax arising from change to property values	26	194	(2,155)	-	-
		<u>991</u>	<u>(1,502)</u>	<u>-</u>	<u>-</u>

The tax on the Group's and Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Loss before tax	(4,197)	(9,892)	(13,674)	(3,571)
Tax credit at average corporate rate of 30.96% (2011: 23.36%)	(1,299)	(2,311)	(4,233)	(834)
Income and expenses not accountable for tax purposes	664	162	4,233	834
Non-taxable exchange gains realised on liquidation of subsidiaries	(2,270)	-	-	-
Non-taxable fair value movements	(2,072)	(952)	-	-
Non-taxable adjustments on disposal of properties	(1,780)	-	-	-
Tax allowable depreciation	(1,604)	(2,143)	-	-
Current tax losses not utilised	4,054	1,178	-	-
Deferred tax asset on valuation deficits not recognised	4,651	3,812	-	-
Utilisation of previously unrecognised tax losses	(155)	(1,825)	-	-
Other adjustments	585	644	-	-
Exchange differences	217	(67)	-	-
Tax charge/ (credit)	991	(1,502)	-	-

14. Dividends

The Company paid the following dividends during the year:

	2012 £'000	2011 £'000
February 2011 - 5 pence per share	-	1,798
August 2011 - 5 pence per share	-	1,797
	-	3,595

15. Loss per share

	Group 2012	Group 2011
Loss per share – Basic and diluted (pence)	(15)	(23)
Loss for the period attributable to owners (£'000)	(4,981)	(8,389)
Weighted average number of shares in issue	33,562,973	35,703,588

As the Group does not have any instruments that may dilute earnings per share, the same basic and diluted loss per share is reported.

16. Net assets per share

Group	2012	2011
Net assets per Share (pence)	193	238
Net assets (£'000)	64,069	82,230
Number of Shares in issue	33,163,276	34,569,903

17. Investment property portfolio

Group	Non current assets		Current assets	Property portfolio total £'000
	Investment properties £'000	Properties held for sale £'000	Properties held for sale £'000	
Book value at 31 December 2010	326,662	-	-	326,662
Capital expenditure	1,230	-	-	1,230
Movements on revaluation of properties				-
- recognised in the statement of comprehensive income	(20,765)	-	-	(20,765)
Exchange differences on translation of foreign currencies	(8,886)	-	-	(8,886)
Transfer to properties held for sale	(94,980)	94,980	-	-
Book value at 31 December 2011	203,261	94,980	-	298,241
Capital expenditure	1,212	-	-	1,212
Disposals	-	(37,746)	-	(37,746)
Movements on revaluation of properties				-
- recognised in the statement of comprehensive income	(19,905)	(730)	-	(20,635)
Exchange differences on translation of foreign currencies	(5,383)	(2,228)	-	(7,611)
Transfer to properties held for sale	(91,607)	91,607	-	-
Book value at 31 December 2012	87,578	145,883	-	233,461

Property portfolio analysis

	Leasehold £'000	Freehold £'000	Total £'000
At 31 December 2012	23,848	209,613	233,461
At 31 December 2011	24,880	273,361	298,241

The fair value of the Group's investment properties has been arrived at on the basis of valuations carried out by the Group's external valuers CBRE Limited. The valuation basis has been by "Market Value" in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. The historic cost of the property portfolio translated at reporting date exchange rate is £364.0m (2011: £426.0m).

The property portfolio total is shown net of tenant incentives of £5.0m (2011: £4.9m) which are included within Trade and other receivables (note 21).

The Group's investment policy has been revised to effect an orderly disposal programme and a return of funds to shareholders. Following the sale of

investment properties, the funds available to distribute to shareholders are subject to a requirement to comply with bank facility and loan covenant terms.

Properties held for sale are those which, at the year end, were available for immediate sale, being actively marketed and expected to sell within twelve months.

18. Goodwill

Group	2012	2011
	£'000	£'000
At 31 December 2011		
Impairment	1,625	2,347
Exchange differences on translation of foreign currencies	(174)	(678)
	(43)	(44)
At 31 December 2012	1,408	1,625
Goodwill is attributable to the following cash generating unit		
Düren	1,408	1,625

The goodwill capitalised on the acquisition of Stadt Center Düren Verwaltungs GmbH is reviewed every six months for impairment, or more frequently if there is an indication that impairment may have occurred.

The impairment of goodwill has been determined by comparing the Group's cost of acquisition of Stadt Center Düren Verwaltungs GmbH with the fair value less costs to sell of the assets and liabilities of Stadt Center Düren Verwaltungs GmbH and its subsidiaries. The impairments in 2011 and 2012 are due to the fall in value of the Düren property.

19. Investments in subsidiary undertakings

Company	2012	2011
	£'000	£'000
At 31 December 2011	98,014	114,507
Disposals	(9,977)	(5,439)
Impairment	(16,322)	(8,056)
Exchange differences on translation of foreign currencies	(2,622)	(2,998)
At 31 December 2012	69,093	98,014

The impairment of the Company's investments in subsidiary undertakings has been determined by comparing the Company's cost of investment in subsidiaries with the fair value of the subsidiaries' assets and liabilities. The impairments in 2011 and 2012 are due to the decrease in the underlying property values of the subsidiary entities.

The Group undertakings which are owned either directly by the Company or through a fellow subsidiary undertaking are:

	Country of Incorporation	Proportion of ownership
Matrix European Portfolio LP	England & Wales	100%
Matrix European Portfolio (General Partner) Limited	England & Wales	100%
Matrix EPH LLC	Delaware, USA	100%
Matrix EPH 2 Sarl	Luxembourg	100%
Matrix EPH Sarl	Luxembourg	100%
Matrix La Gaude SA	Luxembourg	100%
Matrix La Gaude Investment Sarl	Luxembourg	100%
Matrix La Gaude Property Sarl	Luxembourg	100%
Matrix St Laurent de Mure Sarl *	Luxembourg	100%
Capitalpost Luxembourg Sarl	Luxembourg	100%
Matrix St Etienne HoldCo Sarl	Luxembourg	100%
Matrix St Etienne PropCo Sarl	Luxembourg	100%
MEP Netherlands I BV	Netherlands	100%
Matrix Leiden BV	Netherlands	100%
MEP Iberia I BV	Netherlands	100%
MEP Iberia II BV	Netherlands	100%
Matrix European Property Espana 2 SL	Spain	100%
Matrix European Property Espana 3 SL	Spain	100%
Matrix German Portfolio No.1 Düsseldorf Sarl	Luxembourg	99%
Matrix German Portfolio No.1 Münster Sarl *	Luxembourg	99%
Matrix German Portfolio No.1 Celle Sarl	Luxembourg	99%
Matrix German Portfolio No.1 Kaiserslautern Sarl	Luxembourg	99%
Matrix German Portfolio No.1 Frankfurt Sarl	Luxembourg	99%
Stadt Center Düren Verwaltungs GmbH	Germany	100%
Stadt Center Düren GmbH	Germany	94%
Stadt Center Düren Beteiligungs GmbH & Co KG	Germany	90%
Matrix German Portfolio No 1 GmbH & Co KG	Germany	94%
Matrix Vienna Tower LP	Guernsey	100%
Matrix Austria Holdings One Sarl *	Luxembourg	100%
MEPV Finance Company Sarl *	Luxembourg	100%

Matrix European Portfolio LP is exempt from preparing audited accounts under the Partnership (Accounts) Regulations 2008 as its results are consolidated in the Group's results.

Matrix Montpellier Propco Eurl was liquidated on 20 February 2012.

* On 23 January 2013 Matrix Austria Holdings One Sarl, MEPV Finance Company Sarl, Matrix German Portfolio No.1 Munster Sarl and Matrix St Laurent de Mure Sarl were liquidated.

20. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group	Assets at fair value through the profit or loss £'000	Loans and receivables £'000	Total £'000
2012			
Assets as per statement of financial position			
Trade and other receivables	-	4,873	4,873
Cash and cash equivalents	-	12,337	12,337
	<hr/>	<hr/>	<hr/>
		17,210	17,210
Group			
Liabilities as per statement of financial position			
Trade and other payables	-	4,895	4,895
Bank loans and overdrafts	-	164,633	164,633
Interest-rate derivative contracts	4,335	-	4,335
Exchange rate derivative contracts	15,045	-	15,045
	<hr/>	<hr/>	<hr/>
	19,380	169,528	188,908
Group			
Assets at fair value through the profit or loss £'000			
Liabilities at fair value through profit or loss £'000			
2011			
Assets as per statement of financial position			
Trade and other receivables	-	5,304	5,304
Cash and cash equivalents	-	12,380	12,380
	<hr/>	<hr/>	<hr/>
		17,684	17,684
Group			
Liabilities as per statement of financial position			
Trade and other payables	-	1,675	1,675
Bank loans and overdrafts	-	197,850	197,850
Interest-rate derivative contracts	6,845	-	6,845
Exchange rate derivative contracts	25,618	-	25,618
	<hr/>	<hr/>	<hr/>
	32,463	199,525	231,988

Company	Assets at fair value through the profit or loss £'000	Loans and receivables £'000	Total £'000
2012			
Assets as per statement of financial position			
Trade and other receivables	-	3,565	3,565
Cash and cash equivalents	-	5,642	5,642
	<hr/>	<hr/>	<hr/>
	-	9,207	9,207

Company	Liabilities held at amortised cost £'000	Liabilities at fair value through profit or loss £'000	Total £'000
2012			
Liabilities as per statement of financial position			
Trade and other payables	-	2,576	2,576
Bank loans and overdrafts	-	-	-
Interest-rate derivative contracts	-	-	-
Exchange rate derivative contracts	15,045	-	15,045
	<hr/>	<hr/>	<hr/>
	15,045	2,576	17,621

Company	Assets at fair value through the profit or loss £'000	Loans and receivables £'000	Total £'000
2011			
Assets as per statement of financial position			
Trade and other receivables	-	1,239	1,239
Cash and cash equivalents	-	6,527	6,527
	<hr/>	<hr/>	<hr/>
	-	7,766	7,766

Company	Liabilities held at amortised cost £'000	Liabilities at fair value through profit or loss £'000	Total £'000
2011			
Liabilities as per statement of financial position			
Trade and other payables	-	226	226
Bank loans and overdrafts	-	-	-
Interest-rate derivative contracts	-	-	-
Exchange rate derivative contracts	25,618	-	25,618
	<hr/>	<hr/>	<hr/>
	25,618	226	25,844

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Statement of Financial Position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the assets and liabilities that are measured at fair value at 31 December 2012 and 31 December 2011.

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2012				
Liabilities at fair value through profit or loss				
Interest-rate derivative contracts	-	4,335	-	4,335
Exchange rate derivative contracts	-	15,045	-	15,045
	<hr/>	<hr/>	<hr/>	<hr/>
		19,380	-	19,380
	<hr/>	<hr/>	<hr/>	<hr/>
Company	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2012				
Liabilities at fair value through profit or loss				
Exchange rate derivative contracts	-	15,045	-	15,045
	<hr/>	<hr/>	<hr/>	<hr/>
		15,045	-	15,045
Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2011				
Liabilities at fair value through profit or loss				
Interest-rate derivative contracts	-	6,845	-	6,845
Exchange rate derivative contracts	-	25,618	-	25,618
	<hr/>	<hr/>	<hr/>	<hr/>
		32,463	-	32,463
Company	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2011				
Liabilities at fair value through profit or loss				
Exchange rate derivative contracts	-	25,618	-	25,618
	<hr/>	<hr/>	<hr/>	<hr/>
		25,618	-	25,618

21. Trade and other receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Rent receivable	2,037	3,757	-	-
Tenant lease incentives	5,028	4,934	-	-
Monies held by property managers	1,010	1,290	-	-
VAT recoverable	639	608	-	-
Amounts due from subsidiary undertakings	-	-	3,494	1,127
Amounts held in escrow	1,630	-	-	-
Other	316	491	85	127
	10,660	11,080	3,579	1,254

The table below shows the trade and other receivables past due but not impaired:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Rent receivable	826	343	-	-
Monies held by property managers	1,010	1,290	-	-
VAT recoverable	639	608	-	-
Amounts due from subsidiary undertakings	-	-	3,494	1,127
Other	196	257	71	112
	2,671	2,498	3,565	1,239

The Group's and Company's trade and other receivables are denominated in euros.

There is no significant difference between the fair value and carrying value of assets at the Statement of Financial Position date.

Trade and other receivables are reviewed for recoverability on an on-going basis. The Investment Manager also regularly monitors reports prepared by an independent credit rating agent, or other sources, to assess the credit quality of the Group's tenants.

22. Derivative financial instruments

Group	2012 £'000	2011 £'000
Interest-rate derivative contracts:		
Current liabilities	(4,335)	(3,015)
Non-current liabilities	-	(3,830)
Exchange-rate derivative contracts:		
Current liabilities	(1,535)	(1,711)
Non-current liabilities	(13,510)	(23,907)
	(19,380)	(32,463)

Company	2012 £'000	2011 £'000
Exchange-rate derivative contracts:		
Current liabilities	(1,535)	(1,711)
Non-current liabilities	(13,510)	(23,907)
	<hr/>	<hr/>
	(15,045)	(25,618)

The Group uses interest-rate swaps to mitigate the effect of movements in interest rates on the results of the Group. The Group has a number of interest-rate swaps that exchange variable rates to fixed rates (at an average rate of 2.67%) with an expiration date of January 2014.

The Group and Company use foreign exchange rate derivative contracts to mitigate the effect of movements in exchange rates on the results of the Group and Company. The Group and Company has a single exchange rate derivative contract which consists of two elements. The first element is a cash-flow hedge whereby €5.0m is exchanged for £3.7m on a quarterly basis until June 2014. The second element is a fair-value hedge which at 31 December 2012 contracted for €86.7m to be exchanged for £58.5m (31 December 2011: €116.3m to be exchanged for £78.5m). In the event of a default on the covenants attaching to the swap the Group and Company could be required to settle the swap contract which at reporting date is a liability of £15.0m. The covenants in relation to the exchange rate derivative are detailed in note 5 (d). The Group and Company do not apply hedge accounting.

23. Cash and cash equivalents

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash at bank and in hand	12,337	12,380	5,642	6,527

Included within the Group's cash and cash equivalents is £2.4m (2011: £nil) held as rent guarantees against future rental receipts, which are refundable to tenants. The corresponding creditor is shown within trade and other payables in Note 24.

24. Trade and other payables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade payables	508	295	-	-
Amounts due to related parties	225	71	225	16
Amounts due to subsidiary undertakings	-	-	2,120	-
Accruals	400	318	231	210
Interest payable	41	165	-	-
Rent received in advance	1,012	3,661	-	-
VAT payable	309	415	-	-
Income tax	595	1,083	-	-
Rent guarantees	2,406	-	-	-
Other payables	1,315	826	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	6,811	6,834	2,576	226

Rent guarantees are refundable to tenants, as referred to in note 23.

The Group's and Company's trade and other payables are denominated in euros and sterling.

There is no significant difference between the fair value and carrying value of liabilities at the Statement of Financial Position date.

25. Borrowings

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Bank loans (secured):				
Non-current	164,633	197,850	-	-

On the 24 December 2009, the Group entered into revised terms with the Lloyds Banking Group ("LBG") which became effective on 15 January 2010. The key elements of this facility include:

- All LBG debt matures in January 2014.
- The facility is repayable in a single payment at maturity, except in the circumstances where the LTV is in excess of 65%, when the surplus operational income will be used to amortise the debt. In the event that the LTV of the revised facility is less than 65% then the Group will be able to use any surplus operational cash flow generated as per the current investment policy and objectives.
- The debt carries a margin of 2.75% per annum over 3 month Euribor, reducing to 2.25% should the LTV fall below 60%.
- The debt has an LTV covenant of 75% and an interest cover ratio covenant of 130%.
- The facility was subject to a 1.5% arrangement fee which is being amortised over the period of the loan. An exit fee is also payable when the debt is repaid in full, of up to 1.50% on the outstanding tranche balances at certain dates, and this is being accrued for over the period of the loan.
- All borrowings are denominated in euro.

The Company is in regular dialogue with LBG and other lending banks concerning the progress of our sales programme and potential options for refinancing beyond the maturity date of the facility in January 2014. Given such challenging markets, sales of all properties are unlikely to be completed by the end of 2013. Without adequate financing in place beyond January 2014 the valuation of the Group's property portfolio would be at risk of material change from the level reported as at 31 December 2012. The refinancing of the Group's existing debt facility is considered a priority by the Investment Manager and the Board.

During 2010 the Group's interest rate hedging arrangements were extended until the new maturity of the loan in January 2014. 100% of the debt at the year end was hedged at an average rate of 2.67%.

Transaction costs incurred in refinancing the loans are deducted from the loan balance and are being amortised over the extended period of the loan. Amortisation of transaction costs recognised as finance costs amounted to £2.2 million for the year ended 31 December 2012. The finance costs include debt arrangement, structuring, utilisation fees and exit fees paid in arranging the debt facility.

The loan is collateralised by all properties in the Group's portfolio.

Movement in the Group's borrowings is analysed as follows:

	2012 £'000	2011 £'000
At 31 December 2011	197,850	202,754
Repayment of borrowings	(30,177)	(1,483)
Amortisation of finance costs	1,646	1,605
Bank loan deferred arrangement fee	580	781
Exchange differences on translation of foreign currencies	(5,266)	(5,807)
At 31 December 2012	164,633	197,850

There is no significant difference between the fair value and book value of the Group's borrowings. All of the Group's borrowings are in euros and all have floating interest rates. The maturity of the Group's borrowings is as follows:

	2012 £'000	2011 £'000
Within one year	-	-
In the second year	164,633	-
In the third year	-	197,850
	<hr/> <hr/> 164,633	<hr/> <hr/> 197,850

26. Deferred tax

Group

Deferred tax liabilities	£'000
At 31 December 2010	6,206
Impact of change in property values	(2,155)
Exchange differences on translation of foreign currencies	(102)
At 31 December 2011	<hr/> 3,949
Deferred tax eliminated on disposal of property	(1,063)
Impact of change in property values	194
Exchange differences on translation of foreign currencies	(107)
At 31 December 2012	<hr/> 2,973

Under IAS 12, deferred tax is recognised for tax potentially payable on the realisation of investment properties at fair values at the Statement of Financial Position date.

Deferred tax assets in respect of trading losses have not been recognised where their future recovery is uncertain or not currently anticipated. At 31 December 2012 the unrecognised deferred tax asset was £7.2m (2011: £2.1m).

Company

The Company has no deferred tax liabilities or assets.

27. Share Capital and Reserves

Share Capital:

The management shares rank pari passu with the participating Shares in the event of liquidation but only for the return of the nominal paid up capital, but carry no voting rights unless there are no participating Shares in issue, and carry no rights to dividends.

	2012 No.	2011 No.
Issued and fully paid Participating shares		
Opening balance	34,569,903	35,953,833
Redemption of shares	(1,406,627)	(1,383,930)
Closing balance	<u>33,163,276</u>	<u>34,569,903</u>

On 26 October 2011 the Group returned capital of £3.6m to shareholders via the redemption of 1,383,930 of the Company's issued shares.

On 13 April 2012 the Group returned capital of £3.5m to shareholders via the redemption of 1,406,627 of the Company's issued shares.

	2012 No.	2011 £	2012 No.	2011 £
Authorised share capital				
Management shares of £1	100	100	100	100
Participating shares with no par value	unlimited	-	unlimited	-
Issued and fully paid				
Management shares				
Opening and closing balance	2	2	2	2

The following describes the nature and purpose of each reserve within equity:

Special reserve

On 15 December 2006 the Royal Court of Guernsey confirmed the reduction of share capital by cancellation of its share premium at that time and creation of a separate special reserve, which is an additional distributable reserve to be used for all purposes permitted under Guernsey Company law, including the buy-back of shares and the payment of dividends.

Translation reserve

The amount of any gains and losses arising on the translation of net assets of foreign operations into Sterling.

Revenue reserve

The cumulative amount of any profits or losses.

Non-controlling interests

The share of net assets attributable to non-controlling interests in subsidiary undertakings.

28. Cash flow from operating activities

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Loss for the financial year	(5,188)	(8,390)	(13,674)	(3,571)
Income tax charge/ (credit)	991	(1,502)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(4,197)	(9,892)	(13,674)	(3,571)
Movement in the fair value of interest rate derivative contracts	(1,228)	526	-	-
Movement in the fair value of foreign exchange derivative contracts	(5,466)	(4,602)	(5,466)	(4,602)
Finance expense	11,958	13,931	47	153
Finance income	(18)	(45)	(5)	(7)
	<hr/>	<hr/>	<hr/>	<hr/>
Operating profit/ (loss)	1,049	(82)	(19,098)	(8,027)
Loss on disposal of property	1,158	-	-	-
Exchange rate differences	1,355	2,252	1,352	2,251
Exchange gains realised on liquidation of subsidiaries	(7,334)	-	-	-
Adjustments for:				
Impairment of goodwill	174	678	-	-
Impairment of investment in subsidiaries	-	-	16,322	8,056
Net deficit on revaluation of property portfolio	20,635	20,765	-	-
Tenant incentives and rental guarantees	(2,290)	(2,757)	-	-
Changes in working capital:				
Decrease in trade and other receivables	205	4,832	7,580	7,815
Increase/ (decrease) in trade and other payables	730	647	2,344	(459)
	<hr/>	<hr/>	<hr/>	<hr/>
	15,682	26,335	8,500	9,636
Tax paid	(2,319)	(398)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash inflow from operating activities	13,363	25,937	8,500	9,636

29. Operating lease arrangement

At the end of the reporting period, the Group had contracted with tenants to receive the following future minimum lease payments (excluding properties held for sale):

	2012 £'000	2011 £'000
Not later than one year	11,105	14,012
Later than one year but no more than five years	28,651	50,576
More than five years	30,180	38,638
	<hr/>	<hr/>
	69,936	103,226

30. Related party transactions

On 5 September 2012, Schroder Property Investment Management Limited (the "Investment Manager") was appointed to manage the Group. Under the terms of an Investment Management Agreement, the Investment Manager is responsible for advising the Group on the overall management of the Group's investments and for managing those investments in accordance with the Group's investment objective and policy, subject to the overall supervision of the Directors.

The Investment Manager is entitled to a base management fee of €1m in the initial twelve month period following their appointment, €0.6m for the second year and 1% of Net Asset Value per annum for any subsequent periods.

The Investment Manager is also entitled to a performance fee based on sales of properties and Shareholders' returns achieved. On completion of each property disposal, the Investment Manager will be entitled to a fee of 0.25% of the gross sales value. An additional fee of 0.40% of the gross sales value of each property disposal prior to the second anniversary of the Investment Manager's appointment will be payable if Shareholders returns from 25 October 2011 exceeds a hurdle rate of 160 pence per Share (this being £57.5m of capital, combining cash and remaining Net Asset Value). This hurdle rate increases at a rate of 5% per annum.

The Investment Management Agreement terminates on 5 September 2014, save that it may be extended by mutual agreement. If extended, the Investment Management Agreement may be terminated by either party on not less than six months' notice.

The figures below show the related party transactions with the Investment Manager at the reporting date.

	2012 £'000	2011 £'000
Statement of comprehensive income		
Management fee	(263)	-
Transition fee	(92)	-
	<hr/> <hr/> (355)	<hr/> <hr/> -
	2012 £'000	2011 £'000
Statement of financial position		
Management fee accrual	197	-
	<hr/> 197	<hr/> -

In prior periods and up to 4 September 2012, the Group was managed by Matrix Property Fund Management (Guernsey) Limited ("MPFM"), an investment management company incorporated in Guernsey.

MPFM was entitled to a base fee, acquisition fee and a performance fee together with all reasonable expenses incurred in the performance of its duties. The base fee, which was paid and calculated quarterly, was equal to 0.6% of the Group's Net Asset Value plus any borrowings of the Group.

The figures below show the related party transactions with MPFM at the reporting date.

	2012 £'000	2011 £'000
Statement of comprehensive income		
Insurance commissions	-	78
Management fee	(994)	(1,846)
Termination fee	(246)	-
Expense reimbursements	(16)	(35)
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none; margin-bottom: 5px; margin-top: 5px;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none; margin-bottom: 5px; margin-top: 5px;"/>
	(1,256)	(1,803)
 Statement of financial position		
Other	-	42
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none; margin-bottom: 5px; margin-top: 5px;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none; margin-bottom: 5px; margin-top: 5px;"/>
	-	42

In October 2011 the Group engaged Klockensteijn B.V, a company of which the director J van der Vlist is the beneficial owner, to provide consultancy services. Under the terms of the engagement of Klockensteijn, the Group has agreed to pay an annual consultancy fee of €405,000 together with a performance fee equal to 7.5% of the amount by which cash returned to Shareholders from 25 October 2011 exceeds a hurdle rate of 160 pence per Share (this being £57.5m of capital). This hurdle rate increases at a rate of 5% per annum.

During the year the Group paid Klockensteijn £328,514 (2011: £24,987) and at the year end the Group owed Klockensteijn £27,521 (2011: £28,793).

Any performance fee payable at the 7.5% rate will be capped at £1m. In the event that an aggregate of £1m of performance fees have been earned by Klockensteijn, the performance fee shall reduce to 3.75% of Shareholder returns in excess of the hurdle rate.

The agreement with Klockensteijn can be terminated by either party on not less than six months' notice.

During the year the Directors received the following dividends and capital redemptions.

Dividends	2012 £'000	2011 £'000
C Collins	-	3
S Coe	-	1
J van der Vlist	-	3
W Hamman	-	-
R Phillips	-	-
	<hr/>	<hr/>
	-	7

Capital redemptions	2012 £'000	2011 £'000
C Collins	3	3
S Coe	1	1
J van der Vlist	3	3
W Hamman	-	-
R Phillips	-	-
	<hr/>	<hr/>
	7	7

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

Directors:

Crispian Collins (Chairman)
Stephen Coe
Jan van der Vlist
Wessel Hamman
Roger Phillips

Registered office:

Sarnia House
Le Truchot
St. Peter Port
Guernsey GY1 4NA

Investment Manager (up to 4 September 2012):

Matrix Property Fund Management (Guernsey) Limited
Sarnia House
Le Truchot
St. Peter Port
Guernsey GY1 4NA

Investment Advisor (up to 4 September 2012):

Matrix Property Fund Management LLP
1 Vine Street
London W1J 0AH

Investment Manager (from 5 September 2012):

Schroder Property Investment Management Limited
31 Gresham Street
London EC2V 7QA

Administrator and Secretary:

Praxis Fund Services Limited
PO Box 52
Sarnia House
Le Truchot
St. Peter Port
Guernsey GY1 4NA

Luxembourg Administrator:

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40 Avenue Monterey
L-2163
Luxembourg
Grand Duchy of Luxembourg

Broker:

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6.7.8 Tokenhouse Yard
London EC2R 7AS

Independent Valuer:

CBRE Limited
Henrietta House
Henrietta Place
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Auditor:

BDO Limited
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Registrar:

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Queensway House
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St. Helier
Jersey JE1 1ES

Financial calendar

Annual General Meeting	May 2013
First Interim Management statement	May 2013
Half year report	August 2013
Second Interim Management statement	November 2013

Share price

Share price at 31 December 2012	100p
High during the year ended 31 December 2012	175p
Low during the year ended 31 December 2012	99p

Other (€:£)

Average exchange rate for the period	1.2328
Closing exchange rate for the period	1.2263

Investor relations and general enquiries

For all investor relations and general enquiries about EREIT, including requests for further copies of the Report and Accounts, please contact:

Praxis Fund Services Limited
Sarnia House
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Or visit our investor relations website www.EREIT.co.uk for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

Communications with shareholders are mailed to the addresses held on the share register. For all shareholder administration enquiries, including changes of address, please contact:

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