

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LTD

INTERIM MANAGEMENT STATEMENT - SEPTEMBER 2011



PROPERTY PORTFOLIO

The value of the property portfolio as at 30 June 2011, the latest valuation date, was €367.2 million (31 December 2010: €379.0 million), representing a like-for-like fall of 3.1% for the half year. The next valuation will be carried out as at 31 December 2011.

The valuations have been performed by the independent Valuer in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards and show the "Market Value" assuming an asset sale of each property.

According to the latest market research from CBRE, activity has been stable between Q2 and Q3 2011 with the volume of European investment largely unchanged over the period (an increase of 2% overall) and both prime rents and yields largely unmoved. JLL record somewhat greater volume at +15% over the quarter.

This is surprising in a quarter that has seen so much turmoil in the financial markets, both in Europe and across the world, and there is likely to be increasing uncertainty over values in the coming months and this will likely exacerbate the value gap between core and non-core assets. Furthermore, the start of Q4 has seen significant volatility in the financial markets and growing concerns over sovereign risk and economic growth forecasts and this will not improve sentiment.

The portfolio has seen several positive changes in recent months. Vacancy levels at Europort continue to decline and, as at 30 September, stand at around 24%, compared to 36% at the start of the year.

Completing the lease renegotiation at Kaiserslautern is a very positive step and serves to demonstrate the quality of the retail pitch that the property occupies. H&M have extended their lease from July 2013 to July 2023. Discussions are being held with other tenants at the property.

At Nice, IBM have elected to stay within the entire property and we understand that they intend to refurbish part of the building and base additional staff at the campus. Their lease of the entire property will continue until February 2015.

The sales process is making steady progress and marketing of Lyon, Leiden, Düsseldorf and Kaiserslautern is underway and other assets will be brought to the market over the next three months, once various value adding asset management initiatives are completed.

DIVIDEND & RETURN OF CAPITAL

Following the change in the Company's investment objective, to allow the realisation of the assets of the Company in an orderly manner, the Company's dividend policy has also been revised - such that dividends will be suspended indefinitely and all cash will be returned to shareholders by way of capital distributions from time-to-time through periodic compulsory redemptions of shares. An illustration of how this process works can be found on www.mereit.info here [✚](#).

The first capital distribution of approximately £3.6 million (equivalent to 10p per share) was made on 26 October 2011.

MANAGEMENT ARRANGEMENTS

The Board have appointed Jan Van der Vlist, a non-executive director of the Company, as a consultant in order to facilitate the sales programme and the Company shall enter into an agreement to appoint Klockenstein B.V., a Dutch domiciled company of which Mr Van der Vlist is the beneficial owner.

FUND MANAGER

Matrix Property Fund Management
(Guernsey) Limited

KEY FEATURES

Listing Date	4 June 2007
Structure	Closed-ended investment company
Domicile	Guernsey
Listing	London Stock Exchange
Shares in Issue	35.95m
Performance Fee	20% of total shareholder return above 10% hurdle (subject to high watermark starting 31 Dec 2008)
Property Sector	All Commercial
Geographical Region	All Europe
Fund Denomination	Sterling
Latest NAV (30 June 2011)	278p
Share Price at 30 September 2011	152p
Valuations	Half-yearly

CONTACTS

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MATRIX

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FUND MANAGEMENT

Under the terms of the engagement of Klockensteijn, the Company 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 €57.53 million of capital), increased at a rate of 5% per annum.

Any performance fee payable at the 7.5% rate will be capped at £1 million. In the event that an aggregate of £1 million 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.

As announced on 14 October 2011 the Manager has served notice on the Investment Management Agreement. It is currently intended that the Company's assets will continue to be managed in accordance with the current Investment Management Agreement with the Manager for the remainder of the 12 month notice period which will expire on 14 October 2012. The Board shall review options for the management of the property portfolio thereafter, which may include inter alia the appointment of a third party manager or the appointment by Klockensteijn of further appropriately skilled persons.

HEDGING CONTRACTS

The Company uses financial derivatives to hedge its exposure to movements in interest rates and exchange rates. As at 30 September 2011 the value of the interest rate derivatives was a net liability of £2.0 million, representing a decrease of £4.5 million since 31 December 2010.

The Company's foreign exchange hedging contract has been further reduced. As at 30 June 2011 the contract was for an exchange of €127.0 million for £85.8 million in June 2014 and €5.0 million for £3.7 million on a quarterly basis until June 2014, and was a contingent liability of £35.7 million as at 30 June 2011 (comprising £25.9 million for the capital hedge and £9.8 million for the income hedge).

The capital contract sum was further reduced on 30 September 2011 with £1.0 million being used to decrease the contract value, in line with the policy of managing down the liability over the remaining life of the contract.

As a result of this, the capital contract is now €121.9 million for £82.3 million in June 2014 - the income element of the contract remains unchanged. The liability for this contract as at 30 September 2011 was £29.5 million (£23.0 million for the capital leg, £6.5 million for the income).

The comparative liabilities are as follows:

Date	Contract (matures Jun-14)	Liability
30-Jun-11	€127.0m : £85.8m	£35.7m
30-Sep-11	€121.9m : £82.3m	£29.5m

GROUP COVENANTS

LOAN-TO-VALUE COVENANTS

The Group has a loan to value ("LTV") ratio as at 30 September 2011 of 64.9% and is substantially below the Company's LTV covenant of 75%. At this LTV level the Company's loan margin is 275 bps.

The Group's other covenants can be summarised as follows:

- In the event that the LTV is in excess of 65%, surplus operational income will be used to amortise the loan.
- If the LTV exceeds 60%, when properties are sold the debt pay-down required is equal to 120% of the allocated loan for the property sold.
- The loan is subject to an interest cover ratio of 1.30x.

DÜREN



EUROPORT



LEIDEN



VALLADOLID



SAINT-ETIENNE



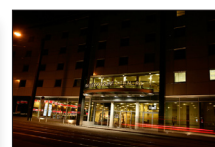
NICE



MURCIA



DÜSSELDORF



KAISERSLAUTERN



CORDOBA



MADRID



LYON



CELLE



FOREIGN EXCHANGE COVENANTS

The foreign-exchange derivative contract is subject to several financial covenants, which can be summarised as follows:

- 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 £75 million in any event.

On the basis of currently available unaudited information the Company is in compliance with the above covenants.

PROPERTY PORTFOLIO & GROSS ASSET VALUES

Country	Location	Use	€0 < 25m	€25 < 50m	> €50m
France	St Etienne	Office			■
France	Nice	Office	■		
France	Lyon	Industrial	■		
Germany	Frankfurt	Industrial			■
Germany	Düren	Retail			■
Germany	Düsseldorf	Hotel		■	
Germany	Kaiserslautern	Retail		■	
Germany	Celle	Retail	■		
Netherlands	Leiden	Office		■	
Spain	Valladolid	Industrial	■		
Spain	Madrid	Industrial	■		
Spain	Cordoba	Industrial	■		
Spain	Murcia	Industrial	■		