

ASX Announcement

2 October 2009

Australian Education Trust – Funding Update

Australian Education Trust (AET) (ASX:AEU) provides the following update regarding its funding arrangements and property portfolio.

Debt Funding

Management is pleased to advise that it has successfully negotiated amended debt funding arrangements with the National Australia Bank (NAB) and the Senior Secured Note (Notes) holders and as a result of these new arrangements, advises that AET is in compliance with its Financial Charges Ratio (FCR) and all other debt covenants. The outcome of the negotiations is consistent with all previous guidance provided to unit holders.

As advised in previous announcements, AET did not comply with its FCR for both the period to 31 December 2008 and for the period to 30 June 2009. The non-compliance was a result of loss of income due to AET's major tenant ABC Learning Centres going into Receivership on 6 November 2008 and increased costs pertaining thereto. AET entered into temporary standstill arrangements with both the NAB and the Notes holders pending a revision of its funding arrangements and better appreciation of the position and potential outcomes surrounding the ABC receivership

The following terms apply to AET's debt funding arrangements effective immediately:

- The NAB cash advance facility and standby facility which had maturity dates of 30 July 2010 and 30 July 2009 have been combined into one facility with an extended maturity date of 31 July 2011. The total margin charged on this facility is 4% pa compared to 1.5% pa under the previous facilities.
- The Notes maturity dates have been shortened to 31 July 2011, consistent with the NAB maturity date. This brings the maturity date of three series of Notes forward three years with the other series being brought forward six years. The interest rates will increase on the Notes by 2.5% pa on the amounts currently charged with the new coupon rates on these Notes being as follows:

Series	Principal Amount	Coupon Rate (pa)
Series A	USD\$18m	9.84%
Series B ⁽¹⁾	USD\$30m	9.84%
Series C	CAD\$19m	9.40%
Series D	USD\$59m	9.99%

⁽¹⁾ Series B Notes have been converted from AUD\$35.4m into USD notes.

- AET has undertaken to make the following base debt repayments to ensure compliance with the new agreements. These are cumulative targets with repayments as follows:
 - 31 December 2009 AUD\$35 million
 - 30 June 2010 AUD\$80 million (+ \$45m)
 - 31 December 2010 AUD\$89 million (+\$9m)
- In addition, there are target debt repayment levels which are designed to incentivise AET to reduce its debt levels through the period until 31 December 2010. In the event that AET is unsuccessful in achieving a target, an additional 0.5% pa will be payable by AET to both NAB and the Notes holders. These targets are also cumulative and are as follows:
 - 31 December 2009 AUD\$35 million (includes \$35 million base debt repayment)
 - 30 June 2010 AUD\$104 million (includes \$80 million base debt repayment)
 - 31 December 2010 AUD\$115.7 million (includes \$89 million base debt repayment)

- The Financial Charges Ratio (“FCR”) has been amended to the following levels:
 - 6 month period ending 31 December 2009 1.20x
 - 12 month period ending 30 June 2010 1.25x

The FCR level beyond 1 July 2010 is determined by AET’s ability to achieve the target debt repayment levels and therefore avoid the additional interest costs resulting from non compliance with these targets.

The definition of Earnings for the calculation of the FCR excludes any realised/unrealised gains or losses on investment properties, financial instruments and consent fees.

- A one-off consent fee of 1% of amounts borrowed is to be paid by AET at the time of execution of the funding arrangements. This payment amounts to approximately \$2.5 million.
- No unitholder distributions are to be made without the prior approval of NAB and the Noteholders.
- All repayments made by AET cannot be redrawn.
- All ABC specific terms have been removed and replaced with generic terms.

Hedging Arrangements

- As part of the amended debt facility arrangements, AET has closed out both its cross-currency interest rate swaps and its interest rate swaps as they ceased to be effective in managing AET’s exposure to both interest rate and foreign currency risk.
- AET used cross-currency interest rate swaps to manage its exposure to both foreign currency principal payments due in 2014 and 2017 and the semi-annual interest payments. Due to the change in the maturity date of the principal payments, the requirement for amortisation payments and the additional coupon rate, the original arrangements were not effective in relation to the new financing arrangements. Proceeds from closing out the cross-currency swaps are \$12.5 million.
- In addition, AET had \$140 million of interest rate swap contracts in place which converted variable interest rates into fixed rates of between 6.48% pa and 6.88% pa with maturities between 2011 and 2017. As the maturity of these contracts do not match the new maturity dates and that the Notes coupon rates are fixed, these interest rate swaps have been closed out at a cost to AET of \$7.1 million.
- The net proceeds of closing out both of these positions are \$5.4 million which will be used for debt amortisation.
- New forward exchange contracts have been entered into to fully hedge AET’s exposure to foreign currency fluctuation risk with both the United States Dollar (USD) and Canadian Dollar (CAD) principal and interest obligations. The forward exchange contracts have been entered into with a range of 0.81 – 0.88 for the USD exposure and 0.87 and 0.94 for the CAD exposure.
- As the Notes coupon rates are fixed, AET is only exposed to variable interest rate exposure on the NAB debt facility which comprises 42% of AET’s overall debt funding.
- Based on the current variable interest rates, AET will have a weighted average cost of debt funding of 8.4%. However this will likely increase over the next two years through both increases in the variable interest rates and the lower exchange rates used to hedge the future dated fixed foreign currency interest payments.

Debt Amortisation

- The first base and target amortisation payment due on 31 December 2009 of \$35 million will be met shortly through a combination of cash balances (both operating and asset sale cash flows) and the cash flows generated from closing out of the hedged positions.



- Following this payment and the restatement of the USD and CAD principal balances at the new foreign exchange contract rates, AET will have outstanding debt of \$229.2 million and gearing (gross debt to investment property) of 57%.

Property Update

ABC 1

- ABC1 properties have remained under the control of McGrath Nicol (ABC Receiver) since 6 November 2008. The ABC Receiver selected 715 properties (ABC1) that were deemed profitable, 202 of which are owned by the Trust. The ABC Receiver has advised that the “ABC Learning business has been stabilised and its model restructured to place it on a sustainable footing for the future”. The ABC Receiver called for Expressions of Interest in advertisements appearing in the national press in September with the anticipated timeline for the sale process advised as follows;
 - short-listed parties will be able to undertake their due-diligence during October, with final offers expected to be due by the first week in November; and
 - it is the ABC Receiver’s intention that contracts for sale would be exchanged before Christmas, with completion expected in the first two months of 2010.

Management will work closely to ensure the interests of its unitholders are protected; ensuring that leases are assigned to viable long term tenants.

ABC New Zealand

- ABC New Zealand (ABC NZ) is a wholly owned subsidiary of the ABC Learning Centres (Receivers & Managers Appointed) Ltd. ABC NZ is not in receivership or liquidation, however, the ABC Receiver is in control of the business and has sought to sell the NZ business through an Expression of Interest campaign. AET owns 58 properties in New Zealand which represents approximately \$42.3 million in capital value or approximately 10% of AET’s portfolio.
- AET is currently involved in the sales process with initial discussions held with the ABC Receiver’s preferred purchaser to ensure that the new tenant represents a viable long term proposition.

Closed Childcare Properties

In relation to the 22 closed childcare properties available for lease/sale, 3 properties have since been contracted for sale for \$2.7 million with 19 properties remaining to be leased/sold.

Australian Development Properties

In relation to the 13 Australian development properties available for sale, 2 properties have been contracted for sale for \$0.6 million with 11 properties remaining to be sold. These properties are currently being marketed with active negotiations on a number of properties.

Outlook

With secured funding arrangements in place until 31 July 2011, management intends to focus on the successful assignment of all of its ABC1 and ABC NZ leases. Once this objective has been met, the outlook for AET is to return to a more stable income stream and to resume regular income distributions to unitholders.

Nick Anagnostou
Chief Operating Officer/Fund Manager
Australian Education Trust

Travis Butcher
Chief Financial Officer
Australian Education Trust

For Further Information, contact:
Lula Liossi
Investor Relations Manager
61 3 8601 2668