EDT RETAIL
EDT Retail Management Limited
ABN 16 101 743 926
AFS Licence No. 223190
Responsible Entity for EDT Retail Trust

**ASX/ RELEASE**

**14 June 2011**

## SUPPLEMENTARY EXPLANATORY MEMORANDUM

EDT Retail Management Limited ("**ERML**") as responsible entity for the EDT Retail Trust ("**Trust**") wishes to announce the issue of a Supplementary Explanatory Memorandum ("**Supplementary EM**") in relation to the upcoming Unitholder Meeting scheduled for 8 July 2011.

The Supplementary EM provides further information to Unitholders to assist them to make their decision on how to vote on the resolution at the Unitholder Meeting.

The Supplementary EM will be mailed to Unitholders on or around 16 June 2011.

Juan Rodriguez
Company Secretary

***About EDT Retail Trust:***

*EDT Retail Trust (ASX:EDT) is a listed real estate investment trust focused on investing predominately in US community shopping centres giving investors exposure to a premium quality portfolio of US retail real estate in the value and convenience sector. It currently holds interests in 48 assets covering approximately 10.9 million square feet in 20 states.*

*EDT Retail Management Limited, the Responsible Entity of the Trust, is jointly owned by Developers Diversified Realty Corporation (DDR) and EPN GP LLC (EPN). DDR is a self-administered and self-managed REIT operating as a fully integrated real estate company listed on the NYSE which operates and manages over 570 retail properties covering 132 million square feet. EPN is a real estate investment venture jointly formed by Elbit Plaza USA, L.P. (a subsidiary of Elbit Imaging Ltd. and Plaza Centers N.V.) and Eastgate Property LLC.*

**EDT Retail Trust (ARSN 106 570 352)**

# SUPPLEMENTARY EXPLANATORY MEMORANDUM

**in relation to the Notice of Meeting dated 2 June 2011 to consider a resolution to wind up EDT**

**14 June 2011**

**This is an important document which sets out information which Unitholders should consider in deciding how to vote on the resolution to wind up EDT and requires your immediate attention. It should be read in its entirety. If you are in doubt about what to do, you should consult your professional adviser without delay.**

**YOUR VOTE IS IMPORTANT**

**The Independent Expert's conclusions are set out in their attached Independent Expert's Report and summarised in Section 5 of this Supplementary Explanatory Memorandum. As there are currently no independent directors of ERML, the ERML Board does not consider it appropriate to make a recommendation to Unitholders in this Supplementary Explanatory Memorandum. However, this Supplementary Explanatory Memorandum includes an analysis of relevant factors to assist Unitholders in deciding whether to vote in favour of or against the proposed Resolution.**

| | |
|---|---|
| **TIME OF MEETING** | **10.00am (Sydney time) Friday, 8 July 2011** |
| **LOCATION** | **Hilton Sydney, Level 2, Room 4, 488 George Street, Sydney NSW 2000** |

**IMPORTANT:**

All eligible Unitholders are encouraged to vote on the proposed Resolution. If you are unable to attend the Unitholder meeting in person, please complete and return the Proxy Form (which was included with the Notice of Meeting sent on 2 June 2011) before 10.00am (Sydney time) on Wednesday, 6 July 2011.

Proxy Forms can be lodged by post, fax or delivered by hand during business hours.

If you have any queries in relation to the Meeting or your Proxy Form, please contact the Registry, Link Market Services Limited, on 1300 135 403 (local call cost within Australia) or +61 2 8280 7482 (from outside Australia) between 8.30am to 5.30pm (Sydney time) Monday to Friday.

This Supplementary Explanatory Memorandum is issued by EDT Retail Management Limited (ABN 16 101 743 926) (AFSL 223190) as responsible entity of EDT Retail Trust (ARSN 106 570 352).


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## Contents



## Important information

The Notice of Meeting and this Supplementary Explanatory Memorandum are important and require immediate attention. They should both be read in their entirety before making a decision on how to vote on the Resolution. If you are in doubt as to the course you should follow, you should consult your legal, investment, taxation or other professional adviser without delay.

**No investment advice**

This Supplementary Explanatory Memorandum has been prepared without reference to the investment objectives, financial situation or particular needs of any Unitholder or any other person. The information contained in this Supplementary Explanatory Memorandum does not constitute financial product advice.

**Responsibility for information**

Except as otherwise stated, the information contained in this Supplementary Explanatory Memorandum has been provided by ERML and is solely its responsibility. The Independent Expert, Ernst & Young Transaction Advisory Services Limited, has provided and is responsible for the information contained in the Independent Expert's Report in Annexure A. To the maximum extent permitted by law, none of ERML its subsidiaries, directors, employees, officers and advisers assumes any responsibility for the accuracy or completeness of any of the information contained in this document or the information contained in the Independent Expert's Report.

**Disclosures regarding forward looking statements**

Certain statements in this Supplementary Explanatory Memorandum relate to the future. These statements are not based on historical fact but rather reflect the current expectations of ERML in relation to future results and events. These statements may be identified by the use of forward looking words or phrases such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'plan', 'estimate', 'potential' or other similar words and phrases, and are not guarantees of future performance. You should be aware that known and unknown risks, uncertainties and other important factors could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other important factors include, among other things, the risks in respect of the proposed Resolution. Unitholders are cautioned not to place undue reliance on such forward looking statements. Deviations as to future results, performance and achievement are both normal and expected.

**Financial information**

Unless otherwise indicated, all references to financial information in this Supplementary Explanatory Memorandum are derived from the audited financial statements of EDT as at 31 December 2010 and/or the quarterly financial report for EDT lodged with ASX on 20 May 2011. A copy of those documents is available on the ASX website (www.asx.com.au) or the Trust's website (www.edtretail.com.au).

# SUPPLEMENTARY EXPLANATORY MEMORANDUM

This Supplementary Explanatory Memorandum provides Unitholders in EDT Retail Trust ("**EDT**" or "**Trust**") with additional information about the resolution to wind up the Trust ("**Resolution**"), which is to be considered by Unitholders at the meeting convened in the notice of meeting issued by EDT Retail Management Limited ("**ERML**") as responsible entity of EDT on 2 June 2011.

This Supplementary Explanatory Memorandum has been prepared by ERML as responsible entity of EDT for the information of Unitholders in relation to the business to be conducted at the Meeting. The ERML Board recommend that Unitholders read the Notice of Meeting and this Supplementary Explanatory Memorandum before determining whether to vote for or against or abstain from voting on the Resolution.

## 1 Background to the Meeting

### 1.1 The Meeting requisition

On 12 May 2011, ERML received a request from the Requisitioning Members who together held at that time approximately 6.2% of the Units on issue, pursuant to section 252B of the Corporations Act, for ERML to convene a meeting to consider and vote on an extraordinary resolution to wind up EDT in accordance with its constitution and applicable law.

In accordance with its obligations under the Corporations Act, on 2 June 2011, ERML as responsible entity of EDT issued a Notice of Meeting convening a meeting of Unitholders on 8 July 2011 commencing at 10.00am at Hilton Sydney, Level 2, Room 4, 488 George Street, Sydney NSW 2000. A copy of the Notice of Meeting is available on the ASX website (www.asx.com.au) or the Trust's website (www.edtretail.com.au).

### 1.2 Exercising your voting entitlement

Details on how to vote on the Resolution are set out in the Notice of Meeting and the accompanying Proxy Form. If you require a new Proxy Form to be sent to you please contact the Registry, Link Market Services Limited, on 1300 135 403 (local call cost within Australia) or +61 2 8280 7482 (from outside Australia) between 8.30am to 5.30pm (Sydney time) Monday to Friday.

Under section 253E of the Corporations Act, ERML and its associates are not entitled to vote their interest on the Resolution if they have an interest in the Resolution other than as a Unitholder.

### 1.3 Details of the Resolution

To consider, and if thought fit, pass the following resolution as an extraordinary resolution:

*Resolution – Winding up of EDT Retail Trust*

> *"THAT:*
>
> *(a) for the purposes of Part 5C.9 of the Corporations Act 2001 (Cth) and for all other purposes, the responsible entity of EDT Retail Trust ARSN 106 570 352 (the Trust) be and is hereby directed to wind up the Trust in accordance with the Trust's constitution and applicable law; and*
>
> *(b) for the purposes of clause 20.2(b) of the constitution of the Trust, the date on which this resolution is passed be the date which the members of the Trust have determined as the date on which the date the Trust terminates."*

### 1.4 Independent Chairman appointed to chair the Meeting

ERML has appointed Mr Alan Cameron A.O. to be the Chairman of the Meeting. Mr Cameron is a former chairman of the Australian Securities & Investments Commission from January 1993 to November 2000 and a former partner of the law firm Blake Dawson. Mr Cameron is currently the Chairman of Westpac and St George's life and general insurance companies. Mr Cameron is independent from each of ERML, the EPN Group, DDR and the Requisitioning Members.

## 2 Your vote is important

### 2.1 Voting requirements for Resolution to be passed

The Resolution to wind up the Trust is an extraordinary resolution. An extraordinary resolution, to be passed, requires at least 50% of total votes that may be cast by Unitholders entitled to vote on the resolution to be voted in favour. It is not simply a majority of Unitholders who are present in person or by proxy at the Meeting.

Accordingly, if a Unitholder entitled to vote on the Resolution does not vote at the meeting in person or by proxy, that has the same effect as voting "No" at the meeting.

### 2.2 Voting entitlement of EPN

On 3 June 2011 the EPN Group disclosed a relevant interest in 57.34% of the Units on issue (reflecting the change in relevant interest on 2 June 2011).

Under section 253E of the Corporations Act, ERML and its associates are not entitled to vote their Units on the Resolution if they have an interest in the Resolution other than as a Unitholder.

On the information available to ERML as at the date of this Supplementary Explanatory Memorandum, ERML has received advice that the entity within the EPN Group holding the Units would not be entitled to vote on the Resolution, because of the voting exclusion under section 253E of the Corporations Act. However, the EPN Group has advised ERML that it proposes to undertake certain steps, including seeking amendments to the ERML constitution, designed to ensure that EPN GP is not an associate of ERML and therefore is able to vote its Units on the Resolution. ERML will keep Unitholders informed of any new information concerning the entitlement of EPN GP to vote at the Meeting.

The entitlement of a Unitholder to vote on the Resolution must be determined by the Chairman at the Meeting. ERML intends to seek the advice of Senior Counsel prior to the Meeting on the entitlement of EPN GP to vote its Units on the Resolution. This advice will be made available to the Chairman of the Meeting.

## 3 ERML Board governance

On 1 June 2011 the two independent directors of ERML resigned from the ERML Board effective immediately. None of the remaining Directors were independent, being associated with either the EPN Group or DDR, the two substantial shareholders of ERML or being an employee.

On 7 June 2011 Mr Luke Petherbridge was appointed to the ERML Board. Mr Petherbridge is a former Chief Executive Officer of EDT and is a former director of ERML. Mr Petherbridge has no relationship with either the EPN Group or DDR and is not an employee of ERML. Accordingly, while Mr Petherbridge is not an "independent director" under the ASX Corporate Governance Principles, he does not have any conflict of duty with respect to, or a material interest in, the Resolution.

The ERML Board has adopted protocols for the preparation of this Supplementary Explanatory Memorandum. Under these protocols, a committee comprising Mr Petherbridge and a representative of ERML's legal advisers was established to prepare this Supplementary Explanatory Memorandum, including setting out the advantages and disadvantages of winding up the Trust.

However, as there are no independent directors on the ERML Board, the ERML Board does not consider it appropriate to make a recommendation to Unitholders on how to vote on the Resolution.

# 4 What is the effect of the Resolution on EDT

### 4.1 Trading in Units on ASX will be suspended, however the ERML Board is evaluating whether or not there are, and if so whether to implement, alternatives to allow continued trading

Under the terms of the existing constitution of the Trust, the Unitholders entitled to the proceeds on a winding up are those Unitholders recorded on the register on the date on which termination occurs. Under the terms of the Resolution, termination would occur on the date the Resolution is passed.

ASX has advised that on the basis of the current EDT Constitution provisions, trading in EDT Units would be suspended on and from the close of trading on ASX on 1 July 2011 pending the outcome of the Meeting. If the Resolution is passed the suspension would remain in place and EDT would subsequently be delisted. If the Resolution is not passed the suspension would be lifted at that time.

The ERML Board is evaluating potential changes to the EDT Constitution and seeking advice from ASX in determining whether trading on ASX of EDT Units would then not be suspended on and from the close of trading on 1 July 2011 in connection with a passing of the Resolution to terminate the Trust.

ERML will notify Unitholders of the outcome of this review process as soon as practicable and in any event prior to 1 July 2011.

### 4.2 The assets of the Trust will be sold and the net proceeds distributed

If the Resolution is passed, ERML will be required to initiate a sales process for the assets of the Trust. Under the constitution of the Trust, the sale process must be completed in 180 days of termination if practical and in any event as soon as possible after that. In acting in the best interests of Unitholders, ERML will conduct an orderly sale process of EDT's entire property portfolio by selling either properties or corporate structures owning properties which may take longer than 180 days and possibly several years.

### 4.3 EDT would continue as a registered managed investment scheme with ERML as the responsible entity

If the Resolution is passed, EDT will continue as a registered managed investment scheme until the winding up process has been completed and the final distribution of net proceeds of wind up is paid to Unitholders. ERML will continue as the responsible entity of EDT. The current fee arrangements with ERML, DDR (as property manager) and the US Manager will continue until the winding-up is completed which would include disposal fees.

# 5 Conclusions of the Independent Expert

ERML has engaged an independent expert, Ernst & Young Transaction Advisory Services Limited, to review the proposal to wind up EDT. The Independent Expert has concluded:

> *"If the Offer is available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is not in the best interests of the Unitholders as a whole. However, we note that the Offer at 9 cents falls in the bottom of the range of the estimated net proceeds, and as a result of individual Unitholder preferences, some Unitholders may prefer the Proposed Wind-Up.*
>
> *If the Offer is not available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is in the best interests of the Unitholders as a whole."*

The basis for these opinions are detailed more fully in the Independent Expert's Report which is attached as Annexure A.

# 6 Advantages of winding up the Trust

## 6.1 Unitholders could receive a premium to trading price of EDT

Upon completion of the winding up process, the sale of Trust assets may result in net proceeds to Unitholders in excess of the current trading price of EDT.

The Independent Expert has estimated that the net present value of the possible proceeds of the wind up to be in the range of 8.9 cents to 10.7 cents. However, they also note that this realisable range is subject to significant uncertainty.

## 6.2 Opportunity for a medium term return of capital to Unitholders

The liquidity in the Units traded on the ASX is expected to be low once the Takeover Offer lapses. Previously low trading volumes are likely to reduce further due to the increase in the EPN Group's holding through the Takeover Offer. The EPN Group has stated that it does not intend to sell any of its Units which would significantly reduce the free float of the Trust.

Through winding up the Trust, Unitholders would be able to realise the underlying value of the assets as properties and portfolios are sold and distributions are made to Unitholders. To maximise the likely return to Unitholders this is likely to occur over the medium term.

## 6.3 Real estate transaction market has improved significantly

All of the Trust's properties are located in the United States. The significant increase of commercial mortgage-backed securities ("CMBS") as a source of retail real estate funding in the United States was strongly evidenced during 2010 and continues into 2011. Every capital sector increased their lending activity on an absolute basis but the CMBS contribution during the prior 12 months was the largest change. The normalisation of the capital markets and some general improvement in economic conditions has led to the strengthening of the real estate transaction market in the United States.

This has been evident through the recent announcements of disposals and acquirer interest in portfolios of US located assets which are held by A-REITs listed on ASX at or close to current book valuations. Although sales value is below the peak volumes in 2007, this gives some basis to the possibility that the Trust may be able to transact a significant portfolio of its real estate assets however this may take several years to accomplish.

## 6.4 Unitholders would not have to pay for future capital expenditure

The Trust's leased rate is currently 88.7% which is below the long term average of the Trust which is 95% since the Trust's inception. ERML is undertaking leasing initiatives which will involve significant capital expenditure to incentivise new tenants to relocate to the Trust's assets. ERML is aiming to increase the leased rate of the Trust's portfolio and thus improve the Trust's overall value. The capital expenditure requirements will likely reduce the cash available to be paid to Unitholders over the medium term.

## 6.5 Lack of cash distributions

The Trust is not providing distributions to Unitholders in 2011 and may not provide distributions in the near term. Unitholders will receive little cash return on their Units over the short term unless they are sold on the ASX which may be at a discount to the Trust's NTA.

It should be noted that although there is minimal cash returns over the near term, retained cash earnings will continue to contribute to the Trust's NTA.

### 6.6 Opportunity to close the gap between trading price and NTA

The ERML Board has indicated that it is continuing to explore alternatives to address the discount between the Trust's trading price and its stated NTA. Some of these alternatives may include, among other measures, a consolidation of Units to enhance the attractiveness of the Trust to prospective investors, reinstating cash distributions or conducting an on-market unit buyback of Units when there are surplus funds having regard to the ability to refinance debt.

Notwithstanding the above, listed trusts on the ASX generally continue to trade at a discount to their stated net asset backing. If the Resolution is passed, ERML would undertake a controlled liquidation of the Trust's assets and return realised proceeds to Unitholders. This may produce a return which exceeds the current trading price of Units and the range which Units may trade after the Takeover Offer lapses.

### 6.7 Refinancing risk

The Trust has approximately 13% of its debt maturing during the next 18 months with debt facilities secured over the Trust's properties. Although ERML believes that the Trust will be able to refinance these facilities when they fall due, there is a possibility that if credit conditions were adversely impacted this may not be possible. If loans were unable to be refinanced when they mature and they went into default, the Trust may lose equity in the secured assets through the forced sale of those assets.

If the Resolution is passed, ERML would be able to control the sale of the entire portfolio and likely eliminate the refinancing risks which are apparent in 2012 and 2013.

### 6.8 United States property market risk

There is the risk that the adverse economic and credit conditions that negatively impacted the US property markets over 2008 and 2009 will return or will take longer to improve than anticipated. A further decline or weaker recovery in US property markets or further decline or slower recovery in global general economic conditions may have an adverse impact on the Trust's net assets and the value of the Trust's Units. If the Resolution is passed, this would reduce the risk Unitholders are currently exposed to over the long term.

### 6.9 Taxation risk due to EPN's offer to acquire units in EDT

As outlined in the Target's Statement issued on 7 May 2011, if EPN's holding in the Trust was to exceed certain thresholds there would be adverse tax consequences to the remaining Unitholders. On 3 June 2011 the EPN Group disclosed a relevant interest in 57.94% of the Units on issue (reflecting the change in relevant interest on 2 June 2011).

If EPN increases its interest in EDT to 82% or more or adjusts the holding structure of the EPN Group, the US REITs may, if considered closely held, lose their REIT status and would then be subject to US corporate income tax on the REIT taxable income without a deduction for dividends paid.

## 7 Disadvantages of winding up the Trust

### 7.1 Potential reduction in the net asset value of the Trust

The Independent Expert has employed commercially reasonable efforts to determine the value per Unit in a wind up scenario. There is no certainty of price which the Trust will receive from the sale of its property portfolio. A need to sell the assets under a winding up may materially adversely impact the price at which the assets could be sold and accordingly the net asset value of Trust and the value of Units.

The Independent Expert notes that the distribution range it has determined in the Proposed Wind Up scenario is an estimate and is subject to significant uncertainty due to the volatility of the foreign exchange market and potential movements in the US retail property market.

### 7.2 Potential effect on future trading opportunities

Under the current EDT Constitution arrangements, in the event the Resolution is passed and the Trust is terminated, trading in EDT Units would have been suspended on and from close of trading on ASX on 1 July 2011 and the Trust would subsequently be delisted.. In this event there would no longer be an opportunity for Unitholders to trade their Units on the ASX.

The ERML Board is evaluating potential changes to the EDT Constitution and seeking advice from ASX in determining whether trading on ASX of EDT Units would then not be suspended on and from the close of trading on 1 July 2011 in connection with a passing of the Resolution to terminate the Trust. Refer to section 4.1 of this Supplementary Explanatory Memorandum regarding the trading of the Trust's Units.

### 7.3 Timing of the winding up process

Winding up the Trust will require ERML to sell all of the Trust's assets and pay, or have any purchaser assume, any outstanding Trust liabilities, including but not limited to, the portfolio level mortgages. Depending on the duration required to wind up the Trust and dispose of all assets, Unitholders may have to wait a considerable period of time to receive their share of the net realised proceeds. This would take more than 180 days. While the Trust could make distributions by instalments, there can be no assurance of when payments will be made.

### 7.4 Transaction costs

The transaction costs associated with winding up the Trust are potentially high and ultimately remain uncertain. The Independent Expert notes that financing break fees and income tax expenses could be significant and vary depending on the realisation strategy and timing of disposals.

### 7.5 Adverse tax consequences

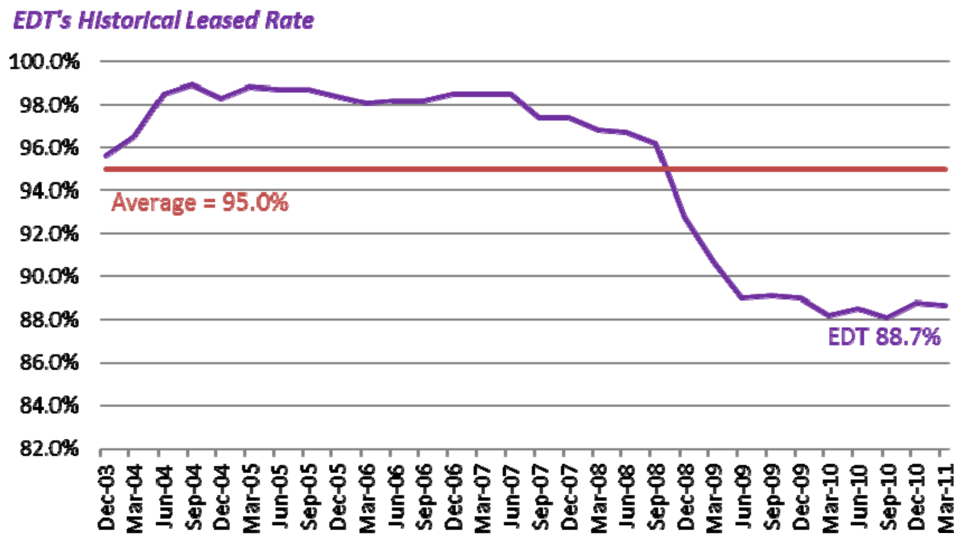
While the Trust has been structured in a tax effective manner, it may not be possible to eliminate all adverse tax consequences within a wind up. The extent to which the winding up process may result in tax being paid in the United States and by Unitholders in Australia will be dependent on how the Trust ultimately disposes of its assets, the Unitholders' duration of ownership, the domicile of the Unitholder and other factors. More information is set out in section 9 of this Supplementary Explanatory Memorandum.

### 7.6 Potential events of default or other impacts under financing arrangements

Depending on the wind up scenario and how the Trust's assets are sold, there is a possibility that there may be prepayment penalties with some of the Trust's debt that may negatively impact realisable proceeds.

### 7.7 Realisation of assets while occupancy is low

The Trust's property portfolio leased rate of 88.7% is currently below the long term average of 95% for the Trust since its inception. As outlined in section 8 of this Supplementary Explanatory Memorandum, there are significant leasing initiatives which are currently being considered and undertaken by ERML to enhance the Trust's operating metrics and earnings growth including a number of executed leases which will commence paying rent during 2011 and 2012 which currently do not contribute to the Trust's net operating income.




If the Resolution is passed, ERML may be selling properties with material vacancies which would otherwise be able to be leased over time to improve earnings and overall value. Consistent with market practice, valuations undertaken on the portfolio for EDT's financial accounts would provide some value for the vacant space based on the assumption it will be leased over time. Acquirers may not provide the same value on the portfolio's vacant space so attempting to sell assets which are not stabilised may result in prices below valuations.

### 7.8 Improving US Retail markets

There continues to be evidence of an improvement in US economic conditions which is being reflected in debt and equity markets. This has led to a considerable improvement in the US retail real estate market and an overall improvement in property values as evidenced by general increases in the value of listed US REITs over the past year, an increasing number of real estate transaction completions and the reversion of retail capitalisation rates towards the long term average.

If the Resolution is passed, Unitholders may not participate in any future improvements in the US retail market which would potentially lead to improvements in the Trust's operating metrics, such as occupancy and Net Operating Income, and ultimately net assets per Unit.

## 8 Outlook and strategy of the Trust

### 8.1 Overview

The Trust was established to acquire a portfolio of quality community shopping centres diversified throughout the United States and to enhance the earnings and net asset value of these assets through active management of the properties.

The ERML Board is pursuing a strategy of seeking to maximise the value of the Trust for the benefit of Unitholders over the medium to long term. The ERML Board aims to enhance and increase the value of each of the Trust's assets through active property management which is focused on leasing available space to quality and profitable retailers. The Trust's capital allocation decisions continue to focus on enhancing the portfolio's value, potential returns on the underlying properties and ultimately for Unitholders.

Given the quality of the underlying asset portfolio and the attractiveness of the asset-level debt packages currently in place, the ERML Board considers that the Trust continues to represent an attractive value proposition in its current form. Moreover, it is the Board's intention to continue to strengthen the long term outlook of the Trust by either opportunistically redeveloping or disposing of the Trust's currently underperforming assets.

### 8.2 The Trust's portfolio

The Trust has interests in 48 shopping centres comprising 10.9 million sq ft of GLA which were collectively valued at US$1.409 billion as at 31 March 2011. The Trust's share equals US$1.4 billion. The portfolio is diversified across the major regions of the US, with assets located in 20 states.

The portfolio remains focused on the community shopping centre format and on attracting national tenants that provide value and convenience to consumers. These retailers, including discount tenants, continue to attract customers in the current economic environment.

### 8.3 Summary of the Trust's key portfolio metrics

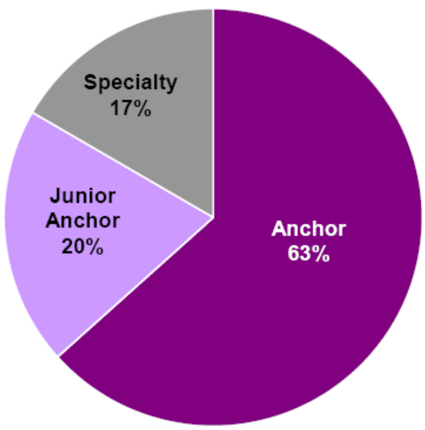
The Trust's key portfolio metrics as at 31 March 2011 are outlined below.

| | 31 March 2011 |
|---|---|
| Number of properties | 48 |
| Total value (US$m)[1] | 1,409.4 |
| Trust's share (US$m)[1] | 1,400.3 |
| Owned GLA (million sq ft) | 10.9 |
| Capitalisation rate | 8.44% |
| Weighted average lease expiry[2] (yrs) | 4.8 |
| Leased rate[3] | 88.7% |

1 Appraised values, including 31 March 2011 revaluations
2 Weighted by Annual Base Rent
3 Includes all occupied space and space for which there are signed leases.

### 8.4 Stability of cash flows

The Trust's rental revenue remains relatively stable with over 80% of its Annual Base Rent derived from large and junior anchor retailers which predominantly have a national presence and are secured by relatively long term leases.

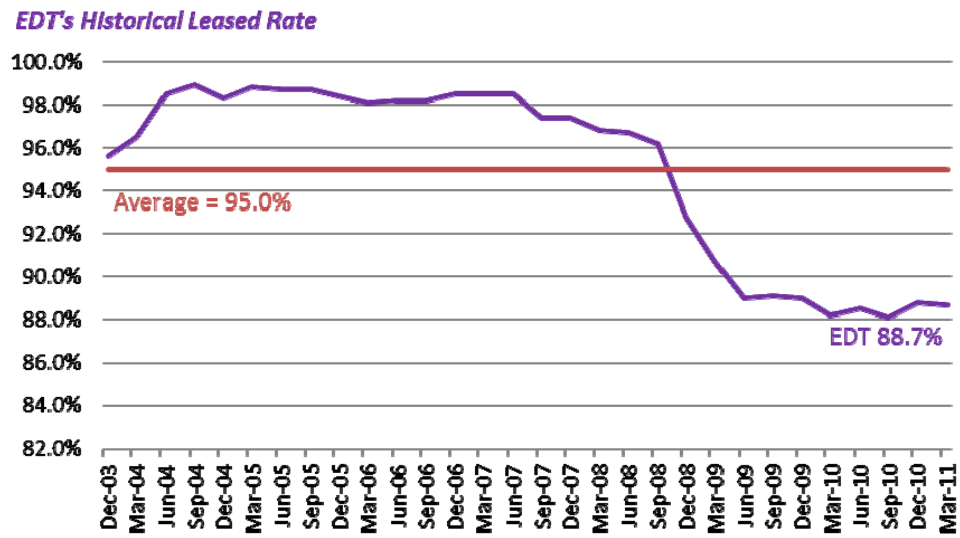



### 8.5 Operations and Leasing

As at 31 March 2011, the Trust's shopping centre portfolio was 88.7% leased, slightly down from 88.8% at 31 December 2010. During the March 2011 quarter, the Trust successfully executed over 308,000 sq. ft. of space including nine leases on 47,933 sq. ft that had been vacant for over 12 months.

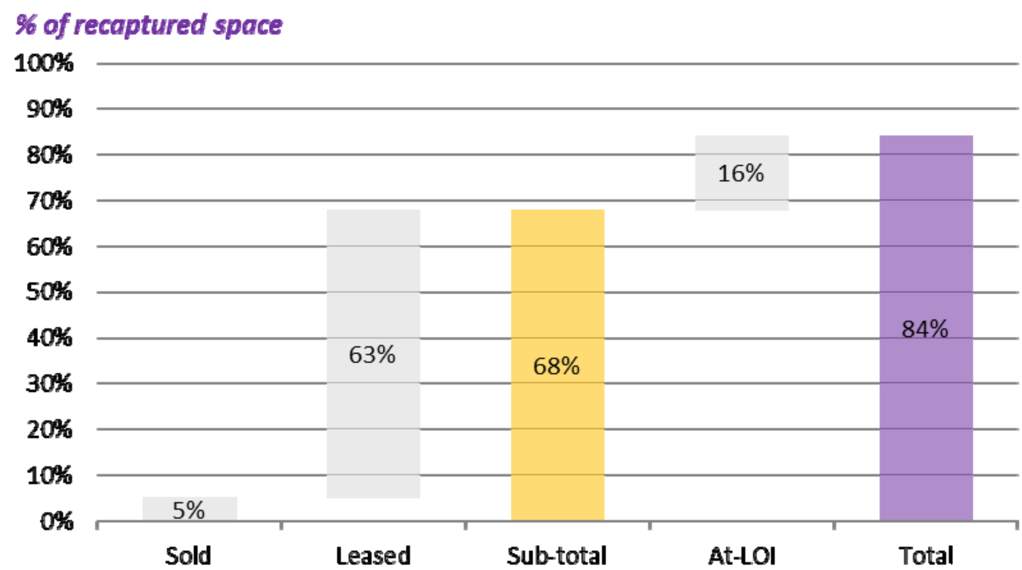
The weighted average rental spread on executed leases and renewals is down 9.6% for the quarter, driven primarily from lease renewals and specifically three short term renewals. Excluding these three deals, the rent spread would have been flat for the quarter. New leases executed in first quarter posted a weighted average rental increase of 8.3%. Rents remain under pressure in the marketplace as the Trust continues to focus on maintaining occupancy.

The Trust's current leased rate is below the long term average of the Trust. As illustrated in the graph below, the leased rate was impacted by tenant bankruptcies which occurred primarily in late 2008 and early 2009.




The Trust's management along with DDR have been pursuing various steps to improve the leased rate of the Trust. Given the Trust's improved funding structure and enhanced liquidity position, it is expected that the Trust will be able to allocate resources to new leases and attract new tenants to its properties. There continues to be demand for retail space, as the Trust's key tenants continue to expand while there remain few other new developments in the retail sector.

Significant progress has been made on space previously occupied by retailers who had filed for bankruptcy. Over two thirds of the space has either been leased or sold and letters of interest have been received on much of the remaining space.




A majority of the net operating income from the new leases which have been signed will commence throughout the 2011 calendar year. As at 31 March 2011, the Trust had executed leases over 176,000 square feet to retailers which will contractually commence trading and paying rent by the end of 2011. On an annualised basis, these executed leases will contribute approximately US$2.6 million per annum in additional net operating income to the Trust.

### 8.6 Property valuations

The value of the Trust's portfolios has been significantly impacted over the past 3 years by the global financial crisis. After the asset values of shopping centres peaked in mid-2007, asset values troughed in 2009 falling approximately 35-40% with transaction volume significantly reduced due to lack of debt and equity availability.

Although market conditions continue to fluctuate, evidence shows that generally retail asset values have increased by 30% from the trough, although they remain 20% below the historical peak[1]. High quality properties which are located in the best areas have experienced the greatest recovery with secondary locations continuing to lag.

The Trust continually reviews the book value of its assets based on market evidence. Asset revaluations as at 31 March 2011 resulted in a 1.3% increase in portfolio value to US$1.4 billion, up from US$1.383 billion as at 31 December 2010. This increase was driven by a combination of improved net operating income and a tightening of capitalisation rates, with the weighted average capitalisation rate decreasing from 8.50% at 31 December 2010 to 8.44%.

### 8.7 Capital management

Over the past 18 months, the Trust has significantly simplified and enhanced its capital structure. This has involved refinancing over US$600 million of near term debt and the repayment of US$160 million of debt and near term liabilities in conjunction with the Recapitalisation.

The Trust's current look-through loan to value ratio is approximately 64%, however this is reduced to approximately 62% when allowing for the cash currently held by the trust (i.e. total interest bearing liabilities less cash / total assets less cash).

The Trust's debt structure comprises 9 facilities which are all senior secured and non-recourse to the Trust. Following the successful refinancing of the Bison facility in March 2011, the Trust's weighted average debt maturity increased to 3.8 years with no debt maturing in 2011.

The Trust has approximately US$118 million of secured debt to be refinanced in 2012 (which represents approximately 13% of total debt outstanding), which has a combined loan to value ratio of 82% as at 31 March 2011.

The Trust has commenced the process to seek appropriate financings for the near term debt maturities seeking to refinance these maturities well in advance of their respective maturity dates. Based on the Trust's current liquidity position and current financing conditions, the Directors remain confident that these loans will be able to be reduced and refinanced when they mature.

Notwithstanding the above, capital markets and the availability of debt can change materially over the medium term. These facilities represent approximately 5% of the Trust's total NTA.

### 8.8 Strategy

The ERML Board is conscious of the gap between the trading price of Units and the net tangible asset value per Unit, although the Directors believe this gap is generally consistent with the experience of other listed A-REITs. The ERML Board has sought to address this issue through value enhancement as a result of a number of operating initiatives, including leasing and redevelopment, debt refinancing, and evaluation of when distributions could be reinstated. There are significant leasing initiatives which are currently being considered and undertaken by ERML to enhance the Trust's operating metrics and earnings growth. There

[1] Green Street Advisors Strip Centre Update 23 March 2011

are a number of recently executed leases with rent commencement during 2011, which currently do not contribute to the Trust's earnings.

The financial position of the Trust has also been considerably strengthened over the last twelve months. In light of the completion of recent debt refinancings, the Trust has a stable funding structure with a weighted average debt maturity of 3.8 years. Although the Trust is required to refinance some of its existing debt in 2012, it currently has over US$55 million of cash of which approximately US$42 million[1] is unrestricted, which combined with its estimated cash earnings for the next 12 months should enable it to successfully refinance this maturing debt on acceptable terms. This improved liquidity position will provide the Trust with the necessary time and capital to execute its leasing and redevelopment initiatives.

Over the medium to long term, EDT intends to consider holding assets which broadly meet the following criteria:

- forecasted to provide medium to long term growth and earnings stability;
- located within a major US market;
- located in areas with both a sustainable population base and household income sufficient to support sales of the asset's tenants; and/or
- able to attract and sustain credit quality tenants catering and appealing to the specific market's demographic profile.

The ERML Board may consider selling properties that do not meet any of the above criteria if it believes that, on balance, the disposal of that property is in the best interests of the Trust.

### 8.9 Capital management review

If the Resolution is not passed, in addition to the various operating initiatives currently being undertaken, the ERML Board along with management is planning to review various capital management initiatives with the specific objective of reducing the gap between the trading price of Units and the net tangible asset value per Unit over the medium term. Some of the initiatives that will be considered by the Directors or are already underway include:

1. increasing the value of the Trust through leasing initiatives;
2. leverage reduction and managing the cost of capital through debt management;
3. portfolio management including sales of non-core assets and redeployment of capital towards acquisitions over time;
4. the reinstatement of the Trust's cash distributions when appropriate;
5. a buy-back of Units from Unitholders;
6. the consolidation of Units to make the Trust more appealing to new investors;
7. internalisation of the management of the Trust; and
8. considering the parallel listing of Units in the US.

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[1] Based on management accounts for 31 May 2011.

# 9 Tax consequences for Unitholders

Tax implications of the winding up of the Trust for Unitholders will vary depending on their individual circumstances. Unitholders should consult their own tax advisers regarding any tax implications (including capital gains tax) for them.

The winding up of EDT may result in the payment of US capital gains tax or US withholdings tax. Although the extent of the US capital gains or withholding tax depends on the sale process, timing and prices obtained, based on the potential scenarios examined by the Independent Expert they are expected to represent less than 5% of the net proceeds. Some Unitholders may be eligible for a refund or a foreign tax offset for some of these amounts.

The distribution of the proceeds from a winding up of EDT to Australian resident Unitholders who hold their EDT Units on capital account may result in capital gains tax. The extent and timing of any capital gain or loss will depend on the Unitholder's individual circumstances and the cost base of their units.

# Glossary

| Term | Definition |
|---|---|
| **AFSL** | Australian Financial Services Licence |
| **ASX** | ASX Limited (ABN 98 008 624 691), or the securities exchange operated by it |
| **A-REIT** | Australian real estate investment trust |
| **Corporations Act** | Corporations Act 2001 (Cwlth) |
| **DDR** | Developers Diversified Realty Corporation |
| **Director** | A current director of ERML |
| **EDT** or the **Trust** | EDT Retail Trust (ARSN 106 570 352) |
| **EPN** | EPN EDT Holdings II LLC |
| **EPN GP** | EPN GP LLC |
| **EPN Group** | the strategic joint venture between Elbit Plaza USA, LP and Eastgate Property LLC, both limited liability companies organised under the State of Delaware in the United States of America including EPN, EPN GP and its other controlled entities |
| **ERML** | EDT Retail Management Limited (ABN 16 101 743 926), the responsible entity of the Trust |
| **ERML Board** | The board of directors of ERML (in its capacity as responsible entity of the Trust) |
| **GLA** | gross lettable area |
| **Independent Expert** | Ernst & Young Transaction Advisory Services Limited |
| **Independent Expert's Report** | The independent expert's report prepared by the Independent Expert, a copy of which is contained in Annexure A |
| **Meeting** | The meeting of Unitholders convened by ERML pursuant to the Notice of Meeting |
| **Notice of Meeting** | The notice of meeting, including the accompanying explanatory memorandum, issued by ERML dated 2 June 2011 |
| **NTA** | net tangible assets |
| **Proxy Form** | The proxy form provided by the Registry to Unitholders to vote at the Meeting by proxy, which accompanied the Notice of Meeting |
| **Recapitalisation** | The recapitalisation of EDT completed in June 2010 by way of a placement to EPN GP as a cornerstone investor to raise A$9.5 million and an entitlement offer to raise A$198.9 million which was sub-underwritten by EPN GP and others |
| **Registry** | Link Market Services Limited |
| **Requisitioning Members** | Each of the Unitholders described as "Requisitioning Members" in Annexure A of the Notice of Meeting |
| **Resolution** | The resolution concerning the winding up of EDT set out in the Notice of Meeting and set out in section 1 of this Supplementary Explanatory Memorandum |
| **Supplementary Explanatory Memorandum** | This document |

| Term | Definition |
|---|---|
| **Takeover Offer** | The takeover offer by EPN for all the Units in the Trust, under Chapter 6 of the Corporations Act as described in the bidder's statement prepared by EPN dated 14 April 2011, as supplemented |
| **Unit** | An ordinary unit in the Trust |
| **Unitholder** | A registered holder of Units |
| **US or United States** | United States of America |
| **US Manager** | EDT Management LLC |

# Independent Expert's Report and Financial Services Guide

in relation to the proposal to Wind Up EDT Retail Trust

14 June 2011

ERNST & YOUNG

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The Directors
EDT Retail Management Limited
as responsible entity for
EDT Retail Trust
Darling Park Tower 2
SYDNEY NSW 2000

14 June 2011

Dear Sirs

# Independent Expert's Report with respect to the proposal to Wind Up EDT Retail Trust

## Introduction

Ernst & Young Transaction Advisory Services Limited (Ernst & Young Transaction Advisory Services) has been engaged to prepare an independent expert's report (IER) for EDT Retail Management Limited (ERML), the responsible entity for EDT Retail Trust (EDT), in relation to a proposal to wind up EDT (the Proposed Wind Up).

We understand that the ERML Board has received a request from some Unitholders for ERML to convene a meeting of Unitholders to consider and vote on a resolution to wind up EDT in accordance with its constitution. Whilst there is no legal requirement, the ERML Board has requested us to prepare an IER indicating whether the Proposed Wind Up is in the best interests of Unitholders as a whole.

### Proposed Wind Up

As set out in the Supplementary Explanatory Memorandum if the resolution for the Proposed Wind Up is passed the following will occur:

- Trading in Units on ASX will be suspended, however the ERML Board is evaluating whether or not there are, and if so whether to implement, alternatives to allow continued trading.
- The assets of the Trust will be sold and the net proceeds distributed.
- EDT would continue as a registered managed investment scheme with ERML as the responsible entity.

## Alternatives available to Unitholders

On 21 April 2011 EPN EDT Holdings II LLC (EPN) made an off-market takeover bid for all of the fully paid ordinary units in EDT at 7.8 cents per unit. On 11 May 2011 EPN revised its offer to 9 cents per unit and declared its offer final in the absence of a superior proposal (the Offer). This revised offer has been extended to remain open until 17 June 2011 and accordingly would only be available to Unitholders at the time of the meeting if it is further extended. Otherwise, in the absence of an alternative offer the Unitholders have the option to either retain or sell their units on the ASX.

# Opinion

If the Offer is available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is not in the best interests of the Unitholders as a whole. However, we note that the Offer at 9 cents falls in the bottom of the range of the estimated net proceeds, and as a result of individual Unitholder preferences, some Unitholders may prefer the Proposed Wind Up.

If the Offer is not available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is in the best interests of the Unitholders as a whole.

The basis for these opinions are summarised below and detailed more fully in the remainder of this IER.

# Basis for opinions

## Estimated net proceeds

As set out in section 4.2.3 of our report, we have estimated the net present value of the possible proceeds of the Proposed Wind Up to be in the range of 8.9 cents to 10.7 cents. This estimate is subject to significant uncertainty due to volatility in foreign exchange markets and potential movements in the US retail property market. In addition, financing break fees and income tax expenses could be significant and vary depending on the realisation strategy and timing of disposals.

In estimating the net proceeds of realisation we have taken into account the timing of the possible receipts and disbursements. We have then applied a discount rate of 10% per annum.

Under the Offer, if it is still available, Unitholders will receive 9 cents per unit.

In the absence of the Offer, an alternative offer or the Wind Up Proposal it is expected that the unit price would fall below the recent trading price of 9 cents. Unitholders retaining their Units would participate in the risks and benefits of movements in the Unit prices and distributions.

## Timing of proceeds or distributions

As discussed in section 4.2.3 of our report an orderly realisation of the assets would be expected to take between 12 and 24 months and possibly as long as 36 months. Although the Constitution provides that ERML may distribute the proceeds of realisation by instalments these would be subject to the ability to satisfy all expected liabilities and the requirements of financing contracts.

The proceeds under the Offer are payable on the earlier of one month after EPN receives the Acceptance Form or 21 days after the end of the offer period.

In the absence of the success of the Offer or the Wind Up Proposal it is expected that the units would continue to trade on the ASX. As noted in the Supplementary Explanatory Memorandum EDT is not providing distributions in 2011 and may not in the near term.

## US retail property market

Conditions in the US retail property market have improved from the low point of the GFC and US-REITs are now trading at a premium to NTA, however the outlook remains unclear; as result of broader uncertainty in global economic and financial markets. Slight increases in employment, improving US retail sales performance, a flat hosing sector and volatile consumer confidence all point to mixed messages which makes forecasting marketing conditions uncertain.

## Financing risk

A number of loan pools are likely to be in need of refinancing prior to conclusion of the Proposed Wind Up. Although fundamentals in the financing market appear to be improving, there is some possibility that the poorer quality unsold stock could be more difficult and expensive to refinance if the better quality assets are sold first. The loan pools are able to be transferred, subject to conditions and at a cost, but the terms on which the assets are financed may or may not be beneficial to incoming purchasers. Selling the assets in their existing portfolios may be a more efficient sales strategy in order to minimise penalty fees.

## Foreign exchange rates

EDT is an Australian fund holding US assets and distributions and earnings are therefore susceptible to foreign exchange volatility for Australian Unitholders. Since mid 2000, the Australian dollar has continued to make gains in value against the US dollar. A continuation of this trend is likely to have an adverse impact on distributions to Unitholders.

For this REIT, exchange rate risk is also at play. For example, according to the EDT 2010 Annual Report, the Australian dollar appreciated by over 20% compared to the US dollar from June 2010 to time of reporting, which resulted in actual net tangible asset (NTA) values declining from 11.6 cents to 10.6 cents despite overall profitability and property value increases. The trust has no foreign exchange hedging in place, thus Australian dollar earnings are subject to fluctuations in the AUD/USD exchange rate. All of the trust's rents, property operating expenses and debt payments are due in US dollars, which creates a partial hedge against currency fluctuations for Unitholders in the US market.

## Income tax consequences of the alternatives

The potential tax consequences of the Proposed Wind Up are set out in section 9 of the Supplementary Explanatory Memorandum. These are summarised below with respect to each alternative.

*Proposed Wind Up*

The Proposed Wind Up may result in the payment of US withholding tax by EDT or the REITs. In the event REIT status is lost, REIT 1 and REIT 2 may pay US and state corporate income tax on capital gains. Some Unitholders may be eligible for a refund or foreign tax offset for some of these amounts. Although the extent of capital gains or withholding tax depends on the sale process, timing and prices obtained, based on the potential scenarios examined by us they would represent less than 5% of the net proceeds before Unitholder taxation.

The distribution of the proceeds from the Proposed Wind Up to Australian and US Unitholders may result in capital gains tax to Unitholders. The extent and timing of any capital gain or loss will depend on their individual circumstances and the cost base of their units.

*Accept the Offer*

Australian and US Unitholders who either accept the Offer may be subject to capital gains tax on the proceeds. The extent of any capital gain or loss will depend on their individual circumstances and the cost base of their units.

*Retain Units*

If Unitholders retain their Units they will be subject taxation as set out in Section 9 of the Supplementary Explanatory Memorandum and accordingly may be subject to capital gains tax on the sale of their Units. The extent of any capital gain or loss will depend on their individual circumstances and the cost base of their Units. As noted in section 6.2.8 of the Target Statement and Part 8 section 3 of the Bidders Statement if EPN increases its interest in EDT to 82% or more or adjusts the holding structure of the EPN Group, the US REITs may, if considered closely held, lose their REIT status and would then be subject to US corporate and state income tax on the REITs taxable income without a deduction for dividends paid. In addition, as noted in section 6.2.8 of the Target Statement it is anticipated that EDT will not qualify as a Managed Investment Trust which may have a material tax impact on some Unitholders.

# Advantages and Disadvantages

## Proposed Wind Up

The advantages and disadvantages of the Proposed Wind Up are as follows.

*Advantages*

The net present value of estimated proceeds from the Proposed Wind Up exceed the price at which Units would be expected to trade in the absence of a takeover offer, and the Offer price is in the bottom of this range.

For investors that believe the improvements in the market for US retail assets might not continue the Wind Up Proposal provides an opportunity for realisation of their investment over the medium term.

On completion of the Proposed Wind Up Unitholders would no longer be exposed to risks related to the US retail property market, foreign exchange rate fluctuations and refinancing.

*Disadvantages*

While the estimated time frame for the Wind Up Proposal is between 12 and 24 months it might take longer.

During the wind up period Unitholders will remain exposed to risks related to the US retail property market, foreign exchange rate fluctuations and refinancing.

Unitholders will no longer be able to trade their units on the ASX. The ERML Board is evaluating various changes to the EDT Constitution and seeking advice from ASX in determining whether trading on ASX of EDT units would then not be suspended on and from the close of trade on 1 July 2011 in connection with a passing of the Resolution to terminate the Trust. ERML will notify Unitholders of the outcome of this review process as soon as practicable and in any event, prior to 1 July 2011.

## Accept the Offer

The advantages and disadvantages of the Offer are as follows.

*Advantages*

The Offer provides a certain return of 9 cents within a short time frame.

Unitholders will no longer be open to the risks of the US retail property market, foreign exchange rate fluctuations and refinancing.

*Disadvantages*

The Offer at 9 cents per unit falls in the bottom of the range of the net present value of our estimated proceeds from the wind up.

Unitholders will not participate in any further improvements in the US retail property market or any value increases resulting from refinancing, leasing, and capital management initiatives currently being undertaken and considered by management.

## Retain Units

The advantages and disadvantages to Unitholders of retaining their units are as follows.

*Advantages*

Unitholders will continue to participate in the risks and rewards of investment in the US retail property market and any Unit value increases resulting from refinancing, leasing, and capital management initiatives currently being undertaken and considered by management.

*Disadvantages*

In the absence of the Offer, an alternative offer or the Wind Up Proposal it is expected that the unit price would fall below the recent trading price of approximately 9 cents.

Unitholders will continue to be open to the risks of the US retail property market, foreign exchange rate fluctuations and refinancing.

If EPN increases its interest in EDT the US REITs may, if considered closely held, lose their REIT status and would then be subject to US state and corporate income tax on the REITs taxable income without a deduction for dividends paid. In addition, it is anticipated that EDT would not qualify as a managed investment trust which may have a material impact on some Unitholders.

Although units will resume trading on the ASX if the Proposed Wind Up is not approved, the liquidity in the Units has been low. With EPN's interest in EDT increasing to 57.34% the liquidity in trading may decrease.

## Other matters

This IER has been prepared specifically for the Directors of ERML the responsible entity for the EDT Retail Trust, and the Unitholders. Neither Ernst & Young, Ernst & Young Transaction Advisory Services, nor any member or employee thereof, undertakes any responsibility to any person, other than the Directors of ERML as the responsible entity for the EDT and the Unitholders, in respect of this IER, including any errors or omissions howsoever caused.

This IER constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Unitholders. As such our opinion should not be construed as a recommendation as to whether to approve or not approve the Proposed Wind Up. The decision as to whether to vote in favour or against the Proposed Wind Up is a matter for individual Unitholders based on their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions.

Our commentary on the Australian and US income tax implications of the available options is general in nature and the individual circumstances of each Unitholder may affect the taxation implications of the investment of that Unitholder. Unitholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances. We disclaim all liability to any Unitholder or other party for all costs, loss, damage and liability that the Unitholder or other party may suffer or incur arising from or relating to or in any way connected with our comments above or the provision of our comments to the Unitholder or other party or the reliance on our comments by the Unitholder or other party.

EDT Unitholders who are in doubt as to the action they should take in relation to the proposal to wind up EDT, should consult their own professional advisers.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full IER as attached.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Richard Bowman
Director and Representative

John E Gibson
Director and Representative

## Contents



Note: All references to AUD/$ in this Report are in relation to Australian dollars, unless otherwise stated.

# 1. Basis of assessment

## 1.1 Purpose

We understand that the ERML Board has received a request from some Unitholders for ERML to convene a meeting of Unitholders to consider and vote on a resolution to wind up EDT in accordance with its constitution. Whilst there is no legal requirement, the ERML Board has requested us to prepare an IER indicating whether the Proposed Wind Up is in the best interests of Unitholders.

## 1.2 Basis of assessment

Although this IER has been requisitioned on a voluntary basis we have had regard to the Australian Securities & Investments Commission (ASIC) Regulatory Guides RG 111 Content of expert reports (RG111) and Regulatory Guide 112 Independence of experts (RG112). Given the nature of the Proposed Wind Up, in our opinion, the appropriate basis of assessment is whether the Proposed Wind Up is in the best interests of Unitholders as a whole. As the Proposed Wind Up would not effect a change in control the analysis of whether or not it is in the best interests of the Unitholders as a whole should be based on a comparison of the potential advantages and disadvantages of the Proposed Wind Up and other alternatives available to the Unitholders.

On 21 April 2011 EPN EDT Holdings II LLC (EPN) made an off-market takeover bid for all of the fully paid ordinary units in EDT at 7.8 cents per unit. On 11 May 2011 EPN revised its offer to 9 cents per unit. This revised offer has been extended to remain open until 17 June 2011 and has been the subject of an Independent Expert Report and Supplementary Independent Expert Report which have been provided to Unitholders. While the analysis of what is the best interests of Unitholders needs to consider the other alternatives available to the Unitholders, this IER does not include an analysis of whether or not the takeover bid is fair and reasonable.

In forming our opinion as to whether the Proposed Wind Up is in the best interests of Unitholders as a whole we have considered:

- The effect of a resolution to wind up the operations of EDT.
- The resulting implications including financial, tax, liquidity, and timing and estimated amount of distributions in a winding up.
- A comparison of the Proposed Wind Up to the takeover bid from EPN (which may or may not be available at the time of the General Meeting).
- A comparison to continuing to hold units in EDT.

## 1.3 Limitations and reliance on information

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in Appendix C.

This IER is based upon financial and other information provided by ERML. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Wind Up is in the best interests of Unitholders. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of EDT. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards as applicable.

In forming our opinion we have also assumed that:

- Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed.
- The information set out in the Notice of Meeting, Explanatory Memorandum and Supplementary Explanatory Memorandum to be sent to Unitholders is complete, accurate and fairly presented in all material respects.
- The publicly available information relied upon by us in our analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this IER are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in conjunction with the declaration outlined in the qualifications and declarations in Appendix A.

Our commentary on the Australian and US income tax implications of the available options is general in nature and the individual circumstances of each Unitholder may affect the taxation implications of the investment of that Unitholder. Unitholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances. We disclaim all liability to any Unitholder or other party for all costs, loss, damage and liability that the Unitholder or other party may suffer or incur arising from or relating to or in any way connected with our comments above or the provision of our comments to the Unitholder or other party or the reliance on our comments by the Unitholder or other party.

We provided draft copies of this IER to the directors and management of ERML for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this IER as a result of this review by the directors and management of ERML have not changed our basis of assessment or the conclusions reached by us.

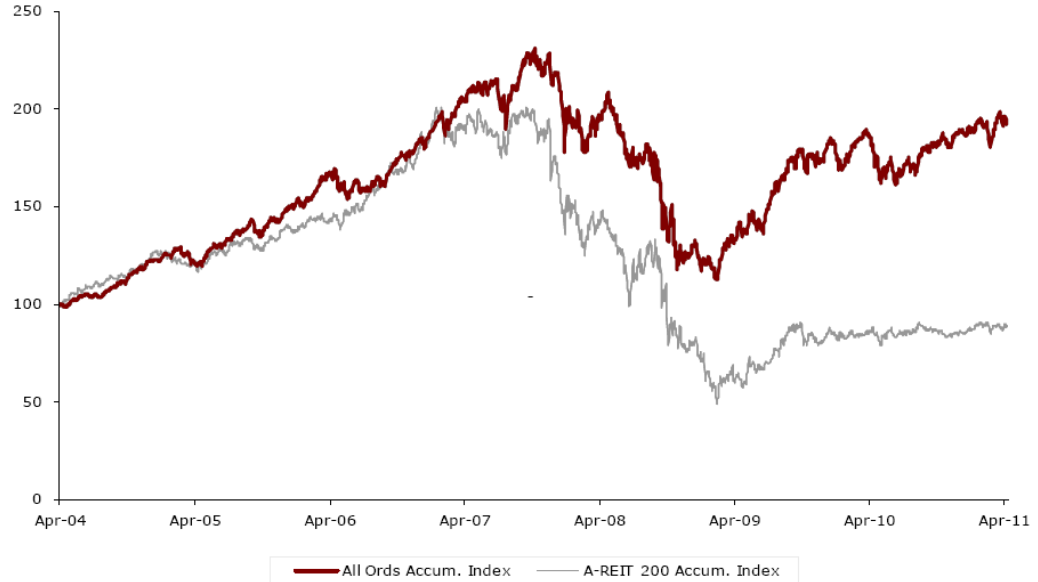
# 2. Economic overview

## 2.1 Australian REIT market

The A-REIT sector has continued to face unstable times post the GFC. In comparison to other globally developed REIT markets, the A-REIT sector suffered substantial falls in average pricing levels over the past 36 months and has not recovered relative to other equity indices over the past 12 months.

The following chart tracks the relative movement in the "ASX 200 A-REIT Accumulation Index" against the "All Ordinaries Accumulation Index" over the past 7 years. The graph shows a significant spread between the two indices over the past 24 months, with a widening trend.

**"ASX 200 A-REIT Accumulation Index" v "All Ordinaries Index"**




*(Source: IRESS, 2011)*

The following table summarises the "1-year" and "3-year" cumulative returns for a number of the top 20 A-REITs by market capitalisation, calculated as at 29 April 2011.

**A-REITs Return Analysis**

| Code | Trust | 1 Year Cumulative Return | 3 Year Cumulative Return |
|---|---|---|---|
| ABP | Abacus Property Group | 18.5% | -55.6% |
| APZ | Aspen Group | -6.9% | -53.8% |
| BWP | BWP Trust | -4.1% | 14.1% |
| CDI | Challenger Diversified Property Group | 6.3% | -3.4% |
| CFX | CFS Retail Property Trust | -0.4% | -4.0% |
| CHC | Charter Hall Group | -14.5% | -40.9% |
| CPA | Commonwealth Office | 4.8% | -20.9% |
| DXS | Dexus Property Group | 15.4% | -43.2% |
| GMG | Goodman Group | 4.5% | -77.8% |
| GPT | GPT Group | 14.0% | -63.5% |
| IOF | ING Office Fund | 9.3% | -35.7% |
| CQR | Charter Hall Retail | 23.5% | -33.3% |
| MGR | Mirvac Group | -4.0% | -60.3% |
| CQO | Charter Hall Office | 24.6% | -57.0% |

| Code | Trust | 1 Year Cumulative Return | 3 Year Cumulative Return |
|---|---|---|---|
| SGP | Stockland | 0.6% | -31.7% |
| VPG | Valad Property Group | -32.7% | -89.4% |
| WDC | Westfield Group | -4.8% | -20.3% |
| **A-REIT 200 Index** | | **1.4%** | **-39.9%** |
| **EDT** | | **66.7%** | **-36.8%** |

*(Source: IRESS, PIR, 2011)*

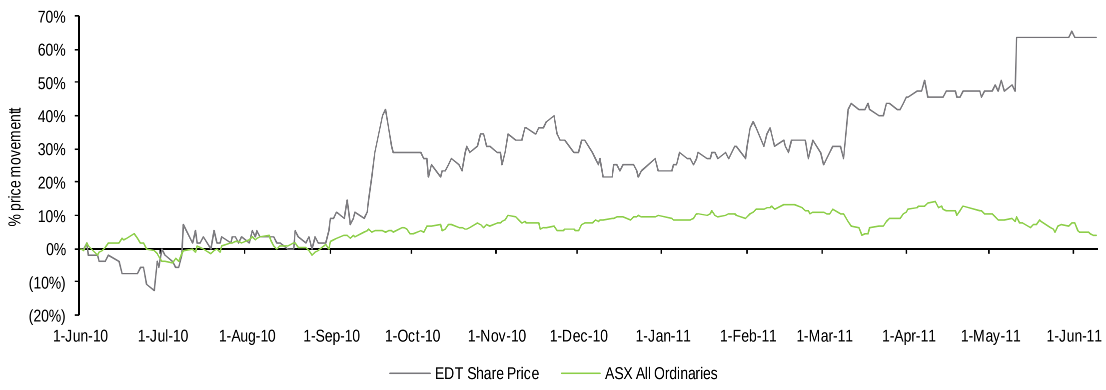
According to ASX market data, the Unit price of EDT has generated an average Unitholder return of -39.2% across the past two years, and -36.8% across the past three years. The movement in the Unit price is not inconsistent with the average 3 year cumulative return on the A-REIT 200 Index of -39.9%.

In respect of the above table, we make the following comments:

- The returns across the equity stocks referenced in the table on the previous page have generally been negative, and in many instances, substantial negative returns have been recorded.
- Of the top 20 A-REIT stocks listed on the ASX by market capitalisation, 14 securities generated a return greater than zero on a rolling 12-month basis, ranging from -33% to 24.6% and reflecting a median return of 4.5% (as at 29 April 2011). On a 3-year basis, there was just one security from the sample that generated a total return greater than zero, being the BWP Trust.
- The performance and rates of return of many A-REITS over the past 12 months has generally been higher, compared to the average rates of return achieved over the previous 3 years.

The relative movement in the share price of EDT over the past 12 months, relative to the performance of the ASX All Ordinaries has been illustrated in the chart below.

**EDT Share Price v "ASX All Ordinaries Index"**




*(Source: ASX 2011)*

There are a number of challenges that continue to persist for the A-REIT sector going forward:

- A two-tiered market has emerged, separating the eight largest A-REITs (Westfield, GPT, Stockland, Mirvac, Dexus, CFS Retail, Goodman and Commonwealth Office) from the smaller REITs. The smaller REITs include EDT.

- Gearing levels within the sector are mixed, with the eight largest A-REITs experiencing gearing levels within the order of 25% to 30%, which is considered to be a sustainable level. This is in contrast to the smaller A-REITs, where leverage ratios, such as the "interest bearing debt : total assets" ratio, is generally in excess of 40%. The high level of gearing has resulted in some breaches of key financial / loan covenant ratios, such as the 'loan-to-value' ratio, for a number of the smaller A-REITS. EDT's gearing level as at 31 March 2011 is approximately 66.7% on a LTV basis.

- In an attempt to reduce the level of debt exposure, many of the A-REITS have attempted to raise equity over the past 12-24 months. This has generally been by way of unit issues or placements at large discounts to the unit price at the date of issue.

- Given the relative poor performance and general uncertainty within the sector, many Australian Banks have shifted their position and are now trying to limit the direct exposure of their investments to the A-REIT sector. This has created concern for A-REITS with short-term maturing bank debt, and also for those A-REITS with non-performing assets. There is no guarantee that many of the Australian Banks will rollover bank debt on loan maturity. This has had specific and costly implications for A-REITS that cannot repay their loans, as it generally results in a higher cost of debt upon refinancing. The alternative option which has been exercised by a number of A-REITS is to not refinance, and instead sell the non-performing asset at a discount to book values to a "thin" buyer market.

- The average discount to the ASX market pricing to Net Tangible Assets has generally improved over the past 9-18 months. While some A-REITS have been able to recover their share price to a level above NTA per unit, the majority of A-REITS are still trading at significant discounts to NTA.

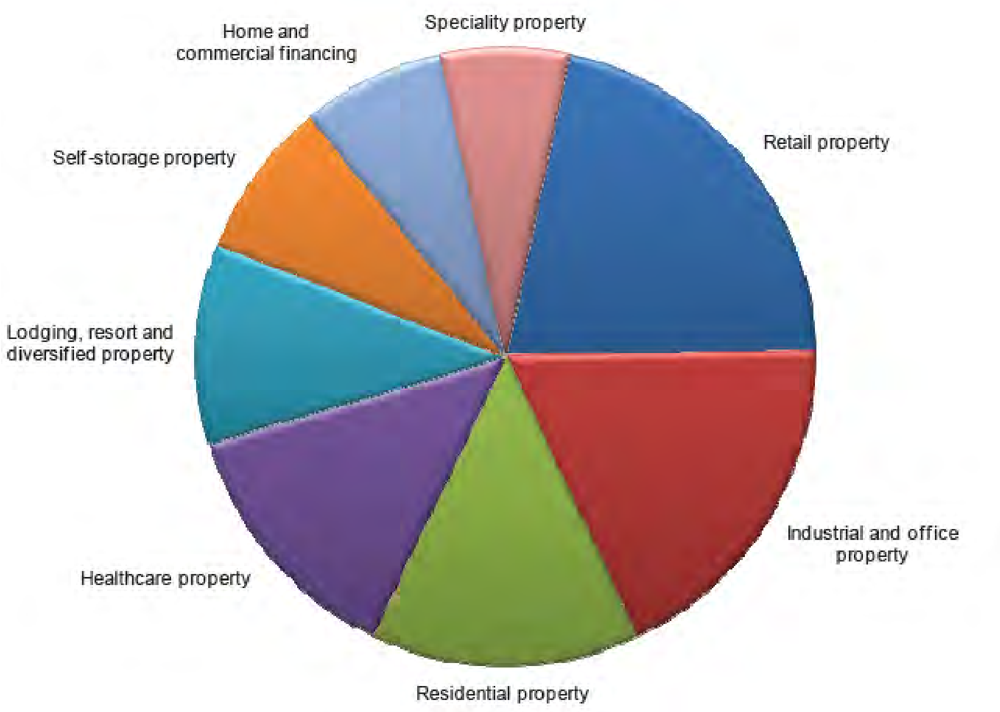
- With respect to transaction and deal activity in the A-REIT sector, there have been a number of acquisitions and offshore investors transacting in Australia. Over the past 6-12 months, many offshore pension funds, sovereign funds and private equity firms have played a key role in recapitalising the property sector – such as large buy-ins to highly discounted equity raisings and investment in wholesale funds. Examples of active offshore investors include the Blackstone Group, and their recent partial acquisition in Centro, CIMB JV, Deka Immobilien, GIC, AFIAA and K-REIT Asia. Most recently, the private property company the Gandel Group sold its 50% share of Melbourne's Northland Shopping Centre to the Canada Pension Plan Investment Board.

## 2.2 US REIT market

According to the IBISWorld Industry Report, retail property represents the largest sub-sector of asset allocation across US-REITs, accounting for approximately 21%. Other large sub-sectors by asset allocation include healthcare property, residential property and investment grade property, comprising of industrial and office.

This is further illustrated in the following graph:

**Asset Allocation of US REITs**




*(Source: IBISWorld, 2011)*

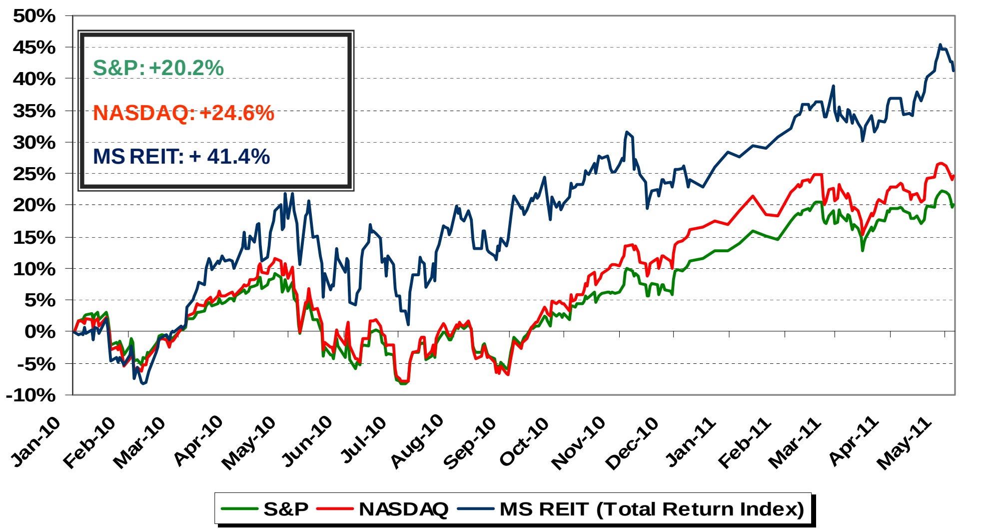
The increasing bias towards greater investment levels in retail property has been principally due to the attractive rates of return experienced within the sub-sector. Reasons for this are intrinsically linked to the relative movements in unemployment levels and consumer spending:

- Average unemployment levels at May 2011 increased by 0.1% to 9.1%.
- Consumer spending and consumption levels increased over the calendar year 2010 by 2.7%, which is reflective of improving economic conditions, and rises in disposable income and consumer confidence.

Key observations regarding the current state of the US REIT market are summarised as follows:

- The US REIT sector was substantially hit during the GFC. Total market capitalisation during the 2 year period leading up to the GFC in 2008 decreased by approximately 55%, and it has been reported that the value of industry assets fell in the order of 26% over this period. Notwithstanding this sharp fall, the index outperformed the general market across 2010. As outlined in the follow chart, the MS REIT Index outperformed the NASDAQ and the S&P Index:

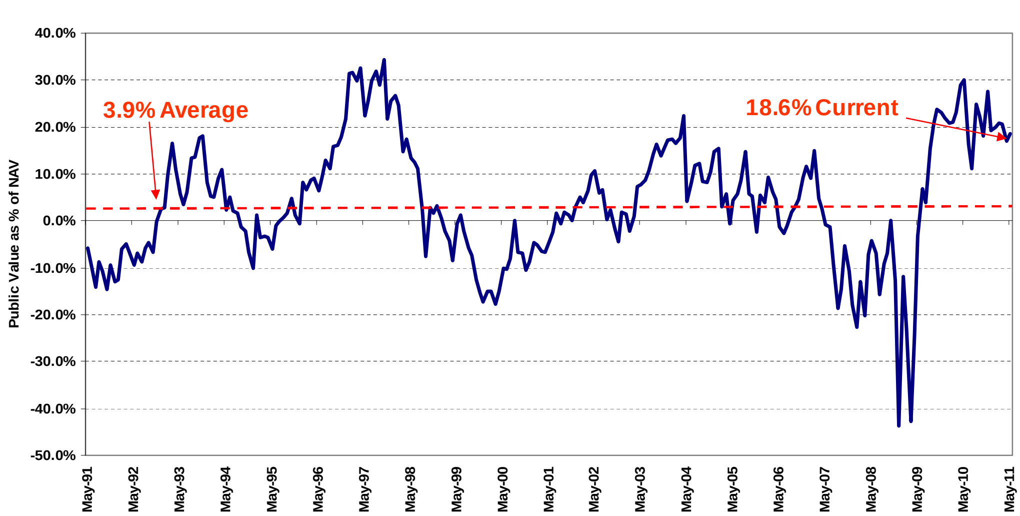
**US Chart Comparison: S&P v NASDAQ v MS REIT**




*(Source: Bloomberg, as of May 6, 2011 and Eastdil Secured)*

- The long term relationship between the market unit pricing of US-REITs by the capital market and the Net Asset Value indicates that US-REITs are trading at an 18.6% premium, which compares to the long term average of 3.9%, as illustrated below:

**Public REITs share price / NAV**




*(Source: Green Street Advisors and Eastdil Secured)*

## 2.3 US direct property market

In considering the current state of the US direct property market, we have had regard to recent activity within the marketplace and discussions with key market participants.

**Recent transaction activity**

The following observations have been formed on the basis of our market knowledge and industry sources, such as CoStar and Real Capital Analytics:

- US commercial real estate sales volumes are down materially on the buoyant years of 2004 to 2007. Whilst 2010 was up on the previous year, sales volume for all commercial real estate was down by 80% from the peak of the market in 2007.
- Of the total deal volume in this past 12 months, the top 10 buyers accounted for approximately 51%.
- The top buyer, the Blackstone Group, accounted for 27.2% of total deal volume and 39.4% of total properties traded. The acquisition of the Centro Properties Group US platform is a major part of this.
- Top 10 markets accounted for $14.5 billion, or 41%, of the total deal volume in the last 12 months.
- The average implied cap rate in the top 10 markets was approximately 7.05%, with transactions across New York, Chicago and Los Angeles reflecting an average implied yield of 6.81%.
- Florida, Georgia, Illinois, New York and Texas accounted for 46% of all transactions and the average Price / sq ft for those assets was approximately $30 higher than the average for all states researched.
- Dallas/Ft. Worth, Denver, Tampa (St. Petersburg), Chicago and Boston accounted for 41% of all transactions and the average sales price was approximately 20% higher than the average for all markets researched.

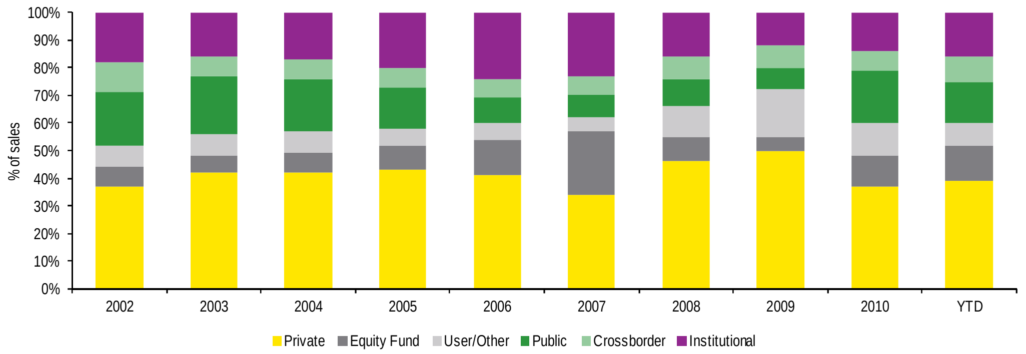
**Discussions with market participants**

Based on recent discussions with market participants, which included broker firms, life insurance companies, private and public REITs, and individual investors, we make the following observations:

- Core and stabilised retail assets are in strong, high demand. Over the past 18 months, the supply / demand dynamics have shifted, reducing from an excess supply of approximately $10 billion, to approximately $5 billion of excess demand. The consequence has been a general cap rate compression for core assets in the marketplace.
- As core asset demand continues to reach its peak, the likely effect is that institutional capital will 'stretch' to secondary markets and assets of a relatively inferior quality.
- Portfolios of core, and potentially value-add, neighbourhood / community centres will be well-received provided they are homogenous, anchored with a major / grocery tenant, and well-located (major MSAs).

- The buyer composition of those active in the US-REIT sector has been relatively stable over the past few years, with a slight shift and an increased representation from institutional and public buyers, as illustrated in the following chart.

**Buyer Composition Analysis**




*(Source: Real Capital Analytics and Eastdil Secured)*

- Despite the turbulent recent period, those US-REITs with sound underlying fundamentals and those that are sufficiently capitalised, are in a position to further consolidate their position in the market in the short to medium term. The REITs with strong balance sheets are well-positioned to take advantage of depressed values currently available in the market. Smaller REITs and those susceptible to high debt levels are targets for larger REITS with greater cash flows and reserves, and hence many smaller REITS have been the subject of recent takeovers and acquisitions.

# 3. Profile of EDT

## 3.1 Background

EDT is an Australian publicly listed real estate investment trust that provides investors with exposure to a portfolio of US retail real estate in the value and convenience sector. It currently holds interests in 48 retail assets covering 10,930,929 sq ft.

EDT was listed on the ASX on 26 November 2003 under its then name Macquarie DDR Trust (MDT). After raising AUD208 million to recapitalise, the Trust was renamed EDT, through the Placement and Entitlement Offer announced on 7 May 2010. On 25 June 2010 EDT commenced trade on the ASX under the new code.

In addition, the responsible entity of the Trust was renamed from Macquarie DDR Management Limited to EDT Retail Management Limited following the acquisition of Macquarie Group Limited's 50% interest in Macquarie DDR Management LLC.

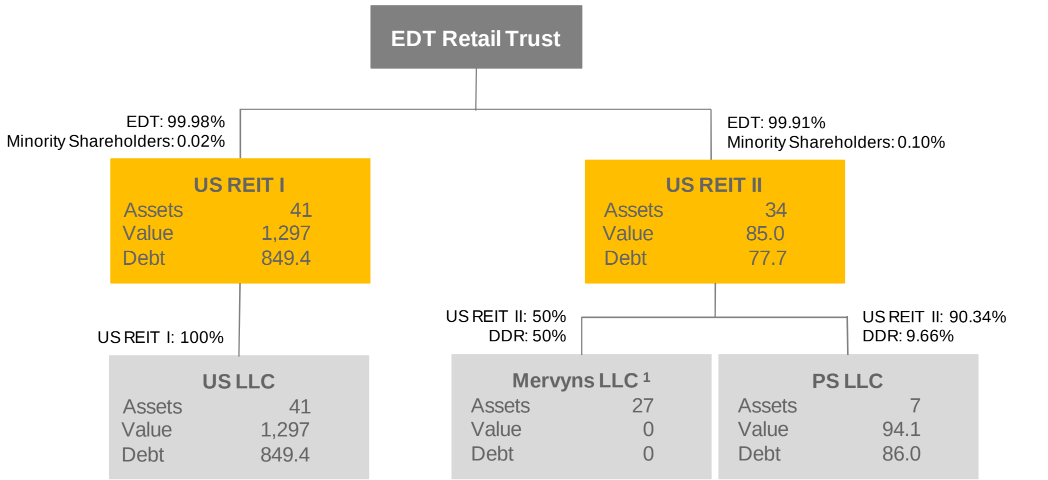
## 3.2 Structure

EDT is an Australian registered managed investment scheme that invests in community shopping centres in the US. The Trust is managed by ERML its responsible entity, a subsidiary of EDT Retail Management LLC which is jointly owned by EPN and DDR MDT Holdings II Trust, a wholly owned subsidiary of Developers Diversified Realty Corporation (DDR).

EPN is a real estate joint venture between Elbit Plaza USA, LP and Eastgate Property, LLC. Elbit Plaza USA, LP. The joint venture partners have US and Central and Eastern European retail property interests.

All of EDT's real estate investments are located in the US and are held indirectly through two US-domiciled REIT's known as US REIT I and US REIT II (the US REIT's). The US REIT's hold their investments via three US limited liability companies (LLC's). The individual properties are held by the LLC's through a series of individual property owning entities. The management arrangements for the US REIT's and LLC's are set out under the role of EDT Management LLC in the following table as follows.

**EDT Management LLC Structure**




1 The Trust's investment in the Mervyn's LLC joint venture entity was equity accounted and written down to zero value in the six months ended 31 December 2009

*(Source: EDT Quarterly Results - 31 March 2011)*

The principal activity of EDT is the acquisition and management of community shopping centres in the US, while ERML provides general administrative services to ERML and the US REITs controlled by EDT.

DDR is a self-administered and self-managed REIT operating as a fully integrated real estate company listed on the New York Stock Exchange and provides leasing and property management services to EDT. DDR also has an interest in jointly controlled entities with EDT.

EDT Management LLC, as manager of the US REIT's and LLC's is entitled to receive:

a. Base management fees based on the fair market value of assets.

b. Performance fees calculated in the same manner for performance fees payable to ERML.

c. Fees for providing due diligence services in connection with acquisitions, disposals, financings or refinancings by the US LLCs and their controlled entities.

Any amount that the EDT Management LLC receives from the US LLC's as base management fees will reduce the equivalent of ERML's entitlement to base management fees.

ERML, as Responsible Entity is entitled to receive the following remuneration from the Trust:

a. Base management fee calculated as 0.45% per annum of the fair market value of the direct and indirect proportional interest in properties and other assets.

b. Performance fee calculated and payable after each half year ended at June and December, where the performance of the Trust exceeds that of the S&P/ASX 200 Property Accumulation Index.

DDR as property manager is entitled to the following fees:

a. Base property management fee for each property equal to 4% of the gross revenues for such property.

b. Leasing commissions paid in according to a formula based on the amount of square feet of space being leased including ground leases of space.

c. Construction management fee for development and supervisory work performed at the properties in an amount equal to 5% of the cost of all tenant improvement and other capital improvement work (comprising all costs excluding land and finance expenses).

In addition to the fees above, DDR is entitled to a restructuring and advisory fee payable on the acquisition of any properties by PS LLC.

### 3.2.1 Capital structure of EDT Retail Trust

As of 30 June 2010, EPN was the largest Unitholder of EDT, owning approximately 48% of the outstanding units on issue. Subsequent to this, EPN has increased its ownership to 57.34% of outstanding units as at 2 June 2011.

The top twenty Unitholders as at 29 February 2011 and as presented in EDTs annual report for the period ending 31 December 2010 were largely comprised of institutional investors and represented 92.9% of EDT's equity capital.

**Top 20 Unitholders as at 28 February 2011**

| | | Units | % |
|---|---|---|---|
| 1 | EPN GP LLC | 2,247,828,466 | 47.8% |
| 2 | Citicorp Nominees Pty Limited | 413,963,071 | 8.8% |
| 3 | J P Morgan Nominees Australia Limited | 398,601,931 | 8.5% |
| 4 | National Nominees Limited | 379,246,243 | 8.1% |
| 5 | HSBC Custody Nominees (Australia) Limited | 369,374,453 | 7.9% |
| 6 | Morgan Stanley Australia Securities (Nominee) Pty Limited <No 1 | 288,477,022 | 6.1% |
| 7 | HSBC Custody Nominees (Australia ) Limited-GSCO ECA | 86,453,421 | 1.8% |
| 8 | Citicorp Nominees Pty Limited <CFSIL Cwlth Property 1 A/C> | 61,163,123 | 1.3% |
| 9 | JP Morgan Nominees Australia Limited <Cash Income A/C> | 32,311,318 | 0.7% |
| 10 | Citicorp Nominees Pty Limited <Cwlth Bank Off Super A/C> | 16,632,285 | 0.4% |
| 11 | Merrill Lynch (Australia) Nominees Pty Limited | 11,145,855 | 0.2% |
| 12 | HSBC Custody Nominees (Australia) Limited - A/C 2 | 10,812,233 | 0.2% |
| 13 | Weresyd Proprietary Limited <SLF A/C> | 10,180,216 | 0.2% |
| 14 | Mr Thomas Hans Offermann <The Offermann Family A/C> | 10,000,000 | 0.2% |
| 15 | ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C> | 7,044,944 | 0.1% |
| 16 | Equitas Nominees Pty Limited <PB-600693 A/C> | 6,289,358 | 0.1% |
| 17 | Edelle Two Pty Ltd <The Edelle Super Fund A/C> | 5,000,000 | 0.1% |
| 18 | Neweconomy Com Au Nominees Pty Limited <900 Account> | 4,333,333 | 0.1% |
| 19 | Mrs Allana Reid | 3,024,666 | 0.1% |
| 20 | Aesthetics Architecture Pty Ltd <SS Super Fund A/C> | 3,000,100 | 0.1% |
| Total units held by top 20 unitholders | | 4,364,882,038 | 92.9% |
| Total units on issue | | 4,700,290,868 | 100.0% |

*(Source: EDT Retail Trust Annual Report December 2010)*

## 3.3 Portfolio overview

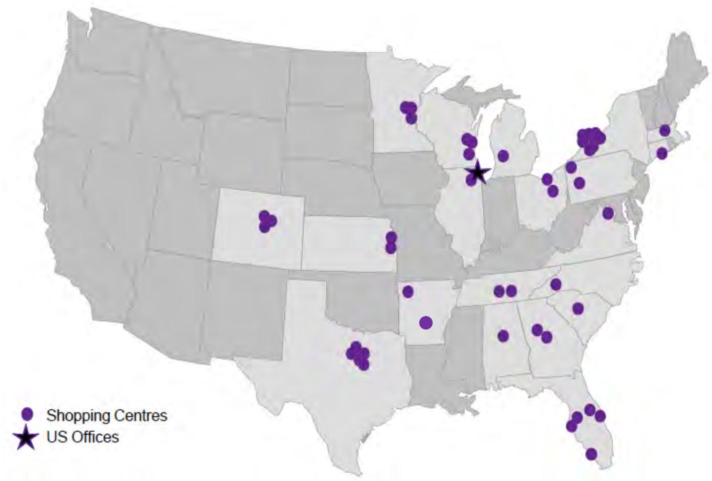
The EDT portfolio has 48 assets, which is a geographically diversified collection of value orientated retail real estate assets located in 20 states within the US. The portfolio provides 10.93 million sq ft of gross leasable area and is valued at US$1,409.4 million as at 31 March 2011. EDT's share of the total portfolio is valued at US$1,400.3 million as at 31 March 2011. The leased rate of the portfolio as at 31 March 2011 is 88.7% and the average capitalisation rate is 8.44%.

The portfolio's core high demand assets are located in the key area markets of Chicago, Boston, and Washington DC. By Region, the Midwest contains the largest proportion of the portfolio by value (35%), followed by the Northeast (31%), South (29%) and West (5%).

The top ten states by annual base rent are illustrated below:

**Top ten states by annual base rent**

| *Top 10 States* | % of ABR |
|---|---|
| Massachusetts | 12.8% |
| Ohio | 10.6% |
| Minnesota | 9.2% |
| New York | 9.3% |
| Texas | 6.9% |
| Illinois | 6.4% |
| Florida | 6.3% |
| Connecticut | 5.3% |
| Colorado | 4.8% |
| Kansas | 4.5% |

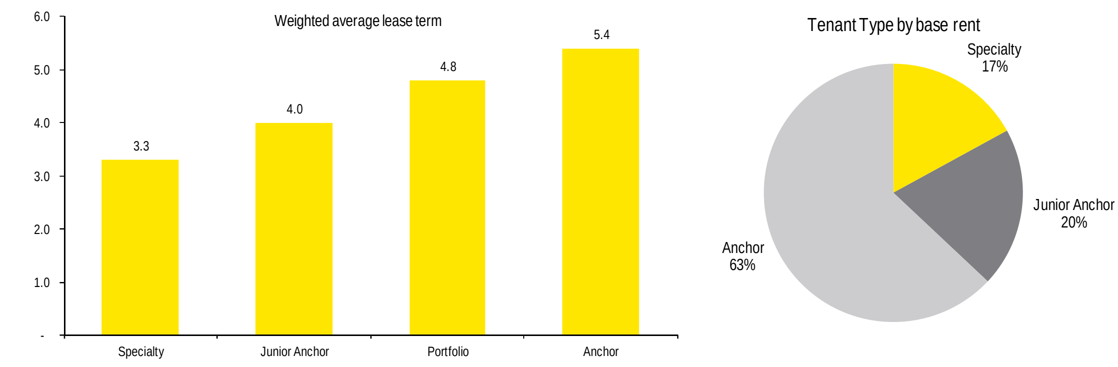



*(Source: EDT Retail, Quarterly Results – 31 March 2011)*

The portfolio contains over 420 tenants with the largest representing 6.2% of rental income. The top ten tenants represent 33% of the total annual base rent, with 78% derived from national retailers.

Anchor tenants comprise 63% of the EDT's tenancy profile and provide the Trust with a WALE of 5.4 years (by income). The chart below illustrates the apportionment of tenant type by base rent:

**WALE by tenant profile and tenant type analysis**




*(Source: EDT Retail Quarterly Results 31 March 2011)*

## Portfolio performance metrics

We have provided a number of metrics in the table below to illustrate the relative market positioning of the EDT Portfolio within the US retail REIT market. Other comparable larger retail REITs include: the Arcadia Realty Trust, Developers Diversified Realty, Equity One, Federal Realty Trust, Kimco Realty Corporation, Regency Centres, RioCan, Weingarten Realty Trust.

**US retail REIT market comparison**

| REIT | Ticker Code | No. of Assets | Retail Percentage | GLA '000s (sq ft) | Average Leased | Average Base Rent |
|---|---|---|---|---|---|---|
| Acadia Realty Trust | AKR | 44 | 96 % | 6,714 | 92 % | $15.99 |
| Developers Diversified Realty | DDR | 525 | 100 % | 59,000 | 92 % | $13.37 |
| Equity One | EQY | 177 | 100 % | 20,131 | 90 % | $12.85 |
| Federal Realty Trust | FRT | 89 | 95 % | 18,604 | 94 % | $22.73 |
| Kimco Realty Corporation | KIM | 924 | 90 % | 83,381 | 92 % | $11.71 |
| Regency Centres | REG | 396 | 100 % | 29,896 | 92 % | $16.02 |
| RioCan | REI-U | 292 | 96 % | 41,310 | 97 % | $14.92 |
| Weingarten Realty Trust | WRI | 315 | 90 % | 32,735 | 92 % | $13.59 |
| Average | | 345 | 96 % | 36,471 | 93 % | $15.15 |
| | | | | | | |
| **EDT Retail Trust** | **EDT (ASX)** | **48** | **100 %** | **10,931** | **89 %** | **$12.27** |

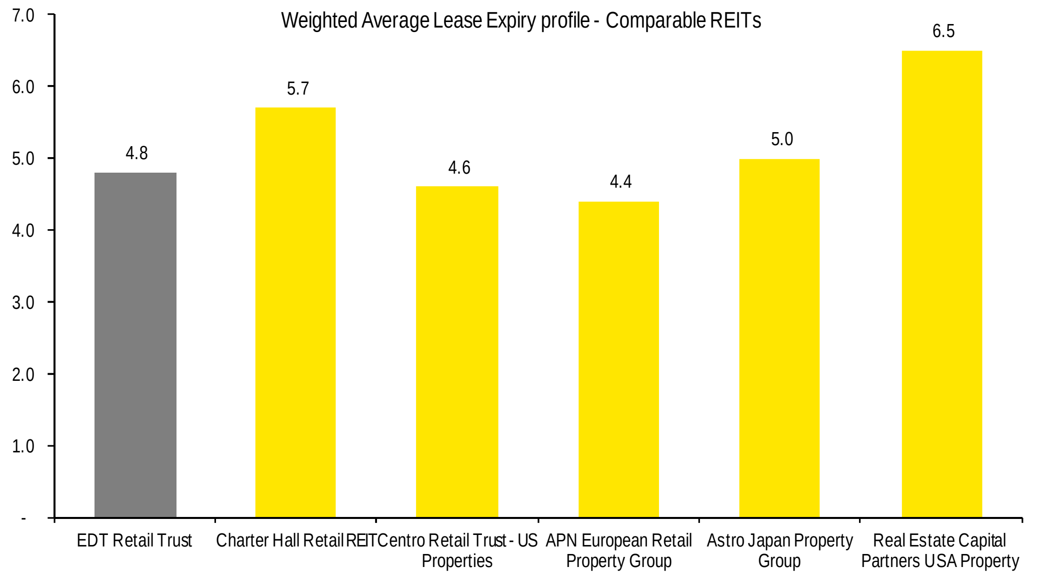
*(Source: Green Street Advisors, 21 May 2011 Strip Center Sector Update)*

In respect of the market positioning of the subject portfolio, we make the following comments:

- ► The EDT portfolio has an average leased rate of 88.7% which is below the sample range of US REIT's which range from 90% to 97%.
- ► The number of assets held within the subject portfolio is at the lower end of the range compared with other US REIT's. The GLA of approximately 10,931,000 sq ft is notably lower than the average US retail portfolio.

- The average base rent achieved by the subject portfolio is lower than almost all others in the sample.

**Comparable REITs WALE analysis**




*(Source: Investor Presentations at 31 March 2011 for EDT and 31 December 2010 for comparable REITs)*

## 3.4 Asset overview

An understanding of the composition of the portfolio's assets by class has been prepared as follows.

Asset overview by investment type

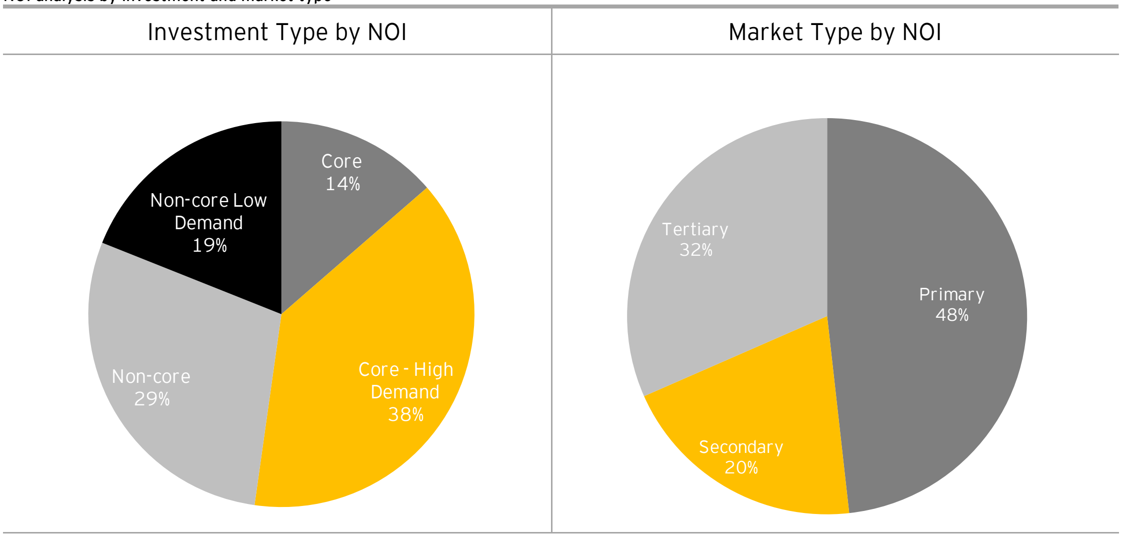
| | Properties | | Total Rentable Area | | Portfolio | EDT Valuation | | |
|---|---|---|---|---|---|---|---|---|
| *Investment Type* | # | % of | SF | % of Total | Leased | (US$ m) | $/SF | % of Total |
| Core High Demand | 9 | 18.8% | 3,249,940 | 29.7% | 97.5% | 627.6 | 193 | 44.5% |
| Core | 9 | 18.8% | 1,756,818 | 16.1% | 96.2% | 202.4 | 115 | 14.4% |
| Non-core | 16 | 33.3% | 3,415,359 | 31.2% | 89.5% | 385.2 | 113 | 27.3% |
| Non-core Low Demand | 14 | 29.2% | 2,508,812 | 23.0% | 71.1% | 194.2 | 77 | 13.8% |
| Total | 48 | 100.0% | 10,930,929 | 100.0% | 88.7% | 1,409.4 | 129 | 100.0% |

*(Source: EDT 31 March 2011 valuations)*

The portfolio contains assets that vary according to investment characteristics. The portfolio comprises 48% of 'non-core' and 'non-core low-demand' assets by NOI. Non-core assets are generally characterised by average quality tenants, unstable occupancy and leasing challenges, located in secondary or tertiary markets, and below-average product quality.

The portfolio contains 9 assets that are considered to be 'core – high demand' and 'core' respectively. These assets provide 52% of the portfolio's NOI. The categories are represented as follows:

NOI analysis by investment and market type




*(Source: EDT Retail Quarterly Results – 31 March 2011)*

- Core – High Demand assets have appealing characteristics to market participants which typically include a strong tenant base, primary or secondary markets, stabilised occupancy, and class A product. These assets are likely to trade at a premium to other investment types under current market conditions. By exception, core assets have close to stabilised occupancy and provide a higher quality product.

- Non-core Low Demand assets are generally characterised by below-average to low quality tenants, with unstable occupancy and significant leasing challenges, a secondary or tertiary market location, and below average product quality. These assets are difficult to finance and trade at a significantly higher cap rates to those achieved for core assets. By exception, non-core assets experience unstable occupancy or leasing challenges.

- 18 assets providing 48% of NOI are located in a primary market.

- 19 assets providing 32% of NOI are located in a tertiary market.

The assets are spread across a wide geographic area and the sample in each market/region is thin. By Loan portfolio, Metlife comprises four 'core – high demand' assets representing 100% of this debt portfolio. Alternatively the CBA Revolver loan based portfolio comprises 9 assets with 8 classified as either 'non-core' or 'non-core low demand'.

Geographically, the State of Massachusetts contains the largest proportion of assets by ABR, while a market based analysis indicates that Cleveland, Buffalo, Fayettville, Milwaukee, Nashville, and Orlando all contain either 'non-core' or 'non-core low demand' assets.

## 3.5 Loan pool overview

The portfolio comprises seven loan pools; a summary by debt portfolio follows.

**Loan pool overview**

| Debt Portfolio | Properties # | Properties % of Total | Total Rentable Area SF | Total Rentable Area % of Total | Portfolio Leased | Dir. Vals US$m | Valuation Analysis $/SF | Valuation Analysis Ave. Cap Rate | Cap Rate Movement Prior Qtr |
|---|---|---|---|---|---|---|---|---|---|
| Bison Portfolio | 12 | 25.0% | 1,836,126 | 16.8% | 86.6% | 174.8 | 98 | 9.74% | 0.69% |
| MetLife Portfolio | 4 | 8.3% | 1,808,705 | 16.5% | 98.9% | 428.0 | 245 | 6.90% | -0.22% |
| Longhorn I | 4 | 8.3% | 958,909 | 8.8% | 78.5% | 101.7 | 118 | 9.20% | -0.54% |
| Longhorn II | 7 | 14.6% | 2,046,350 | 18.7% | 94.6% | 239.4 | 124 | 8.28% | -0.21% |
| Longhorn III | 2 | 4.2% | 312,971 | 2.9% | 89.1% | 41.9 | 153 | 8.34% | -0.25% |
| PS Portfolio | 7 | 14.6% | 782,176 | 7.2% | 94.8% | 94.3 | 126 | 8.25% | -0.17% |
| CBA Portfolio | 9 | 18.8% | 2,802,331 | 25.6% | 83.7% | 295.6 | 112 | 9.67% | 0.18% |
| Standalone | 3 | 6.3% | 383,361 | 3.5% | 68.2% | 33.8 | 113 | 9.92% | -0.47% |
| Total | 48 | 100.0% | 10,930,929 | 100.0% | 88.7% | 1,409.4 | 155 | 8.44% | -0.06% |

Note: Value rate calculated on weighted average basis

*(Source: EDT Retail Quarterly Results – 31 March 2011)*

- The four largest loan pools by GLA include Bison, Metlife, CBA Revolver and Longhorn II. Of these, Metlife has the highest leased rate at 98.9%.
- The relatively low weighted average capitalisation rate (WACC) for Metlife's loan portfolio reflects the strong leased rate and occupancy level. In addition Metlife comprises four 'core – high demand' assets that represent 100% of the loan portfolio.
- The Bison loan pool has the highest WACC at 9.74%. This rate increased by 69 bps from 31 December 2010. We note that of the 12 assets in this loan portfolio, 11 are considered either 'non-core' or 'non-core low demand'. Bison assets comprise 16.8% of EDT's portfolio by area.
- As of 31 March 2011, outstanding total loan balance due in its entirety is $941.6 million (according to schedule of indebtedness provided by Client).
- Over 40% of the total balance is scheduled to mature by year-end 2013.
- Current weighted average cost of capital (WACC) across all facilities is approximately 5.42% (according to rates and outstanding balances provided by Client in the schedule of indebtedness).
- Near-term maturities (Longhorn I and III) are both due to the same Lender (UBS).
- Accurately estimating how much cash is required at the maturity of loans is difficult due to the variables involved (required LTV, interest rate, amortization period, debt-service coverage, and other property fundamentals).
- Relative to near-term maturities, Longhorn I and Longhorn III both mature in 2012. Both are non-recourse and allow interest-only payments. Details include:
  - Longhorn I: January 2012 maturity date, 83.60% LTV, $85 million balance at maturity, 4.91% rate.
  - Longhorn III: April 2012 maturity date, 79.34% LTV, $33+ million balance at maturity, 5.098% rate.

- Note that the loans are nonrecourse other than standard carveouts (e.g. fraudulent activity, misrepresentation, misappropriation of funds, voluntary bankruptcy).

- At closing of Longhorn III, Cash Management Accounts were funded

    - All rents and other income from the property deposited in Lockbox Account.

    - At closing, $1,301,495.09 was deposited in Tax and Insurance Escrow account, $34,200 for Replacement Reserve account, and $108,400 in Rollover Reserve account.

- CBA Portfolio - An Extension fee calculated as 0.5% of the aggregate outstanding credit exposure is payable on 31 October 2011 if, on such date, the aggregate outstanding credit exposure is greater than zero. Our discussions with Management indicate that this penalty is approximately US$1 million.

## 3.6 Statement of financial performance

The table below summarises the Trust's historical financial performance for the 12 months ended 30 June 2010 and 30 June 2009 and the 3 months ended 31 March 2010 and 31 March 2011 respectively. The financial statements are for EDT Retail Trust and its controlled entities. We note that the Trust changed its year end during the period from 30 June to 31 December 2010.

**Comparative Statements of Financial Performance**

| *Currency: $ 000 (AUD)* | 12 months ended 30 June 2009 | 12 months ended 30 June 2010 | 3 months ended 31 March 2010 | 3 months ended 31 March 2011 |
|---|---|---|---|---|
| Property rental income | - | 113,056 | 41,493 | 36,742 |
| Property expenses | - | (39,773) | (14,902) | (13,322) |
| **Net property income** | **-** | **73,283** | **26,591** | **23,420** |
| Share of net profit/(loss) from investments in jointly controlled entities | (732,412) | (2,785) | 258 | 1,031 |
| Property valuation gains/(losses) - investment properties | - | (99) | (274) | 14,903 |
| Interest income | 119 | 96 | (4) | 4 |
| Net foreign currency gains | - | 5,224 | (824) | - |
| **Total income net of property expenses** | **(732,293)** | **75,719** | **25,747** | **39,358** |
| Expenses | | | | |
| Management base fee | - | 4,728 | 1,570 | 1,515 |
| Interest expense | 49 | 41,692 | 12,335 | 11,742 |
| Amortisation of borrowing costs | 347 | 6,112 | 1,287 | 1,247 |
| Net loss from derivative financial instruments | 23,444 | 18,278 | 6,496 | - |
| Net foreign currency losses | 35,533 | - | (65) | 95 |
| Other expenses | 1,802 | 7,034 | 1,390 | 1,228 |
| Loss on sale of assets | - | 344 | - | - |
| **Total expenses** | **61,175** | **78,188** | **23,013** | **15,827** |
| Profit/(Loss) before tax | (793,468) | (2,469) | 2,734 | 23,531 |
| Tax benefit/(expense) | 177,112 | (941) | (512) | - |
| **Profit/(Loss) for the period** | **(616,356)** | **(3,410)** | **2,222** | **23,531** |
| Attributable to: | | | | |
| Owners of EDT Retail Trust | (616,356) | (3,411) | 2,221 | 23,530 |
| Non-controlling interests | - | 1 | 1 | 1 |
| **Profit/(Loss) for the period** | **(616,356)** | **(3,410)** | **2,222** | **23,531** |
| Other comprehensive income | | | | |
| Net investment hedges | (73,488) | - | | |
| Cash flow hedges | (9,674) | 12,547 | 354 | 316 |
| Exchange rate differences on translation of foreign operations | 206,152 | (17,542) | (5,030) | (8,401) |
| Total comprehensive loss for the period | (493,366) | (8,405) | (2,454) | 15,446 |
| Attributable to: | | | | |
| Owners of EDT Retail Trust | (493,366) | (8,406) | (2,453) | 15,445 |
| Non-controlling interests | - | 1 | (1) | 1 |
| Total comprehensive loss for the period | (493,366) | (8,405) | (2,454) | 15,446 |

*(Source: EDT Retail Trust Annual/Quarterly Reports)*

In relation to EDT's historical financial performance, we note:

- Total profit after tax for the 3 months ended 31 March 2011 was $23.5m which is $21.3m higher than the 3 months ending 31 March 2010 and $26.9m greater than the loss reported for the 12 months ending 30 June 2010. Pro-rated for the full year, profit after tax for the year ending 31 December 2011 would be $94.1m. Property revaluation gains and the absence of losses incurred on derivative financial instruments are the predominant drivers behind the improved performance.

- Total expenses for the 3 months ended 31 March 2011 were $15.8m, which when annualised are $14.8m less than the total expenses for the 12 months ended 30 June 2010. This is predominantly due to cancellation of the Trust's foreign exchange contracts, interest rate swap agreements and callable interest rate swaps during the year ended 30 June 2010. The cancellation of these derivative instruments underpinned a reportable net loss from derivative financial instruments of $18.3m for the year ended 30 June 2010. No such forward foreign exchange contracts have been put in place since.

- Interest expenses for the 3 months ended 31 March 2011 were slightly higher when pro-rated for an annualised amount and compared with the 12 months ended 30 June 2010.

## 3.7 Statement of financial position

The Trust's financial position as at 31 March 2011, 31 December 2010 and 30 June 2010 is presented in the table below.

**Comparative Statements of Financial Position**

| *Currency: $ 000 (AUD)* | Mar11A | Dec10A | Jun10A |
|---|---|---|---|
| Cash and cash equivalents | 45,932 | 35,488 | 39,157 |
| Receivables | 11,051 | 13,154 | 20,559 |
| Other assets | 15,296 | 13,883 | 10,628 |
| **Total current assets** | **72,279** | **62,525** | **70,344** |
| Investment properties | 1,272,644 | 1,276,838 | 1,508,050 |
| Interest in jointly controlled entities: | | | |
| Investment properties / property held for sale | 82,338 | 82,926 | 95,557 |
| Less: Share of interest bearing liabilities | (75,106) | (76,370) | (92,274) |
| Add: Share of other net assets and preferred return | 1,598 | 1,384 | 1,017 |
| Total Interest in jointly controlled entities | 8,830 | 7,940 | 4,300 |
| **Total non-current assets** | **1,281,474** | **1,284,778** | **1,512,350** |
| **Total assets** | **1,353,753** | **1,347,303** | **1,582,694** |
| Payables | 23,752 | 25,853 | 28,855 |
| Interest bearing liabilities - current | 87,225 | 104,293 | 298,113 |
| Interest bearing liabilities - non-current | 730,877 | 720,704 | 709,442 |
| **Total Liabilities** | **841,854** | **850,850** | **1,036,410** |
| **Net assets** | **511,899** | **496,453** | **546,284** |
| Equity | | | |
| Contributed equity | 1,141,673 | 1,141,673 | 1,141,756 |
| Reserves | (272,634) | (264,549) | (170,512) |
| Accumulated losses | (357,240) | (380,770) | (425,060) |
| **Capital and reserves attributable to owners of EDT Retail Trust** | **511,799** | **496,354** | **546,184** |
| Non-controlling interests | 100 | 99 | 100 |
| **Total equity** | **511,899** | **496,453** | **546,284** |

*(Source: EDT Retail Trust Annual/Quarterly Reports)*

In relation to the Trust's financial position we note:

- Net assets increased by AUD $15.5m in the quarter ended 31 March 2011 relative to 31 December 2010. This was largely driven by a $14.9m property valuation gain on investment properties. We also note that in the prior six months, for the period 1 July 2010 to 31 December 2010, total assets declined by $236.4m which was a direct result of foreign exchange loss on investment properties.

- Cash and cash equivalents amounted to $45.9m as at 31 March 2011, which represents an increase of $10.4m on the 31 December 2010 balance. This movement was driven by operating cashflows from rental income and also a draw down on the new Bison loan facility.

- As at 31 March 2011, Investment properties comprised $1,272.6m or 94.0% of EDT's total assets. The Investment properties are discussed in further detail in the Asset overview section of this report.

- EDT's interest in jointly controlled entities refers to jointly controlled entities with Developers Diversified Realty (DDR). These are US incorporated entities and they are accounted for using the equity method.

- Payables of $23.8m as at 31 March 2011 is comprised of real estate taxes payable ($10.4m), accrued interest ($3.0m), management fee payable ($1.5m) and other items ($8.9m).

### 3.7.1 Interest bearing liabilities

- EDT's aggregate interest bearing liabilities on a look-through basis as at 31 March 2011 were $893.2m, which represents a decrease of 0.9% from 31 December 2010.

- We present in the table below, a summary EDT's interest bearing liabilities as at 30 June 2010, 31 December 2010 and 31 March 2011.

**Summary of EDT interest bearing liabilities**

| *Currency: $ 000 (AUD)* | Mar11A | Dec10A | Jun10A |
|---|---|---|---|
| Interest bearing liabilities - current | 87,225 | 104,293 | 298,113 |
| Interest bearing liabilities - non-current | 730,877 | 720,704 | 709,442 |
| Total consolidated debt | 818,102 | 824,997 | 1,007,555 |
| Share of interest bearing liabilities in jointly controlled entities - current | - | - | 106,775 |
| Share of interest bearing liabilities in jointly controlled entities - non-current | 75,106 | 76,370 | 92,274 |
| Total interest in debt of jointly controlled entities | 75,106 | 76,370 | 199,049 |
| **Total debt on 'look-through' basis** | **893,208** | **901,367** | **1,206,604** |
| % current debt | 9.8% | 11.6% | 33.6% |

*Source: EDT Retail Trust Quarterly/Annual Reports*

- EDT's debt structure comprises 9 facilities which are all senior secured and non-recourse to the Trust. Management advise that the Trust's weighted average debt maturity following the refinancing of the Bison facility in March 2011 is 3.8 years with no further debt maturing in 2011.

- We note that the loans secured by a portfolio of properties are cross-collateralized and cross-defaulted.

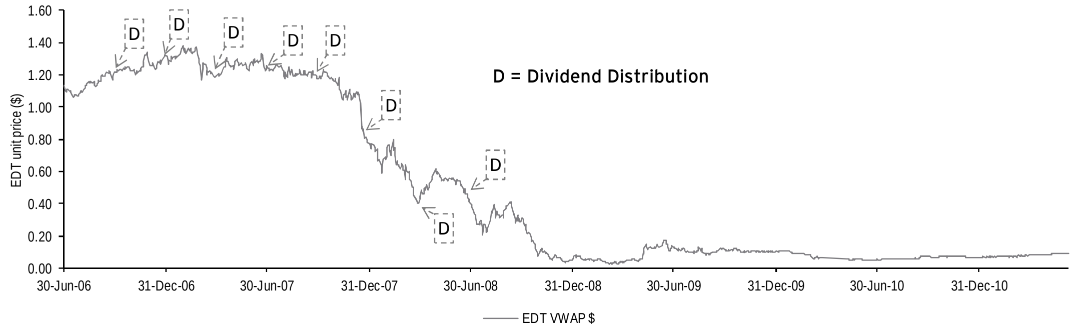
- As at 31 March 2011, EDT reported a net current asset deficiency of AU$38.7m. Included in the current liabilities is the US$85.0m Longhorn I facility which matures in January 2012. Approximately 13% of total debt outstanding will require refinancing in 2012. Management have acknowledged that deleveraging of these loans will be required in order to refinance the loans and they are confident the loans will be able to be reduced and refinanced when they mature.

- Approximately 18.8% of EDTs debt, which consists of the CBA Revolver facility, is subject to various covenants. Most notably these include maintaining a loan to value ratio of equal to or less than 80% (for the 2011 calendar year) and maintaining a collateral pool debt service coverage ratio of equal or greater than 1.75. As reported in EDT's target statement, at 31 December 2010, the loan to value ratio on the facility was 59.9%.

## 3.8 Distributions and unit price performance

A graph of the movement in the EDT unit price over the past 5 years has been provided below:

**EDT Unit price and distributions over the past 5 years**




*(Source: ASX 2011)*

From the graph, we make the following comments:

- Over the period from July 2006 until the current date (June 2011), the EDT Unit price has been volatile, reaching a peak of $1.395 in February 2007 and then bottomed out at $0.024 in March 2009. This represents a decrease of $1.371 or 98% over the 33 month period.
- Since July 2009, the Unit price has been fairly stable, with a slight / gradual decrease throughout the middle of 2010, and then the Unit price slightly recovered in an upward trend towards the end of 2010.
- Volume levels across the period were relatively deep when the unit price bottomed in March 2009. There were also three notable spikes in volume depths at varying dates in 2010 which coincided with market announcements on the ASX.
- Distributions were made to Unitholders at 9 different dates over the 33 month period, summarised as follows. We note that no distributions have been made since August 2008.

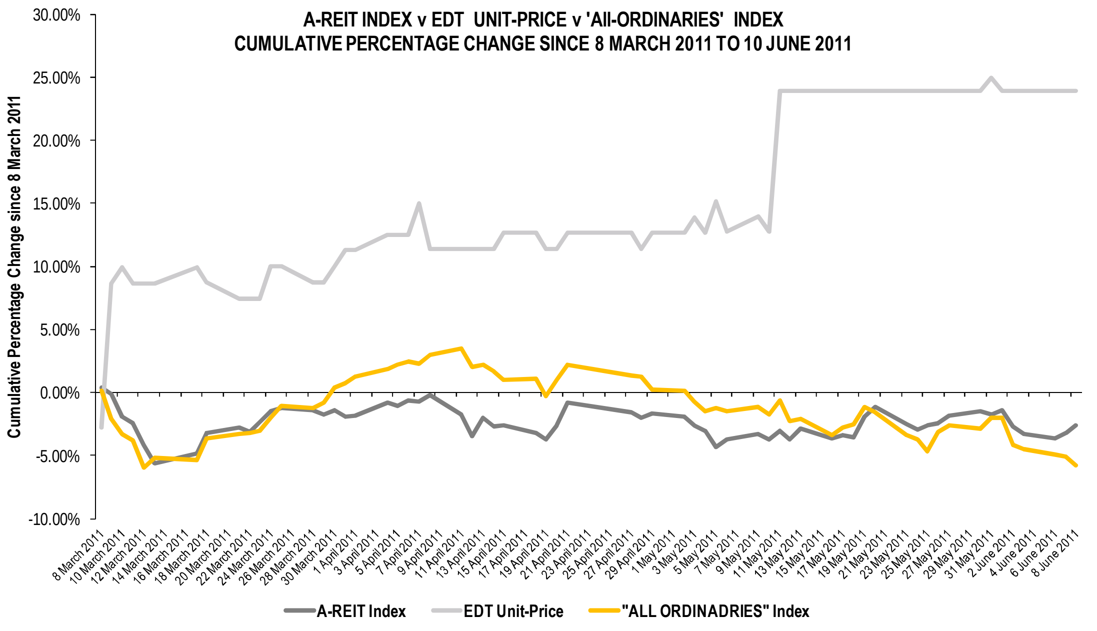
**EDT distribution summary**

| Distribution Date | Ex-Distribution Date | Record Date | Distribution Paid |
|---|---|---|---|
| 23 Aug 06 | 26 Jun 06 | 30 Jun 06 | $0.03 |
| 31 Oct 06 | 25 Sep 06 | 29 Sep 06 | $0.03 |
| 23 Feb 07 | 21 Dec 06 | 29 Dec 06 | $0.03 |
| 30 Apr 07 | 26 Mar 07 | 30 Mar 07 | $0.03 |
| 24 Aug 07 | 25 Jun 07 | 29 Jun 07 | $0.03 |
| 31 Oct 07 | 24 Sep 07 | 28 Sep 07 | $0.03 |
| 15 Feb 08 | 21 Dec 07 | 31 Dec 07 | $0.03 |
| 30 Apr 08 | 25 Mar 08 | 31 Mar 08 | $0.02 |
| 28 Aug 08 | 24 Jun 08 | 30 Jun 08 | $0.02 |

*(Source: ASX, 2011)*

In the graph below, we have tracked the cumulative percentage change of A-REIT Index, the "All-Ordinaries" Index and the EDT unit-price, between 8 March 2011 and 8 June 2011.

**A-REIT index v EDT Unit price v "All Ordinaries" index – cumulative percentage change**




*(Source: ASX Data, 2011)*

Based on our analysis of ASX market data, the EDT unit-price increased by approximately 24% over the period, compared to the A-REIT and "All Ordinaries" indices which decreased by approximately 3% and 6% respectively over the period. We believe the Offer was a material reason for the escalation in the Unit pricing.

# 4. Evaluation of the Proposed Wind Up

## 4.1 Proposed Wind Up

On 12 May 2011, ERML received a request from the Requisitioning Members who at the time held approximately 6.2% of the units on issue pursuant to section 252B of the Corporations Act, for ERML to convene a meeting to consider and vote on an extraordinary resolution to wind up EDT in accordance with its constitution and applicable law. An extraordinary resolution requires at least 50% of total votes that may be cast by Unitholders entitled to vote on the resolution to be voted in favour in order to be passed (including unitholders who are not present in person or by proxy).

### 4.1.1 Process of the Proposed Wind up

As set out in the Supplementary Explanatory Memorandum if the resolution for the Proposed Wind Up is passed the following will occur:

**Trading in Units on ASX will be suspended, however the ERML Board is evaluating whether or not there are, and if so whether to implement, alternatives to allow continued trading**

Under the terms of the existing constitution of the Trust, the Unitholders entitled to the proceeds on a winding up are those Unitholders recorded on the register on the date on which termination occurs. Under the terms of the Resolution, termination would occur on the date the Resolution is passed.

ASX has advised that on the basis of the current EDT Constitution provisions, trading in EDT Units would be suspended on and from the close of trading on ASX on 1 July 2011 pending the outcome of the Meeting. If the Resolution is passed the suspension would remain in place and EDT would subsequently be delisted. If the Resolution is not passed the suspension would be lifted at that time.

The ERML Board is evaluating potential changes to the EDT Constitution and seeking advice from ASX in determining whether trading on ASX of EDT Units would then not be suspended on and from the close of trading on 1 July 2011 in connection with a passing of the Resolution to terminate the Trust.

ERML will notify Unitholders of the outcome of this review process as soon as practicable and in any event prior to 1 July 2011.

**The assets of the Trust will be sold and the net proceeds distributed**

If the Resolution is passed, ERML will be required to initiate a sales process for the assets of the Trust. Under the constitution of the Trust, the sale process must be completed in 180 days of termination if practical and in any event as soon as possible after that. In acting in the best interests of Unitholders, ERML will conduct an orderly sale process of EDT's entire property portfolio by selling either properties or corporate structures owning properties which may take longer than 180 days and possibly several years.

**EDT would continue as a registered managed investment scheme with ERML as the responsible entity**

If the Resolution is passed, EDT will continue as a registered managed investment scheme until the winding up process has been completed and the final distribution of net proceeds of wind up is paid to Unitholders. ERML will continue as the responsible entity of EDT. The current fee arrangements with ERML, DDR (as property manager) and the US Manager will continue until the winding-up is completed which would include disposal fees.

## 4.2 Basis of estimation of proceeds likely under a Wind Up

The method used to estimate the proceeds likely under a wind up, is the net proceeds likely to be achieved following an orderly sale of the assets, assuming management acts in accordance with the best interests of Unitholders.

### 4.2.1 Approach to the sale of the assets

If the resolution for the Proposed Wind Up is passed, there are a range of options by which management could sell t.e assets and wind up the Trust. The three most probable are:

- A sale of the assets as an entire portfolio ("Scenario 1").
- A sale of the assets aligning with their loan pools, with some assets being sold individually depending upon loan maturity dates and conditions of the loan agreements ("Scenario 2").
- Grouping the assets for sale into smaller homogenous portfolios, by reference to similar grade, quality and / or location ("Scenario 3").

It is common practice when selling multiple assets that the vendor invites offers from the marketplace on all three bases listed above. This allows buyers to bid for the assets according to their investment criteria. After receiving offers for the assets, the vendor can then make an informed decision after having regard to the cost and risk of concluding a sale under each scenario.

### 4.2.2 Review of asset values

In considering whether any adjustments to NTA as at 31 March 2011 are required, we reviewed the valuation process performed by management (and the Directors) and independent valuers to consider whether there were any matters highlighted that would materially impact the values of the investment properties disclosed in the balance sheet.

Management have provided Ernst & Young Transaction Advisory Services with a final summary of the property revaluations as at 31 March 2011. Our review included an assessment of the methodologies and the key underlying assumptions, discussed below.

- In our review, we considered the following:
    - Capitalisation rates and discount rates.
    - Movement in value from previous quarter/year.
    - Lease expiry and vacancy.
    - Tenant profile.
    - Relevant market and rating of asset.
- In accordance with EDT's Constitution, the US Manager has implemented a valuation policy which requires that all assets must be valued at least once every three years by independent valuers.
- The valuation process is managed by EDT pursuant to the Memorandum of Understanding refreshed every third year and approved by the Independent Directors. When producing financial statements, AASB 140 states that an "investment property" should be valued to determine its "Fair Value". Fair values of the investment properties are assessed by ERML by reference to independent valuation reports or through appropriate valuation techniques adopted by ERML.
- ERML and DDR determined that one property required an independent valuation following an internal review of property values as at 31 March 2011.
- In determining fair value for properties not independently valued, ERML reviewed comparable sales within each respective market to arrive at the capitalisation rate to apply to each property. Recent transactions of comparable assets in similar locations that occurred in the past six to 12 months were given most consideration. In the absence of recent comparable sales, ERML considered recent transactions of a similar nature, adjusted for various factors such as location, standard of accommodation and lease profile. In addition, capitalisation rates provided within independent valuations and market advice provided by reputable organisations are utilised.

### Revaluation process to assess change in value since last reporting period

EDT assesses the properties which were likely to have had material changes in value to the book value as at the last reporting period to determine whether they should be revalued externally or whether a Directors valuation is appropriate

To make this assessment, the following steps are performed by EDT for each property:

- Identify when the last full formal independent valuation report was obtained.
- Perform an initial desktop assessment of current value through a capitalisation of income and direct comparison approach by obtaining an estimate of the current capitalisation and rates per square foot, by reference to comparable sales evidence, and the net property income.
- Undertake discussions with external valuers and market participants to gauge current market circumstances and conditions in more detail, specifically seeking "house" views on capitalisation/discount and terminal capitalisation rate movements along with rental growth forecasts, in order to reach an initial opinion of value.
- Obtain most recent book values for each asset including capital expenditure since last reporting period.
- Compare initial assessments of current value to most recent book values and determine the percentage movement.
- If the property has been acquired in the last six months, the valuation on acquisition may still be valid but is reviewed against comparable sales/market data.

To determine the type of valuation adopted by EDT, if the prior external valuation is under 3 years old and the change between the initial assessment and current book value is:

| | |
|---|---|
| Less than +/- 5% | ► The valuation will essentially consist of the initial assessment which will be further documented for review purposes. This will include:<br>▪ Internal valuation model by EDT.<br>▪ External short form report. |
| Between +/- 5 and 10% | ► The initial assessment will be supplemented by further internal or external analysis, which will be documented for review purposes, to determine the value. This will include:<br>▪ Full formal report (where independently valued over 12 months prior).<br>▪ External short form report (if valued less than 12 months prior);<br>▪ Internal Capitalisation rate & Direct Comparison. |
| Above +/- 10% | ► EDT will recommend that further analysis be undertaken externally to determine the value. This will include:<br>▪ External full formal report; or<br>▪ External update report, if it is a revaluation exercise by the same valuation company as last full formal report. |

- We have concluded that the valuation process and methodology adopted by EDT is reasonable and consistent with market practice.
- The assumptions and valuation parameters appear to be reasonable and supported by market evidence where available.
- Our recent discussions with management indicate that there are no events or market conditions that are likely to give rise to a change in the value of the assets between 31 March 2011 and the time at which we were preparing this report.
- The Directors valuations at 31 March 2011 are a reasonable basis to determine the likely proceeds under a proposed wind-up.

### 4.2.3 Estimated net realisation from sale proceeds

**Gross proceeds from sale**

To determine the estimated net realisation from sale proceeds, we have commenced with a consideration of the gross sale proceeds likely under the three scenarios set out in Section 4.2.1. Within each of these scenarios, we have undertaken sensitivity analysis on the likely premium or discount to the Director's Valuations to arrive at a low, mid and high range outcome.

The steps that we have undertaken to arrive at our low, mid and high ranges have included:

- Evaluation of the markets in which the 48 assets are located to better understand the potential attractiveness of the assets to prospective buyers.
- Consideration of the prevailing economic and capital markets.
- Contacted market participants to better understand how the market would perceive and evaluate a portfolio of assets and understand the strategies employed to maximise value. Market participants included broker firms, life insurance companies, public and private REITs and individual investors.

Our considerations concluded:

- Scenario #1: Under an entire portfolio sale scenario, there is risk that the assets could command a 5% to 10% discount on NAV. Under a quick sale scenario, the discount could be as much as 15%. Whilst there are some instances of premiums being paid for selected portfolios within the market, the EDT portfolio would be unlikely to achieve a premium due to the disparate nature of the quality of the assets and the various submarkets in which the assets sit. The weaker quality assets are likely to drive down the overall quality and therefore price of the portfolio.
- Scenario #2: A sale of the assets by loan pools (where permissible by loan covenants) together with some one-off and individual asset sales, is an option which would negate prepayment penalties under the existing loan agreements. While some of the pools, such as MetLife, include a number of high quality and core assets, other pools are more disparate in nature. At the high end of the range we assume that this scenario could achieve NAV, but at the low end of the range, a 10% discount to the portfolio NAV is assumed.

- Scenario #3: If the assets were offered to the market in discrete portfolios of homogenous quality assets, it is possible that the "core, high demand assets" could achieve a premium to NAV. The concern under this strategy is that the "non-core, low demand" properties would achieve below NAV and take an extended period to sell, therefore lengthening the duration of the wind-up process. Under this scenario, the gross realisation of the assets is likely to range from a small discount to a small premium above and below NAV.

In calculating our high, medium and low ranges of the gross sale proceeds from the sale of the assets, we note the following:

- We have allowed for net cashflow from operational activities throughout the realisation period and until the sale of the assets. This information has been sourced from management's cashflow models. The underlying data within the cashflow models have not been independently verified.

- In estimating the net proceeds of realisation we have taken into account the timing of the possible receipts and disbursements. We have applied a growth rate of 2.5% per annum to the estimated sale proceeds under each of the scenarios.

### Realisation timeframe of gross sale proceeds

The likely timeframe to achieve a sale outcome under each of the three scenarios has been formulated having regard to:

- Recent market activity and transactions, including sales and acquisitions of comparable retail portfolios.
- Discussions with market participants and potential purchasers.
- Our views of the current market positioning of the EDT portfolio and the anticipated buyer interest that would be generated.
- The difference in the market's perception of the assets based upon the three sale Scenarios.

| Wind-Up Scenario | | Adopted Realisation Timeframe |
|---|---|---|
| Scenario 1: | A sale of the assets as an entire portfolio | • Based on recent market activity, discussions with market participants and potential purchasers for the assets, we envisage that it would take approximately 12 months under this Scenario to sell the entire portfolio. This allows several months for management to prepare documentation, appoint an agent, undertake a two-stage sale process, evaluate the tenders, undertake negotiations and settle the sale of the properties. |
| Scenario 2: | A sale of the assets aligning with their loan pools, with the ability of some assets being sold individually depending upon loan maturity dates and provisions under each loan agreement | • Under this Scenario, we have considered the saleability of the assets according to their respective loan pool, which varies in grade and quality.<br>• Similar to Scenario 2, the better quality pools will sell sooner, with the inferior assets taking up to 24 month period to achieve a reasonable outcome. In a worst case situation, this could extend to 36 months. |
| Scenario 3: | Grouping the assets for sale into smaller homogenous portfolios, by reference to similar grade, quality and / or location | • This scenario is likely to take between 24 and 36 months to conclude, initally the better quality assets would attract the majority of interest and would be expected to sell within 12 months.<br>• However, individual assets and non-core portfolios are likely to take longer.<br>• We expect this process would take longer than a sale of the entire portfolio. |

The assumed realisation timeframes discussed above do not represent the anticipated number of months it will take for unitholders to receive distributions of the funds from the proposed wind up. The timeframes assumed represent the possible periods it will take to secure a purchaser for the assets under each of the scenarios, and complete various stages of due-diligence, negotiation and finalising a hypothetical sale.

### Costs and transaction fees

There are a number of costs and transaction fees in the event that the proposed wind up proceeds, which are summarised in the table below.

| Cost | Comment |
|---|---|
| Property Management Fee | • EDT has Property Management Agreements with DDR at the rate of 4% of effective gross revenue.<br>  ◦ Upon transfer, whether directly or indirectly of the controlling ownership interest of the controlling interests in the entity holding title to any property covered by the agreement, the agreement terminates with respect to that property.<br>  ◦ The Owner may terminate the agreement, upon at least 30 days notice to the property manager, in the event that property manager or its successor in interest no longer retains an interest, directly or indirectly, in the US manager or the US LLC.<br>  ◦ The Owner may terminate the agreement, upon at least 30 days notice to property manager, in the event that a "Change of Control", as defined in the LLC Agreement for US LLC, occurs with respect to the property manager.<br>• EDT has budgeted approximately US$6,300,000 in property management fees per annum.<br>• A management fee will continue to be paid up until the sale of the assets for ongoing property management services. |
| Asset Management Fee | • An asset management fee is paid to the US Manager which is owned by DDR (50%) and EPN (50%). The fee is budgeted at US$6,400,000 per annum, which is the total management fee less property management and foreign entity costs.<br>• The investors acquiring the EDT assets would likely incur a similar asset management fee. Unitholders would avoid this fee on the sale of the assets.<br>• On the reasonable assumption that the asset manager undertakes and / or coordinates the sale of the assets a termination fee (if any) would be offset by the sales commission. |
| Responsible Entity Costs | • ERML is the Australian based responsible entity for EDT, which owns the two US REITS holding titles to the properties. Management has estimated the operating and managerial costs of this entity to be US$2,500,000 per annum. |
| Sales and Marketing | • Depending on the structure of the sale of the assets, we have made an allowance of between 1% and 3% of the anticipated gross sale proceeds under each of the three scenarios. A percentage at the low end of the range would be applicable for an entire portfolio sale. Where the assets are offered separately or in pools, the percentage would be towards the upper end of the range. |
| Other costs | • Other costs which may be incurred during the wind up, include:<br>  ◦ Legal fees.<br>  ◦ Human capital.<br>  ◦ Distributing the sale proceeds to unitholders. |
| Costs associated with de-listing the ASX listed entity | • Due to a number of factors including the time delays and high cost of preparing a company for public listing, there is currently a market for selling listed shells.<br>• The price that can be achieved from selling a listed shell generally outweighs the costs of the process, and may in instances, provide a small contribution to funds available for unitholders.<br>• The proceeds from a hypothetical sale of the listed EDT shell is therefore likely to offset the costs associated with de-listing and liquidating the corporate shell and the wind down of the trusts operations. On this basis, we have adopted a cost-neutral position for the purposes of our assessments.<br>• The income from the sale of the shell is also expected to cover legal fees and human capital costs. |
| Miscellaneous | • Other assets and liabilities listed on the balance sheet are assumed to realise the stated book values in the financial accounts dated 31 March 2011.<br>• Management advised that there are no existing foreign exchange / interest rate hedging positions to be closed out in the event of a wind-up.<br>• There is a possibility that additional revenue may be sourced from the sale of the existing DDR 'property management' contract, but this has not been taken into account in our estimations. |

## Tax consequences

| | |
|---|---|
| Income tax consequences of the proposed Wind Up | • The Proposed Wind up of EDT has Australian and US tax implications for both the US REITs and also for the Unitholders. For the Unitholders, the exact tax implications should be subject to the individual circumstances of each Unitholder. Unitholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances.<br>• The cashflow model used to estimate the net realisation proceeds under various scenarios takes into account potential tax consequences at the US REIT level, but not at the individual Unitholder level. For a general description of the potential tax impact to on distributions to Unitholders, Unitholders should refer to the commentary set out in the Supplementary Explanatory Memorandum.<br>• The amount of withholding tax paid by the US REITs on disposal of the assets depends upon the structure of the sale transaction and whether or not the assets are sold as a portfolio, by pools, or individually Overall US REIT I and US REIT II have a built in loss in the assets (fair market value (FMV) less than tax basis) with the majority of the assets appear to have tax basis greater than fair market value. Certain assets do have fair market value greater than tax basis which should give rise to capital gains. This withholding tax is payable only on non US unit holders share of capital gain distributions.<br>• Capital gain withholding tax ("CGWT") could potentially impact a situation where management decided to sell the assets by loan pools, or if management break up the portfolio and sold the assets individually or by homogenous groups and obtained a premium to valuation. Under the range of potential outcomes modelled, the impact of CGWT for the US REITs is unlikely to adversely affect the net realisation proceeds by more than 5% . A sale of the entire portfolio to one buyer is unlikely to trigger CGWT, unless it is sold at a reasonable premium to valuation<br>• The Proposed Wind Up may result in the payment of US withholding tax by EDT or the REITs. In the event REIT status is lost, REIT 1 and REIT 2 may pay US and state corporate income tax on capital gains. |

### Financing considerations

As well as understanding key loan metrics like LTV and current loan balance, we also reviewed the loan agreements to understand factors such as assumability, prepayment penalties.

As detailed within Section 3.5, the EDT portfolio comprises seven loan pools. We have reviewed the various loan agreements pertaining to each of the seven pools. The key details from these loan agreements have been provided below.

| *Portfolio* | Number of Properties | Current Loan Balance (US$) | LTV (%) | Maturity Date | Yield Maintenance Fee / Prepayment | Able to release as a portfolio? | Able to release properties individually? | Transferable / Assumable | Cross - Collateralized |
|---|---|---|---|---|---|---|---|---|---|
| Bison Portfolio | 12 | 115,000,000 | 65.8 | 6-Apr-16 | Yes | Yes | Conditionally | Conditionally | Yes |
| MetLife Portfolio | 4 | 268,000,000 | 62.6 | 1-Sep-15 | Yes | Yes | Conditionally | Conditionally | Yes |
| Longhorn I | 4 | 85,000,000 | 83.6 | 11-Jan-12 | Yes | Yes | Conditionally | Conditionally | Yes |
| Longhorn II | 7 | 173,159,970 | 72.3 | 1-Oct-17 | Yes | Yes | Conditionally | Conditionally | Yes |
| Longhorn III | 2 | 33,233,881 | 79.3 | 5-Apr-12 | Yes | Yes | Conditionally | Conditionally | Yes |
| PS Portfolio | 7 | 86,000,000 | 91.2 | 1-Jul-13 | Yes | Yes | Conditionally | Conditionally | Yes |
| CBA Portfolio | 10 | 172,900,000 | 58.5 | 30-Apr-13 | Yes | Yes | Conditionally | Conditionally | Yes |
| Jo-Anns Plaza (Stand Alone) | 1 | 1,206,132 | 14.4 | 1-Aug-13 | Yes | NAP | NAP | Conditionally | No |
| Riverchase (Stand Alone) | 1 | 7,154,241 | 39.3 | 11-Jan-13 | Unable to be determined | NAP | NAP | Conditionally | No |

*(Source: Schedule of Indebtedness as of 31 March 2011 and Loan Agreements)*

Key issues are summarised as follows:

| | |
|---|---|
| Total Loan Balance | • As of 31 March 2011, outstanding total loan balance due in its entirety is approximately US$941,654,224.<br>• Over 40% of the total balance is scheduled to mature by year-end 2013. |
| WACC | • The current weighted average cost of capital (WACC) across all facilities is approximately 5.42% (according to rates and outstanding balances provided by EDT Management in the schedule of indebtedness). |
| Convents | • Currently the only covenants in place are associated with the CBA Revolver Facility. EDT's quarterly results as at 31 March 2011 indicate that all of the covenants were satisfied and the Facility Limit (Total Debt : Independent Property Values) was 60%. |
| Near-term maturities | • Near-term maturities (Longhorn I and III) are both due to the same Lender (UBS) in 2012. Both are non-recourse and allow interest-only payments.<br>• CBA Portfolio - An Extension fee calculated as 0.5% of the aggregate outstanding credit exposure is payable on 31 October 2011 if, on such date, the aggregate outstanding credit exposure is greater than zero. Our discussions with Management indicate that this penalty is approximately US$1 million. |
| LTV Ratios | • While the LTV ratio is relatively high in a few pools, the DSCR exceeds 1.40:1 in all loan pools.<br>• According to EDT quarterly results (dated March 2011), the existing loan to book value ratio is 66.7% across the portfolio. |
| Permitted transferees | • Permitted transferees must meet various net worth and liquidity requirements and have ownership experience with retail assets. |
| Recourse | • The loans are nonrecourse other than standard carveouts (e.g. fraudulent activity, misrepresentation, misappropriation of funds, voluntary bankruptcy). |
| Release of individual properties | • All portfolios - In the event of the individual release of the property, the debt service coverage ratio for all the properties then remaining subject to the Liens of the Mortgages shall be no less than the debt service coverage ratio for all of the properties immediately preceding such release. With respect to each property, release amount shall be 110% of the allocated loan amount.<br>• PS Portfolio - No more than three individual properties may be subject to a property release and the aggregate allocated loan amount of the release properties cannot exceed 50% of the original principal loan amount.<br>• Bison Portfolio - Release not permitted if LTV is greater than 125% if the loan is included in a REMIC.<br>• CBA Portfolio - If the LTV on the date of release is less than 50%, deposit all proceeds of the sale in an amount equal to the allocated debt, into a collection account to be used to prepay a portion of the outstanding credit exposure. If LTV is greater than or |

| | |
|---|---|
| | equal to 50%, deposit all proceeds net of closing costs. There is value associated with the ability to transfer or assume the debt in cases where refinancing may be unavailable due to loan-to-value or debt service covenant restrictions. |
| Lockout terms apply to Bison and Longhorn: | • Bison - The Permitted Prepayment Date for this portfolio shall mean the first Business Day after the date that is twelve (12) months from closing of the loan. As a result, this loan is still within the first year since loan closing and prepayment is not permitted (prepayment permitted April 2012).<br>• Longhorn I - From and after July 5, 2011, upon thirty (30) days notice to Lender, Borrower may prepay the debt in whole without payment of the Yield Maintenance Premium.<br>• Longhorn II - The Permitted Prepayment Date for this portfolio shall mean the first Business Day after the date that is twelve (12) months from closing of the loan. As a result, this loan is still within the first year since loan closing and prepayment is not permitted (prepayment permitted October 2011). The Mezzanine Loan secured by the Longhorn II portfolio is currently in a lock-out period with no prepayment permitted until January 2013. The following prepayment structure is permitted thereafter: 2% of the loan balance from 2 January 2013 to 1 January 2014; 1.5% from 1 January 2014 to 1 January 2015; 1% from 1 January 2015 to 1 January 2016; 0.5% from 1 January 2016 to 1 January 2017, and 0.25% from January 2017 and the date that is 3 months prior to maturity.<br>• Longhorn III - From and after October 5, 2009, upon thirty (30) days notice to Lender, Borrower may prepay the debt in whole without payment of the Yield Maintenance Premium. |

Key risks and treatment of debt in our analysis:

- We have accounted for the monthly loan repayments payable on each asset, until the sale of the assets under each of the three scenarios (both the repayment of the principal loan amount and also the accruing interest).

- Prepayment penalties under the existing loan pools has the potential to impact net distribution proceeds by between $0.005 and $0.015 if the assets within the loan pools are broken up and/or purchasers do not want to take transfer of the existing debt. We believe this will be a significant consideration of management when evaluating offers from prospective purchasers proposing different sale structures.

- An entire portfolio sale whereby the purchaser assumes the existing debt will minimise the impact of the prepayment penalties on the distribution of net sale proceeds. In our view an average debt rate of 5.4% and LTV ratio of 66.7% would be favourably considered by prospective portfolio purchasers and is a probable outcome.

- Under some of the loans there is a cost of transferring the debt, which we have also factored into account.

- The loan-to-value ratio of three of the pools is currently higher than what is likely achievable in the market, suggesting there may be value in the in-place financing for these pools. This is particularly relevant for non-core assets, which are difficult to finance in today's market. Thus, these loans provide marginally more leverage to the REIT and may facilitate the sale of these properties.

- Cross-collateralization issues do not appear to be present in the sale of the assets as a portfolio. The cross-collateralization would remain intact and may carry-over to the new owner. A potential issue may arise selling assets in small groups that are cross-collateralized due to the fact that if a small group or single asset from a portfolio is selected to be sold, the lending institution may veto the sale because the unselected properties are still being used to secure the loan.

### Exchange rate calculations

We have adopted an exchange rate calculation of AUD $1.00 to USD $1.0598, sourced from the Reserve Bank of Australia's website, on 11 June 2011 (midday).

### Net present value of estimated realisation proceeds on Wind Up

Based on the assumptions set out above, we have prepared a cashflow of the estimated net proceeds with respect to the three scenarios. In order to make a comparison between the scenarios which vary over time, we have done an analysis using a discount rate of 10% per annum to calculate their net present values.

To determine an appropriate discount rate, we considered typical capitalisation rates derived from both published investor surveys and actual transactions and added an inflationary factor to those rates. We further framed these discount rates with published investor surveys and interviews with market participants. All things considered, appropriate discount rates appear to range from 9% to 11% given the portfolio profile. While estimating an exact discount rate can be difficult, we believe that a discount rate of 10% is reasonable.

### Range of potential outcomes

Modelling of the low, mid and high ranges under each of the three scenarios on a net present value basis, indicates an overall range of 7.4 cents to 11.4 cents as illustrated in the table below:

| | Timeframe | Low | Mid | High |
|---|---|---|---|---|
| Scenario 1: | Average of 12 months | 7.4 cents | 8.9 cents | 10.4 cents |
| Scenario 2: | Up to 24 months | 9.1 cents | 10.3 cents | 11.4 cents |
| Scenario 3: | Up to 36 months | 9.5 cents | 10.7 cents | 11.2 cents |

The range of outcomes is reflective of the high gearing of the trust and the potential net proceeds is most sensitive to achieving an overall discount or premium to the 31 March 2011 valuations.

Prudent management would seek to maximise the net proceeds and employ a sales strategy that would seek to both maximise the net realisation proceeds to unitholders in the most efficient time and at the most effective cost.

The low end of the range of Scenario 1, at 7.4 cents is a result which prudent management is unlikely to accept. Other scenarios may produce a superior return. The high end of the range extends to 11.4 cents but relies on achieving a premium on 31 March 2011 valuations and has a protracted sale period of up to 36 months.

Accordingly for the purpose of our IER, we have adopted a range of 8.9 cents to 10.7 cents.

### Risks associated with achieving the range of potential outcomes

| Risk | Comment |
|---|---|
| Timing Risk | • Based on our knowledge of current market conditions on these assets, we anticipate a wind up could take between 12 and 36 months to conclude. However, whilst this is our best estimate, buyer appetite or the supply of assets onto the market may change and therefore the sale process may take longer than we forecast.<br>• Distributions to unitholders from the sale proceeds is dependent also upon management. |
| Market Risk | • A Wind-Up of the trust over an extended time period will expose unitholders to market risk. These market risks, include:<br>  • Pace/nature of economic recovery: Conversations with sellers indicate that they are selling because they believe that there is a possibility of a double-dip recession. There is an ongoing uneven recovery by market/geography and property type. Low interest and cap rates are driving decisions in one direction now, but if either starts rising, the transaction environment will be impacted.<br>  • Economic trends negatively impacting tenants' viability may result in exposure to at-risk tenants in the centre via bankruptcy or insolvency, potentially impacting occupancy and rental revenues as well as perceptions / marketability of a centre if tenants (in the centre or shadow anchors) go dark.<br>• There is also for the market to appreciate over time, which would have a favourable impact on distributions to unitholders. |
| Foreign Exchange Risk | • EDT is not hedged against foreign exchange fluctuations.<br>• Unitholder distributions from sale proceeds are directly impacted by fluctuations in foreign exchange. For example, according to the EDT 2010 Annual Report, the Australian dollar appreciated by over 20% compared to the US dollar from June 2010 to time of reporting, which contributed to actual net tangible asset (NTA) values declining from 11.6 cents to 10.6 cents despite overall profitability and property value increases. |
| Valuation Risk | • The estimate of NAV is based upon the opinion of independent valuers and management, and while some of the assets are in frequently traded markets, with good demand for core properties, others assets suffer from higher than average vacancies and are located in markets which have weaker fundamentals. This heightens the risk around the accuracy of the valuations. Non-core assets in weaker markets are susceptible to greater price volatility and less demand. There is a risk that gross asset values may not be realised at the 31 March 2011 valuations. |
| Sales Risk | • Buyer market for an entire portfolio sale may be "thin" given the heterogeneous nature of the portfolio with respect to geography and quality variation, which may impact the outcome of net sale proceeds available for distribution under Scenario 1. |

## 4.3 Alternatives

As at the date of this report, EPN has extended its Offer of 9 cents to remain open until 17 June 2011 and accordingly this alternative will only be open to Unitholders at the time of the meeting, if the Offer is extended.

In the absence of an alternative offer the Unitholders have the option to either retain or sell their units on the ASX.

### 4.3.1 Accept the Offer

As noted above EPN has extended the Offer to 17 June and declared its offer final in the absence of a superior proposal. Unless EPN further extends its Offer it will not be available to Unitholders as at the meeting date. Unitholders accepting the Offer will receive 9 cents on the earlier of one month after EPN receives the Acceptance Form or 21 days after the end of the offer period.

### 4.3.2 Retain Units

If the Wind Up Proposal is not approved and Unitholders elect to retain their Units the trading on the ASX will be reinstated and the Unitholders will continue to participate in the risks and rewards of owning the Units.

On 20 May 2011 EDT released its results for the quarter. These results are included in our analysis of EDT's financial performance in section 3.6 and financial position in section 3.7 of our report. As noted in the media release EDT continues to stabilise its debt position and invest in leasing opportunities in its portfolio. Further detail of the refinancing, leasing and capital management initiatives are set out in sections 8.7 to 8.9 of the Supplementary Explanatory Memorandum. These initiatives are being undertaken as part of a strategy to address the gap between the trading price of Units and the NTA per Unit and maximising the value of EDT over the medium to long term.

EDT Units closed at 7 cents on 8 March 2011 the day prior to the Offer. As noted in section 3.8 and Appendix B of our report, EDT and other A-REITs have been trading at a discount to their NTA. At the end of March EDT closed at 8 cents a discount of 26.4% to its NTA per Unit of 10.9 cents. In the absence of the Offer, an alternative offer or the Wind Up Proposal it is anticipated that the Units would fall below the recent trading price of 9 cents. Since the announcement of the Offer on 21 April no other offer has been announced.

Although Units will resume trading on the ASX if the Proposed Wind Up is not approved, the liquidity in the shares has been low. With EPN's interest in EDT increased to 57.34% the liquidity in trading may decrease.

## 4.4 Advantages and disadvantages of the Proposed Wind Up

We have set out below the advantages and disadvantages of the Proposed Wind Up, acceptance of the Offer or retaining an interest in the Units.

### 4.4.1 Estimated net proceeds

As set out in section 4.2.3 of our report, we have estimated the net present value of the possible proceeds of the Proposed Wind Up to be in the range of 8.9 cents to 10.7 cents. This estimate is subject to significant uncertainty due to volatility in foreign exchange markets and potential movements in the US retail property market. In addition, financing break fees and income tax expenses could be significant and vary depending on the realisation strategy and timing of disposals.

In estimating the net proceeds of realisation we have taken into account the timing of the possible receipts and disbursements. We have then applied an annual discount rate of 10% per annum.

Under the Offer, if it is still available, Unitholders will receive 9 cents per unit.

In the absence of the Offer, an alternative offer or the Wind Up Proposal it is expected that the unit price would fall below the recent trading price of approximately 9 cents. Unitholders retaining their Units would participate in the risks and benefits of movements in the Unit prices and distributions.

### 4.4.2 Timing of proceeds or distributions

As discussed in section 4.2.3 of our report an orderly realisation of the assets would be expected to take between 12 and 24 months and possibly as long as 36 months. Although the Constitution provides that ERML may distribute the proceeds of realisation by instalments these would be subject to the ability to satisfy all expected liabilities and the requirements of financing contracts.

The proceeds under the Offer are payable on the earlier of one month after EPN receives the Acceptance Form or 21 days after the end of the offer period.

In the absence of the success of the Offer or the Wind Up Proposal it is expected that the units would continue to trade on the ASX. As noted in the Supplementary Explanatory Memorandum EDT is not providing distributions in 2011 and may not in the near term.

### 4.3.4 US retail property market

Conditions in the US retail property market have improved from the low point of the GFC and US-REITs are now trading at a premium to NTA, however the outlook remains unclear; as result of broader uncertainty in global economic and financial markets. Slight increases in employment, improving US retail sales performance, a flat hosing sector and volatile consumer confidence all point to mixed messages which makes forecasting marketing conditions uncertain.

### 4.4.4 Financing risk

A number of loan pools are likely to be in need of refinancing prior to conclusion of the Proposed Wind Up. Although fundamentals in the financing market appear to be improving, there is some possibility that the poorer quality unsold stock could be more difficult and expensive to refinance if the better quality assets are sold first. The loan pools are able to be transferred, subject to conditions and at a cost, but the terms on which the assets are financed may or may not be beneficial to incoming purchasers. Selling the assets in the their existing portfolios may be a more efficient sales strategy in order to minimise penalty fees.

### 4.4.5 Foreign exchange rates

EDT is an Australian fund holding US assets and distributions and earnings are therefore susceptible to foreign exchange volatility for Australian Unitholders. Since mid 2000, the Australian dollar has continued to make gains in value against the US dollar. A continuation of this trend is likely to have an adverse impact on distributions to Unitholders.

For this REIT, exchange rate risk is also at play. For example, according to the EDT 2010 Annual Report, the Australian dollar appreciated by over 20% compared to the US dollar from June 2010 to time of reporting, which resulted in actual net tangible asset (NTA) values declining from 11.6 cents to 10.6 cents despite overall profitability and property value increases. The trust has no foreign exchange hedging in place, thus Australian dollar earnings are subject to fluctuations in the AUD/USD exchange rate. All of the trust’s rents, property operating expenses and debt payments are due in US dollars, which creates a partial hedge against currency fluctuations for Unitholders in the US market.

### 4.4.6 Income tax consequences of the alternatives

The potential tax consequences of the Proposed Wind Up are set out in section 9 of the Supplementary Explanatory Memorandum. These are summarised below with respect to each alternative.

#### Proposed Wind Up

The Proposed Wind Up may result in the payment of US capital gains tax or US withholdings tax by EDT or the REITs. In the event REIT status is lost, REIT 1 and REIT 2 may pay US and state corporate income tax on capital gains. Some Unitholders may be eligible for a refund or foreign tax offset for some of these amounts. Although the extent of capital gains or withholding tax depends on the sale process, timing and prices obtained, based on the potential scenarios examined by us they would represent less than 5% of the net proceeds before Unitholder taxation.

The distribution of the proceeds from the Proposed Wind Up to Australian and US Unitholders may result in capital gains tax to Unitholders. The extent and timing of any capital gain or loss will depend on their individual circumstances and the cost base of their units.

#### Accept the Offer

Australian and US Unitholders who either accept the Offer on the ASX may be subject to capital gains tax on the proceeds. The extent of any capital gain or loss will depend on their individual circumstances and the cost base of their units.

### Retain Units

If Unitholders retain their Units they will be subject taxation as set out in Section 9 of the Supplementary Explanatory Memorandum and accordingly may be subject to capital gains tax on the sale of their Units. The extent of any capital gain or loss will depend on their individual circumstances and the cost base of their Units. As noted in section 6.2.8 of the Target Statement and Part 8 section 3 of the Bidders Statement if EPN increases its interest in EDT to 82% or more or adjusts the holding structure of the EPN Group, the US REITs may, if considered closely held, lose their REIT status and would then be subject to US and state corporate income tax on the REITs taxable income without a deduction for dividends paid. In addition, as noted in section 6.2.8 of the Target Statement it is anticipated that EDT will not qualify as a Managed Investment Trust which may have a material tax impact on some Unitholders.

### Australian tax disclaimer

Our commentary on the Australian and US income tax implications of the available options is general in nature and the individual circumstances of each Unitholder may affect the taxation implications of the investment of that Unitholder. Unitholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances. We disclaim all liability to any Unitholder or other party for all costs, loss, damage and liability that the Unitholder or other party may suffer or incur arising from or relating to or in any way connected with our comments above or the provision of our comments to the Unitholder or other party or the reliance on our comments by the Unitholder or other party.

### 4.4.7 Proposed Wind Up

The advantages and disadvantages of the Proposed Wind Up are as follows.

### Advantages

The net present value of estimated proceeds from the Proposed Wind Up exceed the price at which Units would be expected to trade in the absence of a takeover offer, and the Offer price is in the bottom of this range.

For investors that believe the improvements in the market for US retail assets might not continue the Wind Up Proposal provides an opportunity for realisation of their investment over the medium term.

On completion of the Proposed Wind Up Unitholders would no longer be exposed to risks related to the US retail property market, foreign exchange rate fluctuations and refinancing.

### Disadvantages

While the estimated time frame for the Wind Up Proposal is between 12 and 24 months it might take longer.

During the wind up period Unitholders will remain exposed to risks related to the US retail property market, foreign exchange rate fluctuations and refinancing risk.

Unitholders will no longer be able to trade their units on the ASX. The ERML Board is evaluating various changes to the EDT Constitution and seeking advice from ASX in determining whether trading on ASX of EDT units would then not be suspended on and from the close of trade on 1 July 2011 in connection with a passing of the Resolution to terminate the Trust. ERML will notify Unitholders of the outcome of this review process as soon as practicable and in any event, prior to 1 July 2011.

### 4.4.8 Accept the Offer

The advantages and disadvantages of the Offer are as follows.

### Advantages

The Offer provides a certain return of 9 cents within a short time frame.

Unitholders will no longer be open to the risks of the US retail property market, foreign exchange rate fluctuations and refinancing.

### Disadvantages

The Offer at 9 cents per unit falls in the bottom of the range of the net present value of our estimated proceeds from the wind up.

Unitholders will not participate in any further improvements in the US retail property market or any value increases resulting from refinancing, leasing, and capital management initiatives currently being undertaken and considered by management.

### 4.4.9 Retain Units

The advantages and disadvantages to Unitholders of retaining their units are as follows.

### Advantages

Unitholders will continue to participate in the risks and rewards of investment in the US retail property market and any Unit value increases resulting from refinancing, leasing, and capital management initiatives currently being undertaken and considered by management.

### Disadvantages

In the absence of the Offer, an alternative offer or the Wind Up Proposal it is expected that the unit price would fall below the recent trading price of approximately 9 cents.

Unitholders will continue to be open to the risks of the US retail property market, foreign exchange rate fluctuations and refinancing risk.

If EPN increases its interest in EDT the US REITs may, if considered closely held, lose their REIT status and would then be subject to US and state corporate income tax on the REITs taxable income without a deduction for dividends paid. In addition, it is anticipated that EDT would not qualify as a managed investment trust which may have a material impact on some Unitholders.

Although units will resume trading on the ASX if the Proposed Wind Up is not approved, the liquidity in the Units has been low. With EPN's interest in EDT increasing to 57.34% the liquidity in trading may decrease.

## 4.5 Conclusion

At the date of this report, EPN has extended its Offer of 9 cents to remain open until 17 June 2011 and accordingly the Offer will only be open to Unitholders at the time of the meeting, if it is extended.

If the Offer is available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is not in the best interests of the Unitholders as a whole. However, we note that the Offer at 9 cents falls in the bottom of the range, and as a result of individual Unitholder preferences, some Unitholders may prefer the Proposed Wind-Up.

If the Offer is not available to Unitholders as at the date of the meeting, having regard to the advantages and disadvantages of the Proposed Wind Up, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Wind Up is in the best interests of the Unitholders as a whole.

This IER constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Unitholders. As such our opinion should not be construed as a recommendation as to whether to approve or not approve the Proposed Wind Up. The decision as to whether to vote in favour or against the Proposed Wind Up is a matter for individual Unitholders based on their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions.

# Appendix A
# Qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The representatives of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to the ERML nor EDT.

Prior to accepting this engagement we considered our independence with respect to ERML and EDT with reference to ASIC Regulatory Guide 112 *Independence of experts*. In May 2011, Ernst & Young LLP our US member firm was engaged by EDT Management LLC to evaluate the portfolio of assets and capital market conditions, and summarise the risks/rewards and income tax consequences with respect to holding or disposing of the real estate portfolio and individual assets.  These services were provided on an independent basis. In our opinion we are independent of ERML and EDT.

This report has been prepared specifically for the Directors of ERML and Unitholders of EDT. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than ERML, EDT and the Unitholders, in respect of this report, including any errors or omissions howsoever caused.

Our commentary on the Australian and US income tax implications of the available options is general in nature and the individual circumstances of each Unitholder may affect the taxation implications of the investment of that Unitholder. Unitholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances. We disclaim all liability to any Unitholder or other party for all costs, loss, damage and liability that the Unitholder or other party may suffer or incur arising from or relating to or in any way connected with our comments above or the provision of our comments to the Unitholder or other party or the reliance on our comments by the Unitholder or other party.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by ERML, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose.

ERML has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us by them in the preparation of this report.

We provided draft copies of this report to management of the ERML for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone.

Changes made to this report as a result of this review by management of the ERML has not changed the basis of evaluation or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report, estimated at approximately $195,000 exclusive of GST. We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

The principal persons responsible for the preparation of this report are Richard Bowman and John Gibson. Richard Bowman, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered. Richard is a Fellow of the Australian Property Institute, a Member of the Royal Institute of Chartered Surveyors and has been extensively involved in corporate transactions in the unlisted and listed property sectors within Australia and offshore. Richard's knowledge extends across the retail, commercial and industrial asset sectors.

John Gibson, a director and representative of Ernst & Young Transaction Advisory Services and a Partner of Ernst & Young, has over 25 years experience in providing financial and valuation advice and has professional qualifications appropriate to the advice being offered. He is a Fellow of the Institute of Chartered Accountants in Australia, a Member of the Canadian Institute of Chartered Business Valuers and a Fellow of the Financial Services Institute of Australasia.

The preparation of this report has had regard to relevant ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2008. It is not intended that the report should be used for any other purpose other than to assist the Unitholders in deciding whether to approve the resolution for the Proposed Wind Up.

Any forward looking information prepared by the ERML and used as a basis for the preparation of this report reflects the judgement of ERML and management based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

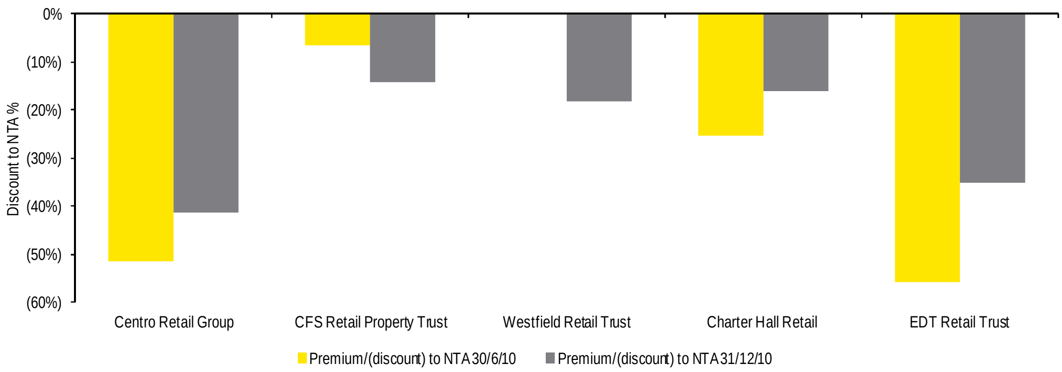
# Appendix B
# Comparable REIT information

**Net tangible assets per unit**

As discussed in section 2.1 of this report, subsequent to the GFC, the majority of A-REITS have been and still are trading at significant discounts to their net tangible assets (NTA) per unit.

In order to illustrate the trading price discount to NTA of Australian REITs at the time of preparing this report, we have analysed the trading discounts of four comparable Australian REITS with securities traded on the ASX based on their NTA and quoted market price as at 30 June 2010 and 31 December 2010.

Premium/ (discount) to net tangible assets of selected A-REITS




*(Source: ASX, EDT Half-Year Results, 2011)*

In relation to the above graph we note that the average discounts at 30 June 2010 and 31 December 2011 were 32% and 24% respectively.

In the table below we summarise the EDT's net tangible assets as at 30 June 2010, 31 December 2010 and 31 March 2011. Using a volume weighted average unit price (VWAP) as at each of these days, we have illustrated the discount to net tangible assets that EDT units traded at on these days.

NTA per EDT unit

| *Currency: $ 000 (AUD)* | Mar11A | Dec10A | Jun10A |
|---|---|---|---|
| Total tangible assets | 1,353,753 | 1,347,303 | 1,582,694 |
| Less: Total liabilities | (841,854) | (850,850) | (1,036,410) |
| Less: non-controlling interests | (100) | (99) | (100) |
| **Net tangible asets** | **511,799** | **496,354** | **546,184** |
| Total number of units on issue | 4,700,291 | 4,700,291 | 4,700,291 |
| Net tangible asset backing per unit (cents) | 10.9 | 10.6 | 11.6 |
| EDT spot price (cents) | 8.0 | 6.9 | 5.2 |
| EDT discount to NTA | (26.4%) | (35.1%) | (55.7%) |

*(Source: EDT Retail Trust Annual/Quarterly Reports/ ASX/ EY analysis)*

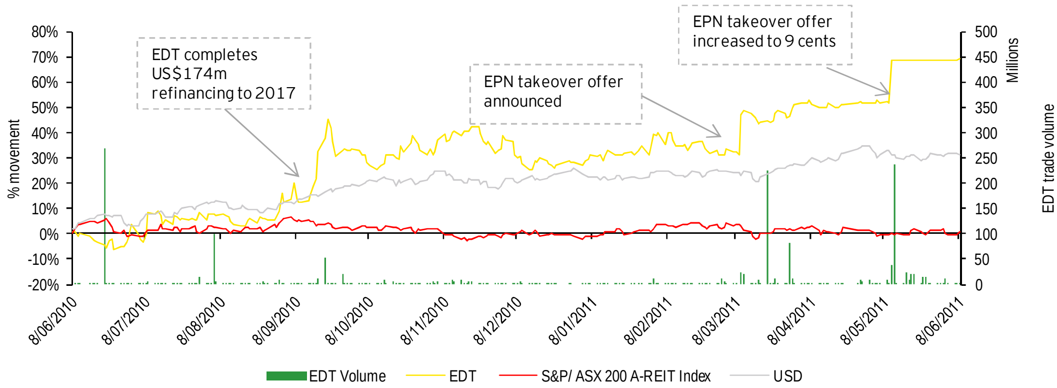
We note that there are a large number of variables which may impact the traded price of EDT securities. It is however, probable that in the absence of a takeover offer, EDT units would trade at a discount to their price in the presence of the takeover offer. We note that the quoted price of the units has been relatively stable around 9 cents since the revised takeover offer was made on 11 May 2011.

We discuss some of the other factors influencing ETD's quoted market price below.

### Market price of EDT

The graph below shows the percentage movement of EDT securities on the Australian Stock exchange relative movement in the ASX 200 A-REIT Accumulation Index (A-REIT Index) and USD over the twelve month period 8 June 2010 to 8 June 2011.

Twelve month price movement of EDT securities versus S&P/ASX 200 A-REIT Index and USD




*(Source: Bloomberg/EY analysis)*

We note there have been a number of significant events impacting on the market price of ED. In the table below, we summarise some of the key events occurring since 1 January 2011.

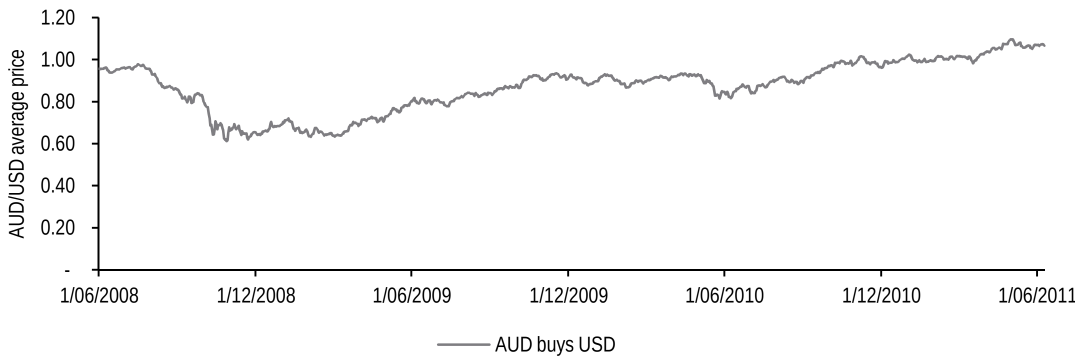
Summary of recent EDT ASX announcements

| Date | Description of ASX annoucement |
|---|---|
| 24-Feb-11 | Financial results announced for the 6 months ened 31 December 2010 which included Net tangible assets (NTA) of 10.6 Australian cents per unit (down from 11.6 cents per unit in June 2010 as a result of exchnage rate movement). |
| 08-Mar-11 | EDT requested a trading halt in relation to material transaction |
| 10-Mar-11 | EDT announced that EPN Investment Mangement, LLC intended to make an off-market offer for the remaining units in EDT at $0.078 cash per EDT unit. |
| 28-Mar-11 | EPN bidders statement realeased to the market. |
| 27-Apr-11 | EDT advised to the market that the independent expert report with respect to the bid from EPN is not fair, not reasonabe and not in the best interests of unitholders (at $0.078 per unit) |
| 03-May-11 | EDT reccommended that unitholders reject the EPN offer at $0.078 per unit. |
| 11-May-11 | EDT advised the market that EPN revised their offer to $0.09 cash per EDT unit and advised unitholders not to take further action pending the Committee's review and the issue of a supplementary Target's Statement. |
| 13-May-11 | EDT advised that it had received a request for to consider a meeting of EDT unitholders to consider and vote on a resolution to wind up EDT. |
| 19-May-11 | EDT realesed a supplementary target's statement advising that the Independent Direcotrs believe the Revised Offer is not fair but could be reasonable in the absence of a superior proposal. |
| 20-May-11 | Financial results announced for the quarter ended 31 March 2011 which included Net tangible assets (NTA) of 10.9 Australian cents per unit (up from 10.6 cents per unit at December 2010). |
| 23-May-11 | EDT advised that EPN had extended the off-market takeover offer to 3 June 2011. |
| 02-Jun-11 | Notice of unitholders meeting to be held on 8 July 2011 sent to unitholders. |
| 02-Jun-11 | EDT advised that EPN had extended the off-market takeover offer to 17 June 2011. |

*Exchange rate risk*

- The Australian dollar (AUD) has appreciated against the US dollar (USD) by 11.5% in the three years since June 2008 and by 53.7% since January 2009. This is relevant as EDT's units are traded in AUD on the Australian Securities Exchange and its assets almost entirely consist of properties located in the United States.
- We illustrate below the movement of the AUD against the USD over the last three years.

Australian dollar versus US dollar since June 2008



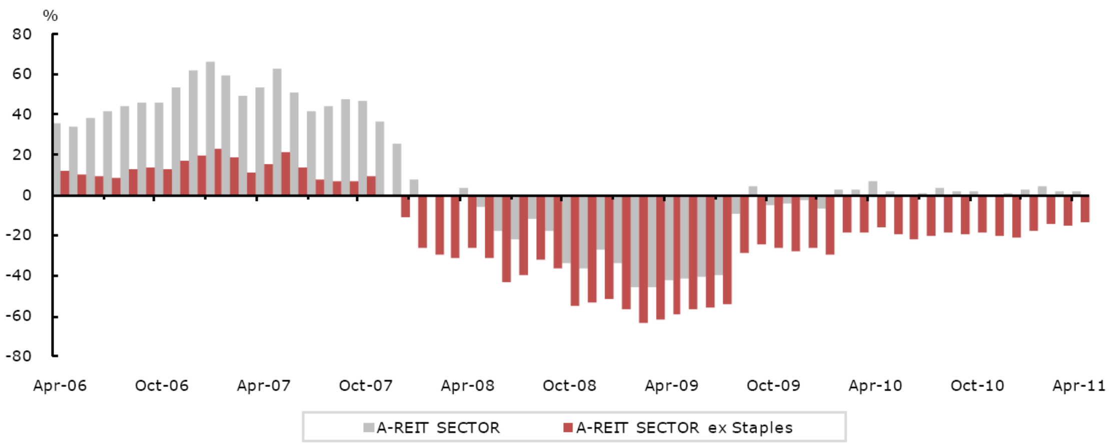

*(Source: www.oanda.com)*

- In the absence of other factors, an appreciation of the AUD against the USD, would reduce the value of EDT's net tangible assets (NTA) as reported in Australian dollars.
- Despite the lack of correlation between the quoted market price of EDT units and the exchange rate, we note that foreign exchange rates may have a significant influence on EDT's unit price going forward. Accordingly, in considering the potential returns available to Unitholders in a wind-up process, consideration must be given to the sensitivity of EDT's net tangible assets to foreign exchange risk.

**A-REIT sector price premium / discount to NTA**

The graph below outlines the relativity of the pricing of the A-REIT sector compared to NTA. In general terms, A-REITs were trading at a premium to NTA prior to 2008. Since the GFC, A-REITs have traded at a discount to NTA.

A-REIT Sector Price Premium / (Discount) to NTA




*(Source: PIR / IRESS, 2011)*

# Appendix C
# Sources of information

In arriving at our views, we have had regard to the following sources of information:

- Information provided by EDT management (discussions and interviews with management, tax advisors and directors, loan documents, management Argus cashflow models, EDT 31 March 2011 valuations, independent valuation reports, schedule of indebtedness, and property management agreements).
- Press releases, media releases and public announcements in relation to EDT.
- Annual reports, half-yearly reports and investor presentations released by EDT.
- ASIC Guidance notes and Regulatory guides as applicable.
- Stock market and financial data for EDIT and other REITs, sourced from Bloomberg and ASX.
- Various economic and industry information in relation to the US-REIT and A-REIT sectors.
- IBIS World Industry Report – Real Estate Investment Trusts in the US.
- Analysts reports and websites of comparable companies.
- External information sources including Bloomberg, Factiva, PIR and Oanda, STDB Online, United States Census Bureau, Costar, Real Capital Analytics, REIS, Green Street Advisors (21 May 2011 Strip Center Sector Update).
- EDT's target's statement and supplementary target's statement.
- EPN's bidder's statement and supplementary bidder's statement.
- Ernst & Young LLP's report titled, "Overview of Property Market and Potential Asset Realization Program", prepared for EDT Management LLC, dated 30 May 2011.

In addition, we held discussions and corresponded with various members of senior management of EDT.

# Appendix D: Glossary

| Term | Definition |
|---|---|
| $ / AUD | Australian Dollar |
| Acceptance Form | The form of acceptance and transfer enclosed in the EPN bidder's statement. |
| A-REIT | Australian Real Estate Investment Trust |
| Act | Corporations Act 2001 (Cth) |
| AFSL | Australian Financial Services Licence |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| Blackstone | Blackstone Real Estate Partners VI, L.P. |
| CGT | Capital Gains Tax |
| CGWT | CGT Withholding Tax |
| CPI | Consumer Price Index |
| DCF | Discounted Cash Flow |
| DDR | Developers Diversified Realty Corporation |
| Directors | Independent, Non-Executive Directors of EDT Retail Management Limited |
| Documents | Notice of Meeting and Explanatory Memorandum |
| | The explanatory memorandum issued by EDT accompanying the notice in relation to the Takeover Offer |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| EDT | EDT Retail Trust (ARSN 106570352) |
| Ernst & Young Transaction Advisory Services, "we" or "us" | Ernst & Young Transaction Advisory Services Limited<br>ABN 87 003 599 844<br>Australian Financial Service Licence No. 240585 |
| The EPN Group | EPN Investment Management, LLC |
| ERML | EDT Retail Management Limited, the Responsible Entity of the Trust |
| FME | Future Maintainable Earnings |
| FOS | Financial Ombudsman Service Limited |
| FSG | Financial Services Guide |
| FYXX | Financial year ended 30 June 20XX or 52 week period ended 20XX |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| IER | Independent Expert's Report prepared by Ernst & Young Transaction Advisory Services |
| IPO | Initial Public Offering |
| Licence | Ernst & Young Transaction Advisory Services holds an Australian Financial Services Licence (Licence No: 247420) |
| LTV | Loan to value |
| MDT | Macquarie DDR Trust |
| NOI | Net Operating Income |
| Notice of Meeting | The Notice of Meeting, including the accompanying Explanatory Management issued by ERML dated 2 June 2011. |
| NTA | Net Tangible Assets |
| Offer | The Offer is the off-market bid by EPN to acquire all remaining units in EDT. |
| Preliminary Accounts | The latest available EDT management accounts for the 12 months period ended 31 March 2011. |
| Projected Cash Flows | Projected cash flows from 1 April 2010 up to 30 April 2012 and underlying assumptions in the event of an orderly wind-up of Fund that were prepared based on ERML's expertise and understanding of the property investments |
| Proposed Wind Up | The Proposed Wind Up of EDT Retail Trust |
| RBA | Reserve Bank of Australia |
| REIT | Real Investment Trust |
| Report | Independent Expert's Report prepared by Ernst & Young Transaction Advisory Services |
| Resolution | The resolution concerning the winding up of EDT set out in the Notice of Meeting |
| Requisitioning Members | Each of the Unitholders described as "requisition members" in Annexure A of the Notice of Meeting. |
| RG111 | ASIC Regulatory Guide 111 *Content of expert reports* |

| Term | Definition |
|---|---|
| RG112 | ASIC Regulatory Guide 111 *Independence of experts* |
| SQ FT | Square Feet |
| Supplementary Explanatory Memorandum | Being the Supplementary Explanatory Memorandum issued by ERML dated 14 June 2011. |
| The Offer | Off-market bid by EPN to acquire all remaining Units in EDT. |
| Takeover Offer | Proposed Acquisition of all the remaining units in EDT Retail Trust by the EPN Group, via a cash offer |
| Unitholders | A registered holder of Units |
| Unit | An ordinary unit in the Trust |
| US Manager | EDT Management LLC |
| US | United States of America |
| USD | United States of American Dollar |
| VWAP | Volume Weighted Average unit Price |
| WACC | Weighted Average Cost of Capital |
| WALE | Weighted Average Lease Expiry |

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT**

14 June 2011

**PART 2 - FINANCIAL SERVICES GUIDE**

### 1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

### 2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### 3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

### 4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

## 5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $195,000 (exclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

## 6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

## 7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

## 8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

## 9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

| Contacting Ernst & Young Transaction Advisory Services | Contacting the Independent Dispute Resolution Scheme: |
| --- | --- |
| AFS Compliance Manager<br>Ernst & Young<br>680 George Street<br>Sydney NSW 2000<br><br>Telephone: (02) 9248 5555 | Financial Ombudsman Service Limited<br>PO Box 3<br>Melbourne VIC 3001 Telephone: 1300 78 08 08 |

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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