

NOTICE TO NOTEHOLDERS ISSUED ON 12 MAY 2015

THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF NOTEHOLDERS. IF NOTEHOLDERS ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE, THEY SHOULD CONSULT THEIR OWN INDEPENDENT PROFESSIONAL ADVISERS AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (UNITED KINGDOM) IMMEDIATELY.

NOVION RE LIMITED

(FORMERLY COMMONWEALTH MANAGED INVESTMENTS LIMITED)
(ABN 33 084 098 180 and AFSL 235 384)

in its capacity as Responsible Entity of Novion Trust

(formerly CFS Retail Property Trust 1)
(ARSN 090 150 280)

Level 39, MLC Centre, 19 Martin Place
Sydney NSW 2000
Australia

(Incorporated under the laws of the Commonwealth of Australia)
(the **Issuer**)

NOTICE TO HOLDERS

of the
A\$300,000,000 5.75 per cent. Convertible Notes Due 2016
ISIN XS0641119812
of the Issuer presently outstanding
(the **Noteholders** and the **Notes** respectively)

We refer to the A\$300,000,000 5.75 per cent. Convertible Notes due 2016 issued by the Issuer constituted by the trust deed dated 4 July 2011 (as amended from time to time including on 30 June 2014) between The Bank of New York Mellon (the **Trustee**) and the Issuer (the **Trust Deed**) (containing the terms and conditions of the Notes (the **Conditions**)) constituting the Notes. As at the date of this Notice the aggregate principal amount outstanding of the Notes is A\$299,500,000.

All capitalised terms used but not defined herein shall have the meanings given to such terms in the Trust Deed.

MERGER OF NOVION PROPERTY GROUP AND FEDERATION CENTRES

As announced to the Australian Securities Exchange (**ASX**) on 3 February 2015, Novion Property Group (**Novion**, ASX: NVN) and Federation Centres (**Federation**, ASX: FDC) entered into an Implementation Agreement to merge subject to certain conditions (**Merger**). The Merger will create one of Australia's leading real estate investment trusts with over \$22 billion in assets under management,¹ invested across the full retail asset spectrum (**Merged Group**).

Implementation of the Merger requires the approval by Novion securityholders of Novion schemes of arrangement. Novion schemes of arrangement are required as Federation will act as the legal acquiring entity. A copy of the Scheme Booklet dated 15 April 2015 and registered with the Australian Securities and Investments Commission on 15 April 2015 is annexed as "**Annexure A**".

On implementation, each Novion security will be exchanged for 0.8225 Federation securities.

¹ As at 31 December 2014, adjusted for post balance date acquisitions and sales.

In addition to the approval by Novion securityholders of Novion schemes of arrangement, the Merger is also subject to other customary conditions including court approval and other regulatory approvals.

CHANGE OF CONTROL EVENT UNDER THE CONDITIONS OF THE NOTES

Upon the Novion scheme of arrangement effecting the Merger becoming unconditional in all respects, a Change of Control Event will occur for the purposes of the Conditions of the Notes. The Issuer will give notice to the Noteholders upon the occurrence of the Change of Control Event.

As a result of the Change of Control Event, the Conversion Price at which Noteholders may elect to have their Notes converted into Novion Securities will be adjusted for a 20 business day period (**Change of Control Event Period**) pursuant to Condition 6(C)(10) of the Notes. As at close of business on 11 May 2015 the Conversion Price was A\$2.40 per Novion Security. Assuming no other adjustment, the Conversion Price during the Change of Control Event Period shall be A\$2.2625 per Novion Security. The Change of Control Event Period will commence on the occurrence of the Change of Control Event and end on, and including, the 20th business day following the Change of Control Event. With effect from the 21st business day following the Change of Control Event Period, the Conversion Price will revert to A\$2.40 per Novion Security assuming no other adjustment. The Issuer intends to exercise the Cash Settlement Option in respect of any Conversion Notice received during the Change of Control Event Period to satisfy, in full, its obligations to convert such Notes into Novion Securities.

A Change of Control Event also constitutes a Relevant Event conferring upon Noteholders the right to require the Issuer to redeem all or some of the Notes at their Early Redemption Amount (100 per cent. of the principal amount of those Notes) together with accrued but unpaid interest pursuant to Condition 8(D) of the Notes.

Noteholders may elect to exercise their Conversion Rights pursuant to Condition 6(A)(i) of the Notes or to exercise their right to require redemption of their Notes pursuant to Condition 8(D) of the Notes.

DELISTING OF NOVION SECURITIES

The Issuer intends to delist the Novion Securities from the Relevant Stock Exchange following the implementation of the Merger. The delisting of the Novion Securities also constitutes a Relevant Event conferring upon Noteholders the right to require the Issuer to redeem all or some of the Notes at their Early Redemption Amount (100 per cent. of the principal amount of those Notes) together with accrued but unpaid interest pursuant to Condition 8(D) of the Notes.

The Issuer will give notice to the Noteholders upon the occurrence of the delisting of the Novion Securities.

REDEMPTION AT THE OPTION OF THE ISSUER

Pursuant to Condition 8(C) of the Notes, the Issuer has the right to give a notice to the Noteholders and the Trustee (**Clean-Up Notice**) to redeem all of the Notes for the time being outstanding at their Early Redemption Amount (100 per cent. of the principal amount of the Notes) together with accrued but unpaid interest, provided that at any time prior to the date of the Clean-Up Notice at least 90 per cent. in principal amount of the Notes originally issued has already been converted, redeemed or purchased and cancelled (**Clean-Up Condition**). The Issuer intends to exercise this option in respect of the Notes if the Clean-Up Condition is satisfied. The Issuer shall redeem the Notes the subject of the Clean-Up Notice as aforesaid no earlier than the 30th day and no later than the 90th day after the Clean-Up Notice is given.

INDICATIVE TIMETABLE

A number of expected key dates relevant to the Notes are outlined below.

Key dates	Date
Occurrence of Change of Control Event	29 May 2015
Publication of notice of Change of Control Event and change in Conversion Price	29 May 2015
Delisting of Novion Securities	12 June 2015
Noteholders to deliver Conversion Notice	No later than 29 June 2015
Issuer to deliver Cash Settlement Notice	No later than 30 June 2015
Payment of Cash Settlement Amount	No later than 16 July 2015
Noteholders to deliver Relevant Event Redemption Notice in respect of Change of Control Event	No later than 28 July 2015
Noteholders to deliver Relevant Event Redemption Notice in respect of delisting	No later than 11 August 2015
Relevant Event Redemption Date in respect of Change of Control Event	11 August 2015
Relevant Event Redemption Date in respect of delisting	25 August 2015
Publication of Clean-Up Notice	From when the Clean-Up Condition is satisfied
Redemption of all outstanding Notes	Between 30 and 90 days following the publication of Clean-Up Notice

This Notice is given by:

Novion RE Limited

(ABN 33 084 098 180)

in its capacity as Responsible Entity of Novion Trust

(ARSN 090 150 280)

Level 39, MLC Centre

19 Martin Place

Sydney NSW 2000

Australia

Dated 12 May 2015

THE INFORMATION CONTAINED IN THIS NOTICE HAS BEEN ENTIRELY PREPARED BY THE ISSUER. NONE OF THE TRUSTEE OR AGENTS IS PROVIDING ANY TAXATION, LEGAL OR OTHER ADVICE REGARDING THE CONTENTS OF THIS NOTICE. NONE OF THE TRUSTEE OR THE AGENTS MAKES ANY RECOMMENDATION TO THE NOTEHOLDERS AS TO HOW TO EXERCISE THEIR RIGHTS UNDER THE NOTES AND THE TRUSTEE AND AGENTS RECOMMEND THAT NOTEHOLDERS SEEK THEIR OWN LEGAL, FINANCIAL, TAX AND OTHER SIMILAR ADVICE.

Contact details:

Trustee

THE BANK OF NEW YORK MELLON

One Canada Square
40th Floor, London E14 5AL
United Kingdom
Fax: +44 207 964 6369
Attention: Global Trust Services

Principal Agent

THE BANK OF NEW YORK MELLON

One Canada Square
40th Floor, London E14 5AL
United Kingdom
Fax: +44 207 964 6369
Attention: Global Trust Services

Registrar

THE BANK OF NEW YORK MELLON (LUXEMBOURG) S.A.

Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg
Fax: +352 24 524 204
Attention: New Issues Department

in the case of any notices or communications to any of the Trustee, the Principal Agent or the Registrar, with a copy to:

THE BANK OF NEW YORK MELLON

Level 2, 35 Clarence Street
Sydney NSW 2000
Australia
Fax: +612 9551 5009
Attention: Relationship Management Group

ANNEXURE A
Scheme Booklet

This is an important document and requires your immediate attention. You should read the whole document in its entirety before deciding how to vote. If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.

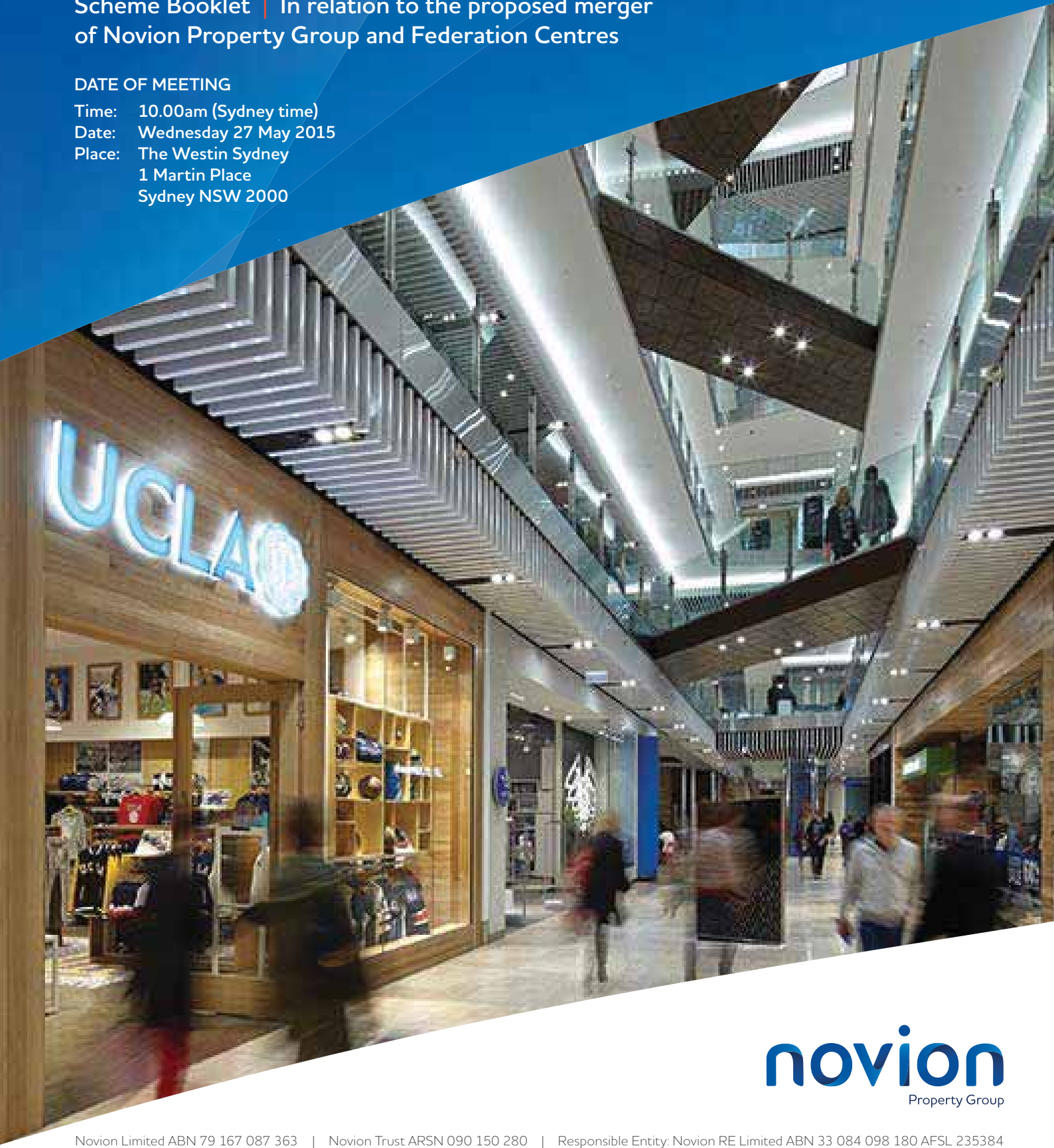
The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders. The Novion Board unanimously recommends that Novion Securityholders **VOTE IN FAVOUR** of the Merger, in the absence of a Superior Proposal.

Novion Property Group

Scheme Booklet | In relation to the proposed merger
of Novion Property Group and Federation Centres

DATE OF MEETING

Time: 10.00am (Sydney time)
Date: Wednesday 27 May 2015
Place: The Westin Sydney
1 Martin Place
Sydney NSW 2000



novion
Property Group

Contents

Disclaimer and important notices	1
Letter from the Chairman of Novion.....	5
Key dates, Location of Meeting and What to do next.....	11

Section

1 Answers to key questions.....	15
2 Summary of the Merger.....	27
3 Board recommendation, benefits and disadvantages of the Merger	33
4 Independent Expert's summary letter.....	45
5 Profile of Novion.....	51
6 Profile of Federation	61
7 Profile of the Merged Group.....	89
8 Financial information for the Merged Group.....	111
9 Risk factors.....	125
10 Implementation of the Schemes	135
11 Taxation Report.....	141
12 Additional information	151
13 Glossary, definitions and interpretation	159

Annexures

A Independent Expert's Report.....	171
B Investigating Accountant's Report.....	279
C Notice of Extraordinary General Meeting.....	287
D Notice of Company Scheme Meeting.....	293
E Company Scheme	297
F Supplemental Deed Poll	317
G Novion RE Deed Poll	333
H Federation Deed Poll.....	341

Financial Adviser



Legal Adviser

ashurst

Disclaimer and important notices

General

This Scheme Booklet is important and requires your immediate attention. You should read this Scheme Booklet and accompanying annexures in full before making any decision as to how to vote on the Merger. If you have sold all of your Novion Securities, please ignore this Scheme Booklet.

In particular, it is important that you consider the benefits, disadvantages and potential risks of the Merger set out in Sections 3 and 9 of this Scheme Booklet and the views of the Independent Expert set out in the Independent Expert's Report (as set out in Annexure A of this Scheme Booklet) and Independent Expert's summary letter set out in Section 4 of this Scheme Booklet.

If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.

Purpose of this Scheme Booklet

This Scheme Booklet is the explanatory memorandum issued by Novion in connection with the proposed merger of Novion with Federation whereby:

- Novion Shares and Novion Units will be de-stapled from each other in accordance with the De-stapling
- each Novion Share on issue will be exchanged for 0.8225 Federation Shares issued as Scheme Consideration in accordance with the Company Scheme, and
- each Novion Unit on issue will be exchanged for 0.8225 Federation Units issued as Scheme Consideration in accordance with the Trust Scheme.

Each new Federation Share and each new Federation Unit will be stapled together to trade on the ASX as a single stapled security.

The purpose of this Scheme Booklet is to:

- explain the terms and effect of the Merger to Novion Securityholders
- explain the manner in which the Merger will be considered and, if approved, implemented, and
- provide such information as is prescribed by the Corporations Act and the Corporations Regulations or as is otherwise material to the decision of Novion Securityholders whether to approve the Merger.

This Scheme Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act in respect of Federation Shares. Section 708(17) of the Corporations Act provides that an offer of securities does not need disclosure under Chapter 6D if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court under section 411(1) or (1A) of the Corporations Act. This Scheme Booklet is also not a product disclosure statement under Part 7.9 of the Corporations Act in respect of the Federation Units. The ASIC relief described in Section 12.5(b) of the Scheme Booklet provides an exemption in respect

of the requirement for Federation RE to prepare a product disclosure statement in respect of the Merger.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2) of the Corporations Act and has been lodged with, and registered by, ASIC under section 412(6) of the Corporations Act. Novion Limited has asked ASIC to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Company Scheme. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has also been lodged with the ASX.

None of ASIC, the ASX nor any of their officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with the order under section 411(1) of the Corporations Act and First Judicial Advice

The fact that the Court, under subsection 411(1) of the Corporations Act, has ordered that the Company Scheme Meeting be convened and has approved the Scheme Booklet required to accompany the notice of the Company Scheme Meeting or the fact that the Court has given the First Judicial Advice that Novion RE would be justified in convening the Trust General Meeting, does not mean that the Court:

- has approved or will approve the terms of the Merger
- has endorsed the Merger or has formed any view as to the merits of the Merger or as to how Novion Securityholders should vote (on this matter Novion Securityholders must reach their own conclusion), or
- has prepared, or is responsible for the content of, this Scheme Booklet.

Any Novion Securityholder who wishes to oppose approval of the Company Scheme or granting of the Second Judicial Advice at the Second Court Hearing may do so by filing with the Court and serving on Novion Limited or Novion RE a notice of appearance in the prescribed form together with any affidavit that the Novion Securityholder proposes to rely on. Any Novion Securityholder may appear at the Second Court Hearing to be held at 10.00am on Friday 29 May 2015 at the Supreme Court of New South Wales, 184 Phillip St, Sydney.

Responsible Entity

Novion RE is the Responsible Entity of Novion Trust. Federation RE is the Responsible Entity of Federation Trust. Both Novion Trust and Federation Trust are managed investment schemes registered under Chapter 5C of the Corporations Act. Unless the context otherwise requires in this Scheme Booklet, a reference to Novion RE is a reference to it in its capacity as Responsible Entity of Novion Trust and a reference to Federation RE is a reference to it in its capacity as Responsible Entity of Federation Trust.

Defined terms

Capitalised terms used in this Scheme Booklet are defined in Section 13. Section 13 also sets out some rules of interpretation which apply to this Scheme Booklet.

Responsibility statement

Except as outlined below, the information contained in this Scheme Booklet other than the Federation Information, the Taxation Report, the Independent Expert's Report (as set out in Annexure A of this Scheme Booklet), the Independent Expert's summary letter set out in Section 4 and the Investigating Accountant's Report (Novion Information) has been prepared by Novion and is its responsibility alone. None of Federation nor any of its subsidiaries, directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Novion Information.

Federation has provided and is responsible for the Federation Information. None of Novion, nor any of its subsidiaries, directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Federation Information.

Both Novion and Federation have provided and, subject to the exception below, are jointly liable for, the Joint Information including the Pro Forma Financial Information and the Merged Group FY15 Distribution Forecast and assume responsibility for the accuracy and completeness of the Joint Information. The exception is that:

- Novion has provided, and is responsible for, the financial information concerning Novion included in the Pro Forma Financial Information, or upon which that information is based, and
- Federation has provided, and is responsible for, the financial information concerning Federation included in the Pro Forma Financial Information, or upon which that information is based.

Grant Samuel & Associates Pty Limited has prepared the Independent Expert's Report (as set out in Annexure A of this Scheme Booklet) and Independent Expert's summary letter (as set out in Section 4) and takes responsibility for that report and summary letter. None of Novion, Federation nor any of their respective subsidiaries, directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report and letter, except in the case of Novion in relation to the information that it has provided to the Independent Expert.

PwCS has prepared the Investigating Accountant's Report (as set out in Annexure B of this Scheme Booklet) and takes responsibility for that report. None of Novion, Federation nor any of their respective subsidiaries, directors, officers, employees or advisers (other than PwCS) assumes any responsibility for the accuracy or completeness of the information contained in the Investigating Accountant's Report.

Greenwoods & Herbert Smith Freehills Pty Limited has prepared the Taxation Report (as set out in Section 11 of this Scheme Booklet) and takes responsibility for that report. None of Novion, Federation, nor any of their

respective subsidiaries, directors, officers, employees or advisers (other than Greenwoods & Herbert Smith Freehills Pty Limited) assumes any responsibility for the accuracy or completeness of the information contained in the Taxation Report.

No investment advice

This Scheme Booklet has been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any Novion Securityholder or any other person. The information and recommendations contained in this Scheme Booklet or the Taxation Report in Section 11 do not constitute, and should not be taken as, financial product advice. Before making any investment decision you should carefully consider whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances. The Novion Board encourages you to consult an independent and appropriately licensed and authorised professional adviser before making any investment decision and any decision as to whether or not to vote in favour of the Merger.

Forward-looking statements

Some of the statements appearing in this Scheme Booklet may be in the nature of forward-looking statements. Forward-looking statements or statements of intent in relation to future events in this Scheme Booklet (including in the Independent Expert's Report and summary letter) should not be taken to be a forecast or prediction that those events will occur. Forward-looking statements generally may be identified by the use of forward-looking words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'foresee', 'future', 'intend', 'likely', 'may', 'planned', 'potential', 'should', or other similar words. Similarly, statements that describe the objectives, plans, goals or expectations of Novion Limited, Novion RE, Federation Limited or Federation RE are or may be forward-looking statements.

Statements made in this Scheme Booklet relating to the Merged Group also include forward-looking statements, based on the current expectations of Novion (in relation to the Novion Information) and Federation (in relation to the Federation Information) about future events, including the Pro Forma Financial Information and the Merged Group FY15 Distribution Forecast.

You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties that could cause actual results to differ materially from the expectations described in such prospective information. Those risks and uncertainties include factors and risks specific to the industry in which Novion or Federation operate, as well as general economic conditions, prevailing exchange rates and interest rates, and conditions in the financial markets. Factors which may affect future financial performance include those risks identified in Section 9, the relevant assumptions not proving correct and other matters not currently known to, or considered by, Novion or Federation.

Actual events or results concerning Novion, Federation or the Merged Group may differ materially from the events or results expressed or implied in any forward-looking statement and deviations are both normal and to be expected. None of Novion, Federation, their directors, officers, employees, or any person named in this Scheme Booklet or involved in the preparation of this Scheme Booklet makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

The historical financial performance of Novion or Federation is no assurance or indicator of future financial performance of the Merged Group (or Novion or Federation in the scenario where the Merger does not proceed). Neither Novion nor Federation guarantees any particular rate of return or the performance of the Merged Group, nor do they guarantee the repayment of capital or any particular tax treatment in respect of any investment in the Merged Group.

The forward-looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet.

Subject to any continuing obligations under the Listing Rules or the Corporations Act, Novion Limited, Novion RE and their officers disclaim any obligation or undertaking to distribute after the date of this Scheme Booklet any updates or revisions to any forward-looking statements to reflect any change in expectations in relation to them or any change in events, conditions or circumstances on which any such statement is based.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet (electronically or otherwise) in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with the laws and regulations of Australia and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

This Scheme Booklet and the Merger do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Scheme Securityholders that are considered to be Ineligible Foreign Securityholders will not be able to receive Scheme Consideration and will instead receive cash under the Sale Facility.

For details regarding Ineligible Foreign Securityholders and foreign selling restrictions that apply in connection with the Merger, refer to Sections 10.10 and 10.11 of this Scheme Booklet.

Financial amounts

All financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated.

Unless stated otherwise, all Novion and Federation financial and asset metrics are as at 31 December 2014 and adjusted for post balance date acquisitions and disposals and, in the case of Novion financial metrics, adjusted for the DRP for the December 2014 distribution.

All Novion and Federation security prices in this Scheme Booklet are as at 13 April 2015, unless the context requires otherwise.

Diagrams, charts, maps, graphs and tables

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding.

Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Scheme Booklet.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

Timetable and dates

All times and dates referred to in this Scheme Booklet are Sydney, Australia time, unless otherwise indicated. All times and dates relating to the implementation of the Merger referred to in this Scheme Booklet may change and, among other things, are subject to all necessary approvals from regulatory authorities.

Implied value

Any reference to the implied value of the Scheme Consideration should not be taken as an indication that Novion Securityholders will receive cash. The implied value of the Scheme Consideration is not fixed. As Novion Securityholders are being offered Federation Securities as consideration for their Novion Securities under the Merger, the implied value of the Scheme Consideration will vary with the market price of Federation Securities. This also applies to Ineligible Foreign Securityholders whose Scheme Consideration will be remitted to the Sale Nominee to sell on the Ineligible Foreign Securityholders' behalf. Any cash remitted to Ineligible Foreign Securityholders' under the Sale Facility will depend on the market price of Federation Securities at the time of sale by the Sale Nominee.

Privacy

Novion and Federation may collect personal information in the process of implementing the Merger. The type of information that it may collect about you includes your name, contact details and information on your shareholding in Novion Limited or unitholding in Novion Trust and the names of persons appointed by you to act as a proxy, attorney or duly appointed corporate representative at the Meeting as relevant to you.

The collection of some of this information is required or authorised by the Corporations Act. The primary purpose of the collection of personal information is to assist Novion Limited and Novion RE to conduct the Meeting and to assist Novion and Federation to implement the Merger. Without this information, Novion and Federation may be hindered in their ability to issue this Scheme Booklet and implement the Merger.

Personal information of the type described above may be disclosed to Link Market Services Limited, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Meeting), authorised securities brokers, professional advisers, related bodies corporate of Novion or Federation, regulatory authorities, and also where disclosure is otherwise required or allowed by law.

Novion Securityholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of information about you held by Novion, please contact the Novion Securityholder Information Line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday.

Novion Securityholders who appoint an individual as their proxy, duly appointed corporate representative or attorney to vote at the Meeting should ensure that they inform such an individual of the matters outlined above.

Additional information

If, after reading this Scheme Booklet, you have any questions regarding the Merger, please call the Novion Securityholder Information Line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday, or consult an independent and appropriately licensed and authorised professional adviser.

Date

This Scheme Booklet is dated 15 April 2015.

Letter from the Chairman of Novion

15 April 2015

Dear Novion Securityholder,

On 3 February 2015, Novion announced that it had entered into a Merger Implementation Agreement with Federation to merge both groups, subject to certain conditions. This is an exciting opportunity that will create one of Australia's leading real estate investment trusts with over \$22 billion in assets under management, invested across the full retail asset spectrum.

The Merged Group will be a significant owner and manager of Australian retail assets, diversified by retail asset type, geographic location and tenant mix. The Merged Group will be the second largest listed manager of Australian retail assets and a top-10 listed manager of retail assets globally. By combining two highly-complementary platforms, the Novion Board believes that Novion Securityholders will be provided with an enhanced investment proposition relative to Novion on a stand-alone basis.

The Novion Board unanimously supports the Merger and believes it represents a unique and compelling opportunity that creates significant value for Novion Securityholders.

Background to the Merger

In October 2014, Novion received an unsolicited and confidential expression of interest from Federation to merge both groups. The Novion Board then implemented a process to assess the merits of the proposal from Federation to determine whether a compelling transaction for Novion Securityholders could be developed.

Given the significance of the opportunity, the process adopted by the Novion Board has necessarily been extensive. It has involved:

- an exchange of information between Novion and Federation to facilitate a thorough due diligence exercise on each other and the Merged Group
- an assessment of the Merger relative to Novion's strategic landscape and alternatives, and
- a detailed assessment of the Merger to provide Novion with a high level of confidence in the strategic rationale underlying the creation of the Merged Group and its ability to achieve the identified cost savings.

Based on the strategic rationale identified and the terms agreed with Federation, the Novion Board entered into the Merger Implementation Agreement with Federation on 3 February 2015.

Implementation process

Implementation of the Merger requires Novion Securityholders' approval of the Schemes. The Schemes are required as Federation will act as the legal acquiring entity of Novion. This was determined to be the most efficient transaction structure having regard to the existing corporate structures of Novion and Federation.

On implementation, each Novion Security will be exchanged for 0.8225 New Federation Securities. This exchange ratio will result in existing Novion Securityholders owning approximately 63.9% of the Merged Group and existing Federation Securityholders owning approximately 36.1% of the Merged Group.

Based on Federation's closing price of \$3.10 on 2 February 2015 (the trading day before the Merger was announced), the exchange ratio implied a value per Novion Security of \$2.55. This represented a:

- 9.9% premium to Novion's closing price of \$2.32 as at 2 February 2015
- 15.7% premium to Novion's 30 day volume weighted average price of \$2.20 as at 2 February 2015, and
- 29.4% premium to Novion's pro forma 31 December 2014 net tangible asset value per security of \$1.97.

Based on Federation's closing price of \$3.03 on 14 April 2015 (being the last trading day before the date of this Scheme Booklet), the exchange ratio implied a value per Novion Security of \$2.49. Novion's closing price on 14 April 2015 was \$2.53.

In addition to the approval by Novion Securityholders of the Schemes, the Merger is also subject to other customary conditions, including court approval and regulatory approvals (including FIRB approval). A detailed explanation of the Conditions Precedent to the Merger is set out in Section 2.3 of this Scheme Booklet.

The obligations of Novion and Federation regarding the implementation of the Merger, the deal protections and mutual break fees of \$40 million are set out in the Merger Implementation Agreement entered into by both parties. A full copy of this agreement was attached to Novion's announcement to the ASX on 3 February 2015 and its key terms are summarised in Section 12.2 of this Scheme Booklet.

Overview of benefits and disadvantages of the Merger for Novion Securityholders

Benefits	Disadvantages
✓ Increased portfolio scale and expertise ✓ Material value creation via cost savings and future opportunities with the Merger expected to result in at least \$42 million per annum of net operational cost savings ✓ Significant earnings and distribution accretion with Novion's FY15 pro forma EPS and DPS expected to increase by 14.6% and 8.9% respectively¹ ✓ Improved growth opportunities ✓ Increased asset, geographic and tenant diversification ✓ Greater relevance for equity and debt investors through increased scale	✗ Requires material one-off transaction and refinancing costs of approximately \$458 million² to be incurred by the Merged Group ✗ Reduces Novion's equivalent net tangible asset value per security by 3.4% from \$1.97 to \$1.90 ✗ The Merged Group's expected credit rating of at least 'A-' is potentially one notch lower than Novion's current credit rating of 'A' ✗ The Merged Group's pro forma 31 December 2014 gearing (excluding intangibles) of 31.1%³ is expected to be higher than Novion's stand-alone pro forma 31 December 2014 gearing of 29.8%⁴ but within Novion's target range of 25% to 35% ✗ Changes Novion Securityholders' risk and investment profile relating to the ownership and operation of Federation's retail property platform

1. FY15 pro forma impact assuming the Merger was implemented on 1 July 2014 and total net P&L operating and refinancing cost savings of approximately \$77 million per annum are achieved (i.e. excluding \$7 million per annum of capitalised cost savings). See Sections 3.2(b), 8.3(b), 8.6(c) and pages 48 to 50 of the Independent Expert's Report set out in Annexure A for further information in relation to the total net cost savings and refinancing savings and the details of those savings. The pro forma impact of the Merger excluding the refinancing savings is set out on page 50 of the Independent Expert's Report.

2. For the composition of these costs, refer to Section 3.3(a).

3. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

4. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

Benefits of the Merger

The Merger will combine two highly-complementary platforms to provide existing Novion Securityholders with a number of benefits relative to Novion on a stand-alone basis, including those detailed below.

1. Increased portfolio scale and expertise

- The Merger will create one of Australia's leading REITs, with over \$22 billion of retail assets under management across 102 retail assets⁵, generating over \$18.2 billion in annual retail sales.⁶
- The Merged Group will be the number one owner/manager of Australian sub-regional centres, number one in Australian outlet centres and number two in Australian super-regional and regional centres combined.^{7,8}
- The Merger will bring together Novion's and Federation's expertise to create an industry leading executive team.

2. Material value creation via cost savings and future opportunities⁹

- The Merger is expected to result in at least \$42 million per annum of net operational cost savings.
- If all debt financing arrangements are refinanced, the Merged Group is expected to realise \$35 million per annum of net refinancing savings.¹⁰ While the cost of refinancing largely offsets the direct interest rate benefit, the effect of the new arrangements enhances distributable income, extends the debt maturity profile¹¹ and provides access to deeper debt capital markets. Novion Securityholders should note however that the opportunity to achieve cost savings from refinancing by taking advantage of the lower interest rate environment may be available to Novion on a stand-alone basis, albeit this would only be via the debt capital markets to which Novion currently has access. It is estimated that Novion may be able to realise approximately \$29 million per annum of net refinancing savings on a stand-alone basis.¹²
- A further \$7 million per annum of cash flow savings are expected via capitalised cost savings.¹³
- Combining the net operational cost savings, net refinancing savings and capitalised cost savings is expected to provide total net cost savings of at least \$84 million per annum.¹⁴
- Additional revenue and strategic synergies are also expected to be achieved over time.

5. Novion and Federation are also engaging with the ACCC in relation to the potential divestment of either Karingal Hub (a 50% Federation owned asset) or Bayside (a Novion owned asset). For further details, see Sections 8.6(d) and 12.5(d) of this Scheme Booklet.
6. Based on sales data for the 12 months to 31 December 2014.
7. See Section 3.2(a) for further information on shopping centre categories.
8. Based on gross lettable area retail.
9. On page 48 of the Independent Expert's Report, as set out in Annexure A to this Scheme Booklet, a table setting out the identified annual cost savings is included.
10. Net of \$11 million per annum of funding costs associated with the one-off costs (of \$277 million) incurred to achieve these refinancing savings. Note, this estimate may vary based on market conditions and the timing involved in implementing the refinancing of some categories of the financing arrangements. If the Merged Group only repays Novion's and Federation's existing bank debt and resets its existing interest rate swap derivatives, this would result in \$28 million of net refinancing savings. For further information, see Sections 8.5(c) and 8.6(c).
11. Once the bridge facility has been repaid with debt capital markets issuances.
12. Realising these refinancing savings would require Novion to incur approximately \$221 million of one-off refinancing costs.
13. Capitalised cost savings are cost savings that will not be recognised in underlying earnings but will improve cash flow and development returns. Approximately \$5 million of these savings relates to operational cost savings, and approximately \$3 million relates to refinancing savings (rounded to \$7 million). The Merged Group expects to be fully achieving these savings within 12 months of the Implementation Date.
14. Represents the total cost savings expected to be realised as a result of the Merger, net of external share of cost savings allocated to properties and the annual funding cost associated with the one-off costs incurred to achieve these savings. See Sections 3.2(b), 8.3(b), 8.6(c) and pages 48 to 50 of the Independent Expert's Report set out in Annexure A for further information in relation to the total net cost savings and refinancing savings and the details of those savings.

3. Significant earnings and distribution accretion

- The Merger is expected to result in significant earnings and distribution accretion for Novion Securityholders. Novion's FY15 pro forma EPS and DPS are expected to increase by 14.6% and 8.9% respectively.¹⁵

4. Improved growth opportunities

- The Merger is expected to create enhanced growth opportunities by providing the:
 - ability to apply Novion's and Federation's combined operational expertise and active management capability across the enlarged portfolio
 - capability to optimise the combined development pipeline of \$2.5 billion¹⁶ and unlock future redevelopment opportunities, and
 - opportunity to integrate and expand Novion's and Federation's strategic partnerships.

5. Enhanced asset, geographic and tenant diversification

- The Merged Group will be one of the largest retail landlords in Australia, with over 500 million annual customer visits to more than 9,500 retail tenancies over 3 million square metres of lettable area.¹⁷
- By creating one of the largest retail landlords in Australia, the Merger will provide Novion Securityholders with:
 - scale and relevance across all major retail asset classes
 - exposure to all key Australian retail markets, and
 - a balanced exposure to discretionary and non-discretionary retail spending.

6. Greater relevance for equity and debt investors through increased scale

- The Merged Group is expected to be of greater relevance to equity and debt investors through its increased scale relative to Novion on a stand-alone basis.
- The Merged Group will be the third largest A-REIT and an ASX top-30 entity based on a market capitalisation of over \$12 billion.¹⁸
- The Merged Group's enlarged balance sheet is expected to provide greater funding flexibility and enhance its ability to access a broader range of funding sources and tenors.

The benefits of the Merger for Novion Securityholders are explained in further detail in Section 3.2 of this Scheme Booklet.

Disadvantages and risks of the Merger

There are a number of disadvantages and risks associated with the Merger, which you should consider before deciding how to vote. The key disadvantages are:

- implementing the Merger and refinancing the debt of Novion and Federation is assumed to require material one-off transaction and refinancing costs of approximately \$458 million¹⁹ to be incurred by the Merged Group. These costs are expected to comprise assumed debt restructuring costs of \$277 million²⁰, stamp duty, advisory and other implementation costs of \$106 million and operational cost saving implementation costs of \$75 million. These transaction and refinancing costs represent approximately 4% of the combined market capitalisation of Novion and Federation.²¹

15. FY15 pro forma impact assuming the Merger was implemented on 1 July 2014 and total net P&L operating and refinancing cost savings of approximately \$77 million per annum are achieved (i.e. excluding \$7 million per annum of capitalised cost savings). See Sections 3.2(b), 8.3(b), 8.6(c) and pages 48 to 50 of the Independent Expert's Report set out in Annexure A for further information in relation to the total net cost savings and refinancing savings and the details of those savings. The pro forma impact of the Merger excluding the refinancing savings is set out on page 50 of the Independent Expert's Report.

16. The Merged Group's share is \$1.2 billion, with the remainder attributable to the Merged Group's strategic partners.

17. Based on total assets under management.

18. Based on the market capitalisations of ASX-listed entities and the combination of Novion's and Federation's stand-alone market capitalisations of approximately \$7.9 billion and \$4.4 billion respectively as at the close of trading on 13 April 2015.

19. For the composition of these costs, refer to Section 3.3(a).

20. This figure assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur which may increase the weighted average interest rate of the Merged Group and lower the assumed refinancing costs of \$277 million. For further information, refer to Sections 8.5(c) and 8.6(c) of this Scheme Booklet.

21. Based on the combination of Novion's and Federation's stand-alone market capitalisations of approximately \$7.9 billion and \$4.4 billion respectively, as at the close of trading on 13 April 2015.

- Novion's equivalent net tangible asset value per security is expected to reduce by 3.4% from \$1.97 to \$1.90, primarily as a result of the material one-off transaction and refinancing costs associated with implementing the Merger
- the Merged Group is expected to have a corporate credit rating (long-term, as assigned by Standard & Poor's) of at least 'A-' which is potentially one notch lower than Novion's current credit rating of 'A'
- the Merged Group's pro forma 31 December 2014 gearing (excluding intangibles) of 31.1%²² is expected to be 130 bps higher than Novion's stand-alone pro forma 31 December 2014 gearing of 29.8%²³, but within Novion's target range of 25% to 35%. This increase is largely due to the assumed material one-off transaction and refinancing costs incurred in implementing the Merger, and
- the Merged Group will own and operate the retail operating platforms currently separately owned and operated by Novion and Federation. Existing Novion Securityholders will consequently be subject to the risks relating to the ownership and operation of Federation's retail property platform.

The disadvantages of the Merger for Novion Securityholders are explained in further detail in Section 3.3 of this Scheme Booklet.

The key risks associated with the Merger and relating to the Merged Group include:

- risks relating to refinancing, in particular to the Merged Group's \$1.8 billion bridge facility, due to the relatively short timetable of up to 24 months to refinance which could potentially expose the Merged Group to unfavourable markets in terms of pricing and volume
- integration risks and realisation of assumed synergies not being achieved as a result of factors such as unexpected delays, challenges or the loss of key personnel of the Merged Group
- the exact value of Scheme Consideration being uncertain as it will depend on the price at which securities in the Merged Group trade on the ASX after the Effective Date, and
- accounting risks due to the fair value assessment of goodwill in future periods which may have an adverse non-cash impact on the reported financial performance of the Merged Group.

Further details about the risks associated with the Merger and an investment in the Merged Group are explained in Section 9 of this Scheme Booklet.

Governance and management

Should the Merger be implemented, the Merged Group will be led by a highly experienced board and senior executive team that draws on the breadth of both groups' skills and experience.

Upon implementation of the Merger, Mr Peter Hay (a current Novion Independent Non-executive Director) will be Chairman of the Merged Group. I will continue as a Director of the Merged Group and Dr Bob Edgar (current Chairman of Federation) will step down from his role as a Director should the Merger be implemented. The Gandel Group (which will have a 17.25% Relevant Interest in the Merged Group²⁴ and will be the co-owner of the Merged Group's largest asset, Chadstone Shopping Centre) will have two board representatives as it currently has on the Novion Board.

Mr Steven Sewell (the current CEO and Managing Director of Federation) will become CEO of the Merged Group. Should the Merger be implemented, Mr Angus McNaughton (Managing Director and CEO of Novion) and Mr Michael Gorman (Deputy CEO and Chief Investment Officer of Novion) will step down from their current roles.

22. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

23. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

24. The Gandel Group currently has a 26.98% Relevant Interest in Novion Securities, which translates into a 17.25% Relevant Interest in the Merged Group.

As part of the integration process, the Merged Group is expected to transition to a new corporate name and have its corporate office consolidated in a single location, with regional offices in other cities.

Independent Expert opinion

Annexure A of this Scheme Booklet contains a copy of an Independent Expert's Report prepared by Grant Samuel & Associates Pty Limited and Section 4 of this Scheme Booklet contains a summary letter to Novion prepared by the Independent Expert. The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders. Novion Securityholders should read the Independent Expert's Report and summary letter in full before making their own decision on the merits of the Merger.

Board recommendation

The Novion Board unanimously recommends that Novion Securityholders vote in favour of the Merger, in the absence of a Superior Proposal.

Each director of the Novion Board intends to vote in favour of the Merger, in relation to the Novion Securities in which they have a Relevant Interest, in the absence of a Superior Proposal.

Gandel Group intention

Novion's largest securityholder, The Gandel Group (which has a 26.98% Relevant Interest in Novion²⁵ and is the co-owner of Novion's largest asset, Chadstone Shopping Centre), has advised that its intention is to vote all of its securities in favour of the Merger, based on the disclosed terms of the Merger and in the absence of a superior proposal.

Your vote is important

You should read this Scheme Booklet in full before making a decision as to how to vote (whether in person, by proxy, by attorney or, in the case of a corporation, its duly appointed corporate representative) at the Meeting to be held at 10.00am (Sydney time) on Wednesday 27 May 2015 at The Westin Sydney, 1 Martin Place, Sydney NSW 2000. For your proxy vote to be considered, it must be lodged with Link Market Services Limited by 10.00am (Sydney time) on Monday 25 May 2015.

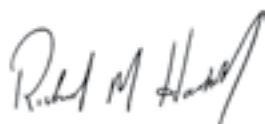
Further information

If you have any questions in relation to the Merger, please contact the Novion Securityholder Information Line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday, or consult an independent and appropriately licensed and authorised professional adviser.

Conclusion

On behalf of the Novion Board, I am pleased to present this opportunity to Novion Securityholders. We look forward to your participation at the Meeting and encourage you to **vote in favour** of the Merger.

Yours sincerely,



Richard Haddock AM

Chairman of Novion

25. The Gandel Group currently has a 26.98% Relevant Interest in Novion Securities, which translates into a 17.25% Relevant Interest in the Merged Group.

Key dates

Event	Time and date ²⁶
Date of this Scheme Booklet	Wednesday 15 April 2015
Time and date by which Proxy Forms must be received for the Meeting	10.00am Monday 25 May 2015
Voting Record Date – time and date for determining eligibility to vote at the Meeting	7.00pm Monday 25 May 2015
Time and date of the Meeting	10.00am Wednesday 27 May 2015
If the Merger is approved by Novion Securityholders and all other Conditions Precedent in connection with the Merger are satisfied or waived (if applicable), the following key dates apply	
Second Court Date (for approval of the Schemes by the Court)	Friday 29 May 2015
Effective Date of the Schemes (Novion Securities are suspended from trading at the close of trading on the ASX)	Friday 29 May 2015
New Federation Securities commence trading on the ASX on a deferred settlement basis	Monday 1 June 2015
Record Date – the time and date which determines the entitlements of Scheme Securityholders to the Scheme Consideration	7.00pm Friday 5 June 2015
Implementation Date – the date of transfer of all Scheme Securities to Federation and issue of the Scheme Consideration to Scheme Securityholders	Thursday 11 June 2015
Commencement of trading of New Federation Securities on the ASX on a normal T+3 settlement basis	Friday 12 June 2015

26. These dates and times are indicative only and are subject to change. Unless otherwise specified, all times and dates refer to Sydney, Australia time. Any changes to the timetable will be announced to the ASX and notified on Novion's website at www.novion.com.au

Location of meeting

**The Westin Sydney
1 Martin Place
Sydney NSW 2000**

TIME AND DATE

10.00am Wednesday 27 May 2015

What to do next

Step 1: Carefully read this Scheme Booklet in full

You should read this Scheme Booklet in full. It contains important information to assist you in deciding how to vote on the Merger.

It is important that you consider the information disclosed in light of your own particular investment needs, objectives and financial circumstances.

The 'Answers to key questions' in Section 1 may help answer some of your questions.

If after reading this Scheme Booklet, you have any questions regarding the Merger, contact the Novion Securityholder Information Line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday, or consult an independent and appropriately licensed and authorised professional adviser without delay.

Step 2: Vote on the Merger

YOUR VOTE IS IMPORTANT

If you are a Novion Securityholder on the Voting Record Date you are entitled to vote on the Merger at the Meeting. The Meeting will comprise an Extraordinary General Meeting to vote on four resolutions immediately followed by a Company Scheme Meeting to vote on one resolution.

The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders.

The Novion Board unanimously recommends that Novion Securityholders vote in favour of the Merger, in the absence of a Superior Proposal.

In summary, the Resolutions to be considered at the Meeting are as follows:

EXTRAORDINARY GENERAL MEETING

Novion Limited and Novion RE have determined that the general meeting of Novion Limited and the Trust General Meeting will be conducted concurrently in all respects. As a practical matter from an administrative and attendee point of view, the conduct of the meetings will be as if it were one single meeting (Extraordinary General Meeting).

Resolutions 1 and 2 are the De-stapling Resolutions, comprising the Company De-stapling Resolution and the Trust De-stapling Resolution. The De-stapling Resolutions seek the approval of the De-stapling of the Novion Shares from Novion Units and vice versa, to enable the transfer of Novion Shares to Federation Limited under the Company Scheme and the transfer of Novion Units to Federation RE under the Trust Scheme. The De-stapling Resolutions are conditional upon the Trust Scheme Resolutions and Company Scheme Resolution being approved.

Resolutions 3 and 4 are the Trust Scheme Resolutions, comprising:

- the Trust Constitution Amendment Resolution, which seeks approval of the amendments to the Novion Trust Constitution pursuant to section 601GC(1) of the Corporations Act as set out in the Supplemental Deed Poll, and
- the Trust Acquisition Resolution, which authorises the acquisition by Federation RE of all the Novion Units pursuant to item 7, section 611 of the Corporations Act.

The Trust Scheme Resolutions seek Novion Securityholders' approval (in their capacity as Novion Unitholders) of the Trust Scheme. The Trust Scheme Resolutions are conditional upon the De-stapling Resolutions and Company Scheme Resolution being approved.

COMPANY SCHEME MEETING

The only resolution to be considered at the Company Scheme Meeting is the Company Scheme Resolution, which seeks Novion Securityholders' approval (in their capacity as Novion Shareholders) of the Company Scheme, pursuant to which the Novion Shares will be transferred to Federation Limited. There are no other Resolutions to be considered at the Company Scheme Meeting. The Company Scheme Resolution is conditional upon the De-stapling Resolutions and Trust Scheme Resolutions being approved.

All Resolutions at the Extraordinary General Meeting and Company Scheme Meeting must all be passed by the requisite majorities of Novion Securityholders for the Merger to proceed. If all Resolutions are passed at the Meeting, Novion will make an application to the Court to approve the Company Scheme and give the Second Judicial Advice at the Second Court Hearing.

Please see Sections 2.4 and 2.5 for further details on the Resolutions.

HOW TO VOTE

Each Novion Securityholder on the Register at the Voting Record Date is entitled to attend and vote at the Meeting.

Voting is not compulsory.

You may vote at the Meeting by doing one of the following:

- **Vote in person** – attend the Meeting in person at 10.00am (Sydney time) on Wednesday 27 May 2015 at The Westin Sydney, 1 Martin Place, Sydney NSW 2000, and bring a suitable form of personal identification (such as a driver's licence). Registration for the Meeting commences at 9.30am. Please bring your Proxy Forms with you to facilitate registration.
- **Vote by proxy** – if you are unable to attend the Meeting and you want to appoint a proxy to vote your Novion Securities on your behalf:
 - complete, sign and return the original Proxy Forms enclosed with this Scheme Booklet in accordance with the instructions set out on the forms (see Annexure C and Annexure D for more details) so that it is received at the address indicated on the form by no later than 10.00am (Sydney time) on Monday 25 May 2015, and
 - arrange to have your proxy or proxies attend the Meeting (if you are appointing a person other than the Chairman of the Meeting as your proxy).

You can lodge the Proxy Forms:

- by mail to Novion Property Group C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia
- by hand delivery during business hours (between 8.30am and 5.30pm (Sydney time) Monday to Friday) at Link Market Services Limited's offices at Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138
- by fax at Link Market Services Limited's fax number +61 2 9287 0309, or
- online via Link Market Services Limited's investor centre at www.linkmarketservices.com.au (as detailed on the Proxy Forms).

- **Vote by attorney** – you may appoint an attorney to attend and vote at the Meeting on your behalf. Such an appointment must be made by a duly executed power of attorney, which must be received by Novion at its registered office by 10.00am (Sydney time) on Monday 25 May 2015, unless it has been previously provided to Novion.
- **Vote by body corporate representative** – if you are a body corporate, you can appoint a corporate representative to attend and vote at the Meeting on your behalf. The appointment must comply with sections 250D and 253B of the Corporations Act (as applicable).

Please refer to the voting instructions in Annexure C and Annexure D of this Scheme Booklet where these voting options are set out in full.

This page is intentionally left blank.

Section 1

Answers to key questions

Answers to key questions

The following set of questions and answers is intended to assist in your understanding of the Merger. These are qualified by, and should be read together with, all other parts of this Scheme Booklet.

No.	Question	Answer	Where to find more information
Details of the Merger			
1.	Why have I been sent this Scheme Booklet?	This Scheme Booklet has been sent to you because you are a Novion Securityholder and you are being asked to vote on the Merger. This Scheme Booklet is intended to help you decide how to vote on the Merger at the Meeting.	N/A
2.	What is the Merger?	The Merger involves the merger of Novion and Federation by way of the Company Scheme and the Trust Scheme (together, the Schemes). Under the terms of the Merger: - Novion Shares and Novion Units will be de-stapled from each other pursuant to the De-stapling - each Novion Share will be exchanged for 0.8225 Federation Shares issued pursuant to the Company Scheme, and - each Novion Unit will be exchanged for 0.8225 Federation Units issued pursuant to the Trust Scheme. Each new Federation Share and new Federation Unit will be stapled together to trade on the ASX as a single stapled security (referred to as New Federation Securities in this Scheme Booklet) and will rank equally with all existing Federation Securities.	Section 2
3.	Who is Federation?	Federation is listed on the ASX. It comprises Federation Limited and Federation Trust and trades as Federation Centres under the ASX ticker 'FDC'. Federation is an A-REIT specialising in the ownership, management and redevelopment of retail assets with \$7.3 billion of retail assets under management. Federation holds interests valued at \$4.9 billion in 65 directly-owned retail assets across Australia (20 of which are co-owned) and manages 20 assets on behalf of strategic partners (19 of which are co-owned with Federation).¹	Section 6
4.	Who is entitled to participate in the Merger?	All Novion Securityholders on the Register at the Record Date will become entitled to the Scheme Consideration in respect of the Novion Securities they hold at that time, subject to the terms of the Sale Facility applicable to Ineligible Foreign Securityholders.	Section 10.5
5.	What if I am a foreign securityholder at the Record Date?	If the Merger is implemented: - Scheme Securityholders who are Ineligible Foreign Securityholders will receive cash instead of New Federation Securities through the Sale Facility, and - all other Scheme Securityholders who are foreign securityholders will receive New Federation Securities.	Sections 10.10 and 10.11
6.	What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders.	Sections 2.8, 4 and Annexure A

1. As at 31 December 2014. Excludes sales settled since 31 December 2014, being Woodlands Village (settled 30 January 2015), Warrnambool (settled 9 February 2015) and Mildura Central (settled 12 February 2015).

No.	Question	Answer	Where to find more information
7.	What does the Novion Board recommend Novion Securityholders do?	The Novion Board unanimously recommends that Novion Securityholders vote in favour of the Merger, in the absence of a Superior Proposal.	Section 3.1
8.	How do the Novion Directors intend to vote?	Each director of the Novion Board intends to vote in favour of the Merger, in relation to the Novion Securities in which they have a Relevant Interest, in the absence of a Superior Proposal.	Section 2.7
9.	How does The Gandel Group intend to vote in relation to the Merger?	The Gandel Group, which has a 26.98% Relevant Interest in Novion ² and is the co-owner of Novion's largest asset, Chadstone Shopping Centre, has advised that its intention is to vote all of its securities in favour of the Merger, based on the disclosed terms of the Merger and in the absence of a superior proposal.	N/A
10.	What interest in the Merged Group will be held by The Gandel Group?	The Gandel Group will have a Relevant Interest in the Merged Group of 17.25%. ²	N/A

Scheme Consideration

11.	What will I receive if the Schemes are implemented?	If the Merger is approved, and the Schemes become Effective, each Scheme Securityholder will receive 0.8225 New Federation Securities in exchange for each Novion Security held at the Record Date. ³ Based on Federation's closing price of \$3.03 on 14 April 2015 (being the last trading day before the date of this Scheme Booklet), the exchange ratio implied a value per Novion Security of \$2.49. Novion's closing price on 14 April 2015 was \$2.53.	Sections 2.2, 10.5, 10.6 and 10.8
12.	When will I receive my New Federation Securities?	New Federation Securities are expected to be issued on the Implementation Date, which is expected to be on or about Thursday 11 June 2015, in accordance with the indicative timetable on page 11.	"Key dates" (page 11) and Sections 10.8 and 10.9
13.	When will I receive my cash via the Sale Facility if I am an Ineligible Foreign Securityholder?	Scheme Securityholders who are Ineligible Foreign Securityholders will be paid the cash they are entitled to receive under the Sale Facility within 5 Business Days of all funds from the sale of Sale Securities having been transferred into the Sale Facility Account (and not more than 20 Business Days after the Implementation Date).	Sections 10.8 and 10.10
14.	How will fractional entitlements be treated under the Schemes?	When the calculation of the number of New Federation Securities issued as Scheme Consideration would result in the issue of a fraction of a security, the fractional entitlement will: • where the entitlement is to half of a New Federation Security or more, be rounded up to the nearest whole number of New Federation Securities, and • where the entitlement is to less than half a New Federation Security, be rounded down to the nearest whole number of New Federation Securities.	Section 10.7

2. The Gandel Group currently has a 26.98% Relevant Interest in Novion Securities, which translates into a 17.25% Relevant Interest in the Merged Group.

3. A Scheme Securityholder who is an Ineligible Foreign Securityholder will receive cash instead of New Federation Securities through the Sale Facility that is described in Section 10.10(c).

No.	Question	Answer	Where to find more information
15.	Will I be able to sell any New Federation Securities I receive?	Once the Schemes become Effective, New Federation Securities issued under the Schemes are expected to commence trading on the ASX on a deferred settlement basis. Currently this is expected to occur on Monday 1 June 2015. Once confirmations of issue for New Federation Securities have been issued (which must occur no later than 5 Business Days after the Implementation Date), trading in New Federation Securities on the ASX will commence on a normal settlement basis. This is expected to occur on 12 June 2015. Section 9.2(j) outlines the possible risks associated with trading during the deferred settlement period.	Sections 9.2(j) and 10.12
16.	Can I choose to receive cash instead of New Federation Securities?	No. There is no option for Scheme Securityholders to elect to receive cash instead of New Federation Securities. However, once you have received the Scheme Consideration, you may sell some or all of your New Federation Securities. Alternatively, you may elect to sell your existing Novion Securities before the Effective Date.	N/A
17.	Do I need to make any payments to Federation to participate in the Schemes?	No.	N/A
18.	Do I have to pay brokerage fees or stamp duty to participate in the Schemes?	No brokerage or stamp duty will be payable by Scheme Securityholders on the transfer of their Scheme Securities under the Schemes or the receipt by Scheme Securityholders of the Scheme Consideration. If a Novion Securityholder disposes of their Novion Securities before the Record Date ⁴ or disposes of their New Federation Securities, including on a deferred settlement basis, brokerage may be payable.	Section 2.10
Meeting, agreement and approval			
19.	When and where will the Meeting be held?	The Meeting will be held at 10.00am on Wednesday 27 May 2015 at The Westin Sydney, 1 Martin Place, Sydney NSW 2000.	"Location of Meeting" (page 12, Annexure C and Annexure D)
20.	Who is entitled to vote at the Meeting?	All Novion Securityholders on the Register as at 7.00pm on Monday 25 May 2015 (the Voting Record Date) are entitled to attend and vote at the Meeting.	Section 2.5
21.	Why should I vote?	Voting is not compulsory. However, your vote will be important in determining whether the Merger will proceed. The Novion Board recommends that you read this Scheme Booklet carefully and vote in favour of the Merger, in the absence of a Superior Proposal.	Sections 2.5, 2.7 and 3
22.	Can I oppose the Merger at the Second Court Hearing?	Each Novion Securityholder has the right to appear and make submissions at the Second Court Hearing to be held at 10.00am on Friday 29 May 2015 at the Supreme Court of New South Wales, 184 Phillip St, Sydney.	Disclaimer and important notices, page 1

4. Under the terms of the Schemes any attempted transfers of Novion Securities after the Record Date will not be accepted by Novion.

No.	Question	Answer	Where to find more information
23.	Why are there two Schemes?	There are two Schemes because Novion Securities comprise a Novion Share stapled to a Novion Unit, requiring the Merger to be implemented by the following two interdependent Schemes: - the Company Scheme, being a scheme of arrangement between Novion Limited and the Scheme Securityholders (as Novion Shareholders) for the transfer of all of the Novion Shares to Federation Limited, and - the Trust Scheme, being a scheme of arrangement under which all of the Novion Units will be transferred to Federation RE, facilitated by an amendment to the Novion Trust Constitution as set out in the Supplemental Deed Poll.	Section 2.2
24.	What are the Resolutions?	There are five Resolutions in total, with four to be considered at the Extraordinary General Meeting and one to be considered at the Company Scheme Meeting (which will immediately follow the Extraordinary General Meeting), as follows: Extraordinary General Meeting Resolution 1 - the Company De-stapling Resolution Resolution 2 - the Trust De-stapling Resolution Resolution 3 - the Trust Constitution Amendment Resolution, and Resolution 4 - the Trust Acquisition Resolution. Resolutions 1 and 2 are the De-stapling Resolutions and Resolutions 3 and 4 are the Trust Scheme Resolutions. Company Scheme Meeting - The Company Scheme Resolution. There are no other Resolutions to be considered at the Company Scheme Meeting. Each of the above Resolutions must be approved by the requisite majorities of Novion Securityholders at the Meeting for the Merger to proceed. See Question 26 for the requisite majorities of each Resolution.	“What to do next” (page 12), Section 2.4, Annexure C and Annexure D
25.	What choices do I have as a Novion Securityholder?	As a Novion Securityholder you have the following choices: - you can vote at the Meeting in person, by proxy, by attorney or, in the case of a corporation, by duly appointed corporate representative - you can elect not to vote at the Meeting - you can sell your Novion Securities prior to the Effective Date, or - you can do nothing.	Section 2.5, Annexure C and Annexure D

No.	Question	Answer	Where to find more information
26.	What voting majorities are required to approve the Merger?	Approval of the Merger will require Novion Securityholders to approve each Resolution by the requisite majorities. Votes required at the Extraordinary General Meeting Resolutions 1, 2 and 3: For the De-stapling Resolutions and the Trust Constitution Amendment Resolution to be approved, at least 75% of the total votes cast in person or by proxy on each of these Resolutions by Novion Securityholders entitled to vote must be in favour of these Resolutions. Resolution 4: For the Trust Acquisition Resolution to be approved, more than 50% of the total number of votes cast in person or by proxy on this Resolution by Novion Securityholders at the Extraordinary General Meeting must be in favour of this Resolution. Votes required at the Company Scheme Meeting For the Company Scheme to be approved, the Company Scheme Resolution must be passed by: • more than 50% in number of Novion Securityholders who are present and voting, either in person or by proxy, attorney or, in the case of a corporation, its duly appointed corporate representative, at the Company Scheme Meeting, and • at least 75% of the total number of votes cast on the Company Scheme Resolution by Novion Securityholders.	Section 2.5, Annexure C and Annexure D
27.	Are there any conditions to the Merger?	The Merger will not proceed unless all Conditions Precedent are satisfied or waived (if applicable), including but not limited to: • approvals from all the relevant regulatory bodies including FIRB, ASIC and the ASX • Novion Securityholders approving the Resolutions, and • Court approval of the Schemes and the granting of the Second Judicial Advice. Novion and Federation expect that FIRB will not approve the Merger until the ACCC has completed its review of the Merger and the ACCC indicates that it does not intend to oppose the Merger. ACCC approval is not a Condition Precedent to the Merger.	Sections 2.3 and 12.5(d)
28.	Will any divestments be required by the ACCC?	Novion and Federation are engaging with the ACCC in relation to the potential divestment of either Karingal Hub (a 50% Federation owned asset) or Bayside (a Novion owned asset). For further details, including a sensitivity analysis of the impact of divesting either Bayside or Karingal Hub, see Sections 8.6(d) and 12.5(d) of this Scheme Booklet.	Sections 8.6(d) and 12.5(d)
29.	What happens if a Competing Proposal for Novion emerges?	If a Competing Proposal for Novion emerges, the Novion Board, having regard to its obligations under the Merger Implementation Agreement (including the “no talk” and “no shop” restrictions as stipulated therein), will consider the merits of that proposal. If the Novion Board considers the Competing Proposal is a Superior Proposal, then: • Novion Securityholders will be informed through an announcement on the ASX, and • the Novion Board will carefully consider the Superior Proposal and will provide you with a detailed recommendation in relation to it.	N/A

No.	Question	Answer	Where to find more information
30.	When is the break fee payable?	Under the Merger Implementation Agreement: - Novion must pay to Federation a break fee of \$40 million if certain specified events occur, including if a majority of the Novion Board recommends or promotes a Competing Proposal, and - Federation must pay to Novion a break fee of \$40 million if certain events occur, including a material breach of the Merger Implementation Agreement by Federation or a breach of certain warranties that Federation has given.	Section 12.2
31.	What happens if I vote against the Merger or do not vote?	If you do not vote, or if you vote against the Merger or any of the Resolutions, then the Merger may not be approved. The Merger cannot be implemented unless all Resolutions are passed by the requisite majorities of Novion Securityholders at the Meeting. However, even if you do not vote or vote against any of the Resolutions, this does not mean the Merger will not be approved. If the Resolutions are passed by the requisite majorities (even if you did not vote, or voted against the Merger) and you are a Scheme Securityholder then, if the Schemes are implemented, you will be bound by the Schemes and Federation will acquire your Novion Securities and you will receive New Federation Securities as the Scheme Consideration (or cash under the Sale Facility if you are an Ineligible Foreign Securityholder).	N/A
32.	What happens if the Resolutions are not approved?	If any of the Resolutions are not approved by the requisite majorities of Scheme Securityholders at the Meeting or all other Conditions Precedent are not satisfied or waived (if applicable): - the Merger will not take place - Novion will remain listed on the ASX and continue to operate as it currently does - the expected benefits of the Merger will not be realised and the disadvantages and risks associated with the Merger will not arise - you will retain your Novion Securities, and - Scheme Securityholders will not receive the Scheme Consideration. It is also possible that the price of Novion Securities may fall if the Schemes are not implemented. On 14 April 2015 (the trading day before this Scheme Booklet was issued), the closing price of Novion Securities was 9% higher than it was on 2 February 2015 (the trading day before the Merger was announced).	Section 2.11

No.	Question	Answer	Where to find more information
33.	What are the transaction costs associated with the Merger?	Implementing the Merger and refinancing the debt of Novion and Federation is assumed to require material one-off transaction and refinancing costs of approximately \$458 million⁵ to be incurred by the Merged Group.⁶ These costs are expected to comprise assumed debt restructuring costs of \$277 million, stamp duty, advisory and other implementation costs of \$106 million and operational cost saving implementation costs of \$75 million.⁷ Before the Meeting, Novion estimates that it will have incurred or committed to one-off transaction costs of approximately \$6 million in relation to the Merger. These costs will be payable by Novion regardless of whether the Merger is implemented or not.	Sections 2.11 and 3.3(a)
New Federation Securities and the Merged Group			
34.	What are New Federation Securities?	A New Federation Security will consist of one Federation Share and one Federation Unit, which will be stapled immediately upon issue and trade on the ASX as a stapled security.	N/A
35.	If the Merger is implemented, what will the Merged Group look like?	The Merged Group will be a significant owner and manager of Australian retail assets, diversified by retail asset type, geographic location and tenant mix.	Section 7
36.	Are any pre-emptive rights or other material rights triggered by the Merger?	Novion and Federation consider that pre-emptive rights in agreements relating to assets jointly held with third parties are not triggered by the Merger. In addition, Novion has received consents from all counterparties to material contracts required in connection with the Merger.	N/A
37.	What will be the strategy of the Merged Group?	The Merged Group will be focused on the ownership, management and redevelopment of Australian retail assets. It will own properties across the full retail asset spectrum – that is, from super-regional centres to outlet centres. The Merged Group's extensive asset base will make it one of Australia's most significant owners and managers of retail assets with substantial exposure across the full retail spectrum. To properly achieve its objectives, the Merged Group will dedicate significant resources to integrating the businesses of Novion and Federation.	Section 7

5. For the composition of these costs, refer to Section 3.3(a).

6. This figure assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur which may increase the weighted average interest rate of the Merged Group and lower the assumed refinancing costs of \$277 million. For further information, refer to Sections 8.5(c) and 8.6(c) of this Scheme Booklet.

7. Section 6.3.3(iii) on page 52 of the Independent Expert's Report discusses the transaction costs.

No.	Question	Answer	Where to find more information
38.	What will the Merged Group's financing structure be?	Upon implementation, the Merged Group will have sufficient new facilities to refinance all of Novion's and Federation's existing debt, fund transaction costs and provide appropriate liquidity. These facilities have been agreed and documented and will comprise: • \$3.3 billion of unsecured bank loan facilities with maturities ranging from 2 to 5 years, and • a \$1.8 billion unsecured bridge facility for 12 months with an option to extend for a further period of up to 12 months at the Merged Group's election. The Merged Group has a target debt profile of approximately 50% bank debt and 50% debt capital markets issuances. It is intended for this to be achieved by debt capital markets issuances post implementation with proceeds to be applied, amongst other things, to repay the bridge facility. The Merged Group's pro forma gearing is expected to be within a 25-35% target range.	Sections 7.7, 8.5 and 8.6(c)
39.	How will the existing financing arrangements of Novion and Federation be dealt with by the Merged Group?	The Merged Group's target debt profile as set out in this Scheme Booklet assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur. Under some of Novion's and Federation's debt financing arrangements, the Merged Group may either not have the ability to control the timing of repayment or it may determine that it is no longer appropriate to repay these debt financing arrangements on the Implementation Date (and before the expiry of the relevant debt financing arrangement). Each debt financing arrangement will be assessed both before and after the Implementation Date (as applicable and necessary) to determine the most appropriate commercial outcome for the Merged Group.	Sections 7.7, 8.5 and 8.6(c)
40.	Who will be on the Merged Group Board following implementation of the Merger?	Mr Peter Hay (a current Novion Independent Non-executive director) will become Chairman of the Merged Group. Mr Richard Haddock (current Chairman of Novion) will continue as a director of the Merged Group. Dr Bob Edgar (current Chairman of Federation) will step down from his role as a director of Federation should the Merger be implemented. It is intended that the Merged Group Board will have: • six directors from the current Novion Board, and • five directors from the current Federation Board.⁸	Sections 7.9 and 7.10
41.	Who will comprise the management of the Merged Group following the implementation of the Merger?	The Merged Group's management team will draw on the depth of expertise from Novion and Federation. Mr Steven Sewell (CEO and Managing Director of Federation) will become the CEO of the Merged Group. Should the Merger be implemented, Mr Angus McNaughton (Managing Director and CEO of Novion) and Mr Michael Gorman (Deputy CEO and Chief Investment Officer of Novion) will step down from their current roles.	Section 7.11

8. As discussed in Section 7.9, while Federation RE will have the above composition of directors from implementation of the Merger, the Federation Limited Board composition will, initially, not be the same due to a constitutional limit on the number of directors. Federation Securityholders will be asked to approve an increase in the size of the Federation Limited Board at the Federation Limited 2015 Annual General Meeting to make the two board sizes consistent. It is intended that Steven Sewell will be appointed as the Managing Director of Federation Limited after the Federation Limited 2015 Annual General Meeting.

No.	Question	Answer	Where to find more information
42.	What will the Merged Group be known as?	The Merged Group is expected to transition to a new corporate name as part of the integration process. Until then, the Merged Group is expected to use the Federation Centres name, including any associated trademarks and logos.	N/A
43.	If the Schemes become Effective, when could I expect to receive a distribution?	Assuming the Merger is implemented prior to the record date for the June 2015 Novion distribution, the first distribution of the Merged Group is expected to be for the six months ending 30 June 2015 and paid to all securityholders of the Merged Group in August 2015.	Section 8.4
44.	What will my distribution be for the second half of the financial year ending 30 June 2015?	Given the Merger is expected to complete before the end of FY15, it is expected that Scheme Securityholders will receive Federation's distribution for the second half of FY15, which is expected to be 8.5 cents per Federation Security. Based on the exchange ratio of 0.8225 this is equivalent to 7.0 cents per Novion Security, which is 0.1 cents higher than Novion's current distribution guidance of 6.9 cents (see below). If the Merger completes before the end of FY15, Novion Securityholders will not receive a Novion distribution for the second half of FY15. In the absence of the Merger occurring, or if the Merger completes after the end of FY15, Novion is expected to pay a distribution of 6.9 cents per security for the second half of FY15.⁹	Section 8.4

Benefits, disadvantages and key risks

45.	What are the benefits of the Merger?	The Merger combines two highly-complementary platforms to provide existing Novion Securityholders with an enhanced investment proposition relative to Novion on a stand-alone basis, including: • increased portfolio scale and expertise • material value creation via cost savings and future opportunities • significant earnings and distribution accretion • improved growth opportunities • increased asset, geographic and tenant diversification, and • greater relevance for equity and debt investors through increased scale.¹⁰	Section 3.2
-----	--------------------------------------	---	-------------

9. Assuming there is no unforeseen material deterioration in existing economic conditions.

10. Section 6.3.2 on pages 47 to 50 of the Independent Expert's Report discusses the advantages and benefits of the Merger.

No.	Question	Answer	Where to find more information
46.	What are the disadvantages of the Merger?	The Merger also has certain disadvantages, which include: • requiring material one-off transaction and refinancing costs of \$458 million to be incurred • reducing Novion's equivalent net tangible asset value per security by 3.4% from \$1.97 to \$1.90 • the Merged Group's expected credit rating of at least 'A-' potentially being one notch lower than Novion's current credit rating of 'A' • the Merged Group's pro forma 31 December 2014 gearing (excluding intangibles) of 31.1%¹¹ is expected to be higher than Novion's pro forma 31 December 2014 gearing of 29.8%¹² but within Novion's target range of 25% to 35%, and • a change in Novion Securityholders' risk and investment profile relating to the ownership and operation of Federation's retail property platform.¹³	Section 3.3
47.	What are the key risks associated with the Merger and the Merged Group?	The key risks associated with the Merger and relating to the Merged Group include: • risks relating to refinancing, in particular to the Merged Group's \$1.8 billion bridge facility, due to the relatively short timetable of up to 24 months to refinance which could potentially expose the Merged Group to unfavourable markets in terms of pricing and volume • integration risks and realisation of assumed synergies not being achieved as a result of factors such as unexpected delays, challenges or the loss of key personnel of the Merged Group • the exact value of Scheme Consideration being uncertain as it will depend on the price at which securities in the Merged Group trade on the ASX after the Effective Date, and • accounting risks due to the fair value assessment of goodwill in future periods which may have an adverse non-cash impact on the reported financial performance of the Merged Group. These and other risks (including those of a general nature) may affect the future operating performance, financial position, value or reputation of the Merged Group.	Section 9

11. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

12. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

13. Section 6.3.3 on pages 51 to 53 of the Independent Expert's Report discusses the disadvantages of the Merger.

No.	Question	Answer	Where to find more information
Other questions			
48.	Can I sell my existing Novion Securities now?	You can sell your Novion Securities on market at any time before the close of trading on the ASX on the Effective Date at the prevailing market price. The Effective Date will be after the Court has approved the Schemes. The Effective Date is expected to be Friday 29 May 2015.	N/A
49.	What are the Australian tax implications of the Schemes for Scheme Securityholders?	The Schemes will give rise to a CGT event for the Novion Securityholders who will realise either a capital gain or capital loss. Any capital gain made by Australian resident Novion Securityholders may be eligible for scrip for scrip rollover relief. A class ruling is being sought from the ATO confirming the extent to which scrip for scrip rollover relief is available. For detailed tax implications of the Merger, refer to the Taxation Report in Section 11 which sets out the general Australian taxation implications for Novion Securityholders in respect of the Merger. If you are in doubt about the tax implications of the Merger, you should consult an independent and appropriately licensed and authorised professional adviser without delay.	Sections 2.9 and 11
50.	Will Novion Securityholders be entitled to scrip for scrip CGT rollover relief as part of the Merger?	A class ruling is being sought from the ATO which seeks to confirm the extent to which scrip for scrip rollover relief is available.	Section 11
51.	Where can I get further information?	If, after reading this Scheme Booklet, you have any questions about the Merger, you should call the Novion Securityholder Information Line on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday. If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.	N/A

Section 2

Summary of the Merger

2.1 Background and alternatives to the Merger

In October 2014, Novion received an unsolicited and confidential expression of interest from Federation to merge both groups. The Novion Board then implemented a process to assess the merits of the proposal from Federation to determine whether a compelling transaction for Novion Securityholders could be developed.

This involved an assessment of the proposed merger relative to Novion's strategic landscape and alternatives to the proposed merger, which included maintaining the status quo and assessing other potential opportunities including undertaking a desktop evaluation of potential corporate transactions with other listed property groups. Following this assessment, the Novion Board determined that the Merger represented the most compelling opportunity for Novion Securityholders of the alternatives explored.

Subsequently on 3 February 2015, Novion and Federation announced that they had entered into the Merger Implementation Agreement (released to the ASX in full on that date), whereby Novion agreed to propose the Schemes to Novion Securityholders in order to give effect to a merger of Novion and Federation.

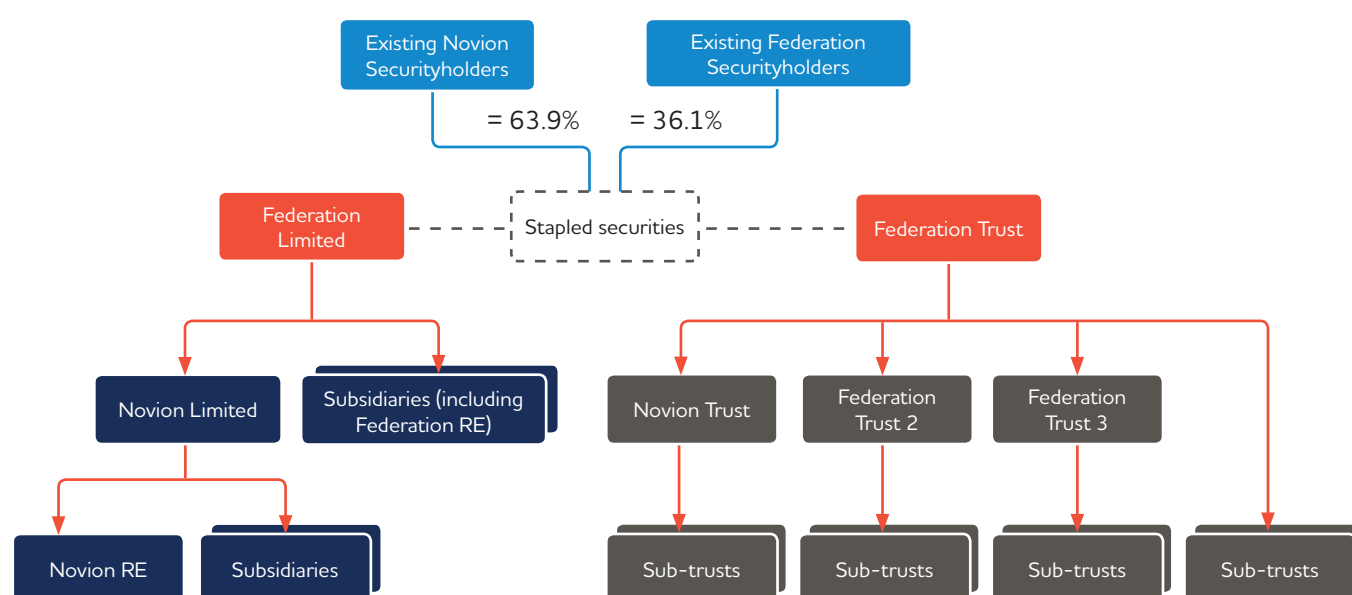
A summary of the Merger Implementation Agreement is set out in Section 12.2 of this Scheme Booklet.

2.2 Overview of the Merger

Subject to Novion Securityholders' approval and the satisfaction or waiver (if applicable) of all other Conditions Precedent, the Merger will involve the transfer of each Scheme Security (being a Novion Security held by a Novion Securityholder as at the Record Date) to Federation in consideration for 0.8225 New Federation Securities being issued to each Scheme Securityholder for each Scheme Security held.¹ It is proposed that the Merger will be implemented as follows:

Component of the Merger	Description
1. De-stapling	Novion Shares and Novion Units will be de-stapled from each other.
2. Company Scheme (concurrently with the Trust Scheme)	Immediately following the De-stapling, each Novion Share will be exchanged for 0.8225 Federation Shares.
3. Trust Scheme (concurrently with the Company Scheme)	Immediately following the De-stapling, each Novion Unit will be exchanged for 0.8225 Federation Units.

Each new Federation Share and new Federation Unit issued under the Schemes will be stapled together and trade on the ASX as a single stapled security (referred to as New Federation Securities in this Scheme Booklet) and will rank equally with all existing Federation Securities. If the Merger is implemented, the structure of the Merged Group will be as follows:



1. Scheme Securityholders who are Ineligible Foreign Securityholders will receive cash instead of the New Federation Securities, pursuant to the Sale Facility. See Section 10.10 for further information.

2.3 Conditions of the Merger

The implementation of the Schemes is subject to the Conditions Precedent set out below.

The Merger will not proceed unless all of the Conditions Precedent are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement. It is important to note that some of these conditions may not be satisfied even if the Merger is approved at the Meeting (for example, the Court may refuse to grant the Second Court Order referred to in condition 5 below). However, as at the date of this Scheme Booklet, neither Novion nor Federation are aware of any circumstances which would cause these conditions to not be satisfied.

No.	Condition Precedent	Status
1.	(Regulatory Approvals) approvals from all the relevant regulatory bodies including FIRB, ASIC and the ASX.	ASIC has agreed to grant the relief (as applicable) necessary to implement the Merger. ASX has granted Federation and Novion the waivers and confirmations necessary to implement the Merger. Federation has applied to FIRB for all necessary approvals to implement the Merger. Federation expects its application to be dealt with prior to the date of the Meeting. Novion and Federation will make an ASX announcement once the outcome of Federation's FIRB application is known.
2.	(Quotation) approval for official quotation on the ASX of the New Federation Securities.	Federation has applied to the ASX for quotation of the New Federation Securities.
3.	(Independent Expert's Report) the Independent Expert does not change its conclusion that the Schemes are fair and reasonable to, and in the best interests of, Novion Securityholders or withdraw the Independent Expert's Report.	Satisfied as at the date of this Scheme Booklet.
4.	(Approval of Resolutions) Novion Securityholders approve the De-stapling Resolutions, Trust Scheme Resolutions and Company Scheme Resolution by the requisite majorities.	The Meeting to consider the Resolutions will be held at 10.00am on Wednesday 27 May 2015 at The Westin Sydney, 1 Martin Place, Sydney NSW 2000.
5.	(Court Approval) Court approval of the Schemes at the Second Court Hearing.	Second Judicial Advice and Second Court Order will be sought on or about Friday 29 May 2015.
6.	(Other Prescribed Events) the following do not occur on or before 8.00am on the Second Court Date: - a Court, regulatory authority or government agency issues an order or decree which is in effect as at 8.00am on the Second Court Date and prohibits or materially restricts completion of the Merger - the S&P/ASX200 A-REIT sector index falls 20% below the level of that index between the Announcement Date and Second Court Date, on any three consecutive Trading Days - a material adverse change in relation to Novion - a material adverse change in relation to Federation - a prescribed regulated event in relation to Novion, and - a prescribed regulated event in relation to Federation. See Section 12.2 for further information as to what comprises a material adverse change and a prescribed regulated event.	As at the date of this Scheme Booklet, neither Novion nor Federation is aware of anything that will cause these Conditions Precedent not to be satisfied.
7.	(Representations and warranties) the representations and warranties given by Novion and Federation under the Merger Implementation Agreement are true and correct in all material respects.	As at the date of this Scheme Booklet, neither Novion nor Federation is aware of any material inaccuracies in its representations and warranties.

2.4 Novion Securityholders' approvals

Novion Securityholders will be asked to consider, and if thought fit, pass the following Resolutions:

Resolution	Description of Resolution
Extraordinary General Meeting (Notice of Extraordinary General Meeting included in Annexure C)	
De-stapling Resolutions	1. Company De-stapling Resolution – a special resolution for Novion Limited to de-staple each Novion Share from each Novion Unit.
	2. Trust De-stapling Resolution – a special resolution for Novion Trust to de-staple each Novion Unit from each Novion Share.
Trust Scheme Resolutions	3. Trust Constitution Amendment Resolution – a special resolution under s601GC(1) of the Corporations Act to make the requisite amendments to the Novion Trust Constitution to implement the Trust Scheme and approve the transfer of Novion Units.
	4. Trust Acquisition Resolution – an ordinary resolution under item 7, s611 of the Corporations Act, for the acquisition of Novion Units by Federation RE under the Trust Scheme.
Company Scheme Meeting (Notice of Company Scheme Meeting included in Annexure D)	
Company Scheme Resolution	Company Scheme Resolution – a resolution under s411(4)(a)(ii) of the Corporations Act, to approve the Company Scheme for the transfer of Novion Shares to Federation Limited.

2.5 Required voting majorities and entitlements to vote

(a) Persons entitled to vote at the Extraordinary General Meeting

Subject to the voting restrictions set out in Section 2.5(b) below, each Novion Securityholder who is on the Register at the Voting Record Date is entitled to attend and vote at the Extraordinary General Meeting either in person, by proxy, by attorney or, in the case of a body corporate, by its corporate representative appointed in accordance with sections 250D and 253B of the Corporations Act.

In a resolution of Novion Limited determined by poll, each Novion Securityholder (in the capacity as a Novion Shareholder) present in person or by proxy has one vote for each fully paid ordinary Novion Security held.

In a resolution of Novion Trust determined by poll, each Novion Securityholder (in the capacity as a Novion Unitholder) present in person or by proxy has one vote for every dollar of the total interest held in Novion Trust (held via Novion Units). The value of a Novion Securityholder's total interest in Novion Trust will be calculated by reference to the last sale price of Novion Securities on the ASX on Tuesday 26 May 2015.

(b) Voting requirements for the Resolutions to be considered at the Extraordinary General Meeting

For the De-stapling Resolutions to be approved:

- the Company De-stapling Resolution and the Trust De-stapling Resolution must each be passed by at least 75% of the total votes cast at the Extraordinary General Meeting by Novion Securityholders entitled to vote on the De-stapling Resolutions.

For the purposes of the Trust De-stapling Resolution, and in accordance with section 253E of the Corporations Act, Novion RE and its associates are not entitled to vote their interests if they have an interest in the Resolution other than as a member of Novion Trust.

For the Trust Scheme Resolutions to be approved:

- the Trust Constitution Amendment Resolution must be passed by at least 75% of the total number of votes cast on the relevant resolutions by Novion Securityholders entitled to vote on the Trust Constitution Amendment Resolution at the Extraordinary General Meeting. For the purposes of this Resolution, and in accordance with section 253E of the Corporations Act, Novion RE and its associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of Novion Trust, and
- the Trust Acquisition Resolution must be passed by more than 50% of the total number of votes cast on the relevant resolutions by Novion Securityholders entitled to vote on the Trust Acquisition Resolution at the Extraordinary General Meeting. For the purposes of this Resolution, and in accordance with item 7, section 611 and section 253E of the Corporations Act, Federation and its associates must not cast any votes in favour of the resolution, and Novion RE and its associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of Novion Trust.

Voting at the Extraordinary General Meeting will be by poll. Instructions on how to attend and vote at the Extraordinary General Meeting are set out in Annexure C of this Scheme Booklet.

(c) Persons entitled to vote at the Company Scheme Meeting

Each Novion Securityholder who is on the Register as at the Voting Record Date is entitled to attend and vote at the Company Scheme Meeting either in person, by proxy, by attorney or, in the case of a body corporate, by its duly appointed corporate representative. Each Novion Securityholder (in the capacity as a Novion Shareholder) present in person or by proxy has one vote for each fully paid ordinary Novion Security held.

(d) Voting requirements for the Resolution to be considered at the Company Scheme Meeting

For the Company Scheme to be approved, under section 411(4)(a)(ii) of the Corporations Act, the Company Scheme Resolution must be passed by:

- more than 50% in number of Novion Securityholders present and voting either in person, by proxy, by attorney or, in the case of a body corporate, its duly appointed corporate representative², and
- at least 75% of the total votes cast at the Company Scheme Meeting.

Voting at the Company Scheme Meeting will be by poll. Instructions on how to attend and vote at the Company Scheme Meeting are set out in Annexure D of this Scheme Booklet.

2.6 Court Approval

If the Resolutions are approved by the requisite majorities of Novion Securityholders at the Meeting and all Conditions Precedent have been satisfied or waived (if applicable), Novion will apply to the Court at the Second Court Hearing for the Second Court Order approving the Company Scheme and giving of the Second Judicial Advice in respect of the Trust Scheme.

Each Novion Securityholder has the right to appear at the Second Court Hearing.

2.7 Novion directors' recommendation and voting intentions

The directors of Novion unanimously recommend that you vote in favour of the Merger, in the absence of a Superior Proposal. See Section 3.1 for further information. Each director of Novion intends to vote in favour of the Merger, in relation to the Novion Securities in which they have a Relevant Interest, in the absence of a Superior Proposal. The interests of the directors of Novion are disclosed in Section 5.9.

2.8 Independent Expert's conclusion

The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders. The Independent Expert has provided reasons for its opinion in the Independent Expert's Report.

The Independent Expert's Report is set out in Annexure A of this Scheme Booklet. Section 4 of this Scheme Booklet also contains a summary letter to Novion prepared by the Independent Expert. Novion Securityholders are encouraged to read the report and summary letter carefully and in their entirety.

2.9 Tax implications

To the extent Novion Securityholders realise a capital gain as a result of the Schemes, those securityholders may be eligible for scrip for scrip rollover relief in respect of that capital gain. A class ruling is being sought from the ATO to confirm the extent to which scrip for scrip rollover relief is available. A summary of the relevant tax implications for Novion Securityholders is contained in Section 11.

2.10 No brokerage or stamp duty

No brokerage or stamp duty will be payable by Scheme Securityholders on the transfer of their Scheme Securities to Federation under the Schemes or the receipt by Scheme Securityholders of the Scheme Consideration.

2. Unless the Court orders otherwise. The Court has a discretion to dispense with the majority shareholder requirement.

2.11 Implications if the Merger is not approved

If any of the Resolutions are not approved, or all other Conditions Precedent are not satisfied or waived (if applicable), and the Merger does not proceed:

- Novion will remain listed on the ASX
- the expected benefits of the Merger will not be realised and the disadvantages and risks associated with the Merger will not arise
- Novion Securityholders will retain their Novion Securities, and
- Novion Securityholders will not receive the Scheme Consideration.

In that circumstance, the Novion Board intends to continue with its existing strategy to operate Novion as a listed retail property group with a fully integrated funds and asset management platform, under the leadership of the current senior management team.

Before the Meeting, Novion estimates that it will have incurred or committed one-off transaction costs of approximately \$6 million in relation to the Merger. These costs have already been incurred or will be payable by Novion regardless of whether or not the Merger is implemented.

Section 3

Board recommendation, benefits and disadvantages of the Merger

3.1 Recommendation of the Novion Board

The Novion Board believes the Merger represents a unique and compelling opportunity for Novion Securityholders that creates significant value. **On this basis, the Novion Board supports the Merger and unanimously recommends that Novion Securityholders vote in favour of the Merger, in the absence of a Superior Proposal.**

In coming to this view, the Novion Board has taken into account the following factors:

(a) The benefits of the Merger outweigh its disadvantages

The Novion Board believes that the benefits associated with the Merger for Novion Securityholders outweigh the disadvantages associated with the Merger. Sections 3.2 and 3.3 outline the key benefits and disadvantages of the Merger the Novion Board considered in forming this opinion.

(b) The findings of the Independent Expert

The Novion Board engaged Grant Samuel & Associates Pty Limited as the Independent Expert to provide an opinion on the Merger. The Independent Expert has concluded that the Merger is fair and reasonable to, and in the best interests of, Novion Securityholders.

A copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet and Section 4 of this Scheme Booklet contains a summary letter to Novion prepared by the Independent Expert.

3.2 Benefits of the Merger

The Novion Board believes the Merger will provide existing Novion Securityholders with an enhanced investment proposition relative to Novion on a stand-alone basis, including:

- increased portfolio scale and expertise
- material value creation via cost savings and future opportunities
- significant earnings and distribution accretion
- improved growth opportunities
- increased asset, geographic and tenant diversification, and
- greater relevance for equity and debt investors through increased scale.

These benefits are profiled in further detail below.

(a) Increased portfolio scale and expertise

The Merger will create one of Australia's leading REITs, with over \$22 billion in assets under management¹ invested across the full retail asset spectrum. The Merged Group will manage a portfolio of 102 retail assets, diversified by asset type, geography and tenant mix. As the number one owner/manager of Australian sub-regional centres and outlet centres, and number two in Australian super-regional and regional centres combined², the Merged Group will have scale and relevance across all retail sub-sectors.

By combining Novion's and Federation's board and management expertise, the Merged Group will benefit from a highly experienced board and a management team with expert skills in managing the full spectrum of retail assets. With a board comprised of existing Novion and Federation directors, the Merged Group will benefit from the oversight of directors with experience across real estate, retail, finance, funds management, legal and governance.

The Merged Group's executive management team will also draw on the best of each group's expertise, including:

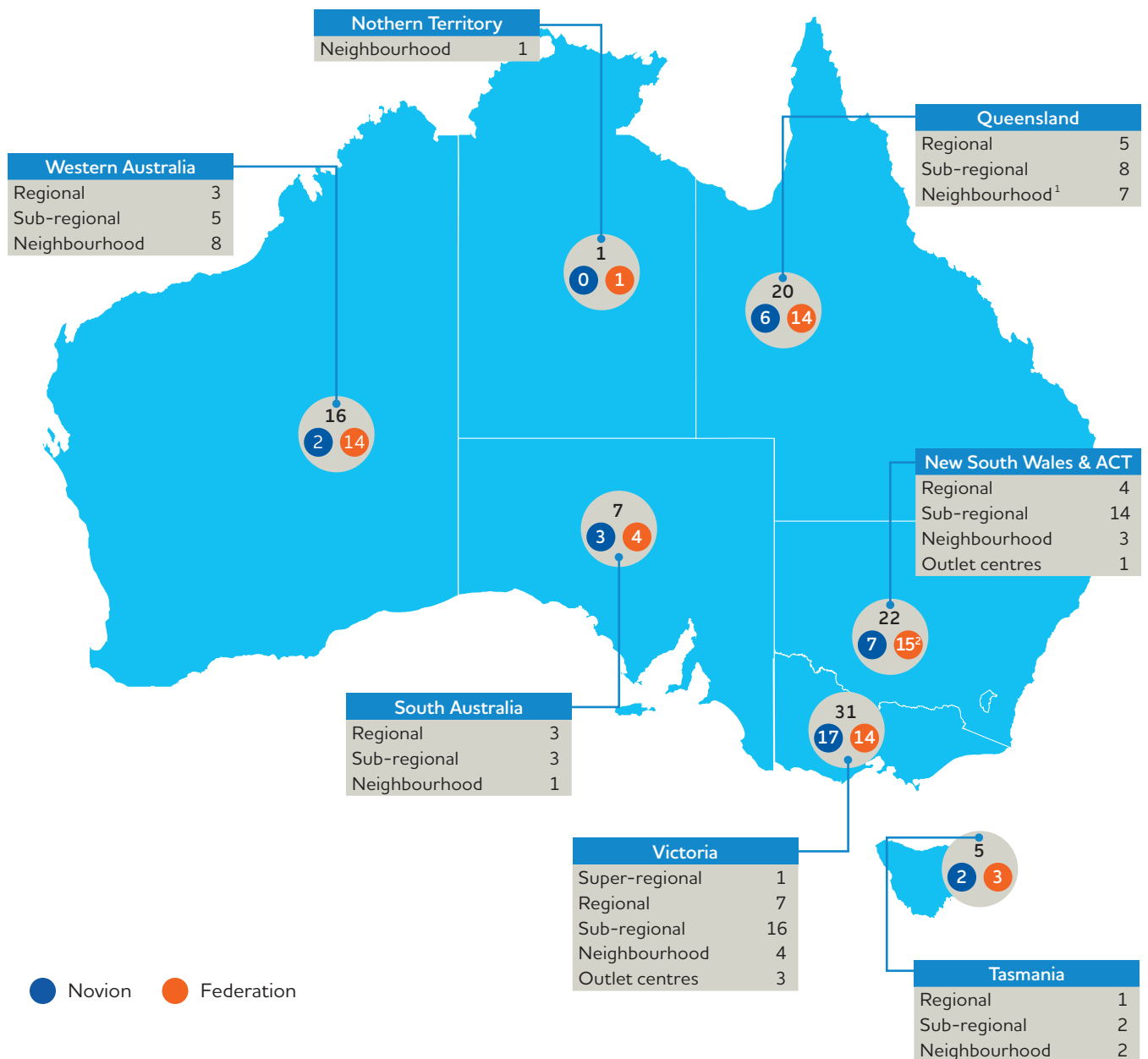
- Novion's super-regional and regional centre expertise, national, international, luxury and outlet retailer relationships, funds management and development capabilities, and
- Federation's regional, sub-regional and neighbourhood centre expertise, co-owner relationships and development capability.

Further information regarding the composition of the Merged Group's Board and executive management team is outlined in Sections 7.9 and 7.11.

1. As at 31 December 2014, adjusted for post balance date acquisitions and disposals.

2. Based on gross lettable area retail.

Portfolio mix of the Merged Group



Retail AUM	# of assets	Value
Super-regional	1	\$3.7bn
Regional	23	\$11.3bn
Sub-regional	48	\$5.2bn
Neighbourhood ¹	26	\$1.0bn
Outlet centres	4	\$1.0bn
Total	102	\$22.2bn

Note: metrics based on the Merged Group's total assets under management.

1. Includes one bulky goods centre.

2. Tuggeranong Hyperdome (50% owned by Federation) is currently managed by Novion.

Competitive advantages across all retail sub-sectors

#1 in sub-regional assets

Stable and high performing portfolio of scale

MANDURAH FORUM, WA



#1 in outlet centres

Strong portfolio with proven ability to create value and growth

DFO HOMEBUSH, NSW



#2 in super-regional and regional assets combined

Joint owner of Australia's largest shopping centre (by MAT)

CHADSTONE SHOPPING CENTRE, VIC



Leading portfolio in strong catchment areas

ROSELANDS, NSW



The Merged Group will hold interests in super-regional, regional, sub-regional, neighbourhood and outlet centres.³ Each of these categories is further described below.

(i) Super-regional and regional centres

Super-regional and regional centres typically exhibit the following characteristics:

- a major shopping centre typically incorporating at least one full line department store, a full line discount department store, one or more supermarkets and over 100 specialty stores. In some instances, all other characteristics being equal, a centre with two full line discount department stores, without a department store, serves as a regional centre
- total gross lettable area retail exceeds 30,000 square metres, and
- offers a one-stop shopping experience, providing an extensive range of retail needs and services.

(ii) Sub-regional centres

Sub-regional centres typically exhibit the following characteristics:

- a medium sized shopping centre typically incorporating at least one full line discount department store, a major supermarket and over 40 specialty stores

3. As defined by the Property Council of Australia.

- total gross lettable area retail ranges between 10,000 and 30,000 square metres, and
- provides a broad range of retail needs, but not as extensive as a regional centre.

(iii) Neighbourhood centres

Neighbourhood centres typically exhibit the following characteristics:

- a local shopping centre comprising a supermarket and up to 35 specialty stores
- total gross lettable area retail is less than 10,000 square metres, and
- typically located in residential areas, catering for basic day-to-day retail needs.

(iv) Outlet centres

Outlet centres typically exhibit the following characteristics:

- a medium to large sized shopping centre which does not normally include a department store, discount department store, or supermarket, and
- comprises specialty stores often selling stock at discounted prices including samples, marked-down and discontinued lines.

(b) Material value creation via cost savings and future opportunities

The Merger is expected to result in material cost savings for the Merged Group relative to Novion and Federation on a stand-alone basis, which is expected to create significant value for Novion Securityholders. The components of these savings are explained in detail below. A table summarising these savings is set out on page 48 of the Independent Expert's Report.

Operational cost savings

After a detailed review, Novion and Federation have jointly identified net operational cost savings of at least \$42 million per annum, with the potential for more to be achieved through the integration process. After implementation of the Merger, the Merged Group will commence putting in place arrangements to achieve these operational cost savings. It is expected that:

- over a 12-month period, arrangements will be put in place to enable the realisation of approximately 75% of those operational cost savings on a go forward basis, and
- over a 24-month period, arrangements will be put in place to enable the realisation of approximately 90% of those operational cost savings on a go forward basis.

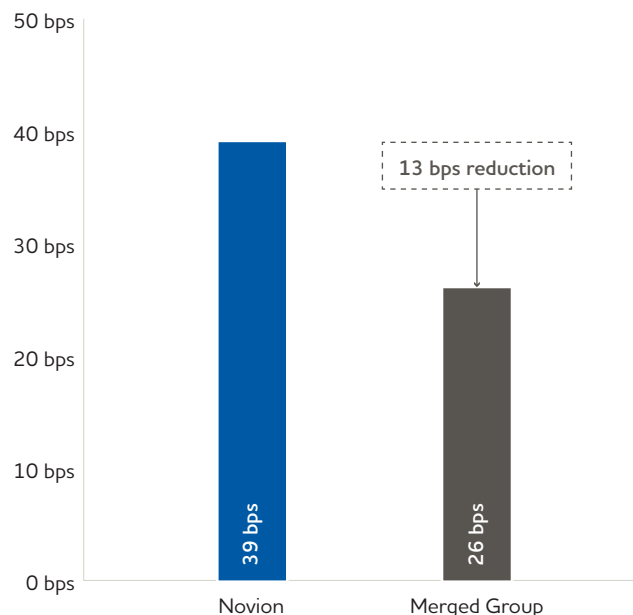
These savings are expected to be generated by:

- integrating board, management and executive teams
- consolidating corporate costs and two highly-complementary platforms
- integrating reporting and IT systems
- reduced listing, statutory and regulatory costs, and
- procurement efficiencies and cost optimisation at an individual asset level.

The majority of these savings are expected to comprise corporate staff savings. Combined with the expected overhead savings and outgoing savings, this is expected to provide gross savings of at least \$49 million per annum. After deducting the annual funding cost of \$7 million associated with funding the one-off costs incurred to achieve these savings, total net operational costs savings of at least \$42 million per annum are expected.

These operational cost savings are expected to result in a materially lower management expense ratio for the Merged Group of 26 bps, which illustrates the scale benefits expected to be achieved by the Merged Group (refer to the chart below).

FY15 PRO FORMA FORECAST MANAGEMENT EXPENSE RATIO⁴



4. Calculated as corporate overheads (net of recoveries to properties) divided by total assets under management. Novion has previously provided a FY15 forecast MER of <55 bps (as disclosed in its FY14 annual results). The variance relates to that calculation being based on gross corporate overheads (including costs recovered from properties) less development management costs divided by the value of Novion's direct portfolio only.

Refinancing savings

As part of the Merger, both group's existing debt platforms are assumed to be refinanced. Given the current attractive debt markets, this will result in refinancing savings (net of the funding costs associated with funding the assumed refinancing costs) to the benefit of the securityholders of the Merged Group. While the cost of refinancing largely offsets the direct interest rate benefit, the effect of the new arrangements enhances distributable income, extends the debt maturity profile⁵ and provides access to deeper debt capital markets. Novion Securityholders should note however that the opportunity to achieve cost savings from refinancing by taking advantage of the lower interest rate environment may be available to Novion on a stand-alone basis, albeit this would only be via the debt capital markets to which Novion currently has access. It is estimated that Novion may be able to realise approximately \$29 million per annum of net refinancing savings on a stand-alone basis.⁶

However, there is no certainty that all of Novion's and Federation's existing debt financing arrangements will be refinanced. Under some of Novion's and Federation's debt financing arrangements, the Merged Group may either not have the ability to control the timing of repayment or it may determine that it is no longer appropriate to repay these debt financing arrangements on the Implementation Date (and before the expiry of the relevant debt financing arrangement). Each debt financing arrangement will be assessed both before and after the Implementation Date (as applicable and necessary) to determine the most appropriate commercial outcome for the Merged Group. For further information, refer to Sections 8.5(c) and 8.6(c) of this Scheme Booklet.

If all debt facilities are refinanced, total net refinancing savings of approximately \$35 million⁷ per annum would be realised by the Merged Group. These refinancing savings represent the interest cost saving from financing the Merged Group relative to Novion's and Federation's forecast interest expense for the financial year ending 30 June 2015 on a stand-alone basis.

Additionally, the scale of the Merged Group is expected to drive greater debt capital markets access which should deliver further diversification and pricing benefits over time.

Further detail on the Merged Group's financing profile and Novion's and Federation's existing debt financing arrangements is contained in Sections 7.7, 8.5 and 8.6(c) of this Scheme Booklet.

Capitalised cost savings

A further \$7 million per annum of cash flow savings are expected via capitalised cost savings. Capitalised cost savings are cost savings that will not be recognised in underlying earnings but will improve cash flow and development returns. Approximately \$5 million of these savings relate to operational cost savings, and approximately \$3 million relates to refinancing savings (rounded to \$7 million). The Merged Group expects to be fully achieving these savings within 12 months after the Implementation Date.

Total cost savings

Combining the net operational cost savings, net refinancing savings and capitalised cost savings outlined above, the Merger would provide cost savings of at least \$84 million per annum⁸, of which at least \$77 million per annum would impact underlying earnings (that is, excluding capitalised cost savings). It is expected that during the 12 month period after the Implementation Date, arrangements for the realisation of a large proportion of the cost savings targeted by the Merged Group will be put in place. If all of Novion's and Federation's existing debt financing arrangements are repaid in that 12 month period, then it is expected that, by the end of that period, arrangements would be in place to enable the realisation of approximately 85% of these \$77 million of annual savings.⁹

It has been assumed that implementing the Merger and refinancing the debt of Novion and Federation will require material one-off transaction and refinancing costs of approximately \$458 million¹⁰ to be incurred by the Merged Group. The major component of these costs is the assumed debt refinancing costs of \$277 million¹¹, which includes the repayment of all net derivative liability positions. The interest expense of \$18 million per annum associated with funding all transaction costs is incorporated in the savings (that is, they are expressed on a net basis after funding costs).

Further information in relation to the total net operational cost savings and refinancing savings and the details of those savings is set out on pages 48 to 50 of the Independent Expert's Report.

5. Once the bridge facility has been repaid with debt capital market issuances.

6. Realising these refinancing savings would require Novion to incur approximately \$221 million of one-off refinancing costs.

7. Net of \$11 million per annum of funding costs associated with the one-off costs (of \$277 million) incurred to achieve these financing savings. Note, this estimate may vary based on market conditions during the course of implementation, and the timing involved in implementing the refinancing of some categories of the financing arrangements. If the Merged Group only repays Novion's and Federation's existing bank debt and resets its existing interest rate swap derivatives, this would result in \$28 million of net refinancing savings. For further information, see Sections 8.5(c) and 8.6(c).

8. Net of external share of cost savings allocated to properties, the annual funding cost associated with the one-off costs incurred to achieve these savings and capitalised costs. The total cost savings of \$84 million per annum are made up of net operational cost savings of \$42 million per annum, assumed net refinancing savings of \$35 million per annum and \$7 million per annum of capitalised cost savings.

9. The \$77 million of annual cost savings are made up of net operational cost savings of \$42 million per annum and the assumed net refinancing savings of \$35 million per annum. Refer to Sections 3.3(a) and 8.5(c) for the details of repayment of the existing debt financing arrangements and Section 8.6(c) for a sensitivity analysis.

10. For the composition of these costs, refer to Section 3.3(a).

11. This figure assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur which may increase the weighted average interest rate of the Merged Group and lower the assumed refinancing costs of \$277 million. For further information, refer to Sections 8.5(c) and 8.6(c) of this Scheme Booklet.

Opportunities for additional synergies over time

In addition to the operational cost and assumed refinancing savings identified¹², the Merged Group is also expected to generate other revenue and strategic synergies over time. These synergies are expected to be largely driven by:

- **(retailer relationships)** deeper retailer relationships, as the Merged Group will be a key partner of, and have increased relevance and strategic importance to, domestic and international retailers
- **(management and leasing)** greater efficiencies in managing and leasing a larger portfolio and the combination of best practices in tenant and centre management, and
- **(development capability)** further opportunities to optimise and accelerate the development pipeline given the Merged Group's increased balance sheet, tenant coverage and development team capability.

A number of these potential opportunities have been profiled in greater detail below.

Retailer relationships	• Portfolio reach will provide significant opportunities for retailers. • Potential to facilitate efficient geographical expansion. • Roll out of new retail stores and concepts across the enlarged portfolio.
Management and leasing	• Opportunity to apply active management and leasing strategies across the enlarged portfolio to create value by: – combining the high quality practices of each group to create a 'best approach' for tenant and centre management, marketing and leasing – providing international and Australian retailers with a broader portfolio offer, and – targeting the best performing retailers. • Allows customer experience strategies to be combined to drive foot traffic, dwell time, loyalty and sales.
Development capability	• Larger national development team improves the ability to execute and expand both groups' future development pipelines. • Enhanced opportunities to optimise developments and unlock future redevelopment opportunities via the Merged Group's extensive combined asset base, tenant coverage and development team capability.

The impact of these opportunities has not been included in the financial metrics presented in Section 8 but they are expected to be incrementally positive to the Merged Group.

(c) Significant earnings and distribution accretion

The Merger is expected to generate significant earnings and distribution accretion for Novion Securityholders. Novion's pro forma FY15 EPS and DPS is expected to increase by 14.6% and 8.9% respectively.¹³

A summary of the pro forma financial impact of the Merger for Novion and Federation (assuming the Merger had occurred on 1 July 2014) is outlined below. It should be noted that:

- the difference between Novion's expected FY15 pro forma EPS and DPS accretion is due to the Merged Group's assumed reduction in the payout ratio to 95%¹⁴, relative to Novion's current payout ratio of 100%
- Novion's equivalent net asset value per security is expected to increase (+4.5%) as a result of the Merger
- Novion's equivalent net tangible asset value per security is expected to reduce by 3.4% as a result of the material one-off transaction and refinancing costs associated with implementing the Merger
- the pro forma gearing (excluding intangibles) of the Merged Group (31.1%¹⁵) as at 31 December 2014 is expected to be higher (+130 bps) than Novion's existing gearing ratio (29.8%¹⁶), and
- Novion's management expense ratio is expected to reduce materially from 39 bps to 26 bps.¹⁷

12. Refer to Sections 8.3(b) and 8.6 of the Scheme Booklet for further details.

13. Refer to Section 8.6(c) for sensitivities on EPS accretion. The pro forma impact of the Merger excluding the refinancing savings is set out on page 50 of the Independent Expert's Report set out at Annexure A.

14. The assumed payout ratio of 95% more closely aligns distribution payments with operating cash flow, meaning that maintenance capital expenditure does not routinely need to be funded by debt.

15. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

16. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

17. Calculated as corporate overheads (net of recoveries from properties) divided by total assets under management.

Novion financial impact

	Pre	Post (Novion equivalent) ¹⁸	Impact	
FY15 pro forma earnings and distribution impact				
FY15 pro forma EPS	13.8c	15.8c	+14.6% ¹⁹	▲
FY15 pro forma DPS	13.8c	15.0c	+8.9%	▲
Payout ratio	100%	95% ²⁰	(5%)	
31 December 2014 pro forma balance sheet impact				
Net asset value per security (NAV)	\$2.09	\$2.18	+4.5%	▲
Net tangible asset value per security (NTA)	\$1.97	\$1.90	(3.4%)	▼
Gearing – including intangibles ²¹	28.8%	29.0%	+20 bps	▲
Gearing – excluding intangibles ²²	29.8%	31.1%	+130 bps	▲
Management expense ratio	39 bps	26 bps	(13 bps)	▼

Impact on actual FY15 earnings

The impact of the Merger on actual FY15 underlying earnings for Novion and Federation is expected to be neutral given the anticipated timing of implementation.

Should the Merger be implemented, further guidance on the outlook for the Merged Group in the 2016 financial year is expected to be provided at the Merged Group's first results presentation in August 2015.

Further information regarding the financial information of the Merged Group is set out in Section 8.

(d) Improved growth opportunities

The Merger is also expected to generate improved growth opportunities for the Merged Group relative to Novion and Federation on a stand-alone basis. Two areas where these opportunities are expected to be greatest are across its developments and strategic partnerships, where the Merger provides:

- **(development)** the capability to optimise Novion's and Federation's combined development pipeline of \$2.5 billion²³ across 18 key projects²⁴ and unlock future redevelopment opportunities, and
- **(strategic partnerships)** an opportunity to integrate and expand each group's strategic partnership networks.

18. EPS, DPS, NAV and NTA for current Novion Securityholders equate to the post transaction Federation metrics (as the legal acquiring entity) multiplied by the exchange ratio.

19. Refer to Section 8.6(c) for sensitivities on EPS accretion.

20. Assumed target payout ratio of the Merged Group, subject to approval of the Merged Group Board.

21. Calculated as borrowings (net of deferred borrowing costs and cross currency swaps) divided by total assets (net of derivative assets).

22. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

23. The Merged Group's share is \$1.2 billion, with the remainder attributable to the Merged Group's strategic partners.

24. Key projects do not include minor projects such as Maitland Hunter Mall (a Federation owned asset).

Further detail on these potential opportunities has been set out below.

Development	- The extensive combined asset base, tenant coverage and development team capability of the Merged Group is expected to enhance opportunities to optimise developments and unlock future redevelopment opportunities. - The diversified pipeline will enable a staged delivery of projects, smoothing development returns throughout the cycle. - A summary of the Merged Group's development pipeline is set out in Section 7.5.
Strategic partnerships	- The Merged Group will build upon Novion's established Wholesale Funds management platform by integrating and expanding the strategic partnership networks. - The Merged Group may look to utilise its expanded balance sheet (including its \$7.5 billion portfolio of 100% owned assets) to seed new capital partnerships and/or co-invest into new initiatives. This may provide an opportunity to recycle capital into higher returning redevelopments and repositioning opportunities, while retaining ongoing management fees. - The increased scale and diversity of the Merged Group's platform is also expected to lead to benefits for existing and new strategic partners, including: - more partnership opportunities - combined capability and expertise to deliver enhanced outcomes and returns, and - operational cost savings. - A summary of the Merged Group's strategic partnerships is set out in Section 7.6.

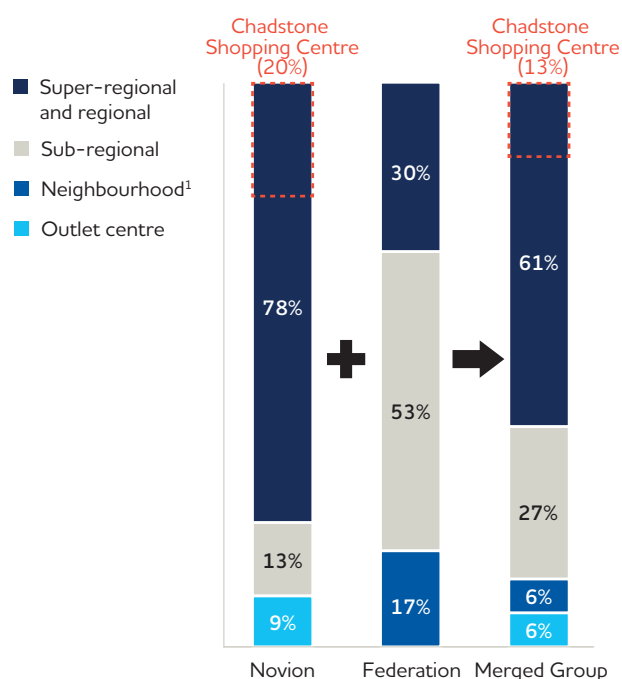
(e) Increased asset, geographic and tenant diversification

The Merger will increase Novion's asset, geographic and tenant diversification.

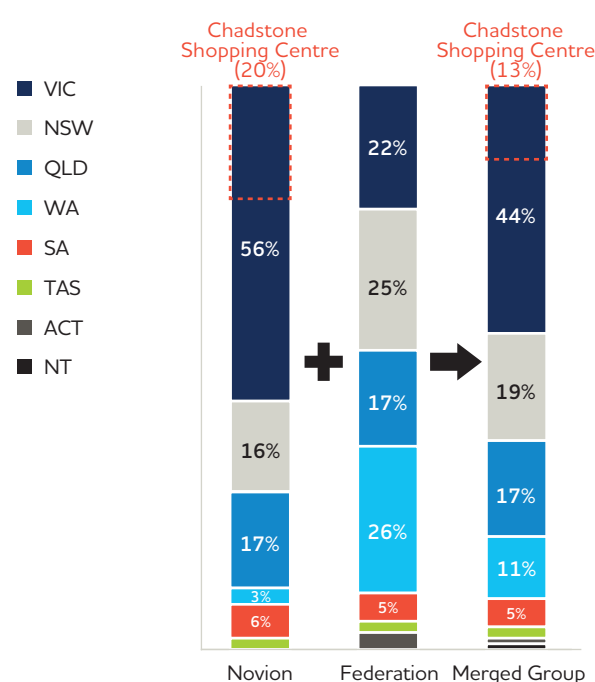
The Merged Group will have scale and relevance across all major retail asset classes, providing a unique exposure to the Australian retail asset class. The Merged Group will have leading market shares across the full spectrum of retail sub-sectors, with a specialist integrated management capability. The expanded retail asset base will provide the opportunity to maximise tenant relationships, retail trends and development across retail categories.

The Merged Group's portfolio will be geographically diversified across all of Australia's key retail markets. The Merged Group's portfolio will comprise centres located in established catchments predominantly in metropolitan areas and with a breadth of exposure to various sub-economies within Australia. The Merged Group will also have a national management platform with its corporate office consolidated in a single location, other regional offices and management teams on-site at the majority of centres – this localised on-the-ground knowledge will ensure national retailer relationships can be effectively maintained.

ASSET TYPE (BY BOOK VALUE)



GEOGRAPHIC LOCATION (BY BOOK VALUE)



1. Includes one bulky goods centre.

The Merged Group will be one of Australia's largest retail landlords, with increased relevance and strategic importance to tenants. The Merger will provide opportunities to integrate and expand Novion's and Federation's existing relationships with leading domestic and international retailers across the combined portfolio. In addition, the Merged Group's increased relevance and strategic importance to tenants is also expected to enhance the Merged Group's attraction to new retailers.

A summary of the number of stores that some of Australia's largest retailers will have with the Merged Group is set out below. The Merged Group will be the largest landlord to Woolworths Limited and Wesfarmers, with supermarket sales representing 32% of total portfolio sales.

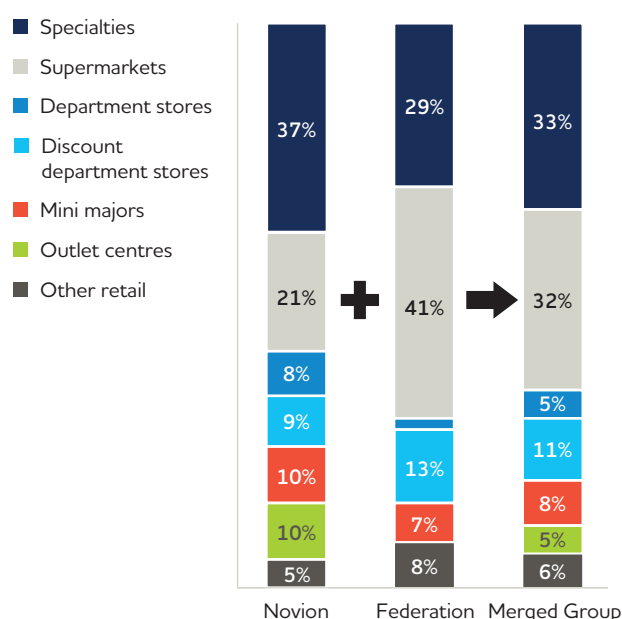
Number of stores ²⁵							
Retailer type	Major retailer	Novion	Federation	Merged Group	Scentre	Stockland	GPT
Supermarkets	Woolworths	22	42	64	31	27	12
	Coles	32	36	68	36	22	13
Discount department stores	Kmart	15	23	38	25	12	6
	Big W	9	15	24	19	12	8
	Target	18	12	30	34	12	10
Department stores	Myer	5	4	9	23	2	6
	David Jones	3	1	4	16	-	4
Total		104	133	237	184	87	59

The Merged Group will have a diversified tenant mix with a balanced exposure to discretionary and non-discretionary retail spending and anchor tenants are expected to represent 56% of sales.²⁶

The Merged Group's total property platform will have:

- 3.0+ million square metres of lettable area
- 9,500+ retail tenancies
- 500+ million customer visits annually, and
- >\$18 billion in annual retail sales generated by tenants.²⁷

TENANT MIX (BY MOVING ANNUAL TURNOVER)²⁶



25. Novion and Federation data as at 31 December 2014, adjusted for post balance date acquisitions and disposals. Scentre, Stockland and GPT data as at 31 December 2014 based on publicly available information.

26. Based on direct portfolio sales data for the 12 months to 31 December 2014.

27. Based on sales data for the 12 months to 31 December 2014.

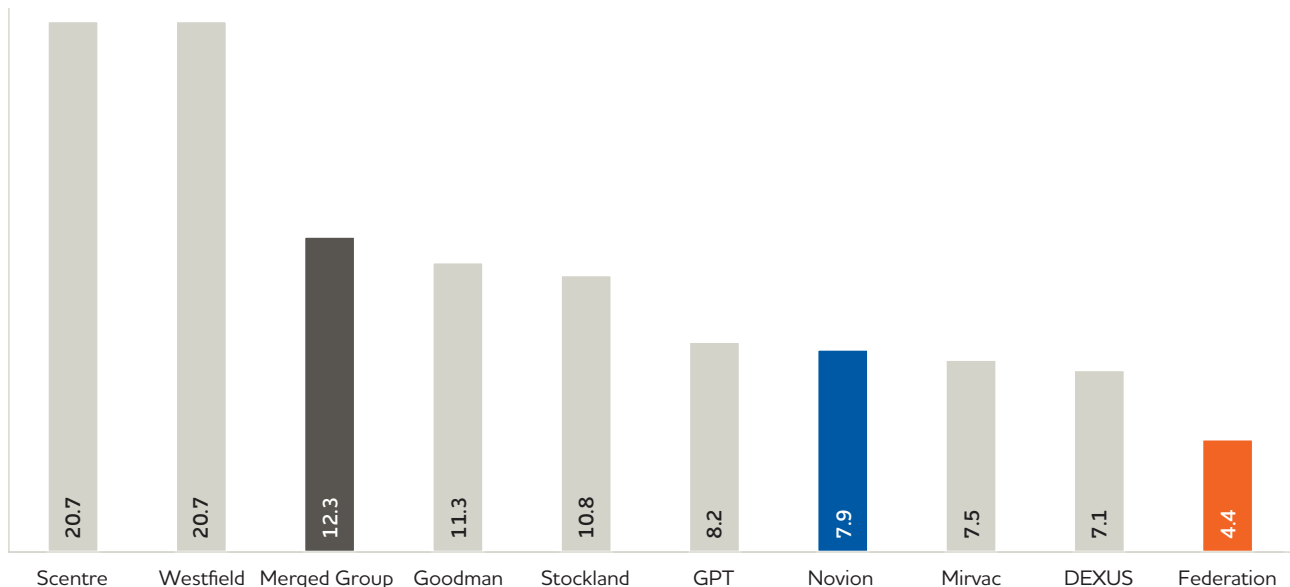
(f) Greater relevance for equity and debt investors through increased scale

The Merged Group will also be of greater relevance to equity and debt investors through its increased scale relative to Novion on a stand-alone basis.

Based on a market capitalisation of over \$12 billion²⁸, the Merged Group will be:

- the third largest A-REIT
- a top-30 entity on the ASX²⁹, and
- a top-10 listed manager of retail assets globally.³⁰

AUSTRALIAN REITS BY MARKET CAPITALISATION (\$BILLION)³¹



The Merged Group's enlarged balance sheet is also expected to provide greater funding flexibility and is expected to enhance its ability to access a broader range of funding sources and tenor. This scale, combined with the cost savings expected to be generated by the Merger, is expected to improve the Merged Group's cost of capital.

3.3 Disadvantages of the Merger

There are a number of disadvantages associated with the Merger, which you should also consider before deciding how to vote. The key disadvantages are outlined below.

(a) Requires material transaction and refinancing costs to be incurred

Implementing the Merger and refinancing the debt of Novion and Federation will require assumed material one-off transaction and refinancing costs of approximately \$458 million to be incurred by the

Merged Group. These costs are expected to comprise:

- stamp duty, advisory and other ancillary costs, totalling implementation costs of \$106 million
- operational cost saving implementation costs of \$75 million, and
- assumed debt restructuring costs of \$277 million (including \$29 million of net derivative liability positions repaid). This figure assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur. Under some of Novion's and Federation's debt financing arrangements, the Merged Group may either not have the ability to control the timing of repayment or it may determine that it is no longer appropriate to repay these debt financing arrangements on the Implementation Date (and before the expiry of the relevant debt financing arrangement). Each debt financing arrangement will be assessed both before and after the Implementation Date (as applicable and necessary) to determine the most appropriate commercial outcome for the Merged Group. For further information, refer to Sections 8.5(c) and 8.6(c).

28. Based on the combination of Novion's and Federation's stand-alone market capitalisations of approximately \$7.9 billion and \$4.4 billion respectively as at the close of trading on 13 April 2015.

29. Based on the closing trading prices of ASX listed entities as at 13 April 2015.

30. Based on the constituents of the FTSE EPRA/NAREIT Global Index, adjusted to include CapitaLand Limited, as at 13 April 2015 (Sydney time).

31. Based on closing trading prices as at 13 April 2015.

These transaction and refinancing costs represent approximately 4% of the combined market capitalisation of Novion and Federation³².

Novion is expected to have incurred one-off transaction costs of approximately \$6 million at the date of the Meeting, which will be payable by Novion regardless of whether the Merger is implemented or not.

(b) Results in a reduction in Novion's equivalent net tangible asset value per security

The Merger is expected to result in Novion's equivalent net tangible asset value per security reducing by 3.4% from \$1.97 to \$1.90 per security. This reduction is largely due to material one-off transaction and refinancing costs of approximately \$458 million³³ that are assumed to be incurred by the Merged Group in implementing the Merger.

However, the Merger is expected to result in Novion's equivalent net asset value per security increasing by 4.5% from \$2.09 to \$2.18 as the increase in recorded intangible assets resulting from the Merger (of approximately \$776 million) are included in the Merged Group's net asset value.

Further detail regarding the financial impact of the Merger is outlined in Section 8.

(c) The Merged Group's credit rating is expected to be lower than Novion's

The Merged Group is expected to have a credit rating (long-term, as assigned by Standard & Poor's) of at least 'A-', which is potentially one notch below Novion's current rating of 'A'. This could be expected to increase the borrowing rates at which the Merged Group can borrow relative to Novion on a stand-alone basis.

(d) The Merged Group is expected to have higher gearing than Novion

The Merged Group is expected to have pro forma gearing (excluding intangibles) of 31.1%³⁴ compared to 29.8%³⁵ for Novion on a pro forma 31 December 2014 basis. This increase is largely due to the material one-off transaction and refinancing costs of approximately \$458 million³³ that are assumed to be incurred in implementing the Merger. The Merged Group's expected gearing is within Novion's target range of 25% to 35%.

The risks associated with gearing are described in more detail in Section 9.3(l).

(e) The risk and investment profile of Novion Securityholders will change

If the Merger is implemented, the Merged Group will own and operate the retail operating platforms currently separately owned and operated by Novion and Federation. Existing Novion Securityholders will consequently be subject to the risks relating to the ownership and operation of Federation's retail property platform going forward and to any risks and liabilities relating to these businesses and Federation entities to which they were not previously directly exposed.

The risks associated with an investment in the Merged Group are described in more detail in Sections 9.3 and 9.4.

32. Based on the combination of Novion's and Federation's stand-alone market capitalisations of approximately \$7.9 billion and \$4.4 billion respectively as at the close of trading on 13 April 2015.

33. For the composition of these costs, refer to Section 3.3(a).

34. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

35. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).

Section 4

Independent Expert's summary letter

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

14 April 2015

The Directors
Novion Limited
Level 39 MLC Centre
19 Martin Place
Sydney NSW 2000

The Directors
Novion RE Limited
as responsible entity for Novion Trust
Level 39 MLC Centre
19 Martin Place
Sydney NSW 2000

Dear Directors

Proposed Merger with Federation Centres**1 Introduction**

On 3 February 2015, Novion Property Group ("Novion") and Federation Centres ("Federation") announced that they had entered into a merger implementation agreement ("the Merger"). Novion and Federation are Australian integrated retail property groups listed on the Australian Securities Exchange ("ASX"). Both are dual stapled entities and, immediately prior to the announcement of the Merger, Novion had a market capitalisation of \$7.1 billion while Federation's market capitalisation was \$4.4 billion.

Under the terms of the Merger, Novion securityholders will receive 0.8225 Federation stapled securities for each Novion stapled security held. As a result, Federation will acquire Novion and existing Novion securityholders will, in aggregate, hold approximately 63.9% of the merged entity (referred to in this report as "the Merged Group") while existing Federation securityholders will hold the remaining 36.1%. The Merger is to be implemented by way of:

- a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") between Novion Limited and its shareholders the effect of which is that Federation Limited will acquire all of the issued shares in Novion Limited in exchange for shares in Federation Limited; and
- a "trust scheme" (to be facilitated by amendments to the constitution of Novion Trust) the effect of which is that Federation Centres Limited as responsible entity of Federation Centres Trust No. 1 will acquire all of the issued units in Novion Trust in exchange for units in Federation Centres Trust No. 1.

Consequently, the Merger requires Novion securityholder approval. At the meetings to consider the Merger, Novion securityholders will be asked to consider five resolutions. If any of the resolutions are not passed, the Merger will not be implemented.

The directors of Novion have unanimously recommended the Merger, in the absence of a superior proposal and subject to an independent expert concluding that the Merger is fair and reasonable to, and in the best interests of, Novion securityholders. The Gandel Group Pty Limited ("The Gandel Group"), Novion's largest securityholder with a 26.98% relevant interest¹ and the co-owner of Novion's largest asset (Chadstone Shopping Centre), has indicated that it intends to vote in favour of the Merger based on the disclosed merger terms and in the absence of a superior proposal.

The directors of Novion have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Merger is fair and reasonable to, and in the best interests of, Novion securityholders. A copy of the report (including this letter) will accompany the Notices of Meetings and Explanatory Memorandum ("Scheme Booklet") to be sent to securityholders by Novion. This letter contains a summary of Grant Samuel's opinion and main conclusions.

¹ The Gandel Group's relevant interest in Novion is held by a number of entities which are associates of The Gandel Group.

GRANT SAMUEL



2 Opinion

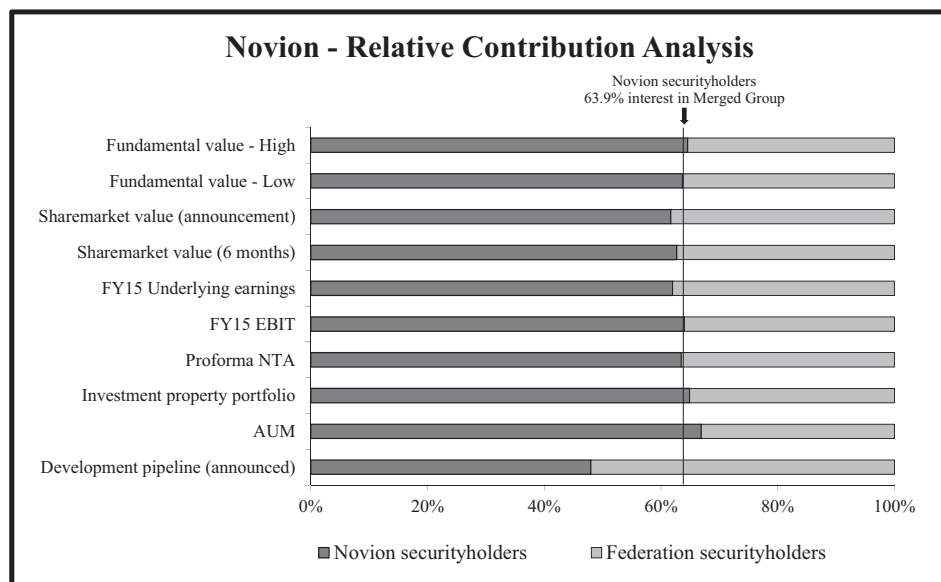
In Grant Samuel's opinion, the Merger is fair and reasonable to, and in the best interests of, Novion securityholders.

3 Summary of Conclusions

The Merger brings together two major Australian integrated retail property groups. It involves Federation acquiring 100% of the stapled securities in Novion. However, while the Merger is technically a control transaction, the commercial reality is that it is a merger. Novion securityholders will, in aggregate, own 63.9% of the Merged Group and Federation securityholders will own the remaining 36.1%.

Accordingly, the analysis of fairness is different to that for a conventional control transaction. The Merger will be fair if the share of the Merged Group received by Novion securityholders (63.9%) is approximately proportionate to the contribution by Novion securityholders measured on a number of different bases. Specifically, Grant Samuel has considered the relative contributions of sharemarket value, fundamental value and other parameters (including underlying earnings, EBIT², NTA³, AUM⁴ and announced development pipeline).

On the basis of sharemarket values and of Grant Samuel's assessment of the fundamental (or underlying) value of Novion and Federation, the aggregate interest of Novion securityholders in the Merged Group is consistent with, if not slightly favourable in comparison to, the share contributed by them. This conclusion is supported by analysis of the relative contributions in terms of other parameters. It should be recognised that Novion will contribute a lower proportion of announced development pipeline to the Merged Group (48%) and, while caution is warranted in placing weight on this measure, it identifies a key benefit of the Merger for Novion securityholders (i.e. enhanced growth prospects).



In Grant Samuel's view, the merger ratio represents a fair balance of competing interests and the terms of the Merger are fair to Novion securityholders. This conclusion would not change if the outstanding Novion and Federation performance rights or Novion's convertible notes are taken into account.

² EBIT is earnings before interest, tax, fair value adjustments, rental straight lining, non cash convertible note interest expense, amortisation of project costs and other items but includes interest and other income.

³ NTA is net tangible assets, which is calculated as net assets less intangible assets.

⁴ AUM is assets under management. For the purposes of this analysis it represents retail AUM.

GRANT SAMUEL

■ ■ ■

As the terms of the Merger are fair, they are also reasonable and, accordingly, the Merger is in the best interests of Novion securityholders.

In any event, Grant Samuel believes that the benefits and advantages of the Merger outweigh the costs, disadvantages and risks. The key benefits include:

- the Merged Group will be a large integrated property group with a portfolio of retail property assets encompassing the full spectrum of Australian retail assets. It will have \$22 billion in retail AUM, be a top 30 ASX listed entity (assuming a market capitalisation in excess of \$11 billion) and be the second largest ASX listed property group focussed on Australian retail property assets (after Scentre Group). While some Novion securityholders may not welcome the broadening of the retail focus of their investment to include a larger proportion of sub-regional shopping centres:
 - there will be no material change to the essential investment characteristics as investment returns will remain a combination of passive retail property investment returns and returns from active retail property management;
 - there are diversification benefits in terms of geography and retail spend category as well as a reduction in the concentration of investment in Chadstone Shopping Centre; and
 - the scale and sector focus of the Merged Group's portfolio is expected to attract leading retail management expertise, a broader range of investment opportunities and substantial scale benefits. It is also expected to be positive for liquidity, enhance funding flexibility and provide access to a broader range of funding sources;
- improved growth opportunities from the development potential in the enlarged pipeline as well as the opportunity to accelerate development of Federation's pipeline. The development opportunities span the retail asset spectrum and are diverse in terms of size which will reduce concentration of development risk;
- a 9.4% uplift in pro forma attributable underlying earnings per security (even if the impact of the refinancing savings are excluded as there are offsetting costs and the refinancing opportunity exists for Novion on a standalone basis in any event) driven by material identified operational cost savings. If the refinancing savings are included pro forma attributable underlying earnings per security are expected to increase by 14.6%;
- the increase in underlying earnings will lead to a higher distribution per security than would otherwise have been the case (even though the proposed payout ratio declines to 95%); and
- the security register will be more open with The Gandel Group's relevant interest diluted from 26.98% to 17.25%. Securityholders retain the right to realise a full premium through a subsequent change of control transaction although the sheer size of the Merged Group may reduce the potential for future offers.

The costs, disadvantages and risks are not trivial but are outweighed by the benefits. They include:

- there are risks associated with integration and, in this case, the scale of the operations accentuates the risks. The combining of two boards and senior management teams, the process of extracting identified cost savings and the integration of significant national systems (including IT and management reporting systems) means there is risk of delays and increased costs of implementation. In addition, there is no certainty that the estimated costs savings will be achieved. However, these risks may be mitigated by the following factors:
 - the complementary nature of the Novion and Federation investment portfolios and operations;
 - the detailed review undertaken in relation to the potential cost savings as part of the due diligence processes undertaken by Novion and Federation on each other;
 - almost half of the identified costs savings relate to the assumed refinancing of borrowings which may occur at or after implementation of the Merger; and
 - some level of contingency has been allowed in the one off costs of the Merger; and
- there will be a decrease in NTA and an increase in gearing, although this is unlikely to have an adverse impact on security price because that will be largely driven by distribution per security.

At announcement the terms of the Merger implied a value of \$2.55 per Novion security or a 9.9% premium over Novion's pre announcement price (\$2.32) and similar premiums above security prices over longer periods. Recent trading in Federation securities suggests a trading price in the range \$2.90-3.10 for securities in the Merged Group (equivalent to \$2.39-2.55 per Novion security) while at the same time

GRANT SAMUEL



Novion securities have been trading in the range \$2.40-2.70. Prices at this level represent a material uplift in value for Novion securityholders if the Merger is implemented relative to pre announcement security prices. It is uncertain whether this uplift will be sustained as the actual trading price of securities in the Merged Group will depend on a range of factors including market conditions, the market ratings of peer group entities and actual operating performance. Nevertheless, having regard to proforma metrics, current market pricing appears realistic, if not conservative:

Merged Group Securities – Implied Value Parameters			
Parameter	Variable	Value Parameter Range	
		Low	High
Implied equity value ⁵ (\$ million)		11,480	12,272
Implied enterprise value ⁶ (\$ million)		16,048	16,840
Multiple of FY15 EBIT	\$938 million ⁷	17.1x ⁷	18.0x ⁷
FY15 forecast distribution yield	18.6¢	6.4%	6.0%
Premium over NTA	\$9,166 million	25.2%	33.9%
Premium over ungeared NTA	\$13,734 million	16.8%	22.6%

Overall, Grant Samuel's judgement is that Novion securityholders will be better off if the Merger is implemented than if it is not.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Novion securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Scheme Booklet issued by Novion in relation to the Merger.

Grant Samuel has not been engaged to provide a recommendation to securityholders in relation to the Merger, the responsibility for which lies with the directors of Novion. In any event, the decision whether to vote for or against the Merger is a matter for individual securityholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Securityholders who are in doubt as to the action they should take in relation to the Merger should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in Novion, Federation or the Merged Group. These are investment decisions independent of a decision on whether to vote for or against the Merger upon which Grant Samuel does not offer an opinion. Securityholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is set out in Annexure A to the Scheme Booklet and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

⁵ Calculated as \$2.90 x 3,958.7 million securities in the Merged Group and \$3.10 x 3,958.7 million securities in the Merged Group.

⁶ Calculated as implied equity value plus proforma net debt of \$4,568 million.

⁷ EBIT does not include any profit margin on development income relating to owned assets. If this profit margin was included the implied EBIT multiples would be lower.

This page is intentionally left blank.

Section 5

Profile of Novion

5.1 Overview

Novion is one of Australia's leading retail property groups, with a fully integrated funds and asset management platform, and \$14.9 billion in retail assets under management. Novion holds interests valued at \$9.1 billion in 27 directly-owned retail assets across Australia and manages 19 assets on behalf of Wholesale Funds, third parties and other strategic partners (nine of which are co-owned with Novion).

Novion has over 20 years of experience operating as a listed retail platform. In March 2014, Novion completed a major transformation which involved the internalisation of Novion's management, the acquisition of an integrated retail asset management business and the commencement of management of a number of wholesale property funds and property mandates (the Internalisation). Novion was formerly known as 'CFS Retail Property Trust Group' until it was renamed in November 2014.

Novion is structured as a stapled group, with each stapled security in Novion comprising one share in Novion Limited and one unit in Novion Trust. The Responsible Entity of Novion Trust is Novion RE.

Novion is a top-50 ASX listed entity by market capitalisation (\$7.9 billion at 13 April 2015), trading under the ASX code 'NVN'. Novion has a diverse securityholder base with over 17,000 investors.

Novion employs approximately 800 people, with offices in Melbourne, Sydney, Brisbane and Perth. Novion's corporate head office is located in Sydney's CBD and its asset management head office is located at Chadstone in Melbourne.

For additional information on Novion, visit www.novion.com.au

5.2 Platform overview

A summary of Novion's direct portfolio and its total owned and managed portfolio is set out below.

	Direct portfolio	Total owned and managed
Number of retail assets	27	37
Book value	\$9.1bn	\$14.9bn
GLA (million sqm)	1.3+	1.6+
Number of tenancies	4,200+	5,100+
Annual retail sales ¹	\$7.8bn+	\$9.6bn+
Occupancy	99.7%	-
Capitalisation rate (weighted average)	6.1%	-

Novion's direct portfolio is geographically diversified throughout Australia with a bias towards Victoria, Queensland and New South Wales. The portfolio predominantly comprises super-regional and regional centres with additional exposure to sub-regional shopping centres and a portfolio of retail outlet centres.²

Novion has recently completed major redevelopments of Emporium Melbourne and DFO Homebush and has commenced a major project at Chadstone Shopping Centre. In total, Novion has a development pipeline valued at \$1.2 billion³ across nine key projects.

A list of Novion's properties (and their key metrics) is set out in Section 7.4.

1. Based on sales data for the 12 months to 31 December 2014.

2. See Section 3.2(a) for further information on shopping centre categories.

3. Novion's share is \$0.5 billion, with the remainder attributable to Novion's strategic partners.

5.3 Strategy and recent performance

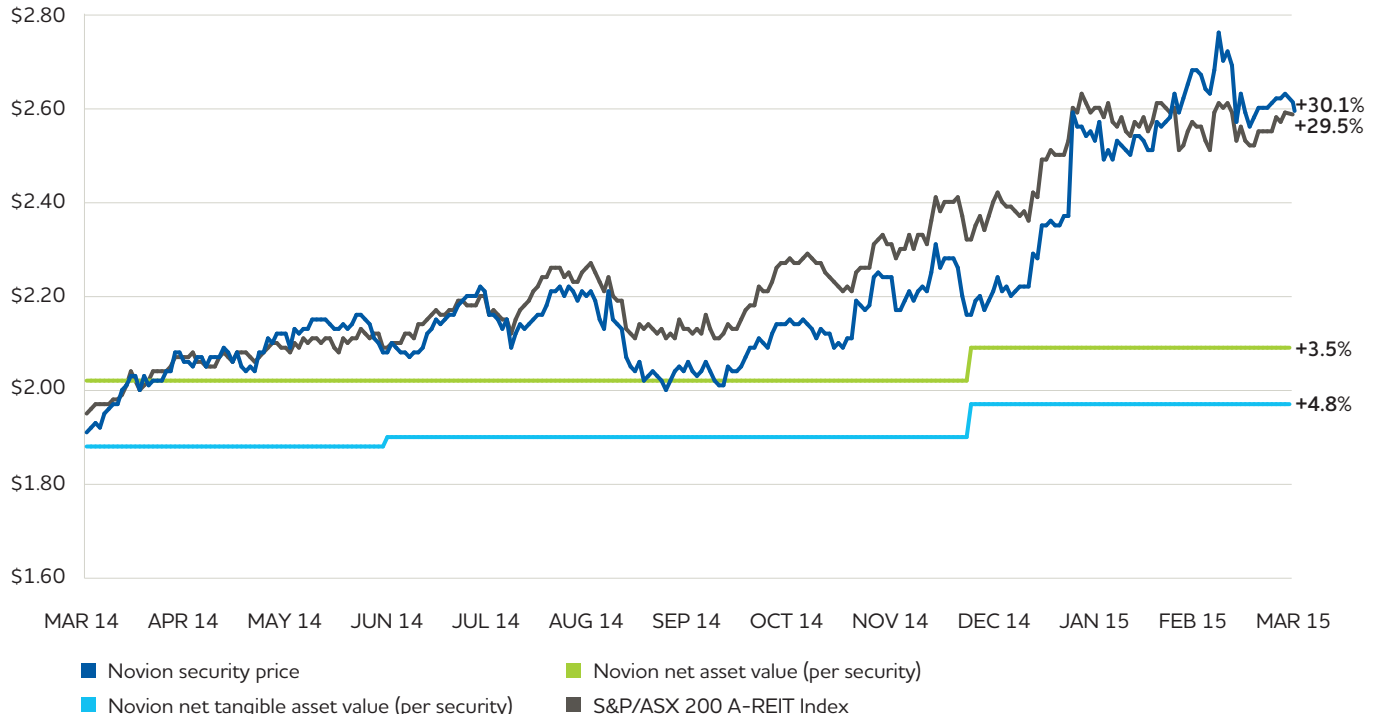
Novion's objective is to deliver superior and stable risk-adjusted returns for its securityholders over the longer term by focusing on maximising the potential of its properties. Novion's key group financial objectives are to provide a total return of approximately 9% per annum through the cycle and superior total securityholder returns relative to its peer group.

Novion's long-term strategy is focused on four key elements and reflects Novion's focus on owning and managing a portfolio of Australian retail assets. The four key elements are:

Intensive asset management	• Deliver compelling retail experiences through intensive asset management and development. • Strong tenant relationships. • Drive property income.
Disciplined investment and capital management	• Highly disciplined approach to investment decisions. • Maintain a strong balance sheet and access to capital in all market conditions. • Invest responsibly.
Operational excellence	• Further embed a culture of continuous improvement. • Attract and retain the best talent. • Reduce risks and improve cost efficiencies.
Strategic partnerships	• Develop and enhance relationships with existing and new partners. • Deliver fund strategies. • Create new fund and mandate opportunities.

(a) Security price performance

Outlined in the chart below is Novion's trading price performance since 24 March 2014, being the trading day on which Novion's internalisation was completed.



Note: For illustrative purposes, the starting value of the S&P/ASX 200 A-REIT Index has been set to Novion's trading price on 24 March 2014.

As at 14 April 2015, being the last trading day before the date of this Scheme Booklet:

- the last recorded trading price of Novion Securities was \$2.53, and
- the lowest and highest close prices of Novion Securities during the previous three months were \$2.17 and \$2.70 respectively.

As at 2 February 2015, being the trading day before the Merger was announced, the last recorded trading price of Novion Securities was \$2.32.

(b) Key events

Novion has delivered a number of significant outcomes for Novion Securityholders since the Internalisation, the biggest structural change in its history. Some of Novion's key events since April 2014 are summarised in the table below.

Date	Event
April 2014	• Emporium Melbourne opens. • Appointment of Trevor Gerber, Peter Kahan, Karen Penrose and David Thurin as non-executive directors to the Novion Board.
May 2014	• Novion acquires an additional 25% interest in DFO South Wharf for \$87.6 million, taking its interest to 75%.
June 2014	• Novion and Novion Retail Partnership agree to sell Entertainment Quarter for \$80 million (settled December 2014).
July 2014	• Appointment of Peter Hay as a non-executive director to the Novion Board.
September 2014	• \$580 million development (Novion's share \$290 million) launched at Chadstone Shopping Centre for the next stage of development.
October 2014	• Novion issues \$200 million of USPP notes. • Novion agrees to sell Post Office Square for \$67 million (settled November 2014).
November 2014	• Rebranding finalised and Sydney office relocates which completed the last major stage of the Internalisation transition process.
December 2014	• Strong property revaluation outcomes, with a \$259.7 million or 5.6% valuation increase lifting Novion's net tangible asset value per security from \$1.90 to \$1.97.
February 2015	• Novion and Federation announce they have agreed to merge subject to certain conditions. • Novion announces half-yearly results for FY15, with net profit of \$412.7 million and an 8% increase in distributable income to \$210.5 million.

5.4 Substantial securityholders

The following persons have notified Novion of the fact that they hold substantial holdings (within the meaning of the Corporations Act) in Novion Securities as at 13 April 2015, based on substantial shareholder notice lodgements with the ASX, which are available on the ASX website:

Securityholder	Effective date	Number of securities	Voting interest at time of notice ⁴
The Gandel Group Pty Ltd (and its associates)	26 March 2015	830,226,497	27.0%
UniSuper Ltd	3 March 2015	347,690,425	11.4%
BlackRock Group	9 March 2015	156,871,306	5.1%
Vanguard Group, Inc.	4 June 2014	150,970,322	5.0%

4. Sourced from substantial holding notices lodged with ASX as at 13 April 2015, and rounded to one decimal place.

5.5 Financial information

Summarised in the tables below is Novion's key financial performance and portfolio information for the last two full financial years and the six months to 31 December 2014.

	As at 30-Jun-13	As at 30-Jun-14	As at 31-Dec-14
Financials			
Total assets (\$m)	8,629	9,462	9,716
Total liabilities (\$m)	2,865	3,360	3,346
Number of securities on issue (m)	2,828	3,018	3,051
Net tangible asset value per security (\$)	2.04	1.90	1.97
Portfolio			
Portfolio value (\$m)	8,560	8,866	9,090
Portfolio capitalisation rate ⁵ (%)	6.4	6.3	6.1
Portfolio occupancy rate by area (%)	99.4	99.7	99.7
Total specialty sales ⁶ (\$/sqm)	9,463	9,740	9,779

	Year ended 30-Jun-13	Year ended 30-Jun-14	Half-year ended 31-Dec-14
Net profit/(loss) (\$m)	295.0	400.1	412.7
Basic earnings per security ⁷ (cents)	10.4	13.6	13.6
Distributable income per security ⁸ (cents)	13.6	13.3 ⁹	6.9
Distribution per security (cents)	13.6	13.6	6.9

On 26 February 2015, Novion paid a 6.9 cents per security distribution for the six months to 31 December 2014 which was equal to its distributable income over the same period. Novion has provided full-year FY15 distribution guidance¹⁰ of 13.8 cents per security (6.9 cents for the six months to 30 June 2015). If the Merger is implemented before 30 June 2015, Novion Securityholders will not receive this distribution but instead receive Federation's distribution for the second half of the 2015 financial year¹⁰. See Section 8.4 for further information.

5. Weighted average for shopping centre portfolio.

6. Shopping centre portfolio.

7. As defined in the financial report in Novion's 2014 Annual Report. Including but not limited to fair-value adjustments for investment properties, associates, derivatives and performance fees.

8. Distributable income (also known as underlying earnings), as defined in Section 8.1, per Novion Security.

9. Impacted by the issue of Novion Securities in December 2013 (to part-fund the Internalisation) which ranked equally with Novion Securities on issue.

10. Assuming there is no unforeseen material deterioration to existing economic conditions.

5.6 Capital management

Novion maintains a disciplined approach to capital management. As at 31 December 2014¹¹, Novion had gearing of 29.4%, a weighted average debt duration of 3.9 years, 83% of its debt hedged and a long-term credit rating of 'A' from Standard & Poor's.

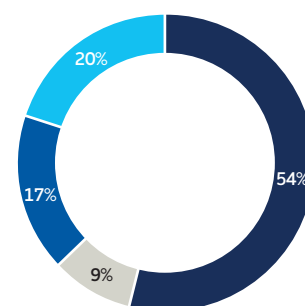
As at	30-Jun-13	30-Jun-14	31-Dec-14
Weighted average interest rate ¹²	5.6	5.4	5.3
Weighted average debt duration (years)	3.1	3.5	3.9
Portion of debt hedged (%) ¹³	81	87	83
Total facilities (\$m)	3,016	3,318	3,354
Drawn facilities (\$m)	2,486	2,925	2,841
Undrawn facilities (\$m)	530	393	512
Long-term corporate credit rating (Standard & Poor's)	A	A	A ¹⁴
Gearing (including intangibles) ¹⁵ (%)	28.8	30.9	29.4
Interest cover ratio (times) ¹⁶	3.3	3.4	3.2

Novion's debt profile is diversified by duration and source with no debt expiring in the remainder of FY15 and 46% of debt sourced in the debt capital markets.

DEBT MATURITY PROFILE		\$m	%
FY15		-	-
FY16	100 440	540	16
FY17	300 300 178	778	23
FY18	500	500	15
FY19	675 38	713	21
FY20	225 250	475	14
BEYOND	349	348	10
Total facilities		3,354	100
Drawn debt		2,841	
Undrawn debt		512	

■ Bank debt ■ Convertible notes ■ US Private Placement ■ Medium term notes

SOURCES OF DEBT		\$m	%
Bank debt		1,800	54
Convertible notes		300	9
US Private Placement		564	17
Medium term notes		690	20
Total facilities		3,354	100



Note: Subsequent to 31 December 2014, an extra \$100 million of bank debt facilities were put in place.

Further information in relation to Novion's existing debt profile is set out on page 19 of the Independent Expert's Report.

11. Excludes \$100 million of additional bank debt facilities negotiated post 31 December 2014.

12. Includes line fees and margin.

13. Including all fixed-rate debt.

14. Standard & Poor's credit watch negative following the Merger announcement.

15. Calculated as borrowings as a percentage of total assets. Total assets excludes the fair value of derivatives. Borrowings is the amount of debt drawn.

16. Calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represents net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest; less non-cash convertible notes interest expense.

5.7 Capital structure

At the date of this Scheme Booklet, Novion has the following securities on issue:

- 3,077,214,058 Novion Securities quoted on the ASX, which includes 26.6 million Novion Securities that were issued on 26 February 2015 under the DRP for the December 2014 distribution.
- 2,489,028 Novion Performance Rights, which on vesting, require the payment of cash or issue of Novion Securities.

5.8 Remuneration and retention arrangements

(a) Novion remuneration arrangements – LTIP and STIP

Novion currently has in place the Novion Long Term Incentive Plan (LTIP). Participants in the LTIP are entitled to receive Novion Performance Rights which vest following the satisfaction of Performance Conditions. Upon vesting, participants in the LTIP receive one Novion Security for each Novion Performance Right. Under the LTIP, there are 1,590,425 “Executive Performance Rights” and 898,603 “Management Performance Rights” on issue that remain unvested as at the date of this Scheme Booklet.

Novion also has in place the Novion Short Term Incentive Plan (STIP) in which a majority of employees participate. Participants in the STIP are entitled to receive cash payments if Performance Conditions are satisfied, other than certain executives who must receive a portion of any award above \$50,000 in deferred Novion Securities.

Further detail in relation to the LTIP and the STIP and the relevant Performance Conditions are available in Novion’s 2014 Remuneration Report (contained in Novion’s 2014 Annual Report) received and approved by Novion Securityholders at the 2014 Annual General Meeting.

(b) Impact of Merger on LTIP

Under the terms of the LTIP, when the Court orders the convening of the Company Scheme Meeting, the Novion Board has the right to determine, in its absolute discretion, whether all or some of the unvested Novion Performance Rights vest, remain subject to performance and service conditions or become subject to substituted or varied conditions.

The Novion Board has exercised its discretion such that, if:

- (A) all Resolutions are approved by Novion Securityholders at the Meeting, and
- (B) the Novion Board does not consider that the Merger is subject to any material outstanding conditions,

then:

- (C) a proportion of the Novion Performance Rights (other than those of the Managing Director and CEO discussed in (D) below) will vest, subject to the applicable Performance Conditions being satisfied. For some participants closely involved in the consideration, execution and implementation of the Merger, two thirds of their Novion Performance Rights will vest. For all other participants, a pro rata portion of their Novion Performance Rights will vest having regard to the relevant period elapsed under the LTIP (expected to be approximately one third of a participant’s Novion Performance Rights). All Novion Performance Rights that do not vest as a result of the Merger or failure to meet performance of service conditions will lapse, and
- (D) all Novion Performance Rights held by the Managing Director and CEO will vest, subject to the applicable Performance Conditions being satisfied.

Novion Performance Rights that vest will be satisfied in cash equivalent value by reference to a volume weighted average price over a time period to be determined by the Novion Board.

In assessing whether the Performance Conditions have been met, the Board will:

- (E) measure the Total Securityholder Return on a pro-rata basis
- (F) exercise its discretion in respect of the calculation of the Total Return on a pro-rata basis if a full year 2015 valuation is not available at the time the Merger is approved by Novion Securityholders, and
- (G) in relation to Management Performance Rights which vest due to satisfaction of the Total Return Performance Condition, exercise its discretion so that the continuous employment service condition will cease to apply from the time the Merger is approved by Novion Securityholders.

(c) Impact of Merger on STIP

At or around the Effective Date and the Implementation Date, the Novion Board will exercise its discretion to determine what proportion of a participant's entitlement under the STIP will be awarded. The Board will exercise its discretion having regard to the Board's assessment of the performance of Novion and of the particular STIP participant in the period from 1 July 2014 to a date prior to the Implementation Date. All STIP awards will be made by way of cash payment.

(d) Deferred payments under other arrangements

(i) Historical long term and short term incentive plans

Certain employees of Novion were participants under long term and short term incentive plans associated with their former employment with the CBA Group.

The Novion Board has determined that any existing deferred bonus payments or unvested cash allocations payable to Novion employees under the plans will be satisfied by way of cash payment to be made at the time the Merger is implemented.

(ii) Existing contractual arrangements

Mr Richard Jamieson, Chief Financial Officer of Novion, has a right under his contract of employment to be granted 200,000 Novion Securities on 1 December 2015, and a further 200,000 Novion Securities on 1 December 2016. The Novion Board has determined that should the Merger be approved and subject to certain other conditions relating to Mr Jamieson's

employment, Mr Jamieson will be paid the cash equivalent of the value of the Novion Securities calculated by reference to a volume weighted average price over a period to be determined by the Novion Board.

(e) Other remuneration and retention arrangements

(i) Board remuneration

Under rule 10.3 of the Novion Limited constitution, the Novion Board approved a one-off supplemental director fee of \$30,000 per Novion Director, having regard to the increased workload relating to the consideration and implementation of the Merger. This payment does not impact the aggregate directors' fee cap of \$1.9 million as set out in rule 10.2 of the Novion Limited constitution.

(ii) Other employee arrangements

The Novion Board has offered Novion's three key management personnel (excluding the Managing Director and CEO) an additional STI payment to be determined at the discretion of the Novion Board, having regard to the individual's added value and contribution to the Merger. The aggregate dollar value of these payments is not expected to exceed \$900,000.

In addition, the Novion Board has offered a limited number of retention payments to a select group of Novion personnel who are not key management personnel. The retention payments are subject to certain conditions that are required to be satisfied.

5.9 Relevant Interests of Novion directors

(a) Relevant Interests in Novion Securities

The following table lists the Relevant Interests of the directors of Novion as at the date of this Scheme Booklet:

Director	Executive or non-executive	Independence status	Relevant Interest in Novion Securities
Mr Richard Haddock AM (Chairman)	Non-executive	Independent	55,200
Mr Trevor Gerber	Non-executive	Independent	25,000
Mr Peter Hay	Non-executive	Independent	45,338
Mr Peter Kahan	Non-executive	Non-Independent	Nil
Mr Angus McNaughton	Executive	Non-Independent	45,871
			552,995 Novion Performance Rights ¹⁷
Ms Nancy Milne OAM	Non-executive	Independent	25,000
Ms Karen Penrose	Non-executive	Independent	25,000
Dr David Thurin	Non-executive	Non-Independent	16,894,070 ¹⁸

17. Allocation for these Novion Performance Rights was approved by Novion Securityholders on 31 October 2014.

18. Dr Thurin is a director, company secretary and a shareholder of Jadeglen Investments Pty Ltd which holds 187,500 Novion Securities. Dr Thurin also has control over 16,706,570 Novion Securities registered in the name of Cenarth Pty Ltd as trustee for The Cenarth Trust.

(b) Relevant Interests in Federation Securities

As at the date of this Scheme Booklet, no director of Novion has any Relevant Interests in any Federation Securities.

5.10 No pre-transaction benefits

During the period of four months before the date of this Scheme Booklet, neither Novion nor any associate of Novion gave, or offered to give, or agreed to give, a benefit to another person which was likely to induce the other person, or an associate of the other person to:

- vote in favour of the Merger, or
- dispose of Novion Securities,

and which will not be provided to all Scheme Securityholders under the Schemes.

(a) Benefits in connection with retirement from office

Except as disclosed in Sections 5.8 and 5.9 of this Scheme Booklet, no payment or other benefit is proposed to be made or given to any director, company secretary or executive officer of Novion (or its related bodies corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in Novion or any of its related bodies corporate in connection with the Merger.

Novion pays premiums in respect of a directors and officers (D&O) insurance policy for the benefit of the directors of Novion and executive officers.

(b) Novion directors' interests in agreements or arrangements relating to the Merger

Except as disclosed in this Scheme Booklet:

- no Novion director has any other interests in a contract entered into by Federation
- there are no contracts or arrangements between a Novion director and any person in connection with or conditional upon the outcome of the Merger, and
- no Novion director has a material interest in relation to the Merger other than in their capacity as a Novion Securityholder as outlined in Section 5.9.

5.11 Material changes in Novion's financial position since last accounts published

Other than as disclosed in this Scheme Booklet, within the knowledge of the Novion Board, the financial position of Novion has not materially changed since 31 December 2014, being the date of the balance sheet for the half year accounts of Novion for FY15.

5.12 Continuous disclosure

Novion is a disclosing entity for the purposes of the Corporations Act and is subject to periodic reporting and disclosure obligations under the Corporations Act and the Listing Rules.

These obligations require Novion to notify the ASX of information about specified matters and events as they arise for the purpose of the ASX making that information available to participants in the market.

Once Novion becomes aware of any information concerning it which a reasonable person would expect to have a material effect on the price or value of a Novion Security, Novion must (subject to limited exceptions) immediately tell the ASX that information.

Publicly disclosed information about all ASX-listed entities, including Novion, is available on the ASX website at www.asx.com.au

This page is intentionally left blank.

Section 6

Profile of Federation

6.1 Overview

Federation is an Australian real estate investment trust specialising in the ownership, management and redevelopment of Australian retail assets. Federation has two main operations:

- retail asset investment: Federation has approximately \$7.3 billion of retail assets under management¹ and holds interests valued at \$4.9 billion in 45 wholly-owned and 20 co-owned retail assets across Australia as at 31 December 2014. Federation manages 20 retail assets on behalf of strategic partners (19 of which are co-owned with Federation), and
- services business: Federation's services business includes property management, leasing and development. Federation provides personnel, systems and facilities to deliver these services to the properties it manages and co-owns.

Federation was created and listed in December 2011 through the stapling of Federation Limited, Federation Trust, Federation Trust 2 and Federation Trust 3. Federation simplified its corporate structure in November 2014 and is now a dual stapled group consisting of Federation Limited and Federation Trust. The Responsible Entity of Federation Trust is Federation RE (in its own corporate capacity), a wholly owned subsidiary of Federation Limited.

Federation is listed on the ASX under the code 'FDC' and had a market capitalisation of approximately \$4.4 billion as at the close of trading on 13 April 2015. Federation has a diverse securityholder base with over 7,000 investors.

Headquartered in Melbourne, Federation employs approximately 600 people and operates across Australia, with offices also in Sydney, Brisbane and Perth.

For additional information on Federation, visit www.federationcentres.com.au

6.2 Platform overview²

(a) Portfolio overview

Federation is a significant owner and manager of Australian retail assets, being the largest listed retail property owner/manager (by shopping centre count) and the third largest listed retail property manager (by GLA). A summary of Federation's direct portfolio and its total owned and/or managed portfolio as at 31 December 2014 is set out below.

	Direct portfolio ³	Total owned and/or managed ⁴
Number of retail assets	65 (including 20 co-owned assets)	66
Book value	\$4.9bn	\$7.6bn
GLA (million sqm)	1.4+	1.4+
Number of leases	4,600+	4,700+
Annual retail sales ⁵	\$8.6bn+	\$8.7bn+
Occupancy	99.5%	99.5%
Capitalisation rate (weighted average)	7.01%	6.92%

Consistent with Federation's strategy of ensuring that its mix of assets is aligned to best deliver value, Federation undertakes regular reviews of its portfolio. Currently, Federation has a campaign seeking expressions of interest in connection with the sale of the Mount Gambier Central and Westside Plaza Broken Hill shopping centres underway. If those sales go ahead, it is expected that this would reduce the total value of its wholly owned assets by approximately \$65 million. The sales are not expected to be completed before 30 June 2015.

Federation's portfolio is diversified by type and location, with representation across regional, sub-regional and neighbourhood shopping centres and a presence in every Australian state and territory. This diversification is enhanced by the multitude of leases and retailers in the portfolio with approximately 4,600 leases across 2,200 retailers, with the portfolio generating annual retail sales of approximately \$8.6 billion for the year ended 31 December 2014.⁶

Federation's portfolio is focused on non-discretionary retail (staples including food, beverages and household consumables), with 69% of the portfolio (by value) comprising sub-regional and neighbourhood centres, which are focused on everyday shopping requirements. As a result of this weighting, the portfolio's largest tenant exposure is to Australia's two leading retailer groups, Woolworths Group and Wesfarmers.

1. This excludes Tuggeranong Hyperdome (50% owned by Federation) which is currently managed by Novion.

2. A reference to Federation's portfolio in Sections 6.2(a) to (h) is a reference to Federation's directly owned portfolio, unless otherwise specified.

3. Excludes interests in three properties that have been sold since 31 December 2014, being Woodlands Village (settled 30 January 2015), Warrnambool (settled 9 February 2015) and Mildura Central (settled 12 February 2015).

4. Refer to the footnote directly above. In addition, this includes Paradise Centre.

5. Based on sales data for the 12 months to 31 December 2014.

6. Based on sales data for the 12 months to 31 December 2014.

Federation recently completed a development project at Warnbro Centre in Western Australia and is currently undertaking development projects at Cranbourne Park in Victoria, Halls Head Central in Western Australia, Warriewood in New South Wales and Colonnades in South Australia. In total, Federation has a development pipeline of \$1.3 billion (with Federation's contribution approximately 50%) across nine key projects including proposed major projects at The Glen in Victoria, and Galleria and Mandurah Forum in Western Australia. See Section 6.2(i) for further information on Federation's development activities and pipeline.

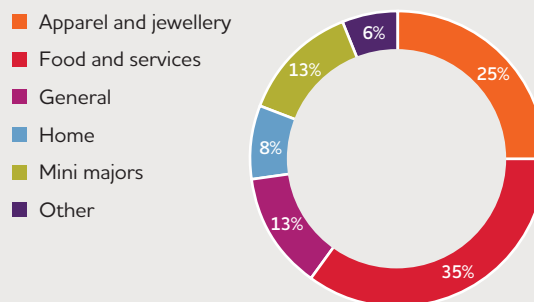
A list of Federation's properties (and their key metrics) is set out in Section 7.4.

(b) Portfolio diversification

Federation's portfolio is well diversified geographically with a strong representation in New South Wales/ Australian Capital Territory, Western Australia and Victoria/Tasmania. The portfolio has a strong representation of non-discretionary focused retailers (including supermarkets and discount department stores) and has a diverse tenant base with approximately 4,600 leases.

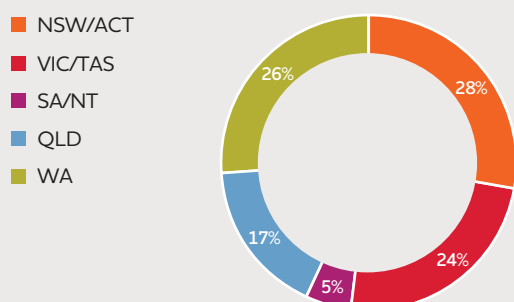
Major retailers act as anchors of a centre's retail mix and are a key drawcard in attracting customers to the centre. Major retailers are classified in accordance with the SCCA sales reporting guidelines.

EXTENSIVE RETAIL MIX WITH CIRCA 4,600 LEASES¹



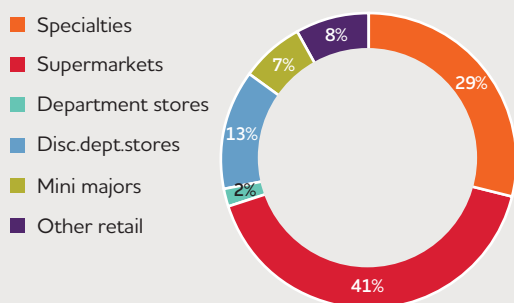
1. Expressed by ownership income.

BALANCED GEOGRAPHIC EXPOSURE¹



1. Expressed by ownership value.

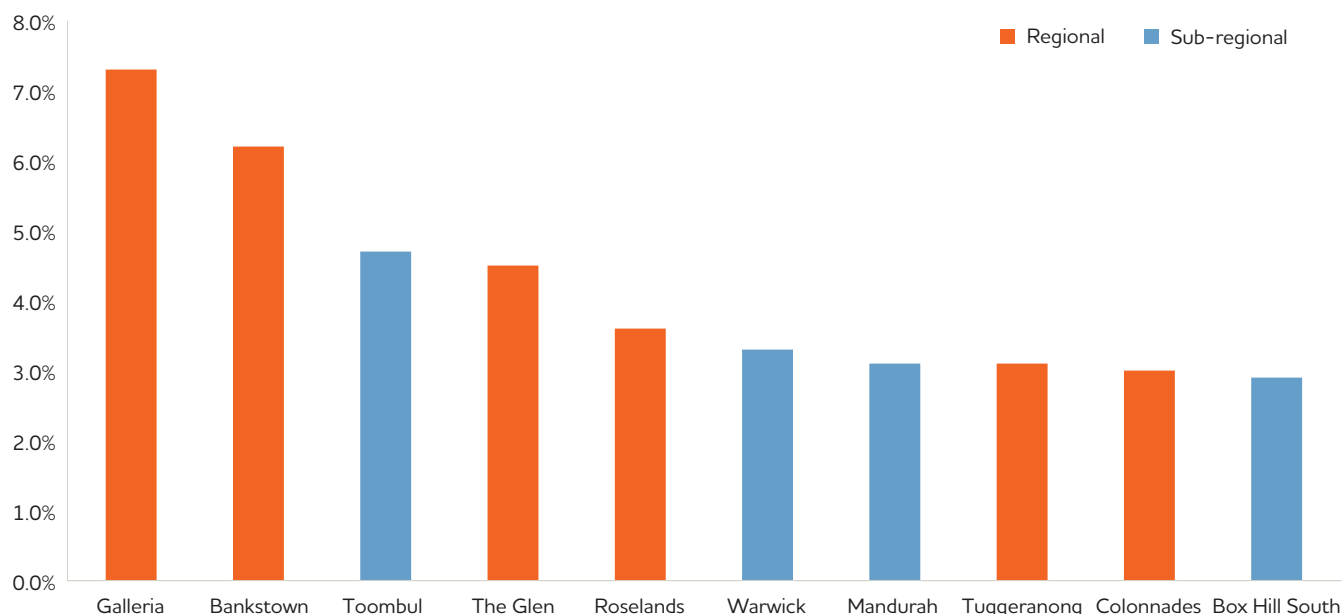
WELL DIVERSIFIED RETAIL MIX¹



1. Expressed by sales volume.

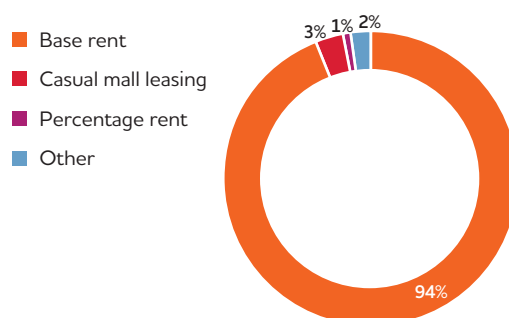
Federation's portfolio is also well diversified by asset exposure, with the largest exposure to any single asset being 7.3% (by value) for Federation's 50% share of Galleria in Perth, Western Australia.

DIVERSIFIED PORTFOLIO



(c) Composition of total income

The chart below illustrates the sources of Federation's total income, with a significant majority of total income being derived from base rent:



(d) Operational performance metrics

Federation's most recent operational performance metrics as at December 2014 are set out in the table below:

	Dec-14 ¹
Comparable NOI growth ²	3.7%
Annual retail sales growth (SCCA) ³	1.3%
Specialty occupancy cost	14.7%

1. Excludes interests in three properties that have been sold since 31 December 2014, being Woodlands Village (settled 30 January 2015), Warrnambool (settled 9 February 2015) and Mildura Central (settled 12 February 2015).
2. Calculated assuming like-for-like portfolio, based upon ownership as at 31 December 2014 and the comparative period (being December 2013).
3. Calculated in accordance with SCCA standards. Prior year included 53 week reporting period for Wesfarmers and Woolworths Group. For comparison purposes, prior year has been adjusted to reflect a 52 week reporting period.

(e) Sales performance

The analysis of performance for each of the major retail sales categories as at December 2014, is set out in the table below:

Federation Sales Category Analysis¹

Category	Annual sales (\$m)	% of portfolio sales	Moving Annual Turnover change
Supermarkets	3,544.2	41	1.3%
Specialties	2,504.6	29	2.3%
Discount department stores	1,112.8	13	(2.3%)
Other retail	655.2	8	1.2%
Mini majors	631.8	7	4.5%
Department stores	167.0	2	(1.9%)
Portfolio Total	8,615.6	100	1.3%

1. Calculated in accordance with SCCA standards. Prior year included 53 week reporting period for Wesfarmers and Woolworths Group. For comparison purposes, prior year has been adjusted to reflect a 52 week reporting period.

(f) Portfolio retailer exposure

The top 10 retailers in Federation's portfolio as at December 2014 feature the well-known brands of Australia's two dominant retail groups, Woolworths Limited and Wesfarmers. The top 10 retailers represent just under a third of the portfolio's total gross rent.

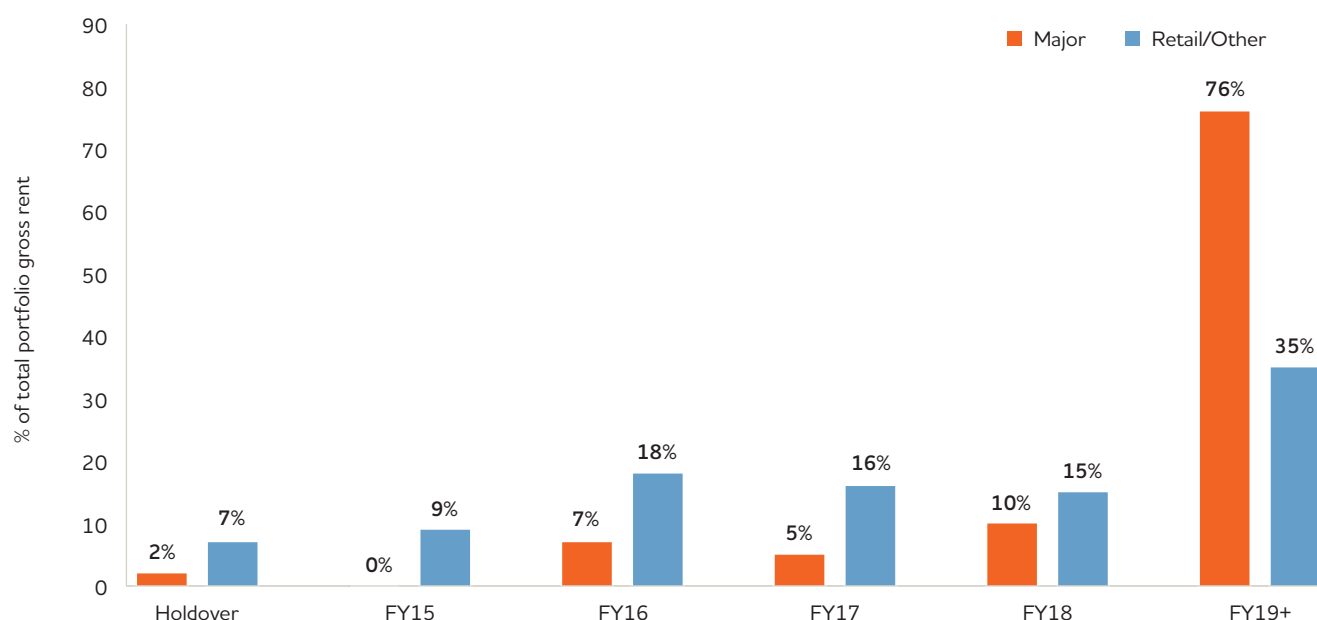
Top 10 Retailers

Rank	Retailer	Retailer type	Number of stores	% of total income
1	 Woolworths	Supermarket	42	8.0
2	 coles	Supermarket	36	6.6
3	 Kmart	Discount department store	23	5.4
4	 BIGW	Discount department store	15	2.9
5	 Target	Discount department store	12	2.2
6	 MYER	Department store	4	1.3
7	 priceline pharmacy	Specialty	24	1.2
8	 TerryWhite group	Specialty	14	1.1
9	 THE REJECT SHOP	Mini major	19	0.9
10	 Commonwealth Bank	Specialty	31	0.8
Top 10 Total			220	30.4

(g) Lease expiry profile

Over 70% of the Federation portfolio's rental income expires in FY17 and beyond. This weighting is reflected in the weighted average lease expiry of the portfolio (by area), which sits at 8.0 years for major retailers and 3.7 years for all other retailers giving a portfolio average of 6.0 years.

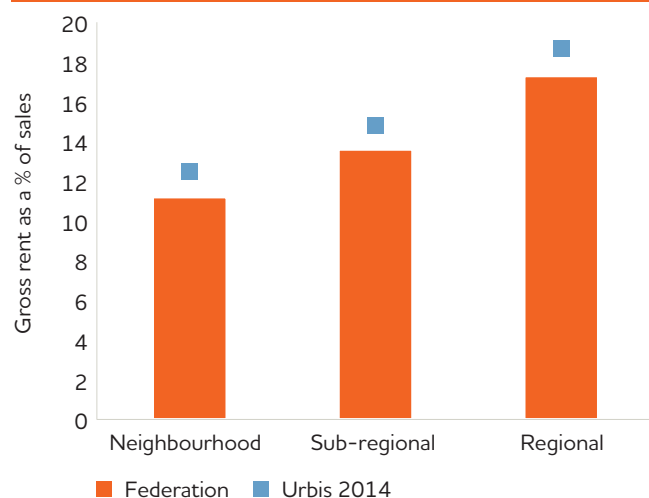
LEASE EXPIRY PROFILE BY INCOME



(h) Specialty occupancy costs

With 53% of the Federation portfolio's total gross rent derived from specialty retailers, occupancy cost is a key metric to analyse the health of specialty retailers. As shown in the chart below, across all three centre types, the occupancy cost for specialties in the portfolio sits below the comparable benchmark as determined by Urbis, an independent consultancy providing benchmarks for the Australian shopping centre industry.

SPECIALTY OCCUPANCY COSTS



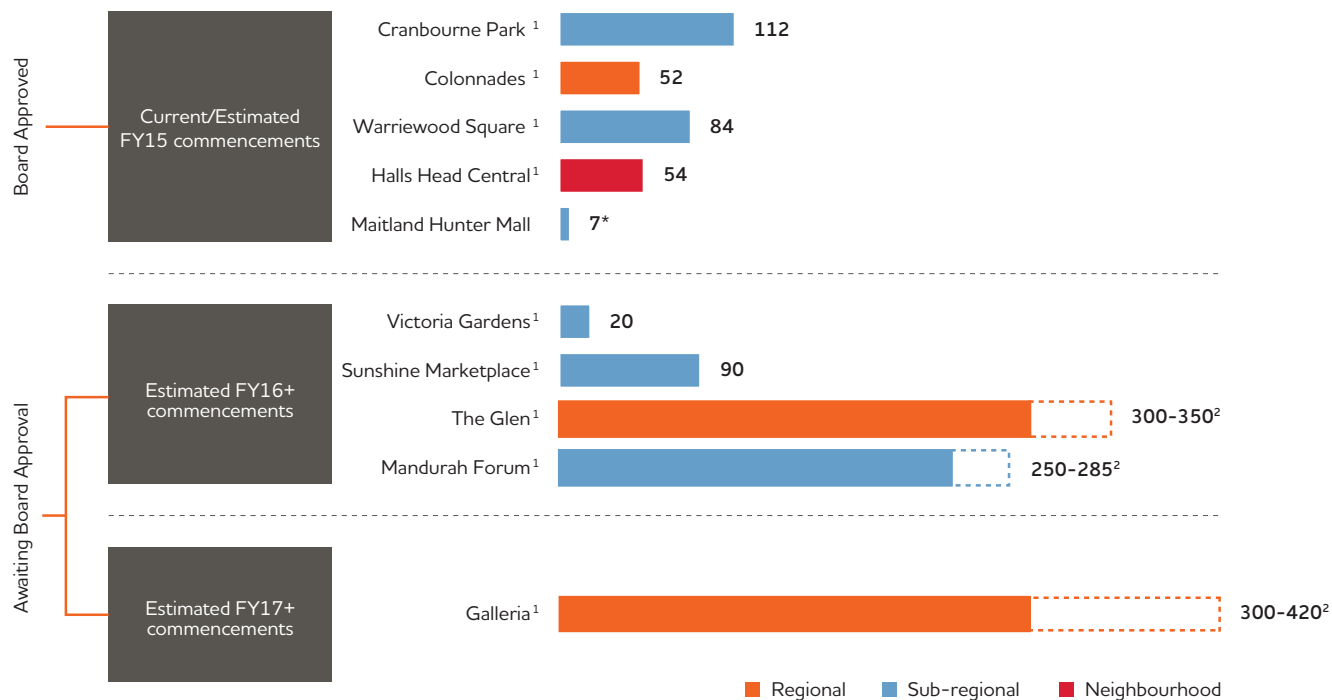
(i) Development activity and pipeline

Federation recently completed the \$39 million redevelopment of over 9,600 sqm of GLA at the Warnbro Centre in Western Australia, with the redeveloped centre opening on 18 September 2014. The developed space is expected to initially yield 9.7% per annum with an internal rate of return of 15.5% per annum, well ahead of budget.

Federation's \$1.3 billion⁷ development pipeline is set out below. With weighting towards development projects of co-owned centres, Federation's share of development costs for these centres is approximately 50%. In addition to the pipeline shown below, there are further development projects in pre-planning stages nationally, which could be developed in conjunction with or replace the projects below.

7. Federation's contribution is approximately 50%, with the remainder attributable to Federation's strategic partners.

DEVELOPMENT PIPELINE (\$M)



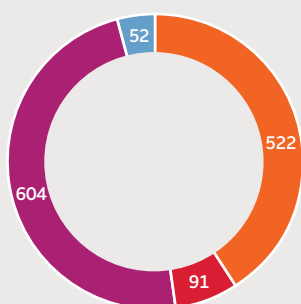
1. Federation has a 50% ownership interest. Federation's share of development costs is 50% of the amount shown.

2. Current cost range for projects as at March 2015.

* No Federation Board approval required

DEVELOPMENT PIPELINE BY REGION (\$M)

- VIC
- NSW
- WA
- SA



Further details below are provided for Federation's four significant live development projects.

Warriewood (\$83.8 million)



- 3 new mini majors (including Aldi)
- Addition of 25 new specialties
- Extension and upgrade to existing Woolworths
- New multi deck car park adding over 1,400 spaces
- Over 8,000 sqm of additional GLA

Project key metrics

Total cost	\$83.8m
Start date	March 2015
Estimated completion date	June 2016
Estimated yield	>7%
Estimated IRR	>11%

Halls Head Central (\$54 million)



- Latest Coles format store to replace underperforming IGA
- New Kmart, Aldi supermarket and mini major tenancy
- 43 new specialties including a new food precinct
- New alfresco dining to cater for the growing catchment demand

Project key metrics

Total cost	\$54m
Start date	March 2015
Estimated completion date	March 2016
Estimated yield	>8%
Estimated IRR	>15%

Colonnades (\$51.8 million)



- First stage Harris Scarfe now open
- Construction soon to commence on new fresh food mall anchored by expanded Woolworths and new Aldi supermarket and Masters Hardware
- Additional 500+ car spaces with new, convenient access to the centre

Project key metrics

Total cost	\$51.8m
Start date	July 2014 (Harris Scarfe)
Estimated completion date	March 2016
Estimated yield	>8%
Estimated IRR	>12%

Cranbourne (\$112.3 million)



- Stage 1 fully leased and opened 26 March 2015
- All mini major tenants now committed: JB Hi-Fi, Harris Scarfe and Cotton On Mega

Project key metrics

Total cost	\$112.3m
Start date	January 2014
Estimated completion date	September 2015
Estimated yield	>8%
Estimated IRR	>13%

6.3 Strategy and recent performance

Federation's strategic vision is to be a leading A-REIT that creates sustainable returns for its investors. Federation's strategic drivers are outlined below.

Organic income growth	Continue to manage the portfolio to maximise sales productivity for retailers, support sales growth, maintain high occupancy levels and, as a result, drive net operating income.
Redevelopment and portfolio management	Focus on unlocking the redevelopment, refurbishment and tenancy remixing opportunities throughout the portfolio and consider the strategic positioning of the portfolio to ensure the mix of assets is aligned to best deliver value.
Operational efficiencies	Invest in systems, infrastructure and processes to create operational efficiency and reduce cost.
Financing initiatives	- Manage gearing and funding arrangements to create the flexibility and capacity for Federation to undertake its strategic agenda. - Develop funding sources that are diverse, match the long-term nature of the asset base and have well-balanced annual funding requirements to reduce risk.
Corporate readiness	- Continue to build and strengthen Federation's talent base to facilitate growth. - Invest in a digital strategy to enhance the experience at Federation's shopping centres, delivering improved customer engagement and increased retailer productivity.
Stakeholder engagement and sustainability	Take into account the importance of engagement with all stakeholders and the sustainable development of the business as contributors to achieving Federation's strategic vision to deliver value for its securityholders.

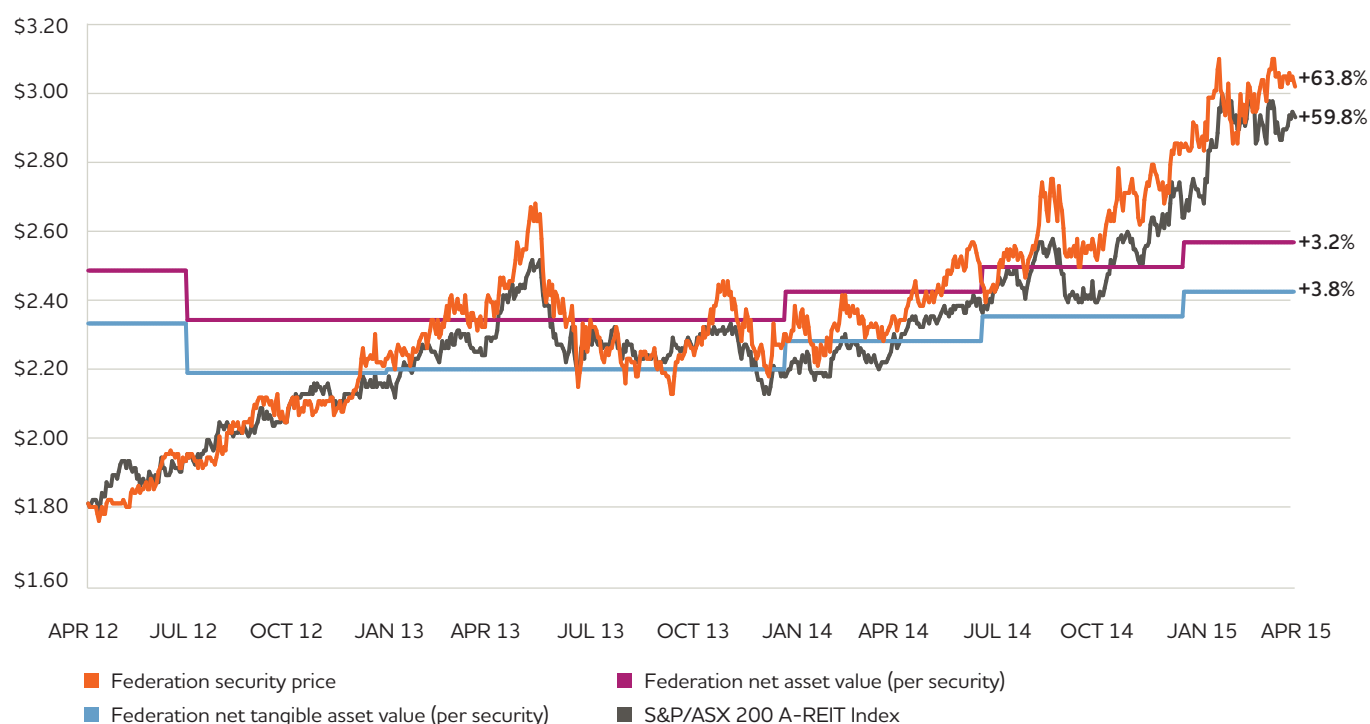
(a) Security price performance

As at 14 April 2015, being the last trading day before the date of this Scheme Booklet:

- the last recorded trading price of Federation Securities was \$3.03, and
- the lowest and highest close prices of Federation Securities during the previous three months were \$2.86 and \$3.13 respectively.

As at 2 February 2015, being the trading day before the Merger was announced, the last recorded trading price of Federation Securities was \$3.10.

Outlined in the chart below is Federation's trading price performance since April 2012.



Note: For illustrative purposes, the starting value of the S&P/ASX 200 A-REIT Index has been set to Federation's trading price on 2 April 2012.

(b) Key events

Federation has achieved a number of significant milestones since January 2013. Some of Federation's key events since January 2013 are summarised in the table below.

Date	Event
January 2013	Federation commences trading on the ASX under the ticker 'FDC'.
February 2013	Corporate credit rating of BBB+ assigned by Standard & Poor's.
June 2013	\$602 million co-ownership transaction with Challenger over six assets settled.
July 2013	\$371 million co-ownership transaction with ISPT over four assets settled.
December 2013	- Inaugural Australian Medium Term Note issue of \$150 million. \$177 million Carlingford Court co-ownership transaction.
May 2014	- Second issuance of \$150 million of Australian Medium Term Notes. - Appointment of Ms Wai Tang as non-executive director.
June 2014	Developments at Colonnades and Warriewood Square approved by Federation Board.
July 2014	Implemented Yardi Voyager ERP system, replacing 15 disparate systems with a single platform.
October 2014	- Development of Warnbro Centre completed ahead of budget (time and cost). - Development in Halls Head Village approved by Federation Board. - Corporate structure simplification (moving from a quadruple staple to a dual staple in line with other A-REITs) approved by securityholders. - Acquired a 25% interest in Mt Ommaney Centre and a 50% interest in Bentons Square.
November 2014	Trading commences under the simplified dual corporate structure.
December 2014	- Strong property revaluation outcomes, with a \$129.4 million or 3.3% valuation increase. - Acquired Currambine Central.
February 2015	- Novion and Federation announce they have agreed to merge subject to certain conditions. - Federation announces half-yearly results, with statutory net profit of \$222.5 million and an 8.6% increase in underlying earnings to \$129.0 million.

6.4 Substantial securityholders

The following persons have notified Federation of the fact that they hold substantial holdings (within the meaning of the Corporations Act) in Federation Securities as at 13 April 2015, based on substantial shareholder notice lodgements with the ASX, which are available on the ASX website:

Securityholder	Effective date	Number of securities	% of issued securities
CBA	18 December 2014	121,270,969	8.49
Blackrock Group	11 September 2013	106,393,536	7.45
AMP Limited (and its associates)	27 March 2015	86,431,270	6.05
Vanguard Investments Limited	16 July 2012	86,311,928	6.05
BT Investment Management (and Westpac Group)	8 January 2014	82,853,713	5.80

6.5 Financial information

This Section provides a summary of the financial information for Federation, and is extracted from audited consolidated financial statements of Federation for the years ended 30 June 2014 and 30 June 2013, and the reviewed consolidated financial statements of Federation for the six months ended 31 December 2014. The following financial information has been provided for Federation:

- financial and portfolio historical summary
- summarised statutory income statements
- segment income statements
- funds from operation and adjusted funds from operation statements
- statutory balance sheets, and
- segment balance sheets.

The financial information in this Section 6.5 has been prepared in accordance with the recognition and measurement requirements of AAS adopted by the AASB and the Corporations Act. The financial information also complies with the recognition and measurement requirements of International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

The financial information is presented in an abbreviated form and does not include all of the presentation disclosures, statements and comparative information as required by the AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The audit and review opinions in the consolidated financial statements released to the ASX were issued by Ernst & Young and were unqualified. The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements. These financial reports are available from Federation's website www.federationcentres.com.au

(a) Financial and portfolio historical summary

Federation's key financial performance and portfolio information for the years ended 30 June 2013 and 30 June 2014, and the six months ended 31 December 2014 is summarised in the table below.

	As at 30-Jun-13	As at 30-Jun-14	As at 31-Dec-14
Financials			
Total segment assets (\$m)	4,892	5,045	5,426
Total segment liabilities (\$m)	1,529	1,456	1,739
Number of securities on issue (m)	1,428	1,428	1,428
Net tangible asset value per security (\$)	2.22	2.37	2.44
Portfolio			
Portfolio value (\$m)	4,145	4,651	5,096
Portfolio capitalisation rate ⁸ (%)	7.46	7.25	7.01
Portfolio occupancy rate by area (%)	99.5	99.5	99.5
Total specialty sales ⁹ (\$/sqm)	7,754	7,779	7,815

	Year ended 30-Jun-13	Year ended 30-Jun-14	Half-year ended 31-Dec-14
Net profit/(loss) (\$m)	213	441	223
Basic earnings per security ¹⁰ (cents)	15.0	30.9	15.6
Underlying earnings per security ¹¹ (cents)	15.8	17.0	9.0
Distribution per security (cents)	14.1	15.7 ¹²	8.4

8. Weighted average for retail assets.

9. Retail asset portfolio.

10. As defined in the financial report. Including but not limited to fair-value adjustments for investment properties, associates, derivatives and performance fees.

11. Distributable income (also known as underlying earnings), as defined in Section 8.1, per Federation Security.

12. This figure includes distribution of 0.4 cents per security declared 22 August 2014 and assessable for tax purposes in FY15.

(b) Summarised statutory income statements

Period ended	Restated ¹³ 30-Jun-13 ¹⁴ (\$m Audited)	30-Jun-14 ¹⁵ (\$m Audited)	31-Dec-14 ¹⁶ (\$m Reviewed)
Revenue			
Property ownership revenue	527.5	520.0	260.4
Other revenue	41.1	26.5	12.0
Total Revenue	568.6	546.5	272.4
Share of net profits of associates and joint venture partnerships accounted for using the equity method	20.8	7.4	(9.1)
Property revaluation increment for directly owned properties	44.6	176.6	165.2
Borrowing costs	(132.4)	(74.2)	(33.8)
Direct property expenses	(140.7)	(136.6)	(66.1)
Employee benefits expenses	(67.8)	(63.9)	(31.7)
Other (expenses)/income	(10.7)	(20.4)	(11.4)
Net movement on mark to market of derivative financial instruments	0.8	(11.5)	(9.2)
Movement in net assets attributable to puttable interests in consolidated finite life trusts	(18.0)	(18.4)	(10.0)
Reversal of stamp duty provision acquired on Aggregation	-	67.1	-
Stamp duty expenses	(27.3)	(12.9)	(22.8)
Net loss from capital transactions and selling costs	(14.9)	-	(7.0)
Deferred debt costs written off as a result of capital transactions	(12.5)	-	(9.1)
Software implementation costs	-	(18.4)	(4.9)
PROFIT BEFORE INCOME TAX EXPENSE	210.4	441.3	222.5
Income tax (expense)/benefit	2.2	-	-
NET PROFIT AFTER TAX	212.7	441.3	222.5
Net profit/(loss) attributable to:			
Federation Limited securityholders	(11.5)	(30.7)	(13.4)
Other stapled entities of Federation Centres	224.2	472.0	235.9

(c) Segment income statements and funds from operations and adjusted funds from operations

Federation's management also monitors Federation's performance using underlying earnings, calculated as segment income less overheads and borrowing costs. Overheads comprise corporate office overhead costs incurred. Borrowing costs include interest expense on borrowings, net of interest income and amortisation of borrowing costs. While overheads and borrowing costs are not allocated to individual segments, they are included in order to arrive at underlying earnings and to facilitate reconciliation to Federation's net profit for the year.

Underlying earnings is a financial measure that represents the profit/(loss) under AAS adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. The inclusion of underlying earnings as a measure of profitability of Federation provides investors with the same basis that is used internally for evaluating operating segment performance. Underlying earnings is used by Federation's management to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

In monitoring the performance of Federation and determining the amounts available for distributions, Federation uses the measure of Funds from Operation (FFO) and Adjusted Funds from Operations (AFFO).

FFO is Federation's underlying and recurring earnings from its operations. This is determined by adjusting statutory net profit (under AIFRS) for certain non-cash and other items.

AFFO is determined by adjusting FFO for other cash and other items that have not been adjusted in determining FFO.

FFO and AFFO are determined in accordance with the Property Council June 2013 guidelines titled 'Voluntary Best Practice Guidelines for Disclosing Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)'.

13. Restated as required by the adoption of AASB10 *Consolidated Financial Statements*.

14. Twelve months ended 30 June 2013.

15. Twelve months ended 30 June 2014.

16. Six months ended 31 December 2014.

Period ended	30-Jun-13 ¹⁷ (\$m Audited)	30-Jun-14 ¹⁸ (\$m Audited)	31-Dec-14 ¹⁹ (\$m Reviewed)
Direct property investment income	309.5	310.3	170.1
Syndicate investment income	22.0	11.7	1.8
Investment income	331.5	322.0	171.9
Property management, development and leasing fees	12.7	14.4	7.0
Syndicate management fees	27.3	5.1	2.2
Services income	40.0	19.5	9.2
Total segment income	371.5	341.5	181.1
Overheads, net of recoveries	(44.8)	(40.1)	(20.6)
Depreciation and amortisation	(1.3)	(1.7)	(0.8)
Borrowing costs	(101.0)	(56.7)	(30.7)
Underlying earnings	224.4	242.9	129.0
Adjusted for:			
Amortisation of rent free periods	2.3	1.9	0.9
Funds From Operations	226.7	244.8	129.9
Adjusted for:			
Derivative and debt break costs arising from early repayment of borrowings pursuant to capital transactions	(14.3)	(0.7)	-
Maintenance capital expenditure and tenant incentives given for the period	(32.1)	(30.1)	(14.2)
Proceeds received from receivables previously impaired	16.6	-	-
Adjusted Funds From Operations before software implementation costs	196.9	214.1	115.7
Software implementation costs	-	(18.5)	(4.9)
Adjusted Funds From Operations after software implementation costs	196.9	195.6	110.8

17. Twelve months ended 30 June 2013.

18. Twelve months ended 30 June 2014.

19. Six months ended 31 December 2014.

(d) Statutory Balance Sheet

	Restated ²⁰ 30-Jun-13 (\$m Audited)	30-Jun-14 (\$m Audited)	31-Dec-14 (\$m Reviewed)
CURRENT ASSETS			
Cash assets and cash equivalents	102.7	64.9	66.0
Receivables and other assets	90.1	40.9	51.3
Non-current assets classified as held for sale	441.1	95.3	134.5
Financial assets carried at fair value through profit or loss	79.1	3.5	3.5
Total current assets	713.0	204.6	255.3
NON-CURRENT ASSETS			
Receivables and other assets	117.4	117.4	117.4
Investments accounted for using the equity method	119.9	106.0	96.9
Investment property	4,286.8	4,613.1	4,715.3
Financial assets carried at fair value through profit or loss	3.0	2.9	2.9
Intangible assets	199.7	199.7	199.7
Plant and equipment	10.4	6.0	5.6
Total non-current assets	4,737.3	5,045.1	5,137.8
TOTAL ASSETS	5,450.3	5,249.7	5,393.1
CURRENT LIABILITIES			
Interest bearing liabilities	372.9	136.7	554.9
Payables and other liabilities	210.0	211.6	199.9
Provisions	86.8	25.0	26.9
Derivative financial instruments	0.5	0.7	2.3
Total current liabilities	670.3	374.0	784.0
NON-CURRENT LIABILITIES			
Interest bearing liabilities	1,215.2	1,177.8	862.0
Other liabilities	1.0	0.6	39.8
Derivative financial instruments	1.5	12.5	20.0
Puttable interests in consolidated finite life trusts	199.2	95.4	-
Total non-current liabilities	1,416.9	1,286.3	921.8
TOTAL LIABILITIES	2,087.2	1,660.3	1,705.8
NET ASSETS	3,363.0	3,589.4	3,687.3
Equity attributable to securityholders of Federation Limited			
Contributed equity	-	-	-
Share-based payment reserve	4.5	7.9	8.9
Accumulated losses	(37.1)	(67.8)	(81.2)
	(32.6)	(59.9)	(72.3)
Equity attributable to other stapled entities of Federation Centres			
Contributed equity	3,657.2	3,657.2	3,657.2
Accumulated profits/(losses)	(261.6)	(7.9)	102.4
	3,395.6	3,649.3	3,759.6

20. Restated as required by the adoption of AASB10 Consolidated Financial Statements.

(e) Segment Balance Sheet

The financial position of Federation is reviewed using a segment balance sheet, which contains an overview of Federation's actual economic interests in all of its investments, excluding interests held by external parties (classified as puttable interests) on a line by line basis at a point in time.

To arrive at the segment balance sheet, the statutory balance sheet is adjusted for the following items:

- Retail Direct Property (RDP) syndicate investments are recognised as “Managed Fund Investments” regardless of the level of ownership held by Federation. The investment value is calculated based on the ownership interest attributable to Federation multiplied by the net asset value per unit for each RDP syndicate, and
- investments held in joint ventures and associates are recognised on a “look-through” or gross basis, to reflect the gross property value of the underlying investment property. Any borrowings and interest rate swap derivatives held in these joint venture or associate investments are also grossed up and separately recorded on the segment balance sheet of Federation. Detailed reconciliation of the statutory balance sheet to the segment balance sheet is included in the published financial statements. The segment balance sheets for the periods presented are as follows:

	30-Jun-13 (\$m Audited)	30-Jun-14 (\$m Audited)	31-Dec-14 (\$m Reviewed)
Current assets			
Cash assets and cash equivalents	72.2	57.3	66.0
Non-current assets classified as held for sale	371.4	95.3	134.5
Managed fund investments	79.1	3.5	3.5
Receivables and other assets	119.7	43.3	52.2
Total current assets	642.4	199.4	256.2
Non-current assets			
Investment property	3,520.2	4,299.2	4,715.3
Equity accounted investments	253.9	256.5	246.3
Managed fund investments	265.1	84.7	2.9
Intangible assets	199.7	199.7	199.7
Other non-current	10.4	5.9	5.6
Total non-current assets	4,249.3	4,846.0	5,169.8
Total assets	4,891.7	5,045.4	5,426.0
Current liabilities			
Interest bearing liabilities	299.8	33.0	554.9
Other current	274.8	232.2	229.1
Total current liabilities	574.6	265.2	784.0
Non-current liabilities			
Interest bearing liabilities	951.9	1,177.7	894.9
Other non-current	2.2	13.1	59.8
Total non-current liabilities	954.1	1,190.8	954.7
Total liabilities	1,528.7	1,456.0	1,738.7
Net assets	3,363.0	3,589.4	3,687.3

(f) Material changes in financial position of Federation and other developments

So far as is known by the Federation Board, there have been no material changes to the financial position of Federation between 31 December 2014 and the date of this Scheme Booklet.

6.6 Capital management

(a) Capital management

Federation's capital management strategy is to continue to reinvest capital in the development of its centres and reposition its retail asset portfolio so as to deliver long term growth and return on equity. To support sustainable returns for investors, Federation aims to minimise its interest cost by adopting a conservative gearing target range of 25-35%.

As at 31 December 2014, Federation had gearing of 26.8%²¹, a weighted average debt duration of 2.8 years with 92.2% of its debt hedged and has a senior secured credit rating of 'A-' and a corporate credit rating of 'BBB+' from Standard & Poor's.

Diversification of debt funding through the debt capital markets continues to be a priority. Following the establishment of Australian and European debt capital market programmes in 2013, Federation successfully raised \$300 million in two series over 2013 and 2014 in the Australian bond market.

Federation's debt profile is diversified by duration and source with 17.25%²² of debt sourced in the debt capital markets and the balance from bank debt.

Interest Bearing Liabilities at 31 December 2014

Facility Type	Interest Rate	Facility Limit (\$m)	Amount Drawn (\$m)		Legal Maturity Date
			As reported ¹	proforma ²	
Bank debt facilities	Floating	1,405.0	1,124.7	992.2	Aug 2015/Aug 2016/ Aug 2017/Aug 2018/ Aug 2019
Medium term notes	Fixed	300.0	300.0	300.0	Dec 2019/May 2021
		1,705.0	1,424.7	1,292.2	
Capitalised borrowing costs and discount on note issue			(7.8)	(7.8)	
Total		1,705.0	1,416.9	1,284.4	
Victoria Gardens Shopping Centre ³	Floating			32.9	13 December 2019
Total		1,705.0	1,416.9	1,317.3	

1. Based on Federation's Statutory Balance Sheet.

2. Based on Federation's Segment Balance Sheet and adjusted for the sale proceeds of three properties settled since 31 December 2014, being Woodlands Village (settled 30 January 2015), Warrnambool (settled 9 February 2015) and Mildura Central (settled 12 February 2015).

3. The Victoria Gardens Shopping Centre liability represents Federation's 50% share in the Victoria Gardens Retail Trust debt facilities.

21. Based on Segment Balance Sheet and calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

22. Calculated as a proportion of total debt limits as at 31 December 2014.

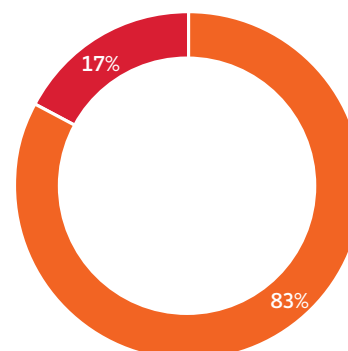
DEBT MATURITY PROFILE AS AT 31 DECEMBER 2014¹

	\$m	%
FY15	0.0	0
FY16	555.0	32
FY17	250.0	14
FY18	200.0	11
FY19	200.0	11
FY20	235.0	22
FY21	150.0	9
Total facilities	1,740.0	100
Drawn debt	1,457.7	
Undrawn debt	282.3	

■ Bank debt ■ ASMTN

SOURCES OF DEBTS AS AT 31 DECEMBER 2014¹

	\$m	%
Bank debt	1,440.0	83
Medium term notes	300.0	17
Total facilities	1,740.0	100



As at	30-Jun-13	30-Jun-14	31-Dec-14
Weighted average cost of debt (%) ¹	5.2	5.2	4.5
Weighted average debt duration (years) ¹	2.9	3.4	2.8
Portion of debt hedged (%) ^{1,2}	41.4	91.2	92.4
Drawn facilities (\$m) ¹	1,259.8	1,225.2	1,457.7 ⁵
Undrawn facilities (\$m) ¹	198.2	662.8	282.3
Senior secured debt credit rating (Standard & Poor's)	A-	A-	A-
Long term corporate credit rating (Standard & Poor's)	BBB+	BBB+	BBB+
Segment Balance Sheet Gearing (%) ³	25.5	24.1	26.8
EBITDA ICR (times) ⁴	3.2	5.3	5.2

1. Includes Federation's 50% share in the Victoria Gardens Retail Trust debt facilities.

2. The low hedge ratio was influenced by the early termination of certain interest rate swaps linked to the ISPT property transaction which settled in July 2013. Net transaction proceeds were applied towards the repayment of the associated bank debt, resulting in the hedge ratio to increase to 94.1%.

3. Based on Segment Balance Sheet and calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

4. Based on Segment Income Statement calculated as EBITDA (underlying earnings add back borrowing costs and depreciation and amortisation) divided by borrowing costs.

5. This figure excludes capitalised borrowing costs and discount on note issue.

Another key component of capital management strategy is co-ownership arrangements, which offer an efficient source of capital, while diversifying risk in connection with redevelopment opportunities.

(b) Hedging

Federation's current primary source of interest rate risk as a geared A-REIT is the net variable interest rate exposure under the term of its bank facilities. Federation seeks to manage all or part of this exposure to adverse fluctuations in floating interest rates by entering into interest rate hedging arrangements, including derivative financial instruments. Such hedging arrangements operate within the parameters of Federation Board approved policies.

Interest rate hedging strategies are undertaken on a portfolio basis and are designed to ensure compliance with financial covenants (a target ICR in excess of 3 times), as well as managing the impact of interest rate movement on earnings.

6.7 Distribution history

Federation pays half-yearly distributions, with the record dates being the last trading days of December and June and payment dates in late February and late August. To date, distributions have been paid wholly from certain trusts (being Federation Trust, Federation Trust 2 and Federation Trust 3), as Federation Limited has not generated a profit. The Federation Board sets the target distribution each year, having regard to its distribution policy, prior distributions, forecast income and expenditure and other general business and financial considerations.

Federation does not currently have a distribution or dividend reinvestment plan in operation.

Distributions paid by Federation since FY13 are as follows:

Year	Distribution Period	Distribution per security (cents)	Total annual distribution (cents)
FY13	First half distribution	6.6	14.1
	Second half distribution	7.5	
FY14	First half distribution	7.5	15.7
	Second half distribution	8.2 (including additional distribution of 0.4c declared 22 August 2014 and assessable for tax purposes in FY15)	
FY15	First half distribution	8.4	16.9 (Forecast) ²³

6.8 Capital structure

(a) Federation Securities

At the date of this Scheme Booklet, Federation has the following securities on issue:

- 1,427,641,565 Federation Securities quoted on the ASX, and
- 6,360,183 performance rights, which on vesting, may, subject to the terms of the plan rules, require the issue of Federation Securities.

All Federation Securities rank equally with each other in all matters, including voting and entitle the holder to participate in distributions and the proceeds on winding up of Federation in proportion to the number of securities held. See Section 6.9 for a summary of the rights attaching to New Federation Securities.

As noted in Section 6.8(b), Federation has issued a number of performance rights to select senior executives pursuant to a long term incentive plan. See below for a summary of this plan. Until vested, these performance rights carry no voting rights or rights to income or assets of Federation.

(b) Federation's long term employee incentive scheme – PRPL

Federation operates a long term incentive scheme known as the Long Term Performance Reward Payment Plan (PRPL, formerly the Long Term Incentive Plan) as part of its remuneration program for senior executives. The PRPL involves the grant of performance rights, with a performance period of three years. Each performance right provides the participant with the right to receive one Federation Security at a future time for nil consideration, subject to vesting hurdles being satisfied at the end of the performance period, being relative total securityholder return and achievement of underlying EPS and/or ROE growth targets. Any Federation Securities received as a result of the vesting of performance rights granted since 14 November 2013 (the 2014 series) are subject to a sale restriction for 12 months from the relevant vesting date.

The number of performance rights on issue as at the date of this Scheme Booklet is 6,360,183.

There are a number of circumstances in which performance rights will not vest (i.e. other than failure to meet the performance hurdle thresholds). These include where a participant:

- resigns, or is terminated for poor performance
- deals (or purports to deal) with their performance rights in contravention of the plan rules, or
- acts fraudulently or in a manner that brings Federation into disrepute, or is convicted of an offence or has a judgment entered in connection with the affairs of Federation.

23. See Section 8.4 for more information on the Merged Group FY15 Distribution Forecast.

In the event of cessation of employment for reasons such as redundancy, death, total and permanent disablement or retirement, a pro rata amount of unvested performance rights will normally lapse based on the remaining performance period. The portion relating to the participant's completed service may still vest at the end of the performance period subject to meeting the performance measures under the plan. Federation Securities received as a result of any such vesting will still be subject to the 12 month sale restriction (where applicable). The Federation Board retains discretion to determine the treatment of a participant's performance rights upon cessation of employment.

In the event of a change of control, the Federation Board has discretion to determine the treatment of unvested performance rights in accordance with the plan rules. In making its determination, the Federation Board will consider a number of factors it considers relevant, which may include performance against the performance conditions up to the date of the change of control event, the portion of the performance period elapsed at the date of the event and the nature of the event.

The Merger is not a change of control or other trigger event for the purposes of the PRPL, and accordingly, there will be no change to the number of performance rights on issue as a result of the Merger. However, because the nature of Federation will change by virtue of the Merger, this will affect the portion of the underlying performance hurdles for the performance rights that are subject to measures dependent on ROE and EPS. The Federation Board has discretion to review these hurdles at the appropriate time having regard to the nature of operational performance and changes since the hurdles were set.

To the extent these performance rights vest, Federation may satisfy the entitlements through an on-market acquisition of Federation Securities or by issue of new Federation Securities.

(c) Federation short term employee incentive scheme – PRPS

Federation also operates a short term incentive scheme known as Performance Reward Payment – Short Term Plan (PRPS, formerly STI). This is open to all permanent employees, and provides eligible participants with the opportunity to receive an annual, performance-based incentive payment, when a combination of Federation financial and individual performance objectives are achieved. The performance period is the relevant full financial year.

Generally, an entitlement to PRPS is forfeited upon the cessation of employment. However, if cessation of employment is due to illness, disability or death or is a Federation initiated termination other than for cause (for example, genuine redundancy), the executive may receive a pro-rata PRPS for the portion of the performance period they were employed.

The PRPS is provided as a cash payment following the Federation Board's review of Federation financial results at the end of the performance period. For executive key management personnel and senior management, a component of the PRPS will be deferred into Federation equity for a period of 12 to 24 months (18 months for executive key management personnel and 24 months for the CEO). To the extent a component of the PRPS is deferred into Federation equity, Federation may satisfy this component through an on-market acquisition of Federation Securities or by issue of new Federation Securities.

(d) Federation Exempt Employee Security Plan – EESP

The EESP is an annual program, where eligible employees are granted Federation Securities up to the value of \$1,000 for no financial consideration, subject to a minimum three-year holding period from the date the securities were allocated or until cessation of their employment, whichever is the earlier.

Federation may satisfy these entitlements through on-market acquisition of Federation Securities or by issue of new Federation Securities.

6.9 Rights attaching to, and ranking of, New Federation Securities

New Federation Securities will consist of one new Federation Share and one new Federation Unit and will be stapled together and jointly quoted on the ASX. The rights and liabilities attaching to the New Federation Securities will be the same as those attaching to existing Federation Securities. These rights and liabilities are governed by the constitutions of each of Federation Limited and Federation Trust, the Federation Stapling Deed (see below for a summary of key terms), the Corporations Act, the Listing Rules and general law. The Responsible Entity of Federation Trust is responsible to unitholders for the operation of Federation Trust and owes duties under Chapter 5C of the Corporations Act and also fiduciary duties as trustee of Federation Trust.

The key terms of each constitution are summarised below. However, this summary is not exhaustive and does not constitute a definitive statement of all rights and liabilities attaching to New Federation Securities. Copies of the constitutions are available upon request free of charge by emailing investor@federationcentres.com.au or by calling 1300 887 890 (local call costs apply).

6.10 Summary of key terms of Federation Trust constitution

The key terms of the constitution of the Federation Trust are as follows:

(a) Rights and Obligations of Unitholders

The constitution provides that unitholders of Federation Trust (Unitholders) are beneficially entitled to the assets of Federation Trust but no unit of Federation Trust confers an interest in a particular asset. The liability of each Unitholder is limited to its investment in Federation Trust. A Unitholder is not required to indemnify Federation Trust RE or a creditor of Federation Trust RE against any liability of Federation Trust RE in respect of Federation Trust.

(b) Responsible Entity

Federation Trust RE may only retire as Responsible Entity of Federation Trust in the circumstances provided for in the Corporations Act. Unitholders may remove the Federation Trust RE by complying with the procedures set out in the Corporations Act.

(c) Powers of the Federation Trust RE

Federation Trust RE has all the powers in respect of Federation Trust that is possible under the law to confer on a trustee and as though it were the absolute owner of the assets of Federation Trust and acting in its personal capacity. Federation Trust RE may authorise any person, including an associate of Federation Trust RE (in its personal capacity), as its delegate or agent to hold title to any asset of Federation Trust, perform any act or exercise any discretion within Federation Trust RE's power.

(d) Remuneration of Federation Trust RE

Federation Trust RE is entitled to receive fees for acting as the Responsible Entity of Federation Trust and to be paid or reimbursed for certain expenses incurred in the proper performance of its duties in relation to Federation Trust. The remuneration of Federation Trust RE has priority over the payment of all other amounts payable from the assets of Federation Trust.

These fees include a management fee of up to 0.75% per annum of the aggregate value of the assets of Federation Trust and a performance fee, payable where the total return of Federation Trust in any six month period ending 30 June or 31 December exceeds a designated index. The management fee and performance fee is capped at 0.80% of gross assets in any single financial year.

(e) Limitation on Liability and Indemnity

Subject to the Corporations Act, the liability of Federation Trust RE to a Unitholder is limited to the extent to which Federation Trust RE is entitled to be and is in fact indemnified out of the assets of Federation Trust actually vested in Federation Trust RE in respect of Federation Trust.

Federation Trust RE is entitled to be indemnified out of the assets of Federation Trust for any liability incurred by Federation Trust RE in properly performing or exercising any of its powers or duties in relation to Federation Trust. This indemnity applies both while it is the Responsible Entity of Federation Trust and upon its retirement or removal and is in addition to any other indemnity it may have at law.

(f) Termination of Federation Trust

Federation Trust may be terminated by operation of law, including under the Corporations Act.

(g) Entitlements to Distributions

Each Unitholder is entitled to a share of distributable income in proportion to the total amount paid up on the units it holds relative to the total amount paid up on all the units on issue on the distribution calculation date. One or more distributions may be made each year and will only be made to persons who hold units as at the last day of the income distribution period.

(h) Voting Rights

Each Unitholder is entitled to receive a notice of meeting and is entitled to attend and vote at meetings of members of Federation Trust in accordance with the Corporations Act.

(i) Rights on Winding Up

On a winding up of Federation Trust, the net proceeds of realisation of the assets of Federation Trust, after paying all costs of the Responsible Entity, must be distributed pro rata to Unitholders according to the total amount paid up on the units they hold, subject to any special rights attaching to any class of units. There are currently no classes of units with these special rights.

(j) Transfer of units

While Federation Trust is listed on ASX and units of Federation Trust are quoted, the transfer of units must be effected in accordance with the Listing Rules. While stapling applies, a transfer of units will only be accepted if it is accompanied by a contemporaneous transfer of each security to which the unit is stapled, in favour of the same transferee.

(k) Accounts

The accounts of Federation Trust are prepared by Federation Trust RE in accordance with the Corporations Act and the Listing Rules and are audited and reported as required by the Corporations Act.

(l) Issues of units

Subject to the constitution, the Federation Stapling Deed, the Corporations Act and the Listing Rules, Federation Trust RE has the power to issue units in the Federation Trust at the prices and on the terms it determines in accordance with the Corporations Act and the constitution. The constitution contains a number of limits as to the price at which units may be issued. Those limits are consistent with the Corporations Act (as modified by relevant ASIC class orders) and the Listing Rules.

(m) No Withdrawal

There is no facility available to Unitholders to apply to withdraw or redeem the units, fully or partially, while units are officially quoted. Federation Trust RE has certain discretionary powers to redeem units.

(n) Notices and reports

Each Unitholder is entitled to receive all financial reports, notices and other documents required to be sent to Unitholders under the Corporations Act.

(o) Stapling

Subject to the Corporations Act and the Listing Rules, the constitution contains provisions that permit Federation Trust RE to cause the stapling of any security to Federation Units, and cause the stapling of further securities to Federation Units whether those securities are a different class of securities of a stapled entity from those stapled at the time or securities of an entity that is not a stapled entity. The intention being that a Federation Unit and each other security stapled to it are treated as one security to the extent possible at law. The stapling provisions also require that:

- there are no transfers or transmissions of units unless there is a transfer or transmission of a corresponding number of the attached securities
- there are no issues or sales of the units unless the same number of attached securities are also issued or sold to the same person at the same time, and
- Federation Trust RE must not consolidate, sub-divide, cancel or otherwise reorganise any units unless at the same time there is a corresponding consolidation, sub-division, cancellation or other reorganisation of all attached securities.

(p) Compliance with Listing Rules

While Federation Trust is listed, Federation Trust RE is required under the terms of the constitution to comply with the Listing Rules.

6.11 Summary of key terms of the Federation Limited constitution

The key terms of the constitution of Federation Limited are as follows:

(a) Issue of Federation Shares

Directors may issue Federation Shares or grant options over unissued Federation Shares. The Federation Shares may be ordinary or preference shares. Shares can be issued at any price so long as the price is consistent with the provisions of the constitution of Federation Trust (whilst stapling applies) and with the Listing Rules and the Corporations Act.

(b) Transfer of Federation Shares

Similar provisions to the Federation Trust constitution (see Section 6.10(j)) are included.

(c) Stapling

Similar provisions to the Federation Trust constitution (see Section 6.10(o)) are included.

(d) Dividends

The Federation Limited directors may pay dividends if, in their judgment, the financial position of Federation Limited justifies doing so. Paying a dividend does not require confirmation at a general meeting. The Federation Limited directors may decide the manner and means of the payment of any dividend or any amount in respect of a Federation Share.

(e) Capitalisation of profits

Subject to the Corporations Act and the Listing Rules and any rights and restrictions attaching to the shares, the Federation Limited directors may capitalise and apply profits for the benefit of members in the proportions to which those members would have been entitled upon distribution of that sum by way of dividend.

(f) General meetings

Each member is entitled to receive notice of and attend general meetings. When stapling applies, when permitted by the Corporations Act or any ASIC relief, the Federation Limited directors may convene a combined meeting of Federation Securityholders. The chairperson of a general meeting has a casting vote.

(g) Voting rights

Each member present in person or by proxy has one vote on a show of hands. Each member present in person or by proxy has one vote for each fully paid Federation Share or a fraction of one vote which the amount paid on the Federation Share bears to the total amount paid and payable on the Federation Share on a poll.

(h) Appointment and retirement of directors

At every annual general meeting of Federation Limited, one third of the Federation Limited directors (excluding one managing director or any Federation Limited director appointed to fill a casual vacancy) must retire from office. The minimum number of directors is 3. The maximum number of directors is to be fixed by the directors, but may not be more than 8 unless Federation Limited in general meeting resolves otherwise.

(i) Removal of director

Under the Corporations Act, Federation Limited members can by resolution remove any Federation Limited director and appoint another person as a replacement.

(j) Directors' remuneration

The Federation Limited directors are entitled to be remunerated for their services as directors. The total amount or value of the remuneration must not exceed the sum determined from time to time by Federation Limited in general meeting. The remuneration for a director does not include any amount paid by Federation Limited or a related body corporate to a superannuation fund or for any insurance premium. A Federation Limited director may receive special or additional remuneration as determined by the Federation Limited directors, for additional or special duties. A Federation Limited director is also entitled to be reimbursed out of the funds of Federation Limited for travelling and other expenses the Federation Limited director may incur in attending to the affairs of Federation Limited.

(k) Indemnity

Federation Limited must indemnify each director, alternate director, managing director, executive director, secretary or assistant secretary of Federation Limited on a full indemnity basis, to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred as an officer of Federation Limited or of a related body corporate.

(l) Non-marketable parcels

The Federation Limited directors may sell any Federation Shares held by a member which comprise less than a marketable parcel provided certain procedures are followed.

(m) Restricted securities

Federation Shares classified by ASX as "restricted securities" cannot be disposed of during an escrow period except as permitted by the Listing Rules or ASX.

(n) Lien

Federation Limited has a lien on every share for due and unpaid calls and instalments as well as interest accruing and expenses incurred resulting from the unpaid amount.

(o) Rights on winding up

On a winding up of Federation Limited, the company's property (after discharging or providing for all liabilities of the company and the costs of the winding up) must be divided among the members in proportion to the number of shares held by them, irrespective of the amounts paid or credited as paid on the shares. With the sanction of a special resolution, a liquidator may divide among the members the whole or any part of Federation Limited's property and decide how the division is to be carried out between the members or different classes of members.

(p) Application of Listing Rules

While Federation Limited is listed on the ASX, the Listing Rules prevail to the extent that there is an inconsistency between the provisions of the constitution and the Listing Rules.

6.12 Federation Stapling Deed

The Federation Stapling Deed sets out the terms of the relationship between Federation Trust, Federation Trust RE and Federation Limited in respect of Federation Securities and will apply to the New Federation Securities. The key terms of the Federation Stapling Deed are as follows:

(a) Stapling

The Federation Shares and Federation Units will remain stapled unless a special resolution of the holders of the Federation Securities approves their unstapling or stapling becomes prohibited by the Listing Rules.

(b) Dealings in Federation Securities

The Federation Shares and the Federation Units may only be issued or transferred as Federation Securities on the basis that one Federation Unit and one Federation Share are stapled together.

(c) Allocation of issue price

The parties must agree on the issue, redemption or buyback price, to be allocated to each component of Federation Securities prior to the issue, redemption or buyback of any Federation Securities except in the case of a Federation Security being issued pursuant to an option, where it must be agreed prior to the issue or exercise of the option.

(d) Registers

The registers of holders of Federation Securities are to be kept jointly, in the Federation Securities register.

(e) Duties

When carrying out their duties, the directors of Federation Limited and Federation Trust RE may, subject to the Corporations Act and any ASIC relief, consider the interests of holders of the Federation Securities as a whole, and not only the interests of the Federation Limited shareholders or the Federation Trust unitholders separately.

(f) Dispute resolution

If there are disagreements about stapling issues, Federation Limited and Federation Trust RE must use their best endeavours to resolve them and negotiate in good faith, and (except in limited circumstances) must do so before instituting proceedings.

6.13 Interests of Federation directors

(a) Relevant Interests in Federation Securities

The following table lists the Relevant Interests of the directors of Federation as at the date of this Scheme Booklet:

Director	Executive or non-executive	Independence status	Interest in Federation Securities
Dr Robert (Bob) Edgar (Chairman)	Non-executive	Independent	50,144
Mr Steven Sewell	Executive	Non-Independent	1,284,367 Federation Securities 1,963,069 performance rights
Mr Clive Appleton	Non-executive	Independent	11,850
Mr Tim Hammon	Non-executive	Independent	10,000
Ms Debra Sterling	Non-executive	Independent	10,000
Mr Charles Macek	Non-executive	Independent	50,000
Mr Fraser MacKenzie	Non-executive	Independent	20,615 indirect 73,966 direct
Ms Wai Tang	Non-executive	Independent	3,809

(b) Relevant Interests in Novion Securities

As at the date of this Scheme Booklet, no director of Federation has any Relevant Interests in Novion Securities other than Wai Tang who has an indirect interest in 1,191 Novion Securities held via E-Imagine Pty Ltd and Clive Appleton who has a direct interest in 58,585 Novion Securities. Clive Appleton is also a director of The Gandel Group which has a substantial holding in Novion, as noted in Section 5.4. E-Imagine Pty Ltd has undertaken to Novion not to vote any Novion Securities held by it at the Meeting.

(c) Payments and benefits to Federation directors

Other than as disclosed in this Scheme Booklet, or as permitted pursuant to the provisions of the Federation Trust or Federation Limited constitutions in relation to additional or special duties performed by any Federation director, no Federation director will receive any payment or other benefit through the Schemes.

6.14 Federation interest in Novion Securities

As at the date of this Scheme Booklet, Federation does not have a Relevant Interest in Novion Securities.

6.15 Corporate governance

The Federation Board operates under a set of well-established corporate governance policies that comply with the principles and requirements of the Corporations Act and the ASX.

The Federation Board is committed to ensuring that its policies, charters and practices reflect a high standard of corporate governance. The Federation Board reviews and, as necessary, updates its corporate governance charters and policies as the corporate governance environment and good practice evolve and believes they satisfy all of the principles and recommendations of the ASX Corporate Governance Council (CGC). Details of these charters and policies are available in the Governance section of the Federation website www.federationcentres.com.au

(a) Board composition

The Boards of Federation Limited and Federation RE are comprised of the same 8 members. All directors (including the current Chair), other than Steven Sewell, (who is CEO and Managing Director of Federation), are independent non-executive directors.

Board composition and the independence of directors are determined using the principles adopted in the Board Charter and having regard to the CGC Corporate Governance Principles and Recommendations.

The Federation Board seeks to achieve a mix of skills and diversity that includes corporate and risk management, retail property investment and management, business, strategic, legal, finance and operational expertise.

(b) Term

In accordance with legal and regulatory requirements, ongoing directors are presented for re-election at least every three years, and a third of all directors are presented for re-election each year.

(c) Board responsibilities and delegation

The Federation Board is responsible for planning and overseeing the business and affairs of Federation for the benefit of its securityholders. Full details of the responsibilities and functions of the Federation Board are set out in the Board Charter.

The Federation Board has delegated responsibility for the day-to-day operation and administration of Federation to the Executive Committee but maintains responsibility for strategic direction and governance of Federation.

(d) Board committees

The Federation Board has established the following committees to assist with the implementation of its corporate governance practices:

- Audit and Risk Committee – reports to the Federation Board on audit and risk matters and has the responsibility and authority for recommending the appointment, reappointment or replacement of the external auditor. The committee also reviews and approves the risk-based Strategic Internal Audit Program each financial year and reviews the outcomes of internal audits performed to ensure that appropriate actions are taken to treat identified risks
- Nomination Committee – responsible for establishing criteria for Board membership, reviewing Board membership and identifying and nominating directors, and
- Remuneration and HR Committee – has responsibility for determining the remuneration arrangements of senior executives and the non-executive directors and advises the Federation Board with regard to general remuneration principles for all employees. The Committee oversees the annual performance review process for the CEO and senior executives and advises the Federation Board with regard to management programs in use to optimise the contributions of human resources to support and further corporate objectives, particularly for succession and development planning, attraction and retention, performance management, diversity, culture and engagement programs.

Each committee has a written charter and operating procedures that are reviewed on a regular basis.

(e) Directors' fees

Non-executive director fee levels are set with regard to time commitment and workload, the risk and responsibility attached to the role and external market benchmarking. To promote independence and impartiality, no element of a non-executive director's remuneration is 'at risk' (i.e. not based on the performance of Federation). Non-executive directors do not receive any retirement benefits other than superannuation.

The maximum aggregate annual remuneration paid to all non-executive Federation Limited directors may not exceed the amount authorised by Federation Limited shareholders in a general meeting (currently \$2,250,000).

(f) Directors and Officers Insurance

Federation pays premiums in respect of a directors and officers (D&O) insurance policy for the benefit of directors and executive officers of Federation.

(g) Diversity and inclusion

The Federation Board fully supports diversity and inclusion and has oversight of key diversity-related objectives. While there is a strong organisational commitment to a broader diversity and inclusion agenda, the progress of which is facilitated through Federation's Diversity Forum, the Federation Board has set measurable objectives in accordance with the CGC Corporate Governance Principles and Recommendations on gender diversity. The Federation Board annually assesses both the objectives and the progress being made towards their achievement.

(h) Ethical and responsible decision-making

Federation has policies and procedures to promote and provide guidance on integrity, accountability and responsible decision-making. All directors and employees are expected to act with the utmost integrity and objectivity and to endeavour at all times to enhance the reputation and performance of Federation.

The Federation Board has adopted a Code of Conduct that sets out the standards of behaviour expected from all employees. In addition, Federation's Whistleblower Policy ensures that concerns regarding unethical, unlawful or improper conduct may be raised without fear of reprisal.

(i) Risk management and internal control framework

Federation recognises that effective risk management and internal controls are an integral part of sound management practice and good corporate governance as they improve decision-making and enhance outcomes and accountability.

The Federation Board is responsible for the overall risk management and internal control framework of Federation, which includes the following activities:

- a “Risk Management” function which oversees a robust risk management framework, including the Material Risk Register, pursuant to which material risks are proactively identified, communicated, monitored and managed and risk treatment strategies captured and implemented
- an “Internal Audit” function which provides independent objective assurance and makes recommendations to assist Federation in improving its internal control framework. It also tests compliance with internal controls, and
- a “Compliance” function which oversees general compliance including the Managed Investments Compliance Plan of Federation Trust.

(j) Sustainability and Community Engagement

Federation has created a sustainability framework, which addresses economic, environmental and social sustainability, and which embraces all stakeholders and aspects of its business. Federation is building on existing systems to create a sustainable working and shopping environment.

Federation’s shopping centres are a focal point within the communities they serve and the Federation Board is fully supportive of Federation’s positive contribution to these communities. The community is a stakeholder critical to Federation’s success and Federation runs a variety of community-based projects year round which provide financial and social benefits to local communities and charities, including:

- launching National Community Partnerships with The Song Room, The Smith Family and the Property Industry Foundations which helps disadvantaged youths to reach their potential
- launching a paid volunteering leave program to enable employees to do community work, and
- supporting a range of local activities and groups that reflect the needs of the communities in which the centres operate.

Federation will continue to develop programs to ensure it engages and understands community aspirations.

(k) Investor Communications

The Federation Board has adopted an Investor Communications Policy designed to ensure that investors are fully informed about all major developments in the operations of Federation.

6.16 No pre-transaction benefits

Except as referred to in this Scheme Booklet, during the period beginning four months before the date of lodgement of this Scheme Booklet with ASIC for registration and ending the day before that date, neither Federation nor any associate of Federation gave, or offered to give or agreed to give a benefit to another person that is not available to Scheme Securityholders under the Merger and was likely to induce the other person, or an associate of the other person, to:

- vote in favour of the Merger, or
- dispose of Novion Securities.

6.17 Material changes in Federation’s financial position since last accounts published

Other than as disclosed in this Scheme Booklet, within the knowledge of the Federation Board, the financial position of Federation has not materially changed since 31 December 2014, being the date of the balance sheet for the half year accounts of Federation for FY15.

6.18 Continuous disclosure

Federation is a disclosing entity for the purposes of the Corporations Act and is subject to periodic reporting and disclosure obligations under the Corporations Act and the Listing Rules. In particular, Federation has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Federation Securities. Publicly disclosed information about Federation is available on the ASX website at www.asx.com.au

The Federation Board has adopted a Disclosure and External Communications Policy to ensure that all securityholders have equal and timely access to Federation’s information and has established comprehensive processes and procedures to ensure that all price-sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporation Act and the Listing Rules. All information provided to the ASX is posted to Federation’s website.

Federation is required to disclose certain information to ASIC and the ASX.

New Federation Securities form part of the Scheme Consideration, and accordingly the Corporations Act requires that, subject to the ASIC Relief described in Section 12.5(b), this Scheme Booklet includes all information that would be required for a product disclosure statement and a prospectus for an offer of New Federation Securities. Copies of documents lodged with ASIC in relation to Federation (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, an ASIC office.

Federation will provide a copy of each of the following documents, free of charge, to any person on request prior to the Meeting:

- the Federation Limited and Federation Trust constitutions and the Federation Stapling Deed
- the most recent annual financial report lodged with ASIC by Federation for FY14 and half year financial report lodged with ASIC by Federation for the first half of FY15, and
- any other document or financial statement lodged by Federation with ASIC or the ASX under the continuous disclosure reporting requirements in the period after the lodgement of the full year financial statements for FY14 and before the lodgement of this Scheme Booklet with ASIC.

Requests for free copies of these documents may be made by contacting Federation.

In addition, copies of all publicly disclosed documents lodged with the ASX in relation to Federation are available on the ASX website at www.asx.com.au. Copies of documents lodged with ASIC in relation to Federation, may be obtained from, or inspected at, an ASIC office. Federation's website at www.federationcentres.com.au also contains a wide range of information about Federation and its activities.

This page is intentionally left blank.

Section 7

Profile of the Merged Group

7.1 Overview of the Merged Group

The Merged Group will be one of Australia's leading REITs and a significant owner and manager across the full spectrum of Australian retail assets diversified by retail asset type, geographic location and tenant mix. Key metrics of the Merged Group include:

- over \$22 billion of retail assets under management across 102 retail assets with the portfolio generating over \$18.2 billion in annual retail sales¹
- being the number one owner/manager of Australian sub-regional centres, number one in Australian outlet centres and number two in Australian super-regional and regional centres combined²
- one of the largest retail landlords in Australia, with over 500 million annual customer visits to more than 9,500 retail tenancies over 3 million sqm of lettable area³, and
- the third largest A-REIT, an ASX top-30 entity based on a market capitalisation of over \$12 billion⁴ and a top-10 listed manager of retail assets globally.⁵

This scale across a national platform will enable it to trial, innovate and implement market leading strategies with its retailer business partners to enable the delivery of superior customer experiences and drive retail sales.

The Merged Group will benefit from a highly experienced Board and senior management team that draws on the breadth of both Novion's and Federation's skills and experience. The Board will be chaired by Mr Peter Hay (a current Novion Independent Non-executive Director) and the senior management team will be led by Mr Steven Sewell (the current CEO and Managing Director of Federation) and Mr Tom Honan (the current Chief Financial Officer of Federation).

The Merged Group's executive management team will also draw on the best of each group's expertise, including:

- Novion's super-regional and regional centre expertise, national, international, luxury and outlet retailer relationships, funds management and development capabilities, and
- Federation's regional, sub-regional and neighbourhood centre expertise, national retailer relationships, co-owner relationships and development capabilities.

(a) Platform overview

The Merged Group's current intention will be to focus on the ownership, management and development of retail real estate across the full retail asset spectrum. A summary of the Merged Group's direct portfolio and its total owned and/or managed portfolio is set out below.

	Direct portfolio	Total owned and/or managed
Number of retail assets	92	102 ⁶
Book value	\$14.0bn	\$22.2bn
GLA (million sqm)	2.7+	3.0+
Number of tenancies	8,500+	9,500+
Annual retail sales ⁷	\$16.4bn+	\$18.2bn+
Occupancy	99.6%	-
Capitalisation rate (weighted average)	6.43%	-

1. As at 31 December 2014, adjusted for post balance date acquisitions and disposals.

2. See Section 3.2(a) for further information on shopping centre categories.

3. Based on total assets under management.

4. Based on the market capitalisations of ASX-listed entities and the combination of Novion's and Federation's stand-alone market capitalisations of approximately \$7.9 billion and \$4.4 billion respectively as at the close of trading on 13 April 2015.

5. Based on the constituents of the FTSE EPRA/NAREIT Global Index, adjusted to include CapitaLand Limited, as at 13 April 2015 (Sydney time).

6. 29 of the Merged Group's direct assets will be co-owned with third parties. Tuggeranong Hyperdome (50% owned by Federation) is currently managed by Novion. Tuggeranong Hyperdome has only been counted once for the purposes of this combined total. Novion and Federation are also engaging with the ACCC in relation to the potential divestment of either Karingal Hub (a 50% Federation owned asset) or Bayside (a Novion owned asset). For further details see Sections 8.6(d) and 12.5(d) of this Scheme Booklet.

7. Based on sales data for the 12 months to 31 December 2014.

Property management involves day-to-day shopping centre management, leasing and tenancy administration. Development management includes the creation of new concepts and the revitalisation and expansion of existing centres.

The Merged Group will earn:

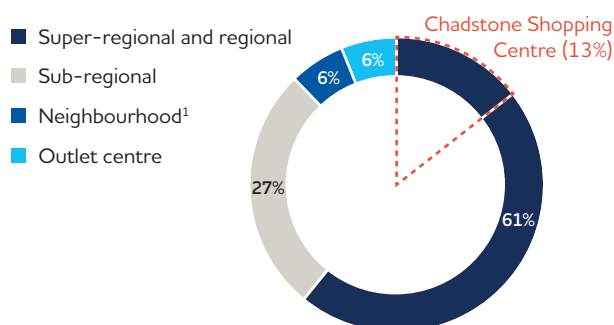
- fees from property management on all properties managed by the Merged Group, based on a fixed percentage of gross collectibles from tenants.
- leasing fees where a leasing transaction takes place for the relevant retailer for co-owned properties and properties managed on behalf of third parties, and
- development management fees, based on a fixed percentage of development costs, for co-owned properties and properties managed on behalf of third parties.

(b) Portfolio mix

The Merged Group will have scale and relevance across the full spectrum of Australian retail real estate, with substantial exposure to the larger retail markets of Victoria, New South Wales, Queensland and Western Australia.

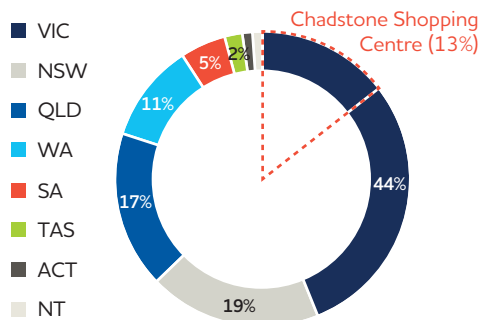
Super-regional and regional centres will make up approximately 61% of the Merged Group's portfolio.⁸ Sub-regional centres will make up 27% of the portfolio and the balance of the portfolio will be made up of retail outlet and neighbourhood centres. The portfolio will be 44% weighted to Victoria (with 13% of the Merged Group's exposure relating to Australia's largest shopping centre by Moving Annual Turnover, Chadstone Shopping Centre), and the remainder of the portfolio spread predominantly across New South Wales, Queensland and Western Australia.

ASSET TYPE (BY BOOK VALUE)



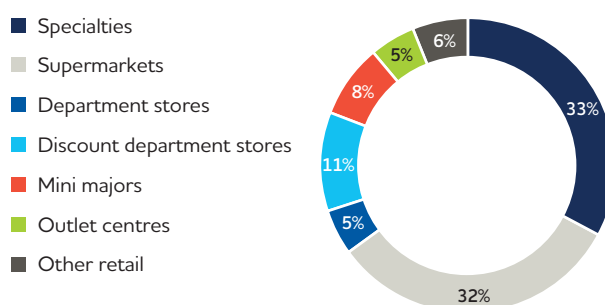
1. Includes one bulky goods centre.

GEOGRAPHIC LOCATION (BY BOOK VALUE)



The Merged Group's portfolio will have a balanced exposure to non-discretionary and discretionary retail spending. Approximately 32% of retail sales in the Merged Group's direct portfolio will come from non-discretionary supermarket sales, while anchor tenants (which are comprised of supermarkets, department stores, discount department stores and mini-majors), will make up 56% of retail sales in total. This is expected to enable the Merged Group to deliver a stable income stream to investors over the long term.⁹

TENANT MIX (WEIGHTED BY MOVING ANNUAL TURNOVER)

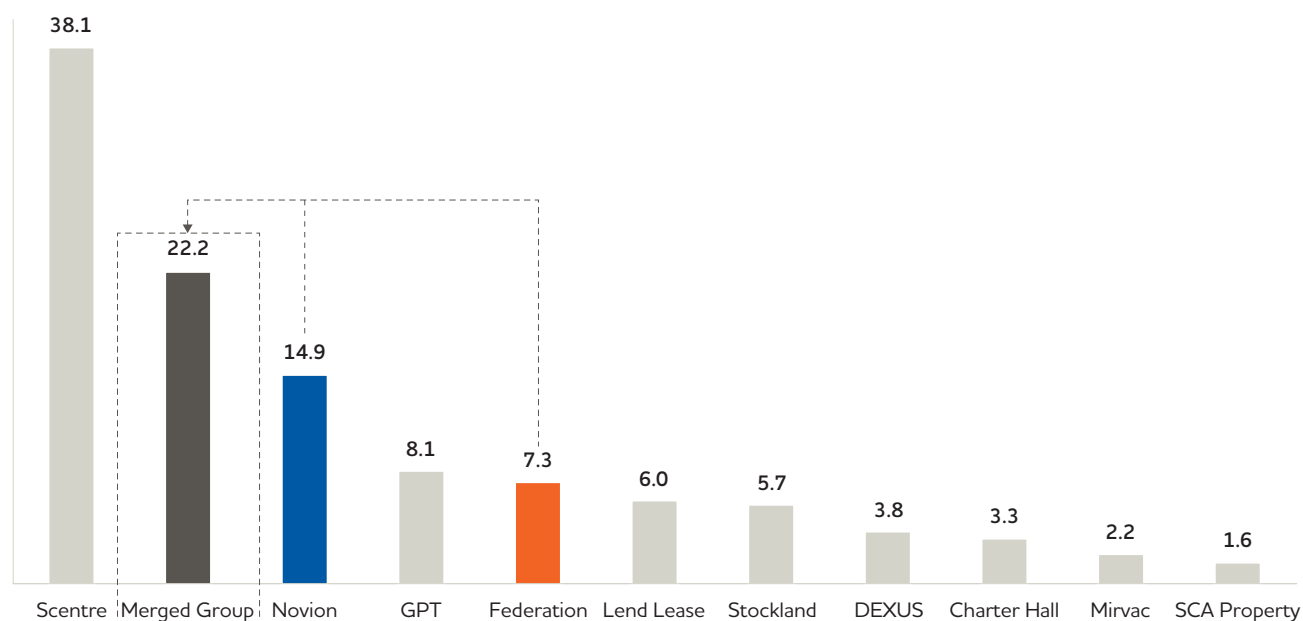


8. All figures in this paragraph refer to portfolio by book value.

9. All data in the paragraph and the chart titled 'Tenant mix (weighted by moving annual turnover)' is based on retail sales for the 12 months to 31 December 2014.

(c) ASX-listed retail asset managers¹⁰ (by Australian retail assets under management) (\$bn)

The Merged Group will be the second largest listed manager of Australian retail assets as shown in the chart below:

**(d) Competitive advantage across the full retail asset spectrum**

The Merged Group will comprise interests in super-regional, regional, sub-regional, retail outlet and neighbourhood centres.¹¹

#2 in super-regional and regional assets combined

Joint owner of Australia's largest shopping centre
(by MAT)

CHADSTONE SHOPPING CENTRE, VIC



Leading portfolio in strong catchment areas

ROSELANDS, NSW



Super-regional and regional centres will account for approximately 61% of the Merged Group's property portfolio value.

10. Novion and Federation data as at 31 December 2014, adjusted for post balance date acquisitions and disposals. All peer data as reported at 31 December 2014 other than Lend Lease (based on last reported data as at 30 June 2014).

11. As defined by the Property Council of Australia.

#1 in sub-regional assets

Stable and high performing portfolio of scale

MANDURAH FORUM, WA



Sub-regional centres will account for approximately 27% of the Merged Group's property portfolio value.

Neighbourhood assets

Resilient portfolio exposed to key non-discretionary retailers

BENTONS SQUARE, VIC



Neighbourhood centres will account for approximately 6% of the Merged Group's property portfolio.

#1 in outlet centres

Strong portfolio with proven ability to create value and growth

DFO HOMEBUSH, NSW



Outlet centres will account for approximately 6% of the Merged Group's property portfolio value.

7.2 Merged Group focus

The Merged Group will be focused on the ownership, management and redevelopment of Australian retail real estate. It will own properties across the full retail asset spectrum – that is, from super-regional centres to outlet centres. The Merged Group's extensive asset base will make it one of Australia's most significant owners and managers of retail assets and the only ASX-listed group which has substantial exposure across the full retail spectrum.

The key areas of the Merged Group's current intended focus have been outlined below. To properly achieve these objectives, the Merged Group will dedicate significant resources to integrating the businesses of Novion and Federation.

Retail real estate strategy	- Fully integrated platform focused on the ownership and management of Australian retail real estate. - Own, manage and develop assets across the full retail asset spectrum – super-regional, regional, sub-regional, neighbourhood and outlet centres. - Invest in retail assets with stable yields, highly predictable cash flows and income returns.
Operational excellence	- Optimise asset returns via superior operational management. - Maintain efficient and effective systems and processes (including a fully integrated technology platform) with a sustained focus on continuous improvement. - Attract, develop and retain the best talent.
Portfolio enhancement	- Deliver on strategic asset plans through redevelopment, refurbishment and tenancy remixing opportunities. - Strategic portfolio management through divestment of non-core assets and targeted acquisitions. - Continually seek to optimise retailer mix and customer offering.
Strategic partnerships	- Focus on retail sector partnerships. - Enhance existing relationships across wholesale funds, mandates and partners. - Establish new products and long-term relationships including new institutional investment partners and technology partners.
Balance sheet strength	- Prudent capital management – target gearing range of 25-35%. - Maintain appropriate liquidity and a diversified debt maturity profile (by source and tenor). - Maintain a strong investment grade credit rating.

7.3 Intentions for the Merged Group

This Section sets out the current intentions of the Federation Board and the Novion Board for the business, corporate structure and employees of the Merged Group. Following implementation of the Merger, the newly constituted Merged Group Board will be responsible for oversight of the Merged Group's business.

The statements of intention contained in this Section are based on information concerning Federation and Novion and their businesses at the time of preparation of this Scheme Booklet.

(a) Continuation of business

Novion and Federation do not currently intend to make any major changes to the Novion business, other than to capitalise on and expand the opportunities that are available to the business or become available as a result of the Merger. Those opportunities are referred to in Section 7.2 above. Particular intentions of the Federation Board and the Novion Board within the areas of focus listed in Section 7.2 are as follows:

- (i) **Retail real estate strategy:** Subject to paragraph (iii) below, the Merged Group will aim to maintain a portfolio with exposure across the full retail asset spectrum. This aim will be a factor influencing decisions in respect of divestments, acquisitions, redevelopments and refurbishments (as to which, see paragraph (iii) below).
- (ii) **Operational excellence:** The Merged Group will look to draw upon the best operational management resources available to it to improve the operational management of its assets. This will extend to reviewing systems and processes currently used by Federation or Novion to determine which would be best for the Merged Group.
- (iii) **Portfolio enhancement:** A key priority for the Merged Group will be the optimisation of its property portfolio. Post implementation of the Merger, the Merged Group will review its portfolio. The review will involve consideration of whether there are assets that should be sold, refurbished or redeveloped and whether there are assets that the Merged Group should look to acquire. The review will also evaluate the Merged Group's development pipeline. It is possible that there may be some re-prioritising of potential projects once the project pipelines of Federation and Novion are brought together.

Another objective of the review will be to consider the mix of tenancies in portfolio assets. The Merger may give rise to opportunities to improve tenancy mix in some properties.

- (iv) **Strategic partnerships:** It is expected that the larger portfolio of the Merged Group, and also the portfolio enhancement referred to in paragraph (iii) above, could generate opportunities for the Merged Group to enter into new co-investment arrangements with its existing and new strategic partners and to develop new products for those partners. The Merged Group will investigate such opportunities and engage with its existing and new strategic partners as opportunities are identified.
- (v) **Balance sheet strength:** As detailed in Section 7.7 of this Scheme Booklet, promptly after implementation of the Merger, the Merged Group will begin actively investigating debt capital markets issuances. The proceeds of any debt capital markets issuance would be applied, amongst other things, to repay the Merged Group's bridge facility. Debt capital markets that may be accessed where appropriate include the Australian, US and European bond markets.

(b) Corporate matters

If the Merger is implemented:

- (i) Novion intends to apply for termination of the official quotation of Novion Securities on the ASX and to have itself removed from the official list of the ASX, and
- (ii) Federation intends to reconstitute the boards of Novion Limited and its subsidiaries.

Further details regarding the corporate structure of the Merged Group and the Merged Group Board are set out in Sections 2.2, 7.9 and 7.10 respectively.

As part of the integration process, the Merged Group is expected to transition to a new corporate name and have its corporate office consolidated in a single location, with regional offices in other cities.

(c) Employees

If the Merger is implemented, the Merged Group will review the existing employment arrangements of Federation and Novion and consider appropriate structuring and staffing for the Merged Group. In order to realise certain synergies for the Merged Group, there will be some redundancies. All of Federation and Novion's employees will be treated in accordance with the terms of their respective employment contracts in place as at the date of the Merger Implementation Agreement. It is anticipated that, if the Merger is implemented, new short-term and long-term incentive arrangements will be put in place with outcomes and hurdles established by the Merged Group Board.

The Federation Board and the Novion Board have agreed upon the executive management team that will be put in place from implementation of the Merger. It draws upon the skills and experience of the current executive management teams of Federation and Novion. Details regarding the Merged Group's executive management team are set out in Section 7.11 of this Scheme Booklet.

Consultants have been engaged to assist with the strategy and design of the organisational operating model for the Merged Group which will include the process for appointment of direct reports to the Merged Group's executive management team. Next level appointments across the Merged Group will then be considered by the executive management team and their direct reports.

7.4 Direct property portfolio

The Merged Group will directly own interests in 92 retail assets with a book value of \$14.0 billion. The key metrics of each property have been outlined below.

Property	Direct interest (%)	Centre type	Book value (\$m)	Retail GLA (sqm)	Occupancy (%)	Cap rate (%)
Existing Novion retail assets						
Chadstone Shopping Centre, VIC	50	Super-regional	1,825	146,564	100.0	5.00
Chatswood Chase Sydney, NSW	100	Regional	890	58,053	100.0	5.50
QueensPlaza, QLD	100	Regional	638	35,856	99.3	5.50
Bayside Shopping Centre, VIC	100	Regional	566	87,822	99.1	6.25
Northland Shopping Centre, VIC	50	Regional	481	94,257	99.9	5.80
Emporium Melbourne, VIC	50	Regional	469	44,267	100.0	5.50
The Myer Centre Brisbane, QLD	50	Regional	383	62,829	99.9	6.00
Elizabeth Shopping Centre, SA	100	Regional	360	68,019	99.8	7.00
Broadmeadows Shopping Centre, VIC	100	Regional	317	60,645	100.0	7.50
Rockingham Shopping Centre, WA	50	Regional	278	59,658	99.8	6.00
Forest Hill Chase, VIC	100	Regional	270	59,515	99.7	7.25
Lake Haven Shopping Centre, NSW	100	Sub-regional	267	39,474	100.0	7.00
Clifford Gardens Shopping Centre, QLD	100	Sub-regional	186	27,606	100.0	6.75
Grand Plaza Shopping Centre, QLD	50	Regional	179	52,611	100.0	6.50
Eastlands Shopping Centre, TAS	100	Regional	162	32,885	98.1	7.00
Brimbank Shopping Centre, VIC	100	Sub-regional	157	38,577	100.0	7.75
Castle Plaza Shopping Centre, SA	100	Sub-regional	150	22,497	99.6	7.50
Runaway Bay Shopping Village, QLD	50	Regional	126	42,119	99.9	6.75
Corio Shopping Centre, VIC	100	Sub-regional	123	27,720	94.3	7.75
Myer Bourke Street, VIC	33	Regional	123	38,729	100.0	5.75
Roxburgh Park Shopping Centre, VIC	100	Sub-regional	100	24,478	100.0	7.50
Northgate Shopping Centre, TAS	100	Sub-regional	91	19,184	99.2	8.25
Altona Gate Shopping Centre, VIC	100	Sub-regional	86	25,032	99.3	8.00
DFO Homebush, NSW	100	Outlet	321	29,475	100.0	6.25
DFO South Wharf, VIC	75	Outlet	286	30,117	99.7	6.75
DFO Essendon, VIC	100	Outlet	153	19,559	100.0	7.25
DFO Moorabbin, VIC	100	Outlet	104	24,170	100.0	7.75
Existing Novion retail assets – total/weighted average			9,090	1,271,715	99.7	6.11

Property	Direct interest (%)	Centre type	Book value (\$m)	Retail GLA (sqm)	Occupancy (%)	Cap rate (%)
Existing Federation retail assets						
Galleria, WA	50	Regional	358	72,357	99.9	5.75
Bankstown Central, NSW	50	Regional	303	81,700	99.2	6.75
Toombul, QLD	100	Sub-regional	230	43,143	98.9	6.75
The Glen, VIC	50	Regional	218	53,256	100.0	6.00
Roselands, NSW	50	Regional	178	61,323	100.0	6.75
Warwick Grove, WA	100	Sub-regional	163	30,307	100.0	6.75
Mandurah Forum, WA	50	Sub-regional	153	40,082	100.0	6.25
Tuggeranong Hyperdome, ACT	50	Regional	150	76,510	94.5	7.25
Colonnades, SA	50	Regional	145	62,359	99.1	7.00
Box Hill Central (South), VIC	100	Sub-regional	140	21,758	100.0	7.25
Nepean Village, NSW	100	Sub-regional	135	20,740	100.0	6.50
Warnbro Centre, WA	100	Sub-regional	122	21,239	100.0	6.25
Karingal Hub, VIC	50	Sub-regional	108	39,553	100.0	6.75
Maddington Central, WA	100	Sub-regional	105	26,975	100.0	7.50
Mt Ommaney Centre, QLD	25	Regional	104	54,606	n/a	6.25
Victoria Gardens, VIC	50	Sub-regional	97	28,750	100.0	6.50
Carlingford Court, NSW	50	Sub-regional	95	28,619	98.7	6.75
Taigum Square, QLD	100	Sub-regional	88	22,484	99.6	7.00
Tweed Mall, NSW	100	Sub-regional	81	23,066	99.8	8.00
Warriewood Square, NSW	50	Sub-regional	75	21,883	100.0	7.00
Currambine Central, WA	100	Neighbourhood	74	12,579	99.1	7.00
Gympie Central, QLD	100	Sub-regional	72	13,960	100.0	7.00
Dianella Plaza, WA	100	Neighbourhood	68	20,318	99.7	7.25
Box Hill Central (North), VIC	100	Sub-regional	64	11,897	100.0	7.75
Cranbourne Park, VIC	50	Sub-regional	n/a	28,172	100.0	n/a
Mornington Central, VIC	100	Sub-regional	62	11,555	100.0	6.75
Brandon Park, VIC	50	Sub-regional	58	21,946	97.7	7.75
West End Plaza, NSW	100	Sub-regional	58	15,733	99.7	7.75
Lutwyche City, QLD	100	Neighbourhood	57	12,407	98.8	8.00
Whitsunday Plaza, QLD	100	Sub-regional	57	22,178	100.0	7.50
Goulburn Plaza, NSW	100	Sub-regional	57	13,839	100.0	8.00
Lavington Square, NSW	100	Sub-regional	56	20,135	99.1	8.25
Karratha City, WA	50	Sub-regional	55	23,764	100.0	7.50
Indooroopilly Central, QLD	100	Other	54	19,200	100.0	8.00
Sunshine Marketplace, VIC	50	Sub-regional	52	32,801	100.0	7.25

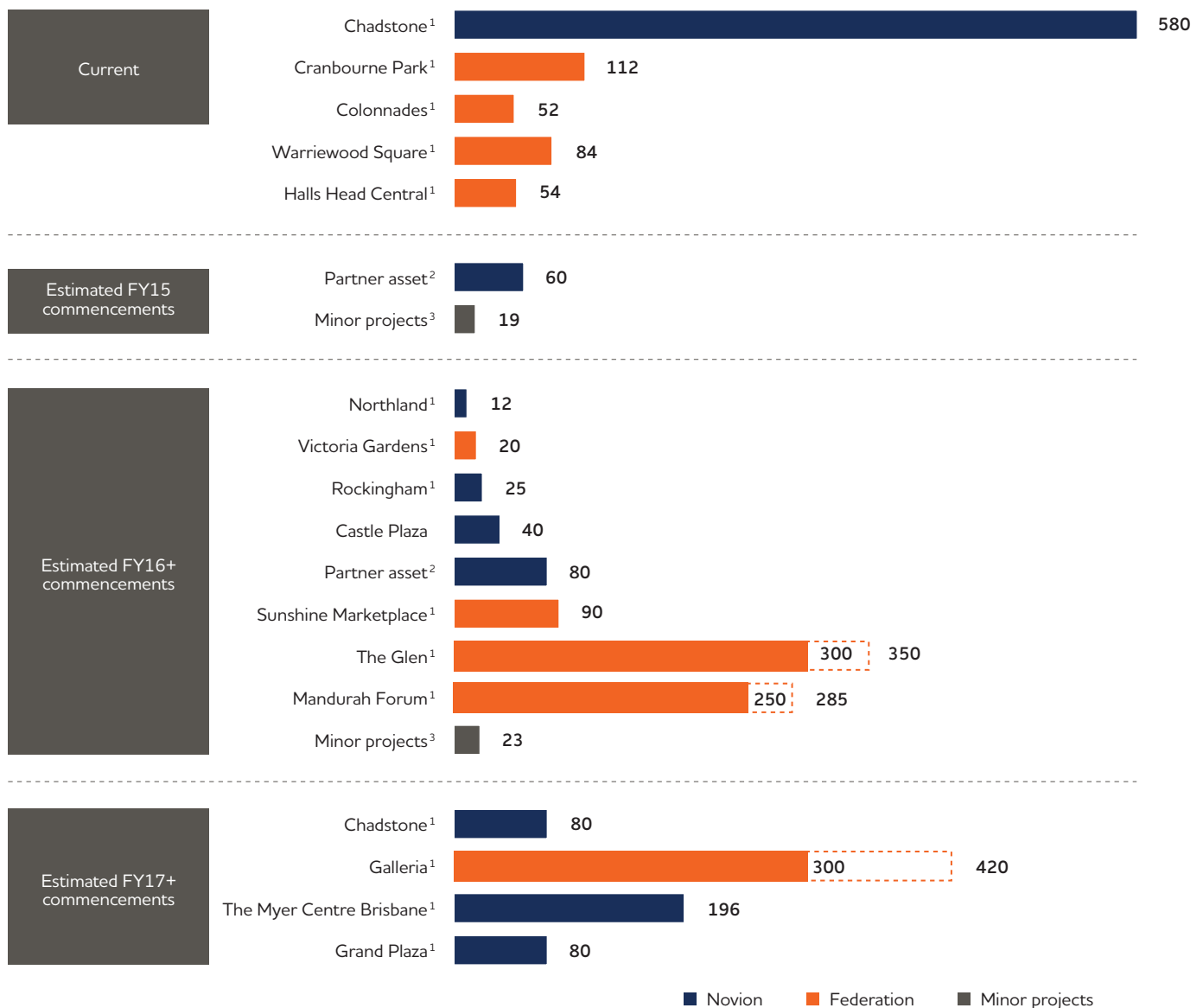
Property	Direct interest (%)	Centre type	Book value (\$m)	Retail GLA (sqm)	Occupancy (%)	Cap rate (%)
Oakleigh Central, VIC	100	Neighbourhood	49	13,496	99.6	7.75
Stirlings Central, WA	100	Neighbourhood	47	8,447	98.4	7.25
Wodonga Plaza, VIC	100	Sub-regional	47	17,560	100.0	8.50
Meadow Mews, TAS	100	Neighbourhood	44	7,608	100.0	7.50
Armidale Central, NSW	100	Sub-regional	43	14,591	100.0	7.50
Belmont Village, VIC	100	Sub-regional	42	14,001	100.0	7.25
Toormina Gardens, NSW	50	Sub-regional	39	21,216	97.6	7.50
Bentons Square, VIC	50	Neighbourhood	39	9,772	98.0	6.50
Westside Plaza, NSW	100	Sub-regional	36	17,490	97.6	9.50
The Gateway, VIC	100	Neighbourhood	35	10,864	99.1	7.75
Buranda Village, QLD	100	Sub-regional	35	9,112	100.0	7.50
Kurralta Central, SA	100	Sub-regional	35	10,649	100.0	7.25
Kalamunda Central, WA	100	Neighbourhood	34	8,263	100.0	7.50
Terrace Central, NSW	100	Neighbourhood	31	7,233	100.0	8.00
Flinders Square, WA	100	Neighbourhood	30	5,876	100.0	7.00
Lennox Village, NSW	50	Neighbourhood	29	9,967	99.4	7.25
Mount Gambier Central, SA	100	Sub-regional	29	12,685	96.0	9.25
Katherine Oasis, NT	100	Neighbourhood	28	7,155	99.3	8.50
Oxenford Village, QLD	100	Neighbourhood	26	5,797	100.0	7.25
Goldfields Plaza, QLD	100	Neighbourhood	26	7,924	100.0	8.00
Albany Brooks Garden, WA	100	Neighbourhood	25	12,355	100.0	8.25
Victoria Park Central, WA	100	Neighbourhood	24	5,421	100.0	7.00
Milton Village, QLD	100	Neighbourhood	20	1,713	96.2	7.75
North Shore Village, QLD	100	Neighbourhood	20	4,068	98.0	7.25
Hilton Plaza, SA	100	Neighbourhood	19	4,218	100.0	7.25
Burnie Plaza, TAS	100	Sub-regional	19	8,634	100.0	8.75
Glenorchy Central, TAS	100	Neighbourhood	19	6,905	94.3	8.50
Monier Village, QLD	100	Neighbourhood	18	5,593	98.0	7.50
Halls Head Central, WA	50	Neighbourhood	17	5,961	100.0	7.75
Maitland Hunter Mall, NSW	100	Sub-regional	13	12,998	99.8	9.75
Existing Federation retail assets – total/weighted average			4,924	1,398,766	99.5	7.01
Merged Group retail assets total/weighted average			14,014	2,670,481	99.6	6.43

7.5 Development pipeline

The Merged Group will have a development pipeline of \$2.5 billion¹² across 18 key projects¹³. The scale and diversity of the pipeline is expected to enable the Merged Group to stage its delivery of projects, smoothing capital deployment and development returns through the cycle.

The Merged Group's co-owned share of the cost of this pipeline is approximately \$1.2 billion, with the remainder attributable to the Merged Group's strategic partners. Beyond this identified development pipeline, the Merged Group will also have extensive opportunities to enhance existing assets through progressing other projects in line with asset master-planning, tenant remixing and smaller refurbishment projects.

MERGED GROUP DEVELOPMENT PIPELINE (\$M)



Note: Unless footnoted, the retail asset is 100% owned, otherwise:

1. Retail asset is 50% owned.
2. Retail asset is not owned.
3. Ownership of the retail asset is varied.

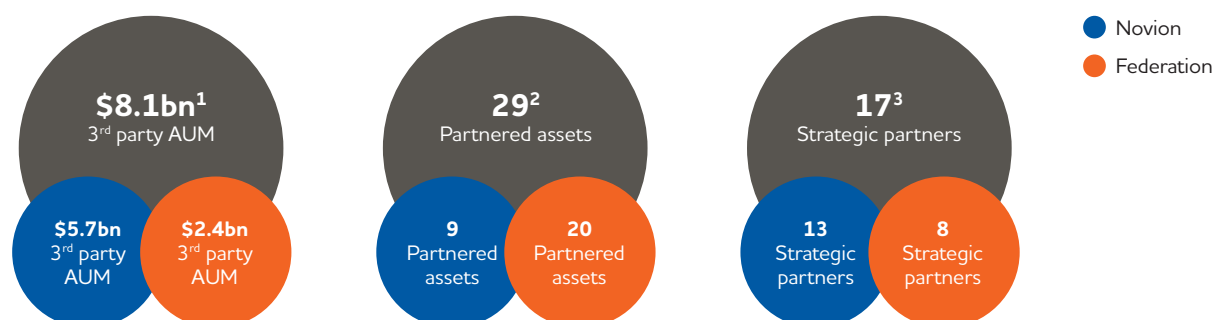
12. The Merged Group's share is \$1.2 billion, with the remainder attributable to the Merged Group's strategic partners.

13. Key projects do not include minor projects such as Maitland Hunter Mall (a Federation owned asset).

7.6 Strategic partnerships

(a) Overview

In addition to its direct portfolio, the Merged Group will have \$8.1 billion of third party assets under management. This will be comprised of interests in 29 assets owned by 17 strategic partners.



Note: as Novion currently manages 100% of Tuggeranong Hyperdome (50% owned by Federation), the combined portfolio assumes Federation's 50% interest is no longer classified as third party assets under management.

1. Third party assets under management is the value of assets managed on behalf of third parties (i.e. not on balance sheet).
2. For Novion, partnered assets are assets that are co-owned with Wholesale Funds or third parties. For Federation, partnered assets are assets that are co-owned with third parties only.
3. Strategic partners include wholesale funds, investment mandates or other third parties for whom funds management and/or asset management services are provided. Four strategic partners are strategic partners of both Novion and Federation.

The Merged Group will provide two key services to its strategic partners, being funds management and asset management services.

(i) Funds management

The Merged Group will provide a full range of wholesale property funds management services including capital management, capital transactions, funds structuring, taxation, financial and portfolio reporting, risk management and compliance, legal and research. With a focus on the retail sector, these partners will also benefit from the Merged Group's leading retail asset management platform.

The Merged Group's funds management business will have around \$1.9 billion in retail assets under management and is primarily comprised of two wholesale closed-end funds and one direct property mandate:

- Novion Retail Partnership: a fully-invested closed-end fund, with \$1.2 billion of retail assets¹⁴ and which is the co-owner of three assets in Novion's direct portfolio
- a direct property mandate for Commonwealth Bank Group Super: a diversified portfolio with \$0.6 billion in assets under management (including \$0.2 billion in office assets under management), and
- Novion Enhanced Retail Fund: a closed-end fund with \$0.6 billion of committed equity which is in its investment phase and currently comprises five assets totaling over \$0.3 billion.

(ii) Asset management

The Merged Group's asset management platform will be one of Australia's largest retail property portfolios, with over \$22 billion in assets under management invested across the full retail asset spectrum. The Merged Group will earn management fees from the \$8.1 billion of assets owned by joint owners, Wholesale Funds and other third parties.

The Merged Group will provide a full suite of services for the professional management of retail assets including centre management, development management, leasing, planning, market research, marketing, tenancy design, procurement, sustainability, risk management and portfolio management.

(b) Future opportunities for the strategic partnerships business

The Merged Group will build upon the strategic partnership models of both Novion and Federation, including Novion's established Wholesale Funds management platform and Federation's demonstrated value enhancing co-ownership strategy.

The Merged Group may look to utilise its expanded balance sheet to seed new capital partnerships and/or co-invest into new initiatives. This may provide an opportunity to recycle capital into higher returning redevelopments and repositioning opportunities, while generating ongoing asset and/or funds management fees.

14. Includes Myer Centre Adelaide with a book value of \$0.3 billion, which is currently being marketed for sale.

7.7 Capital management

The Merged Group will look to maintain a strong and conservative capital structure with appropriate liquidity, a strong balance sheet and a diversified debt profile (by source and tenor). The Merged Group will also seek to manage all or part of its exposure to adverse fluctuations in interest rates and exchange rates by entering into interest rate and currency hedging arrangements, including derivative financial instruments.

Upon implementation, the Merged Group will have sufficient facilities to refinance all of Novion's and Federation's existing debt, fund transaction costs and provide an appropriate level of liquidity. These facilities have been agreed and documented and comprise:

- \$3.3 billion of unsecured bank loan facilities with maturities ranging from 2 to 5 years, and
- a \$1.8 billion unsecured bridge facility for 12 months with option to extend for a further period of up to 12 months at the Merged Group's election.

The Merged Group's facilities at the Implementation Date are detailed in the table below:

Facility type	Tenor	Amount (\$m)
Bridge facility	1 year (option to extend for a further period of up to 12 months at the Merged Group's election)	1,800
Bank debt	2 years	960
Bank debt	3 years	840
Bank debt	4 years	800
Bank debt	5 years	700
Total		5,100

The Merged Group has a target debt profile of approximately 50% bank debt and 50% debt capital markets issuances. It is intended for this to be achieved by debt capital markets issuances post implementation with proceeds to be applied, amongst other things, to repay the bridge facility. Potential debt capital markets that may be accessed include the Australian, US and European bond markets.

Below is a summary of the Merged Group's debt profile presented as at 31 December 2014 assuming:

- all existing Novion and Federation debt had been refinanced and the bridge facility had been repaid with debt capital markets issuances

- market rates as at 31 December 2014, and
- other factors as per the table below.

On this basis, the weighted average interest rate of the Merged Group would have been 4.1% and its pro forma gearing would be within a 25-35% target range. For further information on the Merged Group's financing profile and repayment of existing debt arrangements, see Sections 8.5(b) and 8.5(c) of this Scheme Booklet.

Key metrics (as at 31 December 2014)	
Weighted average interest rate ¹⁵	4.1%
Facilities (total/drawn)	\$5.1bn/\$4.6bn ¹⁶
Weighted average debt duration	>5.0 years ¹⁷
Proportion of debt hedged	>75% ¹⁸
Credit rating (Standard & Poor's – long term)	At least A-
Gearing (including intangibles) ¹⁹	29.0%
Gearing (excluding intangibles) ²⁰	31.1%
Interest cover ratio ²¹	5.2x

The intention of the Merged Group is to endeavour to maintain an investment grade credit rating of at least 'A-'. Further details regarding the Merged Group's financing arrangements have been outlined in Section 8.

7.8 Capital structure of the Merged Group

(a) Securities on issue

If the Schemes are implemented, Federation will issue approximately 2,531 million New Federation Securities to Scheme Securityholders.

As a result of the Schemes, the number of Federation Securities on issue will increase from approximately 1,428 million (being the number currently on issue) to approximately 3,959 million as set out below.²²

Number of Federation Securities on issue	1,427,641,565
Number of New Federation Securities issued under the Merger	2,531,008,563
Total number of Federation Securities after the Merger is implemented	3,958,650,128

15. Based on Federation's and Novion's expectation of interest rates for FY15.

16. Pro forma debt drawn includes transaction costs.

17. Based on the assumed debt profile of the Merged Group (i.e. assuming the bridge facility had been repaid via debt capital markets issuance).

18. Including all fixed-rate debt and excluding fees and margins.

19. Calculated as borrowings (net of deferred borrowing costs and cross currency swaps) divided by total assets (net of derivative assets).

20. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

21. Calculated as pro forma FY15 underlying earnings before net interest expense divided by net interest expense. The Merged Group's ICR would be approximately 4.8x if it was calculated on a like-for-like basis with Novion's current ICR of 3.2x (as set out in Section 5.6).

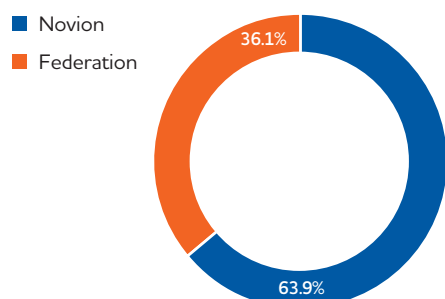
22. Note, the exact number of New Federation Securities to be issued pursuant to the Schemes (and therefore the number of Federation Securities to be on issue after the Implementation Date) cannot be precisely calculated or anticipated due to the effects of rounding.

(b) Performance rights

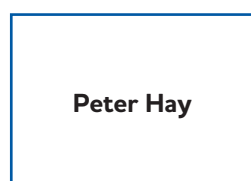
On the Implementation Date, the Merged Group will have performance rights on issue. See Section 6.8 for details of the Federation performance rights on issue as at the date of this Scheme Booklet.

(c) Merged Group ownership structure

Based on the exchange ratio, existing Novion Securityholders will own approximately 63.9% of the Merged Group and existing Federation Securityholders will own approximately 36.1% of the Merged Group, as shown in the chart below:

**7.9 Board of directors**

From implementation of the Merger, the Federation RE Board will comprise:

Chairman**Directors**

Trevor Gerber	Richard Haddock AM	Tim Hammon Chair of Risk & Compliance Committee	Peter Kahan	Charles Macek Chair of Remuneration & HR Committee
Fraser MacKenzie	Karen Penrose Chair of Audit Committee	Steven Sewell Chief Executive Officer	Wai Tang	David Thurin

 Existing Novion Director
 Existing Federation Director

From implementation of the Merger, the Federation Limited Board will comprise only 8 directors (out of the 11 directors listed above). This is because the Federation Limited constitution contains a limit on the maximum number of directors, being 8. Mr Steven Sewell, who is to be the CEO of the Merged Group, will from implementation of the Merger cease to be a Federation Limited director and Mr Trevor Gerber and Mr Fraser MacKenzie will be appointed alternate directors of Federation Limited. They will not be Federation Limited directors on implementation of the Merger.

Accordingly, on implementation of the Merger, the Federation RE Board and the Federation Limited Board will not be the same.

At the Federation Limited 2015 Annual General Meeting, Federation Limited shareholders will be asked to approve an increase in the maximum number of directors of the Federation Limited Board from 8 to 11. This is intended to allow the Federation Limited Board to be constituted in the same way as the Federation RE Board (as per the diagram above).

The Federation Limited Board will adopt a board protocol to govern its board meetings between the date of implementation and the Federation Limited 2015 Annual General Meeting. Further information about the board protocol is included in Section 7.10.

The biographies of each of the Merged Group's proposed non-executive directors have been outlined below.



Peter Hay – Chairman, Independent Non-executive Director

Appointed to Novion Board July 2014

Peter Hay has a strong background and breadth of experience in business, corporate governance, finance and investment banking advisory work, with a particular expertise in relation to mergers and acquisitions. Mr Hay was a partner of the legal firm Freehills until 2005, where he served as Chief Executive Officer from 2000.

Mr Hay is a director of the Australian Institute of Company Directors and is also a member of its Corporate Governance Committee, and has been a member of the Australian Government Takeovers Panel since 2009. Mr Hay is also the chairman of Newcrest Mining Limited and director of GUD Holdings Limited.



Trevor Gerber – Independent Non-executive Director

Appointed to Novion Board April 2014

Trevor Gerber has had a long career in property funds management. Mr Gerber was Director of Funds Management at Westfield Group with responsibility for Westfield Trust and Westfield America Trust, and prior to this was Treasurer of Westfield Group. Mr Gerber is a member of the Institute of Chartered Accountants.

Mr Gerber is also lead independent director of Sydney Airport Holdings, and a director of Tassal Group, Leighton Holdings Limited and Regis Healthcare Limited.



Richard Haddock AM – Independent Non-executive Director

Appointed to Novion Board January 2009

Richard Haddock has had a long career in financial services and was Deputy General Manager, Australia at BNP Paribas, Sydney from 1988 to 2001. Mr Haddock is a Fellow of the Australian Institute of Management, the Financial Services Institute of Australia and the Australian Institute of Company Directors.

Mr Haddock is also a director of Retirement Villages Group Fund, the honorary treasurer and a national director of Caritas Australia, the chairman of Catholic Care, the chairman of the Australian Catholic Superannuation and Retirement Fund, and chairman of St Vincent's Curran Foundation.



Tim Hammon – Independent Non-executive Director

Appointed to Federation Board December 2011

Tim Hammon has extensive wealth management, property services and legal experience. He is currently Chief Executive Officer of Mutual Trust Pty Limited and previously worked for Coles Myer Ltd in a range of roles including Chief Officer, Corporate and Property Services with responsibility for property development and leasing and corporate strategy. He was also Managing Partner of various offices of Mallesons Stephen Jaques.



Peter Kahan – Non-executive Director

Appointed to Novion Board April 2014

Peter Kahan has a long career in property funds management, with prior roles including Chief Executive Officer and Finance Director of The Gandel Group. Mr Kahan was the Finance Director of The Gandel Group at the time of the merger between the Gandel Retail Trust and Colonial First State Retail Property Trust in 2002. Prior to joining The Gandel Group in 1994, Mr Kahan worked as a Chartered Accountant and held several senior financial roles across a variety of industry sectors. Mr Kahan is a member of the Institute of Chartered Accountants and the Australian Institute of Company Directors.

Mr Kahan is also Executive Deputy Chairman of The Gandel Group and a director of Charter Hall Group where he is a member of the Remuneration and Human Resources Committee and Nomination Committee.



Charles Macek – Independent Non-executive Director

Appointed to Federation Board December 2011

Charles Macek brings extensive experience in the finance industry, including insurance, stockbroking, investment management and investment banking roles in Australia, New Zealand, the United Kingdom and Japan. Over the past decade he has held numerous senior positions and directorships in a range of public companies including Telstra and Wesfarmers.

Mr Macek is a member of the Investment Committee of UniSuper Ltd and is also Chairman of Earthwatch Institute Australia.



Fraser MacKenzie – Independent Non-executive Director

Appointed to Federation Board October 2009

Fraser MacKenzie has more than 40 years' of finance and general management experience in the United Kingdom, the United States and Asia, including Chief Financial Officer for both Coles Group/ Coles Myer and OPSM Group. Mr MacKenzie held senior finance and general management roles at Pfizer, Gestetner Holdings and Smith Kline & French Laboratories in addition to various accounting positions in his early career at Royal Bank of Scotland, Hambros Bank and Ernst & Young.



Karen Penrose – Independent Non-executive Director

Appointed to Novion Board April 2014

Karen Penrose has a strong background and experience in business, finance and investment banking, in both the banking and corporate sectors. Her prior executive career includes 20 years with Commonwealth Bank and HSBC and, over the eight years to January 2014, Chief Financial Officer and Chief Operating Officer roles with two ASX listed companies.

Ms Penrose is a director of AWE Limited, Spark Infrastructure Group, LandCom (operating as UrbanGrowth NSW) and Marshall Investments Pty Limited. She was, until February 2015, Deputy Chair and Chair of the Audit and Risk Committee of Silver Chef Limited.



Wai Tang – Independent Non-executive Director

Appointed to Federation Board May 2014

Wai Tang has extensive retail industry experience and knowledge gained through senior executive and board roles. Ms Tang's former senior executive roles included Operations Director for Just Group and Chief Executive Officer of the Just Group sleepwear business, Peter Alexander. Prior to joining the Just Group she was General Manager of Business Development for Pacific Brands. She was also the co-founder of the Happy Lab retail confectionery concept.

Ms Tang is currently a Non-executive Director of Kikki K and the Melbourne Festival. Past directorships include Specialty Fashion Group and L'Oréal Melbourne Fashion Festival.



Dr David Thurin – Non-executive Director

Appointed to Novion Board April 2014

David Thurin has had extensive experience in the property industry that includes senior roles within The Gandel Group and associated companies including being the Joint Managing Director. Dr Thurin was a Director of The Gandel Group at the time of the merger between the Gandel Retail Trust and Colonial First State Retail Property Trust in 2002. Dr Thurin is the Managing Director and founder of Tigcorp Pty Ltd, which has property interests in retirement villages and land subdivision. He has a background in medicine, having been in private practice for over a decade, and was a prior President of the International Diabetes Institute.

Dr Thurin is currently a Director of Tigcorp Pty Ltd, Melbourne Football Club and Baker IDI Heart and Diabetes Institute and is a member of the World Presidents' Organisation and the Australian Institute of Company Directors.

7.10 Protocol of the Merged Group Board

As noted above in Section 7.9, at the Federation Limited 2015 Annual General Meeting, Federation Limited shareholders will be asked to approve an increase in the maximum number of directors of the Federation Limited Board from 8 to 11.

For the purposes of the period between the Implementation Date and the date of the Federation Limited 2015 Annual General Meeting, the Federation Limited Board will adopt a board protocol to govern its board meetings. The board protocol will address the following matters:

- (a) subject to the receipt of the necessary consents, each of Mr Trevor Gerber and Mr Fraser MacKenzie will be appointed as an alternate director of Federation Limited
- (b) Mr Steven Sewell will act as the CEO of the Merged Group and the Managing Director of Federation RE
- (c) Federation Limited will ensure that each alternate director and the CEO are covered by Federation Limited's director and officers (D&O) insurance policy, to the same extent as the Federation Limited directors
- (d) subject to the Federation Limited constitution:
 - (i) Federation Limited Board meetings should be conducted with a view to making decisions after having sought and taken into account the views of the directors, the alternate directors and the CEO, and
 - (ii) Federation Limited and Federation RE board meetings will be held together
- (e) subject to the Federation Limited constitution, each alternate director and the CEO of Federation Limited will be entitled to:
 - (i) receive board papers for all Federation Limited Board meetings
 - (ii) attend all Federation Limited Board meetings
 - (iii) participate in the discussion at all Federation Limited Board meetings to the same extent as each other Federation Limited director
 - (iv) vote on proposed resolutions to be considered by the Federation Limited Board, and
 - (v) be consulted on all written resolutions proposed to be passed by the Federation Limited Board in accordance with the procedures set out in the Federation Limited constitution.

In the period between the Implementation Date and the Federation Limited 2015 Annual General Meeting, Federation Limited will engage each of Mr Trevor Gerber and Mr Fraser MacKenzie as a consultant of Federation Limited under an arrangement that will entitle each individual to receive a consulting fee equal to the director fees that would have been payable to that individual had they been a non-executive director of Federation Limited during that period.

At the Federation Limited 2015 Annual General Meeting, Federation Limited shareholders will be asked to approve the election of the eight existing non-executive directors and Mr Trevor Gerber and Mr Fraser MacKenzie as non-executive directors of Federation Limited. The Federation Limited Board will recommend that its shareholders vote in favour of these resolutions. In addition, the Federation Limited Board intends to appoint Mr Steven Sewell as Managing Director of Federation Limited immediately after the Federation Limited 2015 Annual General Meeting.

In the event that the Federation Limited shareholders do not approve the resolution to increase the number of directors on the Federation Limited Board from 8 to 11, then:

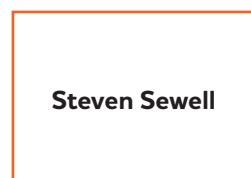
- Mr Trevor Gerber and Mr Fraser MacKenzie will not be put up for election as non-executive directors of Federation Limited, and
- the Federation Limited Board will not appoint Mr Steven Sewell as Managing Director of Federation Limited,

and the board protocol will continue to apply in respect of each of Mr Trevor Gerber and Mr Fraser MacKenzie for so long as they remain a director of Federation RE, and to Mr Steven Sewell for so long as he remains the CEO of the Merged Group and a director of Federation RE.

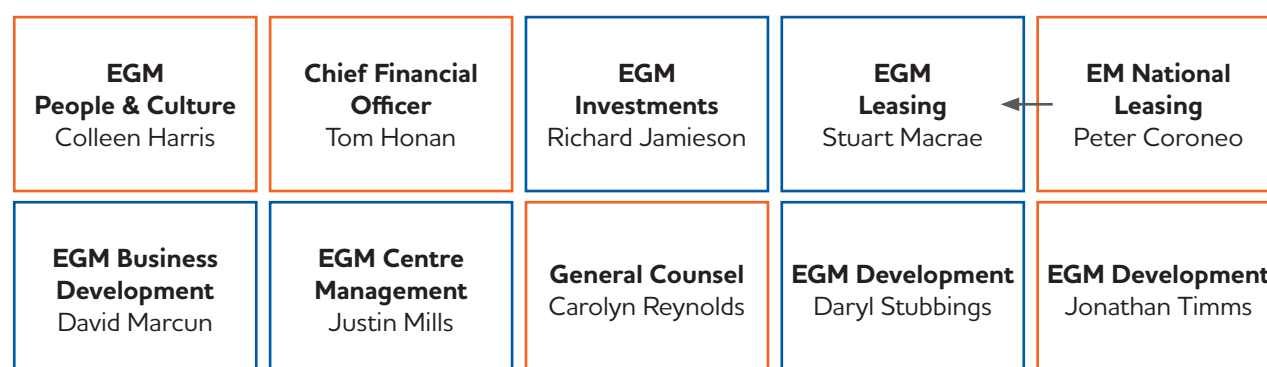
7.11 Executive committee

As outlined below, the Merged Group's executive management team will draw on the depth of expertise from Novion and Federation. Should the Merger be implemented, Steven Sewell (current Federation CEO and Managing Director) will be CEO of the Merged Group.

Chief Executive Officer



Executive Committee



□ Existing Novion Executive □ Existing Federation Executive

The biographies of each of the Merged Group's executive committee members have been outlined below.



Steven Sewell – Chief Executive Officer

Steven commenced as Federation Centre's Chief Executive Officer in February 2012 and was appointed as a Director in July 2012. Mr Sewell has extensive experience in the management and development of Australian shopping centres. He was formerly Chief Executive Officer of Charter Hall Retail REIT (formerly Macquarie Countrywide Trust) for more than five years and National Head of Property Management for QIC Property.

Mr Sewell is the current Chairman of the Shopping Centre Council of Australia and a Director of the Property Council of Australia Limited.



Colleen Harris – Executive General Manager People & Culture

Colleen has more than 18 years' experience in human resources with a focus on the design and implementation of talent, performance and reward frameworks that are linked to individual and business performance. Prior to joining Federation, Ms Harris' industry experience spanned advertising, financial services, gaming, hospitality and entertainment and includes senior roles with National Australia Bank and Crown Limited.



Tom Honan – Chief Financial Officer

Tom has more than 25 years' experience in the finance industry in Australia and the United States. Prior to joining Federation, Mr Honan served as Chief Financial Officer (CFO) with Transurban Group. Other previous roles include Chief Financial Officer at Computershare, Director of Finance, Asia Pacific at Nike Inc and senior executive positions at Price Waterhouse and Exxon/Mobil.



Richard Jamieson – Executive General Manager Investments

Richard has more than 25 years' experience in banking and finance roles. Prior to joining Novion as CFO he was the Acting General Manager, Superannuation, Marketing and Direct, for BT Financial Group. Prior to this, Mr Jamieson held various senior finance roles including CFO for BT Financial Group, CFO for Westpac New Zealand Limited and Infrastructure Fund Manager and CFO at Colonial First State Global Asset Management (CFSGAM). Mr Jamieson is a member of the Institute of Chartered Accountants in Australia.



Stuart Macrae – Executive General Manager Leasing

Stuart has more than 25 years' experience in property management, development and leasing. Prior to his current appointment as General Manager of Leasing with Novion, Mr Macrae was General Manager of Leasing within CFSGAM Property since 2002 and prior to that held a number of senior leasing roles within Gandel Retail Management from 1989 to 2002.



Peter Coroneo – Executive Manager National Leasing

Peter has more than 25 years' national and international experience in the property industry, with deep experience in real estate investment management, development and retail leasing. Prior to joining Federation, Mr Coroneo held senior roles at QIC Properties, including Head of Leasing and Chief Operating Officer, and at LaSalle Investment Management.



David Marcun – Executive General Manager Business Development

David has more than 20 years' experience in the property sector, predominantly in finance and operations roles. Prior to his current appointment as Novion's Chief Operating Officer and Head of Asset Management, he was Chief Operating Officer at CFSGAM Property from 2009. During his career, Mr Marcun was involved in the float of Gandel Retail Trust in 1994 and the acquisition of Gandel Retail Management by CFSGAM in 2002. Mr Marcun is also a member of the Institute of Chartered Accountants in Australia.



Justin Mills – Executive General Manager Centre Management

Justin has more than 17 years' experience in the retail property sector, in centre management, asset management, investment management and strategy. Prior to his current appointment as Novion's General Manager, Retail Management and Strategy, he was General Manager, Retail Management and Strategy at CFSGAM Property from 2009. Mr Mills joined CFSGAM in 2002 where his roles also included Assistant Fund Manager of CFS Retail Property Trust Group, Centre Manager of Chadstone Shopping Centre and Regional Manager.



Carolyn Reynolds – General Counsel

Prior to joining Federation, Carolyn was a partner at law firm Minter Ellison from July 2003 and has more than 20 years' experience as a commercial litigation and corporate lawyer. This includes extensive legal work on property and major entertainment complex related activities associated with the Marina Bay Sands Integrated Resort in Singapore. Ms Reynolds has also acquired diverse experience relating to boards, gained from her legal work and involvement with several not-for-profit organisations.



Daryl Stubbings – Executive General Manager Development

Daryl has over 25 years' experience in asset management and development. Prior to his current appointment, Mr Stubbings was Regional Development Manager since 2006, both at Novion and within CFSGAM Property which he joined in 2005. Over the past 10 years, Mr Stubbings has completed in excess of \$2 billion in major redevelopments and expansions of regional shopping centres, most recently managing the development of the \$1.2 billion Emporium Melbourne project.



Jonathan Timms – Executive General Manager Development

Jonathan has more than 20 years' experience in the property industry in both Australia and overseas, specialising in retail property. Prior to joining Federation, Mr Timms was President of Tesco's China Property Company and involved with a large-scale mall development program. His other senior roles in asset management and development included 10 years with AMP Capital.

7.12 Merged Group Corporate Governance

The Merged Group Board will consider Federation's and Novion's existing corporate governance frameworks and will determine an appropriate framework for the Merged Group, with governance and risk management policies and processes appropriate to the Merged Group's organisational structure and business. The corporate governance practices to be adopted by the Merged Group are not expected to differ significantly from the existing corporate governance practices of Federation, as set out in Section 6.15, except to the extent that changes to Federation's practices are required to incorporate appropriate governance arrangements for Novion's Wholesale Funds business. It is expected that the Merged Group will put in place any amended corporate governance policies and practices during the 12 months after implementation of the Merger.

The corporate governance framework for the Merged Group will be underpinned by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition).

7.13 CEO Arrangements

The Federation Board has approved (in consultation with those directors of the Novion Board who are proposed to be members of the Merged Group's Remuneration Committee) the remuneration package for the CEO of the Merged Group. The remuneration package has been determined with reference to external data supplied by KPMG and with reference to the incumbent's skills and experience. In making this determination, the focus of the Federation Board was to achieve a total remuneration at target outcome of between the median and 75th percentile of the A-REIT sector (excluding Westfield Corporation and Scentre Group), whilst also ensuring strong alignment with the interests of securityholders of the Merged Group.

The fixed remuneration has been set at \$1,500,000, with the short term incentive at target set at 100% of fixed pay (with a maximum opportunity of 150%). To ensure securityholder alignment over the long term, it is proposed to grant the CEO a long term incentive equal to 150% of fixed pay using the face value method of allocation. This equates to a total package of \$5,250,000 per annum at target, \$6,000,000 at maximum. Any short term incentive paid will be company and individual performance based and have 50% deferred in Federation Securities for two years, with dividends paid on those securities during this restriction period. The Federation Securities will be forfeited on termination of employment prior to the restriction period ending, except when termination is as a 'good leaver', that is, redundancy or mutual agreement.

The long term incentive is to be issued at face value with at least 50% of the value subject to a Total Shareholder Return (TSR) Hurdle. The performance period will be three years, with a further one year trading lock for any long term incentive that vests. Other performance measures for the short term and long term incentives require further consideration to ensure alignment to business strategy and securityholder returns and will be determined following implementation of the Merger, and in the case of the long term incentive will be subject to at least a TSR hurdle as a performance measure.

This page is intentionally left blank.

Section 8

Financial information for the Merged Group

8.1 Overview

The financial information set out in Sections 8.2 and 8.3 of this Scheme Booklet has been prepared jointly by Novion and Federation and includes the following financial information:

- A **Pro Forma Consolidated Statement of Financial Position** of the Merged Group as at 31 December 2014 as described in Section 8.2.
- A **Pro Forma Consolidated Forecast of Underlying Earnings** for the Merged Group for the year ending 30 June 2015 as described in Section 8.3, referred to as 'Pro Forma Underlying Earnings'.
- A reconciliation of the Pro Forma Underlying Earnings to Pro Forma Forecast Statutory Net Profit as described in Section 8.3(f).

The Pro Forma Consolidated Statement of Financial Position and the Pro Forma Consolidated Forecast of Underlying Earnings are together the **Pro Forma Financial Information**.

The calculation of the Pro Forma Statutory Net Profit is described in Section 8.3(f).

The Pro Forma Financial Information contained in this Section has been prepared in accordance with the recognition and measurement principles of AAS and the accounting policies detailed in Section 8.7 except for the following matters which affect the calculation of underlying earnings:

- fair value adjustments to investment properties or derivatives
- the application of straight-lining to rental revenue
- one-off transaction costs
- amortisation of intangibles
- non-cash income tax expense
- amortisation of development project items, and
- other development project costs.

As noted in Section 8.7(c)(ii), Federation is the legal acquirer, which means that should the Merger be approved, Novion Securityholders will become securityholders in Federation, and in due course receive a Federation financial report for the year ending 30 June 2015.

This financial report will be prepared as if Novion is the accounting acquirer, and the underlying earnings and statutory net profit to be reported for FY15 will differ materially from that presented in Section 8.3(b) and Section 8.3(f) for the following matters:

- exclusion of Federation's earnings for the period prior to acquisition (i.e. the statutory financial report will reflect approximately one month of Federation for FY15 added to 12 months of Novion earnings)

- timing of the operational cost savings and net interest expense savings detailed in Sections 8.3(b)(i) and 8.3(b)(ii)
- inclusion of certain costs associated with the transaction as detailed in Section 8.2(b)(v), and
- fair value adjustments for the period 1 January 2015 to 30 June 2015, currently not assumed in the Pro Forma Financial Information and the Pro Forma Statutory Net Profit.

In addition, the financial information is presented in an abbreviated form insofar as it does not include all of the presentation disclosures, statements or comparative information as required by the AAS applicable to annual general purpose financial reports prepared in accordance with the Corporations Act.

The Pro Forma Financial Information in this Section has been prepared in accordance with the recognition and measurement requirements of AAS, other than that it includes adjustments which have been prepared in a manner consistent with the AAS to reflect:

- the recognition of certain items in periods different from the applicable periods under AAS, and
- the impact of certain transactions had they occurred on or before 1 July 2014 in the forecast financial information or as at 31 December 2014 in the Consolidated Statement of Financial Position.

Novion assesses its actual and forecast performance based on 'underlying earnings' (also known as 'distributable income'). Consistent with previous disclosures, management determines underlying earnings as net profit under AAS, adjusted as noted above. Key adjustments to statutory net profit to arrive at underlying earnings are shown at Section 8.3(f) and also explained in the segment information note in Novion's and Federation's interim financial reports for the half-year ended 31 December 2014.

The accounting policies adopted for the purposes of the stand-alone financial information for Novion and Federation are based on each group's current accounting policies and income and expense treatments as outlined in their respective financial statements for the year ended 30 June 2014. As such, the pro forma position of the Merged Group excludes the impact of any alignments deemed necessary post implementation. This is described in more detail in Section 8.7.

The Novion Board appointed PwCS as the Investigating Accountant to prepare an Investigating Accountant's Report in relation to the financial impact of the Merger. A copy of the Investigating Accountant's Report is contained in Annexure B.

Information provided in this Section should be read in conjunction with the risk factors outlined in Section 9 and all other information set out in this Scheme Booklet.

8.2 Pro Forma Consolidated Statement of Financial Position

(a) Basis of preparation

This Section sets out a Pro Forma Consolidated Statement of Financial Position as at 31 December 2014 assuming the Merger had been implemented and comprises:

- **Novion's consolidated statement of financial position as at 31 December 2014** – extracted from Novion's interim financial report for the half-year ended 31 December 2014 and adjusted for the following post balance date events:
 - 27 million Novion Securities (approximately \$56 million) issued pursuant to the DRP for the December 2014 distribution with the proceeds used to reduce borrowings
- **Federation's consolidated statement of financial position as at 31 December 2014** – extracted from the Segment Information note in Federation's interim financial report for the half-year ended 31 December 2014 and adjusted for the following post balance date events:
 - The sale of Warrnambool and Mildura Central in Victoria and Woodlands Village in Queensland for \$134 million which settled after 31 December 2014 with the proceeds used to reduce borrowings, and
- **Merger impacts** – the impacts arising from implementing the Merger.

(b) Pro Forma Consolidated Statement of Financial Position as at 31 December 2014

\$ million	Novion (pro forma)	Federation (pro forma)	Merger impact	Merged Group (pro forma)
Cash and cash equivalents	63	66	–	129
Receivables and other assets	119	56	(55) (ii)	120
Total current assets	182	122	(55)	249
Property investments	9,100	4,962	–	14,062
Intangible assets	363	200	776 (i)	1,339 ¹
Other assets	71	9	–	80
Total non-current assets	9,534	5,171	776	15,481
Total assets	9,716	5,293	721	15,730
Payables and other liabilities	381	229	(4) (iv)	606
Borrowings	150	555	(705) (iii)	–
Total current liabilities	531	784	(709)	606
Borrowings ²	2,681	762	420 (v) + 705 (iii) =1,125	4,568
Other liabilities	77	60	(87) (iv)	50
Total non-current liabilities	2,758	822	1,038	4,618
Total liabilities	3,289	1,606	329	5,224
Net assets	6,427	3,687	392	10,506
Total equity	6,427	3,687	392	10,506
Securities on issue (m)	3,077	1,428	2,531 (vi)	3,959 ³
Net asset value per security (NAV)	\$2.09	\$2.58		\$2.65 ⁴
Net tangible asset value per security (NTA)	\$1.97	\$2.44		\$2.32 ⁴
Gearing (including intangibles) ⁵	28.8%	25.0%		29.0%
Gearing (excluding intangibles) ⁶	29.8%	24.9%		31.1%

1. Based on the price of Novion Securities as at 13 April 2015. The intangible assets figure contained in the disclosure by Novion and Federation to the ASX on 3 February 2015 was calculated based on the closing price of Novion Securities on 2 February 2015.

2. Details of borrowings are provided in Section 7.7.

3. Calculated by aggregating the columns titled 'Federation (pro forma)' and 'Merger impact' given the existing Novion Securities will no longer form part of the Merged Group's equity base.

4. For current Novion Securityholders, these equate to an equivalent NAV per security of \$2.18 (\$2.65 multiplied by the exchange ratio) and an equivalent NTA per security of \$1.90 (\$2.32 multiplied by the exchange ratio).

5. Calculated as borrowings (net of deferred borrowing costs and cross currency swaps) divided by total assets (net of derivative assets).

6. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

The pro forma transaction impact adjustments outlined in the table above comprise:

- (i) **Intangible assets** – reflects the current expectation of the application of acquisition accounting to the Merger. The application of AASB 3: Business Combinations will result in additional goodwill in the Merged Group. The amount of this goodwill will depend on the trading price of Novion (as the deemed accounting acquirer, refer to Section 8.7(c)(ii) for further information) and the fair value of Federation's assets and liabilities on the Implementation Date. The pro-forma adjustment assumes the trading price of Novion Securities on the Implementation Date is \$2.57 (being Novion's closing price on 13 April 2015) and no change to the fair value of Federation's tangible and identifiable intangible assets and liabilities prior to Implementation Date. Some of the goodwill could be allocated to identifiable intangibles as part of the purchase price allocation. Goodwill will need to be supported under AAS on at least an annual basis. In accordance with normal accounting practice, the goodwill and identifiable intangible assets recognised will be subject to impairment testing in future periods. In the event that the value of the goodwill reduces, this is likely to be reflected as an impairment charge in future statutory accounts.

It is noted that the intangible assets adjustment in the Pro Forma Consolidated Statement of Financial Position differs from the adjustment of \$0.3 billion disclosed by Novion and Federation to the ASX on the Announcement Date. The disclosure on the Announcement Date was calculated based on the price of Novion Securities on 2 February 2015 of \$2.32 (being Novion's closing price on the trading day prior to the Announcement Date).

- (ii) **Other assets** – reflects the Novion in-the-money derivative positions expected to be closed-out as part of the Merged Group's refinancing.
- (iii) **Current Borrowings** – As discussed in Section 7.7 and Section 8.5, on implementation of the Merger, the \$705 million of current borrowings are expected to be refinanced and as such have been reclassified as non-current.
- (iv) **Other liabilities** – reflects the out-of-the-money derivative positions expected to be closed-out as part of the Merged Group's refinancing.

- (v) **Non-current Borrowings** – reflects the net position of the:

- Additional debt drawn to fund assumed one-off transaction and refinancing costs of \$458 million, which comprises: stamp duty, advisory and other implementation costs of \$106 million, operational cost saving implementation costs of \$75 million; and debt restructuring costs of \$277 million, and
- Non-cash adjustments to borrowings of \$38 million required as part of the Merged Group's refinancing, for deferred borrowing costs and cross currency swaps.

- (vi) **Securities on issue** – reflects each Novion Security being exchanged for 0.8225 New Federation Securities.

8.3 Pro Forma Consolidated Forecast of Underlying Earnings

(a) Basis of preparation

This Section sets out the Pro Forma Consolidated Forecast of Underlying Earnings for the Merged Group assuming the Merger had been implemented on 1 July 2014 and comprises:

- **Novion's forecast underlying earnings** – based on Novion's earnings guidance for the year ending 30 June 2015 announced to the ASX in August 2014 and reaffirmed to the ASX in February 2015,
- **Federation's forecast underlying earnings** – based on Federation's earnings guidance range for the year ending 30 June 2015 announced to the ASX in August 2014 and reaffirmed to the ASX in February 2015, and
- **Merger impacts** – the impacts arising from implementing the Merger.

(b) Pro Forma Consolidated Forecast of Underlying Earnings⁷

\$ million	Novion (forecasts)	Federation (forecasts)	Merger impact	Merged Group (pro forma)
Direct property income	578 ⁸	346 ⁹	9 (i)	933
Other investment income	–	2	–	2
Total investment income	578	348	9	935
Property, development and leasing fees	39	13	–	52
Funds management fees	11	2	–	13
Total income	628	363	9	1,000
Corporate overheads (net of recoveries)	(58)	(40)	40 (i)	(58)
Net interest expense	(146)	(62)	35 (ii) (7) (i) = 28	(180)
Other expenses	(2)	(2)	–	(4)
Underlying earnings	422¹⁰	259	77	758
Earnings per security (cents)	13.8	18.2		19.2 ¹¹
Distribution per security (cents)	13.8	16.9		18.3 ¹¹ (iii)

The impacts arising from implementing the Merger outlined in the table above comprise:

(i) and (ii) – **Operational cost savings and refinancing savings** – As outlined in Section 3.2(b), the Merger is expected to result in the following cost savings that will impact the Merged Group's underlying earnings:

- at least \$42 million per annum of net operational cost savings. The majority of these savings are expected to comprise corporate staff savings, with the balance being expected overhead savings and outgoing savings. This is expressed net of the annual funding cost of \$7 million associated with funding the assumed implementation costs of \$181 million¹² at the Merged Group's assumed weighted average cost of debt of 4.1%, and
- if all debt facilities are refinanced, \$35 million of net refinancing savings. This is expressed net of the annual funding cost of \$11 million associated with funding the assumed refinancing costs of \$277 million at the Merged Group's assumed weighted average cost of debt of 4.1%.

A summary of these savings, on a gross and net basis, is set out below.

\$ million, per annum	Gross savings (a)	Funding costs associated with one-off costs (b)	Net savings (=a+b)
Operational cost savings	49	(7) ¹³	42
Refinancing savings	46	(11) ¹⁴	35
Total savings	95	(18)	77

On this basis, the Merger impact adjustments associated with the operational cost savings and refinancing savings that have been set out in the Pro Forma Consolidated Forecast of Underlying Earnings are reflected as follows:

(i) Operational cost savings

- \$9 million per annum of the gross operational cost savings are added to "direct property income" (a positive earnings impact)
- \$40 million per annum of the gross operational cost savings are added to "corporate overheads (net of recoveries)" (a positive earnings impact)
- \$7 million per annum of annual funding costs associated with funding the assumed operational cost saving implementation costs are added to "net interest expense" (a negative earnings impact)

(the total of the above items being the total net operational cost savings of \$42 million per annum)

7. Some P&L metrics may not sum due to rounding.

8. Net of \$39 million of corporate overheads recovered from properties.

9. Net of \$20 million of corporate overheads recovered from properties.

10. Equivalent to Novion's 'distributable income' as Novion has reported in prior periods.

11. For current Novion Securityholders, these equate to an equivalent earnings per security of 15.8c (19.2c multiplied by the exchange ratio) and an equivalent distribution per security of 15.1c (18.3c multiplied by the exchange ratio).

12. These costs are expected to comprise stamp duty, advisory and other ancillary costs of \$106 million and operational cost saving implementation costs of \$75 million.

13. Represents the assumed implementation costs of \$181 million multiplied by the Merged Group's assumed weighted average cost of debt of 4.1%.

14. Represents the assumed refinancing costs of \$277 million multiplied by the Merged Group's assumed weighted average cost of debt of 4.1%.

(ii) Refinancing savings

- The \$35 million per annum of net refinancing savings

The above savings exclude the \$7 million of cash flow savings that are expected via capitalised cost savings, given these will not impact the Merged Group's underlying earnings.¹⁵

(iii) Distribution payout ratio – reflects the Merged Group's expected distribution payout ratio of 95% of underlying earnings.

The impact on underlying earnings excludes \$7 million per annum of additional capitalised cost savings that are expected to be realised by the Merged Group within 12 months.

(c) Novion's and Federation's best estimate assumptions

- (i) Rental income has been forecast on a property-by-property basis based on existing leases and assumptions for occupancy rates, tenant retention, incentives and market rentals. These are broadly consistent with assumptions adopted for independent valuation purposes.
- (ii) Direct property expenses have been forecast on a property-by-property basis based on current outgoings expectations. They have been forecast from existing service contracts or increased at a fixed annual rate.
- (iii) Corporate overheads have been forecast from existing employee arrangements and existing service contracts for suppliers.
- (iv) Novion's current stand-alone debt for FY15 would be drawn at average gross interest rates (including the impact of derivatives) of approximately 5.3% based upon Novion's financing facilities and Novion's expectation of interest rates for FY15.
- (v) Federation's current stand-alone debt for FY15 would be drawn at average gross interest rates (including the impact of derivatives) of approximately 4.8% based upon Federation's financing facilities and expectation of interest rates for FY15.

(d) General assumptions for the Merged Group pro forma

- No further property acquisitions or divestments in the forecast period.
- No fair value adjustments to investment properties or derivatives in the forecast period other than as noted.
- No material contract disputes or litigation in the forecast period.
- No material change in the competitive operating environment.
- No material changes to accounting policies or the Corporations Act in the forecast period.
- No material changes in Australian tax legislation.
- No disposal of properties to satisfy ACCC requirements.
- No significant change to legislative or regulatory environment.
- All existing leases are enforceable and perform in accordance with their terms.
- A reduction in corporate overheads forecast from existing employee arrangements and supplier contracts following a detailed assessment of the proposed operating model.

(e) Alignment of underlying earnings

Novion's and Federation's stand-alone underlying earnings positions are presented on the basis of each group's current accounting and distribution policies and income and expense treatments. As such, the Pro Forma Consolidated Forecast of Underlying Earnings excludes the impact of any alignments deemed necessary post implementation of the Merger.

Any such alignments are not expected to be material to the Merged Group.

(f) Reconciliation of Pro Forma Underlying Earnings to Pro Forma Forecast Statutory Net Profit

A summary of the reconciliation of the Merged Group's Pro Forma Consolidated Forecast of Underlying Earnings for the year ending 30 June 2015 and the Merged Group's Pro Forma Statutory Net Profit for the year ending 30 June 2015 is set out below.

(i) Basis of preparation

The Statutory Net Profit for the Merged Group provided in the table below assumes the Merger had been implemented on 1 July 2014, and comprises:

- Novion's Pro Forma Forecast Statutory Net Profit

15. Capitalised cost savings are cost savings that will not be recognised in underlying earnings but will improve cash flow and development returns. Approximately \$5 million of these savings relates to operational cost savings, and approximately \$3 million relates to refinancing savings (rounded to \$7 million). The Merged Group expects to be fully achieving these savings within 12 months of the Implementation Date.

- Federation's Pro Forma Forecast Statutory Net Profit
- Merger impacts – the forecast impacts arising from implementing the Merger, and
- One off transaction costs incurred in FY15 in effecting the Merger.

The Novion and Federation Pro Forma Forecast Statutory Net Profit include fair value adjustment gains and losses booked in their respective accounts at 31 December 2014. The statutory forecast net profit does not include the impact of any further fair value adjustments to Investment properties or derivatives.

Novion and Federation's best estimate assumptions and general assumptions outlined in Sections 8.3(c) and 8.3(d) have been assumed in calculating the statutory forecast net profit.

\$ million	Merged Group (pro forma)
Underlying earnings	758
Fair value gains on investment properties and equity accounted investments	407
Fair value adjustments to derivative financial instruments	(37)
Movement in net assets attributable to puttable interests in consolidated finite life trusts	(10)
Stamp duty paid	(23)
Net loss from capital transactions and selling costs	(10)
Software implementation costs	(8)
Deferred debt costs written off	(9)
Amortisation of Intangibles	(3)
Project and Non-cash items	(42)
One-off transaction costs	(458)
Statutory Net Profit¹⁶	565

8.4 Distribution guidance for FY15

Federation's current distribution guidance for FY15 is 16.9 cents per security. Federation has paid a distribution of 8.4 cents per security for the first half of FY15. Based on its full year guidance, Federation is therefore expected to pay a distribution of 8.5 cents per security for the second half of FY15.

Novion's current distribution guidance for FY15 is 13.8 cents per security¹⁷. Novion has paid a distribution of 6.9 cents per security for the first half of FY15. Based on the full year guidance, in the absence of the Merger, Novion is therefore expected to pay a distribution of 6.9 cents per security for the second half of FY15.

Given the Merger is expected to complete before the end of FY15, it is expected that current Scheme Securityholders will receive Federation's distribution

for the second half of FY15, which is expected to be 8.5 cents per Federation Security as noted above. Based on the exchange ratio of 0.8225, this is equivalent to 7.0 cents per Novion Security, which is 0.1 cents higher than Novion's current distribution guidance. In those circumstances, Novion Securityholders will not receive a Novion distribution for the second half of FY15.

8.5 Financing arrangements

At implementation of the Merger, the Merged Group will have approximately \$5.1 billion of new unsecured financing arrangements. These new financing arrangements are expected to comprise:

- \$3.3 billion of unsecured bank loan facilities with maturities ranging from 2 to 5 years, and
- a \$1.8 billion unsecured bridge facility for 12 months with an option to extend for a further period of up to 12 months at the Merged Group's election.

The Federation Board believes that the above facilities, together with the cash flow expected to be generated by the Merged Group, will be sufficient to allow the Merged Group to carry out its business and stated objectives immediately following implementation of the Merger, and is appropriate having regard to the financial and investment profile of the Merged Group following implementation of the Merger. This view has been formed following general consultation with Novion.

The Merged Group will also enter into appropriate derivative contracts to hedge its interest rate and foreign currency risks.

(a) Terms and use of facilities

The bank facilities described above will take the form of a club style arrangement. To this end, Federation Limited and Federation RE have entered into the Common Provisions Agreement and Federation RE (in its capacity as borrower) has entered into separate bilateral facility agreements with each relevant lender. In short, the Common Provisions Agreement contains all common provisions applicable to the new bank facilities described above including, amongst other things, representations, undertakings and events of default. The separate bilateral facility agreements contain commercial variables (including tenor, volume, availability periods and pricing) and other provisions specific to the facilities to be provided by each lender.

The new bank facilities will be unsecured with a guarantee provided or to be provided by Federation Limited, Federation RE and Novion RE (in its capacity as Responsible Entity of Novion Trust). In addition, the new bank facilities contain (amongst other things):

- a negative pledge restricting the creation of encumbrances by the Merged Group other than as permitted pursuant to the Common Provisions Agreement

16. Pro Forma Statutory Net Profit will differ materially from the statutory Net Profit reported at 30 June 2015 for a number of reasons as outlined in Section 8.1.

17. Assuming there is no unforeseen material deterioration to existing economic conditions.

- two financial covenants in respect of gearing and ICR (see below)
- customary conditions precedent to drawdown. It is expected that the Merged Group will be in a position to satisfy all such conditions precedent, and
- representations, undertakings and events of default which are customary for bank facilities of the type described above or which are considered appropriate having regard to the assets and business of the Merged Group.

Further information on the above mentioned financial covenants is set out below:

- **Gearing covenant:** The financial covenant in respect of gearing requires the Merged Group to ensure that its total liabilities do not exceed a certain percentage of its total tangible assets. Section 8.2 of this Scheme Booklet contains a Pro Forma Consolidated Statement of Financial Position of the Merged Group as at 31 December 2014. That statement indicates that the Merged Group's pro forma gearing (excluding intangibles) as at 31 December 2014 was 31.1%, well within a target gearing range of 25-35%. The Merged Group's gearing could exceed the top end of that range by a significant margin without breaching the gearing covenant in the new banking facilities.
- **ICR covenant:** The financial covenant relating to the Merged Group's ICR requires the Merged Group to ensure that the ratio of its EBITDA to its interest expense does not fall below a certain level. The Merged Group's pro forma forecast ICR for the year ending 30 June 2015 is 5.2x.¹⁸ This ICR is substantially higher than the ICR covenant in the new banking facilities.

The new bank loan facilities and bridge facility are sufficient to fund:

- the repayment of all of Novion's existing debt arrangements (approximately \$2.8 billion)
- the repayment of all of Federation's existing debt arrangements (approximately \$1.4 billion), and
- \$458 million of total transaction and refinancing costs.¹⁹

See Section 7.7 for further details.

The bank loan facilities are for terms of two to five years from the Implementation Date and have the flexibility to be repaid and subsequently redrawn as required.

The bridge facility is repayable within 12 months from the Implementation Date (with an option for the Merged Group to extend for a further period of up to 12 months at the Merged Group's election). The Merged Group expects to be in a position to refinance the bridge facility with debt capital markets issuances prior to the bridge facility maturing.

(b) The Merged Group's financing profile

Please refer to Section 7.7 in relation to the intended Merged Group's financing profile.

(c) Repayment of existing debt financing arrangements

The Merged Group's target debt profile as set out in this Scheme Booklet assumes that all of Novion's and Federation's existing debt financing arrangements are repaid. However, there is no certainty that this will occur.

As outlined below, under some of Novion's and Federation's debt financing arrangements, the Merged Group may either not have the ability to control the timing of repayment or it may determine that it is no longer appropriate to repay these debt financing arrangements on the Implementation Date (and before the expiry of the relevant debt financing arrangement). Each debt financing arrangement will be assessed both before and after the Implementation Date (as applicable and necessary) to determine the most appropriate commercial outcome for the Merged Group.

To the extent the Merged Group does retain any existing Novion and/or Federation debt financing arrangements as part of its capital structure, this may:

- increase the Merged Group's assumed weighted average cost of debt of 4.1%, and
- lower the assumed refinancing costs of \$277 million and associated interest expenses,

as set out in this Scheme Booklet.

A sensitivity analysis of the impact on the Merged Group of a change in its weighted average cost of debt is outlined in Section 8.6(b). A sensitivity analysis of the impact on the Merged Group if the Merged Group only repays Novion's and Federation's existing bank debt and resets its existing interest rate swap derivatives is set out in Section 8.6(c).

In relation to Novion's existing debt financing arrangements:

Bank debt – Novion has the ability to repay all of its existing bank debt and it is expected that all of its existing bank debt will be repaid and cancelled on or around the implementation of the Merger.

18. Calculated as pro forma FY15 underlying earnings before net interest expense divided by net interest expense. The Merged Group's ICR would be approximately 4.8x if it was calculated on a like-for-like basis with Novion's current ICR of 3.2x (as set out in Section 5.6).

19. For a breakdown of these costs, please see Section 3.3(a) of this Scheme Booklet.

Medium term notes – it is expected that the Merger will not create an obligation for Novion's medium term notes to be repaid. However, the Merged Group may engage with Novion's medium term noteholders to determine whether these notes can be restructured or repaid prior to their expiry on acceptable terms.

Convertible notes – upon receipt of the Second Judicial Advice and Court approval of the Schemes, a change of control event of Novion Trust will be deemed to have occurred for the purposes of Novion's convertible notes. This will reduce the price that noteholders can elect to have their notes converted into Novion Securities (a right that noteholders have at any time on and from 14 August 2011) from \$2.40 to \$2.2625 per Novion Security for a 20 business day period which begins from the receipt of the Second Judicial Advice and Court approval of the Schemes. After the 20 business day period, the conversion price will revert back to \$2.40. The Merged Group intends to settle any conversion requests it receives in cash.

In order to determine the cash settlement amount during the 20 business day period, for any trading days on which Novion Securities are suspended from trading, the "Current Market Price" (as defined in Novion's Convertible Notes Offer Document) of Novion Securities is expected to be deemed to be the "Current Market Price" (as defined in Novion's Convertible Notes Offer Document) of Federation Securities multiplied by the Merger exchange ratio.²⁰

A change of control event or delisting of Novion also triggers a redemption right, by which the noteholders may elect to redeem some or all of their convertible notes at the outstanding principal amount plus any accrued but unpaid interest.

To the extent that less than 90% of the principal outstanding on the convertible notes has been converted, redeemed, purchased or cancelled, the Merged Group will not have a right to unilaterally redeem those outstanding notes (without limiting other redemption rights that may be available to the Merged Group such as redemption for taxation reasons), and the outstanding convertible notes may remain part of the capital structure of the Merged Group after implementation of the Merger.

USPPs – upon the Implementation Date, a change of control event in relation to Novion RE Limited will be deemed to have occurred for the purposes of Novion's USPPs. This will create an obligation on Novion to offer USPP holders repayment of their outstanding principal and any accrued interest. The Merger is currently not expected to result in a default or event of default for the purposes of Novion's USPPs which would otherwise

result in an obligation for a make-whole amount to be paid in addition to their outstanding principal and any accrued interest. However, the Merged Group may engage with Novion's USPP holders to determine whether the Novion USPPs can be restructured or repaid prior to their expiry on acceptable terms.

In relation to Federation's existing debt:

Bank debt – Federation has the ability to repay all of its existing bank debt and it is expected that all of its existing bank debt (other than certain transactions and bank guarantee facilities) will be repaid and cancelled on or around the implementation of the Merger.

Medium term notes – it is expected that the Merger will not create an obligation for Federation's medium term notes to be repaid. However, the Merged Group may engage with Federation's medium term noteholders to determine whether these notes can be restructured or repaid prior to their expiry on acceptable terms. If Federation's medium term notes remain in place, the existing security arrangements are likely to remain until the notes are repaid in full. If Federation's medium term notes remain in place at implementation, the existing security arrangements in respect of such medium term notes are, unless otherwise negotiated, likely to remain in place until the notes are repaid in full.

For analysis of Novion's and Federation's existing debt maturity profile, please refer to Sections 5.6 and 6.6 respectively.

8.6 Sensitivity Analysis

The Pro Forma Consolidated Statement of Financial Position and Pro Forma Consolidated Forecast of Underlying Earnings are based on certain economic and business assumptions about future events that are subject to business, economic and competitive uncertainties and contingencies which may be beyond the control of the Merged Group.

(a) Pro Forma Consolidated Statement of Financial Position sensitivities

The Pro Forma Consolidated Statement of Financial Position is sensitive to a number of key assumptions, in particular: the assumed total transaction and refinancing costs of \$458 million²¹ incurred and the Novion Security price upon which the goodwill calculation is based.²²

Below is a summary of the impact on the Merged Group's Pro Forma Consolidated Statement of Financial Position to variations in these assumptions.

20. This determination is subject to the provisions of Novion's Convertible Notes Offer Document.

21. For a breakdown of these costs please see Section 3.3(a) of this Scheme Booklet.

22. The goodwill adjustment in the Pro Forma Consolidated Statement of Financial Position is based on the price of Novion Securities as at 13 April 2015. The intangible assets figure contained in the disclosure by Novion and Federation to the ASX on 3 February 2015 was calculated based on the closing price of Novion Securities on 2 February 2015.

	Intangible assets (\$m)	Net asset value per security (\$)	Net tangible asset value per security (\$)	Gearing (including intangibles) (%)
Pro forma metrics presented in Section 8.3	1,339 ²³	2.65	2.32	29.0 ²⁴
Incremental impact of a change in assumptions				
Change in transaction costs by \$20 million	No change	+/- 0.01	+/- 0.01	+/- 0.1 bps
Change in Novion Security price by 10 cents	+/- 174	+/- 0.04	No change	+/- 0.3 bps

(b) Pro Forma Consolidated Forecast of Underlying Earnings sensitivities

The Pro Forma Consolidated Forecast of Underlying Earnings is sensitive to a number of key assumptions, in particular the total cost savings achieved and the Merged Group's weighted average cost of debt.

Below is a summary of the impact on the Merged Group's Pro Forma Consolidated Forecast of Underlying Earnings to variations in these assumptions.

	Underlying earnings (\$m)	Earnings per security (cents)
Pro forma metrics presented in Section 8.2	758	19.2
Incremental impact of a change in assumptions		
Change in cost savings by \$5 million	+/- 5	+/- 0.1
Change in weighted average cost of debt by 0.25% ²⁵	+/- 11	+/- 0.3

Caution should be taken when interpreting the above sensitivities. The changes in key variables set out in the sensitivity analysis set out above are not intended to be indicative of the complete range of variations that may be expected. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables. In practice, changes in variables may offset each other.

(c) Refinancing sensitivities

The financial impact of the Merger will also be sensitive to the ability of the Merged Group to achieve its assumed debt profile. For the reasons outlined in Section 8.5(c), there is no certainty this will occur.

As outlined in Section 8.5(c), the ability of the Merged Group to achieve its assumed debt profile will depend on whether all of Novion's and Federation's existing financing arrangements are refinanced.

The sensitivity analysis below outlines the impact on several financial measures if the Merged Group only repays Novion's and Federation's existing bank debt and resets its existing interest rate swap derivatives.

23. Based on the price of Novion Securities as at 13 April 2015. The intangible assets figure contained in the disclosure by Novion and Federation to the ASX on 3 February 2015 was calculated based on the closing price of Novion Securities on 2 February 2015.

24. Calculated as borrowings (net of deferred borrowing costs and cross currency swaps) divided by total assets (net of derivative assets).

25. Excludes the potential impact on debt restructuring costs which would be uncertain.

Pro Forma metrics	Assumed refinancing of all existing debt financing arrangements	Only existing bank debt is repaid
Net financing savings	\$35m	\$28m
Total transaction costs	\$458m	\$264m
Weighted average cost of debt	4.1%	4.5%
Pro Forma Consolidated Statement of Financial Position metrics		
Gearing (including intangibles) ²⁶	29.0%	27.8%
Gearing (excluding intangibles) ²⁷	31.1%	29.8%
Net asset value per security	\$2.65	\$2.70
Net tangible asset value per security	\$2.32	\$2.36
Pro Forma Consolidated Forecast of Underlying Earnings metrics		
Underlying earnings	\$758m	\$751m
Earnings per security	19.2 cents	19.0 cents
Distributions per security	18.3 cents	18.1 cents
Novion FY15 pro forma EPS impact ²⁸	+14.6%	+13.4%
Novion FY15 pro forma DPS impact	+8.9%	+7.8%

(d) Bayside and Karingal Hub sensitivities

As set out in Section 12.5(d) of this Scheme Booklet, Novion and Federation are engaging with the ACCC in relation to the potential divestment of either Karingal Hub (a 50% Federation owned asset) or Bayside (a Novion owned asset).

The sensitivity analysis below outlines the impact on several financial measures if the Merged Group divests either Bayside or Karingal Hub.

The key assumption underlying these sensitivities is that either asset would be sold at current book value and all proceeds received by the Merged Group are used to repay debt at its weighted average cost of debt. As such, if the Merged Group was to redeploy the sale proceeds into developments and/or acquisition opportunities, these impacts could be wholly offset.

Pro Forma Merged Group metrics	Assumed no asset sales	Sale of Karingal Hub	Sale of Bayside
31 December 2014 book value/cap rate	–	\$108m/6.75%	\$566m/6.25%
Number of retail assets under management	102	101	101
Retail assets under management book value	\$22.2bn	\$22.0bn	\$21.6bn
Direct portfolio book value	\$14.0bn	\$13.9bn	\$13.4bn
Number of directly held retail assets	92	91	91
Merged Group's Pro Forma Consolidated Statement of Financial Position metrics			
Gearing (including intangibles) ²⁶	29.0%	28.6%	26.4%
Gearing (excluding intangibles) ²⁷	31.1%	30.6%	28.3%
Merged Group's Pro Forma Consolidated Forecast of Underlying Earnings			
Underlying earnings	\$758m	\$756m	\$744m
Earnings per security	19.2 cents	19.1 cents	18.8 cents
Distributions per security	18.3 cents	18.2 cents	17.9 cents

26. Calculated as borrowings (net of deferred borrowing costs and cross currency swaps) divided by total assets (net of derivative assets).

27. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

28. Refer to Section 8.6(c) for sensitivities on EPS accretion.

8.7 Key accounting policies

The accounting policies used to prepare the financial information are based on the current accounting policies of Novion and Federation, as outlined in their respective annual financial reports for the year ended 30 June 2014.

The significant accounting policies that have been adopted are outlined below. As noted in Section 8.1, certain accounting adjustments, have not been made to the Pro Forma Consolidated Forecast of Underlying Earnings.

(a) Rental income

Revenue is recognised to the extent that it is probable that the economic benefits will flow and the amount can be reliably measured.

(b) Investment properties

Investment properties are direct property investments held for long-term rental yields and comprise either freehold or leasehold land, buildings, leasehold improvements and property that is under development for future use as investment property.

Investment properties are initially recognised at cost plus the associated costs of acquisition, including stamp duty. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is the amount for which the investment property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains and losses arising from the changes in the fair value of investment properties are recognised in the statement of comprehensive income.

The reported fair value of investment property reflects market conditions at the end of the reporting period. While this represents the best estimates as at the reporting date, actual sale prices achieved may be higher or lower than the most recent valuation. This is particularly relevant in periods of market illiquidity or uncertainty.

Investment properties are independently valued at intervals of not more than one year, and all valuations are performed by registered valuers.

At each reporting date, the fair value of each investment property, as determined by the independent valuation, is adjusted for subsequent capital expenditure. In determining fair value, the valuation methods of capitalisation of net income and discounted cash flows are used. These are based upon assumptions and judgments in relation to future rental income, anticipated maintenance costs, and appropriate discount rates, and make reference to market evidence of transaction prices for similar properties.

(c) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future benefits. They are measured at cost.

(i) Goodwill

Goodwill has an indefinite useful life. It represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired as at the date of acquisition.

(ii) Business combination accounting acquirer

As Federation will be acquiring all of Novion's issued equity, Federation will be the legal acquirer of Novion. However, under AAS, Novion will be determined to be the accounting acquirer of Federation.

Goodwill will be recognised as the excess of consideration transferred by Novion to Federation above Federation's net identifiable assets and liabilities (both measured at fair value at implementation date). Consideration will be measured at fair value with reference to Novion's security price and number of securities on issue at the implementation date, and the exchange ratio.

(iii) Management rights

Management rights are recognised when acquired as part of a business combination and are considered to have a definite or an indefinite useful life depending upon the contractual terms of the management agreements.

(d) Borrowings

Interest bearing liabilities are recognised initially at fair value, being the consideration received net of transaction costs associated with the borrowing. Subsequent to initial recognition, interest bearing liabilities, other than foreign currency denominated notes, are recognised at amortised cost using the effective interest method. Under the effective interest method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the statement of comprehensive income over the expected life of the borrowings.

(e) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs incurred in connection with the arrangement of borrowings, less amounts capitalised to the cost of qualifying development assets.

In the Pro Forma Consolidated Forecast of Underlying Earnings, net interest expense is the sum of borrowing costs and net interest on interest rate swaps.

(f) Employee benefits**(i) Wages, salaries and annual leave**

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to the end of the reporting period, calculated at undiscounted amounts based on remuneration wage and salary rates that are expected to be paid at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

(ii) Long service leave

Long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided.

(g) Expenses

All expenses are recognised in the Pro Forma Consolidated Forecast of Underlying Earnings on an accruals basis. Property expenditure includes rates, taxes and other outgoings incurred in relation to investment properties, where such expenses are the responsibility of the Merged Group.

This page is intentionally left blank.

Section 9

Risk factors

9.1 Introduction

There are a range of factors (which are both specific to the Merged Group and of a general nature) which may, either individually or in combination, affect the future operating performance, financial position, regulation, legal position, implementation of strategy or reputation of the Merged Group, its business, its prospects and/or the value of the Merged Group. This Section explains these potential risks.

A significant number of these risks are, or will be, risks that Novion is already exposed to whether or not the Merger is implemented. However, as the nature of the Merged Group's business will change from that of the stand-alone business of Novion, Scheme Securityholders will potentially be exposed to additional risks in respect of the Merged Group. Many of the circumstances giving rise to these risks are beyond the control of the Merged Group, its directors and management.

This Section also sets out some of the potential and major risks associated with the implementation of the Merger and the Merged Group that Novion Securityholders will be exposed to through their holding of New Federation Securities.

The risks summarised below and the information set out in this Section should be considered in conjunction with other information contained in this Scheme Booklet and are:

- not, and should not be relied on as, or considered to be, an exhaustive list of the risks that Novion Securityholders may face or be exposed to if the Merger is implemented, and
- considered general and have been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any Novion Securityholder or any other person. Each Novion Securityholder should consult an independent and appropriately licensed and authorised professional adviser before making any investment decision and any decision as to whether or not to vote in favour of the Merger as relevant to you.

Additional risks and uncertainties that Novion and Federation are currently unaware of, or that may currently be considered immaterial, may also become important factors that can adversely affect the Merged Group's operating and financial performance.

The Merged Group will implement certain strategies to mitigate these risks where possible.

9.2 Risks relating to the Merger

The following risk factors will apply to the Merged Group if the Merger proceeds. As they are related to the Merger, they do not currently apply to either Novion or Federation as stand-alone businesses.

(a) Refinancing risk

Federation Limited and Federation RE have entered into the Common Provisions Agreement and Federation RE (in its capacity as borrower) has entered into separate bilateral facility agreements with each relevant lender. Pursuant to the Common Provisions Agreement and the bilateral facility agreements, if the Merger is implemented, the Merged Group will have access (subject to the satisfaction or waiver of customary conditions precedent) to \$5.1 billion of unsecured financing arrangements comprising \$3.3 billion of bank loan facilities and a \$1.8 billion bridge facility. While the bank loan facilities will have maturities ranging from between two to five years, the bridge facility will have an initial term of 12 months with an option to extend for a further period of up to 12 months at the Merged Group's election. It is intended that the bridge facility will be refinanced in the domestic and global debt capital markets within 24 months of initial draw down. For a detailed description of the new debt financing arrangements of the Merged Group, see Section 8.5 of this Scheme Booklet.

The relatively short timetable for the refinancing of the bridge facility could potentially expose the Merged Group to the risk of unfavourable markets in terms of pricing and volume. In short, the Merged Group's ability to refinance the bridge facility on acceptable terms will depend on a number of factors (some of which are out of its control) including general economic, political and debt capital market conditions, credit availability and the performance, reputation and financial strength of the Merged Group business. An adverse change in one or more of these factors could impact the Merged Group's ability to refinance the bridge facility on acceptable terms, or at all.

In addition, the Merged Group's financing arrangements will include certain financial covenants (amongst other things) which, if breached, may result in the Merged Group paying a higher rate of interest or being required to repay such facilities immediately or on short notice.

If the Merged Group is unable to refinance its debt facilities on acceptable terms or at all, the Merged Group may need to seek alternative funding such as asset disposals or equity capital raisings.

(b) Integration risks and realisation of anticipated cost savings

The long-term success of the Merged Group will depend, amongst other things, on the success of management in integrating the respective businesses. Whilst both Federation and Novion expect that value can be added to the Merged Group through the realisation of cost savings, there is a risk that implementation of the Merger may not result in the full realisation of the cost savings due to various factors including:

- unexpected delays, challenges, liabilities and costs in relation, but not limited, to integrating operating and management systems such as IT, information or accounting systems, and
- the loss of key personnel or key tenants of the Merged Group.

If the integration is not achieved in an orderly manner and within the assumptions as stated in this Scheme Booklet, the full benefits, cost savings, and other expected cost savings, efficiencies and benefits may be achieved only in part, or not at all. This could adversely impact the Merged Group's financial performance and position, and the future prospects of the Merged Group.

Refer to Section 3.2(b) for further details on the cost savings.

(c) Credit rating of the Merged Group

Standard and Poor's have advised that should the Merger be implemented, the Merged Group is expected to be assigned a long term corporate credit rating of at least 'A-', in comparison to the current 'A' rating for Novion and current 'BBB+' rating for Federation. There can be no assurance that the credit ratings assigned to the Merged Group will not change in the future. Any reduction in the Merged Group's credit rating may affect the Merged Group's financial condition and its business operations by increasing the cost of, or limiting its access to, additional funding in the future.

(d) The exact value of the Scheme Consideration is not certain

If the Merger is implemented, Scheme Securityholders will receive the Scheme Consideration of 0.8225 New Federation Securities in respect of each Novion Security they hold on the Record Date. The exact value of the Scheme Consideration that would be realised by individual Scheme Securityholders will be dependent on the price at which the New Federation Securities (being securities in the Merged Group) trade on the ASX after the Effective Date.

Following implementation of the Merger, the Merged Group's security price may rise or fall based on market conditions and the Merged Group's financial and operating performance. If the Merged Group's security price falls, the value of those New Federation Securities received by Scheme Securityholders as Scheme Consideration will decline. Furthermore, the relative price value that Scheme Securityholders will receive in exchange for Novion Securities arising from the Merger will rise or fall before the Implementation Date as this will be based on the relative trading price of Federation Securities.

The Sale Nominee will be issued New Federation Securities attributable to certain Ineligible Foreign Securityholders and will be seeking to sell those securities on the ASX as soon as reasonably practicable.

There is no guarantee regarding the market price that will be realised by the Sale Nominee or the future market price of New Federation Securities. Future market prices may be either above or below current or historical market prices.

(e) Accounting risk

As Novion is considered to be the accounting acquirer, accounting for the Merger will require a fair value assessment (as at the date of the Merger) of Federation's assets and liabilities to be performed, as well as the consideration offered, being Novion Securities.

The difference between the consideration offered and the fair value of assets and liabilities acquired will be recognised as goodwill. The amount of goodwill of \$1,339 million, assuming the Novion Security price is \$2.57 at acquisition (per Section 8), is material. If the Novion Security price is higher than that in Section 8, then the amount of goodwill will increase and if the Novion Security price is lower than that in Section 8, then the amount of goodwill will decrease.

In accordance with normal accounting practice, the goodwill recognised will be subject to impairment testing in future periods. In the event that the value of the goodwill reduces, this is likely to be reflected as an impairment charge in future statutory accounts. Any future impairment of goodwill may have an adverse impact on the reported financial performance of the Merged Group.

(f) Impact of potential claims against CBA in relation to the Internalisation

In March 2014, CBA and Novion Limited entered into the Sale and Purchase Agreement (SPA), in order to give effect to the Internalisation. Under the terms of the SPA, CBA provided various warranties and indemnities in favour of Novion (subject to a number of limitations and thresholds).

As disclosed in the Internalisation Explanatory Memorandum dated 7 February 2014, the SPA provides that, if a person's voting power in Novion increases above 40%, CBA will cease to have any liability to Novion including:

- in respect of claims in any way relating to the SPA or other Internalisation transaction documentation, and
- in respect of claims relating to the sale and purchase of securities in the management entities acquired pursuant to the Internalisation.

If the Merger is implemented, the above limitation will become effective given that Federation is the legal acquirer for the purposes of the Merger.

As at the date of this Scheme Booklet, Novion is not aware of any current or pending claims against CBA in relation to the Internalisation.

(g) Court delays

There is a risk that the Court may not approve the Schemes. There is also a risk that some or all of the aspects of the court approvals required for the Merger to be implemented may be delayed or not be granted.

(h) Tax consequences for Scheme Securityholders

If the Merger proceeds, there may be tax consequences for Scheme Securityholders. Scheme Securityholders should seek their own professional advice regarding the individual tax consequences of the Merger applicable to them. Further information on the tax consequences of the Schemes is set out in Section 11 of this Scheme Booklet.

(i) Due diligence

Before executing the Merger Implementation Agreement, Novion and Federation undertook a thorough due diligence exercise on each other for the purpose of negotiating the terms of the Merger.

Whilst Novion and Federation decided to proceed with the Merger following that due diligence exercise, there is a risk that any assumptions made during the due diligence period may prove to be false or incorrect.

Furthermore, after implementation of the Merger, the Merged Group will be subject to any unknown liabilities of either Novion or Federation which may have an adverse effect on the Merged Group's performance and financial condition.

(j) Risks of trading during deferred settlement trading period

Scheme Securityholders will not necessarily know the exact number of New Federation Securities (due to rounding) that they will receive (if any) as Scheme Consideration until a number of days after those securities can be traded on the ASX on a deferred settlement basis. Scheme Securityholders who trade New Federation Securities on a deferred settlement basis without knowing the number of New Federation Securities they will receive as Scheme Consideration may risk adverse financial consequences if they purport to sell more New Federation Securities than they receive.

9.3 Specific risks relating to the Merged Group

The following risk factors are relevant to one or both of Novion and Federation as stand-alone entities involved in the ownership and management of retail property. Accordingly, they will continue to be relevant to the Merged Group if the Merger is implemented.

(a) Change in risk and investment profile

After implementation of the Merger, Scheme Securityholders will be exposed to risk factors relating to Federation, and to certain additional risks relating to the Merged Group and the integration of the two retail property groups. These include risks relating to the operation of a broader suite of assets (both in nature and scale) than Novion owns and manages and risks associated with Federation's retail platform going forward.

Importantly, whilst the operations of Federation and Novion are similar in a number of ways, the asset portfolio, capital structure and size of the Merged Group will be different from that of Novion on a stand-alone basis.

(b) Conflicts of interest with co-owners of properties

A number of properties in the Merged Group's portfolio are held through joint ventures or co-ownership arrangements. In a number of these arrangements, the Merged Group does not have exclusive control over certain aspects of these properties, including centre management, leasing and development.

The interests of the Merged Group may not always be aligned with those of the joint venture partners or co-owners. This may lead to conflicts of interest, and difficulty reaching agreement on matters.

Co-owners may be competitors and/or have economic or other business interests or goals which are inconsistent with the Merged Group's business interests or goals, and may be in a position to take certain actions contrary to the Merged Group's objectives. Disputes between the Merged Group and co-owners may result in litigation or arbitration that would increase expenses.

In addition, pre-emptive provisions or rights of first refusal may apply to future acquisitions, or disposals or transfers of interests in these co-owned properties. These provisions may work to the Merged Group's disadvantage because, amongst other things, the Merged Group may be disadvantaged in its sale process by the need to comply with these provisions.

(c) Tenant default, non-renewal and occupancy risk

The great majority of the Merged Group's earnings will be derived from rental income. The Merged Group's performance will depend significantly on the level of tenant default and on its ability to continue to lease space in its portfolio (including redeveloped retail assets) on market terms.

There is a possibility that tenants may default on their rental or other obligations under leases with the Merged Group, leading to a reduction in income received. In addition, there is a risk that if the Merged Group is not able to negotiate lease extensions with existing tenants at the end of the lease terms, or replace the leases on expiry with leases at equivalent rates, there may be a significant impact on the earnings and distributions of the Merged Group and the value of the particular property involved. The ability of the Merged Group to secure lease renewals or to obtain replacement tenants may be influenced by any leasing incentives granted to prospective tenants and increased competition in the sector, which in turn may increase the cost and time required to let vacant space.

If the retail sales or profitability of stores operating in the Merged Group's portfolio decline significantly, tenants may be unable to pay their existing base rents or outgoings charges (since these fixed rents and charges would consume a high percentage of their sales revenue). Furthermore, if retail sales decline, tenants would be less willing to pay rent at previous levels and existing tenants may seek a lower rent at renewal. During times of low economic growth, the risks associated with declining retail sales increase.

(d) Development risk

Both Novion and Federation have a number of projects currently under redevelopment, which are set out in Section 7.5. The Merged Group's financial performance will depend in part upon the continued redevelopment and growth of its properties. If a development or redevelopment project is unsuccessful or does not proceed, the Merged Group's performance may be adversely affected.

The Merged Group will be subject to the risks associated with its expansion and redevelopment activities, including risks resulting from construction not being completed on budget or on schedule, leasing risk, inability to obtain funding on acceptable terms or at all, changes in laws and governmental regulations such as zoning, failure to obtain required licences and/or approvals.

(e) Property management and development services risk

The Merged Group will derive approximately 5% of its income from property management and development services provided to external parties. Property management income is derived from charging fees for property management services. Property management fees include property management, leasing and tenancy administration fees. Development management fees relate to development management, leasing, and tenancy administration fees. The tenure of the property management and development services agreements vary in length but are generally long term in nature.

The Merged Group as a property and development services manager has a number of obligations and requirements it must meet under these property management and development services agreements.

The failure to meet such obligations and manage any risks appropriately may lead to adverse consequences in certain circumstances, including the termination of such agreements or a reduction in such fees obtained under the arrangements. This may consequently affect the Merged Group's income.

(f) Novion Wholesale Funds

Entities within Novion currently act as the responsible entity, trustee and/or manager (as applicable) of a number of Wholesale Funds as part of its strategic partnerships platform. Investors in each of these Wholesale Funds have the ability to remove the relevant member of the Novion entity as the responsible entity, trustee or manager pursuant to the Corporations Act, the specific terms of the trust deed (in the case of Wholesale Funds which are not registered managed investment schemes), or investment management or other management agreements (as applicable).

The removal of Novion in its capacity as described above by wholesale investors may have an impact on the financial performance of Novion and hence of the Merged Group. Income generated through the Wholesale Funds will comprise approximately 3% of the total revenue of the Merged Group.

(g) Geographical concentration of Merged Group portfolio

The Merged Group's portfolio is 100% located in Australia. As at 31 December 2014, the Merged Group portfolio had (by book value) approximately 44% exposure to Victoria (including 13% of the total portfolio exposure being to Chadstone Shopping Centre), 19% exposure to New South Wales, 17% exposure to Queensland, 11% exposure to Western Australia, 5% exposure to South Australia, 2% exposure to Tasmania, 1% exposure to Australian Capital Territory and less than 1% exposure to Northern Territory.¹ Any decline in retail asset values or any event or occurrence which has an effect on the value of retail assets in Australia may have a material adverse effect on the business, financial condition and/or prospects of the Merged Group.

(h) Reputational risk

Due to the scale and breadth of operations, the Merged Group will be a prominent A-REIT, landlord and business in the Australian market. Various issues may give rise to reputational risk and subject the Merged Group to the risk of enforcement action, fines or penalties. The quality and consistency of how the Merged Group interacts and engages with all of its key stakeholders will impact the reputation of the Merged Group.

(i) Acquisition risk

The Merged Group may pursue acquisitions of property assets and related redevelopment projects that meet its investment criteria as opportunities arise and if funding is available. Such acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of the property assets. While the Merged Group's policy will be to undertake appropriate due diligence in order to assess these risks, unexpected problems or other latent liabilities may still emerge.

(j) Changes in consumer sentiment or shopping preferences

A significant proportion of the Merged Group's revenues will depend on rental income from tenants whose ability to pay rent depends on their ability to generate and maintain retail sales. Retail sales are subject to rapid and occasionally unpredictable changes in consumer sentiment or preferences. However, this risk is partially mitigated by the Merged Group's representation in the area of non-discretionary retail spend.

Furthermore, consumer sentiment or shopping preferences may be impacted due to changes in economic conditions, interest rates, levels of disposable income and consumer confidence.

Changes in consumer sentiment or shopping preferences as a result of these factors may lead to a decline in rental income and financial performance of the Merged Group.

With the increasing use of online retailing (including competition from overseas websites) and mobile technology by consumers, the appeal of the Merged Group's retail assets may decrease. Whether the Merged Group is able to meet this challenge depends on its ability to execute its strategies effectively and continue to play a significant role in modern retailing.

(k) Cash flow risk

The Merged Group's ability to service its debt and other obligations depends on the future performance and cash flow of its business which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond its control. The Merged Group's historical financial results (on a pro forma basis) have been, and it is anticipated that the Merged Group's future financial results will continue to be, subject to fluctuations. Cash flows can vary and the Merged Group's business may not generate sufficient cash flow from operations to enable it to satisfy its debt and other obligations.

Significant expenditures associated with each real estate investment, such as maintenance costs, property rates and taxes, are generally not reduced when circumstances cause a reduction in revenue from the investment. Under these circumstances, cash flow of the Merged Group may be adversely affected.

In addition, the Merged Group will have a development pipeline and existing construction projects that require the Merged Group to make substantial upfront expenditures before beginning to earn income from the redeveloped property, which may impact the Merged Group's cash flow profile.

1. Excludes interests in three properties that have been sold since 31 December 2014, being Woodlands Village (settled 30 January 2015), Warrnambool (settled 9 February 2015) and Mildura Central (settled 12 February 2015).

(l) Leverage risk

As at 31 December 2014, Novion's gearing ratio (excluding intangibles) was 29.8%² on a pro forma basis. On implementation, the Merged Group is expected to have a gearing ratio of 31.1%³ (pro forma 31 December 2014), with a target range of between 25–35%.

As at 31 December 2014, Novion's ICR was 3.2x.⁴ On implementation, the Merged Group is expected to have an ICR of 5.2x.⁵

If the Merged Group breaches its financial covenants⁶, or its cash flow and capital resources are not sufficient to make principal repayments and interest payments on its debt and fund its working capital and other business needs, the Merged Group could be forced to:

- reduce or delay scheduled capital expenditure and development and redevelopment projects, or forgo acquisitions or other business opportunities
- sell material assets or operations
- raise additional equity capital (including hybrid equity capital)
- restructure or refinance its debt and derivative exposures, or
- undertake other prospective measures.

(m) Property revaluation risk

The Merged Group will carry its property investments on its balance sheet at fair value. At each reporting date, the Merged Group Board will assess the carrying value of its investment property portfolio, and where the carrying value differs materially from the Merged Group Board's assessment of fair value, the Merged Group will record an adjustment to the carrying value as appropriate.

If a substantial decrease occurs in the fair value of Merged Group's properties, the results of operations of the Merged Group could be adversely affected and, as a result, the Merged Group may have difficulty maintaining its desired leverage ratio and other financial measures. This may reduce the Merged Group's flexibility in planning for, or reacting to, changes in its business or industry including its ability to commence new redevelopment projects.

(n) Real estate property prices and illiquid investments

Downward market pressure on real estate prices could impact the value of the Merged Group's direct portfolio and would have a negative impact on the Merged Group's NTA, gearing and its ability to generate external management fee revenue.

Investments in property are relatively illiquid, and some of the Merged Group's properties are subject to contractual limitations on transfer. This illiquidity limits the Merged Group's ability to vary its portfolio promptly in response to changes in economic or other conditions.

In times of low economic growth or disruption in financial markets, there is likely to be fewer potential buyers of retail assets, and it may be difficult for potential buyers to obtain financing on acceptable terms, or at all. There is no assurance that the Merged Group will be able to dispose of a property at the desired time or at a price in line with the Merged Group's book value for the property.

(o) Reliance on AFSL and other licences

In order to provide fund management services, certain property related services, and certain other services, the Merged Group will be required to hold a number of AFSL and other licences. If the Merged Group fails to comply with the general obligations of an AFSL, this could result in the suspension or cancellation of the licence which enables it to operate key parts of its business. Whilst it is not expected to occur, a breach or loss of licences would have a material adverse effect on the Merged Group's business and financial performance.

2. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). Novion's pro forma 31 December 2014 gearing (including intangibles) is 28.8% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).
3. Calculated as borrowings (net of cash) divided by total tangible assets (net of cash). The Merged Group's pro forma 31 December 2014 gearing (including intangibles) is 29.0% (calculated as borrowings, net of deferred borrowing costs and cross currency swaps, divided by total assets, net of derivative assets).
4. Calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represents net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest; less non-cash convertible notes interest expense.
5. Calculated as pro forma FY15 underlying earnings before net interest expense divided by net interest expense. The Merged Group's ICR would be approximately 4.8x if it was calculated on a like-for-like basis with Novion's current ICR of 3.2x (as set out in Section 5.6).
6. The financial covenants are described in Section 8.5(a) of this Scheme Booklet.

9.4 General risks relating to the Merged Group

The following risk factors are of a general nature and are relevant to both Novion and Federation as stand-alone businesses. Both Novion and Federation are subject to these inherent risks. They will also be relevant to the Merged Group if the Merger is implemented.

(a) Litigation risk

Like any business, disputes or litigation may arise from time to time in the course of the business activities of the Merged Group. There is a risk that any material or costly dispute or litigation could adversely affect the Merged Group's reputation, financial performance or security value.

(b) Insurance and force majeure risk

The Merged Group will carry insurances on its properties with policy specifications and insured limits that the Merged Group believes are customarily carried for similar properties.

Potential losses arising from events such as floods, earthquakes, terrorism or other similar catastrophic events, which may also include other force majeure events, may be either uninsurable, or, in the judgement of the Merged Group, not insurable on a financially reasonable basis, or may not be insured at full replacement cost or may be subject to larger excesses.

In the event that there are insufficient insurance arrangements in place, the Merged Group may be exposed to materially significant capital losses, or losses that may impact revenue generation and the overall financial performance of the Merged Group.

(c) Inflation risk

Higher than expected inflation rates generally or specific to the property sector could increase the operating costs and development costs of the property sector, including reducing retailer earnings and affecting the Merged Group's income, management fees and overhead expenses.

This risk is mitigated as a substantial part of the Merged Group's leases with retailers contain provisions designed to mitigate the impact of inflation. This includes provisions that allow the Merged Group to receive periodic index based contractual rent increases or have fixed increases which are higher than the historic average inflation rate during the term of the lease. This reduces the Merged Group's exposure to increases in costs and operating expenses resulting from inflation.

(d) Counterparty risk

A counterparty may fail to meet its contractual obligations resulting in financial loss to the Merged Group and impacting on the Merged Group's business relationships and operations. The Merged Group can provide no guarantee that its counterparties (including, for example contractors) will fulfil these obligations.

This risk includes counterparty credit risk. This risk will arise for the Merged Group from cash and cash equivalents, derivatives and receivables. Receivables consist of rental income, non-rental income such as electricity, car parking, gift card and shopping centre media income as well as management fees receivable from strategic partners.

The Merged Group will need to assess the credit quality of the counterparty taking into account its financial position, past experience with the debtor, and other available credit risk information.

There can be no assurance that the Merged Group will successfully manage this risk or that such payment defaults by counterparties will not adversely affect the Merged Group's financial condition or performance.

(e) Retention of key personnel

The Merged Group will be dependent upon a number of key management personnel and executives to manage the day-to-day requirements of the business. The loss of the services of one or more key management personnel could have an adverse effect on the Merged Group.

The Merged Group's ability to provide active management capability across the enlarged portfolio will depend in large parts on the efforts of these individuals. The Merged Group will face competition for qualified personnel, and there can be no assurance that it will be able to attract and retain such personnel.

In order to mitigate this risk, incentive plans will be in place to assist in the recruitment and retention of key personnel needed to achieve the Merged Group's business objectives.

(f) Environmental risk

As an owner of real property in Australia, the Merged Group will be exposed to a range of environmental risks and will be subject to extensive regulation under environmental laws, including in respect of soil and water contamination, construction, cultural heritage and flora and fauna. For example, the Merged Group may be liable for the cost and damages associated with soil or water contamination on, under, in or emanating from the properties in its portfolio.

In addition, there is a risk that property owned or projects undertaken by the Merged Group from time to time may be contaminated by material harmful to human health (such as asbestos and other hazardous materials). In these situations, the Merged Group may be required to undertake remedial works on contaminated sites and may be exposed to third party compensation claims and other environmental liabilities.

(g) Climate change risk

The Merged Group may be exposed to a number of potential impacts of climate change over time which could lead to demographic changes, change in consumption patterns, physical risks to property and falling property values. As a result, the potential impact from climate change, both physical and as a result of new related legislation and regulation, may have an adverse impact on the Merged Group's operations or financial performance. Increased regulation of greenhouse gas emissions could also adversely affect the Merged Group's costs of operations. Regulatory change by governments in response to greenhouse gas emissions may represent increased costs to the Merged Group impacting the overall financial performance of the Merged Group.

(h) Interest rate risk

The Merged Group will be subject to the risk of rising interest rates associated with borrowing on a floating rate basis. The Merged Group will seek to manage all or part of its exposure to adverse fluctuations in floating interest rates by entering into interest rate hedging arrangements, including derivative financial instruments. Such arrangements involve risk, such as the risk that counterparties may fail to honour their obligations under these arrangements, and that such arrangements may not be effective in reducing exposure to movements in interest rates. To the extent that the Merged Group does not hedge effectively (or at all) against movements in interest rates, such interest rate movements may adversely affect the Merged Group's results.

(i) Foreign exchange risk

The Merged Group may manage the impact of exchange rate movements on both its earnings and balance sheet by entering into hedging transactions, including derivative financial instruments. As the Merged Group may hold some borrowings denominated in a foreign currency, it is therefore exposed to this risk in the absence of effective hedging.

To the extent the Merged Group does not hedge effectively (or at all) against movements in the exchange rate of these currencies, such exchange rate movements may adversely affect its earnings and/or balance sheet.

(j) Work, health and safety risk

The Merged Group will be subject to extensive laws and regulations governing health and safety matters, protecting both the public and the Merged Group's employees. Any breach of these obligations could adversely affect the results of the Merged Group and its reputation and expose it to claims for financial compensation or adverse regulatory consequences. There is also risk associated with incidents relating to health and safety that do not result from any breach of obligations; for example, the risk of terrorist activity at an asset owned or managed by the Merged Group.

(k) Competition from other participants in the retail property industry

The Merged Group will face competition from other property groups and commercial organisations. It will also face the threat of new competitors entering the market. Accordingly, the existence of such competition may have an adverse impact on the Merged Group's ability to secure tenants for its properties at satisfactory rentals and on a timely basis.

(l) Regulatory risk and changes in law (and interpretation)

Changes in laws, regulations and government policy may affect the Merged Group and the attractiveness of an investment in the Merged Group positively or negatively. For example, there could be:

- changes in tax laws or the outcomes of compliance activities undertaken by taxation authorities may impact the Merged Group's future tax liabilities
- changes in retail tenancy laws that limit the Merged Group's recovery of certain property operating expenses
- changes or increases in real estate taxes that cannot be recovered from the Merged Group's tenants
- changes in environmental or building laws or codes that require significant capital expenditure, or
- changes in financial reporting requirements and accounting standards, or interpretation of them, that may change the basis on which the Merged Group is required to prepare its financial statements.

Further, Novion's and Federation's respective activities, operations and transactions are subject to many complex laws and regulations especially in relation to tax and accounting.

Determining how their respective activities, transactions or operations are to be undertaken in compliance with applicable laws and regulations requires both Novion and Federation to interpret those laws and regulations in the light of any available administrative guidance and this may involve significant judgment, in circumstances where there may be differing but reasonable interpretations available. If any of their respective determinations relating to these matters are subsequently found to be wrong or in error, this could result in material adverse consequences, including reputational and financial, for the relevant entity involved and any of its securityholders who were affected by such determination, as could any future changes in laws or regulations.

The impact of future regulatory and legislative change upon the business of the Merged Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance.

(m) General market conditions

The Merged Group may be adversely impacted by changes in general market conditions such as economic conditions, interest rates and inflation, political events, fiscal and monetary policies, investment sentiment, property market volatility, retail spending levels, consumer confidence levels and other general market conditions.

A number of factors affect the performance of the stock markets, which could affect the price at which New Federation Securities trade on the ASX following implementation of the Merger.

Section 10

Implementation of the Schemes

10.1 Merger Implementation Agreement

On 3 February 2015, Novion and Federation entered into a Merger Implementation Agreement in relation to the Merger under which Novion agreed to propose the Schemes.

The implementation of the Merger is subject to a number of Conditions Precedent which are summarised in Section 2.3 of this Scheme Booklet. The Merger will not proceed unless all of these conditions are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement. Novion and Federation have agreed to use their best endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent.

A summary of the Merger Implementation Agreement is set out in Section 12.2.

10.2 Novion RE Deed Poll

On 10 April 2015, Novion RE Limited as Responsible Entity of Novion Trust executed the Novion RE Limited Deed Poll, pursuant to which Novion RE has agreed to perform the obligations required of it under the Trust Scheme and the Supplemental Deed Poll, including the de-stapling of the Novion Shares from the Novion Units, subject to the Schemes becoming effective.

A copy of the Novion RE Deed Poll is attached as Annexure G to this Scheme Booklet.

10.3 Federation Deed Poll

On 10 April 2015, Federation executed the Federation Deed Poll, pursuant to which Federation has agreed to perform its obligations under the Company Scheme and Trust Scheme, including the obligation to provide Scheme Consideration to Scheme Securityholders, subject to the Schemes becoming Effective.

A copy of the Federation Deed Poll is attached as Annexure H to this Scheme Booklet.

10.4 Effective Date

The Company Scheme will, subject to the approvals being given as referred to above, become Effective on the Effective Date (being the date an office copy of the Second Court Order from the Second Court Hearing is lodged with ASIC). Novion will, on the Company Scheme becoming Effective, give notice of that event to the ASX.

The Trust Scheme will, subject to the resolutions being passed at the Trust Scheme Meeting and receipt of the Second Judicial Advice, become Effective on the Effective Date.

10.5 Determination of persons entitled to the Scheme Consideration

(a) Record Date

Those Novion Securityholders on the Register on the Record Date (i.e. at 7.00pm on Friday 5 June 2015) will become entitled to the Scheme Consideration in respect of the Novion Securities they hold at that time, except for Ineligible Foreign Securityholders who will receive cash pursuant to the Sale Facility.

(b) Dealings on or prior to the Record Date

For the purposes of calculating entitlements under the Merger, any dealing in Novion Securities will only be recognised if:

- (i) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant Novion Securities on or before the Record Date, and
- (ii) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before 5.00pm on the Record Date at the Novion Registry.

Subject to the Corporations Act, Listing Rules and the constitutions of Novion, Novion must register registrable transmission applications or transfers of the kind recognised above by no later than 7.00pm on the Record Date.

Novion will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Novion Securities received after 5.00pm on the Record Date or received prior to that time but not in registrable form.

(c) Dealings after the Record Date

For the purposes of determining the entitlement to the Scheme Consideration, Novion will, until the Scheme Consideration has been paid to the Scheme Securityholders and Federation has been registered as the holder of the Scheme Securities, maintain the Register, subject to the comments in paragraph (a) above, in its form as at the Record Date. The Register in this form will solely determine entitlements to the Scheme Consideration.

From the Record Date, except as evidence of entitlement to the Scheme Consideration in respect of the Novion Securities relating to that entry:

- (i) all statements of holding in respect of Novion Securities cease to have effect as documents of title in respect of such Novion Securities, and
- (ii) each entry on the Register will cease to be of any effect.

10.6 Scheme Consideration

Those Novion Securityholders on the Register on the Record Date (in this Scheme Booklet, those Novion Securityholders are referred to as Scheme Securityholders) will become entitled to receive as the Scheme Consideration 0.8225 New Federation Securities for each Novion Security held at 7.00pm on the Record Date.

The entitlement of Scheme Securityholders who are Ineligible Foreign Securityholders will be dealt with under the Schemes via the Sale Facility. See Section 10.10 below for more information.

10.7 Fractional entitlements and security splitting

(a) Fractional entitlements

If the number of Scheme Securities held by a Scheme Securityholder at the Record Date is such that the aggregate entitlement of the Scheme Securityholder to the Scheme Consideration includes a fractional entitlement to a New Federation Security, then the entitlement of that Scheme Securityholder must be rounded up or down, with any such fractional entitlement of:

- less than 0.5 being rounded down to the nearest whole number of New Federation Securities, and
- 0.5 or more being rounded up to the nearest whole number of New Federation Securities.

(b) Security splitting

If Novion and Federation are of the opinion that two or more Scheme Securityholders (each of whom holds a number of Scheme Securities that results in rounding in accordance with (a) above) have, before the Record Date, been party to securityholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, Federation may give notice to those Scheme Securityholders:

- setting out their names and registered addresses as shown in the Register
- stating that opinion, and
- attributing to one of them specifically identified in the notice the Scheme Securities held by all of them.

After such notice has been given, the Scheme Securityholder specifically identified in the notice as the deemed holder of all the specified Scheme Securities will, for the purposes of the Schemes, be taken to hold all of those Scheme Securities and each of the other Scheme Securityholders whose names and registered addresses are set out in the notice will, for the purposes of the Schemes, be taken to hold no Scheme Securities.

10.8 Payment of the Scheme Consideration

On the Implementation Date, Scheme Securityholders who are not Ineligible Foreign Securityholders will be issued 0.8225 New Federation Securities for every Scheme Security they hold.

The entitlement of Scheme Securityholders who are Ineligible Foreign Securityholders, will be paid the amount owing to them under the Sale Facility within the 5 Business Days after the Sale Nominee has transferred all the funds in the Sale Facility Account.

The amounts referred to in this Section will be paid within 5 Business Days after the Sale Nominee has transferred all the funds to the Sale Facility Account by:

- electronic transfer to the account of the Scheme Securityholder with the bank or other financial institution properly nominated by them for receipt of distributions on their Novion Securities, or
- sending a cheque drawn in Australian currency to each Scheme Securityholder by pre-paid airmail or ordinary post to their address recorded on the Register on the Record Date.

10.9 Implementation Date

The Implementation Date is the date that is 3 Business days after the Record Date. The Implementation Date is expected to be Thursday 11 June 2015.

On the Implementation Date, Federation must issue New Federation Securities to each Scheme Securityholder entitled to them as the Scheme Consideration and cause their names and addresses to be entered in the Federation register. As soon as practicable after the Implementation Date, Federation must send a certificate or holding statement (or equivalent document) to each Scheme Securityholder representing the number of New Federation Securities issued to the Scheme Securityholder pursuant to the Schemes.

Once the Scheme Consideration has been issued, the Scheme Securities will be transferred to Federation without any need for further actions by any Scheme Securityholder.

10.10 Ineligible Foreign Securityholders and Sale Facility

(a) Permitted Scheme Securityholders

Based on the information available to Federation as at the date of this Scheme Booklet, Scheme Securityholders whose addresses are shown in the register on the Record Date as being in the following jurisdictions will be entitled to have New Federation Securities issued to them pursuant to the Schemes subject to any qualifications set out below in respect of that jurisdiction:

- Australia
- Hong Kong, where the number of investors does not exceed 50
- New Zealand
- Papua New Guinea
- Singapore, where the number of investors does not exceed 50
- United Kingdom
- United States, and
- any other person or jurisdiction in respect of which Federation reasonably believes that it is not prohibited and not unduly onerous or impractical to implement the Schemes and for New Federation Securities to be issued to a Scheme Securityholder with a registered address in such jurisdiction.

Nominees and custodians must not forward or distribute this Scheme Booklet to any person in any country outside Australia, New Zealand, Papua New Guinea or the United States without the consent of Novion.

(b) Ineligible Foreign Securityholders

Restrictions in certain foreign countries may make it impractical or unlawful to offer or receive securities in those countries. For this reason the entitlement of Scheme Securityholders who are Ineligible Foreign Securityholders to New Federation Securities will be dealt with under the Schemes via the Sale Facility.

A Scheme Securityholder will be considered an Ineligible Foreign Securityholder if the Scheme Securityholder's registered address on the Register (as at the Record Date) is in any jurisdiction other than those jurisdictions referred to in Section 10.10(a) above unless Federation is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of New Federation Securities to Scheme Securityholders in that place either unconditionally or after compliance with conditions that Federation in its sole discretion regards as acceptable and not unduly onerous or impracticable.

(c) Sale Facility

Scheme Securityholders who are Ineligible Foreign Securityholders will receive an amount equal to the average price (per security) at which the New Federation Securities are sold by the Sale Nominee under the Sale Facility (after deducting stamp duty and other fees), multiplied by the number of the New Federation Securities that the Ineligible Foreign Securityholder would otherwise have been entitled to receive, subject to rounding to the nearest whole cent (Sale Securities).

Under the Sale Facility:

- (i) the Sale Securities will be issued on the Implementation Date to the Sale Nominee, who will be responsible for selling the Sale Securities
- (ii) the Sale Nominee must sell the Sale Securities as soon as reasonably practicable, and in any event not more than 15 Business Days after the Implementation Date, on the ASX in accordance with the terms of the Sale Facility
- (iii) all proceeds of such sale will be deposited by the Sale Nominee in the Sale Facility Account for the Scheme Securityholders who are Ineligible Foreign Securityholders, and
- (iv) once settlement of all Sale Securities has occurred, the Sale Nominee will transfer the funds (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) in the Sale Facility Account to the Novion Registry.

Under the Company Scheme and the Supplemental Deed Poll, Scheme Securityholders who are Ineligible Foreign Securityholders appoint Novion Limited and Novion RE respectively as their agent to receive any financial services guide or other notice given by the Sale Nominee under the Corporations Act.

10.11 Foreign Selling Restrictions

Neither this Scheme Booklet nor any copy of it may be taken or transmitted into any country where the distribution or dissemination of it is prohibited. This Scheme Booklet and the Schemes do not constitute an offer of securities in any jurisdiction in which it would be unlawful.

Hong Kong

WARNING – The contents of this document have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Schemes. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This document also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Copies of this document may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this document, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of Novion Securityholders in connection with the Schemes, and no steps have been taken to register or seek authorisation for the issue of this document in Hong Kong. Only the person to whom a copy of this document has been issued may take action in response to this document. The offer of these securities is personal to the person to whom this document has been delivered, and a subscription for these securities will only be accepted from such person.

This document is confidential to the person to whom it is addressed and no person to whom a copy of this document is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this document to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Schemes by the person to whom this document is addressed.

New Zealand

This Scheme Booklet is not a New Zealand prospectus or an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (or any other relevant New Zealand law). The offer of New Federation Securities under the Schemes are being made to existing Scheme Securityholders in reliance upon the Securities Act (Overseas Companies) Exemption Notice 2013 and accordingly this Scheme Booklet may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

Papua New Guinea

This document is being distributed only to Novion Securityholders. This document has not been registered as a prospectus in Papua New Guinea (PNG) and no notice of the proposed offer will be submitted to the Registrar of Companies. No other documents are being lodged with the Registrar of Companies or the PNG Securities Commission in respect of the proposed offer. The proposed offer is not and should not be construed as an offer of securities to the public in PNG.

Singapore

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the securities have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the "SFA") will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the New Federation Securities may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII and in Subdivision (3) Division 1A, Part XIII of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to the New Federation Securities being subsequently offered for sale to any other party.

You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

This document is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Novion nor Federation is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Novion and Federation are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

United Kingdom

Neither the information in this Scheme Booklet nor any other document relating to the offer of New Federation Securities has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ('FSMA')) has been published or is intended to be published in respect of New Federation Securities.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue or sale of the New Federation Securities has only been communicated and will only be communicated in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Novion or Federation.

In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons (i) who fall within an applicable exemption under the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, or (ii) to whom it may otherwise be lawfully communicated (together 'relevant persons'). The investments to which this Scheme Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Scheme Booklet or any of its contents.

United States

Federation and Novion intend to rely on an exemption from the registration requirements of the US Securities Act of 1933 provided by section 3(a)(10) thereof in connection with the consummation of the Schemes and the issuance of the New Federation Securities. Approval of the Schemes by the Court will be relied upon by Federation and Novion for purposes of qualifying for the section 3(a)(10) exemption.

US securityholders should note that the Schemes are made for the securities of an Australian entity in accordance with the laws of Australia and the Listing Rules. The Schemes are subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, because Federation is located in Australia and its officers and directors are residents of Australia. You may not be able to sue Federation or its officers or directors in Australia for violations of the US securities laws. It may be difficult to compel Federation and its affiliates to subject themselves to a US court's judgment.

You should be aware that Federation may purchase securities otherwise than under the Schemes, such as in open market or privately negotiated purchases.

This Scheme Booklet has not been filed with or reviewed by the US Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Schemes or the accuracy, adequacy or completeness of the Scheme Booklet. Any representation to the contrary is a criminal offence.

The securities to be issued pursuant to the Schemes have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. The New Federation Securities are not being offered in any US state or other jurisdiction where it is not legally permitted to do so.

10.12 Commencement of trading of New Federation Securities

The New Federation Securities issued as the Scheme Consideration are expected to commence trading on the ASX on a deferred settlement basis on Monday 1 June 2015.

The exact number of New Federation Securities to be issued to Scheme Securityholders will not be known until after the Record Date and will not be confirmed to them until they receive their holding statements/confirmations following the Implementation Date. It is the responsibility of each Scheme Securityholder to confirm their holdings of New Federation Securities before they trade them to avoid the risk of committing to sell more than will be issued to them. Scheme Securityholders who trade their New Federation Securities do so at their own risk.

10.13 Delisting of Novion

Novion will apply:

- for termination of the official quotation of Novion Securities on the ASX, and
- to have itself removed from the official list of the ASX,

with effect after the Implementation Date.

Taxation Report



The Directors
Novion Limited
Level 39, MLC Centre
19 Martin Place
SYDNEY NSW 2001

14 April 2015

The Directors
Novion RE Limited (as responsible entity of
Novion Trust)
Level 39, MLC Centre
19 Martin Place
SYDNEY NSW 2001

Dear Directors

Australian Taxation Report

We have been requested by Novion Limited and Novion RE Limited in its capacity as responsible entity of Novion Trust to prepare a Taxation Report to be included in the Scheme Booklet comprising Notices of Meeting and Explanatory Memorandum dated on or around 14 April 2015 (**Scheme Booklet**). Novion Trust and Novion Limited, which form the Novion Property Group, will be collectively referred to as Novion. A reference to Novion in this Report includes a reference to their respective sub-trusts and subsidiaries.

The information contained in this report is of a general nature only. It does not constitute tax advice and should not be relied upon as such. This report outlines the general Australian taxation implications for Novion securityholders (**Novion Securityholders**) in respect of the proposed merger between Novion and Federation Centres (**Merger**).

We have only dealt with the tax implications for resident and non-resident Novion Securityholders who are individuals, complying superannuation entities and companies that hold their investments on capital account.

We have not addressed the Australian tax consequences that arise for:

- Novion Securityholders who hold their securities as trading stock or revenue assets;
- financial institutions, insurance companies, partnerships, tax exempt organisations or temporary residents (unless expressly stated);
- dealers in securities; and
- Australian residents who hold their securities as part of an enterprise carried on, at or through a permanent establishment in a foreign country.

All investors should seek independent professional advice on the consequences of their participation in the Merger, based on their particular circumstances. Novion Securityholders who are not resident in Australia must obtain advice on the taxation implications arising in their local jurisdiction of the proposed transaction.

Terms used in this report, unless stated otherwise, are defined in the same way as they are in Section 13 of the Scheme Booklet.



This report is based on the provisions of the Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997, the A New Tax System (Goods and Services Tax) Act 1999 and related acts, regulations and Australian Taxation Office (ATO) rulings and determinations applicable as at the date of this Taxation Report.

1 Proposal

The proposed transaction steps are detailed in Section 2.2 of the Scheme Booklet.

2 Tax consequences of the Merger

An outline of the Australian taxation implications of the Merger for Novion Securityholders covered by this report is provided below.

2.1 De-stapling of Novion

(1) Resident Novion Securityholders

No tax consequences should arise from the De-stapling of Novion securities for resident Novion Securityholders.

(2) Non-resident Novion Securityholders

No tax consequences should arise from the De-stapling of Novion securities for non-resident Novion Securityholders.

2.2 CGT event

(1) Resident Novion Securityholders

The Merger should give rise to two separate CGT events for Novion Securityholders:

- CGT Event A1 will occur for Novion Securityholders upon exchange of their units in Novion Trust for units in Federation Trust; and
- CGT Event A1 will also occur for Novion Securityholders upon exchange of their shares in Novion Limited for shares in Federation Limited.

On the basis that both CGT events will arise as a consequence of Schemes of Arrangements, the time of the CGT event should be the Implementation Date for the Merger. The capital proceeds received in relation to the CGT events will be the market value of the Federation Units and Federation Shares received.

To the extent that the market value of the Federation Units received by a Novion Securityholder is greater than their cost base in their Novion Units, the Novion Securityholder will realise a capital gain. To the extent that the market value of the Federation Units received by a Novion Securityholder is less than their cost base in their Novion Units, the Novion Securityholder will realise a capital loss.

Similarly, to the extent that the market value of the Federation Shares received by a Novion Securityholder is greater than their cost base in their Novion Shares, the Novion Securityholder will realise a capital gain. To the extent that the market value of the Federation Shares received by a Novion Securityholder is less than their cost base in their Novion Shares, the Novion Securityholder will realise a capital loss.

However, any capital gain arising for Novion Securityholders as a result of the Merger may be disregarded if scrip for scrip rollover relief is available and chosen by Novion Securityholders in respect of their shares and units. The availability of scrip for scrip rollover is discussed below.

(2) Non-resident Novion Securityholders

Similar to the position for resident Novion Securityholders, the Merger should give rise to two separate CGT events for non-resident Novion Securityholders, with any capital gain or loss to be calculated in the same manner.



However to the extent that the shares or units held by the non-resident Novion Securityholders are not “taxable Australian property”, any capital gain or loss should be disregarded.

A Novion Unit or a Novion Share will be “taxable Australian property” only if:

- more than 50% of the value of the Novion Unit or Novion Share is attributable to Australian real property and the Novion Unit or Novion Share passes the non-portfolio test just before the Implementation Date or throughout a 12 month period that began no earlier than 24 months before the Implementation Date. Broadly, a Novion Unit or Novion Share will pass the non-portfolio interest test if a Novion Securityholder (on an associate inclusive basis) has an interest of 10% or more in Novion Trust or Novion Limited; or
- the Novion Security is used by the Novion Securityholder in carrying on a business through a permanent establishment in Australia; or
- the Novion Securityholder made an election to treat the units or shares as taxable Australian property at the time they ceased to be an Australian resident (if the Novion Securityholder was ever an Australian resident).

(3) *Ineligible Foreign Securityholders*

Scheme Securityholders who are Ineligible Foreign Securityholders will not be issued Federation Securities under the Merger. Rather, the Sale Facility will be established to allow for the Ineligible Foreign Securityholders to dispose of their Novion Securities.

The Merger should give rise to two separate CGT events for Ineligible Foreign Securityholders:

- CGT Event A1 will occur for Ineligible Foreign Securityholders upon the disposal of their units in Novion Trust; and
- CGT Event A1 will also occur for Ineligible Foreign Securityholders upon the disposal of their shares in Novion Limited.

However to the extent that the shares or units held by Ineligible Foreign Securityholders are not “taxable Australian property” (see section 2.2(2) of this Taxation Report above), any capital gain or loss should be disregarded.

2.3 Scrip for scrip rollover

(1) *Resident Novion Securityholders*

Novion Securityholders should be eligible for scrip for scrip rollover, such that they may be entitled to disregard all or part of any capital gain arising from the Merger.

If scrip for scrip rollover is chosen by the Novion Securityholders, the cost base and reduced cost base of each Federation Unit acquired by a Novion Securityholder will be equal to the amount which is reasonably attributable to the cost base of each Novion Unit for which it was exchanged and for which scrip for scrip rollover relief is obtained. The cost base and reduced cost base of each Federation Share acquired by a Novion Securityholder will be equal to the amount which is reasonably attributable to the cost base of each Novion Share for which it was exchanged and for which scrip for scrip rollover relief is obtained.

For CGT discount purposes, the new Federation Units and Federation Shares will be taken to have been acquired at the time the original Novion Units and Novion Shares for which they were exchanged were acquired.

Novion has applied to the ATO for a binding Class Ruling for the benefit of Novion Securityholders which seeks to provide confirmation in relation to the availability of scrip for scrip rollover. Although it is not expected to be the case, when the binding Class Ruling is issued by the ATO it is possible that it may express a view contrary to that set out above.



3 Holding of Federation Securities

A copy of the Class Ruling will be made available on the Novion website once it is issued.

(2) *Non-resident Novion Securityholders*

To the extent that a non-resident Novion Securityholder makes a gain from the Merger and that gain is from “taxable Australian property” (see section 2.2(2) of this Taxation Report above), they should be entitled to choose scrip for scrip rollover in the same manner as a resident Novion Securityholder.

(3) *Ineligible Foreign Securityholders*

Ineligible Foreign Securityholders will not be entitled to scrip for scrip rollover relief.

3 Holding of Federation Securities

Following implementation of the Merger, Novion Securityholders will cease to hold Novion Securities and will instead hold Federation Securities which will consist of a unit in Federation Trust and a share in Federation Limited (**Federation Securityholders**).

Although the Federation Securities will be stapled, Federation Securityholders will need to treat each component making up the Federation Security separately for tax purposes. That is:

- Federation Securityholders will receive, and separately deal with, the tax consequences of distributions from Federation Trust and dividends from Federation Limited; and
- when the Federation Securities are disposed, the Federation Securityholders will have to separately consider the tax issues associated with the disposal of the Federation Shares and the Federation Units.

3.1 Income Distributions from Federation Trust

We understand that Federation Trust will be managed such that the RE of Federation Trust should not be liable to tax on its net income but rather the net income of Federation Trust will be subject to tax in the hands of Federation Securityholders.

(1) *Resident Federation Securityholders*

Federation Securityholders will include in their assessable income the taxable component of the Federation Trust distributions to which the Federation Securityholders are entitled (being the Federation Securityholder’s proportionate share of Federation Trust’s taxable income) even if the amount is not distributed to the Federation Securityholder.

If a net capital gain is included in the taxable income of Federation Trust (for example, on disposal of an asset), Federation Securityholders will be regarded as having derived a capital gain equal to their proportionate share of that net capital gain. However, where discount capital gains treatment has been applied in calculating the net capital gain for Federation Trust, Federation Securityholders will be required to gross-up the amount of the capital gain included in their assessable income. Australian resident investors can then apply any available capital losses from other sources to offset the capital gain and then apply their CGT discount factor, if applicable.

If the total cash distributions that a Federation Securityholder receives in an income year exceeds his or her proportionate share of the taxable income of Federation Trust, the excess should represent a “tax deferred” distribution.

The tax deferred component of a distribution a Federation Securityholder receives should generally not be included in a Federation Securityholder’s assessable income. However, the tax deferred component will reduce the cost base of the Federation Securityholder’s units in Federation Trust.

Where the cost base of an Federation Unit is reduced to zero, any further receipts of tax deferred distributions in respect of that unit will be assessable to the Federation Securityholder on receipt as a capital gain. Federation Securityholders who realise such a capital gain may be entitled to a CGT discount provided that they have held their



Federation Units for 12 months or more. A CGT discount is only available to individuals (50% discount), trusts (50% discount) and complying superannuation entities (33 1/3% discount).

For the purposes of applying the CGT discount, a Federation Securityholder's acquisition date for their Federation Trust Unit will be taken to be the date they acquired their original Novion Unit (refer section 2.3 of this Taxation Report above).

(2) *Non-resident Federation Securityholders*

Non-resident Federation Securityholders will generally not be assessable on the amount of any income or gains distributed to them by Federation Trust. However, Federation Trust will be required to withhold tax from such distributions. The amount to be withheld is dependent on a range of factors including the source of the distributed amount and the country of residence of the Federation Securityholder.

Unfranked dividends, interest and royalties distributed by Federation Trust will be subject to withholding tax which is generally imposed at a rate of 30% for unfranked dividends and royalties and 10% for interest. Non-resident Federation Securityholders who are residents of a country that has entered into a Double Tax Agreement with Australia may be entitled to a lower rate of withholding tax.

Distributions from Federation Trust of assessable Australian income other than dividends, interest and royalties should be subject to managed investment trust (MIT) withholding tax. Federation Trust will be required to withhold tax from such distributions.

MIT withholding tax is deducted from the amount of the "fund payment". The fund payment is calculated, broadly, as net rental income less tax depreciation. To the extent that the distribution includes a discount capital gain component, tax will be withheld on the "grossed-up" capital gain and not on the discount capital gain amount.

The MIT withholding tax rate will depend on the country in which the relevant non-resident Federation Securityholder is a resident. For Federation Securityholders that are residents of information exchange (EOI)¹ countries, the current rate of MIT withholding tax is generally 15%. Examples of such countries include New Zealand, the United Kingdom and the United States.

For residents of other countries the MIT withholding rate will be 30%.

Any "tax deferred" amount distributed by Federation Trust to non-resident Federation Securityholders should not be subject to withholding tax.

3.2 **Dividends from Federation Limited**

(1) *Resident Federation Securityholders*

Resident Federation Securityholders will include in their assessable income dividends paid by Federation Limited. In addition to the amount of the dividends, the Federation Securityholder will generally include any franking credits attached to the dividends in their assessable income. Where franking credits are included in a Federation Securityholder's assessable income, the Federation Securityholder will generally be entitled to a corresponding tax offset.

Relevantly, to be eligible for the franking credit and tax offset, the Federation Securityholder must have held the shares "at risk" for at least 45 days (not including the date of the share's acquisition or disposal). This rule should not apply to a Federation Securityholder if the Federation Securityholder is an individual whose tax offset entitlement (on all shares and interests in shares held) does not exceed \$5,000 for the income year in which the franked dividend is paid.

Where the Federation Securityholder is an individual or a complying superannuation entity, the Federation Securityholder may be entitled to a refund to the extent that the

¹ Information exchange countries are listed in Regulation 44E of the *Taxation Administration Regulations 1953* (Cth).



4 Disposal of Federation Securities

franking credits attached to the Federation Securityholder's dividends exceed the Federation Securityholder's tax liability for the income year.

Where the Federation Securityholder is a corporate shareholder, any franked dividends the Federation Securityholder receives will generally give rise to a franking credit in the Federation Securityholder's franking account.

(2) *Non-resident Federation Securityholders*

Non-resident Federation Securityholders should not be assessable on the amount of any dividend received from Federation Limited. However, Federation Limited will be required to withhold tax from the unfranked component of dividends paid to a non-resident Federation Securityholder. The tax withheld should, in the absence of a Double Tax Agreement, be equal to 30% of the unfranked component of the dividends paid.

This rate may be reduced, generally to 15%, where the Federation Securityholder is a resident of a country with which Australia has concluded a Double Tax Agreement.

3.3 New MIT regime – draft legislation

On 9 April 2015, the Government released exposure draft legislation for the new MIT regime for public consultation. Broadly, the new MIT regime is a new tax system for certain MITs that provides formal mechanisms to attribute taxable income to unitholders and allows MITs to recognise prior year taxable income adjustments. These aspects of the new MIT regime aim to effectively codify previous MIT industry practice and it is not expected that they will result in significant practical changes for MIT unitholders.

There are other measures included within the new MIT regime including both upwards and downwards adjustments to unitholders cost bases in specified circumstances and an arm's length rule for certain transactions occurring within stapled groups.

The exposure draft legislation provides that the new MIT regime will apply from 1 July 2015. However, we understand that the intention is that the new MIT regime will be optional from 1 July 2015 and then compulsory for qualifying MITs from 1 July 2016 regardless of whether they've made an election or not. We expect this change to be reflected in the legislation when it is introduced into Parliament.

The new MIT regime should have no adverse impact on the Merger as the new MIT regime should apply equally to Federation Securityholders as it would to Novion Securityholders.

Notwithstanding the above, it is important to note that the new MIT regime legislation is in draft form and subject to change prior to its enactment. Further, as with all new legislation, it is difficult to fully understand the legislation's impact until it has been put into practice. As such, even though we consider it unlikely, it may be the case that the new MIT regime does have some unforeseen implications for Novion Securityholders that become Federation Securityholders. Accordingly, developments in relation to the new MIT regime should be monitored, particularly once the legislation is introduced to Parliament.

4 Disposal of Federation Securities**4.1 General**

As a consequence of stapling, each Federation Share and Federation Unit constituting a Federation Security may not be traded separately. However, each Federation Share and Federation Unit constituting a Federation Security is a separate CGT asset. Accordingly, where there is a disposal of a Federation Security, there will, for CGT purposes, be a disposal of a Federation Share and a Federation Unit.

Where consideration is received in connection with a transaction that relates to more than one CGT asset, the capital proceeds for each asset is so much of the total consideration as is reasonably attributable to that asset.



4 Disposal of Federation Securities

Accordingly, the capital proceeds referable to the disposal of each individual Federation Share and Federation Unit constituting a Federation Security will be determined by apportioning the total capital proceeds received in respect of the disposal of the Federation Security between the Federation Share and Federation Unit on a reasonable basis.

(1) *Resident Federation Securityholders*

Upon disposal of a Federation Security, a Federation Securityholder will make a capital gain if:

- the portion of the consideration reasonably attributable to a Federation Unit exceeds the cost base of the Federation Unit; and/or
- the portion of the consideration reasonably attributable to the Federation Share exceeds the cost base of the Federation Share.

A Federation Securityholder will make a capital loss if:

- the portion of the consideration reasonably attributable to Federation Unit is less than the reduced cost base of the Federation Unit; and/or
- the portion of the consideration reasonably attributable to the Federation Share is less than the reduced cost base of the Federation Share.

The way in which the cost base of each Federation Unit and Federation Share will be calculated is outlined in section 2.3.

Federation Securityholders who realise a capital gain from the disposal of Federation Securities may be entitled to a CGT discount provided that they have held their Federation Securities for 12 months or more. A CGT discount is only available to individuals (50% discount), trusts (50% discount) and complying superannuation entities (33 1/3% discount). Assuming that former Novion Securityholders that become Federation Securityholders choose scrip for scrip rollover in respect of the Merger, the acquisition date for their Federation Unit and Federation Share will be taken to be the date they acquired their original Novion Unit and Novion Share (refer section 2.3 of this Taxation Report above).

The CGT discount is not available for Federation Securityholders that are companies.

(2) *Non-Resident Federation Securityholders*

Upon disposal of a Federation Security, a non-resident Federation Securityholder will make a capital gain if:

- the portion of the consideration reasonably attributable to a Federation Unit exceeds the cost base of the Federation Unit; and/or
- the portion of the consideration reasonably attributable to a Federation Share exceeds the cost base of the Federation Share.

A non-resident Federation Securityholder will make a capital loss if:

- the portion of the consideration reasonably attributable to a Federation Unit is less than the reduced cost base of the Federation Unit; and/or
- the portion of the consideration reasonably attributable to a Federation Share is less than the reduced cost base of the Federation Share.

The way in which the cost base of each Federation Unit and Federation Share will be calculated is outlined in section 2.3.

However, any capital gain or capital loss made by non-resident Federation Securityholders from the disposal of either Federation Units or Federation Shares should be disregarded provided that the relevant securities are not taxable Australian property. A Federation Security should not be taxable Australian property unless it satisfies the test



5 Goods and Services Tax (GST)

outlined above in section 2.2(2) of this Taxation Report (as applied to a Federation Security rather than a Novion security).

To the extent that the Federation Shares are taxable Australian property and a non-resident Federation Securityholder makes a capital gain as a result of the disposal of their Federation Shares, the Federation Securityholder will not be entitled to a CGT discount.

To the extent that the units in Federation Trust are taxable Australian property and a non-resident Federation Securityholder makes a capital gain as a result of the disposal of their Federation Units, the Federation Securityholder should be entitled to a CGT discount in respect of the part of the capital gain that had accrued on the units up to 8 May 2012.

5 Goods and Services Tax (GST)

No GST will be charged to Novion Securityholders nor will any GST liability arise for Novion Securityholders (whether resident or non-resident) on any of the steps in the proposed transaction:

- the issue of Federation Shares and Federation Units will not be subject to GST as they will be either input taxed supplies (to resident Novion Securityholders) or GST-free supplies (to non-resident Novion Securityholders);
- the current and future distributions on Federation Securities will not be consideration for supplies for GST purposes; and
- the De-stapling steps will not amount to supplies for GST purposes.

6 Other Issues

Novion Securityholders will be invited to quote their Tax File Number (TFN) or Australian Business Number (ABN) in respect of their acquisition of Federation Securities. Novion Securityholders are not obliged to provide their TFN or ABN. However, if a Novion Securityholder does not provide their TFN, ABN or an exemption, tax may be withheld at a rate of 49% on any gross distributions made to them on their Federation Securities (with entitlement to claim an income tax credit in respect of the tax withheld).

* * * *

Yours sincerely

Greenwoods & Herbert Smith Freehills Pty Limited

Greenwoods & Herbert Smith Freehills Pty Limited

This page is intentionally left blank.

Section 12

Additional information

12.1 Introduction

This Section sets out additional information relating to the Merger, including a summary of the Merger Implementation Agreement and other material information.

12.2 Summary of the Merger Implementation Agreement

The Merger Implementation Agreement was released to the ASX in full on 3 February 2015, a summary is provided below.

Parties	Federation Limited, Federation RE, Novion Limited and Novion RE
Purpose	The purpose of the Merger Implementation Agreement is to document the principal terms on which the parties will give effect to the Merger, including: • Novion proposing the adoption of the Company Scheme and execution of the Supplemental Deed Poll, the Federation Deed Poll and Novion RE Deed Poll • the obligation to carry out certain steps prior to implementation of the Merger, and • the preparation and despatch of the Notices of Meeting to Novion Securityholders.
Conditions precedent	The implementation of the Schemes is subject to a number of Conditions Precedent which are summarised in Section 2.3. The Schemes will not proceed unless all of these conditions are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement. Novion and Federation have agreed to use their best endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent.
No shop, no talk and notification obligations	From the date of the Merger Implementation Agreement to the earlier of the Implementation Date, the End Date and termination of the Merger Implementation Agreement, Novion: • (no shop) must not, and must ensure that each of its Related Entities, advisers or officers does not, except with the prior written consent of Federation, solicit, invite, encourage or initiate any Competing Proposal or any enquiries, negotiations or discussions with any third parties in relation to a Competing Proposal • (no talk) must not, and must ensure that each of its Related Entities, advisers or officers does not, except with the prior written consent of Federation, enter into, continue or participate in negotiations or discussions with, or enter into any agreement, arrangement or understanding with any third party in relation to a Competing Proposal even if the Competing Proposal was not directly solicited, invited, encouraged or initiated by Novion or the Competing Proposal has been publicly announced. This is subject to a fiduciary carve-out, and • (no due diligence) must not, and must ensure that each of its Related Entities, advisers or officers does not, except with the prior written consent of Federation, make available to any third parties any non-public information relating to Novion in connection with a Competing Proposal. This is subject to a fiduciary carve-out where a third party enters into an agreement regarding the use and disclosure of confidential information and that restricts its ability to solicit employees of Novion. From the date of the Merger Implementation Agreement to the earlier of the Implementation Date, the End Date and termination of the Merger Implementation Agreement, Federation: • (no shop) must not, and must ensure that each of its Related Entities, advisers or officers does not, except with the prior written consent of Novion, solicit, invite, encourage or initiate any Federation Acquisition Proposal or any enquiries, negotiations or discussions with a third party in relation to a Federation Acquisition Proposal, and • (no due diligence) must not, and must ensure that each of its Related Entities, advisers or officers does not, except with the prior written consent of Novion, make available to any third party any non-public information relating to Federation in connection with a MIA Compatible and Compelling Proposal. This is subject to a fiduciary carve-out where a third party enters into an agreement regarding the use and disclosure of confidential information and that restricts its ability to solicit employees of Federation.

Termination rights

Either Novion RE or Federation RE may terminate the Merger Implementation Agreement:

- **(Conditions Precedent)** if a Condition Precedent is not satisfied, or becomes incapable of being satisfied, by the required time and that condition precedent has not been waived, or
- **(breach of Merger Implementation Agreement)** at any time before 8am on the Second Court Date if the other party is in material breach of the Merger Implementation Agreement, and provided that notice is given, that breach is likely to result in material loss or damage to the terminating party and that breach remains unremedied within five Business Days (or a shorter period ending at 5pm on the Business Day before the Second Court Date) of the date such notice is given.

Novion RE may terminate the Merger Implementation Agreement if:

- **(prescribed regulated event or material adverse change)** either:
 - (a) **(prescribed regulated event)** a prescribed regulated event concerning Federation occurs, such as a reduction in capital, insolvency or disposal of assets to a third party exceeding \$100 million in value, or
 - (b) **(material adverse change)** a material adverse change concerning Federation occurs, such as an event that causes the consolidated net assets of Federation to diminish by \$180 million or more (excluding property revaluations already undertaken or a writedown of IT costs), the underlying earnings of Federation to diminish by an amount equal to \$13 million or more, or otherwise materially and adversely affects the prospects of Federation,

which remains unremedied for five Business Days (or a shorter period ending at 5pm on the Business Day before the Second Court Date) after Novion RE gives written notice to Federation, subject to certain exceptions.

- **(lack of support)** the Novion Board publicly recommends, promotes or otherwise endorses a Superior Proposal, or publicly changes or withdraws its statement that it considers the Schemes to be in the best interests of Novion Securityholders or its recommendation that Novion Securityholders approve the Resolutions in either case where one or more of the following occurs:
 - (a) the Independent Expert concludes at any time before the Second Court Date that the Schemes are not fair and reasonable to and in the best interests of Novion Securityholders
 - (b) there is a Superior Proposal
 - (c) there is a MIA Compatible and Compelling Proposal which:
 - (i) if the proposal is to proceed by way of a company scheme of arrangement and a trust scheme, is the subject of an executed implementation agreement between the proponent of the proposal and Federation or
 - (ii) if the proposal is to proceed by way of takeover bids, is the subject of publicly announced takeover bids or a public announcement of an intention to make those takeover bids, and
 - (d) a majority of the Novion Board, after considering the matter in good faith and after consulting in good faith with Federation in relation to its proposed change of statement and recommendation, no longer considers the Schemes to be in the best interests of Novion Securityholders or
- **(breach of representation or warranty)** if there is a breach of a representation or warranty in relation to Federation's authority and ability to enter into and perform its obligations under the Merger Implementation Agreement and is unremedied within five Business Days (or a shorter period ending at 5pm on the Business Day before the Second Court Hearing) of Novion RE giving written notice to Federation.

Federation RE may terminate the Merger Implementation Agreement if:

- **(prescribed regulated event or material adverse change)** either:
 - (a) **(prescribed regulated event)** a prescribed regulated event concerning Novion occurs, such as a reduction in capital, insolvency or disposal of assets to a third party exceeding \$200 million in value, or
 - (b) **(material adverse change)** a material adverse change concerning Novion occurs, such as an event that causes the consolidated net assets of Novion to diminish by \$300 million or more (excluding property revaluations already undertaken or a writedown of IT costs), the distributable income of Novion to diminish by an amount equal to \$20 million or more, or otherwise materially and adversely affects the prospects of Novion,

which remains unremedied for five Business Days (or a shorter period ending at 5pm on the Business Day before the Second Court Date) after Federation RE gives written notice to Novion, subject to certain exceptions.

Termination rights (continued)	• (lack of support) a majority of the Novion Board publicly changes or withdraws its statement that it considers the Schemes to be in the best interests of Novion Securityholders or its recommendation that Novion Securityholders approve the Resolutions, or publicly recommend, promote or otherwise endorse a Competing Proposal, or • (Competing Proposal) a Competing Proposal is announced, made or becomes open for acceptance and the third party announcing or making the Competing Proposal acquires a Relevant Interest in more than 20% of all Novion Securities and that Competing Proposal is free from any defeating conditions.
Break fees	Mutual break fees amounting to \$40 million have also been agreed by Novion and Federation. Novion must pay Federation the break fee if: • (lack of support) a Novion director fails to state that they consider the Schemes to be in the best interests of Novion Securityholders, fails to recommend that Novion Securityholders approve the Resolutions or withdraws their statement or recommendation, unless this is done in good faith and after consultation with Federation, where: (a) all of the following applies: (i) the Independent Expert concludes at any time before the Second Court Date that the Schemes are not fair and reasonable to and in the best interests of Novion Securityholders (and the reasons for the Independent Expert's conclusions do not include the existence of a Competing Proposal), and (ii) a majority of the Novion Board, after considering the matter in good faith and after consulting in good faith with Federation in relation to its proposed change of statement and recommendation, no longer considers the Schemes to be in the best interests of Novion Securityholders, or (b) all of the following applies: (i) there is a MIA Compatible and Compelling Proposal which: (A) if the proposal is to proceed by way of a company scheme of arrangement and a trust scheme, is the subject of an executed implementation agreement between the proponent of the proposal and Federation, or (B) if the proposal is to proceed by way of takeover bids, is the subject of publicly announced takeover bids or a public announcement of an intention to make those takeover bids, and (ii) a majority of the Novion Board, after considering the matter in good faith and after consulting in good faith with Federation in relation to its proposed change of statement and recommendation, no longer considers the Schemes to be in the best interests of Novion Securityholders. • (Competing Proposal endorsed by the Novion Board) a Competing Proposal is announced or made prior to the Merger Implementation Agreement being terminated or the End Date, and is publicly recommended, promoted or otherwise endorsed by a majority of the Novion Board • (Competing Proposal and third party control) a Competing Proposal is announced or made prior to the earlier of the Merger Implementation Agreement being terminated and the End Date, and is completed at any time prior to the first anniversary of the date of the Merger Implementation Agreement and, as a result, a third party acquires Control of Novion, or • (Termination) Federation terminates the Merger Implementation Agreement in relation to a material breach or a prescribed regulated event concerning Novion. Federation must pay Novion the break fee if: • (Termination) Novion terminates the Merger Implementation Agreement in relation to a material breach, a prescribed regulated event concerning Federation or a breach of representation or warranty in relation to Federation authority and ability to enter into and perform its obligations under the Merger Implementation Agreement. Notwithstanding the above provision, Novion and Federation (as applicable) will not be liable to pay the break fee if the Schemes become Effective or, as at the earlier of the termination of the Merger Implementation Agreement and the End Date (being 3 August 2015 or such later date that the parties may agree in writing), Novion or Federation (as applicable) are entitled to terminate the Merger Implementation Agreement as a result of a material breach by, or a prescribed regulated event or material adverse change concerning, the other party.
Representations and warranties	Each of Novion and Federation has given representations and warranties to the other which are customary for an agreement of this kind.

12.3 Deemed warranty on transfer of Scheme Securities to Federation

Under clause 7.7 of the Company Scheme and clause 37.10(a) of Annexure A to the Supplemental Deed Poll for the Trust Scheme, Scheme Securityholders are deemed to warrant, and have appointed and authorised Novion Limited and Novion RE to warrant, to Federation, that:

- (a) all their Novion Shares and Novion Units held at the Record Date (including any rights and entitlements attaching to those shares or units) will, as at the time of transfer of them to Federation:
 - (i) be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and
 - (ii) be free from any restrictions on transfer of any kind, and
- (b) they have full power and capacity to sell and to transfer their Novion Shares and Novion Units.

12.4 Deemed consent for other incidental actions

Under clauses 8.2(d) and (e) of the Company Scheme and clauses 37.9(a), (b) and (c) of Annexure A of the Supplemental Deed Poll, each Scheme Securityholder will be deemed to have irrevocably appointed and consented to Novion Limited and Novion RE to do all things necessary, expedient or incidental to give full effect to the Schemes and the transactions contemplated by each Scheme.

12.5 Regulatory consents

(a) ASX relief

Novion has applied for, and ASX has granted, confirmations in relation to the following Listing Rules as they apply to Novion:

- (i) confirmation under ASX Listing Rule 15.1.3 that the ASX does not object to the draft Scheme Booklet
- (ii) confirmation that the timetable for the implementation of the Schemes is acceptable to the ASX
- (iii) confirmation that the proposed manner in which the Novion Securities are to be dealt with is appropriate and equitable under the ASX Listing Rule 6.12.3, and
- (iv) confirmation under the ASX Listing Rule 15.1.1 that the ASX does not object to the proposed amendments to the Novion Trust Constitution in relation to the De-stapling Resolutions.

Federation has applied for, and ASX has granted, a waiver from Listing Rule 7.1 in respect of the issue of New Federation Units as consideration under the Trust Scheme.

(b) ASIC relief

ASIC has granted relief to Novion from the operation of the following provisions of the Corporations Act:

Takeovers relief

- (i) a modification of item 7, section 611 of the Corporations Act to permit holders of units in Novion Trust not associated with Federation to vote on the item 7, section 611 resolution for the Trust Scheme (the Trust Acquisition Resolution).

Chapter 7 relief

- (i) an exemption from Division 2 of Part 7.7 of the Corporations Act in relation to the requirement for Novion RE to issue a Financial Services Guide under section 941A of the Corporations Act.

Part 5.1 relief

- (i) relief from Regulation 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations, which requires the Scheme Booklet to disclose particulars of payments made or benefits given to a director, secretary or executive officer in relation to their resignation or retirement from office, except where those payments or benefits are made in connection with the implementation of the Company Scheme.
- (ii) relief from Regulation 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations, which requires the Scheme Booklet to disclose whether, to the knowledge of the directors of Novion, the financial position of Novion has materially changed since the date of the last balance sheet sent to Securityholders, and particulars of that change (on the condition that the Scheme Booklet discloses whether, to the knowledge of the directors of Novion as at the date of the Scheme Booklet, the financial position has materially changed since 31 December 2014).

Part 5C.2

- (i) relief from section 601FC(1)(d) of the Corporations Act to the extent necessary for Ineligible Foreign Securityholders not to receive New Federation Securities as Scheme Consideration.

ASIC has granted relief to Federation from the operation of the following provisions of the Corporations Act:

Chapter 7 relief

- (i) an exemption from Part 7.9 of the Corporations Act in relation to the requirement to prepare a product disclosure statement in respect of the new Federation Units to be issued under the Trust Scheme.
- (ii) an exemption from Division 5A of Part 7.9 of the Corporations Act in relation to offers under the Trust Scheme potentially being characterised as unsolicited off-market offers to purchase Novion Units.
- (iii) an exemption from section 1012C of the Corporations Act in relation to the requirement that a Scheme Securityholder or the Sale Nominee issue a Product Disclosure Statement before on-selling Federation Units issued under the Merger.

(c) FIRB consent

Federation has applied to FIRB for all necessary approvals to implement the Merger. Federation expects its application to be dealt with prior to the date of the Meeting. Novion and Federation will make an ASX announcement once the outcome of Federation's FIRB application is known.

(d) ACCC

On 4 February 2015, the ACCC commenced review of the Merger under the ACCC Merger Process Guidelines. Novion and Federation are engaging with the ACCC in relation to the potential divestment of either Karingal Hub (a 50% Federation owned asset) or Bayside (a Novion owned asset).

Upon an undertaking to divest being accepted by the ACCC, Novion and Federation will make an ASX announcement advising of this.

Section 8.6(d) sets out a sensitivity analysis of the estimated impact on the Merged Group's earnings per security and gearing (excluding intangibles) of divesting either Bayside or Karingal Hub.

12.6 Consents

- (a) The following persons have given and have not before the date of this Scheme Booklet withdrawn their consent to:
- (i) be named in this Scheme Booklet in the form and context in which they are named
 - (ii) the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in this Scheme Booklet, and
 - (iii) the inclusion of other statements in this Scheme Booklet which are based on or referable to statements made in those reports or statements, or which are based on or referable to other statements made by those persons in the form and context in which they are included:

Name of person	Named as	Reports or statements
Ashurst Australia	Legal adviser to Novion	-
Grant Samuel & Associates Pty Limited	Independent Expert	Independent Expert's Report set out in Annexure A and summary letter set out in Section 4
Greenwoods & Herbert Smith Freehills Pty Limited	Tax expert	Taxation Report set out in Section 11
Link Market Services Limited	Novion Registry manager	-
Macquarie Capital (Australia) Limited	Financial adviser to Novion	-
PwCS	Investigating Accountant	Investigating Accountant's Report set out in Annexure B
The Gandel Group	-	Voting intention

Each of the above persons:

- (i) does not make, or purport to make, any statement in this Scheme Booklet other than those statements referred to above and as consented to by that person, and
 - (ii) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet other than with respect to the statements and references included in this Scheme Booklet with the consent of that party (as set out above).
- (b) Federation has given, and has not withdrawn before the date of this Scheme Booklet, its consent to be named in this Scheme Booklet in the form and context in which it is named, on the basis set out in the “Responsibility statement” paragraph contained in the Important Notices Section at the start of this Scheme Booklet.

12.7 Supplementary information

To the extent required by the Listing Rules, the Corporations Act or any other applicable law, Novion will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the date of the Meeting:

- (a) a material statement in this Scheme Booklet is false or misleading
- (b) a material omission from this Scheme Booklet
- (c) a significant change affecting a matter included in this Scheme Booklet, or
- (d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Novion may circulate and publish the supplementary document by any or all of:

- (e) placing an advertisement in a prominently published newspaper that is circulated in Australia
- (f) posting the supplementary document on Novion’s website
- (g) making an announcement to the ASX, or
- (h) issuing a supplementary document.

12.8 Directors’ statements

- (a) The issue of this Scheme Booklet has been authorised by the Novion Board.
- (b) The Novion Board has given (and not withdrawn) its consent to lodgement of this Scheme Booklet with ASIC.

12.9 No other information

Other than as contained in this Scheme Booklet, there is no information within the knowledge of any member of the Novion Board material to the making of a decision in relation to the Merger to be voted on by Novion Securityholders, and that has not been previously disclosed to Novion Securityholders.

This page is intentionally left blank.

Glossary, definitions and interpretation

13.1 Definitions

The meanings of the terms used in this Scheme Booklet are set out below.

Term	Meaning
A-REIT	Australian real estate investment trust.
AAS	Australian Accounting Standards.
AASB	Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
AFFO	adjusted funds from operations.
AFSL	Australian Financial Services Licence issued by ASIC under section 913B of the Corporations Act.
AIFRS	Australian equivalents to International Financial Reporting Standards.
Announcement Date	3 February 2015.
ASIC	the Australian Securities and Investments Commission or any replacement or successor authority.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates (that is the Australian Securities Exchange).
ATO	the Australian Taxation Office.
bps	basis points.
Business Day	any day that is each of the following: (a) a Business Day within the meaning given in the Listing Rules, and (b) a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne and Sydney, Australia.
capitalisation rate	the assessed net income from a property expressed as a percentage of the market value of the property.
CBA	Commonwealth Bank of Australia ABN 48 123 123 124.
CGT	Australian capital gains tax.
Common Provisions Agreement	the common provisions agreement dated 24 March 2015 between, amongst others, Federation Limited, Federation RE and certain lenders.
Company De-stapling Resolution	a special resolution of Novion Shareholders to de-staple the Novion Shares from Novion Units to be approved at the Extraordinary General Meeting.
Company Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act whereby Novion Shareholders will transfer each of their Novion Shares to Federation Limited in exchange for 0.8225 Federation Shares, as set out in Annexure E.
Company Scheme Meeting	the meeting of Novion Shareholders to be convened pursuant to an order of the Court in relation to the Company Scheme pursuant to section 411(1) of the Corporations Act, and includes any adjournment of such meeting.
Company Scheme Resolution	the resolution to be put to Novion Shareholders to approve the Company Scheme.

Term	Meaning
Competing Proposal	any expression of interest, proposal, offer, transaction or arrangement (other than in accordance with the Merger Implementation Agreement), by or with any person pursuant to which a third party will: (a) acquire an interest in, or a Relevant Interest in, or become the holder of, 20% or more of the securities in any member of Novion (b) directly or indirectly acquire an economic interest in all, or a substantial part of, the assets or business of any member of Novion (c) otherwise acquire Control of any member of Novion, or (d) otherwise directly or indirectly acquire, merge or amalgamate with, or acquire a significant security holding or economic interest in any member of Novion (as stipulated in the Merger Implementation Agreement), excluding transactions involving a first right of refusal granted by CBA to The Gandel Group or any acquisition of Novion Securities by The Gandel Group or by The Gandel Group as trustee for The Gandel Group Family Trust that is exempt from the prohibition in section 606(1) of the Corporations Act by virtue of the exception in item 9, section 611 of the Corporations Act (as set out in the Merger Implementation Agreement).
Conditions Precedent	the conditions to implementation of the Merger set out in Section 2.3 of this Scheme Booklet.
Control	has the meaning given in section 50AA of the Corporations Act, except that for the purposes of this definition Federation is to be regarded as a legal entity, unless the context requires otherwise.
Controlled Entity	in relation to an entity, another entity which is a subsidiary of it, or which is controlled by it, in each case within the meaning of Part 1.2, Division 6 of the Corporations Act, and, without limitation: (a) a trust may be a subsidiary of an entity, for the purpose of which a unit or other beneficial interest will be regarded as a share, and (b) an entity may be a subsidiary of a trust if it would have been a subsidiary if that trust were a body corporate.
Convertible Notes	senior, unsecured convertible notes issued by Novion, with a fixed coupon rate of 5.75% and a final maturity date of 4 July 2016.
Corporations Act	the Corporations Act 2001 (Cth).
Corporations Regulations	the Corporations Regulations 2001 (Cth).
Court	the Supreme Court of New South Wales.
De-stapling	the proposed de-stapling of each Novion Share from a Novion Unit and vice versa, subject to the De-stapling Resolutions being passed.
De-stapling Resolutions	the Company De-stapling Resolution and Trust De-stapling Resolution.
Dollars and \$	unless the context requires otherwise, Australian currency.
DPS	distribution per security.
DRP	the dividend and distribution reinvestment plan put in place by Novion.
EBITDA	earnings before interest, taxes, depreciation and amortisation.
Effective	all of the following events taking place: (a) in relation to the Company Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and if applicable, section 411(6) of the Corporations Act in relation to the Company Scheme), and (b) in relation to the Trust Scheme, the Supplemental Deed Poll taking effect pursuant to section 601GC(2) of the Corporations Act.
Effective Date	Friday 29 May 2015, which is the date on which the Schemes become Effective.
End Date	3 August 2015, which is the date six months after the date of the Merger Implementation Agreement, or such later date as Federation and Novion may agree in writing.

Term	Meaning
EPS	earnings per security.
Executive Performance Right	a Novion Performance Right granted to a participant of the FY15 executive offer under the Novion Long Term Incentive Plan.
Extraordinary General Meeting	the general meeting of Novion Shareholders convened by Novion Limited and the Trust General Meeting, held concurrently in all respects, to consider the De-stapling Resolutions and the Trust Scheme Resolutions, and includes any adjournment of that meeting.
Federation	Federation Centres, comprising Federation Limited, Federation RE and their Related Entities.
Federation Acquisition Proposal	any expression of interest, proposal, offer, transaction or arrangement (other than in accordance with the Merger Implementation Agreement), by or with any person pursuant to which a third party will: (a) acquire an interest in, or a Relevant Interest in, or become the holder of, 20% or more of the securities in any member of Federation (b) directly or indirectly acquire an economic interest in, all or a substantial part of the assets or business of any member of Federation (c) otherwise acquire Control of any member of Federation, or (d) otherwise directly or indirectly acquire, merge or amalgamate with, or acquire a significant security holding or economic interest in any member of Federation (as stipulated in the Merger Implementation Agreement).
Federation Board	the Federation RE Board and the Federation Limited Board.
Federation Deed Poll	the deed poll executed by Federation Limited and Federation RE as set out in Annexure H of this Scheme Booklet.
Federation Information	all information in this Scheme Booklet regarding the Merged Group and Federation provided by Federation for inclusion in this Scheme Booklet, including information set out in Sections 6, 7 and 8 of this Scheme Booklet.
Federation Limited	Federation Limited ABN 90 114 757 783.
Federation Limited 2015 Annual General Meeting	the 2015 annual general meeting of shareholders of Federation Limited.
Federation Limited Board	board of directors of Federation Limited.
Federation RE	Federation Centres Limited ABN 88 149 781 322 in its capacity as Responsible Entity of Federation Trust.
Federation RE Board	board of directors of Federation RE.
Federation Security	a stapled security comprising a Federation Unit and a Federation Share.
Federation Securityholder	a registered holder of a Federation Security.
Federation Share	an ordinary share in Federation Limited.
Federation Stapling Deed	the stapling deed dated 10 November 2014 entered into between Federation Limited and Federation RE.
Federation Trust	Federation Centres Trust No. 1 ARSN 104 931 928.
Federation Trust 2	Federation Centres Trust No. 2.
Federation Trust 3	Federation Centres Trust No. 3.
Federation Trust RE	the Responsible Entity of Federation Trust from time to time.
Federation Unit	a unit in Federation Trust.
FFO	funds from operations.
FIRB	the Foreign Investment Review Board.

Term	Meaning
First Judicial Advice	confirmation from the Court under section 63 of the <i>Trustee Act 1925</i> (NSW) that: (a) Novion RE would be justified convening the Trust General Meeting for the purposes of considering the Trust Scheme Resolutions, and (b) subject to Novion Unitholders passing the Trust Scheme Resolutions, Novion RE would be justified in proceeding on the basis that amending the Novion Trust Constitution as set out in the Supplemental Deed Poll would be within the powers of alteration conferred by the Novion Trust Constitution and section 601GC of the Corporations Act.
FY15	2015 financial year (and the same rule applies for other financial years referred to in this Scheme Booklet).
GLA	gross lettable area.
Government Agency	includes: (a) the ACCC, ASIC, ASX, ATO, or the Australian Takeovers Panel (b) any regulatory organisation established under statute or any stock exchange, and (c) any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency or entity and includes any minister.
gross lettable area retail	gross lettable area of retail space.
GST	has the same meaning as in the GST Law.
GST Law	has the meaning given to that term in A New Tax System (Goods and Services Tax) Act 1999 (Cth) and any other Act or regulation relating to the imposition or administration of GST.
ICR	interest cover ratio.
Implementation Date	the date on which the Schemes are to be implemented, being three Business Days after the Record Date, or such other date as Novion and Federation may agree in writing or as may be required by the ASX.
Independent Expert	Grant Samuel & Associates Pty Limited ABN 28 050 036 372.
Independent Expert's Report	the report prepared by the Independent Expert dated 14 April 2015 set out in Annexure A of this Scheme Booklet.
Ineligible Foreign Securityholder	a Scheme Securityholder whose registered address (as at the Record Date) is in any jurisdiction other than Australia, Australia's external territories, Hong Kong, New Zealand, Papua New Guinea, Singapore, United Kingdom and the United States, unless Federation is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of New Federation Securities to that Scheme Securityholder pursuant to the Schemes, either unconditionally or after compliance with conditions that Federation in its sole discretion regards as acceptable and not unduly onerous or impracticable.
Internalisation	the internalisation of Novion's management, the acquisition of CBA's integrated retail asset management business and the commencement of management of a number of wholesale property funds and property mandates that was completed in March 2014.
Investigating Accountant	PwCS.
Investigating Accountant's Report	the report prepared by the Investigating Accountant dated 14 April 2015 set out in Annexure B of this Scheme Booklet.
IRR	internal rate of return.
Joint Information	the: (a) Pro Forma Financial Information (b) the Merged Group FY15 Distribution Forecast, and (c) the forecast of likely synergies to be achieved as a result of the Merger as stated in the announcement to the ASX on 3 February 2015.
Link Market Services Limited	Link Market Services Limited ABN 54 083 214 537.

Term	Meaning
Listing Rules	the official listing rules of the ASX, as amended or replaced from time to time except to the extent of any express written waiver by the ASX.
LTIP	the Novion Long Term Incentive Plan.
Management Performance Rights	a Novion Performance Right granted to a participant of the FY15 Novion management offer under the Novion Long Term Incentive Plan.
MAT	moving annual turnover.
Meeting	the: (a) Extraordinary General Meeting, and (b) the Company Scheme Meeting, which will immediately follow the conclusion or adjournment of the Extraordinary General Meeting.
Merged Group	Federation and its Related Entities, immediately after implementation of the Schemes (which, for the avoidance of doubt, will include Novion).
Merged Group Board	the proposed board of directors of the Merged Group intended to be in place after implementation of the Merger as set out in Section 7.9.
Merged Group FY15 Distribution Forecast	the distribution forecast of the Merged Group for FY15 as set out in Section 8.4.
Merger	the proposed merger of Novion with Federation pursuant to the Company Scheme and the Trust Scheme.
Merger Implementation Agreement	the implementation agreement dated 3 February 2015 between Federation and Novion relating to the implementation of the Schemes and summarised in Section 12.2 of this Scheme Booklet and that was released in full to the ASX on 3 February 2015.
MIA Compatible and Compelling Proposal	a bona fide Federation Acquisition Proposal received by Federation that the Federation Board determines, in good faith and in accordance with its fiduciary and statutory duties: (a) is capable of being implemented by Federation without Federation breaching any of its obligations under the Merger Implementation Agreement (b) is not subject to a condition either that the Schemes or the Merger do not proceed or they, or either of them, only proceed if approved by Federation Securityholders (c) if the proposal involves any benefit to Federation Securityholders, such benefit would not be provided prior to the Implementation Date and would be available to Scheme Securityholders in their capacity as Federation Securityholders, and (d) is a proposal that compels the Federation Board to act prior to the Implementation Date, after taking into account a qualitative assessment of the identity, expertise and experience in the Australian retail property and property leasing sectors, reputation and financial standing of the party making the Federation Acquisition Proposal.
moving annual turnover	retail sales for a 12-month period calculated on a rolling monthly basis.
NAV	net asset value per security.
neighbourhood centre	a shopping centre with the characteristics described in Section 3.2(a)(iii).
New Federation Security	a stapled security comprising a Federation Unit and a Federation Share to be issued to Novion Securityholders (who are registered in the Register as at the Record Date, but excluding Ineligible Foreign Securityholders) as the Scheme Consideration.
NOI	net operating income – property revenues less property expenses, excluding debt service and depreciation.
Noteholder	a person who holds one or more Convertible Notes.
Notices of Meeting	the notices set out in Annexure C and Annexure D of this Scheme Booklet to convene the Meeting.
Novion	Novion Limited, Novion RE in its capacity as Responsible Entity of Novion Trust and their Related Entities.

Term	Meaning
Novion Board	board of directors of Novion RE (in its capacity as Responsible Entity of Novion Trust) and board of directors of Novion Limited.
Novion Information	the information in this Scheme Booklet other than the Federation Information, Independent Expert's Report, the Independent Expert's summary letter set out in Section 4 and Investigating Accountant's Report.
Novion Limited	Novion Limited ABN 79 167 087 363.
Novion Performance Right	a performance right granted under the Novion LTIP or Novion STIP.
Novion RE	Novion RE Limited ABN 33 084 098 180.
Novion RE Deed Poll	the deed poll to be entered into by Novion RE as Responsible Entity of Novion Trust, pursuant to which Novion RE has agreed to perform the obligations required of it under the Trust Scheme and the Supplemental Deed Poll as set out in Annexure G.
Novion Registry	Link Market Services Limited.
Novion Security	a stapled security comprising a Novion Unit and a Novion Share.
Novion Securityholder	a registered holder of a Novion Security. In relation to the Company De-stapling Resolution and the Company Scheme Resolution, a reference to Novion Securityholder means a Novion Securityholder in their capacity as a Novion Shareholder. In relation to the Trust De-stapling Resolution and the Trust Scheme Resolutions, a reference to a Novion Securityholder means a Novion Securityholder in their capacity as a Novion Unitholder.
Novion Share	an ordinary share in Novion Limited.
Novion Shareholder	a person who is registered in the Register as a holder of Novion Shares from time to time.
Novion Trust	Novion Trust ARSN 090 150 280.
Novion Trust Constitution	the constitution establishing Novion Trust dated 10 February 1994 as amended from time to time.
Novion Unit	a unit in Novion Trust.
Novion Unitholder	a person who is registered in the Register as the holder of a Novion Unit.
Novion's Convertible Notes Offer Document	the convertible note offering circular issued by Novion RE dated 24 June 2011 as amended or supplemented from time to time.
NTA	net tangible asset value per security.
occupancy or occupancy rate	a ratio of occupied to total space.
outlet centre	a shopping centre with the characteristics described in Section 3.2(a)(iv).
P&L	profit and loss.
Performance Conditions	in respect of: (a) Executive Performance Rights: Total Securityholder Return (50%) and Total Return (50%), and (b) Management Performance Rights: Total Return (50%) and continued employment service condition (50%).
Pro Forma Financial Information	the Pro Forma Consolidated Statement of Financial Position and the Pro Forma Consolidated Forecast of Underlying Earnings.

Term	Meaning
Pro Forma Consolidated Forecast of Underlying Earnings	a consolidated forecast of underlying earnings for the year ending 30 June 2015, which comprises: (a) a consolidated forecast of underlying earnings for Novion for the year ending 30 June 2015 (b) a consolidated forecast of underlying earnings for Federation for the year ending 30 June 2015, and (c) a pro forma consolidated forecast of underlying earnings for the Merged Group for the year ending 30 June 2015 assuming the Merger had been implemented on 1 July 2014.
Pro Forma Consolidated Statement of Financial Position	a consolidated pro forma statement of financial position as at 31 December 2014, which comprises: (a) a consolidated pro forma statement of financial position of Novion as at 31 December 2014 (b) a consolidated pro forma statement of financial position of Federation as at 31 December 2014, and (c) a pro forma consolidated statement of financial position for the Merged Group assuming the Merger had been implemented as at 31 December 2014.
Proxy Forms	the General Proxy Form and Scheme Proxy Form which accompany this Scheme Booklet and provide for Novion Securityholders to give voting instructions and appoint proxies for the Meeting.
PwCS	PricewaterhouseCoopers Securities Ltd ABN 54 003 311 617
Record Date	7.00pm (Sydney time) on Friday 5 June 2015 being the date and time which determines the entitlements of Novion Securityholders to New Federation Securities for implementation of the Merger.
regional centre	a shopping centre with the characteristics described in Section 3.2(a)(i).
Register	the register or registers of Novion Securityholders.
REIT	real estate investment trust.
Related Entity	in relation to an entity (the first entity): (a) a Controlled Entity of the first entity (b) an entity of which the first entity is a Controlled Entity, or (c) a Controlled Entity of another entity of which the first entity is also a Controlled Entity.
Relevant Interest	has the same meaning given by sections 608 and 609 of the Corporations Act.
Resolutions	the Company Scheme Resolution, the Trust Scheme Resolutions and the De-stapling Resolutions.
retail GLA	gross lettable area retail.
ROE	return on equity – underlying earnings plus change in valuations divided by average equity.
Sale Facility	the facility established for the sale of New Federation Securities on behalf of Ineligible Foreign Securityholders as described in Section 10.10.
Sale Facility Account	the account established by the Sale Nominee in its own name, to which the Sale Nominee must deposit all funds received in respect of the Sale Securities.
Sale Nominee	a person appointed by Federation, in agreement with Novion, to act as the sale nominee for the purposes of the Sale Facility (and/or a nominee of that person that is a subsidiary of that person).
Sale Securities	the Federation Securities to be issued to the Sale Nominee under the Sale Facility.
SCCA	Shopping Centre Council of Australia.
Scheme Booklet	this document, including all of the Annexures and the Proxy Forms which accompany this Scheme Booklet.

Term	Meaning
Scheme Consideration	the consideration to be provided to Novion Securityholders under the terms of the Merger for the transfer to Federation of their Novion Securities, ascertained in accordance with clause 5 of the Company Scheme and clause 37.4 of Annexure A of the Supplemental Deed Poll for the Trust Scheme.
Scheme Security	a Novion Security held by a Scheme Securityholder as at the Record Date.
Scheme Securityholder	each person who is a Novion Securityholder at the Record Date.
Schemes	each of the Company Scheme and the Trust Scheme.
Second Court Date	the first day of the Second Court Hearing or, if the hearing is adjourned for any reason, the first day of the adjourned hearing.
Second Court Hearing	the hearing of an application made to the Court by Novion for the Second Court Orders and the Second Judicial Advice.
Second Court Order	the order, pursuant to section 411(4)(b) of the Corporations Act, approving the Company Scheme.
Second Judicial Advice	confirmation of the Court under section 63 of the <i>Trustee Act 1925 (NSW)</i> that, Novion Unitholders having approved the Trust Scheme Resolutions by the requisite majorities, Novion RE would be justified in implementing the Trust Scheme Resolutions, giving effect to the provisions of the Novion Trust Constitution (as amended by the Supplemental Deed Poll) and in doing all things necessary and taking all steps to put the Trust Scheme into effect.
Section	is a reference to a section in this Scheme Booklet.
SPA	the Sale and Purchase Agreement entered into by Novion Limited and CBA dated 24 March 2014 in order to give effect to the Internalisation.
STIP	the Novion Short Term Incentive Plan as described in the 2014 Annual Report of Novion released to the ASX on 21 August 2014.
sub-regional centre	a shopping centre with the characteristics described in Section 3.2(a)(ii).
super-regional centre	a shopping centre with the characteristics described in Section 3.2(a)(i).
Superior Proposal	a bona fide Competing Proposal received by Novion that the Novion Board determines, acting in good faith and in order to satisfy what the Novion Board considers to be its fiduciary or statutory duties: (a) is capable of being valued and completed, taking into account all aspects of the Competing Proposal, including its conditions, and (b) would, if completed substantially in accordance with its terms, be more favourable to Novion Securityholders than the Merger viewed in aggregate, taking into account all terms and conditions of the Competing Proposal, after taking into account a qualitative assessment of the identity, expertise and experience in the Australian retail property and property leasing sectors, reputation and financial standing of the party making the Competing Proposal.
Supplemental Deed Poll	the deed poll to be entered into by Novion RE amending the Novion Trust Constitution pursuant to section 601GC(1) as set out in Annexure F of this Scheme Booklet.
Taxation Report	the report prepared by Greenwoods & Herbert Smith Freehills Pty Limited dated 14 April 2015 set out in Section 11 of this Scheme Booklet.
The Gandel Group	The Gandel Group Proprietary Limited ABN 29 006 190 709 and its related bodies corporate.
Total Securityholder Return	a measure of Novion's security price movement and distributions over the performance period relative to a defined group of peers.

Term	Meaning
Total Return	the percentage change during the relevant period of Novion's net tangible asset value plus distributions per Novion Security.
Trading Day	has the meaning given in the Listing Rules.
Trust Acquisition Resolution	an ordinary resolution of Novion Unitholders under item 7, section 611 of the Corporations Act authorising the acquisition by Federation RE of all the Novion Units.
Trust Constitution Amendment Resolution	a special resolution of Novion Unitholders for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the Novion Trust Constitution as set out in the Supplemental Deed Poll.
Trust De-stapling Resolution	a special resolution of Novion Unitholders to de-staple the Novion Units from Novion Shares to be approved at the Trust Scheme Meeting.
Trust General Meeting	the meeting of Novion Unitholders convened by Novion RE to consider the Trust De-stapling Resolution and Trust Acquisition Resolution, to be held as part of the Extraordinary General Meeting.
Trust Scheme	the arrangement, in accordance with Guidance Note 15, under which Novion Unitholders will transfer each of their Novion Units in Novion Trust to Federation RE in exchange for 0.8225 Federation Units as set out in the Supplemental Deed Poll.
Trust Scheme Resolutions	the resolutions of Novion Unitholders to approve the Trust Scheme including: (a) the Trust Constitution Amendment Resolution, and (b) the Trust Acquisition Resolution.
USPP	US Private Placement.
Voting Record Date	7.00pm (Sydney time) on Monday 25 May 2015, the time and date when the holdings of Novion Securityholders are ascertained for the purposes of attendance and voting at the Meeting to consider the Resolutions (subject to the voting exclusions and restrictions set out in Section 2.5 of this Scheme Booklet).
Wholesale Funds	(a) Novion Retail Partnership ¹ (b) Novion Enhanced Retail Fund ARSN 159 227 639 (c) Australian Investments Trust (d) Private Property Syndicate (e) International Private Equity Real Estate Fund (f) CLL Property Trust (g) International Real Estate Trust (h) the direct property investment mandate with Commonwealth Bank Group Super, and (i) the investment mandate with The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809.

1. Novion Retail Partnership (NRP) is the retail sector of Direct Property Investment Fund (DPIF). DPIF is comprised of the managed investment schemes Direct Property Investment Fund A (ARSN 089 542 156) (DPIFA) and Direct Property Investment Fund B (ARSN 091 796 486) (DPIFB). Investors in NRP hold units in each of the schemes and those units may not be dealt with separately. DPIFA and DPIFB hold the assets of NRP.

13.2 Interpretation

Headings and words in bold are inserted for convenience and do not affect the interpretation of this Scheme Booklet and unless the contrary intention appears:

- (a) a reference to an instrument includes any variation or replacement of it
- (b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them
- (c) the singular includes the plural and vice versa
- (d) a word which suggests one gender includes other genders
- (e) the word person includes an individual, a firm, a body corporate, an unincorporated association or an authority
- (f) mentioning anything after includes, including, for example, or similar expressions, does not limit what else might be included
- (g) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns
- (h) a reference to time is a reference to Sydney, Australia time
- (i) a reference to anything (including any amount) is a reference to the whole and each part of it and a reference to a group of persons is a reference to any one or more of them
- (j) a reference to a section, part, clause, annexure, exhibit or schedule is a reference to a section, part or clause of, or part, annexure, exhibit or schedule to, the relevant document
- (k) a reference to \$, \$A, A\$ or cents is to Australian currency unless denominated otherwise, and
- (l) words and phrases defined in the Corporations Act have the same meaning in this Scheme Booklet.

This page is intentionally left blank.

Annexure A

Independent Expert's Report



**Financial Services Guide
and
Independent Expert's Report
in relation to the Proposed Merger with
Federation Centres**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

14 April 2015

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Novion Limited and Novion RE Limited as responsible entity for Novion Trust (together, Novion Property Group ("Novion")) in relation to the proposal to merge with Federation Centres ("the Novion Report"), Grant Samuel will receive a fixed fee of \$650,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the Novion Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Novion Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the Novion Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Novion or Federation or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

Grant Samuel advises that it prepared:

- *an independent expert's report dated 7 February 2014 for CFS Retail Property Trust Group (now Novion) in relation to the Internalisation; and*
- *independent expert's reports for Centro Properties Group (dated 5 October 2011), Centro Retail (29 September 2011), Centro Australia Wholesale Fund (5 October 2011) and Centro Direct Property Fund (4 October 2011) in relation to the transactions that formed Federation.*

Grant Samuel had no part in the formulation of the Merger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$650,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Merger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Novion Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Novion Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Novion Limited and Novion RE Limited as responsible entity for Novion Trust (together, Novion Property Group ("Novion")) in relation to the proposal to merge with Federation Centres ("the Novion Report"), Grant Samuel will receive a fixed fee of \$650,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the Novion Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Novion Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the Novion Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Novion or Federation or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

Grant Samuel advises that it prepared:

- *an independent expert's report dated 7 February 2014 for CFS Retail Property Trust Group (now Novion) in relation to the Internalisation; and*
- *independent expert's reports for Centro Properties Group (dated 5 October 2011), Centro Retail (29 September 2011), Centro Australia Wholesale Fund (5 October 2011) and Centro Direct Property Fund (4 October 2011) in relation to the transactions that formed Federation.*

Grant Samuel had no part in the formulation of the Merger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$650,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Merger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Novion Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Novion Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL



Table of Contents

1	Terms of the Merger.....	1
2	Scope of the Report.....	3
2.1	Purpose of the Report	3
2.2	Basis of Evaluation	4
2.3	Sources of the Information	5
2.4	Limitations and Reliance on Information	6
3	Profile of Novion Property Group.....	9
3.1	Background.....	9
3.2	Business Operations	9
3.3	Financial Performance	13
3.4	Distributions	17
3.5	Financial Position	17
3.6	Capital Structure and Ownership.....	20
3.7	Security Price Performance.....	21
4	Profile of Federation Centres	23
4.1	Background.....	23
4.2	Business Operations	23
4.3	Financial Performance	27
4.4	Distributions	29
4.5	Financial Position	30
4.6	Capital Structure and Ownership.....	33
4.7	Security Price Performance.....	33
5	Profile of the Merged Group	36
5.1	Operations and Strategy	36
5.2	Earnings and Distribution	37
5.3	Financial Position	38
5.4	Directors and Management	39
5.5	Capital Structure and Ownership.....	39
6	Evaluation of the Merger	40
6.1	Summary	40
6.2	Fairness	42
6.3	Reasonableness	47
6.4	Securityholder Decision	56
7	Fundamental Value Analysis.....	57
7.1	Approach.....	57
7.2	Market Valuation Parameters.....	59
7.3	Fundamental Value of Novion.....	63
7.4	Fundamental Value of Federation	72
8	Qualifications, Declarations and Consents	79
8.1	Qualifications.....	79
8.2	Disclaimers.....	79
8.3	Independence	79
8.4	Declarations	79
8.5	Consents	80
8.6	Other.....	80

Appendices

- 1 Novion – Investment Property Portfolio
- 2 Federation – Investment Property Portfolio
- 3 Market Evidence – Real Estate Investment Trusts
- 4 Market Evidence – Real Estate Funds and Asset Management

GRANT SAMUEL



1 Terms of the Merger

Novion Property Group (“Novion”) is an internally managed integrated retail property group listed on the Australian Securities Exchange (“ASX”). It is a stapled entity comprising Novion Limited and Novion Trust and has \$14.9 billion of retail assets under management, including a \$9.1 billion directly owned investment portfolio.

Federation Centres (“Federation”) is also an ASX listed internally managed integrated retail property group. It is a stapled entity comprising Federation Limited and Federation Centres Trust No. 1 and has \$7.4 billion of assets under management, including a \$4.9 billion directly owned investment portfolio.

On 3 February 2015, Novion and Federation announced that they had entered into a merger implementation agreement (“the Merger”). Under the terms of the Merger, Novion securityholders will receive 0.8225 Federation stapled securities for each Novion stapled security held. As a result, Federation will acquire Novion and existing Novion securityholders will, in aggregate, hold approximately 63.9% of the merged entity (referred to in this report as “the Merged Group”) while existing Federation securityholders will hold the remaining 36.1%.

The terms of the Merger (which include a number of conditions precedent such as Novion securityholder approval) are set out in the Notices of Meeting and Explanatory Memorandum (“Scheme Booklet”) to be sent to Novion securityholders. In summary, the other features of the Merger include:

- Novion and Federation have agreed certain exclusivity arrangements (including no-shop, no-talk and no-due diligence restrictions and notification obligations) that apply during the exclusivity period¹. The no-talk and no-due diligence restrictions are subject to carve outs in respect of the fiduciary and statutory duties of Novion and Federation directors (as applicable);
- Federation has the right to offer to amend the terms of the Merger in response to a competing proposal for Novion²;
- break fees of \$40 million (exclusive of GST) are payable by Novion and Federation in certain circumstances;
- the board of the Merged Group will ultimately comprise 11 directors with one executive director (being the Chief Executive Officer (“CEO”)) and 10 non-executive directors³. Non-executive directors will include four existing Federation independent directors, four existing Novion independent directors and two directors nominated by Novion’s largest securityholder, The Gandel Group Pty Limited (“The Gandel Group”). The senior management of the Merged Group will be drawn from the existing management teams of Novion and Federation;
- Novion securityholders with registered addresses outside Australia and its external territories, New Zealand, Papua New Guinea, Hong Kong, Singapore, United Kingdom, United States of America and any other jurisdiction Federation deems appropriate will be “ineligible foreign Novion securityholders”

¹ The exclusivity period is from 3 February 2015 to the earlier of the termination of the merger implementation agreement, the implementation date of the merger and 3 August 2015 (or any such later date as the parties agree in writing).

² A competing proposal means any expression of interest, proposal, offer, transaction or arrangement which, if entered into or completed substantially in accordance with its terms, would mean that:

- a third party would:
 - acquire an interest or relevant interest in 20% or more in any the securities of any Novion group member;
 - directly or indirectly acquire or obtain an economic interest in, all or a substantial part of the assets or business of any Novion group member;
 - acquire control of any Novion group member; or
 - otherwise directly or indirectly acquire, merge or amalgamate with, or acquire a significant securityholding or economic interest in any Novion group member or in all or a substantial part of their respective assets or business excluding the exercise by The Gandel Group of its first right of refusal over Novion securities owned by the Commonwealth Bank of Australia and any acquisition of Novion securities by The Gandel Group under the 3% creep in six months provision; or
- Novion would be required to abandon or otherwise fail to proceed with the Merger.

³ These directors will be directors of Federation Centres Limited as responsible entity of Federation Centres Trust No. 1. However, as the constitution of Federation Limited currently allows only a maximum of eight directors, two non-executive directors (one from Novion and one from Federation) will initially be alternative directors of that company and the executive director will step down as a director of Federation Limited until the Merged Group’s first annual general meeting.

GRANT SAMUEL



(unless Federation determines otherwise) and will not receive Federation stapled securities. Such securityholders will receive in cash the net proceeds (i.e. after brokerage and transaction costs) of the sale on the ASX of the Merged Group stapled securities to which they would otherwise have been entitled;

- Federation securities issued to Novion securityholders will rank equally with all other Federation securities on issue except, if the implementation date for the Merger is after the record date for the Federation distribution for the six months ended 30 June 2015, they will not be entitled to receive that distribution. Fractional entitlements to Federation securities will be rounded to the nearest whole number;
- if the implementation date of the Merger is after the record date for the Novion distribution for the six months ending 30 June 2015, then Novion securityholders at that record date will be entitled to receive that distribution⁴; and
- the Merged Group is expected to adopt a new corporate name following the Merger.

The directors of Novion have unanimously recommended the Merger, in the absence of a superior proposal and subject to an independent expert concluding that the Merger is fair and reasonable to, and in the best interests of, Novion securityholders.

The Gandel Group, Novion's largest securityholder with a 26.98% relevant interest⁵ and the co-owner of Novion's largest asset (Chadstone Shopping Centre), has indicated that it intends to vote in favour of the Merger based on the disclosed merger terms and in the absence of a superior proposal.

The Merger is to be implemented by way of:

- a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") between Novion Limited and its shareholders the effect of which is that Federation Limited will acquire all of the issued shares in Novion Limited in exchange for shares in Federation Limited; and
- a "trust scheme" (to be facilitated by amendments to the constitution of Novion Trust) the effect of which is that Federation Centres Limited as responsible entity of Federation Centres Trust No. 1 will acquire all of the issued units in Novion Trust in exchange for units in Federation Centres Trust No. 1.

At the meetings to consider the Merger, Novion securityholders will be asked to consider five resolutions which are detailed in the Scheme Booklet and are categorised as:

- the de-stapling resolutions;
- the trust scheme resolutions; and
- the company scheme resolution.

If any of the resolutions are not passed, the Merger will not be implemented.

⁴ In respect of the six months ending 30 June 2015 Novion securityholders will receive one distribution only, either from Novion or Federation but not both.

⁵ The Gandel Group's relevant interest in Novion is held by a number of entities which are associates of The Gandel Group, some of which are top ten registered securityholders.

GRANT SAMUEL



2 Scope of the Report

2.1 Purpose of the Report

Novion securityholder approval is required for:

- the de-stapling of Novion Trust and Novion Limited. The destapling resolutions are special resolutions requiring the approval of at least 75% of the votes cast by securityholders entitled to vote on the resolutions;
- the two resolutions to allow the responsible entity of Novion Trust (Novion RE Limited ("Novion RE")) to implement the "trust scheme". These resolutions include:
 - amendments to Novion Trust's constitution which must be approved by a special resolution at a meeting of Novion Trust unitholders (i.e. approved by unitholders present, eligible to vote and voting (either in person or by proxy) at the meeting representing at least 75% of votes cast on the resolution); and
 - a resolution under Item 7 of Section 611 of the Corporations Act to approve the acquisition of Novion Trust units by Federation Centres Limited as the responsible entity of Federation Centres Trust No. 1. This resolution must be passed by more than 50% of votes cast by unitholders entitled to vote on the resolution; and
- the scheme of arrangement under Section 411 of the Corporations Act between Novion Limited and its shareholders. Under Section 411 the scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholder present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution.

If all the resolutions are approved, the Merger will then be subject to approval by the Supreme Court of New South Wales.

A trust scheme is not supervised by the Australian Securities & Investments Commission ("ASIC") or the Court, although in some circumstances judicial advice is sought by a responsible entity. Although there is no requirement for an independent expert's report for a trust scheme, the Takeovers Panel has issued Guidance Note 15 which establishes that a scheme notice relating to a trust scheme merger should contain an independent expert's report which must state whether the terms of the trust scheme are fair and reasonable to unitholders subject to the scheme and must state reasons for that opinion.

Section 606 of the Corporations Act effectively prohibits a person from acquiring a relevant interest in a listed registered management investment scheme where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has voting power in excess of 20%, their voting power would increase further, except in certain limited circumstances. Item 7 of Section 611 allows non associated securityholders to waive the Section 606 prohibition by passing a resolution in a general meeting. The Merger involves Federation Centres Limited as the responsible entity of Federation Centres Trust No. 1 voting power in Novion Trust increasing to 100%. Consequently, approval of Novion Trust unitholders is being sought for the acquisition of units in Novion Trust in excess of 20% of issued capital by Federation Centres Trust No. 1. Unitholders voting pursuant to Item 7 of Section 611 are to be provided with a comprehensive analysis of the proposed transaction. The directors may satisfy their obligations to provide such an analysis by commissioning an independent expert's report.

Part 3 of Schedule 8 to the Corporations Regulations ("Part 3 of Schedule 8") prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Accordingly, the directors of Novion have engaged Grant Samuel & Associates Pty Limited

GRANT SAMUEL



("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Merger is fair and reasonable to, and in the best interests of, Novion securityholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to securityholders by Novion.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Novion securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Scheme Booklet issued by Novion in relation to the Merger.

Voting for or against the Merger or a particular resolution is a matter for individual securityholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Securityholders who are in doubt as to the action they should take in relation to the Merger should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in Novion, Federation or the Merged Group. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Merger. Securityholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

ASIC has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for change of control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be "in the best interests" of securityholders (being the opinion required under Part 3 of Schedule 8).

For most other transactions the expert should consider the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the securityholders are likely to be better off if the proposal is implemented than if it is not. If the advantages outweigh the disadvantages, a proposal would be in the best interests of securityholders.

For the purposes of a control transaction, "fair" and "reasonable" are treated as two separate concepts. Fairness involves questions of value while reasonableness relates to a variety of other issues that might impact on a securityholder's decision as to whether or not to accept an offer or vote in favour of a change of control transaction.

Fairness is a more demanding criteria. A "fair" proposal will always be "reasonable" but a "reasonable" proposal will not necessarily be "fair". A proposal could be considered "reasonable" if there were valid reasons to accept an offer or vote in favour notwithstanding that it was not "fair" (e.g. if the bidder already controlled the target and the offer was well above the prevailing market price).

Under RG111, fairness in a control transaction is to be assessed by comparing the value of the consideration offered with the full underlying value of the target assuming 100% of target was available to be acquired. Where the consideration comprises scrip in the offeror, the value of the consideration is to be assessed as the expected trading price of those securities (i.e. on a minority or portfolio interest basis) post the completion of the transaction.

RG111 does provide for some flexibility in the basis of the assessment depending on the particular circumstances of the transaction. RG111.31 states that a different approach may be appropriate where there is a:

GRANT SAMUEL



“merger of entities of equivalent value when control of the merged entity will be shared between the “bidder” and target”.

In this case:

“the expert may be justified in using an equivalent approach to valuing the securities of the “bidder” and the “target””.

From the perspective of Novion securityholders, the Merger is technically a control transaction (as Federation is acquiring Novion) but the commercial reality is that it is a merger (or arguably even a reverse takeover of Federation). In particular:

- Novion securityholders will collectively hold approximately 63.9% of the Merged Group while Federation securityholders will collectively own the remaining 36.1%;
- from a control perspective Novion securityholders will experience a reduction in the level of control by significant securityholders. At present, The Gandel Group controls a direct 26.98% interest in Novion. Following completion of the Merger, The Gandel Group will only have a 17.25% direct interest in the Merged Group;
- the board of the Merged Group will ultimately comprise individuals from both the Novion board (six nominees) and the Federation board (four nominees) plus the CEO (the former CEO of Federation). The proposed Chairman of the Merged Group will be one of the Novion board nominees; and
- the senior management team of the Merged Group will comprise members of both the Novion and Federation management teams.

While the Merger does not precisely fit the “merger of equals” envisaged under RG111.31, in Grant Samuel’s opinion it is sufficiently analogous to warrant a similar approach.

Accordingly, in assessing fairness Grant Samuel has compared the share of the Merged Group received by Novion securityholders (63.9%) with the value contributed by Novion securityholders measured on a number of different bases. Specifically, Grant Samuel has considered the relative contributions of sharemarket value, fundamental value and earnings.

In assessing reasonableness, Grant Samuel has considered:

- the impact of the Merger on key investment metrics for Novion securityholders (e.g. earnings, distributions, net asset backing);
- the investment characteristic of the Merged Group compared to Novion on a standalone basis;
- the impact on the composition of the share register and sharemarket liquidity;
- the likelihood of an alternative offer and the opportunity for alternative transactions in future;
- other benefits and advantages of the Merger for Novion securityholders; and
- other costs, disadvantages and risks of the Merger for Novion securityholders.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- annual reports of Novion for the five years ended 30 June 2014;
- annual reports of Federation for the three years ended 30 June 2014;
- half year announcements of Novion and Federation for the six months ended 31 December 2014;

GRANT SAMUEL



- press releases, public announcements, media and analyst presentation material and other public filings by Novion and Federation including information available on their websites;
- brokers' reports and recent press articles on Novion and Federation and the Australian property sector; and
- sharemarket data and related information on Australian and international listed entities engaged in the retail property sector and on acquisitions of entities and businesses in that sector.

Non Public Information

- an electronic data room containing material documents concerning Novion including independent property valuations, the FY15⁶ Budget for Novion, forecasts including FY15 for Novion and details of Novion's development pipeline;
- an electronic data room containing material documents concerning Federation including independent property valuations, the FY15 Budget for Federation, forecasts including FY15 for Federation and details of Federation's development pipeline;
- a financial model including proforma analysis of the Merger; and
- other confidential documents, presentations and third party reports prepared for Novion and Federation (including various due diligence reports).

In preparing this report, Grant Samuel held discussions with, and obtained information from, senior management of Novion and its advisers and senior management of Federation and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Novion and its advisers and Federation and its advisers. Grant Samuel has considered and relied upon this information. Novion has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Merger is fair and reasonable to, and in the best interests of, Novion securityholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

⁶ FYXX = financial year end 30 June 20XX

GRANT SAMUEL



An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Novion or Federation. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

Grant Samuel has not undertaken any valuations of the properties owned by Novion or Federation and, for the purposes of this report, has relied on the independent property valuations commissioned by their respective responsible entities, Novion RE and Federation Centres Limited, for those properties in determining the underlying net asset value of their respective investments in property assets. Grant Samuel has undertaken an analysis of a sample of the independent valuations for each entity and notes that:

- the external valuers have accepted instructions only from Novion RE and Federation Centres Limited respectively and have confirmed that they satisfy the requirements in the Corporations Act that:
 - they are suitably qualified individuals with the requisite five years of appropriate experience;
 - they are authorised by law to practice as a valuer; and
 - they regard themselves as independent;
- the external valuers have been given appropriate instructions consistently;
- there were no restrictions in the scope of the independent valuers' engagements or other terms which may have impacted on the quality of the valuations;
- the external valuers have prepared their valuations in accordance with Australian Property Institute standards; and
- the external valuers have utilised standard property valuation methodologies (i.e. discounted cash flow, capitalisation of income and direct comparison) with the value conclusion selected having regard to the results of each methodology.

The information provided to Grant Samuel included:

- the forecast distributable income for Novion for FY15 ("Novion Forecast");
- the forecast underlying earnings for Federation for FY15 ("Federation Forecast");
- the proforma forecast underlying earnings for the Merged Group for FY15 assuming the Merger was implemented on 1 July 2014 ("Merged Group Forecast"); and
- the proforma financial position for the Merged Group as at 31 December 2014 assuming the Merger was implemented on that date ("Merged Group Financial Position");

Novion is responsible for the Novion Forecast, Federation is responsible for the Federation Forecast and Novion and Federation are jointly responsible for the Merged Group Forecast and the Merged Group Financial Position ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. Grant Samuel has not investigated this financial information in terms of the reasonableness of the underlying assumptions, accuracy of compilation or application of assumptions. However, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- both Novion and Federation have sophisticated management and financial reporting processes. The prospective financial information is based on detailed budgeting processes

GRANT SAMUEL



involving preparation of “ground up” forecasts by the respective managements and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance;

- the Novion Forecast and the Federation Forecast reflect the actual results for the six months ended 31 December 2014 for Novion and Federation respectively;
- Novion and Federation’s major assets are real property underpinned by lease agreements and revenue and costs are relatively stable and predictable;
- Novion and Federation undertook due diligence investigations on each other via electronic data rooms containing material documents and by commissioning due diligence reports in relation to taxation and legal matters. These reports were made available to Grant Samuel on a non-reliance basis;
- Novion commissioned a report from accounting advisers in relation to certain merger and accounting considerations. The report was made available to Grant Samuel on a non-reliance basis; and
- the Merged Group Forecast and the Merged Group Financial Position set out in Section 7 of the Scheme Booklet has been subject to review by PricewaterhouseCoopers Securities Ltd (“PwCS”) and its Investigating Accountant’s Report is attached as Annexure B to the Scheme Booklet.

The information provided to Grant Samuel included forecasts of underlying earnings for Novion and Federation for FY16. Grant Samuel has not relied on these forecasts for the purposes of its report but has considered them in its analysis.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forecasts is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

In forming its opinion, Grant Samuel has 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 Scheme Booklet sent by Novion to its securityholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Merger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Merger are correct and will be effective.

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, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

GRANT SAMUEL



3 Profile of Novion Property Group

3.1 Background

Novion was established by The Gandel Group in February 1994 as the Gandel Retail Trust with the objective of investing in regional and sub-regional shopping centres. It was listed on the ASX in April 1994.

In July 2002, The Gandel Group and Colonial First State Property Group (what was at that time a business unit of Commonwealth Bank of Australia ("CBA")) announced a proposal to enter into arrangements to merge the retail property assets of Gandel Retail Trust and the Colonial First State Property Trust Group and to combine their property and funds management activities. As a consequence, in October 2002:

- Gandel Retail Trust acquired the Colonial First State Retail Property Trust and was renamed CFS Gandel Retail Trust;
- CFS Gandel Retail Trust entered into new fund, property management and development services arrangements with entities jointly owned by The Gandel Group and CBA; and
- a subsidiary of CBA was appointed responsible entity for CFS Gandel Retail Trust.

In October 2005, The Gandel Group exercised its right to sell its interests in the property management and development services entities to CBA and, as a consequence, CFS Gandel Retail Trust was renamed CFS Retail Property Trust in May 2006.

In June 2012, in order to maintain the pass through status for tax purposes of CFS Retail Property Trust, a new unit trust was established the units of which were stapled to the units in CFS Retail Property Trust. The stapled units commenced trading as CFS Retail Property Trust Group ("CFX") on the ASX on 14 June 2012.

In July 2013, CBA proposed a transaction to internalise the management of CFX and for CFX to acquire CBA's wholesale property funds management and integrated retail property management and development business ("CFSGAM Property") ("the Internalisation"). Terms for the Internalisation were agreed in December 2013 and, following securityholder approval, the transaction was implemented on 24 March 2014⁷. CFX was renamed Novion Property Group in November 2014.

Today, Novion is an internally managed integrated Australian retail property group. Its operations and investment portfolio are described in Section 5 of the Scheme Booklet and summarised in Section 3.2 of this report. Prior to the announcement of the Merger on 3 February 2015, Novion had a market capitalisation of approximately \$7.1 billion.

3.2 Business Operations

3.2.1 Structure

Novion is a dual stapled group. Each Novion security is a share in Novion Limited and a unit in Novion Trust stapled to each other trading on the ASX as a single security. The activity of each entity is:

- Novion Trust: investment in retail property assets either directly or indirectly; and
- Novion Limited: a holding company whose wholly owned subsidiaries undertake property, development and funds management for the Novion Trust and third parties.

Novion Trust is a registered managed investment scheme established by a constitution under which Novion RE, a wholly owned subsidiary of Novion Limited, is appointed responsible entity. The boards of Novion Limited and Novion RE are identical and comprise eight directors including five independent non-executive directors, two non-executive directors nominated by The Gandel Group and an executive director (Angus McNaughton, Managing Director and CEO).

⁷ In summary, the Internalisation was effected by the issue to CFX securityholders of shares in a new company (CFX Co), the acquisition of CFSGAM Property (including the responsible entity for CFX) by CFX Co, the de-stapling of units in the two unit trusts (CFX1 and CFX2), the acquisition of CFX2 by CFX Co and the stapling of shares in CFX Co to units in CFX1.

GRANT SAMUEL



3.2.2 Activities

Overview

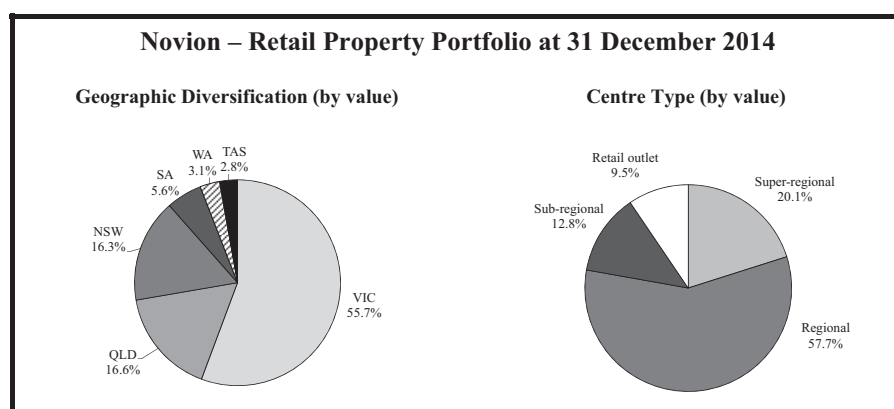
Novion has \$14.9 billion in retail assets under management (“AUM”) - a \$9.1 billion property investment portfolio and \$5.8 billion of assets owned by wholesale property funds and other third parties. Its operations are:

- property investment (both 100% and partly owned interests); and
- a real estate management platform which includes:
 - funds management services to a range of real estate investment products (including Novion Trust property investments and various wholesale funds and mandates);
 - asset management services in relation to retail properties owned directly and by funds management clients and third parties including:
 - property management services (e.g. leasing and building services for property owners and tenant services in properties it manages); and
 - development management services (e.g. development origination, management, project leasing and tenancy administration); and
 - the provision of car park and electricity sales services to owned retail properties.

Shopping centres managed by Novion do not have common branding but each has its own identity which is recognised within its catchment area. Novion employs around 800 people, with its corporate head office located in Sydney and its asset management head office located at Chadstone in Melbourne.

Investment Property Portfolio

Net operating income from investment in shopping centres makes up the vast majority of Novion’s operating income. Its investment property portfolio comprises direct interests in 27 super-regional, regional and sub-regional shopping centres and retail outlet centres across Australia and one office building in the Australian Capital Territory. At 31 December 2014, the retail portfolio had a book value of \$9.1 billion (see Appendix 1 for a summary of the portfolio by property, location, type and value) and is weighted towards Victoria which accounts for 55.7% by value:



Source: Novion

Note: Excludes office building in the Australian Capital Territory.

Chadstone Shopping Centre (owned 50% by Novion and 50% by The Gandel Group) is Novion’s largest asset and the only super-regional shopping centre. It represents 20.1% of the portfolio by value. Overall, Novion’s portfolio is weighted towards regional shopping centres (which typically have gross lettable area in excess of 30,000m²) with 14 properties accounting for 57.7% of the portfolio (by value). Since 2010, Novion has increased its exposure to retail outlets, which are experiencing strong sales growth, with the four Direct Factory Outlet (“DFO”) centres accounting

GRANT SAMUEL



for 9.5% of the portfolio. Eight sub-regional shopping centres (typically between 10,000m² and 30,000m²) make up the remainder and represents 12.8% of the portfolio.

Novion focuses on intensive asset management to maintain full occupancy across its portfolio and over the last five years the portfolio has had an average occupancy of 99.7%. The tenant mix is weighted towards specialty retailers (37% by moving average turnover ("MAT")) and supermarkets (21%), followed by outlet centre tenants (10%), mini majors (10%), discount department stores (9%) and department stores (8%). Key individual tenants include Wesfarmers Limited (the owner of Coles, Target and Kmart), Woolworths Holdings Limited of South Africa (the owner of David Jones, Country Road and Witchery) and Woolworths Limited (the owner of Woolworths and Big W). Novion has a relatively smooth lease expiry profile with 13-20% of the specialty store leases (by gross lettable area) expiring each year following 30 June 2015, with a weighted remaining lease term of 4.3 years.

At 31 December 2014, the book value of Novion's investment portfolio (excluding the DFO portfolio) reflected a weighted average capitalisation rate of 6.06% (6.15% including the DFO portfolio).

Real Estate Management Platform

Novion's integrated retail property platform provides a range of funds and asset management services to its direct investment portfolio and to its 13 strategic partners (including wholesale funds and mandates, joint owners and third parties). It services \$14.9 billion of retail AUM, including \$5.8 billion of retail AUM for strategic partners:

Novion – Retail Assets under Management		
Category	Number of Properties	AUM ⁸ (\$ million)
Property Investment		
Novion (wholly owned assets)	18	4,932.2
Novion (partially owned assets)	9 ⁹	4,150.4
	27	9,089.6
Funds and Asset Management		
Joint owners (Novion partially owned assets)	9 ⁹	4,082.5
Third party owners (no Novion ownership interest)	11	1,716.8
	20	5,799.3
Total Retail AUM	38	14,888.9

Source: Novion

Note: Office properties with a value of \$0.5 billion are also managed including one wholly owned property and three office properties for third party owners.

The services provided by the platform are summarised below:

- **Direct Portfolio**

Novion provides all retail property management, leasing and development services to its investment property portfolio. Fees for these asset management services are charged based on market rates under property management and development management agreements which generally have no fixed terms. Novion also provides funds management services to the direct investment portfolio effectively on a cost recovery basis.

- **Wholesale Funds**

Novion provides all retail property management, leasing and development services to:

- **Novion Retail Partnership ("NRP")**

NRP is an unlisted retail real estate investment trust ("REIT") for institutional investors which was established as a closed end fund in 2010 and expires in June 2018. It is fully invested with \$1.2 billion of retail assets, including interests in three assets that are co-owned with Novion.

⁸ Based on ownership interest.

⁹ Novion co-owns three properties with wholesale funds and six properties with other third parties.

GRANT SAMUEL



- **Novion Enhanced Retail Fund (“NERF”)**

NERF is an unlisted retail REIT for institutional investors. It is a closed end fund established in 2012 to invest in Australian sub-regional and neighbourhood shopping centres and expires in May 2020. NERF has equity commitments of \$0.6 billion and, following the Mildura Central and Auburn acquisitions in early 2015, holds interests in five assets with a total value of over \$300 million. Other acquisitions are anticipated.

- **Funds in Wind Down**

Five wholesale funds and mandates for which Novion provides funds and asset management services are in wind down mode with AUM of \$180 million including cross investments. These funds are expected to be wound up by December 2015.

Novion is entitled to receive fund management fees (base fee calculated as a percentage of gross asset value and a performance fee based on the amount by which the fund's return exceeds a hurdle return over the term of the fund) and asset management fees based on market rates under property management and development management services agreements. Novion RE is the responsible entity for both NRP and NERF and, unless it wants to retire or is removed, effectively has indefinite tenure. Asset management agreements generally have no fixed terms but may be terminated for unsatisfactory performance, fraud, insolvency or if the asset has been sold.

- **Direct Mandate**

Novion has been appointed by Commonwealth Bank Group Super (“CBGS”) to provide services in relation to investments in direct property and in unlisted wholesale REITs (“CBGS Mandate”). The original mandate was entered into in 2002, has no fixed term and can be terminated by CBGS at any time. The CBGS Mandate currently consists of three direct and two indirect property investments with an aggregate value of \$0.6 billion. Novion receives a base fee calculated as a percentage of gross asset value (excluding a crossholding in NERF) and no performance fees. Novion is also entitled to fees from the provision of property and development management services to the retail properties.

- **Co-owner and Third Party Clients**

Novion provides asset management services for retail properties owned (at least in part) by third parties and is entitled to property management and development management fees from these properties based on market rates under the relevant agreements. For jointly owned assets, these agreements can only be terminated by agreement of the co-owners in certain limited circumstances. Other third party asset agreements may be terminated under notice terms or for unsatisfactory performance or sale of property.

Strategy and Outlook

Novion is focussed on providing securityholders with stable and predictable distributions through the cycle and superior total returns. To achieve this objective it focuses on:

- intensive asset management and development of both its direct investment portfolio and the investments of its strategic partners with the objective of driving property income;
- efficient delivery of property funds and asset management services;
- disciplined investment and capital management; and
- developing and enhancing relationships with existing partners and new partners with long term investment portfolios.

To this end, Novion will explore new fund and mandate opportunities by leveraging its existing platform and capabilities including its significant experience delivering retail developments (particularly the revitalisation and expansion of shopping centres). At 31 December 2014, Novion

GRANT SAMUEL



had a development pipeline of \$1.2 billion (cost to Novion Trust of \$0.5 billion). The major project currently under construction is the \$580 million Chadstone Shopping Centre north retail and office development (Novion Trust share \$290 million,). Key planned developments include Myer Centre Brisbane (\$200 million, Novion Trust share \$100 million), Grand Plaza Shopping Centre (\$80 million, Novion Trust share \$40m), Castle Plaza Shopping Centre (\$40 million) and Rockingham Shopping Centre (\$25 million, Novion Trust share \$12.5 million).

In addition, Novion will complete its operational review (given its newly internalised structure) and investigate opportunities to enhance its debt metrics (e.g. lowering its weighted average cost of debt and extending tenor) to improve securityholder returns (although these initiatives are on hold following announcement of the Merger).

3.3 Financial Performance

FY15 will be the first full year of operation of Novion as an integrated retail property group. However, as around 92% of revenue will be generated by its investment property portfolio, analysis of Novion's historical financial performance remains relevant. The financial performance of Novion for the four and a half years ended 31 December 2014 is summarised below together with the Novion Forecast:

Novion - Financial Performance (\$ millions)						
	Year ended 30 June				Six mths ended 31 Dec 2014 actual	Year ending 30 June 2015 ¹⁰ forecast
	2011 actual	2012 actual	2013 actual	2014 actual		
Net property income¹¹	525.6	547.5	537.2	549.0	306.7	617.2¹⁰
Management fee income	-	-	-	14.8	25.7	50.6
Alignment fee income	7.9	10.2	11.1	9.2	-	-
Interest income and other income	1.1	0.9	0.8	1.1	1.2	2.2 ¹⁰
Total operating income	534.6	558.6	549.1	574.1	333.6	670.0
Base management fees	(35.5)	(38.5)	(38.5)	(28.5)	-	-
Performance fees	(9.6)	(10.3)	(10.3)	(5.3)	-	-
Corporate overheads	(3.4)	(3.9)	(3.8)	(27.5)	(48.7)	(99.3) ¹⁰
EBIT¹²	486.1	505.9	496.5	512.8	284.9	570.7
Interest expense ¹³	(135.8)	(134.4)	(112.0)	(112.0)	(74.4)	(147.8) ¹⁰
Income tax benefit/(expense)	-	-	0.1	(0.4) ¹⁴	- ¹⁵	-
Distributable income	350.3	371.5	384.6	400.4	210.5	422.9

¹⁰ The Novion Forecast is presented in accordance with Novion's post Internalisation accounting disclosures (i.e. net property income is before internally charged property management fees). For the purposes of consistent presentation of the FY15 forecasts for Novion and Federation for purposes of the Merger in FY15 (see Section 5.2):

- the property management fees charged to Novion Trust's direct property portfolio in FY15 (\$39.1 million) have been deducted from net property income and from corporate overheads; and
- interest income has been netted against interest expense.

¹¹ Net property income is rental and other property income and share of net profit from associates before fair value adjustments (excluding non property related net profit from associates) less property expenses and adds back straight lining of revenue, amortisation of project items and other project related items. Since the Internalisation was implemented in March 2014, net property income has been disclosed as before internally charged property management fees.

¹² EBIT is earnings before interest expense, tax, fair value adjustments, rental straight lining, non cash convertible note interest expense, amortisation of project costs and other items but includes interest and other income.

¹³ Interest expense is interest on borrowings and interest rate swaps less non cash convertible notes interest expense and in FY12 convertible notes buy back expense.

¹⁴ Before tax benefit in relation to amortisation of intangibles.

¹⁵ Novion is entitled to significant tax deductions from the termination of funds management contracts as a result of the Internalisation. As a result, income tax expense represents the utilisation of deferred tax assets and is a non-cash item.

GRANT SAMUEL



Novion - Financial Performance (\$ millions)						
	Year ended 30 June				Six mths ended 31 Dec 2014 actual	Year ending 30 June 2015 ¹⁰ forecast
	2011 actual	2012 actual	2013 actual	2014 actual		
Distributable income	350.3	371.5	384.6	400.4	210.5	422.9
Changes in fair value of investment properties/associates	201.4	164.3	(63.1)	70.8	253.7	
Changes in fair value of derivatives	12.9	(87.9)	(3.5)	(23.0)	(28.4)	
Changes in fair value of unrealised performance fees	(0.2)	(3.4)	5.5	(2.0)	-	
Rental straight lining	4.1	2.8	2.4	(1.6)	(0.1)	
Non cash convertible note interest expense	(11.3)	(7.0)	(2.0)	(1.2)	-	
Convertible note buy back expense	-	(4.9)	-	-	-	
Transaction fees (Internalisation)	-	-	-	(13.5)	(0.5)	
Amortisation of intangibles	-	-	-	(0.7)	(1.4)	
Income tax expense	-	-	-	0.2	(3.2)	
Amortisation of project costs and other items ¹⁶	(24.6)	(26.2)	(28.9)	(29.3)	(17.9)	
Net profit attributable to Novion securityholders	532.6	409.2	295.0	400.1	412.7	
Statistics						
Basic earnings per stapled security	19.35¢	14.42¢	10.44¢	13.63¢	13.58¢	
Distributable income per stapled security	12.37¢	13.10¢	13.60¢	13.28¢	6.90¢	13.80¢
Distribution per stapled security	12.70¢	13.10¢	13.60¢	13.60¢	6.90¢	13.80¢
Net property income growth	13.0%	3.1%	(2.0%)	2.2%		7.8% ¹⁷
Like-for-like net property income growth ¹⁸	3.9%	2.4%	2.0%	0.7%		1.5-2.5%
Management expense ratio ¹⁹	0.59%	0.61%	0.60%	nmf ²⁰		0.39%
Interest cover ratio ²¹	2.8x	3.2x	3.3x	3.4x	3.2x	3.3x

Source: Novion and Grant Samuel analysis

With no shopping centre acquisitions made since December 2010 and the sale of a 50% interest in The Myer Centre Brisbane in April 2012 and Rosebud Plaza in November 2013, net property income growth slowed in the period to 30 June 2014 (even on a like for like basis) reflecting the challenging retail environment, particularly in apparel. However, net property income in the six months to 31 December 2014 increased 12.4% over the prior year as a result of fixed annual specialty store rental increases, the completion of the DFO Homebush and Emporium Melbourne developments, the acquisition of an additional 25% of DFO South Wharf and property expenses saved following the Internalisation. On a like for like basis, the increase was approximately 2%.

Management fee income has been earned by Novion since completion of the Internalisation. It includes fund management fees, property management and leasing fees and development fees received from retail properties not owned by Novion (i.e. on consolidation, fee income earned by the operating platform from managing owned interests in assets is eliminated). Alignment fee income and base management fees and performance fees paid by Novion in prior years reflects its operating structure prior to the Internalisation and no longer accrue.

Novion incurs corporate overheads of around \$100 million per annum. This amount includes the costs associated with the operation of the real estate management platform (i.e. providing services

¹⁶ Includes amortisation of payments (e.g. lease incentives, leasing fees and legal fees) relating to development projects and other development project expenses and in FY12 convertible notes buy back expense.

¹⁷ From March 2014, net property income excludes internally charged property management fees of \$11.4 million in FY14 and \$39.1 million in FY15.

¹⁸ Includes only those properties owned for the full 12 month period, adjusts for changes in ownership and excludes net property income from development affected properties.

¹⁹ For the period FY11 to FY14 calculated as base management fees, performance fees (excluding fair value movement) and other corporate expenses divided by average gross assets (excluding derivatives). For FY15, calculated as corporate overheads (net of recoveries from properties) divided by total AUM.

²⁰ nmf = not meaningful. The management expense ratio in FY14 is not meaningful as Novion was externally managed for nine months of the year and internally managed for three months.

²¹ Interest cover ratio is calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represents net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest; less non-cash convertible notes interest expense.

GRANT SAMUEL



to the owned property portfolio, co-owners and third parties) as well as other corporate overhead costs (including costs associated with the corporate head office and costs associated with being a listed entity which are estimated at \$23 million per annum). The management expense ratios calculated prior to FY15 are not meaningful for future periods as they reflect the former external management structure.

Interest expense excludes non cash convertible notes interest, convertible notes buy back expense and interest associated with development activities (capitalised to investment properties). Active capital management in a lower interest rate environment has resulted in lower interest expense in FY13 and FY14. Interest expense in the six months ended 31 December 2014 was higher due to a reduction in capitalised interest costs following the completion of the Emporium Melbourne development and an increase in average drawn debt as the Internalisation was part debt funded.

Novion is exposed to interest rate risk in respect of its borrowings and exchange rate risk in respect of United States dollar denominated medium term notes. It utilises interest rate swaps and cross-currency swaps to hedge these risks.

With improving market conditions and active management of the portfolio (acquisitions, divestments, development project delivery), the value of Novion's property portfolio increased in the period FY10 to FY12. However, since FY12 a subdued retail leasing market has moderated growth in the value of the portfolio. In FY13, Novion recognised a \$125.9 million unrealised loss on the Emporium Melbourne development project due to construction delays. The net valuation gain of \$253.7 million recognised at 31 December 2014 upon the independent valuation of 17 properties (52% of the portfolio) was principally a result of tightening capitalisation rates (reflecting market demand for quality retail assets). The independent valuation for Chadstone Shopping Centre accounted for 45% of the uplift.

Under current Australian taxation legislation, Novion Trust and its controlled entities are "pass through" vehicles and are not liable for income tax provided that securityholders are presently entitled to the income as calculated under the trust's constitution. On the other hand, Novion Limited is taxed as a company (and tax payments will generate franking credits). Novion Limited and its wholly owned Australian resident entities have elected to be taxed as a single entity under the Australian tax consolidation regime. Novion Limited has carried forward income tax losses of approximately \$34 million and is entitled to claim tax deductions of \$49 million for each of the next four years as a result of the termination of funds management contracts under the Internalisation.

The Novion Forecast (including underlying assumptions) is set out in Section 7.3 of the Scheme Booklet. The Novion Forecast has been prepared by Novion management. In particular, the Novion Forecast shows a 1.5% increase in distribution per security.

Net operating income from property investment accounts for around 92% of Novion's reported operating income. The split of EBIT by activity on Novion's reporting basis (but after allocation of interest and other income to each activity in FY15) is shown below:

Novion - EBIT by Activity (\$ millions)						
	Year ended 30 June				Six mths ended 31 Dec 2014 ²²	Year ending 30 June 2015 ²²
	2011 actual	2012 actual	2013 actual	2014 actual	actual	forecast
Property investment	525.4	546.5	535.7	547.6	305.8	617.3
Real estate management platform	-	-	-	14.8	27.8	52.7
Interest and other income	9.2	12.1	13.4	11.7	-	-
External funds management fees	(45.1)	(48.8)	(48.8)	(33.8)	-	-
Corporate overheads	(3.4)	(3.9)	(3.8)	(27.5)	(48.7)	(99.3)
EBIT	486.1	505.9	496.5	512.8	284.9	570.7

Source: Novion and Grant Samuel analysis

²² In FY15 interest and other income has been allocated to the relevant business activity

GRANT SAMUEL



This analysis shows the impact of the Internalisation on Novion's operating results (i.e. the elimination of external management fees, the assumption of real estate management platform costs and increased corporate overheads). However, it should be noted that on a consolidated basis:

- since the Internalisation in March 2014, property investment earnings do not reflect fees paid for property management services or funds management services provided by the real estate management platform²³;
- the reporting for the real estate management platform only recognises property, development and funds management fees generated from co-owners and other external parties and not from directly owned assets; and
- corporate overheads include both the costs of the real estate management platform as well as corporate head office costs and are after the capitalisation of the costs associated with development services provided to internal development projects²³.

As a result, EBIT does not reflect the true earnings of the real estate management platform. The table below shows an estimate of the "economic EBIT" for the Novion platform for the six months ended 31 December 2014 and the forecast for FY15 assuming that Novion recognised income from owned assets:

Novion – Proforma Economic EBIT for Real Estate Management Platform (\$ millions)						
	Six months ended 31 December 2014			Year ending 30 June 2015 (forecast)		
	External	Internal	Economic	External	Internal	Economic
Property management	13.3	19.9	33.2	26.1	41.4	67.5
Development management	7.2	7.6	14.8	13.0	15.9	28.9
Funds management	5.5	11.8 ²⁴	17.3	11.5	23.6 ²⁴	35.1
Other income	1.8	-	1.8	2.1	-	2.1
Proforma revenue	27.8	39.3	67.1	52.7	80.9	133.6
Operating expenses			(38.6) ²⁴			(84.1) ²⁴
Proforma EBIT for platform			28.5			49.5

Source: Novion and Grant Samuel analysis

The following points should be noted in relation to this proforma analysis:

- as property management fees are generated on owned assets by reference to market based fees, this approach is consistent with the measurement of NTA where Novion's interests in shopping centres are recognised on the balance sheet at valuations that assume market based property management fees are paid to an external party;
- development management services fees are generated by the platform by reference to market based fees but for accounting purposes Novion Trust capitalises the platform's directly attributable costs associated with providing services to internal development projects;
- funds management fees generated by the platform from owned assets are based on cost recovery; and
- operating expenses exclude the corporate overhead costs of Novion (including corporate head office costs and the costs of being a listed entity) which are estimated to be \$22.8 million in FY15.

²³ This differs to Federation's disclosures where property investment earnings are reported net of internally charged property management fees and therefore corporate overheads are reduced by the same amount.

²⁴ Net of alignment fee incurred in relation to Novion Trust owned assets. Novion Trust (together with a number of other property funds which participated in the formation of CFS Gandel Retail Trust in October 2002) is a party to an Alignment Deed the purpose of which is to allow the funds to share in the profit generated by the asset management business. This arrangement effectively reduces Novion Trust's management fees.

GRANT SAMUEL



To the extent that property management and fund management fees on assets owned by Novion Trust are recognised as income by the platform there would be a corresponding reduction in the earnings from property investment (i.e. no overall impact on Novion's earnings). In the case of development management services fees recognised by the platform, these would be capitalised to the project and therefore not directly impact the earnings from property investment.

3.4 Distributions

Novion pays distributions half yearly for the periods ending 30 June (payable in August) and 31 December (payable in February). Distributions to Novion securityholders may include income, capital gains, tax deferred amounts (i.e. the excess of distributable income over taxable income), capital gains tax concessional amounts and franked dividends.

Since FY09 Novion has aimed to pay 100% of distributable income to securityholders. In FY11 and FY14 the distribution paid marginally exceeded distributable income as a result of placements of securities (which ranked equally with existing securities for subsequent distributions):

Novion - Distributions (\$ millions)						
	Year ended 30 June				Six mths ended 31 Dec	Year ending 30 June
	2011 actual	2012 actual	2013 actual	2014 actual	2014 actual	2015 forecast
EBIT	486.1	505.9	496.5	512.8	284.9	570.7
Interest expense	(135.8)	(134.4)	(112.0)	(112.0)	(74.4)	(147.8)
Income tax benefit/(expense)	-	-	0.1	(0.4)	-	-
Distributable income	350.3	371.5	384.6	400.4	210.5	422.9
Transfer from undistributed reserves	9.4	-	-	9.5	-	-
Distribution	359.7	371.5	384.6	409.9	210.5	422.9
<i>Statistics</i>						
<i>Distributable income per stapled security</i>	<i>12.37¢</i>	<i>13.10¢</i>	<i>13.60¢</i>	<i>13.28¢</i>	<i>6.90¢</i>	<i>13.80¢</i>
<i>Distribution per stapled security</i>	<i>12.70¢</i>	<i>13.10¢</i>	<i>13.60¢</i>	<i>13.60¢</i>	<i>6.90¢</i>	<i>13.80¢</i>
<i>Payout ratio (distributable income basis)</i>	<i>103%</i>	<i>100%</i>	<i>100%</i>	<i>102%</i>	<i>100%</i>	<i>100%</i>

Source: Novion and Grant Samuel analysis

Novion has provided distribution guidance for FY15 of 13.8 cents per stapled security. A distribution of 6.9 cents per security for the six months ended 31 December 2014 was paid on 26 February 2015.

3.5 Financial Position

The financial position of Novion as at 30 June 2014 and 31 December 2014 is summarised below:

GRANT SAMUEL



Novion - Financial Position (\$ millions)			
	As reported		Proforma
	30 June 2014	31 December 2014	31 December 2014
Cash	91.1	63.1	63.1
Receivables	60.1	47.1	47.1
Investment property portfolio	8,830.4	9,099.1	9,099.1
50% investment in Bent Street Trust (equity accounted)	35.2	0.6	0.6
33% investment in Novion Asset Operations (equity accounted)	1.2	0.9	0.9
Property, plant and equipment (net)	6.0	9.2	9.2
Derivatives (cross currency swaps)	1.4	55.1	55.1
Goodwill	254.5	254.5	254.5
Management rights (net)	109.4	108.0	108.0
Deferred tax assets	63.3	60.1	60.1
Other assets	9.3	17.9	17.9
Total assets	9,461.9	9,715.6	9,715.6
Payables	(137.9) ²⁵	(127.6)	(127.6)
Distribution payable	(205.2)	(210.5)	(210.5)
Interest bearing liabilities	(2,904.1)	(2,887.5)	(2,831.1)
Provisions	(51.5)	(50.9)	(50.9)
Derivatives (interest rate swaps)	(61.5)	(69.0)	(69.0)
Total liabilities	(3,360.2)	(3,345.5)	(3,289.1)
Net assets	6,101.7	6,370.1	6,426.5
NTA²⁶	5,737.8	6,007.6	6,064.0
<i>Statistics</i>			
<i>Stapled securities on issue at period end (million)</i>	<i>3,018.1</i>	<i>3,050.6</i>	<i>3,077.2</i>
<i>Net assets per stapled security</i>	<i>\$2.02</i>	<i>\$2.09</i>	<i>\$2.09</i>
<i>NTA per stapled security</i>	<i>\$1.90</i>	<i>\$1.97</i>	<i>\$1.97</i>
<i>Gearing²⁷</i>	<i>30.9%</i>	<i>29.4%</i>	<i>28.8%</i>
<i>Loan to value ratio²⁸</i>	<i>35.5%</i>	<i>34.4%</i>	<i>33.9%</i>

Source: Novion and Grant Samuel analysis

The proforma financial position at 31 December 2014 reflects an adjustment for the issue of 26.6 million securities (a \$56.4 million cash saving for Novion) under the dividend reinvestment plan in relation to the distribution for the six months ended 31 December 2014 which was paid on 26 February 2015.

At 31 December 2014, Novion's investment property portfolio had a total book value of \$9,099.1 million and comprised 28 properties (four held under leasehold title). Book value reflects the last independent valuation adjusted for subsequent capital expenditure, amortisation of lease incentives and (where relevant) capital works in progress not included in the valuations. Investment properties are valued at intervals of not more than one year by independent, registered valuers. 17 properties were independently valued in the two months to 31 December 2014, resulting in a value uplift of \$257.9 million. In addition, Novion had contracted capital expenditure commitments of \$190.2 million (including \$181.6 million in relation to jointly controlled assets) as at 31 December 2014.

Novion owns a 50% interest in the Bent Street Trust which was the owner of 100% of the leasehold of The Entertainment Quarter in Sydney. In December 2014, the leasehold interest was sold for \$80 million and a capital distribution of \$76 million was paid to unitholders. The units in the Bent Street Trust will be redeemed when all outstanding financial assets and liabilities have been settled. Novion accounts for this interest as an equity accounted investment and therefore book value reflects its share of the residual assets and liabilities of the trust.

²⁵ Including pre-Internalisation performance fee paid in August 2014 (\$5.3 million).

²⁶ NTA is net tangible assets, which is calculated as net assets less intangible assets.

²⁷ Gearing is drawn amount of borrowings divided by total assets (excluding the fair value of derivatives). This is a different definition of gearing to that adopted by Federation (see section 4.5).

²⁸ Calculated as total liabilities divided by total assets.

GRANT SAMUEL



Novion holds a 33.3% interest in Novion Asset Operations Pty Limited ("Novion Asset Operations") which provides car park services and on-sells electricity to properties managed by Novion. This interest is accounted for as an equity accounted investment and therefore book value reflects Novion's share of the assets and liabilities of the company.

Intangible assets total \$362.5 million and consist of goodwill of \$254.5 million and management rights of \$108.0 million (generated through the Internalisation). Management rights acquired are recognised as indefinite life rights of \$97.1 million and finite life rights of \$10.9 million. The finite life rights are amortised on a straight-line basis.

Novion targets gearing in the range of 25% to 35% and a maximum loan to value ratio of 50%. It has a Standard & Poor's ("S&P") short term credit rating of "A-1" and long term rating of "A". On 3 February 2015, S&P placed Novion's rating on credit watch with negative implications following the announcement of the Merger.

Novion's interest bearing liabilities comprise both capital market instruments and bank facilities and at 31 December 2014 had a weighted average maturity of approximately 3.9 years:

Novion – Interest Bearing Liabilities at 31 December 2014 (\$ millions)				
Facility Type	Facility Limit	Amount Drawn		Legal Maturity Date
		As reported	Proforma	
Bank debt facilities	1,800.0	1,187.6	1,131.2 ²⁹	Aug 15 – Nov 19
Convertible notes	299.5	299.5	299.5	Jul 16
US medium term notes	564.2 ³⁰	619.3	619.3	Feb 17 – Dec 29
Medium term notes	690.0	690.0	690.0	May 16 – Dec 19
Short term notes	- ³¹	100.0	100.0	-
	3,353.7	2,896.4	2,840.0	
Deferred borrowing costs	-	(7.3)	(7.3)	
Adjustments to convertible notes	-	(1.6)	(1.6)	
Total	3,353.7	2,887.5	2,831.1	

Source: Novion and Grant Samuel analysis

Novion completed a \$300 million convertible notes issue on 4 July 2011. The notes were redeemable at the option of the noteholder on 4 July 2014. Put notices for \$0.5 million of notes were received by the required date and settled and therefore the face value of the remaining notes on issue is \$299.5 million. The notes are listed on the Singapore Exchange. The notes are convertible into stapled securities at the conversion price (\$2.40) at the option of the holder any time prior to 23 June 2016 and, unless previously converted, will be redeemed on their final maturity date (4 July 2016). Upon exercise of a holder's conversion right Novion has the option to settle in cash. Should a change of control event occur, the conversion price will be adjusted with the effect that the number of securities to be issued on conversion increases.

The carrying value of the US medium term notes is the fair value of the notes at the A\$:US\$ exchange rate at 31 December 2014 and reflects a \$55.1 million increase in Novion's Australian dollar liability in comparison to the liability when the notes were issued. This negative movement in the exchange rate is offset by the cross currency swaps, a derivative asset of \$55.1 million. Novion also has a derivative liability of \$69.0 million in relation to interest rate swaps.

Novion's borrowing arrangements (including derivative financial instruments) contain a wide range of change of control and corporate activity provisions that trigger events of default and/or review events. The implications of these triggers may include Novion's debt facilities and capital markets instruments notes becoming immediately due and payable and the payment of additional fees including "make whole" payments.

²⁹ Reflects cash retained under the distribution reinvestment plan in relation to the distribution for the six months to 31 December 2014.

³⁰ Reflects the fair value in Australian dollars of the US denominated notes at the time the notes were issued.

³¹ The short term note programs are backed by bank debt facilities and are therefore excluded from facility limit.

GRANT SAMUEL



3.6 Capital Structure and Ownership

Novion has 3,077,214,058 stapled securities on issue. In addition, 2,489,028 performance rights have been granted.

At 31 March 2015, Novion had 16,925 registered securityholders. The top ten registered securityholders accounted for approximately 77% of the stapled securities on issue and, other than The Gandel Group entities, are principally institutional nominee or custodian companies. Novion has a large retail investor base with 63% of securityholders holding 10,000 or fewer securities, although this represents less than 1.5% of securities on issue. Registered holders of Novion securities are predominantly Australian based (approximately 99% of registered securityholders and over 99% of securities on issue).

Novion has received notices from the following substantial securityholders:

Novion – Substantial Securityholders		
Securityholder	Number of Securities	Percentage ³²
The Gandel Group	830,226,497 ⁵	26.98%
UniSuper Ltd	347,690,425	11.30%
Blackrock Group	156,871,306	5.10%
The Vanguard Group	150,970,322	4.91%

Source: IRESS and Grant Samuel analysis

Novion has established a long term incentive plan under which senior executives are granted performance rights. Each performance right entitles the participant the right to receive one Novion stapled security (or an equivalent cash amount at the discretion of the board) at a future time for nil consideration subject to achievement of performance hurdles, service conditions and vesting periods. Novion granted performance rights in December 2014 of which 2,489,028 remain on issue (1,590,425 executive performance rights and 898,603 management performance rights for which the performance conditions differ). In the event of a change of control, the board has discretion to determine the treatment of unvested performance rights³³.

Novion also operates:

- a short term incentive plan under which eligible participants may be entitled to a cash amount for annual performance which, in the case of senior executives, a component is deferred into equity for a period ranging from 12 to 24 months; and
- an employee security acquisition plan under which stapled securities to the value of \$1,000 may be granted to each qualifying employee for no cash consideration. Securities issued under this plan may not be sold until the earlier of three years after allocation or cessation of employment.

Novion operates a distribution reinvestment plan which enables investors to reinvest some or all of their distributions in new stapled securities at a discount determined by the Novion Board. The plan was suspended from the June 2011 distribution, was reinstated for the June 2013 distribution but suspended for the 31 December 2013 distribution (due to the institutional placement and security purchase plan completed on 19 December 2013 and 31 January 2014 respectively). The plan was reinstated from the 30 June 2014 distribution.

³² Calculated by reference to current securities outstanding.

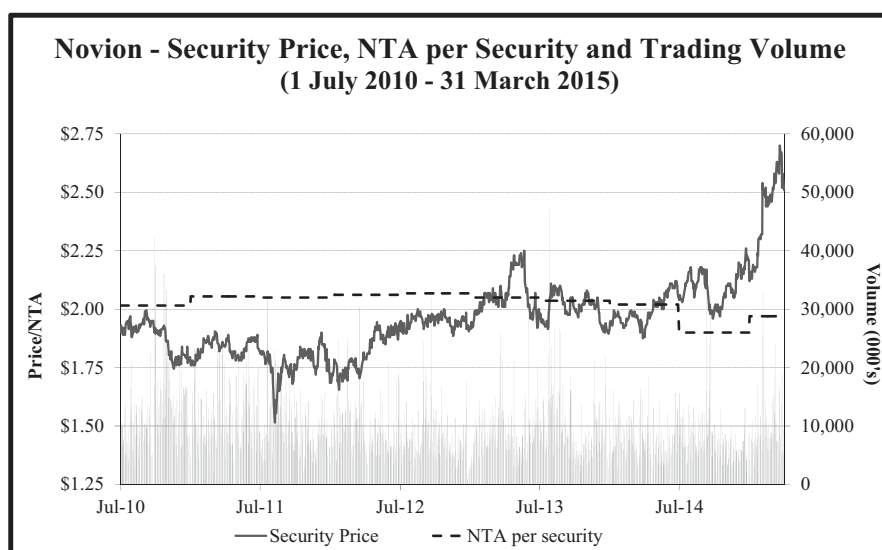
³³ If the Merger is approved the Novion board has decided that the performance rights will vest (subject to applicable performance conditions being satisfied), either in part or full, and be satisfied in cash prior to implementation of the Merger. The board will also exercise its discretion to determine what proportion of a participant's entitlement under the short term incentive plan will be awarded and satisfied in cash prior to implementation of the Merger. In addition, deferred payments under historical incentive plans and contractual arrangements and other remuneration and retention arrangements are to be satisfied in cash prior to implementation of the Merger (see Section 4.8 of the Scheme Booklet for details).

GRANT SAMUEL

■ ■ ■

3.7 Security Price Performance

The following graph illustrates the movement in the Novion security price, NTA per security and trading volumes since 1 July 2010:



Source: IRESS

Note: The decrease in NTA at 30 June 2014 reflects the financial impact of the Internalisation with \$475 million paid to CBA (including \$365 million in goodwill and management rights which are intangible assets and therefore excluded from NTA) funded in part by a \$295 million equity capital raising.

The Novion security price reached a high of \$2.51 in February 2007 reflecting growth in its property portfolio and a buoyant economy. However, consistent with most listed REITs, the price of Novion securities declined to trade at a discount to NTA from late 2007 following the global financial crisis. This discount peaked for Novion in early 2009 reflecting the difficult market conditions faced by all REITs (including limited access to debt and equity funding, declining property values and weaker economic conditions) and the lag in property valuations in a declining market. The Novion security price recovered during 2009 as equity markets stabilised to trade at a lesser discount to NTA. During 2012, the Novion security price increased to around NTA and stayed around that level through to November 2013 (except for April/May 2013 when it traded above NTA in line with the market prior to declining with a general market correction).

Following CBA's indicative internalisation proposal on 24 July 2013 the security price rose and has generally traded above NTA since the Internalisation in March 2014. During 2014, after implementation of the Internalisation, Novion generally traded in the range of 5 -18% above NTA. This trading is consistent with the stockmarket performance of the REIT sector generally in the period but may also reflect Novion's transition from a passive property investor into an integrated property group.

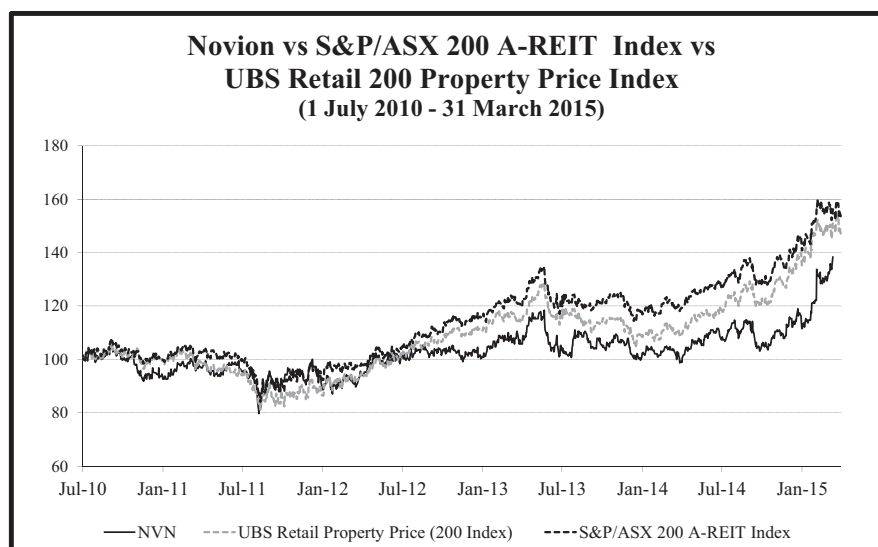
In the month prior to 2 February 2015 (the last trading day prior to the announcement of the Merger), Novion's volume weighted average security price ("VWAP") was \$2.21, compared to NTA per security of \$1.97 (31 December 2014, proforma basis), a premium of 12.4%. The closing price on 2 February 2015 was \$2.32, a 17.8% premium to NTA. Since the announcement of the Merger, Novion securities have traded in the range \$2.43-2.70, at a VWAP of \$2.53.

Novion has been a liquid stock (notwithstanding its restricted free float of around 73% allowing for The Gandel Group's interest). Average weekly volume over the twelve months prior to the announcement of the Merger represented approximately 1.3% of average securities on issue (1.7% of free float) or annual turnover of around 66% of total average issued capital (113% of free float).

GRANT SAMUEL



Novion is included in various indices including the S&P/ASX 200 A-REIT Index, S&P/ASX 200 Index and UBS Retail 200 Property Price Index. At 31 March 2015 its weighting in these indices was approximately 7.1%, 0.5% and 11.4%, respectively. The performance of Novion's security price since 1 July 2010 relative to the S&P/ASX 200 A-REIT Index and the UBS Retail 200 Property Price Index is illustrated in the following chart:



Source: IRESS

The Novion security price has broadly tracked the indices in the period, albeit with periods of over and under performance. In particular, it marginally underperformed from August 2014 until the announcement of the Merger possibly reflecting the nature of its investment portfolio and development pipeline relative to its peers. On a total return basis, Novion's relative performance since July 2010 is shown below:

Novion – Comparison to Accumulation Index					
	Returns				1 July 2014 to 31 Dec 2014
	FY11	FY12	FY13	FY14	
Novion	2.9%	14.8%	10.5%	9.1%	7.2%
S&P/ASX 200 A-REIT Accumulation Index	5.8%	11.0%	24.2%	11.1%	12.7%
UBS Retail 200 Property Accumulation Index	-%	14.7%	22.0%	8.5%	15.4%

Source: IRESS

GRANT SAMUEL



4 Profile of Federation Centres

4.1 Background

Federation's history can be traced to the establishment and ASX listing in 1985 of a property investment vehicle. Over time, this entity acquired retail property assets as well as property groups in Australia and the United States and established a number of listed and unlisted satellite property funds while retaining the associated property and funds management activities. This group of entities grew substantially after 2003 until the onset of the global financial crisis in late 2007.

The decline in property values and changed economic conditions which followed the global financial crisis resulted in the listed entities in the group entering into debt stabilisation arrangements with their senior lenders in January 2009 to allow time to explore strategic and financial options to maximise value for stakeholders. Subsequently, in March 2011, the listed entities announced the sale of substantially all of their United States assets and the commencement of discussions in relation to the potential amalgamation of its Australian assets into one investment vehicle.

In August 2011, it was announced that a majority of the Australian assets of a number of group entities would be aggregated to form a new internally managed ASX listed Australian retail property group to be known as Centro Retail Australia. This transaction (known as "the Aggregation") was implemented on 14 December 2011 and Centro Retail Australia was listed as a quadruple stapled entity owning a \$4.4 billion direct property portfolio, \$0.5 billion of investments in 27 unlisted property syndicates and a property and funds management business with \$7.0 billion of AUM.

Since December 2011 substantial work has been undertaken to develop and refine the group's business strategy and operating framework, strengthening its financial position, eliminating pre-Aggregation matters, increasing operational efficiency and reducing costs. In this context:

- the outstanding securityholder class action litigation claims were settled in June 2012;
- a number of co-owner alliances have been established for existing 100% owned properties, the proceeds of which have been used to reduce debt and fund development pipeline;
- a process to wind down the unlisted syndicates business was undertaken whereby the majority of assets held by the syndicates were acquired by Federation;
- borrowings have been paid down and facilities restructured;
- the entity's name was changed to Federation Centres in January 2013 and a rebranding process commenced; and
- Federation's operating structure was simplified from a quadruple stapled structure to a dual stapled structure in November 2014.

Today, Federation is an internally managed integrated Australian retail property group. Its operations and investment portfolio are described in Section 6 of the Scheme Booklet and summarised in Section 4.2 of this report. Prior to the announcement of the Merger on 3 February 2015, Federation had a market capitalisation of approximately \$4.4 billion.

4.2 Business Operations

4.2.1 Structure

Federation is a dual stapled group. Each Federation security is a share in Federation Limited and a unit in Federation Centres Trust No. 1 stapled to each other trading on the ASX as a single security. The activity of each entity is:

- Federation Centres Trust No. 1: investment in retail property assets either directly or indirectly; and
- Federation Limited: a holding company whose wholly owned subsidiaries provide funds management services for Federation Centres Trust No. 1 (and its subsidiaries), asset management services for Federation Centres Trust No. 1, co-owners and third party owners and are trademark owners and financing entities.

GRANT SAMUEL



Federation Centres Trust No. 1 is a unit trust established by a constitution under which Federation Centres Limited, a wholly owned subsidiary of Federation Limited, is appointed as its responsible entity. The boards of Federation Limited and Federation Centres Limited are identical and currently comprise eight directors, seven of which are independent non-executive directors and one of which is an executive director (Steven Sewell, the Managing Director and CEO).

4.2.2 Activities

Overview

Federation has \$7.3 billion in retail AUM - \$4.8 billion of directly owned retail assets and \$2.5 billion of retail assets owned by third parties. It also owns a 50% interest in one retail asset (value of \$0.15 billion) which it does not manage. Its operations are:

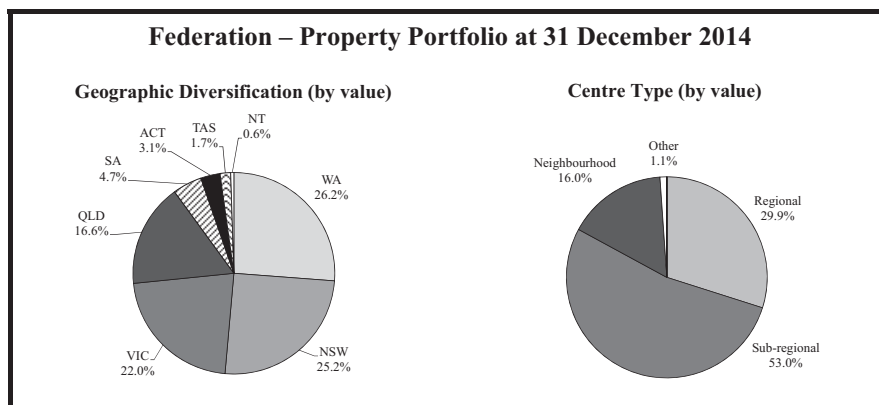
- property investment (both 100% and partly owned interests); and
- a real estate management platform (known as “the Services Business”) which includes:
 - funds management services for Federation Centres Trust No. 1; and
 - asset management services in relation to retail properties owned directly and by co-owners and third parties including:
 - property management services (e.g. leasing and building services for property owners and tenant services in properties it manages); and
 - development management services (e.g. development origination, management, project leasing and tenancy administration).

These services were previously provided to unlisted property syndicates managed by Federation until the wind up of the syndicates business was completed in December 2014.

Federation recently completed an extensive rebranding process and all shopping centres managed by Federation (except in Tasmania) adopt a common brand in addition to a centre name which is recognised in its catchment area. Federation currently employs over 600 people.

Investment Property Portfolio

Federation generates more than 95% of total income from its investment in shopping centres. Its investment portfolio of 65 properties comprises 64 shopping centres and one bulky goods facility (including shopping centres owned indirectly) across Australia. At 31 December 2014, the portfolio had a book value of \$4.9 billion based on Federation’s ownership interest and proportionate interest in two joint venture properties (see Appendix 2 for a summary of the portfolio by property, location, type and value) and, although geographically focused on the east coast, includes significant investment in Western Australia (26.2% by value):



Source: Federation

Note: Excluding development values.

GRANT SAMUEL



The portfolio is weighted towards the non-discretionary retail category with sub-regional shopping centres (which are typically anchored by supermarkets) accounting for 53% (by value) and neighbourhood shopping centres accounting for a further 16%. Its largest individual investments are 50% interests in two regional shopping centres (Bankstown Central in New South Wales and Galleria in Western Australia) but each asset accounts only for around 7% of the portfolio (by value).

In recent times, significant work has been undertaken by Federation to reposition the portfolio and actively manage shopping centres to grow net property income. Average occupancy over the last three years has been 99.5% with the tenant mix weighted towards supermarkets (41% by MAT) and specialities (29%) followed by discount department stores (13%), other retail (8%), mini majors (7%) and department stores (2%). Key individual tenants include Wesfarmers Limited (15.1% of total income) and Woolworths Limited (11.7%) with the next largest retail group representing 1.5% or less of total income. Weighted average lease expiry (by area) of the portfolio is 6.0 years (major retailers at 8.0 years and all other retailers at 3.7 years) and the tenant retention rate is currently around 71%.

At 31 December 2014, the book value of Federation's investment portfolio reflected a weighted average capitalisation rate of 7.01%.

In FY12, Federation adopted a strategic initiative to develop co-owner alliances while winding down its existing property syndicate management business. It initiated discussions with a number of domestic, offshore and wholesale real estate institutional investors seeking partners to take interests in existing 100% owned assets with the objective of realising funds to reduce gearing and provide flexibility to reinvest in growth opportunities across the portfolio. Today, Federation co-owns 20 retail properties with strategic partners including Perron Group, Challenger Limited, ISPT Pty Limited, Salta Properties, Leda Holdings and TIAA Henderson Real Estate. Co-owner arrangements account for retail property with a value totalling \$4.9 billion (Federation's share \$2.4 billion).

Although the investment properties have been maintained, limited redevelopment activity aimed at revitalisation or expansion of shopping centres has been undertaken since 2007. As a consequence, with the strengthening of its financial position, Federation has commenced a redevelopment program which is expected to continue for a number of years. The initial focus was on two larger projects, Wambro Centre in Western Australia (completed in September 2014) and Cranbourne Park in Victoria (stage one of which is scheduled to open in March 2015) and five smaller tenancy remixing initiatives.

At 31 December 2014, Federation's development pipeline was \$1.3 billion including three board approved projects due to commence during FY15 (Warriewood Square, Colonnades and Halls Head Central) with a total cost of \$190 million (Federation share \$95 million). Development applications have been submitted for two redevelopments (The Glen and Mandurah Forum) with an estimated cost of \$550-635 million (Federation share around \$300 million) both of which are planned to commence in FY16. Other planned developments include Sunshine Marketplace (\$90 million, Federation share \$45 million) and Galleria (\$300-420 million, Federation share \$150-210 million).

Services Business

Federation's integrated retail property platform is focussed on the provision of asset management to the properties in its investment property portfolio. Its strategy of co-owner arrangements means that the platform also provides asset management services to its eight co-owners. In addition, it provides property management services to one shopping centre in which Federation does not have an interest. In total, the platform provides asset management services for \$7.3 billion of AUM including \$2.4 billion for co-owners. It also provides funds management services to Federation Centres Trust No. 1 and its subsidiaries (i.e. the investment property portfolio).

Federation's \$7.3 billion of AUM can be summarised as follows:

GRANT SAMUEL



Federation – Retail Assets Under Management		
Category	Number of Properties	AUM ⁸ (\$ million)
<i>Property Investment</i>		
Federation (wholly owned assets)	45	2,591.1
Federation (partially owned assets)	19 ³⁴	2,182.9
	64	4,774.0³⁵
<i>Asset Management</i>		
Joint owners	19	2,391.0
Third parties	1	162.5
	20	2,553.5
Total Retail AUM	65	7,327.5

Source: Federation

The Services Business earns fees for property management services (including centre management, leasing, repairs and maintenance, capital works, marketing and financial and operational reporting) and development activities (including feasibility studies, managing development works and securing tenants). Property management fees reflect market based fees generally calculated as a proportion of rental income. Development management fees also reflect market based fees generally calculated as a proportion of development cost. The majority of asset management agreements have no fixed terms and agreements for co-owned properties may be subject to a range of termination triggers. Fund management services are provided to Federation Centres Trust No. 1.

Given the opportunity that exists to improve the net property income of the retail properties managed through redevelopment, tenancy remixing and refurbishment, the Services Business has been building its development capabilities since FY13. In particular, it has strengthened its development team and created full service hubs in Perth, Sydney and Melbourne. In FY14 work commenced on several projects from its \$1.3 billion pipeline with a number of larger projects planned to commence for the period through to FY17.

A range of initiatives have been commenced to improve the provision of services to the properties and to optimise the efficiency of the Services Business (the savings of which are expected to emerge over the short to medium term). In particular:

- a single fully integrated retail specific information technology platform has been rolled out across the business to simplify the business and improve management information;
- focus has been directed at the control of overheads and variable outgoings such as electricity, cleaning and security by addressing consumption patterns and the procurement processes; and
- increasing focus on loyalty, social media marketing and IT technology innovation with the aim of driving shopping centre visitation.

Strategy and Outlook

Federation's strategy is to be a leading Australian retail property group creating sustainable returns for securityholders. It has been focussed on unlocking the potential of its substantial Australian retail property portfolio and the capabilities of its management platform. The period from implementation of the Aggregation in December 2011 through FY14 involved significant corporate repositioning and Federation's strategic focus is now directed to optimising its business. In this regard, Federation intends to strengthen and extend its co-owner alliances and:

- manage its property portfolio to maximise sales productivity of its retailers, maintain occupancy levels and, therefore, drive net operating income;
- focus on the redevelopment, refurbishment and tenancy remixing opportunities within the portfolio (as evidenced by the current \$1.3 billion development pipeline) and consider the

³⁴ Federation partially owns 20 retail properties, one of which it does not manage and is therefore excluded from the analysis of AUM. Tuggeranong Hyperdome is managed by Novion.

³⁵ This amount differs to the book value of the property portfolio at 31 December 2014 (including share of two properties held in joint ventures). It excludes a 50% interest in Tuggeranong Hyperdome (\$150 million) which Federation does not manage and includes only 50% of Bentons Square (which is consolidated for accounting purposes (see Section 4.5)).

GRANT SAMUEL



strategic mix of assets in the portfolio to optimise returns;

- invest in systems, infrastructure and processes to improve operational efficiency; and
- manage its capital structure to provide flexibility and capacity at a low cost while appropriately managing risk.

4.3 Financial Performance

Analysis of Federation's recent financial performance is complicated by implementation of the Aggregation in December 2011 and the impacts of eliminating pre-Aggregation matters and refocussing the business since that time. As a result, only the historical financial performance of Federation for the three and half years to 31 December 2014 and the Federation Forecast is summarised below:

Federation - Financial Performance (\$ millions)					
	Year ended 30 June			Six mths ended 31 Dec	Year ending 30 June
	2012 ³⁶ actual	2013 actual	2014 actual	2014 actual	2015 forecast
Direct property investment income ³⁷	191.5	309.5	310.3	170.1	345.7
Syndicate investment income	16.1	22.0	11.7	1.8	2.1
Investment income	207.6	331.5	322.0	171.9	347.8
Property management, development and leasing fees	7.4	12.7	14.4	7.0	13.2
Syndicate management fees	11.3	27.3	5.1	2.2	2.0
Services business income	18.7	40.0	19.5	9.2	15.2
Total income	226.3	371.5	341.5	181.1	363.0
Depreciation and amortisation	(0.7)	(1.3)	(1.8)	(0.8)	(1.8)
Corporate overheads (net of recoveries)	(23.7)	(44.8)	(40.1)	(20.6)	(40.0)
EBIT	201.9	325.4	299.6	159.7	321.2
Net interest expense	(78.7)	(101.0)	(56.7)	(30.7)	(61.7)
Underlying earnings	123.2	224.4	242.9	129.0	259.5
Non-distributable items					
Changes in fair value of investment properties/associates	23.6	25.2	160.1	141.5	
Changes in fair value of derivatives	(22.0)	1.1	(11.9)	(9.6)	
Stamp duty expenses	(55.8)	(27.4)	(12.8)	(22.8)	
Capital transactions (net)	6.7	(27.3)	-	(16.1)	
Changes in fair value of financial assets	(0.4)	(5.9)	1.0	-	
Net profits in consolidated syndicates (net)	3.7	4.1	5.7	2.3	
Rental straight lining	-	1.7	7.3	-	
Pre Aggregation matters	(297.4)	16.6	67.1	-	
Software implementation costs	-	-	(18.4)	(4.9)	
Other non-distributable items (net)	(2.3)	(0.3)	0.3	3.1	
Total non-distributable items	(343.9)	(13.9)	198.4	93.5	
Profit before tax	(220.7)	210.5	441.3	222.5	
Income tax (expense)/benefit	(2.2)	2.2	-	-	
Net profit attributable to Federation securityholders	(222.9)	212.7	441.3	222.5	
Statistics					
Basic earnings per stapled security	(16.63¢)	14.97¢	30.91¢	15.60¢	
Underlying earnings per stapled security	9.2¢	15.8¢	17.0¢	9.0¢	18.2¢
Distribution per stapled security	6.5¢	14.1¢	15.7¢	8.4¢	16.9¢
Direct property investment income growth	nmf	61.6%	0.3%	14.1%	11.4%
Like-for-like direct property investment income growth ³⁸	3.5%	2.8%	2.3%	3.7%	2.5-3.5%
Management expense ratio ³⁹	nmf	0.69%	0.58%	0.56%	0.55%
Interest cover ratio (Federation definition) ⁴⁰	2.6x	3.2x	5.3x	5.2x	5.2x

Source: Federation and Grant Samuel analysis

³⁶ As the Aggregation was implemented on 1 December 2011 the results for FY12 reflect only seven months of the Federation business.
³⁷ Calculated as rental and other property income plus share of net profit from associates (before fair value adjustments) less property expenses less property management fees. This disclosure differs to that adopted by Novion for net property income (see Section 3.3).
³⁸ Calculated assuming ownership share at period end is unchanged from the beginning of the period.
³⁹ Calculated as corporate overheads (net of recoveries) divided by total AUM.
⁴⁰ Interest cover ratio is calculated as EBITDA divided by borrowing costs. This is a different definition of Interest Cover Ratio to that adopted by Novion (see Section 3.3).

GRANT SAMUEL



As the Aggregation was implemented effective 1 December 2011, discussion of the increase in earnings between FY12 and FY13 is not meaningful. In fact, analysis of Federation's historical financial performance is generally difficult given the extent of corporate repositioning that has occurred since the Aggregation including:

- the acquisition of former satellite unlisted property syndicates and the associated wind down of the syndicates business (particularly during FY14);
- the sale of 50% interests in a number of previously 100% owned property assets and the establishment of co-owner alliances;
- the recycling of capital (from disposals) including the acquisition of a number of key retail assets (e.g. a 50% interest in Carlingford Court in December 2013) and a 25% interest in Mt Ommanney Centre in October 2014); and
- the repayment of debt and the ongoing restructuring of financing facilities.

Nevertheless:

- Federation has experienced like for like direct property investment income growth of 2-3% across the period;
- during FY14, Federation commenced work on a redevelopment pipeline in relation to its investment portfolio. The initial focus was on two larger projects, Warnbro Centre in Western Australia (completed in September 2014) and Cranbourne Park in Victoria (stage one is scheduled to open in March 2015). The redevelopment pipeline together with a range of asset management initiatives is expected to have a positive impact on direct property investment income and, to the extent the redevelopment properties are co-owned or owned by third parties, on Federation's Services Business income;
- the wind down of the syndicates business was completed in December 2014 and, therefore, post FY15, Federation will earn no syndicate investment income or syndicate management fees (i.e. Services Business income will represent only asset management fees earned in relation to co-owners interests and third party assets);
- the management expense ratio has contracted over the period primarily reflecting the repositioning of Federation's business and a focus on cost control and recoveries;
- Federation incurs corporate overheads associated with the operation of its Services Business (i.e. with providing services to Federation's property investment portfolio, co-owners and third parties) as well as the costs associated with corporate head office and of being a listed entity. After recoveries from Federation's property investment portfolio in the form of property management fees and the capitalisation of costs associated with development projects and owned assets, residual unallocated overheads of around \$40 million are expensed. Approximately \$15 million of these costs relate to corporate head office costs;
- net interest expense includes interest on bank loans, medium term notes and amortisation of borrowing costs (but excludes interest associated with development activities which is capitalised to investment properties) net of interest income. The reduction in borrowings and active capital management in a lower interest rate environment has resulted in lower interest expense;
- Federation has recognised net valuation gains across the period reflecting the impact of the asset management activities undertaken since the Aggregation, the repositioning of the portfolio and the market demand for retail assets, particularly for sub-regional and neighbourhood shopping centres; and
- interest rate risk in respect to borrowings is managed by using floating to fixed interest rate swaps.

Under current Australian taxation legislation, Federation Centres Trust No. 1 and its controlled entities are "pass through" vehicles and are not liable for income tax provided that securityholders are presently entitled to the income as calculated under the trust's constitution. On the other hand, Federation Limited is taxed as a company (and tax payments will generate franking credits). Federation Limited and its wholly owned Australian resident entities have elected to be taxed as a single entity under the Australian tax consolidation regime. Federation Limited is estimated to

GRANT SAMUEL



have carried forward income tax losses of approximately \$26 million, none of which have been recognised in the balance sheet.

The Federation Forecast (including underlying assumptions) is set out in Section 8.3 of the Scheme Booklet. The Federation Forecast has been prepared by Federation. In particular, the Federation Forecast shows a 7.6% increase in distribution per security reflecting the impact of assumptions as to continuing improvements in direct property investment income as well as cost savings primarily from improved business efficiency following rollout of an enterprise wide information technology platform.

Direct property investment income accounts for around 95% of Federation's total income. The split of EBIT by activity is shown below:

Federation – EBIT by Activity (\$ millions)					
	Year ended 30 June			Six mths ended 31 Dec 2014 actual	Year ending 30 June 2015 forecast
	2012 ³⁶ actual	2013 actual	2014 actual		
Property investment	207.6	331.5	322.0	171.9	347.8
Services business	18.7	40.0	19.5	9.2	15.2
Corporate overheads	(24.4)	(46.1)	(41.9)	(21.4)	(41.8)
EBIT	201.9	325.4	299.6	159.7	321.2

Source: Federation and Grant Samuel analysis

This analysis shows the impact of the portfolio and corporate repositioning of recent years on Federation's operating results. However, it should be noted that on a consolidated basis:

- property investment earnings are net of the fees paid for property management services provided by the real estate management platform but not for funds management services provided by the platform. As property management fees are generated on owned assets by reference to market based fees, this approach is consistent with the measurement of NTA where Federation's interests in shopping centres are recognised on the balance sheet at valuations that assume property management fees are paid to an external party;
- the reporting for the real estate management platform only recognises property, development and funds management fees generated from co-owners and other external parties and not from directly owned assets; and
- corporate overheads include both the costs associated with the Services Business as well as corporate head office costs and are after capitalisation of costs associated with development services provided to internal development projects.

As a result, EBIT does not reflect the true earnings of the real estate management platform.

4.4 Distributions

Federation pays distributions half yearly for the periods ending 30 June (payable in August) and 31 December (payable in February). Distributions paid to Federation securityholders may include income, capital gains, tax deferred amounts (generally, the excess of distributable income over taxable income), capital gains tax concessional amounts and franked dividends. Federation aims to pay between 90-95% of underlying earnings to securityholders (or 95-105% of AFFO⁴¹):

⁴¹ AFFO = adjusted funds from operations ("FFO") and calculated by adjusting FFO for other cash items such as derivative close outs, maintenance capital expenditure, incentives given in the period and other one off items.

GRANT SAMUEL

■ ■ ■

Federation - Financial Performance (\$ millions)					
	Year ended 30 June			Six mths ended 31 Dec	Year ending 30 June
	2012 ³⁶ actual	2013 actual	2014 actual	2014 actual	2015 forecast
Underlying earnings	123.2	224.4	242.9	129.0	259.5
Add: Amortisation of rent free periods	1.8	2.4	1.9	0.9	
FFO⁴²	125.0	226.7	244.8	129.9	
Less: Maintenance capital expenditure and tenant incentives	(23.4)	(32.1)	(30.1)	(14.2)	
Less: Derivative and debt break costs	(16.9)	(14.3)	(0.7)	-	
Add: Repayment of impaired related party loan	-	16.6	-	-	
AFFO before software implementation costs	84.7	196.9	214.0	115.7	
Less: Software implementation costs	-	-	(18.4)	(4.9)	
AFFO after software implementation costs	84.7	196.9	195.6	110.8	
Statistics					
Underlying earnings per stapled security	8.6¢	15.8¢	17.0¢	9.0¢	18.2¢
Distribution per stapled security	6.5¢	14.1¢	15.7¢	8.4¢	16.9¢
Payout ratio (underlying earnings basis)	71%	89%	92%	93%	93%
Payout ratio (AFFO basis)	110%	102%	105%	104%	

Source: Federation and Grant Samuel analysis

Federation has provided distribution guidance for FY15 of 16.9 cents per stapled security. A distribution of 8.4 cents per security for the six months ended 31 December 2014 was paid on 25 February 2015.

4.5 Financial Position

The financial position of Federation as at 30 June 2014 and 31 December 2014 is summarised below:

⁴² Funds from operations ("FFO") is calculated in accordance with Property Council of Australia definition to represent underlying and recurring earnings from operations. FFO is determined by adjusting net profit after tax for certain non-cash and other items.

GRANT SAMUEL



Federation - Financial Position (\$ millions)			
	As reported		Proforma 31 December 2014
	30 June 2014	31 December 2014	
Cash	64.9	66.0	66.0
Receivables and prepayments	40.9	51.3	52.2
Investment property portfolio	4,613.1	4,715.3	4,715.3
Investments accounted using equity method	106.0	96.9	246.3
Investments in unlisted entities	6.4	6.4	6.4
Assets held for sale	95.3	134.5	-
Related party loan and receivables (non current)	117.4	117.4	-
Goodwill	199.7	199.7	199.7
Property, plant and equipment (net)	6.0	5.6	5.6
Total assets	5,249.7	5,393.1	5,291.5
Payables, provisions and other liabilities	(107.4)	(89.4)	(88.8)
Deferred settlement on Bentons Square ⁴³	-	(39.2)	(39.8)
Provision for stamp duty	(16.4)	(18.1)	(18.1)
Distribution payable	(113.4)	(119.9) ⁴⁴	(119.9)
Puttable interests in consolidated finite life trusts	(95.4)	-	-
Interest bearing liabilities	(1,314.5)	(1,416.9)	(1,317.3)
Derivatives	(13.2)	(22.3)	(22.3)
Total liabilities	(1,660.3)	(1,705.8)	(1,606.2)
Net assets	3,589.4	3,687.3	3,685.3
NTA	3,389.7	3,487.6	3,485.6
Statistics			
Stapled securities on issue at period end (million)	1,427.6	1,427.6	1,427.6
Net assets per stapled security	\$2.51	\$2.58	\$2.58
NTA per stapled security	\$2.37	\$2.44	\$2.44
Gearing (Federation definition) ⁴⁵	25.1%	26.3%	24.9%
Loan to value ratio ⁴⁶	31.6%	31.6%	30.3%

Source: Federation and Grant Samuel analysis

The proforma financial position at 31 December 2014 reflects the following adjustments:

- the recognition of Federation's proportionate share of investments held in joint ventures and associate entities on a "look through" or gross basis. The adjustments relate to Tuggeranong Hyperdome and Victoria Gardens Shopping Centre in which Federation has 50% interests and reflect the gross property value and borrowings/derivatives relating to those properties; and
- it is assumed that the sale of Warnambool North and Mildura Central (Victoria) and Woodlands Village (Queensland) were completed at 31 December 2014.

At 31 December 2014, Federation's investment property portfolio had a total book value of \$4,715.3 million and comprised 65 properties (20 of which were partially owned including one which is accounted for as 100% owned at 31 December 2014⁴³). Book value reflects the last independent valuation adjusted (if necessary) by directors following a directors' valuation process as well as subsequent capital expenditure. Investment properties are valued at least once per year by independent, registered valuers. 33 properties were independently valued at 31 December 2014 with the remaining properties subject to directors' valuations. In FY15, Federation has contracted capital expenditure commitments of \$137.0 million (including expenditure incurred on behalf of managed vehicles which is expected to be fully recouped from those entities).

⁴³ Federation acquired Bentons Square in October 2014 and has an option to acquire the remaining 50% in July 2016. Based on the terms of the agreements, this property has been accounted for as 100% owned with a deferred settlement on the remaining 50%.

⁴⁴ Represents the distribution for the six months ended 31 December 2014 paid to Federation securityholders on 25 February 2015

⁴⁵ Gearing is drawn amount of borrowings less cash divided by total tangible assets less cash. This is a different definition of gearing to that adopted by Novion (see Section 3.5).

⁴⁶ Calculated as total liabilities divided by total assets.

GRANT SAMUEL



Related party loan (\$113.8 million) and receivables (\$3.6 million) relates to Tuggeranong Hyperdome. On a proforma basis these items eliminate.

Equity accounted investments represent Federation's 50% interests in the joint ventures which own Tuggeranong Hyperdome and Victoria Gardens Shopping Centre:

Federation – Equity Accounted Investments			
Property	Federation interest in Joint Venture	Book Value (\$ million)	
		30 June 2014	31 December 2014
Tuggeranong Hyperdome	50%	46.6	32.8
Victoria Gardens Shopping Centre	50%	59.4	64.1
Total		106.0	96.9

Source: Federation and Grant Samuel analysis

Assets held for sale are investment properties that Federation has executed an unconditional contract to sell before the date that the financial statements are approved by the Board. At 31 December 2014 the amount relates to Warrnambool North, Mildura Central and Woodlands Village which settled in January and February 2015.

Investments in unlisted entities represent the fair value of Federation's investments in external unlisted entities. They are closed funds and cannot be actively traded. The book value is based on net asset value of each fund. Of the total amount invested of \$6.4 million, \$3.5 million is expected to be realised within the next twelve months.

Goodwill (\$199.7 million) represents the value of the Service Business acquired as part of the Aggregation. For accounting purposes, it is allocated between the funds management activities (\$82.5 million) and property, leasing and development activities (\$117.2 million).

Provision for stamp duty comprises amounts relating to pre-Aggregation matters, recent syndicate acquisitions and the corporate simplification undertaken in 2014. Puttable interests in consolidated finite life trusts represent the minority interest in Retail Direct Property syndicates consolidated by Federation. These interests were acquired by Federation in the six months to 31 December 2014.

Federation targets gearing in the range of 25% to 35%. It has a Standard & Poor's ("S&P") long term corporate credit rating of "BBB+" and a long term rating of "A-" for its secured medium term note program. On 3 February 2015, S&P placed Federation's rating on credit watch with positive implications due to the announcement of the Merger.

Federation's interest bearing liabilities comprise both capital market instruments and bank facilities and at 31 December 2014 had a weighted average maturity of approximately 2.8 years:

Federation – Interest Bearing Liabilities at 31 December 2014 (\$ millions)					
Facility Type	Interest Rate	Facility Limit	Amount Drawn		Legal Maturity Date
			as reported	proforma	
Bank debt facilities	Floating	1,405.0	1,124.7	992.2	Aug 2015/Aug 2016/ Aug 2017/Aug 2018/ Aug 2019
Medium term notes	Fixed	300.0	300.0	300.0	Dec 2019/May 2021
		1,705.0	1,424.7	1,292.2	
Capitalised borrowing costs and discount on note issue		-	(7.8)	(7.8)	
Total		1,705.0	1,416.9	1,284.4	
Victoria Gardens Shopping Centre	Floating	-	-	32.9	
Total		1,705.0	1,416.9	1,317.3	

Source: Federation and Grant Samuel analysis

During the six months to 31 December 2014, Federation entered into new banking arrangements with its incumbent lenders with a club style banking structure, providing it with the flexibility to

GRANT SAMUEL



negotiate volume, tenor and price on a bilateral basis. Federation also reduced its facility limit by \$150 million to \$1.405 billion and agreed less onerous financial covenants.

Federation's borrowing arrangements (including derivative financial instruments) contain a range of change of control and corporate activity provisions that trigger events of default and/or review events. The implications of those triggers may include Federation's debt facilities and capital markets instruments becoming immediately due and payable and the payment of additional fees including "make whole" payments.

4.6 Capital Structure and Ownership

Federation has 1,427,641,565 stapled securities on issue. In addition, 6,360,183 performance rights have been granted.

At 31 March 2015, Federation had 7,683 registered securityholders. The top ten registered securityholders accounted for approximately 92% of the stapled securities on issue and are principally institutional nominee or custodian companies. Federation has a large retail investor base with 84% of securityholders holding 10,000 or fewer securities, although this represents less than 1% of securities on issue. Registered holders of Federation securities are predominantly Australian based (approximately 98% of registered securityholders and over 99% of securities on issue).

Federation has received notices from the following substantial securityholders:

Federation – Substantial Securityholders		
Securityholder	Number of Securities	Percentage
CBA	121,270,969	8.49%
Blackrock Group	106,393,536	7.45%
AMP Limited	86,431,270	6.05%
Vanguard Investments Australia	86,311,928	6.05%
BT Investment Management (and Westpac)	82,857,713	5.80%

Source: Federation

Federation established a long term performance reward plan upon implementation of the Aggregation on 1 December 2011. Under this plan, senior executives are granted performance rights over unissued Federation stapled securities. Each performance right entitles the participant the right to receive one Federation stapled security at a future time for nil consideration subject to achievement of performance hurdles, service conditions and vesting periods. In the event of a change of control, the board has discretion to determine the treatment of unvested performance rights.

Federation also operates:

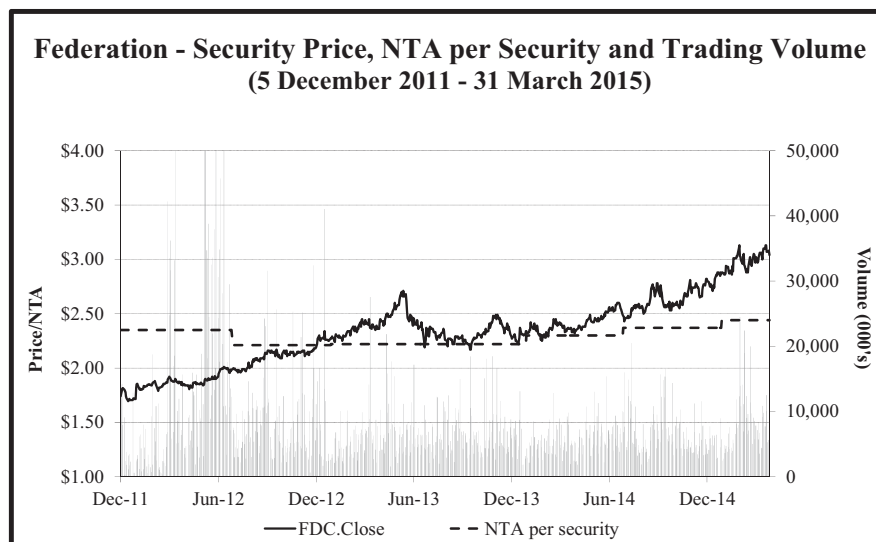
- a short term performance reward payment plan under which eligible participants may be entitled to a cash amount for annual performance which, in the case of senior executives, a component is deferred into equity for a period ranging from 12 to 24 months; and
- an exempt employee securities plan under which stapled securities to the value of \$1,000 may be granted to employees for no cash consideration. Shares issued under this plan may not be sold until the earlier of three years after issue or cessation of employment.

4.7 Security Price Performance

The following graph illustrates the movement in the Federation security price, NTA per security and trading volumes since listing on the ASX on 5 December 2011 (on a deferred settlement basis) as part of the implementation of the Aggregation:

GRANT SAMUEL

■ ■ ■



Source: IRESS

Note: (1) NTA decreased from \$2.35 per security to \$2.21 per security at 30 June 2012 as a consequence of the issue of 86.7 million new securities in settlement of the Class Action True-up Securities ("CATS") that were issued to various pre-aggregation investors. CATS entitled holders to receive new stapled securities or cash payments after resolution of class action litigation claims for which no liability was recognised at Aggregation.

(2) On four days in this period more than 50 million securities traded but are not shown on the graph (16 March 2012 following Federation's inclusion in key ASX indices, 10 May 2012 following announcement of conditional settlement of class actions, 31 May 2012 following inclusion in the MSCI Global Standard Index and 15 June 2012 following inclusion in the EPRA NAREIT FTSE Global Real Estate Index).

Federation stapled securities commenced trading around \$1.75 following implementation of the Aggregation and over the next three months gradually increased to around \$1.85, a significant discount to NTA (although not out of line with the market ratings for listed REITs at that time).

There was a marked increase in trading volumes following the announcement on 2 March 2012 that Federation was to be included in key ASX indices (including the S&P/ASX 100 Index, S&P/ASX 200 Index, S&P/ASX AREIT Index) and investor presentations by the new management team. Trading volumes increased again in May and June 2012 after Federation agreed a settlement for six securityholder class actions, entered into a \$690 million co-ownership agreement with Perron Group and was included in key global real estate indices (MSCI Global Standard Index and EPRA NAREIT FTSE Global Real Estate Index). On the back of the increased volumes, the Federation security price rose to around \$2.00. In this period, it also became clear that Federation's register was transitioning into a more traditional institutional investor base rather than "non traditional" REIT investors (such as hedge funds) and, over the following six months, the security price increased to marginally above reported NTA (\$2.21).

Since January 2013, on the back of improved financial performance and a strengthened financial position, Federation securities have traded at a premium to NTA (which has exceeded 20% in recent times). This is consistent with the stockmarket performance of the REIT sector generally but may also reflect the development of Federation's co-owner alliance business strategy and the contribution of net income from the Services Business.

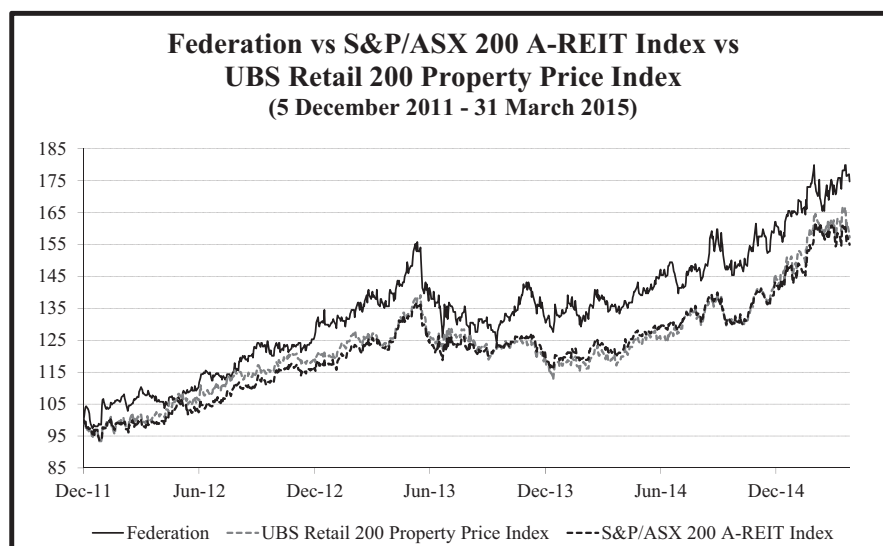
In the month to 2 February 2015 (the last trading day prior to the announcement of the Merger), Federation's VWAP was \$2.96, compared to NTA per security of \$2.44 (31 December 2014 proforma basis), a premium of 21.3%. The closing price on 2 February 2015 was \$3.10, a 27% premium to NTA (proforma basis). Since announcement of the Merger, Federation securities have traded in the range \$2.87-3.19, at a VWAP of \$3.01.

GRANT SAMUEL



Federation is a liquid stock with average weekly volume over the twelve months prior to the announcement of the Merger representing approximately 2.1% of average securities on issue or annual turnover of around 110% of total average issued capital.

Federation is included in various indices including S&P/ASX 200 A-REIT Index, S&P/ASX 200 Index and UBS Retail 200 Property Price Index. At 31 March 2015 its weighting in these indices was approximately 4.0%, 0.3% and 8.3%, respectively. The performance of Federation's securities since 5 December 2011 relative to the S&P/ASX 200 A-REIT Index and the UBS Retail 200 Property Price Index is illustrated in the following chart:



Source: IRESS

After initially outperforming the indices following implementation of the Aggregation, Federation has since late 2013 generally performed in line. This trend is similar on a total returns basis with Federation performing in line or ahead of the equivalent accumulation indices:

Federation – Comparison to Accumulation Index				
	Returns			
	5 Dec 2011 to 30 June 2012	FY13	FY14	1 July 2014 to 31 Dec 2014
Federation	17.6%	26.8%	11.5%	15.3%
S&P/ASX 200 A-REIT Accumulation Index	10.8%	24.2%	11.1%	12.7%
UBS Retail 200 Property Accumulation Index	14.4%	22.0%	8.5%	15.4%

Source: IRESS

GRANT SAMUEL

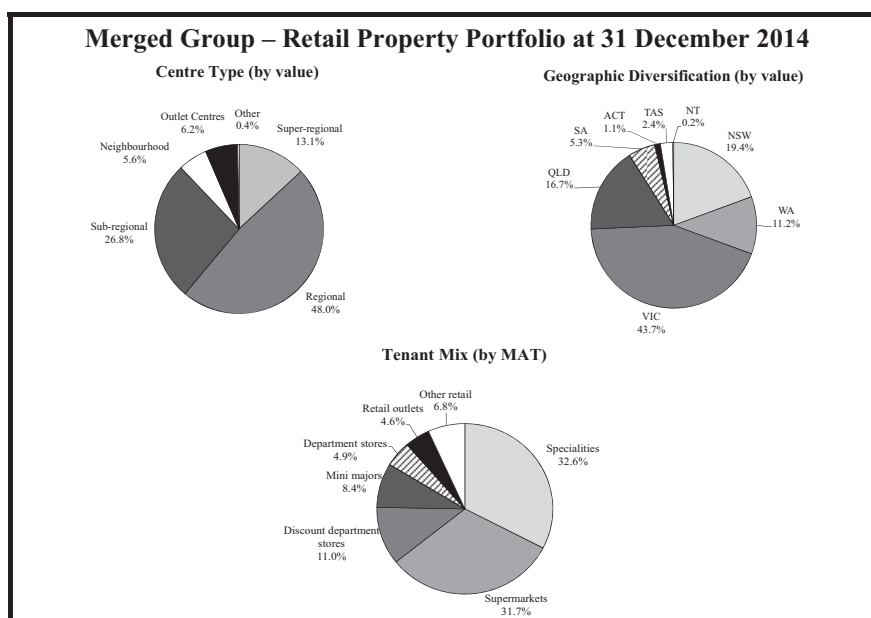


5 Profile of the Merged Group

5.1 Operations and Strategy

The Merged Group will be the third largest property group listed on the ASX and the second largest focussed on the Australian retail property market. It will have AUM of \$22.2 billion, including a \$14.0 billion investment property portfolio and \$8.2 billion of assets owned by third parties.

The investment portfolio will comprise 92 retail properties across Australia covering the full spectrum of retail property assets plus one office property. Super-regional and regional shopping centres will account for around 61% of the portfolio by value with the largest asset, a 50% interest in Chadstone Shopping Centre, accounting for 13%. It will be 44% weighted to Victoria, principally due to the value of Chadstone Shopping Centre. Supermarkets will account for around 32% of retail sales and Wesfarmers Limited and Woolworths Limited will be its largest tenants.



Source: Scheme Booklet

Note: (1) Excludes office building in Australian Capital Territory.
(2) Values exclude Federation development values.

The Merged Group's real estate management platform will provide funds and asset management services to its investment property portfolio and to 17 strategic partners (including wholesale funds and mandates, co-owners and third parties). Retail AUM will be \$22.2 billion as shown below:

Merged Group – Retail Assets Under Management		
Category	Number of Properties	AUM ⁸ (\$ million)
Direct Investment		
Merged Group (wholly owned assets)	63	7,530.3
Merged Group (partially owned assets)	29	6,483.3
	92	14,013.6
Funds and Asset Management		
Joint owners	29	6,623.5
Third parties	11	1,579.3
	11	8,202.8
Total Retail AUM	103	22,216.4

Source: Scheme Booklet and Grant Samuel analysis

Note: The Merged Group will also manage office properties with a value of \$0.5 billion including one wholly owned property and three office properties for third party owners.

GRANT SAMUEL



The Merged Group will pursue the objective of providing stapled securityholders with stable and predictable distributions by maximising the value and performance of its property assets. The Merged Group will:

- have a \$2.5 billion development pipeline (Merged Group share \$1.2 billion) and a range of opportunities to enhance existing assets (particularly in the current Federation portfolio);
- pursue operational cost savings that have been identified as a consequence of the Merger as well as from optimising the merged business; and
- crystallise savings by refinancing existing borrowings.

The Merged Group will leverage its real estate management platform to enhance returns to securityholders by building on its existing strategic partner relationships.

A detailed description of the Merged Group is set out in Section 7 and 8 of the Scheme Booklet.

5.2 Earnings and Distribution

The Merged Group Forecast is summarised below:

Merged Group – Proforma Forecast Underlying Earnings (\$ millions)	
	Year ending 30 June 2015
Direct property income	933
Other investment income	2
Total investment income	935
Property, development and leasing fees	52
Funds management fees	13
Total income	1,000
Corporate overheads (net of recoveries)	(58)
Other expenses	(4)
EBIT	938
Interest expense (net)	(180)
Underlying earnings	758
<i>Statistics</i>	
<i>Stapled securities on issue (million)</i>	<i>3,958.7</i>
<i>Underlying earnings per stapled security</i>	<i>19.2¢</i>
<i>Distribution per stapled security</i>	<i>18.3¢</i>
<i>Distribution payout ratio (underlying earnings basis)</i>	<i>95%</i>
<i>Management expense ratio</i>	<i>0.26%</i>
<i>Interest cover ratio</i>	<i>5.2x</i>

Source: Scheme Booklet and Grant Samuel analysis

The Merged Group Forecast (including a description of the assumptions and adjustments made) is set out in Section 8.3 of the Scheme Booklet. The Merged Group Forecast has been jointly prepared by Novion and Federation and has been reviewed by PwCS. PwCS's Investigating Accountant's Report is attached as Annexure B to the Scheme Booklet.

The Merged Group Forecast represents the aggregation of the Novion Forecast (see Section 3.3 of this report) and the Federation Forecast (Section 4.3) (i.e. it excludes the impact of any alignment in accounting policies and treatments, which are not expected to be material) and has been prepared on the following basis:

- assumes the Merger was implemented and was fully integrated on 1 July 2014. That is, it reflects a full year impact of identified operational cost savings and financing savings (except for \$7 million of expected capitalised costs savings). In particular, it assumes a weighted average interest cost post refinancing of 4.1%;
- reflects the issue of approximately 2,531 million Federation stapled securities to Novion securityholders upon implementation of the Merger;

GRANT SAMUEL



- allows for operational cost savings of \$49 million per annum which are expected to be realised upon integration (\$9 million per annum through direct property income and \$40 million per annum through corporate overheads);
- allows for interest cost savings of \$46 million per annum which are expected to be realised if all existing borrowings are refinanced;
- allows for funding costs of \$18 million per annum in relation to the assumed \$458 million of one off integration and refinancing costs associated with implementation of the Merger;
- assumes that the Merged Group is assigned an S&P credit rating of at least "A-"; and
- assumes a distribution payout ratio of 95% of underlying earnings.

As the Merger is expected to complete prior to 30 June 2015:

- the impact of the Merger on actual FY15 earnings of the Merged Group will be minimal; and
- current Novion securityholders may receive Federation's distribution for the second half of FY15 (estimated to be 8.5 cents per Federation security) in lieu of the Novion distribution for the same period (i.e. Novion securityholders will receive one distribution only for the period, either from Novion or Federation but not both).

The level of future distribution payments is a matter for the Board of the Merged Group depending on financial and other circumstances at the time. Distributions are anticipated to be paid twice yearly (in respect of the periods ending June and December) and are expected to continue to be a combination of income, capital gains, tax deferred amounts, capital gains tax concessional amounts and franked dividends.

5.3 Financial Position

The Merged Group Financial Position is summarised below:

Merged Group – Proforma Financial Position (\$ millions)	
	As at 31 December 2014
Investment property portfolio	14,062
Intangible assets	1,443
Other assets	329
Total assets	15,834
Interest bearing liabilities	(4,568)
Other liabilities	(656)
Total liabilities	(5,224)
Net assets	10,610
NTA	9,167
<i>Statistics</i>	
<i>Stapled securities on issue at period end (million)</i>	<i>3,958.7</i>
<i>Net assets per stapled security</i>	<i>\$2.68</i>
<i>NTA per stapled security</i>	<i>\$2.32</i>
<i>Gearing (including intangibles)⁴⁷</i>	<i>28.8%</i>
<i>Gearing (excluding intangibles)⁴⁸</i>	<i>31.1%</i>

Source: Scheme Booklet and Grant Samuel analysis

The Merged Group Financial Position (including a description of the assumptions and adjustments made) is set out in Section 8.2 of the Scheme Booklet. It has been jointly prepared by Novion and Federation on the basis that the Merger was implemented on 31 December 2014 and has been reviewed by PwCS. PwCS's Investigating Accountant's Report is attached as Annexure B to the Scheme Booklet.

⁴⁷ Calculated as interest bearing liabilities (net of deferred borrowing costs and cross currency swaps) divided by total assets excluding derivative assets.

⁴⁸ Calculated as interest bearing liabilities (net of cash) divided by total tangible assets (net of cash).

GRANT SAMUEL



The Merged Group Financial Position represents the aggregation of the Novion Financial Position (see Section 3.4 of this report) and the Federation Financial Position (Section 4.4) (i.e. it reflects certain proforma adjustments but excludes the impact of any alignment in accounting policies and treatments, which are not expected to be material). The Merged Group Financial Position recognises all aspects of the Merger and:

- allows for total assumed transaction and refinancing costs of \$458 million, net of \$38 million of non-cash adjustments to the carrying value of borrowings on refinancing; and
- reflects the issue of approximately 2,531 million stapled securities to Novion securityholders upon implementation of the Merger.

The Merged Group's target gearing range will be 25-35%.

5.4 Directors and Management

It is intended that the Merged Group board will ultimately comprise 11 directors with one executive director (being the CEO) and 10 non-executive directors. The non-executive directors will be four existing Federation independent directors, four existing Novion independent directors and two directors nominated by the Merged Group's largest securityholder, The Gandel Group. The Chairman will be Peter Hay, one of the non-executive directors of Novion to be appointed to the Merged Group board. Further details of the board are set out in Section 7.9 of the Scheme Booklet.

The senior management team for the Merged Group will be drawn from the existing management teams of Novion and Federation. Steven Sewell (the current Managing Director and CEO of Federation) will be appointed Managing Director and CEO of the Merged Group and Tom Honan (the current Chief Financial Officer ("CFO") of Federation) will be appointed CFO of the Merged Group. Further details of the senior management team are set out in Section 7.11 of the Scheme Booklet.

5.5 Capital Structure and Ownership

The Merged Group will be a dual stapled group with each security being a share in Federation Limited and a unit in Federation Centres Trust No. 1 stapled to each other and trading on the ASX as a single security. Federation Centres Limited, a wholly owned subsidiary of Federation Limited, will continue as responsible entity of Federations Centres Trust No. 1.

Following implementation of the Merger, the Merged Group will have approximately 3,958,650,128 stapled securities on issue. It will also have 6,360,183 performance rights on issue.

Former Novion securityholders will collectively hold approximately 63.9% of Merged Group stapled securities and former Federation securityholders will collectively hold approximately 36.1%. The major securityholders in the Merged Group are expected to be as follows:

Merged Group – Major Securityholders		
Securityholder	Number of Securities	Percentage ⁴⁹
The Gandel Group	682,861,293	17.25%
UniSuper Ltd	285,975,375	7.22%

Source: Grant Samuel analysis

⁴⁹ Calculated based on 3,958,650,128 stapled securities.

GRANT SAMUEL



6 Evaluation of the Merger

6.1 Summary

In Grant Samuel's opinion, the Merger is fair and reasonable to, and in the best interests of, Novion securityholders.

The Merger brings together two major Australian integrated retail property groups. It involves Federation acquiring 100% of the stapled securities in Novion. However, while the Merger is technically a control transaction, the commercial reality is that it is a merger. Novion securityholders will, in aggregate, own 63.9% of the Merged Group and Federation securityholders will own the remaining 36.1%.

Accordingly, the analysis of fairness is different to that for a conventional control transaction. The Merger will be fair if the share of the Merged Group received by Novion securityholders (63.9%) is approximately proportionate to the contribution by Novion securityholders measured on a number of different bases. Specifically, Grant Samuel has considered the relative contributions of sharemarket value, fundamental value and other parameters (including earnings, NTA, AUM and announced development pipeline).

On the basis of sharemarket values and of Grant Samuel's assessment of the fundamental (or underlying) value of Novion and Federation, the aggregate interest of Novion securityholders in the Merged Group is consistent with, if not slightly favourable in comparison to, the share contributed by them. This conclusion is supported by analysis of the relative contributions in terms of other parameters. It should be recognised that Novion will contribute a lower proportion of announced development pipeline to the Merged Group (48%) and, while caution is warranted in placing weight on this measure, it identifies a key benefit of the Merger for Novion securityholders (i.e. enhanced growth prospects). On this basis, in Grant Samuel's view, the merger ratio represents a fair balance of competing interests and the terms of the Merger are fair to Novion securityholders.

As the terms of the Merger are fair, they are also reasonable and, accordingly, the Merger is in the best interests of Novion securityholders.

In any event, Grant Samuel believes that the benefits and advantages of the Merger outweigh the costs, disadvantages and risks. The key benefits include:

- the Merged Group will be a large integrated property group with a portfolio of retail property assets encompassing the full spectrum of Australian retail assets. It will have \$22 billion in retail AUM, be a top 30 ASX listed entity (assuming a market capitalisation in excess of \$11 billion) and be the second largest ASX listed property group focussed on Australian retail property assets (after Scentre Group). While some Novion securityholders may not welcome the broadening of the retail focus of their investment to include a larger proportion of sub-regional shopping centres:
 - there will be no material change to the essential investment characteristics as investment returns will remain a combination of passive property investment returns and returns from active retail property management;
 - there are diversification benefits in terms of geography and retail spend category as well as a reduction in the concentration of investment in Chadstone Shopping Centre; and
 - the scale and sector focus of the Merged Group's portfolio is expected to attract leading retail management expertise, a broader range of investment opportunities and substantial scale benefits. It is also expected to be positive for liquidity, enhance funding flexibility and provide access to a broader range of funding sources;
- improved growth opportunities from the development potential in the enlarged pipeline as well as the opportunity to accelerate development of Federation's pipeline. The development opportunities span the retail asset spectrum and are diverse in terms of size which will reduce concentration of development risk;

GRANT SAMUEL



- a 9.4% uplift in pro forma attributable underlying earnings per security (even if the impact of the refinancing savings are excluded as there are offsetting costs and the refinancing opportunity exists for Novion on a standalone basis in any event) driven by material identified operational cost savings. If the refinancing savings are included pro forma attributable underlying earnings per security are expected to increase by 14.6%;
- the increase in underlying earnings will lead to a higher distribution per security than would otherwise have been the case (even though the payout ratio declines to 95%); and
- the security register will be more open with The Gandel Group's relevant interest diluted from 26.98% to 17.25%. Securityholders retain the right to realise a full premium through a subsequent change of control transaction although the sheer size of the Merged Group may reduce the potential for future offers.

The costs, disadvantages and risks are not trivial but are outweighed by the benefits. They include:

- there are risks associated with integration and, in this case, the scale of the operations accentuates the risks. The combining of two boards and senior management teams, the process of extracting identified cost savings and the integration of significant national systems (including IT and management reporting systems) means there is risk of delays and increased costs of implementation. In addition, there is no certainty that the estimated costs savings will be achieved. However, these risks may be mitigated by the following factors:
 - the complementary nature of the Novion and Federation investment portfolios and operations;
 - the detailed review undertaken in relation to the potential cost savings as part of the due diligence processes undertaken by Novion and Federation on each other;
 - almost half of the identified costs savings relate to the assumed refinancing of borrowings which may occur at or after implementation of the Merger; and
 - some level of contingency has been allowed in the one off costs of the Merger; and
- there will be a decrease in NTA and an increase in gearing, although this is unlikely to have an adverse impact on security price because that will be largely driven by distribution per security.

At announcement the terms of the Merger implied a value of \$2.55 per Novion security or a 9.9% premium over Novion's pre announcement price (\$2.32) and similar premiums above security prices over longer periods. Recent trading in Federation securities suggests a trading price in the range \$2.90-3.10 for securities in the Merged Group (equivalent to \$2.39-2.55 per Novion security) while at the same time Novion securities have been trading in the range \$2.40-2.60. Prices at this level represent a material uplift in value for Novion securityholders if the Merger is implemented relative to pre announcement security prices. It is uncertain whether this uplift will be sustained as the actual trading price of the Merged Group will depend on a range of factors including market conditions, the market ratings of peer group entities and actual operating performance. Nevertheless, having regard to proforma metrics, current market pricing appears realistic, if not conservative.

Overall, Grant Samuel's judgement is that Novion securityholders will be better off if the Merger is implemented than if it is not.

GRANT SAMUEL



6.2 Fairness

6.2.1 Approach

The Merger involves Federation acquiring 100% of the stapled securities in Novion. However, upon completion of the Merger, Novion securityholders will, in aggregate, own 63.9% of the Merged Group and Federation securityholders will own the remaining 36.1%. On this basis, as discussed in Section 2.2 of this report, the Merger is not a “control transaction” as that term applies in RG111. While the Merger does not precisely fit the “merger of equals” envisaged by RG111.31, in Grant Samuel’s opinion, it is sufficiently analogous to warrant a similar analytical approach.

Accordingly, in assessing fairness, Grant Samuel has compared the share of the Merged Group received by Novion securityholders with the share that they have contributed measured on a number of bases. Specifically, the analysis compares:

- the relative contributions of value by Novion and Federation securityholders with the interests that they will hold in the Merged Group. The value contributions have been assessed on the basis of:
 - fundamental or underlying value. This analysis considers the value of Novion and Federation prepared on a consistent basis by reference to:
 - the independent valuations of the investment property portfolios;
 - the estimated value of the real estate management platforms; and
 - the estimated value of corporate overhead costs; and
 - market values. This analysis considers the value the sharemarket places on Novion and Federation; and
- the relative contributions of Novion and Federation securityholders on the basis of other parameters such as earnings, NTA and AUM.

6.2.2 Relative Contribution of Fundamental Value

For the purposes of assessing the Merger, the fundamental or underlying values assessed by Grant Samuel for Novion and Federation represents the aggregate of:

- adjusted NTA which reflects the estimated aggregate market value of the individual properties underlying the investment property portfolio adjusted for specific issues;
- the estimated value of the real estate management platform; and
- the value of capitalised corporate overheads.

It should be noted that these fundamental values do not represent full underlying values for Novion and Federation as envisaged for control transactions by RG111 as:

- the market value of an investment property portfolio could be higher than current book value. There are circumstances where an acquirer might pay a premium to the aggregate individual value for a portfolio (e.g. scarcity value or latent development pipeline). There is also evidence to suggest that premiums are currently being attributed by equity investors to passive property portfolios for a variety of reasons (see discussion in Section 7.1);
- in attributing value to the real estate management platforms the full corporate tax rate of 30% has been assumed to apply to both entities, notwithstanding the existing structure of each entity for taxation purposes; and
- an acquirer of 100% of the entities might pay for synergies such as corporate overheads or overheads associated with managing the owned portfolio that could be eliminated.

However, as there is no clear evidence based benchmark for attributing premiums to a property portfolio and given the currency of independent property valuations for listed entities, Grant Samuel has made no such adjustment to NTA. Furthermore, no allowance has been made for the value that an acquirer might pay for synergies. In any event, for the purposes of assessing the fairness of the Merger, the more critical requirement is to compare relative underlying values estimated on a basis that is consistent across the two entities.

GRANT SAMUEL



The following table summarises the fundamental value contributed by Novion and Federation based on Grant Samuel's analysis for each entity as set out in Sections 7.3 and 7.4 of this report:

Relative Contribution – Fundamental Value Analysis (\$ million)			
	Report Section	Fundamental Value Ranges	
Fundamental Value Contribution – Novion	7.3.1	6,166	6,276
Fundamental Value Contribution – Federation	7.4.1	3,517	3,442
Relative Value Contributions – Novion		63.7%	64.6%
Relative Value Contributions – Federation		36.3%	35.4%

Novion securityholders will collectively hold 63.9% of the securities in the Merged Group. Grant Samuel's value analysis of Novion and Federation suggests that Novion is contributing around 64% of the aggregate value of the Merged Group.

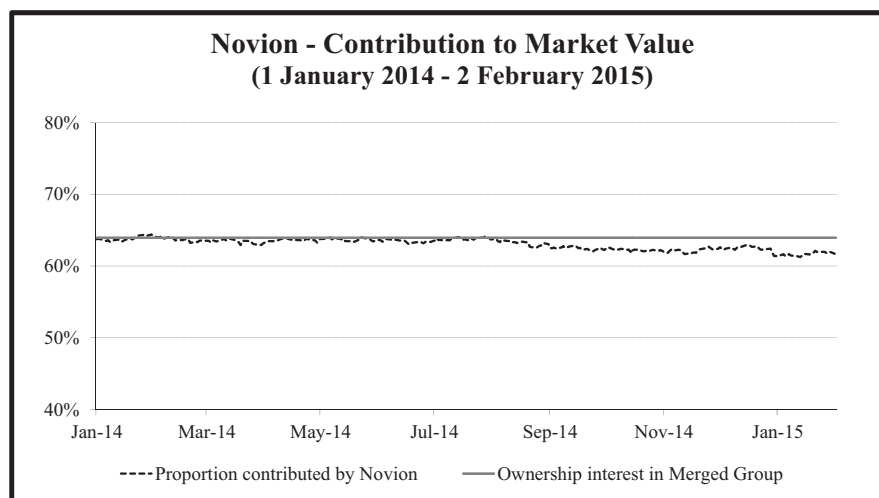
The vast majority of the assets of Novion and Federation, being their investment property portfolios, can be attributed value with some confidence. There is some uncertainty as to the value of the respective real estate management platforms but the approach adopted by Grant Samuel has been to treat the platforms consistently. To the extent there is greater growth potential for the Federation platform due to a deeper development pipeline, this has been allowed for in the cash flows underlying the DCF analysis (and is reflected in the multiple of earnings). Corporate and other overheads have also been treated consistently.

Based on Grant Samuel's fundamental value analysis for Novion and Federation, it is reasonable to conclude that the collective interest of Novion securityholders in the Merged Group are in line with the fundamental value they are contributing to the Merged Group.

6.2.3 Relative Contribution of Sharemarket Value

There is an active, well-informed market for securities in both Novion and Federation. Accordingly, sharemarket values provide an objective measure of the contributions of value to the Merged Group to be made by each of Novion and Federation securityholders.

Novion's contribution to the aggregate sharemarket value (based on daily closing prices) of the two entities since 1 January 2014 is shown in the following chart:



Source: IRESS and Grant Samuel analysis

Notes: (1) The period shown includes Novion's internalisation transaction which was implemented in March 2014.
(2) Market capitalisation has been calculated by reference to stapled securities on issue at the time.

GRANT SAMUEL



The following table shows for different periods the VWAP for Novion and Federation stapled securities, the notional sharemarket capitalisations of the two entities and the contributions of sharemarket value to the Merged Group, based on various periods prior to the announcement of the Merger:

Contribution of Sharemarket Value						
Period	Novion			Federation		
	VWAP \$	Market Capitalisation (\$ million)	Contribution %	VWAP \$	Market Capitalisation (\$ million)	Contribution %
2 February 2015 (close)	2.32	7,139.1	61.7%	3.10	4,425.7	38.3%
1 week to 2 February 2015	2.30	7,077.6	62.0%	3.04	4,340.0	38.0%
1 month to 2 February 2015	2.21	6,800.6	61.7%	2.96	4,225.8	38.3%
3 months to 2 February 2015	2.17	6,677.6	62.3%	2.83	4,040.2	37.7%
6 months to 2 February 2015	2.11	6,492.9	62.7%	2.71	3,868.9	37.3%
12 months to 2 February 2015	2.06	6,339.1	63.2%	2.58	3,683.3	36.8%

Source: IRESS and Grant Samuel analysis.

Note: Market capitalisation based on stapled securities currently on issue.

Given the active markets in both Novion and Federation, it is reasonable to conclude that the pre announcement sharemarket values reflect the market's consensus view on the values of both entities. In theory, the most recent share prices reflect the "best" market estimate of values, because they incorporate the most recent information on economic conditions (including expectations as to interest rates), property markets, operational performance and other matters impacting on market assessments of value.

On announcement of the Merger on 3 February 2015, Novion and Federation provided FY15 guidance for the Merged Group based on the FY15 guidance for each entity on a standalone basis (which reaffirmed earlier guidance by each entity). Novion and Federation also subsequently released their results for the six months ended 31 December 2014 on 18 and 19 February 2015, respectively. In view of the predictable and stable nature of underlying earnings and the transparency of financial reporting for listed property groups, there is no reason to conclude that sharemarket values in the period immediately before the announcement of the Merger represented anything other than fully informed objective market estimates of value.

Nevertheless, analysis of relative contributions of value on the basis of sharemarket prices needs to be treated with some caution. Sharemarket views on value can shift significantly in short periods of time. In this regard, the sharemarket is currently attributing significant premiums over NTA (typically in excess of 15% on an ungeared basis) to REITs and integrated property groups (see Appendix 3). As a matter of principle, the independent valuations underlying the property portfolios of these entities are already "control values" and therefore any premiums over NTA should be relatively modest (see discussion in Section 7.1) except insofar as value is contributed by other assets/businesses such as active real estate platforms.

Immediately prior to the announcement of the Merger, Novion securities were trading at a premium to ungeared NTA of 12.2% while Federation securities were trading at a premium of 19.8%. This differential likely reflects the market's views as to the potential for growth in distributions and increases in underlying portfolio values having regard to each entity's potential development pipeline. However, while security prices may be volatile, sharemarket values (for entities with liquid securities trading) generally reflect unbiased, market consensus views on value including value relativities.

The relative sharemarket values of Novion and Federation have moved within a narrow band since January 2014 until the announcement of the Merger. Overall, the aggregate interests of Novion securityholders in the Merged Group marginally exceeds the sharemarket determined value contributed by them.

GRANT SAMUEL

**6.2.4 Relative Contributions – Other Parameters**

Grant Samuel has also considered the contributions of Novion and Federation to the Merged Group based on a range of other parameters (including underlying earnings, NTA, AUM, property portfolio, development pipeline) relative to the merger terms:

Relative Contributions – Other Parameters				
	\$ millions		Contribution %	
	Novion	Federation	Novion	Federation
Merger terms			63.9%	36.1%
<i>Financial Parameters</i>				
FY15 EBIT	571	321	64.0%	36.0%
FY15 underlying earnings ⁵⁰	423	260	62.0%	38.0%
Proforma NTA (31 December 2014)	6,064	3,486	63.5%	36.5%
<i>Other (31 December 2014)</i>				
Investment property portfolio	9,099	4,923	64.9%	35.1%
AUM	14,860	7,368	66.9%	33.1%
Announced development pipeline	1,200	1,300	48.0%	52.0%
Share of announced development pipeline	500	650	43.5%	56.5%

Source: Novion, Federation and Grant Samuel analysis

This analysis indicates that:

- Novion will contribute 62% of FY15 underlying earnings and 63.5% of proforma NTA both proportions being lower than the proportion of the Merged Group to be received. However, these figures could be distorted by the absence of profits in relation to internal development projects and any differences in taxation;
- based on unleveraged measures, Novion will contribute more to the Merged Group than Federation (i.e. EBIT 64%, investment property portfolio 64.9% and AUM 66.9%). However, this comparison may be distorted by differences in leverage between the entities. In this regard, it is noted that Novion is more highly geared (29.8%) than Federation (24.9%)⁵¹; and
- Novion will contribute 48% of the announced development pipeline to the Merged Group (a significantly lower proportion of its portfolio and AUM than Federation). This measure highlights that Federation's development pipeline is expected to underpin growth of the Merged Group over the medium term.

On this basis, the relative contributions of Novion and Federation to the Merged Group broadly reflects the terms of the Merger, except that Federation is contributing a greater proportion of future growth potential to the Merged Group.

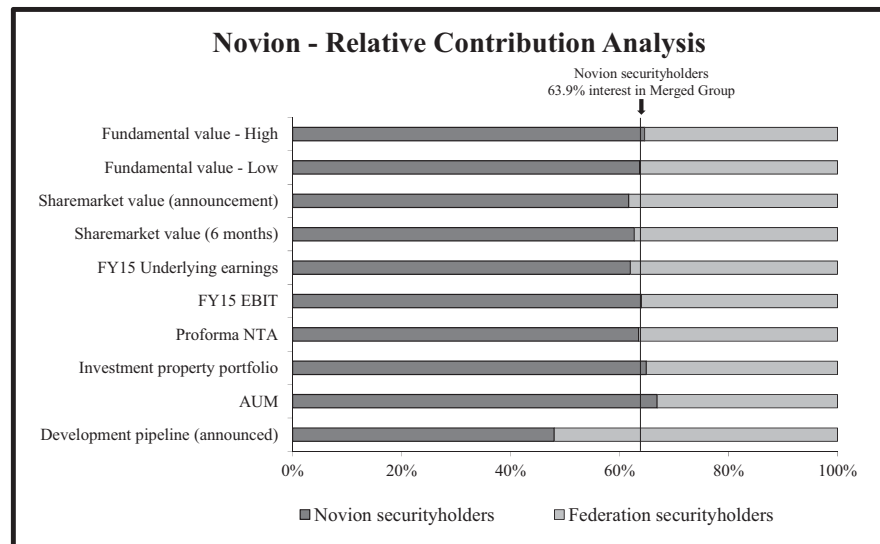
6.2.5 Conclusion

The relative contribution of Novion securityholders and Federation securityholders to the Merged Group can be summarised graphically as follows:

⁵⁰ Underlying earnings is EBIT less net interest expense (i.e. profit after tax plus income tax plus non-distributable items).

⁵¹ Based on proforma gearing calculated as borrowings (net of cash) divided by total tangible assets (net of cash).

GRANT SAMUEL



The analysis indicates that, depending on the contribution basis used, Novion securityholders contribute between 61.7% and 66.9% to the Merged Group, compared to their aggregate securityholding of 63.9% under the merger terms. The exception to this range is that Novion will only contribute 48% to the announced development pipeline of the Merged Group.

In considering this analysis it is important to take into account that:

- while the fundamental values attributed to Novion and Federation are necessarily subjective and rely on judgements as to assumptions (such as growth in gross asset value) they have been prepared on a consistent basis and are almost exactly in line with the merger ratio;
- the contributions in terms of sharemarket value indicate that the premium to Novion securityholders implied by the merger terms on announcement existed over the longer term;
- the post leverage accounting parameters (underlying earnings, NTA) are favourable (albeit not materially) to Novion securityholders; and
- the material difference in the relative contribution of announced development pipeline (even allowing for any distortion through different leverage) highlights a key benefit of the Merger for Novion securityholders. Novion's property portfolio has seen consistent investment. In contrast, historical under investment in the Federation portfolio means that the latent development potential of Federation is greater. However, caution is warranted in placing significance on this measure as the inclusion of projects in a development pipeline at a particular point of time depends on a range of factors.

In summary, Grant Samuel's view is that the share of the Merged Group received by Novion securityholders is consistent with, if not slightly favourable in comparison to, the share of value contributed by them. On this basis, the merger ratio represents a fair balance of competing interests and the terms of the Merger are fair.

The relative contribution analysis is based solely on the existing issued equity capital of Novion and Federation and does not take account of the performance rights that Novion and Federation have granted and Novion's convertible notes. In this context:

- the Novion board has decided that, subject to applicable performance conditions being satisfied, the Novion performance rights will vest (either in part or full) and be satisfied in cash prior to implementation of the Merger (see Section 5.8 of the Scheme Booklet). These arrangements reduce Novion's contribution to the Merged Group but Federation's

GRANT SAMUEL



performance rights would also dilute Federation's contribution. However, given the relatively small number of performance rights outstanding (less than 0.1% of Novion's securities on issue and less than 0.5% of Federation's securities on issue), in Grant Samuel's view, the performance rights are not material in the context of the Merger and would not impact its conclusion as to the fairness of the merger ratio; and

- on the basis of post announcement trading in Federation securities and the merger ratio, it is possible that holders of Novion convertible notes could exercise their conversion right. However, as the conversion price is adjusted downward upon a change of control event (such as the Merger), it is unlikely that holders will elect to exercise their conversion rights prior to implementation of the Merger. As Novion has the option to cash settle the notes (and under the note documentation cash settlement is the only possibility post implementation of the Merger), Novion would pay an amount to noteholders in excess of the face value of the notes (\$299.5 million). Based on Federation security prices in the range of \$2.90-3.10 (equivalent to \$2.39-2.55 per Novion security) the premium payable would be in the order of \$15-35 million. This reduces Novion's contribution of fundamental value to the Merged Group relative to the 63.9% that it receives which means that, if taken into account, the Merger would be more fair for Novion securityholders (albeit marginally).

In Grant Samuel's view, neither the performance rights or conversion of Novion's convertible notes change the conclusion that the merger ratio represents fair value for Novion securityholders.

6.3 Reasonableness

6.3.1 Conclusion

As the Merger is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Merger and which Novion securityholders should consider in determining whether or not to vote for or against the Merger. These factors are set out in the following sections.

6.3.2 Advantages and Benefits

The advantages and benefits for Novion securityholders if the Merger is approved include:

(i) Essential investment characteristics do not change and the growth outlook is enhanced

The Merger brings together two major Australian integrated retail property groups. Novion securityholders will retain their exposure to Novion's retail property portfolio and retail management platform (albeit on a diluted basis) and gain a 63.9% interest in Federation's retail property portfolio and retail management platform. Prima facie, the essential investment characteristics for Novion securityholders do not change materially as their investment returns remain the combination of passive retail property investment returns and active retail property management.

Combining Novion and Federation will create an integrated property group with a portfolio of retail property assets encompassing the full spectrum of Australian retail assets from super-regional centres to outlet centres. For Novion securityholders there will be a decreased emphasis on super-regional and regional shopping centres (from 78% of the portfolio value to 61%) and an increase in the proportion of sub-regional shopping centres (from 13% to 27%). There may be securityholders who do not welcome the broadening of the retail focus of their investment and perceive it to be a dilution of the quality of the asset base. However, for Novion securityholders the Merger provides diversification benefits:

- increased geographical diversification across Australia by reducing the weighting to Victoria from 56% to 44% (by value) and the concentration of investment in Chadstone Shopping Centre from 20% to 13% (by value). It also spreads the portfolio

GRANT SAMUEL



exposure across various regions in Australia which have different economic drivers and characteristics; and

- increased exposure to non-discretionary retail spending (with the proportion of supermarket sales to increase from 21% to 32% of the underlying retail spend) reduces the reliance on speciality and department store sales in a volatile environment for “bricks and mortar” retailers (from 42% to 38%).

Moreover, the Merger provides Novion securityholders with:

- an investment in one of Australia's largest integrated property groups. It will be the second largest Australian retail property group (behind Scentre Group) but have a clear lead over the next largest retail property specialist. The Merged Group will have over \$22 billion in AUM invested across the retail asset spectrum. The scale and sector focus of the portfolio is expected to attract leading retail management expertise, a broader range of investment opportunities and substantial scale benefits;
- improved growth opportunities relative to the status quo from:
 - the development potential implicit in the enlarged pipeline as well as the opportunity to accelerate development of Federation's pipeline by combining the management teams. In this regard, Novion's announced pipeline represents 8% of AUM while Federation's represents around 18% of AUM. These development opportunities also span the retail asset spectrum and are diverse in terms of size which reduces the concentration of development risk relative to Novion's historical experience (e.g. Emporium and Chadstone Shopping Centre); and
 - the potential to build on existing strategic partnership relationships and to access a wider range of potential strategic partners; and
- the financial benefits of the identified cost savings (both operational and refinancing) and other potential revenue and strategic synergies (from retailer relationships, operational efficiency, development capability and other benefits of scale).

In summary, the Merger does not change the essential risk/return profile of Novion securityholders (i.e. predominantly that of a retail property owner) and, in fact, provides greater growth opportunities than are currently available in the Novion property portfolio.

(ii) **Projected cost savings are material and underpin increases in attributable underlying earnings and distributions**

The Merger is expected to result in cash savings in the order of \$84 million per annum (after allowing for the interest cost associated with one off costs to implement the saving initiatives). The identified savings are summarised below:

Merger – Identified Annual Cost Savings (\$ million)					
Saving	Gross Amount	Interest Cost	Net Amount	Estimated Timing	One off costs
Corporate overhead and operational savings	49.0	(7.0)	42.0	75% after 12 months and >90% after 24 months	181.0
Refinancing savings	46.0	(11.0)	35.0	upon or after implementation	277.0
Total profit impact	95.0	(18.0)	77.0		458.0
Capitalised savings:					
- operational	5.0	-	5.0	100% in 12 months	-
- refinancing	2.0	-	2.0	upon or after implementation	-
Total capitalised	7.0	-	7.0		-
Total cash savings	102.0	(18.0)	84.0		458.0

GRANT SAMUEL



Novion and Federation together undertook a detailed review of the potential for operational cost savings to be generated by the Merger. The identified operational costs savings primarily relate to the removal of duplication after combining the operations and savings to be achieved from integrating systems and pursuing operational efficiencies. One-off costs associated with obtaining these operational savings are estimated to be \$181 million. Almost all of the identified cost savings are expected to flow through by the end of FY17. A further \$7 million of savings are expected which do not impact underlying earnings but improve cash flows and development returns and are expected within 12 months of implementation.

The identified operational savings are material at around 25-30% of the aggregate cash costs of Novion and Federation and are expected to result in a management expense ratio of 0.26% that is at the low end of property sector experience. However, the pro forma analysis assumes that the operating costs savings are available immediately upon implementation. In reality, the operating savings will emerge over time with around 85% expected after 12 months of implementation of the Merger. There is also the potential for further savings to be achieved during the integration process.

The other savings identified by Novion and Federation represent the impact of taking advantage of the current low interest rate environment and repricing all of the interest bearing liabilities of the Merged Group to reflect current rates. On this basis, the weighted average cost of debt of the Merged Group is expected to be 4.1% (compared to Novion's current weighted cost of debt of 5.3% and Federation's 4.8%). Although the one-off costs associated with refinancing are material and essentially offset the direct interest rate benefit, the lower annual interest cost enhances distributable income and the new facilities provide an extended maturity profile.

Based on the Merger ratio and the proforma analysis set out in the Scheme Booklet, Novion securityholders would experience an increase in underlying earnings and distribution per security (on an equivalent basis) notwithstanding a proposed reduction in payout ratio as shown below:

Proforma Impact per Equivalent Novion Security (Identified Cost Savings)					
	Proforma Novion Standalone	Proforma Merged Group	Equivalent Novion Security	Change	
				Amount	%
Underlying earnings	13.8¢	19.2¢	15.8¢	+2.0¢	+14.6%
Distribution	13.8¢	18.3¢ ⁵²	15.0¢	+1.2¢	+8.9%
Payout ratio	100%	95%	95%	-5%	-5.0%
Management expense ratio	0.39%	0.26%	0.26%	-0.13%	-33.0%

This outcome is underpinned by the magnitude of the operational cost savings (excluding the additional cost savings that are expected to be capitalised) as well as the refinancing savings. However, although the refinancing is being undertaken in conjunction with the Merger, the refinancing opportunity exists for Novion on a standalone basis (e.g. Novion's current weighted average cost of debt is around 5.3% and weighted average maturity around 3.9 years). In addition, the proforma analysis assumes all existing debt arrangements are refinanced which may not actually be the case.

Accordingly, a better measure of the underlying impact on Novion securityholders is to exclude the benefits (and costs) of the refinancing from the proforma merger analysis. Novion securityholders will still experience an increase in underlying earnings and distributions per security (on an equivalent basis), albeit to a lesser extent, as shown below:

⁵² Assuming target payout ratio of 95% of underlying earnings.

GRANT SAMUEL



Proforma Impact per Equivalent Novion Security (Operating Cost Savings Only)					
	Proforma Novion Standalone	Proforma Merged Group	Equivalent Novion Security	Change	
				Amount	%
Underlying earnings	13.8¢	18.3¢	15.1¢	+1.3¢	+9.3%
Distribution	13.8¢	17.4¢ ⁵²	14.3¢	+0.5¢	+3.8%
Payout ratio	100%	95%	95%	-5%	-5.0%
Management expense ratio	0.39%	0.26%	0.26%	-0.13%	-33.0%

In either case it should be noted that if Novion's and Federation's negotiations with the ACCC result in divestments of assets there could be a negative impact on earnings of the Merged Group depending on the sale price realised and how the funds realised are reinvested (e.g. new assets or debt reduction). However, even in a worst case there is still likely to be a meaningful uplift in underlying earnings per security.

(iii) **The security register will be more open and Novion securityholders retain the opportunity to realise a premium for control**

Following implementation of the Merger, former Novion securityholders will collectively hold around 63.9% of the Merged Group and former Federation securityholders will collectively hold around 36.1%. Novion's largest existing substantial securityholder is The Gandel Group with a relevant interest of 26.98%. Based on substantial securityholder notices, the major securityholders in the Merged Group are expected to be as follows:

Merged Group – Major Securityholders		
Securityholder	Number of Securities	Percentage ⁴⁹
The Gandel Group	682,861,293	17.25%
UniSuper Ltd	285,975,375	7.22%

Source: Grant Samuel analysis

The Merged Group's security register will remain relatively widely distributed with no controlling securityholder or securityholder bloc. The Gandel Group will be the largest securityholder of the Merged Group with a 17.25% relevant interest. The Gandel Group will also nominate two directors to the board of the Merged Group. Nevertheless, the dilution of The Gandel Group's relevant interest from 26.98% to 17.25% will mean that the Merged Group's register is significantly more open than Novion's existing register.

In this context, it is important to understand that Novion securityholders will not give up the opportunity to realise a premium for control at some time in the future. There will still be an opportunity to realise a full premium through a subsequent change of control transaction involving the Merged Group and, at least in theory, the reduction in The Gandel Group's interest increases the prospect of this occurring (although the sheer size of the Merged Group may reduce the potential for future offers).

(iv) **Other Advantages**

There are a number of other advantages for Novion securityholders:

- prior to the announcement of the Merger, Novion had a market capitalisation of \$7.1 billion and was a member of all key S&P/ASX indices (with a 6.8% weighting in the S&P/ASX 200 A-REIT Index and the seventh largest entity in that index). The Merged Group is expected to have a market capitalisation in excess of \$11 billion and become:
 - the third largest ASX listed integrated property group (after Westfield Corporation and Scentre Group);
 - the second largest ASX listed integrated property group focussed on retail property assets in Australia (after Scentre Group);

GRANT SAMUEL



- a top 30 ASX listed entity; and
- a top 10 listed manager of retail property assets globally⁵³.

There will be no change in the aggregate free float as a result of the Merger and therefore no change in the aggregate weighting in the indices. However, the increase in size and position in the indices (both domestic and international) should have an indirect impact on liquidity as the Merged Group will gain the attention of a greater range of equity investors. In addition, the Merged Group's proforma NTA of \$9.2 billion (based on a \$14.1 billion investment property portfolio) is expected to enhance funding flexibility and gain access to a broader range of funding sources; and

- Novion securityholders will be entitled to Federation distributions on a pari passu basis with Federation securityholders from implementation date. As implementation of the Merger is expected prior to 30 June 2015, Novion securityholders are expected to receive the Federation distribution for the six months ended 30 June 2015 which is forecast to be 8.5 cents per stapled security. Based on the merger ratio, this means that Novion securityholders will receive a distribution of 7.0 cents per Novion security (on an equivalent basis). This represents a small increase (1.45%) over the expected Novion distribution for the same period of 6.9 cents per security.

6.3.3 Disadvantages, Costs and Risks

The costs, disadvantages and risks for Novion securityholders if the Merger is approved include:

(i) **There is a decrease in NTA and an increase in gearing as a result of transaction and integration costs**

Based on the Merger ratio and the proforma analysis set out in the Scheme Booklet, Novion securityholders would experience a decrease in NTA backing and an increase in gearing (depending on the measurement basis) as shown below:

Proforma Impact per Equivalent Novion Security (Identified Cost Savings)					
	Proforma Novion Standalone	Proforma Merged Group	Equivalent Novion Security	Change	
				Amount	%
NTA	\$1.97	\$2.32	\$1.90	-\$0.07	-3.3%
Gearing (including intangibles)	28.8%	28.8%	28.8%	-%	-%
Gearing (excluding intangibles)	29.8%	31.1%	31.1%	+1.3%	+4.4%

These proforma impacts are primarily the result of the estimated \$458 million in costs associated with implementing the Merger and achieving the identified cost savings. The proforma analysis also assumes that all existing debt arrangements are refinanced which may not actually be the case. If the impacts of the refinancing are excluded from the proforma margin analysis (as it is not necessarily a direct consequence of the Merger), these financial impacts are minimal:

Proforma Impact per Equivalent Novion Security (Operating Cost Savings Only)					
	Proforma Novion Standalone	Proforma Merged Group	Equivalent Novion Security	Change	
				Amount	%
NTA	\$1.97	\$2.39	\$1.96	+\$0.01	-0.5%
Gearing (including intangibles)	28.8%	27.1%	27.1%	-1.7%	-5.9%
Gearing (excluding intangibles)	29.8%	29.2%	29.2%	-0.6%	-2.0%

In considering these impacts, Novion securityholders should note that:

⁵³ Based on the constituents of the FTSE EPRA/NAREIT Global Index, adjusted to include CapitaLand Limited.

GRANT SAMUEL



- the decrease in NTA per security following the Merger is unlikely to have any adverse impact on the security price of the Merged Group because that is largely driven by distribution per security rather than NTA; and
- gearing (no matter how measured) remains well within Novion's target gearing level of 25% to 35%.

(ii) There is a reduction in credit rating

The expected credit rating for the Merged Group of at least "A-" which underlies the cost savings associated with the refinancing (which is yet to be confirmed by S&P) is potentially lower than Novion's current long term S&P rating of "A". This impacts the rates at which the Merged Group can borrow and may impact access to certain debt markets relative to Novion on a standalone basis. In addition, it means the potential interest saving that could be available to Novion on refinancing its own borrowings could be higher on a standalone basis than its relative share of refinancing savings under the Merger.

(iii) Transaction and integration costs are significant

Transaction and integration costs related to the Merger are estimated to total around \$458 million, of which Novion securityholders will effectively fund 63.9% (\$294 million). These costs include transaction costs estimated at \$106 million (such as stamp duty, advisory and other implementation costs) and costs associated with achieving the identified operational cost savings (\$75 million) and the identified refinancing savings (\$277 million). These costs are one off and material in the overall context of the Merged Group at around 4% of the aggregate market capitalisation of Novion and Federation at announcement date (\$11.5 billion). However, if the financing costs are excluded (as there is an offsetting benefit) the costs represent around 1.5% of aggregate market capitalisation.

Of these costs, approximately \$6 million will be incurred by Novion on a standalone basis if the Merger does not proceed. In certain circumstances, Novion will also be liable to pay Federation a \$40 million break fee (although not if securityholder approval is not forthcoming). On the other hand, in certain circumstances, Federation will be liable to pay Novion a \$40 million break fee.

(iv) There are integration risks

There are implementation risks in any merger. In this case, the scale of the operations accentuate the risks associated with integrating the operations. In particular, it should be recognised that:

- the board and senior management teams of the Merged Group will be a mix of Novion and Federation's existing boards and management teams. Blending two organisations always involves some risk because of different skill sets, historical work priorities and organisational culture;
- the identified operational costs savings mean that:
 - there will be redundancies and potential loss of corporate knowledge as well as industry relationships;
 - significant existing national systems (including IT and management reporting systems) are to be integrated; and
- Novion and Federation are party to contracts which may allow the counterparty to review, terminate or take specified action upon implementation of the Merger.

Accordingly, there is risk of delays and increased costs in implementation of the post Merger integration and systems changes are usually fraught with challenges and problems. In addition, there is no certainty that the estimated cost savings of the Merger will be achieved. However, these risks may be mitigated by the following factors:

- over 90% of the earnings of the Merged Group will be derived from property assets and there is limited overlap in the property portfolio;

GRANT SAMUEL

■ ■ ■

- a detailed review was undertaken by Novion and Federation in relation to the potential cost savings associated with the Merger as part of the due diligence processes undertaken by Novion and Federation on each other prior to announcement;
- property management is a process orientated business;
- approximately 47% of the gross cost savings (and 60% of the one off costs) relate to the refinancing of borrowings which is assumed to occur upon and after implementation of the Merger. Novion and Federation have already negotiated and agreed the bridge facility and revolving loan facilities. The basis of the assumed refinancing is set out in Sections 7.7 and 8.5 of the Scheme Booklet. However, it is not certain that all existing debt financing arrangements will be refinanced on implementation of the Merger;
- some level of contingency has been allowed in the cost estimate;
- as all the borrowings are intended to be refinanced, third party consents required to implement the Merger are minimal;
- third party property and asset management agreements will largely remain on foot following implementation of the Merger; and
- although Novion and Federation consider that pre-emptive rights will not be triggered in relation to assets jointly owned with third parties, should any pre-emptive rights under co-owner arrangements be triggered by the Merger, the net impact would likely be immaterial as market values would generally be received.

Furthermore, in this case the complementary nature of the Novion and Federation investment portfolios and operations should reduce such risk.

6.3.4 Alternatives

In deciding to enter into the merger implementation agreement the Novion board considered Federation's October 2014 unsolicited expression of interest in detail relative to Novion's strategic landscape and alternatives, undertook a due diligence process on Federation and undertook a detailed assessment of the ability to achieve the identified cost savings. Based on this process, the board decided that the Merger represents a unique and compelling opportunity that creates significant value for Novion securityholders. In light of this extensive process, the alternative for Novion securityholders is to maintain the status quo. On this basis, securityholders should recognise that:

- the terms of the Merger reflect fair value for Novion securityholders;
- while refinancing cost savings may be available to Novion on a standalone basis, the material uplift in earnings and distributions is underpinned by the operational cost savings only available as a result of the Merger;
- the Merger enhances the growth outlook for securityholders relative to Novion on a standalone basis. Novion has the in-house capacity and expertise to assist Federation execute and accelerate their significant development pipeline, potentially leading to substantial value creation; and
- the portfolios and expertise of Novion and Federation are highly complementary and the Merger creates a significant market participant.

It is not possible to know whether there may be an alternative that is superior to the Merger. It is conceivable that a third party could put an alternative proposal to Novion (including a takeover offer at a greater premium to the market price than offered by the merger ratio). If this arises it would be considered on its merits. However, to date no alternative proposal has been put to Novion and the extent of interest in Novion from other parties is unknown.

The key points for Novion securityholders are:

- the Merger does not prevent any control transaction from taking place in the future (although the size of the Merged Group may reduce the range of interested parties);

GRANT SAMUEL



- in Grant Samuel's opinion, the Merger is fair and reasonable to, and in the best interests of Novion securityholders. They are likely to be better off if the Merger is implemented than if it is not (i.e. the status quo); and
- there has been opportunity for other parties to come forward and that opportunity will remain until the securityholder meetings at the end of May 2015.

6.3.5 Other Matters

(i) Market value implications

At announcement, the terms of the Merger implied a value of \$2.55 per Novion security or a 9.9% premium over Novion's pre announcement price (\$2.32) and similar premiums over longer periods as follows:

Novion – Premium over Pre announcement Prices				
Period	Federation Price/VWAP	Consideration at Merger Ratio	Novion Price/VWAP	Premium
2 February 2015 – Pre-Merger announcement	\$3.10	\$2.55	\$2.32	9.9%
1 week prior to 2 February 2015 (VWAP)	\$3.04	\$2.50	\$2.30	8.7%
1 month prior to 2 February 2015 (VWAP)	\$2.96	\$2.43	\$2.21	10.0%
3 months prior to 2 February 2015 (VWAP)	\$2.83	\$2.33	\$2.17	7.4%
6 months prior to 2 February 2015 (VWAP)	\$2.71	\$2.23	\$2.11	5.7%
12 months prior to 2 February 2015 (VWAP)	\$2.58	\$2.12	\$2.06	2.9%

Source: IRESS and Grant Samuel analysis

Since the Merger announcement, Federation securities have fallen in value, trading in the range \$2.87-3.19 (at a VWAP of \$3.01) and on 31 March 2015 closed at \$3.04. In the same period, Novion securities have traded in the range \$2.43-2.70 (at a VWAP of \$2.53) and closed at \$2.51 (compared to a value of \$2.50 implied by Federation's security price and the merger terms). In either case, these prices suggest a material uplift in value for Novion securityholders if the Merger is implemented.

Whether this uplift will be sustained is uncertain. The actual trading price of the Merged Group could be higher or lower and will depend, inter alia, on a range of factors including market conditions at the time (including the market ratings of peer group entities) and actual operating performance.

Nevertheless, it appears that the market pricing is not unreasonable or irrational. A Merged Group security price in the range of \$2.90-3.10 (equivalent to \$2.39-2.55 per Novion security) represents the following market parameters:

Merged Group Securities – Implied Value Parameters			
Parameter	Variable	Value Parameter Range	
		Low	High
Implied equity value ⁵⁴ (\$ million)		11,480	12,272
Implied enterprise value ⁵⁵ (\$ million)		16,048	16,840
Multiple of FY15 EBIT	\$938 million ⁵⁶	17.1 ⁵⁶	18.0 ⁵⁶
FY15 forecast distribution yield	18.6¢	6.4%	6.0%
Premium over NTA	\$9,166 million	25.2%	33.9%
Premium over ungeared NTA	\$13,734 million	16.8%	22.6%

⁵⁴ Calculated as \$2.90 x 3,958.7 million securities in the Merged Group and \$3.10 x 3,958.7 million securities in the Merged Group.

⁵⁵ Calculated as implied equity value plus proforma net debt of \$4,568 million.

⁵⁶ EBIT does not include any profit margin on development income relating to owned assets. If this profit margin was included the implied EBIT multiples would be lower than presented in the table.

GRANT SAMUEL



These value parameters are broadly consistent with the market evidence for listed integrated retail property groups (as summarised in Section 7.2) having regard to the attributes of the Merged Group. In this regard, it is noted that the Merged Group would:

- be the third largest property group listed on the ASX (after Westfield Corporation and Scentre Group) and the second largest focused on the Australian retail property market (after Scentre Group). It would also become a top 10 listed manager of retail assets globally;
- have a solid track record in development, particularly in revitalising and expanding shopping centres to meet current market demands;
- have an experienced and well regarded management team; and
- have a significant pipeline of development opportunities.

There may also be some scope for a re-rating as both Novion and Federation were trading at distribution yields below 6% prior to announcement of the Merger as are their integrated property group peers (Scentre Group and Shopping Centres Australasia) currently. At the same time, the future Merged Group security price will be largely driven by distribution per security and, until the benefits of the Merger emerge in underlying earnings (i.e. from both cost savings and execution of the combined development pipeline) the extent of any further re-rating is uncertain.

(ii) Voting Intention of The Gandel Group

The Gandel Group (the largest securityholder in Novion with a 26.98% interest) has indicated that it intends to vote in favour of the Merger in the absence of a superior proposal. In this context, securityholders should note that The Gandel Group established Novion's predecessor Gandel Retail Trust in 1994 and is a long term owner and operator in the retail property sector. It is unlikely that The Gandel Group would agree to any change that negatively impacts the value of its investment.

(iii) Taxation Consequences

Details on the taxation consequences of the Merger for Australian resident and non-resident securityholders who are individuals, complying superannuation entities and companies that hold their investment on capital account are set out in Section 11 of the Scheme Booklet.

The Merger will give rise to a capital gains tax ("CGT") event for Novion securityholders. Australian resident securityholders and certain non-resident Novion securityholders are expected to be eligible to receive CGT scrip rollover relief if a capital gain would otherwise have been made from the exchange of Novion securities for Merged Group securities. If securityholders receive rollover relief the capital gain that would otherwise be generated will be deferred until they dispose the Merged Group securities. For a securityholder who chooses not to receive rollover relief, the CGT provisions will apply. Novion has applied to the Australian Taxation Office for a binding class ruling to confirm the availability of CGT scrip for scrip rollover relief. In any event, the taxation consequences for securityholders will depend upon their individual circumstances. If in any doubt, securityholders should consult their own professional adviser.

(iv) Ineligible Foreign Securityholders

Ineligible foreign securityholders (i.e. Novion securityholders with registered addresses outside Australia and its external territories, New Zealand, Papua New Guinea, Hong Kong, Singapore, United Kingdom, United States of America and any other jurisdiction Federation deems appropriate) are not entitled to receive stapled securities in the Merged Group. However:

GRANT SAMUEL



- the Merged Group securities which they would otherwise receive will be sold on market and they will receive the cash proceeds of sale (after payment of any applicable brokerage, taxes and costs) in Australian dollars;
- they can acquire Merged Group securities through the ASX if they wish to retain an exposure to the merged entity; and
- securityholders representing less than 1% of Novion's issued securities are expected to be impacted by these provisions.

6.4 Securityholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Merger is fair and reasonable to, and in the best interests of, Novion securityholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to securityholders in relation to the Merger, the responsibility for which lies with the directors of Novion.

In any event, the decision whether to vote for or against the Merger is a matter for individual securityholders based on each securityholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from securityholder to securityholder. If in any doubt as to the action they should take in relation to the Merger, securityholders should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in Novion, Federation or the Merged Group. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Merger. Securityholders should consult their own professional adviser in this regard.

GRANT SAMUEL



7 Fundamental Value Analysis

7.1 Approach

Overview

For the purposes of assessing the Merger, the fundamental (or underlying) values attributed by Grant Samuel to Novion and Federation represent the aggregate of:

- adjusted NTA which reflects the estimated aggregate market value of the individual properties underlying the investment property portfolio;
- the estimated value of the real estate management platform; and
- the value of capitalised corporate overheads.

These values do not represent full underlying values for Novion and Federation as envisaged for control transactions by RG111 as:

- the market value of the investment property portfolios could be higher than current book value (see discussion below);
- in attributing value to the real estate management platforms the full corporate tax rate of 30% has been assumed to apply to both entities, notwithstanding the existing structure of each entity for taxation purposes; and
- an acquirer of 100% of Novion or Federation might pay for synergies such as corporate overheads or overheads associated with managing owned portfolios that could be eliminated.

However, as there is no clear evidence based benchmark for attributing premiums to a property portfolio and given the currency of independent property valuations for listed entities, Grant Samuel has made no such adjustment to NTA. Furthermore, no allowance has been made for the value that an acquirer might pay for synergies. In any event, for the purposes of assessing the fairness of the Merger, the more critical requirement is to consider relative underlying values on a basis that is consistent across the two entities.

The specific approach adopted for each component of fundamental value is set out below.

Adjusted NTA

Passive property holding REITs are commonly valued by reference to net asset values. For such entities, investment properties are generally carried on the balance sheet at estimated market value and the appropriate valuation methodology is to aggregate the market value of the individual properties. Other assets or liabilities are included based on their estimated market value. This approach represents a measure of the market value of underlying assets and does not purport to represent the net proceeds derived on a winding up of an entity (i.e. it does not reflect costs associated with winding up including potential capital gains tax on realisation of individual properties in the portfolio). Other valuation methodologies (such as capitalisation of earnings and discounting of cash flows of the entity as a whole) are generally not used in the valuation of REITs that hold passive portfolios of properties. However, property valuers use a number of methodologies including discounted cash flow, capitalisation of income and direct comparison (i.e. value per square metre of net lettable area) to determine individual property values.

As a matter of principle, for a passive property holding REIT there should be no “premium for control” above adjusted NTA as it is based on independent valuations for each property in the portfolio which are already “control values”. There is no higher value for these assets as each independent valuation is for 100% of the asset. However, portfolios of properties sometimes change hands at premiums to valuation. The reasons for these premiums vary from case to case but typically reflect one or more of the following factors:

- the value of a portfolio to an acquirer in terms of instant diversification and efficiency (both in time and cost) when compared to accumulating an equivalent portfolio on a piecemeal basis over time. In addition, there is a structural saving (i.e. reduced stamp duty costs) in acquiring a portfolio of properties via the acquisition of a listed REIT;

GRANT SAMUEL



- economies of scale and synergies that can be achieved by the acquirer's existing operations;
- larger portfolios of quality properties have scarcity value and may represent a strategic acquisition for some buyers;
- increases in the value of individual properties since the latest valuations;
- value inherent in development pipelines (either refurbishment or expansion potential or greenfield opportunities); and
- related operating businesses that contribute to earnings (such as property funds management and asset management services).

Equally, property portfolios may change hands at a discount to valuation because:

- not all properties in a portfolio may be equally attractive to acquirers and a discount would be applied to non-core assets;
- of weak market conditions with declining property values and limited access to finance; and
- material cost synergies are not available (e.g. due to geographic spread of portfolio).

There is evidence to suggest that, in current market conditions, premiums over NTA, albeit relatively small, are being paid for portfolios of properties (see Appendix 3). In this regard:

- as REITs have refocused after the challenging market conditions of the 2008-2012 period, investor interest in the sector has increased;
- since 2012, four control transactions involving passive REITs have taken place and one is currently in progress. The completed transactions have occurred at premiums to NTA in the range of 0.7-4.8% (with the offer in progress priced at a 6.5-7.9% premium)⁵⁷. On an ungeared basis (which removes the impact of leverage) the transactions have occurred at premiums in the range 0.5-3.5% (with the offer in progress priced at a 4.1-5.1% premium). However:
 - none of these transactions involved owners of portfolios of retail properties;
 - the premium implied by each transaction reflects the nature and circumstances of the target entity. For example, the 4% premium implied by the offer for Commonwealth Property Office Fund reflects the nature, attractiveness and scarcity of the underlying office property portfolio as well as the competitive bidding process that ensued. In contrast, the 0.7% premium implied by the acquisition of Challenger Diversified Property Group reflected the bidder's existing 58.7% interest; and
 - the premiums are measured against reported NTA. If measured against adjusted NTA (i.e. after allowing a negative value for the impact of the REIT's operating structure including external management fees and other REIT overhead expenses), the implied premiums would likely be higher.

There is also some anecdotal evidence that investors in property assets such as institutional acquirers of portfolio interest are applying yield requirements lower than those used by independent property valuers.

In addition, passive REITs with portfolios of properties are currently trading at premiums to NTA (even on an ungeared basis). In the retail sector, Charter Hall Retail REIT, an externally managed passive property investor, is trading at a premium over ungeared NTA of over 15%. Other passive REITs primarily focussed on industrial and office property (including BWP Trust, 360 Capital Industrial Fund, Investa Office Fund and 360 Capital Office Fund) are generally trading at premiums to ungeared NTA around 10%.

Although the premiums implied by control transactions may be attributable to diversification and scale benefits of acquiring a large portfolio in a single line, the reasons for the premiums implied by current sharemarket ratings for listed passive REITs are less clear but are likely to reflect:

⁵⁷ The acquisitions of Australand Property Group (June 2014) and Westfield ANZ (December 2013) have been excluded from the premium range as both entities had significant operating businesses and the premiums over NTA implied by these transactions provide no meaningful insight into the value attributed to their investment property portfolios.

GRANT SAMUEL



- current investor expectations of capitalisation rate compression (i.e. emerging increases in property valuations); and
- the low interest rate environment which has increased investor interest in higher yielding securities (e.g. Australian diversified REITs are currently trading at forecast distribution yields of 4.5-5.5% compared to bank deposits rates of 2.7-3.3%).

However, given the currency of independent property valuations for listed entities, it is Grant Samuel's opinion that any premium over NTA in current market conditions would be relatively modest. There is no "standard" premium that can be applied to property portfolios as logically premiums are the outcome of transactions not an input to valuation. In any event, for the purposes of assessing the Merger, Grant Samuel considers that not attributing a premium over NTA is appropriate as it enables Novion and Federation to be compared on a consistent basis.

Real Estate Management Platform

Novion and Federation are integrated retail property groups and not passive property holding REITs (although for each entity property investment accounts for over 90% of operating income). Both entities have active real estate management platforms providing funds and asset management services to their owned property portfolios and, to a lesser extent, properties owned by third parties.

The value of the real estate management platforms have been estimated on the basis of value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. They have been valued having regard to both DCF analysis and earnings multiple analysis. The primary focus was on DCF analysis. Earnings multiple analysis has been used as a cross check.

Grant Samuel has reviewed the multiples for real estate management platforms having regard to:

- the sharemarket ratings of selected listed entities with real estate management platforms in Australia (including retail and diversified property groups) as well as integrated retail property groups in Europe and North America; and
- recent transactions involving real estate management platforms in Australia.

This market evidence is analysed in Appendix 4 to this report and summarised in Section 7.2.

Corporate Overheads

Novion and Federation incur costs associated with being listed investment vehicles which are not reflected in NTA or the earnings generated by their real estate management platforms. These corporate overheads include costs associated with managing their property portfolios and costs associated with maintaining a head office, an executive management team and finance, human resources, administration activities as well as listed entity costs. It is likely that a significant portion of these overheads could be eliminated by an acquirer of 100% of the entity with an existing property funds management platform in Australia (depending on their business model).

However, for the purposes of assessing the Merger, Grant Samuel has made no adjustment for corporate overheads that could be eliminated by an acquirer of 100% of Novion and Federation. The existing corporate overheads of each entity have been capitalised having regard to the weighted EBIT multiple implied by the aggregate of adjusted NTA and the value attributed to the real estate management platform. This approach is appropriate as it enables Novion and Federation to be compared on a consistent basis.

7.2 Market Valuation Parameters

Summary

Prior to 2008 there was significant consolidation in the listed REIT sector in Australia the rationale for which was to access the benefits of size and scale (i.e. increased liquidity, greater diversification and a lower cost of capital). During this period, the availability of funds for growth increased the number of listed property groups (including investment, development, funds management and asset management activities) and, due to the limitations of the relatively small

GRANT SAMUEL



Australian market, resulted in the development of Australian domiciled REITs holding international real estate assets and fund managers managing REITs with assets in overseas jurisdictions. This period witnessed a significant level of corporate activity and transaction multiples were relatively high. In particular, transactions involving entities with active property development or syndication activities were undertaken at higher earnings multiples than transactions relating to management rights associated with more passive real estate asset management and fund management services.

The global economic downturn (which commenced with the global financial crisis in late 2007) had a significant impact on the Australian property sector. Market conditions were challenging with limited access to debt and equity funding, declining property values and weaker economic conditions with most transactions in the 2008-2012 period reflecting a level of financial distress for the target. However, since 2012 as REITs and integrated property groups refocused (e.g. following sale of non-core assets, divestment of overseas portfolios) and market conditions stabilised, investor interest and corporate activity in the property sector has increased. In particular, since late 2013 capital raisings to fund acquisitions and initial public offerings have increased, while strategic merger and acquisition activity has also increased.

Accordingly, in its review of market valuation parameters, Grant Samuel has focussed on transaction evidence since 2012 as well as the current sharemarket ratings of comparable entities.

The market valuation parameters relevant for the value analysis of Novion and Federation are summarised below.

Transaction Evidence

(i) Integrated Property Groups

Since 2012, the only transaction involving an Australian integrated property group focussed on the retail sector is the restructure of Westfield Group and Westfield Retail Trust (announced in December 2013 and completed in June 2014). Under the restructure Westfield Group's Australia and New Zealand business ("Westfield ANZ") was merged with Westfield Retail Trust to form a new entity, Scentre Group, and the remainder of Westfield Group's operations (its international business) became Westfield Corporation. Both entities were listed on the ASX and remain so. Westfield ANZ comprised a \$14.7 billion retail property investment portfolio in Australia and New Zealand as well as an integrated operating platform with capabilities in property management, design, development, construction and leasing and funds management and AUM totalling \$38.6 billion (inclusive of its own property portfolio).

Due to the nature of the restructure, transaction metrics are difficult to assess precisely and vary depending on how the consideration for the transaction is determined and various other assumptions. Based on the value attributed by the independent expert for Westfield Group to the consideration received for Westfield ANZ (i.e. securities in Scentre Group) (\$8.1-8.8 billion based on a price range of \$3.15-3.40 per Scentre Group security), the transaction implies:

- historical EBIT multiples of 14.3-14.9 times and forecast EBIT multiples of 13.4-14.0 times (or historical multiples of 13.0-13.6 times and forecast multiples of 12.7-13.2 times "economic EBIT"); and
- high premiums over NTA (40.6-51.7%) reflecting Westfield ANZ's substantial and high quality retail real estate platform as well as its relatively high gearing. On an ungeared basis, the premium remains high at 18.1-23.1%.

The valuation parameters implied by this transaction reflect Westfield ANZ's status as the leading retail property owner and manager in Australia and New Zealand. In addition, it should be noted that:

- the consideration range used to calculate the metrics represents portfolio interests and does not incorporate a premium for control; and
- the implied multiples reflect the mix of earnings derived by Westfield ANZ (property rental income approximately 80%, property management income and project development income).

GRANT SAMUEL



(ii) Real Estate Management Platforms

There have been a number of transactions involving the acquisition of real estate management platforms in recent years. Set out in Appendix 4 is an analysis of those transactions for which there is sufficient information to prepare meaningful valuation parameters. Based on that data, the valuation parameters for the most comparable transactions to the Novion and Federation real estate management platforms are set out below:

Recent Transaction Evidence - Real Estate Management Platforms						
Date	Target	Property Category	Consideration (\$ millions)	EBIT Multiple (times)		Multiple of net savings
				historical	forecast	
Dec 2013	CFSGAM's property management platform	Retail	475.0	na	11.8 ⁵⁸	9.8
Dec 2013	Westfield ANZ real estate platform: - total consideration basis - expert valuation basis	Retail	2,656-3,301	7.8-9.7 ⁵⁸	8.2-10.2 ⁵⁸	na
		Retail	3,000-3,500	8.8-10.3 ⁵⁸	9.2-10.8 ⁵⁸	na
Aug 2011	Centro Properties Group's services business	Retail	240.0	6.0	6.8	na
Feb 2010	Real estate management platform for Macquarie Group	Diversified	108.0	4.3	7.7	na
Feb 2008	DB RREEF Holdings Pty Limited (remaining 50% interest)	Diversified	260.0	na	10.5	na

Source: Grant Samuel analysis (see Appendix 4)

Each of these transactions is of substantial scale and involves active funds and asset management activities. However:

- CFSGAM's property management platform represents the internalised management function of Novion. It should be noted that CFSGAM's earnings included:
 - a substantial element of funds management income that was arguably less secure (as the responsible entity could be removed by a simple majority vote by securityholders); and
 - payment for the accrued balance of performance management fees (at the maximum level allowed per annum) which is an income stream with a limited life and some uncertainty.

Accordingly, the underlying multiples attributable to CFSGAM's real estate management income are higher than the average multiple of 9.8 times net savings;

- the acquisition of Westfield ANZ's real estate management platform was one component of the wider Westfield Group restructuring transaction discussed above. It was not a separate transaction for which a definitive value can be assessed. The transaction metrics inferred by the restructuring transaction vary depending on how the consideration for that transaction is valued and how much of it is attributed to the platform. There are two ways of assessing the implied value of Westfield ANZ's platform:
 - by reference to value attributed by the independent expert for Westfield Group to the consideration received for Westfield ANZ (i.e. securities in Scentre Group) (\$8.1-8.8 billion based on a price range of \$3.15-3.40 per security) less the value attributed to Westfield ANZ's investment property portfolio, other operating assets and liabilities and corporate overheads (i.e. \$2,656-3,301 million); and
 - by reference to the values attributed to the platform by the independent experts for Westfield Retail Trust and for Westfield Group (\$3,000-3,500 million).

However:

- on neither basis do the implied values incorporate a premium for control;
- on average, project income (i.e. development management activities) represented around 55% of total revenue. Generally lower overall multiples are attributed to that element of the business (compared to, say, property management income);

⁵⁸ EBIT multiples for the CFSGAM property management platform and Westfield ANZ real estate management platform are calculated using "economic EBIT" which includes income from internally owned assets.

GRANT SAMUEL



- the Westfield ANZ platform was substantially larger than any other Australian retail real estate management platform with total AUM of \$38.6 billion and a substantial growth profile; and
 - the multiples presented have been calculated by reference to the “economic EBIT” for the platform (i.e. including both external and internal revenue).
- the Centro Properties services business was involved exclusively in the retail sector but the acquisition occurred as part of the restructuring/recapitalisation which formed Federation, which may be reflected in lower implied multiples. At the time of the transaction, this business included a significant syndicates business which has now been wound up;
 - the Macquarie Group property funds management platform’s primary focus was the office sector. This transaction occurred as part of Macquarie Group’s strategy to exit its listed funds businesses at a time of restricted liquidity and negative market sentiment towards the satellite fund model. Higher multiples would be expected for a retail property platform; and
 - the price paid for the remaining 50% interest in DB RREEF Holdings Pty Limited (the responsible entity for DB RREEF Trust, now DEXUS), was set in August 2004 when the initial 50% interest was acquired and therefore the implied multiples may not reflect those achievable in current market conditions. In addition, although the business managed office, retail and industrial assets, the major focus was the office sector. However, there were significant third party management activities.

*Evidence from Sharemarket Prices***(i) Integrated Property Groups**

The following table sets out the implied premium/discount to ungeared NTA, EBIT and FFO multiples and distribution yields for integrated retail and diversified property groups (with retail activities) in Australia as well as integrated retail property groups in the United States and Europe based on share prices as at 31 March 2015:

Sharemarket Ratings of Selected Listed Integrated Property Groups										
Entity	Ungeared Premium/ (Discount) to NTA	EBIT Multiple			FFO Multiple			Distribution Yield		
		FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
<i>Australia – Integrated Retail</i>										
Westfield Corporation	60.1%	nmf	22.5	20.9	nmf	19.3	18.4	nmf	3.5%	3.5%
Scentre Group	15.9%	nmf	15.9	15.7	nmf	16.6	16.2	nmf	5.6%	5.7%
Shopping Centres Australasia	10.9%	18.4	16.5	16.2	18.7	16.4	16.6	5.4%	5.6%	6.0%
<i>Australia – Integrated Diversified</i>										
Stockland Group	19.4%	23.9	20.3	18.5	18.1	18.3	16.9	5.3%	5.3%	5.3%
The GPT Group	13.1%	17.7	17.6	17.1	17.0	16.4	16.0	4.6%	5.0%	5.1%
Mirvac Group	13.5%	16.9	16.3	15.1	16.2	18.3	17.6	4.5%	4.6%	5.0%
DEXUS Property Group	11.1%	nmf	14.5	13.7	nmf	12.7	13.1	nmf	5.4%	5.7%
<i>North America – Integrated Retail</i>										
Simon Property Group	na	22.0	17.5	16.6	22.0	20.0	18.2	2.6%	3.0%	3.2%
General Growth Properties	na	25.9	19.6	18.0	21.3	20.7	18.8	2.1%	2.4%	2.6%
The Macerich Company	na	29.7	22.5	21.4	24.5	22.5	20.9	2.9%	3.1%	3.2%
Kimco Realty Corporation	na	20.8	20.8	19.4	18.5	18.0	17.2	3.4%	3.6%	3.7%
Brixmor Property Group Inc.	na	16.5	na	na	14.8	13.5	12.5	3.1%	3.4%	3.6%
DDR Corp	na	19.9	17.3	16.7	16.9	15.1	14.0	3.3%	3.7%	3.9%
Taubman Centers	na	18.2	16.6	15.1	24.8	23.7	21.0	2.8%	2.9%	3.0%
Weingarten Realty Investors	na	18.5	17.2	16.3	17.5	16.9	15.9	4.3%	3.8%	4.0%
Riocan REIT	na	20.8	na	na	17.6	16.7	15.9	4.9%	4.9%	4.9%
<i>Europe – Integrated Retail</i>										
Unibail-Rodamco	40.3%	36.9	28.7	26.7	23.0	24.3	22.6	3.5%	3.8%	4.0%
Klépierre	56.7%	nmf	23.3	22.7	nmf	21.8	21.0	nmf	3.6%	3.8%
Hammerson	3.3%	20.9	26.5	25.2	28.4	26.4	24.6	3.1%	3.2%	3.4%
Intu Properties	2.0%	22.2	21.6	20.9	26.2	24.7	24.3	3.9%	3.9%	3.9%

Source: Grant Samuel analysis (see Appendix 3)

GRANT SAMUEL



When reviewing this data the following should be noted:

- the value parameters are based on sharemarket prices and do not reflect a premium for control;
- Shopping Centres Australasia, Stockland Group, Mirvac Group and DEXUS Property Group have 30 June year ends (consistent with Novion and Federation) and therefore for these entities FY14 equates to the year ended 30 June 2014. For all other entities, which have 31 December year ends, FY14 equates to the year ended 31 December 2014;
- on 9 March 2015 Simon Property Group announced a proposal to acquire The Macerich Company ("Macerich") and therefore the multiples for Macerich are based on the last price on the day prior to the announcement;
- the historical valuation parameters for Westfield Corporation, Scentre Group, DEXUS and Klépierre are not meaningful as each participated in transformational corporate transactions in the historical financial year;
- although listed in Australia, Westfield Corporation's assets are located in the United States and the United Kingdom and it reports earnings and pays distributions in United States dollars. It is rated highly relative to its peers (both domestic and international) reflecting its substantial development pipeline including US\$2.4 billion currently under construction (for which earnings emerge in the period to mid 2016), US\$1.8 million due to commence construction during 2015 and a further US\$7 billion of identified pipeline projects; and
- Stockland Group trades at a premium to its diversified peers possibly as a result of its significant land bank and its exposure to Australian residential building activity.

(ii) Real Estate Management Platforms

The only listed entity of scale with a primary focus on real estate funds and asset management is Charter Hall Group. Consequently, Grant Samuel has also reviewed Australian listed integrated property groups with AUM in excess of \$5 billion. This review has involved adjusting the market rating and earnings of each entity to exclude property investment activity based on book values for assets. The results of this analysis are set out in Appendix 4. For the reasons detailed in the appendix, it is only possible to meaningfully analyse two entities (Charter Hall Group and DEXUS Property Group) with implied prospective multiples falling broadly in the range of 16-24 times EBIT. However, this is a relatively crude process, being dependent on the level of disclosure and allocation of corporate expenses to business segments and it assumes the value attributed to property investments is equal to book value. The results of this analysis should be treated with considerable caution.

7.3 Fundamental Value of Novion

7.3.1 Summary

Grant Samuel has attributed a fundamental value to Novion in the range \$6,166-6,276 billion. This value is the aggregate of the adjusted NTA (reflecting the market value of its property investment portfolio) and real estate management platform less capitalised corporate overheads. The value is summarised below:

Novion – Fundamental Value Summary (\$ millions)			
	Section Reference	Value Range	
		Low	High
Adjusted NTA	7.3.2	5,825.9	5,865.9
Real estate management platform	7.3.3	700.0	750.0
Corporate overheads	7.3.4	(360.0)	(340.0)
Fundamental Value for Novion		6,165.9	6,275.9

For the reasons set out in Section 7.1, fundamental value does not represent Grant Samuel's assessment of the full underlying value of Novion.

GRANT SAMUEL



7.3.2 Adjusted NTA

Grant Samuel has estimated adjusted NTA for Novion to be \$5,826-5,866 million. This estimate is based on Novion's unaudited proforma NTA as at 31 December 2014 of \$6,064 million (see Section 3.5 of this report). Various adjustments have been made to derive adjusted NTA which is more appropriate for the purposes of evaluating the Merger. These adjustments are summarised below:

Novion – Adjusted NTA (\$ millions)		
	Low	High
Unaudited proforma NTA as at 31 December 2014	6,064.0	6,064.0
NTA of real estate management platform	(19.2)	(19.2)
Capitalised borrowing costs	(8.9)	(8.9)
Capitalised overheads (net)	(210.0)	(170.0)
Adjusted NTA	5,825.9	5,865.9

Adjusted NTA represents the fundamental value of Novion Trust after allowing for the distribution for the six months ended 31 December 2014. As it is based on estimates of the market value of each property in the portfolio, it is a "control" value (i.e. it assumes 100% ownership of the assets). Although it may be appropriate to allow for premiums for reasons other than control, as discussed in Section 7.1, for the purposes of assessing the Merger no such adjustments have been made.

The adjustments made by Grant Samuel are discussed below:

■ Investment Property Portfolio

Unaudited proforma NTA as at 31 December 2014 (\$6,064 million) is based on book values for each of Novion's properties which reflect valuations undertaken by independent valuers plus subsequent capital expenditure, amortisation of lease incentives and (where relevant) capital works in progress not included in the valuations. 17 of Novion's 28 investment properties were independently valued in the two months to 31 December 2014 (52% of portfolio value) but all of Novion's properties have been independently valued since May 2014.

Grant Samuel has relied on the independent valuations for the purposes of its report and did not undertake its own valuations of the properties. Given the nature of the evaluation, Grant Samuel does not have any reason to believe that it is not reasonable to rely on these valuations for this purpose. Grant Samuel has undertaken a review of the independent valuations given current market conditions and notes that:

- the external valuers have accepted instructions only from Novion RE and have confirmed that they satisfy the requirements in the Corporations Act that:
 - they are suitably qualified individuals with the requisite five years of appropriate experience;
 - they are authorised by law to practice as a valuer; and
 - they regard themselves as independent;
- the external valuers have been given appropriate instructions consistently;
- there were no restrictions in the scope of the independent valuers' engagements or other terms which may have impacted on the quality of the valuations;
- the external valuers have prepared their valuations in accordance with the standards of the Australian Property Institute; and
- the external valuers have utilised standard property valuation methodologies (i.e. discounted cash flow, capitalisation of net income and direct comparison (i.e. value per square metre of net lettable area)) with the value conclusion selected having regard to the results of each methodology.

This review does not, however, imply that the valuations have been subject to any form of audit or due diligence.

GRANT SAMUEL



The valuations for Novion's investment property portfolio were undertaken on a going concern basis in accordance with current use. In addition, the valuations:

- assume the properties are sold on an individual basis (i.e. the valuers have not had regard to the potential effect of selling the properties in one line);
- deduct the net present value of unexpired tenant incentives;
- allow for the existing property management arrangements and, if necessary, the valuer adjusts property management fees to bring them into line with market averages;
- allow for selling costs (i.e. cash flows used in the discounted cash flow approach are net of selling costs and yields utilised in the capitalisation of earnings approach implicitly incorporate selling costs) in accordance with normal property valuation methodologies; and
- do not reflect any other costs for the owner on realisation of the asset (e.g. taxes).

As all of Novion's properties have been independently valued in the last ten months (52% by value within the last five months) and given the nature of the assets being valued (i.e. passive investments in retail property assets for which there is no liquid market), it is unlikely that there has been any material change in the market value of the portfolio. Furthermore, Novion's practice of desktop value reviews of properties not independently valued immediately prior to period end should identify any potential material movements in individual property valuations.

Novion's major development project currently under construction is the \$580 million (Novion share \$290 million) Chadstone Shopping Centre north retail and office development. Grant Samuel notes that Chadstone Shopping Centre was independently valued at 31 December 2014 and that the current project was reflected in the independent valuation (i.e. the valuation has been undertaken on an "on completion" basis after allowing for the costs to complete the expansion). Accordingly, there is no material latent valuation upside relating to this project.

■ **NTA of Real Estate Management Platform**

Unaudited proforma NTA at 31 December 2014 includes \$19.2 million in NTA relating to Novion's real estate management platform. This amount has been excluded in deriving adjusted NTA as it has been separately reflected in the value attributed to the real estate management platform (see Section 7.3.3).

■ **Capitalised Borrowing Costs**

Unaudited proforma NTA at 31 December 2014 includes an \$8.9 million asset representing the unamortised balance of certain borrowing costs which have been capitalised for accounting purposes (see Section 3.5). These are not assets that are realisable and therefore have been excluded in deriving adjusted NTA.

■ **Capitalised Overheads**

Unaudited proforma NTA does not reflect the indirect overhead costs associated with owning an investment portfolio (accounting, treasury, monitoring, planning, etc.). In Novion's case, this cost is incurred by way of funds management fees charged by the real estate management platform to Novion Trust. Separately there is an alignment fee to which Novion Trust is entitled. The net cost to Novion Trust of these items is estimated to be around \$24 million per annum. For the purposes of assessing adjusted NTA, Grant Samuel has attributed a capitalised value of \$170-210 million (net) to these items. The overheads/funds management fee have been capitalised having regard to recent transactions involving property funds management rights (approximately 10-11 times) but taking into account the evergreen nature of Novion's arrangement. In contrast, the alignment fee has been capitalised at the weighted average capitalisation rate of Novion's property portfolio at 31 December 2014 of 6.15%.

GRANT SAMUEL



Grant Samuel has made no adjustments to unaudited proforma NTA for:

- any difference between the market value of Novion's equity accounted investments and book value on the basis of immateriality; and
- the possibility that Novion's convertible notes (which are treated as interest bearing liabilities for accounting purposes) may be converted by noteholders as discussed in Section 6.2.5 of this report.

7.3.3 Real Estate Management Platform

(i) Overview

Grant Samuel has estimated the value of the Novion's retail real estate management platform to be in the range \$700-750 million. The value is a subjective judgement having regard to both DCF analysis and earnings multiple analysis and allows for:

- the carried forward income tax losses and the tax deductions which Novion Limited is entitled to claim over the next four tax years; and
- NTA of \$19.2 million for the real estate management platform (see Section 7.3.2).

The primary focus was on DCF analysis. Earnings multiple analysis has been used as a cross check. The value ranges selected are judgements derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of the DCF analysis in terms of the various scenarios and their likelihood.

(ii) DCF Analysis

Introduction

A DCF model for the management platform has been developed by Grant Samuel with input from Novion and with reference to the economic EBIT of Novion's real estate management operating platform for the six months ended 31 December 2014 and the forecast for the year ending 30 June 2015 (as set out in Section 3.3) and Novion management forecasts for the platform for the five years to 30 June 2019. The DCF model forecasts nominal after tax cash flows from 1 January 2015 to 31 December 2024, a period of ten years, with a terminal value calculated to represent the value of cash flows in perpetuity.

Discount Rate

For the purposes of the valuation of the Novion real estate management platform, Grant Samuel has utilised discount rates of 8.5-9.5%. The Novion real estate platform is an integrated business that is engaged in a range of activities. It derives around 20-25% of economic cash flows from development activities and the balance from property management activities and funds management. The selected discount rate range reflects a blend of these activities.

For passive property managers that derive a majority of cash flows from funds management and property management income, listed integrated property groups provide a reasonable basis for assessing parameters (e.g. betas, gearing) to derive a discount rate since property management fees are a direct proportion of rental income. Earnings from these activities is fairly stable. Leasing contracts are generally long term (typically 5-7 years and longer for anchor tenants) and, therefore, other than on renewal of leases (or in the event of tenant insolvency), property management income is largely "locked in". Funds management income (other than performance fees) is generally based on a fixed percentage of funds under management and, therefore, is also relatively stable (other than as a result of property revaluations, acquisitions or divestments).

GRANT SAMUEL



Cash flows from development project activities are substantially more volatile than funds and property management cash flows. This volatility will also be reflected in the level of property management income from redeveloped properties. Cash flows from development projects are subject to development risk and activity levels will be heavily influenced by economic conditions.

The Novion real estate management platform pays income tax at the statutory rate of 30%. As discussed in Section 3.4 of this report, Novion Limited has carried forward income tax losses of approximately \$34 million and is entitled to claim tax deductions of \$49 million for each of the next four years as a result of the Internalisation. Utilisation of these tax losses and deductions is allowed for in the DCF model.

The selection of the appropriate discount rate to apply to forecast cash flows of any business enterprise is fundamentally a matter of judgement. There is a body of theory which can be used to support that judgement however there is no "correct" discount rate. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that would be applied in practice. Nevertheless, the starting point in determining discount rates is usually to analyse the cost of capital for participants in the relevant industry based on the theoretical models. Costs are estimated for each type of capital used in the funding mix depending on the risk profile.

The determination of appropriate discount rates for the valuation is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. Any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:
 - models which have limited empirical validity (and competing formulation);
 - simplifying assumptions;
 - the use of historical data as proxy for estimates of forward looking parameters;
 - data of dubious statistical reliability; and
 - unresolved issues.

It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation;

- there are no listed Australian retail property management platforms. The only listed Australian property management platform of any substantial scale is Charter Hall Group, however, it manages a diversified portfolio. Charter Hall Group's four year monthly adjusted Bloomberg beta is 1.2 and compares to the betas of listed Australian integrated property groups (which have substantial property investment income) where the median four year monthly adjusted Bloomberg betas is 0.8;
- strict application of the CAPM at the present time gives results that are unrealistically low (primarily because of very low government bond rates) and are inconsistent with other measures.

Use of the CAPM⁵⁹ based on current parameters would result in a cost of equity in the range 7.7-8.3% calculated as follows:

⁵⁹ The formula for deriving the cost of equity using CAPM is $Re = Rf + \text{Beta} (Rm - Rf)$, where Re = the cost of equity capital, Rf = the risk free rate and $Rm - Rf$ = the market risk premium.

GRANT SAMUEL



- a risk free rate of 2.32% based on the 10 year Commonwealth Government bond rate as at 31 March 2014;
- a market risk premium of 6%, which is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
- a beta factor in the range 0.9-1.0, reflecting expected betas for a retail property management platform with a moderate level of development management activity. Intuitively, a retail property management platform with a mix of cash flows from development management and property management activities would be expected to have beta of around 1.0. Although property management fees on existing properties are largely “locked in”, development management fees are more risky. Development management activities represent around 20-25% of economic cash flows of Novion and around 10-15% for Federation. It should be noted that the four year monthly adjusted Bloomberg beta for Novion and Federation are 0.79 and 0.81 respectively.

The resultant WACC⁶⁰ calculation is 6.8-7.5% assuming:

- a cost of debt of 4.1% (reflecting the average cost of debt under the refinancing being undertaken in conjunction with the Merger); and
- a debt/equity mix of 15-20% debt and 80-85% equity.

In Grant Samuel’s opinion, these calculations understate the true cost of capital. In this context:

- anecdotal information suggests that equity investors have substantially repriced risk since the global financial crisis and that acquirers are pricing offers on the basis of hurdle rates well above those implied by theoretical models. This can be evidenced through the decline in earnings multiples (relative to the peak in 2007) although it has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 7.5-8.4%;
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the liquidity being pumped into many advanced economies to stimulate economic activity. Effective real interest rates are now low, if not negative in some jurisdictions. Grant Samuel does not believe this position is sustainable and the risk is towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a “normal” market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a “normalised” risk free rate should be used. On this basis, an increase in the risk free rate to (say) 5% would increase the calculated WACC range to 9.2-10.0%; and
- analysis of research reports on indicates that brokers are currently adopting costs of equity capital for Novion as a whole (not only Novion’s real estate management platform) in the range of 8-9% with a median of 8.9%.

In certain situations, other approaches such as the Gordon Growth Model (“GGM”) provide more useful measures of the cost of equity. The GGM postulates that the cost of equity is equal to the current (strictly one year forecast) distribution or dividend yield plus the long term growth rate (it is essentially a restatement of the perpetuity formula). However, there

⁶⁰ The formula used to calculate a WACC under a classical tax system is $WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$, where E/V = the proportion of equity to total value (where $V = D + E$), D/V = the proportion of debt to total value, Re = the cost of equity capital, Rd = the cost of debt capital and t = the corporate tax rate.

GRANT SAMUEL



is an insufficient base of evidence to use the GGM in relation to Novion's real estate management platform. There are no comparable entities that are solely an operating platform to use as a proxy for the distribution yield.

On the basis of the above, Grant Samuel has adopted a discount rate in the range 8.5-9.5% for the valuation of the Novion real estate management platform.

DCF Assumptions and Scenarios

The DCF analysis considers a number of different scenarios. Scenario A is based on the following key assumptions:

- operational assumptions include:
 - increases in gross asset value based on organic growth of 2.5% per annum plus the impact of developments (at cost);
 - property management services and non-project leasing fees are based on market fees for Novion Trust and the managed properties. Property management fees total \$67.5 million in FY15, grow by an average of 3.8% per annum for the three years to FY19 and increase by around 4.5% per annum in line with gross asset value growth thereafter;
 - development management fees of around \$29 million per annum from the existing \$1.2 billion development pipeline are forecast in FY15 and FY16 and gradually decrease to around \$19 million by FY19 (due to the completion of the Chadstone redevelopment in early FY17). Assuming average annual redevelopment projects of \$400 million (based on Novion's historical average development activity) allowance has been made for around \$25 million in development management fees annually from FY19;
 - funds management fees in relation to wholesale funds and mandates are calculated in accordance with fund constitutions or mandate agreements (which are generally based on a percentage of gross asset value) and are charged to Novion Trust (net of alignment fees) on a cost recovery basis. External fees reflect management's expectations for AUM for the period to FY19 with growth of 2.5% per annum thereafter; and
 - in FY15 total cash costs (i.e. before capitalisation of internal development costs) for the management platform total \$84 million. Staff costs are assumed to decrease by 3% in FY16 then increase modestly (by 2.3% per annum) over the three years to FY19 while other expenses decrease in FY16 before growing by 0.9% per annum to FY19. After FY19, all costs are assumed to grow at 2.5% per annum, with the exception of rent which has been assumed to increase in line with the 3 year average to FY19; and
- general assumptions include:
 - inflation of 2.5% per annum;
 - capital expenditure equals depreciation;
 - a corporate tax rate of 30%; and
 - a terminal growth rate of 2.5% per annum.

Overall, these assumptions result in:

- EBIT growth of around 6% per annum for the five years to FY20, slowing to 5% per annum thereafter;
- average growth of 4.7% per annum in gross asset value; and
- no tax being paid in the first four years as tax losses and future deductions are utilised.

The net present value ("NPV") of Scenario A is \$699-810 million based on discount rates of 8.5-9.5%. Grant Samuel has developed a number of scenarios to review the impact of certain assumptions on NPV. A description of each scenario is outlined below:

GRANT SAMUEL



Novion Management Platform – DCF Scenarios	
Scenario	Description
Scenario B	Scenario A with underlying growth in gross asset value decreased to 1.5%
Scenario C	Scenario A with underlying growth in gross asset value increased to 3.5%
Scenario D	Scenario A with development projects beyond current pipeline \$300 million per annum
Scenario E	Scenario A with the combined impacts of Scenarios B and D
Scenario F	Scenario A with long term growth in operating costs increased to 3.5% (from 2.5%)

NPV Outcomes

The output of the DCF analysis is summarised below:

Novion Management Platform – NPV Analysis (\$ millions)			
Scenario	Discount Rate		
	8.5%	9.0%	9.5%
Scenario A	809.6	749.8	698.5
Scenario B (decreased gross asset value growth)	736.4	683.7	638.5
Scenario C (increased gross asset value growth)	888.5	821.0	763.2
Scenario D (lower annual development)	738.7	685.5	639.9
Scenario E (decreased gross asset value/lower development)	731.5	679.1	634.2
Scenario F (increased operating costs)	773.5	717.5	669.5

The NPV outcomes from DCF analysis are subject to significant limitations and should always be treated with considerable caution. They do not, and do not purport to, represent the range of potential value outcomes for the Novion real estate management platform. In this regard, the NPV outcomes show a relatively wide range across the different scenarios, highlighting the sensitivity to small changes in assumptions. It should also be noted that such scenario analysis does not take into account the operational flexibility that management has to react to changes in the markets in which they operate.

The NPV outcomes for the Novion management are particularly sensitive to development volumes and less sensitive to operating cost growth. Scenario A is based on a development profile which reflects the current pipeline and historical average development activities supported by Novion's existing cost base and strategic initiatives.

It should be noted that the DCF model does not allow for valuation uplifts as a consequence of development projects in gross asset value (i.e. it only reflects the cost of the development projects and not the potential value impact of the project). This is consistent with the approach adopted in the DCF model for Federation's real estate management platform.

Based on these NPV outcomes Grant Samuel has selected a value range of \$700-750 million for Novion's real estate management platform (inclusive of utilisation of carried forward income tax losses and future deductions claimed).

(iii) Conclusion

The valuation of \$700-750 million attributed to Novion's real estate management platform implies multiples of 14.2-15.2 times FY15 economic EBIT (\$49.5 million as set out in Section 3.3). In Grant Samuel's opinion, these value parameters are appropriate having regard to:

- the particular attributes of the Novion real estate management platform including:
 - the scale and quality of its direct property portfolio;
 - its significant third party AUM to which it provides a full range of funds, property and development management services;

GRANT SAMUEL



- Novion's experienced development team which has a strong track record of successful developments and project leasing;
- development management activities represent only around 20-25% of Novion's economic cash flows and, therefore, higher multiples would be expected for the relative stability of its earnings;
- that the value includes the value of the tax shield available from carried forward income tax losses and the deductions available over the next four years. If the present value of the tax shield is excluded the multiples implied by the valuation decline to around 13-14 times;
- recent market evidence as summarised in Section 7.2. In particular, regard has been had to:
 - the forecast multiples of economic EBIT implied by the acquisition of Westfield ANZ's real estate management platform (8.2-10.8 times depending on how the consideration is measure). While these multiples are low relative to those attributed to the Novion platform, it needs to be recognised that:
 - the value for the Novion platform reflects the value of the available tax shield;
 - the consideration values used to calculate the implied multiples for Westfield ANZ do not incorporate a premium for control while the value range for the Novion platform represents a control value (and therefore higher multiples would be expected);
 - on average project or development income represented 55% of revenue for Westfield ANZ. Generally lower multiples are attributed to that element of a management platform than for, say, property management income; and
 - that the only listed entity of scale with a primary focus on real estate funds and asset management is Charter Hall Group for which development income represents around 10% of management platform income. Its market parameters imply prospective multiples in the range of 22-24 times EBIT for its management platform. However, this is a relatively crude process, being dependent on the level of disclosure and allocation of corporate expenses to business segments and it assumes the value attributed to property investments is equal to book value. Nevertheless, it does imply higher multiples for a property platform business with a modest level of development income.

It should also be noted that if the \$700-750 million value attributed to the Novion real estate management platform is adjusted to be on a "like for like" basis⁶¹ (i.e. using the same approach and assumptions that Grant Samuel applied in its independent expert's report dated 7 February 2014 in relation to the Internalisation) it is broadly in line with the NPV that Grant Samuel attributed to CFSGAM Property (\$570-613 million). This adjusted "like for like" value also exceeds the price paid to CBA to acquire CFSGAM Property (\$475 million⁶²). These outcomes are to be expected given the relatively short period of time since the Internalisation was implemented.

⁶¹ On a "like for like" basis the NPV attributed by Grant Samuel to CFSGAM Property (\$570-613 million) should be reduced by the component of the price attributable to the carried forward outperformance balance. Similarly, the value attributed to the Novion real estate management platform (\$700-750 million) should be reduced for the value of income tax losses and the future tax deductions, further reduced by the value attributed to incremental costs post Internalisation (i.e. Novion overhead costs less external costs incurred by CFX prior to Internalisation) and increased by the adjustment to align the percentage rate charged for funds management fees post Internalisation.

⁶² The price paid to CBA by Novion for CFSGAM Property comprised \$460 million for the funds and asset management operations and \$15 million for working capital requirements of the business. One-off costs of \$36 million were also incurred and therefore the total cost of the Internalisation to Novion was \$511 million. On a "like for like" basis the price paid to CBA (\$475 million) should be reduced by the component of the price attributable to the carried forward outperformance balance.

GRANT SAMUEL



7.3.4 Corporate Overheads

Novion incurs corporate costs of around \$23 million per annum that have not been included in adjusted NTA or the value attributed to the real estate management platform. These overheads include costs associated with maintaining a head office, an executive management team and finance, human resources, administration activities as well as listed entity costs.

In accordance with the approach to assessing fundamental value set out in Section 7.1, Grant Samuel has made no adjustment for corporate overheads that could be eliminated by an acquirer of 100% of Novion. Therefore, an allowance of \$340-360 million has been made for the capitalised value of existing corporate overheads of Novion. This value represents multiples of 14.9-15.8 times which is broadly consistent with the EBIT multiple implied by the aggregate of adjusted NTA (ungeared) and the value attributed to the real estate management platform.

7.4 Fundamental Value of Federation

7.4.1 Summary

Grant Samuel has attributed a fundamental value to Federation in the range \$3,442-3,517 million. This value is the aggregate of the adjusted NTA (reflecting the market value of its property investment portfolio) and real estate management platform less capitalised corporate overheads. The value is summarised below:

Federation – Fundamental Value Summary (\$ millions)			
	Section Reference	Value Range	
		Low	High
Adjusted NTA	7.4.2	3,291.8	3,311.8
Real estate management platform	7.4.3	380.0	420.0
Corporate overheads	7.4.4	(230.0)	(215.0)
Fundamental Value for Federation		3,441.8	3,516.8

For the reasons set out in Section 7.1, fundamental value does not represent Grant Samuel's assessment of the full underlying value of Federation.

7.4.2 Adjusted NTA

Grant Samuel has estimated adjusted NTA for Federation to be \$3,292-3,312 million. This estimate is based on Federation's unaudited proforma NTA as at 31 December 2014 of \$3,485.6 (see Section 4.5 of this report). Various adjustments have been made to derive adjusted NTA which is more appropriate for the purposes of evaluating the Merger. These adjustments are summarised below:

Federation – Adjusted NTA (\$ millions)		
	Low	High
Unaudited proforma NTA as at 31 December 2014	3,485.6	3,485.6
Valuation uplift on properties under development	50.0	50.0
NTA of real estate management platform	(16.0)	(16.0)
Capitalised borrowing costs	(7.8)	(7.8)
Capitalised overheads	(220.0)	(200.0)
Adjusted NTA	3,291.8	3,311.8

Adjusted NTA represents the fundamental value of Federation Centres Trust No. 1 after allowing for the distribution for the six months ended 31 December 2014. As it is based on estimates of the market value of each property in the portfolio, it is already a "control" value (i.e. it assumes 100% ownership of the assets). Although it may be appropriate to allow for premiums for reasons other than control, as discussed in Section 7.1, for the purposes of assessing the Merger no such adjustments have been made.

GRANT SAMUEL



The adjustments made by Grant Samuel are discussed below:

■ **Investment Property Portfolio**

Unaudited NTA as at 31 December 2014 (\$3,485.6 million) is based on book values for each of Federation's properties which reflect valuations undertaken by independent valuers during the period or directors valuations based on previous independent valuations with reference to recent market transactions of similar properties and adjustments for specific factors for that property (e.g. subsequent capital expenditure and payments for incentives and leasing fees net of amortisation since valuation date). 34 of Federation's 65 investment properties were independently valued at 31 December 2014 (59% of portfolio value) and all of Federation's properties (with the exception of two properties under development) have been independently valued in the twelve months to 31 December 2014.

Grant Samuel has relied on the independent valuations for the purposes of its report and did not undertake its own valuations of the properties. Given the nature of the evaluation, Grant Samuel does not have any reason to believe that it is not reasonable to rely on these valuations for this purpose. Grant Samuel has undertaken a review of the independent valuations given current market conditions and notes that:

- the external valuers have accepted instructions only from Federation Centres Limited and have confirmed that they satisfy the requirements in the Corporations Act that:
 - they are suitably qualified individuals with the requisite five years of appropriate experience;
 - they are authorised by law to practice as a valuer; and
 - they regard themselves as independent;
- the external valuers have been given appropriate instructions consistently;
- there were no restrictions in the scope of the independent valuers' engagements or other terms which may have impacted on the quality of the valuations;
- the external valuers have prepared their valuations in accordance with the standards of the Australian Property Institute; and
- the external valuers have utilised standard property valuation methodologies (i.e. discounted cash flow, capitalisation of net income and direct comparison (i.e. value per square metre of net lettable area)) with the value conclusion selected having regard to the results of each methodology.

This review does not, however, imply that the valuations have been subject to any form of audit or due diligence.

The valuations for Federation's investment property portfolio were undertaken on a going concern basis in accordance with current use. In addition, the valuations:

- assume the properties are sold on an individual basis (i.e. the valuers have not had regard to the potential effect of selling the properties in one line);
- deduct the net present value of unexpired tenant incentives;
- allow for the existing property management arrangements and, if necessary, the valuer adjusts property management fees to bring them into line with market averages;
- allow for selling costs (i.e. cash flows used in the discounted cash flow approach are net of selling costs and yields utilised in the capitalisation of earnings approach implicitly incorporate selling costs) in accordance with normal property valuation methodologies; and
- do not reflect any other costs for the owner on realisation of the asset (e.g. taxes).

As all of Federation's properties (excluding two properties under development) have been independently valued in the last 12 months (59% by value as at 31 December

GRANT SAMUEL



2014) and given the nature of the assets being valued (i.e. passive investments in retail property assets for which there is no liquid market), it is unlikely that there has to have been any material change in the market value of the portfolio. Furthermore, Federation's practice of directors valuations at each reporting period of properties not independently valued immediately prior to period end would identify any potential material movements in individual property valuations.

■ **Valuation Uplift on Properties Under Development**

At 31 December 2014, two of Federation's assets had not been independently valued for over 12 months (i.e. Cranbourne Park and Maitland Hunter Mall) as they were under development. The carrying value of these assets is the last independent valuation prior to commencement of development plus development costs incurred to date. As the last independent valuations were conducted on an "as is" valuation basis (rather than being on an "on completion" (less costs to complete) basis), the carrying value of these two assets does not allow for any latent valuation upside expected to be realised upon development. This differs to the approach adopted by Novion in relation to its major current development project at Chadstone Shopping Centre.

Accordingly, Grant Samuel has made an adjustment of \$50 million to allow for valuation upside in relation to these projects. In doing so, Grant Samuel has had regard to Federation's recent development experience, in particular Warnbro, the development of which was completed during the six months to 31 December 2014.

■ **NTA of Real Estate Management Platform**

Unaudited proforma NTA at 31 December 2014 includes \$16 million in NTA relating to Federation's real estate management platform. This amount has been excluded in deriving adjusted NTA as it has been separately reflected in the value attributed to the real estate management platform (see Section 7.4.3).

■ **Capitalised Borrowing Costs**

Unaudited proforma NTA at 31 December 2014 includes a \$7.8 million asset representing the unamortised balance of certain borrowing costs which have been capitalised for accounting purposes (see Section 4.5). These are not assets that are realisable and therefore have been excluded in deriving adjusted NTA.

■ **Capitalised Overheads**

Unaudited proforma NTA does not reflect the indirect overhead costs associated with owning an investment portfolio (accounting, treasury, monitoring, planning, etc.). In Federation's case, this cost is incurred by way of notional funds management fees charged by the real estate management platform to Federation Centres Trust No. 1's investment portfolio. The cost to Federation Trusts Trust No.1 of funds management fees is estimated to be around \$20 million per annum. For the purposes of assessing adjusted NTA for Federation, Grant Samuel has attributed a capitalised value of \$200-220 million having regard to recent transactions involving property funds management rights and noting that the arrangements are effectively evergreen. This value represents multiples in line with those effectively applied to Novion's comparable costs.

7.4.3 Real Estate Management Platform

(i) **Overview**

Grant Samuel has estimated the value of Federation's retail real estate management platform to be in the range \$380-420 million. The value is a subjective judgement having regard to both DCF analysis and earnings multiple analysis and allows for NTA of \$16 million for the real estate management platform (see Section 7.4.2).

GRANT SAMUEL



The primary focus was on DCF analysis. Earnings multiple analysis has been used as a cross check. The value ranges selected are judgements derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of the DCF analysis in terms of the various scenarios and their likelihood.

(iv) DCF Analysis***Introduction***

A DCF model for the management platform has been developed by Grant Samuel with input from Federation in regard to the assumptions regarding development growth, cost structure and the notional internal and external fees earned by the platform in order to forecast the economic EBIT of Federation's real estate management platform. The DCF model forecasts nominal after tax cash flows from 1 January 2015 to 31 December 2024, a period of ten years, with a terminal value calculated to represent the value of cash flows in perpetuity.

Discount Rate

For the purposes of the valuation of the Federation real estate management platform, Grant Samuel has utilised discount rates of 8.5-9.5%. The Federation real estate platform is an integrated business that is engaged in a range of activities. It derives around 20-25% of economic cash flows from development activities and the balance from property management activities and funds management. The selected discount rate range reflects a blend of these activities. The derivation of the discount rate range is consistent with the derivation for Novion as set out in Section 7.3.3 of this report. It is noted that brokers are currently adopting costs of equity capital for Federation as a whole (rather than Federation's real estate management platform) in the range of 8-9% with a median of 8.2%.

DCF Assumptions and Scenarios

Federation's Services Business has historically provided asset management services to both the investment property portfolio and the syndicates business and funds management services to the syndicates business. More recently the syndicates business has been wound down and a range of co-owner arrangements have been entered into. Moreover, since FY13 Federation has been building out its development capabilities and in FY14 commenced several projects from its \$1.3 billion announced pipeline. As the cost base of Federation's platform has been built out in advance of executing its pipeline, the current economic EBIT for the platform is relatively low.

Grant Samuel's DCF model reflects the ramp up of activity in Federation's platform and includes revenue from development services on owned property assets and notional funds management fees received from the owned property portfolio. Based on the specific assumptions set out below and discussions with Federation management, the activities of the platform stabilise around FY19 at a level of economic EBIT of around \$30 million.

The DCF analysis considers a number of different scenarios. Scenario A is based on the following key assumptions:

- operational assumptions include:
 - increases in gross asset value based on organic growth of 2.5% per annum plus the impact of developments (at cost);
 - property management services and non-project leasing fees are based on market fees for Federation Centres Trust No. 1 and co-owned properties. Property management fees total \$35.5 million in FY15, grow by an average of 7% per annum for the five years to FY20 and increase by 6% per annum thereafter;
 - a material increase in development activity over the next five years, with average development services revenue over the four years to FY19 three and a half times

GRANT SAMUEL



higher than FY15 as Federation's current pipeline and major projects commence construction. From FY20 development and project related fees of around \$23 million have been allowed on the basis of assumed average annual redevelopment projects of \$400 million (based on Federation's long term target of around \$200 million per annum spent on owned properties which represent approximately 50% of AUM). This implies total income from development activities at a lower percentage than Novion which reflects Federation's existing co-owner arrangements;

- funds management fees are charged to Federation Centres Trust No. 1 based on a percentage of gross asset value. Following the wind up of the syndicates business during FY15, Federation does not earn any external funds management fees; and
- in FY15 total cash costs (i.e. before capitalisation of internal development costs) for the management platform total \$60 million. Costs are assumed remain relatively flat in FY16 and then increase in line with inflation; and
- general assumptions include:
 - inflation of 2.5% per annum;
 - capital expenditure equals depreciation;
 - a corporate tax rate of 30%; and
 - a terminal growth rate of 2.5% per annum.

Overall, these assumptions result in:

- revenue growth for the platform of around 9% per annum for the five years to FY20, slowing to around 4% per annum thereafter;
- a significant increase in EBIT for the platform between FY15 and FY18 driven by the ramp up in development activity, remaining relatively steady through to FY21 as the volume of development activity settles to a sustainable level. Thereafter EBIT growth of around 8% per annum is forecast; and
- average growth of 6% per annum in gross asset value over the next ten years.

The NPV of Scenario A is \$347-411 million based on discount rates of 8.5-9.5%. Grant Samuel has developed a number of scenarios to review the impact of certain assumptions on NPV. A description of each scenario is outlined below:

Federation Management Platform – DCF Scenarios	
Scenario	Description
Scenario B	Scenario A with initial development pipeline over eight years rather than six years
Scenario C	Scenario A with underlying growth in gross asset value decreased to 1.5%
Scenario D	Scenario A with underlying growth in gross asset value increased to 3.5%
Scenario E	Scenario A with long term growth in operating costs increased to 3.5% (from 2.5%)
Scenario F	Scenario A with reduction in long term development levels to \$300 million per annum

NPV Outcomes

The output of the DCF analysis is summarised below:

Federation Management Platform – NPV Analysis (\$ millions)			
Scenario	Discount Rate		
	8.5%	9.0%	9.5%
Scenario A	410.8	376.2	346.6
Scenario B (delayed execution of development pipeline)	358.5	327.4	300.9
Scenario C (decreased gross asset value growth)	354.4	325.3	300.3
Scenario D (increased gross asset value growth)	471.7	431.2	396.6
Scenario E (increased operating costs)	361.2	331.5	306.0
Scenario F (lower ongoing development level)	344.1	316.0	292.0

GRANT SAMUEL



The NPV outcomes from DCF analysis are subject to significant limitations and should always be treated with considerable caution. They do not, and do not purport to, represent the range of potential value outcomes for the Federation real estate management platform. In this regard, the NPV outcomes show a relatively wide range across the different scenarios, highlighting the sensitivity to small changes in assumptions. It should also be noted that such scenario analysis does not take into account the operational flexibility that management has to react to changes in the markets in which they operate.

The NPV outcomes are particularly sensitive to development volumes and less sensitive to longer term growth in gross asset values. This reflects Federation's current cost structure which has capacity to undertake significant development activity and to absorb associated growth in other asset management activities. It is noted that Federation commenced its current development programme in FY14 and it has not yet reached critical volumes in development. In this regard, Scenario A is based on delivering an increased level of developments over the next six years which reflects Federation's existing cost base and strategic initiatives.

It should be noted that the DCF model does not allow for valuation uplifts as a consequence of development projects in gross asset value (i.e. it only reflects the cost of the development projects and not the potential value impact of the project). This is consistent with the approach adopted in the DCF model for Novion's real estate management platform.

However, it is Grant Samuel's view that, given the recent period of under investment in the Federation portfolio, there will likely be material uplifts in independent valuations upon completion of development projects. This was the case with the Warnbro Centre redevelopment which was completed in September 2014 and Federation recognised an independent valuation of \$122 million at 31 December 2014 in comparison to a carrying value at 30 June 2014 of \$82.5 million (including development expenditure of \$29.6 million). Such valuation uplifts would increase gross asset value and impact the economic EBIT of the management platform and, in Grant Samuel's view, this impact would likely be more material in the case of Federation than for Novion.

Accordingly, Grant Samuel has placed greater weight on the NPV outcomes of Scenarios A and D in selecting a value range of \$380-420 for Federation's real estate management platform.

(v) Conclusion

The valuation of \$380-420 million attributed to Federation's real estate management platform implies multiples of 12.7-14.0 times 'stabilised' economic EBIT. In Grant Samuel's opinion, these value parameters are appropriate having regard to:

- the particular attributes of the Federation real estate management platform including:
 - the growth in development activities projected over the next five years including major developments at The Glen, Mandurah Forum and Galleria;
 - recent investment in building out its development and leasing team, with hubs in Perth, Sydney and Melbourne to support increased development;
 - the significant quantum of future development opportunities available in the Federation portfolio, in part reflecting historical under investment; and
 - forecast increases in gross asset values and associated uplift in management fees; and
 - development management activities currently represent only around 10-15% of Federation's economic cash flows (and are projected to increase to around 20-25%) and, therefore, higher multiples would be expected for the relative stability of its earnings; and

GRANT SAMUEL



- recent market evidence as summarised in Section 7.2. In particular, regard has been had to:
 - the forecast multiples of economic EBIT implied by the acquisition of Westfield ANZ's real estate platform (8.2-10.8 times depending on how the consideration is measure). While these multiples are low relative to those attributed to the Federation platform, it needs to be recognised that:
 - the consideration values used to calculate the implied multiples for Westfield ANZ do not incorporate a premium for control while the value range for the Novion platform represents a control value (and therefore higher multiples would be expected); and
 - on average project or development income represented 55% of revenue for Westfield ANZ. Generally lower multiples are attributed to that element of a management platform than for, say, property management income; and
 - that the only listed entity of scale with a primary focus on real estate funds and asset management is Charter Hall Group for which development income represents around 10% of management platform income. Its market parameters imply prospective multiples in the range of 22-24 times EBIT for its management platform. However, this is a relatively crude process, being dependent on the level of disclosure and allocation of corporate expenses to business segments and it assumes the value attributed to property investments is equal to book value. Nevertheless, it does imply higher multiples for a property platform business with a modest level of development income.

Notwithstanding that the value range attributed to the Federation management platform allows for significant growth in gross asset values, it is appropriate that the implied multiples are lower than those for Novion's management platform given:

- the value range for the Novion platform reflects a value for the available tax shield;
- differences in the composition of the respective property portfolios and in the basis of third party/co-owner fee arrangements; and
- the development component of Federation's platform is currently in a ramp up phase and that the multiples are calculated by reference to an estimated "stabilised" economic EBIT.

7.4.4 Corporate Overheads

Federation incurs corporate costs of around \$15 million per annum that have not been included in adjusted NTA or the value attributed to the real estate management platform. These overheads include costs associated with maintaining a head office, an executive management team and finance, human resources, administration activities as well as listed entity costs.

In accordance with the approach to assessing fundamental value set out in Section 7.1, Grant Samuel has made no adjustment for corporate overheads that could be eliminated by an acquirer of 100% of Federation. Therefore, an allowance of \$215-230 million has been made for the capitalised value of existing corporate overheads of Federation. This value represents multiples of 14.0-14.9 overheads which is broadly consistent with the EBIT multiple implied by the aggregate of adjusted NTA (ungeared) and the value attributed to the real estate management platform. It is noted that these multiples are lower than those applied for Novion, in part due to the differential in property capitalisation rates between Federation and Novion.

GRANT SAMUEL



8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 510 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Caleena Stilwell BBus FCA F Fin and Stephen Wilson BCom MCom(Hons) CA(NZ) SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Ben Sweeney BCom MBL assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Merger is fair and reasonable to, and in the best interests of, Novion securityholders. Grant Samuel expressly disclaims any liability to any Novion securityholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Novion and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Novion or Federation or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

Grant Samuel advises that it prepared:

- an independent expert's report dated 7 February 2014 for CFS Retail Property Trust Group (now Novion) in relation to the Internalisation; and
- independent expert's reports for Centro Properties Group (dated 5 October 2011), Centro Retail (29 September 2011), Centro Australia Wholesale Fund (5 October 2011) and Centro Direct Property Fund (4 October 2011) in relation to the transactions that formed Federation.

Grant Samuel had no part in the formulation of the Merger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$650,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Merger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

8.4 Declarations

Novion has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report.

GRANT SAMUEL



This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Novion has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Novion are limited to an amount equal to three times the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct or breach of law Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Novion and its advisers. Advance drafts of this report were also provided to Federation by Novion. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to securityholders of Novion. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

The summary letter set out in Section 4 of the Scheme Booklet and dated 14 April 2015 together with the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

14 April 2015

Grant Samuel & Associates

GRANT SAMUEL

■ ■ ■

Appendix 1

Novion – Investment Property Portfolio at 31 December 2014

Novion – Investment Property Portfolio at 31 December 2014					
Property	Novion Ownership (%)	Centre Type	Total Retail Area (GLA ¹) ('000m ²)	Book Value ² (\$ million)	Portfolio Composition (by value)
Victoria					
Chadstone Shopping Centre	50	Super-regional	147.7	1,825.3	20.1%
Emporium Melbourne	50	CBD regional	44.4	469.1	5.2%
Myer Bourke Street	33	CBD regional	38.7	122.8	1.3%
Bayside Shopping Centre	100	Regional	88.5	566.1	6.2%
Broadmeadows Shopping Centre	100	Regional	61.1	317.1	3.5%
Forest Hill Chase	100	Regional	59.9	270.3	3.0%
Northland Shopping Centre	50	Regional	95.3	481.0	5.3%
Altona Gate Shopping Centre	100	Sub-regional	25.3	85.6	0.9%
Brimbank Shopping Centre	100	Sub-regional	38.9	156.7	1.7%
Corio Shopping Centre	100	Sub-regional	27.9	123.3	1.4%
Roxburgh Park Shopping Centre	100	Sub-regional	24.6	100.4	1.1%
DFO Essendon	100	Outlet	19.7	152.6	1.7%
DFO Moorabbin	100	Outlet	24.4	103.5	1.1%
DFO South Wharf	75	Outlet	30.2	286.0	3.1%
Victoria Total			726.4	5,059.8	55.6%
Queensland					
The Myer Centre Brisbane	50	CBD regional	63.1	383.0	4.2%
QueensPlaza	100	CBD regional	36.0	638.1	7.0%
Grand Plaza Shopping Centre	50	Regional	53.1	179.0	2.0%
Runaway Bay Shopping Village	50	Regional	42.4	126.0	1.4%
Clifford Gardens Shopping Centre	100	Sub-regional	27.8	185.8	2.0%
Queensland Total			222.3	1,512.0	16.6%
New South Wales					
Chatswood Chase Sydney	100	Regional	58.5	889.8	9.8%
Lake Haven Shopping Centre	100	Sub-regional	39.8	266.7	2.9%
DFO Homebush	100	Outlet	29.7	321.0	3.5%
New South Wales Total			128.0	1,477.5	16.2%
South Australia					
Elizabeth Shopping Centre	100	Regional	68.5	359.6	4.0%
Castle Plaza Shopping Centre	100	Sub-regional	22.7	149.9	1.6%
South Australia Total			91.2	509.5	5.6%
Western Australia					
Rockingham Shopping Centre	50	Regional	60.3	278.0	3.1%
Western Australia Total			60.3	278.0	3.1%
Tasmania					
Eastlands Shopping Centre	100	Regional	33.1	161.9	1.8%
Northgate Shopping Centre	100	Sub-regional	19.3	90.9	1.0%
Tasmania Total			52.4	252.8	2.8%
Total Retail Portfolio			1,280.5	9,089.6	99.9%
Australian Capital Territory					
15 Bowes Street, Woden	100	Office	-	9.5	0.1%
Australian Capital Territory Total			-	9.5	0.1%
Total Portfolio			1,280.5	9,099.1	100.0%

Source: Novion

Note: Some totals may not add due to rounding.

¹ GLA = gross lettable area² Based on ownership interest. Book value reflects last independent valuation adjusted for subsequent capital expenditure, amortisation of lease incentives and (where relevant) capital works in progress not included in the valuations.

GRANT SAMUEL



Appendix 2

Federation – Investment Property Portfolio at 31 December 2014

Federation – Property Portfolio at 31 December 2014 ¹					
Centre	Ownership Interest	Centre Type	GLA ² ('000m ²)	Proforma Book Value ³ (\$ million)	Portfolio Composition (by value)
New South Wales					
Bankstown Central	50%	Regional	85.0	302.5	6.1%
Roselands	50%	Regional	61.7	177.5	3.6%
Nepean Village	100%	Sub-regional	20.9	135.0	2.7%
Carlingford Court	50%	Sub-regional	33.1	95.0	1.9%
Tweed Mall	100%	Sub-regional	23.1	81.0	1.6%
Warriewood Square	50%	Sub-regional	22.1	77.7 ⁴	1.6%
Lavington Square	100%	Sub-regional	20.2	56.0	1.1%
West End Plaza	100%	Sub-regional	15.8	57.5	1.2%
Goulburn Plaza	100%	Sub-regional	13.9	57.0	1.1%
Armidale Central	100%	Sub-regional	16.7	43.0	0.9%
Toormina Gardens	50%	Sub-regional	21.4	39.0	0.8%
Westside Plaza	100%	Sub-regional	17.5	36.0	0.7%
Maitland Hunter Mall	100%	Sub-regional	13.0	14.3 ⁴	0.3%
Terrace Central	100%	Neighbourhood	7.3	31.0	0.6%
Lennox Village	50%	Neighbourhood	10.0	28.5	0.6%
New South Wales Total			381.7	1,231.0	24.8%
Australian Capital Territory					
Tuggeranong Hyperdome	50%	Sub-regional	76.5	150.0	3.0%
Australian Capital Territory Total			76.5	150.0	3.0%
Queensland					
Mount Ommanney Centre	25%	Regional	56.3	104.1	2.1%
Toombul	100%	Sub-regional	43.8	230.0	4.6%
Taigum Square	100%	Sub-regional	22.9	88.0	1.8%
Gympie Central	100%	Sub-regional	14.1	72.0	1.5%
Whitsunday Plaza	100%	Sub-regional	22.2	57.0	1.1%
Buranda Village	100%	Sub-regional	11.5	35.0	0.7%
Lutwyche City	100%	Neighbourhood	18.8	57.3	1.2%
Oxenford Village	100%	Neighbourhood	5.8	26.0	0.5%
Goldfields Plaza	100%	Neighbourhood	7.9	25.5	0.5%
Milton Village	100%	Neighbourhood	2.8	20.3	0.4%
North Shore Village	100%	Neighbourhood	4.1	20.3	0.4%
Monier Village	100%	Neighbourhood	5.6	18.0	0.4%
Indooroopilly Central	100%	Bulky Goods	19.8	54.0	1.1%
Queensland Total			235.6	807.5	16.3%
South Australia					
Colonnades	50%	Regional	66.6	148.8 ⁴	3.0%
Kurralta Central	100%	Sub-regional	10.7	34.6	0.7%
Mount Gambier Central	100%	Sub-regional	12.7	29.0	0.6%
Hilton Plaza	100%	Neighbourhood	45.0	19.4	0.4%
South Australia Total			135.0	231.8	4.7%
Northern Territory					
Katherine Oasis	100%	Neighbourhood	7.2	27.5	0.6%
Northern Territory Total			7.2	27.5	0.6%

¹ Excludes Warnambool North, Mildura Central and Woodlands Village which were subject to unconditional contracts for sale with settlements in January and February 2015. These properties are classified as held for sale at 31 December 2014.

² GLA = gross lettable area

³ Based on ownership interest. Book value reflects last independent valuation adjusted (if necessary) by directors following a directors' valuation process as well as subsequent capital expenditure.

⁴ Properties under development are recorded at last fair value prior to commencement of the development plus development costs to date.

GRANT SAMUEL



Federation – Property Portfolio at 31 December 2014 ¹					
Centre	Ownership Interest	Centre Type	GLA ² ('000m ²)	Proforma Book Value ³ (\$ million)	Portfolio Composition (by value)
Victoria					
The Glen	50%	Regional	59.1	218.1	4.4%
Box Hill Central (South Precinct)	100%	Sub-regional	23.4	140.0	2.8%
Karingal Hub	50%	Sub-regional	41.6	108.0	2.2%
Victoria Gardens	50%	Sub-regional	31.1	96.3	1.9%
Cranbourne Park	50%	Sub-regional	28.4	97.7 ⁴	2.0%
Box Hill Central (North Precinct)	100%	Sub-regional	14.6	64.0	1.3%
Mornington Central	100%	Sub-regional	11.7	61.5	1.2%
Brandon Park	50%	Sub-regional	22.7	58.1	1.2%
Sunshine Marketplace	50%	Sub-regional	33.9	51.5	1.0%
Wodonga Plaza	100%	Sub-regional	17.6	47.0	0.9%
Belmont Village	100%	Sub-regional	14.0	41.8	0.8%
Oakleigh Central	100%	Neighbourhood	13.9	49.0	1.0%
Bentons Square	100% ⁵	Neighbourhood	10.0	77.1	1.6%
The Gateway	100%	Neighbourhood	10.9	35.3	0.7%
Victoria Total			332.9	1,145.4	23.0%
Western Australia					
Galleria	50%	Regional	73.3	357.5	7.2%
Warwick Grove	100%	Sub-regional	30.5	163.0	3.3%
Mandurah Forum	50%	Sub-regional	40.3	152.5	3.1%
Maddington Central	100%	Sub-regional	27.6	105.0	2.1%
Karratha City	50%	Sub-regional	23.9	55.0	1.1%
Warnbro Centre	100%	Sub-regional	21.4	122.0	2.5%
Currambine Central	100%	Neighbourhood	12.6	78.9 ⁴	1.6%
Dianella Plaza	100%	Neighbourhood	20.4	68.0	1.4%
Stirlings Central	100%	Neighbourhood	8.6	47.0	0.9%
Kalamunda Central	100%	Neighbourhood	8.3	33.8	0.7%
Flinders Square	100%	Neighbourhood	6.0	29.8	0.6%
Albany Brooks Garden	100%	Neighbourhood	12.4	25.0	0.5%
Victoria Park Central	100%	Neighbourhood	5.5	24.0	0.5%
Halls Head Central	50%	Neighbourhood	6.0	17.7 ⁴	0.4%
Western Australia Total			296.8	1,279.2	25.9%
Tasmania					
Burnie Plaza	100%	Sub-regional	8.7	19.2	0.4%
Meadow Mews	100%	Neighbourhood	7.6	44.0	0.9%
Glenorchy Central	100%	Neighbourhood	6.9	18.5	0.3%
Tasmania Total			23.2	81.7	1.6%
Add: Other Development Projects and Construction in Progress			na	7.5	0.1%
Total Property Portfolio			1,448.9	4,961.6	100.0%
Less: Equity accounted property investments					
Tuggeranong Hyperdome	50%	Sub-regional	76.5	150.0	
Victoria Gardens	50%	Sub-regional	31.1	96.3	
			107.6	246.3	
Investment Property Portfolio per Financial Position (Section 4.5)			1,341.3	4,715.3	

Source: Federation

⁵ Federation acquired Bentons Square in October 2014 and has an option to acquire the remaining 50% in July 2016. Based on the terms of the agreements, this property has been accounted for as a 100% acquisition with a deferred settlement on the remaining 50% (recognised in other financial assets).

GRANT SAMUEL



Appendix 3

Market Evidence – Real Estate Investment Trusts

1 Valuation Evidence from Transactions

Prior to 2008 there was significant consolidation in the listed real estate investment trust (“REIT”) sector in Australia, the rationale for which was to access the benefits of size and scale (i.e. increased liquidity, greater diversification and a lower cost of capital). During this period, the availability of funds for growth increased the number of listed property groups (including investment, development, funds management and asset management activities) and, due to the limitations of the relatively small Australian market, resulted in the development of Australian domiciled REITs holding international real estate assets and fund managers managing REITs with assets in overseas jurisdictions. This period witnessed a significant level of corporate activity and transaction multiples were relatively high. In particular, transactions involving entities with active property development or syndication activities (e.g. Macquarie Goodman and Westfield) were undertaken at higher earnings multiples than transactions relating to management rights associated with more passive real estate asset management and fund management services.

The global economic downturn (which commenced with the global financial crisis in late 2007) had a significant impact on the Australian property sector. Market conditions were challenging with limited access to debt and equity funding, declining property values and weaker economic conditions with most transactions in the 2008-2011 period reflecting a level of financial distress for the target. However, since 2012 as REITs refocused (e.g. by sale of non-core assets, divestment of overseas portfolios) and market conditions stabilised, investor interest and corporate activity in the sector has increased. In particular, since late 2013 capital raisings and initial public offerings have increased to fund acquisitions, while strategic merger and acquisition activity has also increased.

(a) Transactions since 2012

The premiums/(discounts) to NTA¹ and exit yields for control transactions involving listed REITs and integrated property groups since 2012 are set out in the table below:

Australian Listed Transactions since 2012									
Date	Target	Property Category ²	Management Basis ³	Acquirer	Consideration ⁴ (\$ millions)	Premium/(Discount) to NTA	Premium/(Discount) to Ungeared NTA ⁵	Exit Yield ⁶	
								Historical	Forecast
Mar 15 (pending)	Australian Industrial REIT	I	E	360 Capital Industrial Fund	230-239	16.0-20.9%	10.2-13.3%	nmf ⁷	7.3-7.6%
Nov 14	Folkestone Social Infrastructure Trust	S	E	Folkestone Education Trust	89	4.8%	3.5%	6.4%	6.7%
Sept 14	Mirvac Industrial Trust	I	E	The Goldman Sachs Group	78	3.4%	1.5%	na ⁸	na
Jun 14	Australand Property Group	I/C/Resi	I	Frasers Centrepoint Limited	2,606	22.5% ⁹	13.0%	4.8%	5.7%
Apr 14	Challenger Diversified Property Group	D	E	Challenger Australia Listed Property Holding Trust	587	0.7%	0.5%	6.5%	6.8%
Dec 13	Commonwealth Property Office Fund	O	E	DEXUS/CPPIB Consortium	3,107 ¹⁰	4.0% ¹¹	3.1%	5.3%	5.5%
Dec 13	Westfield ANZ	R	I	Westfield Retail Trust	8,133-8,779 ¹²	40.6-51.7% ¹³	18.1-23.1%	na	na

Source: Grant Samuel analysis¹⁴

¹ NTA is net tangible assets. NTA is as last reported and includes provision for distribution.

² I = Industrial; C = Commercial; R = Retail; O = Office; Resi = Residential; D = Diversified; H = Hotels; S = Specialised.

³ E = externally managed; I = internally managed.

⁴ Implied value of 100% of entity acquired.

⁵ Ungeared NTA is net tangible assets before borrowings.

⁶ Exit yield has been calculated as distribution per unit divided by consideration per unit.

⁷ nmf = not meaningful. Australian Industrial REIT's historical distribution reflected earnings for less than 10 months from formation.

⁸ na = not available.

⁹ On an ungeared basis the premium implied by the acquisition of Australand Property Group was 13%.

¹⁰ Based on fully diluted units on issue (i.e. conversion of convertible notes) and DEXUS security price on 10 December 2013 of \$1.015.

¹¹ Based on NTA adjusted for conversion of convertible notes.

¹² Based on the value attributed to the consideration received for Westfield ANZ (i.e. securities in Scentre Group) by the independent expert for Westfield Group (\$8.0-8.7 billion based on a price range of \$3.10-3.35 per Scentre Group security). The consideration represents portfolio interests and therefore does not incorporate any premium for control.

¹³ Westfield ANZ was relatively highly geared. On an ungeared basis, the premium is 19.4-24.5%.

GRANT SAMUEL



The major Australian retail property transaction of recent times was the restructure of Westfield Group and Westfield Retail Trust (announced in December 2013 and completed in June 2014). Under the restructure Westfield Group's Australia and New Zealand business ("Westfield ANZ") was merged with Westfield Retail Trust to form a new entity, Scentre Group, and the remainder of Westfield Group's operations (its international business) became Westfield Corporation. Both entities were listed on the ASX and remain so. Westfield ANZ comprised a \$14.4 billion retail property investment portfolio in Australia and New Zealand (predominantly 50% interests where the other 50% share was owned by Westfield Retail Trust) and an integrated operating platform with capabilities in property management, design, development, construction and leasing and funds management. Assets under management ("AUM") totalled \$38.6 billion including its owned property portfolio. The terms of the transaction had the effect that:

- Westfield Group securityholders received 1,000 securities in Westfield Corporation and 1,246 securities in Scentre Group for every 1,000 Westfield Group securities held; and
- Westfield Retail Trust securityholders received \$285 and 918 securities in Scentre Group for every 1,000 Westfield Retail Trust securities held.

Due to the nature of the restructure, transaction metrics are difficult to assess precisely and vary depending on how the consideration for the transaction is determined and various other assumptions. The consideration shown in the table above is based on the value attributed by the independent expert for Westfield Group to the consideration received for Westfield ANZ (i.e. securities in Scentre Group) (\$8.1-8.8 billion based on a price range of \$3.15-3.40 per Scentre Group security). In this context, it should be noted that:

- the consideration represents portfolio interests and does not incorporate a premium for control; and
- the implied premiums over NTA are high (40.6-51.7%) reflecting both Westfield ANZ's substantial and high quality retail real estate platform as well as its relatively high gearing. On an ungeared basis, the premium remains high at 18.1-23.1%. On both bases the premium over NTA provides no meaningful insight into the value of Westfield ANZ's investment property portfolio.

The transaction also implies historical EBIT multiples of 14.3-14.9 times and forecast EBIT multiples of 13.4-14.0 times (or historical multiples of 13.0-13.6 times and forecast multiples of 12.7-13.2 times "economic EBIT"¹⁵). These are blended multiples reflecting the mix of earnings derived by Westfield ANZ including from property investment and the real estate management platform less corporate overheads. In this regard, around 75-80% of Westfield ANZ's earnings are derived from property investment.

The major international control transaction of recent years is the merger of European integrated property groups Klépierre S.A. ("Klépierre") and Corio N.V. ("Corio") to form the leading pure play retail property company in Europe with a combined property portfolio of 182 shopping centres and gross asset value in excess of €21 billion. The transaction was announced on 29 July 2014 and was undertaken by way of a recommended public exchange offer by Klépierre for all of the outstanding shares in Corio which valued Corio at €4.2 billion. The transaction was approved by shareholders in January 2015 and is expected to complete by 31 March 2015. The transaction implied a premium to NTA of 19.4% (or a premium to ungeared NTA of 10.4%), a forecast exit yield of 5.1% and a multiple of 21.8 times forecast (2014) EBIT. Market commentators considered the price paid full but reasonable over the longer term as any downside risk was mitigated by recent Corio management actions (including focusing on the "Favourite Meeting Places" concept rather than traditional shopping centres and an asset disposal programme) and the €60 million of projected synergies from the merger.

However, on 9 March 2015 Simon Property Group ("Simon"), the largest retail REIT in the United States, announced a proposal to acquire The Macerich Company ("Macerich"), the third largest United States retail REIT. The unsolicited proposal was rejected by the board of Macerich on 17 March 2015 on the basis that the price significantly undervalued Macerich and failed to reflect the full value of its portfolio of assets and positive growth prospects. Simon's proposal was US\$91.00 per Macerich share in equal portions of cash and stock. On 20 March 2015, Simon announced its "best and final" offer of US\$95.50 per Macerich share (a 5% increase) and advised that the offer would be withdrawn on 1 April 2015 if there was no engagement by the Macerich board. The revised proposal represented multiples of forecast EBITDA of 24.0 times and forecast FFO of 24.8 times

¹⁴ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, REIT announcements, transaction documentation and, in the absence of published distribution forecasts, brokers' reports. Where distribution forecasts are not available, the median of the forecasts prepared by a range of brokers has generally been used to derive distribution forecasts. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

¹⁵ "Economic EBIT" includes income from internally owned assets. It is a better reflection of the "true" earnings of the operating platform.

GRANT SAMUEL



and a forecast exit yield of 2.8%. The Macerich board subsequently rejected the revised proposal and it was withdrawn by Simon on 31 March 2015.

The other REIT transactions since 2012 have occurred at premiums to NTA in the range 0.7-4.8% and at forecast exit yields of 5.5-6.8%. The following factors are relevant to consideration of this transaction evidence:

- the high premium of 22.5% for Australand Property Group ("Australand") reflects its significant development and construction activities and therefore the implied premium provides no meaningful insight into the value attributed to Australand's investment property portfolio itself;
- the premium to NTA implied by the offer for Commonwealth Property Office Fund ("CPA") reflects a competitive bidding process between the DEXUS Property Group ("DEXUS") and Canada Pension Plan Investment Board ("CPPIB") consortium ("DEXUS/CPPIB Consortium") and The GPT Group ("GPT");
- the transactions for Australian Industrial REIT ("ANI"), Folkestone Social Infrastructure Trust ("FST") and CPA involve scrip (or part scrip) consideration which enabled securityholders to retain exposure to the property sector generally as well as the target property sector assets;
- the transaction metrics reflect the assets and/or circumstances of the target REIT. For example, FST invested in social infrastructure (particularly early education, government and healthcare sectors) and Mirvac Industrial Trust ("MIX") invested in industrial assets in the greater Chicago areas of United States and was not paying distributions; and
- as interests associated with Challenger Limited already held a 58.7% interest of Challenger Diversified Property Group ("CDI"), the premium to NTA implied by the acquisition (0.7%) is at the low end of the transaction evidence.

Nevertheless, it is clear that some premium over reported NTA has been paid by acquirers of REITs in recent years (albeit generally less than 5%).

A brief summary of each transaction since 2012 (except for the acquisition of Westfield ANZ) is set out below:

Acquisition of Australian Industrial REIT by 360 Capital Industrial Fund

On 19 December 2014, ANI announced that it had received an unsolicited conditional scrip takeover offer from 360 Capital Industrial Fund ("CIF"). The consideration under the offer is 0.89 CIF units for each ANI unit plus 3 cents cash per unit if before the end of the offer period a 360 Capital Group entity is appointed responsible entity for ANI or in excess of 50% if ANI unitholders accept the offer. CIF has announced that it will waive all conditions if, during the offer period, it receives acceptances for more than 50% of ANI units or a member of the 360 Capital Group is appointed as responsible entity for ANI. The transaction metrics calculated for this transaction are based on the range of possible consideration (i.e. scrip only at the low end and scrip plus cash at the high end). ANI owns a portfolio of 16 industrial properties with a total value of \$320 million located across Sydney, Melbourne and Perth. CIF owns a portfolio of 22 industrial properties with a total value of \$526 million. On 24 March 2015 CIF increased the offer to 0.9 CIF units plus 4.5 cents for each ANI unit plus 10 cents cash if before the end of the offer period a 360 Capital Group entity is appointed responsible entity for ANI or in excess of 50% if ANI unitholders accept the offer. Together, the change in offer terms and the increase in the CIF unit price since the original offer in December 2014, mean that the value of the consideration under the offer has increased by around 10%. CIF has declared the offer best and final in the absence of a competing proposal and it is currently scheduled to close on 15 April 2015.

Acquisition of Folkestone Social Infrastructure Trust by Folkestone Education Trust

On 13 November 2014, FST announced that it had entered into a merger implementation agreement with Folkestone Education Trust ("FET") under which FET would acquire FST. The consideration under the proposal was 1.32 FET units plus \$0.675 cash for every FST unit, implying a value of \$3.14 per FST unit. FST invests in social infrastructure property (e.g. early learning centres, medical centres and storage facilities) (79%) and property securities (21%). It was formed in 2000 and has a portfolio of 49 properties with a book value of \$93.2 million. FET was formed in 2002 and invests in early learning centres in Australia and New Zealand. At 31 October 2014, it owned 354 properties (303 in Australia) with a value of \$472 million.

Acquisition of Mirvac Industrial Trust by The Goldman Sachs Group

On 19 September 2014, MIX announced that it had entered into a scheme implementation agreement with a wholly owned subsidiary of The Goldman Sachs Group under which all MIX units would be acquired for cash consideration of \$0.214 per unit (based on an A\$/US\$ exchange rate of 0.8973). MIX was formed in 2005 to invest in industrial property in the greater Chicago area of the United States and at the time of the transaction MIX owned a portfolio of

GRANT SAMUEL



24 properties. The global financial crisis had adverse consequences for MIX and a number of initiatives were undertaken to stabilise its capital structure. On 28 May 2014, a process commenced seeking formal expressions of interest in relation to the realisation of 100% of MIX. This transaction was the culmination of that process.

Acquisition of Australand Property Group by Frasers Centrepoint Limited

On 4 June 2014, Australand announced that it had received a conditional proposal from Frasers Centrepoint Limited ("Frasers") to acquire all of its stapled securities via an off-market takeover offer. On 1 July 2014, Australand announced that it had entered into a bid implementation agreement whereby securityholders would receive cash consideration of \$4.48 cash for each Australand security. Australand is an internally managed diversified property group with three core operating divisions: Investment Property which generates passive investment income and management fees from a portfolio of 68 industrial and office properties, valued at \$2.4 billion; Commercial and Industrial which designs, develops and constructs commercial and industrial properties primarily in Sydney, Melbourne and Brisbane and contributed approximately 10% of Australand's EBIT in 2013; and Residential which develops, constructs, manages and sells residential lots for medium to high density apartments and housing (32% of EBIT). The high premium to NTA (22.5%) reflects Australand's significant development and construction activities and therefore provides no meaningful insight into the value attributed to the investment property portfolio itself.

Acquisition of Challenger Diversified Property Group by Challenger Australia Listed Property Holding Trust

On 11 April 2014, Challenger Australia Listed Property Holding Trust (a related entity of Challenger Life Company Limited, a subsidiary of ASX listed Challenger Limited) announced an unconditional off-market takeover offer to acquire all of the units in CDI. At that date, interests associated with Challenger Limited held approximately 58.7% of CDI's issued units. The consideration under the offer was \$2.74 cash per CDI unit. CDI held a diversified portfolio of 27 office, retail and industrial properties with a value of \$888 million, 93% of which was located in Australia with the balance in France.

Acquisition of Commonwealth Property Office Fund by DEXUS/CPPIB Consortium

On 11 December 2013, the DEXUS/CPPIB Consortium announced a conditional cash and scrip off-market takeover offer for all issued units in CPA. This offer was the culmination of corporate activity (involving GPT and the DEXUS/CPPIB Consortium) which had commenced in July 2013 following the announcement by Commonwealth Bank of Australia of a proposal to internalise the management of CPA. Under the offer CPA unitholders could choose between two cash and scrip mix consideration alternatives, both of which implied a value of approximately \$1.23 per unit at the date of announcement. CPA is an externally managed office sector specific REIT which owns a portfolio of 25 office properties in central business districts and major suburban markets in Australia with a book value at 31 October 2013 of \$3.8 billion.

(b) Transactions in the period 2007 to 2013

In the period between 2007 and 2013 control transactions generally occurred at quite significant discounts to NTA and at a range of exit yields as set out in the table below:

Australian Listed Transactions from 2007 to 2013								
Date	Target	Property Category	Management Basis	Acquirer	Consideration (\$ millions)	Premium/ (Discount) to NTA	Exit Yield	
							Historical	Forecast
Apr 12	Thakral Holdings Group	H/R/C	I	Brookfield Asset Management Inc	507	(15.6)% ¹⁶	na	na
Feb 12	Tishman Speyer Office Fund	C	E	Sale of US REIT and wind up	309 ¹⁷	18.5%	na	na
Jan 12	Charter Hall Office REIT	O	E	Consortium including Charter Hall Group	1,228	(3.9)%	na ¹⁸	5.3-6.5% ¹⁹

¹⁶ Based on NTA adjusted for partly paid securities and the fair value of operating leasehold land and valuation surplus not recognised for hotel properties under accounting standards. On an unadjusted basis, the discount to NTA is 8.6%.

¹⁷ Based on A\$/US\$ exchange rate of 1.08 at announcement date.

¹⁸ Charter Hall Office REIT's historical distribution reflected the earnings of the United States property portfolio that was in the process of being sold at the time of the transaction and therefore the historical exit yield is not meaningful.

¹⁹ Based on management guidance for operating earnings of 17.5-18.0 cents per unit and the target distribution payout ratio of 75-90%.

GRANT SAMUEL



Australian Listed Transactions from 2007 to 2013								
Date	Target	Property Category	Management Basis	Acquirer	Consideration (\$ millions)	Premium/(Discount) to NTA	Exit Yield	
							Historical	Forecast
Jan 12	Abacus Storage Fund	S	I	Abacus Property Group	132	(8.2)%	7.4%	na ²⁰
Apr 11	Valad Property Group	D	I	Blackstone Real Estate Advisers	209	(22.1)%	na	na
Apr 11	Rabinov Property Trust	O/I	E	Growthpoint	50	(4.3)%	10.0%	8.6%
Dec 10	ING Industrial Fund	I	E	Goodman Group consortium	1,395	(1.5)%	3.0%	6.0%
Jul 10	MacarthurCook Industrial Property	I	E	CommonWealth REIT	43	(32.1)%	4.1%	4.1%
Apr 10	Westpac Office Trust	O	E	Mirvac	417	3.1%	7.7%	7.7%
Oct 09	Mirvac Real Estate Investment Trust	R/I/H	E	Mirvac	373	(29.9)%	5.5%	5.4%
May 09	Orchard Industrial Property Fund	I	E	Growthpoint	255	(11.9)%	na ²¹	8.8% ²¹

Source: Grant Samuel analysis

The following factors are relevant to consideration of the transaction evidence in this period:

- Valad Property Group ("Valad"), MacarthurCook Industrial Property Fund, Mirvac Real Estate Investment Trust and Orchard Industrial Property Fund were arguably in some financial distress at the time of their transactions;
- the timing of the transactions has an impact on the premium/(discount) to NTA as the earlier transactions took place prior to the write down of the book value of assets in the entity's accounts, implying a greater discount to NTA than might have been the case;
- the transaction metrics reflect the assets and/or circumstances of the target REIT. For example, Tishman Speyer Office Fund ("Tishman") invested in commercial complexes in major centres in the United States and Tishman, Thakral Holdings Group ("Thakral") and Valad were not paying distributions;
- the Abacus Storage Fund and Rabinov Property Trust transactions involved scrip consideration which enabled securityholders to retain their exposure to any general recovery in property markets as well as the target assets;
- the discount to adjusted NTA implied by the Thakral transaction is relatively high at 15.6% and likely reflects that other parties may have been dissuaded from making alternative offers by Brookfield's existing relevant interest in 38.6% voting power in Thakral (although it had no actual securityholding); and
- the high premium to NTA (18.5%) implied by the Tishman transaction is high as it is calculated after allowing for the full amount of tax payable if the properties underlying the US REIT were sold and the net proceeds distributed to Tishman. However, in certain circumstances the amount of tax ultimately paid could be less and therefore the implied premium would be lower.

The remaining three transactions in this period (Charter Hall Office REIT, ING Industrial Fund and Westpac Office Trust) took place at around NTA in the range (3.9)-3.1% and at forecast exit yields in the range of 5.3-7.7%. In relation to these transactions:

- none involve REITs with a retail property sector focus;
- Charter Hall Office REIT had an active development pipeline (albeit scaled back relative to prior periods) and
- Westpac Office Trust was a highly geared REIT (62% at 31 December 2009) and the transaction took place at a time of great market uncertainty following the global financial crisis.

A brief summary of each transaction in the period from 2007 to 2013 is set out below:

²⁰ As a result of Abacus' need to meet debt covenants, its ability to pay a future distribution was uncertain.

²¹ Orchard Industrial Property Fund's historical distribution per unit represented securities on issue at that time and therefore the historical exit yield is not meaningful. The forecast exit yield is based on the expected distribution for the first full year following the recapitalisation.

GRANT SAMUEL



Acquisition of Thakral Holdings Group by Brookfield Asset Management Inc.

On 19 April 2012, Brookfield Asset Management Inc. ("Brookfield") announced an all cash takeover offer for Thakral at \$0.70 per stapled security. On the same day, as a consequence of enforcing security under debentures, Brookfield acquired relevant interests in 38.6% voting power in Thakral. The independent directors of Thakral unanimously recommended securityholders to reject Brookfield's offer. On 22 August 2012, and after Thakral solicited a competitive process for alternative proposals, Brookfield and Thakral entered into an implementation deed under which Brookfield agreed to declare its offer unconditional, establish an acceptance facility and agreed to increase the offer to \$0.81 per stapled security if it became entitled to 90% of Thakral securities (which occurred on 11 September 2012). Thakral was the only listed property group with a primary focus on hotels. It had a \$1,064 million portfolio of hotels (62% of portfolio value), retail and commercial buildings, residential buildings and development properties. With the exception of the Osaka Residential Apartments located in Japan, all of Thakral's properties were located on the east coast of Australia.

Sale of US REIT and wind up of Tishman Speyer Office Fund

Tishman was established in 2004 to invest in US REIT which was formed to acquire commercial office properties in or near the central business districts of major markets in the United States. The global financial crisis had adverse consequences for Tishman and, following defending an unsolicited takeover offer and in conjunction with a debt restructure, in 2009 a realisation strategy was adopted with the objective of realising US REIT's investments by 2015 and returning proceeds to unitholders. The transaction was the consequence of that strategy and required unitholder approval. The NTA premium implied by the transaction (18.5%) is high and is calculated after allowing for the full amount (US\$172.6 million) of the deferred tax liability recorded at 31 December 2011. The deferred tax liability represents tax payable if the properties underlying US REIT are sold and the net proceeds distributed to Tishman. However, in certain circumstances the amount of tax ultimately paid could be less and therefore the implied premium would be lower. On the basis of pre-tax NTA (i.e. assuming no tax is payable) the offer represents a 26.5% discount to NTA.

Acquisition of Charter Hall Office REIT by a Consortium (including Charter Hall Group)

On 3 January 2012, the independent directors of Charter Hall Office Management Limited, responsible entity for the Charter Hall Office REIT ("CQO"), announced it had entered into a Scheme Implementation Agreement with Reco Ambrosia Pte Ltd (an affiliate of Government of Singapore Investment Corporation Pte Ltd), the Public Sector Pension Investment Board of Canada and a member of Charter Hall Group (collectively, the "Bidders") under which the Bidders would acquire CQO (excluding its United States property assets which CQO was in the process of selling to Beacon Capital Partners, LLC for US\$1.71 billion) for cash consideration. Therefore, the consortium was effectively acquiring CQO's Australian property portfolio which comprised interests in 18 assets across eight Australian office markets (predominantly premium and A grade office properties). As at 31 December 2011 the portfolio had a book value of \$1.85 billion and CQO's pro forma balance sheet gearing was 28.3%.

Merger of Abacus Storage Fund with Abacus Property Group

On 13 January 2012, Abacus Property Group ("APG") announced its intention to merge with Abacus Storage Fund ("Abacus"). APG is an internally managed listed REIT providing exposure to a diversified portfolio of property assets, mortgage investments, property development ventures and property funds management in Australia and New Zealand. Abacus is an unlisted stapled entity with a portfolio of 41 self-storage properties in Australia and New Zealand. Abacus is externally managed by APG with property management conducted by Storage King. The announcement followed a strategic review of increasingly tight bank covenants for Abacus and uncertainty regarding its ability to refinance or repay debt in August 2013. Unlike other property sectors, the self-storage sector is characterised by short-term rental of storage space with no long-term contracts. As a result, Abacus' property income was subject to short-term fluctuations and has a greater degree of risk. The relatively high discount to NTA likely reflects the financial situation and the inherent greater risk in Abacus' property income.

Acquisition of Valad Property Group by Blackstone Real Estate Advisers LLC

On 29 April 2011, Valad announced that it had entered into a scheme implementation agreement with Blackstone Real Estate Advisors LLC. Valad was engaged in property investment in Australia and New Zealand (68% of EBITDA for the half year ended 31 December 2010), European funds management (22% of EBITDA) as well as development and co-investments. At 31 December 2010, its property portfolio comprised 27

GRANT SAMUEL



properties valued at \$569 million in the office (31% of value), industrial (28%), bulky goods (24%) as well as hotel and residential sectors which were predominantly located in Australia (88%) as well as New Zealand (12%). The weighted average lease expiry was 4.4 years and occupancy was 97%. Valad had relatively high gearing of 51% at 31 December 2010 and had not paid a distribution since 2008.

Acquisition of Rabinov Property Trust by Growthpoint Properties Australia

On 13 April 2011, Rabinov Property Trust ("Rabinov") announced that it had entered into an implementation agreement with Growthpoint Properties Australia ("Growthpoint") whereby Growthpoint would acquire all of the units in Rabinov for scrip consideration. As at 31 December 2010, Rabinov had a portfolio of 12 properties valued at \$235 million in the office (70% of value), industrial (28%) and retail (2%) sectors located in Victoria (71%), South Australia (15%), Tasmania (12%) and Queensland (3%). Rabinov's office property portfolio comprises relatively low quality assets. The weighted average lease expiry was 6.6 years and occupancy 100%. Rabinov was owned 83.4% by Rabinov Holdings Pty Limited and had gearing of 77% as at 31 December 2010.

Acquisition of ING Industrial Fund by Goodman Group Led Consortium

On 23 December 2010, ING Industrial Fund ("IIF") announced that it had received a proposal from Goodman Group. As at 31 December 2010, IIF had a portfolio of 61 industrial properties valued at \$2.5 billion which were located in Australia (86% of value) and Western Europe (14%). The weighted average lease expiry was 4.5 years and occupancy of 98%. As at 31 December 2010, IIF had gearing of 27% and look through gearing of 42%. No distribution was paid in the first half of the 2010 financial year (historical period). Consequently, the forecast exit yield exceeds the historical exit yield.

Acquisition of MacarthurCook Industrial Property Fund by Commonwealth REIT

On 12 July 2010, MacarthurCook Industrial Property Fund ("MacarthurCook") announced that it had received a proposal from Commonwealth REIT to acquire all units in the fund for cash consideration. As at 30 June 2010, MacarthurCook had a portfolio of 10 industrial properties valued at \$106.1 million located throughout Australia. The weighted average lease expiry was 4.6 years and occupancy was 85%. MacarthurCook was in financial distress although gearing was moderate at 40% at 30 June 2010.

Acquisition of Westpac Office Trust by Mirvac Group

On 28 April 2010, Westpac Office Trust ("WOT") announced it had received a proposal from Mirvac Group ("Mircac") to acquire the units and instalment receipts of WOT for cash or scrip. As at 31 December 2009, WOT had a portfolio comprising 7 office properties valued at \$1.1 billion which were predominantly (94%) located in New South Wales. The weighted average lease expiry was 8.7 years and occupancy was 99%. Approximately 84% of the portfolio was classed A-grade and 94% of rental income was received from investment grade tenants. At 31 December 2009, WOT's gearing was 62%.

Acquisition of Mirvac Real Estate Investment Trust by Mirvac Group

On 12 October 2009, Mirvac Real Estate Investment Trust ("MREIT") announced that it had received an offer from Mirvac to acquire the remaining 75.4% interest in MREIT for scrip or a combination of cash and scrip. MREIT was externally managed by a subsidiary of Mirvac, which owned 24.6% of MREIT. As at 30 June 2009, MREIT had a property portfolio comprising 35 properties valued at \$1.0 billion in the retail (36% of value), commercial (31%), industrial/business park (17%) and hotel (16%) property sectors located primarily in Australia (99%). The weighted average lease expiry was 4.8 years and occupancy was 94%. MREIT is also engaged in development activities. MREIT was in financial distress and as at 30 June 2009, MREIT had gearing of 45% and look through gearing of 49%.

Recapitalisation of Orchard Industrial Property Fund by Growthpoint Properties Limited

On 18 May 2009, Orchard Industrial Property Fund ("Orchard") announced that it had entered into an implementation agreement with Growthpoint to recapitalise and restructure the trust. The transaction would result in Growthpoint owning between 60% and 78% of Orchard. As at 31 May 2009, Orchard had a portfolio comprising 23 industrial properties valued at \$650 million and located throughout Australia. The weighted average lease expiry was 11 years and occupancy was 98%. Orchard was owned 41.5% by Orchard Diversified Property Fund. Orchard was in financial distress with gearing at 31 December 2008 of 66%. The high historical exit yield reflects higher distributions from the pre-crisis 2008 financial year. Distributions of 1.25 cents were paid in each of the first and second quarters of the 2009 financial year. In March 2009, the distribution policy

GRANT SAMUEL



was changed from quarterly to half yearly (such that there was no distribution in the March quarter of 2009). If the transaction did not proceed, it was uncertain whether a distribution would be paid for the half year to 30 June 2009 since it was likely Orchard's loan-to-value ratio would exceed debt covenants and it would be necessary to reduce gearing, including through asset sales and the suspension of distributions. Therefore, the forecast exit yield is calculated based on a distribution of 2.5 cents for the 2009 financial year.

(c) Transactions in the period 2000 to 2007

The premiums/(discounts) to NTA and exit yields for control transactions in the period from 2000 to 2007 are set out in the table below:

Australian Listed Transactions 2000 to 2007								
Date	Target	Property Category	Management Basis	Acquirer	Consideration (\$ millions)	Premium/(Discount) to NTA	Exit Yield	
							Historical	Forecast
Jun 07	Multiplex Group	D	I	Brookfield Asset Management Inc	4,229	61.3%	5.0%	3.7%
May 07	Investa Property Group	D	I	Morgan Stanley	4,699	56.2%	5.0%	5.2%
Apr 07	Macquarie ProLogis Trust	I	E	Pro Logis	1,239	12.4%	5.9%	5.9%
Oct 04	James Fielding Group	D	I	Mirvac Group	499	38.6%	7.1%	7.8%
Sep 04	Ronin Property Group	O	I	Multiplex Group	1,308	16.5%	7.4%	7.4%
Jul 04	Principal America Office Trust	O	E	Macquarie Office Trust	857	25.3%	8.6%	8.8%
Jul 04	Prime Retail Group	R	E	Centro Properties Group	393	9.3%	10.2%	8.9%
Aug 03	Principal Office Fund	O	E	Investa Property Trust	1,504	2.4%	6.8%	6.8%
Jul 03	AMP Industrial Trust	I	E	Macquarie Goodman Industrial Trust	450	22.8%	7.8%	7.9%
May 03	AMP Diversified Property Trust	D	E	Stockland	1,648	26.1%	6.5%	6.6%
May 03	AMP Shopping Centre Trust	R	E	Westfield Trust	1,460	28.6%	6.2%	6.3%
Jul 02	Colonial First State Property Group	D	E	CPA/Fund/Gandel Retail Trust	1,658	28.4%	6.8%	7.1%
Aug 00	Macquarie Industrial Trust	I	E	Goodman Hardie Industrial Property Trust	291	9.9%	9.3%	9.5%
Jul 00	BT Property Trust	O/R	E	BT Office Trust	501	(0.2)%	8.0%	8.2%
Jul 00	Paladin Commercial Trust	I/R	E	Commercial Investment Trust	508	6.3%	7.9%	8.0%
May 00	Flinders Industrial Trust	I	E	Stockland	289	12.1%	8.9%	9.0%

Source: Grant Samuel analysis

In the period prior to 2008, acquisition transactions (particularly after 2002) occurred at significant premiums to NTA. In particular, the larger transactions with values in excess of \$1 billion occurred at premiums of between 2.4% and 61.3%, but generally well above 10%. However, it should be noted that:

- several of the transactions implying high premiums involved entities with significant operating businesses in which case the premium to NTA is not meaningful. This particularly applies to the acquisition of Multiplex Group (which had a development and construction business, a passive property investment portfolio and a property funds management business) by Brookfield Asset Management Inc, Investa Property Group (which had both a substantial residential land development business and manages wholesale property investment funds) by Morgan Stanley Real Estate and Mirvac's acquisition of James Fielding. In these cases, the implied premiums to NTA provide no meaningful insight into the value attributed to the property portfolio itself; and
- part of the premium may also be due to the lag that previously existed in the valuation of properties. For example, the acquisition of AMP Shopping Centre Trust was at a premium to NTA of 28.6% based on last valuations. However, the portfolio was revalued shortly after the acquisition which resulted in an increase in NTA by 23 cents per unit. The premium would have been 12.4% if based on this revised NTA. The

GRANT SAMUEL



introduction of International Financial Reporting Standards in FY06 removed this valuation lag and was expected to result in lower premiums to NTA for passive property portfolios.

Nevertheless, clearly some premium was paid by acquirers which would appear to be attributable to diversification and scale benefits of acquiring a large portfolio in a single line as well as the relative scarcity of such opportunities in an increasingly concentrated environment.

2 Evidence from Sharemarket Prices

The sharemarket ratings of selected publicly listed retail and diversified REITs in Australia and retail REITs in the United States and Europe are set out below by region:

Sharemarket Ratings of Selected Listed REITs													
Entity	Manag ement Basis ³	Market Capital- isation (billions)	Premium/ (Discount) to NTA ²²	Premium/ (Discount) to Ungeared NTA	EBIT Multiple			FFO ²³ Multiple			Distribution Yield		
					FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
Novion (pre Merger) ²⁴	I	A\$7.1	17.8%	12.9%	19.9	17.6	17.3	17.5	16.9	16.8	5.9%	5.9%	6.1%
Novion (current)	I	A\$7.7	27.4%	19.5%	21.0	18.8	18.4	18.9	18.3	18.2	5.4%	5.5%	5.6%
Federation (pre Merger) ²⁴	I	A\$4.4	27.0%	19.8%	17.6	17.6	16.9	18.1	17.9	17.1	5.1%	5.5%	5.7%
Federation (current)	I	A\$4.3	24.6%	18.0%	17.3	17.4	16.7	17.7	17.5	16.8	5.2%	5.6%	5.8%
Retail REITs - Australia													
Westfield Corporation	I	A\$19.8	101.9%	60.1%	nmf	22.5	20.9	nmf	19.3	18.4	nmf	3.5%	3.5%
Scentre Group	I	A\$19.9	25.3%	15.9%	nmf	15.9	15.7	nmf	16.6	16.2	nmf	5.6%	5.7%
Charter Hall Retail REIT ²⁵	E	A\$1.6	21.9%	15.0%	18.9	16.2	14.9	17.3	15.0	15.1	6.4%	6.4%	6.6%
Shopping Centres Australasia	I	A\$1.3	16.8%	10.9%	18.4	16.5	16.2	18.7	16.4	16.6	5.4%	5.6%	6.0%
Carindale Property Trust ²⁵	E	A\$0.5	(8.0%)	(5.6%)	20.2	na	na	21.9	na	na	4.6%	na	na
Diversified REITs – Australia													
Stockland Group	I	A\$10.6	25.0%	19.4%	23.9	20.3	18.5	18.1	18.3	16.9	5.3%	5.3%	5.3%
GPT	I	A\$8.1	16.0%	13.1%	17.7	17.6	17.1	17.0	16.4	16.0	4.6%	5.0%	5.1%
Mirvac Group	I	A\$7.4	18.9%	13.5%	16.9	16.3	15.1	16.2	18.3	17.6	4.5%	4.6%	5.0%
DEXUS	I	A\$6.9	17.2%	11.1%	nmf	14.5	13.7	nmf	12.7	13.1	nmf	5.4%	5.7%
Retail REITs – North America ²⁶													
Simon Property Group	I	US\$61.5	na	na	22.0	17.5	16.6	22.0	20.0	18.2	2.6%	3.0%	3.2%
General Growth Properties	I	US\$28.5	na	na	25.9	19.6	18.0	21.3	20.7	18.8	2.1%	2.4%	2.6%
The Macerich Company	I	US\$13.7	na	na	29.7	22.5	21.4	24.5	22.5	20.9	2.9%	3.1%	3.2%
Kimco Realty Corporation	I	US\$11.1	na	na	20.8	20.8	19.4	18.5	18.0	17.2	3.4%	3.6%	3.7%
Brixmor Property Group	I	US\$7.9	na	na	16.5	na	na	14.8	13.5	12.5	3.1%	3.4%	3.6%
DDR Corp	I	US\$6.7	na	na	19.9	17.3	16.7	16.9	15.1	14.0	3.3%	3.7%	3.9%
Taubman Centers	I	US\$5.3	na	na	18.2	16.6	15.1	24.8	23.7	21.0	2.8%	2.9%	3.0%
Weingarten Realty Investors	I	US\$4.6	na	na	18.5	17.2	16.3	17.5	16.9	15.9	4.3%	3.8%	4.0%
RioCan REIT	I	C\$9.4	na	na	20.8	na	na	17.6	16.7	15.9	4.9%	4.9%	4.9%
Retail REITs – Europe													
Unibail-Rodamco	I	€24.6	96.5%	40.3%	36.9	28.7	26.7	23.0	24.3	22.6	3.5%	3.8%	4.0%
Klépierre	I	€14.2	156.7%	56.7%	nmf	23.3	22.7	nmf	21.8	21.0	nmf	3.6%	3.8%
Hammerson	I	£5.2	4.7%	3.3%	20.9	26.5	25.2	28.4	26.4	24.6	3.1%	3.2%	3.4%
Intu Properties	I	£4.6	3.8%	2.0%	22.2	21.6	20.9	26.2	24.7	24.3	3.9%	3.9%	3.9%

Source: Grant Samuel analysis²⁷

²² NTA is based on the last reported balance sheet. NTA excludes deferred tax liabilities and is after providing for the latest distribution to the extent that it was not provided for in the reported balance sheet. Adjustments have also been made for acquisitions, disposals, capital raisings and share buybacks as appropriate.

²³ Funds From Operations (FFO) multiples have been calculated based on reported FFO for Australian and North American entities and EPRA direct earnings for European entities (where available). The selected entities typically report FFO in accordance with industry guidelines (Property Council of Australia, NAREIT in the United States, and REALpac in Canada). Where FFO or EPRA direct earnings were not reported, Grant Samuel has calculated an equivalent figure for the purposes of this multiples analysis.

²⁴ Novion and Federation calculated at 2 February 2015, being the day prior to announcement of the Merger.

²⁵ Charter Hall Retail REIT and Carindale Property Trust are the only passive REITs included in the table.

²⁶ The EBIT multiples for United States retail entities have been calculated using EBITDA. This is more comparable to the Australian and European EBIT multiples as US GAAP requires investment properties to be recognised at acquisition cost and depreciated.

²⁷ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

GRANT SAMUEL



All of the Australian listed entities have a 30 June year end except for GPT, Scentre Group and Westfield Corporation which have a 31 December year end (i.e. for these entities FY14 equates to year ended 31 December 2014). All of the United States and European entities have 31 December year ends. The multiples shown are based on sharemarket prices as at 31 March 2015 except for Novion (pre Merger) and Federation Centres (pre Merger) which have been calculated as at 2 February 2015 (being the day prior to the announcement of the Merger) and Macerich which is as at 6 March 2015 (being the day prior to announcement of an acquisition proposal from Simon).

A brief description of each entity is set out below:

Westfield Corporation

Westfield Corporation is an ASX listed vertically integrated shopping centre group with a portfolio of 40 shopping centres in the United States (71%) and the United Kingdom (29%). Westfield Corporation was created in June 2014 when Westfield Group separated its Westfield ANZ business from its international operations. It undertakes ownership, development, funds and asset management, and property management of retail assets. As at 31 December 2014 it had total AUM of US\$28.5 billion (including direct interests of US\$17.7 billion) comprised of 11 flagship centres (66% of AUM), 23 regional centres (30%) and four non-core regional (4%). The portfolio has gross lettable area of 4.7 million m² and occupancy of 95.8%. It has US\$2.4 billion of developments under construction (Westfield share US\$1.8 billion of which US\$1.2 billion has been incurred), with a future identified development pipeline of US\$9.0 billion (Westfield share US\$4.5 billion). Although listed in Australia, Westfield Corporation reports and pays distributions in United States dollars.

Scentre Group

Scentre Group is a vertically integrated retail property group that manages, develops and has an ownership interest in *Westfield* branded shopping centres in Australia and New Zealand. Scentre Group was formed in June 2014 through the merger of Westfield Retail Trust and the Westfield ANZ business. It has AUM of \$40.9 billion (including a direct interest of \$29.3 billion) across 47 shopping centres with a total gross lettable area of 3.9 million m² and occupancy of 99.5%. Scentre Group has a future development pipeline of in excess of \$3.0 billion, with \$1.3 billion (Scentre Group share \$0.4 billion) of projects currently under construction.

Charter Hall Retail REIT

Charter Hall Retail REIT is externally managed by Charter Hall Group and has investments in retail shopping centres located mainly on the east coast of Australia. As at 31 December 2014 its portfolio included 77 properties with a book value of \$2.1 billion comprising sub-regional (45%), neighbourhood (45%) and freestanding (11%) centres with gross lettable area of 540,100m², occupancy of 98.5% and a weighted average lease expiry of 7.2 years. Although passive, it is trading at a premium to NTA reflecting the non-discretionary spending nature of its centres, completion of non-Australian divestments and current market conditions.

Shopping Centres Australasia Property Group

Shopping Centres Australasia Property Group ("Shopping Centres Australasia") is an internally managed REIT with a portfolio of 77 shopping centres in Australia and New Zealand. At 31 December 2014, Australian shopping centres represented around 88% of portfolio value. The portfolio is geographically diversified across major states in Australia. The \$1.8 billion investment portfolio comprised neighbourhood (62%), sub-regional (25%) and freestanding (12%) centres. The portfolio has gross lettable area of 487,429m², 98.6% occupancy and a weighted average lease expiry (by gross lettable area) of 12.9 years.

Carindale Property Trust

Carindale Property Trust is an externally managed passive REIT. Its sole investment is a 50% interest in Westfield Carindale, Brisbane which has 136,000 m² of gross lettable area. As at 31 December 2014, Carindale's interest in Westfield Carindale was valued at \$748.6 million (50% basis).

GRANT SAMUEL

***Stockland Group***

Stockland Group is an internally managed stapled property entity. It is a diversified property group which develops, owns and manages commercial property (retail shopping centres, office buildings, and industrial sites) in addition to residential communities and retirement living villages. At 31 December 2014, it had a commercial property portfolio valued at \$8.3 billion comprising 41 retail centres (\$5.7 billion), 21 logistics and business parks (\$1.6 billion) and 10 office buildings (\$1.0 billion). Stockland is the largest residential developer in Australia with 78,700 lots across 59 communities with a total end value of around \$19.8 billion and is also one of the top three retirement living operators in Australia with 63 retirement villages.

The GPT Group

GPT is an internally managed stapled property entity. It is a diversified property group with \$9.4 billion of property investments in addition to having a funds management platform with \$9.6 billion of AUM. GPT's property portfolio comprises retail (50%), office (36%) and industrial (14%) properties. The retail portfolio includes interests in 16 shopping centres worth \$4.8 billion, with a total gross lettable area of 1.1 million m², occupancy of 99.5% and a \$1.2 billion development pipeline at 31 December 2014. The office portfolio has net lettable area of 1.2 million m² and occupancy of 93.9% whilst the logistics portfolio has occupancy of 95.3% across 0.8 million m² of gross lettable area. GPT is proposes to increase the proportion of its earnings generated from "active" property related business areas (including funds and development management) to 10%.

Mirvac Group

Mirvac Group ("Mirvac") is an internally managed stapled entity engaged in property investment, property development and funds management. It aims to achieve 80% of profit after tax from property investment and 20% from property development through the cycle. As at 31 December 2014, its investment portfolio comprised 60 property assets valued at \$7.2 billion. The weighting to the office sector was 57% of value with the remainder primarily invested in retail (29%), industrial (6%) and other (i.e. residential, indirect investments, car parks and a hotel) (8%). Approximately 92% the office portfolio is classified premium or A-grade and concentrated in the Sydney and Melbourne central business districts ("CBD"). The retail portfolio comprised sub-regional (57%), CBD (21%), outlet (15%) and neighbourhood (8%) centres.

DEXUS Property Group

DEXUS is an internally managed stapled entity which invests directly in and manages office and industrial properties within Australia in addition to developing and managing Australian properties on behalf of third parties. As at 31 December 2014, its portfolio was valued at \$9.1 billion and comprised 84% office and 16% industrial properties. Third party funds under management were \$9.2 billion at 31 December 2014 with assets across the office (47%), retail (41%) and industrial (11%) sectors. DEXUS has a development pipeline of \$3.5 billion, including \$1.3 billion of owned assets and \$2.2 billion through third party funds. In April 2014, in conjunction with CPPIB, DEXUS completed the acquisition of CPA for a cost of around \$3 billion.

Simon Property Group, Inc.

Simon is an internally managed REIT. It holds investments in 228 properties primarily in the United States including 109 regional malls, 68 premium outlets, 13 Mills, and 17 community/other centres in addition to 21 premium outlet centres in Asia, Europe, Canada and Mexico. The portfolio has a net lettable area of 17.5 million m². It also has a 28.9% interest in Klépierre SA, a European focused retail REIT (see below). During 2014 it spun off its interests in 98 properties comprising strip centres and smaller enclosed malls.

General Growth Properties, Inc.

General Growth Properties, Inc is an internally managed REIT which invests directly in and manages high quality regional malls in the United States. As at 31 December 2014 it had interests in 133 properties with a gross lettable area of approximately 12.0 million m² and occupancy of 97.2% and a US\$2.4 billion development pipeline.

GRANT SAMUEL

***The Macerich Company***

Macerich is an internally managed REIT which invests directly in and manages regional and community shopping centres throughout the United States. At 31 December 2014 it had interests in 51 regional shopping centres and 8 community shopping centres totalling 5.0 million m² of gross lettable area. Occupancy at 31 December 2014 was 95.8% for its regional shopping centres. On 9 March 2015, Simon announced a proposal to acquire all of Macerich for US\$91 per share in cash and stock. The proposal was rejected on 17 March 2015.

Taubman Centers, Inc.

Taubman Centers, Inc. is an internally managed REIT engaged in the ownership, management and leasing of 21 regional, super-regional and outlet shopping centres in the United States and Asia with a gross lettable area of 1.6 million m². As at 31 December 2014 it had occupancy of 94.1% and was developing five properties with an area of 0.4 million m².

Kimco Realty Corporation

Kimco Realty Corporation is an internally managed REIT which owns and operates the largest publicly traded portfolio of neighbourhood and community shopping centres in North America. As at 31 December 2014 it has interests in 754 shopping centres with a gross lettable area of 10.2 million m² across the United States, Puerto Rico, Canada, Mexico and Chile. Across the entire portfolio it had occupancy of 95.6% at 31 December 2014.

Brixmor Property Group Inc

Brixmor Property Group Inc is an internally managed REIT which invests directly in and manages grocery anchored community and neighbourhood shopping centres throughout the United States. As at 31 December 2014 it had a portfolio of 521 properties with gross lettable area of 8 million m² and occupancy of 92.8%.

DDR Corp

DDR Corp. is an internally managed REIT which owns and manages 415 retail properties, primarily open-air value-oriented shopping centres, across the United States and Puerto Rico. Its properties have a lettable area of approximately 11 million m² and had occupancy of 95.7% at 31 December 2014.

Weingarten Realty Investors

Weingarten Realty Investors is an internally managed REIT which at 31 December 2014 owned and operated, or operated under long-term leases, 237 properties across the United States, with a lettable area of 2.6 million m² and 95.4% occupancy. The portfolio is focused on neighbourhood and community shopping centres, the majority of which are anchored by a supermarket or value-oriented retailer. Since 2011 Weingarten has sold over \$1.5 billion of non-core assets and reinvested over \$700 million in a strategic portfolio transformation.

Riocan Real Estate Investment Trust

RioCan Real Estate Investment Trust is an internally managed REIT. It is Canada's largest REIT with a portfolio of 292 retail properties (the majority of which are in Ontario) and 48 centres in the United States. As at 31 December 2014 the portfolio had a combined lettable area of 7.3 million m² and occupancy of 97.0%.

Unibail-Rodamco SE

Unibail-Rodamco SE is an internally managed REIT with investments in €34.6 billion of properties throughout Europe comprising shopping centres (79%), office properties (12%), convention and exhibition centres (7%) and services (2%). The shopping centre portfolio is focused on super prime properties and had occupancy of 97.8% at 31 December 2014. The office and convention and exhibition centres are predominantly located in Paris. Unibail-Rodamco had a development pipeline of €8.0 billion (group share €7.3 billion) at 31 December 2014.

GRANT SAMUEL

***Klépierre S.A.***

Klépierre is an internally managed REIT which has investments in 176 large shopping centres in 60 cities across continental Europe primarily in France-Belgium (48%), Scandinavia (18%), and Italy (13%). At 31 December 2014, its investment portfolio was valued at €10.9 billion and comprised shopping centres (96%) and retail assets (4%), with an occupancy rate of 97.0% and a development pipeline of €3.7 billion. Klépierre has a 56.1% interest in Steen & Strom, Scandinavia's largest shopping centre owner and manager and Simon holds a 28.9% in Klépierre. On 29 July 2014 Klépierre and Corio N.V. announced that they had reached conditional agreement to merge and form the leading pure play retail property entity in Europe. Klépierre launched a public exchange offer on 27 October 2014, and by 16 January 2015 held 93.6% of Corio shares. Statutory cross-border merger is expected to be completed on 31 March 2015.

Hammerson plc

Hammerson plc is an internally managed REIT which invests in retail properties primarily in the United Kingdom (69%) and France (25%) valued at £7.7 billion, including 22 major shopping centres, 22 retail parks and investments in 15 premium designer outlet villages across Europe. At 31 December 2014, its portfolio had 2.2 million m² of lettable area and occupancy of 97.5%.

Intu Properties plc

Intu Properties plc is an internally managed REIT which has interests in and manages 18 shopping centres in the United Kingdom and Spain. The portfolio is weighted towards super-regional centres in the United Kingdom (63% by value), with United Kingdom town and city centres (31%) and Spanish shopping centres (6%) making up the balance. As at 31 December 2014 the portfolio has occupancy of 95% across a total lettable area of approximately 2 million m².

GRANT SAMUEL

■ ■ ■

Appendix 4

Market Evidence – Real Estate Funds and Asset Management

There are no substantial listed entities in Australia primarily focussed on real estate funds management, asset management and development management activities. Entities with these activities generally derive a significant proportion of earnings from investment in real estate (either directly or indirectly) and are generally sector specialists providing the full range of management services often including significant property development activities. Consequently, to review value parameters that apply to real estate management platforms to assist in forming a view on the value of the operating platforms of Novion Property Group (“Novion”) and Federation Centres (“Federation”), Grant Samuel has placed greater emphasis on transaction evidence than the evidence from sharemarket trading.

1 Valuation Evidence from Transactions

There has been considerable transaction activity in Australia involving the acquisition of real estate funds management, asset management and development management rights in recent years. However, the global economic downturn is an important consideration when reviewing the value parameters implied by recent transaction activity.

Prior to 2008 there was significant consolidation in the listed real estate investment trust (“REIT”) sector in Australia the rationale for which was to access the benefits of size and scale (i.e. increased liquidity, greater diversification and a lower cost of capital). During this period, the availability of funds for growth increased the number of listed property groups (including investment, development, funds management and asset management activities) and, due to the limitations of the relatively small Australian market, resulted in the development of Australian domiciled REITs holding international real estate assets and fund managers managing REITs with assets in overseas jurisdictions. This period witnessed a significant level of corporate activity and transaction multiples were relatively high. In particular, transactions involving entities with active property development or syndication activities (e.g. Macquarie Goodman and Westfield) were undertaken at higher earnings multiples than transactions relating to management rights associated with more passive real estate asset management and fund management services.

The global economic downturn (which commenced with the global financial crisis in late 2007) had a significant impact on the real estate funds management and asset management sector. Market conditions were challenging (with limited access to debt and equity funding, declining property values and weaker economic conditions) and many transactions since 2007 reflected a level of financial distress, including:

- those that occurred as part of (or immediately prior to) recapitalisations or restructurings (e.g. Centro Properties Group’s services business, Becton Investment Management Limited, Orchard Industrial Property Fund and Babcock & Brown Communities Group);
- the acquisition of a 50% interest in Trinity Funds Management Limited by Clarence Property Corp, Limited, occurred as part of substantial asset sales to reduce debt;
- the sale of managers of geared United States or European assets (e.g. sale of the European funds management business of Valad Property Group to Blackstone Real Estate Advisors); and
- sale or internalisation of property management businesses which were performing poorly or loss making (e.g. Mirvac Domaine Property Funds Limited, Trinity Funds Management).

These transactions took place at lower earnings multiples. Other transactions reflect the sale of a manager as part of a global deleveraging strategy (e.g. Macquarie Group’s real estate management platform). More recently, as market conditions have improved and participants have sought domestic growth opportunities, transactions have occurred at higher earnings multiples.

A selection of relevant Australian transactions (third party acquisitions, internalisation and internalisation and acquisition of rights to independent funds) since 2008 involving property funds management, asset management and development management rights for which financial information is available is set out below:

GRANT SAMUEL

Recent Transaction Evidence - Real Estate Funds and Asset Management¹

Date	Target	Transaction	Management (FM/AM/DM ²)	Property Category	Consideration ³ (\$ millions)	EBIT Multiple ⁴ (times)		Multiple of Net Savings (times)
						historical	forecast	
Integrated Real Estate Platforms								
Third Party Acquisitions								
Jan 2015	Valad Europe property management platform	Acquisition by Cromwell Property Group	FM,AM,DM	Diversified	158.1 ⁵	na ⁶	6.4 ⁷	na
Dec 2013	Management of Commonwealth Property Office Fund	Payment by DEXUS to CBA for facilitation services	FM,AM,DM	Office	41.0 ⁸	na	2.9 ⁹	na
Jul 2012	Austock's property funds management business	Acquisition by Folkestone Limited	FM,AM	Education	11.5	4.1	na	na
Jul 2011	ING Healthcare Pty Ltd	Acquisition of 67.5% by APN Property Group	FM, AM	Healthcare	4.3	na	6.8	na
Apr 2011	European funds management business of Valad Property Group ¹	Acquisition by Blackstone Real Estate Advisors	FM,AM	Diversified (Europe)	24.9 ¹⁰	5.5	na	na
Oct 2010	Becton Investment Management Limited ¹	Acquisition by 360 Capital Group (prior to May 2011 restructuring proposal)	FM,AM,DM	Diversified	6.0 ¹⁰	0.6	na	na
May 2010	Trinity Funds Management Limited ¹	Acquisition of 50% by Clarence Property Corporation	FM,AM	Diversified	10.0	4.6	na	na
Feb 2010	Real estate management platform for Macquarie Group	Acquisition by Charter Hall Group	FM,AM,DM	Diversified	108.0	4.3 ¹¹	7.7	na
Dec 2008	Mirvac Domaine Property Funds Limited ¹	Acquisition by Australia Property Growth Fund	FM,AM	Diversified	5.8	0.6	1.4	na
Internalisation								
Oct 2013	Funds management business of GDI Property Group	Internalisation by GDI Property Group prior to initial public offering	FM,AM,DM	Office	27.3 ¹²	5.3 ¹³	na	na
Internalisation and acquisition of rights to independent funds								
Nov 2014	Citrus Investment Services Pty Ltd	Internalisation by Arena REIT	FM,AM	Childcare, Healthcare	11.5	na	na	10.5
Dec 2013	CFSGAM's property management platform	Internalisation by CFS Retail Property Trust Group	FM,AM,DM	Retail	475.0	na	11.8 ¹⁴	9.8

¹ Transactions involving a level of financial distress have been shaded.

² FM = funds management, AM = asset management, DM = development management, I = property investment

³ Implied value if 100% of company or business had been acquired. Excludes transaction costs.

⁴ Represents gross consideration divided by EBIT. EBIT is earnings before interest, tax, investment income and significant items. However, in some transactions only EBITDA (i.e. earnings before interest, tax, depreciation, amortisation, investment income and significant items) is available. As funds and assets management businesses are not typically capital intensive in some instances EBIT multiples have been calculated by reference to EBITDA.

⁵ Consideration for the funds management rights only (i.e. excludes consideration paid for the co-investment and performance fees).

⁶ na = not available

⁷ Based on pro-forma FY15 EBITDA for funds management only (i.e. excludes performance fees and co-investment earnings).

⁸ DEXUS entered into a facilitation agreement with Commonwealth Bank of Australia (a subsidiary of which was responsible entity for Commonwealth Property Office Fund ("CPA")) to provide services to facilitate the transfer of the management of CPA to DEXUS should the DEXUS/CPPIB consortium acquire more than 50.1% of CPA. Therefore, this was not a payment for the CPA management rights (as if control of CPA passed the consortium would be able to terminate the responsible entity) but to facilitate the orderly transition of management and therefore reflects a lower EBIT multiple.

⁹ EBIT calculated as \$17.5 million responsible entity fee revenue from CPA less \$3.5 million incremental costs for an acquirer with an existing real estate management platform. The implied EBIT multiple is low and unlikely to be meaningful as the amount was paid to facilitate the transfer of the management of CPA should control pass and the EBIT used may be overstated as it does not reflect the costs incurred by the responsible entity (only the incremental cost to an acquirer with an existing platform).

¹⁰ Consideration sourced from the independent expert report for each transaction.

¹¹ Historical EBIT for Macquarie Group's real estate management platform included substantial income from other property services (leasing, development management, acquisition services and disposal services) which were curtailed in the forecast year.

¹² Includes an \$8.8 million disposal fee.

¹³ Fee income varies widely from year to year depending on activity levels. Therefore, calculation utilises average EBIT (excluding performance fees) for FY11-FY13.

¹⁴ Calculated using "economic EBIT" which includes income from internally owned assets. It is a better reflection of the "true" earnings of the operating platform.

GRANT SAMUEL



Recent Transaction Evidence - Real Estate Funds and Asset Management ¹								
Date	Target	Transaction	Management (FM/AM/DM) ²	Property Category	Consideration ³ (\$ millions)	EBIT Multiple ⁴ (times)		Multiple of Net Savings (times)
						historical	forecast	
Dec 2013	Westfield Australia and New Zealand real estate platform	Acquisition by Westfield Retail Trust which formed Scentre Group	FM,AM,DM	Retail	2,656-3,301	7.8-9.7 ¹⁴	8.2-10.2 ¹⁴	na
				Retail	3,000-3,500 ¹⁵	8.8-10.3 ¹⁴	9.2-10.8 ¹⁴	na
Aug 2011	Centro Properties Group's services business ¹	Internalisation by Centro Retail Australia	FM,AM,DM	Retail	240.0	6.0	6.8 ¹⁶	na
Feb 2008	DB RREEF Holdings Pty Limited	Internalisation of remaining 50% interest by DB RREEF Trust	FM,AM,DM	Diversified	260.0	na	10.5	na
Funds Management								
Third Party Acquisitions								
Aug 2011	Investa Funds Management Limited	Acquisition by Australian Unity Property Limited	FM	Office, Industrial	13.9	6.4	na	na
Jul 2011	Trinity Funds Management Limited ¹	Acquisition by LaSalle Investment Management	FM	Diversified	9.3	3.3	na	na
Mar 11	Management rights for ING Office Fund	Acquisition by Investa Listed Funds Management Limited	FM	Office	24.6	3.7	3.8	na
Sep 2010	Westpac Funds Management Limited	Acquisition by Australian Unity Property Limited	FM	Diversified	10.0	na	6.1	na
Apr 2010	Mirvac PFA Limited	Acquisition by Australia Property Growth Fund	FM	Diversified	14.0	3.3	2.9	na
May 2009	MacarthurCook Limited	Acquisition of remaining 71.7% by AIMS Financial Group Pty Ltd	FM	Industrial, Mortgages	11.6	6.6	na	na
Internalisation								
Jun 2009	Macquarie Leisure Management Limited	Internalisation by Macquarie Leisure Trust	FM	Leisure	15.9	8.2 ¹⁷	na	15.9
May 2009	Management rights for Orchard Industrial Property Fund ¹	Internalisation of 50.1% by Growthpoint Properties as part of recapitalisation	FM	Industrial	6.0	na	5.0 ¹⁸	5.0

Source: Grant Samuel analysis¹⁹

When considering these multiples it is important to have regard to the following matters:

- the financial information in a number of transactions is limited and does not allow detailed analysis to be undertaken;
- transactions involving distressed situations occurred at lower earnings multiples;
- the multiples for transactions which have occurred since 2008 and do not reflect distressed situations are in a wide range of 3-10 times historical EBIT, 3-12 times forecast EBIT and 10-16 times net savings. Several factors influence multiples for real estate management companies and the implied multiples for each transaction reflect a unique combination of these factors. Multiples are typically higher for:
 - transactions involving larger funds management businesses, relative to those involving relatively small businesses or management of single funds as a result of economies of scale;

¹⁵ The consideration range for the Westfield ANZ real estate platform can be assessed in two ways based on:

- the value attributed by the Westfield Group independent expert to the consideration received for Westfield ANZ (i.e. securities in Scentre Group, \$8.1-8.8 billion based on a price range of \$3.15-3.40 per security) or \$2,656-3,301 million; and
- the values attributed to the platform by the independent experts for Westfield Retail Trust (\$3.2-3.4 billion, after adjusting to exclude the value attributed to corporate overheads) and for Westfield Group (\$3.0-3.5 billion).

However, the values attributed to the Westfield ANZ real estate platform are not control values and therefore do not incorporate premiums for control.

¹⁶ Excludes performance fees and other non recurring items.

¹⁷ Although Macquarie Leisure Trust Group had limited entrenchment issues and the incumbent manager only held a 5.8% interest, it had strong performance with a nil carry forward performance deficit and multiple is relatively high (8.2 times historical EBIT).

¹⁸ Forecast EBIT is sourced from the independent expert report prepared for the Orchard Industrial Property Fund transaction and based on forecast management fee savings (i.e. does not appear to include expenses). Consequently, the EBIT multiple may be understated.

¹⁹ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

GRANT SAMUEL



- real estate asset management businesses requiring specialised knowledge (such as the retail sector relative to the office sector), as margins are typically higher for these businesses;
- transactions involving internalisation and acquisition of rights to independent funds relative to those for third party transactions, however, this may be because the internalisation transactions are generally larger than the third party transactions;
- internalisation transactions with a higher degree of management entrenchment. For example, where:
 - the management contract is long term and only cancellable in unusual or unlikely circumstances (e.g. insolvency of the manager);
 - provisions are embedded in loan agreements or ownership agreements that are triggered if the incumbent manager is replaced and result in a substantial cost or loss to the entity;
 - the incumbent manager has a substantial interest in the fund, allowing it to potentially block a vote to remove them as responsible entity; and
 - there has been strong performance by the manager and there is a likelihood of paying a performance fee in future; and
- real estate platforms with a higher proportion of earnings derived from property management services (relative to development management activities)²⁰.

In Grant Samuel's opinion, the most comparable transactions to assist in forming a view on the value of the retail real estate platforms of Novion and Federation are the internalisation and acquisition of management rights to independent funds by CFS Retail Property Trust Group ("CFX") (to create Novion) and by Westfield Retail Trust (to create Scentre Group). In addition, the acquisition of Macquarie Group's funds management platform, the internalisation of and acquisition of management rights to independent funds by DB RREEF Trust and the internalisation of Centro Properties Group's services business (a component of the transaction that created Federation) provide further support. Each transaction is of substantial scale and involves active funds and asset management, however:

- the acquisition of CFSGAM's property management platform is most relevant. It involved both the internalisation of management rights to CFX and the acquisition of Commonwealth Bank of Australia's retail property funds management platform. It should be noted that CFSGAM's earnings included:
 - a substantial element of funds management income that was arguably less secure (as the responsible entity could be removed by a simple majority vote by securityholders); and
 - payment of the accrued balance of performance management fees (at the maximum level allowed per annum) which is an income stream with a limited life and some uncertainty.

Accordingly, the underlying multiples attributable to CGSGAM's real estate management income are higher than the average multiple of 9.8 times net savings. This business now comprises the real estate platform of Novion;

- the acquisition of Westfield ANZ's real estate platform by Westfield Retail Trust was one component of a wider restructuring transaction and not a separate transaction for which a definitive value can be assessed. The transaction metrics inferred by the restructuring transaction vary depending on how the consideration for that transaction is valued and how much of it is attributed to the platform. There are two ways of assessing the implied value of Westfield ANZ's platform:
 - by reference to value attributed by the independent expert for Westfield Group to the consideration received for Westfield ANZ (i.e. securities in Scentre Group) (\$8.0-8.7 billion based on a price range of \$3.15-3.40 per security) less the value attributed to Westfield ANZ's investment property portfolio, other operating assets and liabilities and corporate overheads (i.e. \$2,656-3,301 million); and
 - by reference to the values attributed to the platform by the independent experts for Westfield Retail Trust and for Westfield Group (\$3,000-3,500 million).

²⁰ Real estate platforms typically comprise revenue generated from three activities (funds management, property management (including leasing fees) and development management). Typically, property management earnings would warrant multiples consistent with property capitalisation rates as they represent a portion of the property's earnings. In comparison, development management earnings are more lumpy, less predictable and dependent on development opportunities and therefore warrant a lower multiple. The multiple for funds management earnings is dependent on the circumstances including the level of entrenchment and term of appointment. Consequently, the appropriate multiple for a real estate management platform will depend on the mix of services provided and the underlying fundamentals of the business activity.

GRANT SAMUEL



However, it should be noted that:

- on neither basis do the values incorporate a premium for control; and
 - average project income (i.e. development management activities) represented around 55% of total revenue implying that lower multiples may be appropriate.
- the Centro Properties services business was involved exclusively in the retail sector but occurred as part of a restructuring/recapitalisation, likely reducing the implied multiples. This business now comprises the real estate platform of Federation. At the time of the transaction this business included a significant syndicates business which has not been wound up;
 - the Macquarie Group funds management platform's primary focus was the office sector. This transaction occurred as part of Macquarie Group's strategy to exit its listed funds businesses at a time of restricted liquidity and negative market sentiment towards the satellite fund model; Higher multiples would be expected for a retail property platform; and
 - the price paid for the remaining 50% interest in DB RREEF Holdings Pty Limited (the responsible entity for DB RREEF Trust, now DEXUS Property Group ("DEXUS")) was set in August 2004 when the initial 50% interest was acquired and therefore the implied multiples may not reflect those achievable in current market conditions. In addition, although the business managed office, retail and industrial assets, the major focus was the office sector. However, there were significant third party management activities.

The major international transaction of recent years was Henderson Group plc's ("Henderson") sale of 100% of its North American real estate management business to Teachers Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF") and the creation of a global real estate joint venture management company ("TIAA Henderson Global Real Estate") with £13 billion (US\$19.8 billion) of AUM by combining Henderson's and TIAA-CREF's existing real estate management businesses outside of North America. The transaction was announced in June 2013 and the terms of the transaction valued Henderson Group plc's existing real estate management business (which had £12.7 billion of AUM) at £189.2 million (US\$301 million). The transaction implied an historical EBIT multiple of 9.1 times and 1.49% of AUM.

2 Evidence from Sharemarket Trading

The only listed entity of scale with a primary focus on real estate fund management and asset management is Charter Hall Group. Consequently, in order to review the value parameters implied by sharemarket ratings for real estate management platforms, Grant Samuel has also reviewed Australian listed property groups with real estate management platforms. This review has focussed on entities with AUM in excess of \$5 billion primarily in the retail, industrial and office property sectors. This review has involved adjusting the market rating and earnings of each entity to exclude property investment activity. This is a relatively crude process (being dependent on the level of disclosure and allocation of corporate expenses to business segments) and the results should be treated with some caution.

The results of Grant Samuel's analysis are set out in the table below. It should be noted that, although DEXUS and GPT have significant real estate management platforms, corporate expenses for these entities exceeds or is only marginally less than earnings from external management activities and it is not possible to calculate meaningful implied multiples for the management business. Furthermore, the results for Scentre Group and Westfield Corporation are impacted by the restructure completed in June 2014 and their weighting to internal assets. As Goodman Group includes development project management fees in its development segment (which include, amongst other items, other development income and income from sales of development properties) it is not possible to calculate EBIT multiples for its real estate management platform.

GRANT SAMUEL



Sharemarket Ratings of Selected Listed Real Estate Funds and Asset Management Entities								
Entity	Sector	Activities ²	Market Capitalisation ²¹ (billions)	EBIT Multiple ²² (times)			AUM (millions)	Percentage of AUM ²³
				FY14	FY15	FY16		
Westfield Corporation	Retail (international)	FM, AM, DM, I	US\$15.1	nmf ²⁴	nmf	nmf	US\$28,500	26.7%
Scentre Group	Retail	FM, AM, DM, I	A\$19.9	nmf	nmf	nmf	A\$40,900	9.8%
Goodman Group	Industrial	FM, AM, DM, I	A\$11.4	na	na	na	A\$29,400	20.2%
The GPT Group	Diversified	FM, AM, DM, I	A\$8.1	nmf	nmf	nmf	A\$18,100	6.8%
DEXUS	Diversified	FM, AM, DM, I	A\$6.9	nmf	nmf	15.7	A\$18,300	5.5%
Charter Hall Group	Diversified	FM, AM, DM, I	A\$1.9	38.8	24.3	22.0	A\$12,700	8.0%

Source: Grant Samuel analysis²⁵

The multiples shown are based on sharemarket prices as at 31 March 2015. Therefore, the multiples do not reflect a premium for control. Charter Hall Group, DEXUS and Goodman Group have a 30 June year end, whilst GPT, Scentre Group and Westfield Corporation have a 31 December year end. The last reported balance sheet for all entities is 31 December 2014.

The multiples are in a wide range of 16-24 times forecast EBIT. In this regard all of the entities are of substantial scale and can likely capture significant economies of scale and are engaged in a full range of management activities (funds, asset and development management and property investment); however:

- Westfield Corporation is focused on the international retail sector, predominantly in the United States (71% of AUM) and the United Kingdom (21%), with future development activities to expand its presence into continental Europe. It has AUM of US\$28.5 billion, of which US\$10.8 billion (38%) relates to joint venture/co-investor interests. It has extensive development activities, however, the relatively low proportion of external AUM results in only a small portion of earnings of this activity being reported externally (especially in relation to corporate overheads);
- Scentre Group is focused on the retail sector in Australia and New Zealand, with total AUM of \$40.9 billion, of which only \$11.6 billion (28%) relates to joint venture/co-investor interests;
- Goodman Group is focused on the commercial property and industrial sector. It has a large third party management business (84% of AUM) and international assets represent 56% of third party AUM (including Europe, China, New Zealand and Japan). Goodman Group has substantial development activities;
- GPT has a funds management platform with \$9.6 billion under management; however, earnings from management activities (funds, asset and development) forms a relatively small part of total earnings;
- DEXUS has \$18.3 billion of AUM, including \$9.2 billion of third party funds management across the office (47% of third party AUM), retail (41%) and industrial (12%). The internal portfolio is focused on the office sector (84% of internal AUM). Earnings from its external management activities has grown significantly in recent years (particularly following the acquisition of CPA in conjunction with CPPIB) and is forecast to increase over time; and
- Charter Hall Group manages a diversified portfolio comprising office (51% of AUM), retail (26%), industrial (19%) and hospitality (4%) located in Australia. Its focus on third party funds management (94% of AUM) and reasonably strong growth profile results in meaningful earnings from the management platform (relative to total earnings) and relatively high EBIT multiples.

A brief description of each entity (not otherwise described in Appendix 3) is set out below:

²¹ Market capitalisation based on sharemarket prices as at 31 March 2015.

²² Represents adjusted gross capitalisation divided by EBIT from funds, asset and development management activities.

²³ Represents market capitalisation less net assets (excluding those attributable to the management business e.g. property plant and equipment and intangible assets associated with management rights) divided by AUM.

²⁴ nmf = not meaningful

²⁵ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

GRANT SAMUEL

***Goodman Group***

Goodman Group is an internally managed stapled entity focussed on the commercial and industrial sector. As at 31 December 2014, Goodman Group had \$29.4 billion in AUM including a \$4.8 billion investment portfolio (16% of AUM) and \$24.6 billion third party AUM (84% of AUM) for which it provides funds management, property management and development management services. The portfolio had occupancy of 96% and a weighted average lease expiry of 4.8 years. Goodman Group has substantial development activities with \$2.9 billion of work in progress at 31 December 2014.

Charter Hall Group

Charter Hall Group provides funds management, asset management and development management services and has \$12.7 billion AUM as at 31 December 2014. Charter Hall Group manages 270 properties across the office (51% of AUM), retail (26% of AUM), industrial (19%) and hospitality (4%) sectors. The properties are held through wholesale funds, partnerships and mandates (70% of AUM), listed funds (17%) and retail equity investments (13%). Third party AUM represents 94% of total AUM. Charter Hall Group is experiencing strong earnings growth due to growth in AUM.

Annexure B

Investigating Accountant's Report



The Directors
Novion Limited
Level 39
MLC Centre
19 Martin Place
Sydney NSW 2000

The Directors
Novion RE Limited (as responsible entity of Novion Trust)
Level 39
MLC Centre
19 Martin Place
Sydney NSW 2000

The Directors
Federation Limited
Level 28
35 Collins Street
MELBOURNE VIC 3000

The Directors
Federation Centres Limited (as responsible entity of
Federation Centres Trust No 1)
Level 28
35 Collins Street
MELBOURNE VIC 3000

14 April 2015

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on the Merged Group's pro forma historical and forecast financial information and Financial Services Guide

We have been engaged by Novion Limited (**Novion Co**) and Novion RE Limited (as responsible entity of Novion Trust) (**Novion RE**) (together, **Novion**) and Federation Limited (**Federation Co**) and Federation Centres Limited (as responsible entity of Federation Centres Trust No 1) (**Federation Trust RE**) (together, **Federation Centres**) to report on the pro forma historical statement of financial position as at 31 December 2014 and the pro forma forecast underlying earnings for the year ending 30 June 2015 of the **Merged Group**, being Novion and Federation Centres, as at 31 December 2014 (in respect of the pro forma historical statement of financial position) and as at 30 June 2015 (in respect of the pro forma forecast underlying earnings), for inclusion in the Scheme Booklet dated on or about 14 April 2015.

The Merged Group is the combined entity that will result from the implementation of a proposed transaction under which the stapled securities of Novion, each stapled security comprising one share in Novion Co and one unit in Novion Trust (**Novion Trust**), will be acquired by Federation Centres, a listed stapled group comprising Federation Limited and Federation Centres Trust No. 1 (**FCT1**) by way of schemes of arrangement in exchange for 0.8225 stapled securities in Federation as consideration (each Federation stapled security comprising one share in Federation Co and one unit in FCT1) for each Novion stapled security.

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au



The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd review the following financial information of the Merged Group included in the Scheme Booklet :

Pro Forma Historical Financial Information

- the consolidated statement of financial position of the Merged Group as at 31 December 2014, described in section 8.2 of the Scheme Booklet (**Pro Forma Historical Financial Information**).

The pro forma historical financial information has been derived from the historical financial information of Novion and Federation Centres, after adjusting for the effects of pro forma adjustments described in section 8.2(b) of the Scheme Booklet. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies detailed in section 8.1 of the Scheme Booklet applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 8.2(a) of the Scheme Booklet, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the Merged Group's actual or prospective statement of financial position as at 31 December 2014.

Pro Forma Forecast

- the pro forma forecast of underlying earnings of the Merged Group for the year ending 30 June 2015, described in section 8.3 of the Scheme Booklet (**Pro Forma Forecast**).

The Pro Forma Forecast of the Merged Group has been derived from individual forecasts for Novion and Federation Centres, after adjusting for the effects of the pro forma adjustments described in section 8.3(b) of the Scheme Booklet. The stated basis of preparation used in the preparation of the Pro Forma Forecast is the recognition and measurement principles contained in Australian Accounting Standards detailed in section 8.1 of the Scheme Booklet applied to the forecast and the events or transactions to which the pro forma adjustments relate, as described in section 8.3(a) of the Scheme Booklet, as if those events or transactions had occurred as at 1 July 2014. Due to its nature, the Pro Forma Forecast does not represent the Merged Group's actual or prospective underlying earnings for the year ending 30 June 2015.



Joint Responsibility for Pro Forma information

As described in the Responsibility Statement set out in the Disclaimer and Important Notices section of the Scheme Booklet, Novion and Novion RE (as responsible entity of Novion Trust) and Federation Co and Federation Centres Limited (as responsible entity of FCT1) are jointly responsible for:

- the preparation of the Pro Forma Historical Financial Information, including its basis of preparation and the selection and determination of pro forma adjustments included in the Pro Forma Historical Financial Information, and
- the preparation of the Pro Forma Forecast, including its basis of preparation and the selection and determination of the pro forma adjustments included in the Pro Forma Forecast.

This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of pro forma historical financial information and a pro forma forecast that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Pro Forma Historical Financial Information and Pro Forma Forecast, the best-estimate assumptions underlying the Pro Forma Forecast and the reasonableness of the Pro Forma Forecast themselves, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Pro Forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Merged Group's pro forma historical financial information as described in section 8.2 of the Scheme Booklet, and comprising the pro forma consolidated statement of financial position of the Merged Group as at 31 December 2014 is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 8.2(a) of the Scheme Booklet being the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies detailed in section 8.1 applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 8.2(a) of the Scheme Booklet, as if those events or transactions had occurred as at the date of the historical financial information.



Pro Forma Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the pro forma forecast underlying earnings for the year ending 30 June 2015 do not provide reasonable grounds for the Pro Forma Forecast; and
- in all material respects, the Pro Forma Forecast :
 - is not properly prepared on the basis of the directors' best-estimate assumptions, as described in section 8.3(c) and (d) of the Scheme Booklet; and
 - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies detailed in section 8.1, applied to the Pro Forma Forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast; and
- the Pro Forma Forecast itself is unreasonable.

The Pro Forma Forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the Merged Group's potential underlying earnings for the year ending 30 June 2015. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Pro Forma Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The directors' best-estimate assumptions on which the Pro Forma Forecast is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Merged Group. Evidence may be available to support the directors' best-estimate assumptions on which the Pro Forma Forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Merged Group, which are detailed in the Scheme Booklet, and the inherent uncertainty relating to the Pro Forma Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section 9 of the Scheme Booklet. The sensitivity analysis described in section 8.6 of the Scheme Booklet demonstrates the impact on the Pro Forma Forecast of changes in key best-estimate assumptions. We express no opinion as to whether the Pro Forma Forecast will be achieved.

The Pro Forma Forecast has been prepared by the directors for the purpose of inclusion in the Scheme Booklet. We disclaim any assumption of responsibility for any reliance on this report, or on the Pro Forma Forecast to which it relates, for any purpose other than that for which it was prepared. We have



assumed, and relied on representations from certain members of management of the responsible entities, that all material information concerning the prospects and proposed operations of the Merged Group has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to section 8.1 of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Scheme Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Scheme Booklet.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this transaction other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Mark Haberlin

Andrew Cloke

Authorised Representatives of PricewaterhouseCoopers Securities Ltd



PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 14 April 2015

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by Novion Limited and Novion RE Limited (as responsible entity of Novion Trust) (together, **Novion**) and Federation Limited (**Federation Co**) and Federation Centres Limited (as responsible entity of Federation Centres Trust No 1) (**Federation Trust RE**) (together, **Federation Centres**) to provide an independent assurance report on the financial information comprising the Pro Forma Historical Financial Information as at 31 December 2014 and the Pro Forma Forecast for the year ending 30 June 2015 of the Merged Group, being Novion and Federation Centres included in Section 7 of the Scheme Booklet of Novion to be dated on or about 14 April 2015.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (**FSG**) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au



5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to \$160,000.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the auditor of Novion.

7. **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("FOS"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. **Contact Details**

PwC Securities can be contacted by sending a letter to the following address:

Mark Haberlin
201 Sussex Street, Sydney, NSW, 2000

Notice of Extraordinary General Meeting

NOTICE OF EXTRAORDINARY GENERAL MEETING

Novion Limited (ABN 79 167 087 363) and Novion Trust (ARSN 090 150 280)

Notice is hereby given by Novion Limited and Novion RE (ABN 33 084 098 180) (in its capacity as the Responsible Entity of Novion Trust) that a general meeting of the members of Novion Limited and a meeting of the members of Novion Trust will be held concurrently at:

Time: 10.00am (registration commences at 9.30am)

Meeting Date: Wednesday 27 May 2015

Place: The Westin Sydney, 1 Martin Place, Sydney NSW 2000

Webcast: A live webcast will be broadcast on Novion's website at www.novion.com.au

Business of the Meeting

The business to be considered at the concurrently held meetings is to consider, and if thought fit, to pass the following resolutions of members of Novion Limited and Novion Trust (as applicable):

Resolution 1 Company De-stapling Resolution (Novion Limited)

To consider and, if thought fit, to pass the following resolution as a special resolution of the members of Novion Limited:

That, subject to and conditional on all other Resolutions set out in the notice convening this meeting and the Company Scheme Resolution (as defined in the Scheme Booklet of which this notice forms part) being passed, for the purposes of clause 23.5 of the constitution of Novion Limited (ABN 79 167 087 363):

- (a) the shares in Novion Limited cease to be stapled to units in Novion Trust (ARSN 090 150 280), and
- (b) Novion Limited be authorised to determine that the stapling provisions of the constitution of Novion Limited will cease to apply and that a particular date is to be the unstapling date.

Resolution 2 Trust De-stapling Resolution (Novion Trust)

To consider, and if thought fit, to pass the following resolution as a special resolution of the members of Novion Trust:

That, subject to and conditional on all other Resolutions set out in the notice convening this meeting and the Company Scheme Resolution (as defined in the Scheme Booklet of which this notice forms part) being passed, for the purposes of clause 33B.5 of the constitution of Novion Trust (ARSN 090 150 280):

- (a) the units in Novion Trust cease to be stapled to shares in Novion Limited (ABN 79 167 087 363), and
- (b) Novion RE Limited (ABN 33 084 098 180), as the Responsible Entity of Novion Trust, be authorised to determine that the stapling provisions of the constitution of Novion Trust will cease to apply and that a particular date is to be the unstapling date.

Resolution 3 Trust Constitution Amendment Resolution

To consider, and if thought fit, to pass the following resolution as a special resolution of the members of Novion Trust:

That, subject to and conditional on all other Resolutions set out in the notice convening this meeting and the Company Scheme Resolution (as defined in the Scheme Booklet of which this notice forms part) being passed:

- (a) the constitution of Novion Trust (ARSN 090 150 280) be modified as set out in the Novion Trust Supplemental Deed tabled at this meeting and initialled by the Chairman for the purposes of identification (Supplemental Deed Poll), with effect from the date on which the Supplemental Deed Poll is lodged with the Australian Securities and Investment Commission (ASIC) in accordance with section 601GC(2) of the Corporations Act 2001 (Cth), and
- (b) Novion RE Limited (ABN 33 084 098 180), as the Responsible Entity of Novion Trust, be authorised to execute, and lodge with ASIC, the Supplemental Deed Poll.

Resolution 4 Trust Acquisition Resolution

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the members of Novion Trust:

That, subject to and conditional on all other Resolutions set out in the notice convening this meeting and the Company Scheme Resolution (as defined in the Scheme Booklet of which this notice forms part) being passed, for the purposes of item 7, section 611 of the Corporations Act 2001 (Cth):

- (a) *the acquisition of all units on issue in Novion Trust (ARSN 090 150 280) by Federation Centres Limited (ABN 88 149 781 322) as Responsible Entity of Federation Centres Trust No. 1 (ARSN 104 931 928) (FCT1) (FCT1 Acquisition), as described in this Scheme Booklet of which this notice forms part with such modifications, if any, as are approved at the meeting, be approved, and*
- (b) *Novion RE Limited (ABN 33 084 098 180), as the Responsible Entity of Novion Trust, be authorised to do all things which it considers necessary, desirable or reasonably incidental to give effect to the FCT1 Acquisition.*

By order of the Novion Board

15 April 2015



Michelle Brady

Company Secretary

NOTES TO THE NOTICE OF EXTRAORDINARY GENERAL MEETING

Explanatory notes

These notes should be read in conjunction with the Notice of Extraordinary General Meeting and the information in the Scheme Booklet of which that notice forms part (Scheme Booklet). Unless the context requires otherwise, terms used in the Notice of Extraordinary General Meeting and in these notes have the same meaning as set out in the glossary in the Scheme Booklet.

Chairman of the Extraordinary General Meeting

Mr Richard Haddock AM has been appointed Chairman of the Extraordinary General Meeting. In accordance with section 252S(1) of the Corporations Act 2001 (Cth), Novion RE has appointed Mr Haddock to act as Chairman of the meeting of Novion Trust. The constitution of Novion Limited also provides that Mr Haddock, having been appointed Chairman of the Novion Board, is to be Chairman of the meeting of Novion Limited.

Conditionality of Resolutions

Resolutions 1, 2, 3 and 4 are inter-conditional and also conditional on the Company Scheme Resolution being passed. This means that a Resolution will not proceed and votes will not be considered unless an earlier conditional Resolution has been passed (for example, if Resolution 2 is not passed then Resolutions 3 and 4 will not be considered as these Resolutions could only be passed if Resolution 2 was passed) and a Resolution will be of no force or effect if a later conditional Resolution has not also been passed (for example, if Resolution 2 is passed but Resolution 3 or the Company Scheme Resolution has not been passed, then Resolution 2 is of no force or effect).

Furthermore, if the Resolutions are approved at the Extraordinary General Meeting and the Company Scheme Resolution is approved at the Company Scheme Meeting by the requisite majorities, the implementation of the Schemes (with or without modification) will be subject to:

- the subsequent approval of the Schemes by the Court, and
- the satisfaction or waiver (if applicable) of all other Conditions Precedent to the Merger.

Quorum

The constitution of Novion Limited provides that the quorum for a meeting of members is two holders of Novion Shares present personally, or by representative or proxy. If a Novion Shareholder has appointed more than one proxy or representative only one of them may be counted toward a quorum.

In accordance with the constitution of Novion Trust and section 252R(2) of the Corporations Act, the quorum for a meeting of members is two holders of Novion Units present personally, or by representative or proxy. If a Novion Unitholder has appointed more than one proxy or representative, only one of them may be counted toward a quorum.

Required majorities

Resolutions 1, 2 and 3 are special resolutions and will only be passed if at least 75% of the votes cast by Novion Securityholders entitled to vote are in favour.

Resolution 4 is an ordinary resolution and will be passed if more than 50% of the votes cast by Novion Securityholders entitled to vote are in favour.

Entitlement to vote

Pursuant to Corporations Regulations 7.11.37 and 7.11.38, the Directors of Novion Limited and Novion RE (as Responsible Entity of Novion Trust) have determined that, subject to the voting exclusions in the notice, for the purposes of determining voting entitlement at the meeting, Novion Securities will be taken to be held by persons who are registered as Novion Securityholders on the Register at 7.00pm (Sydney time) on Monday 25 May 2015.

Accordingly, security transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Extraordinary General Meeting.

For the purposes of Resolution 3, and in accordance with section 253E of the Corporations Act, Novion RE and its associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of Novion Trust.

In addition, for the purposes of Resolution 4, and in accordance with item 7, section 611 and section 253E of the Corporations Act, Federation and its associates must not cast any votes in favour of the resolution, and Novion RE and its associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of Novion Trust.

Voting will be conducted by poll.

Voting at the Meeting

You may vote in person at the Extraordinary General Meeting or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the Extraordinary General Meeting on the date and at the place set out in the Notice of Extraordinary General Meeting.

(b) Voting by proxy

A Novion Securityholder entitled to attend and vote at the Extraordinary General Meeting can vote by proxy. The General Proxy Form is enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the Extraordinary General Meeting. A proxy need not be a Novion Securityholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes. If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as they see fit at the Extraordinary General Meeting.

Novion Securityholders who return their General Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the Extraordinary General Meeting as their proxy to vote on their behalf.

If a General Proxy Form is returned but the nominated proxy does not attend the Extraordinary General Meeting, the Chairman of the Extraordinary General Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the General Proxy Form are included on the form. Please note that the General Proxy Form must be received by the Novion Registry, whose details are listed below, by no later than 10.00am on Monday 25 May 2015. If you have an attorney sign a General Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Novion Registry at the same time as the General Proxy Form (unless previously provided to the Novion Registry).

A proxy will be admitted to the Extraordinary General Meeting upon providing evidence of their name and address at the point of entry to the meeting.

Novion Securityholders who have returned a General Proxy Form may revoke the proxy by attending and voting at the relevant Meeting.

(c) Voting by attorney

Powers of attorney must be received by the Novion Registry by no later than 10.00am on Monday 25 May 2015.

Persons attending the Extraordinary General Meeting as an attorney should bring to the Extraordinary General Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Extraordinary General Meeting.

(d) Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Extraordinary General Meeting on your behalf. The appointment must comply with sections 250D and 253B of the Corporations Act.

A corporate representative should bring to the Extraordinary General Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

(e) Jointly held securities

If Novion Securities are jointly held, either one of the joint securityholders is entitled to vote at the Extraordinary General Meeting. If more than one joint securityholder votes in respect of jointly held shares, only the vote of the securityholder whose name appears first in the Novion Security Register will be counted.

(f) Lodgement of proxies

There are a number of ways that the General Proxy Form may be lodged:

Mail - Sent to the Novion Registry (using the reply paid envelope included with the Scheme Booklet), addressed to Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia.

Hand delivery - Delivered during business hours (between 8.30am and 5.30pm (Sydney time) Monday to Friday) to the Novion Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, Australia or 1A Homebush Bay Drive, Rhodes NSW 2138, Australia.

Fax - Sent to +61 2 9287 0309.

Online - via Link Market Services Limited's investor centre at www.linkmarketservices.com.au (as detailed on the Proxy Forms) or www.novion.com.au

An instrument appointing a proxy shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by fax to the Novion Registry by no later than 10.00am on Monday 25 May 2015.

Novion Securityholders should contact the Novion Registry on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday with any queries regarding the number of Novion Securities they hold, how to vote at the Extraordinary General Meeting or how to lodge the General Proxy Form.

Annexure D

Notice of Company Scheme Meeting

NOTICE OF COMPANY SCHEME MEETING

Novion Limited (ABN 79 167 087 363)

Notice is hereby given that, by an order of the Supreme Court of New South Wales made on 14 April 2015 pursuant to section 411(1) of the Corporations Act 2001 (Cth), a meeting of the members of Novion Limited will be held at:

Time: Immediately following the conclusion or adjournment of the Extraordinary General Meeting

Meeting Date: Wednesday 27 May 2015

Place: The Westin Sydney, 1 Martin Place, Sydney NSW 2000

Webcast: A live webcast will be broadcast on Novion's website at www.novion.com.au

Business of the Meeting

The purpose of the meeting to be held pursuant to this notice is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Novion Limited and the holders of its fully paid ordinary shares:

Company Scheme Resolution (Novion Limited)

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act 2001 (Cth):

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), and subject to and conditional on the De-stapling Resolutions and the Trust Scheme Resolutions (as defined in the Scheme Booklet of which this notice forms part) being passed, the proposed scheme of arrangement between Novion Limited and the holders of its fully paid ordinary shares, the terms of which are contained and more particularly described in the Scheme Booklet, is approved (with or without modification as approved by the Supreme Court of New South Wales).

By order of the Court

15 April 2015



Michelle Brady

Company Secretary

NOTES TO THE NOTICE OF COMPANY SCHEME MEETING

Explanatory notes

These notes should be read in conjunction with the Notice of Company Scheme Meeting and the information in the Scheme Booklet of which that notice forms part (Scheme Booklet). Unless the context requires otherwise, terms used in the Notice of Company Scheme Meeting and in these notes have the same meaning as set out in the glossary in the Scheme Booklet.

Conditionality of Resolutions

The Company Scheme Resolution is conditional on the De-stapling Resolutions and the Trust Resolutions being passed at the Extraordinary General Meeting. This means that the Company Scheme Resolution will not proceed and votes will not be considered unless the Resolutions have been passed at the Extraordinary General Meeting.

Furthermore, if the Resolutions are approved at the Extraordinary General Meeting and the Company Scheme Resolution is approved at the Company Scheme Meeting by the requisite majorities, the implementation of the Schemes (with or without modification) will be subject to:

- the subsequent approval of the Schemes by the Court, and
- the satisfaction or waiver (if applicable) of all other Conditions Precedent to the Merger.

Quorum

The Constitution of Novion Limited provides that the quorum for a meeting of members is two holders of Novion Shares present personally, or by representative or proxy. If a Novion Unitholder has appointed more than one proxy or representative, only one of them may be counted toward a quorum.

Required majorities

In accordance with section 411(4)(a)(ii) of the Corporations Act 2001 (Cth), the Company Scheme Resolution must be approved by:

- more than 50% in number of Novion Securityholders (in their capacity as Novion Shareholders) present and voting at the Company Scheme Meeting (whether in person or by proxy, attorney or, in the case of a body corporate, a duly appointed corporate representative), and
- at least 75% of the votes cast on the Company Scheme Resolution.

Entitlement to vote

Pursuant to Corporations Regulations 7.11.37 and 7.11.38, the Directors of Novion Limited have determined that, subject to the voting exclusions in the notice, for the purposes of determining voting entitlement at the meeting, Novion Securities will be taken to be held by persons who are registered as Securityholders on the Register at 7.00pm (Sydney time) on Monday 25 May 2015.

Accordingly, security transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Extraordinary General Meeting.

Voting will be conducted by poll.

Voting at the Meeting

You may vote in person at the Company Scheme Meeting or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the Company Scheme Meeting on the date and at the place set out in the Notice of Company Scheme Meeting.

(b) Voting by proxy

A Novion Securityholder entitled to attend and vote at the Company Scheme Meeting can vote by proxy. The Scheme Proxy Form is enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the Company Scheme Meeting. A proxy need not be a Novion Securityholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes. If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as he or she sees fit at the Company Scheme Meeting.

Novion Securityholders who return their Scheme Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chair of the Company Scheme Meeting as their proxy to vote on their behalf.

If a Scheme Proxy Form is returned but the nominated proxy does not attend the Company Scheme Meeting, the Chair of the Company Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the Scheme Proxy Form are included on the form. Please note that the Scheme Proxy Form must be received by the Novion Registry, whose details are listed below, by no later than 10.00am on Monday 25 May 2015. If you have an attorney sign a Scheme Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Novion Registry at the same time as the Scheme Proxy Form (unless previously provided to the Novion Registry).

A proxy will be admitted to the Company Scheme Meeting upon providing evidence of their name and address at the point of entry to the meeting.

Novion Securityholders who have returned a Scheme Proxy Form may revoke the proxy by attending and voting at the relevant Meeting.

(c) Voting by attorney

Powers of attorney must be received by the Novion Registry by no later than 10.00am on Monday 25 May 2015.

Persons attending the Company Scheme Meeting as an attorney should bring to the Company Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Company Scheme Meeting.

(d) Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Company Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Company Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

(e) Jointly held securities

If Novion Securities are jointly held, either one of the joint securityholders is entitled to vote at the Company Scheme Meeting. If more than one joint securityholder votes in respect of jointly held shares, only the vote of the securityholder whose name appears first in the Novion Security Register will be counted.

(f) Lodgement of proxies

There are a number of ways that the Scheme Proxy Form may be lodged:

Mail - Sent to the Novion Registry (using the reply paid envelope included with the Scheme Booklet), addressed to Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia.

Hand delivery - Delivered during business hours (between 8.30am and 5.30pm (Sydney time) Monday to Friday) to the Novion Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, Australia or 1A Homebush Bay Drive, Rhodes NSW 2138, Australia.

Fax - Sent to +61 2 9287 0309.

Online - via Link Market Services Limited's investor centre at www.linkmarketservices.com.au (as detailed on the Proxy Forms) or www.novion.com.au

An instrument appointing a proxy shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by fax to the Novion Registry by no later than 10.00am on Monday 25 May 2015.

Novion Securityholders should contact the Novion Registry on 1800 500 710 (callers in Australia) or +61 1800 500 710 (callers outside Australia) between 8.30am and 7.30pm (Sydney time) Monday to Friday with any queries regarding the number of Novion Securities they hold, how to vote at the Company Scheme Meeting or how to lodge the Scheme Proxy Form.

Annexure E

Company Scheme



Scheme of Arrangement

Novion Limited

ABN 79 167 087 363

The holders of ordinary fully paid shares issued in
Novion Limited

2015

CONTENTS

CLAUSE	PAGE
1. INTERPRETATION	1
1.1 Definitions	1
1.2 Interpretation	5
1.3 Non-Business Days	6
2. BACKGROUND TO SCHEME.....	6
2.1 Novion.....	6
2.2 Federation.....	6
2.3 What happens if Scheme becomes Effective	6
2.4 Merger Implementation Agreement	7
2.5 Deed Polls.....	7
3. CONDITIONS PRECEDENT	7
3.1 Conditions precedent to the Scheme	7
3.2 Satisfaction of conditions	8
3.3 Parties to provide certificate to Court.....	8
3.4 End Date.....	8
4. THE SCHEME	8
4.2 Scheme effective on Effective Date	8
4.3 Implementation steps.....	8
4.4 Execution of transfer forms	9
4.5 Entry of details in Share Register	9
4.6 Federation to provide Scheme Consideration	9
5. SCHEME CONSIDERATION.....	9
5.1 Provision of Scheme Consideration	9
5.2 Joint holders.....	10
5.3 Fractional entitlements	10
5.4 Splitting.....	10
5.5 Status of Federation Shares	11
5.6 Instructions to Novion	11
6. SALE FACILITY.....	11
6.1 Foreign Securityholders	11
6.2 Sale of Sale Securities by Sale Nominee	11
7. DEALINGS IN NOVION SECURITIES.....	12
7.1 What Novion Security dealings are recognised?	12
7.2 Novion to register transfer and transmission applications	13
7.3 Transfers received after Record Date not recognised	13
7.4 Novion to maintain Share Register to determine entitlements.....	13
7.5 Effect of share certificates and holding statements	13
7.6 Novion to provide contact information for Scheme Participants	13
7.7 Each Scheme Participant warrants Novion Shares free from encumbrance.....	13
7.8 Federation beneficially entitled to Scheme Shares	13
7.9 No disposals after Record Date	14
7.10 Suspension and Termination of Quotation of Novion Securities	14
8. GENERAL PROVISIONS	14
8.1 Giving effect to the Scheme	14
8.2 Scheme Participants' agreements and consents	14
8.3 Appointment of Parent as attorney for Scheme Shares	15

8.4	Alteration or conditions to the Scheme	15
8.5	No liability when acting in good faith	15
8.6	Scheme is binding	15
8.7	Notices	16
8.8	Costs and stamp duty	16
8.9	Governing law	16

SCHEME OF ARRANGEMENT

Under section 411 of the Corporations Act

BETWEEN:

- (1) Novion Limited (ABN 79 167 087 363) whose registered office is at Level 39, MLC Centre, 19 Martin Place, Sydney, NSW, 2000 (**Novion**); and
- (2) each Scheme Participant.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document:

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange or ASX Limited ABN 98 008 624 691, as the context requires.

ASX Listing Rules means the official listing rules of ASX.

Business Day means any day that is each of the following:

- (a) a Business Day within the meaning given in the ASX Listing Rules; and
- (b) a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne and Sydney, Australia.

CHESS means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of New South Wales.

Effective means:

- (a) in respect of the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to the Scheme; and
- (b) in respect of the Trust Scheme, when the Novion Trust Supplemental Deed takes effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which each of the Scheme and the Trust Scheme become Effective.

End Date means the date which is six months after the date of the Merger Implementation Agreement, or such later date as Federation and Novion agree in writing.

Federation means Federation Limited (ABN 90 114 757 783).

Federation Board means the board of directors of Federation and the board of directors of Federation RE (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Federation Deed Poll means the deed poll executed by Federation and Federation RE in favour of Novion Securityholders on the Record Date, dated 10 April 2015 with such amendments as agreed by Federation and Novion and, if necessary, approved by the Court.

Federation RE means Federation Centres Limited (ABN 88 149 781 322) in its capacity as responsible entity of the Federation Trust.

Federation Register means the:

- (a) share register of Federation maintained by or on behalf of Federation;
- (b) unit register of Federation Trust maintained by or on behalf of Federation RE,
- in each case in accordance with sections 168 and 169 of the Corporations Act; and
- (c) stapled security register of Federation and Federation RE maintained by or on behalf of Federation and Federation RE in accordance with their respective constitutions.

Federation Security means a stapled security comprising one Federation Share and one Federation Unit.

Federation Share means a fully paid ordinary share in the capital of Federation.

Federation Trust means the Federation Centres Trust No.1 (ARSN 104 931 928).

Federation Unit means a fully paid ordinary unit in Federation Trust.

Foreign Securityholder means a Scheme Participant whose Registered Address (as at the Record Date) is in any jurisdiction other than Australia and Australia's external territories, unless Federation is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of Federation Shares to Scheme Participants in that place either unconditionally or after compliance with conditions that Federation in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Implementation means the implementation of the Scheme, on it becoming Effective.

Implementation Date means the date that is three Business Days after the Record Date, or such other date as Novion and Federation may agree in writing or as may be required by ASX.

Merger Implementation Agreement means the merger implementation agreement between Novion, Novion RE, Federation and Federation RE dated 3 February 2015 relating to the implementation of the Scheme and the Trust Scheme.

Novion Board means the board of directors of Novion and the board of directors of Novion RE (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Novion RE means Novion RE Limited (ABN 33 084 098 180) as responsible entity of the Novion Trust.

Novion RE Deed Poll means the deed poll executed by Novion RE in favour of Novion and the Scheme Participants dated 10 April 2015 with such amendments as agreed between Novion RE and Federation and if necessary, approved by the Court.

Novion Registry means Link Market Services Limited ACN 083 214 537.

Novion Security means a Novion Share stapled to a Novion Trust Unit in accordance with the Novion constitution and Novion Trust Constitution.

Novion Securityholder means each person who is registered in each of the Share Register and Unit Register as a holder of Novion Shares and Novion Trust Units respectively.

Novion Share means a fully paid ordinary share in the capital of Novion.

Novion Shareholder means each person who is registered in the Share Register as a holder of Novion Shares, also being a holder of Novion Trust Units at that time.

Novion Trust means Novion Trust (ARSN 090 150 280).

Novion Trust Constitution means the constitution establishing Novion Trust dated 10 February 1994, as amended from time to time.

Novion Trust Supplemental Deed means a deed poll under which Novion RE will amend the Novion Trust Constitution to facilitate and effect the Trust Scheme.

Novion Trust Unit means a fully paid ordinary unit in Novion Trust.

Permitted Federation Distributions means a distribution of up to \$0.084 per Federation Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Federation Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Federation Board in line with previous practice and in the amount that has or will be the subject of the Federation and Federation RE distribution forecast for that period.

Permitted Novion Distributions means a distribution of up to \$0.069 per Novion Trust Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Novion Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Novion Board in line with previous practice and in the amount that has or will be the subject of the Novion and Novion RE distribution forecast for that period.

Record Date means 7.00 pm on the day which is five Business Days after the Effective Date or any other date agreed in writing by Federation and Novion or as may be required by ASX and, if necessary, approved by the Court.

Registered Address means, in relation to a Scheme Participant, the address of that Scheme Participant shown in the Share Register.

Sale Facility means the facility to be established and implemented by Federation, in agreement with Novion, under which Sale Securities are sold by the Sale Nominee on ASX in accordance with clause 6.

Sale Facility Account means the account established by the Sale Nominee in its own name, to which the Sale Nominee must deposit all funds received in respect of the Sale Securities.

Sale Facility Consideration means, in respect of each Foreign Securityholder, an amount equal to the average price at which the Federation Securities are sold by the Sale Nominee under the Sale Facility (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges), multiplied by the number of Federation Securities that the Foreign Securityholder would otherwise have been entitled to receive had they not been a Foreign Securityholder (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent), reduced by the amount of the price paid for the Federation Securities which

is attributable to the units in Federation Trust which are sold in conjunction with the Federation Share, as a single Federation Security.

Sale Nominee means a person appointed by Federation, in agreement with Novion, to act as the sale nominee for the purposes of the Sale Facility (and/or a nominee of that person that is a subsidiary of that person).

Sale Period means the 15 Business Day period commencing on the Business Day after the Implementation Date.

Sale Security means a Federation Security issued to the Sale Nominee under the Sale Facility.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between Novion and the Scheme Participants, set out in this document, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Federation and Novion.

Scheme Consideration means, for each Scheme Share held at the Record Date, 0.8225 Federation Shares subject to:

- (a) fractional entitlements to Federation Shares arising under this Scheme being dealt with in accordance with clause 5.3; and
- (b) each such Federation Share being stapled to a Federation Unit immediately after such share is issued and allotted to form one Federation Security.

Scheme Meeting means the Novion Shareholders' meeting or meetings ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

Scheme Participant means each Novion Shareholder at the Record Date, taking into account registration of all registrable transfers and transmission applications in accordance with clause 7.1.

Scheme Share means Novion Shares held by Scheme Participants as at the Record Date.

Second Court Date means the first day on which the Court hears the application by Novion for an order under section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned or subject to appeal for any reason, the first day the adjourned or appealed application is heard and **Second Court Hearing** means the hearing of that application.

Second Judicial Advice means confirmation from the Court under section 63 of the *Trustee Act 1925* (NSW) that, the holders of Novion Trust Units having approved the Trust Scheme by the requisite majorities, Novion RE would be justified in implementing the Trust Scheme by giving effect to the provisions of the Novion Trust Constitution (as amended by the Novion Trust Supplemental Deed) and in doing all things and taking all necessary steps to put the Trust Scheme into effect.

Share Register means the share register of Novion maintained by or on behalf of Novion in accordance with sections 168 and 169 of the Corporations Act.

Trust Scheme means the arrangement under which Federation RE acquires all of the Novion Trust Units facilitated by amendments to the Novion Trust Constitution pursuant to the Novion Trust Supplemental Deed, subject to the requisite approvals by holders of Novion Trust Units.

Trust Scheme Units means Novion Trust Units held by Scheme Participants as at the Record Date.

Unit Register means the unit register of Novion Trust maintained by or on behalf of Novion RE in accordance with sections 168 and 169 of the Corporations Act.

1.2 Interpretation

Headings and catchwords are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
 - (i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
 - (ii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
 - (iii) a party to this document or to any other document or agreement includes a permitted substitute or a permitted assign of that party;
 - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and
 - (v) anything (including a right, obligation or concept) includes each part of it.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (f) The words **entity**, **officer** and **subsidiary** have the same meaning as in section 9 of the Corporations Act.
- (g) The words **related body corporate** have the same meaning as in section 50 of the Corporations Act.
- (h) The word **agreement** includes an undertaking or other binding arrangement or understanding, whether or not in writing.
- (i) The expression **this document** includes the agreement, arrangement, understanding or transaction recorded in this document.
- (j) All references to time in this document are references to time in Melbourne, Victoria.
- (k) A reference to **\$** or **dollars** is to Australian currency.

- (l) A reference to **writing** includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form but excludes a communication by electronic mail.

1.3 **Non-Business Days**

If the day on or by which a person must do something under this document is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

2. **BACKGROUND TO SCHEME**

2.1 **Novion**

- (a) Novion is a public company incorporated in Australia. It is registered in Victoria and is a company limited by shares. It has its registered office at MLC Centre level 39, 19-29 Martin Place, Sydney, NSW, 2000.
- (b) Novion is admitted to the official list of ASX and Novion Securities (comprising one Novion Share stapled to one Novion Trust Unit) are quoted on the financial market conducted by ASX.
- (c) As at 7 April 2015, 3,077,214,058 Novion Securities were on issue.
- (d) Novion Trust is a registered managed investment scheme. Novion RE is the responsible entity of Novion Trust.

2.2 **Federation**

- (a) Federation is a public company incorporated in Australia. It is registered in Victoria and is a company limited by shares. It has its registered office at Level 28, 35 Collins Street, Melbourne, Victoria, 3000.
- (b) Federation is admitted to the official list of ASX and Federation Securities (comprising one Federation Share stapled to one Federation Unit) are quoted on the financial market conducted by ASX.
- (c) As at 7 April 2015, 1,427,641,565 Federation Securities were on issue.
- (d) Federation Centres Trust No. 1 is a registered managed investment scheme. Federation RE is the responsible entity of Federation Centres Trust No. 1.

2.3 **What happens if Scheme becomes Effective**

If the Scheme becomes Effective then:

- (a) on the Implementation Date, the Scheme Shares will be de-stapled from the Trust Scheme Units;
- (b) Federation will issue and allot the Scheme Consideration to the Scheme Participants in accordance with the terms of this Scheme, the Merger Implementation Agreement and the Federation Deed Poll;
- (c) each Federation Share that comprises the Scheme Consideration (under paragraph (b)) will immediately upon issue be stapled to a Federation Unit (such units to be

issued in accordance with the Trust Scheme, the Merger Implementation Agreement and the Federation Deed Poll); and

- (d) the Scheme Shares will be transferred to Federation, and Novion will enter Federation's name in the Share Register as the holder of all Scheme Shares.

2.4 **Merger Implementation Agreement**

Novion, Novion RE, Federation and Federation RE have entered into the Merger Implementation Agreement, to facilitate the implementation of the Scheme and Trust Scheme. Relevantly, in relation to the Scheme, Novion and Federation have agreed that each of them will perform their respective obligations under the Scheme and to do everything within their power that is necessary to give full effect to the Scheme.

2.5 **Deed Polls**

- (a) Federation and Federation RE have executed the Federation Deed Poll under which each of them covenants to carry out their obligations under the Scheme, the Trust Scheme and the Merger Implementation Agreement, including Federation providing to Scheme Participants the Scheme Consideration in accordance with the terms of this Scheme and Federation RE providing the Federation Units that are to be issued as consideration under the Trust Scheme; and
- (b) Novion RE has executed the Novion RE Deed Poll under which it covenants to Novion and each Scheme Participant to carry out its obligations under the Trust Scheme.

3. **CONDITIONS PRECEDENT**

3.1 **Conditions precedent to the Scheme**

The Scheme is conditional on the following:

- (a) all the conditions set out in clause 3.1 of the Merger Implementation Agreement (other than the condition in paragraph (f) of that clause relating to Court approval of this Scheme and the provision of the Second Judicial Advice in respect of the Trust Scheme) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement, before 8.00 am on the Second Court Date;
- (b) as at 8.00 am on the Second Court Date, the Merger Implementation Agreement having not been terminated;
- (c) approval of the Scheme by the Court in accordance with section 411(1)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act provided that they are acceptable to Novion and Federation;
- (d) the granting of the Second Judicial Advice by the Court in relation to the Trust Scheme;
- (e) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to Federation and Novion have been satisfied; and
- (f) both:
 - (i) the order of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) approving the

Scheme coming into effect, pursuant to section 411(10) of the Corporations Act; and

- (ii) the Novion Trust Supplemental Deed taking effect pursuant to section 601GC(2) of the Corporations Act.

3.2 **Satisfaction of conditions**

The satisfaction or waiver of each condition in clause 3.1 is a condition precedent to the binding effect of the Scheme.

3.3 **Parties to provide certificate to Court**

Novion and Federation will provide to the Court before or at the Second Court Hearing, a certificate or such other evidence as the Court requests, confirming whether or not all the conditions set out in clauses 3.1(a) (in accordance with the allocations of responsibility set out in clause 3.7 of the Merger Implementation Agreement) and 3.1(b) of this Scheme have been satisfied or waived as at 8am on the Second Court Date.

3.4 **End Date**

The Scheme will lapse and be of no further effect if the Effective Date has not occurred on or before the End Date.

4. **THE SCHEME**

4.1 **Novion to lodge orders and Novion Trust Supplemental Deed with ASIC**

As soon as practicable after the Court makes an order approving the Scheme under section 411(4)(b) of the Corporations Act:

- (a) Novion will lodge with ASIC office copies of that order; and
- (b) Novion RE will lodge with ASIC a copy of the Novion Trust Supplemental Deed pursuant to section 601GC(2) of the Corporations Act; and
- (c) if requested by ASIC, Novion RE will lodge with ASIC a consolidated copy of the Novion Trust Constitution (as amended pursuant to the Novion Trust Supplemental Deed) in accordance with section 601GC(3) of the Corporations Act.

4.2 **Scheme effective on Effective Date**

Subject to clause 3.4, the Scheme comes into effect on the Effective Date.

4.3 **Implementation steps**

On the Implementation Date:

- (a) Novion will de-staple Novion Shares from Novion Trust Units;
- (b) Novion RE will de-staple Novion Trust Units from Novion Shares;
- (c) immediately following de-stapling of the Novion Shares from the Novion Trust Units and Novion being reasonably satisfied that Federation has complied with all of its obligations in accordance with clause 5.1(a)(i) and clause 5.1(a)(iii) of this Scheme, Novion must transfer all of the Scheme Shares, together with all rights and entitlements attaching to those shares as at the Implementation Date, to Federation without the need for any further act by any Scheme Participant (other

than acts performed by Novion or its directors and officers as attorney and agent for the Scheme Participants under clause 8.2) by:

- (i) Novion effecting a valid transfer or transfers of the Scheme Shares to Federation through CHESS and in accordance with section 1074D of the Corporations Act; or
- (ii) if the procedure referred to in paragraph (i) is, for whatever reason, not available, Novion delivering to Federation a duly completed share transfer form or forms to transfer all of the Scheme Shares to Federation, duly executed by Novion (or any of its directors and officers) as the attorney and agent of each Scheme Participant as transferor.

4.4 **Execution of transfer forms**

If applicable, Federation will immediately execute (as transferee) the share transfer forms referred to in clause 4.3(c)(ii), arrange for the stamping of any such share transfer forms (if applicable) and deliver the share transfer forms to Novion for registration.

4.5 **Entry of details in Share Register**

Novion will, immediately following receipt of the transfer forms in respect of the Scheme Shares, subject to Federation complying with its obligations under clause 4.3 and clause 5, enter the name and address of Federation in the Share Register as the holder of all of the Scheme Shares.

4.6 **Federation to provide Scheme Consideration**

On or before 12:00 noon on the Implementation Date, in consideration for the transfer of the Scheme Shares to Federation, Federation will provide the Scheme Consideration in accordance with clause 5.1 to each Scheme Participant in respect of each Scheme Share registered in the name of that Scheme Participant in the Share Register at the Record Date.

5. **SCHEME CONSIDERATION**

5.1 **Provision of Scheme Consideration**

- (a) Subject to clause 6:
 - (i) immediately before the transfer of the Scheme Shares to Federation under clause 4.3, Federation will issue and allot to each Scheme Participant the Scheme Consideration to which that Scheme Participant is entitled as consideration for the transfer of that Scheme Participant's respective Scheme Shares to Federation in accordance with this Scheme;
 - (ii) at the same time, Federation RE will issue to each Scheme Participant an equivalent number of Federation Units to which that Scheme Participant is entitled as consideration for the transfer of that Scheme Participant's respective Trust Scheme Units to Federation RE in accordance with the Trust Scheme, the Merger Implementation Agreement and the Federation Deed Poll;
 - (iii) Federation and Federation RE must ensure, immediately upon the issue of the Scheme Consideration in accordance with clause 5.1(a)(i) and the Federation Units in accordance with clause 5.1(a)(ii) and the Trust Scheme, that each of the Federation Shares is stapled to a Federation Unit to comprise a Federation Security;

- (iv) Federation and Federation RE must register, or cause to be registered, the Scheme Participants as the holders of the Federation Securities to which they become entitled under this Scheme and Trust Scheme:

- (A) if the Novion Securities were held by the Scheme Participant on the Record Date on an uncertificated issuer sponsored sub-register, on uncertificated issuer sponsored sub-registers of Federation Securities; or
- (B) if the Novion Securities were held by the Scheme Participant on the Record Date on an uncertificated CHESS sub-register, on uncertificated CHESS sub-registers of Federation Securities,

in either case, such registration to occur on the Implementation Date immediately after the Federation Shares are stapled to the Federation Units in accordance with clause 5.1(a)(iii); and

- (v) by no later than 5 Business Days after the Implementation Date, Federation and Federation RE must send holding statements confirming the issue and allotment of Federation Securities to the Scheme Participants who become entitled to those securities under this Scheme and the Trust Scheme, by pre-paid ordinary post (or, if the address of the Scheme Participant in the Share Register is outside Australia, by pre-paid airmail post) to their address recorded in the Share Register on the Record Date.

5.2 Joint holders

In the case of Scheme Shares held in joint names, holding statements for Scheme Consideration required to be issued to Scheme Participants will be issued in the names of the joint holders and sent to the holder whose name appears first in the Share Register on the Record Date.

5.3 Fractional entitlements

Where the calculation of the number of Federation Shares to be issued to a particular Scheme Participant would result in the issue of a fraction of a Federation Share, the fractional entitlement will:

- (a) where the entitlement is to half a Federation Share or more, be rounded up to the nearest whole number of Federation Shares; and
- (b) where the entitlement is to less than half a Federation Share, be rounded down to the nearest whole number of Federation Shares.

5.4 Splitting

- (a) If Novion and Federation are of the opinion that two or more Scheme Participants, each of which holds a holding of Scheme Shares which results in rounding in accordance with clause 5.3, have, before the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding, Novion and Federation may give notice to those Scheme Participants prior to the Implementation Date:
 - (i) setting out the names and Registered Addresses for all of those Scheme Participants;
 - (ii) stating that opinion; and

- (iii) attributing to one of them specifically identified in the notice (**Identified Scheme Participant**) the Scheme Shares held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice as the deemed holder of all the specified Scheme Shares shall, for the purposes of the Scheme, be taken to hold all those Scheme Shares and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Scheme Shares.

- (b) Federation, in complying with the provisions of the Scheme relating to it in respect of the Identified Scheme Participant in a notice given in accordance with clause 5.4(a) will be taken to have satisfied and discharged its obligations under the Scheme to the other Scheme Participants named that notice.

5.5 Status of Federation Shares

Upon issue:

- (a) the Federation Shares issued to Scheme Participants will rank equally with all existing Federation Shares, except that they will not carry a right to participate in any Permitted Federation Distributions; and
- (b) each Federation Share will be fully paid and free from any mortgage, charge, lien or encumbrance.

5.6 Instructions to Novion

All binding instructions or notifications between a Scheme Participant and Novion regarding Scheme Shares or a Scheme Participant's status as a holder of Novion Securities (including without limitation, any instructions relating to communications from Novion or Novion RE and whether distributions are to be paid by cheque or into a specified bank account) will, to the extent permitted, from the Record Date, be deemed (except to the extent determined otherwise by Federation in its sole discretion) to be similarly binding instructions or notifications to, and accepted by, Federation and Federation RE in respect of the Federation Securities issued to the Scheme Participants under this Scheme and the Trust Scheme until those instructions or notifications are, in each case, revoked or amended in writing addressed to Federation (at its registered address from time to time), provided that any such instructions or notifications accepted by Federation will apply to and in respect of the issue of Federation Securities as part of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of the Scheme.

6. SALE FACILITY

6.1 Foreign Securityholders

Federation will be under no obligation under the Scheme to issue, and will not issue, any Federation Shares to any Foreign Securityholders, and instead Federation and Federation RE will issue on the Implementation Date the Federation Securities to which that Foreign Securityholder would otherwise have been entitled (were they not a Foreign Securityholder) to the Sale Nominee. On the Implementation Date, Federation and Federation RE will procure the entry in the Federation Register of the name and address of the Sale Nominee in respect of the Federation Securities that are attributable to each Foreign Securityholder.

6.2 Sale of Sale Securities by Sale Nominee

- (a) Federation will procure that, as soon as is reasonably practicable, and in any event not more than 15 Business Days after the Implementation Date, the Sale Nominee

sells the Sale Securities in such manner, at such prices and at such times as it sees fit, on such other terms as the Sale Nominee determines in good faith, and at the risk of the Foreign Securityholders, with the objectives of:

- (i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and
 - (ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period.
- (b) Federation will procure that the Sale Nominee:
- (i) on each date on which a sale of Sale Securities is settled, deposits all funds received in respect of that sale into the Sale Facility Account; and
 - (ii) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 5 Business Days thereafter, transfers the funds (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) in the Sale Facility Account to the Novion Registry.
- (c) Novion must procure that the Novion Registry, no later than 5 Business Days after the Sale Nominee has transferred the funds in the Sale Facility Account in accordance with clause 6.2(b), arranges in respect of each Foreign Securityholder for payment of the Sale Facility Consideration by either:
- (i) dispatching by mail to the registered address of that Foreign Securityholder a cheque or bank draft which includes the Sale Facility Consideration for that Foreign Securityholder payable in Australian dollars (provided that, in the case of Foreign Securityholders who are joint holders of Novion Shares, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Share Register as at the Record Date); or
 - (ii) making an electronic funds transfer in Australian dollars to an account nominated by that Foreign Securityholder for the purposes of the Sale Facility or the payment of distributions on Novion Securities,
- in full satisfaction of Federation's obligations to that Foreign Securityholder under the terms of the Scheme in respect of the Scheme Consideration.
- (d) Each Foreign Securityholder appoints Novion as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Nominee is required to provide to Foreign Securityholders under the Corporations Act.

7. DEALINGS IN NOVION SECURITIES

7.1 What Novion Security dealings are recognised?

To establish the persons who are Scheme Participants, dealings in Novion Securities will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the Novion Securities at or before the Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the Novion Registry by 5pm on the Record Date.

7.2 **Novion to register transfer and transmission applications**

Novion will register registrable transfers or transmission applications of the kind referred to in clause 7.1(b) by no later than 7:00pm on the Record Date.

7.3 **Transfers received after Record Date not recognised**

Novion will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Scheme Shares received after the times specified in clause 7.1, or received prior to such times but not in registrable form.

7.4 **Novion to maintain Share Register to determine entitlements**

In order to determine entitlements to the Scheme Consideration, Novion will, until the Scheme Consideration has been paid to Scheme Participants and the name and address of Federation has been entered in the Share Register as the holder of the Scheme Shares, maintain, or procure the maintenance of, the Share Register in accordance with this clause 7, and the Share Register in this form and the terms of the Scheme will solely determine entitlements to the Scheme Consideration.

7.5 **Effect of share certificates and holding statements**

As from the Record Date but subject to the provision of the Scheme Consideration in accordance with the Scheme (and other than for Federation following the Implementation Date), all share certificates, holding statements and entries in the Share Register for Scheme Shares will cease to have effect as documents of title in respect of those Scheme Shares other than as evidence of the entitlements of Scheme Participants to the Scheme Consideration in respect of the Scheme Shares held by that Scheme Participant.

7.6 **Novion to provide contact information for Scheme Participants**

As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, Novion will give to Federation or procure that Federation be given details of the name, Registered Address and the number of Novion Securities held by each Scheme Participant, as shown in the Share Register at the Record Date, in whatever form Federation reasonably requires.

7.7 **Each Scheme Participant warrants Novion Shares free from encumbrance**

Each Scheme Participant is deemed to have warranted to Federation and appointed and authorised Novion as their agent and attorney to warrant to Federation that all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, as at the time of the transfer of them to Federation, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and from any restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Federation under the Scheme. Novion undertakes in favour of each Scheme Participant that it will provide such warranty to Federation on behalf of that Scheme Participant.

7.8 **Federation beneficially entitled to Scheme Shares**

Federation will be beneficially entitled to the Scheme Shares transferred to it under the Scheme pending registration by Novion of the name and address of Federation in the Share Register as the holder of the Scheme Shares.

7.9 **No disposals after Record Date**

If the Scheme becomes Effective, each Scheme Participant, and any person claiming through that Scheme Participant, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date.

7.10 **Suspension and Termination of Quotation of Novion Securities**

- (a) Novion must apply to ASX for suspension of trading of the Novion Securities on ASX with effect from the close of business on the Effective Date.
- (b) Novion must apply to ASX for termination of official quotation of the Novion Securities on ASX and the removal of Novion from the official list of ASX with effect from the Business Day immediately following the Implementation Date.

8. **GENERAL PROVISIONS**

8.1 **Giving effect to the Scheme**

Each Scheme Participant and Novion must do anything (including execute any document) that is necessary, expedient or incidental to give full effect to the Scheme and the transactions contemplated by it. Without limiting Novion's other powers under the Scheme, Novion has power to do all things that it considers necessary or desirable to give effect to the Scheme and the Merger Implementation Agreement.

8.2 **Scheme Participants' agreements and consents**

Without the need for any further act by any Scheme Participant, each Scheme Participant:

- (a) to whom Federation Shares are to be issued pursuant to the Scheme:
 - (i) irrevocably agrees to become a member of Federation for the purposes of clauses 4 and 5, and the Corporations Act, and to have their name and address entered in the Federation Register; and
 - (ii) irrevocably accepts the Federation Shares issued pursuant to the Scheme on the terms and conditions of the constitution of Federation and agrees to be bound by the constitution of Federation as in force from time to time in respect of the Federation Shares;
- (b) agrees to the transfer of their Novion Shares, together with all rights and entitlements attaching to those shares (except for the right to participate in any Permitted Novion Distributions), to Federation, in accordance with the Scheme;
- (c) acknowledges that the Scheme binds Novion and all Novion Shareholders from time to time, including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme;
- (d) consents to Novion doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, expedient or incidental to Implementation and to give full effect to the Scheme and the transactions contemplated by it; and
- (e) irrevocably appoints Novion and each of its directors and officers, jointly and severally, on and from the Effective Date, as that Scheme Participant's attorney and agent, for the purpose of:
 - (i) doing all things and executing any deeds, instruments, transfers or other documents as may be necessary, expedient or incidental to Implementation

and to give full effect to the Scheme and the transactions contemplated by it, including the effecting of a proper and valid instrument of transfer (or transfers) of that Scheme Participant's Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Scheme Shares); and

- (ii) enforcing the Federation Deed Poll against Federation,

and Novion accepts such appointment. Novion, as agent and attorney of each Scheme Participant, may sub-delegate its functions, authorities or powers under this clause 8.2(e) to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.3 Appointment of Parent as attorney for Scheme Shares

- (a) From the Effective Date until Federation is registered in the Share Register as the holder of all Scheme Shares, each Scheme Participant:
 - (i) without the need for any further act by that Scheme Participant, irrevocably appoints Federation as its proxy to (and irrevocably appoints Federation as its agent and attorney for the purpose of appointing any director or officer of Federation as that Scheme Participant's proxy and, where appropriate, its corporate representative to):
 - (A) attend shareholders' meetings of Novion;
 - (B) exercise the votes attaching to the Scheme Shares registered in the name of the Scheme Participant; and
 - (C) sign any Novion Securityholders' resolution; and
 - (ii) must take all other action in the capacity of a Scheme Participant as Federation reasonably directs.
- (b) From the Effective Date until Federation is registered in the Share Register as the holder of all Scheme Shares, no Scheme Participant may attend or vote at any meetings of Novion Securityholders or sign any Novion Securityholders' resolution (whether in person, by proxy or by corporate representative) other than under this clause 8.3.

8.4 Alteration or conditions to the Scheme

If the Court proposes to approve the Scheme subject to any alteration or condition Novion may, by its counsel or solicitors, but subject to the prior approval of Federation (which may not be unreasonably withheld or delayed), consent on behalf of all persons concerned, including each Scheme Participant, to those alterations or conditions.

8.5 No liability when acting in good faith

Neither Novion, nor any of its officers will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

8.6 Scheme is binding

The Scheme binds Novion and all Novion Shareholders from time to time (including those who did not attend the Scheme Meeting, did not vote at that meeting or voted against the Scheme) and, to the extent of any inconsistency, overrides the constitution of Novion.

8.7 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Novion, it will be deemed to be received on the date (if any) on which it is actually received at the Novion Registry and on no other date.

8.8 Costs and stamp duty

- (a) Subject to clause 8.8(b), Novion will pay all the costs of the Scheme.
- (b) Federation will pay all stamp duty and any related fines, penalties and other costs in respect of the Scheme payable on or in connection with the transfer of the Scheme Shares to Federation in accordance with the terms of the Scheme.

8.9 Governing law

This document and any dispute arising out of or in connection with this document is governed by the laws of Victoria.

Each party submits to the non-exclusive jurisdiction of the courts of Victoria, and courts of appeal from them, in respect of any proceedings arising out of or in connection with this document. Each party irrevocably waives any right it has to object to any legal process being brought in those courts including any claim that the process has been brought in an inconvenient forum or that those courts do not have jurisdiction.

Annexure F

Supplemental Deed Poll



Supplemental Deed Poll

Novion RE Limited

ABN 33 084 098 180

A deed poll amending the constitution of the
Novion Trust ARSN 090 150 280

2015

CONTENTS

CLAUSE	PAGE
1. INTERPRETATION.....	1
2. MODIFICATION OF CONSTITUTION	1
3. NO RESETTLEMENT	1
4. BINDING PROVISIONS.....	2
5. EFFECTIVE DATE.....	2
6. GOVERNING LAW	2

THIS DEED is made on

2015

BY:

- (1) **Novion RE Limited** ABN 33 084 098 180 (the **Responsible Entity**).

RECITALS:

- (A) The Responsible Entity is a public company limited by shares, incorporated in Australia.
- (B) The Responsible Entity is the responsible entity of the Novion Trust ARSN 090 150 280 (**Trust**) established under a trust deed dated 10 February 1994 (as amended from time to time) (**Constitution**).
- (C) The Trust was registered as a managed investment scheme under Chapter 5C of the *Corporations Act 2001* (Cth) (**Corporations Act**) by the Australian Securities and Investments Commission (**ASIC**) on 3 November 1999.
- (D) As at the date of this deed 3,077,214,058 units in the Trust (**Units**) are on issue.
- (E) Federation Centres Limited ABN 88 149 781 322 is the responsible entity of the Federation Centres Trust No. 1 ARSN 104 931 928. Units in the Federation Centres Trust No. 1 are stapled to shares in Federation Limited ABN 90 114 757 783 and the stapled securities are listed on the ASX.
- (F) The Responsible Entity, Novion Limited ABN 79 167 087 363, Federation Limited and Federation Centres Limited have executed a merger implementation agreement dated 3 February 2015 (**MIA**) to propose and implement the Schemes (comprised of a Trust Scheme and a Company Scheme) (as defined in the MIA).
- (G) The Constitution must be amended to facilitate the Trust Scheme.
- (H) Section 601GC(1)(a) of the Corporations Act provide that the constitution of a registered scheme may be modified, or repealed and replaced with a new constitution, by special resolution of the members of the scheme.
- (I) At a meeting of members of the Trust on 27 May 2015, it was resolved by special resolution that the Constitution be modified as set out in this document.

THE RESPONSIBLE ENTITY DECLARES AS FOLLOWS

1. INTERPRETATION

A term defined in the Constitution has the same meaning in this document, unless otherwise defined in this document.

2. MODIFICATION OF CONSTITUTION

The Constitution is modified in the manner set out in Annexure A.

3. NO RESETTLEMENT

This document does not:

- (a) constitute a resettlement or re-declaration of the Trust constituted under the Constitution; or
- (b) cause the transfer, vesting or accruing of any property comprising the assets of the Trust in any person.

4. **BINDING PROVISIONS**

The provisions of this document are binding on and are made for the benefit of the Responsible Entity, each Member of the Trust and all persons claiming through them.

5. **EFFECTIVE DATE**

In accordance with section 601GC(2) of the Corporations Act, the change to the Constitution contemplated by this document takes effect upon a copy of this document being lodged with ASIC.

6. **GOVERNING LAW**

- (a) This document is governed by the laws of the State of Victoria.
- (b) Any dispute arising in relation to this document, including any dispute in relation to the performance of obligations under this document, will be subject to the non-exclusive jurisdiction of the courts of that State, and any court that may hear appeals from any of those courts, for any proceedings in connections with this document.

EXECUTED as a deed poll

SIGNED for **NOVION RE LIMITED**
ABN 33 084 098 180 in its capacity as
responsible entity of Novion Trust
ARSN 090 150 280 under power of
attorney in the presence of:

Signature of attorney

Signature of witness

Name

Name

Date of power of attorney

ANNEXURE A

Modification of the Constitution

With effect on and from the Effective Date, the Constitution is amended by inserting new clause 37 as follows:

37. TRUST SCHEME

37.1 Definitions

In this clause 37:

ASX means the Australian Securities Exchange or ASX Limited (ABN 98 008 624 691), as the context requires.

CHESS means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.

Company Scheme means a scheme of arrangement under Part 5.1 of the Corporations Act between Novion and Novion shareholders under which Federation acquires all of the shares in Novion.

Court means the Supreme Court of New South Wales.

Effective means, when used in relation to the Schemes, all of the following events taking place:

- (a) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to the Company Scheme; and
- (b) the Novion Trust Supplemental Deed, which inserts this clause 37 into the Constitution, taking effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which each of the Schemes becomes Effective.

Federation means Federation Limited ABN 90 114 757 783.

Federation Board means the board of directors of Federation and the board of directors of Federation RE (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Federation Deed Poll means the deed poll executed by Federation RE and Federation in favour of Scheme Participants and Novion shareholders on the Record Date dated 10 April 2015 with such amendments as agreed by Federation and Novion and, if necessary, approved by the Court.

Federation RE means Federation Centres Limited ABN 88 149 781 322 in its capacity as responsible entity of the Federation Trust.

Federation Register means the:

- (a) share register of Federation maintained by or on behalf of Federation;
 - (b) unit register of Federation Trust maintained by or on behalf of Federation RE,
- in each case in accordance with sections 168 and 169 of the Corporations Act; and

- (c) stapled security register of Federation and Federation RE maintained by or on behalf of Federation and Federation RE in accordance with their respective constitutions.

Federation Security means a stapled security comprising one Federation Share and one Federation Unit.

Federation Share means a fully paid ordinary share in the capital of Federation.

Federation Trust means the Federation Centres Trust No. 1 ARSN 104 931 928.

Federation Unit means a fully paid ordinary unit in the Federation Trust.

Foreign Member means a Scheme Participant whose Registered Address (as at the Record Date) is in any jurisdiction other than Australia and Australia's external territories unless Federation RE is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of Federation Units to Scheme Participants in that place either unconditionally or after compliance with conditions that Federation RE in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Implementation means the implementation of the Schemes, on them becoming Effective.

Implementation Date means the date that is three Business Days after the Record Date, or such other date as the Responsible Entity and Federation RE may agree in writing or as may be required by ASX.

Merger Implementation Agreement means the merger implementation agreement between Novion, the Responsible Entity, Federation and Federation RE dated 3 February 2015 relating to the implementation of the Schemes.

Novion means Novion Limited ABN 79 167 087 363.

Novion Board means the board of directors of Novion and the board of directors of the Responsible Entity (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Novion Registry means Link Market Services Limited ACN 083 214 537.

Novion Share means a fully paid ordinary share in the capital of Novion.

Permitted Federation Distributions means a distribution of up to \$0.084 per Federation Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Federation Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Federation Board in line with previous practice and in the amount that has or will be the subject of the Federation and Federation RE distribution forecast for that period.

Permitted Novion Distributions means a distribution of up to \$0.069 per Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Novion Board in line with previous practice and in the amount that has or will be the subject of the Novion and the Responsible Entity distribution forecast for that period.

Record Date means 7.00 pm on the day which is five Business Days after the Effective Date or any other date agreed in writing by Federation RE and the Responsible Entity or as may be required by the ASX and, if necessary, approved by the Court.

Registered Address means, in relation to a Scheme Participant, the address of that Scheme Participant shown in the Register.

Resolutions means the resolutions to approve the Trust Scheme.

Responsible Entity means SRE as defined in clause 1.1.

Responsible Entity Deed Poll means the deed poll executed by the Responsible Entity in favour of Novion and Members dated 10 April 2015 with such amendments as agreed between the Responsible Entity, Federation and Federation RE and if necessary, approved by the Court.

Sale Facility means the facility to be established and implemented by Federation RE, in agreement with the Responsible Entity, under which Sale Securities are sold by the Sale Nominee on ASX.

Sale Facility Account means the account established by the Sale Nominee in its own name, to which the Sale Nominee must deposit all funds received in respect of the Sale Securities.

Sale Facility Consideration means, in respect of each Foreign Member, an amount equal to the average price at which the Federation Securities are sold by the Sale Nominee under the Sale Facility (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges), multiplied by the number of Federation Securities that the Foreign Member would otherwise have been entitled to receive had they not been Foreign Members (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent), reduced by the amount of the price paid for the Federation Securities which is attributable to the shares in Federation which are sold in conjunction with the Federation Unit, as a single Federation Security.

Sale Nominee means a person appointed by Federation and Federation RE, in agreement with the Responsible Entity, to act as the sale nominee for the purposes of the Sale Facility (and/or a nominee of that person that is a subsidiary of that person).

Sale Period means the 15 Business Day period commencing on the Business Day after the Implementation Date.

Sale Security means a Federation Security issued to the Sale Nominee under the Sale Facility.

Schemes means the Trust Scheme and the Company Scheme.

Scheme Meeting means the meeting of Members convened by the Responsible Entity to consider the Resolutions and any relevant additional resolutions, and includes any adjournment of that meeting.

Scheme Participant means each Member at the Record Date, taking into account registration of all registrable transfers and transmission applications in accordance with clause 37.3.

Scheme Register means the copy of the Register as at the Record Date which contains the names, addresses, bank accounts, numbers of Scheme Units held and other relevant details of Scheme Participants which is maintained by the Responsible Entity to determine entitlements to Trust Scheme Consideration as contemplated by clause 37.3(d).

Scheme Unit means a Unit on issue on the Record Date.

Trust Scheme means the arrangement under which the Federation RE acquires all of the Scheme Units from Scheme Participants.

Trust Scheme Consideration means, for each Scheme Unit, 0.8225 Federation Units, subject to:

- (a) fractional entitlements to Federation Units arising under the Trust Scheme being dealt with in accordance with clause 37.7(f) and 37.7(g); and
- (b) each such Federation Unit being stapled to a Federation Share immediately after such unit is issued and allotted to form one Federation Security.

Unstapling means the unstapling of the Scheme Units from all Attached Securities in accordance with clause 37.7(a).

37.2 Effect of clause 37

This clause 37:

- (a) binds the Responsible Entity and all Members, including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Resolutions at that meeting; and
- (b) overrides any other provisions of this Constitution to the extent of any inconsistency.

37.3 Dealings in Units

- (a) To establish the persons who are Scheme Participants, prior to completion of the Implementation, dealings in Units will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Units on or before the Record Date; and
 - (ii) in all other cases, registrable transfers or transmission of applications in respect of those dealings are received by the Novion Registry by 5pm on the Record Date.
- (b) The Responsible Entity will register registrable transfers or transmission applications of the kind referred to in clause 37.3(a)(ii) by no later than 7pm on the Record Date.
- (c) The Responsible Entity will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Units received after the times specified in clauses 37.3(a) and 37.3(b), or received prior to such times but not in registrable form.
- (d) In order to determine entitlements to the Trust Scheme Consideration, the Responsible Entity will, until the Trust Scheme Consideration has been paid to Scheme Participants and the name and address of Federation RE has been entered in the Register as the holder of the Scheme Units, maintain, or procure the maintenance of, the Scheme Register in accordance with this clause 37.3(d). The Scheme Register shall consist of the names, addresses, bank accounts and other relevant details of persons who are Scheme Participants and the number of Units held by such persons as shown in each case on the Scheme Register as at the Record Date (immediately after registration of registrable transfers or transmission applications of the kind referred to in clause 37.3(a)). The Scheme

Register and the terms of the Trust Scheme will solely determine entitlements to the Scheme Consideration.

- (e) From the Record Date, each Scheme Participant (and any person claiming through or on behalf of that Scheme Participant) must not dispose of, agree to, or purport to dispose of any Scheme Units or any interest in them other than in accordance with this clause 37.
- (f) From the Record Date and subject to the provision of the Trust Scheme Consideration in accordance with the Trust Scheme:
 - (i) all certificates and holding statements for Units will cease to have any effect (whether as documents of title or otherwise); and
 - (ii) each entry in the Register as at the Record Date in respect of Scheme Participants and Units will cease to have any effect,

in each case, other than as evidence of the entitlements of Scheme Participants to the Trust Scheme Consideration in respect of the Units held by that Scheme Participant.
- (g) As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, the Responsible Entity will give to Federation RE (or procure that Federation RE is given) the name and Registered Address of, and number of Scheme Units held by, each Scheme Participant in whatever form Federation RE reasonably requires.

37.4 Trust Scheme Consideration

Each Scheme Participant who is not a Foreign Member will, on Implementation:

- (a) receive and accept the Trust Scheme Consideration as consideration for the transfer of its Scheme Units to Federation RE in accordance with this clause 37; and
- (b) agrees to become a member of the Federation Trust and to be bound by the constitution of the Federation Trust (as amended from time to time).

37.5 Foreign Members

Federation RE will be under no obligation under the Trust Scheme to issue, and will not issue, any Federation Units to Foreign Members and instead, Federation and Federation RE will issue on the Implementation Date the Federation Securities to which that Foreign Members would otherwise have been entitled (were they not Foreign Members) to the Sale Nominee. On the Implementation Date, Federation and Federation RE will procure the entry in the Federation Register of the name and address of the Sale Nominee in respect of the Federation Securities that are attributable to each Foreign Member.

37.6 Sale of Sale Securities by Sale Nominee

- (a) Federation RE will procure that as soon as is reasonably practicable, and in any event not more than 15 Business Days after the Implementation Date, the Sale Nominee sells the Sale Securities in such manner, at such prices and at such times as it sees fit, on such other terms as the Sale Nominee determines in good faith and at the risk of the Foreign Member, with the objectives of:
 - (i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and

- (ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period;
- (b) Federation RE will procure that the Sale Nominee:
 - (i) on each date on which a sale of Sale Securities is settled, deposits all funds received into the Sale Facility Account; and
 - (ii) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 5 Business Days thereafter, transfers the funds (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) in the Sale Facility Account to the Novion Registry.
- (c) The Responsible Entity must procure that the Novion Registry, no later than 5 Business Days after the Sale Nominee has transferred the funds in the Sale Facility Account in accordance with clause 37.6(b), arranges in respect of each Foreign Member for payment of the Sale Facility Consideration by either:
 - (i) dispatching by mail to the registered address of that Foreign Member a cheque or bank draft which includes the Sale Facility Consideration for that Foreign Member payable in Australian dollars (provided that, in the case of Foreign Members who are joint holders of Scheme Units, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Scheme Register as at the Record Date); or
 - (ii) making an electronic funds transfer in Australian dollars to an account nominated by that Foreign Member for the purposes of the Sale Facility or the payment of distributions on Scheme Units,

in full satisfaction of Federation RE's obligations to that Foreign Member under the terms of the Trust Scheme in respect of the Trust Scheme Consideration.
- (d) Each Foreign Member appoints the Responsible Entity as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Nominee is required to provide to Foreign Members under the Corporations Act.

37.7 Implementation steps

- (a) On the Implementation Date the Responsible Entity and Novion will determine in accordance with clause 33B.5 that the Stapling provisions of the Constitution will cease to apply, that the Implementation Date will be the Unstapling Date, and that the Scheme Units will cease to be Stapled to the Attached Securities with effect from the time that the determination is made.
- (b) On the Implementation Date, subject to and immediately after the Unstapling takes effect, and subject to the issue of the Trust Scheme Consideration to Scheme Participants (or, in respect of Foreign Members, to the Sale Nominee) and the issue of the Company Scheme consideration in accordance with the Company Scheme, all the Scheme Units (together with all rights and entitlements attaching to those Scheme Units as at the Implementation Date) will be transferred to Federation RE without the need for any further act by any Scheme Participant (other than acts performed by the Responsible Entity or its directors and officers as attorney and agent for each of the Scheme Participants under clause 37.9(c)) by:
 - (i) the Responsible Entity effecting a valid transfer or transfers of the Units to Federation RE through CHESS and in accordance with section 1074D of the Corporations Act; or

- (ii) if the procedure referred to in paragraph (i) is, for whatever reason, not available:
 - (A) the Responsible Entity delivering to Federation RE a duly completed unit transfer form or forms to transfer all of the Scheme Units to Federation RE, duly executed by the Responsible Entity (or any of its directors and officers) as the attorney of each Scheme Participant as transferor;
 - (B) Federation RE immediately executing (as transferee) the unit transfer forms referred to in paragraph (A) as transferred, arranging for the stamping of any such unit transfer forms (if applicable) and delivering the unit transfer forms to the Responsible Entity for registration; and
 - (C) the Responsible Entity, immediately following receipt of the transfer forms in respect of the Scheme Units, entering the name and address of Federation RE in the Register as the holder of all of the Scheme Units.
- (c) Federation RE will ensure that all Federation Units issued and allotted as part of the Trust Scheme Consideration rank equally with all other existing interests of that class (except that they will not carry a right to participate in any Permitted Federation Distributions) and are issued and allotted fully paid and free from any security interests.
- (d) For the avoidance of doubt:
 - (i) the receipt by each Scheme Participant who is not a Foreign Member of Federation Units will constitute full discharge of Federation RE's and the Responsible Entity's obligations in respect of the transfer of the Scheme Participant's Scheme Units; and
 - (ii) the receipt by each Foreign Member of the Sale Facility Consideration from the Sale Nominee will constitute full discharge of Federation RE's and the Responsible Entity's obligations in respect of the transfer of the Foreign Member's Scheme Units.
- (e) In the case of Scheme Units held in joint names:
 - (i) any uncertificated holding statements, share certificates or equivalent documentation for Federation Securities comprising Trust Scheme Consideration will be issued in the names of the joint holders and forwarded to that Scheme Participant's Registered Address and marked for the attention of the holder whose name appears first in the Scheme Register as at the Record Date; and
 - (ii) any cheque required to be paid to any Foreign Member will be payable to the joint holders and will be forwarded to that Foreign Member's Registered Address and marked for the attention of the holder whose name appears first in the Scheme Register as at the Record Date.
- (f) Where the calculation of the number of Federation Units to be issued to a particular Scheme Participant would result in the issue of a fraction of a Federation Unit, the fractional entitlement will:
 - (i) where the entitlement is to half a Federation Unit or more, be rounded up to the nearest whole number of Federation Units; and

- (ii) where the entitlement is to less than half a Federation Unit, be rounded down to the nearest whole number of Federation Units.
- (g) If the Responsible Entity and Federation RE are of the opinion that two or more Scheme Participants, each of which holds a holding of Scheme Units which results in rounding in accordance with clause 37.7(f), have, before the Record Date, been party to a Unitholding splitting or division in an attempt to obtain an advantage by reference to the rounding, the Responsible Entity and Federation RE may give notice to those Scheme Participants prior to the Implementation Date:
 - (i) setting out the names and Registered Addresses for all of those Scheme Participants;
 - (ii) stating that opinion; and
 - (iii) attributing to one of them specifically identified in the notice the Scheme Units held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice as the deemed holder of all the specified Scheme Units shall, for the purposes of the Trust Scheme, be taken to hold all those Scheme Units and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of the Trust Scheme, be taken to hold no Scheme Units. A corresponding decision will be made by Federation and Novion in relation to the Novion Shares for the purposes of the Company Scheme.

37.8 Federation RE to provide the Trust Scheme Consideration

- (a) In accordance with the covenants under the Federation Deed Poll and the provisions of this clause 37, Federation RE will provide the Trust Scheme Consideration to which each Scheme Participant is entitled under the Federation Trust constitution and in accordance with this clause 37 by Federation RE issuing Federation Units in the number and manner and on the terms provided in this clause 37, on or before 12:00 noon on the Implementation Date, to each Scheme Participant who is not a Foreign Member and to the Sale Nominee (as applicable).
- (b) At the time the Trust Scheme Consideration is provided to Scheme Participants, Federation will issue to the Scheme Participants the number of Federation Shares to which each Scheme Participant is entitled as consideration for the transfer to Federation of that Scheme Participant's respective Novion Shares in accordance with the Company Scheme, the Merger Implementation Agreement and the Federation Deed Poll.
- (c) In accordance with the Federation Deed Poll, as part of the Implementation of the Schemes, Federation RE will ensure that each Federation Unit issued and allotted as part of the Trust Scheme Consideration will immediately upon issue be stapled to a Federation Share (such shares to be issued in accordance with the Company Scheme, the Merger Implementation Agreement and the Federation Deed Poll).

37.9 Covenants

- (a) The Responsible Entity must (and must ensure that its officers, employees and agents) do all things (including executing any document) that is necessary, expedient or incidental to give full effect to the Trust Scheme (including this clause 37) and the transactions contemplated by it.

- (b) Each Scheme Participant:
- (i) must transfer all of their Scheme Units, together with all rights and entitlements attaching to those Scheme Units (except for the right to participate in any Permitted Novion Distributions), to Federation RE in accordance with this clause 37;
 - (ii) is bound by the modification or variation (if any) of the rights attaching to their Scheme Units arising from this clause 37;
 - (iii) ratifies and confirms the entry by the Responsible Entity into the Responsible Entity Deed Poll as the responsible entity of the Trust; and
 - (iv) is bound by all things and all deeds, instruments, transfers or other documents that the Responsible Entity and Federation RE or either of them do or enter into which are as may be necessary or desirable to give full effect to the Trust Scheme (including this clause 37) and the transactions contemplated by it.
- (c) The Responsible Entity and each of the Responsible Entity's directors and officers, jointly and severally, are (without the need for any further act) irrevocably appointed as each Scheme Participant's attorney and agent for the purpose of doing any thing (including executing any document) necessary, expedient or incidental to give full effect to the Scheme (including this clause 37) and the transactions contemplated by it, including the provision of a proper instrument of transfer of that Scheme Participant's Scheme Units for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Scheme Units).
- (d) The Responsible Entity is irrevocably appointed by each Scheme Participant to enforce the Federation Deed Poll against Federation and Federation RE on behalf of and as agent and attorney for the Scheme Participant.
- (e) From the Effective Date until Federation RE is registered as the holder of all Scheme Units in the Register:
- (i) the Responsible Entity and each of its directors and officers, jointly and severally, is irrevocably appointed as each Scheme Participant's attorney and agent (and with direction in such capacity) to:
 - (A) appoint the chairman of Federation RE as its sole proxy and, where applicable, sole corporate representative to attend any meetings of Members;
 - (B) exercise the votes attaching to the Scheme Units registered in the name of the Scheme Participant; and
 - (C) sign any Members' resolution; and
 - (ii) each Scheme Participant must:
 - (A) take all other action in the capacity of a registered holder of Scheme Units as Federation RE reasonably directs; and
 - (B) not attend or vote at any of those meetings or sign any Members' resolution (whether in person, by proxy or by corporate representative) other than under this clause 37.9(e); and

- (iii) Federation RE and the chairman of Federation RE may act in the best interests of Federation RE as the intended registered holder of the Scheme Units in exercising the powers referred to in this clause 37.9(e).
- (f) The Responsible Entity undertakes in favour of each Scheme Participant that it will appoint the chairman of Federation RE as the Scheme Participant's sole proxy or, where applicable, sole corporate representative in accordance with clause 37.9(e).
- (g) The Responsible Entity, as agent and attorney for each Scheme Participant, may sub delegate its functions, authorities or powers under this clause 37 to all or any of its directors or officers (jointly, severally or jointly and severally).

37.10 Status of Scheme Units

- (a) Each Scheme Participant is deemed to have warranted to Federation RE that each of their Scheme Units (including any rights and entitlements attaching to those Units) will, as at the time of the transfer of them to Federation RE pursuant to the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Units (including any rights and entitlements attaching to those Units) to Federation RE pursuant to the Scheme.
- (b) From the Implementation Date, Federation RE will be beneficially entitled to the Scheme Units, pending registration by the Responsible Entity of the name and address of Federation RE in the Register as the holder of the Scheme Units.

37.11 Limitation of liability and indemnity in favour of the Responsible Entity in respect of the Scheme

- (a) Subject to the Corporations Act, the liability of the Responsible Entity to any person of any nature whatsoever in connection with the Trust Scheme (including its implementation) is limited to the Responsible Entity's ability to be indemnified from the Assets.
- (b) The indemnity in clause 23.3 applies in respect of any liability incurred in connection with the Trust Scheme (including its implementation).

37.12 Expenses of Trust Scheme

In addition to any fees to which the Responsible Entity may be entitled, and to any expenses in respect of which the Responsible Entity is entitled to be reimbursed under clause 19.4, the Responsible Entity is entitled to pay (or be reimbursed) out of the Assets all costs, charges and expenses which may be properly incurred by the Responsible Entity in formulating, documenting, executing or implementing the Trust Scheme.

Annexure G

Novion RE Deed Poll

ashurst

Novion RE Deed Poll

2015

DATE 10 April 2015

BY

1. **Novion RE Limited** ABN 33 084 098 180 in its capacity as responsible entity of Novion Trust ARSN 090 150 280 (**Novion RE**).

IN FAVOUR OF

2. Each **Company Scheme Participant**; and
3. **Novion Limited** ABN 79 167 087 363 (**Novion**).

RECITALS

- (A) Novion, Novion RE, Federation Limited ABN 90 114 757 783 (**Federation**) and Federation Centres Limited ABN 88 149 781 322 in its capacity as responsible entity of the Federation Centres Trust No. 1, have entered into a Merger Implementation Agreement dated 3 February 2015 to facilitate the implementation of the Company Scheme and the Trust Scheme (**Merger Implementation Agreement**).
- (B) Novion RE is executing this document to covenant in favour of Novion and each Company Scheme Participant to perform the obligations contemplated of it under the Trust Scheme and the Novion Trust Supplemental Deed.

OPERATIVE PROVISIONS

1. INTERPRETATION

1.1 Definitions

Words and expressions that are defined in the Merger Implementation Agreement (other than words and expressions defined in this document) have the same meaning in this document as given to the term in the Merger Implementation Agreement, unless the context makes it clear that a definition is not intended to apply.

1.2 Rules for interpreting this document

The rules in clause 1.2 of the Merger Implementation Agreement apply in interpreting this document, unless the context makes it clear that a rule is not intended to apply.

2. NATURE OF THIS DOCUMENT

Novion RE acknowledges that:

- (a) this document is a deed poll and may be relied on and enforced by Novion or any Company Scheme Participant in accordance with its terms even though Novion and the Company Scheme Participants are not parties to it; and
- (b) each Company Scheme Participant irrevocably appoints Novion and its directors and officers as its agent and attorney to enforce this document against Novion RE.

3. **CONDITIONS PRECEDENT AND TERMINATION**

3.1 **Conditions precedent**

Novion RE's obligations under this document are subject to the following:

- (a) all the conditions set out in clause 3.1 of the Merger Implementation Agreement (other than the condition in paragraph (f) of that clause relating to Court approval of the Company Scheme and the provision of the Second Judicial Advice in respect of the Trust Scheme) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement, before 8.00 am on the Second Court Date;
- (b) as at 8.00 am on the Second Court Date, the Merger Implementation Agreement having not been terminated;
- (c) approval of the Company Scheme by the Court in accordance with section 411(1)(b) of the Corporations Act, including with any alterations made or required by the Court provided that they are acceptable to Novion and Federation; and
- (d) the granting of the Second Judicial Advice by the Court in relation to the Trust Scheme.

3.2 **Termination**

- (a) If the Schemes do not become Effective on or before the End Date, Novion RE's obligations under this document will automatically terminate and the terms of this document will be of no further force or effect.
- (b) If this document is terminated pursuant to this clause 3.2 then, in addition and without prejudice to any other rights, powers or remedies available to it:
 - (i) Novion RE is released from its obligations under this document; and
 - (ii) Novion and each Company Scheme Participant retain any rights, powers or remedies they have against Novion RE in respect of any breach of this document which occurred before this document was terminated.

4. **NOVION RE TO LODGE NOVION TRUST SUPPLEMENTAL DEED WITH ASIC**

Subject to clause 3, Novion RE covenants in favour of Novion and each Company Scheme Participant that, as soon as practicable after the granting of the Second Judicial Advice by the Court in relation to the Trust Scheme, it will lodge with ASIC a copy of the Novion Trust Supplemental Deed pursuant to section 601GC(2) of the Corporations Act.

5. **NOVION RE COVENANTS TO COMPLY WITH OBLIGATIONS UNDER TRUST SCHEME**

Subject to clause 3, Novion RE covenants in favour of Novion and each Company Scheme Participant that it will duly and punctually observe and perform all obligations contemplated of it under the Trust Scheme and the Novion Trust Supplemental Deed, including all obligations contemplated of it relating to the Trust Scheme Units in accordance with the Trust Scheme and Novion Trust Supplemental Deed.

6. REPRESENTATIONS AND WARRANTIES

Novion RE represents and warrants in favour of Novion and each Company Scheme Participant that:

- (a) **(status)** it is a validly existing corporation under the laws of its place of incorporation; and
- (b) **(power)** it has full legal capacity and power to execute this document and to carry out the transactions that this document contemplates; and
- (c) **(corporate authority)** it has taken all corporate action that is necessary or desirable to authorise its execution of this document and its carrying out the transactions this document contemplates; and
- (d) **(documents effective)** this document constitutes legal, valid and binding obligations, enforceable against each of them in accordance with its terms; and
- (e) **(no adverse regulatory action)** no regulatory action of any nature has been taken which would prevent, inhibit or otherwise have a material adverse effect on its ability to fulfil its obligations under this document and, to the knowledge of Novion RE, no such regulatory action has been threatened or is proposed to be taken against Novion RE.

7. CONTINUING OBLIGATIONS

This document is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of Novion RE having fully performed its obligations under this document and termination of this document pursuant to clause 3.

8. GENERAL

8.1 Costs

Novion RE shall bear and be responsible for its own costs arising out of the negotiation, preparation and execution of this document.

8.2 Amendment

A provision of this deed poll or any right created under it may not be amended or varied unless:

- (a) the variation is agreed to by Novion and Novion RE in writing; and
- (b) the Court indicates that the variation, alteration or amendment itself would not preclude approval of the Trust Scheme or Schemes,

in which event Novion RE must enter into a further deed poll in favour of Novion and the Company Scheme Participants giving effect to the variation, alteration or amendment.

8.3 Cumulative rights

The rights, powers and remedies of the parties under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.4 Assignment

The rights and obligations of the parties under this document are personal and, except with the prior written consent of the parties cannot be assigned, encumbered, charged or otherwise dealt with.

8.5 **Waiver of rights**

No other conduct of a party (including a failure to exercise, or delay in exercising, the right) operates as a waiver of the right or otherwise prevents the exercise of the right. A waiver of a right on one or more occasions does not operate as a waiver of that right if it arises again. The exercise of a right does not prevent any further exercise of that right or of any other right. A waiver is not valid or binding on the person granting the waiver unless the waiver is made in writing.

8.6 **Operation of this document**

- (a) Any right that a person may have under this document is in addition to, and does not replace or limit, any other right that the person may have.
- (b) Any provision of this document which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this document enforceable, unless this would materially change the intended effect of this document.

8.7 **Governing law**

This deed poll is governed by the law in force in Victoria, Australia. Novion RE irrevocably and unconditionally submit to the non-exclusive jurisdiction of the courts of that place.

8.8 **Limitation of liability**

- (a) Novion RE enters into this deed only in its capacity as responsible entity for the Novion Trust and in no other capacity.
- (b) A liability arising under or in connection with this deed can be enforced against Novion RE only to the extent to which it can be satisfied out of the property of the Novion Trust out of which Novion RE is actually indemnified for the liability. This limitation of Novion RE's liability applies despite any other provision of this deed and extends to all liabilities and obligations of Novion RE in any way connected with any representation, warranty, conduct, omission, agreement or transaction related to this deed.
- (c) Subject to clauses 8.8(d) to 8.8(g), the beneficiaries of the covenants and warranties made by Novion RE in this deed may not take any action or seek recourse to any assets held by Novion RE in any capacity other than as responsible entity of the Novion Trust, including seeking the appointment of a receiver (except in relation to the property of the Novion Trust), a liquidator, an administrator or any similar person to Novion RE or prove in any liquidation, administration or arrangement of or affecting Novion RE (except in relation to property of the Novion Trust).
- (d) The provisions of this clause 8.8 do not apply to any obligation or liability of Novion RE to the extent that it is not satisfied because:
 - (i) under the Novion Trust constitution or by operation of law there is a reduction in the extent of Novion RE's indemnification out of the assets of the Novion Trust as a result of Novion RE's fraud, negligence or breach of trust; or

- (ii) Novion RE failed to exercise any right of indemnity it has under the Novion Trust constitution in respect of that obligation of liability.
- (e) No act or omission of Novion RE (including any related failure to satisfy its obligations under this deed) will be considered fraud, negligence or breach of trust of Novion RE for the purpose of clause 8.8(d) to the extent to which the act or omission was caused or contributed to by any failure by any other person (other than a person referred to in section 601FB(2) of the Corporations Act) to fulfil its obligations relating to the Novion Trust by any other act or omission of any such other person.
- (f) No attorney, agent, receiver or receiver and manager appointed by any person in accordance with this deed has authority to act on behalf of Novion RE in a way which exposes Novion RE to any personal liability and no act or omission of any such person will be considered fraud, negligence or breach of trust of Novion RE for the purpose of clause 8.8(d).
- (g) Novion RE is not obliged to enter into any commitment or obligation under this deed unless Novion RE's liability is limited in the same manner as in this clause 8.8.

8.9 Further action

Novion RE must, at its own expense, do all things and execute all documents necessary or expedient to give effect to this deed poll and the transactions contemplated by it.

EXECUTED as a deed poll,

SIGNED for **NOVION RE LIMITED** ABN
33 084 098 180 in its capacity as
responsible entity of Novion Trust ARSN
090 150 280 under power of attorney in
the presence of:



Signature of witness

RICHARD JAMIESON

Name

M. Brady

Signature of attorney

MICHELLE TAMARA BRADY

Name

10 APRIL 2015

Date of power of attorney

This page is intentionally left blank.

Annexure H

Federation Deed Poll



Federation Limited
and
Federation Centres Limited

Federation Deed Poll

In favour of each registered holder of fully paid stapled securities in Novion
as at the Record Date

101 Collins Street
Melbourne VIC 3000 Australia
T +61 3 9614 1011
F +61 3 9614 4661
www.allens.com.au

© Allens Australia 2015

Allens is an independent partnership operating in alliance with Linklaters LLP.

Federation Deed Poll

Allens  Linklaters**Contents**

1	Definitions and Interpretation	1
1.1	Definitions	1
(a)	fractional entitlements to Federation Units being dealt with in accordance with the Trust Scheme; and	2
(b)	each such Federation Unit being stapled to a Federation Share immediately after such unit is issued.	2
1.2	Interpretation	2
2	Nature of Deed Poll	2
3	Conditions Precedent and Termination	2
3.1	Conditions precedent	2
3.2	Termination	2
3.3	Consequences of termination	2
4	Compliance with Scheme and Trust Scheme Obligations	3
4.1	Obligations of Federation Co and Federation RE	3
4.2	Official quotation of Federation securities	3
5	Representations and Warranties	3
5.1	Federation Co representations and warranties	3
5.2	Federation RE representations and warranties	3
6	Limitation of Trustee Liability	4
7	Continuing Obligations	5
8	Further Assurances	5
9	General	5
9.1	Notices	5
9.2	No waiver	6
9.3	Remedies cumulative	6
9.4	Amendment	6
9.5	Assignment	7
9.6	Costs and duty	7
9.7	Governing law and jurisdiction	7
	Company Scheme of Arrangement	8

This Deed Poll is made on **10 April 2015**

Parties

- 1 **Federation Limited** (ABN 90 114 757 783) (**Federation Co**).
- 2 **Federation Centres Limited** (ABN 88 149 781 322) in its capacity as responsible entity of Federation Centres Trust No. 1 (ARSN 104 931 928) (**Federation RE**).

In favour of

Each registered holder of fully paid stapled securities in Novion as at the Record Date (*Scheme Participant*)

Recitals

- A Novion is a double-stapled group listed on ASX. The two investment vehicles that comprise Novion are Novion RE Limited (ABN 33 084 098 180) (**Novion RE**) in its capacity as responsible entity of Novion Trust (ARSN 090 150 280) and Novion Limited (ABN 79 167 087 363) (**Novion Co**).
- B Federation is also a double-stapled group listed on ASX. The two investment vehicles that comprise Federation are Federation Trust and Federation Co.
- C Federation Co, Federation RE, Novion Co and Novion RE have entered into the Implementation Agreement.
- D Novion Co has agreed to propose the Scheme pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, Federation Co will acquire all of the Scheme Shares from Scheme Participants for the Scheme Consideration
- E Novion RE has agreed to propose the Trust Scheme pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, Federation RE will acquire all of the Trust Scheme Units from Scheme Participants for the Trust Scheme Consideration (as defined in the Trust Scheme).
- F In accordance with the Implementation Agreement, Federation Co and Federation RE each enter into this Deed Poll for the purpose of covenanting in favour of the Scheme Participants that each will observe and perform the obligations contemplated of it under the Scheme and the Trust Scheme.

It is agreed as follows.

1 Definitions and Interpretation

1.1 Definitions

Terms defined in the Scheme have the same meaning in this Deed Poll, unless the context requires otherwise.

For the avoidance of doubt, the following definitions apply in this document:

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between Novion Limited (ABN 79 167 087 363) and the holders of fully paid ordinary shares issued by Novion Limited, a copy of which is set out in the Schedule to this Deed Poll, subject to any alterations or conditions made by the Court under section 411(6) of the Corporations Act and agreed to by Federation and Novion.

Trust Scheme means the arrangement under which Federation RE acquires all of the Novion Trust Units facilitated by amendments to the Novion Trust Constitution pursuant to the Novion Trust Supplemental Deed, subject to the requisite approvals by holders of Novion Trust Units.

Trust Scheme Consideration means, for each Trust Scheme Unit, 0.8225 Federation Units, subject to:

- (a) fractional entitlements to Federation Units being dealt with in accordance with the Trust Scheme; and
- (b) each such Federation Unit being stapled to a Federation Share immediately after such unit is issued.

1.2 Interpretation

The provisions of clause 1.2 of the Scheme form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this document' in that clause are references to 'this Deed Poll'.

2 Nature of Deed Poll

Each of Federation Co and Federation RE acknowledges that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms, even though the Scheme Participant is not party to it; and
- (b) under the Scheme and the Trust Scheme, each Scheme Participant appoints Novion as its agent and attorney to enforce this Deed Poll against Federation (as applicable) on behalf of that Scheme Participant.

3 Conditions Precedent and Termination

3.1 Conditions precedent

Each of Federation's obligations (as relevant) under this Deed Poll are subject to the Scheme and the Trust Scheme becoming Effective.

3.2 Termination

If:

- (a) the Implementation Agreement is terminated before the Effective Date; or
 - (b) the Scheme and Trust Scheme do not become Effective on or before the End Date,
- the obligations of Federation under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect, unless Federation and Novion otherwise agree in accordance with the Implementation Agreement.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) each of Federation Co and Federation RE is released from its obligations under this Deed Poll, except those obligations under clause 9.6; and
- (b) each Scheme Participant retains any rights, powers or remedies that Scheme Participant has against Federation Co and Federation RE in respect of any breach of their obligations under this Deed Poll that occurred before termination of this Deed Poll.

4 Compliance with Scheme and Trust Scheme Obligations

4.1 Obligations of Federation Co and Federation RE

- (a) Subject to clause 3, in consideration for the transfer to Federation Co of the Scheme Shares in accordance with the Scheme, Federation Co covenants in favour of each Scheme Participant that it will observe, perform and carry out all obligations contemplated of it under the Scheme, including the relevant obligations relating to the provision to the Scheme Participant of the Scheme Consideration in accordance with the terms of the Scheme.
- (b) Subject to clause 3, in consideration for the transfer to Federation RE of the Trust Scheme Units in accordance with the Trust Scheme, Federation RE covenants in favour of each Scheme Participant that it will observe, perform and carry out all obligations contemplated of it under the Trust Scheme, including the relevant obligations relating to the provision to the Scheme Participant of the Trust Scheme Consideration in accordance with the terms of the Trust Scheme.
- (c) Subject to clause 3, Federation Co and Federation RE covenant in favour of each Scheme Participant that immediately upon the issue of the Scheme Consideration and the Trust Scheme Consideration, each Federation Share issued as Scheme Consideration will be stapled to a Federation Unit issued as Trust Scheme Consideration to comprise a Federation Security.

4.2 Official quotation of Federation securities

Subject to clause 3, Federation will use its best endeavours to procure that the Federation securities to be issued pursuant to the Scheme and the Trust Scheme will be quoted on ASX as from the first Business Day after the Effective Date, initially on a deferred settlement basis and thereafter on a normal T+3 settlement basis.

5 Representations and Warranties

5.1 Federation Co representations and warranties

Federation Co makes the following representations and warranties:

- (a) Federation Co is a corporation validly existing under the laws of its place of incorporation.
- (b) Federation Co has the power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll.
- (c) Federation Co has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll.
- (d) This Deed Poll is Federation Co's valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping and registration.
- (e) The execution and performance by Federation Co of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
 - (i) a law, judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.

5.2 Federation RE representations and warranties

Federation RE makes the following representations and warranties:

- (a) Federation Trust is duly established and validly subsisting.

Federation Deed Poll



- (b) Federation RE is the responsible entity of the Federation Trust, has been validly appointed and remains as responsible entity of the Federation Trust, and no action has been taken or proposed to be taken to remove it as responsible entity.
- (c) Federation RE is empowered by the constitution of Federation Trust to enter into and perform its obligations under this Deed Poll, in its capacity as responsible entity of the Federation Trust. There is and will be no restriction on or condition of its doing so, prior to the earlier of the End Date and the date when this Deed Poll is terminated.
- (d) All necessary resolutions have been duly passed and all consents, approvals and other procedural matters have been obtained or attended to as required or as may be required, including under the constitution of Federation Trust, for Federation RE to enter into and perform this Deed Poll, including without limitation, for the issue of the Trust Scheme Consideration.
- (e) This Deed Poll is Federation RE's valid and binding obligation enforceable in accordance with its terms.
- (f) The execution and performance by Federation RE of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
 - (i) a law, judgment, ruling, order or decree binding on it; or
 - (ii) the constitution of Federation Trust.
- (g) Federation RE's right of indemnity out of, and lien over, the assets of the Federation Trust have not been limited in any way. Federation RE has no liability which may be set off against that right of indemnity.

6 Limitation of Trustee Liability

- (a) Federation RE enters into and performs this Deed Poll and the transactions it contemplates only as responsible entity of Federation Trust. This applies in respect of any past and future conduct (including omissions) relating to this Deed Poll or those transactions.
- (b) Under and in connection with this Deed Poll and those transactions and conduct:
 - (i) Federation RE's liability (including for negligence) is limited to the extent it can be satisfied out of the assets of Federation Trust. Federation RE need not pay any such liability out of other assets;
 - (ii) another party may only do the following (but any resulting liability remains subject to this clause):
 - (A) prove and participate in, and otherwise benefit from, any form of insolvency administration of Federation RE but only with respect to Federation Trust's assets;
 - (B) exercise rights and remedies with respect to Federation Trust's assets, including set-off;
 - (C) exercise contractual rights; and
 - (D) bring any other proceedings against Federation RE, seeking relief or orders that are not inconsistent with the limitations in this clause, and may not otherwise:
 - (E) bring proceedings against Federation RE;

Federation Deed Poll

- (F) take any steps to have Federation RE placed into any form of insolvency administration (but this does not prevent the appointment of a receiver, or a receiver and manager, in respect of Federation Trust's assets); or
 - (G) seek by any means (including set-off) to have a liability of Federation RE to that party (including for negligence) satisfied out of any assets of Federation RE other than Federation Trust's assets.
- (c) Paragraphs (a) and (b) apply despite any other provision in this Deed Poll but do not apply with respect to any liability of Federation RE to another party (including for negligence):
- (i) to the extent that Federation RE has no right or power to have Federation Trust's assets applied towards satisfaction of that liability, or its right or power to do so is subject to a deduction, reduction, limit or requirement to make good, in any case because Federation RE has acted beyond power or improperly in relation to Federation Trust; or
 - (ii) under any provision which expressly binds Federation RE other than as trustee of Federation Trust (whether or not it also binds it as trustee of Federation Trust).
- (d) The limitation in paragraph (b)(i) is to be disregarded for the purposes (but only for the purposes) of the rights and remedies described in paragraph (b)(ii), and interpreting this Deed Poll and any security for it, including determining the following:
- (i) whether amounts are to be regarded as payable (and for this purpose damages or other amounts will be regarded as a payable if they would have been owed had a suit or action barred under paragraph (b)(ii) been brought);
 - (ii) the calculation of amounts owing; or
 - (iii) whether a breach or default has occurred,
- but any resulting liability will be subject to the limitations in this clause.

7 Continuing Obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) each of Federation Co and Federation RE having fully performed their respective obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.

8 Further Assurances

Each of Federation Co and Federation RE will, on its own behalf and, to the extent authorised by the Scheme or the Trust Scheme, on behalf of each Scheme Participant, do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

9 General

9.1 Notices

Any notice, demand, consent or other communication (a **Notice**) given or made to Federation Co or Federation RE under or in connection with this Deed Poll:

- (a) must be in writing and signed by the sender or a person duly authorised by the sender;

Federation Deed Poll



- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number below or the address or fax number last notified by the intended recipient to the sender in writing:

- | | | | |
|------|-------------------|------------|--|
| (i) | to Federation Co: | Address: | Level 28, 35 Collins Street,
Melbourne Victoria, 3000 |
| | | Fax No: | (03) 9236 6301 |
| | | Attention: | Carolyn Reynolds |
| (ii) | to Federation RE: | Address: | Level 28, 35 Collins Street,
Melbourne Victoria, 3000 |
| | | Fax No: | (03) 9236 6301 |
| | | Attention: | Carolyn Reynolds |

- (c) will be conclusively taken to be duly given or made:
- (i) in the case of delivery in person, when delivered;
 - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
 - (iii) in the case of fax, on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax number or name of recipient and indicating that the transmission has been made without error,

but if the result is that a Notice would be taken to be given or made on a day that is not a business day in the place to which the Notice is sent or is later than 5pm in the place to which the Notice is sent, it will be conclusively taken to have been duly given or made at the start of business on the next business day in that place.

9.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by any of Federation Co or Federation RE or by any Scheme Participant operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

9.3 Remedies cumulative

The rights, powers and remedies of each of Federation Co and Federation RE and of each Scheme Participant under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

9.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) either:

Federation Deed Poll

- (i) before the Second Court Date, the amendment or variation is agreed to in writing by Federation and Novion (which such agreement may be given or withheld without reference to or approval by any Scheme Participant); or
 - (ii) on or after the Second Court Date, the amendment or variation is agreed to in writing by Federation and Novion (which such agreement may be given or withheld without reference to or approval by any Scheme Participant), and is approved by the Court; and
- (b) Federation Co and Federation RE enter into a further deed poll in favour of the Scheme Participant giving effect to that amendment or variation.

9.5 Assignment

The rights and obligations of each of Federation Co and Federation RE and of each Scheme Participant under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so without the prior consent of Federation and Novion.

9.6 Costs and duty

Federation must bear its own costs arising out of the negotiation, preparation and execution of this Deed Poll. All duty (including stamp duty and any fines, penalties and interest) payable on or in connection with this Deed Poll and any instrument executed under or any transaction evidenced by this Deed Poll must be borne by Federation. Federation must indemnify each Scheme Participant on demand against any liability for that duty (including any related fines, penalties and interest).

9.7 Governing law and jurisdiction

This Deed Poll is governed by the laws of Victoria. Each of Federation Co and Federation RE submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

Federation Deed Poll



Schedule 1

Company Scheme of Arrangement



Scheme of Arrangement

Novion Limited

ABN 79 167 087 363

The holders of ordinary fully paid shares issued in
Novion Limited

CONTENTS

CLAUSE	PAGE
1. INTERPRETATION	1
1.1 Definitions	1
1.2 Interpretation	5
1.3 Non-Business Days	6
2. BACKGROUND TO SCHEME	6
2.1 Novion	6
2.2 Federation	6
2.3 What happens if Scheme becomes Effective	6
2.4 Merger Implementation Agreement	7
2.5 Deed Polls	7
3. CONDITIONS PRECEDENT	7
3.1 Conditions precedent to the Scheme	7
3.2 Satisfaction of conditions	8
3.3 Parties to provide certificate to Court	8
3.4 End Date	8
4. THE SCHEME	8
4.2 Scheme effective on Effective Date	8
4.3 Implementation steps	8
4.4 Execution of transfer forms	9
4.5 Entry of details in Share Register	9
4.6 Federation to provide Scheme Consideration	9
5. SCHEME CONSIDERATION	9
5.1 Provision of Scheme Consideration	9
5.2 Joint holders	10
5.3 Fractional entitlements	10
5.4 Splitting	10
5.5 Status of Federation Shares	11
5.6 Instructions to Novion	11
6. SALE FACILITY	11
6.1 Foreign Securityholders	11
6.2 Sale of Sale Securities by Sale Nominee	11
7. DEALINGS IN NOVION SECURITIES	12
7.1 What Novion Security dealings are recognised?	12
7.2 Novion to register transfer and transmission applications	13
7.3 Transfers received after Record Date not recognised	13
7.4 Novion to maintain Share Register to determine entitlements	13
7.5 Effect of share certificates and holding statements	13
7.6 Novion to provide contact information for Scheme Participants	13
7.7 Each Scheme Participant warrants Novion Shares free from encumbrance	13
7.8 Federation beneficially entitled to Scheme Shares	13
7.9 No disposals after Record Date	14
7.10 Suspension and Termination of Quotation of Novion Securities	14
8. GENERAL PROVISIONS	14
8.1 Giving effect to the Scheme	14
8.2 Scheme Participants' agreements and consents	14
8.3 Appointment of Parent as attorney for Scheme Shares	15

8.4	Alteration or conditions to the Scheme	15
8.5	No liability when acting in good faith	15
8.6	Scheme is binding	15
8.7	Notices	16
8.8	Costs and stamp duty	16
8.9	Governing law	16

SCHEME OF ARRANGEMENT

Under section 411 of the Corporations Act

BETWEEN:

- (1) Novion Limited (ABN 79 167 087 363) whose registered office is at Level 39, MLC Centre, 19 Martin Place, Sydney, NSW, 2000 (**Novion**); and
- (2) each Scheme Participant.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document:

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange or ASX Limited ABN 98 008 624 691, as the context requires.

ASX Listing Rules means the official listing rules of ASX.

Business Day means any day that is each of the following:

- (a) a Business Day within the meaning given in the ASX Listing Rules; and
- (b) a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne and Sydney, Australia.

CHESS means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of New South Wales.

Effective means:

- (a) in respect of the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to the Scheme; and
- (b) in respect of the Trust Scheme, when the Novion Trust Supplemental Deed takes effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which each of the Scheme and the Trust Scheme become Effective.

End Date means the date which is six months after the date of the Merger Implementation Agreement, or such later date as Federation and Novion agree in writing.

Federation means Federation Limited (ABN 90 114 757 783).

Federation Board means the board of directors of Federation and the board of directors of Federation RE (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Federation Deed Poll means the deed poll executed by Federation and Federation RE in favour of Novion Securityholders on the Record Date, dated 10 April 2015 with such amendments as agreed by Federation and Novion and, if necessary, approved by the Court.

Federation RE means Federation Centres Limited (ABN 88 149 781 322) in its capacity as responsible entity of the Federation Trust.

Federation Register means the:

- (a) share register of Federation maintained by or on behalf of Federation;
- (b) unit register of Federation Trust maintained by or on behalf of Federation RE,

in each case in accordance with sections 168 and 169 of the Corporations Act; and
- (c) stapled security register of Federation and Federation RE maintained by or on behalf of Federation and Federation RE in accordance with their respective constitutions.

Federation Security means a stapled security comprising one Federation Share and one Federation Unit.

Federation Share means a fully paid ordinary share in the capital of Federation.

Federation Trust means the Federation Centres Trust No.1 (ARSN 104 931 928).

Federation Unit means a fully paid ordinary unit in Federation Trust.

Foreign Securityholder means a Scheme Participant whose Registered Address (as at the Record Date) is in any jurisdiction other than Australia and Australia's external territories, unless Federation is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of Federation Shares to Scheme Participants in that place either unconditionally or after compliance with conditions that Federation in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Implementation means the implementation of the Scheme, on it becoming Effective.

Implementation Date means the date that is three Business Days after the Record Date, or such other date as Novion and Federation may agree in writing or as may be required by ASX.

Merger Implementation Agreement means the merger implementation agreement between Novion, Novion RE, Federation and Federation RE dated 3 February 2015 relating to the implementation of the Scheme and the Trust Scheme.

Novion Board means the board of directors of Novion and the board of directors of Novion RE (as those boards are constituted from time to time), and includes any authorised committee of directors of those boards.

Novion RE means Novion RE Limited (ABN 33 084 098 180) as responsible entity of the Novion Trust.

Novion RE Deed Poll means the deed poll executed by Novion RE in favour of Novion and the Scheme Participants dated 10 April 2015 with such amendments as agreed between Novion RE and Federation and if necessary, approved by the Court.

Novion Registry means Link Market Services Limited ACN 083 214 537.

Novion Security means a Novion Share stapled to a Novion Trust Unit in accordance with the Novion constitution and Novion Trust Constitution.

Novion Securityholder means each person who is registered in each of the Share Register and Unit Register as a holder of Novion Shares and Novion Trust Units respectively.

Novion Share means a fully paid ordinary share in the capital of Novion.

Novion Shareholder means each person who is registered in the Share Register as a holder of Novion Shares, also being a holder of Novion Trust Units at that time.

Novion Trust means Novion Trust (ARSN 090 150 280).

Novion Trust Constitution means the constitution establishing Novion Trust dated 10 February 1994, as amended from time to time.

Novion Trust Supplemental Deed means a deed poll under which Novion RE will amend the Novion Trust Constitution to facilitate and effect the Trust Scheme.

Novion Trust Unit means a fully paid ordinary unit in Novion Trust.

Permitted Federation Distributions means a distribution of up to \$0.084 per Federation Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Federation Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Federation Board in line with previous practice and in the amount that has or will be the subject of the Federation and Federation RE distribution forecast for that period.

Permitted Novion Distributions means a distribution of up to \$0.069 per Novion Trust Unit in respect of the 6 months ending 31 December 2014 and, if the Implementation Date is after the record date for the distribution of Novion Trust income relating to the 6 months ending 30 June 2015, a distribution approved by the Novion Board in line with previous practice and in the amount that has or will be the subject of the Novion and Novion RE distribution forecast for that period.

Record Date means 7.00 pm on the day which is five Business Days after the Effective Date or any other date agreed in writing by Federation and Novion or as may be required by ASX and, if necessary, approved by the Court.

Registered Address means, in relation to a Scheme Participant, the address of that Scheme Participant shown in the Share Register.

Sale Facility means the facility to be established and implemented by Federation, in agreement with Novion, under which Sale Securities are sold by the Sale Nominee on ASX in accordance with clause 6.

Sale Facility Account means the account established by the Sale Nominee in its own name, to which the Sale Nominee must deposit all funds received in respect of the Sale Securities.

Sale Facility Consideration means, in respect of each Foreign Securityholder, an amount equal to the average price at which the Federation Securities are sold by the Sale Nominee under the Sale Facility (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges), multiplied by the number of Federation Securities that the Foreign Securityholder would otherwise have been entitled to receive had they not been a Foreign Securityholder (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent), reduced by the amount of the price paid for the Federation Securities which

is attributable to the units in Federation Trust which are sold in conjunction with the Federation Share, as a single Federation Security.

Sale Nominee means a person appointed by Federation, in agreement with Novion, to act as the sale nominee for the purposes of the Sale Facility (and/or a nominee of that person that is a subsidiary of that person).

Sale Period means the 15 Business Day period commencing on the Business Day after the Implementation Date.

Sale Security means a Federation Security issued to the Sale Nominee under the Sale Facility.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between Novion and the Scheme Participants, set out in this document, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Federation and Novion.

Scheme Consideration means, for each Scheme Share held at the Record Date, 0.8225 Federation Shares subject to:

- (a) fractional entitlements to Federation Shares arising under this Scheme being dealt with in accordance with clause 5.3; and
- (b) each such Federation Share being stapled to a Federation Unit immediately after such share is issued and allotted to form one Federation Security.

Scheme Meeting means the Novion Shareholders' meeting or meetings ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

Scheme Participant means each Novion Shareholder at the Record Date, taking into account registration of all registrable transfers and transmission applications in accordance with clause 7.1.

Scheme Share means Novion Shares held by Scheme Participants as at the Record Date.

Second Court Date means the first day on which the Court hears the application by Novion for an order under section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned or subject to appeal for any reason, the first day the adjourned or appealed application is heard and **Second Court Hearing** means the hearing of that application.

Second Judicial Advice means confirmation from the Court under section 63 of the *Trustee Act 1925* (NSW) that, the holders of Novion Trust Units having approved the Trust Scheme by the requisite majorities, Novion RE would be justified in implementing the Trust Scheme by giving effect to the provisions of the Novion Trust Constitution (as amended by the Novion Trust Supplemental Deed) and in doing all things and taking all necessary steps to put the Trust Scheme into effect.

Share Register means the share register of Novion maintained by or on behalf of Novion in accordance with sections 168 and 169 of the Corporations Act.

Trust Scheme means the arrangement under which Federation RE acquires all of the Novion Trust Units facilitated by amendments to the Novion Trust Constitution pursuant to the Novion Trust Supplemental Deed, subject to the requisite approvals by holders of Novion Trust Units.

Trust Scheme Units means Novion Trust Units held by Scheme Participants as at the Record Date.

Unit Register means the unit register of Novion Trust maintained by or on behalf of Novion RE in accordance with sections 168 and 169 of the Corporations Act.

1.2 Interpretation

Headings and catchwords are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
 - (i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
 - (ii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
 - (iii) a party to this document or to any other document or agreement includes a permitted substitute or a permitted assign of that party;
 - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and
 - (v) anything (including a right, obligation or concept) includes each part of it.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (f) The words **entity**, **officer** and **subsidiary** have the same meaning as in section 9 of the Corporations Act.
- (g) The words **related body corporate** have the same meaning as in section 50 of the Corporations Act.
- (h) The word **agreement** includes an undertaking or other binding arrangement or understanding, whether or not in writing.
- (i) The expression **this document** includes the agreement, arrangement, understanding or transaction recorded in this document.
- (j) All references to time in this document are references to time in Melbourne, Victoria.
- (k) A reference to **\$** or **dollars** is to Australian currency.

- (l) A reference to **writing** includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form but excludes a communication by electronic mail.

1.3 **Non-Business Days**

If the day on or by which a person must do something under this document is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

2. **BACKGROUND TO SCHEME**

2.1 **Novion**

- (a) Novion is a public company incorporated in Australia. It is registered in Victoria and is a company limited by shares. It has its registered office at MLC Centre level 39, 19-29 Martin Place, Sydney, NSW, 2000.
- (b) Novion is admitted to the official list of ASX and Novion Securities (comprising one Novion Share stapled to one Novion Trust Unit) are quoted on the financial market conducted by ASX.
- (c) As at 7 April 2015, 3,077,214,058 Novion Securities were on issue.
- (d) Novion Trust is a registered managed investment scheme. Novion RE is the responsible entity of Novion Trust.

2.2 **Federation**

- (a) Federation is a public company incorporated in Australia. It is registered in Victoria and is a company limited by shares. It has its registered office at Level 28, 35 Collins Street, Melbourne, Victoria, 3000.
- (b) Federation is admitted to the official list of ASX and Federation Securities (comprising one Federation Share stapled to one Federation Unit) are quoted on the financial market conducted by ASX.
- (c) As at 7 April 2015, 1,427,641,565 Federation Securities were on issue.
- (d) Federation Centres Trust No. 1 is a registered managed investment scheme. Federation RE is the responsible entity of Federation Centres Trust No. 1.

2.3 **What happens if Scheme becomes Effective**

If the Scheme becomes Effective then:

- (a) on the Implementation Date, the Scheme Shares will be de-stapled from the Trust Scheme Units;
- (b) Federation will issue and allot the Scheme Consideration to the Scheme Participants in accordance with the terms of this Scheme, the Merger Implementation Agreement and the Federation Deed Poll;
- (c) each Federation Share that comprises the Scheme Consideration (under paragraph (b)) will immediately upon issue be stapled to a Federation Unit (such units to be

issued in accordance with the Trust Scheme, the Merger Implementation Agreement and the Federation Deed Poll); and

- (d) the Scheme Shares will be transferred to Federation, and Novion will enter Federation's name in the Share Register as the holder of all Scheme Shares.

2.4 **Merger Implementation Agreement**

Novion, Novion RE, Federation and Federation RE have entered into the Merger Implementation Agreement, to facilitate the implementation of the Scheme and Trust Scheme. Relevantly, in relation to the Scheme, Novion and Federation have agreed that each of them will perform their respective obligations under the Scheme and to do everything within their power that is necessary to give full effect to the Scheme.

2.5 **Deed Polls**

- (a) Federation and Federation RE have executed the Federation Deed Poll under which each of them covenants to carry out their obligations under the Scheme, the Trust Scheme and the Merger Implementation Agreement, including Federation providing to Scheme Participants the Scheme Consideration in accordance with the terms of this Scheme and Federation RE providing the Federation Units that are to be issued as consideration under the Trust Scheme; and
- (b) Novion RE has executed the Novion RE Deed Poll under which it covenants to Novion and each Scheme Participant to carry out its obligations under the Trust Scheme.

3. **CONDITIONS PRECEDENT**

3.1 **Conditions precedent to the Scheme**

The Scheme is conditional on the following:

- (a) all the conditions set out in clause 3.1 of the Merger Implementation Agreement (other than the condition in paragraph (f) of that clause relating to Court approval of this Scheme and the provision of the Second Judicial Advice in respect of the Trust Scheme) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement, before 8.00 am on the Second Court Date;
- (b) as at 8.00 am on the Second Court Date, the Merger Implementation Agreement having not been terminated;
- (c) approval of the Scheme by the Court in accordance with section 411(1)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act provided that they are acceptable to Novion and Federation;
- (d) the granting of the Second Judicial Advice by the Court in relation to the Trust Scheme;
- (e) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to Federation and Novion have been satisfied; and
- (f) both:
 - (i) the order of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) approving the

Scheme coming into effect, pursuant to section 411(10) of the Corporations Act; and

- (ii) the Novion Trust Supplemental Deed taking effect pursuant to section 601GC(2) of the Corporations Act.

3.2 **Satisfaction of conditions**

The satisfaction or waiver of each condition in clause 3.1 is a condition precedent to the binding effect of the Scheme.

3.3 **Parties to provide certificate to Court**

Novion and Federation will provide to the Court before or at the Second Court Hearing, a certificate or such other evidence as the Court requests, confirming whether or not all the conditions set out in clauses 3.1(a) (in accordance with the allocations of responsibility set out in clause 3.7 of the Merger Implementation Agreement) and 3.1(b) of this Scheme have been satisfied or waived as at 8am on the Second Court Date.

3.4 **End Date**

The Scheme will lapse and be of no further effect if the Effective Date has not occurred on or before the End Date.

4. **THE SCHEME**

4.1 **Novion to lodge orders and Novion Trust Supplemental Deed with ASIC**

As soon as practicable after the Court makes an order approving the Scheme under section 411(4)(b) of the Corporations Act:

- (a) Novion will lodge with ASIC office copies of that order; and
- (b) Novion RE will lodge with ASIC a copy of the Novion Trust Supplemental Deed pursuant to section 601GC(2) of the Corporations Act; and
- (c) if requested by ASIC, Novion RE will lodge with ASIC a consolidated copy of the Novion Trust Constitution (as amended pursuant to the Novion Trust Supplemental Deed) in accordance with section 601GC(3) of the Corporations Act.

4.2 **Scheme effective on Effective Date**

Subject to clause 3.4, the Scheme comes into effect on the Effective Date.

4.3 **Implementation steps**

On the Implementation Date:

- (a) Novion will de-staple Novion Shares from Novion Trust Units;
- (b) Novion RE will de-staple Novion Trust Units from Novion Shares;
- (c) immediately following de-stapling of the Novion Shares from the Novion Trust Units and Novion being reasonably satisfied that Federation has complied with all of its obligations in accordance with clause 5.1(a)(i) and clause 5.1(a)(iii) of this Scheme, Novion must transfer all of the Scheme Shares, together with all rights and entitlements attaching to those shares as at the Implementation Date, to Federation without the need for any further act by any Scheme Participant (other

than acts performed by Novion or its directors and officers as attorney and agent for the Scheme Participants under clause 8.2) by:

- (i) Novion effecting a valid transfer or transfers of the Scheme Shares to Federation through CHESS and in accordance with section 1074D of the Corporations Act; or
- (ii) if the procedure referred to in paragraph (i) is, for whatever reason, not available, Novion delivering to Federation a duly completed share transfer form or forms to transfer all of the Scheme Shares to Federation, duly executed by Novion (or any of its directors and officers) as the attorney and agent of each Scheme Participant as transferor.

4.4 **Execution of transfer forms**

If applicable, Federation will immediately execute (as transferee) the share transfer forms referred to in clause 4.3(c)(ii), arrange for the stamping of any such share transfer forms (if applicable) and deliver the share transfer forms to Novion for registration.

4.5 **Entry of details in Share Register**

Novion will, immediately following receipt of the transfer forms in respect of the Scheme Shares, subject to Federation complying with its obligations under clause 4.3 and clause 5, enter the name and address of Federation in the Share Register as the holder of all of the Scheme Shares.

4.6 **Federation to provide Scheme Consideration**

On or before 12:00 noon on the Implementation Date, in consideration for the transfer of the Scheme Shares to Federation, Federation will provide the Scheme Consideration in accordance with clause 5.1 to each Scheme Participant in respect of each Scheme Share registered in the name of that Scheme Participant in the Share Register at the Record Date.

5. **SCHEME CONSIDERATION**

5.1 **Provision of Scheme Consideration**

- (a) Subject to clause 6:
 - (i) immediately before the transfer of the Scheme Shares to Federation under clause 4.3, Federation will issue and allot to each Scheme Participant the Scheme Consideration to which that Scheme Participant is entitled as consideration for the transfer of that Scheme Participant's respective Scheme Shares to Federation in accordance with this Scheme;
 - (ii) at the same time, Federation RE will issue to each Scheme Participant an equivalent number of Federation Units to which that Scheme Participant is entitled as consideration for the transfer of that Scheme Participant's respective Trust Scheme Units to Federation RE in accordance with the Trust Scheme, the Merger Implementation Agreement and the Federation Deed Poll;
 - (iii) Federation and Federation RE must ensure, immediately upon the issue of the Scheme Consideration in accordance with clause 5.1(a)(i) and the Federation Units in accordance with clause 5.1(a)(ii) and the Trust Scheme, that each of the Federation Shares is stapled to a Federation Unit to comprise a Federation Security;

- (iv) Federation and Federation RE must register, or cause to be registered, the Scheme Participants as the holders of the Federation Securities to which they become entitled under this Scheme and Trust Scheme:

- (A) if the Novion Securities were held by the Scheme Participant on the Record Date on an uncertificated issuer sponsored sub-register, on uncertificated issuer sponsored sub-registers of Federation Securities; or
- (B) if the Novion Securities were held by the Scheme Participant on the Record Date on an uncertificated CHESS sub-register, on uncertificated CHESS sub-registers of Federation Securities,

in either case, such registration to occur on the Implementation Date immediately after the Federation Shares are stapled to the Federation Units in accordance with clause 5.1(a)(iii); and

- (v) by no later than 5 Business Days after the Implementation Date, Federation and Federation RE must send holding statements confirming the issue and allotment of Federation Securities to the Scheme Participants who become entitled to those securities under this Scheme and the Trust Scheme, by pre-paid ordinary post (or, if the address of the Scheme Participant in the Share Register is outside Australia, by pre-paid airmail post) to their address recorded in the Share Register on the Record Date.

5.2 Joint holders

In the case of Scheme Shares held in joint names, holding statements for Scheme Consideration required to be issued to Scheme Participants will be issued in the names of the joint holders and sent to the holder whose name appears first in the Share Register on the Record Date.

5.3 Fractional entitlements

Where the calculation of the number of Federation Shares to be issued to a particular Scheme Participant would result in the issue of a fraction of a Federation Share, the fractional entitlement will:

- (a) where the entitlement is to half a Federation Share or more, be rounded up to the nearest whole number of Federation Shares; and
- (b) where the entitlement is to less than half a Federation Share, be rounded down to the nearest whole number of Federation Shares.

5.4 Splitting

- (a) If Novion and Federation are of the opinion that two or more Scheme Participants, each of which holds a holding of Scheme Shares which results in rounding in accordance with clause 5.3, have, before the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding, Novion and Federation may give notice to those Scheme Participants prior to the Implementation Date:
 - (i) setting out the names and Registered Addresses for all of those Scheme Participants;
 - (ii) stating that opinion; and

- (iii) attributing to one of them specifically identified in the notice (**Identified Scheme Participant**) the Scheme Shares held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice as the deemed holder of all the specified Scheme Shares shall, for the purposes of the Scheme, be taken to hold all those Scheme Shares and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Scheme Shares.

- (b) Federation, in complying with the provisions of the Scheme relating to it in respect of the Identified Scheme Participant in a notice given in accordance with clause 5.4(a) will be taken to have satisfied and discharged its obligations under the Scheme to the other Scheme Participants named that notice.

5.5 Status of Federation Shares

Upon issue:

- (a) the Federation Shares issued to Scheme Participants will rank equally with all existing Federation Shares, except that they will not carry a right to participate in any Permitted Federation Distributions; and
- (b) each Federation Share will be fully paid and free from any mortgage, charge, lien or encumbrance.

5.6 Instructions to Novion

All binding instructions or notifications between a Scheme Participant and Novion regarding Scheme Shares or a Scheme Participant's status as a holder of Novion Securities (including without limitation, any instructions relating to communications from Novion or Novion RE and whether distributions are to be paid by cheque or into a specified bank account) will, to the extent permitted, from the Record Date, be deemed (except to the extent determined otherwise by Federation in its sole discretion) to be similarly binding instructions or notifications to, and accepted by, Federation and Federation RE in respect of the Federation Securities issued to the Scheme Participants under this Scheme and the Trust Scheme until those instructions or notifications are, in each case, revoked or amended in writing addressed to Federation (at its registered address from time to time), provided that any such instructions or notifications accepted by Federation will apply to and in respect of the issue of Federation Securities as part of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of the Scheme.

6. SALE FACILITY

6.1 Foreign Securityholders

Federation will be under no obligation under the Scheme to issue, and will not issue, any Federation Shares to any Foreign Securityholders, and instead Federation and Federation RE will issue on the Implementation Date the Federation Securities to which that Foreign Securityholder would otherwise have been entitled (were they not a Foreign Securityholder) to the Sale Nominee. On the Implementation Date, Federation and Federation RE will procure the entry in the Federation Register of the name and address of the Sale Nominee in respect of the Federation Securities that are attributable to each Foreign Securityholder.

6.2 Sale of Sale Securities by Sale Nominee

- (a) Federation will procure that, as soon as is reasonably practicable, and in any event not more than 15 Business Days after the Implementation Date, the Sale Nominee

sells the Sale Securities in such manner, at such prices and at such times as it sees fit, on such other terms as the Sale Nominee determines in good faith, and at the risk of the Foreign Securityholders, with the objectives of:

- (i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and
 - (ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period.
- (b) Federation will procure that the Sale Nominee:
- (i) on each date on which a sale of Sale Securities is settled, deposits all funds received in respect of that sale into the Sale Facility Account; and
 - (ii) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 5 Business Days thereafter, transfers the funds (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) in the Sale Facility Account to the Novion Registry.
- (c) Novion must procure that the Novion Registry, no later than 5 Business Days after the Sale Nominee has transferred the funds in the Sale Facility Account in accordance with clause 6.2(b), arranges in respect of each Foreign Securityholder for payment of the Sale Facility Consideration by either:
- (i) dispatching by mail to the registered address of that Foreign Securityholder a cheque or bank draft which includes the Sale Facility Consideration for that Foreign Securityholder payable in Australian dollars (provided that, in the case of Foreign Securityholders who are joint holders of Novion Shares, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Share Register as at the Record Date); or
 - (ii) making an electronic funds transfer in Australian dollars to an account nominated by that Foreign Securityholder for the purposes of the Sale Facility or the payment of distributions on Novion Securities,
- in full satisfaction of Federation's obligations to that Foreign Securityholder under the terms of the Scheme in respect of the Scheme Consideration.
- (d) Each Foreign Securityholder appoints Novion as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Nominee is required to provide to Foreign Securityholders under the Corporations Act.

7. DEALINGS IN NOVION SECURITIES

7.1 What Novion Security dealings are recognised?

To establish the persons who are Scheme Participants, dealings in Novion Securities will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the Novion Securities at or before the Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the Novion Registry by 5pm on the Record Date.

7.2 **Novion to register transfer and transmission applications**

Novion will register registrable transfers or transmission applications of the kind referred to in clause 7.1(b) by no later than 7:00pm on the Record Date.

7.3 **Transfers received after Record Date not recognised**

Novion will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Scheme Shares received after the times specified in clause 7.1, or received prior to such times but not in registrable form.

7.4 **Novion to maintain Share Register to determine entitlements**

In order to determine entitlements to the Scheme Consideration, Novion will, until the Scheme Consideration has been paid to Scheme Participants and the name and address of Federation has been entered in the Share Register as the holder of the Scheme Shares, maintain, or procure the maintenance of, the Share Register in accordance with this clause 7, and the Share Register in this form and the terms of the Scheme will solely determine entitlements to the Scheme Consideration.

7.5 **Effect of share certificates and holding statements**

As from the Record Date but subject to the provision of the Scheme Consideration in accordance with the Scheme (and other than for Federation following the Implementation Date), all share certificates, holding statements and entries in the Share Register for Scheme Shares will cease to have effect as documents of title in respect of those Scheme Shares other than as evidence of the entitlements of Scheme Participants to the Scheme Consideration in respect of the Scheme Shares held by that Scheme Participant.

7.6 **Novion to provide contact information for Scheme Participants**

As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, Novion will give to Federation or procure that Federation be given details of the name, Registered Address and the number of Novion Securities held by each Scheme Participant, as shown in the Share Register at the Record Date, in whatever form Federation reasonably requires.

7.7 **Each Scheme Participant warrants Novion Shares free from encumbrance**

Each Scheme Participant is deemed to have warranted to Federation and appointed and authorised Novion as their agent and attorney to warrant to Federation that all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, as at the time of the transfer of them to Federation, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and from any restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Federation under the Scheme. Novion undertakes in favour of each Scheme Participant that it will provide such warranty to Federation on behalf of that Scheme Participant.

7.8 **Federation beneficially entitled to Scheme Shares**

Federation will be beneficially entitled to the Scheme Shares transferred to it under the Scheme pending registration by Novion of the name and address of Federation in the Share Register as the holder of the Scheme Shares.

7.9 No disposals after Record Date

If the Scheme becomes Effective, each Scheme Participant, and any person claiming through that Scheme Participant, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date.

7.10 Suspension and Termination of Quotation of Novion Securities

- (a) Novion must apply to ASX for suspension of trading of the Novion Securities on ASX with effect from the close of business on the Effective Date.
- (b) Novion must apply to ASX for termination of official quotation of the Novion Securities on ASX and the removal of Novion from the official list of ASX with effect from the Business Day immediately following the Implementation Date.

8. GENERAL PROVISIONS**8.1 Giving effect to the Scheme**

Each Scheme Participant and Novion must do anything (including execute any document) that is necessary, expedient or incidental to give full effect to the Scheme and the transactions contemplated by it. Without limiting Novion's other powers under the Scheme, Novion has power to do all things that it considers necessary or desirable to give effect to the Scheme and the Merger Implementation Agreement.

8.2 Scheme Participants' agreements and consents

Without the need for any further act by any Scheme Participant, each Scheme Participant:

- (a) to whom Federation Shares are to be issued pursuant to the Scheme:
 - (i) irrevocably agrees to become a member of Federation for the purposes of clauses 4 and 5, and the Corporations Act, and to have their name and address entered in the Federation Register; and
 - (ii) irrevocably accepts the Federation Shares issued pursuant to the Scheme on the terms and conditions of the constitution of Federation and agrees to be bound by the constitution of Federation as in force from time to time in respect of the Federation Shares;
- (b) agrees to the transfer of their Novion Shares, together with all rights and entitlements attaching to those shares (except for the right to participate in any Permitted Novion Distributions), to Federation, in accordance with the Scheme;
- (c) acknowledges that the Scheme binds Novion and all Novion Shareholders from time to time, including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme;
- (d) consents to Novion doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, expedient or incidental to Implementation and to give full effect to the Scheme and the transactions contemplated by it; and
- (e) irrevocably appoints Novion and each of its directors and officers, jointly and severally, on and from the Effective Date, as that Scheme Participant's attorney and agent, for the purpose of:
 - (i) doing all things and executing any deeds, instruments, transfers or other documents as may be necessary, expedient or incidental to Implementation

and to give full effect to the Scheme and the transactions contemplated by it, including the effecting of a proper and valid instrument of transfer (or transfers) of that Scheme Participant's Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Scheme Shares); and

- (ii) enforcing the Federation Deed Poll against Federation,

and Novion accepts such appointment. Novion, as agent and attorney of each Scheme Participant, may sub-delegate its functions, authorities or powers under this clause 8.2(e) to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.3 Appointment of Parent as attorney for Scheme Shares

- (a) From the Effective Date until Federation is registered in the Share Register as the holder of all Scheme Shares, each Scheme Participant:
 - (i) without the need for any further act by that Scheme Participant, irrevocably appoints Federation as its proxy to (and irrevocably appoints Federation as its agent and attorney for the purpose of appointing any director or officer of Federation as that Scheme Participant's proxy and, where appropriate, its corporate representative to):
 - (A) attend shareholders' meetings of Novion;
 - (B) exercise the votes attaching to the Scheme Shares registered in the name of the Scheme Participant; and
 - (C) sign any Novion Securityholders' resolution; and
 - (ii) must take all other action in the capacity of a Scheme Participant as Federation reasonably directs.
- (b) From the Effective Date until Federation is registered in the Share Register as the holder of all Scheme Shares, no Scheme Participant may attend or vote at any meetings of Novion Securityholders or sign any Novion Securityholders' resolution (whether in person, by proxy or by corporate representative) other than under this clause 8.3.

8.4 Alteration or conditions to the Scheme

If the Court proposes to approve the Scheme subject to any alteration or condition Novion may, by its counsel or solicitors, but subject to the prior approval of Federation (which may not be unreasonably withheld or delayed), consent on behalf of all persons concerned, including each Scheme Participant, to those alterations or conditions.

8.5 No liability when acting in good faith

Neither Novion, nor any of its officers will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

8.6 Scheme is binding

The Scheme binds Novion and all Novion Shareholders from time to time (including those who did not attend the Scheme Meeting, did not vote at that meeting or voted against the Scheme) and, to the extent of any inconsistency, overrides the constitution of Novion.

8.7 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Novion, it will be deemed to be received on the date (if any) on which it is actually received at the Novion Registry and on no other date.

8.8 Costs and stamp duty

- (a) Subject to clause 8.8(b), Novion will pay all the costs of the Scheme.
- (b) Federation will pay all stamp duty and any related fines, penalties and other costs in respect of the Scheme payable on or in connection with the transfer of the Scheme Shares to Federation in accordance with the terms of the Scheme.

8.9 Governing law

This document and any dispute arising out of or in connection with this document is governed by the laws of Victoria.

Each party submits to the non-exclusive jurisdiction of the courts of Victoria, and courts of appeal from them, in respect of any proceedings arising out of or in connection with this document. Each party irrevocably waives any right it has to object to any legal process being brought in those courts including any claim that the process has been brought in an inconvenient forum or that those courts do not have jurisdiction.

Federation Deed Poll

Allens < Linklaters

Executed and delivered as a Deed in Victoria.

Executed as a deed in accordance with
section 127 of the *Corporations Act 2001* by
Federation Limited (ABN 90 114 757 783):

Director Signature

TIM HAMMON

Print Name



Director/Secretary Signature

WAI TANG

Print Name

Executed as a deed in accordance with
section 127 of the *Corporations Act 2001* by
Federation Centres Limited
(ABN 88 149 781 322) in its capacity as
responsible entity of **Federation Centres**
Trust No. 1 (ARSN 104 931 928):

Director Signature

TIM HAMMON

Print Name



Director/Secretary Signature

WAI TANG.

Print Name

This page is intentionally left blank.

This page is intentionally left blank.

This page is intentionally left blank.

This page is intentionally left blank.

This page is intentionally left blank.

Corporate directory

ASX trading code

NVN

Novion Limited

ABN 79 167 087 363

Novion Trust

ARSN 090 150 280

Responsible Entity

Novion RE Limited

ABN 33 084 098 180

AFSL 235384

Registered office of Novion

Level 39, MLC Centre

19 Martin Place

Sydney NSW 2000 Australia

Directors of Novion

Mr Richard Haddock AM (Chairman)

Mr Trevor Gerber

Mr Peter Hay

Mr Peter Kahan

Mr Angus McNaughton

Ms Nancy Milne OAM

Ms Karen Penrose

Dr David Thurin

Company Secretary

Ms Michelle Brady

Security Registry

Link Market Services Limited

Level 12, 680 George Street

Sydney NSW 2000 Australia

Telephone +61 1800 500 710

Facsimile +61 2 9287 0303

Novion Securityholder Information Line

If you have any questions in relation to this Scheme

Booklet, please contact the Novion Securityholder

Information Line:

Telephone 1800 500 710 (callers in Australia) or

+61 1800 500 710 (callers outside Australia) between

8.30am and 7.30pm (Sydney time) Monday to Friday

Financial adviser

Macquarie Capital (Australia) Limited

50 Martin Place

Sydney NSW 2000 Australia

Legal adviser

Ashurst Australia

Level 36, Grosvenor Place

225 George Street

Sydney NSW 2000 Australia

Taxation adviser

Greenwoods & Herbert Smith Freehills

ANZ Tower

161 Castlereagh Street

Sydney NSW 2000 Australia

