



31 March 2010

The Manager  
Company Announcements Office  
Australian Securities Exchange Limited  
Level 4, 20 Bridge Street  
SYDNEY NSW 2000

Dear Sir,

**NOTICE OF UNITHOLDER MEETING & PROXY FORM**

Further to our earlier release "Extended lease tenure update", we now provide:

- the Notice of a Meeting of Unitholders and Explanatory Notes (inclusive of Independent Valuer's and Independent Expert's Reports) referred to in that release; and
- Proxy Form

in relation to a unitholder meeting to be held on 13 May 2010.

The Notice of Meeting will be mailed to unitholders on or before 16 April 2010.

Yours faithfully,

A handwritten signature in black ink, appearing to read "K A Lange".

K A LANGE  
COMPANY SECRETARY

BUNNINGS WAREHOUSE PROPERTY TRUST  
ARSN 088 581 097

## NOTICE OF UNITHOLDERS' MEETING AND EXPLANATORY NOTES

(Including a report on the transaction from PricewaterhouseCoopers Securities Ltd as  
Independent Expert)



To be held on 13 May 2010 at 10.00am AWST.

**The Board of Directors of the Responsible Entity recommends that unitholders vote in favour of the Resolution.**

This is an important document. Please read the information in this booklet very carefully.  
It is important that you either attend the meeting or complete and lodge the enclosed proxy form.

# DIRECTORY

## Responsible Entity

### Bunnings Property Management Limited

ABN 26 082 856 424

Level 11, Wesfarmers House  
40 The Esplanade  
PERTH WA 6000

Telephone: (08) 9327 4356

Facsimile: (08) 9327 4344

## Directors and Management

J A Austin	(Chairman)
B J H Denison	(Director)
R D Higgins	(Director)
P J Johnston	(Director)
P J Mansell	(Director)
G W Gernhoefer	(General Manager)
K A Lange	(Company Secretary)

## Registry Manager

### Computershare Investor Services Pty Limited

Level 2, 45 St Georges Terrace  
PERTH WA 6000

Mail: GPO Box 242, Melbourne,  
Victoria 3001, Australia

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[www.computershare.com.au](http://www.computershare.com.au)

For Intermediary Online subscribers only (custodians)  
[www.intermediaryonline.com](http://www.intermediaryonline.com)

## Solicitor

### Freehills

QV1 Building  
250 St Georges Terrace  
PERTH WA 6000

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Croydon, VIC

# CHAIRMAN'S LETTER

31 March 2010

Dear unitholder,

This meeting has been called by Bunnings Property Management Limited, the Responsible Entity of the Bunnings Warehouse Property Trust ("the Trust"), to consider a resolution to extend the leases over a number of the Trust's Bunnings Warehouse properties in order to secure future rental income and enhance the Trust's portfolio.

The proposal to extend existing leases is consistent with the Trust's primary aim of providing unitholders with a secure, growing income stream and long term capital growth. While extending the leases will not improve the Trust's earnings in the short term, it will secure a further six years' committed rental income from the Trust's main tenant, Bunnings Group Limited ("BGL"). It is also expected to result in a modest increase in the value of the Trust's portfolio and improve other aspects of the portfolio that are described in the accompanying Explanatory Notes.

The extension of the leases is by agreement between the Responsible Entity, on behalf of the Trust, and BGL. There is no consideration exchanged between the parties for extending the leases, other than the benefits that the Trust receives from the increase in committed term and the benefits that BGL receives by securing additional tenure at each property.

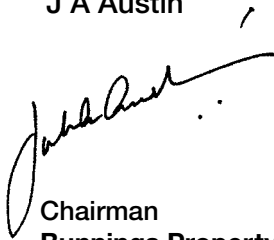
Details of the proposed transaction, including the advantages and disadvantages for the Trust, details of the resolution and meeting, and independent advice regarding the proposed transaction are provided in the accompanying Notice of Meeting, Explanatory Notes and independent reports.

The meeting of unitholders will be held on Thursday, 13 May 2010 at 10.00am AWST in the Botanical Rooms One and Two at the Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia, to consider the resolution to extend the leases. If you are unable to attend the meeting, a proxy form has been enclosed and I encourage you to return your vote in the reply paid envelope provided.

The Directors of the Responsible Entity unanimously recommend that unitholders vote in favour of the resolution.

Yours sincerely

**J A Austin**



**Chairman  
Bunnings Property Management Limited**

# NOTICE OF MEETING

**Time:** 10.00am AWST  
**Date:** Thursday 13 May 2010  
**Place:** Botanical Rooms One and Two,  
Burswood Convention Centre,  
Great Eastern Highway,  
Burswood, Western Australia

*Notice is hereby given that a general meeting of unitholders of the Bunnings Warehouse Property Trust will be held in the Botanical Rooms One and Two, Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia, on Thursday 13 May 2010 at 10.00am AWST.*

## BUSINESS OF THE MEETING

### Ordinary business

#### **Resolution: Extension of Lease Tenure**

To consider and, if thought fit, to pass, with or without amendment, the following as an ordinary resolution:

*"That for the purposes of ASX Listing Rule 10.1 and for all other purposes, the unitholders of the Bunnings Warehouse Property Trust (the "Trust") approve and authorise Bunnings Property Management Limited, as responsible entity of the Trust, to enter into an agreement with Bunnings Group Limited to extend the leases of 35 of the 53 Bunnings Warehouses that Bunnings Group Limited leases from the Trust, on the terms and conditions summarised in the Explanatory Notes accompanying the notice of the meeting."*

By order of the Board

**K A Lange**



**Company Secretary  
Bunnings Property Management Limited**

31 March 2010

## IMPORTANT INFORMATION

### CHAIRMAN

The Responsible Entity has nominated its Chairman, Mr John Austin, as the Chairman of the meeting.

### VOTING

Your vote is important. You are encouraged to attend and vote at the meeting. If you plan to attend the meeting, we ask that you arrive at the meeting venue early to complete registration formalities.

If you cannot attend the meeting, you should complete the proxy form accompanying this Notice of Meeting. Please read the instructions on the proxy form carefully.

### HOW DO YOU EXERCISE YOUR RIGHT TO VOTE?

All unitholders appearing on the Bunnings Warehouse Property Trust unit register at 5.00pm AWST on 12 May 2010 are entitled to attend and vote at the meeting.

On a show of hands you have one vote. On a poll, you have one vote for each unit you hold.

#### Voting by Proxy

If you cannot attend, you may appoint a proxy to attend and vote for you. A proxy does not have to be a unitholder of the Trust. To ensure that all unitholders can exercise their right to vote on the proposed Resolution, a proxy form is enclosed with this Notice of Meeting together with a reply paid envelope.

Unitholders are entitled to appoint up to two persons to attend the meeting and vote and may specify the proportion or number of votes each proxy is appointed to exercise.

Proxy forms must be deposited at the Bunnings Warehouse Property Trust Registry, Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth WA 6000 in person, by mail or by facsimile to be received not less than 48 hours before the time of the meeting. Alternatively, they can be faxed or mailed to the registry's Melbourne office at GPO Box 242, Melbourne, Victoria, 3001 in the Reply Paid envelope provided.

The proxy form provides details of what you need to do to appoint a proxy to attend and vote for you. Additional instructions are provided on the reverse of the form.

#### Jointly held units

If your units are jointly held, only one of the joint holders is entitled to vote. If more than one holder votes in respect of jointly held units, only the vote of the holder whose name first appears on the register will be counted.

#### Corporations voting

In order to vote at the meeting, a corporation, which is a unitholder, may appoint a proxy to vote on its behalf.

Alternatively, a corporation may appoint a person to act as its corporate representative. A representative does not have to be a unitholder of the Trust. The appointment must comply with section 253B of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed.

### VOTING EXCLUSIONS

None of Bunnings Property Management Limited, Wesfarmers Investments Pty Limited, Bunnings Group Limited or any of their associates can vote on the Resolution. However, a vote will not be disregarded if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The voting limitations under the Listing Rules and the Corporations Act are complex. If you are in doubt as to your eligibility to vote on any of the Resolutions, you should seek legal advice.

# EXPLANATORY NOTES



## Description of the proposed transaction

The Responsible Entity has reached agreement with Bunnings Group Limited (“BGL”), the Trust’s main tenant, to extend the leases of 35 of the 53 Bunnings Warehouses that BGL leases from the Trust.

The proposed transaction (“Extended Lease Tenure”) involves increasing the current term that BGL is committed to lease the 35 subject properties from the Trust (“committed term”) by a weighted average of 6.0 years and will increase BGL’s tenure at the subject properties by a weighted average of 6.3 years.<sup>1</sup> Individual leases will increase by either 5 or 10 years, as summarised below:

- For 7 properties, the current committed term will increase by 10 years and a new 10 year optional term, exercisable by BGL, will be added to the end of BGL’s existing tenure.
- For 26 properties, the current committed term will increase by 5 years and a new 5 year optional term, exercisable by BGL, will be added to the end of BGL’s existing tenure.
- 1 property (Cannon Hill) will have an additional 5 years added to the current committed term with a new 10 year optional term, exercisable by BGL, added to the end of BGL’s existing tenure and 1 property (Noarlunga) will have a new 5 year optional term added to BGL’s existing tenure with no increase in committed term.<sup>2</sup>

Further details of individual properties and how the lease extensions will impact on the Trust’s portfolio are included in the section headed “Property portfolio and Extended Lease Tenure”.

Apart from the change to the duration of the leases, there are no other changes to the terms and conditions of the leases or the basis on which rental income is derived. Other than the benefits that the Trust receives from the increase in committed term and the benefits that BGL receives by securing additional tenure over each property, there is no other consideration exchanged between the parties for the Extended Lease Tenure. The benefits derived by the Trust and BGL are described in the Advantages of Extended Lease Tenure sections on pages 5 and 6 respectively.

The remaining 18 of the Trust’s Bunnings Warehouses are not included in the Extended Lease Tenure due to individual properties being the subject of other dealings or negotiations between the parties (such as potential upgrades) or because either or both parties considered that there is already sufficient committed term or tenure.

## Requirement for unitholder approval

The Australian Securities Exchange (“ASX”) Listing Rules require that unitholders approve the Extended Lease Tenure before it can be entered into. Unitholder approval is required because the Extended Lease Tenure:

- is between related parties, due to Wesfarmers Limited owning 23.1 per cent of the issued units in the Trust and controlling both the Responsible Entity and BGL; and
- relates to “a substantial asset” of the Trust, based on the aggregate value of the rent that will be payable under the extended lease terms being more than 5 per cent of unitholders’ equity in the Trust.

The Resolution may be passed by a majority of eligible unitholders voting.

<sup>1</sup> Most leases of commercial property start with an initial period that the tenant is committed to lease the property from the landlord (referred to generally as “the term” or “initial term”), followed by a further period or periods that the tenant may take up at its discretion (referred to generally as “further terms” or “optional terms”). If the tenant takes up the optional term they will be committed to the lease until the end of that term (that is, the optional term becomes committed term). If the tenant does not take up the optional term then the lease will end and the property reverts to the landlord to re-lease or otherwise use. The tenant’s tenure is the period over which the tenant has an entitlement (but not necessarily an obligation) to lease the property, which generally comprises the committed term plus the duration of any optional terms.

<sup>2</sup> Both the Cannon Hill and Noarlunga properties were subject to upgrades recently, for which the Responsible Entity required BGL to increase the committed term by approximately 5 years to provide sufficient committed pay-back period for the improvements. The increase in term certain resulting from the upgrades has been offset against the additional optional term(s) granted to BGL under the Extended Lease Tenure.

### Advantages of Extended Lease Tenure for the Trust

There are several financial and commercial advantages to the Trust expected as a consequence of Extended Lease Tenure:

#### (a) Secures future rental income

Extending the existing leases secures rental income from the subject properties beyond the current committed term of the leases. This reduces the risk that the Trust may lose rental income and capital value in the event that BGL may leave any of the subject properties at the end of the current committed term and:

- the Trust is unable to re-lease the property on at least the same terms (including rent) to another party; and/or
- there is a delay in being able to re-lease the property, during which time the Trust earns no revenue from the property; and/or
- the Trust is required to provide a new tenant with incentives to lease the property, including lump sum payments or rent free periods during which the Trust earns no revenue from the property; or
- BGL agrees to exercise its option to continue to lease the property, but at a lower rental or for other concessions.

Based on current rents, without taking into account rental growth through rent reviews<sup>3</sup>, the increase in committed term would secure approximately \$280 million of future committed rental income from the Trust's major tenant, BGL, over the average six year increase in the committed term of the leases.

#### (b) Increases the value of the subject properties

Extended lease tenure is expected to result in a slight increase in the capital values of some of the subject properties as a result of the increased committed term. For example, based on the fair value of investment properties at 31 December 2009, the anticipated net increase in the fair value of the Trust's portfolio resulting from the Extended Lease Tenure would be approximately \$13.9 million, increasing Net Tangible Assets of the Trust by approximately 3 cents per unit.

The capital value impacts of Extended Lease Tenure have been assessed by management of the Responsible Entity and reviewed by an independent licensed valuer. Further details are included in the section headed "Property portfolio and Extended Lease Tenure" and the Independent Valuer's Report.

#### (c) Enhances the Trust's portfolio

Apart from the potential increase in the capital value of the properties referred to above, the Extended Lease Tenure is expected to enhance the Trust's portfolio in the following ways:

- Extends the Trust's exposure to the strong lease covenant of the Wesfarmers owned Bunnings Warehouse home improvement business.
- Secures the existing lease terms and conditions beyond the current lease expiry. Existing lease terms and conditions are more favourable to the Trust than those currently available in the market. Most existing leases of the subject properties do not have the features of more recent leases of Bunnings Warehouses that may negatively impact on earnings or capital returns, such as: capped market rent reviews, capital expenditure requirements and buy-back provisions that allow the tenant to repurchase the property at specified times during the lease.
- Establishes a 10 year optional term exercisable by the tenant for 7 properties, ensuring that, should BGL decide to exercise its option to extend the lease, it must recommit to the property for a further 10 years instead of 5 years at a time.
- Improves the lease expiry profile of the Trust's portfolio, by spreading the expiry of the committed term of leases over a longer period (from 11 years beyond 31 December 2009 to 17 years) and reducing the maximum number of leases with committed terms expiring in any one calendar year from 22 to 10. Please refer to section headed "Property portfolio and Extended Lease Tenure" for further details of the improvements to the portfolio's lease expiry.

<sup>3</sup> Rents for all of the subject properties are adjusted annually by the Consumer Price Index and subject to market rent reviews, generally every five years, in which the rental is revised having regard to current rentals of similar properties.



- Reduces the risk that BGL will source alternative sites to those currently leased from the Trust to protect the long-term continuity of its business in key locations. There is a risk that, should BGL be unable to secure longer tenure by the Extended Lease Tenure, BGL may consider alternative sites within the same catchment to maintain continuity of its business network.

The new multi-level store format that BGL has developed and is rolling out in Melbourne and Sydney (for example, the Trust's Hawthorn Bunnings Warehouse in Melbourne's eastern suburbs) allowing Bunnings Warehouses to be built on a smaller land area, may improve BGL's ability to find alternative locations in these key locations.

### Advantages of Extended Lease Tenure for BGL

BGL will increase the period for which it is entitled to have exclusive possession of the subject properties to operate its Bunnings Warehouse home improvement business, providing more certainty of tenure over approximately 21 per cent of its Bunnings Warehouse store network in Australia.

### Advantages of Extended Lease Tenure for the Responsible Entity

The Responsible Entity will derive additional management fees from the Trust based on the anticipated increase in the fair value of some of the subject properties as a result of the leases being extended. Please refer to Disadvantages of Extended Lease Tenure for the Trust for further information on the additional management fee payable to the Responsible Entity.

### Disadvantages of Extended Lease Tenure for the Trust

The following potential disadvantages may arise from the Extended Lease Tenure.

#### (a) Commits the subject properties for a further 6.3 years

Extended Lease Tenure commits the subject properties for between 5 and 10 years (average of 6.3 years) longer than when they would otherwise revert to the Trust. This defers the point in time at which the Trust may be able to negotiate new leases with BGL or another tenant on more favourable terms or at higher rents than under current leases, or put some of the subject properties to a higher and better use. Being able to re-lease at higher rents or use the properties for a higher and better use may improve the earnings and capital growth from the properties.

Assuming that BGL exercises all its existing options under the existing leases, it will be between 14 and 26 years from 31 December 2009 before the opportunity to re-lease or redevelop the subject properties arises. The relatively long period until the properties revert to the Trust under the existing lease terms means that assessing the potential for alternative, better uses of individual properties is speculative.

#### (b) Increased values incur additional management fee

Under the Trust's constitution the Responsible Entity is entitled to a management fee based on the total gross assets of the Trust. Based on the value of gross assets at 31 December 2009 the annual management fee that the Responsible Entity would be entitled to would amount to approximately \$5.8 million. The increase in the capital value of some of the subject properties as a result of the leases being extended will result in additional annual management fee paid by the Trust to the Responsible Entity. The additional management fee is assessed at 0.585 per cent of the increase in fair value of the subject properties, based on the formula prescribed in the Trust's constitution. For example, the additional management fee for 12 months is estimated at approximately \$81,315 assuming an increase of \$13.9 million net in the fair value of the Trust's portfolio at 31 December 2009. This would amount to a reduction in the distribution per unit of 0.02 of a cent over the 12 months.

### Property portfolio and Extended Lease Tenure

The following table summarises all properties in the Trust's portfolio, identifying the subject properties of the Extended Lease Tenure; other Bunnings Warehouses leased to BGL, but not included in the Extended Lease Tenure; and all other properties.

**Table 1: Pro-forma summary of Trust's properties at 31 December 2009**

Type of property	Quantity	Annual rent (\$)	Committed term (years)		Tenant tenure (years)	
			Existing	Extended	Existing	Extended
Subject properties	35	47,353,270	5.5	11.5	16.6	22.9
Other Bunnings Warehouses	18	21,741,654	7.3	7.3	21.5	21.5
All other properties	7	5,905,276	3.3	3.3	13.1	13.1
<b>Total portfolio</b>	<b>60</b>	<b>75,000,200</b>	<b>5.9</b>	<b>9.6</b>	<b>17.7</b>	<b>21.7</b>

A schedule of the individual properties that are the subject of Extended Lease Tenure is included at page 9.

The two main outcomes of the Extended Lease Tenure for the Trust's portfolio are that it:

- increases the weighted average lease expiry ("WALE") and improves the lease expiry profile of the portfolio; and
- results in a net increase in the capital value of the portfolio.

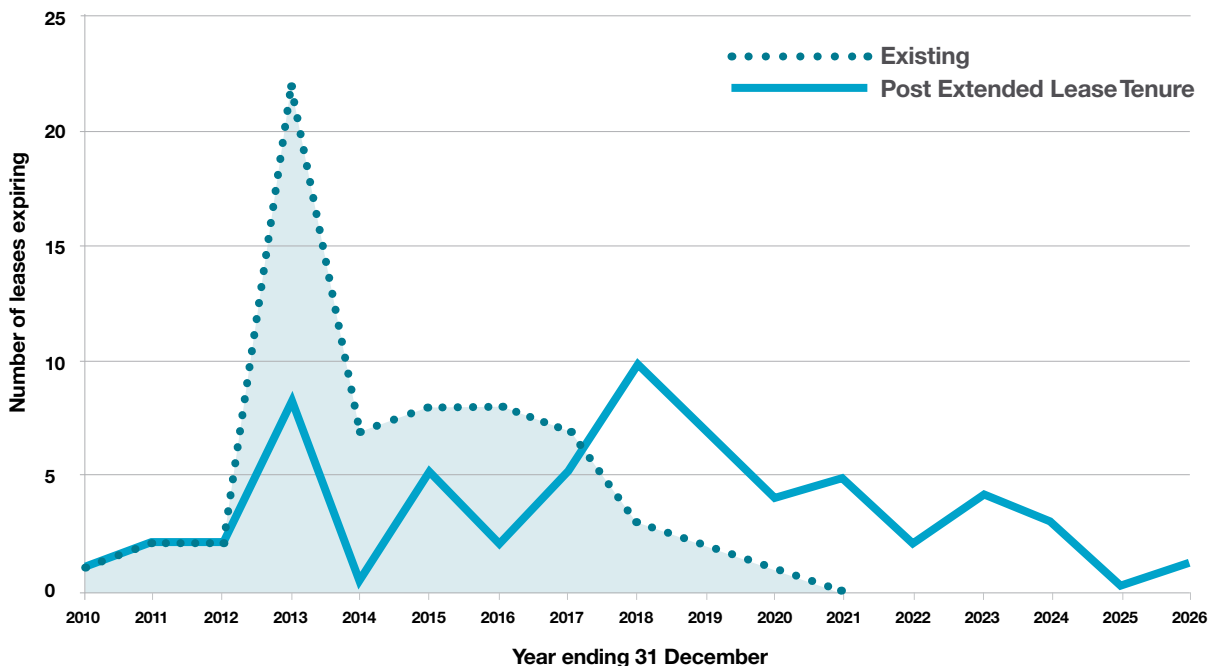
### Increase in WALE and lease expiry profile

The WALE (weighted average lease expiry) is a measure of the number of years of committed income from the portfolio, being the aggregate of the remaining committed term of individual leases weighted according to annual rental.

The WALE is represented in Table 1 by the committed term. For the 35 subject properties the increase in WALE as a result of the Extended Lease Tenure is 6 years. This results in an increase of approximately 3.7 years in the WALE of the entire portfolio; representing an increase of more than 60 per cent of the reported WALE at 31 December 2009.

The Extended Lease Tenure also improves the lease expiry profile of the portfolio, by extending the period over which the committed term of leases expire and reducing the number of leases that expire in any 12 month period. The Trust's lease expiry profile at 31 December 2009, with and without Extended Lease Tenure, is shown in Figure 1.

**Figure 1: Lease expiry profile as at 31 December 2009**



### Increase in portfolio capital value

The capital value of the portfolio is the fair value of the Trust's investment properties determined at each balance date of the Trust's financial accounts (31 December and 30 June). Each property is valued according to recognised property valuation methodologies. The most relevant methodology for the Trust's investment properties is the capitalisation of income valuation method, which capitalises the current rent at a rate analysed from the most recent transactions of comparable property investments. The capitalisation rate is essentially the investment return that an informed investor would require from an investment property.

In assessing the likely capital value effect of the Extended Lease Tenure, the capitalisation of income methodology has been applied; comparing the most recently reported capital values of the Trust's investment properties, at 31 December 2009, and assuming the likely movement in capitalisation rates as a result of the increase in committed term. The result of this assessment is that the capitalisation rates of 24 of the subject properties reduce by either 0.25 per cent or 0.50 per cent (increasing their capital value) and the capitalisation rates of the remaining 27 of the subject properties do not change. The capitalisation rates for two Bunnings Warehouses not included in the Extended Lease Tenure increase by 0.25 per cent (reducing their capital value) on the basis that they have less than four years of remaining committed term and their exclusion from the Extended Lease Tenure may increase the level of uncertainty as to BGL's future plans for these properties.

The net effect on portfolio values at 31 December 2009 is an assessed increase of approximately \$13.9 million, representing an increase in Net Tangible Assets of the Trust of approximately 3 cents per unit.

Please refer also to the Independent Valuer's Report and Basis and limitations of analysis and comparisons sections.

### Basis and limitations of analysis and comparisons

The analysis of Extended Lease Tenure and comparisons are based on the position at 31 December 2009, being the most recently reported results for the Trust. Should the Extended Lease Tenure be approved, the time periods shown for committed term and BGL tenure, both existing and post- Extended Lease Tenure, will have reduced according to the time that has passed since 31 December 2009 and when the Extended Lease Tenure is finalised. Also, rents are likely to have changed from 31 December, which may affect the estimates of future rental income secured and the increase in capital values of the properties.

Due to market and property specific factors, actual rents and capitalisation rates over time may vary to those assumed or estimated in these analyses and projections. Higher rents and lower capitalisation rates than assumed would increase the capital value outcome and consequently the management fee payable to the Responsible Entity. Lower rents and higher capitalisation rates than assumed would reduce the capital value outcome and consequently the management fee payable.

Schedule of subject properties for Extended Lease Tenure (as at 31 December 2009)

Extended Lease Tenure	Properties	Committed term		BGL tenure	
		Existing	Extended	Existing	Extended
<b>10 for 10<sup>4</sup></b>	Balcatta	3.7	13.7	13.7	23.7
	Croydon	6.8	16.8	16.8	26.8
	Mile End	5.2	15.2	15.2	25.2
	Morayfield	5.2	15.2	15.2	25.2
	Nunawading	5.1	15.1	15.1	25.1
	Southport	3.9	13.9	13.9	23.9
	Tuggeranong	3.9	13.9	13.9	23.9
<b>5 for 10<sup>5</sup></b>	Cannon Hill	9.3	14.3	14.3	24.3
<b>5 for 5<sup>6</sup></b>	Albany	4.8	9.8	14.8	19.8
	Altona	3.7	8.7	13.7	18.7
	Artarmon	8.1	13.1	23.1	28.1
	Bayswater	4.3	9.3	24.3	29.3
	Belrose	8.1	13.1	23.1	28.1
	Bibra Lake	4.8	9.8	14.8	19.8
	Burleigh Heads	3.8	8.8	13.8	18.8
	Epping	4.2	9.2	14.2	19.2
	Fountain Gate	5.1	10.1	15.1	20.1
	Frankston	7.0	12.0	17.0	22.0
	Geraldton	6.9	11.9	16.9	21.9
	Hoppers Crossing	5.2	10.2	15.2	20.2
	Joondalup	3.7	8.7	13.7	18.7
	Lismore	4.3	9.3	19.3	24.3
	Mandurah	3.9	8.9	13.9	18.9
	Mentone	3.7	8.7	13.7	18.7
	Midland	6.7	11.7	16.7	21.7
	Minchinbury	4.0	9.0	14.0	19.0
	Mindarie	6.7	11.7	16.7	21.7
	Mornington	7.0	12.0	17.0	22.0
	Northland	5.6	10.6	15.6	20.6
Rockingham	5.6	10.6	15.6	20.6	
Scoresby	3.7	8.7	13.7	18.7	
Thornleigh	4.7	9.7	24.7	29.7	
Underwood	3.8	8.8	13.8	18.8	
Vermont South	5.6	10.6	25.6	30.6	
<b>0 for 5<sup>7</sup></b>	Noarlunga	9.8	9.8	14.8	19.8

<sup>4</sup> 10 years' increase in committed term, with a 10 year optional term added to the end of the existing BGL tenure

<sup>5</sup> 5 years' increase in committed term, with a 10 year optional term added to the end of the existing BGL tenure

<sup>6</sup> 5 years' increase in committed term, with a 5 year optional term added to the end of the existing BGL tenure

<sup>7</sup> No increase in committed term, with a 5 year optional term added to the end of the existing BGL tenure

# INDEPENDENT VALUER'S REPORT



Jones Lang LaSalle Advisory Services Pty Limited  
ABN 56 003 262 600  
Brandon Business Park  
Building 2, 540 Springvale Road, Glen Waverley VIC 3150  
tel + 613 9565 6666 fax + 613 9562 1726

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31 March 2010

The Directors  
Bunnings Property Management Limited ("BPML")  
Level 6 Wesfarmers House  
40 The Esplanade  
PERTH WA 6000

Dear Sirs

**Re: Bunnings Warehouse Stores  
Proposed Extended Lease Tenure Analysis**

We refer to your instructions on behalf of BPML as the Responsible Entity of the Bunnings Warehouse Property Trust ("the Trust") requesting our professional advice on the effect on the market value of the Trust's investment properties as a consequence of a proposal to extend the lease term and options of certain Bunnings stores.

We confirm that Jones Lang LaSalle and Bernard Sweeney are independent of BPML and do not have any pecuniary interest that would conflict with giving this advice. We acknowledge that this letter will be provided to PricewaterhouseCoopers Securities Ltd who will be relying on it in preparing its Independent Expert's Report.

## ***Background***

Bunnings Group Limited ("BGL") and the Trust have reached agreement, subject to unitholder approval to vary the lease tenure at 35 properties tenanted by BGL.

The proposal results in the term certain increasing on 34 properties and additional tenant exercisable options on 35 Bunnings Warehouses. The "term certain" is the period for which BGL is committed to lease a property from the Trust, whereas the call options are exercisable only by BGL.

## ***Benefits of Proposed Changes***

There is no change to the Trust assets in this proposal apart from granting longer lease tenure and obtaining longer term certain for various leases. There is no change to other conditions of the leases and no change to the basis on which rental income is derived.

No amounts are payable by the Trust to BGL in accepting or rejecting this proposal. The Trust gains the advantage of longer term certain on most of its leases, which materially increases the current weighted average lease duration of the portfolio. The additional lease option periods that BGL seeks are its own options and cannot be exercised by the Trust and therefore do not increase the weighted average lease duration of the portfolio.



**Bunnings Warehouse Stores - Proposed Extended Lease Tenure Analysis**

The proposed extension of leases removes the Trust's risk of BGL vacating stores at the end of the relatively short remaining unexpired terms. A number of the properties originally acquired by the Trust in 1998 now have less than 4 years remaining term certain.

A disadvantage for the Trust is that some well located Bunnings stores may have potential for redevelopment for alternate uses in future. In those cases, the land value could rise to the point where the Bunnings store is an under-utilisation of the land which is ripe for development with offices, hotel or mixed use retail and residential purposes. In such cases, extension of BGL's lease tenure would defer the opportunity of the Trust redeveloping those properties upon expiry of the final option term under the existing lease arrangement.

We believe this opportunity applies to relatively few properties and it may take some years, depending on such factors as trade area population growth, changes in traffic flows, development of competitive hardware stores etc., before the opportunity for redevelopment to a higher and better use can be realised. In other words, the number of the Trust properties for which this potential may occur and the degree to which it may be realised is a relatively indirect and long term consideration.

We therefore believe the opportunity to extend the BGL committed term on the majority of the Trust assets is a considerably more advantageous result, far outweighing the deferral of potential for alternate use by extending the lease option terms.

***Likely Enhancing Effect on Value***

The Trust's Management has provided a list of the 60 Trust properties and their December 2009 valuations. 11 of these properties were independently valued and the balance were internal Directors' valuations. Management has estimated the likely change to capitalisation rate of relevant properties upon extension of lease term certain under this proposal. The capitalisation rate is reduced or improved, in varying degrees, thereby enhancing the properties' market value.

The results are summarised as follows:

	Lease Extended		Stores No	Yield Change
	10 yrs	5 yrs		
2	-	-	2	-0.5%
5	17	-	22	-0.25%
-	10	17	27	No change
-	-	2	2	+0.25%
<b>7</b>	<b>27</b>	<b>19</b>	<b>53</b>	

The BWP portfolio includes 53 Bunnings Warehouses, one BGL tenanted distribution centre and 6 other properties.

Management considers two of the properties with 10 year lease extension warrant a yield improvement of 0.5%, and the others are considered to improve by 0.25%. Of the 27 properties with lease extension of 5 years, 17 are considered to be enhanced by 0.25%.



**Bunnings Property Management Limited**

**Bunnings Warehouse Stores - Proposed Extended Lease Tenure Analysis**

In the other 10 cases no change in yield is expected by virtue of the existing valuation having factored in a high likelihood that BGL would continue to occupy the property past the current expiry date and the additional term did not add any inherent value. While it is obviously a superior position for the owner to have an additional 5 years of lease security, the proposed extension of term certain is not considered to make a material difference to their investment appeal or value. Management considers a prudent lessee is likely to exercise its option for a further term for those locations. An investor buying the property, would assume that the lessee will stay on for a further term and is unlikely to pay a higher price solely on the basis of an increase of five years in term certain ahead of time.

There are 18 Bunnings Warehouses and the Hemmant, Queensland, distribution centre that have not been included in the proposal to extend lease tenure. These have been excluded because:

- they are subject to other arrangements or proposed arrangements between the parties (such as upgrades); or
- either or both parties consider that they have sufficient term certain or tenure.

This raises a question of whether those properties should be considered less attractive investments for not having lease extensions, in this proposal.

Management considers the stores at Sunshine and Sandown, Victoria, having been excluded and having less than 4 years of term certain remaining should have capitalisation rates softened by 0.25% on the basis that an investor is likely to assume a level of uncertainty as to BGL's future plans for these properties when considered against other properties that have had leases extended. Management does not consider the exclusion of the other 17 properties from the proposed extension of lease tenure warrants a downgrading of their capitalisation rates.

The total property value of the Trust property portfolio is indicated to increase from \$972,211,000 to \$986,100,000 under this proposal. We understand there is no change to any rental income expectations in this analysis and the improvement is entirely attributed to the proposed extension of lease terms by BGL. The indicated net enhancement in value of the total portfolio is 1.43% of the total portfolio value.

We have reviewed the list of Trust properties for which an enhancement to property value is suggested as likely, assuming adoption of this proposal. We have questioned Management about the rationale for enhancement to property value according to each property's location, existing term certain, trade area population growth outlook and the possible risk of competitive hardware stores being developed in that location in the next few years.



**Bunnings Property Management Limited**

**Bunnings Warehouse Stores - Proposed Extended Lease Tenure Analysis**

***Conclusion***

Having considered the proposal to increase the term certain of leases in varying degrees for 34 stores and questioned Management about the rationale for likely enhancement of value, consequent on the extended lease terms, we believe that this proposal enhances the value of the portfolio.

We stress that we have not made independent valuations of any individual properties in formulating this advice, only an assessment of the likely change in value of each property as a result of the proposed lease extensions. Our involvement is limited to consideration of the overall proposal, the merit of increasing the term certain and option periods across the portfolio and questioning the background to the Management's assumptions.

This proposal enhances the income weighted average lease duration across the Trust portfolio as at 31 December 2009, from 5.9 years to 9.6 years with no payment by the Trust in return for granting BGL the longer tenure that it seeks for various Bunnings stores. We conclude that the extension of lease terms will enhance the property value of the portfolio by \$13.9 million as calculated by the Portfolio Manager.

This report is to provide supporting advice to the independent expert in reporting on the benefits of the proposal to Bunnings Property Management Limited.

Yours faithfully  
**Jones Lang LaSalle**

**Bernard F Sweeney, FAPI**  
Certified Practising Valuer  
Director, Advisory



# INDEPENDENT EXPERT'S REPORT



The Directors  
Bunnings Property Management Limited  
Level 11, Wesfarmers House  
40 The Esplanade  
PERTH WA 6000

31 March 2010

Dear Sirs

**PricewaterhouseCoopers  
Securities Ltd  
ACN 003 311 617  
ABN 54 003 311 617  
Holder of Australian Financial  
Services Licence No 244572**

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PERTH WA 6000  
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## Proposed Extension of Leases with Bunnings Group Limited

### Introduction

- 1 You have requested us to provide an independent expert's report pursuant to Chapter 10 of the Listing Rules of Australian Securities Exchange Limited ("ASX") in relation to the proposed extension of certain leases of properties between Bunnings Property Management Limited ("BPML") (as responsible entity for the Bunnings Warehouse Property Trust ("BWPT")) as lessor and Bunnings Group Limited ("BGL") as lessee.
- 2 Both BPML and BGL are wholly owned subsidiaries of Wesfarmers Limited ("Wesfarmers"). In addition, Wesfarmers owns 23.1% of the issued units in BWPT. Accordingly, BPML, BWPT and BGL are related parties for the purposes of the ASX Listing Rules. We have therefore prepared this report and provided our opinion in accordance with the provisions of ASX Listing Rule 10.10 assessing whether, in our opinion, the terms of the Proposed Transaction are fair and reasonable to the unitholders of BWPT who are not associated with Wesfarmers and its wholly owned subsidiaries.
- 3 This report is to accompany the Notice of Meeting and Explanatory Notes for the meeting of BWPT unitholders to be held on 13 May 2010.

### Description of the Proposed Transaction

- 4 BPML and BGL are proposing to enter into a transaction ("the Proposed Transaction") which will increase the average committed term (or "term certain") of 34 properties which BWPT leases to BGL, and extend the option period on another property which BWPT leases to BGL, thereby providing BGL with additional tenure on those sites. The properties the subject of the Proposed Transaction represent 62.5% of the value of the property portfolio of BWPT.
- 5 The Proposed Transaction will be achieved by BWPT granting BGL an additional call option (exercisable by BGL at its discretion) to extend the term of each of the relevant leases in exchange for an increase of the same duration in the term certain of those leases.



6 In summary:

- (a) BGL will be granted an additional 10 year option period in respect of the lease of seven properties in return for a 10 year increase in the term certain for the benefit of BWPT;
- (b) BGL will be granted an additional 10 year option in respect of the lease of one property (Cannon Hill) in return for a five year increase in term certain;
- (c) BGL will be granted an additional five year option in respect of the lease of 26 properties in return for a five year increase in term certain;
- (d) BGL will be granted an additional five year option in respect of the lease of one property (Noarlunga) in return for no increase in the term certain<sup>1</sup>; and
- (e) The remaining 18 Bunnings Warehouses are not included in the Proposed Transaction due to individual properties being the subject of other dealings or negotiations between the parties (such as potential upgrades) or because either or both parties considered that there is sufficient committed term or tenure in the existing lease arrangements.

7 No other changes to existing lease agreements will be made. In particular, the rentals and the basis for determining rent reviews (both market and annual escalations) will still apply as provided in the existing leases. A summary of the Proposed Transaction on a property by property basis is attached as Appendix A to this report.

## Opinion

8 In our opinion, the terms of the Proposed Transaction are fair and reasonable to the non-associated unitholders of BWPT. In forming our opinion, we have considered the following matters which summarise the major issues addressed in this report:

- (a) The Proposed Transaction will increase the value of BWPT's property portfolio by \$13.9 million;
- (b) The Proposed Transaction will increase the weighted average lease expiry ("WALE") of the property portfolio from 5.9 years as at 31 December 2009 to 9.6 years, and will be achieved at no cost to BWPT. This will provide an increase in the security of income for unitholders in BWPT and therefore reduce the risk profile of an investment in BWPT;

<sup>1</sup> Both the Cannon Hill and Noarlunga properties were subject to recent upgrades, for which BPML required BGL to increase the term certain by approximately 5 years to provide sufficient committed pay-back period for the improvements. The increased term certain resulting from the upgrades has been offset against the additional option terms granted to BGL under the Proposed Transaction.



- (c) We consider that the Proposed Transaction is likely to have a positive effect on the BWPT unit price, although we would not expect any resultant movement to be material;
- (d) There are no short term cash flow impacts of the Proposed Transaction, other than a small increase in the management fees payable by BWPT to BPML (as responsible entity for BWPT) as a result of the increase in the value of the property portfolio;
- (e) The Proposed Transaction reduces the risk that BGL decides either not to exercise its existing options at the expiry of the current committed terms (and thereby exposes BWPT to the associated risks discussed later in this report), or decides to exercise its existing options only on the basis of lower rentals or other concessions;
- (f) The properties affected by the Proposed Transaction will remain subject to the market rent reviews contained in the existing leases. Consequently, if the Proposed Transaction is approved, we do not believe BWPT will suffer any material loss of opportunity resulting from BWPT's inability in the short to medium term to negotiate higher leasing income from alternative lessees such as Woolworths; and
- (g) We do not believe that BWPT will suffer any material loss of opportunity associated with the deferral of BWPT's opportunity to redevelop certain properties currently leased to BGL to potentially derive higher future economic returns, because that opportunity applies to relatively few properties and there are significant costs and risks associated with the exploitation of that opportunity.

### Contents of the Report

- 9 The balance of our report is set out under the following headings:

**Purpose of Report**

**Basis of Evaluation**

**Sources of Information**

**Background to BWPT**

**Evaluation of the Proposed Transaction**

**Advantages and Disadvantages of the Proposed Transaction**

**Appendix**

**A Schedule of Properties for Extended Lease Tenure**

**B Declarations and Disclosures**

**C Financial Services Guide**



### Purpose of Report

- 10 Chapter 10 of the ASX Listing Rules requires a listed trust to obtain the approval of its unitholders if a transaction involves the acquisition or disposal of a substantial asset to a related party. BGL is a related party of BWPT as both BPML (as responsible entity for BWPT) and BGL are 100% owned subsidiaries of Wesfarmers, and Wesfarmers owns 23.1% of the issued units in BWPT.
- 11 An asset is deemed to be substantial if its value, or the value of the consideration paid, is 5% or more of the equity interest of the acquiring entity. In the case of a grant or disposal by the grant or exercise of an option, Listing Rule 10.4 provides that the consideration for the acquisition or disposal is the total of the issue price of the option and its exercise price. ASX practice is that the “exercise price” of the option is considered to be the rent payable on the lease over the 10 or 15 year period to which the put and call option relates.
- 12 We have been advised by BPML that the value of the lease payments pursuant to the call options granted to BGL under the Proposed Transaction exceeds 5% of the equity in BWPT as at 31 December 2009 and therefore unitholder approval will be required prior to BWPT entering into the Proposed Transaction.
- 13 ASX Listing Rule 10.10 states that the notice of unitholders’ meeting required under ASX Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state whether, in the expert’s opinion, the transaction is fair and reasonable to the non-associated unitholders of BWPT. This report provides that opinion.

### Basis of Evaluation

- 14 There is no specific guidance on forming an opinion on fairness and reasonableness under ASX Listing Rule 10.10. In this regard, we have given due consideration to the guidance provided by:
- (a) ASIC Policy Statement 74 “Acquisitions agreed to by shareholders”, which requires that due consideration be given to all the circumstances of the Proposed Transaction. Accordingly, in this report we have examined the Proposed Transaction and compared the likely advantages and disadvantages to the non-associated unitholders of BWPT if the proposed transaction is agreed to, with the advantages and disadvantages to those unitholders if it is not; and
  - (b) ASIC Regulatory Guide 111 “Content of experts reports”, which requires an expert to focus on the issues facing the security holders for whom the report is being prepared. In particular, RG 111 requires the expert to focus on the purpose and outcome of the transaction, rather than the legal mechanism to effect it.

(4)



- 15 Our assessment of the Proposed Transaction has included an assessment of the likely impact on the value of the properties which are the subject of the Proposed Transaction. Jones Lang LaSalle Advisory Services Pty Limited ("JLL") has been engaged by BPML to undertake this assessment and we have relied on the opinions expressed by JLL.
- 16 Our assessment has also included an examination of other significant factors including:
- (a) The process undertaken by the parties in negotiating the terms of the Proposed Transaction;
  - (b) The impact of the Proposed Transaction on the value of the property portfolio and the financial position of BWPT;
  - (c) The cash flow impact of the Proposed Transaction;
  - (d) The impact of the Proposed Transaction on the price of units in BWPT;
  - (e) The impact of the Proposed Transaction on the WALE of the portfolio; and
  - (f) Any loss of opportunity to BWPT if the Proposed Transaction is approved.

#### Sources of Information

- 17 In our assessment, we have relied on financial and other information obtained from BPML. Our conclusion is dependent on such information being complete and accurate in all material respects. The principal sources of information used in performing our assessment include:
- (a) The JLL report dated 31 March 2010 reviewing the capital value impacts of the Proposed Transaction;
  - (b) The draft "umbrella agreement" between BPML and BGL relating to the Proposed Transaction;
  - (c) BWPT's financial statements for the six months ended 31 December 2009 and the year ended 30 June 2009;
  - (d) Summary of the assessed market value of the property portfolio of BWPT over the period from December 2005 to December 2009 prepared by BPML;
  - (e) Calculations of the WALE of BWPT's property portfolio both prior and subsequent to the Proposed Transaction prepared by BPML;
  - (f) Management reports, board papers and extracts of minutes of BPML board meetings from April 2009 to March 2010;



- (g) Publicly available information regarding the prices at which BWPT's units have traded;
  - (h) The Notice of Meeting and Explanatory Notes; and
  - (i) Discussions with the management of BPML.
- 18 We have not carried out an independent confirmation of the information provided to us, nor have we independently verified the information and other representations made to us in the course of preparing this report. However, we have no reason to believe that any information has been withheld from us or that any of the information provided is misleading to any material degree.
- 19 We have relied on the report of JLL covering their assessment of the incremental valuation effect of the Proposed Transaction on the market value of BWPT's properties. JLL has acknowledged our reliance on their report. We are satisfied that:
- (a) Mr Bernard Sweeney of JLL has the appropriate qualifications and industry experience, and is independent of BPWT, BPML and Wesfarmers; and
  - (b) the report of JLL contains sufficient information to support the conclusions drawn.

## Background to BWPT

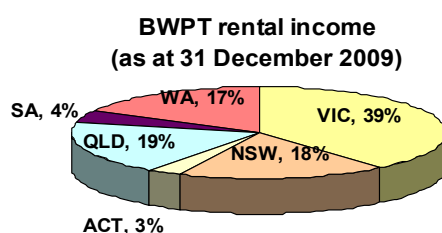
### *History and Operations*

- 20 BWPT was constituted in June 1998 as a property trust and was listed on the ASX in September 1998. As at 17 March 2010, BWPT had 420,711,773 units on issue and a market capitalisation of approximately \$793 million.
- 21 BWPT is focused on warehouse retailing properties and, in particular, Bunnings Warehouse properties tenanted by BGL. At the date of this report, BWPT's portfolio comprised:
- (a) 53 established Bunnings Warehouses;
  - (b) One Bunnings distribution centre;
  - (c) Four industrial properties, including 3 tenanted by Blackwoods, another Wesfarmers' subsidiary;
  - (d) One bulky goods showroom complex adjacent to a Bunnings Warehouse in Geraldton in Western Australia; and
  - (e) One development site at Maribynong in Victoria, on which it is proposed to build a Bunnings Warehouse.
- 22 The majority of BWPT's rental income is received from the Bunnings home improvement retailing chain. BGL has developed Bunnings Warehouse stores nationally and expanded significantly in 2001 as a result of the acquisition of the BBC hardware business. BGL is continuing its national rollout of Bunnings Warehouse stores.

(6)



- 23 BWPT has a strategy of acquiring properties with long term leases, ensuring that properties are well located and the portfolio is geographically diversified. The location of BWPT's properties is characterised by visible and accessible locations, ready vehicle access and ample parking and significant catchment areas.
- 24 BWPT's rental income on a State by State basis is shown in the table below:



**Financial Position of BWPT**

- 25 The financial position of BWPT as reflected in the balance sheets at 31 December 2009 and 30 June 2009 are as follows:

	<i>Reviewed</i> 31 Dec 2009	<i>Audited</i> 30 June 2009
	\$000's	\$000's
<b>Current assets</b>		
Cash	8,234	38,721
Receivables and prepayments	2,852	1,847
<b>Total current assets</b>	<b>11,086</b>	<b>40,568</b>
<b>Non-current assets</b>		
Investment properties	972,211	955,562
Other	3,420	3,766
<b>Total non-current assets</b>	<b>975,631</b>	<b>959,328</b>
<b>Total assets</b>	<b>986,717</b>	<b>999,896</b>
<b>Current liabilities</b>		
Payables and deferred income	9,593	14,185
Derivative financial instruments	271	1,508
Distribution payable	25,268	19,967
<b>Total current liabilities</b>	<b>35,132</b>	<b>35,660</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	189,786	225,937
Derivative financial instruments	3,063	5,275
<b>Total non-current liabilities</b>	<b>192,849</b>	<b>231,212</b>
<b>Total liabilities</b>	<b>227,981</b>	<b>266,872</b>
<b>Net assets</b>	<b>758,736</b>	<b>733,024</b>



Unitholders' funds		
Contributed equity	496,006	489,273
Reserves	(764)	(3,865)
Retained profits	263,494	247,616
<b>Total unitholders' funds</b>	<b>758,736</b>	<b>733,024</b>
Units on issue (000's)	414,227	410,001
<b>Net assets per unit</b>	<b>\$1.83</b>	<b>\$1.79</b>

- 26 The net assets of BWPT reflect independently assessed market values or directors' valuations on all properties. Independent valuations of properties are conducted at intervals of not more than three years.

### Evaluation of the Proposed Transaction

#### The process undertaken by the parties in negotiating the terms of the Proposed Transaction

- 27 The negotiations between BWPT and BGL commenced in April 2009 when BGL requested BWPT to grant it an additional three, five year tenant exercisable options on 15 Bunnings Warehouses across Australia. The discussions regarding the extended lease tenure proposal put forward by BGL were deferred until a capital raising was finalised<sup>2</sup>.
- 28 In June 2009, the board of BPML authorised management to enter into further discussions with BGL, and to put to BGL a counter offer, which included an offer to exchange up to three call options of five years for equal number of put options for all BGL tenanted properties in BWPT's portfolio, and to introduce "hard ratchet" clauses<sup>3</sup> into all leases the subject of the call/put options. This proposal was discussed between BGL and BPML management in July 2009 and BGL undertook to revert with a proposal broader than its original 15 properties, but not including the entire portfolio and with lease extensions of varying durations.
- 29 Negotiations with BGL continued over the ensuing six months; in particular, the discussions focussed on the inclusion of clauses potentially impacting future market based rents (such as the inclusion of "hard ratchets" and "caps and collars") and the number of properties to be included as part of any extended lease arrangements. The negotiations were robust, and involved both the senior management and the boards of directors of both companies, as well as independent legal advice. Following the negotiations, it was agreed that no additional changes would be made to the terms of the leases other than those affecting tenure.

<sup>2</sup> In May 2009, BWPT announced a \$150 million equity raising, via a non-renounceable 1 for 3.09 entitlement offer at a fixed price of \$1.50 per unit ("entitlement offer"). As a result of the entitlement offer, BWPT issued 100,244,757 new units. The proceeds were used to repay debt.

<sup>3</sup> A "hard ratchet" is a clause which prevents rents from decreasing, even in an environment where market rents have fallen generally





- 30 The negotiations were concluded in March 2010 when the commercial terms of the Proposed Transaction were finalised, subject to BPML being satisfied that the Proposed Transaction is in the best interests of unitholders and the obtaining of unitholder approval.

#### Impact of the Proposed Transaction on the value of the leased properties

- 31 If approved, the Proposed Transaction will result in the term certain increasing on 34 properties and granting of additional tenant exercisable options on 35 Bunnings Warehouses.
- 32 BPML has assessed that:
- (a) the Proposed Transaction will result in an uplift in the valuation of the property portfolio of \$13.9 million from \$972.2 million to \$986.1 million (based on the values of the properties as at 31 December 2009); and
  - (b) the uplift in the value of the property portfolio will result from changes to the capitalisation rates used for valuation purposes due to the increase in the term certain of the properties.
- 33 In a report dated 31 March 2010, JLL independently assessed the Proposed Transaction and concluded that:
- (a) the proposed extension of the leases removes the risk of BGL vacating stores at the end of the relatively short remaining unexpired terms. In this regard, JLL noted that a number of properties originally acquired by BWPT in 1998 have less than four years remaining term certain;
  - (b) although some well located Bunnings stores may have potential for redevelopment for alternate uses in the future and that extension of the leases of those stores would defer the opportunity for BWPT to redevelop those properties at a higher yield, JLL believed this opportunity only applies to very few properties and that the opportunity to extend the BGL committed term on the majority of the properties is a considerably more advantageous result; and
  - (c) the extension of the lease terms will enhance the property value of the portfolio by \$13.9 million, as calculated by BPML.

#### Impact of the Proposed Transaction on the financial position of BWPT

- 34 The financial impact of the Proposed Transaction on the financial position of BWPT, reflecting the uplift in the value of the properties of \$13.9 million as calculated by BPML, is summarised below:



	<i>\$000's</i>	<i>\$ per unit</i>
Net assets at 31 December 2009	758,736	\$1.83
Incremental value associated with uplift in property values	13,900	\$0.03
<b>Net assets at 31 December 2009 adjusted for uplift in property values</b>	<b>772,636</b>	<b>\$1.86</b>

### Cash flow impact of the Proposed Transaction

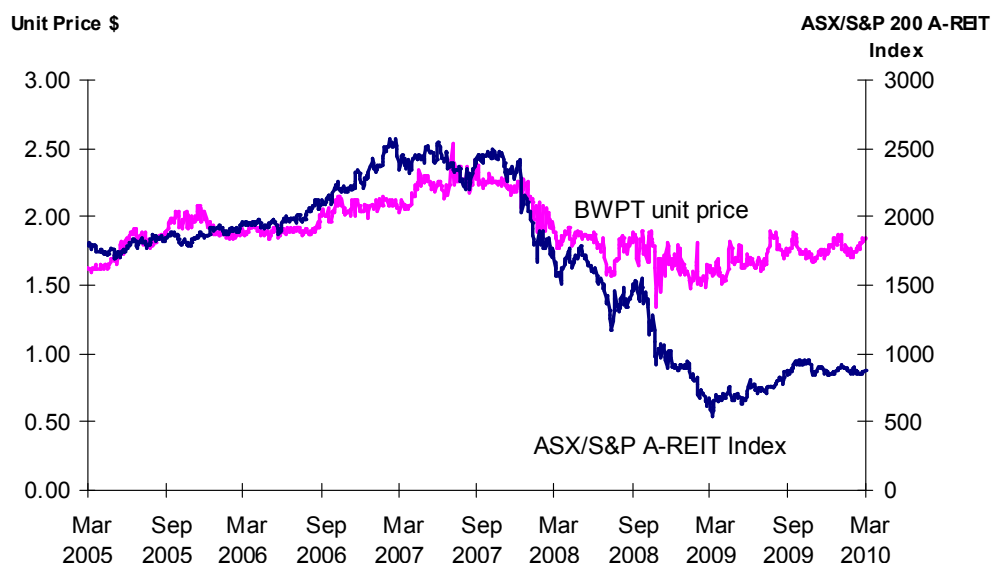
- 35 The short term cash flow impact of the Proposed Transaction may be summarised as follows:
- (a) No consideration is payable or receivable by BWPT in relation to the Proposed Transaction; and
  - (b) Pursuant to the Constitution of BWPT, BPML (as Responsible Entity for BWPT) is entitled to an annual "Manager's fee" calculated as 0.585% of the Gross Asset Value<sup>4</sup> of BWPT. If the Proposed Transaction is approved and there is a resultant uplift in the value of the property portfolio of \$13.9 million, BWPT will incur additional management fees of approximately \$81,300 per annum.
- 36 In the longer term, the Proposed Transaction will provide greater security over the cash flows of the business. In particular, extending the term certain of the leases reduces the risks associated with either:
- (a) BGL deciding not to exercise its existing options to extend the leases, including the risks that:
    - (i) BWPT is unable to re-lease the properties on the same or similar terms as the existing leases with BGL;
    - (ii) there is a delay in BWPT securing new tenants for the properties and BWPT suffers an associated loss of income;
    - (iii) BWPT is required to redevelop the properties or offer incentives to secure new tenants, including either lump sum payments or rent free periods, and suffers economic loss as a consequence; or
  - (b) BGL agreeing to exercise its option to continue to lease the properties, but only on the basis that it is able to negotiate lower rentals or receive other concessions.

<sup>4</sup> "Gross Asset Value" is defined in the Constitution to include the value of all of the assets of BWPT. In practice, it includes the value of the property portfolio, cash accounts, receivables, prepayments and loans receivable.



### Impact of the Proposed Transaction on the value of units in BWPT

37 We have shown below the movements in the unit price of BWPT and the ASX/S&P 200 A-REIT Index over the past five years.



38 Our comments in relation to this analysis are as follows:

- (a) The BWPT unit price has generally not been as volatile as the ASX/S&P 200 A-REIT Index over the review period; and
- (b) The BWPT unit price has outperformed the ASX/S&P 200 A-REIT Index since early in 2008. Over that period, the value of units in BWPT decreased by 18% which was less than the decrease in unit prices of each of the other trusts which make up the index (which decreased by an average of 61%).

39 The Proposed Transaction is likely to have a positive impact on both the value of the properties leased to BGL and the net asset backing per unit in BWPT. These benefits will be offset to a minor extent by the increase in management fees payable to BPML as a result of the uplift in the market value of the property portfolio.

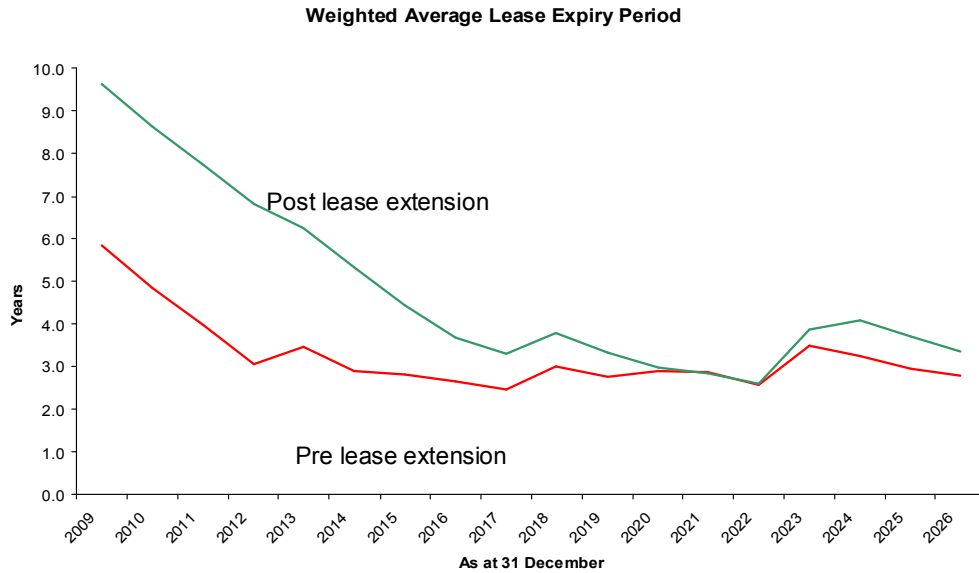
40 We consider that the Proposed Transaction is likely to have a positive effect on the unit price of BWPT, although we would not expect any resultant movement to be material.

### WALE and banking covenants

41 The WALE of BWPT's portfolio was 5.9 years as at 31 December 2009. If approved, the Proposed Transaction will increase the WALE of the portfolio to 9.6 years, an improvement of 3.7 years.



42 The profile of the impact of the proposed extension of the leases is shown graphically below.



43 The Proposed Transaction will increase the WALE such that it will remain above the existing WALE until 2021, and will not reduce to below the existing WALE at any time over the period to 2026.

44 Our comments in relation to the impact of the Proposed Transaction on WALE are as follows:

- (a) The increase in WALE removes pressure on the minimum five year WALE covenant contained in BWPT's debt facilities, notwithstanding that negotiations are continuing with BWPT's bankers to remove or reduce the terms of the covenant; and
- (b) The increased WALE is reflective of the improved portfolio value and unit holder value as a consequence of the increased certainty of future leasing income.

**Potential loss of opportunity (if the Proposed Transaction is approved)**

45 In August 2009, Woolworths announced a takeover offer for Danks, Australia's second largest hardware distributor, and a joint venture with US hardware retailer Lowe's. As part of the acquisition, Woolworths announced<sup>5</sup> that it was aiming to acquire 150 greenfield sites within the next five years for new home improvement mega-stores which will be in direct competition with BGL.

<sup>5</sup> Refer to Woolworths' Press Release of 25 August 2009



- 46 At the date of this report, there is not a great deal of publicly available information as to Woolworths' plans for its hardware operations and particularly the warehouse style hardware stores, and the impact those plans may have on the operations of BGL. If the Proposed Transaction is approved, any plans Woolworths may have had to attempt to negotiate leases of properties currently leased to BGL will, at the very least, be deferred.
- 47 We have considered whether BWPT will be deprived of an opportunity to negotiate preferable terms with Woolworths or another party if the Proposed Transaction is approved. Our comments in relation to this issue as are follows:
- (a) BGL is a high quality tenant and its business has performed well in recent years, including during the recent Global Financial Crisis. If the Proposed Transaction is approved, BWPT will be "locking in" an existing high quality tenant for an extended period of time;
  - (b) Under the Proposed Transaction, the lease terms remain unchanged (save for changes to the term certain and option periods) and the properties remain subject to market rent reviews. To the extent that Woolworths negotiates leases of greenfield sites at a premium to the rentals implicit in BWPT's existing leases with BGL, those higher rentals should be reflected in market rent reviews as the market is not exclusively confined to Bunnings Warehouse properties; and
  - (c) In the absence of the Proposed Transaction, we believe it is highly likely that BGL would exercise its existing options on a substantial portion of the properties the subject of the Proposed Transaction. On that basis, no BWPT properties subject to this Proposed Transaction would be available for Woolworths until late 2023 at the earliest, well beyond the stated timeframe for Woolworths opening its proposed 150 mega-stores, indicating that Woolworths would need to seek alternative sites for its stores in the meantime.
- 48 In its report dated 31 March 2009, JLL noted that:
- (a) the sites of some well located Bunnings stores may have potential for alternate uses which, if redeveloped, could provide a higher future economic return to BWPT; and
  - (b) the extension of BGL's leases of those properties would defer the opportunity for BWPT to redevelop those properties upon expiry of the final option under the existing lease arrangements.



- 49 However, JLL also noted that:
- (a) this opportunity applies to relatively few properties; and
  - (b) the redevelopment opportunity associated with those properties may take considerable time and will also depend on population growth, traffic flows and other factors.

- 50 Having regard to the fact that the Proposed Transaction involves a much wider portfolio of properties than those potentially subject to future redevelopment, we do not consider the approval of the Proposed Transaction will result in any material loss of redevelopment opportunity to BWPT.

#### Transaction costs

- 51 Irrespective of whether or not the Proposed Transaction is approved, BWPT will incur costs including legal fees, consulting experts' fees, costs associated with the organisation of the proposed meeting of unit holders (including printing costs) and the cost of management time dedicated to the development and negotiation of the Proposed Transaction with BGL. We do not consider that any material additional transaction costs will be incurred by BWPT if the Proposed Transaction is approved.

#### Advantages and Disadvantages of the Proposed Transaction

- 52 We consider the principal advantages of the Proposed Transaction to non-associated unitholders in BWPT are as follows:
- (a) The Proposed Transaction is anticipated to result in a small uplift in the valuation of the property portfolio of BWPT;
  - (b) The Proposed Transaction will increase the WALE of the property portfolio, reflecting an increase in the security of income for investors in BWPT and therefore reducing the risk profile of an investment in BWPT; and
  - (c) We consider that the Proposed Transaction is likely to have a positive effect on the unit price of BWPT, although we would not expect any resultant movement to be material.
- 53 We do not consider that there are any material disadvantages of the Proposed Transaction to the non-associated unit holders of BWPT. However, if approved, we note that the Proposed Transaction will result in:
- (a) a small increase in management fees payable by BWPT to BPML as a result of the likely uplift in the value of the property portfolio of BWPT; and



- (b) deferral of any potential development opportunity relating to the properties which are the subject of the Proposed Transaction.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Roger Port'.

Roger Port  
Authorised Representative



Schedule of Properties for Extended Lease Tenure  
As at 31 December 2009

Appendix A

	Property name	Committed term		BGL tenure	
		Existing term certain (years)	Revised term certain (years)	Existing end of BGL tenure (years)	Revised end of BGL tenure (years)
10 years put for 10 years call	Balcatta	3.7	13.7	13.7	23.7
	Croydon	6.8	16.8	16.8	26.8
	Mile End	5.2	15.2	15.2	25.2
	Morayfield	5.2	15.2	15.2	25.2
	Nunawading	5.1	15.1	15.1	25.1
	Southport	3.9	13.9	13.9	23.9
	Tuggeranong	3.9	13.9	13.9	23.9
5 years put for 10 years call	Cannon Hill	9.3	14.3	14.3	24.3
5 years put for 5 years call	Albany	4.8	9.8	14.8	19.8
	Altona	3.7	8.7	13.7	18.7
	Artamon	8.1	13.1	23.1	28.1
	Bayswater	4.3	9.3	24.3	29.3
	Belrose	8.1	13.1	23.1	28.1
	Bibra Lake	4.8	9.8	14.8	19.8
	Burleigh Heads	3.8	8.8	13.8	18.8
	Epping	4.2	9.2	14.2	19.2
	Fountain Gate	5.1	10.1	15.1	20.1
	Frankston	7.0	12.0	17.0	22.0
	Geraldton	6.9	11.9	16.9	21.9
	Hoppers Crossing	5.2	10.2	15.2	20.2
	Joondalup	3.7	8.7	13.7	18.7
	Lismore	4.3	9.3	19.3	24.3
	Mandurah	3.9	8.9	13.9	18.9
	Mentone	3.7	8.7	13.7	18.7
	Midland	6.7	11.7	16.7	21.7
	Minchinbury	4.0	9.0	14.0	19.0
	Mindarie	6.7	11.7	16.7	21.7
	Mornington	7.0	12.0	17.0	22.0
	Northland	5.6	10.6	15.6	20.6
	Rockingham	5.6	10.6	15.6	20.6
	Scoresby	3.7	8.7	13.7	18.7
	Thornleigh	4.7	9.7	24.7	29.7
	Underwood	3.8	8.8	13.8	18.8
	Vermont South	5.6	10.6	25.6	30.6
0 years put for 5 years call	Noarlunga	9.8	9.8	14.8	19.8





## Appendix B

## Declarations and Disclosures

## Qualifications and Experience

- 1 PricewaterhouseCoopers Securities Ltd is beneficially owned by the partners of PricewaterhouseCoopers, a large international firm of chartered accountants and business advisors. PricewaterhouseCoopers Securities Ltd holds an Australian Financial Services Licence and is licensed to provide financial product advice.
- 2 Roger Port, the person responsible for the preparation of this Report, is a partner in PricewaterhouseCoopers and an authorised representative of PricewaterhouseCoopers Securities Ltd. He is a Chartered Accountant and a Senior Fellow of the Financial Services Institute of Australasia and has extensive experience in the preparation of corporate valuations and the provision of corporate financial advisory services to corporations involved in takeovers, capital raisings and mergers and acquisitions.

## Declaration

- 3 At the date of this report, none of PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers or any company associated with them:
  - (a) has any interest in the outcome of the Proposed Transaction; or
  - (b) holds any beneficial interest in securities of either BWPT or Wesfarmers, and has not held any such beneficial interest during the previous two years.
- 4 The only pecuniary or other interest that PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers or any company associated with them has in relation to the proposed transaction arises from the right to receive a fee based on normal hourly rates for the preparation of this report. This fee is estimated to be \$30,000 and is payable regardless of whether or not the Proposed Transaction is successful. Except for this fee, none of PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers or any company associated with them has received, or will receive, any pecuniary or other benefit, whether direct or indirect, for or in connection with the making of this report.
- 5 PricewaterhouseCoopers has provided professional services to Wesfarmers on a range of matters, some of which remain in progress at the date of this report. None of those services relate to the Proposed Transaction. In 2009, Roger Port acted for Wesfarmers in a small assignment. Apart from that engagement, neither Roger Port nor any member of his team on this assignment has provided any professional services to Wesfarmers in the last two years. We do not believe that this relationship impairs our ability to undertake an objective assessment of the Proposed Transaction. PricewaterhouseCoopers is not the auditor of Wesfarmers.



- 6 PricewaterhouseCoopers Securities Ltd provided an Independent Expert's Report on behalf of BPML in 2002 and was engaged in 2004 to provide an Independent Expert's Report on a transaction which was not finalised and did not proceed.

#### Reliance on this Report

- 7 The Proposed Transaction requires the approval of unitholders of BWPT. This report has been prepared at the request of the directors of BPML in order to assist them and the unitholders of BWPT in assessing the Proposed Transaction. This report was not prepared for any other purpose and is designed to accompany the Notice of Meeting and Explanatory Notes to be sent to unitholders of BWPT as required by Chapter 10 of the ASX Listing Rules. Accordingly, this report has been prepared for the benefit of the directors of BPML and those unitholders whose votes are not to be disregarded on the Proposed Transaction.
- 8 The conclusions of this report are based on assessments made, and information available at the date of this report. Accordingly, we reserve the right (but will be under no obligation) to amend the conclusions of this report insofar as further information relevant to the forming of our conclusions becomes known to us after the date of this report, but prior to completion of the Proposed Transaction.
- 9 The statements and opinions included in this report are therefore given in good faith and in the belief that they are based on information which, on reasonable grounds, is not false, misleading or incomplete. Accordingly, we assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information that is otherwise.

#### Indemnity

- 10 BWPT and BPML have agreed to indemnify PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers and its employees against claims, liabilities, losses and expenses they incur if information or documentation provided by or on behalf of BWPT is false, misleading or omits material particulars, or if relevant information or documents have not been supplied.

#### Consent

- 11 Neither PricewaterhouseCoopers Securities Ltd nor PricewaterhouseCoopers have authorised or caused the issue of all or any part of the Notice of Meeting or Explanatory Notes. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement (other than the notice of meeting mentioned above) without the prior written consent of PricewaterhouseCoopers Securities Ltd to the form and context in which it appears.
- 12 PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this report, in the form and context in which it is included, in the Notice of Meeting and Explanatory Notes.



## Appendix C

## FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 31 March 2010

1. **About us**

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (PwCS) has been engaged by Bunnings Property Management Limited (as responsible entity for the Bunnings Warehouse Property Trust) to provide a report in the form of an Independent Expert's Report in relation to the proposed extension of leases with Bunnings Group Limited ("the Proposed Transaction") ("the Report") for inclusion in a Notice of Meeting and Explanatory Notes relating to the Proposed Transaction.

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 PwCS 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.



## APPENDIX C (cont)

**5. Fees, commissions and other benefits we may receive**

PwCS charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages us 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 as disclosed in Appendix B of this Report.

Directors or employees of PwCS, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

**6. Associations with issuers of financial products**

PwCS 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 PwCS may provide financial services to the issuer of a financial product in the ordinary course of its business.

**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, an external complaints resolution service. The Financial Ombudsman Service can be contacted by calling 1300 780 808. You will not be charged for using this service.

**8. Contact Details**

PwCS can be contacted by sending a letter to the following address:

Mr Roger Port  
PricewaterhouseCoopers Securities Ltd  
QV1 Building  
250 St Georges Terrace  
PERTH WA 6000

# GLOSSARY



<b>“BGL”</b>	Bunnings Group Limited ACN 008 672 179 and it’s wholly owned subsidiaries
<b>“committed term”</b>	the period for which BGL is committed to lease a property from the Trust
<b>“fair value”</b>	the amount for which a property could be exchanged between knowledgeable, willing parties in an arms-length transaction
<b>“Responsible Entity”</b>	the responsible entity of the Trust, being Bunnings Property Management Limited ACN 082 856 424
<b>“subject properties”</b>	those Trust properties that have leases subject to the Extended Lease Tenure
<b>“term certain”</b>	has the same meaning as committed term
<b>“Trust”</b>	the Bunnings Warehouse Property Trust
<b>“WALE”</b>	Weighted Average Lease Expiry (by annual rent)

The information provided in this Notice of Meeting and Explanatory Notes should be considered together with ASX announcements and other information available on the Trust’s website.

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Mark this box with an 'X' if you have made any changes to your address details or written comments on this form

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 FLAT 123  
 123 SAMPLE STREET  
 THE SAMPLE HILL  
 SAMPLE ESTATE  
 SAMPLEVILLE VIC 3030

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**Proxy Form**

🕒 **For your vote to be effective, it must be received by 10.00am AWST on Tuesday 11 May 2010.**

**Step 1**

**APPOINT A PROXY**

The Chairman of the Meeting (mark box with an X)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered unitholder) you are appointing as your proxy

OR failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the meeting of the unitholders of the Bunnings Warehouse Property Trust to be held at 10.00am (AWST) on Thursday, 13 May 2010, at the Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia and at any adjournment or postponement of the meeting.

**Step 2**

**VOTING DIRECTIONS**

🕒 Please note if you mark the Abstain box for the Resolution, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

**Resolution:** To approve the Extension of Lease Tenure

For  Against  Abstain

**Step 3**

**IMPORTANT IF YOU ARE APPOINTING THE CHAIRMAN AS YOUR PROXY**

If the Chairman of the Meeting is appointed as your proxy and you do not direct him on how to vote in respect of the resolution, the Chairman of the Meeting **will only cast your undirected proxy vote on the resolution if you mark this box**. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your undirected proxy vote even if he has an interest in the outcome of the resolution. Votes cast on this resolution by the Chairman of the Meeting other than as a proxy holder will be disregarded. The Chairman of the Meeting intends to vote undirected proxies in favour of the resolution. If you do not mark this box and you do not direct the Chairman of the Meeting how to vote, the Chairman of the Meeting will not cast your undirected proxy vote on this resolution, and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

**Step 4**

**SIGNATURE OF UNITHOLDER(S) – THIS MUST BE COMPLETED**

Unitholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Unitholder 2 (Individual)

Director

Joint Unitholder 3 (Individual)

Director/Company Secretary (Delete one)

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date \_\_\_\_ / \_\_\_\_ / \_\_\_\_

## How to Vote on Items of Business

All your units will be voted in accordance with your directions.

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Form may be obtained by telephoning Computershare, the company's share registry, or you may photocopy this Form. If you appoint two proxies you must specify the percentage of votes or number of units for each proxy, otherwise each proxy may exercise half of the votes.

**A proxy need not be a unitholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the unitholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the unitholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

### Attending the Meeting

If you will be attending the meeting, and do not propose to use this form to appoint a proxy, it is recommended that you bring this form to assist registration. If a representative of a corporate unitholder or proxy (where the appointed proxy holder is a corporate entity) is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.



Vote online or view the annual report, 24 hours a day, 7 days a week:

**[www.investorvote.com.au](http://www.investorvote.com.au)**

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