



28 May 2014

ASX/Media Release

INCREASED AND FINAL PROPOSAL TO ACQUIRE AUSTRALAND PROPERTY GROUP FOR \$4.35 PER SECURITY

Stockland has today provided Australand with an increased and final non-binding and incomplete proposal to acquire all remaining Australand securities at an implied price of \$4.35¹ per security. The offer is a full scrip offer of 1.124 Stockland securities for every Australand security. The proposal is final, in the absence of a superior proposal.

Stockland Managing Director and CEO, Mark Steinert said: "This compelling final offer represents a substantial premium against a range of measures and would bring together two high calibre companies with complementary assets and cultures. Importantly, the combined group would be the leading residential developer in Australia, including medium density, the leading owner and manager of shopping centres in regional locations and a top two logistics and business park owner/developer."

The Final Proposal represents compelling value to Australand securityholders and is a:

- 22.2% premium to Australand's NTA;
- 18.0% premium to the price at which CapitaLand sold (and institutional investors purchased) 20% of the outstanding securities on issue on 21 November 2013;
- 16.9% premium to the price at which CapitaLand sold (and institutional investors purchased) 23.4% of the outstanding securities on issue on 19 March 2014; and
- a 12.1% premium to the Volume Weighted Average Price ('VWAP') of \$3.88 for the three month period up to and including 18 March 2014, the day prior to Stockland acquiring an interest in 19.9% of Australand.

As an alternative form of consideration, Stockland is prepared to offer a reduced scrip ratio, together with a cash component up to an aggregate of \$250 million, with the structure to be agreed with the Australand Board.

"We have made this final offer following dialogue with Australand. The offer is designed to provide securityholders with a range of choices to meet their specific investment requirements. It provides an attractive valuation for Australand and the opportunity for Australand securityholders to retain an exposure to a more diversified and larger group, which will benefit from meaningful synergies. Overall, the assets of both companies are complementary and it is our view that Australand and Stockland will be stronger together. This will create value for all securityholders," Mr Steinert said.

"All securityholders will benefit from material accretion in earnings per security (EPS) - estimated at 5% annualised - generated by the combination. Our proposal is final, and we call for the Australand Board to engage with us, provide targeted due diligence and ultimately allow us to put this proposal to Australand securityholders.

"In recent weeks we have engaged extensively with significant Australand securityholders and Stockland securityholders and have been encouraged by their response to our original proposal."

¹ Based on the closing price of Stockland securities on 27 May 2014. The volume weighted average price (VWAP) on that day was \$3.876.

Australand securityholders will realise significant benefits from exposure to the combined group, including:

- a holding in a national leader in residential development, with the largest residential development pipeline in Australia, incorporating land subdivision and medium density built form with significant geographic diversity;
- a high quality, diversified investment portfolio with accretive reinvestment opportunities;
- EPS accretion and sustainable estimated synergies available from the combination that would otherwise not be available to Australand securityholders; and
- exposure to a larger and more liquid entity, backed by an A- credit rating.

The combination is strongly aligned with Stockland's strategy, in particular providing:

- a stronger Logistics & Business Parks portfolio with an increased lease duration (WALE);
- an enhanced medium density capability;
- an increased proportion of the residential portfolio located in NSW; and
- an additional 5% annualised pro-forma accretion to Stockland's EPS in the first full year of a merger, subject to confirmation in due diligence and based on the major assumptions set out in our offer letter attached.

Stockland reconfirms its guidance of 6% EPS growth in FY14, assuming there is no material decline in market conditions and targeted 5% annual average EPS growth through the cycle. Accretion from this proposed merger with Australand, would be incremental to this in the first year of a merger.

Stockland

Stockland (ASX: SGP) was founded in 1952 and has grown to become Australia's largest diversified property group – owning, developing and managing a large portfolio of shopping centres, residential communities, retirement living villages, office and industrial assets. Stockland was recognised by the S&P Dow Jones Sustainability Indices (DJSI) as the Global Real Estate Industry Group Leader for 2013 – 14 and was also named one of the Global 100 Most Sustainable Corporations in the World at the World Economic Forum in Davos, Switzerland in 2014, for the fifth consecutive year.

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28 May 2014

Mr Paul Isherwood
Chairman
Australand Group
1 Homebush Bay Drive
Building C, Level 3
Rhodes NSW 2138

Dear Mr Isherwood

Increased and final, non-binding and incomplete proposal to acquire Australand Property Group at \$4.35 per security

I refer to our earlier offer of 22 April 2014.

Stockland Group ('Stockland'), is pleased to provide an increased final, non-binding and incomplete proposal (the 'Final Proposal') to acquire all of the outstanding stapled securities in Australand Property Group ('Australand'), in which Stockland does not currently have an interest. This proposal is final, in the absence of a superior proposal.

We view this as an exciting proposal which adds significant sustainable value for Australand and Stockland securityholders. Importantly, the combined group would be the leading residential developer in Australia, including medium density, the leading owner and manager of shopping centres in regional locations and a top two logistics and business park owner/developer.

Final Proposal

Subject to due diligence and other conditions set out in this letter, this Final Proposal is a full scrip offer of 1.124 Stockland securities for every Australand security. This implies an offer price of \$4.35¹ per Australand security.

The Final Proposal represents compelling value to Australand securityholders and is a:

- 22.2% premium to Australand's NTA;
- 18.0% premium to the price at which CapitaLand sold (and institutional investors purchased) 20% of the outstanding securities on issue on 21 November 2013;
- 16.9% premium to the price at which CapitaLand sold (and institutional investors purchased) 23.4% of the outstanding securities on issue on 19 March 2014; and
- a 12.1% premium to the Volume Weighted Average Price ('VWAP') of \$3.88 for the three month period up to and including 18 March 2014, the day prior to Stockland acquiring an interest in 19.9% of Australand.

As an alternative form of consideration, Stockland is prepared to offer a reduced scrip ratio, together with a cash component up to an aggregate of \$250 million, with the structure to be agreed with the Australand Board.

¹ Based on the closing price of Stockland securities on 27 May 2014. The volume weighted average price (VWAP) on that day was \$3.876

Material assumptions

Our principal assumptions are:

- Australand's internal financial forecasts are consistent with:
 - its announcement on 25 March 2014, being earnings of 30.7 cents per Australand security ; and
 - thereafter, growing by no less than 5% per annum compound on average up to, and including, calendar year 2018;
- available synergies of at least \$15 million in the first year of concluding a transaction, and at least \$25 million in each subsequent year;
- net tangible assets of at least \$3.56 per Australand stapled security;
- fully diluted securities outstanding of 578,984,528;
- net debt consistent with the last reported figure;
- no make-whole or other premium becoming payable on Australand's USPP facilities; and
- no repurchase of Australand's outstanding ASSETS notes.

Stockland reiterates that if Australand declares any distributions after the date of this letter, that are either a) not in the ordinary course or b) more than 12.75 cents per stapled security for the June 2014 half year or more than 25.5 cents per security for the 2014 full year, as announced on 25 March 2014, the consideration under the Final Proposal will be reduced accordingly.

Sources of funds

As outlined above, Stockland envisages funding the acquisition of Australand primarily through issuing stapled securities in Stockland. Stockland is well-capitalised, as evidenced by our A-Standard & Poors credit rating, with access to significant debt and equity finance as required to refinance any Australand debt. Stockland's market capitalisation as at 27 May 2014 was \$9.0 billion and it has sufficient undrawn facilities to cover the full cash component of the consideration of the Final Proposal.

Due Diligence Process

Stockland continues to require targeted due diligence as set out in its initial proposal.

Stockland remains willing to commit significant resources to progress this Final Proposal and to ensure that any resultant transaction is completed in a timely manner. We will confirm our Final Proposal at the end of stage 1 due diligence which is expected to take 3 to 4 weeks, largely by a desktop process.

Stockland is also prepared to provide Australand with appropriate due diligence given the significant proportion of equity consideration proposed.

Structure and implementation

Stockland intends to structure the transaction as an off-market takeover offer, under Chapter 6 of the Corporations Act 2001. However, Stockland is open to discussing alternative structures if this is likely to optimise our respective interests in completing the deal.

We propose that Stockland and Australand would enter into an Implementation Agreement addressing the matters outlined in our previous Proposal, which included:

- the terms of the Proposal, which would include the conditions set out in Appendix 3;
- the requirement for a unanimous recommendation of Australand Directors to support the Final Proposal, in the absence of a superior proposal;
- market standard no-shop, no-talk (subject to a fiduciary carve-out), no due diligence and five day matching right provisions;
- market standard break fee provisions;
- the mechanics and timing for implementing an offer;
- arrangements to facilitate transfer of fund, property and development management arrangements to Stockland; and
- customary representations and warranties for a bid of this nature.

Approvals

Stockland's Board of Directors has approved the submission of this Final Proposal. Any transaction would be subject to appropriate transaction documentation, required regulatory approvals and the approval of final terms by Stockland's Board of Directors. We do not require shareholder approval for this transaction and would not envisage any material regulatory impediments to completing the transaction.

Status of this Final Proposal

This letter does not constitute an offer capable of acceptance by Australand or of being put to Australand securityholders.

Conclusion

Stockland reconfirms its guidance of 6% earnings per security (EPS) growth in FY14, assuming there is no material decline in market conditions and targeted 5% annual average EPS growth through the cycle. This transaction is expected to result in an additional 5% annualised pro-forma accretion to Stockland's EPS in the first full year of the merger, based on the major assumptions set out in this letter and subject to confirmation in due diligence. A significant portion of this accretion is generated through sustainable estimated synergies that would otherwise not be available to Australand securityholders.

Stockland believes this Final Proposal represents an attractive opportunity for Australand and Stockland securityholders to share in the benefits of a combined group. Stockland is positioned to deliver this transaction in a timely manner with limited execution risk. Stockland is a well-capitalised and logical acquirer of Australand and is committed to advancing this transaction in a constructive and co-operative way.

I welcome the opportunity to discuss any aspect of this Final Proposal with you and I look forward to advancing this matter on a co-operative basis. We look forward to your expeditious reply.

Yours sincerely



Graham Bradley
Chairman

Attachments Appendix 1,2,3

Appendix 1 - Stage 1 Due Diligence

(estimated to take 3 to 4 weeks, largely by a desktop process and via a virtual due diligence data room)

Real Estate Assets

Residential Projects

- For each asset, a breakdown of historical and future 6-monthly costs and revenues for:
 - Standard lots revenue and number of lots sold
 - Material superlot revenue and number of lots sold
 - Other material revenues
 - Material stage costs
 - All internal and external trunk infrastructure costs not included in stage costs
 - All statutory charges including government contributions
 - Capitalised interest costs and basis of calculation

Other Real Estate Assets

- Copies of the most recent valuations

All Real Estate Assets

- Information on, and quantify, any material environmental issues
- Material contracts relating to any asset affected by co-ownership, PDAs, change in control options, first rights of refusal or containing any other clauses that may potentially have an adverse impact on the value or ownership of the asset due to the proposal.

Financial

- All relevant documentation relating to the hybrid security known as ASSETS, in particular, including any information relating to the conversion rights
- Any material non-public disclosures, including contingency in relation to potential claim by Australian Taxation Office
- Details of any material make-whole employee or other transaction costs that would become payable due to the announcement or implementation of the Final Proposal
- History of material warranty claims, settlement costs and outstanding claims for the last 5 years.

Tax

- Provide tax basis estimates for all material assets in the trust and company

Appendix 2 - Stage 2 (Confirmatory) Due Diligence

Information to be provided after the Final Proposal is confirmed.

Real Estate Assets

All Real Estate Assets

- Further information to facilitate technical due diligence, including geotech reports, and environmental reports in relation to any material environmental issues identified in stage 1.

Investment Assets

- Copies of major leases
- Information about tenancy performance
- Details of property outgoings/expenses, together with property budgets

Financial

- All material debt documentation (bank facilities, USPP and ASSETS)
- Details of the derivative book to identify break costs
- Bank guarantee and insurance bond facilities
- All PDA/JV arrangements and debt within those structures
- Any key accounting policies and procedures not disclosed in public reporting

Tax

Information necessary to review tax liabilities and deferred taxation amounts including the reconciliation of statutory accounts for tax purposes and the reasons for any abnormal provisions or adjustments including:

- details of the returns/computations/years which have not been submitted/agreed with the Australian Taxation Office ('ATO');
- confirmation that all payments have been made on a timely basis and that no such payments are currently outstanding;
- information in respect of the matters that are in dispute or outstanding with the ATO together with a quantification of the potential liability, including interest where applicable, and if this liability has been provided for in the accounts; and
- details as to the extent of any unutilised tax losses, including depreciation and capital losses.

Details of correspondence and outcomes of any reviews conducted by the ATO in relation to GST, in particular, margin schemes.

All relevant information regarding Australand's tax structures, together with tax returns for the last 3 years.

Information to confirm CGT implications, organisation structure (cross staple funding and fee arrangements), including legal entity structure and asset ownership within each entity.

Legal

- Full information regarding any material disputes or correspondence with regulators, including ASIC, ATO, state revenue offices
- Information regarding any material litigation and claims
- AFSL compliance plans and complaints register
- All material licenses and insurance policies
- All material contracts, including those with builders
- All corporate policies presently in place and not publicly disclosed

HR

- Full details of employment arrangements (including retention amounts and terms), incentive arrangements and relevant policies
- Details of any arrangements with, and sites connected with, unions

Appendix 3 - Other Conditions

- From the date of the public announcement of the Final Proposal by Stockland ('Announcement Date') until the end of the offer:
 - Stockland obtains a relevant interest in at least 90 % of the Australand stapled securities
 - no material adverse change in Australand's business impacting earnings
 - Australand does not undertake any new material acquisitions, disposals or new commitments
 - the S&P ASX200 Index and the S&P ASX200 Property Trusts Index do not fall more than 10%
 - Australand continues to conduct its business in the ordinary course
 - no "prescribed occurrences" take place
 - Australand does not change the existing responsible entity and property management arrangements
 - Australand does not increase its level of financial indebtedness;
 - Australand takes no steps to redeem or exchange the Australand Subordinated Step-Up Exchangeable Trust Securities ('ASSETS')
 - Australand does not enter into a material joint venture, partnership or other similar arrangement
 - Australand makes no material change in its distribution policy
 - no further securities or performance rights issued by Australand
 - Stockland has obtained any regulatory approvals necessary to complete the Final Proposal