



STOCKLAND DIRECT OFFICE TRUST NO. 2 (SDOT2 or the Trust)

ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES

Updated March 2015

Introduction

The following document has been prepared for SDOT2 for the purpose of ASIC Regulatory Guide 46. **All figures are as at 31 December 2014** unless stated otherwise.

SDOT2's 49% interest in Macquarie Park Trust (MPT), the owner of the Optus Centre (the Property), was sold on 7 February 2014 for \$184.425 million. Following the sale, the Trust retained \$10 million (11.65 cents per unit) to support warranties provided to the purchaser of the Trust's interest in the Property as required by the sale contract until 30 April 2015. Assuming that there are no disputed warranty claims, we anticipate that an interim distribution will be paid to investors in May 2015. A final distribution will be paid after finalising the payment of all wind up costs incurred by the Trust and the Trust is expected to be wound up shortly thereafter. For further information, please refer to SDOT2's financial report for the half year ended 31 December 2014 (Financial Report) located on our website: www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

Disclosure Principle 1: Gearing Ratio

Gearing Ratio:	0.0%
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The Gearing Ratio indicates the extent to which a scheme's assets are funded by interest bearing liabilities. It gives an indication of the potential risks the scheme faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values. The Gearing Ratio is

0.0% following repayment of the Trust's debt and termination of the facility on 7 February 2014.

Benchmark 1: Gearing Policy

SDOT2's Gearing Policy is no longer relevant following repayment of the Trust's debt and termination of the facility.

Disclosure Principle 2: Interest Cover

Interest Cover Ratio:	N/A
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Interest Cover measures the ability of the scheme to service interest expense on debt from earnings.

The Trust no longer incurs an interest expense following repayment of the Trust's debt. Accordingly, the Interest Cover Ratio is no longer relevant.

Benchmark 2: Interest Cover Policy

SDOT2's Interest Cover Policy is no longer relevant following repayment of the Trust's debt.

Benchmark 3: Interest Capitalisation Policy

Interest capitalisation is when the scheme is not required to make interest payments until an agreed point in time. This generally applies to developments where an asset may not generate income during the development period to meet the interest obligations of the facility agreement. This benchmark is no longer relevant following repayment of the Trust's debt.

Disclosure Principle 3: Scheme Borrowing

The Trust had nil borrowings at 31 December 2014.

Loan Covenants

The Trust was not subject to any Loan Covenants at 31 December 2014 following termination of the Trust's debt facility.

Disclosure Principle 4: Portfolio Diversification

Investment Strategy

At a meeting of Members held on 24 September 2012, Stockland Capital Partners Limited (SCPL), as the Responsible Entity (RE) of the Trust recommended the Trust sell the Trust's interest in the Property and wind up the Trust. Members voted in favour of this recommended Investment Strategy and the Trust's interest in the Property was subsequently sold on 7 February 2014 for \$184.425 million.

Benchmark 4: Valuation Policy

The Trust's Valuation Policy in respect of investment properties no longer applies following the sale of the Trust's interest in the Property. The Trust does not own any other properties.

Disclosure Principle 5: Related Party Transactions

Related Party Transactions

Related Party Transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. Investors should therefore be able to assess

whether a Responsible Entity takes an appropriate approach to Related Party Transactions. A significant number and value of such transactions may mean that Investors should consider the financial position of the related group as a whole and the risk of potential conflicts of interest.

As outlined in Section 7.8 of the Product Disclosure Statement dated 27 July 2005 (PDS) for the Trust, approval of all Related Party Transactions by the Board of the RE are to be by unanimous vote, including Independent Directors. Any Stockland Executive Directors are excluded from voting on such transactions.

Listed below are the primary related party transactions for the half year ended 31 December 2014. Please refer to Note 15 of the Financial Report for a full review of Related Party Transactions concerning SDOT2. We note that as at 31 December 2014:

- Stockland Trust Management Limited (STML) as the RE of Stockland Trust, a related party of Stockland Capital Partners Limited (SCPL), held a 19.9% interest in SDOT2;
- STML, as RE for Stockland Trust, held 51% of units in MPT; and
- SCPL does not hold any interest in SDOT2.

Fees to Related Parties for the Half Year Ended 31 December 2014 (refer to Note 7 of the Trust's Financial Report)

Type	Amount	When Paid?
RE Fee	\$0.032m representing 0.45% p.a. of the gross value of the assets of the Trust.	Payable to SCPL from SDOT2's assets quarterly in arrears. A portion of the fee was deferred and is payable upon the wind up of the Trust.
Manager Expenses	\$0.037m	Payable to SCPL during the half year ending 31 December 2014 in respect of other recoverable expenses including accounting, taxation and compliance service fees.

Benchmark 5: Related Party Transaction Policy

A corporate governance framework has been established to protect Investors' interests in relation to Related party Transactions. This framework includes:

- Executed agreements between Stockland Corporation, STML and SDOT2 with the assistance of separate independent legal advice obtained by SCPL on behalf of SDOT2;
- One of the Directors of the SCPL Board is independent of Stockland Corporation;
- Monitoring of compliance with SDOT2's obligations by the Compliance Committee;
- A six monthly review and full year audit by the scheme auditor and full year audit by the compliance plan auditor;
- A requirement for the approval of all Related Party Transactions by the SCPL Board to be by unanimous vote,

including the Independent Director. The Stockland Executive Director is excluded from voting on such transactions;

- Acting in accordance with our conflicts of interest policy which is made available to all staff. The policy is reviewed on an ongoing basis to ensure that Stockland maintains adequate conflicts management arrangements; and
- The SCPL Directors have a fiduciary duty to act in the best interests of Investors in relation to decisions affecting SDOT2. Please refer to Section 7.8 of the PDS for further information concerning SDOT2's Corporate Governance policies.

SDOT2 complies with its policies and procedures in respect to Related Party Transactions.

Disclosure Principle 6: Distribution Practices

Benchmark 6: Distribution Policy

SDOT2's policy is to fund distributions entirely with available cash from realised income. It is anticipated that future distributions will comprise the balance of capital realised from the sale of SDOT2's interest in the Property, after allowing for any warranty claims, post completion adjustments, interest income accrued to termination of the Trust and wind up costs.

Disclosure Principle 7: Withdrawal Arrangements

Investors are unable to redeem their units until SDOT2 terminates. Investors may, however, transfer their interest through an off market transfer.

Limited Liquidity Facility

Investors were previously able to transfer their units in SDOT2 by way of the Trust's Limited Liquidity Facility (LLF). Consistent

with the terms of the SDOT2 PDS, the LLF is now closed as Stockland now holds the maximum 19.9% holding permitted under section 3.7 of the PDS.

Off Market Transfers

Investors are able to transfer their interest in SDOT2 by way of an off market transfer. Investors may transfer their interest to third parties in accordance with the terms and conditions detailed in Section 3.6 of the PDS. The Off Market Transfer form is available on our website: www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

New Issue of Securities

In accordance with the Trust Constitution and the Security Trust Deed, following payment of the Final Instalment, the existing units and the attached Instalment Receipts were cancelled and an equal number of new units were issued to Investors as summarised in Section 4 of the SDOT2 PDS.

Risks on Termination

Notwithstanding that the Trust has sold its interest in the Property, the Trust's performance will be influenced by a range of factors during the remaining term of the Trust and at termination including:

- A successful claim by the purchaser on the retained warranty of \$10 million; and
- The costs to wind-up the Trust are greater than anticipated.

Please refer to Section 10 of the PDS for more information.

Disclosure Principle 8: Net Tangible Assets

Trust Net Tangible Assets	\$0.1264 per unit
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The Trust's Net Tangible Assets per unit (NTA) states the underlying value of the Trust, and is calculated as follows:

$$\text{NTA} = \frac{\text{Net assets} - \text{intangible assets} \pm \text{adjustments}}{\text{Number of SDOT2 units}}$$

$$\text{NTA} = \frac{\$10,855,426}{85,867,000}$$

The NTA helps Investors understand the value of the assets upon which the value of their unit is determined. The NTA is based on the Financial Report. We note that the fund is a closed end fund and therefore there are no redemption rights available to Investors.

Further Information

For further information in relation to the above please refer to our website at www.stockland.com.au/investor-centre/unlisted-property-funds.htm or contact us at (02) 9035 2000. These Disclosure Principles will be regularly updated and made available on our website.