ASX announcement

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2014 Operating earnings and distribution guidance update

Australand Property Group provides the following update on 2014 operating earnings guidance and advises it has commenced the restructure of its interest rate derivative book. The Group now expects operating earnings per security for 2014 to be 17-20% higher than 2013 and has upgraded its distribution guidance for 2014 to 25.5 cents per security, representing 19% growth on 2013.

Operating earnings update

The full year 2013 results presentation material and Appendix 4E (released to the market on 17 February 2014) included the following guidance statement:

"Subject to market conditions not changing materially throughout 2014, the Group currently expects to deliver growth in operating earnings per security for the full year 2014 and distributions to increase to 22.0 cents per security. Similar to 2013, the Group expects earnings to be skewed to the second half of the year."

As part of its usual quarterly review process the Group has revisited its earnings expectations, having particular regard to positive market conditions in the residential sector. The Group's Residential division continues to experience strong demand and price growth across a number of projects and as a result the Group now expects that the 2014 Residential earnings contribution will be higher than previously expected.

Accordingly, the Group has revised its guidance for 2014. The Group now expects to deliver growth in operating earnings per stapled security of 7-10% for the full year ("**Operating Earnings Update**"). Consistent with prior years, Australand expects earnings to remain skewed to the second half of the year, in line with the expected delivery of major built form Residential and C&I projects.

Commenting on the Operating Earnings Update, Australand Managing Director Bob Johnston said, "We are very pleased with the continued momentum in our Residential division. Year to date sales activity has been encouraging, particularly in NSW."

Interest rate derivative restructure

Australand also advises it has commenced the process of closing out its existing interest rate derivatives (which had an out of the money mark-to-market position of approximately $84 million at 31 December 2013) and re-hedging its interest rate exposure at prevailing market rates (the "**Derivative Restructure**").

Commenting on the Derivative Restructure, Bob Johnston said, "The Group, to date, has chosen not to terminate any of its out of the money interest rate derivatives, despite having a higher average cost of debt than its peers. As a result of a number of considerations including recent corporate activity, we believe it is appropriate to take this step to enable investors to evaluate the Group's earnings on a more comparable basis to other A-REITs."

The Derivative Restructure will be funded through debt. As a result, Australand's 31 December 2013 pro forma gearing would increase from 27.7% to approximately 30.0% and no change is expected to Australand's net tangible assets.

Australand's 2014 operating earnings per stapled security is expected to increase by approximately 10% as a result of the Derivative Restructure (in addition to the growth noted in the Operating Earnings Update). This remains subject to final market pricing. It is also noted that the Derivative Restructure will not impact the rate at which Australand capitalises interest on its development projects.

The Derivative Restructure will result in a one-off mark to market adjustment in the Group's statutory result for 2014. The precise quantum of the adjustment will depend on the timing of the Derivative Restructure. If the Derivative Restructure were to have taken place on 31 December 2013, the Group's statutory profit would have reduced by approximately $55 million (being the amount included in the hedging reserve at that date).

Summary

As a result of the above, the Group now expects to deliver growth in operating earnings per stapled security for 2014 of 17-20% above 2013. As per previous guidance, earnings are expected to be skewed to the second half of 2014.

Accordingly, the Group is also increasing its distribution guidance for 2014 to 25.5 cents per security (from 22.0 cents per security, previously) which represents 19% growth on 2013 distributions per security.

Issued by

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