

ASX announcement

ASX code ALZ / AAZPB



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23 April 2014

REJECTION OF PROPOSAL FROM STOCKLAND GROUP

Australand Property Group advises that it has received an unsolicited, indicative, non-binding and incomplete proposal from Stockland Group ("Proposal") to acquire all the Australand stapled securities that Stockland does not currently have an interest in. Stockland currently has an interest in 19.9% of Australand.

The Proposal contemplates consideration of 1.111 Stockland securities for every Australand security which, based on Stockland's closing price of \$3.78 on 22 April 2014, implies an offer price of \$4.20 per Australand stapled security. The Proposal is subject to a number of conditions and assumptions, including due diligence, and is attached to this announcement.

The Board of Australand Property Group has reviewed the Proposal in conjunction with its advisers; Fort Street Advisers, Macquarie Capital (Australia) Limited and King & Wood Mallesons.

The Board does not consider that the terms and conditions of the Proposal are compelling, nor does it provide sufficient consideration to Australand securityholders in the context of a change of control. In the course of its review the Board considered a number of matters, including the outlook for the Group, and notes that the Proposal also represents:

- a 1.9% discount to the Australand closing price of \$4.28 on 22 April 2014; and
- a 0.4% discount to the volume weighted average price of Australand securities since the operational earnings upgrade announced on 25 March 2014.

Given the terms outlined in the Proposal, the Board has determined not to provide Stockland with access to due diligence material and remains focussed on maximising securityholder value.

The Board recommends that Australand securityholders take no action at this time in relation to the Proposal.

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STRICTLY PRIVATE AND CONFIDENTIAL

22 April 2014

Mr Paul Isherwood
Chairman
Australand Group
1 Homebush Bay Drive
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RHODES NSW 2138

Dear Paul

Indicative, non-binding and incomplete proposal to acquire Australand Property Group

On behalf of Stockland Group ('Stockland'), we are pleased to provide this indicative non-binding, incomplete proposal (the 'Proposal') to acquire all of the outstanding stapled securities in Australand Property Group ('Australand'), in which Stockland does not currently have an interest (the 'Proposed Transaction'). As you are aware, Stockland has an interest of 19.9% in Australand.

Stockland believes that the Proposed Transaction is compelling to Australand securityholders, many of whom have indicated support for the combination of our two businesses. Stockland is ideally placed to consummate the Proposed Transaction and is prepared to move expeditiously to ensure minimal disruption to Australand's business.

Stockland intends to issue Stockland securities to Australand securityholders to implement the acquisition, enabling Australand securityholders to benefit from the upside in the combined business. In particular, Australand securityholders will benefit from the synergies available from being part of a larger and more diversified company with an A- credit rating, as well as from retaining exposure to growing segments of the real estate market.

The Proposed Transaction would also have benefits for Australand customers since the combined business would be the leader in residential development in Australia and have a strong presence in the industrial and business parks segment. Further, and importantly, the Proposed Transaction would create benefits and opportunities for many of Australand's employees whose skills and experience Stockland would seek to retain.

Indicative Offer Price

Subject to due diligence and other conditions set out in this letter, Stockland's indicative proposal is to acquire all of the securities of Australand in which it does not have an interest. The proposed consideration would be 1.111 Stockland securities for every Australand security (the 'Indicative Offer Ratio'). Based on the closing Stockland price on 17 April 2014 of \$3.78, this implies an offer price of \$4.20 per Australand security (the 'Indicative Offer Price').

The Indicative Offer Price represents a compelling valuation for Australand securityholders. It represents attractive premiums as follows:

- 18.0% premium to net tangible assets of \$3.56 per Australand security;
- 14.0% premium to the price at which Capitaland sold (and institutional investors purchased) 20% of the outstanding securities on issue on 21 November 2013;

- 12.9% 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
- 8.3% premium to the Volume Weighted Average Price ('VWAP') of \$3.88 for the 3 month period up to and including 18 March 2014, the day prior to Stockland acquiring an interest in 19.9% of Australand.

Material Assumptions

We have based this Proposal on a review of publicly available information, Stockland's knowledge of the markets in which Australand operates and available sell-side analyst forecasts. Specifically, we have assumed the following:

- Australand's internal financial forecasts are consistent with:
 - its announcement on 25 March 2014, in that a merger would contribute earnings equivalent to 30.7 cents per Australand security when merged with Stockland on an annualised 2014 calendar year; and
 - sell-side analyst consensus forecasts thereafter;
- available synergies of at least \$15m in the first year of concluding a transaction;
- net tangible assets of at least \$3.56 per Australand stapled security; and
- 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.

If Australand declares any distributions after the date of this letter that are either a) not in the ordinary course or b) in excess of the amount per security announced on 25 March 2014, the Indicative Offer Price will be reduced by an amount equal to the distribution per security.

Sources of Funds

As outlined above, Stockland envisages funding the acquisition of Australand through issuing stapled securities in Stockland. Stockland is well-capitalised, with access to significant debt and equity finance that may be required to refinance any Australand debt. Stockland's market capitalisation as at 18 April 2014 was \$8.7 billion.

Due Diligence Process

To complete the Proposed Transaction, Stockland would conduct a targeted due diligence exercise, predominantly to confirm the matters listed above in 'Material Assumptions.' Stockland is willing to commit significant resources to progress due diligence to ensure that any resultant transaction is completed in a timely manner.

In order to minimise any disruption to Australand, we propose a two stage due diligence process. The first stage would be limited to conducting due diligence in relation to those projects, matters and scope identified in Appendix 1. We envisage this would require approximately 3-4 weeks to complete from the time Australand provides full information.

Upon completion of first stage due diligence, we propose confirming our Indicative Offer Price, which would then be subject only to confirmatory due diligence identified in Appendix 2, and satisfactory transaction documentation. We envisage this second phase of diligence would require approximately 3 weeks to complete.

Implementation Agreement

We propose that Stockland and Australand enter into an Implementation Agreement which would address the following matters (amongst others):

- the terms of any proposal, including conditions set out in Appendix 3;
- the requirement for a unanimous recommendation of Australand Directors to support the 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 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 Proposal

This Proposal remains indicative, incomplete and non-binding. This letter does not constitute an offer capable of acceptance by Australand or of being put to Australand securityholders

Conclusion

Stockland believes this Proposal represents an attractive opportunity for Australand securityholders to share in the benefits of a combined group. Stockland is well 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 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 – Appendix1, 2, 3

Appendix 1 - Stage 1 Due Diligence

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;
 - Superlot revenue and number of lots sold;
 - Other revenues;
 - Stage costs;
 - All internal and external trunk infrastructure costs not included in stage costs;
 - All statutory charges including government contributions.
- Planning approvals and agreements.

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 of control options, first rights of refusal or containing 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 Proposal.
- History of warranty claims, settlement costs and outstanding claims for past 5 years.

Tax

- Tax basis estimates for all material assets in the trust and company.

Appendix 2 - Stage 2 (Confirmatory) Due Diligence

Information to be provided after Indicative Offer Price is confirmed.

Real Estate Assets

Residential Projects

Information to facilitate technical due diligence, including geotech, and environmental due diligence in relation to:

- Clyde North
- Point Cook
- Cranbourne West
- Ashlar
- Clemton Park
- Hamilton
- Hope Island
- Greenvale
- Wolli Creek
- Kangaroo Point
- Port Coogee
- Shell Cove

Other Real Estate Assets

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

All Real Estate Assets

- Further information regarding any environmental issues identified in Stage 1 Due Diligence.

Financial

- All 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.
- Key accounting policies and procedures.

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.
- details as to the extent of any unutilised tax losses, including depreciation and capital losses.

GST registration documents and GST returns and related material including:

- details of the outcome of any control visits by the ATO and of any penalties which have been incurred or subsequent correspondence; and
- GST margin schemes.

All relevant information regarding Australand's tax structures together with its tax returns for 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 registers.
- All material licenses and insurance policies.
- All material contracts, including those with builders.
- All corporate policies presently in place.

HR

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

General

- Satisfaction of other matters that may arise during due diligence.
- Board and Committee minutes/papers for the previous 3 years.

Appendix 3 - Other Conditions

- From the date of the public announcement of the Proposed Transaction by Stockland ('Announcement Date') until the end of the offer:
 - Stockland obtains a relevant interest in at least 90 % of the Australand 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 are issued by Australand.
 - Stockland obtains any regulatory approvals necessary to complete the Proposed Transaction.