



# mirvac group development update

january 2011

Demand for Mirvac's core projects remain robust, with Rhodes Waterside in Sydney, Yarra's Edge and Harcrest in Melbourne all achieving strong results last quarter<sup>1</sup>.

Select regional markets however, are not recovering in line with metropolitan markets. Sales over the traditionally strong Spring and Summer periods have been slower than expected, with these markets continuing to be characterised by oversupply and heavy discounting.

Consequently, Mirvac's Development Division has expanded its englobo disposal program in line with its strategy to expedite a return to normalised financial performance by 2014, which is expected to:

- > Eliminate \$312m<sup>2</sup> of future development expenditure required to deliver zero margin projects;
- > Generate approximately \$70m<sup>3</sup> of sale proceeds; and
- > Allow expertise to be focused on profitable projects.

Therefore, the carrying values of Mirvac's Inventories have been reassessed, resulting in a \$215m provision. Balance sheet gearing is 27.4%<sup>4</sup> and the Net Tangible Asset ("NTA") per stapled security is \$1.60<sup>5</sup>.

No current or future impact on operating earnings – 100% of provision relates to previously provisioned or breakeven projects.

1) Ended 31 December 2010.

2) Based on feasibilities to build out "englobo disposal" projects.

3) Based on feasibilities including assumptions on market conditions and gross sale prices achieved.

4) Net debt after Cross Currency Interest Rate ("CCIR") swaps excluding leasing/(total tangible assets - cash), based on management accounts as at 31 December 2010 which forms the basis of the financial statements and are subject to independent Auditor's review and Board approval.

5) Based on ordinary securities excluding Employee Incentive Scheme ("EIS") and based on management accounts as at 31 December 2010 which forms the basis of the financial statements and are subject to independent Auditor's review and Board approval.

## Provision resulting from:

› Englobo project disposal program – 80%	Page 3	\$171m
› Unsold inventory of existing provisioned and breakeven projects – 20%	Page 5	\$44m

## Key impacts

### Statement of Comprehensive Income:

- › Unchanged – FY11 operating earnings guidance of 10.2-10.6cpss<sup>1,2</sup>
- › Unchanged – FY11 distribution guidance of 8-9cpss

### Statement of Financial Position<sup>3</sup>:

- › NTA \$1.60<sup>4</sup>
- › Balance sheet gearing 27.4%<sup>5</sup>

## Mirvac remains compliant with all of its debt covenants.

1) 100% of provision relates to previously provisioned or breakeven projects.

2) Cents per stapled security ("cpss").

3) NTA and balance sheet gearing are based on management accounts as at 31 December 2010 which forms the basis of the financial statements and are subject to independent Auditor's review and Board approval.

4) Based on ordinary securities excluding EIS and based on management accounts as at 31 December 2010 which forms the basis of the financial statements and are subject to independent Auditor's review and Board approval.

5) Net debt after CCIR swaps excluding leasing/(total tangible assets - cash), based on management accounts as at 31 December 2010 which forms the basis of the financial statements and are subject to independent Auditor's review and Board approval.

# SUMMARY OF PROVISIONED PROJECTS



## Project disposal program via englobo land sales – 80% of provision

Expected to deliver the following benefits:

- Faster return to normalised Development Division financial performance;
- Eliminates \$312m<sup>1</sup> future development expenditure required to deliver zero margin projects;
- Generates approximately \$70m<sup>2</sup> of sale proceeds; and
- No current or future operating profit impact – 100% of provision relates to previously provisioned or breakeven projects.

<b>Project</b>	<b>State</b>	<b>Provision</b>
Magenta Shores	NSW	\$103m
The Royal, Newcastle	NSW	\$34m
Dianella	WA	\$19m
Brendale	QLD	\$10m
Bridgewater	WA	\$5m
<b>Total</b>		<b>\$171m</b>

<b>Project</b>	<b>Target sale dates<sup>3</sup></b>
Magenta Shores	September 2011
The Royal, Newcastle	January 2012
Dianella	June 2011
Brendale	December 2011
Bridgewater	November 2012

1) Based on feasibilities to build out "englobo disposal" projects.

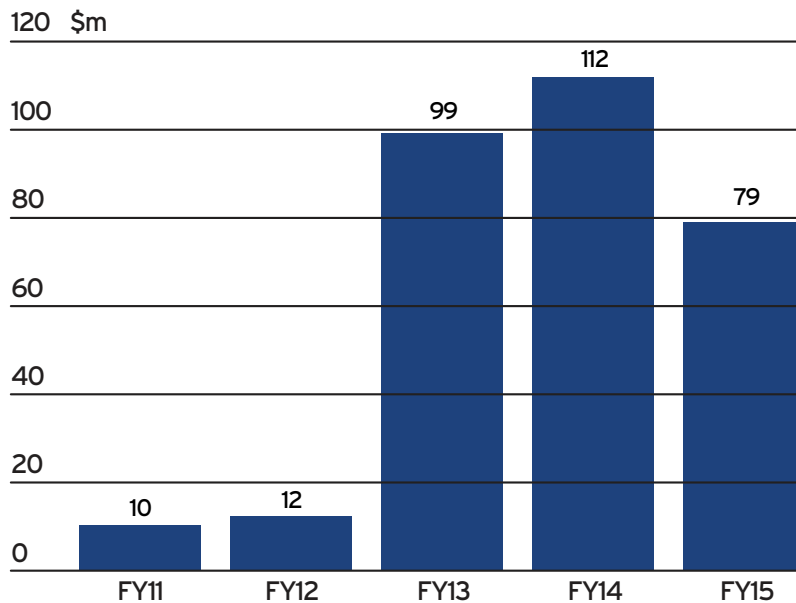
2) Based on feasibilities including assumptions on market conditions and gross sales price achieved.

3) Estimated sale date only. Actual sale date may vary substantially from the targeted sale date.

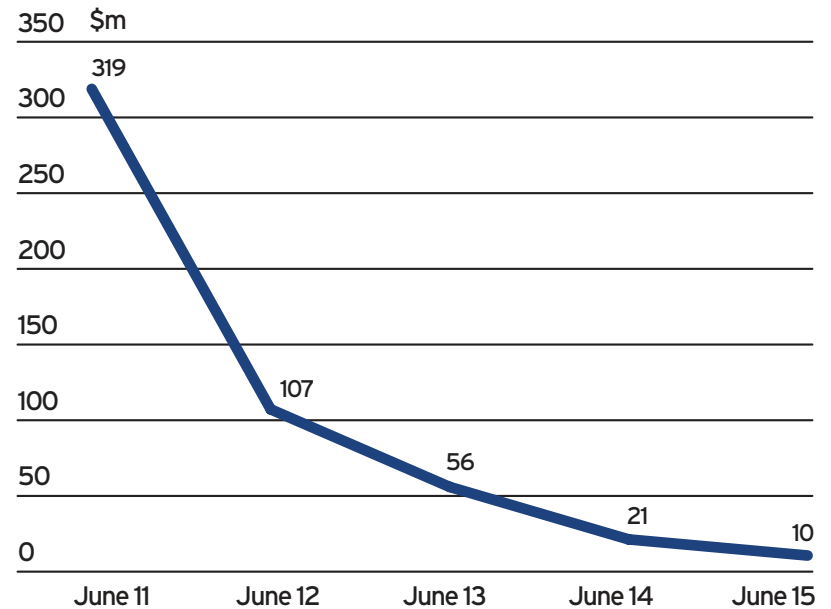
# DEVELOPMENT EXPENDITURE SAVING AND PROVISION PROFILE



Expected development expenditure eliminated<sup>1</sup>



Forecast provision release<sup>2</sup>



1) Based on feasibilities to build out "englobo disposal" projects.

2) Based on forecast revenue, market conditions, expenditure and interest costs over project life.

# SUMMARY OF PROVISIONED PROJECTS

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## Unsold inventory – 20% of provision

- **The Point, Mandurah** – Price points and sales rates have been reassessed due to recently completed competitor apartment projects having undertaken aggressive discounting in a market characterised by oversupply.
- **The Royal, Newcastle** – Price points and sales rates have been reassessed due to a lack of market depth, particularly for residences above \$1m.
- No current or future operating profit impact – 100% of provision relates to previously provisioned or breakeven projects.

<b>Project</b>	<b>State</b>	<b>Provision</b>
The Royal, Newcastle 1A, 1B	NSW	\$24m
The Point, Mandurah	WA	\$14m
Brookwater	QLD	\$6m
<b>Total</b>		<b>\$44m</b>

Mirvac experienced limited impact to its residential development projects in Brisbane:

**Tennyson Reach:**

- > Flooding to basement, ground floor and landscaped areas;
- > Only one apartment impacted under Mirvac's ownership;
- > Mirvac will reinstate ground floor flood impacted apartments as part of its Queensland flood contribution; and
- > Mirvac appointed by body corporate to undertake rectification works.

**Pier, Newstead ("MWRDP")<sup>1</sup>:**

- > Minor water impact to basement;
- > Minor impact to landscaped areas;
- > No impact to apartments; and
- > Settlements are forecast to occur in May/June 2011.

**Park, Newstead:**

- > Water impact to site excavation; and
- > No significant delay expected to program.

**Hamilton:**

- > No impact.

The Group continues to monitor project impacts and will inform the market if a material impact arises.

FY11 operating earnings guidances remains unchanged at 10.2cps to 10.6cps.

1) Mirvac Wholesale Residential Development Partnership.

# ADDITIONAL INFORMATION

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# APPENDIX – NET REALISABLE VALUE

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Mirvac undertakes comprehensive and regular reviews of the carrying value of Inventories and JV and Associates. Inventory is required to be carried at the lower of cost and Net Realisable Value (“NRV”). NRV for the purposes of inventories provision is the difference between costs accumulated to date, plus all future costs (including interest and cost to sell) less forecast net revenue. Any future loss is booked as a provision immediately rather than progressively over the life of the project.

A number of sales projects have now been assessed on the basis of expected market/saleable value of the project (which differs to the NRV build out scenarios previously adopted).

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