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ASX Release / Media Release

24 September 2013

S&P CREDIT RATING UPGRADE

Mirvac Group ("Mirvac") [ASX: MGR] is pleased to announce Standard & Poor's credit rating agency has upgraded Mirvac's credit rating to 'BBB+' from 'BBB'.

Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz said that it was a positive achievement and is a validation of Mirvac's strategy and its commitment to strengthening the Group's financial risk profile.

"We have successfully completed a number of capital management initiatives over the past 12 months placing Mirvac in a strong position to continue to meet our strategic objectives.

"This upgrade enables us to continue to diversify Mirvac's sources of debt and lengthen its weighted average debt maturity profile, further enhancing the Group's robust capital position."

Please refer to the attached release by Standard & Poor's.

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Research Update:

Mirvac Group Long-Term Rating Raised To 'BBB+' From 'BBB', Short-Term 'A-2' Rating Affirmed, Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

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Overview

- We believe that Mirvac Group can sustain a more-conservative financial profile of maintaining funds from operations (FFO) to debt at more than 15%, an EBITDA interest cover (including capitalized interest) of greater than 3x, and debt-to-debt plus equity at about 30% or less.
- We believe that the group will maintain an average EBIT contribution of 70% from its investment assets and 30% from development assets over the medium to long term.
- As a result, we have raised the long-term rating to 'BBB+' from 'BBB', and affirmed the 'A-2' short-term rating. The outlook is stable.

Rating Action

On Sept. 24, 2013, Standard & Poor's Ratings Services raised its long-term rating on Mirvac Group to 'BBB+' from 'BBB', and affirmed the short-term 'A-2' rating. The outlook is stable.

Rationale

The upgrade reflects Mirvac's strengthened financial risk profile and our view that management remains committed to maintaining a financial risk profile consistent with a 'BBB+' rating through the property cycle.

In our view, Mirvac's business risk profile is "satisfactory". We expect that through the property cycle Mirvac's management will seek to maintain 80% of its invested capital in passive investment assets, with the remaining 20% tied to active assets. We believe that this translates into the group maintaining an average EBIT contribution of 70% from its investment assets and 30% from development assets. At June 30, 2013, the split was 81% passive and 19% active. In addition, the group expects to continue to recycle capital through the business by introducing new capital partners. The predominantly equity-funded purchase of seven office assets from GE Real Estate is consistent with management's intention to fund long-term core assets with equity, and ensure that it retains debt capacity to execute on its growth strategy.

The rating anticipates that Mirvac will maintain its portfolio weighting to 'A' grade central business district (CBD) and non-CBD office assets, as it is

a sector that Mirvac feels it has a competitive advantage. However, the company believes that it does not enjoy a similar competitive advantage in retail property and will look to exit secondary assets within sub-optimal markets. Further, it believes that it enjoys a niche competitive advantage in the industrial property sector, despite its smaller size and scale. Within the residential division, Mirvac believes that it has a competitive advantage in apartment construction in metropolitan activity centers and inner ring and masterplanned communities in infill ring locations. The group expects to wind down its business comprising apartments outside the infill ring and masterplanned communities in rural and regional locations. We believe that Mirvac will take some time to successfully execute on this strategy, but we believe the approach will support the group's satisfactory business risk profile.

At June 30, 2013, the investment portfolio had maintained an occupancy rate of 97.9% by area and a weighted average lease expiry of 5.1 years by income. The investment portfolio achieved a 3.5% like-for-like net operating income growth, driven by the office portfolio that grew at 3.9%. The sub-regional shopping centers recorded an improving moving annual turnover growth of 4.9%, and the tenant occupancy costs averaged 15.7%. Although residential development remains a key part of the group's strategy, returns from this business have recently been lackluster. Supporting our assessment of the business prospects for this division is the strategy of maintaining a high level of pre-sales. The division had exchanged contracts of A$1,005.4 million at June 30, 2013, with about 65.4% of the development EBIT contribution for fiscal 2014 being certain.

In our view, Mirvac's financial profile is "modest". The group is generating solid earnings from its investment portfolio, while reducing interest expenses due to the termination of its high-cost interest rate hedges and keeping debt levels in check with the equity funding used to fund the majority of the GE portfolio acquisition. In the short term, we expect that the lower margin residential developments will be sold into flat markets that will temper the profitability of the group. However, in the longer term, we expect its development division to increase earnings and returns on capital, tempered by its inherent exposure to property cycles.

Mirvac has refined its balance-sheet gearing (net debt-to-total tangible assets ratio) target to set the maximum level up to 30%, an increase from its previous level of 25%. We believe that management's intention will be to operate at around the mid-point of its target gearing range of 20%-to-30%, and that any spike in gearing to the upper end of that range would only be undertaken in combination with a plan to reduce debt levels in a timely manner. We believe that this gearing policy is consistent with a 'BBB+' rating. Mirvac has reduced its investments in leveraged joint ventures and associates that had previously inflated their pro-rata look-through gearing, and we expect that the quantum of pro-rata debt will not be material. At June 30, 2013, Mirvac's balance-sheet gearing (net debt-to-net tangible assets) was 23.6% and look-through gearing was 24.4%. At peak gearing levels, we expect that Mirvac's FFO to total debt to be maintained at more than 15% and EBITDA

interest cover (including capitalized interest) to be maintained above 3x. In fiscal 2013, the FFO-to-debt was 16.5% and EBITDA interest cover was 3.9x.

Liquidity

We consider Mirvac's liquidity to be "strong", as defined in our criteria. We expect that over the next 12 months, the sources of funds will exceed the uses by more than 1.5x and this measure will remain above 1x over the next 24 months. We also expect that Mirvac will achieve positive sources-less-uses in the short term, even if EBITDA were to fall by 30%. The group targets a weighted-average debt maturity of greater than 3.5 years, and at June 30, 2013, this was 3.8 years.

Principal liquidity sources:

- A$126.4 million cash balance;
- A$677.9 million of undrawn committed bank facilities of greater than one year; and
- FFO of A$377.7 million in fiscal 2013.

Principal liquidity uses:

- The next sizable debt maturity is a domestic medium-term note issue of A$200 million, due in March 2015;
- The dividend in 2014 will be about 80% of the group's operating profit; and
- Capital commitments for the developments underway.

Covenants

The group retains adequate headroom within all financial covenants, in our opinion. Mirvac's financial covenants include EBITDA interest cover (excluding capitalized interest) of more than 2.25x, and gearing (total liabilities to total tangible assets) of less than 55%. At June 30, 2013, the ratios were greater than 5.0x and 35.2% respectively.

Outlook

The stable outlook reflects our view that the group's diverse investment portfolio, long-term lease-expiry profile, and moderate financial policies should temper the risks associated with the group's development activities and underpin rating stability at the 'BBB+' rating level. A financial profile consistent with the 'BBB+' long-term rating would include a prudent liquidity profile, fully adjusted FFO to total debt above 15%, EBITDA interest cover (including capitalized interest) at greater than 3x or more, and debt-to-debt plus equity at about 30%. Furthermore, we would expect these earnings-based metrics to exceed these levels in periods of buoyant property-development earnings.

Downward rating pressure could arise if Mirvac undertakes significant debt-funded acquisitions or faces operational underperformance that causes FFO to debt to be sustained at less than 15% or EBITDA interest cover below 3x.

The rating may also be pressured if Mirvac materially dilutes the quality of its asset base through the acquisition of lower-quality assets, or generates more than 30% of annual group EBIT from property development on a sustained basis.

Upward rating pressure could emerge if the group can sustain a materially more-conservative financial profile, which would include FFO to debt sustained comfortably at more than 20%, or if the group's earnings mix permanently shifts toward a materially higher proportion of investment income.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Ratings List

Upgraded

	To	From
Mirvac Group Finance Ltd.		
Senior Unsecured	BBB+	BBB
Mirvac Group Funding Ltd.		
Senior Unsecured	BBB+	BBB

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Mirvac Group		
Mirvac Property Trust		
Corporate Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2

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